

CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

Terms of Reference of Audit Committee

(amended on 30 March 2012 and 29 December 2015)

Composition

1. The Audit Committee of China Electronics Corporation Holdings Company Limited (“Company”) shall comprise not less than three non-executive directors, the majority of whom shall be independent non-executive directors. At least one of the Audit Committee member shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).
2. A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year from the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.
3. The chairman of the Audit Committee shall be appointed by the board of directors of the Company (“Board”) and shall be an independent non-executive director.
4. The secretary of the Audit Committee shall be the company secretary of the Company.

Proceedings

5. The quorum for meetings of the Audit Committee shall be any two of its members.
6. The chairman of the Audit Committee may convene meetings at his discretion, but in any event meetings of the Audit Committee are to be held not less than twice every year, or at such frequency as required under the Listing Rules or other regulatory requirements applicable to the Company from time to time. In addition, the Company’s external auditors may request a meeting of the Audit Committee if they consider that one is necessary.
7. The financial controller, the head of internal audit, and a representative of the Company’s external auditors shall normally attend meetings of the Audit Committee. However, at least once a year the Audit Committee shall meet with the external and internal auditors without management present.

Authority

8. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.

9. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of any person with relevant experience and expertise at Audit Committee meeting as it considers appropriate. The Audit Committee shall be provided with sufficient resources to perform its duties.

Duties

10. The duties of the Audit Committee shall include:

Relationship with the Group's auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engaging an external auditors to supply non-audit services (for this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally) and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Group's financial information

- (d) to monitor integrity of the Group's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
 - any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Listing Rules and other legal requirements in relation to financial reporting.

(e) In regard to paragraph 10(d) above:

- members of the Audit Committee should liaise with the Board and the Company's senior management (being the same category of persons as referred to in the Company's annual report). The Audit Committee must meet, at least twice a year, with the Company's external auditors; and
- the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and it should give due consideration to any matters that have been raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Group's financial reporting system, risk management and internal control systems

- (f) to review the Group's financial control, risk management and internal control systems;
- (g) to discuss the risk management and internal control systems with management of the Group ensuring that the management has performed its duties to have effective systems. This discussion should include adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function;
- (h) to consider any findings of major investigations of risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these finding;
- (i) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditors' management letter, any material queries raised by the auditors to the management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (m) to report to the Board on the matters set out in Appendix 14 to the Listing Rules;
- (n) to review arrangements for employees of the Group to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters and ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (o) to act as the key representative body for overseeing the Group's relation with the external auditors; and

(p) to consider other topics as defined by the Board.

Miscellaneous

11. In the event the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall provide a statement explaining its recommendations and also the reason(s) why the Board has taken a different view to the Company for inclusion in the Corporate Governance Report issued by the Company in accordance with Appendix 14 of the Listing Rules.
12. Minutes of meetings of the Audit Committee shall be kept by the secretary to the meetings of the Audit Committee and such minutes shall be open for inspection at any reasonable time on reasonable notice by any director of the Company. The secretary to any meeting of the Audit Committee shall circulate the minutes of meeting of the Audit Committee for which he or she has acted as secretary in both draft and final form to all members of the Audit Committee within a reasonable time after such meeting is held.
13. The Audit Committee shall report back to the Board on all of their decisions or recommendations.
14. The chairman of the Audit Committee, or in the absence of the chairman of the Audit Committee, another member of the Audit Committee, or failing which his duly appointed alternate, shall attend the Company's annual general meetings and be prepared to respond to any shareholder's questions on the Audit Committee's activities and its responsibilities.
15. The Audit Committee shall make available its terms of reference by inclusion on the website of The Stock Exchange of Hong Kong Limited and the Company's website for corporate communications.
16. The terms and provisions as set out above in this Terms of Reference shall be reviewed and confirmed at least once a year by the Audit Committee.