

# **HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

## **Terms of Reference for Audit Committee of the Board of Directors**

### **Chapter 1 General**

Rule 1. In order to perfect the functions of the board of directors (the “Board”) to achieve an integration of various supervision methods, including external and internal audits, to ensure effective supervision on the Company by the Board and to improve corporate governance structure, the Company has specially established an audit committee (the “Audit Committee”) under the Board and formulated these terms of reference pursuant to The Company Law of the People’s Republic of China, Code of Corporate Governance for Listed Companies in China, Articles of Association, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other relevant rules.

Rule 2. The Audit Committee is a specialized working organ under the Board that is primarily responsible for the communication, supervision and checking in relation to the internal and external audits of the Company.

### **Chapter 2 Composition**

Rule 3. The Audit Committee shall consist of three independent non-executive directors, at least one of whom being a person with accounting expertise. A former partner of the Company’s existing auditing body should be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing:

(A) to be a partner of the auditing body; or

(B) to have any financial interest in the auditing body,

whichever is the later.

Rule 4. The Audit Committee shall have one chairman (convener) who must be an independent non-executive director with accounting expertise. The chairman (convener) shall chair the work of the committee and shall be elected among the committee members and shall be reported to the Board for approval.

Rule 5. The term of office of the members of the Audit Committee shall be the same as his term of office on the Board. Where a member ceases to be a director of the Company during his term of office, he will be disqualified as a member of the committee accordingly. The Board shall fill the vacancy pursuant to the above Rule 3 to Rule 5.

Rule 6. The audit department is an organ under the Audit Committee responsible for carrying out day-to-day work, such as the audit, checking and supervision for internal control, according to the decisions made or authorization given by the Audit Committee.

### **Chapter 3 Duties and Authority**

Rule 7. The major duties and authority of the Audit Committee are:

- (A) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;
- (C) to develop and implement policy on engaging an external auditing body to supply non-audit services. For this purpose, “external auditing body” includes any entity that is under common control, ownership or management with the auditing body 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (D) to monitor the integrity of the Company’s financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the committee should focus particularly on:
  - 1. any changes in accounting policies and practices;
  - 2. major judgmental areas;
  - 3. significant adjustments resulting from the audit;
  - 4. the going concern assumptions and any qualifications;
  - 5. compliance with accounting standards; and

6. compliance with the Listing Rules and legal requirements in relation to financial reporting;

(E) Regarding item (D) above:

1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company's auditing body; and
2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditing body .

(F) to examine and review the Company's financial controls, internal control and risk management systems;

(G) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(H) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(I) where an internal audit function exists, to ensure co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine, review and monitor its effectiveness;

(J) to examine and review the Group's financial and accounting policies and practices;

(K) to review the explanatory letter on audit work provided to the management by the external auditing body, any material queries raised by the auditing body to management about 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 explanatory letter on audit work provided to the management by the external auditing body;

- (M) to report to the Board on the matters in these terms of reference;
- (N) to examine and review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and the Audit Committee should ensure 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 Company's relationship with the external auditing body;
- (P) to establish a whistle-blowing mechanism to follow and handle openly the questions and complaints made by the staff, customers, suppliers and investors of the Company and social media on the truthfulness, accuracy and completeness of financial information;
- (Q) to make recommendations regarding the establishment and modification of corporate governance mechanism and to provide effective supervision over the implementation of resolutions of the Board by senior management of the Company; and
- (R) to consider such other matters as the Board may authorize.

Rule 8. The Audit Committee shall be accountable to the Board and the proposal of the committee shall be submitted to the Board for approval.

#### **Chapter 4    Decision-making Process**

Rule 9. The audit department shall duly carry out preparation works before the decision-making of the Audit Committee and provide information of the Company in written form in relation to the following:

- (A) relevant financial reports of the Company;
- (B) work reports of the internal and external auditing bodies;
- (C) external auditing contract and relevant work reports;
- (D) information which the Company disclosed to the public;
- (E) audit report on material connected transactions of the Company;

(F) other relevant matters.

Rule 10. The reports provided by the audit department shall be evaluated at the meeting of the Audit Committee and the relevant written resolutions shall be reported to the Board for discussion:

- (A) evaluation on the work carried out by the external auditing body and the appointment and change of the external auditing body;
- (B) whether the internal control system of the Company has been effectively implemented and whether the financial reports of the Company are complete and true in all respects;
- (C) whether information, such as financial reports, disclosed by the Company to the public is objective and true and whether the material connected transactions of the Company are in accordance with the relevant laws and regulations;
- (D) evaluation on the work of the financial department and audit department of the Company, including the personnel in charge;
- (E) other relevant matters.

## **Chapter 5 Rules for proceedings of meetings**

Rule 11. The Audit Committee shall meet at least twice every year. Seven days' notice shall be given to all members before the meeting. The meeting shall be chaired by the convener, or, where the convener is unable to present at the meeting, one of the members as authorized by the convener.

Rule 12. The meetings of the Audit Committee shall only be held when two-thirds or more of members are present. Each member shall have one vote. Resolutions made at the meeting shall be passed by more than half of all members.

Rule 13. Resolutions at the meetings of the Audit Committee shall be determined by show of hands or by poll. Impromptu meetings may be held through any communication facilities.

Rule 14. Members of the auditing team may attend the meetings of the Audit Committee. Where necessary, directors, supervisors and senior management of the Company may be invited to the meetings.

Rule 15. Where necessary, the Audit Committee may appoint intermediary agencies to provide professional advice for its decision-making and the fee shall be borne by the

Company.

Rule 16. The convening procedures, the method of voting and the resolutions passed at the meetings of the Audit Committee shall be in accordance with the relevant laws, regulations, Articles of Association and the rules in these terms of reference.

Rule 17. Minutes shall be taken for the meetings of the Audit Committee. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records respectively, in both cases within a reasonable time after the meeting. Members present at the meeting shall sign on the final version of the minutes. The Audit Committee shall appoint a secretary of the meeting and the minutes shall be kept by the secretary of the meeting duly appointed.

Rule 18. The resolutions and voting results at the meetings of the Audit Committee shall be reported to the Board in written form.

Rule 19. Members who attend the meetings shall keep confidential all the proceedings at the meetings and shall not disclose any relevant information without authorization.

## **Chapter 6    Miscellaneous**

Rule 20. These terms of reference shall be effective from the date on which the Board passes a resolution to approve the same.

Rule 21. Matters which are not provided for in these terms of reference shall be governed by the requirements of the relevant laws and regulations in China, Listing Rules in Hong Kong and relevant rules and regulations and the Articles of Association. If these terms of reference conflict with any laws and regulations promulgated in China in the future or the Articles of Association as modified through procedures in compliance with laws, the terms of reference shall be implemented in accordance with the requirements of the relevant laws, regulations and Articles of Association and shall be modified forthwith and reported to the Board for approval.

Rule 22. The right to interpret these terms of reference shall belong to the Board.

**The English version of these terms of reference is for reference only and if there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.**

**The Board of Directors of  
Hisense Kelon Electrical Holdings Company Limited**  
24 June, 2016