

**COOLPAD GROUP LIMITED**  
**(“Company”)**  
**TERMS OF REFERENCE AND MODUS OPERANDI OF**  
**AUDIT COMMITTEE**  
**(“Committee”)**

*Legal basis for the establishment of an audit committee*

1. Under Rule 3.21 of the Listing Rules, the Company must establish an audit committee. The Committee is a committee under the management of the board of directors of the Company, and its main duties are to examine and monitor the financial reporting procedures and internal control of the Company.

*Membership*

2. The members of the Committee shall be appointed by election by the board of directors. They shall hold office for one year from the date of appointment and may remain in office upon reappointment.
3. The members of the Committee shall be all non-executive directors of the Company, and shall include at least one independent non-executive director with appropriate accounting or related financial management expertise. The Committee shall comprise a minimum of three members with the independent non-executive directors of the Company in the majority.
4. The Committee shall have one chairman who must be an independent non-executive director.
5. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the 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 later.

*Attendance at meetings*

6. The Company’s chief financial officer and a representative of the external auditors shall attend meetings of the Committee. The other board members are entitled to be present at the meetings. If the Company has an internal audit department, its chief shall normally attend meetings of the Committee. However, at least once a year the Committee shall meet with the external auditor and internal auditing chief (if any) without executive directors of the Company present.

### ***Minutes of meetings***

7. Full minutes of Committee meetings shall be kept by the company secretary. The company secretary shall file minutes of the Committee meetings for records. If any director gives a reasonable notice, the relevant minutes of meetings shall be disclosed to him for inspection within any reasonable time period. The minutes of the Committee meetings shall record sufficient details of the issues considered and the decisions reached by the directors, which shall include any queries raised or objections stated by the directors. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.

### ***Frequency of meetings***

8. Meetings of the Committee shall be held not less than two times a year. The Committee shall meet with the external auditor of the Company at least once a year.

### ***Authority of the Committee***

9. The Committee may request any information that it requires from any employee of the Company, and all employees shall cooperate with the request of the Committee.
10. The Committee shall be provided with sufficient resource to perform its duties and may seek outside legal or other independent professional advice and may secure the attendance of outsiders with relevant experience and expertise if necessary.
11. The Committee shall report to the board of directors any suspected fraud and breach, inadequate internal control or suspected breach of laws, rules and regulations that has come to its attention.

### ***Duties of the Committee***

12. The duties of the Committee shall be:
  - (a) to be primarily responsible for making recommendation to the board on the appointment and reappointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
  - (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
  - (c) to develop and implement policy on engaging an external auditor 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 the Committee shall report to the board, identifying and making recommendation on any matters where action or improvement is needed;

- (d) to approve any policy relating to the recruitment of the employee or former employee of the external auditor and monitor the implementation of such policy to see if the auditor's judgment and independence as to the audit is affected;
- (e) to monitor integrity of the Company's financial statements and 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, it should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from the audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- (f) In regard to (e) above,
  - (i) members of the Committee should liaise with the Company's board of directors and senior management. The Committee must meet at least twice a year with the Company's auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's qualified accountants, compliance officer or auditors.
- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss risk management and internal control systems with the management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, qualifications and experience of the Company's accounting and financial reporting function;
- (i) 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 managements' response to these findings;
- (j) to review the internal audit programme, 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 Company, and to review and monitor the effectiveness of the internal audit function;

- (k) to review the group's financial and accounting policies and practices;
- (l) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (m) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the board on the matters set out in the Code on Corporate Governance Practices, Appendix 14 to the Listing Rules;
- (o) to consider other topics, as authorized or defined by the board;
- (p) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (q) to act as the key representative body for overseeing the Company's relations with the external auditor.

### ***Reporting Procedures***

13. The Committee shall report to the board of directors periodically.
14. At the next board meeting after the conclusion of the Committee meeting, the chairman of the Committee shall report the proposals and decisions of the Committee to the board of directors.
15. The chairman of the Committee is required to submit a report of the Committee on its work and investigation findings to the board of directors at least once a year.
16. If the board does not agree to the opinions of the Committee on the selection, appointment, dismissal or removal of the external auditor, the Company shall set out in the Corporate Governance Report the Committee's statement elaborating on its proposals and the reasons for the different opinions held by the board.