

# NATIONAL ELECTRONICS HOLDINGS LIMITED

(the "Company")

## Audit Committee Charter

### **Purpose**

1. The purpose of the Audit Committee is to assist the Board in fulfilling its responsibilities with respect to the integrity of the financial statements of the Company, the independence, qualifications and performance of the Company's management and Company's auditors, and compliance with legal and regulatory requirements. The Audit Committee is required to report back to the board on their decisions or recommendations on a regular basis, unless there are legal restrictions on their ability to do so.

### **Composition**

2. The Audit Committee shall be appointed by the Board from time to time pursuant to Bye-law 137. The Audit Committee members shall comprise of non-executive directors only and shall consist of not less than three non-executive directors, the majority of whom shall meet and maintain the independence and experience requirements (if any) from time to time of the Stock Exchange of Hong Kong Limited ("SEHK"). The Board shall appoint (or delegate to the Audit Committee the appointment of) one member of the Audit Committee as its Chairman.
3. A former partner of the Company's existing auditing firm is prohibited from acting as a member of the Company's Audit Committee for a period of 1 year commencing on 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.

### **Qualifications**

4. Each member of the Audit Committee shall be financially literate (in the view of the Board). At least one member of the Audit Committee shall have appropriate professional qualifications or accounting or related financial management expertise meeting the requirement of the SEHK.

### **Meetings**

5. The Audit Committee shall meet at least four times annually, or more frequently if circumstances dictate, or act by unanimous written agreement. The members of the Audit Committee should liaise with the board and senior management and the committee must meet, at least twice a year, with the issuer's auditors. At least two of these meetings shall be in person, while others may be conducted telephonically. Except in emergencies all papers for the meeting shall be sent to all Committee

members at least three days before each meeting. The quorum shall be two members of the Committee. All provisions of law and of the Company's Bye-Laws relating to proceedings of the Board shall apply mutatis mutandis to proceedings of the Audit Committee.

6. The Chairman (or in his or her absence, a member designated by the Chairman) shall preside at all meetings of the Audit Committee. The Chairman shall be responsible for leadership of the Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.

### **Access**

7. The Audit Committee shall have full access to management. The Audit Committee shall meet separately, periodically, with management and with Company's auditors to discuss any matters that the Audit Committee believes are relevant to fulfilling its responsibilities. The Audit Committee may invite members of management or others to attend the Committee's meetings and provide pertinent information as appropriate.

### **Minutes**

8. Full minutes of each Audit Committee meeting shall be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records, within a reasonable time after the meeting.

### **Reports**

9. The Audit Committee shall evaluate and assess the effectiveness of the Committee and the adequacy of this Audit Committee Charter on an annual basis and recommend any proposed changes to the Board.

### **Authority**

10. The Audit Committee shall have the direct authority to appoint, retain, compensate, evaluate, oversee and terminate the appointment of Company's auditors, subject to the Company's Bye-Laws.
11. The Audit Committee shall have the authority to obtain advice and assistance from internal and outside legal, accounting or other advisors at the expense of the Company.
12. The Audit Committee is authorised to conduct or originate investigations into any matters within the Committee's scope of responsibilities and all employees shall cooperate fully with the Audit Committee.

## **Responsibilities and Duties**

### **Annual Audit and Relationship with the Auditors**

13. The Audit Committee shall be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the Company's auditor and shall consider the proposed audit fee, the terms of engagement, and any questions of resignation or dismissal. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will arrange for the Corporate Governance Report in the annual report to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view.
14. The Audit Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. It shall agree with the Board the Company's policy relating to the hiring of employees or former employees of the external auditors and monitor the applications of such policy. The Committee shall consider whether as a result of any such hiring there has been any impairment of the auditor's judgment or independence in respect of any audit.
15. The Audit Committee shall prior to its commencement discuss with the auditor the nature and scope of the audit and the reporting obligations, including the engagement letter. The Audit Committee must consider and ensure it understands the factors considered by the external auditors in determining their audit scope.
16. The Audit Committee shall meet with the Company's auditors and senior management prior to the annual audit to discuss planning and staffing of the audit.
17. The engagement of the external auditors to perform non-audit services is in general prohibited except for tax-related services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. If a compelling reason exists to engage the external auditors due to their unique expertise in a particular area, the prior approval of the Audit Committee is required.
18. The Audit Committee shall evaluate the cooperation received by the external auditors, including their access to all requested records, data and information, any change in the planned audit work and any restrictions placed on the scope of such work; obtain the comments of management regarding the responsiveness of the external auditors to the group's needs; inquire of the external auditors as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of the a qualified report on the group's financial statements; and discuss problems and reservations arising from audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary).

## **Review of Financial Information**

19. The Audit Committee shall be familiar with the financial reporting principles and practices applied by the group in preparing its financial statements.
20. The Audit Committee shall review the Company's financial statements and its annual and interim financial reports prior to approval by the Board, with particular focus on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from the audit;
  - (iv) the going concern assumption and any qualifications;
  - (v) compliance with accounting and auditing standards; and
  - (vi) compliance with the listing and legal requirements in relation to financial reporting.
21. Members of the Audit Committee shall liaise with the Board and senior management in respect of issues mentioned in the last paragraph. The Audit Committee must meet, at least twice a year, with the auditors.
22. The Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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 auditors.

## **Oversight of the Financial Reporting System and Internal Control Procedures**

23. The Audit Committee shall review the Company's financial controls, internal control and risk management systems. It shall discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.
24. The Committee shall consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.
25. Where an internal audit function exists, the Committee shall 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.

26. The Committee shall review the group's financial and accounting policies and practices.
27. The Committee shall review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response; discuss with the external auditors any recommendations arising from the audit (if necessary or desirable in the opinion of the Audit Committee in the absence of management); and ensure that the board will provide a timely response to the issues raised in the external auditor's management letter.
28. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board and review the findings of internal investigations into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations.
29. The Committee should 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. The Audit Committee should act as the key representative body for overseeing the Company's relations with the external auditor.
30. The Committee shall consider other topics by the Board may request from time to time.
31. The Committee shall appraise the Board of significant developments in the course of performing the above duties.

## **General**

32. The Audit Committee shall regularly report to the Board. It is not the duty of the Audit Committee to assure compliance with laws and regulations or to prepare financial statements, plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with any accounting principles. Management is responsible for preparing the Company's financial statements, and the Company's auditors are responsible for auditing those financial statements. The Audit Committee shall be entitled to rely on (i) the judgment of those persons and organisations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organisations.
33. The Audit Committee shall be provided by the Company with sufficient resources to discharge its duties.

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*(updated as of May 2013)*