

# **NATIONAL ELECTRONICS HOLDINGS LIMITED**

(the "Company")

## **TERMS OF REFERENCE** **OF** **AUDIT AND RISK MANAGEMENT COMMITTEE** (the "Committee")

*To reflect the Committee's expanded scope of oversight of risk management controls, the board of directors (the "Board") of the Company resolved in the meeting held in November 2015 that the Audit Committee be renamed to Audit and Risk Management Committee and these revised terms of reference be approved and adopted to take effect from 1 January 2016.*

### **Purpose**

1. The purpose of the Committee is to assist the Board in fulfilling its responsibilities with respect to the integrity of the financial reporting system, risk management and internal control systems of the Company and its subsidiaries (collectively, the "Group"). The 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 Committee shall be appointed by the Board from time to time pursuant to By-law 137. The 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 Committee the appointment of) one member of the Committee as its Chairman.
3. The Company Secretary of the Company shall act as the secretary of the Committee.
4. A former partner of the Company's existing auditing firm is prohibited from acting as a member of the 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**

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

## **Meetings**

6. The Committee shall meet at least four times annually, or more frequently if circumstances dictate, or act by unanimous written agreement. The 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 external auditors. At least two of these meetings shall be in person, while others may be conducted telephonically.
7. Except in emergencies all papers for the meeting shall be sent to all Committee members at least three days before each meeting.
8. The quorum shall be two members of the Committee.
9. 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 Committee.
10. The Chairman of the Committee (or in his or her absence, a member designated by the Chairman) shall preside at all meetings of the Committee. The Chairman shall be responsible for leadership of the Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.

## **Access**

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

## **Minutes**

12. Full minutes of each Committee meeting shall be kept by secretary of the Committee. 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**

13. The Committee shall evaluate and assess the effectiveness of the Committee and the adequacy of this terms of reference on an annual basis and recommend any proposed changes to the Board.

## **Authority**

14. The Committee shall have the direct authority to appoint, retain, compensate, evaluate, oversee and terminate the appointment of Company's external auditors, subject to the Company's Bye-Laws.
15. The 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.

16. The 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 Committee.

## **Responsibilities and Duties**

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

17. The Committee shall be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the Company's external auditors and shall consider the proposed audit fee, the terms of engagement, and any questions of resignation or dismissal. Where the Board disagrees with the 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 Committee's view and the reasons why the Board has taken a different view.
18. The Committee shall review and monitor the external auditors' 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 external auditors' judgment or independence in respect of any audit.
19. The Committee shall prior to commencement of audit discuss with the external auditors the nature and scope of the audit and the reporting obligations, including the engagement letter. The Committee must consider and ensure it understands the factors considered by the external auditors in determining their audit scope.
20. The Committee shall meet with the Company's external auditors and senior management prior to the annual audit to discuss planning and staffing of the audit.
21. The engagement of the external auditors to perform non-audit services is in general prohibited except for tax-related services. For this purpose, external auditors 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 Committee is required.
22. The 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 a qualified report on the Group's financial statements; and discuss problems and reservations arising from audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary).

## **Review of Financial Information**

23. The Committee shall be familiar with the financial reporting principles and practices applied by the Group in preparing its financial statements.
24. The 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.
25. Members of the Committee shall liaise with the Board and senior management in respect of issues mentioned in the last paragraph.
26. The 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, Risk Management and Internal Control Systems**

27. The Committee shall review the Company's financial controls, risk management and internal control systems.
28. The Committee shall ensure co-ordination between external auditors and the auditor responsible for internal audit function, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.
29. The Committee shall review the Group's financial and accounting policies and practices.
30. The Committee shall review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response;
31. The Committee shall discuss with the external auditors any recommendations arising from the audit (if necessary or desirable in the opinion of the Committee in the absence of management); and ensure that the board will provide a timely response to the issues raised in the external auditors' management letter.

32. 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.
33. 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.
34. The Committee should act as the key representative body for overseeing the Company's relations with the external auditors.
35. The Committee shall review the effectiveness of the Group's risk management and internal control systems including financial, operational and compliance controls at least annually to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions and the Committee shall consider followings in the annual review:
  - (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, the work of the Company's internal audit function and other assurance providers;
  - (c) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management;
  - (d) significant control failings or weaknesses that have been identified during the period of review and also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition;
  - (e) the effectiveness of the Company's processes for financial reporting and SEHK listing rules compliance;
36. The Committee 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, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions.
37. 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.

38. The Committee shall consider other topics the Board may request from time to time.
39. The Committee shall appraise the Board of significant developments in the course of performing the above duties.

### **General**

40. The Committee shall regularly report to the Board. It is not the duty of the 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 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 Committee by such persons or organisations.
41. The Committee shall be provided by the Company with sufficient resources to discharge its duties.

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