

**CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED**  
**凱普松國際電子有限公司**

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

**1. Constitution**

The board of directors (the “**Board**”) of **Capxon International Electronic Company Limited** (the “**Company**”) and together with its subsidiaries, the “**Group**”) resolved to establish on 15 April 2007 a Committee of the Board known as the Audit Committee (the “**Committee**”).

**2. Membership**

- (a) The members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Company from time to time and shall consist of not less than three members.
- (b) The majority of the members of the Committee must be independent non-executive directors. At least one of the members of the Committee is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The quorum of a meeting shall be two members of the Committee.

**3. Chairman**

The Board shall nominate one of the members (who must be an independent non-executive director) as the chairman of the Committee. In the absence of the chairman of the Committee and/or an appointed deputy at any meeting of the Committee, the members present may appoint a chairman (who must be an independent non-executive director) for that meeting.

**4. Attendance at meetings**

The chairman of the Board, the chief executive officer, the chief financial officer and representative(s) of the external auditor, if requested, shall attend meetings of the Committee. The Committee shall invite any appropriate person to attend the meeting whenever it is necessary. Other Board members shall also have the right of attendance.

**5. Secretary**

The Committee shall appoint a person, who need not be a director, to act as secretary of the Committee.

**6. Frequency of meetings**

- (a) The Committee shall meet at least twice every year. Additional meetings shall be convened as required.
- (b) The chairman of the Committee may convene additional meetings at his discretion.
- (c) The external auditor may request a meeting if they consider that one is necessary.

**7. Proceedings of meetings**

Proceedings of meetings of the Committee shall be governed by the relevant provisions of the articles of association of the Company for regulating the meetings and proceedings of the directors so far as the same are applicable and are not replaced by the provisions contained in these terms of reference.

**8. Authority**

The Committee is authorized by the Board:

- (a) to investigate any activity within its terms of reference;
- (b) to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee;
- (c) to obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary;
- (d) to call any employee to be questioned at a meeting of the Committee as and when required; and
- (e) to be provided with sufficient resources to discharge its duties.

**9. Duties**

The duties of the Committee shall be:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal 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 standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. Procedures to review and monitor the independence of external auditor may include:

- (i) to consider all relationships between the Group and the audit firm (including non-audit services);
  - (ii) to obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
  - (iii) to meet with the external auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditor may wish to raise;
- (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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to monitor integrity of the financial statements, annual report and accounts (including directors’ report, chairman’s statement and management discussion and analysis), 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 Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the external auditor; 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 staff responsible for the accounting and financial reporting function, compliance officer or the external auditor;
- (f) to review the Group's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Group's risk management and internal control 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 Group'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 auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the external auditor to management about 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 auditor's management letter;
- (m) to agree with the Board the policy relating to the hiring of employees or former employees of the external auditor and to monitor the applications of such policy. The Committee should consider whether as a result of such hiring there has been or appears to be any impairment of the auditor's judgment or independence for the audit;
- (n) to review arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. 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 relations with the external auditor;
- (p) to report to the Board on the aforesaid matters; and
- (q) to consider other topics, as defined by the Board.

**10. Other procedures**

The secretary of the Committee shall circulate the minutes and records of resolutions of the Committee meetings to all members of the Committee and to other attendees as appropriate within a reasonable time after each meeting and, once agreed, to all members of the Board.

At the next meeting of the Board following a meeting of the Committee, the Committee shall report to the Board on decisions or recommendations made, unless there are legal or regulatory restrictions to do so.

***Note: In case of discrepancies or inconsistencies between the English and Chinese versions of these terms of reference, the English version shall prevail.***