

南京熊猫电子股份有限公司
NANJING PANDA ELECTRONICS COMPANY LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code:00553)

Nanjing Panda Electronics Company Limited
Terms of Reference and Rules of Procedure of the Audit
Committee of the Board of Directors

CHAPTER I GENERAL PROVISIONS

- Article 1 In order to improve the governance level of Nanjing Panda Electronics Company Limited (the “Company”) and regulate the operation of the Audit Committee of the Board of Directors of the Company, this Rules of Procedure is formulated in accordance with the Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China, Basic Standards for Enterprise Internal Control, listing rules of the places where the Company’s shares are listed, Articles of Association of the Company and other relevant regulations.
- Article 2 The Audit Committee is a specialized committee under the Board of Directors, which shall be responsible to and report to the Board of Directors. Members of the Audit Committee must ensure sufficient time and energy for discharge of the duties of the committee, be diligent and responsible, supervise the external audit of the listed company in a practical and efficient way, guide the internal audit of the Company, and cause the Company to establish an effective internal control system and provide authentic, accurate and complete financial reports.

CHAPTER II PERSONNEL COMPOSITION

Article 3 In principle, members of the Audit Committee must be independent of the Company's day-to-day operation and management affairs. The Audit Committee shall be composed of three to five non-executive directors and the majority of the members of the committee shall be independent non-executive directors. All members of the Audit Committee must possess the expertise and business experience enabling them to fulfill the duties of the Audit Committee. At least one independent non-executive director of the Audit Committee shall be a professional in accounting or financial management.

The members of the Audit Committee shall participate in relevant training to obtain expertise in respect of laws, accounting, regulation standards of listed companies and etc. required for discharge of duties.

Article 4 The members of the Audit Committee shall be nominated by the Chairman of the Board of Directors and the majority of the independent non-executive directors or one-third of all directors, and shall be elected by the Board of Directors.

Article 5 The Audit Committee shall have one head who shall be an independent non-executive director member of the committee and responsible for presiding over the Audit Committee. The head shall be nominated by the Chairman of the Board of Directors among the members of the committee and shall be elected by the Board of Directors. The head of the Audit Committee shall have professional experience in accounting or financial management.

- Article 6 The members of the Audit Committee shall serve the term of one year. Upon expiration of their terms, their term of office are deemed to be renewed if the Board of Directors has not made any adjustment. The Board of Directors shall evaluate the independence of and discharge of duties by the members of the Audit Committee on a regular basis, and replace the member who is not suitable to remain in the position when necessary. The Board of Directors has the right to make adjustment to the members of the committee at any time. In the event that a member of the committee ceases to be a director of the Company during his term of membership, his membership of the committee shall lapse immediately. The Board of Directors shall, in accordance with this Rules of Procedure, make up the number of members of the committee.
- Article 7 The Audit Committee shall have one secretary-general to be responsible for daily liaison and meeting organization etc.

CHAPTER III RESPONSIBILITY AND AUTHORITY

- Article 8 The Audit Committee is mainly responsible for:
- (I) Only after forming consideration opinions and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors (external audit institutions, the same below) can the Board of Directors consider relevant resolutions; reviewing and approving the remuneration and engagement terms of the external auditors, and handling any matters relating to the resignation or dismissal of such auditors; evaluating the independence and professionalism of the external auditors, especially the impact on their independence imposed by the non-audit services provided by the external auditors, reviewing and monitoring the external auditors' independence and objectivity as well as the effectiveness of the audit process in accordance with applicable standards, discussing and communicating with the external auditors over the audit scope, audit plan, audit methods and significant matters found during the auditing, and discussing with the auditors the nature and scope of the audit and the reporting obligations before the audit commences; monitoring and evaluating whether the external auditors are diligent and responsible;

- (II) Coordinating communication between the management, internal audit department and relevant departments and external auditors: coordinating communication between the management and external auditors in respect of material audit issues and providing cooperation in external audit; being the main representative between the Company and the external auditors and be responsible for supervising the relationship between them and coordinating with the domestic and international auditors;
- (III) Formulating and implementing the policies regarding the external auditors offering non-auditing services. For this article, “external auditors” include any organizations under the same control, ownership or management right with the company responsible for auditing, or any organizations which a third party reasonably knowing all the relevant materials would conclude, under reasonable circumstance, as a part of the local or international business of the company responsible for auditing. The Audit Committee shall report to the Board of Directors on any actions required to be taken or any matters to be improved and make relevant recommendations;
- (IV) Guiding internal audit
 - (a) Reviewing the Company’s annual internal audit plan;
 - (b) Supervising the implementation of the Company’s internal audit plan;
 - (c) Reviewing the internal audit report, assessing the internal audit results and supervising the improvement of material issues;
 - (d) Guiding the effective functioning of internal audit department.

The internal audit department of the Company must report to the Audit Committee. Various audit reports and the plan and situation of improvement of audit issues submitted to the management by the internal audit department shall be submitted to the Audit Committee at the same time.

- (V) Reviewing the quarterly, interim and annual financial reports before submitting to the Board of Directors, including but not limited to reviewing the following contents:
- (a) Any changes in accounting policies and accounting system;
 - (b) Issues to be judged, accounting estimates and any qualified opinions;
 - (c) Compliance with the accounting principles;
 - (d) Whether the disclosed materials are full and easy to understand;
 - (e) Whether the contents in the financial statement are consistent;
 - (f) The processing method and disclosure regarding non-common items occurred during the reporting period (significant and extraordinary items, including but not limited to asset transactions, contingent liabilities and lawsuit);
 - (g) Material auditing adjustment;
 - (h) Issues concerned by the auditors and unadjusted auditing differences;
 - (i) Compliance with the rules of stock exchanges and relevant laws.

For the purpose of the above sub-articles (a) to (i):

- (1) The Audit Committee members shall contact with the Board of Directors and senior managers and at least meet with the Company's auditors twice a year; and
- (2) The Audit Committee shall consider any significant or extraordinary items reflected or to be reflected in such reports and accounts, and shall properly consider the items proposed by the accountants, financial reporting staff, chief auditor or auditors of the Company.

- (VI) Reviewing the Company's financial reports and making comments thereon;
 - (a) Reviewing the financial reports of the listed company and making comments as to the authenticity, completeness and accuracy of the financial reports;
 - (b) Stressing the material accounting and auditing issues in the financial reports of the listed company, including adjustments to material accounting errors, material changes in accounting policies and estimates, matters involving material accounting judgments, matters resulting in non-standard unqualified audit report and other matters;
 - (c) Paying special attention to the possibility of fraud, corrupt practices and material misstatement in relation to the financial reports;
 - (d) Supervising the improvement of the issues in financial reports.
- (VII) Discussing the issues proposed after the quarterly, interim and annual financial account audit and any doubts arising therefrom, as well as the issues that the auditors hope to discuss;
- (VIII) Reviewing the auditing statement sent by the auditors and the reply of the relevant staff of the Company;
- (IX) In the event that the Company's employees raises concerns on any improper behaviors that may occur in relation to financial reporting, internal control or other matters, the Audit Committee shall make proper arrangement, enabling the Company to conduct fair and independent investigation on such matters and take proper actions;
- (X) Reviewing the Company's financial control, internal control and risk management system;

- (XI) Assessing the effectiveness of internal control
 - (a) Assessing the appropriateness of the design of the Company's internal control system and discussing the internal control system with the management of the Company to ensure that the management has performed their duties to set up an effective internal control system;
 - (b) Reviewing the internal control self-assessment report;
 - (c) Reviewing internal control audit reports issued by external auditors, and communicating with external auditors on the issues discovered and the improvement methods;
 - (d) Assessing the results of internal control evaluation and audit, and supervising the improvement of internal control deficiencies.
- (XII) Studying the investigation results regarding the internal control and the management's reply to the said investigation results actively or as appointed by the Board of Directors;
- (XIII) Ensuring the coordination of the work of the internal and external auditors of the Company. Ensuring that there are sufficient resources for the operation and the proper position of the internal auditing functions within the Company, and reviewing and supervising its effects;
- (XIV) Reviewing the financial and accounting policies and practices of the Company and its subsidiaries;
- (XV) Examining the Audit Statement provided by the external auditors to the management of the Company, any material doubts proposed by the auditors regarding accounting records, financial accounts or supervision system and the reply made by the management;

(XVI) Making sure that the Board of Directors replies to the matters proposed in the Audit Statement provided by the external auditors on a timely basis; and

(XVII) Other matters as authorized by the Board of Directors of the Company and involved in relevant laws and regulations.

Article 9 The Board of Directors may, as it deems necessary, authorize the Audit Committee to deal with the specific matters, and the Audit Committee may, as it deems necessary, require the Board of Directors to authorize them to deal with the specific matters. The Audit Committee shall report and make recommendation to the Board of Directors in respect of the measures to be taken or matters to be improved as considered necessary by the Audit Committee.

Article 10 The Audit Committee shall be responsible to the Board of Directors. The resolutions made by the Audit Committee shall be submitted to the Board of Directors for consideration and approval before implementation. The Audit Committee shall coordinate with the audit carried out by the Supervisory Committee.

CHAPTER IV DECISION-MAKING PROCEDURE

Article 11 The Audit Committee shall have the right to take actions within the scope of their functions and have the right to ask for any materials needed from any subordinated functional departments, subsidiaries, branches and holding companies of the Company:

- (1) Relevant financial reports of the Company;
- (2) Work report of the internal and external auditing organizations;
- (3) External auditing contract and relevant working report;
- (4) The information disclosed by the Company;
- (5) Audit report on the significant connected transactions of the Company;
- (6) Other materials as deemed necessary by the Audit Committee.

Article 12 The Audit Committee shall assess matters discussed in meetings and submit the relevant written resolution materials to the Board of Directors for discussion:

- (1) Assessment on the performance of the external audit organization, and employment and replacement of external audit organization;
- (2) Whether the Company's internal audit system has been effectively implemented and whether the Company's financial report is true and complete;
- (3) Whether the financial report disclosed by the Company is true and objective and whether the Company's significant connected transactions conform to the relevant laws and regulations;
- (4) Assessment on the performance of the financial department and audit department of the Company, including the persons in charge;
- (5) Other related matters.

CHAPTER V RULES OF PROCEDURE

Article 13 The meetings of the Audit Committee are divided into regular meetings and extraordinary meetings. The meeting shall be presided over by the head. Where the head is unable to attend, he may authorize other members (independent non-executive directors) to preside over. The Audit Committee shall convene at least four regular meetings a year and notify all the members three(3) days before convening the meeting.

The Audit Committee may convene extraordinary meetings as required. An extraordinary meeting may be convened upon proposal by more than two members of the Audit Committee or if deemed necessary by the convener of the Audit Committee.

The auditors employed by the Company may, as they deem necessary, require convening an Audit Committee's meeting.

Article 14 The Audit Committee's meeting can only be convened with the attendance of two-thirds or more of the members. Each member of the committee shall be entitled to one vote and the resolutions adopted in the meeting shall be approved by the majority of all the members. If a valid consideration opinion cannot be reached due to abstention of the members of the Audit Committee, relevant matters shall be directly subject to the consideration by the Board of Directors.

Article 15 In the Audit Committee's meeting, members may vote by the show of hands or by poll and, the Audit Committee may accept written resolutions in lieu of meeting. The written resolutions may become effective only with the approval of the majority of all the members of the committee.

The members of the Audit Committee must attend the meeting in person and express their explicit opinions on the matters for consideration. A member who, due to certain reasons, is unable to attend the meeting in person may submit a power of attorney signed by the member appointing other members to attend the meeting and give opinions on his behalf. The power of attorney shall expressly state the scope and duration of the authorization. Each member cannot be appointed by more than one member at the same time. A member who is an independent director and is unable to attend the meeting in person shall appoint another member who is also an independent director to attend the meeting on his behalf.

Article 16 The Audit Committee may invite the Company's directors, supervisors, internal auditors, financial staff, administrators, legal advisers, employed auditors or other relevant personnel to attend the meeting and provide necessary information. The Company's Supervisory Committee has the right to appoint its members to participate in the meeting.

The Audit Committee shall at least meet with the auditors for separate communication once a year without the attendance of the executive directors and management. The secretary of the Board of Directors may attend the meeting as an observer.

- Article 17 The Audit Committee may listen to the professional opinions of the external legal or other independent experts and, if necessary, invite the outside persons with relevant experience and professional knowledge to attend the meeting and appoint intermediaries to provide professional opinions. All the expenses incurred thereby shall be borne by the Company.
- Article 18 The convening procedure, method of voting and the resolutions passed in the meetings of the Audit Committee, shall comply with the regulation of the laws, regulations, Articles of Association of the Company and this Rules of Procedure.
- Article 19 There shall be minutes of the meetings of the Audit Committee and the members attending the meeting shall sign on the minutes. The meeting minutes shall be kept by the secretary-general of the Audit Committee. The secretary-general of the Audit Committee shall send the draft and final version of the meeting minutes to all the committee members within a reasonable period after the meeting for their comments; but the approval of the head of the Audit Committee is required before circulating such meeting minutes.
- Article 20 The resolutions adopted in the Audit Committee's meeting shall be submitted in written to the Board of Directors of the Company.
- Article 21 All personnel present at the meetings of the Audit Committee are obliged to keep all the items discussed in the meeting confidential and shall not disclose any relevant information without permission.
- Article 22 If a member of the Audit Committee is interested in any matter being considered at the meeting, such member shall refrain from the consideration of such matter.

CHAPTER V INFORMATION DISCLOSURE

- Article 23 The Company shall disclose the information on the members of the Audit Committee, including composition, professional background and working experience in last five years, and the changes in the members of the Audit Committee.
- Article 24 The Company shall disclose the information on the discharge of duties by the Audit Committee on the website of the stock exchange of the places where the Company's shares are listed, mainly including the information on the discharge of duties and convening of meetings of the Audit Committee, while disclosing its annual report.
- Article 25 In case of material matters contravening the information disclosure standards under the listing rules of the stock exchange of the place of listing found in the process of discharge of duties by the Audit Committee, the Company shall promptly disclose such matters and the improvements thereof.
- Article 26 The Audit Committee is entitled to propose consideration opinions on the matters in the scope of their functions to the Board of Directors. For the opinions not adopted by the Board of Directors, the Company shall make a disclosure and give sufficient reasons.
- Article 27 The Company shall disclose the Audit Committee's special opinions on material matters of the Company in accordance with laws, administrative regulations, departmental regulations, listing rules of the stock exchange of the places where the Company's shares are listed and relevant regulating documents.

CHAPTER VI SUPPLEMENTARY PROVISIONS

Article 28 The right of interpretation of the Rules of Procedure shall be vested in the Board of Directors of the Company.

Article 29 Any matters not mentioned in this Rules of Procedure shall be carried out in accordance with the relevant national laws, administrative regulations, departmental regulations, Articles of Association of the Company and Listing Rules of Shanghai Stock Exchange and Hong Kong Stock Exchange.

Where this Rules of Procedure contravenes the laws, regulations and departmental regulations subsequently promulgated by the state or the amended Articles of Association of the Company or the Listing Rules as amended from time to time, the relevant national laws, administrative regulations, departmental regulations, Articles of Association of the Company and Listing Rules shall prevail.

Article 30 This Rules of Procedure shall become effective as of the date of approval by the Board of Directors.

Board of Directors of Nanjing Panda Electronics Company Limited
January 2014