

**China Optoelectronics Holding Group Co., Limited**  
(the “Company”)

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**Terms of Reference – Audit Committee**

**1. Constitution**

The board of directors (the “**Directors**”) of China Optoelectronics Holding Group Co., Limited (the “**Board**”) has resolved the establishment of the audit committee of the Company (the “**Committee**”) on 19 June 2012 and has adopted the following terms as the terms of reference of the Committee.

**2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive Directors (including independent non-executive Directors) and shall consist of not less than three members, a majority of whom shall be independent non-executive Directors and at least one of whom is an independent non-executive Director of the Company 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 (as amended from time to time)(the “**Listing Rules**”).
- 2.2 The term of each Committee member shall be the same as his/her term as a Director. Subject to the constitutions of the Company and the applicable laws and regulations, any member of the Committee may be re-appointed by the Board and continue to act as a member of the Committee upon the expiry of his/her term of appointment relating thereof.
- 2.3 The appointment of the members of the Committee may be revoked, or additional members may be appointed to the Committee by resolutions passed by the Board. A member of the Committee who ceases to be a member of the Board shall immediately and automatically cease to be a member of the Committee.
- 2.4 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year from the date of his/her ceasing:
- 2.4.1 to be a partner of the firm; or
- 2.4.2 to have any financial interest in the firm,
- whichever is later.
- 2.5 The chairman of the Committee (the “**Committee Chairman**”) shall be appointed by the Board from time to time and shall be an independent non-executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

**3. Committee Secretary**

The company secretary of the Company shall act as the secretary of the Committee (the “**Committee Secretary**”). The Committee may, from time to time, appoint any other person with the appropriate qualification and experience as the Committee Secretary. The Committee Secretary or in his/her absence, his/her representative or any one member of the Committee, shall be the secretary of the meeting.

**4. Frequency of Meetings**

- 4.1 Meetings shall be held not less than twice a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 4.2 The Committee Chairman shall convene a meeting upon request by any member of the Committee. The external auditors may request a meeting if they consider that is necessary.

**5. Conduct of Meetings**

- 5.1 Unless specified by these terms of reference, meetings and proceedings of the Committee shall be governed by the Company’s bye-laws regulating the meetings and proceedings of the Directors.
- 5.2 Unless otherwise waived by all members of the Committee, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than 3 working days before the date of the meeting in person orally or in writing or by telephone or by email or by facsimile transmission at the telephone or facsimile or address or email address from time to time notified to the Committee Secretary by such Committee member or in such other manner as the Committee members may from time to time determine. Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting. Supporting papers shall be sent to the Committee members and to other attendees as appropriate, at the same time.
- 5.3 The quorum of the Committee shall be any two members of the Committee. Meetings could be held in person, by telephone or by video conference. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 5.4 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the members of the Committee present. Subject to compliance with the Listing Rules and the applicable laws and regulations, a resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

- 5.5 The Company's financial controller, the head of internal audit of the Company and a representative of the external auditors shall normally attend meetings of the Committee. The Committee may invite any member of the management of the Company (the "**Management**"), any Director, external advisers or any other persons to attend all or part of any meetings as the Committee considers appropriate, notwithstanding that the aforementioned persons shall not have a right to vote at such meetings. However, at least once a year the Committee shall meet with the external and internal auditors without the executive Directors and the Management present.

## **6. Annual General Meetings**

The Committee Chairman, or in his/her absence, another member of the Committee, or failing which his/her duly appointed alternate shall attend the annual general meetings of the Company and be available to answer questions thereat on the Committee's activities and its responsibilities.

## **7. Authority**

- 7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 7.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise at meetings of the Committee if it considers this necessary.
- 7.3 The Management is obliged to supply the Committee with adequate information in a timely manner, in order to enable it to make informed decisions. The information supplied must be complete and reliable. Where a member of the Committee requires more information than information provided voluntarily by the Management, the relevant member of the Committee should make additional necessary enquiries. Each member of the Committee shall have separate and independent access to the Management.
- 7.4 The Committee shall be provided with sufficient resources to perform its duties.

## **8. Duties**

- 8.1 The duties of the Committee shall include, without limitation, the following:

### ***Relationship with the Company's auditors***

- 8.1.1 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;

- 8.1.2 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;
- 8.1.3 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;

### ***Review of the Company's financial information***

- 8.1.4 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 judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
- a) any changes in accounting policies and practices;
  - b) major judgmental areas;
  - c) significant adjustments resulting from audit;
  - d) the going concern assumptions and any qualifications;
  - e) compliance with accounting standards; and
  - f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 8.1.5 Regarding paragraph 8.1.4 above:
- a) members of the Committee should liaise with the Board, the Management and the Committee must meet, at least twice a year, with the Company's auditors; and
  - b) 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 staff responsible for the accounting and financial reporting function, compliance officer or auditors;

### ***Oversight of the Company's financial reporting system, risk management and internal control systems***

- 8.1.6 to review the Company's financial controls, internal control and risk management systems;
- 8.1.7 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 Company's accounting and financial reporting function;
- 8.1.8 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;
- 8.1.9 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 its effectiveness;
- 8.1.10 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 8.1.11 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 8.1.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 8.1.13 to report to the Board on the matters in this paragraph headed "Duties";
- 8.1.14 to consider other topics, as defined by the Board;
- 8.1.15 to make recommendations to the Board as it deems appropriate on any area within its scope of duties where action or improvement is needed.

### ***Relationships with the employees of the Company***

- 8.1.16 to review arrangements employees of the Company and its subsidiaries 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;
  - 8.1.17 to act as the key representative body for overseeing the Company's relations with the external auditor.
- 8.2 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

**9. Reporting Procedures**

- 9.1 The Committee Secretary shall, at the beginning of each meeting, ascertain and record the existence of any conflicts of interest and minute them accordingly. The relevant member of the Committee shall not be counted towards the quorum and he must abstain from voting on any resolution of the Committee in which he or any of his associates has a material interest, unless the exceptions set out in note 1 to Appendix 3 of the Listing Rules apply.
- 9.2 Full minutes of the Committee's meetings, all written resolutions of the Committee and individual attendance of members of the Committee, on a named basis, at meetings held during that financial year should be recorded and kept by the Committee Secretary and shall be available for inspection at any reasonable time on prior reasonable notice by any Director.
- 9.3 Draft and final versions of minutes of meetings should be sent to all Committee members for their comments and records, within a reasonable time after such meetings.
- 9.4 The Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless prohibited by applicable laws and regulations.

**10. Powers of the Board**

The Board may, subject to compliance with the bye-laws of the Company and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

**11. Terms Available**

The Committee shall make available these terms of reference explaining its role and the authority delegated to it by the Board by including them on The Stock Exchange of Hong Kong Limited's website and the Company's website.

4 December 2015