



SKYWORTH DIGITAL HOLDINGS LIMITED

(創維數碼控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00751)

**TERMS OF REFERENCE
OF
AUDIT COMMITTEE**

**Revised and adopted by the board of directors of
Skyworth Digital Holdings Limited
on 15 December 2015**

Constitution

1. The audit committee (the “**Committee**”) of Skyworth Digital Holdings Limited (the “**Company**”) was established by the board of directors of the Company (the “**Board**”) since the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited on 7 April 2000.
2. On 30 March 2012, the Board adopted revised terms of reference of the Committee in order to comply with the then adopted amendments to the Corporate Governance Code and Corporate Governance Report (the “**Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). In light of the latest amendments made to the Code (which will take effect on 1 January 2016), the Board has further adopted the following revised terms of reference of the Committee on 15 December 2015 in accordance with such Code amendments.

Objective and Role

3. The Committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting; risk management and internal control systems; external and internal audits; and such other matters as the Board determines from time to time.
4. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the risk management and internal control systems of the Company and its subsidiaries (the “**Group**”), and as to the adequacy of the external and internal audits.

Membership

5. The Committee shall consist of not less than three members appointed by the Board, the majority of the Committee shall be independent non-executive directors of the Company.

There shall be at least one member of the Committee with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

6. The chairman of the Committee shall be elected by the members of the Committee and must be an independent non-executive director of the Company.
7. The company secretary of the Company shall be the secretary of the Committee. In the absence of the company secretary, his or her delegate(s) or any person elected by the members present at the meeting of the Committee, shall attend the meeting of the Committee and take minutes.

Attendance at Meetings

8. The Committee may invite any director, member of senior management or other individual to attend meetings of the Committee as it considers appropriate. However, at least once a year the Committee shall meet with the external auditors without executive directors present.

Frequency of Meetings

9. The Committee should meet at least twice a year. Additional meetings should be held if the Committee considers it necessary.
10. The chairman of the Committee may convene additional meetings at his discretion.
11. The external auditors may request a meeting if they consider that one is necessary.
12. The quorum of a meeting shall be two members of the Committee.
13. Proceedings of meetings of the Committee shall be governed by the provisions of the Bye-laws of the Company.

Authority

14. The authorities of the Committee shall include such authorities set out in the relevant code provisions in the Code.
15. The Committee is authorised by the Board to investigate any activity within its terms of reference and all employees are directed to cooperate with any request made by the Committee.
16. The Committee is authorised by the Board to obtain outside legal or other independent professional advice if deemed required and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

17. The Committee shall report to the Board on any suspected frauds and irregularities, failures of internal control or risk management, or suspected infringements of non-compliance with laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
18. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee shall disclose in the corporate governance report an explanation of the Committee's view and the reasons why the Board has taken a different view.
19. The Committee shall be provided with sufficient resources to discharge its duties.

Duties

20. The Committee shall have the following duties:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors; to consider the performance of the external auditor and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (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;

Review of the Company's financial information

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, and 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:-

- (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (e) Regarding (d) above:-
- (i) members of the Committee must liaise with the Board and senior management and the Committee must meet, at least twice a year with the Company's external auditors; 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 Group'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

- (f) to review the Company's financial controls, 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) 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 financial reporting principles, accounting policies and practices applied by the Group in preparing its financial statements;
- (k) to review the external auditors' management letter, any material queries raised by the auditors 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 report to the Board on the matters set out in these terms of reference;
- (n) to recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (o) to report to the Board of significant developments in the course of performing the above duties;
- (p) to consider any other matters specifically to the Committee by the Board;
- (q) to review arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Committee should also ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;
- (r) to act as the key representative body for overseeing the Company's relation with the external auditor; and
- (s) to ensure the chairman of the Committee (or in his or her absence, another member of the Committee, or failing this his duly appointed delegate) be available to answer questions at the annual general meeting of the Company.

Meeting Procedures

21. The meetings and proceedings of the Committee shall be governed by the provisions of the Company's Bye-laws for regulating the meetings and proceedings of the Board, except for otherwise determined by the Board from time to time.
22. The quorum for a meeting shall be two members of the Committee.

Reporting Procedures

23. The Committee shall report to the Board concerning its activities, either orally or in writing, at regular meetings of the Board or at other times or occasions where necessary.
24. The secretary of the Committee shall arrange to distribute the minutes of meetings / written resolutions of the Committee to the Board members.
25. Full minutes of the Committee meetings should be kept by the secretary of the Committee. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting. The secretary of the Committee shall circulate the minutes of meetings and all written resolutions of the Committee to all members of the Board, keeping the Board informed of the Committee's activities, decisions and recommendations on a regular basis.

Availability and Review of the Terms of Reference

26. These terms of reference shall be made available to the public by publishing on the websites of the Company and Hong Kong Exchanges and Clearing Limited. Subject to the Board approval, these terms of reference shall be reviewed as and when necessary in light of changes in circumstances and applicable amendments to the regulatory requirements under the Listing Rules adopted from time to time.

** For identification purpose only*

Note: If there is any inconsistency between the English and Chinese versions of this document, the English version shall prevail.