

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
RULES OF PROCEDURE OF THE AUDIT
COMMITTEE OF THE BOARD OF DIRECTORS

(Amended in January 2014)

Chapter I General Provisions

- Article 1** In order to improve the governance standard of Nanjing Panda Electronics Company Limited (the “Company”) and regulate the operation of the Audit Committee of the Board of Directors of the Company, the Company has formulated these Rules of Procedure in accordance with the “Company Law”, the “Securities Law”, the “Code of Corporate Governance for Listed Companies”, the “Basic Standards for Enterprise Internal Control”, the listing rules of the places where the Company’s shares are listed, the 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 accountable and report to the Board of Directors. Members of the Audit Committee must ensure sufficient time and effort for discharge of the duties of the Committee, be diligent and responsible, supervise the external audit of the Company in a practical and efficient way, guide the internal audit of the Company, and procure the Company to establish an effective internal control system and provide true, accurate and complete financial reports.

Chapter II 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 should possess necessary expertise and business experience to enable them to fulfill the duties of the Audit Committee, and at least one of whom should be an independent non-executive director possessing accounting or financial management expertise.

The members of the Audit Committee shall participate in relevant training to acquire knowledge in respect of laws, accounting and regulations for listed companies and other professional knowledge required to perform their duties.

Article 4 The members of the Audit Committee shall be nominated by the Chairman of the Board of Directors, more than half 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 chairman who shall be an independent non-executive director. The Chairman responsible for presiding over the Audit Committee. The Chairman 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 Chairman of the Audit Committee shall have professional experience in accounting or financial management.

Article 6 The members of the Audit Committee shall serve a term of one year. Upon expiration, their terms of office are deemed to be renewed if the Board of Directors has not made any adjustment. The Board of Directors shall assess the independence of and discharge of duties by the members of the Audit Committee on a regular basis, and replace any member who is not suitable to remain in the position when necessary. The Board of Directors has the right to adjust the composition of the Committee at any time. Any member of the Committee who ceases to be a director of the Company during his term shall be automatically disqualified as a member of the Committee. The Board of Directors shall, in accordance with these Rules of Procedure, fill 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 organizing meetings, etc.

Chapter III Terms of Reference

Article 8 The Audit Committee is mainly responsible for:

- (I) proposing the appointment, re-appointment and removal of external auditors (i.e. external audit institutions) and making recommendations to the Board of Directors in respect thereof for the Board of Directors to consider; reviewing and approving the remuneration and engagement terms of external auditors, and handling any matters relating to the resignation or dismissal of such auditors; assessing the independence and professionalism of the external auditors, especially the impact on their independence imposed by 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 issues identified during audit, 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 among 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, coordinating communication between internal audit department and external auditors and providing cooperation in external audit; acting as the key representative body for overseeing the Company's relations with the external auditors and responsible for coordinating with the domestic and international auditors;
- (III) developing and implementing the policy on engaging external auditors to provide non-audit services. For this purpose, "external auditors" 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 Audit Committee should report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed;

(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 should report to the Audit Committee. Audit reports and the plans for and results 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) sufficiency and intelligibility of the information disclosed;
- (e) consistency of the contents of the financial statements;
- (f) accounting treatment and disclosure of unusual items occurring in reporting period (significant and extraordinary items, including but not limited to asset transactions, contingent liabilities and litigations);
- (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-paragraphs (a) to (i):

- (1) Members of the Audit Committee should liaise with the Board of Directors and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
- (2) The Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and 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, chief auditor or auditors

(VI) Reviewing and commenting on the Company's financial reports;

- (a) reviewing the financial reports of the Company and giving opinions as to the truthfulness, completeness and accuracy of the financial reports;
- (b) emphasis on the material accounting and auditing issues in the financial reports of the 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 relating to financial reports.

(VII) Discussing the issues raised after the quarterly, interim and annual financial account audit and any doubts arising therefrom, as well as the issues that the auditors wish to discuss;

(VIII) Reviewing the audit statement sent by the auditors and the responses of the relevant staff of the Company;

(IX) In the event that employees of the Company 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;

- (X) Reviewing the Company's financial control, internal control and risk management systems;
- (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 methods for improvement;
 - (d) assessing the results of internal control evaluation and audit, and supervising the improvement of internal control deficiencies.
- (XII) Considering major investigation findings on internal control matters as delegated by the Board of Directors or on its own initiative and management's response to these findings
- (XIII) Ensuring coordination between the internal and external auditors of the Company. Ensuring that internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- (XIV) Reviewing the financial and accounting policies and practices of the Company and its subsidiaries;
- (XV) Reviewing the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or control systems of control and management's response;
- (XVI) Ensuring that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter; and
- (XVII) Other matters as authorized by the Board of Directors of the Company or stipulated under applicable 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 accountable 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 Audit Committee.

Chapter IV Decision-Making Procedure

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

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

Article 12 The Audit Committee shall assess matters discussed at meetings and submit the relevant written resolutions 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) The implementation of the Company's internal audit practices and the truthfulness and integrity of the Company's financial reports;

- (3) The truthfulness and objectivity of the financial report disclosed by the Company and the Compliance of the Company's significant connected transactions with the relevant laws and regulations;
- (4) Assessment on the performance of the financial and audit departments 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 meetings shall be presided over by the Chairman. Where the chairman is unable to attend, he may authorize other members (independent non-executive directors) to preside. The Audit Committee shall convene at least four regular meetings a year and notify all the members three (3) days before convening date for the meeting.

The Audit Committee may convene extraordinary meetings when necessary. 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 engaged 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 at the meeting shall be approved by the majority of all the members. If a valid deliberation cannot be reached due to abstention of the members of the Audit Committee, relevant matters shall be directly considered by the Board of Directors.

Article 15 In the Audit Committee's meetings, members may vote by show of hands or by poll and, the Audit Committee may accept written resolutions in lieu of holding a 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 should attend meetings in person and give their explicit opinions on the matters being considered. A member who, due to certain reasons, is unable to attend a meeting in person may submit a power of attorney signed by the member appointing other member 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 act on behalf of more than one member at the same time. A member who is an independent director and is unable to attend a 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, executives, legal advisers, external auditors or other relevant persons to attend its meetings and provide necessary information. The Supervisory Committee of the Company has the right to send its members to attend any meeting of the Audit Committee.

The Audit Committee at least annually hold meetings with the auditors without the presence of the executive directors and management. The secretary to the Board of Directors may attend these meetings as an observer.

Article 17 The Audit Committee may seek professional opinions from external legal or other independent experts and, if necessary, invite the outside persons with relevant experience and professional knowledge to attend its meetings and engage intermediaries to provide professional opinions. All the expenses incurred thereby shall be borne by the Company.

Article 18 The convening procedure, the method of voting and the resolutions passed at the meetings of the Audit Committee, shall comply with the requirements of the laws, regulations, the Articles of Association of the Company and these 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 Chairman of the Audit Committee is required before circulating such meeting minutes.

- Article 20** The resolutions adopted at the Audit Committee's meetings shall be submitted in writing to the Board of Directors of the Company.
- Article 21** All persons 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 a meeting, such member shall abstain from deliberation on such matter.

Chapter VI Information Disclosure

- Article 23** The Company shall disclose the information on the members of the Audit Committee, including composition, professional background and work experience in last five years, and any change in the members of the Audit Committee.
- Article 24** while disclosing its annual report, the Company shall disclose the information on the performance of duties by the Audit Committee on the website of the stock exchanges where the Company's shares are listed, mainly including the information on the discharge of duties and convening of meetings of the Audit Committee.
- Article 25** If the Audit Committee identifies, during performance of its duties, any material matters that should have been disclosed pursuant to the information disclosure requirements under the listing rules of the stock exchanges where the Company's shares are listed have not been disclosed, the Company shall promptly disclose such matters and the rectification thereof.
- Article 26** The Audit Committee has the right to consider and give its opinions on the matters within its terms of reference 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, the listing rules of the stock exchanges where the Company's shares are listed and relevant regulatory requirements.

Chapter VII Supplementary Provisions

Article 28 The power 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 these Rules of Procedure shall be carried out in accordance with the relevant State laws, administrative regulations, departmental regulations, the Articles of Association of the Company and the Listing Rules of Shanghai Stock Exchange and of Hong Kong Stock Exchange.

In the event of any conflict between these Rules of Procedure and any laws, regulations or 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 latter shall prevail.

Article 30 These Rules of Procedure shall become effective from the date of approval by the Board of Directors.

Board of Directors of Nanjing Panda Electronics Company Limited
January 2014

Note: This Terms of Reference and Rules of Procedures was originally drafted in Chinese, the English translation is for your reference only. In case there is any discrepancy between the Chinese and English version, the Chinese version shall always prevail.