



Techtronic Industries

TECHTRONIC INDUSTRIES CO. LTD.

TERMS OF REFERENCE

AUDIT COMMITTEE

*(Update on 22 March 2012)*

TECHTRONIC INDUSTRIES CO. LTD.

The Stock Exchange of Hong Kong Limited  
Ordinary Shares (code: 669)

ADR Level 1 Programme (code: TTNDY)

**Techtronic Industries Co. Ltd.**  
**(the “Company”)**  
**Terms of Reference for Audit Committee**

**Constitution**

The board of directors (the “Board”) of the Company has established a standing committee of the Board known as the Audit Committee.

**Members**

Mr. Peter David Sullivan (Chairman of the Audit Committee)  
Mr. Joel Arthur Schleicher  
Mr. Manfred Kuhlmann

**Objectives**

The Audit Committee has been established to assist the Board in (i) ensuring that an effective system of internal control and compliance with the Company's obligations (including external financial reporting obligations) under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and applicable laws and regulations is in place; and (ii) overseeing the integrity of the financial statements of the Company.

The Audit Committee is also directly responsible on behalf of the Board for (i) the selection, oversight and remuneration of the Company's external auditor, (ii) the assessment of the independence and qualifications of the external auditor, (iii) the oversight of the performance of the Company's internal audit function and external auditor and (iv) the maintenance of an appropriate relationship with the external auditor.

**Membership**

The Audit Committee shall be appointed by the Board and can be removed by the Board at its sole discretion. The Audit Committee shall comprise non-executive directors only. The minimum number is three.

The majority of the members of the Audit Committee (the "Members", and a "Member" refers to any one of them) shall be independent non-executive directors, at least one of whom has to be 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 Listing Rules.

The Chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director.

The Board shall from time to time vary the composition of the Audit Committee as may be required by the Listing Rules (as modified from time to time) or the rules of any other stock exchange in respect of which the shares of the Company are listed or quoted, or other codes, rules and regulations as may be prescribed by the Hong Kong Securities and Futures Commission or any other applicable regulatory authority from time to time (the "Applicable Rules").

A former partner of the existing auditing firm of the Company is prohibited from acting as a Member for a period of one (1) year commencing on the later of (a) the date of his ceasing to be a partner of the firm; and (b) the date of his ceasing to have any financial interest in the firm.

The term of office of a Member will generally not be set beforehand. It will, *inter alia*, depend on the composition of the Board as a whole and that of other committees from time to time.

The company secretary of the Company (the "Company Secretary") shall be the secretary of the Audit Committee. The Company Secretary may delegate his duties, or parts thereof, under these Terms of Reference, to a deputy appointed by him in consultation with the Chairman of the Audit Committee.

## **Authority**

The Audit Committee shall report directly to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

The Audit Committee is authorized to investigate any activity within these Terms of Reference.

The Audit Committee is authorized to inspect all accounts, books and records of the Company and the Audit Committee shall have unrestricted access to the members of management, employees, the external and internal auditors and the right to require the management of the Company to furnish all information requested by the Committee as may be required for the purposes of discharging its duties.

The external and internal auditors shall have the right to consult the Audit Committee without reference to management. The Audit Committee shall also have the right to consult the external and internal auditors without reference to management or the management without reference to the external and internal auditors.

The Audit Committee is authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary. The Audit Committee shall have sole authority to approve related fees and retention terms.

Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

The Audit Committee shall be provided with sufficient resources to discharge its duties.

## **Audit Committee Meetings**

**Frequency** Meetings of the Audit Committee are in principle called by the Chairman of the Audit Committee. The Audit Committee shall meet as often as required for the proper functioning of the Audit Committee. However, the Audit Committee shall endeavour to meet at least four times a year and certain of these meetings shall correspond with the Company's financial reporting cycle.

**Notice** Notice of any meetings of the Audit Committee has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned meeting is not required if the adjournment is less than 14 days.

**Quorum** The quorum for meetings of the Audit Committee should be any two Members, of whom one has to be an independent non-executive director.

**Attendance** Only Members are entitled to attend the meetings of the Audit Committee. However, the Audit Committee may invite the following persons to attend the meetings of the Audit Committee if it considers appropriate:

- external auditors;
- internal auditors;
- legal counsel;
- Chief Financial Officer;
- Company Secretary; and
- any other officers of the Company.

## **Resolutions**

Resolutions of the Audit Committee shall be passed by a majority of votes, which can also be passed by way of unanimous written resolutions. Meetings can be held in person, by telephone or by video conference.

## **Minutes**

The secretary of the Audit Committee should keep full minutes of all Audit Committee meetings. Draft and final versions of minutes of meetings of the Audit Committee should be sent to all Members for their comment and records respectively, in both cases within a reasonable time after the meeting.

Minutes of all Audit Committee meetings will also be sent to other members of the Board at the same time when they are sent to Members.

## **Duties**

The duties of the Audit Committee shall include the following aspects:

### ***Relationship with the Company's external auditor***

- 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 resignation or dismissal of the external auditor;
- to act as the key representative body for overseeing the relation of the Company with the external auditor;
- to review and monitor the independence and objectivity of the external auditor, the Audit Committee shall:
  - i. consider all relationships between the Company and the audit firm (including the provision of non-audit services);
  - ii. 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. meet with the external auditor, at least annually, in the absence of management of the Company, to discuss matters relating to the audit fees, any issues arising from the audit and any other matters the external auditor or the Audit Committee may wish to raise;
- to review and monitor the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the 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 audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- to be primarily responsible for making recommendations to the Board for the approval of any non-audit services provided to the Company by the external auditor. The Audit Committee should ensure that the provision of such non-audit services does not impair the external auditor’s independence or objectivity. When assessing the independence or objectivity of the external auditor in relation to the provision of non-audit services, the Committee should consider:
  - i. whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;
  - ii. whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of audit because the external auditor provides non-audit services;

- iii. the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm;
- iv. the criteria for compensation of the individuals performing the audit; and
- v. to set policies on the hiring employees or former employees of the external auditor and monitoring the application of such policies.

***Review of financial information of the Company***

- to review and monitor the integrity (including the completeness, accuracy and fairness) of financial statements of the Company and the annual report and accounts and half-year report and accounts of the Company, to discuss such annual report and audited accounts and half-year report and accounts with management and the external auditor, and to review significant financial reporting judgments contained in them. In reviewing such reports and accounts of the Company before submission to the Board, the Audit Committee shall focus particularly on:
  - i. financial reporting and accounting policies and practices;
  - ii. any changes in financial reporting and accounting policies and practices;
  - iii. major judgmental areas;
  - iv. significant adjustments resulting from audit;
  - v. the going concern assumption and any qualifications;
  - vi. compliance with accounting standards; and
  - vii. compliance with the Listing Rules, the Applicable Rules and any other legal requirements in relation to financial reporting.
- with regard to the review of financial information referred to above:
  - i. Members should liaise with the Board and senior management of the Company, and to meet, at least twice a year, with the external auditor; and



- ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts referred to above and should give due consideration to any matters that have been raised by staff responsible for the accounting and financial reporting function, compliance officer or auditors of the Company.

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

- to review the group's financial and accounting policies and practices;
- to review the financial controls, internal control and risk management systems of the Company;
- to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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;
- to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the response of management of the Company to these findings;
- 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;
- to review the statement of the Company on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- to discuss any problems and reservations which the external auditor may have arising from the interim and final audits, and any interim audits or otherwise, and any response of management in connection therewith;

- to review the management letter of the external auditor, any material queries raised by the auditor to management of the Company about the accounting records, financial accounts or systems of control and the response of management of the Company;
- to ensure that the Board will provide a timely response to the issues raised in the management letter of the external auditor; and
- to meet with the external auditor on an ad-hoc basis whenever the external auditor considers it necessary to review any accounting, financial reporting or internal control matter with the Audit Committee.

#### ***Compliance with laws and regulations***

- review and monitor the effectiveness of the audit process in accordance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;
- obtain updates from management and the Company's legal counsel regarding compliance matters that may have a material impact on the Company's financial statements or compliance policies; and
- be satisfied that all regulatory compliance matters, related to the business of the Company, have been considered in the preparation of the financial statements.

#### ***Reporting responsibilities***

- periodically update the Board about the activities of the Audit Committee and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make appropriate recommendations as to the steps to be taken; and

- review any reports required by law, the Applicable Rules or the Listing Rules or requested by the Board, for example a report of the activities and duties of the Audit Committee to be included in the section on corporate governance in the annual report.

*Other duties*

- to ensure the Company's practices and procedures with respect to related party transactions are adequate for compliance with the requirements under the Listing Rules and the Applicable Rules;
- to review from time to time as appropriate these Terms of Reference and the effectiveness of the Audit Committee and recommend to the Board any necessary changes;
- to report to the Board on the matters set out in these Terms of Reference and where the monitoring activities of the Audit Committee reveal cause for concern or scope for improvement, the Audit Committee shall make recommendations to the Board to address the issue or to make improvements;
- to provide to the Board such assurances as it may reasonably require regarding compliance by the Company's subsidiaries and associates for which the Company provides management services with all supervisory and other regulations to which they are subject;
- to review arrangements by which employees of the Company may, in confidence, 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 the fair and independent investigations of such matters and for appropriate follow-up actions;
- to engage in any other activities consistent with the Audit Committee's objectives and responsibilities and to consider other topics or matters, as defined or referred to the Audit Committee by the Board;

- to review the Company's policies and practices with respect to the release of financial information to the market;
- establish a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company; and
- to report to the Board on the above matters.

**Publication of these Terms of Reference**

These Terms of Reference will be posted on the website of both The Stock Exchange of Hong Kong Limited and the Company.