

JOHNSON ELECTRIC HOLDINGS LIMITED
(the “Company”) and its subsidiaries
(collectively the “Group”)

Audit Committee
Terms of Reference
(Revised on 13th February 2012)

1. Members

The Audit Committee (“AC”) is comprised of three members, the majority of whom shall be independent non-executive directors of the Company, currently being:

Mr. Patrick Blackwell Paul (Independent Non-Executive Director)	Chairman
Prof. Michael John Enright (Independent Non-Executive Director)	Member
Mr. Peter Kin-Chung Wang (Non-Executive Director)	Member

2. Objectives

The AC is appointed by the Board of Directors (the “Board”) to assist the Board in discharging its oversight responsibilities. The AC oversees the financial reporting process to ensure the balance, transparency and integrity of published financial information. The AC considers the effectiveness of the Group’s internal control system, the effectiveness of any internal audit function, the independent audit process and the Group’s process for monitoring compliance with laws and regulations affecting financial reporting.

3. Authority

The Board authorises the AC to:

- 3.1 perform activities within the scope of its charter;
- 3.2 engage independent counsel and other advisers as it deems necessary to carry out its duties;
- 3.3 ensure the attendance of company officers at meetings as appropriate; and
- 3.4 have unrestricted access to members of management, employees and relevant information.

4. Responsibilities

- 4.1 The AC will make recommendations to the Board on the appointment, re-appointment 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.
- 4.2 The AC will review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. It should discuss with the auditor the nature and scope of the audit and reporting obligations at an appropriate time in advance of the year end.
- 4.3 The AC will develop and implement policy on engaging the external auditor to supply non-audit services. The AC should report to the Board, identifying and making recommendations on any matters where action or improvement is needed. The AC will be accessible to the external auditor without management present should the auditor require it, and in any event must meet the auditor at least twice a year.
- 4.4 The AC will act as the key representative body for overseeing the Group's relations with the external auditor.
- 4.5 The AC will review and monitor the integrity of the Group'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:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards;
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and
 - (vii) any significant or unusual items, including matters raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditor.

4.6 Internal control

The AC is required to:

- (i) review the Group's financial controls, internal control and risk management systems;
- (ii) 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 adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;
- (iii) consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (iv) ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and review and monitor its effectiveness;
- (v) consider whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk;
- (vi) ensure that the controls and processes implemented by management for the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review;
- (vii) consider how management ensures the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse;
- (viii) have procedures for dealing with concerns of employees regarding accounting, internal control or auditing matters;
- (ix) monitor the receipt, retention and treatment of any complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
- (x) review arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The AC should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

4.7 Financial reporting

The AC is required to:

- (i) review the Group's financial and accounting policies and practices;
- (ii) 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;
- (iii) ensure that a timely response to the issues raised in the auditor's management letter is provided at the appropriate level (by management or Board);
- (iv) report to the Board on matters in these Terms of Reference;
- (v) gain an understanding of the areas of greatest financial risk and how these are being managed;
- (vi) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports;
- (vii) meet with management and the external auditor to review the financial statements, the key accounting policies and judgements, and the results of the audit;
- (viii) ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditor; and
- (ix) consider other topics, as defined by the Board.

5. Compliance with laws and regulations

- 5.1 The AC will review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- 5.2 The AC will obtain updates from management and Company's legal counsel regarding compliance matters that may have a material impact on the Company's financial statements or compliance policies.
- 5.3 The AC will satisfy itself that all regulatory compliance matters, related to the business of the Company, have been considered in the preparation of the financial statements.

- 5.4 The AC will review annually a report from management on health/safety and environmental issues.

6. Meetings

- 6.1 The AC shall meet with such frequency as it may consider appropriate (but in any event not less than three times a year) and shall present a report on its activities to the Board at least once a year.
- 6.2 The meeting and proceedings of the AC are governed by the provisions contained in the Company's Bye-laws 131 - 140 for regulating the meetings and proceedings of Directors. Two members present in person shall be a quorum for the AC meetings until the Board has otherwise determined. Meetings of the AC may be held by telephone.
- 6.3 The Company Secretary, or his or her delegate, shall act as the secretary to the AC and shall circulate the agenda and supporting documentation to members at a reasonable period in advance of each meeting and must ensure that full minutes are kept of all meetings. Minutes of the meetings shall be circulated to all AC members and to other members of the Board.

7. Review of the AC Terms of Reference

The AC terms of reference should be formally reviewed periodically, not less than every 3 years.