



**Smart Link Better Life.**

**Yangtze Optical Fibre and Cable Joint Stock Limited Company\***

**長飛光纖光纜股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**TERMS OF REFERENCE FOR AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS**

*(Adopted on May 6, 2014 and updated on January 17, 2020)*

**DEFINITIONS**

In these terms of reference, unless the context otherwise requires, the following terms have the meanings set out below:

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| <b>“Articles of Association”</b>           | means the Articles of Association of Yangtze Optical Fibre and Cable Joint Stock Limited Company approved by the 2013 Annual Shareholders General Assembly of the Company and the amendments thereof from time to time; |
| <b>Board</b>                               | means the Board of Directors of the Company;  |
| <b>Committee</b>                           | means the Audit Committee of the Board of the Company;  |
| <b>Company</b>                             | means Yangtze Optical Fibre And Cable Joint Stock Limited Company;  |
| <b>Company Law</b>                         | means the Company Law of the People's Republic of China;  |
| <b>Directors</b>                           | means the directors of the Company, and “Director” means any one of them;   |
| <b>Group</b>                               | means the Company and its subsidiaries;   |
| <b>Independent Non-executive Directors</b> | means non-executive Directors meeting the requirements of independence set out in the Listing Rules, and “ <b>Independent Non-executive Director</b> ” means any one of them;   |
| <b>Listing Rules</b>                       | means the applicable listing rules of the stock exchange(s) on which the Company's shares are listed;   |
| <b>Senior Management</b>                   | means the president, the senior vice president, the vice president, the chief financial officer (the “ <b>CFO</b> ”), secretary to the Board and other persons prescribed by the Articles of Association.               |

\* *For identification purposes only*

## CHAPTER 1 GENERAL PROVISIONS

- ARTICLE 1.** In order to strengthen the internal control of the Company and enhance the Company governance structure, the Board has established an Audit Committee and formulated these terms of reference pursuant to the Company Law, the Articles of Association and other relevant rules. Upon the listing of the Company on domestic and overseas stock exchanges, these terms of reference shall comply with the Listing Rules and other applicable laws and regulations as amended from time to time. If these terms of reference are in conformity with, contradictory to or there exist any conflicts with any applicable relevant laws, regulations, the Articles of Association and the Listing Rules, the most rigorous provisions should be implemented based on the strict principle.
- ARTICLE 2.** The Committee is a specialized working organ established by the Board in accordance with the Articles of Association, which is primarily responsible for examining the Company's accounting policies, financial position and financial reporting procedures, examining its internal control structure and internal audit functions, and examining and monitoring all actual or potential risks of the Company (including funding risks, guarantee risks, non-compliance risk caused by Senior Management).
- ARTICLE 3.** The members of the Committee shall ensure that they have sufficient time and energy to perform the Committee's work and duties, shall perform their duties responsibly and diligently, practically and effectively supervise and assess the external audit work of the Company, provide guidance on the internal audit work of the Company, and procure the Company's establishment of effective internal control and the provision of truthful, accurate and complete financial reports.
- ARTICLE 4.** The Company shall provide the Committee with the necessary working conditions and shall arrange for dedicated personnel or organization to be responsible for such day-to-day work including liaison, organization of meetings, preparation of materials and document management. The management and relevant departments of the Company are to cooperate with the Committee during its discharge of its duties.

## CHAPTER 2 COMPOSITION

**ARTICLE 5.** The Committee shall consist of not less than three Directors, all of whom shall be non-executive Directors and the majority of whom shall be Independent Non-executive Directors. At least one of the Committee members shall be an Independent Non-executive Director with accounting expertise, who is a person with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

All members of the Committee shall have the professional knowledge and business experience required for competently discharging the work and duties of the Committee.

The Company shall make arrangements for the members of the Committee to participate in relevant trainings in order for them to timely acquire the professional knowledge required for the discharge of their duties including in the areas of law, accounting and the regulation of listed companies.

The Board of the Company shall assess, on a periodic basis, the independence and work performance of the members of the Committee, and may, where necessary, replace those members who are no longer fit to continue to serve as a member of the Committee.

**ARTICLE 6.** Former partner of the Company's audited firm should be prohibited from acting as a member of the Committee for a period of two years from the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is later.

**ARTICLE 7.** The members of the Committee shall be nominated by the chairman, one-half or more of the Independent Non-executive Directors or one-third or more of the Directors and shall be elected by the Board.

After the proposal of electing members of the Committee has been approved, the new members shall take offices immediately after the meeting of the Board.

**ARTICLE 8.** The Committee shall have one chairman who must be an Independent Nonexecutive Director with accounting expertise. The chairman shall chair the work of the Committee and shall be appointed by the Board.

**ARTICLE 9.** The term of office of the member of the Committee shall be the same as his term of office in the Board, and the member of the Committee may serve consecutive terms if reelected upon expiration of the term of office. Where a member ceases to be a Director or a member who is also the Independent Nonexecutive Director but is no longer considered independent under the Articles of Association and the Listing Rules, he will be disqualified as a member of the Committee accordingly. The Board shall fill the vacancy pursuant to the above Article 5 to Article 8. A member of the Committee shall not be removed from office without cause before the expiration of his term of office except where the circumstances arise rendering such member not qualified to serve his position under the Company Law, the Articles of Association and the Listing Rules.

**ARTICLE 10.** A working group shall be set up for the Committee as a daily work organ under the Committee, which shall be responsible for daily liaison, organizing the meetings and implementing resolutions of the Committee as well as handling other related issues. A secretary shall be appointed for the Committee officially.

### CHAPTER 3 DUTIES AND AUTHORITY

**ARTICLE 11.** The major duties and authority of the Committee are:

- (1) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of their resignation or dismissal;
- (2) to review and monitor the external auditors' independence, objectivity, professionalism, diligence and responsibility, and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and discuss and communicate with the external auditors on the scope of audit, audit plan, audit methods and material issues uncovered during the audit process;
- (3) to develop and implement policy on engaging external auditors to supply non-audit services, and assess the impact of the provision by the external auditor of non-audit services on its independence. 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;
- (4) to monitor integrity, accuracy and fairness of the Company's financial statements, and annual report and accounts, interim report and, if prepared for publication, quarterly reports, all of which will be submitted to the Board, and to review significant financial reporting judgments contained in them. Particular attention should be placed on material accounting and audit issues of the financial reports of the Company, including, among others, adjustment of material accounting errors, material changes in accounting policies and estimates, matters involving important accounting judgment, matters resulting in a nonstandard unqualified audit report, and paying special attention to the likelihood of the presence of any fraud, malpractice or material misstatement in relation to financial reporting; and supervise the rectification progress of issues in the financial reports. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) issues involving material judgment;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

- (5) regarding paragraph (4) above:
  - (i) members of the Committee should liaise with the Board, the Senior Management and the accountants engaged by the Company. 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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (6) to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems; to review the Company's annual internal audit work plan; to push forward the implementation of the internal audit plan of the Company; to review the internal audit work report, assess the results of the internal audit work and push forward the rectification of material issues; to provide guidance on the effective operation of the internal audit department. The internal audit department shall report its work to the Committee, and shall send to the Committee a copy of various audit reports, rectification plans on audit issues and status of rectification submitted by it to the management simultaneously;
- (7) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish and maintain effective systems. This discussion should consider the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- (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;
- (9) To ensure co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine and monitor its effectiveness;
- (10) to review the Group's financial and accounting policies and practices;
- (11) to review the external auditors' management letter, any material queries raised by the auditors to the management in respect of accounting records, financial accounts or control and monitoring systems, as well as the management's response thereto; to coordinate the management's communications with the external auditors with respect to material audit issues;
- (12) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

- (13) to report to the Board and advise the Board on matters set out under the section headed “Audit Committee” in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and on the measures it considers necessary to be adopted or matters where it considers improvements are required;
- (14) the Committee shall establish relevant procedures to handle following issues:
  - (i) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
  - (ii) the Committee shall establish a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company;
- (15) to act as the key representative body for overseeing the Company’s relationship with the external auditing body; and
- (16) any other matters as authorized by the Board.

**ARTICLE 12.** The Committee shall be responsible to the Board and the proposal of the Committee shall submit to the Board for deliberation.

The Committee shall cooperate with the board of supervisors to handle the activities of supervisors’ audit.

**ARTICLE 13.** The relevant departments of the Company have the responsibility of coordinating with the Committee to carry out its work and providing relevant materials. The Committee shall be provided with sufficient resources to discharge its duties.

**ARTICLE 14.** The major duties and authority of the chairman of the Committee are:

- (1) to convene and preside over the meeting of the Committee;
- (2) to take charge of day-to-day work of the Committee;
- (3) to examine and approve as well as sign the reports and other important documents of the Committee;
- (4) to examine the implementation of resolutions and suggestions of the Committee;
- (5) to report to the Board about the Committee’s work on behalf of the Committee; and
- (6) any other duties the chairman of the Committee shall perform.

When the chairman of the Committee is unable to perform his duties for any reason, an Independent Non-executive Director member designated by the chairman shall perform the duties of the chairman on his behalf.

## CHAPTER 4 DECISION-MAKING PROCESS

**ARTICLE 15.** The working group under the Committee shall duly carry out preparation work before the decision-making process of the Committee and provide information of the Company in written form for decision-making in relation to the following:

- (1) relevant financial reports of the Company;
- (2) work reports of the internal and external auditing bodies;
- (3) external auditing contract and relevant work reports;
- (4) financial information which the Company disclosed to the public;
- (5) work reports of the internal control system and its implementation;
- (6) the related party/connected transaction contracts of the Company;
- (7) the feedback of the investigation on the Company's connected parties;
- (8) audit report on material related party/connected transactions of the Company;  
and
- (9) other relevant materials.

**ARTICLE 16.** The reports provided by the Committee working group in accordance with the above Article 12 shall be evaluated at the meeting of the Committee and the relevant written resolutions shall be reported to the Board for discussion, which mainly include:

- (1) evaluation on the work carried out by the external auditing body and the appointment and change of the external auditing body;
- (2) whether the internal control system of the Company has been effectively implemented and whether the financial reports of the Company are complete and true in all respects;
- (3) whether information, such as financial reports, disclosed by the Company to the public is objective and true and whether the material related party/connected transactions of the Company are in accordance the relevant laws and regulations;
- (4) evaluation on the work of the financial department and audit department of the Company, including the personnel in charge; and
- (5) other relevant matters.

Where the Company intends to appoint or replace the external audit firm, the Board may only consider the relevant proposal only after the Committee has formed its review opinion and presented its recommendations to the Board.

## CHAPTER 5 RULES OF PROCEEDINGS OF MEETINGS

**ARTICLE 17.** The meetings of the Committee shall be divided into regular meetings and interim meetings.

**ARTICLE 18.** The regular meetings shall be held at least four times each year. The chairman of the Committee shall be responsible for convening the meetings. Where the chairman cannot perform the function for any reason, an Independent Non-executive Director member designated by the chairman shall convene such a meeting, and where the chairman fails to make the designation, one of the Independent Non-executive Director members of the Committee shall convene the meeting.

An interim meeting of the Committee shall be held where one of the following situations occurs:

- (1) When the Board proposes to convene such a meeting;
- (2) When the chairman of the Committee proposes to convene such a meeting;
- (3) When two members or more of the Committee propose to convene such a meeting; and
- (4) When the chairman of the Board proposes to convene such a meeting.

**ARTICLE 19.** Seven days' notice shall be given to all members before the meeting of the Committee. The meeting shall be chaired by the chairman, or, where the chairman is unable to present at the meeting, another Independent Non-executive Director member as authorized by the chairman.

The requirement of the above notice period shall not apply to the convening of an interim meeting.

**ARTICLE 20.** The meetings of the Committee shall only be held when two-thirds or more of members are present. Each member shall have one vote. Resolutions made at the meeting shall be passed by more than half of all members.

Any member of the Committee who is interested in the matter(s) discussed at the meeting shall abstain from voting.

**ARTICLE 21.** Resolutions at the meetings of the Committee shall be determined by show of hands or by poll. Interim meetings may be held through any communication facilities. A member of the Committee who entrusts another member to attend the meeting and exercise voting rights on behalf of him shall submit a power of attorney to the moderator of the meeting no later than the commencement of voting. The power of attorney shall specify the scope of authorization and its term of validity. Each member may accept such entrustment from no more than one member. If, for any reason, an Independent Non-executive Director is unable to attend a meeting in person, he shall entrust another Independent Non-executive Director member to attend the meeting on his behalf.



- ARTICLE 22.** The meeting shall be convened at least once each year only between the Committee and the external auditing body. Chief Financial Officer and a representative of the Company's external auditors shall normally attend meetings of the Committee. However, at least once a year the Committee shall meet with the external and internal auditors without executive Directors' presence.
- ARTICLE 23.** The Directors, supervisors, president or other Senior Management of the Company may attend as non-voting participants to the meetings of the Committee. If deemed necessary, the Committee may invite representatives of the external audit firm and the Company's supervisors, internal audit personnel, finance personnel, legal advisors and other relevant personnel to observe the meetings of the Committee and provide necessary information.
- ARTICLE 24.** Where necessary, the Committee may appoint intermediary agencies, such as the accounting firms, law firms and etc. to attend the meeting of the Committee and provide independent and professional advices for its decision-making and the expenses as reasonably incurred thereof shall be borne by the Company.
- ARTICLE 25.** The convening procedures, the methods of voting and the resolutions passed at the meetings of the Committee shall be in accordance with the relevant law, regulations, Articles of Association and the rules in these terms of reference.
- ARTICLE 26.** Minutes shall be taken for the meetings of the Committee. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comments and records respectively, in both cases within a reasonable time after the meeting. Members present at the meeting shall sign on the final version of the minutes and the minutes shall be kept by the secretary of the Committee and shall be open for inspection by any Director. The minutes of the meeting shall be retained for not less than ten years.
- ARTICLE 27.** The recommendations, resolutions and voting results at the meeting of the Committee shall be reported to the Board of the Company in written form.
- ARTICLE 28.** Members who attend the meetings shall keep confidential all the proceedings at the meetings and shall not disclose any relevant information without authorization unless the relevant laws, regulations and/or regulatory authorities require the member to do so.

**ARTICLE 29.** The Company shall disclose information regarding the members of the Committee, including the composition of the Committee, the professional backgrounds of the members, their professional experience during the last five years and changes to the composition of the Committee.

The Company shall, concurrently with the disclosure of its annual report, disclose, on the website(s) of the stock exchange(s) on which the Company's shares are listed, information pertaining to the Committee's performance of its duties during that year, including mainly the performance by the Committee of its duties and the convening of meetings by the Committee.

Should any material issues identified by the Committee during its discharge of its duties trigger the information disclosure obligations prescribed by the Listing Rules, the Company shall timely disclose such issues as well as the status of rectifications.

If the Committee submits to the Board its review opinion on matters within the scope of its duties, and if such opinion is not accepted by the Board, the Company shall disclose such matter and provide reasons in full.

Special opinions issued by the Committee on material matters of the Company shall be disclosed by the Company in accordance with the requirements under laws, administrative regulations, departmental rules, Listing Rules and relevant normative documents.

## **CHAPTER 6 MISCELLANEOUS**

**ARTICLE 30.** In these terms of reference, the terms "not less than" and "not more than" include the figure itself, while "more than" do not include the figure itself.

**ARTICLE 31.** These terms of reference will come into effect from the date on which it is approved at the Board meeting of the Company.

**ARTICLE 32.** Matters which are not provided for in these terms of reference shall be governed by the requirements of the relevant laws and regulations in the People's Republic of China, the Articles of Association, the Listing Rules and other applicable laws and regulations. If these terms of reference conflict with any applicable laws, regulations promulgated by relevant governments in the future or the Articles of Association as modified through procedures in compliance with laws or the Listing Rules as amended from time to time, the terms of reference shall be implemented in accordance with the requirements of relevant laws, regulations and Articles of Association as well as the Listing Rules and shall be modified forthwith and submitted to the Board for approval.'

**ARTICLE 33.** The Board shall have the right to interpret these terms of reference.