

# **Terms of Reference for the Audit Committee of the Board of Directors of Fuyao Glass Industry Group Co., Ltd.**

## **Chapter 1 General Provisions**

**Article 1** In order to establish and improve the internal controlling system of Fuyao Glass Industry Group Co., Ltd. (hereinafter referred to as the “Company”), increase internal controlling ability, perfect internal controlling program and promote the effective supervision of the Board on the managers, the Audit Committee of the Board of Directors (hereinafter referred to as the “Audit Committee”) has been established, as a specialized agency of the implementation of internal audit and supervision.

**Article 2** In order to ensure the standardized and efficient operation of the Audit Committee, the Company's board of directors has formulated the terms of reference in accordance with the Company Law of the People’s Republic of China (hereinafter referred to as the “Company Law”), the Code of Corporate Governance for Listed Companies, Operational Guidelines of the Shanghai Stock Exchange for the Audit Committee under the Board of Directors of Listed Companies, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”) and other relevant laws, regulations and regulatory documents, as well as relevant provisions of the Articles of Association of Fuyao Glass Industry Group Co., Ltd. (hereinafter referred to as the “Articles of Association”).

**Article 3** Resolutions made by the Audit Committee shall comply with the provisions of relevant laws, regulations, regulatory documents, the Articles of Association, Hong Kong Listing Rules and the terms of reference. If any resolution considered and approved by the Audit Committee is in violation of the provisions of relevant laws, regulations, the Articles of Association, Hong Kong Listing Rules and the terms of reference, the resolution shall be valid.

If the decision-making procedure of the Audit Committee is in violation of the provisions of relevant laws, regulations, the Articles of Association, Hong Kong Listing Rules or the Terms of reference, relevant interested parties may require the board of directors to revoke the resolution within 60 days after the date of the

resolution.

## **Chapter 2 Composition**

**Article 4** The Audit Committee shall be composed of three non-executive directors, more than half of whom shall be independent directors and at least one of the independent directors is an accounting professional. The members of the Audit Committee shall be elected by the board of directors.

**Article 5** The Audit Committee shall have one chairman, who shall be an independent director. The chairman of the Audit Committee shall be elected from the members and approved by the board of directors.

The chairman of the Audit Committee shall be responsible for convening and presiding over meetings of the Audit Committee. If the chairman of the Audit Committee fails or is unable to perform his duties, another committee member shall be designated by him to act on his behalf. If the chairman of the Audit Committee neither performs his duties nor designates another member to act on his behalf, any member may report to the board of directors, by whom a member of the Audit Committee may be designated to fulfill the duties of the chairman.

**Article 6** A member of the Audit Committee shall meet the following requirements:

(1) not being prohibited to act as a Director, Supervisor or senior management of the Company under applicable laws, regulations and listing rules of the places where the Company's shares are listed or the Articles of Association;

(2) not having been subject to any public censure from or not having been declared as an inappropriate candidate by the stock exchanges where the Company's shares are listed during the past three years;

(3) not having been subject to any administrative penalties from CSRC as a result of any material breach of laws and regulations during the past three years;

(4) with good ethics and behavior and having expertise or working experience regarding finance, accounting, audit and economic management, and other relevant fields;

(5) A former partner of the auditing firm acting as the existing external auditor of the Company shall be prohibited from acting as a member of the Audit Committee for a

period of two year from the date of his or her ceasing:

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm, whichever is later.

(6) satisfying other conditions as stipulated by applicable laws and regulations, the Listing Rules of the place where the Company's shares are listed or the Articles of Association;

**Article 7** The one who does not conform to the qualifications prescribed in the preceding article shall not be elected as a member of the Audit Committee. The Board of the Company shall conduct regular evaluation on the independence and performance of duties of the Audit Committee, and a member of the Audit Committee who does not conform to the qualifications prescribed in the preceding article during his term shall resign or be replaced by the Board of Directors.

**Article 8** The term of office for a member of the Audit Committee shall be concurrent with the term of his directorship. No member of the Audit Committee may be removed from office without cause prior to the expiry of term of office, save as the occurrence of circumstances that requires his dismissal as stipulated in the applicable laws, regulations, listing rules of the places where the Company's shares are listed, the Articles of Association or the terms of reference.

**Article 9** Where the number of members of the Audit Committee is less than two-thirds of the required number of members of the Audit Committee due to the resignation or removal of members or other reasons, the board of directors of the Company shall elect new members in accordance with the provisions of applicable laws, regulations and listing rules of the place where the Company's shares are listed in a timely manner. The Audit Committee shall suspend any exercise of duties and powers stipulated by the Terms of reference before the number of members of the Audit Committee reaches two-thirds of the required number of members of the Audit Committee.

**Article 10** The requirements of the applicable laws, regulations, listing rules of the places where the Company's shares are listed and the Articles of Association on obligations of directors are applicable to members of the Audit Committee.

### **Chapter 3 Terms of Reference**

**Article 11** The Audit Committee is a special organ established by the board of directors which shall report to and hold responsibility for the Board. The Audit Committee is responsible for the internal audit oversight on the Company's financial balance and economic activities, and the main terms of reference of the Audit Committee are as follows:

(1) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor and the remuneration and terms of engagement of the external auditor, and handling any matters on resignation or dismissal of that auditor;

(2) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(3) To develop and implement policy on engaging an external auditor to provide non-audit services. For the purpose of this provision, "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 a domestic or international part of the audit firm. The Audit Committee shall report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed;

(4) To monitor integrity of the financial statements, annual report and accounts, half-year report and quarterly reports of the Company and to review significant financial reporting issues contained therein. The Audit Committee shall focus particularly on the following matters when reviewing the reports before submission to the Board of Directors:

- (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 qualified opinions
- (v) Compliance with accounting standards or not; and
- (vi) Compliance with the rules and legal requirements in relation to financial reporting of the listing rules of the place where the shares of the Company are listed or not;.

(5) Regarding item (4) above:

(i) The Audit Committee members shall liaise with the Board of Directors and the senior management. The Audit Committee must meet at least twice a year with the external auditor of the Company; and

(ii) The Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and it shall 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 the auditors.

(6) To review the Company's financial controls, risk management and internal Control systems;

(7) to discuss with the management about risk management and internal Control systems and ensure that the management has discharged its duty to have an effective system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget;

(8) To consider major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and the management's response to these findings;

(9) where an internal audit function exists, to ensure that the internal and external audit bodies are coordinated properly and the internal audit functions is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(10) To review the financial and accounting policies and practices of the Company;

(11) To check the Review Letter or similar documents provided by the external auditor to the management, any material queries raised by the auditor to the management about accounting records, financial accounts or systems of control and the management's response therefor;

(12) to ensure that the Board will provide a timely response to the issues raised in the external auditor's Review Letter or similar documents to the management;

(13) to report to the Board on matters relating to the provision on "Corporate Governance Code" (the "Hong Kong Listing Rules" Appendix 14);

(14) 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 shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

(15) To act as the key representative body for overseeing the Company's relations with the external auditor;

(16) to formulate a whistle-blowing policy and system, so that employees of the Company and other related parties of the Company including customers and suppliers may voice their concern about any possible misconduct related to the Company in private;

(17) to review ongoing connected transactions of the Company (as defined in the "Hong Kong Listing Rules") and ensure compliance with terms of approval of Articles of Association;

(18) Timely review of the work rules and the effectiveness of Audit Committee, and to put forward any necessary changes to the Board of Directors;

(19) 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; and

(20) other affairs as authorized by the Board of Directors of Company and other issues involved in related laws ,regulations and Listing Rules.

**Article 12** After considering the matters set out in the previous article hereof, the Audit Committee shall form meeting resolutions and report, along with relevant proposals, to the Board for approval.

**Article 13** Audit working team is the daily office under the Audit Committee which is in charge of the daily communication works. The working team shall be responsible for the preliminary preparatory works in relation to the decision-making of the Audit Committee, collecting and providing the information relevant to the Company, including:

(1) Company's financial statements, audit reports, books, vouchers and other financial and accounting information;

(2) the working reports of the internal and external audit organizations;

(3) external audit contracts and related working reports;

- (4) the Company's conditions of information disclosure to the public;
- (5) audit reports of material connected transaction of the Company;
- (6) other related information.

**Article 14** When the Audit Committee exercise its terms of reference, it shall comply with relevant requirements of the Company Law, applicable listing rules of the places where the Company's shares are listed, the Articles of Association and the Terms of reference, and shall not damage the lawful interests of the Company and its shareholders.

**Article 15** The board of directors of the Company shall fully respect the recommendations from the Audit Committee on engaging or replacing the candidates for the audit firm, and shall not shelve or take no votes on the recommendations from the Audit Committee without sufficient grounds or reliable evidences.

**Article 16** The Company shall provide sufficient resources and relevant department of the Company shall provide support for the Audit Committee to perform its duties, with the charges reimbursed by the Company.

The Audit Committee may appoint intermediary institutions to provide professional opinions at the cost of the Company as it deems necessary.

#### **Chapter 4 Convening and Notices of Meeting**

**Article 17** Meetings of the Audit Committee fall into two categories: regular meetings and extraordinary meetings. Meetings shall be convened and presided over by the chairman of the Audit Committee. If the chairman is unable to perform his or her duty, he or she shall appoint another member, who shall be an independent director, to perform the duties on his or her behalf.

The Audit Committee shall hold at least two regular meeting during each financial year.

An extraordinary meeting of the Audit Committee may be requested by directors of the Company, the chairman of the Audit Committee or at least two of its members jointly.

**Article 18** The regular meeting of Audit Committee is mainly to audit the financial situation and financial revenue and expenditure activity of last quarter, semi-annual and financial year.

In addition to those set out in the above paragraph, the Audit Committee may also

review at its regular meetings any matters within its terms of reference and that are set out in notices of meetings.

**Article 19** The Audit Committee shall hold regular meetings on site. Extraordinary meeting may be held on site or by facsimile, videos, videophone, telephone and other communication means.

Unless otherwise required by the Articles of Association or the Terms of reference, the Audit Committee may pass resolutions at extraordinary meetings by communication with members present affixing their signatures thereon provided that members can fully express their opinions. In case of a meeting by communication means, members signing on the resolutions of meetings shall be considered to be present at such meetings and agree with such resolutions.

**Article 20** Notices shall be given 5 or 2 days (the date of the meeting exclusive) respectively before a regular or an extraordinary meeting of the Audit Committee.

**Article 21** The secretary of the board of directors of the Company is responsible for delivering notices of the Audit Committee meetings subject to the deadline stated in the previous article once a meeting is decided to be convened by the chairman of the Audit Committee.

**Article 22** Notices of the Audit Committee meetings shall include at least the following information:

- (1) time and venue of the meeting;
- (2) duration of the meeting;
- (3) topics to be discussed at the meeting;
- (4) contact person and contact details;
- (5) date of notice of the meeting.

**Article 23** Notices of the Audit Committee meetings delivered by the secretary of the board of directors shall be accompanied by the full text of proposals.

**Article 24** Notices of regular meetings of the Audit Committee shall be delivered by means of written notice. Notices of extraordinary meetings may be given by e-mail, telephone or other convenient methods. When the notice is delivered by e-mail, telephone or other convenient methods, parties being notified shall be deemed to have received the notice of the meeting if no written objection is received from them within 2 days from the date of delivery of the notice.

## Chapter 5 Consideration and Voting Procedures

**Article 25** The Audit Committee meetings shall be held by at least two-thirds of the members present at the meeting.

Directors of the Company may attend the Audit Committee meetings, but those who are not members of the Audit Committee do not have voting rights on resolutions proposed at the meeting.

**Article 26** Members of the Audit Committee may attend the meetings in person or by appointing other members as their proxies and exercise the voting right on their behalves. Each member of the Audit Committee shall appoint only one other member as his proxy to exercise the voting right on his behalf. Where any member appoints two or more members to exercise the voting right on his behalf, such appointment shall be deemed invalid. If a member of the Audit Committee who is an Independent Director can't attend the meeting in person for some reason, he/she shall appoint another member of the Audit Committee who is also Independent Director as his/her proxy to attend and vote on his/her behalf at the meeting.

**Article 27** Any member of the Audit Committee who appoints another member to attend the meeting and exercise voting right on his behalf shall submit a power of attorney to the presider of the meeting. The power of attorney shall be submitted to the presider of the meeting no later than the voting of the meeting.

**Article 28** The power of attorney shall be signed by both of the appointer and proxy, and shall at least include the following information:

- (1) name of the appointer;
- (2) name of the proxy;
- (3) matters entrusted;
- (4) instructions as to how to exercise the voting rights on topics of the meeting (for, against or abstain) and, in the absence of specific instructions, descriptions on if the proxy may vote at his discretion;
- (5) expiry date of the power of attorney;
- (6) date of signing of the power of attorney.

**Article 29** A member of the Audit Committee who does not attend a meeting in person nor appoint another member to attend on his behalf shall be considered to give up the voting right at the meeting.

Should a member fail to attend the meetings of the Audit Committee twice in a row, he shall be deemed to be unable to carry out his duties and the Board may revoke his membership.

**Article 30** Resolutions made by the Audit Committee shall not be valid unless passed by more than half of all members voting thereon. Each member shall be entitled to one vote when voting at the Audit Committee meeting.

**Article 31** Proposals on each of the topics shall be considered after the presider of the Audit Committee announces the opening of the meeting

**Article 32** The Audit Committee members may have a free discussion on topics considered at the meetings, but order shall be preserved. No speaker shall use any offensive or other threatening or insulting language. The presider of the meeting has the right to decide the time for discussion.

**Article 33** Items proposed at the Audit Committee meeting are subject to collective consideration and voting on a case by case basis, i.e. all the proposals are considered by all members present and then are put to the vote one by one according to the order of consideration.

**Article 34** The Audit Committee may, if considered necessary, convene or invite other persons in connection with the proposals including but not limited to representatives of external audit institution, supervisors of listed company, internal auditors, financial officers and legal counsels to attend the meeting to provide detailed information or express their opinions. Those who are not members of the Audit Committee, however, do not have voting rights on the proposals.

**Article 35** Members present at the meeting shall consider the proposals and give full expression of their personal opinions with a conscientious and responsible attitude; members shall be responsible for their own votes.

**Article 36** The Audit Committee meeting may carry out voting by open ballot or a show of hands, but where any member requires the voting to be held by ballot, it shall be held by ballot.

The voting intent of a member may be pro, con or abstention. Every attending member shall choose one out of the aforesaid intents. Where any member does not make any option or makes two or more options, the presider shall require the said member to make an option again, otherwise the said member shall be deemed as having abstained from voting; any members who has left the meeting midway without coming

back and has not made any option shall be deemed as having abstained from voting.

**Article 37** For voting by open ballot, after voting of the attending members, the clerk shall responsively collect and count ballots cast by the members. Where the meeting is held onsite, the chairman shall announce the statistic result onsite; in other circumstances, the presider shall require the secretary of the board of directors to notify the members of the voting result before the next workday after the prescribed voting deadline.

The ballots cast by the members after the presider announces the voting result or after the prescribed voting deadline shall not be counted.

## **Chapter 6 Resolutions and Minutes of Meetings**

**Article 38** Each proposal on which a prescribed number of valid votes are cast becomes a resolution of the Audit Committee upon announcement by the presider of the meeting. Resolutions of the Audit Committee come into effect upon signature by members present at the meeting. No change or alteration shall be made to the resolutions of Audit Committee that have become effective without going through the legitimate procedure as required by applicable laws, regulations, listing rules of places where the Company's shares are listed, the Articles of Association and the Terms of reference.

**Article 39** A member of the Audit Committee or secretary of the board of directors of the Company shall report details of the resolutions in writing to the board of directors of the Company no later than the date immediately after such resolutions come into effect.

**Article 40** Members of the Audit Committee who participate in the voting on a resolution shall be jointly liable for compensation to the Company should such resolution is in violation of applicable laws, regulations, listing rules of places where the Company's shares are listed or the Articles of Association. However, if a member is proven to have cast their votes against such resolution and it was so recorded in the meeting minutes, he may be exempted from the liabilities.

**Article 41** In the process of implementing resolutions passed at the Audit Committee meetings, the chairman of the Audit Committee or another member designated by him shall conduct follow-up inspection on the implementation of the

resolutions, and may request and urge the persons concerned to remedy the identified breach of resolutions. Should the persons concerned fail to follow such instructions, the chairman of the Audit Committee or the member designated by him shall report to the board of directors for handling.

**Article 42** The Audit Committee shall maintain written meeting minutes on which members present and the minutes taker shall sign their names. Members present shall have the right to request explanatory remarks on his speech at the meeting to be written down in the minutes.

**Article 43** Minutes of the Audit Committee meetings shall include at least the following information:

- (1) date and venue of the meeting and name of the convener;
- (2) names of attendees, with special notes added for proxies;
- (3) agenda of the meeting;
- (4) highlights of members' speeches;
- (5) way of voting on each item or proposal and voting results (numbers of votes for and against and the number of votes to abstain shall be set out);
- (6) other matters that shall be explained or stated in meeting minutes.

Drafts and final versions of minutes of meetings shall be sent to all members of the Audit Committee for their comments and records respectively, within a reasonable time after the meetings.

**Article 44** Archives of Audit Committee meetings, including notices of meetings, meeting materials, meeting attendance books, power of attorney for proxy members, votes, meeting minutes signed by the attending members and resolutions adopted at the meetings etc., shall be kept by the secretary of the board of directors. Archives of Audit Committee meetings shall be kept for 10 years.

**Article 45** Before announcement of the resolutions by the Company in accordance with the legal procedure, the attending members, other attendants, and the recording and service personnel shall fulfill confidentiality obligation to the contents of resolutions and shall not disclose relevant information without authorization.

## **Chapter 7 Rules of Abstention**

**Article 46** Where a member of the Audit Committee or his close relatives and

other entity controlled by the member of the Audit Committee and his close relatives and the other affiliated/connected person of the member of committee has direct or indirect interest in the agenda discussed at the meeting, such member shall disclose the nature and extent of such interest to the committee as soon as possible.

The term “close relatives” as referred to in the previous clause shall include spouse, parents, spouse’s parents, brothers and sisters and their spouses, children aged 18 or above and their spouses, spouse’s brothers and sisters and children’s spouses’ parents.

The definition of the term “connected person” is the same with Hong Kong Listing Rules.

**Article 47** Upon the occurrence of the above situation, the interested member shall provide a detailed explanation of the situation at the meeting of Audit Committee and shall specify that he will abstain from voting. However, if the other members of the Audit Committee unanimously agree that such interest will not have material impact on the matters to be voted, the interested member may vote.

In the event that the interested member has voted and the Board of Directors of the Company considers it inappropriate, the Board may revoke the voting results, and require the other members of the Committee to vote again on the relevant proposals

**Article 48** The Audit Committee shall review the proposals and come to a resolution without counting the interested member in the quorum. In the event that there is no quorum after not including the interested member in the quorum, all members (including the interested member) shall resolve on procedural issues to have the proposals determined by the Board of Directors of the Company and the proposals will then be submitted to the Board of Directors of the Company for consideration.

**Article 49** The minutes and resolutions of Audit Committee meeting shall specify the abstention of the interested member.

## **Chapter 8 Performance Evaluation**

**Article 50** The Audit Committee has the authority to conduct internal audit on the financial activities and profit and loss status of the Company of the last accounting year or any previous year. Relevant departments shall actively cooperate with the Audit Committee and provide the required information to the Audit Committee in a timely manner.

**Article 51** The members of Audit Committee are entitled to access the following relevant information:

- (1) regular reports and extraordinary reports of the Company;
- (2) financial and accounting information of the Company, such as audit reports, financial statements, book of accounts, certificates etc.
- (3) various management systems of the Company;
- (4) resolutions and minutes of the general meetings, board meetings, meetings of supervisory committee and meetings of the office of the general manager;
- (5) information disclosure documents announced by the Company;
- (6) various material contracts and agreements entered into by the Company;
- (7) other relevant information deemed to be necessary by the Audit Committee.

**Article 52** Members of the Audit Committee could raise any questions or inquiries in respect to any issue to any director and senior management of the Company, whereupon the director and senior management shall answer or explain the questions or inquiries timely.

**Article 53** Members of the Audit Committee shall express their internal audit opinions to the financial activities as well as the conditions of income and expense of the Company of the last accounting year and the current year in accordance with their understanding of the information of the conditions.

**Article 54** Members of Audit Committee shall be obliged to keep the corporate information acquired confidential prior to the disclosure of such information according to the legal procedures by the Company and shall not disclose relevant information without authorization.

## **Chapter 9 Supplementary Provisions**

**Article 55** In the terms of reference, “no less than”, “no more than” includes the number itself, while “more than”, “less than” does not include the number itself.

**Article 56** Any matter not covered in the Terms of reference shall be subject to relevant laws, regulations or regulatory documents issued by the securities regulatory authorities of the PRC, as well as the listing rules of the places where the Company’s shares are listed and the Articles of Association. In case of any conflict between the terms of reference and the Articles of Association, the Articles of Association shall

prevail.

**Article 57** The terms of reference shall come into effect from the date on which the overseas listed foreign shares (H Shares) of the Company are listed on the main board of The Stock Exchange of Hong Kong Limited upon consideration and approval by the board of directors of the Company. Once the terms of reference become effective, the original Terms of Reference for the Audit Committee of the Board of Directors shall automatically lapse.

**Article 58** The terms of reference shall be interpreted by the board of directors.