

# **Flat Glass Group Co., Ltd.**

## **Terms of Reference of the Audit Committee of the Board of Directors**

### **Chapter 1 General Provisions**

**Article 1** In order to strengthen the decision-making function of the board of directors (the “Board”) of Flat Glass Group Co., Ltd (hereinafter referred to as the “Company”, “the Company” or “the Group”), conduct pre-audit and professional audit, ensure the effective supervision of the Board over the management, and improve the corporate governance structure, the Company has specially established the audit committee of the Board (hereinafter referred to as the “Audit Committee”) and formulated the implementation rules for the Audit Committee in accordance with the Company Law of the People’s Republic of China, Code of Corporate Governance for Listed Companies, Measures for the Administration of Independent Directors of Listed Company, Rules Governing the Listing of Securities on Shanghai Stock Exchange (the “Shanghai Stock Exchange Listing Rules”, Self-Regulatory Guidelines for Listed Companies of Shanghai Stock Exchange No. 1 – Standardized Operation, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules of Stock Exchange”), the Articles of Association of Flat Glass Group Co., Ltd (hereinafter referred to as the “Articles of Association”) and other relevant regulations.

**Article 2** The Audit Committee of the Board is a special committee under the Board and is mainly responsible for reviewing the financial information of the Company and its disclosure, communicating, supervising and evaluating internal and external audit work and internal control.

### **Chapter 2 Composition**

**Article 3** The Audit Committee comprises three non-executive Directors who do not serve as senior management of the Company, and a majority of whom shall be independent non-executive Directors, and one of which shall be an accounting professional. Employee representatives among the Board members of the Company may serve as members of the Audit Committee.

**Article 4** Members of the Audit Committee shall be nominated by the chairman, more than half of the independent non-executive Directors or one third of all Directors, and shall be elected and appointed by the Board.

**Article 5** The Audit Committee shall have one chairman, who shall be acted by an independent non-executive director member who is an accounting professional, shall be responsible for convening and presiding over the committee, and the chairman of Audit Committee shall be determined by the Board.

**Article 6** The term of office of the Audit Committee shall be consistent with that of the Board. A member of the Audit Committee may serve consecutive terms if re-elected upon the expiry of his/her term of office.

If any member resigns from the position of director of the Company during his/her term of office or any member as an independent director who loses his or her independence as required under the Articles of Association and/or Listing Rules of Stock Exchange, he/she shall ipso facto and immediately cease to hold the position of committee member. The vacancy shall be filled by the Board within three months in accordance with Articles 3 to 5 above.

Members of the Audit Committee may submit a written resignation to the Board prior to the expiration of their term. If the resignation of an member of the Audit Committee would result in the number of Audit Committee members falling below the statutory minimum, or would result in the absence of an accounting professional on the Committee, then the resigning member must continue to perform his/her duties until a new Audit Committee member is appointed.

**Article 7** Audit Department is set up by the Company, to conduct internal audit under the guidance and inspection of the Audit Committee. The secretary to the Board shall take charge of the specific coordination between the Audit Committee and the Board.

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

**Article 8** The Audit Committee is responsible for reviewing the company's financial information and its disclosure, overseeing and evaluating both internal and external audit work, and internal controls. The terms of reference of the Audit Committee are:

- (I) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditors, approving the remuneration (information (moTw ner(wp(shaf external unedeamembeanchf ofernal audit)25 ( )

- (V) to discuss and communicate with external auditors about the scope of audit, the audit plans, the audit method and major issues identified in the audit;
- (VI) to facilitate communications between the management, the internal audit department and relevant departments of the Company and external auditors;
- (VII) to monitor and evaluate diligence and conscientiousness of external auditors;
- (VIII) to monitor the integrity of the Company's financial statements, annual reports and accounts, interim reports and quarterly reports (if proposed to issue), and review significant opinions on financial reporting contained in them;
- (IX) to review the Company's financial reports and comment on the authenticity, completeness and accuracy of the financial reports;
- (X) to focus on significant accounting and audit matters of the Company's financial reports, including adjustments to material accounting errors, changes in significant accounting policies and estimates, issues involving significant accounting judgments, and matters resulting in a failure to receive standard unqualified opinion audit reports;
- (XI) to pay special attention to the possibility of fraud, malpractice and material misstatement related to financial reporting;
- (XII) to supervise the rectification of financial reporting problems;
- (XIII) before the submission of relevant statements and reports (the Company's annual reports and accounts, interim reports and quarterly reports (if proposed to issue)) to the Board, the Audit Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgments involved;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications of the Group;
  - (v) compliance with accounting standards;
  - (vi) compliance with the Listing Rules of Stock Exchange, Shanghai Stock Exchange Listing Rules and legal requirements in relation to financial reporting;

- (vii) the fairness and reasonableness of related party transaction arrangements and the impact of such transactions on the profitability of the Group and whether such related party transactions, if any, have been carried out in accordance with relevant agreement;
  - (viii) whether the presentation and disclosures of the financial statements have increased the transparency of the Group and sufficiently give investors a fair view of the financial conditions of the Group and the Company;
  - (ix) consider any significant or unusual items reflected in such reports and accounts; and
  - (x) the cash flow position of the Group;
- (XIV) regarding (XIII) above:
- (i) members of the Audit Committee should liaise with the Board and senior management of the Group. The committee must meet, at least twice a year, with external auditors of the Company; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and it should give due consideration to any matters that have been raised by the staff responsible for accounting and financial reporting function, compliance officer or the auditors of the Company;
- (XV) to discuss with the auditors about the problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management of the Group where necessary);
- (XVI) to formulate the proposal on the annual and interim profit distribution and capital reserve capitalization of the Company;
- (XVII) to review the Company's financial controls, internal control and risk management systems;
- (XVIII) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financing reporting function;
- (XIX) 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;

- (XX) where an internal audit function exists, to ensure co-ordination between the internal auditors 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;
- (XXI) to review the Company's internal control system, and to audit the material related party transactions;
- (XXII) to review the Group's financial and accounting policies and practices;
- (XXIII) to evaluate the adequacy of the Company's internal control system;
- (XXIV) to review the self-evaluation reports of internal control;
- (XXV) to review the internal control audit reports issued by the external audit institutions, as well as the matters and improvement measures found after communication with the external audit institutions;
- (XXVI) to evaluate the internal control assessment and audit results, and to supervise the rectification of deficiencies in internal control;
- (XXVII) to review the Letter of Explanation on Audit issued by external auditors to the management, any significant issues raised by the auditors to the management in relation to the accounting records, financial accounts or control systems and the management's response;
- (XXVIII) to ensure that the Board will provide a timely response to the issues raised in the Letter of Explanation on Audit issued by external auditors to the management;
- (XXIX) to conduct interviews with any director, president, chief financial officer or head of the internal audit department of the Company upon their resignation in order to ascertain the reasons for his/her departure;
- (XXX) to submit the draft work reports during the period to the Board for review; and to submit the draft summary reports during the period for publishing in the Group's interim and annual reports;
- (XXXI) to consider the opinions of the Board that requests to add, replace or remove any person to be a member of the Audit Committee, auditors, accounting (including internal auditing department) staff;
- (XXXII) to report to the Board on the above matters;
- (XXXIII) to review the following arrangements of the Company: the employees of the Company can, in confidence, raise concerns about possible irregularities in financial reporting, internal control or other matters; to ensure that proper arrangements are in place for the Company to conduct fair and independent investigations and to take appropriate actions accordingly;

(XXXIV) to act as the key representative of the Company and external auditors and monitor their relationship;

(XXXV) to consider and implement other matters designated by the Board; and

(XXXVI) To exercise the duties and authorities of the supervisory committee as required by the Company Law, the details are as follows:

- (i) To inspect the finances of the Company;
- (ii) To exercise supervision over the conduct of Directors and senior management in the execution of their duties and make proposal to terminate the appointment of Directors or senior management who have violated the laws, administrative regulations, the Articles of Association or resolutions of the general meeting;
- (iii) Where the conduct of Directors or senior management compromises the interests of the Company, to demand rectification on the part of the Directors or senior management;
- (iv) To propose the convening of extraordinary general meeting and to convene and preside over general meeting when the Board fails to perform the duty of convening and presiding over general meeting stipulated under the Company Law;
- (v) To put forward motions at the general meeting;
- (vi) Pursuant to Article 189 of the Company Law, legal proceedings may be instituted against Directors and senior management.

(XXXVII) other matters authorized by the Board or stipulated by laws, administrative regulations, departmental rules, rules of the stock exchange(s) on which the shares of the company are listed, and the Articles of Association.

The following matters shall be submitted to the Board for consideration with the consent of more than half of all members of the Audit Committee:

- (i) the disclosure of the financial information in the financial and accounting reports and the regular reports, and the internal control assessment reports;
- (ii) the appointment or removal of an accounting firm which engages in the audit business of the Company;
- (iii) the appointment or removal of the financial officer of the Listed Company;
- (iv) the changes in accounting policies and accounting estimates or correction in significant accounting errors for reasons other than changes in accounting standards;



**Article 13** The Audit Committee shall convene meetings to discuss reports submitted by the Audit Department and other departments, and shall submit its relevant written resolutions to the Board for discussion:

- (I) work appraisal on external audit institutions, and the engagement and replacement of external audit institutions;
- (II) whether the internal audit system of the Company has been effectively implemented, and whether the financial reports of the Company are true and complete;
- (III) whether the financial reports and other information disclosed by the Company are objective and true, and whether the material related party transactions of the Company comply with the relevant laws and regulations;
- (IV) the evaluation on the performance of the internal financial department and the audit department (including its head);
- (V) other relevant matters.

**Article 14** The members of the Audit Committee shall superintend the Audit Department to review the following matters, prepare a review report and submit it to the Board at least once every quarter.

- (I) implementation of significant matters of the Company including use of raised proceeds, external guarantees, related party transactions, securities investment, venture capital investment, external financial assistance, purchase or sale of assets and external investment;
- (II) large-value transactions of the Company and the transactions with Directors, senior management, controlling shareholder and de facto controller and their respective associates.

**Article 15** The working procedures of annual reports of the Audit Committee are as follows:

- (I) the Audit Committee shall decide the schedule of auditing annual financial reports through communication with the accounting firm;
- (II) instruct the accounting firm to submit audit reports within the period agreed, and shall record the method, times and results of the instructions in written form which shall be confirmed with the signature of the relevant persons in charge;
- (III) the Audit Committee shall review the financial accounting statements prepared by the Company and put down its opinions in written form before entrance of the CPA for annual audit;

- (IV) strengthen the communication with the CPA for annual audit after their entrance, and review the financial accounting statements of the Company after the CPA for annual audit give their preliminary audit opinions and put down its opinions in written form;
- (V) the Audit Committee shall vote for the annual financial accounting statements and submit such statements to the Board after the resolutions are made;
- (VI) the Audit Committee shall submit the final report on the Company's audit work engaged by the accounting firm for the current year and the resolution regarding renewing the engagement of, or replacing, the accounting firm for the next year to the Board.

## **Chapter 5 Procedural Rules**

**Article 16** The Audit Committee meetings shall convene at least once every quarter. When two or more members propose, or when the convener considers necessary, an extraordinary meeting can be held.

All members shall be notified three days prior to the Audit Committee meeting. Where there are emergency situations, the meeting of the Audit Committee shall be held as soon as possible, with the unanimous consent of all members, the service of the notice regarding the meeting may be made through telephone or orally at any time, the convening of the meeting is not subject to the time limit of the aforementioned notice.

The Audit Committee meeting shall be presided over by the chairman of the Audit Committee, who shall designate another independent non-executive director to preside over the meeting if he/she is unable to perform his/her duties.

**Article 17** An Audit Committee meeting shall be held with the attendance of more than two-thirds of the members; each member shall have one vote; resolutions made at the meeting shall be adopted by a majority of all members.

**Article 18** Members of the Audit Department may attend meetings of the Audit Committee. The Directors and other senior management of the Company may be invited to attend meetings of the Audit Committee, where necessary.

Where an agenda item relating to a member is to be discussed at the meeting of the Audit Committee, such related member shall abstain from the meeting in respect thereof. The said meeting of the Audit Committee may be held by more than one-half of the unrelated members attending the meeting and resolutions proposed shall be passed by more than one-half of the unrelated members; where the number of unrelated members attending the meeting falls below one-half of the total number of unrelated members of the Audit Committee, such matter shall be submitted to the Board for consideration.

**Article 19** Members of the Audit Committee shall attend meetings in person and express opinions on matters under consideration. In the event that a member is unable to attend the meeting in person for any reason, the member may submit a power of attorney signed by him or her and appoint another member to attend the meeting and express opinions on his/her behalf. If any independent non-executive director member is unable to attend the meeting for any reason, he/she shall review the meeting materials in advance to form explicit advice, appoint another independent non-executive director member to attend on his/her behalf. Each member could be entrusted by no more than one member at one time. The power of attorney shall specify the scope and duration of authorization.

**Article 20** Votes at the meetings of the Audit Committee shall be made by a show of hands or by poll or via other voting method recognized by regulatory authority(ies) of the place where the shares of the Company are listed. The meetings shall be convened on site in principle. Provided that all Directors can fully express their opinions at the meetings, such meetings can be held by means of video, telephone, or other methods when necessary.

**Article 21** Where necessary, the Audit Committee may engage intermediate agencies to provide professional advice for its decision-making at the expense of the Company.

**Article 22** The convening procedure of, and voting method and resolutions passed at, meetings of the Audit Committee shall comply with the requirements of the relevant laws, regulations, the Articles of Association and these rules.

**Article 23** The Audit Committee shall keep minutes for its meetings. Draft and the final version of minutes shall be sent to all members of the Audit Committee within a reasonable period of time after the meeting, the draft for their comments and the final version for their records. Members of the committee present at such meetings and meeting recorder shall sign the minutes. The minutes shall be kept by the secretary to the Board of the Company for a period of not less than ten years.

**Article 24** Members attend and present at a meeting shall be obliged to keep confidential all matters discussed in such meeting, and shall not disclose any relevant information without authorization before public disclosure by the Company.

## Chapter 6 Supplemental Provisions

**Article 25** The terms of “external auditors” and “external audit institutions” as referred to under these rules herein shall have the same meaning.

**Article 26** Any matter undefined in these rules or inconsistent with relevant laws, administrative regulations, normative documents, rules of the stock exchange(s) on which the shares of the company are listed and the Articles of Association, the relevant laws, administrative regulations, normative documents, rules of the stock exchange(s) on which the shares of the company are listed and the Articles of Association shall prevail firstly.

**Article 27** The term “above” under these rules is inclusive, while “exceeding” is exclusive.

**Article 28** The Board of the Company is responsible for interpreting these rules. These rules will take effect as reviewed and approved by the Board, including the same on revision.

**Article 29** Upon the effectiveness of this system, the previous “Terms of Reference of the Audit Committee of the Board of Directors of Flat Glass Group Co., Ltd.” is simultaneously repealed.