

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)

(Stock Code: 6869)

Terms of Reference for Audit Committee of the Board of Directors

(Adopted on May 6, 2014, updated and effective from January 1, 2016)

Definitions

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

Board	means the Board of Directors of the Company;
Committee	means the Audit Committee of the Board of the Company;
Company	means Yangtze Optical Fibre and Cable Joint Stock Limited Company;
Group	means the Company and its subsidiaries;
Directors	means the directors of the Company, and “ Director ” means any one of them;
Independent Non-executive Directors	means non-executive Directors meeting the requirements of independence set out in the Listing Rules, and “ Independent Non-executive Director ” means any one of them;
Listing Rules	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
Senior Management	means the general manager, the first deputy general Manager, deputy general managers, the chief financial officer, the chief technology officer, the chief sales officer and the chief marketing and strategy officer, secretary of the Board and other persons stipulated in the Articles of Association of the Company;
Company Law	means the Company Law of the People's Republic of China;
“Articles of Association”	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.

* For identification purpose 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 the Main Board of The Stock Exchange of Hong Kong Limited, these terms of reference shall comply with the Listing Rules, other applicable laws and regulations of the Hong Kong Special Administrative Region of People's Republic of China ("**Hong Kong**") as amended from time to time. If these terms of reference are in conformity with, contradictory to or there exists 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).

CHAPTER 2 COMPOSITION

ARTICLE 3. The Committee shall consist of not less than three non-executive 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.

ARTICLE 4. Former partner of the Company's audited firm should be prohibited from acting as a member of the Committee for a period of one year 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 5. 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 6. The Committee shall have one chairman who must be an Independent Non-executive Director. The chairman shall chair the work of the Committee and shall be appointed by the Board.

ARTICLE 7. 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 Non-executive 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 3 to Article 6. 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 8. 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 9. 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 and objectivity 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;
- (3) to develop and implement policy on engaging external auditors 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 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. 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 issues;
 - (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;
- (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 management about accounting records, financial accounts or systems of control and management's response;
- (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 on the matters included under the heading "Audit Committee" in Appendix 14 to the Listing Rules;
- (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 10. 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 11. 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 12. 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, a member of the Committee designated by the chairman shall perform the duties of the chairman on his behalf.

CHAPTER 4 DECISION-MAKING PROCESS

ARTICLE 13. 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 14. 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.

CHAPTER 5 RULES FOR PROCEEDINGS OF MEETINGS

ARTICLE 15. The meetings of the Committee shall be divided into regular meetings and interim meetings.

ARTICLE 16. The regular meeting shall be convened at least twice each year. The chairman of the Committee shall be responsible for convening the meetings. Where the chairman cannot perform the function for any reason, one of the members of the Committee designated by the chairman shall convene such a meeting, and where the chairman fails to make the designation, one of the 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 17. 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, one of the members as authorized by the chairman.

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

ARTICLE 18. 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.

ARTICLE 19. 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.

ARTICLE 20. 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 21. The Directors, supervisors, general manager or other Senior Management of the Company may attend as non-voting participants to the meetings of the Committee.

ARTICLE 22. 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 23. 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 24. 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 25. 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 26. 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.

CHAPTER 6 MISCELLANEOUS

ARTICLE 27. 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 28. Upon approval at the Board meeting by way of resolution, these terms of reference will come into effect from the date of the listing of the Company. Except for relevant content in these terms of reference on listing, other content shall apply to the Company as reference from the date when the Board approves these terms of reference to the date of the listing of the Company.

ARTICLE 29. 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 Hong Kong 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 30. The Board shall have the right to interpret these terms of reference.