

Shanghai Conant Optical Co., Ltd.

Terms of Reference of the Audit Committee under the Board

CHAPTER 1 GENERAL PROVISIONS

Article 1 In order to perfect the decision-making procedures of the Board of Shanghai Conant Optical Co., Ltd. (the “**Company**”), fully protect the lawful interests of the Company and its shareholders, and improve the corporate governance structure of the Company, the Board of the Company has established the Audit Committee (the “**Committee**”) and promulgated these terms of reference in accordance with the *Company Law of the People’s Republic of China*, the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the “**Listing Rules**”) and the *Articles of Association of Shanghai Conant Optical Co., Ltd.* (the “**Articles**”) and other relevant rules.

Article 2 The Committee is a special working body set up by the Board pursuant to the Articles. Its principal duties are to supervise and assess the external audit works, to supervise and assess the internal audit works, to review the financial reports of the Company and express their opinions thereon, to coordinate the communication between the management, the internal audit department and relevant departments and the external audit firms. The Company shall provide necessary working conditions for the Committee and designate specific personnel or entities to deal with daily work, including liaison, organization of committee meetings, preparation of materials and documentation management, of the Committee. The management and the relevant departments of the Company shall cooperate with the Committee when it performs its duties.

CHAPTER 2 COMPOSITION AND ORGANIZATION

Article 3 The Committee comprises a minimum of three non-executive directors, the majority of which shall be independent non-executive directors, and at least one of the members of the Committee shall possess appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Members of the Committee shall be determined by the Board upon consideration.

Article 4 The Committee shall have one chairman who shall be an independent non-executive director and in charge of the work of the Committee. The chairman shall be nominated by the chairman of the Board and appointed by the Board. The main powers and duties of the chairman are as follows:

- (I) convening and presiding over regular and ad-hoc meetings of the Committee;
- (II) determining the agenda of each meeting of the Committee;

- (III) signing material documentation of the Committee;
- (IV) ensuring that the Committee reaches a clear conclusion to each proposal which includes approved, rejected or to discuss after materials are supplemented;
- (V) other powers and duties as stipulated in these terms of reference.

Article 5 All members of the Committee shall possess the expertise and business experience enabling them to fulfil the duties of the Committee. The Company shall arrange members of the Committee to participate in related trainings so that they could timely obtain expertise required for discharging their duties in respect of laws, accounting, and regulatory framework applicable to listed companies.

Article 6 The terms of office of the members of the Committee shall be in conformity with that of their directorship. Members of the Committee may be re-elected or re-appointed at the expiry of their terms of office.

No members shall, before the expiration of his or her terms of office, be removed from office without cause except for the circumstances that require dismissal as stipulated in the laws and regulations, the Articles or these terms of reference.

If any member ceases to be a director of the Company or cannot continue to be a director under other circumstances before the expiry of his or her terms of office, he or she shall be automatically disqualified from acting as a member, and such vacancy shall be filled by the Board pursuant to Article 3 of these terms of reference.

Article 7 A member of the Committee may concurrently serve as a member of other committees under the Board, provided that such member is able to concurrently perform such duties.

Article 8 A former partner of an accounting firm which currently audits the Company's accounts should be prohibited from acting as a member of the Committee for a period of 2 years from the later of the date when he or she ceases:

- (I) to be a partner of that accounting firm;
- (II) to have any financial interest in that accounting firm.

Article 9 The internal audit department of the Company is the supporting and coordination department of the Committee and the secretary of meetings of the Committee, and is responsible for such daily work as preparing meeting notice and meeting documents, daily contacts with the chairman of the Committee, preparing and reporting meeting minutes and meeting resolutions. The office of the Board is responsible for the specific work including issuing meeting notice, keeping meeting minutes and resolutions, jointly preparing for and organizing meetings with the supporting and coordination department of the Committee. The secretary to the Board is responsible for coordinating work among the Committee, the supporting and coordination department of the Committee, and the office of the Board, and shall attend the meetings of the Committee as observer.

CHAPTER 3 POWERS AND DUTIES

Article 10 The powers and duties of the Committee shall include the powers and duties set out in the code provisions of the Corporate Governance Code under Appendix 14 of the Listing Rules from time to time. Without prejudice to the foregoing, the Committee shall perform the following duties:

- (I) advising the Board on the appointment, re-appointment, replacement or dismissal of the external audit firm, approving, examining audit fees and engagement terms of the external audit firm and dealing with any issues concerning resignation or dismissal of such external audit firm, adopting appropriate measures to supervise the work of the external audit firm and reviewing reports from the external audit firm;
- (II) reviewing and monitoring the independence and objectivity of the external audit firm and the effectiveness of the audit procedures in accordance with applicable standards, discussing with the external audit firm on the nature, scope and relevant reporting responsibilities of the audit before the audit commences;
- (III) formulating and implementing policies of non-audit services provided by the external audit firm. For this purpose, the “external audit firm” includes any entity that is under the common control, ownership or management with such audit firm or any entity that a reasonably informed third party knowing all relevant information would reasonably conclude to be part of such audit firm’s domestic or international business. The Committee shall report to and advise the Board as to actions to be taken or matters to be improved as it deems necessary;
- (IV) serving as the Company’s key representative body for overseeing the Company’s relations with the external audit firms;

(V) reviewing and supervising the completeness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and reviewing the significant opinions in relation to financial reporting contained in the financial statements and financial reports. The Committee shall particularly review the below matters before submitting the relevant statements and reports to the Board:

1. any change in the accounting policies and practices;
2. matters involving significant judgement;
3. significant adjustment resulting from audit;
4. the going concern assumptions and any qualifications of the opinion;
5. compliance with accounting standards;
6. compliance with laws and the Listing Rules in relation to financial reporting.

(VI) In order to carry out the responsibilities under paragraph (V) of this Article:

1. members of the Committee shall liaise with the Board and senior management of the Company and the audit firm engaged by the Company, and the Committee shall convene meetings with the Company's external audit firm at least twice a year;
2. members of the Committee shall meet with the Company's external audit firm, at least once annually, in the absence of the management, to discuss matters relating to the audit fees, any issues arising from the audit works and any other matters the audit firm may wish to raise;
3. the Committee shall consider any significant or unusual items which are, or may need to be, reflected in financial reports and accounts, and shall give due consideration to any matters that have been raised by the Company's financial personnel, internal auditors or supervision personnel, or the external audit firm engaged.

(VII) reviewing the Company's financial control, internal control and risk management systems and monitoring the implementation of such systems on an on-going basis; and ensuring that the effectiveness of the risk management and internal control system of the Company and its subsidiaries is reviewed at least once a year.

- (VIII) discussing on the risk management and internal control system with the management of the Company to ensure the establishment of an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function; supervising the effective implementation of internal control and self-assessment of internal control, and coordinating internal control audit and other related matters;
- (IX) on its own initiative or as assigned by the Board, considering material results of investigations of risk management and internal control matters and the feedback by the management to such results;
- (X) ensuring coordination between the internal audit department and external audit firm, ensuring that the internal audit department is adequately resourced and has appropriate standing within the Company, and reviewing and supervising the effectiveness of the operation of the internal audit department;
- (XI) examining the Company's financial and accounting policies and practices;
- (XII) reviewing the Explanatory Letter of Reviewing Matter (《審核情況說明函件》) issued by the external audit firm to the Company's management, any material queries raised by the external audit firm to the management about accounting records, financial accounts or internal control system and the management's response;
- (XIII) ensuring that the Board will provide a timely response to the issues raised by the external audit firm in the Explanatory Letter of Reviewing Matter;
- (XIV) ensuring the Company has established suitable channels for employees to report or raise any concerns, in confidence, about possible inappropriateness in financial reporting, internal control or other matters, and review relevant arrangements from time to time, which are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (XV) reporting the annual report on overall risk management to the Board;
- (XVI) reviewing the risk management strategies and material risks management solutions of the Company, reviewing and monitoring the Company's policies and practices in respect of compliance with legal and regulatory requirements;
- (XVII) reviewing the judgment criteria or the judgment mechanism related to major decision-makings, major risks, major events and important business procedures, as well as the risk assessment report of major decisions;

- (XVIII) reporting to the Board on related issues within the scope of the Committee's duties; and reporting to the Board about the Committee's decisions or recommendations, except those which cannot be reported according to legal or regulatory restrictions;
- (XIX) developing and reviewing the policies and practices on corporate governance of the Company and making recommendations to the Board;
- (XX) reviewing and monitoring the training and continuing professional development of the directors and senior management;
- (XXI) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (XXII) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors;
- (XXIII) reviewing the Company's compliance with the Corporate Governance Code as set out in the Listing Rules and the disclosure in the Corporate Governance Report;
- (XXIV) considering other topics as defined by the Board;
- (XXV) other powers and duties authorized by the Board;
- (XXVI) other relevant requirements for powers and duties of the Committee according to the regulatory rules of the place where the shares of the Company are listed as amended from time to time.

Article 11 The Committee is to be provided with sufficient resources to discharge its duties and may source supports from the Company's relevant departments or personnel according to work requirements. If necessary, the Committee may engage intermediate agencies to provide independent and professional advice on its decisions. The reasonable expenses arising therefrom shall be borne by the Company.

Article 12 The Committee shall examine and supervise the independence of the external audit firm in accordance with the procedures below:

- (I) studying all relations between the Company and the audit firm (including non-audit services);
- (II) seeking from the audit firm, on an annual basis, information about the policies and procedures adopted by the audit firm to maintain its independence and to monitor compliance with relevant requirements (such requirements including regulations for rotation of audit partners and staff);

(III) meeting with the external audit firm, at least twice a year, in the absence of the management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the audit firm may wish to raise.

Article 13 The Committee shall be accountable to the Board. Any proposal of the Committee shall be submitted to the Board for consideration and approval, unless otherwise authorized by the Board. The Committee shall cooperate in relation to the audit activity of the board of supervisors.

Article 14 In performing its duties under Article 10, the Committee has no obligation for planning and implementing audit activities or for ensuring the Company's financial reports are complete and accurate or for preparation of the financial reports. The management of the Company shall be responsible for the preparation of the financial reports whereas the accounting firm shall be responsible for the audit of the Company's financial reports.

Article 15 At the invitation of the chairman of the Board, the chairman of the Committee, or in his/her absence, another member of the Committee or his or her authorized representative, shall attend and answer questions at the Company's annual general meetings.

Article 16 The Committee shall make its terms of reference available on the websites of the Company and the stock exchange on which the Company's shares are listed, to explain its role and powers delegated to it by the Board in accordance with the relevant requirements under the regulatory rules in the place where the Company's shares are listed.

CHAPTER 4 RULES OF PROCEDURES

Article 17 The meetings of the Committee are classified into regular meetings and ad-hoc meetings. The Committee shall hold at least one regular meeting in the first half of a year and one regular meeting in the second half of a year.

Article 18 The Committee shall hold an ad-hoc meeting if proposed by the chairman of the Committee, two members or more of the Committee, or the Board or the chairman of the Board.

Article 19 A notice shall be given to all members of the Committee by the supporting and coordination department three days prior to the convening of a meeting. In case of emergency that requires the Committee to convene a meeting as soon as possible, the Committee may give a notice of the meeting on that day by phone, facsimile, or e-mail, but the chairman of the Committee must give an explanation at the meeting.

Article 20 A meeting of the Committee shall be presided over by the chairman or, if he or she is unable to attend, another member of the Committee (being an independent non-executive director) designated by him or her.

Article 21 A meeting of the Committee shall not be held unless attended by more than two-thirds of its members. Members of the Committee shall attend the meeting in person or in a manner of teleconference or by aid of similar communication equipment. If the member is unable to attend the meeting with cause, he or she may authorize another committee member in writing to attend the meeting on his or her behalf. The power of attorney shall set forth the scope of authorization.

Article 22 If a meeting of the Committee is held, the relevant personnel of the Company may be invited to attend the meeting as observers when necessary.

Article 23 The decision of a meeting of the Committee shall be made by poll or by show of hands. Each member shall have one vote. Resolutions passed at the meeting must be approved by a simple majority of all members of the Committee.

Article 24 A meeting of the Committee may be held by way of written resolutions. Written resolutions shall be dispatched by facsimile, courier or by hand or other methods to all members, and shall be returned in original copies to the Company for filing after deliberation by the members. A proposal signed by consenting members satisfying the threshold hereunder shall become an effective resolution of the Committee.

Article 25 The procedures for convening a meeting of the Committee, the voting methods and the resolutions passed at such meetings shall be in compliance with the provisions of the relevant laws, regulations, the Articles and these terms of reference.

Article 26 Resolutions passed at the meetings of the Committee and any voting results shall be reported to the Board of the Company in writing.

Article 27 Persons participating in the meetings of the Committee shall undertake confidentiality obligations for all items discussed at the meetings and shall not disclose any information in relation to the meetings unless authorized by the chairman of the Board or the Board of the Company.

Article 28 Where the Board disagrees with the Committee's views on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

Article 29 The supporting and coordination department of the Committee shall record complete minutes. Minutes of the meeting shall record in sufficient detail the matters considered and decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of meeting shall be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting is held. Members of the Committee who attend the meeting shall sign on the minutes. The supporting and coordination department shall submit the minutes to the office of the Board of the Company for filing in a manner in line with the Company's file management policy. Such minutes of meetings shall be open for inspection at any reasonable time on reasonable notice by any Director of the Company.

CHAPTER 5 WORKING PROCEDURES

Article 30 The supporting and coordination department under the Committee shall be responsible for the preparation work for the decision of the Committee by providing the following information of the Company in written form:

- (I) relevant financial reports of the Company;
- (II) working reports of the internal audit department;
- (III) contracts with the external auditors and relevant working reports;
- (IV) reports on the annual risk management;
- (V) assessment reports on material risks and decisions;
- (VI) assessment reports on the internal control system of the Company and its implementation; and
- (VII) other relevant matters.

Article 31 The Committee shall evaluate reports provided by its supporting and coordination department and submit relevant written resolution materials to the Board for discussion.

Article 32 The internal audit department of the Company shall report its work to the Committee. All audit reports, rectification plans of audit issues and status of rectification reported by the internal audit department to the management shall also be reported to the Committee.

Article 33 Where the Company engages or replaces its external accounting firm, the Committee shall form an opinion on relevant matters first and make a proposal to the Board for its consideration and approval.

CHAPTER 6 SUPPLEMENTARY PROVISIONS

Article 34 Unless otherwise specified, the terms used herein shall have the same meanings ascribed thereto under the Articles.

Article 35 Any matters not covered by these terms of reference or in the event that these terms of reference are inconsistent with the laws, regulations, the Listing Rules as promulgated or amended from time to time, or the Articles which are formulated or revised by lawful procedures, after these terms of reference become effective, such laws, regulations, the Listing Rules or the Articles shall prevail and these terms of reference shall be amended forthwith and submitted to the Board of the Company for approval.

Article 36 These terms of reference have been considered and approved by the Board of the Company and shall become effective on the date of the listing of the Company's overseas listed foreign shares on The Stock Exchange of Hong Kong Limited.

Article 37 Interpretation of these terms of reference shall be vested in the Board of the Company.