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**China Railway Signal & Communication Corporation Limited\***

**中國鐵路通信信號股份有限公司**

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

**(Stock Code: 3969)**

**Terms of Reference of the Audit and Risk Management Committee  
under the Board of Directors of China Railway Signal & Communication  
Corporation Limited**

**CHAPTER 1 GENERAL PROVISIONS**

**Article 1** In order to perfect the decision-making procedures of the Board of China Railway Signal & Communication Corporation Limited (the “**Company**”), fully safeguard the legal interests of the Company and its shareholders, and improve the corporate governance structure of the Company, the Board of Directors of the Company has established the Audit and Risk Management Committee and promulgated these terms of references in accordance with the *PRC Company Law*, the *Standards on Corporate Governance of Listed Companies* (上市公司治理準則) issued by the China Securities Regulatory Commission, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “**HKEX Listing Rules**”), the *Rules Governing the Listing of Shares on the Sci-tech Innovation Board of the Shanghai Stock Exchange* (hereinafter referred to as the “**Listing Rules on the Sci-tech Innovation Board**”), the *Operational Guidelines of the Shanghai Stock Exchange for the Audit Committee under the Board of Directors of Listed Companies* (hereinafter referred to as the “**Operational Guidelines**”), *Guideline on Comprehensive Risk of Central Enterprises promulgated by the State-owned Assets Supervision and Administration Commission of the State Council* (the “**Guideline on Comprehensive Risk of Central Enterprises**”) (中央企業全面風險指引) and the *Articles of Association of China Railway Signal & Communication Corporation Limited* (hereinafter referred to as the “**Articles of Association**”) and other relevant rules.

**Article 2** The Audit and Risk Management Committee is a special committee set up by the Board of Directors pursuant to the Articles of Association and shall be accountable to the Board and report its work to the Board. The principal duties of the Audit and Risk Management Committee are to advise on the engagement and replacement of the external auditors, supervise the internal audit system of the Company, to communicate, supervise and verify internal and external audit of the Company, to review financial information and its disclosure, to review risk management and internal system, to review risk management strategies and solutions of the Company, to control, manage, supervise and evaluate the risk of major decisions, major events and major business procedures.

\* For identification purpose only.

**Article 3** The Company shall provide necessary work conditions for the operation of the Audit and Risk Management Committee. Specialized staff or department shall be designated to be responsible for dealing with daily matters of the Audit and Risk Management Committee, including communication, organization of meetings, preparation of materials and filing. The management and the relevant departments of the Company shall provide support for the Audit and Risk Management Committee during the performance of its duties.

## **CHAPTER 2 COMPOSITION AND ORGANIZATION**

**Article 4** In principle, the members of the Audit and Risk Management Committee shall be independent of the daily operation and management of the Company, and shall be appointed by the Board of Directors amongst its members. The Audit and Risk Management Committee shall comprise three non-executive directors, the majority of which shall be independent non-executive directors, and at least one of which shall possess professional accountant qualifications or appropriate accounting or relevant financial management expertise.

**Article 5** The members of the Audit and Risk Management Committee shall be recommended by the Chairman of the Board of Directors after discussion with relevant directors subject to consideration and approval by the Board of Directors. The Board of Directors shall regularly evaluate the independence and performance of the members of the Audit and Risk Management Committee, and when necessary, replace members who are not suitable to remain in the position.

**Article 6** The Audit and Risk Management Committee shall have one chairman who shall be an independent non-executive director in charge of the work of the Committee. The chairman of the Audit and Risk Management Committee shall be an accounting professional with professional experience in accounting or financial management. The chairman shall be nominated by the Chairman of the Board of Directors and appointed by the Board of Directors. 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 procedures 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 passed, rejected and supplementary materials needed;
- (v) other powers and duties provided in these terms of reference and conferred by the Board of Directors.

**Article 7** All members of the Audit and Risk Management Committee shall possess the expertise and business experience enabling them to fulfil the duties of the Audit and Risk Management Committee. Members of the Audit and Risk Management Committee shall devote sufficient time and efforts to perform the duties of the Committee diligently and conscientiously. They shall supervise the external auditors of the Company in a practical and efficient way, and shall provide guidance to the internal audit of the Company in order to perform effective internal control for the Company and provide true, accurate and complete financial reports. The Company shall arrange members of the Audit and Risk Management Committee to participate in related trainings to timely obtain expertise required for discharge of their duties in respect of laws, accounting, and regulation standards of listed companies.

**Article 8** The terms of office of the members of the Audit and Risk Management Committee shall be in conformity with that of their directorship. Members may be re-elected or re-appointed at the expiry of their terms of office.

No members shall, before the expiration of his/her term of office, be removed from office without reason except for the circumstances that require dismissal as stipulated in the laws and regulations, the Articles of Association 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/her term of office, he/she shall be automatically disqualified from acting as a committee member, and such vacancy shall be filled by the Board of Directors pursuant to Article 5 of these terms of reference.

Any change in the membership of the Audit and Risk Management Committee shall be announced in accordance with the regulatory requirements at the places where the Company's shares are listed.

**Article 9** A member of the Audit and Risk Management Committee may concurrently serve as a member of other special committees under the Board of Directors, provided that such member is able to concurrently perform such duties.

**Article 10** A former partner of the Company's existing accounting firm should be prohibited from acting as a member of the Audit and Risk Management Committee for a period of 2 years from the date of his/her ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm,

whichever is later.

### **CHAPTER 3 DUTIES AND RESPONSIBILITIES**

**Article 11** The Audit and Risk Management Committee shall make an independent evaluation and supervision as to the compliance, legality and effectiveness of the economic activities of the enterprise on behalf of the Board of Directors. The primary duties of the Audit and Risk Management Committee are as follows:

- (i) supervising and evaluating the works of external auditors. The specific duties at least include:
  1. proposing to the Board of Directors on the engagement, renewal or replacement, termination of the external auditors, approving, reviewing audit expenses and engagement terms of the external auditors and dealing with any issues concerning resignation or dismissal of such auditors, adopting appropriate measures to supervise the external auditors and reviewing the report from the external auditors;

2. reviewing and monitoring the independence and objectivity of the external accounting firm and the effectiveness of the audit procedures in accordance with applicable standards, discussing with the external auditors on the nature, scope and relevant reporting responsibilities of the audit before the audit commences, particularly the influence on their independence for providing non-audit services by external auditors;
  3. discussing and communicating with external auditors on the scope, planning and method of audit as well as important matters discovered during the audit;
  4. providing and implementing non-audit services development policies for the external auditors and the Committee shall report to the Board of Directors and make relevant suggestions on the actions to be adopted or matters to be improved as it may deem necessary;
  5. supervising and evaluating whether the external auditors have fulfilled their duties diligently;
  6. acting as the main representative between the Company and the external auditors to be responsible for supervising the relationship between them;
- (ii) reviewing and providing opinions on financial reports of the Company and performing the following duties:
1. reviewing and supervising the integrity of the Company's financial statements, annual reports and accounts, interim reports and quarterly reports, major opinions on financial reporting contained in the statements and reports. The Audit and Risk Management Committee shall comply with the Annual Report Working Procedures for the Audit and Risk Management Committee under the Board of Directors of China Railway Signal & Communication Corporation Limited when reviewing the Company's financial statements, annual reports and accounts, interim reports and quarterly reports. Please see the Schedule of these terms of reference for further details.
  2. focusing on material issues and auditing issues contained in the financial reports of the Company. The Audit and Risk Management Committee shall particularly review the below matters before submitting the relevant statements and reports to the Board of Directors:
    - (1) any changes in the accounting policies and practices;
    - (2) major judgemental areas;
    - (3) significant adjustments resulting from the audit;
    - (4) the going concern assumptions and any qualifications;
    - (5) matters resulting in non-standard unqualified audit reports;

- (6) compliance with accounting standards;
- (7) significant changes in accounting policies and estimates;
- (8) adjustments to material accounting errors;
- (9) compliance with laws and requirements on financial reporting under the securities regulatory rules of the places where the Company's shares are listed.

In order to fulfill the above obligations, members of the Committee shall liaise with the Board of Directors, senior management and the employed auditors; the members of the Committee shall at least hold two meetings with the external auditors every year; members of the Committee shall take into consideration any significant or unusual items that are, or may need to be, reflected in the financial reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for financial function, internal audit or supervision or the external auditors.

3. paying special attention to the possibilities of fraud, corrupt practice and material misstatements relating to financial reporting.
  4. supervising the rectification of financial reporting matters.
- (iii) providing guidance for effective operation of the internal audit department and performing the following duties:
1. reviewing the annual internal audit plan of the Company;
  2. supervising the implementation of the internal audit plan of the Company;
  3. reviewing the internal audit reports, evaluating the results of internal audit and supervising the rectification of material matters;
  4. guiding the internal audit department on effective operation.

The internal audit department of the Company shall report to the Audit and Risk Management Committee. All audit reports and plan and status of rectification of the issues identified during an audit shall be submitted by the internal audit department to the management and the Audit and Risk Management Committee simultaneously.

- (iv) reviewing the financial control, internal control and risk management system of the Company and constantly reviewing the implementation of the system; ensuring reviewing the effectiveness of the risk management and internal control system of the Company and its subsidiaries at least once a year, and performing the following duties:
1. assessing the appropriateness of the design of the internal control system of the Company;
  2. reviewing the self-evaluation report on internal control;

3. review internal control audit reports issued by external auditors, and communicating with external auditors on the issues found and remedial measures;
  4. assessing the evaluation and audit results of internal control, and supervising the rectification of internal control deficiencies;
  5. reviewing the Company's compliance with its applicable corporate governance code and reviewing the corporate governance report as required by the regulatory rules at the places where the Company's shares are listed;
  6. discussing the risk management and internal control system with the management to ensure that the management has established an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. Supervising the effective implementation and self-assessment of internal control and coordinating internal control audit and other relevant issues;
  7. considering any findings of major investigations on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and management's response;
- (v) ensuring the coordination between the internal audit department and external auditors, coordinating communications between the management and external auditors on material audit matters, coordinating communications between internal audit department and external auditors as well as the coordination with external auditing; ensuring that the internal audit department has possessed sufficient resources to be operated and has an appropriate position; reviewing and supervising the effectiveness of the operation of the internal audit department;
- (vi) reviewing the financial, accounting policies and practices of the Company;
- (vii) inspecting the Letter of Audit Results (《審核情況說明函件》) issued to the management by the external accounting firms, any material queries about accounting records, financial accounts or control system made to the management by the external accounting firms and the replies made by the management;
- (viii) ensuring the timely response of the Board of Directors to any matters raised in the Letter of Audit Results (《審核情況說明函件》) issued by the external accounting firms;
- (ix) 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 action;
- (x) submitting the annual report on overall risk management to the Board of Directors;
- (xi) considering the Company's risk management strategies and the solutions for major risk management; to review and monitor the Company's policies and practices on the compliance with legal and regulatory requirements;

- (xii) confirming the list of the Company's related/connected persons and report to the Board of Directors and the Supervisory Committee; to conduct a preliminary review of the related/connected transactions to be submitted to the Board of Directors for consideration; and to review the reasonableness and necessity of the major related/connected transactions;
- (xiii) considering 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;
- (xiv) considering the evaluation report on the internal control submitted by the internal audit department;
- (xv) considering the establishment of the risk management organizations, and proposals of their responsibilities;
- (xvi) supervising and control the risk of being affected by overseas sanction laws, to ensure timely, complete and accurate disclosure of information on the transactions sanctioned by overseas sanction laws;
- (xvii) reporting on the relevant matters within its scope of responsibility to the Board of Directors; and to report to the Board of Directors its decisions or recommendations, except those which cannot be reported according to the laws or regulatory restrictions;
- (xviii) other functions and powers granted by the Board of Directors;
- (xix) other relevant requirements for the powers and duties of the Committee according to the regulatory rules of the places where the shares of the Company are listed as amended from time to time.

**Article 12** The internal audit and internal control and comprehensive risk management department of the Company is a supporting and associated department under the Audit and Risk Management Committee and is responsible for such daily work as meeting notice, preparing meeting documents, daily contact with the chairman of the Audit and Risk Management Committee, preparing and reporting meeting minutes and meeting resolutions. The office of the Board of Directors is responsible for the specific work including keeping meeting minutes and meeting resolution, jointly preparing for and organizing meetings with supporting and associated department under the Audit and Risk Management Committee. The secretary of the Board of Directors is responsible for coordinating the work among the Audit and Risk Management Committee, the supporting and associated department under the Audit and Risk Management Committee, and the office of the Board of Directors and presenting at the meeting of the Auditing and Risk Management Committee.

**Article 13** The Audit and Risk Management Committee shall report to the Board of Directors on measures and improvements which it considers necessary and make recommendations.

**Article 14** The Audit and Risk Management 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 Audit and Risk Management Committee may also engage independent intermediaries to advise on its decision-makings at the reasonable cost of the Company.

**Article 15** The Audit and Risk Management Committee shall examine and supervise the independence of the external auditors firm in accordance with the procedure below:

- (i) studying all relations between the Company and the audit firm (including non-audit services);
- (ii) asking for information from the audit firm every year, and get to know the policies and procedures adopted by the audit firm for keeping its independence and with respect to the implementation of relevant supervision rules, including the rules on replacement of the partner and staff of the audit firm; and
- (iii) meeting the external auditors firm without the presence of the management at least twice a year to discuss the matters related to audit expenses, any matters incurred due to the audit work and other matters proposed by the audit firm.

**Article 16** The Audit and Risk Management Committee shall be accountable to the Board of Directors. The motions raised by the Audit and Risk Management Committee shall be submitted for the review and approval by the Board of Directors, unless otherwise authorized by the Board of Directors. The Audit and Risk Management Committee shall cooperate in relation to the audit activity of the Supervisory Committee.

**Article 17** In performing its duties under Chapter 3, the Audit and Risk Management 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 preparation of the financial reports whereas the accounting firm shall be responsible for the audit of the Company's financial reports.

**Article 18** At the invitation of the Chairman of the Board of Directors, the chairman of the Audit and Risk Management Committee, or in his/her absence, another member of the Committee or his/her authorized representative, shall attend the Company's annual general meeting and answer questions.

**Article 19** The Audit and Risk Management Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board of Directors by including them on the Company's website and Stock Exchange's website according to the relevant regulatory rules of the places where the shares of the Company are listed.

#### **CHAPTER 4 RULES OF PROCEDURES**

**Article 20** Meetings of the Audit and Risk Management Committee can be classified into regular meetings and interim meetings. The Audit and Risk Management Committee shall hold at least four regular meetings annually, and shall hold at least one regular meeting in the first half of a year and in the second half of a year each.

**Article 21** The Audit and Risk Management Committee may convene an interim meeting when necessary. The Audit and Risk Management Committee shall hold an interim meeting if proposed by the chairman of the Committee, more than two members of the Committee, or the Board of Directors or the Chairman of the Board of Directors.



**Article 22** A notice shall be given to all members of the Audit and Risk Management Committee by the supporting 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, fax, or e-mail, but the chairman of the Committee must give an explanation at the meeting.

**Article 23** A meeting of the Audit and Risk Management Committee shall be convened and presided over by the chairman. If the chairman fails or refuses to perform the duties, he or she shall designate another member, who shall be an independent non-executive Director, to perform the duties on his or her behalf.

**Article 24** A meeting of the Audit and Risk Management Committee shall not be held unless attended by more than two-thirds of its members.

**Article 25** Members of Audit and Risk Management Committee shall attend the meeting in person or in a manner of teleconference or by aid of similar communication equipment, and shall express clear opinions on the matters under consideration. Attendance in a manner of teleconference or similar communication equipment shall constitute presence in person. If any member cannot attend the meetings in person for any reason, he/she may submit a signed power of attorney to appoint another member to attend the meetings and express opinions on his/her behalf. The power of attorney shall specify the scope and period of authorization. Each member may act as proxy for one other member only. A member of independent non-executive Director who cannot attend in person shall authorize another member of independent non-executive Director to attend on his/her behalf.

**Article 26** If a meeting of the Audit and Risk Management Committee is held, representatives of the external auditors, supervisors of the Company, internal auditors, financial officers, legal counsel and other relevant personnel may, when necessary, be invited to attend such meeting and provide necessary information.

**Article 27** The voting of the committee meetings shall be taken by poll or show of hands. Each member shall have one vote. Resolutions passed at the meeting must be approved by a majority of all members of the Committee.

**Article 28** Should a member of the Audit and Risk Management Committee have any conflict of interest with respect to any matters discussed at a meeting, he or she shall withdraw from the meeting. When a valid opinion cannot be formed by deliberation due to the withdrawal of member of the Audit and Risk Management Committee, the relevant matter shall be deliberated by the Board of Directors directly.

**Article 29** A meeting of the Audit and Risk Management Committee may be held by way of written resolutions. Written resolutions shall be dispatched by facsimile, courier or by hand or otherwise 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 a valid resolution of the Committee.

**Article 30** The procedures for convening the meetings of the Audit and Risk Management Committee, the voting method and the resolutions passed at such meeting shall be in compliance with the provisions of the relevant laws, regulations, the Articles of Association and these terms of reference.

**Article 31** Resolutions passed at the meeting of the Audit and Risk Management Committee and any vote results shall be reported to the Board of Directors in writing.

**Article 32** Persons participating in the meeting of the Audit and Risk Management Committee shall undertake confidentiality obligations for all items discussed at the meeting and shall not disclose any information in relation to the meeting unless authorized by the chairman of the Board of Directors or the Board of Directors.

**Article 33** Where the Board of Directors disagrees with the Audit and Risk Management Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit and Risk Management Committee explaining its recommendation and also the reason(s) why the Board of Directors has taken a different view.

**Article 34** The supporting department of the Audit and Risk Management Committee shall record complete minutes. Members of the Committee who attend the meeting shall sign on the minutes. The supporting department shall submit the minutes to the Board of Directors office of the Company for filing in a manner in line with the Company's file management system for the inspection of directors at any time.

**Article 35** The supporting 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 auditors;
- (iii) contracts of 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;
- (vii) audit reports of major connected transactions of the Company; and
- (viii) other relevant matters.

**Article 36** The Audit and Risk Management Committee shall evaluate reports provided by the supporting department and submit relevant written resolutions to the Board of Directors for discussion.

**Article 37** The internal audit department of the Company shall report its works to the Audit and Risk Management Committee. All audit reports, rectification plans of audit issues and status of rectification reported to the management shall also be reported to the Audit and Risk Management Committee.

**Article 38** Where the Company engages or replaces its external accounting firm, the Audit and Risk Management Committee shall form an opinion on relevant matters and propose a resolution to the Board of Directors for further consideration.

## **CHAPTER 6 SUPPLEMENTARY PROVISIONS**

**Article 39** Unless otherwise specified, the terms used herein and in the Schedule shall have the same meaning ascribed thereto under the Articles of Association.

**Article 40** Any matters not covered by these terms of reference and the Schedule or in the event that these terms of reference are inconsistent with the laws, regulations, securities regulatory rules of the places where the Company's shares are listed, or the Articles as promulgated or amended from time to time after these terms of reference become effective, such laws, regulations, securities regulatory rules of the places where the Company's shares are listed, or the Articles formulated or revised through legal procedures shall prevail and these term of reference shall be amended forthwith and submitted to the Board of Directors for approval.

**Article 41** After consideration and approval by the Board of Directors, these terms of reference and the Schedule shall become effective from the date when the initial public offering of A shares of the Company are listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange.

**Article 42** Interpretation of these terms of reference and the Schedule shall be formulated, interpreted and amended by the Board of Directors.

Annex:

## **Annual Report Working Procedures for the Audit and Risk Management Committee under the Board of Directors of China Railway Signal & Communication Corporation Limited**

**Article 1** In order to exercise the review and supervision function of the Audit and Risk Management Committee under the Board of Directors (hereinafter referred to as the “**Audit and Risk Management Committee**”) of China Railway Signal & Communication Corporation Limited (hereinafter referred to as the “**Company**”) in the preparation, audit and disclosure of the Company’s annual financial reports, to maintain audit independence and to improve audit quality, the Company formulated these working procedures according to the relevant laws, regulations, regulatory documents, regulatory rules of the places where the Company’s shares are listed, the *Articles of Association of China Railway Signal & Communication Corporation Limited* (hereinafter referred to as the “**Articles of Association**”) and the *Rules of Procedures of the Audit and Risk Management Committee under the Board of Directors of China Railway Signal & Communication Corporation Limited*.

**Article 2** The members of the Audit and Risk Management Committee shall perform their duties and work diligently during the preparation and disclosure of the Company’s regular reports according to relevant laws, administrative regulations, regulatory documents, regulatory rules of the places where the Company’s shares are listed, the Articles of Association and the *Terms of Reference of the Audit and Risk Management Committee under the Board of Directors of China Railway Signal & Communication Corporation Limited* to safeguard the legal rights and interests of the Company.

**Article 3** The Audit and Risk Management Committee shall supervise and review the work of external auditors, review the financial statements and financial reports of listed companies and give opinions thereon, coordinate the communication of the management, internal audit department and relevant departments with the external auditors, discuss and communicate with the external auditors on the audit scope, audit plans, audit methods and major audit findings.

**Article 4** The duties of the Audit and Risk Management Committee to review the Company’s financial statements and financial reports and to give opinions thereon shall include at least the following aspects:

- (1) reviewing and supervising the completeness of the Company’s financial statements, annual reports and accounts, interim reports and quarterly reports, reviewing the major opinions on financial reporting contained in the statements and reports.
- (2) focusing on material issues and auditing issues contained in the financial reports of the Company. The Audit and Risk Management Committee shall particularly review the below matters before submitting the relevant statements and reports to the Board of Directors:
  1. any changes in the accounting policies and practices;
  2. major judgmental areas;

3. significant adjustments resulting from the audit;
4. the going concern assumptions and any qualifications;
5. matters resulting in non-standard unqualified audit reports;
6. compliance with accounting standards;
7. significant changes in accounting policies and estimates;
8. adjustments to material accounting errors;
9. compliance with laws and requirements on financial reporting under the listing rules of the places where the Company's shares are listed.

In order to fulfill the above obligations, members of the Audit and Risk Management Committee under the Board of Directors shall liaise with the Board of Directors, senior executives and the employed auditors; members of the Audit and Risk Management Committee under the Board of Directors shall at least hold two meetings with the external auditors every year; members of the Audit and Risk Management Committee under the Board of Directors shall take into consideration any significant or unusual items that are, or may need to be, reflected in the financial reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for financial function, internal audit or supervision or external auditors.

- (3) paying special attention to the possibilities of fraud, corrupt practice and material misstatements relating to financial reporting.
- (4) supervising the rectification of financial reporting matters.

**Article 5** The Audit and Risk Management Committee shall negotiate with the accounting firm performing the audit work for annual reports, interim reports and quarterly reports to determine the specific time schedule of the audit work of annual financial reports.

**Article 6** The Audit and Risk Management Committee has the right to know the progress of the accounting firm's work and any problem discovered during the auditing, and urge the accounting firm to submit audit reports within the period agreed. The Audit and Risk Management Committee shall record the method, times and results of the urges in writing which shall be confirmed with the signature of relevant persons in charge.

**Article 7** The Audit and Risk Management Committee shall strengthen the communication with the certified public accountants providing annual report audit for the Company (hereinafter referred to as the "**certified public accountants for annual audit**") after their entrance, and review the financial accounting reports of the Company after the certified public accountants for annual review give their preliminary audit opinions and put down its opinions in writing. The abovementioned writing opinions shall be confirmed with the signature of relevant persons.

**Article 8** After the completion of the annual financial reports, the Audit and Risk Management Committee shall convene a meeting to vote on relevant issues and submit to the Board of Directors for review upon formation of resolutions.

**Article 9** The Audit and Risk Management Committee shall submit to the Board of Directors the assessment for the Company's annual audit work undertaken by the accounting firm and the proposal for re-appointment or new appointment of accounting firm for the subsequent year. The Audit and Risk Management Committee shall pay special attention to the cases where listed companies appoint new accounting firm during audit of their annual reports, their reasons and impacts.

**Article 10** The finance department of the Company is responsible for coordinating the communication between the Audit and Risk Management Committee and the certified public accountants for annual review and creating the conditions for the Audit and Risk Committee to perform duties of formulating the annual reports.

**Article 11** In re-appointing an accounting firm for next year's annual audit, the Audit and Risk Committee shall make a comprehensive and objective assessment on the completion of the annual audit and the quality of professional services of the certified public accountants for annual audit. If a positive opinion is reached, it shall be submitted to the Board of Directors for approval and a general meeting shall be convened for making a resolution. If a negative opinion is formed, the Company shall appoint another accounting firm.

In appointing another accounting firm for next year's annual audit, the Audit and Risk Committee shall have a comprehensive understanding and conduct proper evaluation on the former accounting firm and the accounting firm intended to appoint. The opinion formed shall be submitted to the Board of Directors and a general meeting shall be held for consideration.

**Article 12** During the preparation and consideration period of annual reports, the members of the Audit and Risk Committee shall keep all matters confidential to strictly prevent the disclosure of inside information and the occurrence of illegal activities such as inside trading prior to the publication of annual reports.