

上海復旦微電子集團股份有限公司
SHANGHAI FUDAN MICROELECTRONICS GROUP COMPANY LIMITED*
(the “Company”)

Terms of Reference for Audit Committee

1. Members

- 1.1 Members of the Audit Committee (the “Committee”) shall be appointed by the board of directors (the “Board”) of the Company. The Committee shall consist of not less than three members and at least one member shall have the appropriate professional qualifications or accounting or related financial management expertise as required under rule 5.05(2) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). A majority of members of the Committee shall be independent non-executive directors (INED(s)).
- 1.2 The Chairman of the Committee (the “Chairman”) shall be appointed by the Board and should be acted by an INED. In the absence of the Chairman, members present may elect any member (who should be an INED) to conduct the meeting.
- 1.3 A former partner of the Company’s existing auditing firm (“Firm”) is prohibited from acting as a member of the Committee for a period of 1 year commencing on the date of his ceasing (:
- (a) to be a partner of the Firm; or
- (b) to have any financial interest in the Firm,
- whichever is the later.

2. Quorum

- 2.1 Two members shall form a quorum and one of which must be an INED.

3. Meetings

- 3.1 Meetings of the Committee may be held as and when required or as requested by the Chairman. The Committee shall hold at least four meetings in a year. The Company’s external auditors may also request a meeting if they consider necessary.
- 3.2 A Committee meeting which is duly convened and at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretions vested in or exercisable by the Committee.
- 3.3 Members of the Committee may adopt from time to time the procedures governing the convening of the Committee meetings and the means and procedures for the passing of resolutions at Committee meetings.
- 3.4 The Committee should meet, in the absence of management, with the Company’s external auditors at least twice a year.
- 3.5 The Chairman may invite any members of the management, division heads, head of Internal Audit and representative of the Company’s external auditors to attend Committee meeting if he considers necessary and with suitable reasons.
- 3.6 The Company Secretary or his delegate or such other person appointed by the Chairman shall be the secretary of the Committee (the “Secretary”).

4. Minutes of Meetings

- 4.1 Minutes of the Committee shall be kept by the Secretary. Draft and final versions of minutes of the Committee meetings shall be sent to all Committee members for their comment and records within a reasonable time after the meeting.

5. Responsibilities

The Committee shall:

5.1 Relationship with external auditors:

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor; and to ensure the compliance with GEM Listing Rule 17.50(4) that requires an announcement to be published when there is a change of auditors.
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The audit committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

5.2 Review of financial information of the Company:

- (a) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and quarterly reports before submission to the Board, the Committee should focus particularly on:–
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the GEM Listing Rules and other legal requirements in relation to financial reporting;

- (b) In regard to (a) above:–
 - (i) members of the Committee must liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company’s auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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;

5.3 Oversight of the Company’s financial reporting system and internal control procedures:

- (a) to review the Company’s financial controls, internal control and risk management systems;
- (b) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget;
- (c) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management’s response;
- (d) where an internal audit function exists, to ensure co-ordination between the internal 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 the effectiveness of the internal audit function;
- (e) to review the Group’s financial and accounting policies and practices;
- (f) to review the external auditor’s management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management’s response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (h) to report to the Board on the matters set out in this code provision;
- (i) to consider other topics, as defined by the Board;
- (j) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (k) The Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations as well as GEM Listing Rules which come to its attention; and
- (l) to act as the key representative body for overseeing the Company’s relation with the external auditor.

6. Authorities

6.1 The Committee is authorised by the Board to deal with matters within the terms of reference and has authority to enquire and seek relevant information from any employees and to request for their full co-ordination.

6.2 The Committee is provided by the Board with sufficient resources to perform its duties including authorisation to obtain legal or other independent professional advices from outsiders at the Company's expenses and to secure the attendance of these outsiders if it considers necessary.

7. Others

7.1 This Terms of Reference has been prepared bilingually in English and Chinese, and both versions have equal status and same effect.

**For identification only*