

上海復旦微電子集團股份有限公司
SHANGHAI FUDAN MICROELECTRONICS GROUP COMPANY LIMITED*
(the “Company”)
(Stock code: 1385)

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. All members shall comprise non-executive directors and at least one member shall have the appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“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 2 years 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 rule 13.51(4) of the Listing Rules 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 to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, interim report 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 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 or external auditors;

5.3 Oversight of the Company’s financial reporting system:

- (a) to review the Company’s financial controls, risk management and internal control systems;
- (b) to review the Group’s financial and accounting policies and practices;
- (c) to review the external auditor’s management letter, any material queries raised by the external auditors to management in respect of the accounting records, financial accounts or systems of control, enquiries raised and management’s response;
- (d) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (e) to report to the Board on the matters regarding terms of reference;
- (f) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- (g) to act as the key representative body for overseeing the Company’s relation with the external auditors.
- (h) to report to the Board for any fraud or irregularities, internal control deficiencies or infringements of laws, regulations and Listing Rules ;
- (i) considering any other topics, as defined by the Board.

5.4 Oversight of the Company’s risk management and internal control procedures

- (a) overseeing and monitoring the risk management and internal control systems of the Company on an ongoing basis and conducting periodic review (at least annually) with the Company’s external auditors and senior management of the scope, adequacy and effectiveness of the Group’s corporate accounting and financial controls, risk management and internal control systems, and any related significant findings regarding risks or exposures and considering recommendations for improvement of such controls. The review should cover all material controls, including financial, operational and compliance controls. In conducting the review, the Audit Committee should, in particular, consider:
 - (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company’s ability to respond to changes in its business and the external environment;

- (ii) the scope and quality of management’s ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
 - (iii) the extent and frequency of communication of monitoring results to the Audit Committee (or to the board) which enables it to assess control of the Company and the effectiveness of risk management;
 - (vi) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company’s financial performance or condition; and
 - (v) the effectiveness of the Company’s processes for financial reporting and Listing Rules compliance;
- (b) discussing the risk management and internal control systems with the Senior Management to ensure that the Senior Management has performed its duties in establishing and maintaining effective systems, including the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Company’s accounting, internal audit and financial reporting functions;
 - (c) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and Senior Management’s response to these findings;
 - (d) reviewing the Company’s internal audit function* to ensure co-ordination within the Group and between the Company’s 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 its effectiveness;

* An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company’s risk management and internal control systems so as to add value and improve the Company’s operations. Internal audit function helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- (e) reporting to the Board any suspected frauds and irregularities, failures of the risk management and internal control systems or suspected infringements of laws, rules and regulations which come to its attention and reviewing the findings of internal investigations into any suspected frauds or irregularities or failures of risk management and internal controls or infringements of laws, rules and regulations in relation to financial reporting; and
- (f) reporting to the Shareholders it has conducted the annual review of its risk management and internal control systems and the effectiveness of the internal audit function or the need for an internal audit function and the reasons for the absence of such a function (as the case may be) in the Corporate Governance Report and ensuring other disclosure requirements in relation to how the Company has complied with the risk management and internal control code provisions as set out in the “Corporate Governance Code and Corporate Governance Report” of the Listing Rules are fulfilled.

5.5 Oversight of the Internal Audit Function

- (a) reviewing the appointment or replacement and performance of the general manager of internal audit department;
- (b) reviewing and discussing with the management in charge of the internal audit the plan, including the nature and scope of internal audit activities and the relevant reporting obligations as well as the budget and staffing of the internal audit group before the audit commences. The Audit Committee shall review on a periodic basis with the general manager of internal audit department, the progress of the proposed internal audit plan, including explanations for any deviations from the original plan and any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information; and
- (c) reviewing the significant reports to the management prepared by the internal audit department and the senior management's response to such reports.

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 If there is any inconsistency between the English and Chinese version of the Terms of Reference, the Chinese version shall prevail.

**For identification only*