

# Shanghai FourSemi Semiconductor Co., Ltd.

## TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

### CHAPTER I General Provisions

**Article 1** To strengthen the decision-making function of the Board of Directors, continuously improve the internal control system of Shanghai FourSemi Semiconductor Co., Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”), ensure the effective supervision and management of the management by the Board of Directors, and continuously improve the corporate governance structure, the Company has established the Board Audit Committee (the “**Audit Committee**”) and formulated these Terms of Reference in accordance with the relevant provisions of the Company Law of the People’s Republic of China (the “**Company Law**”), the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) and other relevant laws and normative documents, the Articles of Association of Shanghai FourSemi Semiconductor Co., Ltd. (the “**Articles of Association**”), and the Rules of Procedures of the Board of Directors of Shanghai FourSemi Semiconductor Co., Ltd.

**Article 2** The Audit Committee is a specialised committee established by the Board of Directors in accordance with the Articles of Association and the Hong Kong Listing Rules, which exercises the powers of the board of supervisors as stipulated in the Company Law, and is primarily responsible for communicating with and supervising and reviewing the external audit, supervising the internal audit, evaluating and improving the Company’s internal control system, conducting risk analysis on the Company’s major ongoing investment projects, and performing other duties required of the Audit Committee by laws and regulations.

### CHAPTER II Composition

**Article 3** All members of the Audit Committee must be non-executive Directors. The Audit Committee shall comprise at least three members, a majority of whom shall be independent non-executive Directors. At least one of the members must be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required by the Hong Kong Listing Rules.

**Article 4** Members of the Audit Committee shall be nominated by the chairman, more than one-third of the members of the Board of Directors, or the Nomination Committee of the Board of Directors, and shall be elected by a majority vote of all Directors of the Board of Directors. All members of the Audit Committee must possess the professional knowledge and business experience necessary to perform the duties of the Audit Committee.

**Article 5** The Audit Committee shall have one chairman (convener), who must be an independent non-executive Director and shall be responsible for presiding over the work of the Audit Committee; The chairman of the Audit Committee shall be elected by the Board of Directors from among the members of the Audit Committee.

**Article 6** A former partner of the accounting firm currently responsible for auditing the Company's accounts shall not serve as a member of the Audit Committee for a period of two years from the later of the following dates:

- (1) the date on which he/she ceased to be a partner of that accounting firm; or
- (2) the date on which he/she ceased to have any financial interest in that accounting firm.

**Article 7** The term of office of the Audit Committee shall be consistent with that of the Board of Directors. Upon expiry of their term, members are eligible for re-election and reappointment. If a member ceases to hold the office of a Director of the Company during the term, he/she shall automatically be disqualified as a member, and the Board of Directors shall fill the vacancy in accordance with the provisions of Articles 3 to 5 above.

**Article 8** The Company's audit department responsible for internal audit shall be under the direct leadership of the Audit Committee and shall serve as its working body.

**Article 9** If a member fails to attend in person, and does not delegate another member of the Audit Committee to attend, a meeting of the Audit Committee for two consecutive times, he/she shall be deemed unable to perform his/her duties and shall be replaced by the Board of Directors.

**Article 10** Except in the circumstances described in the preceding paragraph and circumstances where a person is disqualified from serving as a Director or an independent non-executive Director as stipulated in applicable laws, regulations, the Articles of Association, and the Hong Kong Listing Rules, a member shall not be removed from office without cause before the expiry of his/her term.

**Article 11** A member may resign before the expiry of his/her term of office. The resignation of a member shall be governed by the relevant provisions concerning the resignation of Directors or independent non-executive Directors in laws, regulations, the Articles of Association, the Company Law, and the Hong Kong Listing Rules.

**Article 12** The removal of a member from his/her position on the Audit Committee by the Board of Directors in accordance with Article 9 of these Terms of Reference, or the resignation of a member from his/her position on the Audit Committee before the expiry of the term in accordance with Article 11 of these Terms of Reference, shall not affect his/her continued exercise of the powers as a Director or independent non-executive Director of the Company during his/her term of office.

**Article 13** If the Company fails to establish an Audit Committee, or if at any time the Company fails to comply with Articles 3 to 5 of these rules or any other provisions of the Hong Kong Listing Rules concerning the Audit Committee, the Company must immediately notify The Stock Exchange of Hong Kong Limited (the “SEHK”) and publish an announcement with details and reasons in accordance with the Hong Kong Listing Rules. The Company must, within three months of its failure to comply with the relevant requirements, establish an Audit Committee and/or appoint appropriate persons as members of the Audit Committee to comply with such requirements.

### **CHAPTER III Duties and Powers**

**Article 14** The specific duties of the Audit Committee, in accordance with the relevant provisions of the Articles of Association and the Hong Kong Listing Rules, are:

- (1) to be primarily responsible for making recommendations to the Board of Directors on the appointment, re-appointment and removal of the external audit institution, approving the remuneration and terms of engagement of the external audit institution, and handling any issues related to the resignation or dismissal of that audit institution;
- (2) to review and monitor the external audit institution’s independence and objectivity and the effectiveness of the audit procedures in accordance with applicable standards; The Audit Committee shall, before the audit work commences, discuss with the audit institution the nature and scope of the audit and the relevant reporting responsibilities;
- (3) to formulate and implement a policy on the engagement of the external audit institution to supply non-audit services; The Audit Committee shall report to the Board of Directors and make recommendations on any matters requiring action or improvement;
- (4) to review the Company’s financial information and its disclosure, including:
  1. to monitor the integrity of the Company’s financial statements and its Annual Report and accounts, half-year report and, if prepared for publication, quarterly reports (if any), and to review significant financial

reporting judgements contained in them. Before submitting the statements and reports to the Board of Directors, the Audit Committee shall pay special attention to reviewing the following matters:

- a) any changes in accounting policies and practices;
- b) areas involving significant judgements;
- c) material adjustments arising from the audit;
- d) the going concern assumption and any qualifications;
- e) compliance with accounting standards; and
- f) compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting;

2. In relation to item 1 above:

- a) members of the Audit Committee should liaise with the Board of Directors and senior management. The Audit Committee must meet with the Company's auditors at least twice a year; and
- b) The Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and should give due consideration to any matters that have been raised by the Company's accounting and financial reporting staff, compliance officer or audit department;

(5) to review the Company's internal control system and provide opinions and recommendations on its soundness and improvement, including:

1. to review the Company's financial controls, and risk management and internal control systems;
2. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. The discussion should cover the adequacy of the Company's resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function;
3. to consider major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own

initiative and management's response to these findings;

4. to ensure co-ordination between the internal and external audit institutions; 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;
  5. to review the Group's financial and accounting policies and practices;
  6. 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 control systems and management's response;
  7. to ensure that the Board of Directors provides a timely response to the issues raised in the external auditor's Management Letter;
  8. to report to the Board of Directors on the matters in this provision; and
  9. to consider other topics, as defined by the Board of Directors.
- (6) to review and evaluate the Company's material connected (related party) transactions; to review the Company's internal systems and arrange for audits of material connected (related party) transactions;
  - (7) to review the Company's arrangements for its employees to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;
  - (8) to act as the key representative body for overseeing the Company's relations with the external audit institution;
  - (9) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board of Directors;
  - (10) to review and monitor the training and continuous professional development of Directors and senior management;
  - (11) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
  - (12) to develop, review and monitor the code of conduct and compliance manual (if

any) for employees and Directors;

- (13) to review the Company's compliance with the Corporate Governance Code as set out in Appendix C1 to the Hong Kong Listing Rules and disclosure in the Corporate Governance Report contained in the Annual Report; to report to the Board of Directors on matters for which the committee is responsible within its duties and powers (including decisions or recommendations made by the committee);
- (14) other powers granted by the Board of Directors of the Company as stipulated by laws, administrative regulations, departmental rules, normative documents, the listing rules of the stock exchange where the Company's shares are listed (including the relevant powers and duties prescribed by the code provisions of the Corporate Governance Code as set out in Appendix C1 to the Hong Kong Listing Rules), and the Articles of Association, and to consider other topics as defined by the Board of Directors.

**Article 15** The Audit Committee is responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating internal and external audit work and internal control. The following matters shall be submitted to the Board of Directors for deliberation after being approved by more than half of all members of the Audit Committee:

- (1) disclosure of the financial information in financial accounting reports and periodic reports, and internal control evaluation reports;
- (2) appointment or dismissal of the accounting firm that undertakes the Company's audit business;
- (3) to appoint or dismiss the Company's Chief Financial Officer;
- (4) changes in accounting policies or accounting estimates, or correction of material accounting errors for reasons other than changes in accounting standards;
- (5) other matters stipulated by laws and regulations, relevant rules of the stock exchange where the Company's shares are listed, and the Articles of Association.

## CHAPTER IV Duties of the Chairman of the Audit Committee

**Article 16** Where the Board of Directors disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reason(s) why the Board has taken a different view.

**Article 17** The Audit Committee should make its terms of reference available on the websites of the SEHK and the Company, explaining its role and the authority delegated to it by the Board of Directors.

**Article 18** Subject to the Articles of Association, the laws and regulations of the place where the Company's shares are listed, and the Hong Kong Listing Rules, the chairman of the Audit Committee shall primarily exercise the following duties:

- (1) to convene regular meetings of the Audit Committee;
- (2) to convene extraordinary meetings of the Audit Committee when necessary;
- (3) to preside over meetings of the Audit Committee;
- (4) to organize the preparation of special audit research reports (if any);
- (5) to review and approve routine research reports (if any); and
- (6) other duties granted by the Board of Directors and the Audit Committee.

**Article 19** When the chairman of the Audit Committee is unable or refuses to perform his/her duties, an independent non-executive Director member shall be designated to perform the duties on his/her behalf.

## CHAPTER V Working Procedures

**Article 20** The Internal Audit Department is responsible for the preliminary preparatory work for the Audit Committee's decision-making and for providing the following written information regarding the Company:

- (1) relevant financial reports of the Company;
- (2) work reports from internal and external audit institutions;
- (3) external audit contracts and related work reports;
- (4) information on the Company's external disclosures;
- (5) audit reports on the Company's material connected transactions;
- (6) financial and legal information regarding major investment projects; and
- (7) other relevant information.

**Article 21** The Audit Committee shall review the reports provided by the Internal Audit Department and submit the relevant written resolution materials to the Board of Directors for discussion:

- (1) evaluation of the work of the external audit institution, and the appointment and replacement of the external audit institution;
- (2) whether the Company's internal audit system has been effectively implemented and whether the Company's financial reports are comprehensive and true;
- (3) whether the financial reports and other information disclosed externally by the Company are objective and true, and whether the Company's material connected transactions comply with relevant laws and regulations;
- (4) evaluation of the work of the Company's internal finance and audit departments, including their heads; and
- (5) other related matters.

## CHAPTER VI Rules of Procedures

**Article 22** The Audit Committee shall hold a meeting at least once every quarter. An extraordinary meeting may be convened upon the proposal of two or more members, or if the chairman of the Audit Committee deems it necessary; All members shall be notified three days prior to the convening of the meeting. The meeting shall be presided over by the chairman of the Audit Committee. If the chairman of the Audit Committee is unable to attend, he/she may delegate an independent non-executive Director member to preside.

**Article 23** A meeting of the Audit Committee shall require a quorum of more than two-thirds of its members; Each Committee member shall have one vote. A valid resolution of the meeting must be passed by a majority of all members. Any member of the Audit Committee who has a conflict of interest in the matters to be discussed at a meeting must abstain from voting. If a valid review opinion cannot be formed due to abstention, the relevant matter shall be directly reviewed by the Board of Directors.

**Article 24** As a general principle, meetings of the Audit Committee shall be held in person. Provided that all attending members can fully communicate and express their opinions, meetings may, when necessary, be held by video, telephone or other means in accordance with the procedures. If a member is truly unable to attend a meeting in person, he/she may submit a signed power of attorney to delegate another member to attend and express opinions on his/her behalf. The power of attorney must clearly specify the scope and duration of the authorization. Each member may be entrusted by a maximum of one other member. If an independent non-executive Director member is truly unable to attend a meeting in person, he/she shall delegate another independent non-executive Director member to attend on his/her behalf.

**Article 25** The Audit Committee may, when it deems necessary, invite representatives of the external audit institution, internal audit personnel, finance personnel, legal advisors and other relevant persons to attend its meetings and provide necessary information.

**Article 26** If necessary, the Audit Committee may engage intermediary institutions to provide professional advice for its decision-making, with expenses borne by the Company.

**Article 27** The convening procedures, voting methods, and resolutions passed at meetings of the Audit Committee must comply with the provisions of relevant laws, regulations, the Articles of Association, the Hong Kong Listing Rules, and these Terms of Reference.

**Article 28** Proposals passed and voting results of the Audit Committee meetings shall be reported to the Company's Board of Directors in writing. Complete minutes shall be kept for meetings of the Audit Committee, the opinions of the independent non-executive Directors shall be stated in the minutes, and the Committee members attending the meeting shall sign the minutes; The minutes shall be kept by the chairman of the Company.

**Article 29** All attending Committee members and persons attending the meeting as observers shall have a duty of confidentiality regarding the matters discussed at the meeting and shall not disclose any related information without authorization.

## **CHAPTER VII Supplementary Provisions**

**Article 30** Unless otherwise specified, the terms used in these Terms of Reference shall have the same meanings as those in the Articles of Association.

**Article 31** For matters not covered in these Terms of Reference, the provisions of relevant national laws and regulations, relevant regulatory rules of the place where the Company's shares are listed, the Articles of Association and the Hong Kong Listing Rules shall apply; If these Terms of Reference conflict with any laws or regulations subsequently promulgated by the State, the Hong Kong Listing Rules, or the Articles of Association as amended through legal procedures, the provisions of the relevant national laws and regulations, the Hong Kong Listing Rules, and the Articles of Association shall prevail. These Terms of Reference shall be amended accordingly and submitted to the Board of Directors for review and adoption.

**Article 32** These Terms of Reference shall be revised and interpreted by the Board of Directors.

**Article 33** These Terms of Reference shall, upon approval by the Board of Directors, take effect and be implemented from the date on which the Company's H Shares issued in its initial public offering are listed overseas and on the SEHK.