

**SMI CORPORATION LIMITED (the “Company”)
AUDIT COMMITTEE TERMS OF REFERENCE**

1) Formation

The Audit Committee was formed on 14 July 2009 pursuant to a resolution of the board of directors (the “Board”) passed on the same date.

2) Purpose

The purpose of the Audit Committee is to assist the Board in fulfilling its overseeing responsibilities for the financial reporting, risk management, evaluation of internal control system and auditing processes. The Audit Committee also ensures that the Company and its subsidiaries comply with all applicable laws, regulations and the code of conduct policies.

3) Composition

The Audit Committee (or the “Committee”) shall consist of at least three Independent Non-Executive Directors (“INED”) of the Board, with at least one INED with appropriate professional qualifications or accounting or related financial management expertise. The Board shall nominate and appoint committee members and the Committee shall nominate one of the members as the Chairman of the Audit Committee (the “Chairman”). The Chairman must be an INED.

4) Frequency of meeting

The Audit Committee shall meet at least twice a year, with an authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via Tele- or video- conference.

5) Meeting procedures

- Quorum of meeting shall not be less than two committee members, and each committee member in the meeting shall carry one vote.
- The committee members shall elect among themselves a chairman at each meeting.
- The committee members shall also appoint the secretary to the Committee (the “Secretary”) from time to time.
- The head of internal audit will be invited to attend all meetings to be conducted by the Committee. The Committee shall invite other members of management and external auditors or professionals to attend meetings and provide pertinent information, as necessary. It may hold private meetings with auditors and executive sessions.
- Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the members present.
- A resolution in writing signed by all the committee members of the Audit

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Committee shall be valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

- The Secretary is responsible for preparation of meeting agenda and minutes. Meeting agenda shall be provided in advance to members, along with appropriate briefing materials.
- Minutes shall be prepared and endorsed by the Audit Committee. The said minutes shall then be circulated to all members of the Board. The Chairman of the Audit Committee shall report any findings and recommendations to the Board thereafter.

6) Responsibilities

The Committee shall carry out the following responsibilities:

- (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;
- (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 Audit Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (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;
- (d) to monitor integrity of financial statements of the Company and the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit 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

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- (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;
- (e) (i) members of the Audit Committee must liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company’s auditors; and
 - (ii) the Audit 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;
- (f) to review the Company’s financial controls, internal control and risk management systems;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) to review the group’s financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (m) to report to the Board on the matters set out in this code provision; and
- (n) to consider other topics, as defined by the Board.

Updated on 27 March 2012

(The Chinese version of these terms of reference is a translated version of the English version and is for reference only. In case of inconsistency between the two versions, the English version shall prevail.)