

VALUE CONVERGENCE HOLDINGS LIMITED
Terms of Reference of the Audit Committee

1. Constitution

The Directors of the Company have established a Committee of the Board known as the Audit Committee pursuant to Article 140 of the Articles of Association of the Company.

2. Membership

2.1 The Audit Committee is composed of a minimum of three Non-Executive Directors, a majority of whom shall be Independent Non-Executive Directors.

2.2 At least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2.3 Members of the Audit Committee may only be appointed or removed by the Board.

2.4 The Audit Committee must be chaired by an Independent Non-executive Director. The Chairman of the Audit Committee shall be appointed or removed by a decision of the Board.

2.5 A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Company’s Audit Committee for a period of one 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.

3. Quorum

Unless otherwise agreed by all the members of the Audit Committee, two members of the Audit Committee shall be a quorum.

4. Frequency of meetings

The Audit Committee shall meet not less than two times a year.

5. Authority

- (a) The Audit Committee is granted the authority to investigate any activity within its terms reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee.
- (b) The Audit Committee is authorised to inspect all accounts, books and records of the Company and the Audit Committee shall have the right to require the Management of the Company to furnish all information requested by the Committee as may be required for the purpose of discharging its duties.
- (c) The Audit Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention.

6. Attendance

As necessary or desirable, the Chairman may request that members of Management, the head of internal audit and representatives of the external auditor be present at meetings of the Audit Committee. At least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

7. Duties and powers

The Audit Committee is established with the following duties and powers:

Relationship with the Company's auditor

- (a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of that 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 standards;
- (c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (d) to develop and implement policy on the engagement of an external auditor to supply non-audit services and report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendation as to the steps to be taken;

Review of financial information of the Company

- (e) to monitor the integrity of the Company's financial statements and annual report and accounts and half-year report and to review significant financial reporting judgements contained in them. In reviewing the Company's annual report and accounts and half-year report before submission to the Board, the Audit Committee is required to focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental 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;
- (f) in relation to (e) above, members of the Audit Committee are required to:
 - (i) liaise with the Board and Management;
 - (ii) meet with the Company's external auditors at least once a year; and
 - (iii) consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and 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 external auditors;

Oversight of the Company's financial reporting system and internal control procedures, including internal audit

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss with 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;

- (i) 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;
- (j) to ensure coordination 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 the effectiveness of the internal audit function;
- (k) to review the Group's financial and accounting policies and practices;
- (l) 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;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

General

- (n) to report to the Board on the matters set out above;
- (o) to consider any other topics specified by the Board; and
- (p) to report to the Board in relation to any other significant decisions and recommendations of the Audit Committee which ought properly to be brought to the attention of the full Board.

8. Minutes

Full minutes of Audit Committee meetings are to be kept by the secretary of the meeting (who will normally be the Company Secretary). Draft and final versions of minutes of the Audit Committee meeting are required to be sent to all members of the Audit Committee for their comments and record respectively, in both cases within a reasonable time after the meeting.

9. Resources

The Audit Committee will be provided with sufficient resources to discharge its duties.

(Updated in June 2010)