

WALCOM GROUP LIMITED

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

CONSTITUTION

- 1 The board hereby resolves to establish a committee of the board to be known as the audit committee (the '**Audit Committee**'):
 - (a) to increase shareholder confidence and the credibility and objectivity of published financial information;
 - (b) to assist the board in meeting their financial reporting responsibilities;
 - (c) to strengthen the independent position of the company's external auditors by providing channels of communication between them and the non-executive directors; and
 - (d) to review the performance of the auditors.

MEMBERSHIP

- 2 The Audit Committee shall be appointed by the board and shall comprise Albert Wong, the chief financial officer, and all non-executive Directors, namely Eddie Chan, Frankie Wong, Timothy Nelson and Royston Drucker or such other individuals determined by the board and always shall consist of not less than two members, the majority of which shall be non-executive Directors.
- 3 The chairman of the Audit Committee shall be Eddie Chan or as otherwise selected by the board or, in the absence of the chairman, the remaining members shall elect one of their number to chair the meeting. The membership of the Audit Committee shall be set out in the annual report of the company.
- 4 A quorum of the Audit Committee shall be two members.
- 5 Appointments to the Committee shall be for a period of up to three years, which may be extended provided the relevant Committee member remains independent.
- 6 At least one member of the Committee shall have recent and relevant financial experience.

ATTENDANCE AT MEETINGS

- 7 A representative of the external auditors shall normally attend meetings. The Audit Committee may invite any Directors or outsiders to attend its meetings as it deems appropriate. However, at least once a year the Audit Committee shall meet with the external auditors without any executive board members present.

FREQUENCY OF MEETINGS

- 8** Meetings shall be held not less than once a year and at all such other times as the chairman of the Committee shall require. The external auditors may request a meeting if they consider that one is necessary.
- 9** Unless otherwise agreed, notice of each meeting (confirming the venue, time and date, together with an agenda of items to be discussed) shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive Directors no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

AUTHORITY

- 10** The Audit Committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
- 11** The Audit Committee is authorised by the board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 12** As a sub-committee of the board, the Audit Committee is answerable to the board and shall report to it on a regular basis.

DUTIES

- 13** The duties of the Audit Committee for the Company, major subsidiary undertakings and the Group as a whole, as appropriate, shall include:
 - (a)** to consider and make recommendations on the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal relating to the external auditor;
 - (b)** to discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
 - (c)** to review the half-year and annual financial statements and reports before submission to the board, focusing particularly on:
 - (i)** any changes in accounting policies and practices;
 - (ii)** major judgmental areas, including any unusual items;
 - (iii)** significant adjustments resulting from the audit;

- (iv) any going concern assumption;
 - (v) compliance with accounting standards;
 - (vi) compliance with stock exchange and legal requirements;
- (d) to liaise with the directors and senior management and to discuss any problems and reservations arising from the interim and final audits, and any matters the external auditor or the Company's chief financial officer may wish to discuss (in the absence of management or executive directors where necessary);
 - (e) to review all related party transactions on an ongoing basis and other actual or potential conflict of interest situations;
 - (f) to review the external auditor's statement on internal control systems prior to endorsement by the board;
 - (g) to supervise the financial reporting process;
 - (h) to consider the effectiveness of internal financial controls and to make recommendations regarding changes where this is deemed to be necessary and to review the company's statement on internal control systems prior to endorsement by the board;
 - (i) (where an internal audit function exists) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced, is effective and has appropriate standing within the company;
 - (j) to assess annually the external auditors independence and objectivity taking into account relevant UK, PRC, Hong Kong and BVI professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services and monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (k) to consider the major findings of internal investigations and management's response; and
 - (l) to consider other topics, as defined by the board.

RESOURCES

- 14 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required and give

due consideration to laws and regulations and the provisions of the Combined Code and / or the QCA Guidelines as appropriate for the Company.

REPORTING PROCEDURES

- 15** The secretary shall circulate the minutes of meetings of the Audit Committee to all members of the board. The Audit Committee may, in addition, at any time request a full meeting of the board at which its conclusions shall be reported.
- 16** The Chairman of the Committee shall attend the AGM prepared to respond to any shareholder questions on the Committee's activities.
- 17** The Committee shall produce a report to shareholders on its activities, which will form part of the Company's annual report and accounts.
- 18** The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness, and recommend any changes it considers necessary to the Board for approval.