

Terms of Reference of the Audit Committee

Please find attached the Terms of Reference of the Audit Committee.

1. Constitution

- 1.1 The Audit Committee (the "Committee") is a committee of the Board of Herald Holdings Limited (the "Company") and as such is appointed by and reports to the Board of the Company.

2. Membership

- 2.1 The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members.
- 2.2 At least one of the members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
- 2.3 The majority of the Committee shall be independent non-executive directors.
- 2.4 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of 1 year commencing on the date of his/her ceasing:
- (i) to be a partner of the firm; or
 - (ii) to have any financial interest in the firm, whichever is the later.
- 2.5 The Chair of the Committee shall be an independent non-executive member, as the Board shall nominate.
- 2.6 The Company's Secretary (whom failing, a person nominated by the Chair of the Committee) shall be the secretary of the Committee and shall attend all of its meetings.

3. Authority

- 3.1 The 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 Committee.
- 3.2 The Committee shall have access to sufficient resources to discharge its duties. The 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.

4. Attendance

- 4.1 A quorum shall be two members of the Committee; meetings may be held in person or by other electronics means of communication.

4.2 The Finance Director and the Head of Internal Audit (where an internal audit function exists) shall normally attend meetings. Other Board members shall also have the right of attendance. At the request of the Committee, a representative of the external auditors may attend meetings. However, at least once a year the Committee shall meet with the external auditors without executive Board members present.

5. Frequency of Meetings

5.1 The Committee shall meet as its business requires and as determined by its members. The Committee will meet at least twice a year.

6. Duties

The Committee shall:

Relationship with the Company's auditors

6.1 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;

6.2 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;

6.3 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 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;

Review of financial information of the Company

6.4 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 judgements 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 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 Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other legal requirements in relation to financial reporting;

6.5 In regard to 6.4 above:-

- (i) members of the Committee must liaise with the Board and senior management and the Committee must meet, at least once 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, compliance officer or auditors;

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

- 6.6 review the Company's financial controls, internal control and risk management systems;
- 6.7 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;
- 6.8 consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- 6.9 where an internal audit function exists, to ensure coordination 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;
- 6.10 review the group's financial and accounting policies and practices;
- 6.11 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;
- 6.12 ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.13 report to the Board on the matters set out in this code provision; and
- 6.14 consider other topics, as defined by the Board.

7. Reporting Procedures

- 7.1 The Chairman of the Committee shall report to the Board on the general conclusions reached at all of its meetings.
- 7.2 Minutes and action points arising from each meeting will be provided and circulated to all members.

Revised on 9 February, 2009