



COMBA TELECOM SYSTEMS HOLDINGS LIMITED

京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2342)

(the "Company")

Audit Committee Terms of Reference

Constitution

1. The Company has established its audit committee (the "Committee") since 20 June 2003. The primary duties of the Committee are to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors.

Membership

2. The members of the Committee shall be appointed by the board of directors of the Company (the "Board"). The Committee must comprise non-executive directors only. The Committee must also comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The majority of the Committee members must be independent non-executive directors of the Company. The Committee must be chaired by an independent non-executive director appointed by the Board.
3. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of one year from the date of his ceasing (i) to be a partner of the firm or (ii) to have any financial interest in the firm, whichever is later.
4. A quorum of the Committee meetings shall be two.

Attendance at meetings

5. The group financial controller, head of internal audit department, and a representative of the external auditors shall normally attend meetings. Other members of the Board and the management may also attend meetings of the Committee.

Frequency of meetings

6. The Committee shall meet at least twice a year. A meeting may be conducted by means of a conference telephone or other electronic means provided that all persons participating in the meeting are capable of hearing each other. The external auditors may request a meeting if they consider that one is necessary. Additional meetings shall also be held as the work of the Committee demands.

Authority

7. 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.
8. The Committee shall report to the Board on a regular basis as the Board may direct.
9. The Committee shall be provided with sufficient resources to perform its duties.
10. 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.
11. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringement of relevant applicable laws, rules and regulations which come to its attention and are of sufficient importance to draw the attention of the Board.
12. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the auditors, the Committee shall arrange for the Corporate Governance Report in the annual report to include an explanation of the Committee's view and the reasons why the Board has taken a different view.

Duties

13. The duties of the Committee shall be:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendations 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 its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company’s financial information

- (d) to monitor integrity of the Company’s financial statements and 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 reviewing these 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 Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:-
 - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice 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 the report and accounts, it should 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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (h) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (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 its effectiveness;
- (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 about 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 review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (n) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (o) to report to the Board on the matters in these terms of reference;
- (p) to consider other topics, as defined by the Board;

Any relevant code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, as amended from time to time, will be deemed as the same amendments in this terms of reference of the Committee with immediate effect.