

PERCEPTION DIGITAL HOLDINGS LIMITED

幻音數碼控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Purpose

Audit committee ("**Committee**") is a committee of the board of directors ("**Board**") of Perception Digital Holdings Limited (the "Company") and is established for the purpose of reviewing and monitoring the relationship between the Company and its auditors, reviewing the Company's financial information and oversight the Company's financial reporting system and internal control procedures.

2. Composition

Committee consists of at least 3 members to be appointed by the Board from amongst the Company's non-executive directors and the majority of the Committee should be independent non-executive directors (individually "INED", collectively "INEDs") and one of the INEDs must possess appropriate professional qualifications or accounting or related financial management expertise. Chairman of the Committee, who must be an INED, shall be appointed by the Board.

3. Secretary of Committee

Company secretary shall be the secretary of the Committee.

4. Attendance & Quorum

4.1 Quorum shall be 2 Committee members (unless otherwise specified) and both of them must be INEDs.

4.2 Chairman of the Board, head of internal audit, and representative(s) of external auditors shall normally attend meetings whilst other officers of the Company may by invitation to attend any Committee meetings.

5. Meetings

5.1 Meeting with the Company's auditors should be held not less than twice a year.

5.2 In addition, meeting with the Company's auditor, at least once annually, in the absence of management to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.

5.3 Committee members and external auditor may call any meeting at any time if necessary.

5.4 Committee is required to report back to the Board its decisions or recommendations following each meeting unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

6. Authority

Committee is provided with sufficient resources to perform its duties and, where appropriate, it has the authority to investigate any activity within its terms of reference and to seek any information it requires from an employee or external party or any independent professional advice it requires at the Company's expense.

7. Duties

7.1 Relationship with external auditors

7.1.1 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;

7.1.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; and

7.1.3 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. Committee should report to the Board, identifying, and making recommendations on any matters where action or improvement is needed.

7.2 Review of financial information of the Company

7.2.1 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 judgments contained in them. In reviewing these reports

before submission to the Board, Committee should focus particularly on:

- 7.2.1.1 any changes in accounting policies and practices;
- 7.2.1.2 major judgmental areas;
- 7.2.1.3 significant adjustments resulting from audit;
- 7.2.1.4 going concern assumptions and any qualifications;
- 7.2.1.5 compliance with accounting standards; and
- 7.2.1.6 compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and other legal requirements in relation to financial reporting.

7.2.2 regarding para. 7.2.1 above:

- 7.2.2.1 members of 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
- 7.2.2.2 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.

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

- 7.3.1 to review the Company's financial controls, internal control and risk management systems;
- 7.3.2 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;
- 7.3.3 to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- 7.3.4 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;
- 7.3.5 to review the Group's financial and accounting policies and practices;
- 7.3.6 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;
- 7.3.7 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.3.8 to report to the Board on the matters in code provisions as provided in Appendix 14 of the Listing Rules;
- 7.3.9 to consider other topics, as defined by the Board;
- 7.3.10 to review arrangements employees of the Company's can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- 7.3.11 to act as the key representative body for overseeing the Company's relations with external auditor.

8. Reporting Procedures

Full minutes of Committee meetings should be kept by company secretary. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records, within a reasonable time after the meeting.

Note:

If there is any inconsistency between the English and Chinese version of this document, the English version shall prevail.

Dated the 30th day of March 2012