

FAR EAST TECHNOLOGY INTERNATIONAL LIMITED
(the "Company")

TERMS OF REFERENCE FOR AUDIT COMMITTEE

1. Membership

1.1 Members of the audit committee (the "Committee") shall be appointed by the Company's board of directors (the "Board"). The Committee shall consist of not less than three members from amongst the non-executive directors and independent non-executive directors of the company, of whom the majority shall be independent non-executive directors.

1.2 The chairman of the Committee shall be appointed by the Board.

2. Meetings

2.1 The quorum for decisions of the Committee should be any two Members, of whom one has to be an Independent Non-Executive Director.

2.2 The qualified accountant of the Company, and a representative of the external auditors of the Company shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance.

2.3 The company secretary shall be the secretary of the Committee.

2.4 Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

3. Duties

3.1 To be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that external auditors;

3.2 To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

3.3 To develop and implement policy on the engagement of external auditors to supply non-audit services. For this purpose, external auditors 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;

3.4 To 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;

- 3.5 To monitor integrity of financial statements of the Company and its annual report and accounts, half-year report and to review significant financial reporting judgements contained in them 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 assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- 3.6 In regard to 3.5 above:
- (i) members of the Committee must liaise with the Board, senior management and the Company's qualified accountant and the Committee must meet, at least once a year, with the Company's external auditors; and
 - (ii) to 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 qualified accountant, compliance officer or external auditors.
- 3.7 To review the Company's financial control, internal control and risk management systems;
- 3.8 To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- 3.9 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;
- 3.10 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 the effectiveness of the internal audit function;
- 3.11 To review the Company's financial and accounting policies and practices;
- 3.12 To review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 3.13 To ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- 3.14 To report to the Board on the matters set out in the code provision (in respect of Audit Committee) pursuant to "Appendix 14 - Code on Corporate Governance Practices" of the Listing Rules;

3.15 To consider other topics, as defined by the Board; and

3.16 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in its Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

4. Authority

4.1 The Committee is authorised by the Board to investigate any activity within its terms of reference;

4.2 To seek any information it requires from any employee, and all employees are directed to co-operate with any reasonable request made by the Committee; and

4.3 To obtain advices from outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary;

5. Reporting procedures

The secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board.

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