

FORNTON GROUP LIMITED
TERMS OF REFERENCE OF AUDIT COMMITTEE

1. The Audit Committee (the "Committee") of Fornton Group Limited (the "Company") shall comprise non-executive directors of the Company only and a minimum of three members, a majority of whom shall be independent non-executive directors. Members of the Committee shall be appointed by the board of directors of the Company (the "Board"). At least one member of the Committee must be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
2. The chairman of the Committee, who must be an independent non-executive director of the Company, shall be appointed by the Board.
3. The Committee shall meet at least twice every year. Additional meetings may be convened by the chairman of the Committee as and when necessary.
4. The quorum of a meeting shall be two members of the Committee.
5. The Committee may seek professional advice if considered necessary.
6. Proceedings of meetings of the Committee shall be governed by the provisions of Bye-law 118 of the Bye-laws of the Company.
7. The Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings and recommendations of the Committee to the Board.

Duties, powers and functions

8. The Committee is to:

Relationship with auditors

- (a) be primary responsible for making recommendations 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 auditor, and any questions of its resignation or dismissal;
- (b) 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) develop and implement policy on engaging an external auditors to supply non-audit services. For this purpose, "external auditors" 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) monitor the integrity of the Company's financial statements, annual reports and accounts, half-year reports and quarterly reports and to review significant financial reporting judgments contained in the reports.
- (e) review these reports before submission to the Board, with particular focus on :
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption 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 (the "Listing Rules") and legal requirements in relation to financial reporting;
- (f) Regarding (d) and (e) 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 external auditor of the Company; 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 the external auditor of the Company.

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

- (g) review financial controls, internal control and risk management systems of the Company and its subsidiaries (the "Group");

- (h) 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;
- (i) 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;
- (j) where an internal audit function exists, 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 Group, and to review and monitor its effectiveness;
- (k) review the Group's financial and accounting policies and practices;
- (l) review the external auditor's management letter, any material queries raised by the external auditors to management about accounting records, financial accounts or systems of control and management's response';
- (m) ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (n) report to the Board on the matters in C.3.3 of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules;
- (o) consider other topics, as defined by the Board;
- (p) do any such things to enable the Committee to perform its powers and functions conferred on it by the Board;
- (q) conform to any requirements, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation;
- (r) 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; and
- (s) act as the key representative body for overseeing the Company's relation with the external auditor.

Recommended Best Practices

- (t) the audit committee should establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the Company.

Authority

- 9. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with any request made by the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 10. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will 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.
- 11. The Committee is to be provided with sufficient resources to perform its duties.

Responsibility

- 12. The Committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
- 13. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external and internal audits.