



**Fountain Set (Holdings) Limited**  
**Terms of Reference for the Audit Committee**  
**(Effective date: 1 January 2009)**

**1. Membership**

The Audit 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, who should be independent.

The Chairman of the Audit Committee shall be appointed by the Board and should be an Independent Non-Executive Director.

An appropriate officer of the Company appointed by the Board shall be the secretary of the Audit Committee.

A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the date of his ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm,

whichever is the later.

**2. Attendance at meetings**

A quorum shall be two members.

The Finance Director, Qualified Accountant, the Head of Internal Audit and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external and internal auditors without executive Board members present.

**3. Frequency of meetings**

Meetings shall be held not less than twice a year.

**4. Authority**

The Audit 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 Audit Committee.



The Audit Committee should be provided with sufficient resources to discharge its duties. The Audit 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.

## 5. Duties

### Relationship with the external auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the audit fee and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the external auditors before the audit commences, the nature and scope of the audit and reporting obligations;
- (c) to develop and implement policy on the engagement of an 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. The Audit 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

- (d) to monitor integrity of financial statements, annual report, 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 annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental 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 Exchange Listing Rules and other legal requirements in relation to financial reporting.

(e) In regard to (d) above:-

- (i) members of the Audit Committee must liaise with Directors and senior management and the Audit Committee must meet, at least once a year, with the external auditors; and
- (ii) the Audit 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 staff responsible for the accounting and financial reporting function, the Head of Internal Audits or external auditors;

Oversight of financial reporting system and internal control procedures

- (f) to review financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of accounting and financial reporting function, and their training programmes and budget;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and the management's response;
- (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 the effectiveness of the internal audit function;
- (j) to review financial and accounting policies and practices;
- (k) to review the external auditors' 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;



- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (m) to report to the Board on the matters set out in the Appendix 14 of the Exchange Listing Rules "Code on Corporate Governance Practices"; and
- (n) to consider other topics, as defined by the Board.

## **6. Reporting procedures**

Full minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. The secretary shall circulate the minutes of the meetings and reports of the Audit Committee to all members of the Board.