



Water Oasis Group

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# **WATER OASIS GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1161)

(the “Company”)

## **AUDIT COMMITTEE – TERMS OF REFERENCE**

### **1. Members**

- 1.1 The Audit Committee (the “Committee”) should be established by the Board of Directors of the Company (the “Board”), and it should comprise a minimum of three members.
- 1.2 The Committee should comprise non-executive directors only. The majority of the Committee members must be independent non-executive directors of the Company, and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Committee must be chaired by an independent non-executive director (the “Chairman”) and the Chairman shall be appointed by the Board.
- 1.4 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of its Committee for a period of 1 year from 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 later.

### **2. Secretary**

- 2.1 The Company Secretary of the Company shall act as the secretary of the Committee (the “Secretary”).
- 2.2 The Committee may from time to time, appoint any other person with appropriate qualification and experience to act as the Secretary.

### **3. Meeting and Quorum**

- 3.1 The Committee should meet at least twice a year. Additional meetings should be held as the work of the Committee demands.
- 3.2 The Chairman may convene additional meetings at his discretion.
- 3.3 The quorum for a meeting shall be two Committee members.
- 3.4 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the Committee members present. Meetings can also be held in person, by telephone or by teleconferencing or any other telecommunications facility provided that all participants are thereby able to communicate contemporaneously by voice with all other participants.
- 3.5 A resolution in writing signed by all the Committee members shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.
- 3.6 The Secretary shall keep full minutes of all Committee meetings. Draft and final versions of minutes of the meetings shall be sent to all Committee members for their comment and records within a reasonable time after the meeting.
- 3.7 The Committee may invite any Director, executive, external auditor or other persons to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.
- 3.8 Only the Committee member can vote in the meeting.

#### **4. Authority**

- 4.1 The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorised 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.

*Remark: the independent professional advice can be sought via the Chief Financial Officer or the Company Secretary*

- 4.2 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.
- 4.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 4.4 The Committee should be provided with sufficient resources to perform its duties.

#### **5. Responsibility**

- 5.1 The Committee is to serve as a focal point for communication between other directors and the external auditor as regards their duties relating to financial and other reporting, internal controls, external audits and such other matters as the Board determines from time to time.
- 5.2 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 Company and its subsidiaries (the "Group"), and as to the adequacy of the external audits.

#### **6. Annual General Meeting**

- 6.1 The Chairman or (if absent) the other Committee member (must be an independent non-executive director) should attend the annual general meeting of the Company and handle the shareholders' enquiry on the activities and responsibilities related to the Committee.

#### **7. Duties and Powers**

The Committee is responsible for reviewing and monitoring the financial reporting and internal control principles of the Company, and assisting the Board to fulfill its responsibility over the audit. The Committee's duties and powers should include:

- 7.1 Relationship with the Company's auditor
- 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. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 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; and
- 7.1.4 the Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

## 7.2 Review of the Company's financial information

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 judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:

- (a) any changes in accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from audit;
- (d) the going concern assumptions and any qualifications;
- (e) compliance with accounting standards; and
- (f) 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.

7.2.2 Regarding 7.2.1 above:

- (a) Committee members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditor; and
- (b) 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 auditor.

## 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 investigation 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 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;

7.3.9 to act as the key representative body for overseeing the Company's relations with the external auditor;

7.3.10 to report to the Board on all the above matters; and

7.3.11 to consider other topics, as defined by the Board.

7.4 Perform corporate governance functions

- 7.4.1 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- 7.4.2 to review and monitor the training and continuous professional development of directors and senior management;
- 7.4.3 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 7.4.4 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- 7.4.5 to review the Company's compliance with the code provisions set out in the Code on Corporate Governance Practices contained in the Listing Rules and disclosure in the Corporate Governance Report.

**8. Reporting Responsibility**

The Committee has to report to the Board every time after the meeting.

March, 2012