



Yip's Chemical Holdings Limited  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 408)

**Yip's Chemical Holdings Limited**  
(the "Company")

BM.1 - Terms of Reference for an Audit Committee

*(adopted by the Board of Directors on 29 June 2005 and updated on 30 March 2009, 27 March 2012 and 7 December 2015 respectively)*

**Constitution**

1. The board (the "Board") of directors of the Company (the "Directors") has resolved to establish a committee known as the Audit Committee (the "Committee").

**Membership**

2. The Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent. A quorum shall be two members.
3. The chairman of the Committee shall be appointed by the Board and should be an independent non-executive Director.

**Meetings**

4. The chief financial officer, the group financial controller and the head of internal audit shall normally attend meetings. The external auditors may be invited to attend meetings, and if considered necessary, the Committee shall meet with the external auditors without the presence of the Board's executive Directors. Management responsible for matters to be discussed in the meetings may also be invited to attend meetings in person, by telephone or by video conference, if necessary.

5. The Committee shall duly appoint a secretary who shall keep full minutes of Committee meetings. Draft and final versions of minutes of the meetings should be sent to all committee members for their comments and records within a reasonable time after the meeting.
6. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
7. Unless otherwise agreed by all members of the Committee (“Members” and each a “Member”), notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be forwarded to each Member and any other person required to attend, no later than 5 working days before the date of the meeting. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice.
8. Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment and all persons participating in the meeting are capable of hearing each other.
9. A resolution in writing signed by all the Members shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

### **Authority**

10. The 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 Committee.
11. The 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.

### **Duties**

12. The duties of the Committee shall be:-

### **Relationship with the Company's auditors**

- 12.1. 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;
- 12.2. 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;
- 12.3. to develop and implement policy on engaging an external auditor to supply non-audit services. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed. 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
- 12.4. to act as the key representative body for overseeing the Company's relations with the external auditor.

### **Review of the Company's financial information**

- 12.5. 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, the Committee should focus particularly on:-
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the 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;

12.6. in regard to 12.5 above:-

- (i) 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
- (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 auditors.

**Oversight of the Company’s financial reporting system, risk management and internal control systems**

- 12.7. to review the Company’s financial controls, and unless expressly addressed by a separate Board Risk Committee, or by the Board itself, to review the Company’s risk management and internal control systems;
- 12.8. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;
- 12.9. to consider major internal investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- 12.10. 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 its effectiveness;
- 12.11. to review the group’s financial and accounting policies and practices;
- 12.12. 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;

- 12.13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 12.14. 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;
- 12.15. to report to the Board on the matters set out above; and
- 12.16. to consider other topics assigned by the Board.

**Reporting procedures**

13. The secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board within a reasonable time.