

Yip's Chemical Holdings Limited

(the "Company")

Terms of Reference for Audit Committee

(Adopted by the Board of Directors on 29th June 2005 and last updated on 30th March 2009)

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 financial controller and the internal audit manager 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 executive Board members.
5. The financial controller of the Company shall be the secretary of the Committee and shall keep full minutes of Committee meetings. However, if the financial controller is not able to attend the meeting, he/she may appoint a person as his/her alternate to attend the meeting and perform his/her duties thereat.
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 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:
 - 12.1. to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
 - 12.2. to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.

- 12.3. to discuss with the external auditor before the audit commences the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is involved;
- 12.4. to develop and implement policy on the engagement of an external auditor to supply non-audit services and to report to the Board, identifying any matters in respect of which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken;
- 12.5. to monitor integrity of the interim and annual financial statements, interim and annual report and accounts and to review significant financial reporting judgments contained in them before submission to the Board, focusing 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") and legal requirements in relation to financial reporting.
- 12.6. in regard to 12.5 above, to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and 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 (if any) or auditors;
- 12.7. to review the Company's financial controls, internal control and risk management systems;
- 12.8. to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control

system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

- 12.9. to consider any findings of major internal investigations of internal control matters and management's response;
- 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 monitor and review the effectiveness of the internal audit function;
- 12.11. to review the group's financial and accounting policies and practices;
- 12.12. 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, and to ensure that the Board provide a timely response to the issues raised;
- 12.13. where the report or accounts have been reviewed or audited, to discuss problems and reservations arising from such reviews or audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- 12.14. to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- 12.15. to report to the Board on the matters set out in the Code C.3.3 on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange; and
- 12.16. to consider other topics as the Board may define from time to time.

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.