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## **Ko Yo Chemical (Group) Limited**

**玖源化工(集團)有限公司**

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

**(Stock Code: 827)**

### **Audit Committee – Terms of Reference**

*(As adopted by the Board on 10 June 2003 and amended on 5 March 2012)*

#### **1. Membership**

- 1.1 The audit committee (the “Audit Committee”) shall be appointed by the board (the Board”) of directors (the “Directors”) of Ko Yo Chemical (Group) Limited (the “Company”) and must consist of a minimum of three members (the “Members”). Membership shall be confined to non-executive Directors, the majority of the Members should be independent non-executive Directors (the “INEDs”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.
- 1.2 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.3 No former partner of the Company’s existing auditing firm may serve as a member of the Audit 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. Meeting**

- 2.1 The company secretary of the Company shall act as the secretary (the “Secretary”) of the Audit Committee.
- 2.2 The Audit Committee shall meet at least four times each year. The Company’s external auditor may request that a meeting be held if they consider it necessary.
- 2.3 Notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. 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 by the Member. Notice of any adjourned meetings is not required if adjournment is for less than 14 days.

- 2.4 The quorum of the Audit Committee shall be not less than half number of the Members and one of them must be INED.
- 2.5 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 or through electronic means of communications by means of which all persons participating in the meeting are capable of hearing each other.
- 2.6 Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the Members present.
- 2.7 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 2.8 Full minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comment and records within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection.

### **3. Authority**

- 3.1 The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Audit Committee. The Audit 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.
- 3.2 The Audit 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.
- 3.3 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view.
- 3.4 The Audit Committee is to be provided with sufficient resources to perform its duties.

### **4. Responsibility**

- 4.1 The Audit Committee is to serve as a focal point for communication between other directors, the management of the Company and the external auditor 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.
- 4.2 The Audit 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 and internal audits.

## **5. Duties, powers and functions**

The Audit Committee shall have the following duties, powers and functions:

### *Relationship with the Company's external auditor*

- 5.1 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;
- 5.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 5.3 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 5.4 to act as the key representative body for overseeing the Company's relations with the external auditor;

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

- 5.5 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports (if applicable), and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and legal requirements in relation to financial reporting;

5.6 Regarding 5.5 above:-

- a) Members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company’s external auditors; and
- b) the Audit 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 and internal control procedures*

- 5.7 to review the Company’s controls, internal control and risk management systems;
- 5.8 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;
- 5.9 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;
- 5.10 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;
- 5.11 to review the Group’s financial and accounting policies and practices;
- 5.12 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;
- 5.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;

- 5.14 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 5.15 to report to the Board on the matters in the relevant code provision stated in Appendix 14 to Listing Rules; and
- 5.16 to consider other topics, as defined by the Board.

## **6. Availability of Term of Reference**

- 6.1 The terms of reference will be posted on the websites of the Company and the Stock Exchange.

By Order of the Board  
**Ko Yo Chemical (Group) Limited**  
*Chairman*  
**Li Wei Ruo**

Chengdu, the PRC, 8 March 2012

*As at the date of this announcement, the board of Directors comprises five executive directors, being Mr. Li Weiruo, Mr. Yuan Bai, Ms Chi Chuan, Ms Man Au Vivian, Mr. Li Shengdi and three independent non-executive Directors of Mr. Hu Xiaoping, Mr. Woo Che-Wor, Alex and Mr. Qian Laizhong.*