



# LEE & MAN CHEMICAL COMPANY LIMITED

理文化工有限公司

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

Website: <http://www.leemanchemical.com>

(Stock Code : 746)

## AUDIT COMMITTEE

### TERMS OF REFERENCE\*

Approved by the Board on 30 March 2012  
and amended with effect from 1 January 2019

The terms of reference of the Audit Committee (the “**Committee**”) has been adopted by the board of directors (the “**Board**”) of Lee & Man Chemical Company Limited ( the “**Company**”) pursuant to the board resolution passed on 30 March 2012.

#### 1. Membership

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee.
- 1.2 The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of a minimum of 3 members, at least one of whom is an independent non-executive director of the Company with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) (as amended from time to time), and with a majority being independent non-executive directors of the Company. The chairman of the Board shall not be a member of the Committee.
- 1.3 A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Audit Committee for a period of 2 years from the date of the person ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm,whichever is later.
- 1.4 Only members of the Committee shall have the right to attend Committee meetings. However, other individuals of the Company such as the chairman of the Board, the Company’s chief executive, the Company’s financial controller, other directors of the Company, the heads of risk, compliance and internal audit, representatives from the finance function and other professional advisers may be invited to attend all or part of any meeting as and when appropriate.
- 1.5 The external auditors shall be invited to attend meetings of the Committee on a regular basis.
- 1.6 Appointments to the Committee shall be for a period of up to three years, which may be extended for further three-year periods.
- 1.7 The Board shall appoint the chairman of the Committee (“**Committee Chairman**”) who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **2. Secretary**

- 2.1 The company secretary of the Company or his/her nominee shall act as the secretary of the Committee (the “**Secretary**”).

## **3. Quorum**

- 3.1 The quorum necessary for decision of the Committee shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **4. Frequency of Meetings**

- 4.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

## **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 5.2 Unless otherwise agreed, 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 of the Committee, any other person required to attend and all other non-executive directors, with reasonable notice, before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Full minutes of meetings should be kept by the Secretary. Draft and final versions of minutes of the meetings should be sent to all Committee members and Board members for their comment and records respectively within a reasonable time after the meeting.

## **7. Annual General Meeting**

- 7.1 The Committee Chairman or in his/her absence, another member of the Committee or failing that his/her duly appointed delegate shall attend the annual general meeting of the Company and be available to answer any shareholders’ questions on the Committee’s activities.

## **8. Duties**

- 8.1 The Committee should carry out the duties below.

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

- 8.1.1 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;
- 8.1.2 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;
- 8.1.3 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

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

- 8.1.4 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: -
  - 8.1.4.1 any changes in accounting policies and practices;
  - 8.1.4.2 major judgmental areas;
  - 8.1.4.3 significant adjustments resulting from audit;
  - 8.1.4.4 the going concern assumptions and any qualifications;
  - 8.1.4.5 compliance with accounting standards; and
  - 8.1.4.6 compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 8.1.5 Regarding 8.1.4 above:
  - 8.1.5.1 members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
  - 8.1.5.2 the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's qualified accountant, or any of the Company's staff responsible for the Company's accounting and financial reporting function, compliance officer or auditors;

*Oversight of the Company's financial reporting system and internal control procedures*

- 8.1.6 to review the Company's financial controls, internal control and risk management systems;
- 8.1.7 to discuss and review 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;
- 8.1.8 to consider major 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;
- 8.1.9 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;
- 8.1.10 to review financial and accounting policies and practices of the Company and its subsidiaries;
- 8.1.11 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;
- 8.1.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 8.1.13 to report to the Board on the matters in this section 8;
- 8.1.14 to consider other topics, as defined by the Board;

*Relationship with the employees and those who deal with the Company*

- 8.1.15 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; and
  - 8.1.16 to act as the key representative body for overseeing the Company's relations with the external auditor.
- 8.2 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, 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.
- 8.3 The Committee should be provided with sufficient resources to perform its duties.

## **9. Authority**

The Committee is authorized

- 9.1 to investigate any activity within its terms of reference and to seek any information it requires from any employee of the Company in order to perform its duties (all employees being directed to cooperate with any such request by the Committee);
- 9.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- 9.3 to call any employee to be questioned at a meeting of the Committee as and when required.

*\* Note: In case of inconsistency between the English and Chinese version, the English version shall prevail.*