

HONG SENG CONSOLIDATED BERHAD

Registration No. 200101001581 (537337-M)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Revision Date : []

Custodian : Finance Department

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. Composition

1.1 The Board of Directors (“**Board**”) shall appoint from amongst its Directors to form the Audit Committee (“**Committee**”) which fulfils the following requirements:

- (a) the Committee must be composed of not fewer than 3 members;
- (b) all the Committee members must be non-executive directors, with a majority of them being independent directors; and
- (c) at least 1 member of the Committee:-
 - (i) must be a member of the Malaysian Institute of Accountants, or
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years’ working experience and -
 - (aa) he must have passed the examinations specified in Part 1 of the First Schedule of the Accountants Act 1967; or
 - (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - (iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

1.2 No alternate director shall be appointed as a member of the Committee.

1.3 A member who was a former partner of the external audit firm of the Company is required to observe a cooling-off period of at least 3 years before being appointed to the Committee. This applies to all former partners of the audit firm and/or the affiliates firm (including those providing advisory services, tax consultancy, etc).

2. Chairman

The Chairman, who shall be elected by the Committee, shall be an independent director and shall not be the Chairman of the Board.

3. Retirement and Resignation

In the event of any vacancy in the Committee resulting non-compliance of paragraphs 1.1, 1.2 and 2 above, the Company must fill the vacancy within 3 months.

A member of the Committee who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement may be appointed before he leaves.

4. Secretary

The Company Secretary shall be the Secretary of the Committee and shall be responsible, in consultation with the Chairman, for drawing up the agenda and circulating it prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Committee and circulating them to the Committee members.

The Committee members may inspect the minutes of the Committee at the Registered Office or such other place as may be determined by the Committee.

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5. Meetings

The Committee shall meet at least four (4) times in each financial year. The quorum for a meeting shall be 2 members, provided that the majority of members present at the meeting shall be independent.

Any member of the Committee may call for a meeting as and when required with reasonable notice as the Committee members deem fit.

All decisions at such meeting shall be decided on a show of hands on majority of votes.

The external auditors and internal auditor have the right to appear at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee. The external auditors may also request a meeting if they consider it necessary.

Other directors or employees may attend any particular Committee Meeting only at the Committee's invitation, specific to the relevant meeting.

6. Rights and Authority

The Committee shall in accordance with a procedure to be determined by the Board and at the cost of the Company:

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to the Executive Directors and to any information pertaining to the Group;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- (e) have the right to obtain independent professional or other advice;
- (f) have the right to convene meetings with the external auditors and/or internal auditor, excluding the attendance of the executive members of the Committee, whenever deemed necessary; and
- (g) promptly report to the Bursa Malaysia Securities Berhad matters which have not been satisfactorily resolved by the Board of Directors resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad.

7. Duties and Function

The Committee shall, inter-alia, assume the following fundamental responsibilities: -

- (a) oversees financial reporting;
- (b) reviews conflict of interest situations and related party transactions;
- (c) assesses the internal control environment;
- (d) evaluates the internal audit process; and
- (e) evaluates the external audit process.

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7.1 Oversight of financial reporting

The Committee shall review the quarterly results and year-end financial statements prior to approval by the Board, focusing particularly on:-

- (i) changes in or implementation of major accounting policy changes;
- (ii) significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed; and
- (iii) compliance with accounting standards and other legal requirements.

7.2 Review of conflict of interest situations and related party transactions

The Committee is tasked to review and report to the Board on any related party transactions (including recurrent related party transactions) and conflict of interest situations that may arise within the Group. This includes any transaction, procedure or course of conduct that raises questions of Management's integrity. The Committee should therefore ensure that the transactions carried out are amongst others, in the best interest of the Company as well as not detrimental to its minority shareholders.

7.3 Assessment of internal control environment

The Committee must determine whether management has implemented effective and adequate internal controls.

7.4 Evaluation on internal audit

The internal audit function shall reports directly to the Committee. The Committee should be responsible for deciding on the appointment and removal as well as the performance evaluation and remuneration of those in the internal audit function. The Committee is tasked to do the following, in relation to the internal audit function:-

- (a) review the adequacy of the scope, competency and resources of the internal audit function and it has the necessary authority to carry out its work; and
- (b) review the internal audit plan, processes, the results of the internal audit assessments, investigation undertaken and whether of not appropriate action is taken on the recommendations;

7.5 Evaluation on external audit

- (a) To review with the external auditors on the following and report the same to the Board:

- the audit plan, its scope and nature;
- the evaluation of the accounting policies and system of internal controls within the Group;
- the audit report and management letter issued by the external auditors and the implementation of audit recommendations;
- the assistance given by the officers of the Company to external auditors, including any difficulties or disputes with Management encountered during the audit;

- (b) To review any letter of resignation from the external auditors;

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- (c) To review whether there is any reason (supported by grounds) to believe that the Company's external auditors is not suitable for re-appointment;
- (d) To consider the appointment of auditors, the audit fee and recommending the nomination of person or persons as auditors; and
- (e) To assess the suitability, objectivity and independence of the external auditors annually by considering among others:
 - the competence, audit quality and resource capacity of the external auditors in relation to the audit;
 - the appropriateness of audit fees to support a quality audit;
 - the nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and
 - assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

7.6 Other functions

- (a) To assist the Board annually in preparing the Committee's Report that complies with the Listing Requirements of Bursa Malaysia Securities Berhad.
- (b) To review the allocation of options pursuant to the employees share option scheme and make such statement to be included in the annual report of the Company in relation to share scheme for employees.
- (c) To review and approve non-audit services to be rendered by the external auditors and its affiliates while taking into account the nature and extent of the non-audit services and the appropriateness of the level of fees.
- (d) To review all areas of significant financial risk and to ensure that the arrangements are in place to contain these risks to acceptable level.
- (e) To take such other actions and do such things as may be referred to it from time to time by the Board.

8. REVIEW OF THE COMMITTEE

The Board must via its Nominating Committee review the term of office and performance of the Committee and each of its members annually to determine whether the Committee and members have carried out their duties in accordance with its Terms of Reference.

9. REVIEW OF THE TERMS OF REFERENCE

This Terms of Reference shall be reviewed periodically (subject to at least once in every 3 years) in accordance with the needs of the Company and the Board's approval shall be obtained for any amendment or changes made from time to time.