

CONFIDENTIAL



SERBA DINAMIK HOLDINGS BERHAD

TERMS OF REFERENCE OF AUDIT & RISK COMMITTEE (“ARC”)

(Approved by the Board of Directors on 20 May 2020)

Prepared by:



20 MAY 2020

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1. CONSTITUTION

The ARC shall be formed by the Board and the Committee members shall be appointed by the Board from amongst the Board members.

The functions and authority of ARC extends to the Group and all its subsidiaries as well as joint venture and associate companies where management responsibility is vested on the Group.

2. OBJECTIVES

The objectives for the formation of ARC are as follows:

- To ensure openness, integrity and accountability in the Group's activities so as to safeguard the rights and interests of the Shareholders;
- To provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;
- To improve the Group's business efficiency, the quality of the accounting and audit function and strengthening of the public's confidence in the Group's reported results;
- To maintain, through regularly scheduled meetings, a direct line of communication between the Board, the External Auditors and Internal Auditors;
- To enhance the independence of the External Auditors and Internal Audit Functions;
- To create a climate of discipline and control to minimize or eliminate fraud;
- To review and deliberate on the Group's risks (whether financial and non-financial) which are identified and assessed by the Risk Management Function; and
- To report and make the necessary recommendations to the Board to mitigate the risks identified including risks relating to non-compliance of laws, rules, regulations, policies, processes and procedures.

3. AUTHORITY

ARC has the authority to carry out the functions as stated in its TOR and report to the Board with recommendations.

ARC shall have the authority to provide objective and independent views on any specific risks and also on the overall effectiveness of the internal control environment & risk management framework of the Group.

ARC wherever necessary and reasonable for the performance of its duties, shall in accordance with the same procedures adopted by the Board and at the costs of the Group:

- Have authority to investigate any activity within its TOR;
- Have the resources which are required to perform its duties;
- Have full and unrestricted access to any employee and information pertaining to the Group.

All documents of the Group shall be made accessible to ARC and all employees are directed to co-operate with the request made by ARC;

- Have full support of the Internal Audit Function and Risk Management Function, and any other units/departments/divisions/companies within the Group as it may deem necessary;
- Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity for the Group; and
- Be able to engage independent professional advisers or other advisers and to secure attendance of other third parties with relevant experience and expertise if it considers necessary.

4. MEMBERSHIP

Members of ARC shall be appointed by the Board upon recommendation of NRC.

ARC shall comprise at least three (3) members, all of whom shall be Non- Executive Director with a majority of them being Independent.

ARC shall elect an Independent Director from amongst its members as its Chairman.

If the membership for any reason falls below three (3) members, the Board shall, within three (3) months of that event, appoint such number of new members as may be required to fulfil the minimum requirement.

The appointment of ARC member terminates when the member ceases to be a Director, or as determined by the Board.

At least one (1) member of ARC must meet the criteria set under the Listing Requirements as follows:

- Must be a member of the Malaysian Institute of Accountants; or
- If he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least three (3) years' working experience and:
 - a. he/she must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - b. (ii) he/she must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- He/she must fulfil other requirements as prescribed by Bursa Malaysia.
- No alternate directors shall be appointed to ARC.
- In compliance to the MCCG 2017, the cooling-off period of two (2) years before a former key audit partner of the Group could be appointed as a member of ARC, shall be observed. Similar requirement shall be extended to third parties inclusive of professional who have business dealings with the Group.
- In the event of any vacancy in ARC resulting in the non-compliance of the Listing Requirements, the vacancy shall be fulfilled within three (3) months.

- ARC members shall collectively:
 - Have knowledge of the industries in which the Group's operates;
 - Have the ability to understand key business and financial risks and related controls and control processes; and
 - All members of ARC shall also be financially literate i.e. have the ability to read and understand fundamental financial statements, including a Group's balance sheet, income statement, statement of cash flow and key performance indicators.

5. FUNCTIONS & DUTIES

ARC shall carry out the following functions and duties:

a. Financial Statements

- Review quarterly results and annual financial statements of the Group prior to the approval by the Board, focusing particularly on the following:
 - any changes in or implementation of major accounting policy changes;
 - major judgmental areas, significant and unusual events;
 - significant adjustments resulting from audit;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- Review, with the Group's Counsel, any legal matter that could have a significant impact on the Group's financial statements (as and when necessary).

b. Internal Controls

- Assess the quality and effectiveness of the systems of internal control and the efficiency of the Group's operations, particularly those relating to areas of significant risks.
- Evaluate the process of the Group has in place for assessing and continuously improving internal controls.
- Assess the internal process for determining and managing key risks other than those that are dealt with by other specific Board committees.
- Review the evaluation by the internal and external auditors of the Group's system of internal control and thereafter report the same to the Board.
- Review External Audit reports and Management's response and ensure that appropriate action is taken in respect of these reports and ARC resolution.

c. Internal Audit

- Approve the Internal Audit Charter and review the adequacy of the scope, functions, competency and resources of the Internal Audit Function, and whether it has the necessary authority to carry out its work.
- Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Function and of ARC and thereafter report the same to the Board.
Where actions are not taken within an adequate timeframe by Management, ARC shall also report the same to the Board for its further action.

- Consider the major findings of internal audit and Management's responses, monitor the implementation of any recommendations made therein and ensure effective coordination between the internal and external auditors.
- Where appropriate, supervise any special project or investigations considered necessary, to be carried out by Internal Audit Function, as and when necessary and consider the major findings of the internal investigations and Management's response.
- Approve any appointment or termination of senior staff members of Internal Audit Function.
- Review appraisals or assessments of performance of Internal Audit Function.
- Take cognizance of resignations of member of Internal Audit Function and provide the resigning member an opportunity to submit his reasons for resigning.

d. External Audit

- Recommend nomination of external auditors, audit fees & any question of resignation or dismissal of external auditors and report the same to the Board;
- Review & discuss with the external auditors, before the audit commences, the nature and scope of the audit, and discuss any significant problems that may be foreseen with the external auditors before the audit commences, and ensure co-ordination where more than one (1) audit firm is involved, and ensure that the audit is carried out effectively and efficiently for the Group;
- Discuss problems & reservations arising from internal & final audits, including assistance given by employees and any matters the auditors may wish to discuss, in absence of Management or Executive Directors where necessary; and
- Review the external auditor's management letter and Management's response including the status of the previous audit recommendations.

e. Related Parties Transactions

Review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course that raises questions of management integrity.

f. Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory authorities.
- Obtain regular updates from Management and the Group's legal counsel regarding regulatory compliance matters.
- Review and consider any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

- Review of the internal controls and policies to ensure compliance with the Financial Services Act ("FSA2013") or the Islamic Financial Services Act ("IFSA 2013") and any other laws administered by Bank Negara Malaysia ("BNM"), and other regulations, guidelines or other instruments issued by Maunder the said laws including the Anti-Money Laundering & Anti-Terrorism Financing Act 2001.

g. Risk Management

- Provide oversight, guidance and direction to the Group's risk management function and processes.
- Recommend the Group's risk management policies, strategies and risk tolerance levels, and any proposed changes for the Board's consideration and approval.
- Ensure that the Management integrates the necessary risk management processes into all business processes of the Group.
- Evaluate the effectiveness of the Enterprise Risk Management framework, processes and support system to identify, assess, monitor and manage the Group's key risks.
- Review the risk identification and management process developed by the Management to confirm it is consistent with the Group's strategy and business plan.
- Review the Management's assessment of risk on a quarterly basis and provide quarterly updates to the Board.
- Enquire Management and the independent auditor about the exposure to such risks in relation to significant business, political, financial and control risks.
- Assess the steps/actions the Management has implemented or wish to implement to manage and mitigate identifiable risk, including the use of hedging and insurance.
- Deliberate on compliance related matters of the Group and review the effectiveness of systems for monitoring compliance with laws and regulations.
- Review findings, material issues or non-compliances highlighted by the regulatory authorities in relation to the regulated businesses of the Group.
- Deliberate, review and evaluate the existing compliance framework and to recommend measures for improvement by adopting the best practices.
- Perform any other roles and responsibilities as may be required by the Board from time to time and/or which are related to the objectives of ARC.

h. Other Matters

- To review periodic reports from Management, the External Auditors and the Internal Auditors to assess the impact of significant regulatory changes and accounting or reporting developments proposed by accounting and other bodies, or any significant matter that may have a bearing on the annual examination.
- To discuss problems and reservation arising from the internal audit, interim and final audits, and on matters that the internal and external auditors may wish to discuss, in absence of the Management where necessary.

- To report to the Board at least once a year, the activities of ARC, including the number of meetings held during the year and the details of attendance of each member in respect of the meetings and a summary of the activities of the Internal Audit & Risk Management Function.
- Where ARC is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of Listing Requirements, ARC must promptly report such matter to Bursa Malaysia.
- To carry out any other functions that may be mutually agreed by ARC and the Board.

6. MEETINGS

- Meetings of ARC shall be held at least 6 times a year, inclusive on a quarterly basis, in a financial year of the Group.
- Upon the request of any member of ARC, the Chairman of ARC shall convene a meeting of ARC to consider any matters brought up by the members.
- The quorum for a meeting of ARC shall be two (2) members, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and hear each other.
- In order to allow sufficient time for Directors to consider and better deliberate on matters that are tabled to the meeting, Board papers, relevant information and agenda items are to be circulated at least five (5) working days before each meeting to the Directors and permanent invitees of the meeting.
- In the absence of the Chairman, the members present shall elect an Independent Non-Executive Director from amongst the members present to be Chairman of the meeting.
- The meeting of ARC shall be governed by the provisions contained in the Constitution of SDHB in regulating meetings and proceedings of Directors unless otherwise provided for in this TOR.
- The meetings of ARC shall be attended by the Group Chief Executive Officer, which in his absence, shall be replaced by the Group Chief Financial Officer and shall be attended by CIA and a representative of the External Auditors (as and when necessary).
- Other Directors and employees who attend any particular ARC meeting shall attend only at ARC's invitation, specific to the relevant Meeting and they shall not have any voting rights.
- ARC may request other Directors, members of Management, counsels and consultants as applicable to participate in the meetings, as and when necessary.
- ARC shall meet the External Auditors without the presence of any Executive board members at least twice a year.
- A Committee member shall excuse himself/herself from the meeting during discussion or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for the member. Where this cause insufficient directors to make up a quorum, ARC has the right to appoint another director(s) which meets the membership criteria.

- ARC meeting agendas shall be the responsibility of ARC Chairman with input from ARC members. The Chairman may also ask Management and others to participate in this process.
- Unless a meeting is called on a short notice basis, the agenda for each meeting shall be circulated at least three (3) full working days before each meeting, to ARC members and all those who are required to attend the meeting.
- Written materials including information requested by ARC from Management, Internal Auditors (from the Group) and External Auditors shall be received together with the agenda for the meetings or in a separate later addendum prior to the meeting.
- Any matter to be voted upon shall be decided by a majority of the votes cast on the question.
- The Secretary of ARC shall be the Secretary of the Group or any other person as the Committee may decide.
- ARC shall cause minutes to be duly entered in the books provided for the purpose of all resolutions and proceedings of all meetings of ARC.
- Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held, or by the Chairman of the next succeeding meeting and if so signed, shall be conclusive evidence without any further proof of the facts thereon stated.
- The minutes of ARC meeting shall be available to all Board members through the Secretary of the Group.
- ARC, through its Chairman, shall report matters that are deliberated at ARC meeting(s) and make the necessary recommendations (if necessary) to the Board for the Board's deliberation and decision.

7. DISSOLUTION

The composition of ARC shall be dissolved upon recommendation and decision of the Board.