

KEJURUTERAAN SAMUDRA TIMUR BERHAD

(Company No. 142241-X)

(Incorporated in Malaysia)

TERMS OF REFERENCE OF AUDIT COMMITTEE

(Revised and adopted on 27 April 2016)

1. Composition of members

The Board shall appoint the Audit Committee members from amongst themselves, comprising no fewer than three (3) Non-Executive Directors. The majority of the Audit Committee members shall be Independent Directors.

*In this respect, the Board adopts the definition of "Independent Director" as defined under Bursa Malaysia Securities Berhad ("**Bursa Securities**") Main Market Listing Requirements ("**Listing Requirements**").*

All members of the Audit Committee shall be financially literate and at least one (1) member of the Audit Committee must be:-

- (a) a member of the Malaysian Institute of Accountant ("**MIA**"); or
- (b) if he is not a member of MIA, he must have at least three (3) years of working experience and:
 - i. he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - ii. he must be a member of one (1) of the associations of the accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
- (c) fulfils such other requirements as prescribed or approved by Bursa Securities.

No alternate Director of the Board shall be appointed as a member of the Audit Committee.

Retirement and resignation

If a member of the Audit Committee or Chairman of the Audit Committee resigns, dies, or for any reason ceases to be a member or Chairman resulting in non-compliance to the composition criteria as stated in paragraphs 1 and 2 of the terms of reference of the Audit Committee, the Board and members of the Audit Committee shall within three (3) months of the event appoint such number of the new members and Chairman of the Audit Committee respectively as may be required to fill the vacancy.

2. Chairman

The Chairman of the Audit Committee, elected from amongst the Audit Committee members, shall be an Independent Director. The Chairman of the Audit Committee shall be approved by the Board of Directors.

In the absence of the Chairman of the Audit Committee, the other members of the Audit Committee shall amongst themselves elect a Chairman who must be Independent Director to chair the meeting.

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3. Secretaries

The Secretaries of the Audit Committee shall be the Company Secretaries.

The Secretaries shall be responsible for keeping the minutes of meetings of the Audit Committee, circulating them to members of the Audit Committee and to the other members of the Board of Directors and for following up outstanding matters.

4. Terms of Office

The Nomination Committee of the Company shall review the term of office and performance of the Audit Committee and each of its members annually to determine whether such Audit Committee and members have carried out their duties in accordance with their terms of reference.

5. Meetings

The Audit Committee shall meet regularly, with due notice of issues to be discussed, and shall record its conclusions in discharging its duties and responsibilities. In addition, the Chairman may call for additional meetings at any time at the Chairman's discretion.

Upon the request of the external auditors, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matter the external auditors believes should be brought to the attention of the Directors or shareholders.

Notice of Audit Committee meetings shall be given to all the Audit Committee members unless the Audit Committee waives such requirement.

The Chairman of the Audit Committee shall engage on a continuous basis with senior management, such as the Chairman, the Chief Executive Officer/Managing Director, the Finance Director/Finance Manager, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Company.

The Finance Director/Finance Manager, the head of internal audit and a representative of the external auditors should normally attend meetings. Other Board members and employees may attend meetings upon the invitation of the Audit Committee. The Audit Committee shall be able to convene meetings with the external auditors, the internal auditors or both, without executive Board members or employees present whenever deemed necessary and at least twice a year with the external auditors.

Questions arising at any meeting of the Audit Committee shall be decided by a majority of votes of the members present, and in the case of equality of votes, the Chairman of the Audit Committee shall have a second or casting vote.

6. Circular Resolution

A resolution in writing signed or approved by letter, telex or other written electronic communications by the majority of the members who are sufficient to form a quorum, shall be valid and effectual as if it had been passed at a meeting. All such resolutions shall be described as "Audit Committee Members' Circular Resolutions" and shall be forwarded or otherwise delivered to the Company Secretaries without delay and shall be recorded by the Company Secretaries in the minutes book. Any

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such resolution may consist of several documents in like form, each signed by one (1) or more members.

7. Minutes

Minutes of each meeting shall be kept at the registered office and distributed to each member of the Audit Committee and also to the other members of the Board. The Audit Committee Chairman shall report on each meeting to the Board.

The minutes of the Audit Committee meeting shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.

8. Quorum

The quorum for the Audit Committee meeting shall be the majority of members present whom must be Independent Directors.

9. Reporting

The Audit Committee shall report to the Board of Directors, either formally in writing, or verbally, as it considers appropriate on the matters within its terms of reference at least once a year, but more frequently if it so wishes.

The Audit Committee shall report to the Board of Directors on any specific matters referred to it by the Board for investigation and report.

10. Objectives

The principal objectives of the Audit Committee are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the holding company and each of its subsidiaries. In addition, the Audit Committee shall:-

- (a) evaluate the quality of the audits performed by the internal and external auditors;
- (b) provide assurance that the financial information presented by management is relevant, reliable and timely;
- (c) oversee compliance with laws and regulations and observance of a proper code of conduct; and
- (d) determine the quality, adequacy and effectiveness of the Group's control environment.

11. Authority

The Audit Committee shall, in accordance with a procedure to be determined by the Board and at the expense of the Company,

- (a) have explicit authority to investigate any matter within its terms of reference, the resources to do so, and full access to information. All employees shall be directed to co-operate as requested by members of the Audit Committee.

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- (b) have full and unlimited/unrestricted access to all information and documents/resources which are required to perform its duties as well as to the internal and external auditors and senior management of the Company and Group.
- (c) obtain, at the expense of the Company, other independent professional advice or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any).
- (e) where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Audit Committee shall promptly report such matter to Bursa Securities.

12. Duties and Responsibilities

The duties and responsibilities of the Audit Committee are as follows:-

- (a) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
- (b) To put in place the policy and procedures to assess the suitability and independence of external auditors;
- (c) To discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one (1) audit firm is involved;
- (d) To review with the external auditors his evaluation of the system of internal controls and his audit report;
- (e) To review the quarterly and year-end financial statements of the Board, focusing particularly on:-
 - any change in accounting policies and practices;
 - significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- (f) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management, where necessary);
- (g) To review the external auditors' management letter and management's response;

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- (h) To do the following, in relation to the internal audit function:-
- review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
 - review any appraisal or assessment of the performance of members of the internal audit function;
 - approve any appointment or termination of senior staff members of the internal audit function; and
 - take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (i) To consider any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (j) To report its findings on the financial and management performance, and other material matters to the Board;
- (k) To ensure the financial statements are prepared in accordance to the applicable financial reporting standard;
- (l) To consider the major findings of internal investigations and management's response;
- (m) To verify the allocation of employees' share issuance scheme ("**ESIS**") in compliance with the criteria as stipulated in the by-laws of ESIS of the Company, if any;
- (n) To determine the remit of the internal audit function;
- (o) To consider other topics as defined by the Board; and
- (p) To consider and examine such other matters as the Audit Committee considers appropriate.