

BATU KAWAN BERHAD (6292-U)

**TERMS OF REFERENCE OF THE
AUDIT AND RISK COMMITTEE**

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TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE

KEY FUNCTIONS

To assist the Board of Directors to assess the risks and control environment, oversee the financial reporting process, review and monitor risk management framework and policies, evaluate the internal and external audit process, and review any conflict of interest situations and related party transactions.

1. Membership

- 1.1 The Committee shall be appointed by the Board from amongst its Directors, upon the recommendation by the Nomination Committee, and shall fulfil the following composition:
- (a) the Committee shall be composed of no fewer than three (3) members;
 - (b) all the Committee members shall be Non-Executive Directors, with a majority of them being Independent Directors; and
 - (c) at least one (1) member of the Committee:
 - (i) must be a member of the Malaysian Institute of Accountants; or
 - (ii) if not a member of the Malaysian Institute of Accounts, must have at least three (3) years' working experience and:
 - (aa) must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
 - (bb) 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
 - (iii) fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.
- 1.2 An Alternate Director shall not be appointed as a member of the Committee.
- 1.3 No former "key audit partner" from a professional firm of external auditors, that has audited the Company, shall be appointed as a member of the Committee before observing a cooling-off period of at least two (2) years from the date of the relevant last audit. "Key audit partner" includes the engagement partner, the individual responsible for the engagement of quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the Company's financial statements on which the auditor will express an opinion.
- 1.4 If a member of the Committee resigns, dies or for any reason ceases to be a member which results in the number of members falling to below three (3), the Board shall, within three (3) months of that vacancy, appoint such number of new members as to restore the Committee size to at least three (3) members.
- 1.5 The term of office and performance of the Committee and each of its members shall be reviewed annually by the Nomination Committee.

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2. Chairman

- 2.1 The members of the Committee shall elect a Chairman from amongst themselves who shall be an Independent Director and recommend the same to the Board for approval. In the absence of the Chairman of the Committee, the members present shall nominate one amongst themselves, who shall be an Independent Director, to act as the Chairman of the meeting.
- 2.2 If the Chairman of the Committee resigns, dies or for any reason ceases to be the Chairman, the members of the Committee shall, within three (3) months of that vacancy, elect a new Chairman from amongst themselves.
- 2.3 The Chairman of the Committee shall report on each meeting to the Board.

3. Secretary

- 3.1 The Company Secretary or a Joint Company Secretary shall act as Secretary of the Committee.
- 3.2 The Secretary shall record all proceedings and minutes of the Committee's meetings which shall be kept and circulated to all members of the Committee and of the Board.

4. Meetings

4.1 Quorum and Casting Vote

- (a) The quorum for a meeting of the Committee shall be two (2) Provided Always that the majority of members present must be Independent Directors.
- (b) Questions arising from any meeting shall be decided by a majority vote, each member having one (1) vote and in the event of a tie, the Chairman of the Committee shall have a second or casting vote. However, at meetings where two (2) members form a quorum, or when only two (2) members are competent to vote on an issue, the Chairman shall not have a casting vote.

4.2 Frequency of meetings

- (a) The Committee shall meet at least four (4) times a year, which includes at least one (1) meeting in the financial year to deliberate on the Group's principal risks, or as frequently as required to perform the duties and functions set out in the Terms of Reference.
- (b) The Group Financial Controller, the Head of Internal Audit (or their respective equivalents by whatever name called) and representatives of the external auditors shall normally attend the meetings of the Committee. Other Board members and employees may attend any particular meeting upon the invitation of the Committee.
- (c) The Committee shall meet the external auditors at least once during the year under review without the presence of the Management and Executive Directors.

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4.3 Notice of meetings

- (a) Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chairman based on the scheduled meeting dates or as and when required.
- (b) Unless otherwise agreed by all the members of the Committee, 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 no later than seven (7) days before the date of the meeting.

4.4 Minutes of meetings

- (a) The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- (b) The draft minutes shall be circulated promptly to all members of the Committee for approval and thereafter be circulated to all members of the Board.
- (c) The minutes of meeting shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next meeting.

5. Circular Resolution

- 5.1 A resolution in writing signed by a majority of the members of the Committee shall be valid and effectual as if it had been passed at a meeting of the Committee.
- 5.2 Such resolution shall be described as "Audit and Risk Committee Circular Resolution" and shall be recorded by the Secretary in the minutes book.
- 5.3 Any such resolution may consist of several documents in like form, each signed by one (1) or more members. The expressions "in writing" or "signed" include approval by legible confirmed transmission by email, facsimile, telegram or other forms of electronic communications.

6. Authority

The Committee shall, in accordance with the procedure determined by the Board and at the cost of the Company, to have the authority to:

- 6.1 To investigate any matter within its Terms of Reference, have the resources which it needs to do so, full and unrestricted access to any information pertaining to the Group and Management, and all employees of the Group are required to comply with requests made by the Committee.
- 6.2 Have direct communication channels with the external auditors and internal auditors and also to engage the Senior Management on a continuous basis in order to be kept informed of matters affecting the Group.

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- 6.3 Obtain independent professional advice or other advice and invite persons with relevant experience and expertise to attend its meetings, if necessary.
- 6.4 Convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees of the Group, whenever deemed necessary.
- 6.5 Appoint an independent party to conduct or to assist in conducting any investigation, upon the terms of appointment to be approved by the Committee.

7. Duties and Functions

The duties and functions of the Committee shall include the following:-

7.1 Financial Reporting

- (a) To review and report to the Board the Group's quarterly results and year-end financial statements, prior to approval by the Board, focusing on:
- (i) changes in or implementation of accounting policies and practices;
 - (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;
 - (iii) significant adjustments arising from the audit;
 - (iv) the going concern assumption; and
 - (v) compliance with applicable accounting standards, legal and regulatory requirements.
- (b) To consider other matters as defined by the Board.

7.2 Risk Management and Internal Control

- (a) To review the Group's procedures for detecting fraud and ensure that arrangements are in place by which an employee or third party may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters.
- (b) To review and assess the scope and effectiveness of the systems and processes established by the Risk Management Committee ("RMC") to identify, assess, manage and monitor financial and non-financial risks; oversee execution of the processes; and ensure the systems and processes are continuously improved as the business environment changes.
- (c) To oversee the conduct, and review the results, of company-wide risk assessments including the identification and reporting of critical risks.
- (d) To advise the Board on the Group's current risk exposures and future risk strategy based on its overall risk appetite and tolerance, and coordinate the activities of the various standing board committees for risk oversight.
- (e) To review reports on any material breaches of risk limits and the adequacy, timeliness and effectiveness of any corrective action taken by the RMC in response to risk and provide timely input to the RMC on critical risk issues.

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- (f) To engage the RMC in an ongoing risk appetite dialogue as conditions and circumstances change and new opportunities arise.
- (g) To promote a healthy risk culture and watch for dysfunctional behavior that could undermine the effectiveness of the risk management process.
- (h) To review the annual statement on Internal Control and Risk Management to be published in the Annual Report.

7.3 Internal Audit

- (a) To review the adequacy of the scope, functions, competency and resources of the internal audit function and ensure that it has the necessary authority to carry out its responsibilities.
- (b) To review the internal audit programme and processes, the results of the internal audit programme and processes as well as investigations undertaken and ensure that where appropriate, action is taken on the recommendations of the internal audit function.
- (c) To review any appraisal or assessment of the performance of staff members of the Internal Audit Function division.
- (d) To recommend to the Board on the approval of the appointment of the Head of Internal Audit.
- (e) To approve any appointment or termination of senior staff members of the Internal Audit Function division.
- (f) To take cognizance of staff members' resignations from Internal Audit Function division and provide the resigning staff member an opportunity to submit his/her reason for resigning.

7.4 External Audit

- (a) To consider and recommend to the Board on the appointment, re-appointment or removal of external auditors, and on their audit fees.

In appointing the Group's external auditors, the Committee shall consider amongst others:

- (i) the adequacy of the experience and resources of the accounting firm;
 - (ii) the persons assigned to the audit;
 - (iii) the accounting firm's terms of audit engagements;
 - (iv) the size and complexity of the Group being audited; and
 - (v) the number and experience of supervisory and professional staff assigned to the particular audit.
- (b) To review with the external auditors their audit plan, the nature and scope of the audit, prior to the commencement of audit and to ensure coordination when more than one (1) audit firm is involved.

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- (c) To review with the external auditors on the following and report the same to the Board:
 - (i) audit report, including any major issues that arose during the course of the audit and subsequently been resolved and those issues that have been left unresolved;
 - (ii) external auditors' management letter and management's response thereto;
 - (iii) evaluations of the system of internal controls;
 - (iv) audit approach, including coordination of audit efforts with internal audits and assistance given by the employees to the external auditors; and
 - (v) any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the external auditors.
 - (d) To review the annual performance assessment, including the suitability and independence of the external auditors. Factors to consider include:
 - (i) seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Group (other than in the ordinary course of business); and
 - (ii) seeking from the audit firm, on an annual basis, information about policies and processes for maintaining their independence and monitoring compliance with relevant requirements, including requirements regarding rotation of audit partners and staff;
- 7.5 To review relevant related party transactions (i.e. transactions which require the Committee's approval in accordance with its Policy on Related Party Transactions) entered into by the Group (excluding KLK Group), including the review and monitoring of recurrent related party transactions for which shareholders' mandate has been granted, to ensure that:
- (a) such transactions are carried out on normal commercial terms and are not prejudicial to the interest of the Company or its minority shareholders;
 - (b) adequate oversight over the internal control procedures with regard to such transactions; and
 - (c) the Company monitors compliance with its Policy on Related Party Transactions.
- 7.6 To review its Policy on Related Party Transactions from time to time.
- 7.7 To review conflict of interest situations that may arise within the Group (excluding KLK Group) including any transaction, procedure or course of conduct that raises questions of management integrity.
- 7.8 To assess processes and procedures to ensure compliance with laws, rules and regulations, directives and guidelines established by the relevant regulatory bodies.
- 7.9 To carry out any other function that may be mutually agreed upon by the Committee and the Board.

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8. Amendments to Terms of Reference

- 8.1 These Terms of Reference will be amended and modified from time to time in line with any changes in relevant legislation, codes or regulations (in so far as they are applicable to these Terms of Reference and are mandatory), and all such amendments and modifications shall be deemed incorporated without the requirement for further approvals from the Committee and Board. The Committee and the Board shall thereafter be duly informed of such amendments and modifications.