

KOTRA INDUSTRIES BERHAD

(Company No. 497632-P)

(Incorporated in Malaysia)

TERMS OF REFERENCE OF AUDIT COMMITTEE

1. Purpose

The Audit Committee (“**AC**”) is established as a committee of the Board of Directors (“**Board**”) with the primary objective of assisting the Board to:-

- (a) discharge its statutory and fiduciary responsibilities of overseeing the risk management and financial reporting processes within the Group;
- (b) review the adequacy and operating efficiencies of the Group’s accounting function, financial reporting and internal control processes;
- (c) enhance the independence of the external and internal audit functions by providing direction to and overseeing these functions; and
- (d) ensure that an effective ethic programme is implemented across the Group, and to monitor compliance with established policies and procedures.

2. Composition and Appointment

2.1 The Board shall appoint the AC from amongst themselves which comprises no fewer than three (3) members, all of whom shall be Non-Executive Directors with a majority of them being Independent Directors.

*In this respect, the Board adopts the definition of “independent director” as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) and any practice notes issued thereto.*

2.2 All members of the AC should be financially literate and be able to understand matters under the purview of the AC, including financial reporting process. The definition of financial literacy requires the ability to read, analyse and interpret financial statements.

2.3 At least one (1) member of the AC shall:

- be a member of the Malaysian Institute of Accountants (“**MIA**”); or
- if he/she is not a member of the MIA, he/she must have at least three (3) years working experience and;
 - i. must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or

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ii. must be a member of one of the associations of accountants as specified in Part II of the 1st Schedule of the Accountants Act 1967; or

➤ fulfills such other requirements as prescribed or approved by Bursa Securities.

2.4 No Alternate Director shall be appointed as a member of the AC.

2.5 No former key audit partner shall be appointed as a member of the AC before first observing a cooling-off period of at least 2 years since the last date of the last audit he/she was involved as key audit partner.

The definition of key audit partner follows the definition as mentioned in the Malaysian Code of Corporate Governance and advise the date of the last audit he/she was involved in as key audit partner.

2.6 The term of office and performance of the AC and each of its members shall be reviewed by the Nomination Committee annually to determine whether the AC and its members have carried out their duties in accordance with their terms of reference.

2.7 In the event of any vacancy resulting in the number of members of the AC falling below three (3), the vacancy must be filled within three (3) months of that event.

3. Chairman

3.1 The Chairman of the AC shall be elected from amongst the AC members and shall be an Independent Director. The Chairman of the AC shall not be the Chairman of the Board.

3.2 The Chairman is responsible for ensuring the overall effectiveness and independence of the AC. In particular, he/she is responsible for:

(a) planning and conducting meetings;

(b) overseeing the reporting process to the Board;

(c) encouraging open discussion during meetings; and

(d) developing and maintaining active on-going dialogue with the Managing Director, the Chief Financial Officer (“**CFO**”), Management and external and internal auditors.

3.3 The Chairman, together with other members, shall ensure, amongst others, that:

(a) the AC is fully informed about significant matters related to the Group’s audit and its financial statements and address these matters;

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- (b) the AC appropriately communicates its insights, views and concerns about relevant transactions and events to the internal and external auditors;
- (c) the AC's concern on matters that may have an effect on the financial audit of the Group are communicated to the external auditors; and
- (d) there is co-ordination between internal and external auditors.

4. Authority

4.1 The AC is authorised by the Board and at the expense of the Group to perform the following:

- (a) secure the necessary resources in order to perform its duties set out in its terms of reference;
- (b) investigate any matter within its terms of reference, including possible fraud, illegal acts or suspected violation of the Code of Conduct involving Senior Management personnel or members of the Board. All employees shall be directed to co-operate as requested by the AC;
- (c) have full and unrestricted access to any employee of the Group and all information and documents which are required to perform its duties;
- (d) have unrestricted access to the Managing Director and CFO that is required to perform its duties;
- (e) obtain external legal or other professional advice as necessary at the cost of the Group; and
- (f) convene meetings with the external auditors, internal auditors and the Company Secretary without the attendance of other Directors or employees of the Group;
- (g) be able to invite outsiders with relevant experience to attend its meetings, if necessary.

4.2 The AC shall report to the Board on matters considered and its recommendations thereon.

5. Duties and responsibilities

The duties and responsibilities of the AC are as follow:-

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5.1 Financial Reporting

- (a) To review with the external auditors, the quarterly and year-end financial statements, before approval by the Board, focusing particularly on:
- i. whether there have been changes in or adoption of new accounting policies;
 - ii. whether there have been changes in the presentation of the financial statements;
 - iii. whether there are significant auditing and financial reporting matters, material audit adjustments; material fluctuations in balances; significant judgment and estimates made by Management, significant or unusual events or transactions highlighted by the external auditors; and how these matters are addressed;
 - iv. whether significant contingent liabilities and commitments have been properly disclosed;
 - v. whether the going concern assumption used in the preparation of the financial statements is appropriate;
 - vi. whether the financial statements are in compliance with approved accounting standards and other legal requirements;
 - vii. whether the Group's financial statements taken as a whole provide a true and fair view of the financial position and performance of the Group and Company; and
 - viii. whether there are any qualifications in the auditors' report that must be discussed and properly acted upon.
- (b) To report its findings on the Group's financial and Management performance, and other significant matters to the Board and, if appropriate, recommend to the Board the issuance of the quarterly and year end financial statements to Bursa Securities.

5.2 External Audit

- a. To consider the appointment or re-appointment of external auditors, the audit fees and any question of resignation or dismissal;
- b. To annually assess the suitability, objectivity and independence of the external auditors, taking into consideration the following:

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- i. the competence, audit quality and resource capacity of the external auditors in relation to the audit;
 - ii. to establish a policy on the process of non-audit services by external auditors, covering the rendered and nature of permitted non-audit services. The policy shall also authorise the officer and employee of the Group to access and manage the nature and permitted non-audit services.
 - iii. the conduct of, and independence demonstrated by, the external auditors throughout the audit engagement. In this connection, the Committee shall obtain written confirmation from the external auditors that they are, and have been, independent in accordance with all relevant professional and regulatory requirements.
- c. To discuss with the external auditors before audit commences, their audit plan, the nature and scope of their audit and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss in the absence of Management where necessary.
 - d. To review any management letter sent by external auditors of the companies in the Group and Management's response to such letter;
 - e. To review the assistance and accessibility to information, documents and records required is given by the Group and/or the Group's officers to the external auditors;
 - f. To review any letter of resignation from the external auditors of the Company or any of its subsidiaries; and
 - g. To review with the external auditors their evaluation of the system of internal controls and their audit report and report the same to the Board.

5.3 Internal Audit

(a) To perform the following in relation to the internal audit function:

- i. To review the adequacy of the scope, function, resources and competency of the internal audit function and that it has the authority to carry out the work;
- ii. To review the internal audit plan, processes and results of the internal audit assignments (including any special investigations) undertaken and ensure that appropriate actions are taken based on the recommendations;

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- iii. To review the budget and ensure sufficient resources are allocated to the internal audit function;
- iv. To ensure that the internal audit function is independent of the activities it audits and that the internal auditor reports functionally and directly to the AC;
- v. To appraise or review any appraisal or assessment of the performance of members of the internal audit team;
- vi. To approve any appointment or termination of service providers i.e. the internal audit function; and
- vii. Take cognisance of resignations of service providers of the internal audit function and provide them an opportunity to submit reasons their resignations.

(b) To determine the scope of coverage of the internal audit function.

5.4 Related party transactions

To perform the following in relation to related party transactions:

- i. To ensure that Management establishes a comprehensive framework for the purposes of identifying, evaluating, approving, reporting related party transactions and monitoring conflict of interest situations;
- ii. To ensure that the internal audit function review on the recurring related party transactions to determine whether the transactions have been carried out in accordance with the mandate approved by shareholders and on commercial terms not more favourable than those available to non-related third parties; and
- iii. To review non-recurring corporate proposals involving related parties to ensure that they are in the best interest of the Group and not detrimental to the interest of minority shareholders.

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5.5 Risk Management and Internal Control

- (a) To review areas of significant business and financial risk and the arrangements in place to mitigate those risks to acceptable levels;
- (b) To review the adequacy and effectiveness of the Group's risk management and internal control, including the management information system implemented by the Management;
- (c) To monitor risk management processes, ensuring they are integrated into all core business processes;
- (d) To consider the major findings of internal investigations and Management's response;
- (e) To review the Group's risk management policy and procedures, including implementation of the risk management framework; and
- (f) To review the Statement on Risk Management and Internal Control before recommending to the Board for inclusion in the Company's Annual Report.

5.6 Other matters

- (a) Prepare an AC Report at the end of the financial year for inclusion in the Annual Report pursuant Bursa Securities' Main Market Listing Requirements; and
- (b) Undertake such other assignments as may be requested by the Board from time to time as the AC considers appropriate.

6. Cooperation from Management

The Management of the Group shall provide its fullest co-operation in providing information and resources to the AC, and in implementing or carrying out all requests made by the AC pursuant to the terms of reference of the AC.

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7. Meetings

- (a) The AC shall meet at least five (5) times in each financial year (including reviewing audited financial statements for recommendation to the Board), or more frequently, if deemed necessary.
- (b) In the absence of the Chairman, the other members shall amongst themselves elect another member to chair the meeting
- (c) The CFO, the Head of Internal Audit Function and the External Auditors (or their representatives) are to be invited to attend the AC meetings. Other Board members may also be present upon invitation. However, the AC shall meet with the external and internal auditors without the presence of any Executive Directors, at least twice a year.
- (d) The Company Secretary shall be the Secretary for the AC and shall be responsible for co-ordination of administrative details, including calling the meeting, voting by members and keeping of minutes of meeting.
- (e) The Chairman shall convene a meeting of the AC if a request is made by any AC member, the Managing Director, the internal auditors or external auditors, which believed should be brought to the attention of the AC.
- (f) The external auditors have the right to appear and to be heard at any meeting of the AC from time to time and shall appear if so required by the AC.
- (g) Motions put forward to the AC shall be decided on a majority of votes. Each member shall be entitled to only one vote.
- (h) The AC may participate in a meeting by means of telephone or video conferencing. Such participation shall constitute presence in person at such meeting.

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8. Quorum

The quorum shall be two (2) Independent Directors.

9. Minutes

Minutes of each meeting shall be kept at the registered office and the Secretary (which expression shall include assistant to the Secretary shall distribute the minutes of each AC Meeting to all members of the AC as well as members of the Board for notation. The minutes of the AC meeting shall be signed by the Chairman of the said meeting or by the Chairman of the next succeeding meeting. The AC's confirmation of the Minutes shall be taken as a correct proceeding thereat.

The Chairman shall report on each meeting to the Board.

10. Review of the Terms of Reference

The Committee shall recommend changes to its terms of reference to fulfill such other requirements as prescribed by Bursa Securities and/or to align the AC with recommended best practices and proper corporate governance as the AC deems appropriate to the Board for approval. The terms of reference shall be assessed, reviewed and updated as and when necessary, not more than three (3) years.