

FEDERAL INTERNATIONAL HOLDINGS BERHAD

(Company No: 97092-W)
(Incorporated in Malaysia)

TERMS OF REFERENCE OF AUDIT AND RISK MANAGEMENT COMMITTEE

1. MEMBERSHIP

The present members of the Audit and Risk Management Committee of the Company are:

<u>Name</u>	<u>Position</u>
(a) Mohd. Arif Bin Mastol * #	Chairman
(b) Tuan Haji Hussein Bin Hamzah *	Member
(c) Dato' Dr. Choy Fook On **	Member

* Independent Non-Executive Director

** Non-Independent Non-Executive Director

Member of Malaysian Institute of Accountants

2. COMPOSITION OF MEMBERS

The Board shall appoint the Audit and Risk Management Committee members from amongst themselves, comprising no fewer than three (3) Directors, all of whom shall be Non-Executive Directors. The majority of the Audit and Risk Management Committee members shall be independent directors.

In this respect, the Board adopts the definition of "independent director" as defined under the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

All members of the Audit and Risk Management Committee shall be financially literate and at least one (1) member of the Audit and Risk Management 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 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 and Risk Management Committee.

No former key audit partner shall be appointed as a member of the Audit and Risk Management Committee unless the said former key audit partners has observed a cooling period of at least two years before being appointed as a member of the committee.

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The term of office and performance of the Audit and Risk Management Committee and each of its members shall be reviewed by the Board at least once every three (3) years to determine whether such Audit and Risk Management Committee and members have carried out their duties in accordance with their terms of reference.

Retirement and resignation

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

3. CHAIRMAN

The Chairman of the Audit and Risk Management Committee is not a Chairman of the Board.

The members of the Audit and Risk Management Committee shall elect a Chairman from amongst their number who shall be an independent director.

In the absence of the Chairman of the Audit and Risk Management Committee, the other members of the Audit and Risk Management Committee shall amongst themselves elect a Chairman who must be independent director to chair the meeting.

4. SECRETARY

The Company Secretary shall be the Secretary of the Audit and Risk Management Committee and as a reporting procedure, the Minutes shall be circulated to all members of the Board.

5. MEETINGS

The Audit and Risk Management 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 and Risk Management Committee shall convene a meeting of the Audit and Risk Management Committee to consider any matter the external auditors believe should be brought to the attention of the Directors or Shareholders.

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

The Chairman of the Audit and Risk Management Committee shall engage on a continuous basis with senior management, such as the Chairman, the Chief Executive Officer, the Group Financial Controller, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Company.

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The Group Financial Controller and the head of internal audit are called to regularly attend the meetings while a representative of the external auditors will attend the meetings at least once a year. Other Board members and employees may attend meetings upon the invitation of the Audit and Risk Management Committee. The Audit and Risk Management 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 and Risk Management 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 and Risk Management Committee shall have a second or casting vote.

6. INSTANTANEOUS TELECOMMUNICATION DEVICE

For the purpose of contemporaneous linking together by an instantaneous telecommunication device of a number of the members of the Audit and Risk Management Committee no less than the quorum required, whether or not any one or more of the members of the Audit and Risk Management Committee is out of Malaysia, is deemed to constitute a meeting of the Audit and Risk Management Committee. The Audit and Risk Management Committee will apply to such meeting held by instantaneous telecommunication device so long as the following conditions are met:-

- (a) all members of the Audit and Risk Management Committee shall have received notice of a meeting by instantaneous telecommunication device for the purpose of such meeting. Notice of any such meeting will be given on the instantaneous telecommunication device or in any other manner permitted;
- (b) each of the members of the Audit and Risk Management Committee taking part in the meeting by instantaneous telecommunication device must be able to hear and/or see each of the other members of the Audit and Risk Management Committee taking part at the commencement and for the duration of the meeting;
- (d) at the commencement of the meeting, each of the members of the Audit Committee must acknowledge his presence for the purpose of the meeting to all of the other members of the Audit and Risk Management Committee taking part; and
- (e) minutes of the proceedings at a Audit and Risk Management Committee meeting by instantaneous communication device will be sufficient evidence of such proceedings and of the observance of all necessary formalities if signed as correct minutes by the Chairman of the meeting and shall be as valid and effectual as if the resolutions had been passed at a meeting of the Audit and

Risk Management Committee duly convened, at which all participants were present in the same location.

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7. MINUTES

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

The minutes of the Audit and Risk Management 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 and Risk Management Committee Meeting shall be the majority of members present whom must be Independent Directors.

9. REPORTING RESPONSIBILITIES

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

10. CIRCULAR RESOLUTIONS

A resolution in writing signed by a majority of the Audit and Risk Management Committee members for the time being shall be as valid and effectual as if it had been passed at a meeting of the Audit and Risk Management Committee duly called and constituted. Any such resolution may consist of several documents in like form each signed by one (1) or more Audit and Risk Management Committee members. Any such document may be accepted as sufficiently signed by an Audit and Risk Management Committee member if transmitted to the Company by telex, telegram, cable, facsimile or other electrical or digital written message to include a signature of an Audit and Risk Management Committee member.

11. OBJECTIVES

The principal objectives of the Audit and Risk Management 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 and Risk Management 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;

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- (c) determine the quality, adequacy and effectiveness of the Group's control environment.

12. AUTHORITY

The Audit and Risk Management 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 and Risk Management Committee.
- (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 independent professional or other advice and to invite outsiders with relevant experience to attend, if 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 and Risk Management 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 and Risk Management Committee shall promptly report such matter to Bursa Securities.

13. DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit and Risk Management 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 discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (c) To review with the external auditors the evaluation of the system of internal controls and his audit report;

- (d) To review the quarterly and year-end financial statements of the Company before submission to the Board, focusing particularly on:-
- any change in accounting policies and practices;
 - significant adjustments arising from the audit;
 - the going concern assumption; and
 - compliance with applicable financial standards and other legal requirements.

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- (e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss (in the absence of management, where necessary);
- (f) To review the external auditors' management letter and management's response;
- (g) 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;
 - review the internal audit plan, consider the internal audit reports and findings of the internal auditors, fraud investigations and actions and steps taken by Management in response to audit findings;
 - approve any appointment or termination of senior staff members of the internal audit function; and
 - take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (h) To monitor the integrity of the Company's financial statements;
- (i) To monitor the independence and qualifications of the Company's external auditors;
- (j) To monitor the performance of the Company's internal audit function;
- (k) To monitor the Company's compliance with relevant laws, regulations and code of conduct;
- (l) To consider any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction,

Annexure "A"

procedure or course of conduct that raises questions of management integrity;

- (m) To report its findings on the financial and management performance, and other material matters to the Board;
- (n) To consider the major findings of internal investigations and management's response;

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- (o) To identify principal risk and ensure the implementation of appropriate systems to manage these risks;
- (p) To discuss with the external auditor before audit commences, the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;
- (q) To consider the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- (r) To establish policies governing the circumstances under which contracts for the provision for non-audit services can be entered into and procedures that must be followed by the external auditors;
- (s) To assess and monitor the independence and qualification of the Company's independent auditor;
- (t) To review the adequacy and effectiveness of risk management, internal control and governance systems.
- (u) To verify the allocation of employees' share option scheme ("**ESOS**") in compliance with the criteria as stipulated in the by-laws of ESOS of the Company, if any;
- (v) To determine the remit of the internal audit function;
- (w) To review the adequacy and effectiveness of risk management, internal control and governance systems; and
- (x) To consider and examine such other matters as the Audit and Risk Management Committee considers appropriate; and
- (y) To consider other matters as defined by the Board.