

SMIS Corporation Berhad
(Company No. 491857-V)

Terms of Reference of the Audit and Risk Committee

1. Introduction

The Audit and Risk Committee (the “Committee”) of SMIS Corporation Berhad (“SMIS” or the “Company”) was formed by the Board of Directors of the Company (the “Board”). Its primary function, in line with the Malaysian Code on Corporate Governance 2012, is to assist the Board in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies (“the Group”).

In addition, the Committee shall:

- Oversee and appraise the quality of the audits conducted both by the Company’s internal and external auditors;
- Maintain open lines of communication between the Board , the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- Determine the adequacy of the Group’s administrative, operating and accounting controls.

2. Composition

The Committee shall be appointed by the Board from among their numbers (pursuant to a resolution of the Board) which fulfils the following requirements:

- 2.1. the Committee must compose of no fewer than 3 members;
- 2.2. all members of the Committee including the Chairman should be Non-Executive Directors;
- 2.3. a majority of the Committee must be Independent Directors; and
- 2.4. all members of the Committee should be financially literate and at least one member of the Committee:-
 - 2.4.1. must be a member of the Malaysian Institute of Accountants; or
 - 2.4.2. if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years’ working experience and:
 - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountant Act,1967; or
 - he 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 must be a person who fulfils the requirements as may be prescribed or approved by the Bursa Malaysia Securities Berhad (the “Bursa Securities”) and/or other relevant authorities from time to time.

SMIS CORPORATION BERHAD

(Company No. 491857-V)

Terms of Reference of the Audit and Risk Committee

2.5. no alternate Director of the Board shall be appointed as a member of the Committee.

The members of the Committee shall elect a chairman from among their number who shall be an Independent Director.

In the event of any vacancy in the Committee (including Chairman) resulting in the non-compliance of items 2.1 to 2.3 above, the vacancy must be filled within 3 months of that event.

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

3. Frequency of Meetings

Meetings shall be held at least four (4) times in each financial year. Additional meetings may be conducted if the need arises.

However, at least twice a year the Committee shall meet with the external auditors without the presence of the executive Board members and management.

In addition, the Chairman may call for a meeting of the Committee if a request is made by any Committee member, the senior management or the internal or external auditors.

A quorum shall consist of a majority of Independent Directors.

4. Secretary

The secretary of the Company shall be secretary (the "Secretary") of the Committee.

5. Functions

The functions of the Committee are as follows:-

5.1. Review the following and report the same to the Board:-

- 5.1.1. with the external auditors, their audit plan;
- 5.1.2. with the external auditors, their evaluation of the system of risk management and internal controls;
- 5.1.3. with the external auditors, their audit report;
- 5.1.4. the assistance given by the Company's employees to the external auditors; and
- 5.1.5. any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction,

SMIS CORPORATION BERHAD
(Company No. 491857-V)
Terms of Reference of the Audit and Risk Committee

procedure or course of conduct that raises questions of management integrity and the framework to be established.

5.2. To consider the appointment/re-appointment of the external auditors, the audit fee, the terms of reference of the said appointment/re-appointment and any questions on their resignation or dismissal before making a recommendation to the Board. In determining the appointment/re-appointment of the external auditors, in addition to the suitability factors as set out below:

- (a) the adequacy of the experience and resources of the accounting firm;
- (b) the persons assigned to the audit;
- (c) the accounting firm's audit engagements;
- (d) the size and complexity of the Group being audited; and
- (e) the number and experience of supervisory and professional staff assigned to the particular audit.

to also consider the performance of the external auditors and its independence such as:

- (i) the auditors' ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan.
- (ii) the nature of the non-audit services provided by the external auditors and fees paid for such services relative to the audit fee; and
- (iii) whether there are procedures in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the external auditors.

5.3. 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 firms are involved;

5.4. To obtain the confirmation from external auditors that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements;

5.5. To discuss the contracts and nature for the provision of non-audit services which can be entered into by the Group with the external auditors or its affiliates and procedures that must be adhered to by the external auditors. The following contracts cannot be entered into with the external auditors:-

- Management consulting;
- Tax Services;
- Strategic decision;
- Internal audit; and
- Policy and standard operating procedures documentation.

SMIS CORPORATION BERHAD

(Company No. 491857-V)

Terms of Reference of the Audit and Risk Committee

Any exceptions to the above require the Committee and Board's approval.

In the event that the non-audit fees paid to the Company's external auditors, or a firm or corporation affiliated to the external auditors' firm are significant (e.g. 50% of the total amount of audit fees paid to the Company's external auditors), the Company is required to state the details on the nature of the non-audit services rendered in the Committee Report.

- 5.6. To review the quarterly and year-end financial statements of the Group and Company, focusing particularly on:-
 - any changes in or implementing of major accounting policies and practices;
 - the going concern assumption;
 - integrity of financial statements;
 - compliance with accounting standards and other legal requirements; and
 - significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed.
- 5.7. To discuss problems and reservations arising from the interim and final audits, and any matter the internal and external auditors may wish to discuss (in the absence of management where necessary);
- 5.8. To review the external auditors' management letter and management's response;
- 5.9. To review the adequacy of Group's risk management framework and assess the resources and knowledge of the Management and employees involved in the risk management process;
- 5.10. To review the Group's risk profile and risk tolerance;
- 5.11. In respect of the internal audit function, the following shall be carried out to ensure the effectiveness of risk management and internal controls system:-
 - Review the adequacy of the scopes, functions and resources of the internal audit, and that it has the necessary authority to carry out its work;
 - Review the internal audit programme, internal audit reporting and communication flow and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function or whether concerns, if any, identified by internal audit in its report were addressed during the financial year;
 - Review any appraisal or assessment of the performance of members of the internal audit function;
 - Approve any appointments or terminations of senior auditors of the internal audit function;

SMIS CORPORATION BERHAD

(Company No. 491857-V)

Terms of Reference of the Audit and Risk Committee

- Inform itself of resignations of internal auditors and provide the resigning internal auditor an opportunity to submit his reasons for resigning;
 - Prepare reports, at least one (1) a year, to the Board summarising the work of the internal audit function performed in fulfilling the Committee's responsibilities, functions and duties for the financial year including details of relevant training attended by the Committee.
- 5.12. To consider the major findings of internal investigations and management's response;
- 5.13. To ensure the internal audit function is independent of the work it audits and the Head of Internal Audit reports directly to the Committee. The Head of Internal Audit should have the relevant qualification and be responsible for providing assurance to the Committee that the internal controls are operating effectively. The Head of Internal Audit will be responsible for the regular review and/or appraisal of the effectiveness of risk management, internal control and governance processes within the Company;
- 5.14. To report promptly any matters resulting in the breach of the Bursa Securities Main Market Listing Requirements to the Board. Where the Committee is of the opinion that such matter reported by it to the Board has not been satisfactorily resolved, the Committee shall promptly report such matter to Bursa Securities; and
- 5.15. To consider other areas as defined by the Board.

6. Rights of the Committee

The Committee shall, wherever necessary and reasonable for the Company to perform of its duties, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- 6.1. have authority to investigate any matter within its terms of reference;
- 6.2. have the resources which are required to perform its duties;
- 6.3. have full and unrestricted access to any information pertaining to the Company and Group;
- 6.4. have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any) on a continuous basis in order to be kept informed of matters affecting the Company and Group;
- 6.5. be able to obtain independent professional or other advice, at the expense of the Company; and
- 6.6. be able to convene meetings with external auditors, the persons carrying out the internal audit function or both (without the presence of executive Board members and management) at least twice a year and whenever deemed necessary.

SMIS CORPORATION BERHAD
(Company No. 491857-V)
Terms of Reference of the Audit and Risk Committee

The Chairman of the Committee shall engage on a continuous basis with senior management, such as the Chairman, the Chief Executive Officer or Executive Directors, the Financial Controller, the Head of Internal Audit and the external auditors in order to be kept informed of matters affecting the Group.

7. Disclosure

The Committee is required to prepare a Committee Report at the end of each financial year for inclusion in the Annual Report of the Company. The Committee Report shall include the following information:

- (a) Composition of the Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);
- (b) Number of Committee meetings held during the financial year and details of attendance of each Committee member;
- (c) Summary of the work carried out by the Committee in the discharge of its functions and duties for that financial year of the Company and how it has met its responsibilities; and
- (d) Summary of the work of the internal audit function.

The Committee shall also assist the Board in making the following additional statements in the Company's Annual Report:

- (a) Statement explaining the Board's responsibility for preparing the annual audited financial statements of the Group; and
- (b) Statement about the state of risk management and internal controls of the Group.

8. Written Terms of Reference

The Committee must have written terms of reference which deal with its authority and duties, and such information must be made available on the Company's website.

This Terms of Reference is dated 27 May 2016.