

BHS INDUSTRIES BERHAD (719660-W)
(Incorporated in Malaysia)

AUDIT COMMITTEE

TERMS OF REFERENCE

Primary Purposes

The Audit Committee ("Committee") shall:

1. Provide assistance to the Board of Directors ("Board") in fulfilling its fiduciary responsibilities relating to the corporate accounting and practices for the Company and all its wholly and majority owned subsidiaries ("Group").
2. Improve the Group's business efficiency, the quality of the accounting function, the system of internal controls and audit function and strengthen the confidence of the public in the Group's reported results.
3. Maintain through regularly scheduled meetings, a direct line of communication between the Board and the external auditors as well as internal auditors.
4. Enhance the independence of both the external and internal auditors functions through active participation in the audit process.
5. Strengthen the role of the independent directors by giving them a greater depth of knowledge as to the operations of the Company and the Group through their participation in the Committee.
6. Act upon the Board of Directors' request to investigate and report on any issues or concerns with regard to the management of the Group.

Membership

The Board of Directors shall appoint the members of the Audit Committee from amongst the non-executive directors, which fulfils the following requirements: -

1. The Audit Committee shall be composed of at least three (3) members;
2. The majority of the Audit Committee must be of independent directors;
3. The Chairman of the Audit Committee shall be an independent director;
4. All members of the Audit Committee should be non-executive directors;
5. All members of the Audit Committee should be financially literate and at least one of the members of the Committee must:-
 - (i) be a member of the Malaysian Institute of Accountants; or
 - (ii) have at least three (3) years working experience and;
 - Must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967, or
 - 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) fulfil such other requirements as prescribed by the Exchange.
6. No alternate director is appointed as a member of the Audit Committee.

Authority

The Audit Committee shall in accordance with the procedure determined by the Board and at the cost of the Company:-

- a. have explicit authority to investigate any matter within its terms of reference;
- b. have the resources which are required to perform its duties;
- c. have full and unrestricted access to any information pertaining to the Company;
- d. have direct communication channels with the external auditors and person(s) carrying out the internal audit function;
- e. be able to obtain independent/external professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- f. be able to convene meetings with the external auditors, the internal auditors or both excluding the attendance of the executive members of the Company, whenever deemed necessary.

Duties and Functions

The functions of the Audit Committee are as follows:-

1. To do the following, in relation to the internal audit function:-
 - a. review the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - b. review the internal audit programme and results of the internal audit process or investigation undertaken and whether or not appropriate actions are taken on the recommendations of the internal audit function;
 - c. review any appraisal or assessment of the performance of members of the internal audit function;
 - d. approve any appointment or termination of senior staff members of the internal audit function; and
 - e. take cognisance of resignation of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
2. To do the following, in relation to the external audit function:-
 - a. consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal and on whether there is reason (supported by grounds) to believe that the Company's external auditors is not suitable for re-appointment;
 - b. 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. review the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:-
 - (i) any changes in or implementation of major accounting policy and practices;
 - (ii) significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed; and
 - (iii) compliance with accounting standards and other legal requirements.
 - d. review any management letter sent by the external auditors to the Company and the management's response to such letter;
 - e. 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. review the adequacy of existing external auditors audit arrangements, with particular emphasis on the scope and quality of the audit;
 - g. review the external auditors' audit report;
 - h. review the assistance given by the employees of the Company to the external auditors;

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- i. review all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels;
 - j. 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;
 - k. review the assessment of suitability and independence of external auditors; and
 - l. review the provision of non-audit services by external auditors.
3. To consider any related party transactions and potential conflict of interests situations that may arise within the Company/Group.
 4. To consider the major findings of internal investigations and management response.
 5. To meet with the external auditors without executive board members present when needs arise.
 6. To carry out any other function that may be mutually agreed upon by the Committee and the Board, which would be beneficial to the Company and ensure the effectiveness discharge of the Committee's duties and responsibilities.
 7. To review and verify the allocation of share options to eligible persons as being in compliance with the by-laws approved by the Board of Directors and shareholders of the Company.
 8. The Committee actions shall be reported to the Board of Directors with such recommendations as the Committee deemed appropriate.
 9. To report to Bursa Malaysia Securities Berhad ("Bursa Securities") on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Bursa Securities Main Market Listing Requirements.

Retirement and Resignation

In the event of any vacancy in the Audit Committee resulting in the non-compliance of paragraphs stated in the 'membership' above, including the office of the chairmanship, the Company shall fill in the vacancy not later than three (3) months.

Meetings

1. The committee shall meet at least four (4) times in a year or more frequently as circumstances required with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
2. The quorum of the meeting is two (2) and they must be Independent Non-Executive Directors.
3. Upon the request of any member of the Committee, the external auditors or the internal auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider matters which should be brought to the attention of the directors or shareholders.
4. The external auditors and internal auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee.
5. The Committee may invite any Board member or any member of management or any employee of the Company who the Committee thinks fit to attend its meetings to assist and to provide pertinent information as necessary.

6. The Company must ensure that other directors and employees attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

Procedures of Audit Committee

The Audit Committee may regulate its own procedures, in particular:-

- a. the calling of meetings;
- b. the notice to be given of such meetings;
- c. the voting and proceedings of such meetings;
- d. the keeping of minutes; and
- e. the custody, production and inspection of such minutes.

Secretary

The Company Secretary or other appropriate senior official shall be the Secretary to the Audit Committee.