

TERMS OF REFERENCE OF AUDIT COMMITTEE

Objectives

The primary objectives of the Audit Committee (“AC”) of Mico Chipboard Berhad (“MIECO”) are:

- a) to assist the Board of MIECO (“the Board”) in the discharge of its responsibilities by reviewing the adequacy and integrity of the Group’s and the Company’s internal control systems and management information systems for compliance with applicable laws, regulations, rules, directives and guidelines;
- b) to reinforce the independence of the external auditors and thereby help ensure that they will have free reign in the audit process and to provide by way of regular meetings, a line of communication between the Board and the external auditors; and
- c) to provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is independent of management.

Membership

The AC shall be appointed by the Directors from amongst their members which fulfils the following requirements:

- (a) the AC shall comprise not fewer than three (3) members;
- (b) all the AC members must be Non-Executive Directors, with a majority of them being Independent Directors;
- (c) at least one (1) member of the AC:
 - (i) must be a member of the Malaysian Institute of Accountants (“MIA”) or
 - (ii) if he is not a member of the MIA, he must have at least three (3) years’ working experience and:
 - (aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (bb) 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
 - (iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad (“Bursa Securities”).

- (d) No alternate Director shall be appointed as a member of the AC.
- (e) If a member of the AC resigns or for any other reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.
- (f) The term of office and performance of the AC and each of its members shall be reviewed by the Board no less than once every three (3) years.
- (g) The AC chairman is not the Chairman of the Board.
- (h) Any former key audit partner must have observed a cooling-off period of at least 2 years before one is eligible for appointment as AC member.

Chairman

The members of the AC shall elect a Chairman from amongst themselves who shall be an Independent Director.

Secretary

The Company Secretaries shall act as the Secretary of the AC.

FUNCTIONS OF THE AC

The functions of the AC are as follows:

- (a) to review with the external auditors the audit plan, audit report and their evaluation of the system of internal controls, and the assistance given by the employees to the external auditors in discharging their duties;
- (b) to review the quarterly and year-end financial statements of the Group and the Company, focusing particularly on:
 - changes in or implementation of accounting policies and practices;
 - significant adjustments arising from the audit;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements.
- (c) to discuss problems and reservations arising from the interim and final audits, and any matter the external auditors may wish to discuss (in the absence of management where necessary);
- (d) to review the external auditors' management letters and management's response;

- (e) to 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 works;
- (f) to review the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- (g) determine the remit of and decide on the budget for the internal audit function which reports directly to the AC, to ensure that the IA function is effective and is able to function independently. The IA personnel:-
 - should be independent of the activities they audit and free from any relationship or conflicts of interest which could impair their objectivity and independence;
 - should perform audit with impartiality, proficiency and due professional care.
- (h) to consider any related party transaction and conflict of interest situation that may arise within the Group or the Company including any transaction, procedure or course of conduct that raises questions of management integrity;
- (i) to consider the major findings of internal investigations and management's response;
- (j) to consider the nomination and appointment of external auditors and any questions of resignation or dismissal;
- (k) to report promptly to Bursa Securities on any matter reported by the AC to the Board which has not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements of Bursa Securities; and
- (l) to consider and examine other topics as may be defined by the Board.

RIGHTS OF THE AC

Wherever necessary and reasonable for the performance of its duties, the AC shall in accordance with the procedure to be determined by the Board and at the cost of the Company:

- (a) have 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 Group and the Company;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- (e) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise it considers necessary; and

- (f) be able to convene meetings with the external auditors, the internal auditors or both, without the presence of other Directors and employees of the Company, whenever deemed necessary.

MEETINGS AND REPORTING PROCEDURES

- (a) The AC shall meet as often as the Chairman deems necessary but not less than four (4) times a year.
- (b) The quorum for an AC meeting shall be at least two (2) members; the majority of the members present must be Independent Directors.
- (c) The internal auditors shall be in attendance at meetings to present and discuss the audit reports and other relevant matters and the recommendations relating thereto and to follow up on all relevant decisions made.
- (d) The AC may invite the external auditors, any non-member Directors or employees of the Group to attend its meetings to assist in its deliberations and resolutions of matters raised.
- (e) The AC shall, at least twice a year, meet with the external auditors without any executive Board member present. At the request of the external auditors or internal auditors, the Chairman shall convene an AC meeting to consider any matter that the external auditors or internal auditors believe should be brought to the attention of the Board or shareholders.
- (f) The Secretary is responsible for sending out notices of meetings and preparing and keeping minutes of meetings.
- (g) The AC meeting minutes are to be extended to all members of the Board.