

TH HEAVY ENGINEERING BERHAD

(Company No. 634775-D)

(Incorporated in Malaysia)

TERMS OF REFERENCE OF AUDIT COMMITTEE

(Revised as at 25 May 2018)

1. Objectives

The principal objectives of the Audit Committee are to assist the Board of Directors in discharging its statutory and fiduciary responsibilities relating to accounting, financial reporting practices, adequacy and effectiveness of the system of internal control and the process of monitoring compliance with laws and regulations.

2. Composition and Appointment

- a) The Board shall appoint the Audit Committee members from amongst themselves, comprising no fewer than three (3) Non-Executive Directors. The majority of the Audit Committee members shall be Independent Directors.
- b) At least one (1) member of the Audit Committee must be:-
 - i) 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 of working experience; and
 - a. he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - b. he must be a member of one (1) of the associations of the accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - iii) fulfills such other requirements as prescribed or approved by Bursa Securities.
- c) All members of the Audit Committee shall be financially literate and have sufficient understanding of the Company's business.
- d) No alternate director shall be appointed as a member of the Audit Committee.
- e) Any former key audit partner who is to be appointed as a member of the Audit Committee must observe a cooling-off period of at least two (2) years before his appointment as a member of the AC.

Retirement and Resignation

- f) In the event of any vacancy resulting non-compliance with Clauses (2)(a) (2)(b) and (3)(a), the vacancy shall be filled within three (3) months thereof.

3. Chairman

- a) The Chairman of the Audit Committee, elected from amongst the Audit Committee members, shall be an Independent Director and is not the Chairman of the Board. The Chairman of the Audit Committee shall be approved by the Board of Directors.

TH HEAVY ENGINEERING BERHAD

(Company No. 634775-D)

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-2-

(Terms of Reference of Audit Committee - cont'd)

- b) In the absence of the Chairman of the Audit Committee, the other members of the Audit Committee shall amongst themselves elect a Chairman who must be an Independent Director to chair the meeting.
- c) The Chairman of the Audit Committee together with other members of the Audit Committee should ensure among others that:-
 - i) the Audit Committee is fully informed about significant matters related to the Company's audit and its financial statements and addresses these matters;
 - ii) the Audit Committee appropriately communicates its insights, views and concerns about relevant transactions and events to internal and External Auditors;
 - iii) Audit Committee's concerns on matters that may have an effect on the financial or audit of the Company are communicated to the External Auditors; and
 - iv) there is co-ordination between Internal and External Auditors.

4. Secretary

The Company Secretary of the Company or his / her representative shall act as Secretary of the Audit Committee.

The Secretary shall be responsible for keeping the minutes of meetings of the Audit Committee, circulating them to members of the Audit Committee and to the other members of the Board of Directors and for following up of outstanding matters.

5. Terms of Office

The terms of office and performance of the Audit Committee would be reviewed by the Nomination Committee annually.

6. Meetings

The Audit 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.

Any member of the Audit Committee may participate in any meeting of the Committee via telephone conferencing, video conferencing or by means of any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled or be counted in a quorum accordingly.

TH HEAVY ENGINEERING BERHAD

(Company No. 634775-D)

(Incorporated in Malaysia)

-3-

(Terms of Reference of Audit Committee - cont'd)

Upon the request of the External Auditors, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matter the External Auditors believe should be brought to the attention of the Directors or Shareholders.

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

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

The Chief Financial Officer, the head of internal audit and a representative of the external auditors should normally attend meetings. Other Board members and employees may attend meetings upon the invitation of the Audit Committee. The Audit 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.

Questions arising at any meeting of the Audit 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 Committee shall have a second or casting vote.

7. Quorum

The quorum for the Audit Committee meeting shall be the majority of members present whom must be independent directors.

8. Minutes

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

The minutes of the Audit 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.

9. Circular Resolution

A resolution in writing signed or approved by letter, electronic mail, telex or telefax or other form of written electronic communications by the majority of the members who are sufficient to form a quorum, shall be valid and effectual as if it had been passed at a meeting. All such resolutions shall be described as "Audit Committee Members' Circular Resolutions" and shall be forwarded or otherwise delivered to the Company Secretary without delay and shall be recorded by the Company Secretary in the minutes book. Any such resolution may consist of several documents in like form, each signed by one or more members.

TH HEAVY ENGINEERING BERHAD

(Company No. 634775-D)

(Incorporated in Malaysia)

-4-

(Terms of Reference of Audit Committee - cont'd)

10. Reporting

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

11. Authority

The Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the cost and expenses of the Company:-

- a) have explicit authority to investigate any matter within its terms of reference. All employees shall be directed to co-operate as requested by members of the Audit Committee.
- b) have the resources which are required to perform its duties.
- c) 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 the Group.
- d) be able to obtain independent professional advice or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.
- e) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity.
- f) be able to convene meetings with the External Auditors, the person(s) carrying out the internal audit function or activity or both, excluding the attendance of other Directors and employees of the Company or the Group, whenever deemed necessary.
- g) where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of Bursa Securities' Main Market Listing Requirements, the Audit Committee shall promptly report such matter to Bursa Securities.

12. Duties and Responsibilities

The duties and responsibilities of the Audit Committee are as follows:-

- a) To review the quarterly and year-end financial statements of the Company, focusing particularly on:-

TH HEAVY ENGINEERING BERHAD

(Company No. 634775-D)

(Incorporated in Malaysia)

-5-

(Terms of Reference of Audit Committee - cont'd)

- changes in or implementation of major accounting policies and procedures;
 - significant matters highlighted including financial reporting issues, significant judgements made by the Management, significant and unusual events or transactions, and how these matters are addressed; and
 - compliance with applicable approved accounting standards and other legal requirements.
- b) 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).
- c) To review the External Auditor's management letter and Management's response.
- d) To report its findings on the financial and management performance, and other material matters to the Board.
- e) To review the following and report the same to the Board:-
- i) with the External Auditors, the audit plan;
 - ii) with the External Auditors, his evaluation of the system of internal controls;
 - iii) with the External Auditors, his audit report;
 - iv) the assistance given by the employees of the Company to the External Auditors;
 - v) any letter of resignation from the external auditors of the Company; and
 - vi) whether there is reason (supported by grounds) to believe that the Company's External Auditors are not suitable for re-appointment.
- f) To discuss with the External Auditors before the audit commences, the nature and scope of the audit, which includes the non-audit services whether recurring and non-recurring to ensure that they are not likely to create conflicts of interest, so as to maintain objectivity and independence of external auditor and ensure co-ordination where more than one audit firm is involved.
- g) To recommend to the Board, the nomination of a person or persons for appointment as External Auditors.
- h) To put in place the policy and procedures to assess the suitability, objectivity and independence of External Auditors. The assessment should be conducted annually.

TH HEAVY ENGINEERING BERHAD

(Company No. 634775-D)

(Incorporated in Malaysia)

-6-

(Terms of Reference of Audit Committee - cont'd)

- i) To recommend to the Board, the statutory audit fees for the Group for each financial year.
- j) To discharge the following duties and responsibilities, in relation to the internal audit function:-
 - i) ensure that the internal audit function is effective and able to function independently;
 - ii) determine the remits of the internal audit function;
 - iii) approve the budget or internal audit fees for the internal audit function;
 - iv) review and report to the Board, 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;
 - v) review and report to the Board, the internal audit plan, processes and results of the internal audit assessments, investigation undertaken, and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal auditors;
 - vi) review any appraisal or undertake assessment of the performance of Internal Auditors or members of the internal audit function;
 - vii) approve any appointment or termination of Internal Auditors or members of the internal audit function; and
 - viii) take cognisance of resignations of Internal Auditors or members of the internal audit function and provide the resigning Internal Auditors or members of the internal audit function an opportunity to submit his reasons for resigning.
- k) To consider the major findings of internal investigations and Management's response.
- l) To consider any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- m) 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 or the allocation of shares pursuant to any incentive plan for employees of the Group, if any.
- n) To consider other topics as defined by the Board.
- o) To consider and examine such other matters as the Audit Committee considers appropriate.