SERN KOU RESOURCES BERHAD
[Registration No. 200001016496 (519103-X)]

TERMS OF REFERENCE OF AUDIT COMMITTEE

1. PURPOSE

The Audit Committee ("The AC") is a committee of the Board of Sern Kou Resources Berhad ("SKRB"). Its primary function is to assist the Board of Directors of SKRB ("the Board") in fulfilling its oversight responsibilities within the terms of reference as approved by the Board.

2. COMPOSITION AND MEMBERSHIP

2.1 The AC shall be appointed from amongst the Board members, excluding the alternate directors (if any).

2.2 The AC shall consist of not less than three (3) members.

2.3 All the AC members must be Independent Directors.

2.4 at least one (1) member must: -

2.4.1 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 I of the First Schedule of the Accountants Act 1967; or

- he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or

2.4.3 fulfils such other requirements as prescribed or approved by the Exchange.

2.5 The office of AC member shall automatically be vacated when he ceased to be a Director of the Company.

2.6 In the event of any vacancy in the Committee resulting in the non-compliance of items 2.2, 2.3 and 2.4, the Company must fill the vacancy within three (3) months.

2.7 In case a former key audit partner is being nominated as a member of the Committee, he shall observe a cooling-off period of at least three (3) years before being appointed as a member of the Committee.

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

3. CHAIRMAN

3.1 The Chairman shall be elected by the Committee from amongst their members.

3.2 If the Chairman is not present at a meeting within fifteen (15) minutes after the time appointed for holding the meeting, the members of the Committee may elect one (1) of their numbers to be the chairman of the meeting.

3.3 The role of the Chairman is planning and conducting meetings, overseeing reporting to the Board, encouraging open discussion during meetings, and developing and maintaining active on-going dialogue with Management, the internal auditors and the external auditors.

3.4 The Chairman should engage on a continuous basis with senior Management, such as the Chairman of the Board, the Managing Director/Chief Executive Officer, the Chief Financial Officer, the internal auditors and the external auditors in order to be kept informed of matters affecting the Company such as the Company's reporting process, internal controls, risk management and governance with the aim to ensure effectiveness and efficiency of the internal control systems and the risk management framework.

4. SECRETARY

4.1 The Company Secretary or her nominee shall act as Secretary of the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it prior to each meeting.

4.2 The Secretary or her nominee shall be in attendance at each Committee meeting and record the proceedings of the meeting thereat and minute the resolutions.

4.3 The Secretary shall also be responsible for keeping the minutes of meetings of the Committee and circulating them to the Committee Members. The Committee Members may inspect the minutes of the Committee at the Registered Office of the Company.

5. MEETINGS

5.1 The Committee shall meet at least four (4) times in each financial year.

5.2 The Committee may call for additional meeting as and when required depending on the level of responsibility and complexity of the Group with reasonable notice as the Committee Members deem fit.

5.3 The Members may participate in a meeting by means of conference telephone, conference videophone or any similar or other communications equipment by means of which all persons participating in the meeting can hear each other. Such participation in a meeting shall constitute presence in person at such Meeting.

5.4 The quorum for a meeting shall be two (2) members. The Committee at which a quorum is present is considered to be competent for the exercise of its authorities, powers and discretions vested upon it.

5.5 If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the next week at the same time and place or to such other day, time and place as the members by notice to the other members appoint.

5.6 All decisions at such meeting shall be decided on a show of hands on a majority of votes. In the case of an equality of votes, the Chairman shall be entitled to a casting vote in addition to the vote which he is entitled as a Committee Member.

5.7 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Chairman of the Committee based on planned calendar dates. Notice of each meeting confirming the venue, time and date, together with an agenda of items and its supporting papers to be discussed, shall be forwarded to each member of the Committee, no later than seven (7) days before the date of the meeting.

5.8 The internal auditors, the external auditors and Management may attend at any meeting at the invitation of the Committee and shall appear before the Committee when required to do so by the Committee.

5.9 The internal auditors and the external auditors may also request a meeting if they consider it is necessary (and/or believe the matter should be brought to the attention of the Committee and/or the Board) and have the right to appear and be heard at any meeting of the Committee.

5.10 Where the Committee is of the view that a matter reported by it to the board has not been satisfactorily resolved resulting in a breach of the listing requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") or other authorities, the Committee must promptly report such matter to Bursa Securities or the authority concerned.

5.11 The Committee shall have the right to meet with the external auditors without the presence of any executive directors and management.

5.12 The Committee shall have the right to invite other Directors and Management as applicable to participate in the Committee meetings, as and when necessary, to carry out its responsibilities.

5.13 The Secretary or his/her nominee shall minute the proceedings and resolutions, including the names of all attendees. Draft minutes of meetings of the Committee shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other directors, unless a conflict of interest exists.

5.14 The Committee may establish procedures from time to time to govern its meetings, keeping of minutes and its administration.

5.15 Except in the case of an emergency, reasonable notice of every meeting shall be given in writing and the notice of each meeting shall be served to the AC member either personally or by fax or e-mail, fax, or by post or by courier to his/her registered address as appearing in the Register of Directors or to the address provided by the AC member, as the case may be.

6. AC RESOLUTIONS IN WRITING

6.1 In the event the AC require matters to be approved by way of a written resolution, a resolution in writing signed or approved by letter or telefax or other electronic means by majority members of the AC, shall be as valid and effectual as if it had been passed at a meeting of the AC duly called and constituted.

6.2 Any such resolution may be executed in any number of counterparts, each signed by one or more members of the AC all of which taken together and when delivered to the Secretary shall constitute one and the same resolution.

7. DUTIES AND FUNCTIONS

The main functions and duties of the Committee shall include, but are not limited to the following: -

7.1 **Financial Reporting**

7.1.1 Ensuring Financial Statements Comply with Applicable Financial Reporting Standards:-

a) Review the quarterly financial results, audited financial statements and annual report of the Group and the Company and ensure, amongst others, that it complies with applicable financial reporting standards prior to submission to the Board for consideration and approval.

b) Review any changes in the implementation of major accounting policies and practices, major judgemental and risk areas, significant adjustments resulting from the audit, the going concern assumption, compliance with accounting standards, compliance with Listing Requirements of Bursa Securities and other legal requirements.

c) Ensure that all its members are able to understand financial statements and form a view on the information presented.

d) Monitor the integrity of the financial statements of the Company and assess whether the financial report represents a true and fair view of the Company's performance and ensure compliance with the regulatory requirements.

e) Propose best practices on disclosure in the financial statements and the annual reports of the Company, to be in line with the recommendations set out in the Malaysian Code of Corporate Governance and other applicable rules and regulations.

7.2 **External Auditors**

7.2.1 Reviewing the Audit Findings of the External Auditors and Assessing their Performance, Suitability and Independence of External Auditors:

a) Review the external auditors' audit plans, its scope of work and nature for the year and for the Group.

b) Review the external auditors' findings arising from audits and in particular, responses, appropriate action taken by Management.

7.2.2 Review the results of the evaluation of the accounting policies and systems of internal controls within the Group and the assistance given by the officers of the Company to them, including any difficulties or disputes with Management encountered during the audit.

7.2.3 Review the fees and expenses paid to the external auditors, including fees paid for non-audit services during the year.

Consider the appointment or re-appointment of external auditors, the audit fee and any questions of resignation or dismissal or cessation of office or removal, including recommending the nomination of person or persons as auditors to the Board.

7.2.4 Conduct private meetings with the External Auditors without the presence of Executive Directors or employees of the Group to discuss problems and reservations arising from the interim and final audits, and any matter the external auditors may wish to discuss.

7.2.5 Review the co-operation and assistance given by Management to the External Auditors.

7.3 **Internal Auditors**

7.3.1 Reviewing the Audit Findings of the Internal Auditors and Assisting the Board in Reviewing the Effectiveness and Adequacy of Systems of Internal Control in the Key Operation Processes.

7.3.2 Review the internal audit plan and the adequacy of the scope, competency and resources of the internal audit function and that it has the necessary authority to carry out its work.

7.3.3 Review and discussed with the internal auditors, their audit findings, recommendations made, management's response to the audit findings and proposed action plans, including those issues arising during the course of audit (in the absence of Management where necessary).

7.3.4 Review the effectiveness and efficiency of the internal controls system in place and the risk factors affecting the Company as well as the action plans taken by the Management to resolve the issues to ensure adequacy of the internal controls system.

7.3.5 Consider the appointment or re-appointment of internal auditors, the internal audit fee and any questions of resignation or dismissal or cessation of office or removal, including recommending the nomination of person or persons as internal auditors to the Board.

7.4 **Risk Management and Internal Control**

7.4.1 Recommend such measures as to be taken by the Board on the effectiveness of the system of internal control and risk management practices of the Group.

7.4.2 Evaluate the quality and effectiveness of Company's internal control system and management information systems, including in compliance with applicable laws, rules, corporate governance requirements and guidelines.

7.4.3 Review and recommend to the Board the Directors' Statement on Risk Management and Internal Control and any changes to the said Statement.

7.4.4 Assist the Board in identifying the principal risks, review and assess the effectiveness of the risk management framework and internal control systems based on the reports and recommendations from the internal auditors and report to the Board on its findings.

7.5 **Whistleblowing and fraud**

7.5.1 Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and review the company's procedures for detecting fraud.

7.5.2 Cultivated the awareness of the employees and ensured the whistleblower could report directly to the AC on any possible wrongdoings or fraud detected.

7.6 **Actual, Potential and Perceived Conflict of Interest's situations and Related Party Transactions**

Review and monitor related party transactions entered into by the Group and any actual, potential and perceived conflict of interest situation that may arise within the Group, if any, and to ensure that all transactions are at arms length's basis and normal commercial terms and on terms not more favourable to the related parties than those generally available to the public, and to ensure that the Board reports such transactions annually to the shareholders via the annual report.

Review actual, potential and perceived conflict of interest's situation include those that arose or persist (in addition to those that may arise) and the measures taken to resolve, eliminate, or mitigate such conflict of interest that may arise within the Company or the Group, including any transaction, procedure or course of conduct that raises questions of Management's integrity.

Review any declaration make by the Director and/or Key Senior Management and propose the course of action to take to manage the conflict as well as to mitigate the impact of the conflict on the decision-making process.

When a determination has been made that there is a conflict of interest arose,

persist or may arise, the AC must report and make recommendations to the Board on the next course of action.

The AC will determine and provide reasonable steps and measures to manage, resolve or eliminate the conflict of interest or potential/perceived conflict of interest and mitigate the impact of the conflict of interest or potential/perceived conflict of interest on the negotiation/discussion/decision making process. The decision must ultimately be approved by the Board of Directors.

In circumstances where a party is determined to have a significant, ongoing and irreconcilable conflict of interest with the Group, the AC may determine that resignation of the conflicted party from the Group is appropriate and necessary.

The AC shall be guided by the Conflict of Interest Policy.

7.7 **Overseeing the Governance Practices in the Group**

7.7.1 Review and issued the AC Report (including a summary of any conflict of interest or potential conflict of interest situation within the Company or the Group that the AC has reviewed (excluding a related party transaction ("RPT"), and the measures taken to resolve, eliminate, or mitigate such conflicts) for inclusion in the Annual Report.

7.7.2 Review the Statement on Risk Management and Internal Control and Statement on Corporate Governance to ensure adherence to legal and regulatory reporting requirements and appropriate resolution of all accounting matters requiring significant judgement and recommended the same to the Board for approval.

7.7.3 Review the minutes of meetings of the AC.

7.7.4 Review the revised Terms of Reference of the AC.

7.7.5 Review the corporate proposals to be undertaken by the Company.

8. RIGHTS AND AUTHORITY

The Committee shall: -

8.1 have authority to investigate any matter within its terms of reference and have the right of direct access to anyone in the Company to conduct a special investigation to be carried out for fraud, violation of code of conduct or an illegal act;

8.2 have the resources which are required to perform its duties;

8.3 have full and unrestricted access to any information pertaining to the Group;

8.4 have direct communication channels with the external auditors and the internal auditors;

8.5 have the right to obtain independent professional or other advice and to invite outside experts or advisors such as valuers, or tax consultants with relevant experience and expertise to attend the Committee meetings (if required) and to

brief the Committee at the Company's expense;

8.6 have the right to convene meetings with the internal auditors and the external auditors, excluding the attendance of the executive board members, Management or employees of the Group, whenever deemed necessary;

8.7 promptly report to Bursa Securities, or such other name(s) as may be adopted by Bursa Securities, matters which have not been satisfactorily resolved by the Board resulting in a breach of the listing requirements;

8.8 have the right to pass resolutions by a simple majority vote from the Committee and that the Chairman shall have the casting vote should a tie arise; and

8.9 meet as and when required on a reasonable notice.

9. TERMS OF REFERENCE

9.1 The Committee should recommend any change to the terms of reference in such manner as the AC deems appropriate to the Board for approval.

9.2 The terms of reference shall be assessed, reviewed and updated where necessary i.e. when there are changes to the Malaysian Code of Corporate Governance, Listing Requirements of Bursa Securities or any other regulatory requirement that may have an effect on the Committee's responsibilities.

9.3 It shall also be reviewed and updated when there are changes to the direction or strategies of the Group that may affect the AC's roles and responsibilities.