

MERCURY INDUSTRIES BERHAD

AUDIT COMMITTEE

TERMS OF REFERENCE

Constitution & Membership

1. The Audit Committee (“the Committee”) shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members and at least one (1) member of the Committee:-
 - (i) must be a member of the Malaysian Institute of Accountants; or
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years’ working experience and:-
 - (a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - (b) he must be a member of one (1) of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967; or
 - (c) fulfils such other requirements as prescribed or approved by the Exchange.
2. All the Committee members must be Non-Executive Directors, with a majority of the Committee members being Independent Directors.
3. No alternate director is to be appointed as a member of the Committee.
4. The members of the Committee shall elect a chairman from amongst their number who shall be an Independent Director. The Chairman of the Board shall not be the member of the Audit Committee.
5. To safeguard the independence of the Committee, a cooling off period of at least three (3) years is to be observed before a former key audit partner is appointed as a member of the Committee.
6. The term of office and performance of the Committee and each of its members shall be reviewed by the Board via the Nomination Committee annually to determine whether such Committee and members have carried out their duties in accordance with its terms of reference.
7. If a member of the Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced to 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.
8. All members of the Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.
9. The Company Secretary shall be the Secretary of the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it prior to the meeting. The Company Secretary shall also be responsible for keeping the minutes of meetings of the Committee and circulating them to the Committee Members.

Authority

10. The Committee is authorised by the Board to investigate any matter within its terms of reference.
11. It is authorised to seek any information it requires from the external auditors and internal auditors as well as any employee and all employees are directed to co-operate with any request made by the Committee.
12. The Committee shall have the resources which are required to perform its duties.
13. The Committee is authorised to obtain independent professional or other advice if it considers necessary.
14. The Committee shall be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary, in order to enable the Committee and the external auditors or the internal auditors or both, to discuss problems and reservations and any other matter the external auditors or internal auditors may wish to bring up to the attention of the Committee.

Functions and Duties

15. The functions and duties of the Committee shall be:-
 - (i) To review the following and report the same to the Board of Directors:-
 - (a) With the external auditors on:
 - the audit plan, its scope and nature;
 - the audit report;
 - the results of their evaluation of the system of internal controls;
 - the assistance given by the employees of the Company to the external auditors; and
 - any other matters the external auditors may wish to discuss in the absence of the management.
 - (b) In relation to the internal audit function:
 - 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;
 - 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;
 - any appraisal or assessment of the performance of the internal audit function.
 - (c) the quarterly results and year end financial statements prior to the approval by the Board of Directors, focusing particularly on:-
 - changes in or implementation of major accounting policy changes;
 - significant and unusual events;
 - compliance with approved accounting standards and other legal requirements;
 - compliance with the Listing Requirements of the Exchange;
 - significant adjustments arising from the audit;
 - the going concern assumption; and
 - major judgmental areas.

- (d) any related party transaction, whether recurrent in nature or not, and conflict of interest or potential conflict of interest situation(s) that arose, persist or may arise within the Company and/or its subsidiaries (“the Group”) including any transaction, procedure or course of conduct that raises questions of management integrity, and the measures taken to resolve, eliminate, or mitigate such conflicts;
- (e) In relation to risk management:
 - review the adequacy and effectiveness of the risk management framework, policy, process and procedures undertaken and whether or not appropriate risk management control action is taken to safeguard the interests of the stakeholders;
 - to identify, evaluate, manage and respond to risks to achieve the objectives of the Group; and
 - to review the Registry of Risks and Risk Management Handbook.
- (f) external auditors’ management letter/audit report and management’s responses; and
- (g) any letter of resignation from the external auditors of the Company.
- (ii) To consider the major findings of internal investigations and management’s responses;
- (iii) To evaluate and consider the re-appointment of the external auditors, the audit fees and any question of resignation or dismissal;
- (iv) To recommend the nomination of a person or persons for appointment as external auditors;
- (v) To ensure the internal audit function of the Company reports directly to the Committee;
- (vi) To consider and approve the non-audit service(s) to be provided by the external auditors subject to the confirmation from the external auditors, that such non-audit services(s) pose no threat to the independence of the external auditors;
- (vii) the allocation of options granted pursuant to the Employees’ Share Option Scheme (“ESOS”) in compliance with the criteria as stipulated in the by-law of ESOS of the Group, if any; and
- (viii) To perform any other functions or duties as may be agreed to by the Committee and the Board.

Quorum and Attendance at Meetings

- 16. A quorum shall be two (2) members and the majority of members present must be Independent Directors.
- 17. The Head of Finance, the internal auditor(s) and a representative of the external auditors shall normally attend meetings. Other Board members and employees may attend meetings upon invitation of the Committee.
- 18. The Chairman of the Audit Committee or the external auditors may call a meeting whenever they deem it necessary.

19. A circular resolution in writing signed by the members of the Committee who are sufficient to form a quorum, shall be valid and effectual as if it had been passed at a meeting of the Committee duly convened. Any such resolution may consist of several documents in like form, each signed by one (1) or more members of the Committee and shall include signed copies via legible facsimile transmission or other written electronic means.
20. Any member of the 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 to vote or be counted in a quorum accordingly.

Frequency of Meetings and Minutes

21. Meetings shall be held not less than four (4) times in a financial year.
22. All minutes of meetings of the Committee are to be circulated to all members of the Board and the Company Secretary for permanent filing.