

**SMART ASIA CHEMICAL BHD**  
Registration No. 201901016953 (1326281-T)  
(Incorporated in Malaysia)

**TERMS OF REFERENCE OF AUDIT AND RISK MANAGEMENT COMMITTEE**

**1. DEFINITION:**

<b>“Board”</b>	:	Board of Directors of the Company.
<b>“Bursa Securities”</b>	:	Bursa Malaysia Securities Berhad [Registration No. 200301033577 (635998-W)]
<b>“Committee”</b>	:	The Audit and Risk Management Committee of the Company.
<b>“Company”</b>	:	Smart Asia Chemical Bhd or by whatever name it is called from time to time called.
<b>“CEO”</b>	:	The chief executive officer of the Company for the time being, by whatever name called, and whether or not he is a director.
<b>Directors”</b>	:	The directors for the time being of the Company or such number of them as having authority to act for the Company.
<b>“External Auditors”</b>	:	An external auditor performs an audit, in accordance with specific laws or rules, of the financial statements of a company, government entity, other legal entity, or organization, and is independent of the entity being audited.
<b>“Internal Auditors”</b>	:	A trained professional tasked with providing independent and objective evaluations of company financial and operational business activities in accordance with a recognized internal audit framework.
<b>“Management”</b>	:	Management of the Company.
<b>“MD”</b>	:	Managing Director of the Company.
<b>“Group”</b>	:	The Company and its subsidiaries (Smart Paint Manufacturing Sdn. Bhd., Smart Paints (M) Sdn. Bhd., Color Breeze Sdn. Bhd., Smart Paints (Sabah) Sdn. Bhd. and Smart Paint (Selangor) Sdn. Bhd.) or any other future subsidiaries to be incorporated.
<b>“Listing Requirements”</b>	:	Bursa Malaysia Securities Berhad’s ACE Market Listing Requirements including any relevant practice and/or guidance notes, directives, guidelines issued pursuant thereto and any amendment, modification, supplemental to the listing requirements that may be made from time to time.
<b>“Secretary”</b>	:	Any person or persons jointly appointed to perform the duties of a secretary of the Company including any person(s) appointed temporarily and any representative of the secretary.
<b>“Share Issuance Scheme”</b>	:	A scheme involving a new issuance of shares to the

employees of the Company.

## 2. **DATE ESTABLISHED**

The Committee was established on 24 May 2023.

## 3. **OBJECTIVES**

The Committee is responsible for reviewing reports relating to corporate accounting, sustainability, system of internal controls, management and financial reporting practices from Internal Auditors and External Auditors to validate scope, evaluate existing policies, establish audit quality and ensure compliance with the Group's policies as well as identifying principal risks and implementing appropriate risk assessment system process within the Group. The Committee will also be responsible for ensuring that proper processes and procedures are in place to comply with all laws, rules and regulations, directives and guidelines established by the relevant regulatory bodies.

## 4. **COMPOSITION**

The Committee shall be appointed by the Board from amongst the Directors and shall comprise at least three (3) members, consisting wholly non-executive Directors with a majority of whom are independent and financially literate, competent and are able to understand matters under the purview of the Committee including the financial reporting process, with majority of whom shall be independent directors. At least one (1) member of the Committee:-

- (a) must be a member of the Malaysian Institute of Accountants (“**MIA**”); or
- (b) if he is not a member of the MIA, he must have at least three (3) years' working experience; and
  - (i) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
  - (ii) he must be a member of one of the associations of the accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
- (c) must have at least three (3) years' post qualification experience in accounting or finance:
  - (i) has a degree/masters/doctorate in accounting or finance; or
  - (ii) is a member of any professional accountancy organisation which has been admitted as a full member of the International Federation of Accountants; or
- (d) must have at least seven (7) years' experience being a chief financial officer of a corporation.

The Chairman of the Board shall not be a member of the Committee.

No alternate Director shall be appointed as a member of the Committee.

A former key audit partner shall observe a cooling-off period of at least three (3) years before being appointed as a member of the Committee.

## 5. **CHAIRMAN**

The members of Committee shall elect a Chairman of the Committee (“**Committee Chairman**”) from amongst their members, who shall be an independent director. In the absence of the Chairman

of the Committee, the other members of the Committee shall amongst themselves elect a Chairman who must be an independent director to chair the meeting.

The Committee Chairman is not the Chairman of Board.

The responsibilities of the Committee Chairman are amongst others:

- (a) Ensuring that the Committee meetings run efficiently, and each agenda item is thoroughly and thoughtfully discussed in all members of the Committee;
- (b) Overseeing reporting to the Board; and
- (c) Serves as the key contact between the members of the Committee and members of the Board, as well as senior management and both the Internal Auditors and External Auditors.

## **6. SECRETARY**

The Company Secretary shall act as Secretary of the Committee and shall be responsible for preparation of agenda in consultation with the Committee Chairman, and distribution to all the members the papers to be deliberated at the meeting.

## **7. MEETINGS**

The Committee shall meet at least four (4) times each year and at such additional meetings as the Committee Chairman shall decide.

The quorum for a Committee Meeting shall be at least two (2) members.

The Secretary shall on the requisition of the members of the Committee, summon a meeting of the Committee and except in the case of an emergency, reasonable notice of every Committee meeting shall be given in writing.

Other Board members and/or employees may attend the Committee meeting(s) upon invitation of the Committee.

Upon the request of the External Auditor, the Committee Chairman must convene a meeting of the Committee to consider any matter the External Auditor believes should be brought to the attention of the Directors or shareholders. In addition, Management, the Internal Auditors and the External Auditors may request for a private session with the Committee to discuss any matter of concern.

Each member of the Committee is entitled to one (1) vote in deciding the matters deliberated in the meeting. The decision that gained the majority votes shall be the decision of the Committee. In the event of an equality of votes, the Committee Chairman shall be entitled to a second or casting vote.

Members of the Committee may participate in a meeting by means of conference telephone call, conference videophone call or any similar or other communications method 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 and shall satisfy the quorum requirement.

Questions arising at any meeting of the Committee shall be decided by a majority of votes and a determination by a majority of members shall for all purposes be deemed a determination of the Committee.

## 8. AUTHORITY

Committee shall have the authority to:-

- (a) Approve any appointment or termination of senior staff members of the internal audit function.
- (b) Convene meeting with the External Auditors, the Internal Auditors or both excluding the attendance of other directors and employees of the Group, whenever deemed necessary and such meetings with the External Auditors shall be held at least twice a year.
- (c) Obtain external professional advice or other advice and invite persons with relevant experience to attend its meetings, if necessary.
- (d) Investigate any matter within its terms of reference, have the resources which it needs to do so, full and unrestricted access to information pertaining to the Group and the Management, and all employees of the Group are required to comply with requests made by the Committee.
- (e) Have direct communications channels with the External Auditors and Internal Auditors, and also to engage the senior management on a continuous basis.

## 9. RESPONSIBILITIES AND DUTIES

In fulfilling its primary objectives, the Committee undertakes, amongst others, the following responsibilities and duties:-

- (a) Review the Group's quarterly results and year-end financial statements before submission to the Board, focusing particularly on:
  - (i) Changes in or implementation of major accounting policy changes;
  - (ii) Significant and unusual events or transactions, and how these matters are addressed;
  - (iii) Significant adjustments arising from the Management;
  - (iv) Compliance with accounting standards and other legal requirements; and
  - (v) The going concern assumption.

### (b) External Audit

To conduct the following in respect of external audit: -

- (i) To consider the nomination and appointment of External Auditors; and to consider the adequacy of experience and resources of the External Auditors and determine the audit fee;
- (ii) To review any letter of resignation from the External Auditors and any questions of resignation or dismissal;
- (iii) To discuss with the External Auditors, prior to the commencement of audit, the audit plan which states the nature and scope of audit;
- (iv) To review major audit findings arising from the interim and final external audits, the audit report and the assistance given by the Group's employees to the External Auditors;
- (v) To review with the External Auditors, their evaluation of the system of internal controls, their management letter and management's responses;
- (vi) To review whether there is reason (supported by grounds) to believe that the External Auditors are not suitable for re-appointment; and
- (vii) Discuss and review the contracts for the provision of non-audit services which can be entered into and procedures that must be followed by the External Auditors. The contracts that cannot be entered into should include management consulting, policy and standard operating procedures documentation, strategic decision and internal audit.

Review with the External Auditors on the following and report the same to the Board:-

- (i) Audit plan;
- (ii) Audit report;
- (iii) Evaluations of the system of internal controls;
- (iv) The assistance given by the employees to the External Auditor;
- (v) External Auditors' management letter and management's response thereto; and
- (vi) Any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the External Auditor.

**(c) Internal Audit**

To review the following in respect of internal audit:-

- (i) Suitability of the candidate to be hired as in-house Internal Auditors, his/her jobs description and remuneration;
- (ii) Adequacy of scope, functions and resources of the firm of Internal Auditors (that was engaged to undertake the internal audit function) and that it has the necessary authority to carry out its work;
- (iii) The internal audit plan, processes, the results of the internal audit assessments, investigation undertaken and ensure that appropriate actions are taken on the recommendations of the internal audit function;
- (iv) The major findings of internal audit investigations and Management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function; and
- (v) Review and approve any appointment, termination or resignation of the firm of Internal Auditors.

Review with the Internal Auditors on the following and report the same to the Board:

- (i) The annual audit plan which is risk-based and focused on significant risk areas to ensure adequate scope and comprehensive coverage over the activities of the Group and that it has the necessary authority to carry out its work;
- (ii) Effectiveness of the internal audit processes as well as the adequacy of the resource requirements, competency and the budget of the internal audit function;
- (iii) The internal audit report containing the internal audit findings, commentaries and recommendations and to follow-up on remedial actions;
- (iv) Effectiveness of the internal control systems and risk management systems and have them considered if necessary; and
- (v) Internal Auditors' report of deficiencies in internal control and Management's response thereto.

**(d) Sustainability Reporting**

To provide oversight of sustainability reporting by ensuring the effective identification, management and reporting of material sustainability matters (i.e. risks and opportunities) affecting the economic, environmental and social aspects of the Group's businesses towards achievement of sustainability goals across the Group.

Review the following and report the same to the Board:-

- (i) The Annual Statement of Internal Control and sustainability reporting to be published in the Annual Report;

- (ii) Any related party transactions and conflict of interest situations that may arise including any transaction, procedure or course of conduct that raises question of Management integrity;
  - (iii) Any letter of resignation from the External Auditors or suggestions for their dismissal; and
  - (iv) Whether there is reason (supported by grounds) to believe that the external auditor is not suitable for reappointment.
- (e) Assess processes and procedures to ensure compliance with all laws, rules and regulations, directives and guidelines established by the relevant regulatory bodies;
- (f) To provide oversight of anti-bribery management of the Group;
- (g) To appoint Compliance Officer or the Committee Chairman to serve as a reporting channel role for whistle-blower who concerned about speaking or by email of his/her concern.
- (h) Carry out any other function that may be mutually agreed upon by the Committee and the Board;
- (i) To conduct an annual assessment on the suitability, objectivity and independence of the external audit firm;
- (j) **Risk Management**
- (i) To review the adequacy of Group's risk management framework and assess the resources and knowledge of the management and employee involved in the risk management process;
  - (ii) To review the effectiveness of internal control systems deployed by the Management to address those risks;
  - (iii) To review and recommend corrective measures undertaken to remedy failings and/or weaknesses;
  - (iv) To review and further monitor principal risks that may affect the Group directly or indirectly and if deemed necessary, recommend additional course of action to mitigate such risks;
  - (v) To communicate and monitor the risk assessment results to the Board; and
  - (vi) To highlight actual and potential impact of any failing or weakness, particularly those related to the financial performance or conditions affecting the Group.
- (k) **Share Issuance Scheme**
- (i) To disclose to employees the criteria for allocation of options pursuant to a Share Issuance Scheme; and
  - (ii) To ensure that allocation of options pursuant to a scheme is verified by the Committee, as being in compliance with the criteria referred to in sub-Rule (i) above, at the end of each financial year.

## 10. COMMUNICATION TO THE BOARD

The Committee shall prepare a report each year concerning its activities in compliance with these terms of reference to be tabled to the Board and for inclusion in the Group's Annual Report.

The minutes of each Committee meeting shall be tabled to the Board for notation.

The Committee may from time to time submit to the Board its recommendation on matters within its purview, for the Board's decision.

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 or any other regulatory requirements, the Committee must promptly report such matter to the Securities Commission of Malaysia, Bursa Securities or relevant authorities.

#### **11. CIRCULAR RESOLUTION**

A resolution in writing signed by a majority of all members shall be valid and effectual as if it had been passed at a meeting of the Committee. All such resolutions shall be described as "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 the like form, each signed by one (1) or more members. The expressions "in writing" or "signed" include approval by legible confirmed transmission by facsimile, telex, cable, telegram or other forms of electronic communications.

#### **12. APPOINTMENT PROCESS**

In the event of any vacancy with the result of the number of members falling below three (3), the Board must fill the vacancy within three (3) months.

Annual review and re-appointment by the Board subject to the Board's review of the term of office and performance of Committee and each of its members at least once every three (3) years to determine whether such Committee and members of Committee have carried out their duties in accordance with their terms of reference.

#### **13. REVIEW OF THE TERMS OF REFERENCE**

The Committee shall recommend any changes to its terms of reference in such manner as the Committee deems appropriate to the Board for approval. 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 or any other regulatory requirements. It should also be reviewed and updated when there are changes to the direction or strategies of the Group that may affect the Committee's role.

This Terms of Reference was adopted by the Board on 24 May 2023.

**END**