

AUDIT COMMITTEE REPORT

The report of the Audit Committee ("Committee") of LBS Bina Group Berhad ("LBGB" or "Company" or "Group") for the financial year ended 31 December 2016 ("FY 2016") is presented as follows:

A. MEMBERS AND ATTENDANCE

During the FY 2016, the Committee held seven (7) meetings. The details of the membership and record of attendance of these meetings are as follows:

Committee Member	Appointment	Attendance	
Lim Tong Lee* <i>Chairman, Independent Non-Executive Director</i>	04.06.2013	7	100%
Datuk Dr Haji Baharum Bin Haji Mohamed <i>Member/Senior Independent Non-Executive Director</i>	20.08.2013	7	100%
Datuk Lim Si Cheng <i>Member/Independent Non-Executive Director</i>	20.08.2013	7	100%

Notes:

* Member of Malaysian Institute of Accountants

Nomination and Remuneration Committee has reviewed and evaluated the performance of the Committee as a whole and its members individually through an Annual Board & Board Committees Performance Evaluation. All the deliberations, recommendations and discussions were recorded in the Minutes and Performance Evaluation Sheet. The same were tabled to the Board members for deliberations at the subsequent Board meeting. The Board is satisfied that the Committee has effectively performed all their functions, duties and responsibilities in accordance with its Terms of Reference.

The Audit Committee meetings were attended by the external and/or internal auditors, when necessary.

B. TERMS OF REFERENCE OF AUDIT COMMITTEE

The principal functions of the Committee are to provide oversight of the financial statements in compliance with legal, regulatory requirements and applicable accounting standards and to assess the effectiveness of the system internal controls as well as internal and external audit functions.

The Terms of Reference of the Committee covers the following parts:-

1. Composition and size;
2. Quorum;
3. Proceedings of Meeting;
4. Authority; and
5. Duties and Functions.

The Board will review the Terms of Reference of the Audit Committee when necessary to ensure they remain relevant and appropriate. The full version of the Terms of Reference of the Audit Committee are published on the Company's website at www.lbs.com.my.



AUDIT COMMITTEE REPORT (CONT'D)

C. SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

The summary of the activities of the Audit Committee in discharging its functions and duties during the year under review are as follow:-

1. Financial Reporting:

- Reviewed the unaudited quarterly results of the Group in respect of FY 2016 prior to recommending the same to the Board of Directors' ("Board") for approval and release to Bursa Malaysia Securities Berhad ("Bursa Securities"). The review included discussion on the Group's overall performance for the quarter and material changes in the quarter results compared with the immediate preceeding quarter.
- Reviewed with the External Auditors, the audited financial statements of the Group for the year ended 31 December 2015 including the audit report, issues and reservations arising from statutory audit prior to recommending the same to the Board for approval.
- Reviewed the unaudited quarter financial results, audited financial statements and announcements of the Company, amongst others, any changes in accounting policies and practices, significant adjustments arising from the audit, major judgement areas, significant and unusual events, the going concern assumption and compliance with accounting standards and other legal requirements for the Board of Directors' approval before release to Bursa Securities.
- Reviewed the impact of any changes to the accounting standards and adoption of new accounting Standards on the Group's Financial Statements.

2. External Audit:

- Reviewed the External Auditors' scope of work and annual audit plan of the Company and the Group for the FY 2016 inclusive of audit approach, areas of audit emphasis, timeline for reporting and deliverables and audit fees prior to the commencement of the annual audit.
- Reviewed the verification on allocation of option to employees under LBGB Employees' Share Option Scheme ("ESOS").
- Reviewed the Company's Audit Committee Report and Statement on Risk Management and Internal Control before recommending the same to the Board for inclusion in the Company's Annual Report for 2015.
- Reviewed the extent of assistance rendered by management and issues and reservations arising from audits with the external auditors with the presence of management and the executive board members.
- Assessed and evaluated the performance, independence and suitability of the external auditors for re-appointment as Auditors of the Company and made recommendation to the Board with respect to their re-appointment and fees. The assessment was undertaken with written assurance from the External Auditors of their independence including policies and measures used to control their work quality.
- Reviewed the audit and non-audit fees of the external auditors for the financial year ended 31 December 2015.

AUDIT COMMITTEE REPORT (CONT'D)

3. Internal Audit:

- Reviewed and approved the risk-based Internal Audit Plan and its scope of work proposed by the Internal Audit Department for the FY 2016.
- Reviewed the audit activities carried out by the Internal Audit Department on areas encompassing Funds Acquisition, Marketing Costs Effectiveness and Control, Site Controls for Projects, Assets Maintenance, Credit Control, Related Party Transaction, Debtors' and Creditors' Aging and Maintenance and their relevant risks and audit findings and ensure corrective actions were taken in addressing the risk issues reported.
- Reviewed the progress and timeline of the external consultant in the project which involved the development and revamp of the Group's Standard Operating Procedures.

4. Risk Management:

- Reviewed the Risk Register to ensure that all major risks are well managed and reported to the Board.
- Reviewed the Risk Assessment Report on the investment of the Group for the year 2016.

5. Related Party Transactions:

- Reviewed the terms of the proposed renewal of general mandate for recurrent related party transactions of a revenue or trading nature and the procedures for these proposed transactions.
- Reviewed all related party transactions ("RPTs") entered by the Company and the Group to ensure the transactions entered into were at arm's length basis and on normal commercial terms including the adequacy, appropriateness and compliance procedures established to monitor the RPTs.

6. Other Matter

- Reviewed and revised the Terms of Reference of the Audit Committee to be in line with the latest amendments to the Listing Requirements of Bursa Securities prior to the Board's adoption.
- Reported to the Board of Directors on significant issues and concerns discussed at the Committee's meetings together with the appropriate recommendations.
- Reviewed the special requested audit report on negotiated contract by the Management for Midhills Project.

D. STATEMENT BY COMMITTEE ON THE COMPANY'S ESOS

The Committee, with the assistance of verification work performed by the External Auditors, is satisfied that the allocation of options pursuant to the Company's ESOS during FY 2016, has complied with the criteria set out in the ESOS Bye-Laws.

E. INTERNAL AUDIT FUNCTION

LBGB has an in-house Internal Audit Department ("IAD") that carries out its appraisal function independently from the Management, with the Head of IAD reporting directly to the Audit Committee. The key function of IAD is assessing and enhancing the effectiveness of internal control, governance and risk management processes.



AUDIT COMMITTEE REPORT (CONT'D)

The IAD adopts a risk-based auditing approach approved by the Audit Committee whilst taking into account of the standards set by recognised professional bodies, global best practices and industry standards.

During the financial year under review, the IAD has carried out audit review on the following areas in accordance with the Internal Audit Plan approved by the Audit Committee:-

- a. Funds Acquisition;
- b. Marketing Costs Effectiveness and Control;
- c. Site Controls for Projects;
- d. Assets Maintenance;
- e. Credit Control;
- f. Related Party Transaction;
- g. Debtors' and Creditors' Aging; and
- h. Maintenance.

Besides reviewing the findings of internal control system of the Group, IAD also provides recommendations to improve such internal controls. The Internal Audit Reports and relevant follow-up reports together with management responses were circulated to all members of the Audit Committee for review and discussion before the Committee Meeting on a quarterly basis. Upon the recommendation of the Committee, the said internal audit reports were tabled at the Committee Meeting for approval. The total cost incurred for maintaining the internal audit function for the FY 2016 was RM493,771.06.

The summary of the activities of the Internal Audit Work undertaken during the year under review are as follow:-

- i. Performed risk-based audit on the Group's business units or processes, which covered reviews of the internal control, accounting and management information systems and risk management;
- ii. Issued internal audit reports and/or special report requested by the management to the Audit Committee with weaknesses and issues identified;
- iii. made recommendations for improvement on processes where weaknesses and/or non-compliances were identified;
- iv. Follow-up on matters or concerns raised by Audit Committee and reported on status periodically; and
- v. conducted follow-up reviews to determine adequacy, effectiveness and timeliness of actions taken by the Management on audit recommendation and provided updates on the status to the Audit Committee.