

Term of Reference for Audit Committee

1. Introduction

The Audit Committee (the “**Committee**” or “**AC**”) of VSTECS Berhad (“**VSTECS**” or “**the Company**”) was formed by the Board of Directors of the Company. Its primary function, in line with the Malaysian Code on Corporate Governance, is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies (herein referred to as “**the Group**”).

In addition, the Committee shall:

- Oversee and appraise the quality of the audits conducted both by the Company’s Internal and External Auditors;
- Maintain open lines of communication between the Board of Directors, the Internal Auditors and the External Auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- Determine the adequacy of the Group’s administrative, operating and accounting controls.

2. Composition

The Audit Committee shall be appointed by the Directors from among their numbers (pursuant to a resolution of the Board of Directors) which fulfils the following requirements:

- 2.1. the Audit Committee must compose of no fewer than 3 members;
- 2.2. all members of the Audit Committee should be Non-Executive Directors;
- 2.3. a majority of the Audit Committee must be Independent Directors; and
- 2.4. all members of the Audit Committee should be financially-literate and at least one member of the Audit Committee:-
 - 2.4.1. must 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 three (3) years’ working experience, and:
 - he must have passed the examinations specified in Part 1 of the First Schedule of the Accountant 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

- he must be a person who fulfils the requirements as may be prescribed or approved by the Bursa Malaysia Securities Berhad (“**Bursa Securities**”) and/or other relevant authorities from time to time.
- 2.5. No alternate Director of the Board shall be appointed as a member of the Audit Committee.
- 2.6. As set out in the Company’s *External Auditors Policy – Policies and Procedures to assess the Suitability, Objectivity and Independence of the External Auditors*, the Audit Committee shall require a former partner* of the external audit firm of the Company to observe a cooling-off period of at least three (3) years before being appointed as a member of the Audit Committee.
- [Note*: This applies to all former partners of the audit firm and/or the affiliate firm (including those providing advisory services, tax consulting etc.)]
- 2.7. In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2.1 to 2.4 above, the vacancy must be filled within three (3) months of that event.

3. Chairman

- 3.1. The Chairman of the Audit Committee is responsible for ensuring the overall effectiveness and independence of the Committee.
- 3.2. The members of the Audit Committee shall elect a Chairman from among their number who shall be an Independent Non-Executive Director. The Chairman of the Audit Committee is not the Chairman of the Board.
- 3.3. 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.
- 3.4. The Chairman of the Audit Committee together with other members of the Audit Committee should ensure amongst others, that:
- (a) the Audit Committee is fully informed about significant matters related to the Company’s audit and its financial statements and addresses these matters;
 - (b) the Audit Committee appropriately communicates its insights, views and concerns about relevant transactions and events to Internal and External Auditors;
 - (c) 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
 - (d) there is co-ordination between Internal and External Auditors.

- 3.5. The Chairman of the Audit Committee shall engage on a continuous basis with the Chairman of the Board, Senior Leadership team such as the Chief Executive Officer and the Chief Financial Officer, the Internal Auditors and the External Auditors in order to be kept informed of matters affecting the Group.
- 3.6. Upon the request of the external auditor, the Chairman of the Audit Committee 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.

4. Procedure of Audit Committee

4.1. Frequency, Calling and Notice of meetings

- (a) The Audit Committee shall meet regularly and meetings shall be held at least four (4) times in each financial year, 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.
- (b) Notice of Audit Committee meetings shall be given to all the Audit Committee members unless the Audit Committee waives such requirement.

4.2. Quorum, Attendance, Voting and proceedings

4.2.1. Quorum

The quorum for the Audit Committee meeting shall be a majority of members present whom must be Independent Directors.

4.2.2. Attendance

- (a) The Audit Committee members may participate in a meeting by means of conference telephone, conference videophone or any similar or other communications equipment or digital application by means of which all persons participating in the meeting can hear and view each other. Such participation in a meeting shall constitute presence in person at such meeting.
- (b) The Chief Financial Officer and a representative of the Internal and External Auditors respectively should normally attend meetings. Other Board members and employees may attend particular meetings upon the invitation of the Audit Committee, specific to the relevant meeting. 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.

4.2.3. Voting

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.

4.2.4. Proceedings

- (a) The Committee shall meet with the External Auditors without the presence of executive Board members as and when required.
- (b) The Committee shall record its conclusion on issues discussed during meetings and report to the Board at the quarterly Board meetings.

4.3. Safekeeping, custody, production and inspection of AC Minutes

- (a) 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 the proceeding of each meeting to the Board.
- (b) 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.
- (c) The Audit Committee members may inspect the Minutes of the Audit Committee at the registered office or such other place as may be determined by the Audit Committee.

5. Secretaries

The Secretaries of the Company shall be Secretaries (the "Secretaries") of the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it prior to each meeting.

6. Circular Resolutions

A resolution in writing signed by a majority of the Committee members for the time being shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted. Any such resolution may consist of several documents in like form each signed by one (1) or more Committee members. Any such document may be accepted as sufficiently signed by a Committee member if transmitted to the Company by email, facsimile or other electrical or digital written message/application to include a signature of a Committee member.

7. Functions

The functions of the Audit Committee are as follows:-

(A) Oversight of External Auditors and External Audit

7.1. Review the following and report the same to the Board of Directors:-

7.1.1. with the External Auditors, the audit plan;

- 7.1.2. with the External Auditors, the evaluation of the system of internal controls;
 - 7.1.3. with the External Auditors, the audit report; and
 - 7.1.4. the assistance given by the Company's employees to the External Auditors.
- 7.2. To review the annual evaluation on the performance of the External Auditors, including the suitability, objectivity and independence of the External Auditors which takes into consideration the following:-
- (a) the competence, audit quality and resource capacity of the External Auditors in relation to the audit;
 - (b) to review the Annual Transparency Report# of the audit firm which include, inter alia, audit firm's governance and leadership structure as well as measures undertaken by the firm to uphold audit quality and manage risks;
- Note#:
- Audit firms registered with the Audit Oversight Board (AOB) with more than 50 public interest entity (PIE) audit clients; and total market capitalisation of the audit firm's PIE clients above RM10 billion at the end of the calendar year for two consecutive years are required to issue an *Annual Transparency Report*. For other AOB-registered audit firms that do not meet the above criteria, they are encouraged to issue an *Annual Transparency Report*.
- (c) the appropriateness of audit fees to support a quality audit;
 - (d) the nature and extent of the non-audit services tendered and the appropriateness of the level of fees; and
 - (e) written assurance from the External Auditors confirming that they are, and have been, independent through the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.
- 7.3. To consider the appointment and independence of the External Auditors, the audit fee and any questions of resignation or dismissal, and the letter of resignation from External Auditors, if applicable;
- 7.4. The conduct of an annual evaluation on the performance of the External Auditors and undertaking follow-up measures, where required;
- 7.5. To consider whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment;
- 7.6. To recommend the nomination of a person or persons as external auditors;

- 7.7. To discuss with the External Auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- 7.8. To discuss 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 cannot be entered into should include:-
- (a) Management consulting;
 - (b) Strategic decision;
 - (c) Internal Audit; and
 - (d) Policy and standard operating procedures documentation.
- 7.9. To discuss problems and reservations arising from the interim and final audits, and any matter the Auditor may wish to discuss (in the absence of management where necessary); and
- 7.10. To review the External Auditor's management letter and management's response.

(B) Financial Reporting

- 7.11. To review the quarterly and year-end financial statements of the Company, focusing particularly on:-
- (a) any changes in or implementation of major accounting policies and practices;
 - (b) significant adjustments arising from the audit;
 - (c) significant matters highlighted including financial reporting issues, significant judgments made by Management, significant and unusual events or transactions, and how these matters are addressed;
 - (d) the going concern assumption;
 - (e) integrity of financial statements; and
 - (f) compliance with accounting standards and other legal requirements.

(C) Oversight of Risk Committee and Risk Management Function

- 7.12. To review the adequacy of the Group's Risk Management framework and assess the resources and knowledge of the Management and employees involved in the risk management process; and
- 7.13. To review the Group's risk profile and risk tolerance.

(D) Oversight of Internal Auditors and Internal Audit Function

- 7.14. To assess the sound system of internal controls by conducting the following:-
- (a) Review the adequacy of the scope, methodology, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - (b) Review the internal audit plan, processes and results of the internal audit assessments and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
 - (c) Review any appraisal or assessment of the performance of members of the internal audit function;
 - (d) Approve any appointments or termination of senior auditors of the internal audit function; and
 - (e) Inform the Board of resignations of Internal Auditors and provide the resigning Internal Auditor an opportunity to submit his reasons for resigning.
- 7.15. To ensure the Internal Audit function is independent of the activities it audits and the Internal Auditors reports directly to the Committee. The Internal Auditors will be responsible for the regular review and/or appraisal of the effectiveness of risk management, internal control and governance processes within the Company;

(E) Related Party Transactions (“RPT”)

- 7.16. To consider any RPT 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.
- 7.17. To establish and maintain a RPT Policy which serve as a guidance document to ensure the RPTs are carried out in the ordinary course of business; are made at arm’s length and on normal commercial terms which are not more favourable to the related party or parties than those generally available to the public and are not on terms that are detrimental to the minority shareholders of VSTECS.
- 7.18. (a) For any RPT which require announcement(s) and/or issuance of circular to shareholders, to render/ prepare an Audit Committee Statement which will indicate its view that such RPT is:-
- (i) in the best interest of the listed issuer;
 - (ii) fair, reasonable and on normal commercial terms; and
 - (iii) not detrimental to the interest of the minority shareholders, together with the basis for its views;

- (b) where the audit committee has sought an independent advice in forming its views, a statement to that effect; and
- (c) where the views of the audit committee are different from the opinion of the independent adviser, if any, the reasons for the difference.

(F) Other Governance/ Non-Financial Reporting Matters

- 7.19. To consider the major findings of internal investigations and management's response;
- 7.20. To exercise its powers and carry out its responsibilities as may be required from time to time under the Anti-Bribery and Corruption Policy of the Company;
- 7.21. To exercise its powers and carry out its responsibilities as may be required from time to time under the Whistleblowing Policy of the Company;
- 7.22. To verify the allocation of employees' share option scheme ("ESOS") / share issuance scheme ("SIS") in compliance with the criteria as stipulated in the By-laws of ESOS / SIS of the Company, if any, at the end of the financial year;
- 7.23. To report promptly any matters resulting in the breach of the Main Market Listing Requirements of Bursa Securities to the Board. Where the Committee is of the opinion that such matter reported by it to the Board has not been satisfactorily resolved, the Committee shall promptly report such matter to Bursa Securities; and
- 7.24. To consider other topics deemed fit by the Committee within its terms of reference and/or as defined by the Board.

8. Rights of the Audit Committee

The Audit Committee shall, wherever necessary and reasonable for the Company to perform of its duties, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- 8.1. have authority to investigate any matter within its terms of reference;
- 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 Company and the Group;
- 8.4. have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any);
- 8.5. be able to obtain independent professional or other advice, at the expense of the Company; and

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- 8.6. be able to convene meetings with External Auditors or the person(s) carrying out the internal audit function or activity or both, (without the presence of executive Board members) at least twice a year and whenever deemed necessary.

9. Reporting of Breaches to the Exchange

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 Main Market Listing Requirements of Bursa Securities, the Committee shall promptly report such matter to Bursa Securities.

10. Reporting

- 10.1 The Chairman of the Audit Committee shall report on each meeting to the Board 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.
- 10.2 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. Review of the Audit Committee

The Nominating Committee shall review annually the term of office and performance of the Audit Committee and each of its members to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

12. Review of the Terms of Reference

The Terms of Reference of Audit Committee are to be regularly reviewed by the Board as and when required.

13. Publication of the Terms of Reference

A copy of this Terms of Reference is made available on the corporate website of the Company at www.vsteecs.com.my.

* Amended pursuant to the Board of Directors' approval on 23 November 2022.