



NESTCON GROUP

BUILDING INTEGRITY . CONNECTING COMMUNITIES

**AUDIT COMMITTEE
TERMS OF REFERENCE**

1. PRIMARY PURPOSES

The Audit Committee ("Committee") shall:

- (a) Provide assistance to the Board of Directors ("Board") in fulfilling its fiduciary responsibilities on the oversight of the integrity of the corporate accounting and financial reporting for the Company and all its subsidiaries ("Group");
- (b) Improve the Group's business efficiency, the quality of the accounting function, the system of internal controls and audit function and strengthen the confidence of the public in the Group's reported results;
- (c) Maintain oversight of the risk identification, assessment and management program of the Group;
- (d) Maintain through regularly scheduled meetings, a direct line of communication between the Board, the management and the external auditors as well as internal auditors;
- (e) Enhance the effectiveness and independence of both the external and internal auditors' functions through active participation in the audit process;
- (f) Review and assess the suitability, objectivity and independence of external auditors;
- (g) Strengthen the role of the independent directors by giving them a greater depth of knowledge as to the operations of the Company and the Group through their participation in the Committee; and
- (h) Act upon the Board's request to investigate and report on any issues or concerns with regard to the management of the Group.

2. MEMBERS

The Board shall appoint the members of the Committee from amongst themselves, which fulfils the following requirements:

- (a) The Committee shall be composed of no fewer than three (3) members;
- (b) The Committee shall comprise of non-executive directors, with a majority of them being independent directors;
- (c) The Chairman of the Committee shall not be the chairman of the Board;
- (d) The members of the Committee must elect a chairman among themselves who is an independent director;

2. MEMBERS (Continued)

- (e) Former key audit partner⁽¹⁾ of the Group shall observe a cooling-off period of at least two (2) years before being appointed as a member of the Committee;
- (f) At least one (1) of the members of the Committee must:
 - (1) be a member of the Malaysian Institute of Accountants; or
 - (2) have at least three (3) years working experience and (i) must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967, or (ii) must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967; or
 - (3) fulfils such other requirements as prescribed by the Exchange;
- (g) No alternate director is appointed as a member of the Committee;
- (h) The Committee shall possess wide range necessary skills to discharge his/her duties;
- (i) All members of the Committee should be financially literate and are able to understand matters under the purview of the Committee; and
- (j) 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.

3. AUTHORITY

The Committee shall in accordance with the procedure determined by the Board and at the cost of the Company:

- (a) have explicit authority to investigate any matter within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group;
- (b) have the resources which are required to perform its duties as set out in its terms of reference or any statute or laws;
- (c) have full and unrestricted access to any information pertaining to the Company and the Group;

Note:

- (1) The former key audit partner means the engagement partner, the individual responsible for the engagement of quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the auditor will express an opinion.

3. AUTHORITY (Continued)

- (d) have direct communication channels with the external auditors and the internal auditors;
- (e) be able to obtain independent/external professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary;
- (f) be able to invite outsiders with relevant experience to attend its meetings, whenever deemed necessary; and
- (g) be able to convene meetings with the external auditors, the internal auditors or both excluding the attendance of the executive members of the Company, at least twice a year and whenever deemed necessary.

Notwithstanding anything contrary hereinbefore stated, the Committee does not have executive powers and shall report to the Board of Directors on matters considered and its recommendations thereon, pertaining to the Company and the Group.

4. FUNCTIONS AND DUTIES

The functions of the Committee are as follows:

- (a) To review the following and report the same to the Board of Directors of the Company:
 - (1) with the external auditor, the audit plan;
 - (2) with the external auditor, his/her evaluation of the system of internal controls;
 - (3) with the external auditor, his/her audit report; and
 - (4) the assistance given by the employees of the Company and the Group to the external auditor.
- (b) To do the following and report the same to the Board of Directors of the Company, in relation to the internal audit function:
 - (1) review the adequacy of the scope, functions, competency and resources of the internal audit function, and whether it has the necessary authority to carry out its work;
 - (2) review the internal audit programme, processes and results of the internal audit programme, the effectiveness of the internal audit function, processes or investigation undertaken and, where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
 - (3) review any appraisal or assessment of the performance of members of the internal audit function and their respective audit fees;
 - (4) approve any appointment or termination of senior staff members of the internal audit function; and
 - (5) take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

4. FUNCTIONS AND DUTIES (Continued)

- (c) To review the quarterly results and annual financial statements of the Company and the Group with both the external auditors and management and report the same to the Board of Directors of the Company, focusing particularly on:
 - (1) any change in or implementation of accounting policies and practices;
 - (2) significant adjustment arising from the audit;
 - (3) any significant matters highlighted including financial reporting issues, significant judgments made by management and how these matters are addressed;
 - (4) significant unusual events or transactions;
 - (5) the going concern assumption; and
 - (6) compliance with accounting standards and other legal requirements.
- (d) To consider and review any related-party transactions and potential conflict of interest situations that may arise within the Company and the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (e) To ensure that they are fully informed about significant matters related to the company's audit and its financial statements and addresses these matters and also their concerns on matters that may have an effect on the financial or audit of the Company are communicated to the external auditors;
- (f) 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);
- (g) To communicate their insights, views and concerns about relevant transactions and events to internal auditors;
- (h) To ensure there is co-ordination between internal and external auditors;
- (i) To consider and report the same to the Board of Directors of the Company the appointment, nomination, resignation and dismissal of external auditors and their respective audit fees;
- (j) To review and report the same to the Board of Directors of the Company:
 - (1) the policies and procedures for assessment of suitability and independence of external auditors; and
 - (2) the policies and procedures governing the provision of non-audit services by external auditors.
- (k) To review and report the same to the Board of Directors of the Company whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment;
- (l) To discuss with the external auditor before the audit commences, the nature and scope of the audit, competency and resources of the external audit and ensure co-ordination where more than one audit firm is involved;

4. FUNCTIONS AND DUTIES (Continued)

- (m) To review the internal audit programme, processes and results of the internal audit programme, the effectiveness of the internal audit function, processes or investigation undertaken and, where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
- (n) To review the effectiveness of the management information system;
- (o) To review and discuss any management letter sent by the external auditors to the Company and the management's response to such letter;
- (p) To consider the report, major findings and management's response thereto on any internal investigations carried out by the internal auditors;
- (q) To review all areas of significant risk and the arrangements in place to contain those risks to acceptance levels;
- (r) To oversight on the establishment and implementation of a risk management framework to ensure the adequacy of risk management policy and infrastructure;
- (s) To review the allocation of options pursuant to the Share Issuance Scheme and make such statement to be included in the annual report of the Company in relation to a share scheme for employees;
- (t) To carry out any other function that may be mutually agreed upon by the Committee and the Board, which would be beneficial to the Company and ensure the effectiveness discharge of the Committee's duties and responsibilities;
- (u) The Committee actions shall be reported to the Board of Directors with such recommendations as the Committee deemed appropriate; and
- (v) Any such other functions as may be agreed by the Committee and the Board.

5. RESPONSIBILITY

To report to Bursa Malaysia Securities Berhad ("Bursa Securities") on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad.

6. RETIREMENT AND RESIGNATION

In the event of any vacancy in the Committee, the Company shall fill in the vacancy within three (3) months.

7. MEETINGS

- (a) The Committee shall meet at least four (4) times in a year or more frequently as circumstances required with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities;
- (b) The quorum of the meeting shall consist of a majority of members present who must be Independent Directors;
- (c) Any question arising at any meeting of the Committee shall be decided by a majority of votes, each member of the Committee having one (1) vote and a determination by a majority of the members of the Committee shall for all purposes be deemed a determination of the members of the Committee;
- (d) The Chairman of the Committee shall convene a meeting of the Committee to meet the external auditors or the internal auditors or both without any executive directors and the employees of the Company present, whenever deemed necessary, to consider matters which should be brought to the attention of the directors or shareholders;
- (e) The external auditors and internal auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee;
- (f) The Committee may invite any Board member or any member of management or any employee of the Company who the Committee thinks fit to attend its meetings to assist and to provide pertinent information as necessary;
- (g) The Company must ensure that other directors and employees attend any particular Committee meeting only at the Committee's invitation, specific to the relevant meeting;
- (h) The Committee may participate in a meeting of the Committee by means of conference telephone, conference videophone or any similar or other communication 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; and
- (i) A resolution in writing signed or approved by facsimile, letter, telegram, telex or telefax or other written electronic communications by all the members of the Committee and who are sufficient to form a quorum, shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted. All such resolutions shall be described as "Committee Members' Resolutions in Writing" and shall be forwarded or otherwise delivered to the Secretary without delay, and shall be recorded by the Secretary in the Company's minute book. Any such resolution may consist of several documents in like form, each signed by one (1) or more Committee members.

8. NOTICE OF MEETINGS

Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend, no later than seven (7) days before the date of the meeting, except in the case of an emergency, where reasonable notice of every Committee meeting shall be given in writing. Supporting papers shall be sent to committee members and to other attendees as appropriate, at the same time.

9. SECRETARY AND MINUTES

- (a) The Company Secretary or other appropriate senior management shall be the Secretary to the Committee;
- (b) The Secretary to the Committee shall be responsible, in conjunction with the Chairman of the Committee, for drawing up the agenda and other supporting explanatory documentation for circulation to the members of the Committee prior to each meeting;
- (c) The Secretary to the Committee will also be responsible for keeping the minutes of the meetings of the Committee, and circulating them to members of the Committee and to other members of the Board of Directors; and
- (d) The Secretary to the Committee shall ensure that the minutes are properly kept and produced for inspection if required.

10. REVIEW OF THE COMPOSITION OF THE COMMITTEE

The term of office and performance of the Committee and each of the members shall be reviewed by the Nomination Committee annually to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.