

VERSATILE CREATIVE BERHAD

(Company No. 603770-D)
(Incorporated in Malaysia)

TERMS OF REFERENCE OF AUDIT COMMITTEE

(Updated as at 22 July 2019)

1. Purpose

The Audit Committee (“AC”) is established as a committee of the Board of Directors (“Board”) with the primary objective of assisting the Board to:-

- (a) discharge its statutory and fiduciary responsibilities of overseeing the risk management and financial reporting processes within the Company and its subsidiaries (“Group”);
- (b) review the adequacy and operating efficiencies of the Group’s accounting function, financial reporting and internal control processes;
- (c) enhance the independence of the external and internal audit functions by providing direction to and overseeing these functions; and
- (d) ensure that an effective ethic programme is implemented across the Group, and to monitor compliance with established policies and procedures.

2. Composition of members

- 2.1 The Board shall appoint the AC members from amongst themselves, comprising no fewer than three (3) non-executive directors. The majority of the AC members shall be independent directors.

In this respect, the Board adopts the definition of “independent director” as defined under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

- 2.2 All members of the AC should be financially literate and be able to understand matters under the purview of the AC, including financial reporting process. The definition of financial literacy requires the ability to read, analyse and interpret financial statements.

- 2.3 At least one (1) member of the AC must be:-

- (a) a member of the Malaysian Institute of Accountant (“MIA”); or
- (b) if he is not a member of MIA, he must have at least three (3) years of working experience and:
 - i. must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - ii. 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) fulfils such other requirements as prescribed or approved by Bursa Securities.

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- 2.4 No alternate director of the Board shall be appointed as a member of the AC.
- 2.5 No former key audit partner shall be appointed as a member of the AC before first observing a cooling-off period of at least two (2) years since the last date of the last audit he/she was involved as key audit partner.

The definition of key audit partner follows the definition as mentioned in the Malaysian Code of Corporate Governance and advise the date of the last audit he/she was involved in as key audit partner.

- 2.6 The term of office and performance of the AC and each of its members shall be reviewed by the Nomination Committee annually to determine whether such AC and its members have carried out their duties in accordance with their terms of reference.
- 2.7 In the event of any vacancy resulting in the number of members of the AC falling below three (3), the vacancy must be filled within three (3) months of that event.

3. Chairman

- 3.1 The members of the AC shall elect a Chairman from amongst their number who shall be an independent director. The Chairman of the AC shall not be the Chairman of the Board.
- 3.2 The Chairman is responsible for ensuring the overall effectiveness and independence of the Committee. In particular, he is responsible for:
- (a) planning and conducting meetings;
 - (b) overseeing the reporting to the Board;
 - (c) encouraging open discussion during meetings; and
 - (d) developing and maintaining active on-going dialogue with the Managing Director, the Chief Financial Officer (“CFO”), Management and the external and internal auditors.
- 3.3 The Chairman together with other members should ensure, amongst others, that:
- (a) the AC is fully informed about significant matters related to the Group’s audit and its financial statements and address these matters;
 - (b) the AC appropriately communicates its insights, views and concerns about relevant transactions and events to the internal and external auditors;
 - (c) the AC’s concerns on matters that may have an effect on the financial audit of the Group are communicated to the external auditors; and
 - (d) there is co-ordination between internal and external auditors.

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

3.5 In the event of any reason that the Chairman of AC cease to be the Chair, the other members of the AC shall elect a new Chairman within three (3) months.

4. Meetings

4.1 The AC shall meet five (4) times annually, or more frequently, if deemed necessary.

4.2 In the absence of the Chairman, the other members shall amongst themselves elect another member to chair the meeting.

4.3 The Company Secretary shall be the Secretary of the AC and shall be responsible for co-ordination of administrative details, including calling the meeting, voting by members and keeping of minutes of meeting.

4.4 The Chairman shall convene a meeting of the AC if a request is made by any AC member, the Managing Director, the internal auditors or external auditors, which believed should be brought to the attention of the AC.

4.5 The CFO and other Board members, other Management personnel and the external auditors attend meetings upon the invitation of the AC.

4.6 At least twice a year and whenever necessary, the AC shall meet with the external auditors and internal auditors without the presence of non-independent directors or Management personnel.

4.7 The AC members may participate in a meeting by means of telephone or video conferencing. Such participation shall constitute presence in person at such meeting.

4.8 Motions put forward to the AC shall be decided on a majority of votes. Each member shall be entitled to only one vote.

4.9 A resolution in writing, signed or approved by letter, electronic mail or other electronic communication by a majority of members, shall be as effectual as if it has been passed at a meeting of the AC duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more AC members.

5. Minutes

5.1 Minutes of each meeting shall be kept at the registered office and distributed to each member of the AC and also to the other members of the Board. The AC Chairman shall report on each meeting to the Board.

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5.2 The minutes of the AC 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.

6. Quorum

The quorum for the AC meeting shall be the majority of members present whom must be independent directors.

7. Authority

7.1 The AC is authorized by the Board and at the expense of the Company,

- (a) secure the necessary resources in order to perform its duties set out in its terms of reference;
- (b) investigate any matter within its terms of reference, including possible fraud, illegal acts or suspected violation of the Code of Conduct involving Senior Management personnel or members of the Board. All employees shall be directed to co-operate as requested by the AC;
- (c) have full and unrestricted access to any employee of the Group and all information and documents which are required to perform its duties;
- (d) have unrestricted access to the Managing Director and CFO that is required to perform its duties;
- (e) obtain external legal or other professional advice as necessary at the cost of the Group;
- (f) convene meetings with the external auditors, internal auditors and the Company Secretary without the attendance of other Directors or employees of the Group; and
- (g) be able to invite outsiders with relevant experience to attend its meetings, if necessary.

7.2 The AC shall report to the Board on matters considered and its recommendations thereon.

8. Duties and Responsibilities

The duties and responsibilities of the AC are as follows:-

8.1 Financial reporting

- (a) To review with the external auditors, the quarterly and year-end financial statements, before approval by the Board, focusing particularly on:

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- (i) whether there have been changes in or adoption of new accounting policies;
 - (ii) whether there have been changes in the presentation of the financial statements;
 - (iii) whether there are significant auditing and financial reporting matters, material audit adjustments, material fluctuations in balances; significant judgment and estimates made by Management, significant or unusual events or transactions highlighted by the external auditors, and how these matters are addressed;
 - (iv) whether significant contingent liabilities and commitments have been properly disclosed;
 - (v) whether the going concern assumption used in the preparation of the financial statements is appropriate;
 - (vi) whether the financial statements are in compliance with accounting standards and other legal requirements;
 - (vii) whether the financial statements taken as a whole provide a true and fair view of the financial position and performance of the Group and Company; and
 - (viii) whether there are any qualifications in the auditors' report that must be discussed and properly acted upon.
- (b) To report its findings on the financial and management performance, and other significant matters to the Board, and if appropriate, recommend to the Board the issuance of the quarterly and year-end financial statements to Bursa Securities.
- (c) To discuss problems and issues encountered during the interim and final audits, and any matter the external auditors may wish to discuss (in the absence of Management, where necessary).

8.2 External auditors

- (a) To consider the appointment or re-appointment of the external auditors, the level of audit fees and any questions regarding resignation or dismissal.
- (b) To annually assess the suitability, objectivity and independence of the external auditors, taking into consideration the following:
 - (i) the competence, audit quality and resource capacity of the external auditors in relation to the audit;

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- (ii) the nature and extent of non-audit services rendered and the level of fees paid for such services relative to audit fees. In this connection, the AC shall review and approve all proposed non-audit services, including proposed fees, prior to work commencement; and
 - (iii) the conduct of and independence demonstrated by the external auditors throughout the audit engagement. In this connection, the AC shall obtain written confirmation from the external auditors that they are, and have been, independent in accordance with all relevant professional and regulatory requirements.
- (c) To discuss with the external auditors before the audit commences, their audit plan, the nature and scope of their audit and their co-ordination with component auditors where more than one (1) audit firm is involved in the audit of the Group's financial statements.
 - (d) To review the external auditors' management letter and Management's response to their suggestions for improvements.
 - (e) To ensure that assistance and full access to all information and documents and records required by the auditors is given by Management to the external auditors.
 - (f) To review with the external auditors their evaluation of the system of internal controls and their audit report and to report the same to the Board.
 - (g) To review any letter of resignation from the external auditors of the Company or any of its subsidiaries; and

8.3 Internal audit

- (a) To perform the following in relation to the internal audit function:
 - (i) review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - (ii) review the annual internal audit plan, processes and the results of all internal audit assignments (including any special investigations) undertaken and ensure that appropriate actions are taken based on the recommendations;
 - (iii) review the budget and ensure sufficient resources are allocated to the internal audit function;

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- (iv) ensure that the internal audit function is independent of the activities it audits and that the head of internal audit reports functionally to the AC directly;
 - (v) appraise the performance of the internal audit function on an annual basis;
 - (vi) approve any appointment or termination of senior staff members of the internal audit function; and
 - (vii) take note of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (b) To determine the remit of the internal audit function.

8.4 Risk management and internal control

To perform the following in relation to risk management and internal controls:

- (i) review areas of significant business and financial risk and the arrangements in place to mitigate those risks to acceptable levels;
- (ii) review the adequacy and effectiveness of risk management, internal control, and governance systems implemented within the Group including the management information system implemented by the Management;
- (iii) monitor risk management processes to ensure they are integrated into all core business processes;
- (iv) consider the major findings of internal investigations and Management's response;
- (v) review the report of the Risk Management Committee and ensure that all risks are well managed;
- (vi) review the Group's risk management policy and procedures, and implementation of the risk management framework; and
- (vii) review the statement on risk management and internal control in the Company's annual report.

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8.5 Related party transactions

To perform the following in relation to related party transactions:

- (i) ensure that Management establishes a comprehensive framework for the purposes of identifying, evaluating, approving, reporting related party transactions and monitoring conflict of interest situations;
- (ii) review with the internal auditors their quarterly report from work performed to establish whether recurring related party transactions have been carried out in accordance with the mandate approved by shareholders and on commercial terms no more favourable than those available to non-related third parties; and
- (iii) review non-recurring corporate proposals involving related parties to ensure that they are in the best interest of the Group and not detrimental to the interest to minority shareholders.

8.6 Other Matters

- (a) Prepare an AC Report at the end of the financial year for inclusion in the Annual Report pursuant to Bursa Securities' Main Market Listing Requirements.
- (b) Undertake such other assignments as requested by the Board from time to time or as the AC considers appropriate.

9. Reporting Responsibility

The AC is responsible for making recommendations to the Board for consideration and adoption, but it has no executive power to implement the recommendations on behalf of the Board.

Where the AC is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Bursa Securities' Main Market Listing Requirements, the AC has the responsibility of promptly reporting such matter to Bursa Securities.

10. Review of Terms of Reference

The AC shall recommend changes to its terms of reference to fulfill such other requirements as prescribed by Bursa Securities and/or to align the AC with recommended best practices and proper corporate governance as the AC deems appropriate to the Board for approval. The terms of reference shall be assessed, reviewed and updated as and when necessary, not more than three (3) years.