ENCORP BERHAD

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TERMS OF REFERENCE OF THE AUDIT AND GOVERNANCE COMMITTEE

(Company No. 200001004231 (506836-X))

TERMS OF REFERENCE
AUDIT AND GOVERNANCE COMMITTEE

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1. Objective

The objective of the Audit and Governance Committee ("AGC") is to assist the Board in discharging its responsibility relating to the Group's financial reporting, as well as, to assist the Board in fulfilling its fiduciary duties in relation to compliance, governance and ethics.

2. Composition

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

The Board adopts the definition of "independent director" as defined under the Main Market Listing Requirements ("Main Market LR") of Bursa Malaysia Securities Berhad ("Bursa Securities").

2.2 All members of the AGC shall be financially literate and at least one (1) member 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:

- he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or

- 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. fulfils such other requirements as prescribed or approved by Bursa Securities.

2.3 No alternate director of the Board shall be appointed as a member of the AGC. A former key audit engagement partner of the external auditors of the Company must first observe a cooling-off period of at least three (3) years before he/she is eligible for appointment as a member of the AGC.

2.4 If a member of the AGC resigns, dies, or for any reason ceases to be a member resulting in non-compliance to the composition criteria as stated above, the Board shall fill the vacancy within three (3) months.

3. Chairman

The members of the AGC shall elect a Chairman from amongst their number who shall not be the Chairman of the Board and who is an independent director. In the absence of the Chairman, the other members shall amongst themselves elect a Chairman who must be an independent director to chair the meeting.

4. Secretary

The Company Secretary shall be the Secretary of the AGC and as a reporting procedure, the Minutes shall be circulated to all members of the Board.

5. Notice of Meeting, Agenda and Board Papers

The Company Secretary prepares the notice of meeting and agenda for each meeting.

The Company generally adopts the Constitution of the Company for disseminating notice of meeting and agenda. The appropriate preparatory Board papers are sent to the Board members at least five (5) business days in advance of the meetings to allow adequate meeting preparation.

6. Meetings

6.1 The AGC shall meet regularly and hold at least four (4) meetings in a 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. AGC meetings may be held at two (2) or more venues within or outside Malaysia using any technology that enables the members as a whole to participate for the entire duration of the meeting.

6.2 Upon the request of the external auditors, the Chairman of the AGC shall convene a meeting of the AGC to consider any matter the external auditors believe should be brought to the attention of the directors or shareholders.

6.3 The Chairman of the AGC shall engage on a continuous basis with senior management, such as the chief executive officer, the chief operating officer, the head of finance, the internal auditors and the external auditors in order to be kept informed of matters affecting the Company.

6.4 The Chief Executive Officer, the Chief Operating Officer, the Head of Finance, a representative of the internal auditors and a representative of the external auditors should normally attend meetings. Other Board members and employees may attend meetings upon the invitation of the AGC.

6.5 The AGC shall be able to convene meetings with the external auditors without the presence of other directors and employees at least once a year.

6.6 Questions arising at any meeting of the AGC shall be decided by a majority of votes of the members present.

6.7 A member of the AGC shall abstain from discussion or deliberation and voting on matters which give rise to an actual or perceived conflict of interest for him.

7. Resolution In Writing

A resolution in writing, signed by all the members of the AGC for the time being entitled to receive notice of a meeting of the AGC, shall be as valid and effectual as if it had been passed at a meeting of the AGC duly convened and held.

8. Minutes

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

8.2 The minutes of the AGC 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.

9. Quorum

In order to form a quorum for the AGC meeting, the majority of members present must be independent directors.

10. Authority

The AGC shall, in accordance with a procedure to be determined by the Board and at the expense of the Company:-

10.1 have explicit authority to investigate any matter within its terms of reference;

10.2 have full and unlimited/unrestricted access to all information and documents/resources required to perform its duties;

10.3 obtain independent professional or other advice; and

10.4 have direct communication channels with the external auditors and persons carrying out the internal audit function or activity.

Where the AGC is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Main Market LR of Bursa Securities, the AGC shall promptly report such matter to Bursa Securities.

11. Duties

The duties of the AGC shall be:-

11.1 oversee all matters relating to external audit

a. to discuss with the external auditors where necessary, the audit plan, the nature and scope of the audit and ensure co-ordination of audits where more than one audit firm is involved;

b. to discuss problems and reservations arising from the interim and final audits and any matter the auditors may wish to discuss (in the absence of management, where necessary);

c. to review with the external auditors, their management letter and management's response, the external auditors' report and the audited financial statements before the same are presented to the Board for approval;

d. to review with the external auditors, their evaluation of the systems of internal control and risk management framework of the Group;

e. to consider the appointment of external auditors taking into consideration, amongst others, the suitability, independence, experience, resource and objectivity as well as the appropriateness of their audit fees as recommended by the management;

f. to assess the suitability and independence of external auditors in respect of the provision of audit and non-audit services to the Group and the Company in accordance with the terms of all relevant professional and regulatory requirements;

g. to annually assess the performance of the external auditors and report to the Board on the independence of the external auditors and obtaining their assurance on the continued registration with Audit Oversight Board;

h. to consider any letter of resignation of external auditors and any questions of resignation and dismissal;

i. to review the level of assistance given by the employees of the Group to the external auditors; and

j. to undertake continuous professional development to keep abreast of relevant developments in accounting and auditing standards, practices and rules.

11.2 oversee all matters relating to internal audit

a. to review and ensure that the Company and Group maintains a sound and effective system of internal controls.

b. to review the adequacy of the scope, functions, competency, experience and resources of the internal audit function;

c. to ensure the internal audit is carried out objectively and is independent from the management of the Company and the functions which it audits.

d. to review and approve the internal audit plan and internal audit annual budget;

e. to ensure co-ordination of external audit with internal audit;

f. to review major findings of internal audit reviews and management's response and ensure that appropriate actions are taken on the recommendations of the internal audit function;

g. to review any assessment of the performance of the member of the internal audit function;

h. to approve any appointment or termination of senior staff members of the internal audit function; and

i. to keep itself informed of resignations of internal audit staff members and provide resigning staff member an opportunity to submit his/ her reasons for resigning.

11.3 Review of financial statements

To review the quarterly and year-end financial statements of the Group before submission to the Board, focusing particularly on:

a. any changes in accounting policies and practices;

b. significant audit issues and adjustments arising from audit;

c. going concern assumption;

d. compliance with the applicable approved accounting standards and regulatory requirements; and

e. compliance with the Main Market LR of Bursa Securities and other legal requirements.

11.4 Review of systems of internal control

a. review and periodic testing of the Group's internal control;

b. review the adequacy, effectiveness and integrity of the Group's systems of internal control and governance processes;

c. review the findings and recommendations arising from internal and external audits relating to internal control deficiencies and monitor management's implementation of agreed corrective actions;

d. review significant control weaknesses, instances of non-compliance, fraud, suspected irregularities and management override of controls, and ensure that appropriate remedial actions are taken;

e. review management's assessment and report on the effectiveness of the Group's internal control system prior to submission to the Board;

f. satisfy itself that appropriate arrangements are in place for the independent and objective assessment of the adequacy and effectiveness of the Group's internal control system; and

g. escalate to the Board any significant control deficiencies or matters which, in the Committee's opinion, may materially affect the Group's financial position, operations, compliance, reputation or integrity.

11.5 Governance responsibilities

a. to review the Group’s governance framework as guided by the Malaysian Code on Corporate Governance and other best practices in corporate governance;

b. to review the Group’s policies to support the implementation of the Group’s governance framework; and

c. to review and monitor the Group’s policies and practices in compliance with legal and regulatory requirements.

11.6 Additional duties and responsibilities

a. to review any related party transactions and conflict of interest situation that may arise within the Group or the Company including any transaction, procedure or course of conduct that raises questions of management integrity;

b. to verify the allocation of Employees’ Share Option Scheme (“ESOS”) and Employees’ Share Grant Scheme (“ESGS”) in compliance with the criteria as stipulated in the by-laws of the ESOS and ESGS of the Company, if any; and

c. to carry out such other responsibilities, functions or assignments as may be defined jointly by the AGC and the Board from time to time.

12. Review of Committee

12.1 The Nomination & Remuneration Committee shall review the term of office and performance of the AGC and each of its members at least once a year to determine whether the AGC and its members have carried out their duties in accordance with the terms of reference and thereafter make its recommendations to the Board for consideration.

12.2 The AGC shall review its terms of reference periodically and recommend any changes it considers necessary.

End of Terms of Reference