

## **1. INTRODUCTION**

This Terms of Reference (“TOR”) identifies the purpose, composition, authority, procedures, and the duties and responsibilities of the MBM Resources Berhad (“MBMR” or “the Company”) Board Audit Committee (“AC”).

## **2. COMMITTEE PURPOSE**

Pursuant to the Bursa Malaysia Securities Berhad (“the Exchange”)’s Main Market Listing Requirements (“MMLR”) and the Malaysian Code on Corporate Governance 2021 (“MCCG 2021”), the Company’s establishment of an Audit Committee is compulsory and necessary.

The primary function of the AC is to provide assistance to the Board of Directors of MBMR (“the Board”) in fulfilling its statutory and fiduciary responsibilities in ensuring that the Company is in compliance with regulatory requirements in all material aspects of its accounting and financial reporting processes, the quality of financial disclosures including oversight of the activities of the Company’s Management and the External Auditor appointed by the Board.

The Committee’s objectives are as follows:

- (a) To ensure the integrity of the Company’s financial statements and disclosures as well as related accounting and financial reporting processes;
- (b) To determine that the Company has adequate administrative, operational and internal accounting controls and that the Company is operating in accordance with its prescribed procedures, codes of conduct and applicable legal and regulatory requirements;
- (c) To review related party transactions, conflict of interest situations and related procedures to ensure transactions carried out are not prejudicial to the interests of the Company or its non-major/substantial shareholders;
- (d) Serve as an independent and objective party in the review of the financial information presented by the Management for distribution to shareholders and the general public; and
- (e) Provide direction and oversight over the Internal Audit function and the External Auditor to enhance their independence from the Management.

## **3. COMMITTEE COMPOSITION**

### **3.1 Members**

- (a) The AC members shall be appointed by the Board from amongst the Directors of the Company.

- (b) The AC shall consist of not less than three members; all shall be Non-Executive Directors, with a majority of them being Independent Directors<sup>1</sup>.
- (c) All members should be financially literate and are able to understand matters under the purview of the AC, including the financial reporting process and should undertake continuous professional development to keep themselves abreast of relevant development in accounting and auditing standards, practices and rules<sup>2</sup>.
- (d) At least one member of the AC:-
  - (i) must be a member of the Malaysian Institute of Accountants (“MIA”); or
  - (ii) if he is not a member of the MIA, he must have at least three years’ working experience and:-
    - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
    - (bb) 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
  - (iii) fulfills such other requirements as prescribed or approved by the Exchange<sup>3</sup>.
- (e) No Alternate Director shall be appointed as a member of the AC<sup>4</sup>.
- (f) The Board shall through Nominating and Remuneration Committee review the terms of office and performance of the AC and each of its members annually to determine whether they have carried out their duties in accordance with their TOR<sup>5</sup>.
- (g) Should a vacancy in the AC occur resulting in the non-compliance with the MMLR, the Board shall fill the vacancy as soon as it is practicable and, in any event, within three months from the date of the vacancy<sup>6</sup>.
- (h) Any former partner of the external audit firm and/or its affiliates (including those providing advisory services, tax consulting etc) of the Company or any entity within the Group, must observe a cooling-off period of at least three years before being appointed as a member of the AC<sup>7</sup>.

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<sup>1</sup> Paragraph 15.09(1)(a) & (1)(b) of MMLR

<sup>2</sup> Practice 9.5 of MCCG 2021

<sup>3</sup> Paragraph 15.09(1)(c) of MMLR

<sup>4</sup> Paragraph 15.09(2) of MMLR

<sup>5</sup> Paragraph 15.20 of MMLR

<sup>6</sup> Paragraph 15.19 of MMLR

<sup>7</sup> Practice 9.2 of MCCG 2021

## 3.2 Chairman

The members of the AC must elect a Chairman among themselves who is an Independent Director. The Chairman of the AC shall not be the Chairman of the Board<sup>8</sup>.

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 Non-Executive Director to chair the meeting.

## 3.3 Secretary

The Company Secretaries of the Company or such substitute as appointed by the Directors from time to time shall act as the secretary of the AC during the term of his/her appointment.

# 4. COMMITTEE RESPONSIBILITIES AND DUTIES

## 4.1 Financial Reporting

- (i) To review the quarterly and year-end financial statements of the Group and the Company with the Management, focusing particularly on:-
  - any changes in or implementation of major accounting policies and practices<sup>9</sup>;
  - significant matters highlighted including financial reporting issues, significant judgments made by the Management, significant and unusual events or transactions, and how these matters are addressed<sup>10</sup>; and
  - compliance with applicable approved accounting standards and other legal and regulatory requirements<sup>11</sup>;
- (ii) To discuss and note of any new financial accounting standards that may be adopted into the financial reporting of the Group for any financial year; and
- (iii) To prepare the annual Audit Report for inclusion in the Group's Annual Reports.

## 4.2 Internal Audit

- (i) To review the internal audit charter to ensure the appropriate company structures, authority, access and reporting arrangements are in place;

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<sup>8</sup> Paragraph 15.10 of MMLR and Practice 9.1 of MCGG 2021

<sup>9</sup> Paragraph 15.12(1)(g)(i) of MMLR

<sup>10</sup> Paragraph 15.12(1)(g)(ii) of MMLR

<sup>11</sup> Paragraph 15.12(1)(g)(iii) of MMLR

- (ii) To advise the Board on the appointment of the head of internal audit (in the case of an in-house function) and/or recommending a specific appointment (outsourced/ co-sourced) which report directly to the AC;
- (iii) To ensure that the internal audit function is adequately resourced and able to function independently in accordance with recognised framework<sup>12</sup>;
- (iv) To assist the Board to ensure that the Management establishes and maintains adequate and effective internal controls;
- (v) To ensure adequate monitoring and review of the effectiveness of the systems established by the Management to identify, assess, manage and monitor the various risks arising from the Company's activities;
- (vi) To review the internal audit coverage and annual work plan, and monitoring progress of the work plan as well as fees or costs associated with the internal audit function;
- (vii) To advise the Board on the adequacy of internal audit scope, competency and resources to carry out its work and responsibilities, including completion of the approved internal audit plan<sup>13</sup>;
- (viii) To review the internal audit plan, processes, the results of the internal audit assessment and investigation undertaken by the internal audit function and monitor the Management's implementation of the internal audit recommendations<sup>14</sup>;
- (ix) To review all internal audit reports and advising the CEO (or his equivalent) and the Board on significant issues identified in internal audit reports and the action taken on the issues raised, including the identification and dissemination of best practices based on the recommendations of the internal audit function;
- (x) To assist the Board to ensure that appropriate controls are in place for monitoring compliance with laws, regulations and supervisory requirements and relevant internal policies;
- (xi) To periodically review the performance of the internal audit function;
- (xii) To act as a forum for communication between the Board, the Management and the Internal Auditor;
- (xiii) To review treasury policies from time to time; and
- (xiv) To review the Group's procedures concerning the prevention and detection of fraud and financial crime.

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<sup>12</sup> Practice 11.1 and 11.2 of MCCG 2021

<sup>13</sup> Paragraph 15.12(1)(e) of MMLR

<sup>14</sup> Paragraph 15.11(1)(f) of MMLR

### 4.3 External Audit

- (i) To review and recommend to the Board on the appointment, reappointment and removal of the Company's External Auditor, ensure there is a formal process to evaluate the effectiveness and efficiency of the External Auditor;
- (ii) To establish policies and procedures to assess the suitability, objectivity and independence of the External Auditor which shall include, among others, the following<sup>15</sup>:-
  - the competence, audit quality, resource capacity and timeliness of the External Auditor in relation to the audit with consideration being given to information presented in the Annual Transparency Report of the External Auditor, if any, and in the absence of such report, to engage with the External Auditor on its governance, leadership structure and its measures taken to uphold audit quality and manage risks;
  - the appropriateness of audit fees to support a quality audit;
  - reviewing and approving the provision of any non-audit services by the External Auditor and its affiliates before such services are rendered while taking into account the nature and extent of the non-audit services, the appropriateness of the level of fees and whether the rendering of such services may impinge upon the independence and objectivity of the External Auditor.
  - obtaining written assurance from the External Auditor confirming that they are, and have been, independent and impartial throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.
- (iii) To establish a formal mechanism to ensure there is frank and candid dialogue with the External Auditor;
- (iv) To review with the External Auditor, the audit plan<sup>16</sup>;
- (v) To study and evaluate the audit plan, especially the approach to be deployed by the External Auditor. The audit plan should include the following:-
  - scope of the audit, timing of the audit and reporting deadlines;
  - audit team;
  - key areas of business risk and significant transactions for the Group, as appropriate;
  - major accounting systems and systems of internal control to be reviewed;
  - extent of planned testing of controls;
  - areas where contention may arise;
  - nature and extent of audit procedures to be performed, including materiality level;
  - identification or anticipation of significant changes for the financial report as a result of new

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<sup>15</sup> Practice 9.3 of MCCG 2021

<sup>16</sup> Paragraph 15.12(1)(a) of MMLR

- or revised accounting policies and/or regulatory requirements;
- locations to be visited and audit procedures to be undertaken in respect of those locations not visited;
  - liaison with subsidiaries' auditors on consolidation of financial statements;
  - coordination with internal audit to avoid duplication of efforts and to optimise the effectiveness of the audit function efficiency;
  - the extent to which the planned audit scope can be relied upon to detect errors or irregularities (i.e. fraud); and
  - frequency of meetings with the AC and any reports or other deliverables the AC and the Management are likely to receive.
- (vi) To review with the External Auditor, the firm's evaluation of the system of internal controls<sup>17</sup>;
- (vii) To review with the External Auditor, the audit report<sup>18</sup>;
- (viii) To review the assistance given by the employees of the Company to the External Auditor<sup>19</sup>;
- (ix) To discuss with the External Auditor before the audit commences, the nature and scope of the audit, including the terms as detailed in the External Auditor's engagement letter;
- (x) To discuss and resolve any problems and reservations arising from the interim and final audit of the Group's financial statements that the External Auditor might have, and discuss any matters the External Auditor may wish to table (in absence of the Management where necessary), before recommendation to the Board for their approval;
- (xi) To review with External Auditor the Group's Statement on Risk Management and Internal Control before recommendation of the same for inclusion into the Group's Annual Reports;
- (xii) To review the External Auditor's management letters and the Management's responses;
- (xiii) To review any letter of resignation from the External Auditor of the Company<sup>20</sup>;
- (xiv) To review whether there is reason (supported by grounds) to believe that the Company's External Auditor is not suitable for re-appointment<sup>21</sup>; and
- (xv) To recommend the nomination of a person or persons as External Auditor<sup>22</sup>.

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<sup>17</sup> Paragraph 15.12(1)(b) of MMLR

<sup>18</sup> Paragraph 15.12(1)(c) of MMLR

<sup>19</sup> Paragraph 15.12(1)(d) of MMLR

<sup>20</sup> Paragraph 15.12(1)(i) of MMLR

<sup>21</sup> Paragraph 15.12(1)(j) of MMLR

<sup>22</sup> Paragraph 15.12(2) of MMLR

#### 4.4 Related Party Transactions

- (i) To review recurrent related party transactions entered into by the Company, Group and its subsidiaries; and
- (ii) To review any related party transactions and conflict of interest situations that may arise within the Group, including any transaction, procedure or course of conduct that may raise questions of management integrity<sup>23</sup>.

#### 4.5 Conflict of Interest (“COI”)

- (i) To ensure there are established policies and procedures in place for the purposes of identifying, evaluating, approving, reporting and monitoring all COI situations within the Group; and
- (ii) To review and report to the Board of Directors, any COI situations that arose, persist or may arise within the Group during the financial year together with the measures taken to resolve, eliminate or mitigate such conflict. In reviewing the COI, the AC should address and consider the following factors:
  - (a) Nature of the COI situation, areas of concern and impact on the Company;
  - (b) Identity of the interested parties; and
  - (c) Whether necessary controls and/or safeguarding measures are in place in the management of COI as well as the corrective/remedial actions to be taken in respect of each COI situation to ensure that interested parties do not abuse their power to gain an unfair advantage

#### 4.6 Others

- (i) To have explicit authority to investigate certain matters, with the resources with which it needs to do so, e.g. professional advice, and with full and direct access to information or anyone in the Group;
- (ii) To consider the major findings of any internal investigation and the Management’s response;
- (iii) To promptly report to the Exchange on matters reported by it to the Board that have not been satisfactorily resolved that may result in a breach of the MMLR<sup>24</sup>;
- (iv) To report its activities, including how it has discharged its responsibilities, to the Board on a regular basis and promptly provide to the Board copies of the minutes of meetings of the AC; and
- (v) To undertake other duties as requested by the Board from time to time.

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<sup>23</sup> Paragraph 15.12(1)(h) of MMLR

<sup>24</sup> Paragraph 15.16 of MMLR

## **5. COMMITTEE AUTHORITY**

In performing of its duties and responsibilities, the AC shall:-

- (a) Have authority to investigate any matter within its TOR;
- (b) Have the resources which are required to perform its duties;
- (c) Have full and unrestricted access to any information pertaining to the Company;
- (d) Have direct communication channels with the External Auditor and person(s) carrying out the internal audit function or activity;
- (e) Be able to obtain independent professional or other advice; and
- (f) Be able to convene meetings with the External Auditor, the person(s) carrying out the internal audit function or activity or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.

## **6. COMMITTEE PROCEDURES**

### **6.1 Frequency of Meetings**

The AC shall meet at least four times a year, and additional meetings may be called at any time, at the discretion of the AC.

### **6.2 Calling of Meeting**

- (a) Meetings of AC shall be called by the Secretary at the request of the AC Chairman or any member of AC.
- (b) The AC meeting may be held at two or more venues within or outside Malaysia using any technology that enable the AC members as a whole to participate for the entire duration of the meeting, and that all information and documents for the meeting must be made available to all members prior to or at the meeting. The technology to be used for the purpose of this paragraph must enable each AC member taking part in the meeting to communicate simultaneously with each of the other AC members and may include telephone, video conferencing, or any other audio and/or visual device which permits instantaneous communication. Minutes of the proceedings of such meeting shall be conclusive evidence of the proceedings to which it relates.



### 6.3 Notice

The Secretary, in consultation with the Chairman of AC, shall draw up an agenda of the meeting. Unless otherwise agreed, notice for calling the AC meeting shall be given to all its members at least five business days before the meeting or at shorter notice as the AC shall determine. An agenda of items to be discussed together with its supporting papers shall be sent to the AC and other attendees as appropriate, at the same time. The notice of each meeting shall be served to the members of the AC either personally or by fax, email, post, courier or any other electronic means<sup>25</sup>.

### 6.4 Quorum

The quorum for the AC meeting shall be two (2), the majority members present must be Independent Directors<sup>26</sup>.

### 6.5 Virtual Meeting

A virtual meeting shall be deemed to constitute an AC meeting provided the following conditions are met:

- (a) all the AC members for the time being entitled to receive notice of the AC meeting shall be entitled to receive notice of a virtual meeting. Notice of any such meeting shall be given by an appropriate form of technology (or in such other manner) as may be permitted by the Constitution of the Company; and
- (b) an AC member may not leave a virtual meeting by disconnecting from the technology used unless he/she has previously expressly notified the Chairperson of the meeting of his/her intention to leave the meeting and an AC member shall be conclusively presumed to have been present and to have formed part of the quorum at all times during such a meeting until such notified time of his/her leaving the meeting.

The main venue of the meeting shall be the place where the Chairperson is present or the Chairperson of the meeting is present, if the meeting is not chaired by the Chairperson.

### 6.6 Attendance

- (a) The Managing Director/Chief Executive Officer and the Group Chief Financial Officer will be invited to attend AC Meetings. Other Board members, employees or representatives of service providers may also attend meetings only upon invitation of the AC as and when required<sup>27</sup>.
- (b) The AC will meet with the External Auditor without the presence of Executive Directors and the Management at least once a year. The External Auditor will have the right to appear and be heard at any meetings of the AC and shall appear before it when required to do so by the AC.

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<sup>25</sup> Practice 1.6 of MCCG 2021

<sup>26</sup> Paragraph 15.18 of MMLR

<sup>27</sup> Paragraph 15.13 of MMLR

## 6.7 Voting

A resolution put to a vote at the meeting shall be decided by a majority of the vote. In the case of an equality of votes, the Chairman shall be entitled to a second or casting vote except where two (2) members form a quorum, the chairperson of a meeting at which only such a quorum is present, or at which only two (2) members are competent to vote on the question at issue shall not have a casting vote<sup>28</sup> and such matters shall be referred to the Board for decision.

A member of the AC who has an interest or is involved directly or indirectly in any matter under consideration by the meeting, shall abstain from deliberating and voting.

## 6.8 Minutes of Meetings

The Secretary shall minute the proceedings and resolutions of all AC meetings, including the names of those present and in attendance. The draft minutes of AC meetings shall be circulated promptly to all members of the AC.

The minutes of each meeting shall be signed by the Chairman of the meeting at which the proceedings were held and kept as part of the statutory records of the Company. The minutes of each meeting shall be tabled to the Board for notation.

The minutes shall be kept by the Company at the Registered Office and/or the principal place of business in Malaysia of the Company and shall be open to the inspection of any member of the AC without charge.

## 6.9 Written Resolution

A written resolution signed or approved by letter or telefax or facsimile, email or other electronic means by a majority of the members of the AC shall be valid and effectual as if it had been passed at a meeting of the AC duly called, convened, held and constituted. The resolution may be executed in any number of counterparts, each signed by one or more members, all of which taken together and when delivered to the Secretary of the AC shall constitute one and the same resolution. Such document may be accepted as sufficiently signed by a member of AC if it is transmitted to the Company by facsimile or other electrical or digital written message, which include a signature of the said member of AC.

## 6.10 Declaring Conflict of Interest

AC members should proactively declare at the outset of each meeting or at such earliest opportunity practicable, any potential conflict of interest relating to the affairs of the AC. Such disclosure may be

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<sup>28</sup> Clause 102(7) of the Constitution

verbal due to time constraints but should be followed by a formal declaration of conflict of interest pursuant to the Company's Conflict of Interest Policy.

Depending on the nature, extent and potential duration of the COI situation, the Chairman of the AC or the non-conflicted members shall determine an appropriate course of action which may include requiring the conflicted member to abstain from deliberation and decision making.

## **6.11 Reporting**

The AC, through its Chairman, shall report a summary of significant matters to the Board at the next Board meeting after each AC meeting. When presenting any recommendations to the Board for approval, the AC will provide such background and supporting information as may be necessary for the Board to make an informed decision.

## **4. ANNUAL EVALUATION PROCESS**

The AC should at least annually perform a review and an evaluation of its performance to ensure that it is meeting its responsibilities as set forth in this TOR. Findings from this review and evaluation process shall be presented to the Board for consideration and notation.

The review should specifically include consideration of the following:

- (a) Frequency and timeliness of AC meetings.
- (b) Adequacy and quality of information and materials provided to the AC.
- (c) Effectiveness of the AC in carrying out the duties as set out in this TOR.
- (d) Contribution of each individual AC member.
- (e) Appropriateness and adequacy of this TOR.

The AC should also recommend to the Board such changes to this TOR in such manner as the AC deems appropriate to ensure that it remains consistent with the AC's objectives, the Company's Constitution and existing regulatory requirements and recommendations.

- End -

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