



ELSOFT RESEARCH BERHAD

Registration No. 200301015084 (617504-K)

(Incorporated in Malaysia)

AUDIT COMMITTEE'S TERMS OF REFERENCE

APPOINTMENT/COMPOSITION

- 1.1 The members of the Committee shall be appointed by the Board.
- 1.2 The Audit Committee shall consists of not less than three (3) members, all of whom shall be non-executive directors and financially literate. The majority of the members of the Committee shall be Independent Directors.
- 1.3 At least one (1) member of the Committee:
 - (i) Must be a member of the Malaysian Institute of Accountants; or
 - (ii) 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 I of the First Schedule of the Accountants Act, 1967; or
 - he must be a member of one (1) of the associations of accountants specified in Part II of the First Schedule of the Accountants Act, 1967; or
 - (iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.
- 1.4 No Alternate Director shall be appointed as a member of the Committee.
- 1.5 The Chairman of the Committee shall be appointed by the members of the Committee among their member who is an Independent Director.
- 1.6 The Nomination Committee must review the term of office and performance of the Committee and each of its members annually to determine whether such Committee and members have carried out their duties in accordance with their terms of reference.

- 1.7 The Board shall, within three (3) months of a vacancy occurring in the Audit Committee which result in the number of members reduced to below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.
- 1.8 The Board has adopted a policy of not appointing any current or ex-partner of our company's external auditors who have responsibility over the audit of the Group's accounts or the provision of other services to the group, to the Board and the Audit Committee until after a 3-year cooling-off period from their last date of audit or services. This applies also to partners of their affiliated firms such as those providing advisory, tax and consulting services.

MEETINGS

- 2.1 Meetings shall be held not less than four (4) times in a year. In addition, the Chairman of the Committee may call a meeting of the Committee if a request is made by any Committee members, the Company's Executive Chairman/CEO or the internal or external Auditors if they consider it necessary.
- 2.2 Meeting will be attended by the members of the Committee and the Company Secretary or the representative of the Secretary shall act as the secretary of the Audit Committee.
- 2.3 Participants may be invited from time to time to attend the meeting depending on the nature of the subject under review. These participants may include the Directors, General Managers, Divisions Heads, representatives from the Finance and Internal Audit Departments and external Auditors. The head of finance, the head of internal audit and a representative of the external auditors should normally attend meetings.
- 2.4 The quorum of the Audit Committee meeting shall be two (2) members and composed of a majority of Independent Directors.
- 2.5 The Chairman of the Committee should engage on a continuous basis with the senior management, such as the executive chairman, the chief executive office, the head of finance, the head of the internal audit and the external auditors in order to be kept informed of matters affecting the Company.
- 2.6 The Audit Committee should meet with the external auditors without the presence of executive board members at least twice a year.

AUTHORITY

- 3.1 The Committee is authorised by the Board to carry out the duties mentioned below and the Board and the Management shall give all assistance that is necessary to enable the Committee to discharge its duties.
- 3.2 The Committee shall, whenever necessary and reasonable for the performance of its duties and in accordance with a procedure to be determined by the Board and at the Company's cost:
- (a) have authority to investigate any matter within its terms of reference;
 - (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 Auditors and person(s) carrying out the internal audit function or activity (if any);
 - (e) be able to obtain independent professional or other advice; and
 - (f) be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the company, whenever deemed necessary.
- 3.3 The head of internal audit shall reports directly to the Audit Committee.

FUNCTIONS AND RESPONSIBILITIES

- 4.1 Internal Audit
- (a) To review the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.
 - (b) To review the internal audit programme and the results of the internal audit process and when necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function.
 - (c) To review any appraisal or assessment of the performance of members of the internal audit function.
 - (d) To approve any appointment or termination of senior staff members of the internal audit function, if the internal audit function is performed in-house.
 - (e) To take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reason for resigning, if the internal audit function is performed in-house.

4.2 External Audit

- (a) To discuss and liaise with the external Auditors to ensure the smooth implementation of the audit plan, review and forward the evaluation of the system of internal controls and audit report to the Board.
- (b) To review the assistance given by employees of the Group to the external Auditors.
- (c) To review and report the same to the Board any letter of resignation from the external Auditors of the Company as well as whether there is any reason (supported by grounds) to believe that the Company's external Auditors are not suitable for re-appointment.
- (d) To make recommendations concerning the appointment of the external Auditors and their remuneration to the Board.

4.3 Audit Reports

The reports of the Committee and the external and internal Auditors and corrective action taken shall be tabled for discussion by the Board of Directors.

4.4 Financial Reporting

To review quarterly report and annual financial statements prior to the approval of the Board, focusing particularly on:

- (a) changes in or implementation of major accounting policy changes;
- (b) significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters addressed; and
- (c) compliance with accounting standards and other legal requirements.

4.5 Related Party Transaction

To review any related party transactions and conflict of interest situation that arose, persist or may arise within the Company and the Group including any transaction, procedure or course of conduct that raises questions of management integrity and the measures taken to resolve, eliminate, or mitigate such conflicts.

4.6 Allocation of Options

To review and verify the allocation of options to employees under Employees Share Option Scheme.

4.7 Listing Requirements

To report any breach of listing requirements, which have not been satisfactory resolved to Bursa Securities.

4.8 Major Findings

To consider the major findings of internal investigations and management's response.

4.9 Other Matters

To consider other topics as defined by the Board.

MINUTES

- 5.1 The Secretary shall maintain minutes of the proceedings of the meetings and circulate such minutes to all members of the Committee and to the Board members.

AUDIT COMMITTEE REPORT

The Committee shall ensure that an audit committee report is prepared at the end of each financial year that complies with subparagraph (6.1) and (6.2) below:

- 6.1 The audit committee report shall be clearly set out in the Annual Report of the Company;
- 6.2 The audit committee report shall include the following:
- (a) the composition of the Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);
 - (b) the number of Committee meetings held during the financial year end and details of attendance of each member;
 - (c) a summary of the work of the Committee in the discharge of its functions and duties for that financial year of the Company and how it has met its responsibilities;
 - (d) a statement in relation to the allocation of options pursuant to share scheme for employees;
 - (e) a summary of the work of the internal audit function