

## **SOLAR DISTRICT COOLING GROUP BERHAD**

Registration No. 202301015665 (1509587-U)

(Incorporated in Malaysia)

### **TERMS OF REFERENCE OF AUDIT AND RISK MANAGEMENT COMMITTEE**

#### **1. DEFINITION:**

“Committee”	:	The Audit and Risk Management Committee of the Company.
“Company”	:	Solar District Cooling Group Berhad
“CEO”	:	The principal executive officer of the Company for the time being, by whatever name called, and whether or not he/she is a director.
“Group”	:	The Company and its subsidiary(ies).
“Listing Requirements”	:	ACE Market Listing Requirements of Bursa Malaysia Securities Berhad including any relevant practice and/or guidance notes, directives, guidelines issued pursuant thereto and any amendment, modification, supplemental to the listing requirements that may be made from time to time.
“Exchange”	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W)) for so long as the shares of the Company are listed and quoted on the Bursa Malaysia Securities Berhad and/or such other stock exchange in respect of which the shares of the Company may be listed or quoted.
“Board” or “Directors”	:	The directors for the time being of the Company or such number of them as have authority to act for the Company.
“Secretary”	:	Any person or persons jointly appointed to perform the duties of a secretary of the Company including any person(s) appointed temporarily and any representative of the secretary.

#### **2. DATE ESTABLISHED**

The Committee was established on 14 August 2023.

#### **3. OBJECTIVES**

The Committee is responsible for reviewing reports from internal and external auditors to validate scope, evaluate existing policies, establish audit quality and ensure compliance with the Group’s policies. The Committee will also be responsible for ensuring that proper processes and procedures are in place to comply with all laws, rules and regulations, directives and guidelines established by the relevant regulatory bodies.

#### **4. COMPOSITION**

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall comprise at least three (3) members, consisting of Directors who are wholly non-executive, independent, financially literate, competent and are able to understand matters under the purview of the Committee including the financial reporting process.

At least one (1) member of the Committee:-

- (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 (3) years' working experience, and
  - (a) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
  - (b) 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
- (iii) Must have at least three (3) years' post qualification experience in accounting or finance:
  - (a) Has a degree/masters/doctorate in accounting or finance; or
  - (b) Is a member of any professional accountancy organisation which has been admitted as a full member of the International Federation of Accountants; or
- (iv) Must have at least seven (7) years' experience being a chief financial officer of a corporation.

The Chairman of the Board must not be a member of the Committee.

No alternate Director shall be appointed as a member of the Committee.

A former audit partner shall observe a cooling-off period of at least three (3) years before being appointed as a member of the Committee. The former audit partner herein refers to all former partners of the audit firm and/or the affiliate firm (including those providing advisory services, tax consulting, etc.).

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.

#### **5. CHAIRMAN**

The members of Committee shall elect a Chairman from amongst their members, who shall be an independent non-executive Director. The Chairman of the Committee shall chair all Committee meetings but in the absence of the Chairman, the members of the Committee can elect from amongst themselves the Chairman for the Committee meeting.

The Chairman of the Committee must not be the Chairman of Board.

The responsibilities of the Committee Chairman are amongst others:

- (i) Ensuring that the Committee is fully informed about significant matters related to the Group's audit and its financial statements and address these matters;
- (ii) Ensuring that the Committee meetings run efficiently, and each agenda item is thoroughly and thoughtfully discussed in all meetings of the Committee;

- (iii) Overseeing reporting to the Board; and
- (iv) Serves as the key contact between the Committee Members and members of the Board, as well as key senior management, and both the internal and external auditors.

## **6. SECRETARY**

The Company Secretary shall act as Secretary of the Committee and shall be responsible for the preparation of agenda in consultation with the Chairman, and distribution to all the members the papers to be deliberated at the meetings.

## **7. MEETINGS**

The Committee shall meet at least four (4) times each year and at such additional meetings as the Chairman shall decide.

The quorum for a Committee meeting shall be at least two (2) members, the majority present must be independent directors. No business shall be transacted unless a quorum is present either in person or by telephone, television, video conferencing or any other audio and/or visual device which permits instantaneous communication.

The Secretary shall on the requisition of the members of the Committee, summon a meeting of the Committee and except in the case of an emergency, reasonable notice of every Committee meeting shall be given in writing sent through the post, facsimile, electronic mail or by any means of telecommunication in permanent written form to all Committee members.

Other Board members and/or employees may attend the Committee meeting(s) upon the invitation of the Committee.

Upon the request of the external auditor, the Chairman of the Committee must convene a meeting of the Committee to consider any matter the external auditor believes should be brought to the attention of the Committee, the Board or the shareholders. In addition, the management, the internal auditor and the external auditors may request for a private session with the Committee to discuss any matter of concern.

Each member of the Committee is entitled to one (1) vote in deciding on the matters deliberated in the meeting.

The decision that gains the majority votes shall be the decision of the Committee. In the event of an equality of votes, the Chairman of the Committee shall be entitled to a second or casting vote. The Chairman shall not have a casting vote when only two (2) members (one of whom is the Chairman) form a quorum or when only two (2) members are competent to vote on the question at issue.

Members of the Committee may participate in a meeting by means of conference telephone call, conference videophone call or any similar or other communications method 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 shall satisfy the quorum requirement.

Questions arising at any meeting of the Committee shall be decided by a majority of votes and a determination by a majority of members shall for all purposes be deemed a determination of the Committee.

Any member of the Committee who has an interest or is involved directly or indirectly in any matter under consideration by the meeting, must declare his/her interest in the matter and shall abstain from deliberating and voting.

## **8. MINUTES**

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

The minutes of the Committee 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.

The Committee members may inspect the minutes of the Committee at the registered office or such other place as may be determined by the Committee.

## **9. AUTHORITY**

The Committee shall have the authority to:-

- (i) Approve any appointment or termination of senior staff members of the internal audit function.
- (ii) Convene meetings with the external auditors, the internal auditors or both excluding the attendance of other Directors and employees of the Group, whenever deemed necessary and such meetings with the external auditors shall be held at least twice a year.
- (iii) Select, engage and obtain, at the cost of the Company, external professional advice, if needed, to enable the Committee to carry out its duties and invite persons with relevant experience to attend its meetings, if necessary.
- (iv) Investigate any matter within its terms of reference, have the resources which it needs to do so, have full and unrestricted access to information pertaining to the Group and the management, and all employees of the Group are required to comply with requests made by the Committee.
- (v) Have direct communications channels with the external auditors and internal auditors, and also to engage the key senior management on a continuous basis, such as the Chairman, the CEO and the Chief Financial Officer in order to be kept informed of matters affecting the Group.

## **10. RESPONSIBILITIES AND DUTIES**

In fulfilling its primary objectives, the Committee undertakes, amongst others, the following responsibilities and duties:-

- (i) Review the Group's quarterly results and year-end financial statements before submission to the Board, focusing particularly on:
  - Changes in or implementation of major accounting policy changes;
  - Significant and unusual events or transactions, and how these matters are addressed;
  - Significant adjustments arising from the management;
  - Compliance with accounting standards and other legal requirements; and
  - The going concern assumption.
- (ii) **External Audit**
  - (a) To consider the nomination and appointment of external auditors; and to consider the adequacy of experience and resources of the external auditors and determine the audit fee;
  - (b) To review any letter of resignation from the external auditors and any questions of resignation or dismissal, and report the same to the Board;

- (c) To discuss with the external auditors, prior to the commencement of audit, the audit plan which states the nature and scope of audit;
  - (d) To review major audit findings arising from the interim and final external audits, the audit report and the assistance given by the Group's employees to the external auditors;
  - (e) To review with the external auditors, their evaluation of the system of internal controls, their management letter and management's responses;
  - (f) To review whether there is reason (supported by grounds) to believe that the external auditors are not suitable for re-appointment, and report the same to the Board;
  - (g) Discuss the contracts for the provision of non-audit services which can be entered into and procedures that must be followed by the external auditors. The contracts cannot be entered into should include management consulting, policy and standard operating procedures documentation, strategic decision and internal audit; and
  - (h) To conduct an annual assessment on the suitability, objectivity and independence of the external auditors firm to safeguard the quality and reliability of audited financial statements.
- (iii) Report the following to the Board after reviewing with the external auditors:-
- Audit plan.
  - Audit report.
  - Evaluations of the system of internal controls.
  - The assistance given by the employees to the external auditor.
  - External auditors' management letter and management's response thereto.
  - Any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the external auditors.

(iv) **Internal Audit**

To review the following in respect of internal audit:-

- (a) Mandate the internal audit function to report directly to the Committee;
  - (b) The adequacy of scope, functions and resources of the firm of internal auditors (that was engaged to undertake the internal audit function) and that it has the necessary authority to carry out its work;
  - (c) The internal audit plan, processes, the results of the internal audit assessments, investigation undertaken and ensure that appropriate actions are taken on the recommendations of the internal audit function;
  - (d) The major findings of internal audit investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function; and
  - (e) Review and approve any appointment, termination or resignation of the firm of internal auditors.
- (v) Report the following to the Board after reviewing with the internal auditors:-
- The annual audit plan which is risk-based and focused on significant risk areas to ensure adequate scope and comprehensive coverage over the activities of the Group and that it has the necessary authority to carry out its work;
  - Effectiveness of the internal audit processes as well as the adequacy of the resource requirements, competency and the budget of the internal audit function;

- The internal audit report containing the internal audit findings, commentaries and recommendations and to follow-up on remedial actions;
  - Effectiveness of the internal control systems and risk management systems and have them considered if necessary; and
  - External auditors' report of deficiencies in internal control and management's response thereto.
- (vi) Review the Annual Statement of Risk Management and Internal Control to be published in the Annual Report and report the same to the Board;
- (vii) Review any related party transaction and conflict of interest situations that arose, persist or may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity, as well as the measures taken to resolve, eliminate, or mitigate such conflicts, and report the same to the Board;
- (viii) Assess processes and procedures to ensure compliance with all laws, rules and regulations, directives and guidelines established by the relevant regulatory bodies.
- (ix) To oversee the sustainability management of the Company.
- (x) To oversee the anti-bribery management of the Company.
- (xi) To appoint a Compliance Officer or the Committee Chairman to serve as a reporting channel role for whistleblowers who are concerned about speaking or by email of his/her concern.
- (xii) To carry out any other function that may be mutually agreed upon by the Committee and the Board.
- (xiii) **Risk Management**
- (a) To review the adequacy of the Group's risk management framework and assess the resources and knowledge of the management and employees involved in the risk management process;
  - (b) To review the effectiveness of internal control systems deployed by the management to address those risks;
  - (c) To review and recommend corrective measures undertaken to remedy failings and/or weaknesses;
  - (d) To review and further monitor principal risks that may affect the Group directly or indirectly and if deemed necessary, recommend additional course of action to mitigate such risks;
  - (e) To monitor and communicate the risk assessment results to the Board; and
  - (f) To highlight the actual and potential impact of any failing or weakness, particularly those related to financial performance or conditions affecting the Group.
- (xiv) **Share Issuance Scheme**
- (a) To disclose to employees the criteria for the allocation of options pursuant to a Share Issuance Scheme.

- (b) To ensure that the allocation of options pursuant to a scheme is verified by the Committee, as being in compliance with the criteria referred to in sub-Rule (a) above, at the end of each financial year.

## **11. COMMUNICATION TO THE BOARD**

The Committee shall prepare a report each year concerning its activities in compliance with these terms of reference to be tabled to the Board and for inclusion in the Group's Annual Report. The minutes of each Committee meeting shall be tabled to the Board for notation.

The Committee may from time to time submit to the Board its recommendation on matters within its purview, for the Board's decision.

Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Committee must promptly report such matter to the Securities Commission of Malaysia.

## **12. ELECTED MEMBERS**

For information on the current members of the Committee, please refer to the *Corporate Information* section, under “*Investor Relations*” on the Company's corporate website at: <https://sdc.my/>.

## **13. CIRCULAR RESOLUTION**

A resolution in writing signed by a majority of all members shall be valid and effectual as if it had been passed at a meeting of the Committee. All such resolutions shall be forwarded or otherwise delivered to the Company Secretary without delay and shall be recorded by the Company Secretary in the minutes book. Any such resolution may consist of several documents in the like form, each signed by one (1) or more members. The expressions "in writing" or "signed" include approval by legible confirmed transmission by facsimile, telex, cable, telegram or other forms of electronic communications.

## **14. APPOINTMENT PROCESS**

If a member of the Committee resigns, dies or for any reason ceases to be a member, the Board must fill the vacancy within three (3) months.

The Committee of the Company shall review the term of office and performance of the Committee and each of its members annually to determine whether the Committee and its members have carried out their duties in accordance with the Committee's terms of reference.

## **15. REVIEW OF THE TERMS OF REFERENCE**

The Committee shall recommend any changes to its terms of reference in such manner as the Committee deems appropriate to the Board for approval. The terms of reference shall be assessed, reviewed and updated where necessary, i.e. when there are changes to the Malaysian Code of Corporate Governance, the Listing Requirements or any other regulatory requirements. It should also be reviewed and updated when there are changes to the direction or strategies of the Group that may affect the Committee's role. This written term of reference will be made available on the Company's website.

This Terms of Reference was adopted by the Board on 19 January 2024.

**END**