

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

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**1. Objectives**

- 1.1 The Audit Committee serves to implement and support the oversight function of the Board. It provides a means for review of the Company's and the Group's processes for producing financial data, its internal controls, the independence of the Company's External Auditors, and maintain an open line of communication and consultation between the Board, the Internal Auditors and Management.

**2. Membership**

- 2.1 The Committee shall be appointed by the Board of Directors from amongst the Director of the Company and shall consist of not less than three (3) members.
- 2.2 All the Committee members shall be non-executive directors with a majority of the members, including the Chairman of the Committee, being Independent Directors as defined in Chapter 1 of Bursa Malaysia Securities Berhad ("BMSB") Main Market Listing Requirements ("MMLR").
- 2.3 No members of the Committee shall be employed in an executive position in the Company or its related corporations or otherwise have a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the functions of the Committee. In addition, members of the committee shall not be directly responsible for, or part of any committee involved in, the management functions of the Company or its related corporations.
- 2.4 Members of the Committee shall possess sound judgment, objectivity, independent attitude, management experience and knowledge of the industry. They shall be committed to the task and demonstrate a keen perception of the internal control environment within the Company and the Group and an ability to make probing inquires. All members of the Committee shall be financially literate. The Committee shall include at least one person:
- (a) who is a member of the Malaysian Institute of Accountants; or
  - (b) who must have at least 3 years' working experience and:
    - (i) have passed the examinations specified in Part 1 of the 1<sup>st</sup> Schedule of the Accountants Act, 1967; or
    - (ii) is a member of one the Associations specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act, 1967; or

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

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- (c) who has either one of the following qualifications and at least 3 years' post qualification experience in accounting or finance:
    - (i) a degree/masters/doctorate in accounting or finance; or
    - (ii) a member of any professional accountancy organisation which has been admitted as a full member of the International Federation of Accountants;  
or
  - (d) who has at least 7 years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.
- 2.5 No alternate Directors shall be appointed as a member of the Committee.
- 2.6 The Chairman shall be appointed by the full Board from amongst the Committee members.
- 2.7 If a member of the Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall, within three months, appoint such member of new members as may be required to make up the minimum of three (3) members.
- 2.8 The terms of office and performances of the Committee and each of its members shall be reviewed by the Board no less than once every three (3) years. However, the appointment terminates when a member ceases to be a Director.

**3. Meetings**

- 3.1 The quorum for a Committee meeting shall be at least two (2) members; the majority present must be Independent Directors.
- 3.2 The Committee shall meet at least four (4) times a year and such additional meetings as the Chairman shall decide. The Committee shall ensure that they meet exclusively when necessary.
- 3.3 Notwithstanding paragraph 3.2 above, upon the request of any member of the Committee non-member Directors, the Internal or External Auditors, the Chairman shall convene a meeting of the Committee to consider the matters brought to its attention.

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

---

- 3.4 The External Auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so. In order to allow the External Auditors to express concerns, problems and reservations arising from financial auditors without the presence of management and executive board members.
- 3.5 The Committee may invite any non-member Director or employee of the Company and of the Group who the Committee thinks fit and proper to attend its meetings to assist in its deliberations and resolutions of matters raised.
- 3.6 The Internal Auditors shall be in attendance at all meetings to present and discuss the audit reports and other related matters and the recommendations relating thereto and to follow up on all relevant decisions made. However, the Committee shall meet with the Internal Auditors without other directors and employee present, whenever deemed necessary.
- 3.7 The Company Secretary shall act as Secretary of the Committee and shall be responsible, with the concurrence of the Chairman, for drawing up and circulating the agenda and the notice of meetings together with the supporting explanatory documentation to members prior to each meeting.
- 3.8 The Secretary of the Committee shall be entrusted to record all proceedings and minutes of all meeting of the Committee, circulate the minutes timely to the Committee members and other Board members and follow up on outstanding matters in relation to the meetings.
- 3.9 In addition to the availability of detailed minute of the Committees' meetings to all Board members, the Chairman, at each Board Meeting will report a summary of significant matters and resolutions.

**4. Rights and Authority**

The Committee is authorised to:

- 4.1 Investigate any matter within its terms of reference.

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

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- 4.2 Have adequate resources required to perform its duties.
- 4.3 Have full and unrestricted access to information, records and documents relevant to its activities.
- 4.4 Be kept regularly updated on audit matters and be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by management or the Internal Audit Department.
- 4.5 Have direct communication channels with the External and Internal Auditors, and employees of the Company and of the Group.

In this respect, the Chairman of the Audit Committee shall engage on a continuous basis with senior management, such as the Chairman, the Group Chief Executive, the Group General Manager-Finance, the Head Internal Audit and the External Auditors in order to be kept informed of matters affecting the Company and of the Group.

- 4.6 Engage, consult and obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise it considers necessary.

**5. Functions and Duties**

- 5.1 To review and recommend for the Board's approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the internal audit function in the Company and the Group.
- 5.2 To review the following and report to the Board:
  - (a) With the External Auditors:
    - (i) The audit plan and the extent of assistance rendered by employees of the Auditee.
    - (ii) The audit report and the corrective actions arising from external audit findings.
    - (iii) Their evaluations of the system of internal controls.

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

---

- (iv) The audit fee and on matter concerning their suitability for nomination, appointment and re-appointment, including reviewing and assessing the various relationship between the External Auditor and the Company or any other entity that may impair or appear to impair the External Auditor's judgment or independence in respect of the Company.
  - (v) The underlying reasons for resignation or dismissal as Auditors. The Committee shall investigate reasons for any request made by management to dismiss the External Auditor, or any resignation by the External Auditor. The results of the investigation shall be disclosed to the full Board together with the Committee's recommendations on the proposed actions to be taken. The decisions of the Board in relation to the recommendations made by the Committee shall be documented in the Board minutes.
  - (vi) All representation letters signed by management to ensure information provided is complete and appropriate.
  - (vii) Management's responsiveness to, and action taken on, external audit findings and recommendations to ensure effective and timely resolution.
  - (viii) Issues and reservations arising from audits must be properly discussed and acted upon to remove the auditors' concern.
- (b) With the Internal Audit Department
- (i) Fulfilment of IAD's role in evaluating and contributing to the improvement of risk management, control and governance systems as spelled out in the International Standards for the Professional Practice of Internal Auditing contained in the International Professional Practices Framework.
  - (ii) Compliance with internal auditing standards, Company or its related corporations' policies relating to conformity with laws and regulatory requirements.
  - (iii) Their evaluation of the system of internal controls, which include amongst others, the financial controls.
  - (iv) Independence and reporting relationships of audit and reports to ensure that reporting relationship of internal audit staff do not impede exercise of independent judgment by internal auditors. Internal audit reports should not be subject to clearance of the Group Chief Executive.
  - (v) Status of IAD within the overall organisational structure for internal auditors to effectively accomplish its audit objectives.

## PACIFIC & ORIENT BERHAD

[Incorporated in Malaysia]

### Terms of Reference of the Audit Committee

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- (vi) The adequacy and relevance of the scope, functions, competency and resources of internal audit and the necessary authority to carry out its work.
  - (vii) Adequacy of training of IAD staff.
  - (viii) The audit plan of work program, including the appropriateness of the risk management methodology employed to determine the frequency and scope of audit.
  - (ix) Internal audit reports containing results of internal audit processes including corrective actions taken on recommendations and noting any significant disagreements between the Internal Auditor and management irrespective of whether they have been resolved.
  - (x) The extent of cooperation and assistance rendered by employees of the Auditee including any restrictions placed on access by internal auditors to records, assets, personnel and processes.
  - (xi) The appraisal of the performance of the internal audit including that of the senior staff and any matter concerning their appointment, remuneration, resignation and termination.
  - (xii) Coordination and cooperation between Internal and External Auditors.
- (c) The quarterly results and year end financial statements prior to the approval by Board, focusing particularly on:
- (i) Whether auditors' report contained qualifications which must be properly discussed and acted upon to remove cause of auditors' concerns.
  - (ii) Significant changes and adjustment in presentation of financial statements.
  - (iii) Major changes in accounting policies and principles.
  - (iv) Alternative accounting treatments discussed with management and ramifications of alternatives.
  - (v) Material fluctuations in statements.
  - (vi) Significant variations in audit scope.
  - (vii) Significant commitments and contingent liabilities.
  - (viii) Significant and unusual issues.
  - (ix) Validity of going concern assumptions.
  - (x) Compliance with accounting standards, regulatory and other legal requirements.
- (d) The major findings of investigations and management responses.

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

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- (e) The propriety of any related party transactions and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raise questions of management integrity.
- 5.3 To report any breaches of the MMLR which have not been satisfactorily resolved, to BMSB.
- 5.4 To verify allocation of options pursuant to a share scheme for employees is in compliance with the criteria for the allocation of options.
- 5.5 To prepare the Audit Committee Report for inclusion in the Company's Annual Report covering:
- (a) The composition of the Committee including the name, designation and directorship of the members.
  - (b) The terms of reference of the Committee.
  - (c) The number of meetings held and details of attendance and relevant training attended by each member.
  - (d) A summary of the activities of the Committee in discharge of its functions and duties.
  - (e) A summary of activities of the internal audit function.
- 5.6 To review the following for publication in the Company's Annual Report:
- (a) The disclosure statement of the Board on:
    - (i) The Company's applications of the principles set out in Part I of the Malaysian Code on Corporate Governance.
    - (ii) The extent of compliance with the best practices set out in Part II of the Malaysian Code on Corporate Governance, specifying reasons for any area of non-compliance and the alternative measures adopted in such areas.
  - (b) The statement on the Board's responsibility for the preparation of the annual audited financial statements.
  - (c) The disclosure statement on the state of the internal control of the Company and of the Group under Paragraph 15.26(b) of the BMSB MMLR.
  - (d) Other disclosures forming the contents of annual report spelt out in Part A of Appendix 9C of BMSB MMLR.

**PACIFIC & ORIENT BERHAD**  
[Incorporated in Malaysia]

**Terms of Reference of the Audit Committee**

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The above functions and duties are in addition to such other functions as may be agreed to from time by the Committee and the Board.

6. Internal Audit Department

- 6.1 The head of the Internal Audit Department shall have unrestricted access to the Committee members and report to the Committee whose scope of responsibilities includes overseeing the development and the establishment of the internal audit function.
- 6.2 In respect of the routine administrative matters, the Head of the Internal Audit Department shall report to the Group Chief Executive.