

PEGASUS HEIGHTS BERHAD
[Registration No. 197401002677 (19727-P)]

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. OBJECTIVE

The primary objective of the Audit Committee (“AC”) is to establish a documented, formal and transparent procedure to assist the Board of Directors (“Board”) in fulfilling its fiduciary responsibilities relating to corporate accounting, financial reporting practices, system of internal control, the audit process and the process of monitoring compliance with laws and regulations.

2. COMPOSITION

The members of AC shall be appointed by the Board from amongst the Directors of the Company and shall comprise of at least three (3) members, all of whom must be Non-Executive Directors, with a majority of them being independent. The Board shall at all the times ensure that all members of the AC must be financially literate and at least one (1) member of the AC:

1. must be a member of the Malaysian Institute of Accountants (“MIA”); or
 2. if he/she is not a member of the MIA, he/she must have at least three (3) years' working experience and:
 - a) passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - b) 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
3. fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad (“Bursa Securities”) and / or other relevant authorities from time to time.

A former partner of the Company’s External Audit firm is required to observe a cooling-off period of at least three (3) years before being appointed as a member of the AC

The AC shall elect a Chairman from among its members. The elected Chairman shall be an Independent Non-Executive Director and is not the Chairman of the Board. No alternate director shall be appointed as a member of the AC. The term of office and performance of the AC and each of its members shall be reviewed by the Board annually to determine whether the members have carried out their duties in accordance with their terms of reference.

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If a member of the AC resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall, within three (3) months from the date of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

3. AUTHORITY

The AC is empowered and authorised by the Board at the cost of the Company to:

- (i) investigate any matter within the AC's terms of reference and shall have full and unrestricted access to any information pertaining to the Company and/ or its subsidiaries ("**Group**") and shall have the resources it requires to perform its duties.
- (ii) obtain external legal or independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, the expenses of which will be borne by the Company.
- (iii) direct communication channels with the External and Internal auditors.
- (iv) convene meetings with the External Auditors, Internal Auditors or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary, in order to enable the AC and the External Auditors or Internal Auditors or both, to discuss problems and reservations and any other matter the External auditors or Internal auditors may wish to bring up to the attention of the AC.
- (v) The Internal Auditors report directly to the AC and shall have direct access to the Chairman of the AC on all matters of control and audit. All proposals by management regarding the appointment, transfer and removal of senior staff members of the Internal Audit of the Group shall require prior approval of the AC. The AC is also authorised by the Board to obtain information on any resignation of internal audit staff members and provide the staff member an opportunity to submit his reasons for resigning.

4. DUTIES AND RESPONSIBILITIES

In fulfilling its primary objectives, the AC shall undertake, amongst others, the following duties and responsibilities:

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(a) Financial Reporting

To review the quarterly and annual financial statements of the Group prepared by management, where necessary, together with the External Auditor and recommend the same to the Board, focusing particularly on:

- Any significant changes to accounting policies and practices;
- Significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed;
- Significant adjustments arising from the audit;
- Compliance with accounting standards and other legal requirements; and
- Going concern assumption.

(b) Risk Management and Internal Control

1. To review the effectiveness of the internal control system and risk management framework adopted within the Group and to be satisfied that the methodology employed allows identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner that will allow the Group to mitigate losses and maximize opportunities;
2. To assess processes and procedures to ensure compliance with all laws, rules and regulations, directives and guidelines established by the relevant regulatory bodies;
3. To ensure that the system of internal control is soundly conceived and in place, effectively administered and regularly monitored;
4. To cause reviews to be made of the extent of compliance with established internal policies, standards, plans and procedures;
5. To obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the Group;
6. To recommend to the Board steps to improve the system of internal control derived from the findings of the Internal and External auditors and from the consultations of the AC itself; and
7. To report to the Board any suspected frauds or irregularities, serious internal control deficiencies or suspected infringement of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

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(c) Internal Audit Function

1. To review the effectiveness of internal audit function, including the ability, competency and qualification of the internal audit team and/or outsourced Internal Auditors (if any) to perform its duties;
2. To review the adequacy of the scope, functions, competency and resources of the internal audit function and whether it has the necessary authority to carry out its work;
3. To review and approve the internal audit plan and report and, where necessary, ensure that appropriate actions are taken by management on the recommendations made by the internal audit function;
4. To receive and review on a regular basis the reports, findings and recommendations of the internal audit team and/or outsourced Internal Auditors and to ensure that appropriate actions have been taken to implement the audit recommendations;
5. To ensure the internal audit team and/or outsourced Internal Auditors has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties;
6. To review any matters concerning the employment or appointment (and re-appointment) of the in-house and/or the outsourced Internal Auditors (as the case may be) and the reasons for resignation or termination of either party;
7. To have explicit authority over the resources such as professional advice and full access to information to investigate certain matters; and
8. To review any appraisal or assessment of the performance of the internal auditors.

(d) External Audit

1. To review the External Auditors' audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the External auditors;
2. To review the annual performance assessment, including the suitability and independence of the External Auditors and make recommendations to the Board, the appointment or re-appointment of the External Auditors;
3. To assess or determine the suitability and independence of the External Auditors, the AC shall take into consideration of the following:

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- the adequacy of the experience and resources of the External Auditors;
 - the External Auditor's ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan;
 - the nature of the non-audit services provided by the External Auditor and fees paid for such services relative to the audit fee; and
 - whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the External Auditor.
4. To review any matters arising concerning the appointment and re-appointment, audit fee and any questions of resignation or dismissal of the External Auditors;
 5. To review the External Auditor's audit report, management letter and management's response;
 6. To review the nature for the provision of non-audit services by the External Auditors or its affiliates and procedures that must be followed to ensure that the objectivity and independence of the audit firm are not impaired.
 - a) The following activities are examples of non-audit services:
 - The External Auditor audits its own firm's work
 - The External Auditor is put in a role of an advocate for the Group
 - The External Auditor makes management decisions for the Group
 - A mutuality of interest is created
 - Any other ethical considerations deemed relevant
 - b) In the event that the non-audit fees paid to the Company's External Auditors, or a firm or corporation affiliated to the External Auditors' firm are significant (e.g. constitute 50% of the total amount of audit fees paid to the Company's External Auditors), the Company is required to state the details on the nature of non-audit services rendered in the Report of AC.
 7. To discuss problems and reservation, if any, arising from the interim and final audits, and any matter which the External Auditors wish to discuss in the absence of management, where necessary; and
 8. To review with the External Auditors for the Statement on Risk Management and Internal Control of the Group for inclusion in the Annual Report.

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(e) Related Party Transactions / Conflict of Interest Situations

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

In reviewing the conflict of interest or potential conflict of interest, the AC should consider the following factors:

- (i) The nature of conflict of interest or potential conflict of interest situations and the impact on the Group;
- (ii) Identification of the conflicted person; and
- (iii) Controls in place/corrective actions to be taken, to ensure the conflicted persons do not abuse his/her power to gain an unfair advantage.

(f) Audit Reports

To prepare the AC report to the Board which includes the composition of the AC, its terms of reference, number of meetings held, a summary of its activities and the existence of internal audit services and summary of the activities for inclusion in the Annual Report and to review the Board's statements on compliance with the Malaysian Code of Corporate Governance for inclusion in the Annual Report.

(g) Other matters

1. To verify the allocation of options pursuant to the Share Issuance Scheme or the allocation of shares pursuant to any incentive plan for employees of the Group at the end of each financial year as being in compliance with the criteria which is disclosed to the employees and make a statement in the Annual Report that such allocation has been verified;
2. To exercise its powers and carry out its responsibilities as may be required from time to time under the Whistleblowing Policy of the Group; and
3. To carry out any other function that may be mutually agreed upon by the AC and the Board.

5. MEETINGS OF THE COMMITTEE

The AC shall meet at least four (4) times in a financial year and additional meetings may be called at any time at the AC Chairman's discretion. The Executive Directors, senior management, representatives of the Internal and External Auditors may be invited to attend the AC meeting. The Internal Auditors have the right to appear and be heard at any meeting of the AC and are recommended to attend each AC meeting. Upon the request of the External and / or Internal Auditors, the Chairman shall also

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convene a meeting of the AC to consider any matter the External and / or Internal Auditors believe should be brought to the attention of the Board or the shareholders. The AC shall meet with the External Auditors without the presence of executive Board members and management, as and when required by the AC.

In the event the elected Chairman is not able to attend a meeting, a member of the AC shall be nominated as Chairman for the meeting. The nominated Chairman shall be an Independent Non-Executive Director.

Subject to the notice and quorum requirements as provided in the Terms of Reference, meeting of the AC may be held and conducted through the telephone or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote and be counted in a quorum accordingly.

6. QUORUM

The quorum for a meeting of the AC shall consist of not less than two (2) members, who are both Independent Non-Executive Directors.

7. NOTICE OF MEETINGS

Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee, any other person required to attend and all other non-executive directors, no later than seven (7) days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees as appropriate, at the same time.

8. SECRETARY AND MINUTES

The Company Secretary or such other persons authorised by the Board shall act as the Secretary of the AC. The Company Secretary shall record, prepare and circulate the minutes of the meetings of the AC and ensure that the minutes are properly kept and produced for inspection if required. The AC shall report to the Board and the minutes of each meeting shall be tabled to the Board for notation. The expressions “in writing” and “signed” include approval by letter or any electronic means by any such member of the AC.

9. CIRCULAR RESOLUTION

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

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Any such resolution may be accepted as sufficiently signed by an AC member if transmitted to the Company by any technology purporting to include a signature and/or an electronic or digital signature by the AC and may consist of several documents in like form, each signed by one or more of the members of the AC.

10. PARTICIPATION IN MEETING BY TELE-CONFERENCING

A Director may participate in a Committee meeting by means of a conference telephone or any communication equipment or device that will allow all persons participating at the meeting to hear and speak with each other and shall be deemed as present at such meeting.

11. REVISION AND UPDATES

This Terms of Reference will be reviewed and updated at least once a year to ensure it remains consistent with the AC's objectives and responsibilities.

Any revision or amendment to this Terms of Reference, as proposed by the AC or any third party, shall be presented to the Board for approval. Upon the Board's approval, the said revision or amendment shall form part of this Terms of Reference and this Terms of Reference shall be considered duly revised or amended.

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