

## **CHINA STATIONERY LIMITED**

(Incorporated in Bermuda under the Companies Act 1981)

(Company Registration Number 40535)

(Registered as a foreign company in Malaysia under the Companies Act 1965 of Malaysia)

(Malaysian Branch Registration Number 995224-W)

### **AUDIT COMMITTEE: TERMS OF REFERENCE**

#### **1.0 PURPOSE**

The purpose of the establishment of Audit Committee (“AC”) is to assist the Board of Directors in discharging their responsibilities to safeguard the Company’s assets, maintain adequate accounting records, develop and maintain effective systems of internal control, with the overall objective of ensuring that Management creates and maintains an effective control environment in the Group. The AC also provides a channel communication between the Board of Directors, Management, External Auditors and Internal Auditors.

#### **2.0 COMPOSITION AND SIZE**

2.1 The AC should be appointed by the Board of Directors based on the recommendation of the Nomination Committee from amongst the Directors of the Company which fulfills the following requirements:

- (i) the AC must be composed of not fewer than 3 members;
- (ii) the AC must have at least one (1) Independent Director who has a principal or only place of residence in Malaysia;
- (iii) all AC members must be Non-Executive Directors, with a majority of them being Independent Directors; and
- (iv) all AC members should be financially literate with at least one (1) member fulfills the following requirements pursuant to Paragraph 15.09(1)(c) of the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”):
  - (a) must be a member of the Malaysian Institute of Accountants (“MIA”); or

- (b) if he is not a member of the MIA, he must have at least three (3) 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
- (c) fulfills such other requirements as prescribed or approved by the Bursa Securities.

2.2 The Board of Directors must ensure that no Alternate Director shall be appointed as a member of the AC.

2.3 In the event of any vacancy in the AC (including chairman of the AC) resulting in the non-compliance of the MMLR, the Board of Directors must fill the vacancy within three (3) months of the occurrence of that event.

2.4 The Nomination Committee ("NC") must review the term of office and performance of AC members and each of its members annually to determine whether such AC and members have carried out their duties in accordance with their terms of reference.

### **3.0 CHAIRMAN**

3.1 The members of the AC must elect a Chairman among themselves who is an Independent Non-Executive Director.

3.2 In the absence of the Chairman of the AC, the AC members present shall elect one of their members to be Chairman of the meeting.

3.3 The responsibilities of the AC Chairman are as follows:

- (i) Planning and conducting meetings;
- (ii) Reporting to the Board of Directors on all matters within its duties and responsibilities;

- (iii) Encouraging open discussion during meetings and take reasonable steps in ensuring adequate flow of relevant information to the AC;
- (iv) Developing and maintaining an active on-going dialogue with Senior Management and both the Internal Auditors and External Auditors; and
- (v) Assessing the performance of individual AC members on annual basis to facilitate the NC's evaluation of AC's performance.

#### **4.0 SECRETARY**

The Secretary to the AC, shall but need not, be the Company Secretary of the Company.

#### **5.0 MEETINGS**

- 5.1 The AC should meet at least four (4) times in each financial year, i.e. on a quarterly basis or such additional meetings may be called at any time, at the discretion of the Chairman of the AC, to properly carry out its duties and ensure effective discharge of its responsibilities as spelt out in its terms of reference.
- 5.2 Sufficient time must be allocated to allow thoroughly address all items in the Agenda and for all parties involved to ask questions or provide input.
- 5.3 The quorum shall consist of a majority of the Independent Non-Executive Directors.
- 5.4 The AC members may participate in a meeting by means of tele-conference, video-conference or any similar or other communications equipment 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. Minutes of such a meeting signed by the Chairman of the AC shall be conclusive evidence of any resolution of any meeting conducted in the manner as aforesaid.
- 5.5 The Chief Financial Officer, the Internal Auditors and External Auditors should normally attend the meetings of the AC. Other board members may be invited to attend where their presence are considered appropriate as determined by the AC Chairman.

- 5.6 Upon the request of the Internal Auditors and/or External Auditors, the Chairman of the AC must convene a Meeting to consider any matter the Internal Auditors and/or External Auditors believe should be brought to the attention of the Board of Directors or the Shareholders.
- 5.7 The minutes of each meeting shall be kept as part of the statutory record of the Company upon confirmation by the AC and shall be made available to all members of the AC.
- 5.8 The Board of Directors shall be kept aware of the AC's activities by way of the AC minutes and/or AC papers being circulated (including verbal reports from the Chairman of AC during the Board Meeting).
- 5.9 A resolution in writing signed or approved via letter, telex or facsimile by all AC members shall be valid and effective for all purposes as a resolution passed at a meeting of the AC duly convened, held and constituted. Any such resolution may be contained in a single document or may consist of several documents all in the like form signed by one or more members.

## **6.0 RIGHTS OF THE AUDIT COMMITTEE**

In carrying out its duties and responsibilities, the AC will:

- (i) have the authority to investigate any matter within its terms of reference;
- (ii) have the resources which are required to perform its duties;
- (iii) have full and unrestricted access to information pertaining to the Company and is entitled to ask for further information required to make informed decisions and has right to obtain independent professional or other advice for the performance of its duties;
- (iv) use the services of outside expertise or advisors and invite outsiders with relevant experience and expertise to attend the AC meetings, if necessary, at the cost of the Company in accordance with a procedure to be determined by the Board of Directors towards performance of its duties.
- (v) have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any, which can be outsourced).

- (vi) be able to convene meetings with the External Auditors, the person(s) carrying out the internal audit function or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.

## **7.0 KEY FUNCTIONS AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

7.1 The Terms of Reference of AC should be reviewed by the Committee and updated as appropriate. The Committee should recommend any changes to the Terms of Reference to the Board of Directors for approval. The review of its Terms of Reference should be a robust process, reflecting changes to the Company's circumstances and any new regulations that may impact upon the AC's responsibilities.

7.2 The AC is primarily responsible for, amongst others, the following duties and responsibilities:

- (a) review with the external auditors, the audit plan, audit report, their evaluation of the system of internal accounting controls, their letter to management and the management's response. Also ensure a clear and direct line of communication between the Board and the external auditors through meetings and discussions;
- (b) review the quarterly results, and year-end financial statements before submission to the Board for approval, focusing particularly on changes in or implementation of major accounting policy changes, significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are being addressed, the going concern assumption and compliance with accounting standards and any other legal requirements;
- (c) review the adequacy and effectiveness of the internal control system and ensure co-ordination between the external auditors and management, and review the assistance given by management to the auditors, and discuss problems and concerns, if any, arising from the audits, and any matters which the auditors may wish to discuss (in the absence of management where necessary); and
- (d) in relation to audit function, to do the following:-

- 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;
- review the internal audit plan and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendation of the internal audit function;
- review any appraisal or assessment of the performance of members of the internal audit function;
- approve any appointment or termination of the internal auditors;
- take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;
- investigate or cause to be investigated any activity within its terms of reference;
- to have explicit authority over the resources such as professional advice and full access to information to investigate certain matters;
- to discuss the contracts and nature for the provision of non-audit services which can be entered into by the Group with the external auditors or its affiliates and procedures that must be followed. The contracts cannot be entered into should include:-
  - i) Management consulting;
  - ii) Strategic decision;
  - iii) Tax services; and
  - iv) Policy and standard operating procedures documentations.
- in the event that 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 Audit Committee Report.

- (e) review and discuss with the external auditors any problems and reservations which has or is likely to have a material impact on the Group's operating results or financial position, and management's response;
- (f) to nominate and recommend the appointment/ re-appointment of the external auditors, to consider the adequacy of experience, resources, audit fee and any issues regarding resignation or dismissal of the external auditors and to review the letter of resignation from the external auditors if applicable and report the same to the Board. In considering the appointment / re-appointment of the external auditor, to consider among others:-
  - (i) the adequacy of the experience and resources of the accounting firm;
  - (ii) the persons assigned to the audit;
  - (iii) the accounting firm's audit engagements;
  - (iv) the size and complexity of the listed issuer's group being audited; and
  - (v) the number and experience of supervisory and professional staff assigned to the particular audit.

The AC is to also consider the performance of the external auditor and its independence as below:-

- (i) the external auditors' ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan;
  - (ii) the nature of the non-audit services provided by the external auditor and fees paid for such services relative to the audit fee; and
  - (iii) 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.
- (g) ensuring the independence of the external and internal auditors function through active participation in the audit process;
- (h) any related party transaction and conflict of interests situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (i) review and approve all hedging policies and instruments (if any) to be implemented by the Group;
- (j) undertake such other reviews and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee;

- (k) generally undertake such other functions and duties as may be required by statute or the Bursa Securities LR, or by such amendments as may be made thereto from time to time;
- (l) review the Group risk management report quarterly and the risk management policies and practices of the Group to ensure their effectiveness; and
- (iii) Where the AC is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Bursa Securities LR, the AC must promptly report such matter to Bursa Securities.

## **8.0 REVIEW AND REVISION OF THE TERMS OF REFERENCE**

The terms of reference will be reviewed periodically or as and when required by the AC and recommendation be made to the Board for approval on any revision.