

STONE MASTER CORPORATION BERHAD
(Company No. 498639-X)

**TERMS OF REFERENCE
OF
AUDIT COMMITTEE**

1. Objectives

The objectives of the Committee are:-

- to provide assistance to the Board of Directors of the Company (“Board”) in fulfilling its statutory and fiduciary responsibilities to bring transparency, focus and independent judgement needed to oversee the financial reporting process of the Company and its subsidiaries (“Group”) and in monitoring its accounting and financial reporting practices and policies.
- to determine that the Group has adequate administrative, operational and internal accounting controls and that the Group is operating in accordance with its prescribed procedures.
- to serve as an independent and objective party in the review of the financial information presented by the Management for distribution to the shareholders and the general public.
- to provide direction and controls over the internal audit function and the external auditors.

2. Composition

The Committee shall be appointed by the Board from among themselves and shall consists of:-

- a. Not less than three (3) members of whom all the Committee members must be Non-Executive Directors, with a majority of them being Independent Directors; and
- b. All members of the Audit Committee are expected to be financially literate.
- c. At least one (1) member of the Committee must fulfill the following requirements:
 - (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 of working experience and:-
 - Must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
 - Must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967; or

- (iii) fulfills such other requirements as prescribed or approved by the Bursa Malaysia Securities Berhad (“Bursa Securities”).

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

Former key audit partner of the Group’s auditors is to observe a cooling-off period of at least two (2) years before being appointed as a member of the Committee.

The Chairman of the Committee shall be an Independent Director and must not be the Chairman of the Board.

The term of office and performance of the Committee and each of the members shall be reviewed annually by the Nomination Committee to determine whether the Committee and its members have carried out their duties in accordance with its terms of reference.

3. Duties and Functions

The duties and functions of the Committee should include the following of which the Committee is responsible to report the same to the Board thereafter:-

- a. To consider, recommend the nomination and appointment of a person or persons as external auditors, the audit fee and any question of resignation or dismissal, whether there is reason (supported by grounds) to believe that the Company’s external auditors is not suitable for re-appointment;
- b. To discuss with the external auditors before the audit commences, their audit plan, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved; and their evaluation of the system of internal controls and their audit report;
- c. To discuss problems and reservations arising from the interim and final audits, and any matter the external auditors may wish to discuss (in the absence of Management where necessary);
- d. To review the external auditor’s management letter and management’s responses;
- e. To review the assistance given by the employees of the Company to the external auditors;
- f. To review the quarterly results and year-end financial statements, prior to the approval of the Board, focusing particularly on –
 - Any change in or implementation of major accounting policy changes and practices;
 - Significant judgements made by Management, significant unusual events or transactions arising from the audit and significant matters highlighted including financial reporting issues and how these matters are addressed;
 - The going concern assumption; and
 - Compliance with accounting standards and other legal requirements;
- g. To do the following, in relation to the internal audit functions:–
 - Ensure that the internal auditors report directly to the Committee;
 - Review the adequacy of the scope, functions and resources of the internal audit functions, and that it has the necessary authority to carry out its work;

- Review the internal audit programme, processes, and results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken and where necessary, ensure that appropriate actions are taken on the recommendations 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 internal auditors; and
 - Take cognizance of resignations of internal auditors and provide the resigning internal auditors an opportunity to submit their reasons for resigning.
- h. To review and consider any related party transactions 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. To consider the major findings of internal investigations and management's response;
- j. To verify the allocation of options pursuant to any share issuance scheme to Directors and employees of the Group are in compliance with the criteria as stipulated in the by-laws of the scheme, if any, at the end of each financial year.
- k. To consider other topics as defined by the Board from time to time.

4. Secretary

The Company Secretary so appointed by the Board or any nominee so authorised by the Board shall act as the Secretary of the Committee.

5. Meetings

The Committee should meet regularly, with due notice of issues to be discussed, and should record its conclusions in discharging its duties and responsibilities. Meetings will be held not less than four (4) times a year.

The Chief Financial Officer / Financial Controller / Head of Corporate Finance, the internal auditors and the external auditors should normally attend meetings. Other Board members or employees may attend any particular Committee meetings upon the invitation of the Committee, specific to the relevant meeting. However, the Committee should meet with the external auditors without Executive Board members present, at least twice a year. The external auditors may request a meeting if they consider it necessary and the Chairman of the Committee must convene a meeting to consider any matter the external auditor believes should be brought to the attention of the Directors or shareholders of the Company.

The quorum shall be two (2) members, with a majority of members present must be Independent Directors.

A meeting may be held by way of tele-conferencing, video-conferencing or other telecommunication means, which permits all persons participating in the meeting to communicate with each other. A person so participating shall be deemed to be present in person at such meeting and shall be counted in a quorum and be entitled to vote.

The meetings shall be chaired by the Chairman of the Committee. In the event the elected Chairman is not able to attend the Committee meeting, a member of the Committee shall be nominated as Chairman for the meeting.

A member of the Committee shall abstain from participating in discussions and decisions on matters directly involving him or her to avoid conflict of interest.

A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and directions vested or exercisable by the Committee.

The Chairman of the Committee should engage on a continuous basis with senior management, such as the Chairman of the Board, the Chief Executive Officer and/or the Managing Director, the Chief Financial Officer / Financial Controller / Head of Corporate Finance, and the internal and external auditors in order to be kept informed of matters affecting the Company.

6. Minutes of the Meetings

The Secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance. Such minutes must be signed by the Chairman of the meeting or by the Chairman of the next succeeding meeting.

Minutes of Committee meetings shall be circulated to each member of the Committee. The Committee shall report on each meeting to the Board.

7. Circular Resolutions

In the absence of a meeting, any issues shall be resolved through circular resolutions. Such circular resolutions shall be valid and effectual if it is signed or approved by letter, facsimile or any electronic means by a majority of the members of the Committee for the time being and may consist of several documents in like form.

8. Rights of the Audit Committee

The Committee should have explicit authority to:

- (a) 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;
- (e) be able to obtain independent professional 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.

9. Internal Audit Function

The Board should establish an internal audit function and identify the internal auditors who reports directly to the Committee. The internal auditors will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control, and governance processes within the Company and Group.

The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care. The Board or the Committee should determine the remit of the internal audit function.

10. Reporting of breaches to the Bursa Securities

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 of Bursa Securities, the Committee has the responsibility to promptly report such matter to Bursa Securities.