



# **HENGYUAN REFINING COMPANY BERHAD**

**196001000259 (3926-U)**

## **BOARD NOMINATING AND REMUNERATION COMMITTEE TERMS OF REFERENCE**

**CONTENTS**

|    |  |    |
|----|--|----|
| 1. | PURPOSE .....                                  | 3  |
| 2. | COMPOSITION AND APPOINTMENT .....              | 4  |
| 3. | AUTHORITY .....                                | 4  |
| 4. | FUNCTIONS AND DUTIES .....                     | 5  |
| 5. | MEETINGS .....                                 | 13 |
| 6. | DUTIES AND RESPONSIBILITIES OF THE CHAIR ..... | 17 |
| 7. | MEMBERS .....                                  | 17 |
| 8. | ANNUAL PERFORMANCE ASSESSMENT .....            | 18 |
| 9. | REVIEW OF THE TERMS OF REFERENCE .....         | 19 |

**1. PURPOSE**

- 1.1 The Nominating and Remuneration Committee (“BNRC”) is established as a committee of the Hengyuan Refining Company Berhad (“Company”) to assist the Board of Directors (“the Board”) with the following primary objectives:

**Nomination Function**

- 1.1.1 To recommend nominations to the Board for appointments to the Board and the Board Committees, as well as to evaluate and recommend to the Board the employment, promotion, discipline, resignation and termination of senior management with the positions of Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) or Financial Controller (“FC”) (in the absence of CFO), and Head of Human Resources (“HR”) or HR Manager (in the absence of Head of HR).
- 1.1.2 To establish a Fit and Proper Policy for the appointment and re-election of Directors.
- 1.1.3 To review the required mix of skills, independence, experience, knowledge, core competencies, responsibilities, diversity and contribution of the Directors (respectively and collectively) of the Board.
- 1.1.4 To assist the Board in reviewing the appropriate size and balance as well as the performance and effectiveness of the Board and all Board Committees annually.
- 1.1.5 To review and make recommendations to the Board on succession planning and human capital development.

**Function**

- 1.1.6 To establish formal, fair and transparent remuneration policies and procedures for Directors, CEO, CFO or FC (in the absence of CFO), and Head of HR or HR Manager (in the absence of Head of HR).
- 1.1.7 To determine and make recommendation to the Board the remuneration framework for the Directors, CEO, CFO or FC (in the absence of CFO) and Head of HR or HR Manager (in the absence of Head of HR).

1.1.8 To review and recommend the individual remuneration packages for the Directors, CEO, CFO or FC (in the absence of CFO), and Head of HR or HR Manager (in the absence of Head of HR) within the terms of such agreed policies and to ensure fair rewards for their contributions to the Company's overall performance.

1.1.9 To ensure that a remuneration policy for expatriate employees of the Company is in place.

## **2. COMPOSITION AND APPOINTMENT**

2.1 The BNRC members shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all shall comprise exclusively of Non-Executive Directors, and a majority of whom must be Independent Directors.

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

2.3 The Chair of the BNRC shall be appointed by the Board amongst the BNRC members' and shall be a Senior Independent Non-Executive Director or an Independent Non-Executive Director appointed by the Board.

2.4 The BNRC members may relinquish their membership in the BNRC with prior written notice to the Board. In the event of any vacancy arising in the BNRC resulting in the number of members of the BNRC falling below three (3), the vacancy shall be filled as soon as possible, but not later than three (3) months from any arising vacancy.

## **3. AUTHORITY**

3.1 The BNRC is authorised by the Board to perform the following:-

3.1.2 Secure the resources in order to perform its duties as set out in its terms of reference.

3.1.3 Have full and unrestricted access to Human Resources, including without limitation, its information, records, properties and personnel which are required to perform its duties.

3.1.4 Engage or otherwise obtain independent legal or other professional advice, service and/or expertise at the expense of the Company with prior consent of the Board, to perform its duties, or obtain the assistance of Management where necessary. Prior to the selection of such advisor, the BNRC shall carry out an independent assessment of such advisor.

3.1.5 Provide its recommendations to the Board for its consideration and approval.

#### **4. FUNCTIONS AND DUTIES**

The main functions and duties of the BNRC shall include, but are not limited to the following:

##### **4.1 Nomination Functions and Duties**

###### **4.1.1 Assessment of Board Composition**

- (a) Establish policies formalising the Company's approach to Board and senior management diversity having regard to, among others, factors such as diversity in gender, nationality, age, culture, socio-economic background, skills, experience and independence.
- (b) Annually evaluate, review and recommend to the Board the appropriate size, balance and composition of the Board, the required mix of skills, experience and other qualities, the independence of the Independent Directors, Board diversity in terms of gender and age, and consideration of the Fit and Proper assessment, and core competencies which the Directors shall bring to the Board to ensure that they are in line with the Company's requirements.
- (c) Consider and recommend any policy regarding the period of service of Non-Executive Directors, tenure of Independent Directors and the term of office of Board Committee members, including the Chair of the respective Board Committees.

- (d) Ensure each of the Director has the character, experience, integrity, competence and time to effectively discharge his/her role as Director as required under Paragraph 2.20A of the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa”) before appointment and fulfils the requirements under Section 198 of Companies Act 2016 and Paragraph 15.05 of the MMLR.
- (e) Periodically review the term of office, and terms of reference of all Board Committees, assisted by the Company Secretary.

#### **4.1.2 Appointments**

- (a) Develop a formal and transparent process and fit and proper policy to identify and nominate suitable candidates for appointment and election of members of the Board with the criteria used for the selection.
- (b) Consider and recommend to the Board the candidates for new appointments as Directors in accordance with the Directors’ Fit and Proper Policy and the Board Diversity Policy, having regard to the candidates’:
  - skills, knowledge, expertise and experience;
  - time commitment, character, professionalism and integrity;
  - ability to work cohesively with other members of the Board;
  - specialist knowledge or technical skills in line with the Company’s strategies;
  - diversity in age, gender and experience/ background; and
  - number of directorships in companies outside the Company.

The BNRC shall also consider the future needs and size of the Company against the current composition of the Board to identify any gaps in its recommendation.

- (c) In circumstances where the Company has a Large Shareholder, the BNRC shall assist the Board in including a number of directors which fairly reflects the investment in the Company by shareholders other than the Large Shareholder.

In circumstances where a shareholder holds less than the majority but is still the largest shareholder, the BNRC shall assist the Board in exercising judgement in determining the appropriate number of directors sitting on the Board which fairly reflects the investment in the Company by the remaining shareholders.

- (d) To identify, consider and make recommendations to the Board for the appointment of the Chair of the respective Board Committees and/or Senior Independent Non-Executive Director.
- (e) Ensure that a formal letter of appointment setting out clearly the expected time commitment, Board Committee service, involvement outside Board meetings and the protocol for accepting new Directorships is provided to the Non-Executive Directors upon appointment to the Board. An induction plan duly approved by the Chair shall also be provided to the Directors upon their appointment.
- (f) Solicit and consider the views of existing Board members, management, major shareholders, independent search firms and a variety of other independent sources to identify suitably qualified candidates for appointment as Directors and members of the respective Board Committees. If independent sources were not used, the BNRC shall make disclosure to that effect in the annual report and provide an explanation as to why other sources were not used.
- (g) For Independent Directors, firstly to evaluate the “independence” of the candidate in accordance with the MMLR and secondly to evaluate the candidates’ ability to discharge such responsibilities as may be expected from an Independent Non-Executive Director.

The BNRC shall ensure that the Board comprises a majority of Independent Directors and shall carry out annual assessments to ensure the continued independence of the Directors in making its recommendations to the Board.

- (h) Establish a gender diversity policy to ensure that due consideration is given to female candidates as Directors and/or Board Committee members and/or senior management positions and measures taken to facilitate achievement of such policies and targets, all of which shall be disclosed in the annual report.
- (i) Appointment of senior management positions: Ensure that appointments of CEO, CFO or FC (in the absence of CFO), and the Head of HR or HR Manager (in the absence of Head of HR) are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

#### **4.1.3 Retirement and Re-election**

- (a) Ensure that every Director, including the Executive Directors, shall be subject to retirement at least once every three (3) years. A retiring Director shall be eligible for re-election.
- (b) Consider whether any re-election of a Director is necessary; and in assessing this, to consider the said Director's expertise, skill, knowledge, expertise and core competency, his/her contribution to the Board taking into account the Company's key business strategies, and whether the Director fulfils the fit and proper criteria set out in the Directors' Fit and Proper Policy.
- (c) Recommend to the Board, candidates for re-election of Directors by shareholders. The tenure of an Independent Director should not exceed a cumulative term limit of nine (9) years. Upon completion of the nine (9) years, an Independent Director may continue to serve on the Board as a Non-Independent Director. If the Board intends to retain an Independent Director beyond nine (9) years and where his tenure is for a cumulative period of less than 12 years, it should provide justification and seek annual shareholders' approval through a two-tier voting process as follows:-

Tier 1: Only the Large Shareholder(s)<sup>2</sup> of the Company votes;

Tier 2: Shareholders other than Large Shareholder(s) votes.

**4.1.4 Succession Planning**

- (a) The BNRC shall review on a regular basis the leadership needs of the Company with a view to ensuring the continued ability of the organization to compete effectively in the marketplace.
- (b) The BNRC shall establish and ensure, with the assistance of CEO, CFO or FC (in the absence of CFO), and Head of HR or HR Manager (in the absence of Head of HR), that an appropriate succession planning framework, talent management and human capital development program is in place for the senior management positions, taking into account the skills required and the challenges and opportunities faced by the Company.

**4.1.5 Annual Performance Assessment**

- (a) Assist the Board in establishing procedures and processes towards an annual assessment of the effectiveness of the Board as a whole and each Board Committee (including its size and composition), as well as the contribution of each individual Director. The method/approach of the assessment and outcome of the evaluation shall be documented and disclosed in the annual report.
- (b) Develop, maintain and review the criteria for evaluating the Board's, and Board Committees' and each individual Director's performance.
- (c) To assess annually the required mix of skills and experience and other qualities, including core competencies as a whole, the Board Committees and the contribution of each Director and thereafter, recommend its findings to the Board.
- (d) To assess the independence of the Independent Directors annually to determine whether they continue to be independent in character and judgement and act in the best interests of the Company when discharging his/ her duties.

- (e) Conduct a Board evaluation which is periodically facilitated by a professional, experienced and independent party. The use and identity of the independent party shall be disclosed in the annual report.
- (f) The criteria used in the annual assessment should include the following:
  - ability to challenge critically and ask the right questions;
  - character and integrity in dealing with potential conflict of interest situations;
  - commitment to serve the Company with due diligence and integrity;
  - confidence to stand up for a point of view;
  - contribution and performance, calibre and personality; and
  - a review of the performance of the Board in addressing the Company's material sustainability risks and opportunities.
- (g) Ensure that appropriate actions are taken based on the results of the annual assessments, to continuously enhance the Board's overall performance and identify opportunities for improvement.
- (h) Review the terms of office and performance of the various Board Committees and each of their members annually to determine whether the Board Committees and each of their members have carried out the duties in accordance with its respective terms of reference. The BNRC shall seek the views of the Chair of the respective Board Committees in assessing the performance of their members, other than that of the respective Chairs of such Committees.
- (i) The CEO's annual performance valuation is subject to the BNRC's review, recommendation and support to the Board.
- (j) In respect of minus one (-1) positions below the CEO, BNRC will review, moderate if necessary and validate the annual performance valuation result for these positions.

**4.1.6 Training and Development**

- (a) Recommend suitable orientation, educational and training programs to train and equip new and existing Directors continuously as well as to ensure that they are kept abreast of developments in the industry and changes in the relevant regulatory and statutory requirements.
- (b) Facilitate Board induction programme for newly appointed Directors.
- (c) Ensure a statement is made by the Board in the Company's annual report, containing a description on the type of training attended by Directors during the financial year.

**4.2 Remuneration Functions and Duties**

4.2.1 Establish, review and recommend to the Board a formal and transparent remuneration policy and framework for Directors and senior management drawing on external consultants' advice as necessary. In doing so, the BNRC should perform the following:

- (a) Ensure that compensation policies and packages of Directors and senior management are reflective of the Company's demands, complexities and performance as a whole as well as the skills and experience required, and in line with the strategic objectives of the Company which rewards contribution to the long-term success of the Company.
- (b) Ensure alignment of the compensation scale to corporate performance, and that compensation offered is set at a competitive level for similar roles and responsibilities within current market practices by comparable companies in order to attract, retain and motivate high calibre individuals.
- (c) Ensure that the remuneration incentives do not conflict with the Directors' and senior management's obligation to bring objectivity and independent judgment to the Company.

- 4.2.2 Within the terms of the agreed remuneration framework or policy, determine, review and if deemed appropriate, endorse for the Board's approval, the remuneration packages including annual bonus and salary increment for the Directors, CEO, CFO or FC (in the absence of CFO), and Head of HR or HR Manager (in the absence of Head of HR), taking into account their recent remuneration history, the individual's merit, qualification, skills, competence and performance and rewarding their contribution to the Company having regard to their achievement of their performance targets and the Company's operating results.
- 4.2.3 Annually review the remuneration structure of Non-Executive Directors, and make recommendations to the Board for shareholders' approval.
- 4.2.4 Periodically review and monitor the framework, policies and procedures, levels of remuneration, any changes to employee compensation and benefit arrangements applicable to Directors, CEO, CFO or FC (in the absence of CFO), and Head of HR or HR Manager (in the absence of Head of HR), and make recommendations to the Board if appropriate to ensure consistency with the Company's remuneration objectives.
- 4.2.5 Approve employee share plans and other incentive plans for Directors, CEO, CFO or FC (in the absence of CFO) and Head of HR or HR Manager (in the absence of Head of HR), where applicable, and any amendments to such plans, when applicable.
- 4.2.6 Consider and advise on the terms of any contract to be offered to Directors, CEO, CFO or FC (in the absence of CFO), and Head of HR or HR Manager (in the absence of Head of HR), ensuring that contractual terms on termination are fair to the individual.
- 4.2.7 Ensure timely and pro-active communication of key aspects of remuneration strategy with key shareholders and stakeholders.
- 4.2.8 Review and recommend the extension of service, remuneration and compensation and benefits packages of the key pivotal positions, who have reached the age of retirement.

- 4.2.9 Ensure that a remuneration policy for expatriate employees of the Company is in place.

#### **4.3 Disclosure and Reporting**

- 4.3.1 Ensure that a statement on the Company's activities in the discharge of its duties for the financial year is included in the Company's annual report.

- 4.3.2 Ensure detailed disclosure on named basis for the remuneration of individual Directors stating the following:

- (a) the remuneration received by the Directors of the Company, stating the amount they received from the Company; and
- (b) the amount in each component of the remuneration (e.g.: fees, salaries, bonuses, benefits in kind and other emoluments based on an estimated money value) for each Director.

### **5. MEETINGS**

#### **5.1 Frequency**

- 5.1.1 The BNRC shall meet at least twice a year and as and when necessary and at such other time(s) as it deems necessary to fulfil its duties and responsibilities as set out in these Terms of Reference.

- 5.1.2 Other members of the Board and management may attend meetings upon the invitation of the BNRC.

#### **5.2 Notice and Meeting Materials**

- 5.2.1 Unless in the case of emergency, the notice of the BNRC meetings and meeting materials shall be issued and circulated to each BNRC member and all other invited attendees confirming the venue, time and date at least five (5) working days before each meeting together with the agenda and supporting papers.

5.2.2 The BNRC meeting agendas shall be the responsibility of the Chair with input from the BNRC members and assisted by the Company Secretary. Where necessary, the agenda shall include input from Management or other persons deemed appropriate to participate in this process.

**5.3 Quorum**

5.3.1 The quorum for a meeting of the BNRC shall be two (2).

5.3.2 In the absence of the Chair or if he is not present at BNRC meeting within fifteen (15) minutes of the time appointed for holding the same, the members present shall elect a Chair from amongst themselves to chair the meeting.

**5.4 Meeting Mode**

5.4.1 A meeting of the BNRC shall normally be conducted face-to-face to enable effective discussion. However, meetings may also be conducted at two or more venues within or outside Malaysia using any technology such as telephone conferencing, video conferencing or other appropriate means as determined by the BNRC.

5.4.2 A virtual meeting shall be deemed to constitute a BNRC meeting provided the following conditions are met:

- (a) all BNRC members for the time being entitled to receive notice of the BNRC meeting shall be entitled to receive notice of a virtual meeting, stating an appropriate form of technology (or in such other manner); and
- (b) a BNRC member shall not leave a virtual meeting by disconnecting from the technology used unless he/she has clearly notified the Chair in advance of his/her intention to leave the meeting, and a BNRC member shall be conclusively presumed to be present and shall at all times form part of the quorum during such a meeting until such notified time of his/her leaving the meeting.

5.4.3 The BNRC may from time to time and if deemed appropriate, consider and approve and/or recommend relevant matters via a Written Resolution in writing, in lieu of formally convening a meeting. The Written Resolution shall be as valid and effectual as if it had been passed by a meeting of the BNRC duly convened. Approval of the BNRC obtained by an BNRC Written Resolution must be signed or approved by all BNRC members subject to 5.5.2.

5.4.4 The Written Resolution may consist in one (1) document or in several documents in like form, each signed by one (1) or more BNRC members and may be first approved via e-mail or other electronic communication media, followed by the documents with original signature to be returned to the Company Secretary.

## **5.5 Voting**

5.5.1 All resolutions of the BNRC shall be decided by a simple majority vote, each BNRC member having one vote. In case of equality of votes, the Chair shall have a second or casting vote.

5.5.2 A BNRC member is required to abstain from deliberations and voting in respect of any matter which may give rise to an actual or perceived conflict of interest situation.

## **5.6 Meeting Minutes**

5.6.1 The minutes of the meeting shall faithfully record the deliberations and decisions of the BNRC. Minutes shall include compiled instructions as matters arising for discussion at each meeting to ensure proper follow through.

5.6.2 Minutes shall be circulated to BNRC members (in draft form) for comments within 10 working days of the meeting. Minutes (in final draft form) shall be distributed to BNRC members at least five (5) working days before the following meeting and shall be approved by the Chair of the BNRC of the relevant meeting at which the proceedings are held or by the Chair of the next succeeding meeting.

5.6.3 Copies of minutes of each meeting shall be distributed to all members of the Board. The BNRC, through its Chair, shall update the Board on the activities

undertaken by the BNRC at each Board meetings. Any recommendations to the Board for approval, the Committee shall provide such background and supporting information as may be necessary for the Board to make an informed decision.

## **5.7 Secretary**

5.7.1 The Secretary to the BNRC shall be the Company Secretary or such other person approved by the BNRC.

5.7.2 The Secretary shall organise and provide assistance at BNRC meetings and have the following key responsibilities:

- a) ensure meetings are arranged and held accordingly;
- b) assist the Chair of the Committee in planning the BNRC's activities;
- c) draw up meeting agendas in consultation with the Chair of the BNRC and maintain the minutes and draft its scheduled activities for the financial year;
- d) ensure structured communication channels between the Board and the BNRC;
- e) ensure proceedings of meetings are recorded and the minutes circulated in a timely manner, and reviewed by the BNRC before disseminating them to the Board;
- f) provide advice on governance and compliance matters to the BNRC as well as practical support, whenever needed; and
- g) ensure BNRC recommendations presented to the Board are supported by papers that explain the rationale for the BNRC's recommendations.

## **6. DUTIES AND RESPONSIBILITIES OF THE CHAIR**

6.1 The following are the main duties and responsibilities of the Chair:

6.1.1 To chair the BNRC's meetings. If the Chair is not present at any meeting within 15 minutes of the time appointed for holding the same, the BNRC members present shall choose one (1) of their members to chair the meeting;

6.1.2 Steer the BNRC to achieve its objectives;

- 6.1.3 To ensure that the responsibilities of the BNRC is discharged in accordance with the rules and regulations to which it is subject to, and if required in consultation with the Secretary;
- 6.1.4 The Chair of the BNRC should encourage a healthy debate on the issues at hand and bring to the BNRC a healthy level of scepticism and independence;
- 6.1.5 Provide leadership to the BNRC and ensure proper flow of information to the BNRC, reviewing adequacy and timing of documentation;
- 6.1.6 Ensure that consensus is reached on every BNRC resolution and where considered necessary, call for a vote and the decision will be made by simple majority;
- 6.1.7 Ensure that all BNRC Members are enabled and encouraged to play their role in activities. This includes making certain that all BNRC Members receive timely, relevant information tailored to their needs and that they are properly briefed on issues arising at BNRC meetings; and
- 6.1.8 Manage the processes and working of the BNRC Committee and ensure that the BNRC discharges its responsibilities.

## **7. MEMBERS**

- 7.1 Each BNRC Member will be expected to perform the following:
  - 7.1.1 Provide independent opinions to the fact-finding, analysis and decision- making process of the BNRC, based on their experience and knowledge;
  - 7.1.2 Consider viewpoints from the other BNRC Members and make decisions and recommendations for the best interest of the Board members collectively;
  - 7.1.3 Keep abreast of the latest corporate governance guidelines in relation to the BNRC and the Board as a whole;

7.1.4 Continuously seek out best practices in terms of the processes utilised by the BNRC, following which these should be discussed with the rest of the Committee for possible adoption; and

7.1.5 Abstain from the deliberation and voting on decision in respect of his /her remuneration.

## **8. ANNUAL PERFORMANCE ASSESSMENT**

8.1 The BNRC shall perform a self-assessment annually to assess its effectiveness in carrying out the duties as set out in this terms of reference and report the results to the Board, recommending any changes it deems necessary for the Board's approval.

8.2 The composition, performance and effectiveness of the BNRC and each of its members shall be reviewed annually to ensure that the Committee has the right composition, necessary and relevant skills, and expertise to effectively fulfil their roles.

8.3 All such reviews and assessments shall be properly and formally documented.

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

The BNRC shall recommend any change to its terms of reference in such manner as the BNRC deems appropriate to the Board for approval. These Terms of Reference shall be assessed, reviewed and updated periodically in accordance with the Malaysian Code of Corporate Governance (MCCG), MMLR or any other regulatory requirements that may have an impact in discharging of the BNRC's duties and responsibilities. These Terms of Reference shall also be reviewed and updated when there are changes to the direction or strategies of the Company that may affect the BNRC's role, authority or responsibilities.

### Notes:

1. "Officer" means a person who:

- Any director, secretary, or employee of the Company
- A receiver or manager of any part of the undertaking of the Company appointed under a power contained in any instrument; and
- Any liquidator of the Company appointed in a voluntary winding up.

*But does not include a person who:*

- Any receiver who is not also a manager
- Any receiver or manager appointed by the Court; or
- Any liquidator appointed by the Court or by the creditors.

*[Ref: Section 2, Companies Act 2016]*

2. "Large Shareholder" means a person who:

- is entitled to exercise, or control the exercise of, not less than 33% of the voting shares in the Company; or
- is the largest shareholder of voting shares in the Company; or
- has the power to appoint or cause to be appointed a majority of the Directors of the Company; or
- has the power to make or cause to be made, decisions in respect of the business or administration of the Company, and to give effect to such decision or cause them to be given effect to.

*[Ref: Guidance 5.3, Malaysia Code on Corporate Governance 2021]*