

**HENGYUAN REFINING COMPANY BERHAD**

**(3926-U)**

**BOARD RISK MANAGEMENT COMMITTEE  
TERMS OF REFERENCE**

**Dated as at 27 February 2018**

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**1. PURPOSE**

- 1.1 The Board Risk Management Committee (“BRMC”) is established as a committee of Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) (the “Company”) with the following primary objectives:
- 1.1.1 to ensure that comprehensive policies of risk management are set up to identify and measure the potential impact of key business risks and to manage and counter such threats;
  - 1.1.2 to set out the responsibility and scope of authority of the risk management within the framework it operates;
  - 1.1.3 to set and recommend the Company’s risk management framework, for the Board’s approval;
  - 1.1.4 to oversee, review and regularly assess and evaluate such risk management framework, policies and strategies as well as the necessary internal controls to ascertain their adequacy and effectiveness.

**2. COMPOSITION AND APPOINTMENT**

- 2.1 The BRMC members shall be appointed by the Board of Directors (“Board”) from amongst their number and shall consist of not less than three (3) members. Majority of the BRMC members must be Independent Directors.
- 2.2 No alternate Director shall be appointed as a member of the BRMC.
- 2.3 The BRMC members shall have a mixture of expertise and experience, including sufficient understanding of the industries in which the Company operates in order to challenge and facilitate robust discussions on the management of the Company’s key risk areas with the ability to anticipate, assess and mitigate potential future risks to the Company.
- 2.4 The Chair of the BRMC shall be a Non-Executive Director appointed by the Board.
- 2.5 The BRMC members may relinquish their membership in the BRMC with prior written notice to the Company Secretary. In the event of any vacancies arising in the BRMC resulting in the number of members of the BRMC falling below three (3), the vacancy shall be filled as soon as possible, but not later than three (3) months from that event.

### **3.0 AUTHORITY**

- 3.1 The BRMC is authorised by the Board and at the expense of the Company to perform the following:
- 3.1.1 Secure the resources in order to perform its duties as set out in the Terms of Reference.
  - 3.1.2 Have direct communication channels with and full and unrestricted access to information pertaining to the Company and Management including without limitation, its information, records, reports, properties and personnel and all employees are directed to cooperate with any request made by the BRMC.
  - 3.1.3 Instruct Management to perform duties as necessary to support the BRMC in discharging its functions and duties. The Risk Officer is accountable to the BRMC and shall have direct access to the Chairman of the BRMC, if necessary.
  - 3.1.4 Obtain external legal or other independent professional advice as necessary.
- 3.2 The BRMC is not authorised to implement its recommendations on behalf of the Board but shall make recommendations to the Board on risk related matters for the Board's consideration and implementation.

### **4.0 FUNCTIONS AND DUTIES**

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

- 4.1 Report to the Board and to provide oversight, direction and counsel with regard to the Company's governance and management of risk which includes the following:
- 4.1.1 Formulate the Company's risk management framework including reporting guidelines, policies, strategies, key risk indicators and risk tolerance levels and any changes thereto and recommend for the Board's approval.

- 4.1.2 Periodically test and at least annually review, assess and evaluate the quality, integrity and effectiveness of the Company's internal control and risk management framework, including compliance with applicable laws, rules, corporate governance requirements and guidelines to ensure that the risk control and risk management framework is always maintained at an optimal level to identify, assess, monitor and manage the Company's key risks.
  - 4.1.3 Ensure that a systematic and comprehensive evaluation of the Key Risk Areas such as finance, operations, reputation, cyber security, regulatory compliance and sustainability are conducted and that controls are in place to mitigate and manage those risks. To recommend any changes or improvements that are necessary.
  - 4.1.4 Review the Company risk tolerance and appetite and ensure that significant risks that are outside tolerable ranges are being responded with appropriate actions taken in a timely manner.
  - 4.1.5 Ensure compliance and implementation of the risk strategy and tolerance in accordance with the risk management framework and policies in place.
  - 4.1.6 Regularly monitor and review management reports on the implementation and effectiveness of risk management policies including monitoring the activities of the Risk Officer to provide an independent and objective overview on management implementation, to take into account any recommendations, to review the status of the implementation of management action plans in mitigating significant risks identified and to report on such actions taken.
- 4.2 Ensure that disclosure on risk management by the Company in the Annual Report includes: i) relevant information as prescribed in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), ii) a discussion on how Key Risk Areas were evaluated and that controls are in place for the Company to mitigate and manage those risks.

4.3 The BRMC shall have the assistance and services of a Risk Officer who shall report to the Chair of the BRMC and shall assist the Chair to investigate, collate, monitor and report on the overall risk environment and risk controls of the Company.

4.4 The BRMC directs Management to report :

- (a) all events that have caused a “material” risk event to happen;
- (b) on the steps that have been taken to remedy the risk; and
- (c) the preventive measures that have been taken to mitigate a similar risk from happening in the future,

to the BRMC for their review and endorsement.

For avoidance of doubt, the following items, including but not limited to, are reportable:

- all major incidents (including near misses) that could or have caused "significant" injury or loss of life;
- any operational incident that has caused harm or damage to the environment or equipment, or has attracted negative press coverage that could damage Company's reputation;
- any breach of any regulations that could cause the Company to cease operations;
- any event that may significantly damage or onerously impact the current and/or future performance and survival of the organization, for example technological obsolesce, significant downtime, high risk actions where the risk from any failure or bad forecast is significantly greater than any foreseeable benefit and so forth.

4.5 Further, Management is directed to ensure that there is in place a documented Crisis Management plan and that this plan is reviewed and tested annually so that events are reported on a timely basis. This plan also covers the requirements of business continuity and disaster recovery. A report is to be tabled to BRMC at least annually for its approval.

## **5. MEETINGS**

### **5.1 Frequency**

5.1.1 The BRMC shall meet at least twice in a financial year. Additional meetings shall be scheduled as considered necessary by the Chair of the BRMC.

5.1.2 Management and those tasked with management of key risks may be requested to attend the meetings of the BRMC to provide reports and input. The Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Risk Officer shall attend the meetings although they do not have any voting rights. Other members of Management may attend the meetings by invitation of the BRMC.

### **5.2 Notice and Agenda**

5.2.1 The Company Secretary shall issue and circulate the notice of the BRMC meetings confirming the venue, time and date at least five (5) working days before each meeting to the BRMC members and all those who are required to attend the meeting.

5.2.2 The agenda for each BRMC meeting including relevant documents and information requested by the BRMC shall be circulated at least five (5) working days before each meeting to the BRMC members and all those who are required to attend the meeting.

5.2.3 The BRMC meeting agendas shall be the responsibility of the Chair with input from the BRMC members. Where necessary, the agenda shall include input from the Senior Management and/or external auditors and advisers.

5.2.4 The Chair may also invite other members of Senior Management and other persons to participate in this process, if necessary.

**5.3 Quorum**

5.3.1 The quorum for a meeting of the BRMC shall be two (2) members, with the majority of members present being Independent Directors. In the absence of the Chair, the members present shall elect a Chair from amongst them to chair the meeting.

**5.4 Meeting Mode**

5.4.1 A meeting of the BRMC shall normally be conducted face-to-face to enable effective discussion; however, meetings may also be conducted via telephone conferencing, video conferencing or other appropriate means as determined by the BRMC.

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

**5.5 Voting**

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

5.5.2 A BRMC 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 BRMC. The minutes shall include compiled instructions as Matters Arising for discussion at each meeting to ensure proper follow through.
- 5.6.2 Minutes (in draft form) shall be circulated for comments within 10 working days of the meeting. Minutes (in final draft form) shall be distributed to BRMC members at least 5 working days before the following meeting and shall be approved by the Chair of the 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 BRMC, through its Chair, shall update the Board on the activities undertaken by the BRMC at each Board meeting.

## **5.7 Secretary**

- 5.7.1 The Company Secretary (or any one or more, if more than one company secretary) or such other approved person shall be the secretary of the BRMC (the "Secretary").
- 5.7.2 The Secretary shall organise and provide assistance at BRMC meetings and have the following key responsibilities:
- ensure meetings are arranged and held accordingly;
  - assist the Chair in planning the BRMC's activities;
  - draw up meeting agendas in consultation with the BRMC Chair and maintain the minutes and draft its scheduled activities for the financial year;
  - ensure structured communication channels between the Board and the BRMC;
  - ensure collation and distribution of information required by the BRMC;
  - provide advice on governance and compliance matters to the BRMC as well as practical support, whenever needed;
  - ensure proceedings of meetings are recorded and the minutes circulated in a timely manner, and reviewed by the BRMC before disseminating them to the Board; and

- ensure BRMC recommendations presented to the Board are supported by papers that explain the rationale for the BRMC's recommendations.

**6. ANNUAL PERFORMANCE ASSESSMENT**

- 6.1 The BRMC shall perform a self-assessment annually to assess its effectiveness in carrying out the duties as set out in these Terms of Reference and report the results to the Board.
- 6.2 The Board shall review the composition, performance and effectiveness of the BRMC and each of its members annually to ensure that the BRMC has the right composition, and sufficient, recent and relevant skills and expertise to effectively fulfil their roles.
- 6.3 All such assessments shall be properly documented.

**7. REVIEW OF THE TERMS OF REFERENCE**

- 7.1 The BRMC shall recommend any changes to its terms of reference in such manner as the BRMC deems appropriate to the Board for approval and where necessary obtain the assistance of Senior Management or the Company's external auditors. The terms of reference shall be assessed, reviewed and updated where necessary i.e. when there are changes to the Malaysian Code on Corporate Governance, the Listing Requirements or any other regulatory requirements. It should also be reviewed and updated when there are changes to the direction or strategies of the Company that may affect the BRMC's role.