

SALCON BERHAD

- TERMS OF REFERENCE FOR RISK MANAGEMENT COMMITTEE

Part 5 Terms of Reference

5.1 Board of Directors (BOD)

Salcon Berhad's (SB) BOD retain the overall risk management responsibility in accordance with the Malaysia Code of Corporate Governance (MCCG), which requires the Board to identify potential risks and ensure the implementation of appropriate systems to effectively manage and control these risks.

The principal roles and responsibilities of the Board in risk management are as follows:

a. Primary Responsibilities

The BOD shall establish a sound risk management framework and internal control system, and through the supervision of the operating risk framework, manage the various risks faced by the Group / Company.

This framework shall include the following activities:

- Establish an Integrated Risk Management policy that in line with an internationally recognized framework, for the group;
- Set the tone and culture from the top and establish risk tolerance levels for the Group. This includes:
 - i. Determining whether SB is 'risk taking' or 'risk adverse' as a whole or on any relevant individual issue.
 - ii. Determining what are acceptable risks.
 - iii. Setting the standards and expectations of staff with respect to conduct and probity.
- Setting / determine the appropriate risk appetite for the Group;
- To monitor potential risks' exposure and review the adequacy of controls in place via internal audit activities;
- Conduct review of control activities/ operations on high risk areas. Satisfy itself that the less significant risks are being actively managed, with the appropriate controls in place and working effectively;
- Assess and evaluate the operations and control activities for the Group and express an opinion on the internal controls system via internal audit reviews;

The BOD shall perform an assessment on its internal control and risk management system and subsequently reports in its annual report as follows:

- The main features of the Company's risk management framework and internal control system.
- The potential or significant risks identified for the Group which could jeopardize the reputation and financial integrity of the Company / Group;
- The adequacy/effectiveness of management action plans undertaken in mitigating the risks identified;
- The scope of work and assurance services carried out by its internal audit function and other external service providers;
- The extent and frequency of the communication of results for the Group and the effectiveness of the risk management; and
- The effectiveness of the Group's public reporting process.

b. Supplementary Responsibilities

In order to expedite the decision process, the BOD may delegate certain aspects of the work / responsibilities to appropriate sub-board committees. However, the BOD assumes ultimate responsibilities for the works performed and sound internal control system. The Board approves the risk management strategies but will delegate authority for day-to-day decisions to the Risk Management Committee (RMC).

5.2 Risk Management Committee

The Board retains the ultimate responsibility for the Group's risk management and for determining the appropriate level of risk appetite. The RMC had been established to provide assurance pertaining to the Group's risk profile to the Board and shall meet up at least once a year. Meetings can be conducted at more frequent intervals should conditions require.

The objectives of the RMC:

- To cultivate knowledge and culture of the Enterprise-wide Risk Management Program throughout the Group;
- To monitor and ascertain that risk management processes are consistently and effectively adopted throughout the Group and are within the parameters established by the Board; and
- To provide assurance for compliance with applicable statutory, mandatory or other requirements.

Authority and Scope

The BOD has delegated its authority to the RMC and where, the RMC oversees the Enterprise Risk Management framework for the Group/Company while ensuring that a risk management

structure is embedded and consistently implemented within Board's established parameters throughout the Group/Company. The RMC reports to the BOD.

Composition

The composition of the RMC should be approved by the Board. The members shall be familiar and experienced in this industry and equipped with the knowledge on risk, opportunities and business management. The Chairman of the Committee shall be a Non-Executive Director.

Meetings

Meetings of the Committee shall be held at least once a year. Meetings can be conducted at more frequent intervals should conditions require. The Chairman of the Committee shall call a meeting if so directed or requested by the BOD or members of the Committee.

The Company Secretary shall ensure that proper minutes are kept of each meeting for approval by the Committee.

Responsibilities

- Establishing Strategic Context - Ensuring that the strategic context of the risk management strategy is complete and takes into account the environment within which the group operates and the requirements of all stakeholders and the BOD.
- Establishing Risk Management Processes - Determining the overall risk management processes that should be adopted by the Companies / Divisions and overseeing the development of appropriate guidelines and policies for implementation.
- Embedding Risk Management Capability - Ensuring risk management processes are integrated into all core business processes and that the culture of the organization reflects the risk consciousness of the Board.
- Establishing Reporting Mechanisms - Providing a consolidated risk and assurance report to the BOD and AC to support the statement relating to internal control in the company's annual report.
- Integrating & coordinating assurance activity - Ensuring alignment and coordination of risk and assurance activities across the organization.
- Establishing Business Benefits - Identifying opportunities to release potential business benefits through the enhancement of risk management capabilities within SB.
- Establishing Effectiveness of Risk Management Processes - Simplifying and improving the effectiveness of existing risk management structures.
- Establishing Controls Effectiveness - Ensuring effective assessment and monitoring of mitigating controls implemented to reduce the significance and impact of identified risks.
- Managing the Enterprise-wide Risk Management Program - Supporting the effective implementation of the risk management processes within the business.

5.3 Risk Management Working Group (“RMWG”)

The RMWG is established at the business unit level and shall meet at least once a year. Meetings can be conducted at more frequent intervals should conditions require.

The RMWG shall comprise of the respective Heads of Departments / Divisions / Business Units in SB. The RMWG is headed by the COO.

The IARMD only act as a coordinator and facilitate the summarizing of key significant risks across all business units, departments or divisions.

The RMWG's principal roles and responsibilities are as follows:

- identify and communicate to the RMC the critical risks (present or potential) the business unit faces, their changes, and the management action plans to manage the risks;
- communicate applicable risk management requirements to relevant business units;
- review risk profiles and performances for relevant business units; and
- review and update business unit's risk management methodologies applied, specifically those related to risk identification, measuring, managing, monitoring and reporting.

Significant risk issues evaluated by the RMWG and/or major changes proposed by this committee will be discussed at management meetings and also the meetings convened by the RMC.

In essence, risk areas are dealt and contained at the respective business unit level, and are communicated to the RMC through RMWG. Overall, the Management shall retain the overall risk responsibility.

5.4 Risk Management Unit

A RMU consisting of nominated members, performing the role of Risk Coordinator (RC) and assisting the Risk Officer (RO). Both will be responsible for the operational day-to-day risk management, whereby identified risks should be highlighted and reported to the RMWG.

A Risk Officer (who is primarily accountable for the efficient and effective governance of significant risks, and related opportunities) should be distinguished from a Risk Owner, the latter being such person within the Group who is able to actively influence the identified risk through decisions and actions.

The following functions and duties are incumbent on a Risk Officer:

- acting as a coordinator and guide for ERM issues for the Group/Company;
- coordinating the issuance of the Group-wide uniform ERM standards, combined with the authority to set guidelines with the approval of RMC;
- coordinating ERM routinely within the Group/Company;

- supervising ERM policy implementation at the Group/Company;
- developing and updating the ERM system at Group level after consulting with the RMC;
- documenting the ERM system;
- condensing ERM and risk situation information;
- aggregating the Group/Company's risk positions and yearly reporting to the RMC on the risk situation/status; and
- provide training and communicating ERM details within the Group/Company.