



CORPORATE GOVERNANCE

The Board of Jardine Cycle & Carriage has adopted the measures and practices as set out in the Code of Corporate Governance 2005 for listed companies in Singapore. Since the introduction of the Code of Corporate Governance in 2001, the Board has put in place a Corporate Governance Policies Manual which sets out the Company's corporate governance practices and terms of reference for the Board, Audit Committee, Nominating Committee and Remuneration Committee, in line with the principles prescribed by the Code. The Manual was developed with the help of external corporate governance experts. The Board keeps abreast of the latest developments in corporate governance, and the Manual was revised in 2006 to reflect the principles in the new Code of Corporate Governance 2005.

This report describes the corporate governance practices of the Company. The Company has adhered to the principles and guidelines of the Code of Corporate Governance 2005, except for Guideline 9.2 relating to the disclosure of names and remuneration of the top five key executives. The reason for the deviation is explained in this report.

The Board

The Board is composed of a majority of non-executive directors and at least one-third of the members are independent directors. It currently comprises three executive directors and eight non-executive directors of whom four are independent. Key information regarding these directors, including which of them are executive and non-executive and whether or not they are independent, can be found on pages 22 and 23 of the Annual Report.



Toll booth
Indonesia

The Board endeavours to ensure that there is an appropriate mix of core competencies and skills to provide the depth of knowledge and experience necessary to meet its responsibilities. In order to fulfil their duties, directors have access to adequate and timely information provided by the management, including management accounts which are provided on a monthly basis to the directors. In addition, the Board has separate and independent access to the Group Company Secretary and senior management. It is also empowered to seek independent professional advice as considered necessary. Briefings are provided from time to time to ensure that new and existing directors are kept abreast of relevant new laws, regulations and practices.

There is a clear division of responsibilities such that the roles of the Chairman and Group Managing Director are separate. The Group Managing Director is the chief executive officer of the organisation, whereas the Chairman occupies a non-executive position and chairs the Board meetings. The Board has adopted a comprehensive set of Terms of Reference defining the roles and responsibilities of the Chairman, the Board and the Group Company Secretary. Board meetings are scheduled on a regular basis throughout the year in consultation with the Chairman. The Company's Articles of Association allow Board meetings to be held by way of telephone conference and other electronic means.

The Board is responsible for charting the overall strategy and direction of the Group and approves important matters such as major acquisitions, disposals, capital expenditure and the operating plan and budget. To safeguard shareholders' interests,

there are also internal guidelines requiring the Board to review and approve material transactions, and these include major and discloseable transactions as referred to in the Singapore Exchange's Listing Manual. In addition, the Board ensures regular and timely communication with shareholders through announcements on the SGXNET and postings on the Company's website, as well as quarterly and year-end reporting of its results. The Annual General Meeting is the principal forum for dialogue with shareholders, where the directors, members of the Board committees and external auditors are available to answer questions.

The Board recognises the importance of a sound system of internal controls and risk management. To safeguard shareholders' investments and achieve corporate objectives, the Board has overall responsibility for the Group's internal controls and risk management, and reviews the effectiveness of the control and risk management systems. The Board is satisfied that adequate internal controls including financial, operational and compliance controls and risk management systems are in place and the Group has not identified any internal control weaknesses that could result in material losses during the past year.

To assist it in the discharge of its responsibilities, the Board has established an Audit Committee, Nominating Committee and Remuneration Committee. From time to time, the Board also establishes ad hoc committees to look into specific matters. The composition and functions of these committees are described in the following pages.

Nominating Committee

The members of the Nominating Committee are Chang See Hiang, Hassan Abas, Lim Ho Kee and Anthony Nightingale. Three of the members are independent and all are non-executive. The Nominating Committee is chaired by Chang See Hiang, an independent non-executive director.

The members of the Nominating Committee carry out their duties in accordance with the Terms of Reference defining their roles and responsibilities. The primary function of the Nominating Committee is to make recommendations to the Board on all Board appointments, including the Company's representatives on the boards of the Group's subsidiaries and associates. It ensures that the directors have an appropriate mix of core competencies and experience in areas such as accountancy, finance, business, management, law, industry knowledge and strategic planning to fulfil their roles and responsibilities. It also determines the size of the Board after taking into consideration the scope and nature of operations of the Group. The responsibilities of the Nominating Committee also include assessing annually the independence of directors and developing and maintaining internal guidelines used to evaluate the directors' ability and performance for the purpose of submitting them for re-nomination and re-election. It is also responsible for managing succession planning of key management executives, such as identifying key potential candidates and providing training and career planning.

A formal and transparent process for the appointment of new directors exists. The Nominating Committee reviews each proposal for the appointment of a new member to the Board. The candidate will be assessed for his suitability and potential contribution to the Board, taking into account the existing competencies, knowledge and experience of the other Board members. After considering factors such as the candidate's professional qualifications, business experience and capabilities, suitable candidates will be nominated to the Board for approval. All newly appointed directors are subject to election by shareholders at the next Annual General Meeting. Furthermore, in accordance with the Company's Articles of Association, at least one-third of the directors, including the Group Managing Director, are required to retire by rotation and submit themselves for re-election at each Annual General Meeting.

Directors' Attendance at Board and Board Committee Meetings

The table below sets out the number of meetings of the Company's directors including meetings of the Board Committees during the financial year ended 31 December 2008.

Director	No. of Board Meetings		No. of Nominating Committee Meetings		No. of Audit Committee Meetings		No. of Remuneration Committee Meetings	
	Held whilst a Director	Attended	Held whilst a Member	Attended	Held whilst a Member	Attended	Held whilst a Member	Attended
Anthony Nightingale	4	4	1	1	NA	NA	2	2
Boon Yoon Chiang	4	3	NA	NA	4	4	NA	N
Benjamin Keswick	4	4	NA	NA	NA	NA	NA	NA
Chiew Sin Cheok	4	4	NA	NA	NA	NA	NA	NA
Datuk Azlan Zainol	4	4	NA	NA	NA	NA	NA	NA
Chang See Hiang	4	4	1	1	4	4	2	2
Cheah Kim Teck	4	4	NA	NA	NA	NA	NA	NA
Mark Greenberg	4	4	NA	NA	4	3	NA	NA
Hassan Abas	4	4	1	1	4	4	2	2
Lim Ho Kee	4	4	NA	NA	4	4	NA	NA
James Watkins	4	4	NA	NA	4	4	1	1
Alan Yeo*	1	1	1	1	1	1	1	1

* Retired on 29 April 2008

The assessment of the Board as a whole and the contribution of each individual director to the effectiveness of the Board is carried out annually and overseen by the Nominating Committee. The formal performance assessment process is set out in the Company's Corporate Governance Policies Manual, and uses self-assessment with certain set performance criteria.

For individual director's performance, each director performs self-evaluation by completing a checklist containing a set of pre-determined performance criteria. The performance criteria cover areas such as attendance at board and committee meetings, adequacy of preparation for board meetings, contributions in topics like strategic/business decisions, finance/accounting, risk management, legal/regulatory, human resource management, generation of constructive debate, maintenance of independence and disclosure of related party transactions. These relate directly to areas in which a director would be expected to contribute and are designed to encourage the director to be more effective. Each director's self-evaluation is also reviewed by the Nominating Committee.

For the Board's performance as a whole, the Company has adopted two sets of performance criteria, quantitative and qualitative. For the quantitative assessment, the share price performance, return on capital employed ("ROCE") and earnings per share of the Company are compiled over a five-year period and compared with the Straits Times Index and industry peers which have similar businesses as the Company. The selection of industry peers is reviewed annually to ensure that the comparison is objective and relevant. The collation of information and the comparison are carried out by external consultants and set out in a performance benchmark report which is then reviewed by the Nominating Committee. For the qualitative assessment, the Nominating Committee carries out a self-evaluation of the Board's performance using a set of comprehensive pre-determined performance criteria. The areas that are covered are Board structure, conduct of meetings, corporate strategy and planning, risk management and internal control, measuring and monitoring performance, recruitment and evaluation, compensation, succession planning, financial reporting and communicating with shareholders.

Remuneration Committee

The Remuneration Committee consists entirely of non-executive directors, the majority of whom are independent, and is chaired by a non-executive independent director, James Watkins. The other members are Chang See Hiang, Hassan Abas and Anthony Nightingale.

The members of the Remuneration Committee carry out their duties in accordance with the Terms of Reference defining their roles and responsibilities. The Remuneration Committee is responsible for reviewing the remuneration of senior management and advising the Board on the framework of remuneration policies for executive directors and senior executives, as well as the framework of fees payable to non-executive directors. These policies are designed to attract, retain and motivate them to align their interests with the growth of the Company in order to increase shareholder value. Several members of the Remuneration Committee are knowledgeable in the field of executive compensation, and the Remuneration Committee also has access to expert advice from consultants on executive compensation matters.

The remuneration for executive directors and senior management is structured to link rewards to corporate and individual performance. The remuneration policy for executive directors and senior management staff consists of both a fixed and variable component. The fixed component includes salary, pension fund contributions and other allowances. The variable component

comprises a performance based bonus, which is payable on the achievement of individual and corporate performance targets. Short-term and long-term incentive plans have been designed to strengthen the pay for performance framework and to reward participants for the success of the business units and the Group.

No service contract has been signed with any executive director.

In the case of non-executive directors, the amount of directors' fees payable to the non-executive directors is determined having regard to best market practice, the level of duties and responsibilities of the directors and the size and diversity of the Group's operations. The directors' fees paid include membership fees as tabulated below, attendance fees of S\$1,000 per meeting (capped at one meeting per day, regardless of the number of meetings attended on that day) and benefits-in-kind, all of which are approved by shareholders at the Annual General Meeting.

	Chairman S\$	Member S\$
Board	60,000	40,000
Audit Committee	20,000	10,000
Remuneration Committee	8,000	4,000
Nominating Committee	8,000	4,000

No directors' fees are paid to executive directors.

Remuneration of Directors

The remuneration of the directors of the Company for the financial year ended 31 December 2008 is shown in the following bands, broken down into the various elements by percentages:

Directors	Directors' fees %	Base salary %	Variable bonus %	Defined benefits/ contribution plans %	Benefits -in-kind %	Total %
Below S\$250,000						
Anthony Nightingale	100	–	–	–	–	100
Boon Yoon Chiang	87	–	–	–	13	100
Datuk Azlan Zainol	100	–	–	–	–	100
Chang See Hiang	96	–	–	–	4	100
Mark Greenberg	100	–	–	–	–	100
Hassan Abas	100	–	–	–	–	100
Lim Ho Kee	100	–	–	–	–	100
James Watkins	100	–	–	–	–	100
Alan Yeo*	100	–	–	–	–	100
S\$750,000 to S\$999,999						
Chiew Sin Cheok #	–	34	29	5	32	100
S\$1,500,000 to S\$1,749,999						
Cheah Kim Teck #	–	35	60	–	5	100
S\$2,250,000 to S\$2,449,999						
Benjamin Keswick #	–	24	49	4	23	100

* Retired on 29 April 2008

Executive Director

Notes:

- (1) Directors' fees for non-executive directors including benefits-in-kind were approved by the shareholders as a lump sum at the Annual General Meeting held in 2008.
- (2) Benefits-in-kind refer to benefits such as car, driver, housing allowances, housing and club membership made available to directors as appropriate.

The number of directors of the Company whose remuneration falls within the following remuneration bands is as follows:

	2008
Below S\$250,000	9
S\$750,000 to S\$999,999	1
S\$1,500,000 to S\$1,749,999	1
S\$2,250,000 to S\$2,449,999	1
Total	12

Remuneration of Key Executives

The remuneration of key executives of the Group is not disclosed as the Company believes that disclosure may be prejudicial to its business interests given that it is operating in highly competitive environments.

There are no Company employees who are immediate family members of a director.

Audit Committee

The Chairman of the Audit Committee is Hassan Abas and the members are Boon Yoon Chiang, Chang See Hiang, Mark Greenberg, Lim Ho Kee and James Watkins. All of the members are non-executive and four of them including the Chairman are independent. Three of the members are chartered accountants or have expertise in financial management.

The members of the Audit Committee carry out their duties in accordance with the Terms of Reference defining their roles and responsibilities. The primary function of the Audit Committee is to help the Board fulfil its statutory and fiduciary responsibilities in relation to the Group's financial reporting, ensuring the integrity of financial statements, management of financial and control risks and monitoring of the internal control systems. The Audit Committee has full access to and the co-operation of management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The Internal Audit function, which reports directly to the Chairman of the Audit Committee, provides an independent and objective assurance on internal controls and assists the Audit Committee in reviewing how principal business risks in the Group are evaluated. The Internal Audit function is independent of the operating companies and employs qualified professionals to handle the work in accordance with prevailing professional standards. The Internal Audit function reviews the effectiveness of the internal control system and management control system. These reviews are conducted regularly throughout the year in accordance with an agreed plan to ensure material internal controls are in place. The Audit Committee approves the audit plans, reviews the audit findings and follows up on implementation plans. The Audit Committee evaluates the adequacy of the Internal Audit function annually. The Group has in place a risk management programme to identify and report on areas of potential business risks and to recommend counteracting measures to prevent and minimise any loss arising from the business risks identified. The Risk Registers are updated regularly and a Risk Management Review, which is included in this section, is submitted to the Audit Committee annually.

In performing its functions, the Audit Committee also reviews and approves audit plans for external audit. It meets with the external auditors to discuss significant accounting and auditing issues arising from their audit, other audit findings and

recommendations. It also considers management letters from the external auditors and management's response to them.

The Audit Committee meets with both internal and external auditors annually without the presence of management to discuss any matters that the Audit Committee or auditors believe should be discussed privately.

Prior to the completion and announcement of the quarterly and full year results, the Audit Committee and the senior management review the Group's financial information to ensure that it is properly presented and that appropriate accounting policies have been applied in the preparation of financial information.

The Audit Committee serves as an independent party to review financial information prepared by the management for shareholders, as well as the channel of communication between the Board and external auditors.

The Audit Committee also reviews or approves the interested person transactions entered or proposed to be entered into during the year as recorded in the Register of Interested Person Transactions (excluding transactions less than S\$100,000).

For the year ended 31 December 2008, the following interested person transactions were entered into:

	Aggregate value of all interested person transactions (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) US\$m	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) US\$m
Jardine Matheson Limited		
– management consultancy services	–	2.4
Jardine OneSolution (2001) Pte Ltd		
– information technology services	–	0.5
Jardine Lloyd Thompson Pte Ltd		
– insurance services	–	0.1
	–	3.0

Save for those transactions disclosed above, no material contract has been entered into by the Group involving the interests of the Group Managing Director, any director or controlling shareholder, either as at the end of the financial year or since the end of the financial year.

The Group has a Corporate Code of Conduct that encapsulates many of the Group's longstanding policies. The Audit Committee reviews and approves any changes made to the code. These policies apply to all employees and set out the standards within which they are expected to act. The policies are aimed at the maintenance of standards of honesty, integrity and fair dealing by all employees in their dealings with customers, suppliers, interested persons and the community, competitors and other internal units in the performance of their duties and responsibilities. The Group has in place whistle blowing policies which come under the purview of the Audit Committee to ensure independent investigation and appropriate follow up action on any concerns raised.

The Company has adopted internal guidelines on dealings in securities by directors and employees of the Company and Group

companies. The guidelines incorporate the best practices on the subject issued by the Singapore Exchange Securities Trading Limited or the appropriate regulatory requirements of the markets on which the securities are listed. Under the guidelines, directors and employees who are in possession of unpublished material price-sensitive information are prohibited from dealing in the Company's or any Group company's securities. They should also not deal on short-term considerations nor during the relevant closed periods immediately preceding the announcement of results.

The Audit Committee also reviews the range and value of non-audit services provided by the external auditors on an annual basis. For the financial year which recently ended, it was satisfied that the provision of such non-audit services has not affected the independence of the external auditors.

Risk Management Review

The Group has a formal risk management process to identify, evaluate and manage significant risks impacting the Group. The process is supported by a policy as well as detailed procedures, methodologies, evaluation criteria and documentation requirements with the aim of ensuring clarity and consistency of application across the Group.

Management is required comprehensively to identify and assess significant risks in terms of the likelihood of occurrence and magnitude of impact as well as to identify and evaluate the adequacy and implementation of mechanisms to manage, mitigate, avoid or eliminate these risks. The process encompasses assessments and evaluations at business unit level before being examined from a Group perspective.

On an annual basis, Risk Registers are updated and a Risk Management Review is presented to the Audit Committee on the significant risks, measures taken by management to address them and residual risk exposures impacting the Group.

The following are the major risk exposures.

1. Dependence on Investment in Astra

Astra is the major contributor to the Group's earnings and represents a significant proportion of the Group's total assets. Consequently, any adverse changes in the political, social or economic situation in Indonesia or any other factors, including changes in laws, regulations and policies by the Indonesian or other foreign governments, any termination of or material changes to key licensing and distribution agreements between Astra and its strategic partners or any pricing actions Astra may have to take in response to competition which have a material adverse impact on Astra's financial performance, will have a significant impact on the Group's earnings and total assets.

The Group is exposed to foreign currency fluctuations, through Astra. A significant depreciation of the Rupiah will have an adverse impact on the Group's earnings and total assets.

2. Terrorists' Attacks, Other Acts of Violence and Natural Disasters

Terrorists' attacks, other acts of violence or natural disasters may directly impact the Group's physical facilities or those of its suppliers and customers and have an adverse impact on the Group's earnings and total assets. Such risks cannot be totally eliminated. However, the Group takes out appropriate insurance as part of its risk management.

3. Outbreak of Contagious or Virulent Diseases

A pandemic outbreak or spread of contagious or virulent diseases such as severe acute respiratory syndrome or avian influenza may result in quarantine restrictions on the Group's staff, suppliers and customers and limit access to facilities. These could have a significant negative impact on the Group's earnings and total assets.

4. Competition, Economic Cycle and Government Regulations

The Group faces competition in each of its businesses. If the Group is unable to compete successfully against its existing competitors or new entrants to the industries in which it operates, its business, financial condition and results of operations will be adversely affected.

The Group's financial performance fluctuates with the economic cycle. Market forces and their resultant movements can significantly impact the earnings and asset position of the Group.

The Group's businesses are impacted by government regulations and policies relevant to the respective industries and territories. Economic trade agreements such as the Asean Free Trade Agreement may also result in increased competition which may have an adverse effect on the Group's earnings and total assets.

5. Exclusive Business Arrangements

The Group currently has a number of subsidiaries and associates in Indonesia, Singapore, Malaysia and Vietnam engaged in the automotive business that enjoy exclusive rights in various forms either as a manufacturer, assembler, distributor or dealer.

Management works to meet targets and improve business performance. Notwithstanding this, any change in the strategies of the principals may be beyond management's control. In certain cases, any withdrawal or dilution of the exclusive rights can potentially have a significant impact on the Group's earnings and total assets.

6. Financial Risk

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity markets, foreign currency exchange rates and interest rates. It manages its exposures to financial risks using a variety of techniques and instruments. The Group has an internal policy which prohibits speculative transactions to be undertaken and only enters into derivative financial instruments in order to hedge underlying exposures. The objective is to provide a degree of certainty on costs. The investment of the Group's surplus cash resources is managed so as to minimise credit risk while seeking to enhance yield. The steps taken by the Group to manage its exposure to financial risks are set out under Financial Risk Management on page 55, Note 2.30 to the Financial Statements. The Group also has a system of internal controls as described in this report.

Notwithstanding the risk management policies of the Group, any unanticipated fluctuations in debt and equity market prices, foreign currency exchange rates and interest rates may have an adverse effect on the Group's earnings and total assets.