CORPORATE GOVERNANCE

INTERNAL AUDIT

The primary reporting line of the internal audit function is to the Audit Committee. It 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 of the Group (excluding Astra) is performed by the internal audit team of its holding company, Jardine Matheson. The function is independent of the operating companies of the Group and employs qualified professionals to handle the work in accordance with the prevailing Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors ("IIA").

The internal audit function of the Astra group is overseen by Astra's Group Audit and Risk Advisory ("GANRA"), the internal audit department of Astra's parent company. GANRA performs the audits for all of the automotive sales operations that come under Astra's parent company. It also provides support to and participates in some joint audits and regular reviews with the various internal audit units of the subsidiaries within the Astra group. The various internal audit units of Astra's subsidiaries report to the respective boards of commissioners within the Astra group, and GANRA reports to the audit committee of Astra's parent company. The Audit Committee receives quarterly reports on internal audit plans, audit findings and implementation plans from GANRA.

The internal audit function reviews the effectiveness of the internal control systems and management control systems. 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, and reviews the audit results and follows up on implementation plans. The Audit Committee also evaluates the adequacy, effectiveness, independence and scope of the internal audit function. For 2020, the Audit Committee was satisfied that the internal audit function was independent, effective and adequately resourced.

EXTERNAL AUDIT

The Audit Committee is primarily responsible for proposing the appointment and removal of the external auditor. It recommends to the Board on any re-appointment of the external auditor, approves its remuneration and terms of engagement, and ensures that Rules 712 and 715 of the SGX-ST Listing Manual are complied with.

The Audit Committee also approves audit plans for the external audit, and reviews the adequacy, effectiveness, independence, scope and results of the external audit. It meets with the external auditor to discuss significant accounting and auditing issues arising from its audit, other audit findings and recommendations.

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

REVIEW OF RESULTS ANNOUNCEMENTS AND INTERIM MANAGEMENT STATEMENTS

Prior to the completion and announcement of the half year 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. Interim management statements are also reviewed to ensure that sufficient information is presented.

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.

NON-AUDIT SERVICES BY EXTERNAL AUDITOR

In 2020, the Audit Committee reviewed the range and value of non-audit services provided by the external auditors of the Group and was satisfied that the provision of such services had not affected the independence of the external auditors. The breakdown of the 2020 fees is as follows:

	US$m
Total fees for audit services	9.4
Total fees for non-audit services	1.3
Total fees	**10.7**

The Company has complied with Rules 712 and 715 of the SGX-ST Listing Manual with regards to the auditing firms.

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 detailed procedures, methodologies, evaluation criteria and documentation requirements with the aim of ensuring clarity and consistency of application across the Group. These procedures and methodologies are regularly reviewed to include new elements that are aimed at enhancing the reporting process in order to make it more comprehensive, of greater value to the Audit Committee and in line with current best practices.

Management is required to comprehensively identify and assess significant risks in terms of the likelihood of occurrence, financial impact and velocity. Management is also required to identify and evaluate the adequacy and implementation of mechanisms to manage, mitigate, avoid or eliminate these risks. The status of the residual risks are then rated accordingly. The process encompasses assessments and evaluations at the business unit level before being examined at the Group level.

The risk registers are updated biannually and a Risk Management Report is presented to the Audit Committee on the significant risks, measures taken by management to address them and residual risk exposures impacting the Group. Included in the report are considerations such as likelihood of occurrence, financial impact, velocity and impact ratings. Risks are also classified into various categories, such as reputational or financial.

The following were classified as major residual risk exposures (including operational risks) for 2020:

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 Astra or in the political, social or economic situation in Indonesia will in turn have a significant impact on the Group's earnings and total assets. Such adverse changes include 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.

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

Over the years, the Group has increased its exposure in Other Strategic Interests, which taken together with the Direct Motor Interests, now account for 30% of JC&C's underlying profits in 2020.

2. TERRORISTS' ATTACKS, OTHER ACTS OF VIOLENCE AND NATURAL DISASTERS

Terrorists' attacks, other acts of violence and 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 up appropriate mitigating measures such as procuring appropriate insurance as part of its risk management. Additionally, the Group maintains operational resilience through regular reviews of our Business Continuity Management ("BCM") plans.

3. OUTBREAK OF CONTAGIOUS OR VIRULENT DISEASES

A pandemic outbreak or spread of contagious or virulent diseases such as severe acute respiratory syndrome and avian influenza may result in lockdowns or quarantine restrictions on the Group's employees, suppliers and customers, and limit access to the Group's facilities, products and services. In 2020, the Group's operations were adversely impacted by the COVID-19 pandemic. During that period the Group activated its BCM plan and carried out enhanced health and safety programmes to mitigate the risk impact.

4. COMPETITION, ECONOMIC CYCLE, COMMODITY PRICES AND GOVERNMENT REGULATIONS

The Group faces competition in each of its businesses, and more so now with technological innovation. 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 its 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 is also exposed to financial risks arising from changes in commodity prices, primarily crude palm oil and coal.

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

To manage the risk of competition, the Group regularly assesses whether its products and services can meet customers' expectations. The Group also works closely with the respective local management to leverage local expertise and knowledge to manage the political and regulatory risks. The Group considers the outlook of commodity prices regularly in considering the need for active financial risk management. The Group's policy is generally not to hedge commodity price risk, although limited hedging may be undertaken for strategic reasons.

5. EXCLUSIVE BUSINESS ARRANGEMENTS

The Group currently has a number of subsidiaries, associates and joint ventures in Indonesia, Vietnam, Singapore, Malaysia and Myanmar 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.

The Group manages the risk through maintaining good relationships with the principals and close monitoring of changes in their policies and corporate plans. The Group also ensures strict compliance and governance to their standards and provides regular updates on the local market's regulatory and business environment to the principals.

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 exposure to financial risks by 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 in further detail under Financial Risk Management on pages 86 to 95, Note 2.32 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.

RIGHTS OF SHAREHOLDERS

FUNDAMENTAL SHAREHOLDER RIGHT – DIVIDEND POLICY AND PAYMENT

Under the Company's dividend policy, it aims to provide a return to shareholders through the payment of a cash dividend, usually on a semi-annual basis, taking into consideration the Group's financial performance, short and long-term capital requirements, future investment plans and broader business and economic conditions.

In 2020, the Company made two dividend payments to all shareholders; the 2019 final dividend of US$0.69 per share on 17th July 2020 and the 2020 interim dividend of US$0.09 per share on 2nd October 2020.

For the 2019 final dividend, a S$ currency election was offered to all shareholders as an alternative and the dividend was paid within 25 market days after the record date to cater for the currency election. Starting from the 2020 interim dividend, the Company has ceased to offer the S$ currency election. The Central Depository ("CDP"), which administers all the Company's dividend payments to shareholders holding scripless shares, offers a currency conversion service where cash distributions are converted into S$ and credited directly to one's DCS-linked bank account without a transaction fee. Shareholders who are on the direct crediting service ("DCS") will, by default, receive the Company's dividends in S$ in their designated bank accounts. Shareholders who are not on the DCS scheme are