

## CORPORATE GOVERNANCE

The Board of Jardine Cycle & Carriage 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 of Corporate Governance 2012.

This report describes the corporate governance practices of the Company for the financial year ended 31st December 2014, in adherence to the principles and guidelines of the Code of Corporate Governance 2012.

### THE BOARD

The Board is composed of a majority of non-executive directors and at least one-third of its members are independent directors. It comprises two executive directors and 10 non-executive directors of whom five are independent. Key information regarding the directors, including those who are executive and non-executive and whether or not they are independent, can be found on pages 22 to 24 of the Annual Report.

The Board ensures that there is an appropriate mix of core competencies and skills among its members 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.

An orientation pack is provided to newly-appointed directors explaining their duties and obligations, and briefings on the Group's businesses and strategic plans are arranged. The directors are also provided from time to time with continuing training and education to ensure that they are kept abreast of relevant new laws, regulations and practices. The directors are kept updated on industry-related developments to improve their understanding of the issues involved, leading to appropriate decision-making as board members. These include updates and presentations by consultants to the Audit Committee on changes to accounting standards and issues which have a direct impact on financial statements.

There is a clear division of responsibilities between the roles of the Chairman and Group Managing Director. 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. Since the Chairman is not an independent director, a lead independent director, Hassan Abas, has been appointed to provide shareholders with an independent channel for contact with the Company.

The Board has adopted a comprehensive set of Terms of Reference defining the roles and responsibilities of the

Chairman, the Board, the Board Committees 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.

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. Shareholders are informed of shareholders' meetings through notices published in the newspapers and reports or circulars sent to all shareholders. At these meetings, shareholders are invited to put forth any questions they may have on the motions to be discussed and decided upon. If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. At shareholders' meetings, each specific matter is proposed as a separate resolution. 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 Company meets once a year with the media and analysts after announcement of its full year results. The Company also receives requests from time to time from institutional and retail investors and meets with them on an ad hoc basis. Designated management spokespersons are present at such meetings. They include the Group Managing Director, Group Finance Director and Group Company Secretary.

The Board believes in the importance of a sound system of internal controls and risk management to safeguard shareholders' interests and the Company's assets as well as to achieve corporate objectives. The Board has overall responsibility for the Group's internal controls and risk management and reviews the adequacy and effectiveness of these control and risk management systems, including financial, operational, compliance and information technology controls.

The Board has received assurance from the Group Managing Director and Group Finance Director that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances, and the system of risk management and internal controls in place is adequate and effective in addressing the material risks in the Group in its current business environment. Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and reviews performed

by management throughout the financial year 2014, as well as the assurance from the Group Managing Director and Group Finance Director, the Board, with the concurrence of the Audit Committee, is satisfied that adequate and effective internal controls including financial, operational, information technology and compliance controls and risk management systems are in place and meet the needs of the Group in its current business environment.

The Board notes that the Group's system of internal controls is designed to manage the Group's risks within an acceptable risk profile, rather than eliminate business risk completely. The Group's internal controls and risk management systems provide reasonable but not absolute assurance that the Group will not be materially adversely affected by any event that can be reasonably foreseen and do not provide absolute assurance against material misstatements, the occurrence of material or human errors, poor judgment in decision-making, losses, fraud or other irregularities.

To assist it in the discharge of its responsibilities, the Board has established an Audit Committee, a Nominating Committee and a 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 and Benjamin Keswick. Two 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 Board and board committees comprise directors who as a group provide an appropriate balance and diversity of skills, experience, gender and knowledge of the Company as well as a mix of core competencies in areas such as accounting, finance, business, management, law, industry knowledge, strategic planning and customer-based knowledge, 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. Consistent with the Code of Corporate Governance 2012, the Nominating Committee carried out an assessment of the independence of five non-executive directors, namely Hassan Abas, Chang See Hiang, James Watkins, Tan Sri Azlan Zainol and Mrs Lim Hwee Hua. Of these directors, all except Mrs Lim Hwee Hua, had served on the Board beyond nine years from their date of first appointment and were also

subjected to particularly rigorous review. Taking into account the recommendations from the Nominating Committee, the Board (each member abstaining in respect of his own independence review) considered the five non-executive directors to be independent as:

- (a) there was an absence of any relationships with the Company, its related corporations, its 10% shareholder or its officers that could interfere, or be reasonably perceived to interfere, with such director's exercise of independent business judgment with a view to the best interests of the Company;
- (b) based on such director's active participation in deliberations and speaking out (when necessary) to challenge the status quo in meetings of the Board and its committees on the Company's affairs, each of these directors had demonstrated an independent character and judgment; and
- (c) taking into account the personal attributes, skills and competency of such directors in relation to the current and future needs of the Board, the Company would continue to benefit from the experience and knowledge of each of these directors.

It also develops and maintains internal guidelines used to evaluate the directors' ability and performance for the purpose of submitting them for re-nomination and re-election. Additionally, it is responsible for managing succession planning of key management personnel, 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 or her 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, is required to retire by rotation and submit themselves for re-election at each Annual General Meeting. The Nominating Committee also makes recommendations to the Board on the re-election of the directors.

The assessment of the Board as a whole and its board committees, 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.

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For individual director's performance, each director performs a self-evaluation by completing a checklist containing a set of pre-determined performance criteria. The performance criteria cover areas such as attendance and adequacy of preparation for Board and Board Committee 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.

The Board has decided not to set a maximum number of listed company board representations which any director may concurrently hold, as this would be arbitrary and may be unnecessarily limiting. The number of board representations should not be the only measure of a director's commitment and ability to contribute effectively to the Board. In making its assessment of a director's ability and performance in adequately carrying out his duties as a director of the Company, the Nominating Committee will take into consideration the competing time commitments that are faced by the directors who serve on multiple boards.

For the Board's performance as a whole and its board committees, the Company has adopted a set of quantitative and qualitative performance criteria. 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, who have no connection with the Company or any of its directors, and set out in a performance benchmark report who is then reviewed by the Nominating Committee. For the qualitative assessment, the Nominating Committee carries out a self-evaluation of the Board and board committee'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, measurement and monitoring of performance, recruitment and evaluation, compensation, succession planning, financial reporting and communication with shareholders.

### 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 31st December 2014.

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
Benjamin Keswick	4	4	1	1	NA	NA	2	2
Boon Yoon Chiang	4	3	NA	NA	4	4	NA	NA
Alexander Newbigging	4	4	NA	NA	NA	NA	NA	NA
Chiew Sin Cheok	4	4	NA	NA	NA	NA	NA	NA
Tan Sri Azlan Zainol	4	4	NA	NA	NA	NA	NA	NA
Chang See Hiang	4	4	1	1	4	4	2	2
Cheah Kim Teck*	2	2	NA	NA	NA	NA	NA	NA
Mark Greenberg	4	3	NA	NA	4	3	NA	NA
Hassan Abas	4	4	1	1	4	4	2	2
Michael Kok	4	3	NA	NA	NA	NA	NA	NA
Lim Ho Kee†	1	–	1	–	1	–	NA	NA
Mrs Lim Hwee Hua	4	4	NA	NA	4	4	NA	NA
Anthony Nightingale	4	3	NA	NA	NA	NA	NA	NA
James Watkins	4	4	NA	NA	4	4	2	2

\* Retired 30th April 2014

† Resigned 28th February 2014

## 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 Benjamin Keswick.

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 key management personnel 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. If necessary, the Remuneration Committee will seek expert advice from consultants on executive compensation matters.

The remuneration for executive directors and key management personnel is structured to link rewards to corporate and individual performance. The remuneration policy for executive directors and key management personnel consists of both a fixed and variable component. The fixed component comprises salary, provident fund contributions and other allowances. The variable component comprises a performance-based bonus, which is payable on the achievement of individual and corporate performance conditions which are set or refreshed annually. The performance of the executive directors is based on the Board's assessment as described in the earlier section, while those of the key management personnel are based on appraisals done by the executive directors.

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. Performance targets to be met under the short-term incentive plan include annual earnings, which are benchmarked against the budget, and individual qualitative key performance indicators, other than earnings, that focus on short-term and long-term success and profitability. Individual payments are made based on performance appraisals. Under the long-term incentive plan, an incentive pool is created from which payment is made for performance measured in three-year cycles that exceeds baseline targets, as approved by the Remuneration Committee. These performance targets are chosen because they are closely aligned with the long-term success of the Group and shareholders' interests. These performance conditions were met in 2014. The Group does not use any contractual provisions to reclaim incentive components of remuneration from executive directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss of the Group. The Company does not currently operate any share-based incentive plan.

No service contract has been signed with any executive director.

Directors' fees for non-executive directors are 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 board committee membership fees as set out below, attendance fees of S\$1,000 per meeting (capped at one meeting fee 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	120,000	60,000
Audit Committee	40,000	20,000
Remuneration Committee	14,000	7,000
Nominating Committee	14,000	7,000

No directors' fees are paid to executive directors.

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### Remuneration of Directors and Key Management Personnel

The remuneration of the directors of the Company and the top five key management personnel (who are not also directors) of the Group for the financial year ended 31st December 2014 is shown in the following tables, broken down into the various elements in dollar terms and percentages, respectively:

Directors	Directors' fees S\$000	Base salary S\$000	Variable bonus S\$000	Defined benefits/ contribution plans S\$000	Benefits-in-kind S\$000	Total S\$000
Benjamin Keswick	138	–	–	–	–	138
Boon Yoon Chiang	84	–	–	–	8	92
Alexander Newbigging <sup>#</sup>	–	428	1,532	77	442	2,479
Chiew Sin Cheok <sup>#</sup>	–	383	671	69	527	1,650
Tan Sri Azlan Zainol	64	–	–	–	–	64
Chang See Hiang	105	–	–	–	6	111
Cheah Kim Teck <sup>*</sup>	–	188	188	2	34	412
Mark Greenberg	83	–	–	–	–	83
Hassan Abas	118	–	–	–	–	118
Michael Kok	63	–	–	–	–	63
Lim Ho Kee <sup>†</sup>	22	–	–	–	–	22
Mrs Lim Hwee Hua	84	–	–	–	–	84
Anthony Nightingale	63	–	–	–	–	63
James Watkins	98	–	–	–	–	98

<sup>#</sup> Executive Director

<sup>\*</sup> Retired 30th April 2014

<sup>†</sup> Resigned 28th February 2014

Key Management Personnel	Base salary %	Variable bonus %	Defined benefits/ contribution plans %	Benefits-in-kind %	Total %
<b>S\$500,000 to S\$749,999</b>					
Haslam Preston <sup>#</sup>	34	27	5	34	100
Alvyn Ang	30	61	2	7	100
<b>S\$750,000 to S\$999,999</b>					
Cheah Kim Teck <sup>*</sup>	46	46	–	8	100
Eric Chan	32	59	2	7	100
Ho Yeng Tat	50	42	1	7	100

<sup>#</sup> With effect 1st February 2014

<sup>\*</sup> With effect 1st May 2014

#### 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 2014.
- (2) Benefits-in-kind refer to benefits such as car, driver, housing and club membership made available as appropriate.
- (3) The total remuneration of the top five key management personnel for the financial year ended 31st December 2014 was S\$3,746,000.
- (4) No stock options or share-based incentives or awards were paid to directors and key management personnel for the financial year ended 31st December 2014.

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, Mrs Lim Hwee Hua and James Watkins. All the members are non-executive and four of them including the Chairman are independent. Three of the members have expertise in financial management, of whom, one is a chartered accountant.

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 in fulfilling its statutory and fiduciary responsibilities in relation to the Group's financial reporting, ensuring the integrity of financial statements, reviewing financial and control risks and monitoring of the internal control systems. The Audit Committee has access to management and has the 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 (excluding Astra), 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 Internal Audit function of the Astra group is similar to that mentioned in the preceding paragraph and is performed by the various internal audit units which report to the respective board of commissioners within the Astra group. The internal audit department of Astra's parent

company provides advice and support to these various internal audit units to ensure alignment, adequate coverage and consistent standards. The Audit Committee receives quarterly reports on internal audit plans, audit findings and implementation plans from the Astra group.

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.

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).

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For the year ended 31st December 2014, 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)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
	US\$m	US\$m
Jardine Matheson Limited		
– management support services	–	4.4
PT Hero Supermarket		
– provision of transportation services	–	1.4
PT Jardine Lloyd Thompson		
– insurance brokerage services	–	0.3
PT Brahmayasa Bahtera		
– loan and interest on loan from PT Astra International Tbk	5.5	–
Hongkong Land Group Limited		
– interest on loan	–	0.3
Hongkong Land (Singapore) Pte Ltd		
– sale of a motor vehicle	–	0.2
– purchase of a used motor vehicle	–	0.1
Marina Bay Hotel Private Limited		
– sale of a motor vehicle	–	0.2
Director of the Company, Mrs Lim Hwee Hua		
– sale of a motor vehicle	–	0.3
– purchase of a used motor vehicle	–	0.1
<b>Total</b>	<b>5.5</b>	<b>7.3</b>

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, the community, competitors and other internal units in the performance of their duties and responsibilities.

The Group also 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 are not permitted to deal on short-term considerations or 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 had not affected the independence of the external auditors.

The Company has complied with Rules 712 and 715 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited 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 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. These procedures and methodologies are regularly reviewed to include new elements that aim at enhancing the reporting process in order to make it more comprehensive, of more 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, magnitude and speed of impact. Management is also required to identify and evaluate the adequacy and implementation of mechanisms to manage, mitigate, avoid or eliminate these risks. The level of risk that management is willing to tolerate in order to achieve the business objectives are also considered. The process encompasses assessments and evaluations at business unit level before being examined at the Group level.

On a bi-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 residual 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 in turn have a significant impact on the Group's earnings and total assets.

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.

**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 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, Commodity Prices 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 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. 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, associates and joint ventures 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 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 page 64, Note 2.31 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.