

Corporate Governance

Introduction

As a leading provider of vehicle inspection and technical testing services, VICOM has, in all our dealings, been committed to maintaining and upholding the highest standards of corporate governance to enhance and safeguard the best interest of all our stakeholders. As a further commitment towards enhancing corporate transparency and in promoting good corporate governance practices amongst our employees, VICOM has adopted the Code of Business Conduct of our parent company ComfortDelGro, which sets out the principles and policies upon which our businesses are regulated taking into account the applicable laws and regulations. To enhance the effectiveness of the Code of Business Conduct, and to prevent the occurrence of unethical or illegal conduct or behaviour, VICOM has also adopted the Whistle Blowing Policy of our parent company. Here, the aim is to stop any activity that is against the interests of the Company and to effect disciplinary actions against those found guilty of inappropriate or illegal behaviour.

This report sets out the corporate governance practices that were in place during the year with specific reference to the Code of Corporate Governance 2005 ("Code").

Board of Directors

Principle 1

The Board's Conduct of Its Affairs

At the helm in the decision making process of the Group is the Board of Directors. The Board is headed by the non-executive Chairman, Mr Lim Jit Poh, and is responsible for:

- i) Guiding the strategic directions and goals of the Company;
- ii) Putting in place appropriate and adequate systems of internal control, risk management processes and financial authority limits;
- iii) Monitoring financial performance, approving annual budget, major capital and operating expenditures, and acquisition and disposal of significant investments; and
- iv) Monitoring managerial performance.

The Board has delegated the day-to-day management of the Company to the Management headed by the Chief Executive Officer, Mr Heng Chye Kiou, while reserving certain key issues and policies for its approval.

To assist the Board in the detailed consideration of the various issues at hand and to facilitate decision making, three committees had been formed namely, the Audit Committee

("AC"), the Nominating Committee ("NC"), and the Remuneration Committee ("RC"). Each committee is governed and regulated by its own terms of reference which sets out the scope of its duties and responsibilities, rules and regulations, and procedures governing the manner in which the committee is to operate and how decisions are to be taken. Ad-hoc committees are also formed to look at specific issues from time to time.

To tie in with the requirement for quarterly and full-year reporting, and the approval of the Company's Annual Budget, a total of four scheduled Board Meetings are held each financial year. The quarterly and full-year Board Meetings are held within 45 days after the end of each quarter and the financial year respectively. The Company's Annual Budget is approved at the Board Meeting convened for the third-quarter results. Ad-hoc Board Meetings are also held from time to time as and when the need arises.

In order to assist the Directors in planning their attendance at Board and Committee Meetings, meeting dates for each year are scheduled in advance in consultation with the Directors.

The attendance of the Directors at the Board and Committee Meetings for Financial Year 2008 and the frequency of such Meetings are set out below.

For expediency, Board Meetings are also supplemented by circulated resolutions complete with Board papers. Directors are free to seek clarifications and explanations from Management on the Board papers.

To facilitate the convening of urgent ad-hoc Board Meetings, the Articles of Association of the Company also provide for Meetings to be convened via teleconferencing and videoconferencing.

Regular presentations are held to enable Directors to familiarise themselves with the Company's businesses. Directors are also furnished regularly with analyst reports, updates on corporate governance practices, and articles relating to changes in laws relevant to the Company's businesses and operating environments.

Directors are free to request for sponsorship from the Company to attend courses to update their knowledge and better equip themselves to discharge their duties as Directors.

Attendance of Directors at Board and Committee Meetings

Name	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Lim Jit Poh	5	5	–	–	1	1*	3	3
Kua Hong Pak	5	5	–	–	1	1*	3	3*
Heng Chye Kiou	5	5	–	–	–	–	–	–
Ho Kah Leong	5	4	–	–	1	1	3	2
Ong Teong Wan	5	4	4	4	–	–	3	3
Sim Cheok Lim	5	4	4	4	–	–	–	–
Nancy Teo	5	5	4	4	1	1	–	–
Ong Chow Hong @ Ong Chaw Ping **	5	3	–	–	1	–	–	–

* Attended meetings by invitation of the Committee.

** On leave of absence with effect from 3 October 2008 and resigned on 1 February 2009.

The Board reviews the adequacy of the internal controls and financial authority limits to ensure that while there is delegation of authority, there are sufficient checks and balances in place to monitor such delegation.

Principle 2

Board Composition and Balance

The Board presently comprises seven Directors, of whom only one Director is an executive of the Company. Non-executive and independent Director Mr Ong Chow Hong @ Ong Chaw Ping resigned on 1 February 2009. Of the six remaining non-executive Directors, four of them are considered by the NC to be independent. This composition exceeds the Code's requirement of at least one third of the Board of Directors to comprise independent Directors.

The NC is responsible for assessing the independence of the Directors on an annual basis. Each Director is required to complete a Confirmation of Independence checklist to confirm his independence. The NC then reviews the Confirmation of Independence to determine whether a Director is independent.

The NC is also responsible for examining the size and composition of the Board. The NC, having reviewed the composition of the Board, is satisfied that the present size of the Board is effective for decision making. The NC is also satisfied that the Board, comprising Directors with a variety of skills, core competencies, expertise and working experience from various industries, is effective and has the competencies to discharge its duties and responsibilities. The voicing of different views is common and Management is open in its dealings with the Board.

The profiles of the Directors are found in the write-up on Board of Directors in this Annual Report.

Principle 3

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer ("CEO") have separate and distinct roles. The Chairman is responsible for the effective functioning of the Board while the CEO is responsible for the day-to-day operations of the Company. The CEO reports to the Deputy Chairman. The Chairman, Deputy Chairman and CEO are not related.

The proceedings of the Board are conducted by the Chairman who ensures that sufficient time is allocated for consideration of each item on the agenda and equal opportunities are given to each Director to express his views. Board agenda is prepared by the Company Secretary in consultation with the CEO, Deputy Chairman and Chairman. Board papers are vetted by the CEO and approved by the Deputy Chairman prior to being despatched in advance to the Directors.

Principle 4

Board Membership

The NC comprises three non-executive Directors, two of whom are independent. The Chairman of the NC is not associated with any substantial Shareholder. The Company Secretary is the Secretary to the NC.

The roles and responsibilities of the NC are, inter alia:

- i) Developing and maintain a formal and transparent process for the nomination of Directors to the Board;
- ii) Evaluating the effectiveness of the Board as a whole and contributions of each Director;
- iii) Identifying the skills, expertise and capabilities needed for the

effective functioning of the Board;

- iv) Re-nominating Directors for re-election at Annual General Meetings; and
- v) Evaluating and determine the independence of each Director.

The Articles of Association of the Company provide that one third of the Board of Directors, excluding the Managing Director, are subject to retirement and re-election by rotation at every Annual General Meeting. All Directors are required to retire from office once at least every three years, being those who have been longest in office since their last re-election or appointment. A newly appointed Director is also subject to retirement and re-election at the Annual General Meeting immediately following his appointment.

For the forthcoming Annual General Meeting, Mr Kua Hong Pak and Mr Heng Chye Kiou are due for re-election pursuant to Article 95(2) of the Articles of Association. In addition, Dr Ho Kah Leong, Mr Ong Teong Wan and Mr Sim Cheok Lim, having attained the age of 70, are due for re-appointment pursuant to Section 153(6) of the Companies Act.

From time to time, new directors may be identified for appointment to the Board whereupon the NC will evaluate and assess their suitability, based on their qualifications, working experiences and expertise, to determine if they are able to fit into the overall competency matrix of the Company's Board before recommending them to the Board for its approval.

The NC subscribes to the view that while it is important for Directors to devote sufficient time and attention to the affairs of the Company, the issue of multiple Board representations should be left to the judgement and discretion of each Director. To focus on Directors' attendance at Board Meetings per se may not be an adequate evaluation of the contribution of Directors. Instead, their abilities to provide strategic networking to enhance the business of the Company, availability for guidance and advice outside the scope of formal Board Meetings and contributions in specialised areas are also factors relevant in assessing the contributions of the Directors. While the NC will not stipulate the maximum number of Boards each Director may be involved in, the NC will continue to monitor the contributions and the performance of each Director and to assess whether each Director has devoted sufficient time and attention to the affairs of the Group.

As a policy, the CEO, being an executive of the Company, will have to seek the approval of the Chairman before accepting any directorships of companies not within the ComfortDelGro Group. In considering whether or not to grant the approval, the Chairman will consider the time commitment of the CEO, and whether the new external directorships will provide strategic fit and networking to the businesses of the Company. The Chairman will also ensure that the CEO will not accept appointments to the Boards of competitors.

Principle 5

Board Performance

The effectiveness of the Board is monitored by the NC annually in terms of overall performance and growth of the Company, achieving an adequate return for Shareholders, preventing conflicts of interest and balancing the competing demands of the Company. In evaluating the contributions and performance of each individual Director, factors taken into consideration include, inter alia, attendance at Board Meetings and activities, contributions in specialist areas and maintenance of independence.

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In evaluating the performance of the Board, the NC also considered the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and other official indicators, including growth in earnings and net tangible assets per share, return on assets, dividend per ordinary share and dividend yield in its evaluation.

Principle 6

Access to Information

In addition to the Annual Budget which is submitted to the Board for approval, comprehensive quarterly and annual financial statements and reports are also submitted to the Board for approval prior to being released to the Singapore Exchange Securities Trading Limited ("SGX"). Agenda for Board Meetings and Board papers are provided to the Directors in advance.

The Board has full access to the Senior Management team. The Company Secretary has defined roles and responsibilities. She administers and attends the Board and Committee Meetings of the Company and prepares Minutes of Board proceedings. She ensures compliance with all relevant rules and regulations.

Should there be a need to obtain independent professional advice on matters relating to the businesses of the Group or issues affecting the duties of the Directors, the Company will arrange for the appointment of the relevant professional advisers at its own cost.

Remuneration Matters

Principle 7

Procedures for Developing Remuneration Policies

The RC was formed to provide the Board with an independent assessment and review of Directors' remuneration. The RC also reviews from time to time the remuneration framework and strategy for executive compensation.

In accordance with the Code, the RC comprises three non-executive Directors, of whom two including the Chairman, are independent. The members of the RC are also independent of Management and free from any business or other relationships, which may materially interfere with the exercise of independent judgement. The Company Secretary is the Secretary to the RC.

The terms of reference of the RC include, *inter alia*:

- i) Reviewing and recommending to the Board the remuneration framework for compensation for each Director and ensuring that the level of remuneration offered is appropriate to the level of contribution. The RC also reviews the remuneration of Senior Management to ensure that the overall remuneration package is attractive to retain and motivate key executives;
- ii) Recommending a formal and transparent process for determining Directors' fees for non-executive Directors of the Company; and
- iii) Approving the participants and determining the quantum of options to be granted under the 2001 VICOM Share Option Scheme and to administer the Scheme.

Principle 8

Level and Mix of Remuneration

The remuneration packages of the CEO and key executives of the Group comprise both fixed and variable components. The variable component, in the form of year-end performance bonuses and stock options, form a significant proportion of the remuneration packages and is dependent on the profitability of the Company and individual performance. Subject to market conditions and the operating environment, the Company targets

a total compensation package with fixed to variable component ratios of 70:30 for rank and file employees, 60:40 for middle management staff and 50:50 for top management staff. The Company believes that a higher proportion of performance related component will ensure greater alignment of interests of the executives with those of Shareholders.

The structure for the payment of Directors' fees for non-executive Directors is based on a framework comprising basic fees and additional fees for serving on Board committees and also for undertaking additional services for the Company. The fees are subject to approval of Shareholders at the Annual General Meeting.

The non-executive Directors of the Company are appointed pursuant to and hold office in accordance with the Articles of Association.

Principle 9

Disclosure of Remuneration

The details of remuneration of the Directors and the key executives of the Company (who are also not Directors) for the Financial Year 2008 are found on pages 49 to 51 of this Annual Report while information on the 2001 VICOM Share Option Scheme are found on pages 26 to 27.

During the Financial Year 2008, no key executive was an immediate family member of any Director of the Company.

Accountability and Audit

Principle 10

Accountability

During the Financial Year 2008, the Company released its quarterly and full-year results within 45 days from the end of each quarter and financial year respectively. An accompanying negative assurance statement was also issued by the Board in the quarterly results announcement to confirm that nothing had come to their attention that may render the results to be false or misleading.

Principle 11

Audit Committee

The Company's AC comprises three non-executive independent Directors. The Board has reviewed and is satisfied that the members of the AC are appropriately qualified to discharge their responsibilities.

The roles of the AC include the following:

- i) Reviewing the effectiveness of the Company's internal audit function, internal controls, including financial, operational, compliance and risk management;
- ii) Reviewing the quarterly and annual financial statements and significant accounting and reporting issues and their impact on financial statements so as to ensure the integrity of the financial statements and any formal announcements relating to the Company's financial performance and recommending to the Board the acceptance of such financial statements;
- iii) Reviewing the scope and results of the audits undertaken by the Internal and External Auditors, including non-audit services performed by External Auditors to ensure that there is a balance between maintenance of objectivity and cost effectiveness;
- iv) Reviewing interested person transactions;
- v) Recommending the appointment, re-appointment or removal of the External Auditors at the Annual General Meeting and reviewing the fees due to them;

- vi) Reviewing the audit plans of the Internal and External Auditors; and
- vii) Reviewing the effectiveness of the Company's Whistle Blowing Policy which has been put in place for staff to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters and thereupon to ensure that an independent investigation of such matters and appropriate follow-up actions are taken.

In the performance of its duties, the AC has explicit authority to investigate the affairs falling within its terms of reference, full access to and cooperation from Management, discretion to invite any Director to attend its meetings and reasonable resources to enable it to discharge its duties properly.

During the financial year, the AC also meets with the External and Internal Auditors without the presence of Management. Prior to the re-appointment of the External Auditors, the AC assesses their independence based on the guidelines set by the Accounting and Corporate Regulatory Authority. The AC has reviewed the independence of the External Auditors, Deloitte & Touche LLP, including the scope of non-audit services performed, and has confirmed that the External Auditors are independent.

Principle 12

Internal Controls

The Company has well-established internal controls and compliance functions. These include:

- i) **Financial Authority Limits**
Comprehensive and specific financial authority limits are put in place for capital expenditure, operating expenses, treasury matters, direct investments, revenue tender participation, disposal and write-off of assets. These authority limits are delegated based on the organisational hierarchy from the Board down to the heads of departments, with the Board retaining the ultimate authority. Any expenditure exceeding the highest authority limit is referred to the Board for approval.
- ii) **Budgetary Control**
A robust and challenging Annual Budget is prepared and approved by the Board prior to the commencement of each new financial year. Variations between actual and budgeted performance are reviewed and justifications provided, if material. This is done on a monthly basis. Specific approvals are also required for unbudgeted expenditures exceeding a relevant threshold. In addition, the capital expenditure budget is approved in principle by the Board when the Annual Budget is approved. Each capital expenditure is still subject to rigorous justification and review in accordance with the Company's financial authority limits. Tight control on hiring is also exercised through headcount budgets.
- iii) **Investment Proposals and Business Opportunities**
To ensure that the rate of return on any new investment or business opportunity is commensurate with the risk exposure taken, apart from undertaking a detailed feasibility study, the new investment opportunity is evaluated by Management in terms of (a) return on investment; (b) pay back period; (c) cash flow generation; (d) potential for internal and external growth; (e) investment climate; and (f) political stability.
- iv) **Operational Risk**
The Group's main businesses are in vehicle inspections, other vehicle related services, and technical testing and

inspection services. Mandatory vehicle inspection for passenger vehicles was introduced in 1982. The objective of vehicle inspection is to reduce vehicular pollution and ensure that the vehicles plying on the roads remain roadworthy.

The Group also operates independent damage assessment centres for accident vehicles. Although vehicle inspection may only be carried out by persons authorised by the Land Transport Authority, the fees payable for vehicle inspections have been deregulated. Any change in inspection policies by the Government, vehicle ownership pattern or the rate motorists scrap their vehicles, may affect the Group's inspection business. Similarly, any negative changes in policies on damage vehicle assessment by the General Insurance Association of Singapore or motor insurers may affect the Group's income from vehicle assessment.

The above risks are mitigated by the Group's expansion into non-vehicle related testing and inspection business. Its wholly-owned subsidiary, Setsco Services Pte Ltd, is providing technical testing and inspection for a wide range of industries, other than the vehicle industry.

- v) **Business Continuity Planning**

The Company has put in place a Business Continuity Management ("BCM") plan to address its business continuity in the event of major disasters affecting its operations. The Business Continuity plans were developed by the various Strategic Business Units under the guidance of the BCM Committee.

- vi) **Financial Risk**

The main areas of financial risk faced by the Company are credit risk, interest rate risk and liquidity risk. The Company recognises that management of financial risk is an important aspect in its drive towards creating Shareholder value. It is the Company's policy not to participate in speculative financial instruments. Management oversees financial risk management and regularly reviews its policy governing risk management practices.

Further details of the financial risks and how the Company manages them are set out on pages 56 to 57 of this Annual Report.

- vii) **Whistle Blowing Policy**

The Whistle Blowing Policy provides a mechanism for employees to raise concerns, through confidential disclosure channels, about possible improprieties in financial reporting or other improper conduct. All cases are investigated and appropriate action taken where required.

In the course of their audit, the Internal and External Auditors also highlight to the Company areas where there are deficiencies or weaknesses of internal controls. Material deficiencies and weaknesses will be highlighted to the AC together with a response from Management as to how these could be overcome.

Principle 13

Internal Audit

The internal audit function of the Company is performed by the Internal Audit Department of its holding company comprising suitably qualified and experienced staff and headed by the Group Internal Audit Officer. She reports functionally to the Chairman of the AC. The Company Secretary is the Secretary of the AC.

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The Internal Audit Department adopts a risk-based approach that provides an independent and objective evaluation of the internal control systems and corporate governance processes of the Group in accordance with the audit plan as approved by the AC and recommends improvements, where necessary.

The activities and organisational structure of the Internal Audit Department are monitored and reviewed by the AC periodically to ensure that the Internal Audit Department has the necessary resources to adequately perform its functions and that there are no unjustified restrictions and limitations placed on the performance of its duties.

The Internal Audit Department has adopted the Standards for Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

Communications with Shareholders

Principle 14

Regular, Effective and Fair Communications with Shareholders

The Company has in place a framework that regularly communicates pertinent and relevant information to Shareholders, gathers views and addresses Shareholders' concerns. Communication with Shareholders is conducted through announcements to the SGX and press releases, press and analyst briefings after the announcement of the full-year results and the posting of announcements and releases on the Company's regularly updated website at www.vicom.com.sg. Investors may send in their requests or queries through the feedback form provided in the website.

The Company does not participate in selective disclosure in the communication of material information. Communication with the SGX is handled by the Company Secretary, while communication with Shareholders, analysts and fund managers is handled by the Group Corporate Communications Officer. Specific guidelines have been laid down for compliance in respect of all public communication. In addition, the Company has also put in place operational procedures to respond promptly to queries from the SGX on any unusual trading activities in its securities.

As part of the investor relations programme, the Group's Investor Relations Team, together with Senior Management, meet with major institutional and retail investors on a regular basis.

Principle 15

Shareholders' Participation at Annual General Meeting

The Articles of Association of the Company provide for voting in person and by proxy at the Annual General Meeting of the Company. The Chairman of the various Board Committees as well as the External Auditors are present to address questions or feedback raised by Shareholders at the Annual General Meeting including those pertaining to the proposed resolutions before the resolutions are voted on.

Issues or matters requiring Shareholders' approval are tabled in the form of separate and distinct resolutions.

Dealings in Securities

The Company has adopted an internal code based on the SGX's guideline to provide guidance to the Directors and executives of the Company in relation to dealings in the securities of the Company, ComfortDelGro and SBS Transit. Directors and executives of the Company have to refrain from dealing in the

securities of the Company, ComfortDelGro and/or SBS Transit during the period commencing two weeks before the announcement of the Company's, ComfortDelGro's and/or SBS Transit's first, second and third quarter results, and one month before the announcement of the full-year results, and ending on the date of the announcement of the relevant results.

All Directors and executives of the Company are also told that they must not deal in (i) the securities of the Company, ComfortDelGro and/or SBS Transit on short-term considerations and/or while in possession of unpublished material price-sensitive information relating to the relevant securities; and (ii) in the securities of other listed companies while in possession of unpublished material price-sensitive information relating to those securities.

Interested Person Transaction

Listing Manual – Rule 907

Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920)	
Name of Interested Person	\$'000
ComfortDelGro Corporation Limited and associates	1,253

The Company does not have any Shareholders' mandate for interested person transactions.