

## CORPORATE GOVERNANCE

AS A LEADING PROVIDER OF VEHICLE INSPECTION AND TECHNICAL TESTING SERVICES, WE, AT VICOM, REALISE THAT A FUNDAMENTAL MEASURE OF OUR SUCCESS IS THE SHAREHOLDER VALUE WE CREATE OVER THE LONG-TERM.

From the very beginning, our emphasis has been on the long-term and as a result, we may make decisions and weigh trade-offs differently from some other companies.

Accordingly, it is important for you, our Shareholder, to understand our fundamental management and decision making approach, so that you may ensure that it is consistent with your own investment philosophy. We will continue to:

- Focus relentlessly on our customers;
- Make sound investment decisions based on long-term value creation, rather than short-term profitability considerations;
- Work hard to spend wisely and maintain our lean culture as we understand the importance of continually reinforcing cost-consciousness; and
- Focus on hiring and retaining versatile and talented employees.

### CORPORATE GOVERNANCE STATEMENT

VICOM strongly believes that good corporate governance makes good business. To this end, the Company has taken steps to maintain the highest standards of corporate governance, professionalism and integrity, as we build an

organisation that our Shareholders, Employees, Business Partners, the Authorities and other Stakeholders can trust and be proud of. Our adherence to the principles and guidelines of the Code of Corporate Governance 2005 (the Code) is absolute, and we spare no effort in ensuring that they are upheld by each and every one in the Company. We have also adopted a Code of Business Conduct which sets out the principles and policies upon which our businesses are to be conducted, as well as implemented a Whistle Blowing Policy which serves to prevent the occurrence of unethical or illegal conduct or behaviour, whilst protecting the whistleblowers from reprisal within the limits of the law.

This report sets out the corporate governance practices that were in place during the year with specific reference to the Code.

### 1. BOARD MATTERS

In choosing directors, the Company seeks individuals who have very high integrity, business savvy, shareholder orientation and a genuine interest in the Company.

#### **The Board's Conduct of its Affairs**

At the helm of the decision making process of the Company is the Board of Directors. The Board is headed

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by the non-executive Chairman, Mr Lim Jit Poh, and is responsible for:

- (i) Guiding the strategic directions and goals of the Company;
- (ii) Ensuring that appropriate and adequate systems of internal control, risk management processes and financial authority limits are in place;
- (iii) Assessing and approving key business strategies, funding and investment initiatives and other corporate actions, including approval of the Company's Annual Budget and Capital Expenditure, and the release of the Company's quarterly and full year financial results; 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 have 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 set out the scope of its duties and responsibilities, 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.

A total of four scheduled Board Meetings are held every year for the purpose of approving the release of the Company's financial results every quarter and the approval of the Company's Annual Budget. 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's results. Ad hoc Board and Committee Meetings are also held from time to time as and when the need arises. Directors, who are unable to attend the Meetings in person, can still participate in the discussions through teleconferencing. Decisions of the Board and Board Committees may also be obtained via circular resolutions. Directors are free to seek clarifications and explanations from Management on the Board papers.

The attendance of the Directors at the Board and Committee Meetings for Financial Year 2009 and the frequency of such Meetings are set out below.

Regular presentations are made by Management to the Board to enable Directors to better 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.

### 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	4	4	–	–	1	1	3	3
Kua Hong Pak	4	4	–	–	1	1*	3	3*
Heng Chye Kiou	4	4	5	4*	–	–	3	2*
Ho Kah Leong	4	4	–	–	1	1	3	3
Ong Teong Wan	4	4	5	5	–	–	3	3
Sim Cheok Lim	4	4	5	5	–	–	–	–
Teo Geok Har, Nancy	4	4	5	5	1	1	–	–

\* Attended Meetings by invitation of the Committee.

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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.

The Board periodically 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.

### **Board Composition and Balance**

There is a strong element of independence in the Board. The Board presently comprises one Chief Executive Officer and six non-executive Directors. Of the six 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 Directors are individuals with a broad diversity of expertise and experience, both domestically and internationally. For details on the Board, please refer to the profiles of the Directors at the start of this Annual Report.

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, which is drawn up in accordance with the guidelines provided by the Code, and requires each Director to assess his own independence. The Director is required to declare any circumstances in which he/she may be considered non-independent. The NC will then review the Confirmation of Independence to determine whether a Director is independent. The NC deems a Director who is directly associated with a substantial Shareholder as non-independent. Mr Lim Jit Poh and Mr Kua Hong Pak are deemed as non-independent as they are also Directors of ComfortDelGro Corporation, a substantial Shareholder.

### **Chairman and Chief Executive Officer**

The roles of the Chairman and the Chief Executive Officer have been kept separate and distinct. This is a deliberate policy and one that is strictly adhered to. This ensures Management accountability and Board independence. The Chairman is responsible for the effective functioning of the Board while the Chief Executive Officer is responsible for

the operations and management of the Company. The Chief Executive Officer reports to the Deputy Chairman. The Chairman, Deputy Chairman and the Chief Executive Officer are not related.

The Chairman leads the Board and facilitates effective and comprehensive Board discussions and decision making on strategic issues. The Chairman also oversees the translation of the Board's decision into executive action. With the assistance of the Company Secretary, the Chairman ensures the accuracy and timeliness of information flow between the Board and Management, effective shareholder communication and high standards of corporate transparency.

The Chief Executive Officer is given full executive responsibility to ensure the day-to-day running of the Group's businesses and the implementation of the Group's strategies and policies.

### **Board Membership and Board Performance**

Board renewal is an ongoing process to ensure good governance and to maintain relevance in the changing business environment. The NC is responsible for regularly reviewing the composition of the Board, identifying and proposing suitable candidates for appointment to the Board.

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

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 (AGM). All Directors are required to retire from office once at least every three years. Re-election is, however not automatic, and all Directors will be assessed by the NC on their past performance and contributions before being recommended for re-election. Newly appointed Directors are also subject to retirement and re-election at the AGM immediately following their appointments. For the forthcoming AGM, Ms Teo Geok Har, Nancy is due for re-election pursuant to Article 95(2) of the Articles of Association, and Mr Lim Jit Poh, Dr Ho

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Kah Leong, Mr Ong Teong Wan and Mr Sim Cheok Lim are due for re-appointment pursuant to Section 153(6) of the Companies Act, Cap. 50.

From time to time, new Directors may be identified for appointment to the Board after the NC evaluates and assesses their suitability based on their qualifications, working experiences and expertise. Upon appointment as a Director, the Board Chairman will send an official letter of appointment to the Director which clearly explains his role, duties and responsibilities. Management will then conduct a comprehensive orientation programme for the Director, where key aspects of the business, including financial and corporate governance policies are discussed. Site visits will also be arranged for new Directors so that they can better familiarise themselves with the Company's operations. When a Director is appointed to a Board Committee, he/she will be provided with its charter.

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 Company.

As a policy, the Chief Executive Officer, 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 Chief Executive Officer, 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 Chief Executive Officer will not accept appointments to the boards of competitors.

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 attendance at Board Meetings and activities, contributions in specialist areas and maintenance of independence.

In the last quarter of the year, each Director will fill in a Board Performance Evaluation Form, which includes questions on the Board's composition, the Board's contributions, contributions from Committees and conduct of proceedings and whether these enable Directors to discharge their duties effectively. The answers are collated and the findings then presented by the Chairman to the Board during its Meeting.

### **Access to Information**

Prior to each Board Meeting and where needed, Management provides Directors with timely, pertinent and complete information. The Board also receives regular analyst reports.

The Board has full access to the Senior Management team. The Company Secretary has defined roles and responsibilities. She assists in scheduling Board and Committee Meetings and prepares the agenda in consultation with the Chairman and Chief Executive Officer. The Company Secretary will attend the Board and Committee Meetings of the Company and prepare Minutes of Board and Committee proceedings. The Company Secretary will keep the Directors informed of any significant developments, or events relating to the Company and 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 Company or issues affecting the duties of the Directors, the Company will arrange for the appointment of the relevant professional advisers at its own cost.

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## 2. REMUNERATION MATTERS

### **Procedures for Developing Remuneration Policies, Level and Mix of Remuneration and Disclosure of Remuneration**

The Company recognises the importance of having a committed and talented workforce to manage and grow the businesses in an increasingly competitive environment. The Company therefore places great emphasis on motivating staff through engagement, recognition and a proper alignment of reward to performance.

The RC plays a key role in the Company's remuneration policies. Besides providing the Board with an independent assessment and review of Directors' remuneration, it also reviews from time to time the remuneration framework and strategy for executive compensation with the purpose of developing talent and building leadership to ensure the Company's success.

In accordance with the Code, the RC comprises three non-executive Directors, of whom two including the Chairman, are independent. 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 are to:

- (i) Review and recommend to the Board the remuneration framework for compensation to each Director, and ensure that the level of remuneration offered is appropriate to the level of contribution;
- (ii) Review the remuneration of Senior Management to ensure that the overall remuneration package is attractive to retain and motivate key executives; and
- (iii) Approve the participants and determine the quantum of options to be granted under the 2001 VICOM Share Option Scheme and to administer the Scheme.

In the discharge of its responsibilities, the RC has sought expert advice from an external international human resource consultancy firm.

The remuneration packages of the Chief Executive Officer and key executives of the Company comprise 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. This remuneration framework is based on the findings and recommendations of an international human resource consultancy firm appointed by the Group.

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 the approval of Shareholders at the AGM.

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

The remuneration of the Directors and the key executives of the Company (who are not Directors) for the Financial Year 2009 can be found on pages 68 and 69 of this Annual Report. Information on the 2001 VICOM Share Option Scheme can be found on pages 34 and 35 of this Annual Report.

During the Financial Year 2009, no key executive was an immediate family member of any Director of the Company.

## 3. ACCOUNTABILITY AND AUDIT

### **Accountability**

The Board has overall accountability to the Shareholders of the Company and ensures that the Company is well managed and guided by strategic objectives. The Company's operating performance and financial results are reported

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each quarter via SGXNET with an accompanying negative assurance by the Board to confirm that nothing has come to its attention that may render the results false or misleading.

The Company has adopted an internal code based on the Singapore Exchange Limited (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 are prohibited 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.

### **Audit Committee**

The Company's AC comprises three non-executive and 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) Review the effectiveness of the Company's internal audit function, internal controls, including financial, operational, compliance and risk management;
- (ii) Review the quarterly and annual financial statements, and also 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 recommend to the Board the acceptance of such financial statements;

- (iii) Review 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) Review Interested Person transactions;
- (v) Recommend the appointment, re-appointment or removal of the External Auditors at the AGM and review the fees due to them;
- (vi) Review the audit plans of the Internal and External Auditors; and
- (vii) Review 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 ensure that an independent investigation of such matters and appropriate follow-up actions are taken. The Whistle Blowing Policy is described in more detail on pages 24 and 25 of this Annual Report.

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 in the absence of Management. During these Meetings, the Auditors may raise issues encountered in the course of their work directly to the AC. 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.

### **Internal Controls**

The Company has well-established internal controls and compliance functions that have been put in place to manage risks while achieving business objectives. These include:

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### *(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, as well as asset disposal and write-off. These authority limits are delegated based on the organisational hierarchy from the Board down to the Chief Executive Officer and 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.

Financial matters that require the Board's approval are set out in the Group's Financial Procedures Manual (FPM). All policies and procedures on financial matters, including approval limits and authorities are clearly defined in the FPM. To enhance risk management and to ensure that the Group's funds continue to be managed prudently, the Board regularly reviews and updates the mandate that it delegates to Management.

### *(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) 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 control 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 page 28 of this Annual Report.

### *(v) Operational Risk and Business Continuity Planning*

The Company has put in place Business Continuity Management (BCM) Plans to ensure that major disasters or unforeseen outages do not affect its operations. The BCM Plans were developed by the various Business Units under the guidance of the BCM Committee.

The BCM Plans form part of the holistic management process to manage risks. Apart from operational risks, the Company is also faced with financial risks, regulatory compliance risks and strategic risks. These four risk categories are used by the Company, and to aid recall, the Company uses the acronym FOCuS – Financial, Operational, Compliance and Strategic.

In addition, the Company's exposure to property and liability risks is constantly being monitored and reviewed by the ComfortDelGro's in-house insurance broking arm. Together with external risk management consultants, they ensure sufficiency of coverage, and seek to maintain an optimal balance between risks that are being retained internally, and risks that are being placed out with underwriters.

Further details of the Operational Risks and how the Company manages them are set out on page 27 of this Annual Report.

### *(vi) 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 staff are given company

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handbooks detailing how they can go about raising their concerns. Incidents can be reported through a direct link to the AC, the Chief Executive Officer, the Group Human Resource Officer or the Group Internal Audit Officer, and which is available on the Group's intranet. All reported incidents will be investigated and dealt with promptly and thoroughly.

A committee headed by an officer appointed by the Chief Executive Officer will oversee all investigations and appropriate action will be taken where required. In cases where the relevant laws have been infringed, the relevant regulatory authorities will be alerted. The AC will also be informed of the outcome of all investigations.

Where appropriate, rectification and prevention measures, including putting in place additional internal control measures and procedures will be undertaken to ensure that such incidents are not repeated.

In the course of their audit, the Internal and External Auditors also highlight to the AC material deficiencies and weaknesses together with a response from Management as to how these could be overcome.

During this financial year, the AC reviewed the Company's internal control and risk management processes and was satisfied that they were adequate to meet the requirements of the Company.

### *(vii) New Accounting Standards*

The Group's Financial Statements are prepared in accordance with the provisions of the Singapore Companies Act and the Singapore Financial Reporting Standards (SFRS). During Financial Year 2009, all the new and revised SFRS that were relevant to its operations were adopted. The adoption of the new and revised accounting standards did not have any significant impact on its Financial Statements.

### **Internal Audit**

The internal audit function of the Company is performed by the Group Internal Audit Department comprising suitably qualified and experienced staff, and is 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.

The Internal Audit Department adopts a risk-based approach in its continuous audit. It provides an independent and objective evaluation of the internal control systems and corporate governance processes of the Company in accordance with the audit plan as approved by the AC. Any material non-compliance or lapses in internal controls are reported to the AC for recommendations for improvements.

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 and met the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

## **4. COMMUNICATIONS WITH SHAREHOLDERS**

### **Regular, Effective and Fair Communications with Shareholders**

The Company's Investor Relations team regularly engages Shareholders and investors, keeping them informed of key corporate developments, as well as trends within the industry.

Communication with Shareholders is conducted through announcements to the SGX, press releases, press and analyst briefings after the announcement of the full-year results, as well as the posting of announcements and releases on the Company's regularly updated website at [www.vicom.com.sg](http://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



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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.

### **Shareholders' Participation at Annual General Meeting**

Shareholders are informed of Shareholders' Meetings through notices published in the newspapers and reports sent to all Shareholders. The Notice of AGM will be publicised 28 days before the AGM is held – two weeks earlier than is required by the Companies Act. The Articles of Association of the Company provide for voting in person and by proxy at the AGM of the Company. The Chairman of the various Board Committees, as well as the External Auditors are present to address any questions or feedback raised by Shareholders at the AGM, including those pertaining to the proposed resolutions before the resolutions are voted on.

Each issue or matter requiring Shareholders' approval is tabled as a separate and distinct resolution.

### **INTERESTED PERSON TRANSACTION**

<b>Listing Manual – Rule 907</b>	
	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	<b>1,507</b>

There is no Shareholders' mandate for Interested Person transactions pursuant to Rule 920 of the Listing Manual.