THE GROUP RECOGNISES THAT RISK IS AN INHERENT PART OF EVERY BUSINESS, AND THE MANAGEMENT OF THESE RISKS IS AN IMPORTANT ASPECT IN ENHANCING SHAREHOLDER VALUE.

The Group's risk management process involves identifying, measuring, monitoring and managing these risks, and in turn, establishing a sound and effective risk management framework in addressing them. The key risks faced by the Group, the relevant mitigating factors and how they are managed are set out below.

ECONOMIC RISKS

Macro economic conditions may impact the Group's business in terms of demand for our services and the cost of providing these services. To manage these risks, we closely monitor demand trends and operating margins through budgeting and forecasting processes. Expenses are monitored and continuously managed in the light of revenue patterns and changing market environments. Revenue risks are also mitigated by diversifying revenue streams from vehicle-related sources, expanding into non-vehicle-related testing and inspection business and other related services.

REGULATORY RISKS

The Group operates in regulated environment in that vehicle inspection may be carried out by persons authorised by the Land Transport Authority (LTA). Although fees payable for vehicle inspection have been deregulated, any change to inspection policies by the Government may affect the Group. In managing these risks, the Group works closely with the relevant regulatory authority as part of its risk management process to ensure that the views of our customers and stakeholders are well represented.

OPERATIONAL RISKS

Safety

A key operating risk is the safety and security of our customers and our staff. Safety awareness programmes are promoted to instil a safety and security conscious culture in our staff at all levels. Safety audits are conducted regularly as part of our management and review programme in ensuring that safety standards are maintained at a high level.

Environmental

Accidents, natural events and deliberate assaults by external parties are all possible ways an organisation can cause pollution or other environmental risks. In order to limit, and hopefully prevent these situations, we engage in active environmental risk management, ensuring that we target the problems that could arise and implement a system of metrics that help with prevention.

BUSINESS CONTINUITY RISKS

Operating in an environment with potential threats of terrorism, epidemic outbreaks and information systems failure, the Management has put in place Business Continuity Management (BCM) Plans to mitigate the risks of interruption and catastrophic loss to its operations and information database arising from such potential threats.

FINANCIAL RISKS

The Group has well-established internal controls to safeguard its assets. It regularly reviews the effectiveness of the system of internal controls to limit, mitigate and monitor identified risks, and considers the enhancements of these controls as an integral part of its risk management framework. There are systems in place for safeguarding of assets and they include the following:

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 and disposal and write-off of assets. These authority limits are delegated based on the organisational hierarchy in the Group, with the Board retaining the ultimate authority. Any expenditure exceeding the highest authority limit is referred to the Board for approval.

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 approval in accordance with the Group's financial authority limits. Tight control on hiring is also exercised through headcount budgets.

Audit Process

The Internal and External Auditors conduct reviews in accordance with their audit plans to assess the effectiveness of the internal controls and risks management. Non-compliance or recommendations for improvement are reported to the Audit Committee, which reviews the effectiveness of the actions taken by Management to mitigate the risks. In the course of their audit, the Internal and External Auditors will also highlight to the Audit Committee and Management, areas where there are material deficiencies and weaknesses, or the occurrence or potential occurrence of significant risk events, and the mitigating measures and treatment plans will be proposed accordingly.

Whistle Blowing Policy

A Whistle Blowing Policy is also put in place to provide 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.

Financial Risk Management

The main areas of financial risks faced by the Group are interest rate risk, credit risk and liquidity risk. It is the Group's policy not to participate in financial derivative instruments except for use as hedging instruments, where appropriate. Management oversees financial risk management and regularly reviews its policy governing risk management practices.

A detailed description of the financial risks and how the Group manages them are set out in the Notes to the Financial Statements on pages 77 and 78.

INVESTMENT RISKS

Each new investment proposal is objectively evaluated on its fit to the corporate strategy and investment objective. This risk assessment includes macro and project specific risks analysis encompassing rigorous due diligence, financial modelling and sensitivity analysis on key investment assumptions and variables.

To ensure that the rate of return on any new investment or business opportunity commensurates 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.

HUMAN RESOURCE RISKS

The Group's ability to operate at full efficiency depends on the quality, motivation and management of its staff. To this end, we have in place a system of risk management which focuses on several key areas, specifically succession planning, recruitment, performance management, compensation and benefits, training and development, employee conduct and supervision, as well as occupational health and safety. The Group aims to ensure that employees are selected based on merit, understand their responsibilities and are given access to necessary training. At all times, a positive and constructive working climate based on strong tripartite relations is fostered. All terms and conditions of employment, along with policies and procedures comply with the relevant legislations.

PROPERTY AND LIABILITY RISKS

The Group's exposure to property and liability risks is constantly being monitored and reviewed. Together with external risk management consultants, the Group ensures sufficiency of coverage and seeks to maintain an optimal balance between risks that are being retained internally and risks that are being placed out with underwriters.