Risk Management

Risk management is an important and integral part of the Group's strategic planning and decision-making process.

Although risks cannot be completely eliminated, an effective risk identification and management process will reduce the uncertainties surrounding the achievement of the Group's business objectives and allow the Group to take advantage of opportunities that may arise. The Group's approach to risk management is underpinned by several key principles:

- The risk management process is a continuous, iterative and developing one, as the Group's businesses and their operating environment are dynamic. We review and update risk mapping and risk management practices regularly to manage risks proactively in line with the changes in the markets.

- We promote and inculcate risk awareness among all our employees by integrating risk management processes into day-to-day business operations. Regular exercises, and continuous education and training, as well as communications through various forums on risk management promote a risk-conscious workforce across the Group and a risk management discipline.

- Ownership of the risk management process is clearly defined and assigned to the business units, departments and individuals. Managers at each level have intimate knowledge of their businesses and assume ownership of risk management.

Some of 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 businesses in terms of customer demand and the cost of providing the services. We manage these risks by continuous scanning and monitoring of political and economic issues. We monitor demand trends and operating margins closely through the budgeting and forecasting process. Expenses are managed in the light of revenue patterns and changing market environments. Revenue risks are also mitigated by diversifying revenue streams from vehicle-related sources into non-vehicle testing and inspection business and other related services.

REGULATORY RISKS

The Group operates in a regulated environment in that vehicle inspection may only be carried out by persons authorised by the Land Transport Authority. Any change in vehicle inspection policies may affect the Group. We work closely with the regulatory authorities as part of our risk management process to ensure that the views of all stakeholders are represented.

OPERATIONAL RISKS

Operational risks may arise from failures in internal controls, operational process or the supporting systems. Therefore, the Group has put in place operating manuals, standard operating procedures, authority guidelines and a regular reporting framework to manage these risks.

Safety

A key operating risk is the safety and security of our customers and our staff. We promote safety awareness programmes to instil a safety and security conscious culture in employees at all levels and safety audits are conducted regularly as part of the management and review process to ensure that safety standards are maintained.

Environmental

Accidents, natural events and deliberate assaults are all possible ways for an organisation to cause pollution or other environmental risks. To limit these risks, we engage in active environmental risk management, ensuring that we target the problems that could arise and implement preventive measures.

BUSINESS CONTINUITY RISKS

Operating in an environment with potential threats of terrorism, epidemic outbreaks and information systems

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failure, we have put in place a Group-wide Business Continuity Plan (BCP) to mitigate the risks of disruption and catastrophic loss to our operations, people and assets arising from such potential threats. The BCP is developed by the various business units and departments under the guidance of the Business Continuity Management Committee.

The BCP includes identification and planning of alternate recovery centres, operational procedures to maintain communication, measures to ensure continuity of critical business functions and recovery of information database. We update and test the BCP regularly. Drills and emergency response exercises are conducted to familiarise employees with the crisis management plans. The BCP enhances the Group's operational readiness and resilience to potential business disruptions.

INVESTMENT RISKS

We evaluate each new investment proposal to ensure that it is in line with the Group's strategy and investment objective and it can meet the relevant hurdle rates of return. This assessment includes macro and project specific risks analysis encompassing feasibility study, due diligence, financial modeling 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, the new investment opportunity is evaluated in terms of (a) profitability; (b) return on investment; (c) pay back period; (d) cash flow generation; (e) potential for internal and external growth; and (f) investment climate and political stability of the country.

HUMAN RESOURCE RISKS

The Group's ability to continue to develop and grow the business depends on the quality of its employees. We have in place a system of risk management which focuses on several key areas, including succession planning, recruitment and retention, performance management, compensation and benefits, training and development, employee conduct and supervision, as well as occupational health and safety. We ensure that employees are selected based on merit, understand their responsibilities and are given access to necessary training. At all times, a positive, constructive and productive 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, we ensure sufficiency of coverage and maintain an optimal balance between risks that are retained internally and risks that are placed out with underwriters.

FINANCIAL RISKS

The Group has established internal control systems to safeguard its assets and regularly reviews the effectiveness of these controls to improve and fortify financial discipline. All policies and procedures on financial matters, including approval limits and authority, are clearly defined in the Group's Financial Procedures Manual.

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 from the Board down to the Chief Executive Officer (CEO) and the Heads of Business Units/Departments, with the Board retaining the ultimate authority. Any expenditure exceeding the highest authority limit is referred to the Board for approval. 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.

Budgetary Control

A robust and challenging Annual Budget is prepared and approved by the Board prior to the commencement of each new financial year. Material variations between actual and budgeted performance are reviewed and justifications provided. This is done on a monthly basis. Specific approvals are required for unbudgeted expenditures exceeding a relevant threshold. In addition, the capital expenditure budget is approved in principle by the Board as part of the Annual Budget. Each capital expenditure is

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still subject to rigorous justification and review before it is incurred in accordance with the Group's financial authority limits. Tight control on hiring is also exercised through headcount budgets.

Financial Risk Management

The Group recognises that prudent management of financial risks is an important aspect in the creation of shareholder value. 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 speculative financial instruments. Sensitivity analysis and reviews of the Group's exposure to financial risks under changing market conditions are carried out regularly.

A detailed description of the financial risks and how the Group manages them are set out in the Notes to the Financial Statements on page 75.

Audit Process

The Internal and External Auditors conduct reviews in accordance with their audit plans to assess the adequacy and effectiveness of risk management and the internal controls that are in place. Non-compliance and recommendations for improvements are reported to the Audit Committee, which reviews the effectiveness of the actions taken to mitigate the risks. In the course of their audit, the Internal and External Auditors 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 propose mitigating measures and treatment plans. The recommendations are followed up as part of the Group's continuous review of the risk management process and system of internal controls.

WHISTLE BLOWING POLICY

The Group has put in place a Whistle Blowing Policy to provide a mechanism for employees to raise concerns, through well-defined and accessible confidential disclosure channels about possible improprieties in financial reporting or other improper business conduct. Staff are given a Company handbook detailing how they can go about raising their concerns. Incidents can also be reported through a direct link to the CEO, the ComfortDelGro Group Human Resource Officer or the ComfortDelGro Group Internal Audit Officer on the Group's intranet.

All cases are investigated and dealt with promptly and thoroughly. A committee, headed by an officer appointed by the CEO, will oversee all investigations. In cases where the laws have been infringed, the relevant regulatory authorities are informed. The Audit Committee is also informed of the outcome of all investigations. Where appropriate, internal control measures are improved or additional measures put in place to prevent recurrence of the incidents.