

CHAIRMAN'S STATEMENT



Twenty-five years ago, VICOM (Vehicle Inspection Company) Pte Ltd was set up to conduct mandatory inspection of all private cars. Months later, the newly-incorporated company tested its very first car in its brand new premises in Sin Ming Drive. The white Toyota Corolla DX passed all tests with flying colours. Since then, another 5.2 million vehicles have moved through our inspection aisles. Through the years, we have also expanded our service offerings and added on new outlets to become Singapore's largest technical testing and vehicle inspection company.

Having already garnered 75% of the vehicle inspection market in Singapore, VICOM has had to look at new ways to grow its business. We have done this by branching out into the non-vehicular testing and inspection business through the acquisition of Setsco Services Pte Ltd in 2003. By leveraging on our experience in testing services, we have managed to make a mark in this new business area, growing not just market share in this area, but revenue and profits as well.

BUSINESS REVIEW

Indeed, events in the past year have shown that the strategy is right. Demand for vehicle inspections has fallen as more cars were deregistered during the year. This is because Certificate of Entitlement (COE) prices for cars have dropped by as much as 30%, prompting car owners to replace their old cars for new. In fact, COE prices hit an all-time low in December 2005 when certificates for Category B cars went for \$9,001 compared to the record high of \$110,500 slightly more than a decade ago. Going forward, we expect fewer deregistrations by existing car owners

given the drop in Preferential Additional Registration Fee (PARF) values.

Changes to motor insurance policies have also adversely affected our vehicle damage assessment business. Revenue from VICOM Assessment Centre (VAC) dropped by 32% as it is no longer compulsory for motorists to make accident reports at the Independent Damage Assessment Centres (Idacs). Unfazed, VAC moved rapidly to transform its Idacs into customer-oriented, one-stop centres providing under-one-roof services. Two new services – Accident Reconstruction and Third-party Claims Assistance – were also introduced during the year.

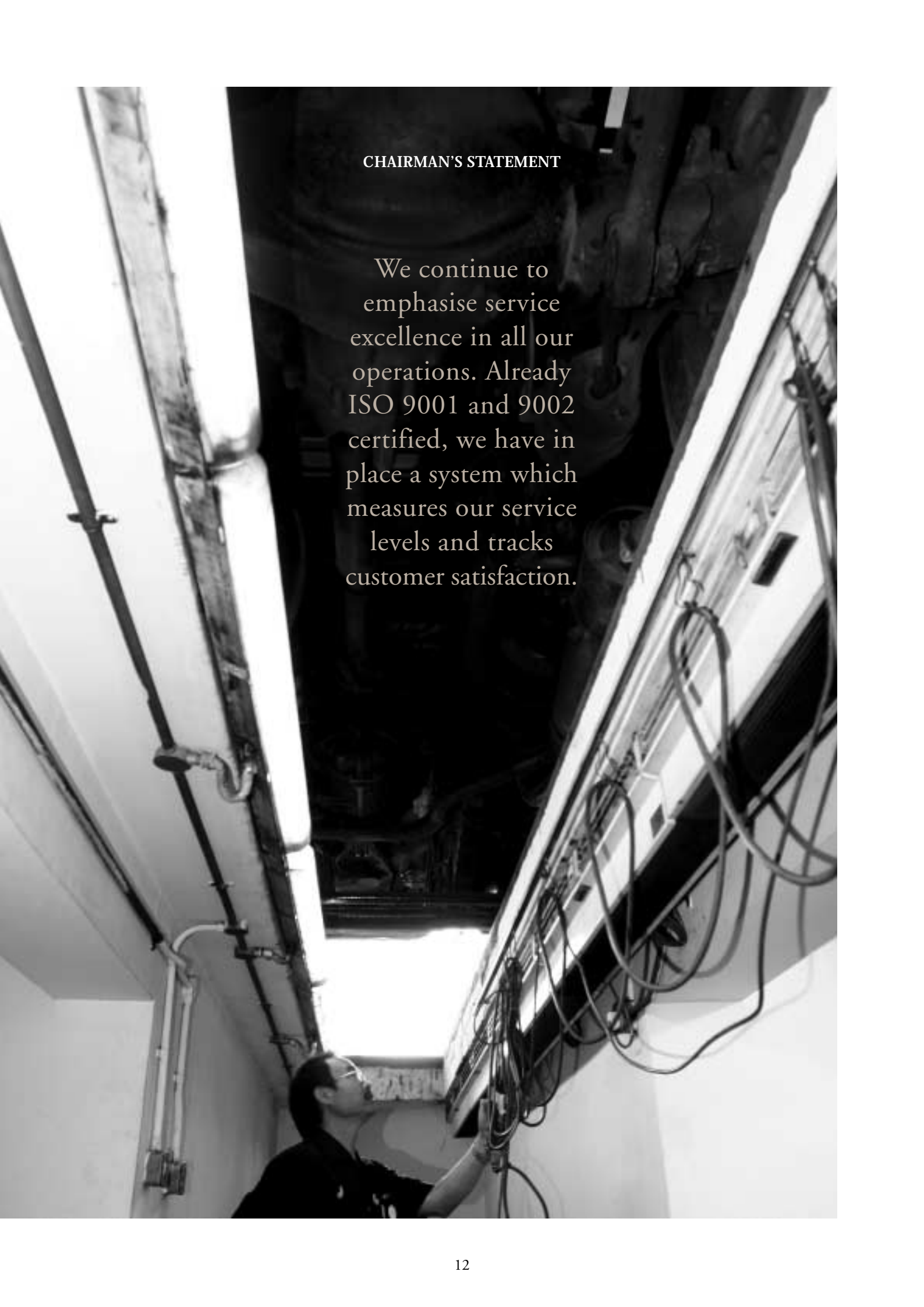
Third Party Claims Assistance aims to reduce the hassle motorists face after an accident by providing total assistance to the customer – from arranging for repairs to filing of claims. At VAC's Idacs, staff will assist motorists to file online accident reports and claims, assess and record the damages on the vehicles and make arrangements for their repairs. This one-stop service means motorists and insurers will be protected from

possible fraudulent or inflated claims. After the accident vehicle has been repaired, VAC will conduct a quality check before returning the vehicle to the owner.

Another new service, which was introduced in 2005 was accident reconstruction. It uses a computer-based computation and simulation software which is capable of carrying out comprehensive technical analysis of motor vehicle accidents. Such analysis can take into consideration various human, vehicle and environmental factors related to the accident. Results from the analysis can be corroborated against available evidence such as skid marks, vehicle damage profiles and final rest positions. A comprehensive report with 'frame-by-frame' analysis of the full spectrum of events that occurred before and after the accident is then produced. Video clips of the events from various angles are also available. In March 2005, a professional engineer from the United States was engaged to provide specialised technical training in accident reconstruction, using the above software.



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During the year, we also increased our stake in JIC Inspection Services Pte Ltd, from 41.5% to 78% through the acquisition of a 36.5% stake from DelGro Engineering Pte Ltd for \$2.7 million. This has further widened our lead in the industry and brought our services closer to our customers. For the year under review, JIC contributed \$2.4 million to Group revenue.

Our investment in Setsco has reaped rewards. For the year under review, Setsco's revenue increased by 14% from \$24.1 million to \$27.5 million. It also recently became the first testing and inspection company in Singapore to be accredited under the National Aerospace and Defence Contractors Programme (NADCAP), having met the stringent standards set by the aerospace industry.

Setsco was also accredited by the Singapore Accreditation Council (SAC-SINGLAS) for its food testing service. It also successfully clinched several major projects and organised numerous workshops and seminars to market its specialised services.

We continue to emphasise service excellence in all our operations. Already ISO 9001 and 9002 certified, we have in place a system which measures our service levels and tracks customer satisfaction. We conduct daily surveys at five of our inspection centres to gather customer feedback and act on complaints of poor service. To ensure a high quality of service standards, we have in place strict guidelines which our staff adhere to. These include a one-minute guideline for all inspection fee payments to be made, a 10-minute guideline for the processing of vehicle ownership transfers, and no more than five breakdowns in equipment for every 10,000 inspections.

FINANCIAL REVIEW

During the year under review, Group revenue increased by 7% to \$50.2 million due partly to contributions from new subsidiary, JIC Inspection Services Pte Ltd, and Setsco Services Pte Ltd.

Net profit grew by 12.8% to \$8.7 million while earnings per share was 10.41 cents, up from 9.27 cents a year ago.

Net assets of the Group was \$57.9 million – an increase of \$5.1 million or 10% from 2004. Net assets per share correspondingly increased from 63.78 cents to 69.61 cents. The return on shareholders' funds was about 15%.

Your Directors have recommended a final dividend of 4.75 cents per share less tax for the approval of the shareholders at the Annual General Meeting to be convened on 27 April 2006.

Your Directors will also be recommending an additional 2 cents per share at the meeting as special dividend. Together with the interim dividend of 1.75 cents per share paid on 13 September 2005, the total dividend payout for 2005 will be 8.5 cents per share. The total dividend payout for the year represents about 65% of the Group's profit after tax, higher than our declared policy of at least 40% and in line with our parent, ComfortDelGro Corporation Limited's policy.

OUTLOOK

The vehicle inspection industry is expected to pick up over the next few years. While many cars have been deregistered, a record number of new vehicles have also been put on the road in 2004 and 2005. The deregistration rate is expected to decline in 2006 leading to an increase in overall inspection volume.

We have responded swiftly to the challenges faced by our vehicle assessment business. In such a competitive business environment, every effort has been directed at improving turnover and efficiency. We shall continue to innovate and be responsive to the rapidly changing environment.

We will continue to leverage on growth areas and seek new business expansion opportunities to deliver sustainable value to our shareholders.

APPRECIATION

Our ability to remain resilient in challenging times is the result of the diligence of our staff and the leadership of the management team. I take this opportunity to thank them for their hard work and contributions.

I would also like to thank my fellow Directors for their guidance. To the shareholders, I wish to express my thanks for their unwavering trust and support.

Finally, I would like to thank all our business associates, customers and union leaders for their continuing cooperation and understanding.

LIM JIT POH
Chairman