



Lim Jit Poh
Chairman

In the steady and mature businesses of vehicle inspection and competitive test services, VICOM had an interesting year. We launched new services and installed new equipment. We inspected more vehicles and continued to grow our non-vehicular testing business. Indeed, we managed to chalk up an impressive 19% growth in full-year net profit, the strongest performance in three years.

OUR BUSINESSES

We continued to maintain our pole position in the vehicle inspection business, garnering 73.15% of the market share. During the year, we inspected 335,890 vehicles, representing an increase of 4.84% over the previous year. While vehicle inspections conducted by both VICOM and JIC centres have, in general, gone up, the number of Heavy Goods Vehicles (HGVs) inspected fell slightly due to a reclassification of vehicle types. During the year, the Land Transport Authority (LTA) raised the maximum laden weight of Light Goods Vehicles (LGVs) from 3 tonnes to 3.5 tonnes, resulting in more HGVs being reclassified as LGVs.

Also of significance was the new mandate by the National Environment Agency (NEA) requiring all diesel-driven vehicles to undergo a Chassis Dynamometer Smoke Test (CDST). VICOM has been conducting CDSTs on diesel-driven vehicles on an exclusive basis since 1 September 2000 but those tests were conducted only on vehicles which had been caught for flouting emission standards. Under new guidelines, which came into effect on 1 January 2007, all diesel-run vehicles will have to undergo the 10 to 20-minute test. This should have a positive impact on our performance going forward.

In the field of vehicle assessment, we continued to find new ways to grow the business. VICOM Assessment Centre's (VAC's) Independent Damage Assessment Centres (Idacs), conducted close to 30,000 accident

reporting and damage assessments in 2006 – less than what it did in 2005. This is not unexpected given the fact that it is no longer compulsory for motorists to make accident reports at Idacs.

VAC has repositioned itself in the market place by marketing its Idacs as one-stop, post-accident service centres. Besides providing assistance in accident reporting and filing claims, our centres also co-ordinate repair works and conduct checks on repaired vehicles before returning them to their owners. VAC also recently expanded its capabilities in Accident Reconstruction to include accidents involving motorcycles and pedestrians. In November 2006, an expert from the United States was engaged to provide specialised technical training in this new area using specialised computer software. The software is capable of carrying out comprehensive technical analysis and detailed simulations. Results from the analysis can be corroborated against available evidence such as impact damage on the vehicle and final rest position of the victim. So far, demand for this new service has been encouraging with five reconstructions completed as at the end of 2006.

Setsco Services Pte Ltd, our technical testing and inspection subsidiary, has grown from strength to strength. Demand for its various services including building material consultancy, food analysis, environmental baseline studies, non-destructive testing as well as inspection services has been strong with many top local



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and foreign companies coming to us for testing and inspection work.

Our Setsco Aerospace Testing Centre (SATC), which was set up at a cost of approximately \$1 million in November 2006, has enabled us to ride on the burgeoning aerospace industry. It provides a comprehensive range of non-destructive testing of aircraft components. For the year ended 31 December 2006, SATC's turnover crossed the \$1.5 million-mark.

Besides a strong financial performance, Setsco has also been gaining in reputation. It has multiple accreditations from various international agencies including the Federal Aviation Administration, the National Association of Defence Contractors Accreditation Program and the Singapore Accreditation Council. Setsco was also awarded the Distinguished Partner Award at the Total Defence Awards Presentation Ceremony in Singapore for its contributions towards national defence.

FINANCIAL RESULTS

Group revenue increased by 13% or \$6.8 million to \$56.9 million in 2006 due mainly to an increase in vehicle inspection, test and inspection services.

Net profit grew from \$8.7 million, or 19%, to \$10.3 million while earnings per share was 12.30 cents, up from 10.41 cents a year ago.

Net assets of the Group increased by \$3.6 million or 6% to \$61.6 million with earnings offset by higher dividend payments. Net assets per share correspondingly rose from 69.61 cents to 73.39 cents. The return on shareholders' funds was about 17%.

Your Directors have recommended a final dividend of 5.65 cents per share less tax and a special dividend of 5 cents per share less tax for approval of the shareholders at the Annual General Meeting to be convened on 25 April 2007.

Together with the interim dividend of 2 cents per share and the special interim dividend of 2 cents per share paid on 12 September 2006, the total dividend payout for the year represents about 97% of the Group's profit after tax. This is higher than our declared policy of at least 50%.

THE YEAR AHEAD

Revenue from vehicle inspection services is expected to receive a boost with the implementation of CDST in 2007. The slowing down of vehicle deregistration rates and the large number of vehicles registered after 2002 also augur well for the Group.

For the longer period, the increase of 18.3% in the supply of the Certificate of Entitlements (COE) between October 2006 and March 2007 will result in an increase in the number of vehicles called up for inspection.

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The media had reported a decline in motor insurance underwriting profits for 2006 arising from competitive premiums and escalating claims. This underlines the growing need for greater claims control and possibly a renewed role for Idacs. VAC will consolidate its current leading position and be ready to play an effective role, when required.

Profits from Setsco have been rising steadily since it was acquired in 2003. The construction sector, which was badly affected in the past few years, is expected to pick up in the next few years, thanks to renewed interest in property investments and the impending launch of two new integrated resorts. The marine and offshore sector, which has been buoyant in the past few years, will continue to grow as oil exploration activity remains strong. The aerospace sector, particularly in Maintenance, Repair and Overhaul (MRO), has registered strong growth in the past one year, and is set to expand rapidly. The Government's planned Seletar Aerospace Park, which is expected to contribute \$3.3 billion annually to the aerospace industry, will further propel the growth of this sector.

We expect 2007 to be another good year for VICOM.

APPRECIATION

The Group has done well despite the many challenges it faces. I thank the management team and our staff for their diligence, hard work and contribution.

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I would also like to thank my fellow Directors for their service and guidance. To the shareholders, I wish to express my gratitude for their steadfast trust and support. Finally, I thank all our business associates, customers and union leaders for their enduring cooperation and understanding.

**Lim Jit Poh
Chairman**