



Introduction

2017 was a challenging year for VICOM Ltd as it continued to face intense competition in the non-vehicle inspection and testing sector. But the Group also continued to roll out new and innovative services whilst investing in productivity-driven equipment and processes. Its efforts did not go unrewarded and it ended the year in a strong position as Singapore's leading inspection and testing provider.

Our Businesses

The large number of vehicles which continued to be de-registered translated automatically into fewer inspections. In all, 468,807 vehicles were inspected at our seven centres during the year, which was a 4% decrease from the 488,186 vehicles inspected in 2016. Despite the challenges, VICOM continued to retain its leadership position with a 74.5% share of the vehicle inspection market through continuous innovative marketing campaigns, new partnerships and improved customer service experience.

One of our most successful marketing efforts has been the partnership with Diners Club Singapore. In 2017, we built on this partnership with the launch of Diners Club/VICOM Cobrand Credit Card or the "V" Card. The card, which offers a slew of motoring related discounts and rebates, including up to 21.27% discount at Esso pumps, now has more than 30,000 cardholders.

During the year, the National Environment Agency announced several changes to the Emission Regulations. For example, new petrol and diesel vehicles had to meet Euro 6 standards by 1 September 2017 and 1 January 2018 respectively. A new Vehicular Emission Scheme was also introduced to replace the old Carbon Emissions-Based Vehicle Scheme from 1 January 2018. In addition, existing petrol vehicles and motorcycles will be subjected to tighter emissions standards during periodic compulsory inspections from 1 April 2018. To cater to the new regulations, we upgraded our equipment both at the VICOM Emission Test Laboratory (VETL) as well as those at the inspection lanes.

Another new regulation that was introduced by the Land Transport Authority (LTA) during the year was the requirement for private hire vehicles to display tamper-evident decals prominently on the front and rear windscreens and for these to be inspected regularly. VICOM has, and will continue to offer this service.

Two very high-profile Compressed Natural Gas (CNG) taxi explosions took place in 2017 – prompting the LTA to recall all CNG taxis and public buses for an urgent two-day inspection. VICOM, as an Authorised Inspection Centre, was tasked to see through the exercise. We were also involved in the subsequent Phase 2 exercise which involved all CNG passenger cars. In all, VICOM inspected 450 taxis, 12 buses and 1,140 private cars.

In terms of inspection and test fees, there was some adjustment upwards that was effected in November 2017. Fees for vehicle inspection and the chassis-dynamometer smoke test for smaller and larger vehicles were raised by \$2. Both tests have not seen a fee increase since January 2007.

Our non-vehicle inspection and testing division, Setsco Services Pte Ltd (SETSCO), completed several notable projects – both locally and internationally – during the year. SETS Services DMCC, a wholly-owned subsidiary company, was set up by SETSCO in Dubai, United Arab Emirates to provide building glass inspection services. It won a contract to undertake glass inspection work on the external facades of Gold Tower and Silver Tower, Cluster I, in Dubai.

Additionally, SETSCO secured contracts for the testing of sand and granite from the Building and Construction Authority and also various testing services for the Changi Terminal 5 project in Singapore. During the year, SETSCO also completed a shutdown project at a chemical plant in Jurong Island.

To broaden our scope of services, SETSCO launched two new services in the year – certification services to companies which seek compliances to the requirements of different systems such as ISO 9001, ISO 14001 and ISO 18001 and consultancy services to provide investigation, evaluation, analysis and advisory to the clients that we serve.

Financial Results

Group revenue decreased by 4.1% or \$4.1 million to \$97.0 million in 2017 while net profit attributable to shareholders fell by 5.9% or \$1.7 million to \$26.5 million. Earnings per share was 29.90 cents, down from 31.77 cents a year ago.

Net asset value per ordinary share was \$1.67 compared to \$1.69 previously.

In 2017, the Board decided to increase its dividend payout policy by declaring 90% of its net profit attributable to shareholders as dividends compared to the 50% previously. In line with the new policy, the Board has recommended a one-tier tax-exempt final dividend of 22.88 cents per ordinary share to be approved at the Annual General Meeting (AGM) to be convened on 24 April 2018. Together with the one-tier tax-exempt interim dividend of 13.12 cents per share paid earlier, the total dividend of 36.00 cents per share for the year is higher than the 2016 figure of 26.50 cents, a rise of 35.8%. This represents about 120.4% of the Group's profit after tax and is also better than our new dividend policy. This policy change reflects my earlier remarks in the past AGMs that so long as we do not need the extra cash, we shall return it to the shareholders. I have kept my promise. Viewed against the year's end closing price of \$5.80, the 2017 dividend will give a dividend yield of 6.2%.

Rankings

VICOM continued to improve its standing in the Singapore Governance and Transparency Index. In 2017, out of 606 companies covered, VICOM was ranked 16th with a score of 95 compared to 2016's ranking of 20th and a score of 88. The overall average score in 2017 is 52.3.

VICOM was also awarded the Securities Investors Association Singapore (SIAS) Transparency Award Winner - Small and Mid-Cap Category at the Investors' Choice Award 2017.

In a difficult year, VICOM underperformed against the FTSE ST All-Share Index and FTSE ST Mid Cap Index by 15.8% and 11.1% points respectively.

Relocation of SETSCO

Jurong Town Corporation (JTC) has notified SETSCO that our present premises at Teban Gardens Crescent, acquired in 1995, have been zoned for redevelopment. Consequently, SETSCO will need to be relocated. Management is actively looking for an alternative site to house SETSCO's existing operations as well as taking advantage of the situation to expand further. The present land lease is not due to expire until 2039. We will be appropriately compensated. More details on the subject will be announced as and when they are available.

The Year Ahead

The Government has announced that the growth rate for cars and motorcycles will be cut from 0.25% to 0% for the next three years starting from February 2018. The growth rate for commercial vehicles will remain unchanged at 0.25% per annum till the first quarter of 2021 to provide businesses more time to improve the efficiency of their logistics operations and reduce the number of commercial vehicles that they require. This policy will not have an immediate impact on the vehicle inspection business.

The rate of vehicle de-registrations is expected to slow in 2018 - which is good news for our inspection business. Coupled with the introduction of a new high idling emission test for petrol vehicles, we expect the vehicle inspection business to remain stable.

SETSCO's performance will largely be dependent on the general economic condition - both in Singapore and globally. We will continue to develop new product offerings and build new testing capabilities arising from future industrial demands.

The Group will continue to explore new opportunities for growth and development.

Directors Renewal

As this was initiated last year with the retirement of a long time Director, the coming AGM will see two of our senior Directors retiring too. Mr Ong Teong Wan and Mr Sim Cheok Lim, first appointed in 1983 and 1984 respectively, will retire at the AGM on 24 April 2018. The Board and the

Group are very grateful for their exemplary and dedicated services over more than three decades of tenure. These are not mean feats which can be repeated easily. We shall miss you, Teong Wan and Cheok Lim.

In 2017, we welcomed two new independent Directors in Prof Victor Shim Phiau Wui and Ms June Seah Lee Kiang. The former is a testing specialist from the National University of Singapore while the latter had been involved in the banking and service industry for many years. They have made many valuable contributions since joining the Board. We look forward to their continued contributions. I also look forward to your support at the forthcoming AGM when they will present themselves for elections as Directors.

With Ms Seah's appointment, we now have two female Directors on the board which translates into a 22% representation - higher than the Diversity Action Committee's target of 20% in 2020.

Appreciation

I wish to thank Mr Sim Wing Yew, the Executive Director and Chief Executive Officer for his leadership in managing the Group. I also wish to express my appreciation to the Management and Staff for their fortitude and tenacity in the face of challenges.

To my fellow Directors, I am very thankful for your efforts in guiding the Board and Management.

To our Clients, thank you for your continued support. We will continue to work hard to serve you better.

To our Business Associates, Union Leaders and the Authorities, thank you for your partnership and support.

And finally, to our Shareholders, thank you for your continued confidence and trust in us.

Lim Jit Poh

Chairman
March 2018