

CHAIRMAN'S STATEMENT

Over

50 Years

of Technical Testing
Experience

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INTRODUCTION

2018 was a comparatively good year for VICOM Ltd. We had an exceptional gain of \$7.7 million arising out of the surrender of the lease of our present premises at 18 Teban Gardens Crescent to JTC Corporation for redevelopment by the Government.

We have since acquired a new property at Bukit Batok as a replacement site. The new property has a good balance of 36 years lease remaining and a gross floor area of 18,843 square metres. This is about 54% bigger than the 12,200 square metres at the existing place. The long tenure and larger space will allow us to plan for expansion for the longer term. The drawback of this scenario is that future depreciation will be higher unless our expansion plans can match the increased depreciation. This is a challenge for Management.

OUR BUSINESSES

As the Government continued its push towards a car-lite and more environmentally friendly society, several new policies were introduced in 2018. This included the "zero-growth" policy for passenger cars and motorcycles which took effect from February 2018 as well as various schemes to encourage early scrapping of older and more pollutive vehicles. With these measures in place, the total number of vehicles in Singapore due for inspection during the year hit a three-year low of 625,940 compared to 629,106 in 2017.

VICOM inspected 461,088 vehicles in 2018 across our seven centres, about 7,700 fewer compared to 2017. Though there was a drop in inspection volume, this was made up for by the successful implementation of the new High/Low Idle test in April 2018. This new test was part of the wider regulatory plan to tighten

**Lim
Jit Poh**
Chairman





\$ 100.1 million

Total Revenue

the exhaust emission standards for in-use petrol vehicles and motorcycles. Under this test, carbon monoxide limits were lowered for newer petrol vehicles and motorcycles, and hydrocarbon limits were introduced for all in-use petrol vehicles and most motorcycles.

In addition, Phase II of the new Vehicle Emission Scheme was implemented on 1 July 2018. Under this Scheme, the levels of the pollutant known as Particulate Matter (PM) affect how much rebates or surcharges vehicle owners enjoy or pay during registration. The requirement to measure PM has brought additional business to the VICOM Emission Test Laboratory (VETL).

New services that were launched in 2017 continued to help boost our overall performance in 2018. For example, the VICOM Solution for Inspection Requirements or V-SIR, a service which triggers inspection reminders to both walk-in customers as well as corporate fleet owners, has proven to be very popular with over 12,000 vehicles listed in our database to-date. Complementing the V-SIR is the cashless and paperless e-Pay service, which customers can make through our Automated Payment Machines. In doing so, this service has helped to reduce administrative work and speed up inspection times.

The strategic partnership with Diners Club Singapore has grown from strength to strength with over 35,000 card members

holding the Diners Club/VICOM Cobrand Credit Card or the "V" Card, solidifying its position as a unique motoring credit card. With a suite of motoring benefits including fuel discounts of up to 21.27% at all Esso stations, members of the "V" card also enjoy \$26 off their vehicle inspection fees across VICOM's Inspection Centres, paid for by the Diners Club.

VICOM's pre-owned car evaluation service, VFIT, struck a strategic partnership with DBS Car Marketplace where we were able to tap into the broad customer base of DBS to market our services.

The Group's Non-Vehicle Inspection and Testing division, Setsco Services Pte Ltd (SETSCO), secured several notable jobs in 2018. These included the Building and Construction Authority's contract to test essential building materials prior to use at construction sites in Singapore; the North South Corridor Project to test concrete and steel materials; the Changi Terminal 5 Package 2 project to conduct soil testing; several turnaround jobs from Petrochemical plants as well as projects involving testing of water for clients such as the Public Utilities Board and Micron Technology, Inc.

SETSCO also introduced several new test services in the year under review including a new radiographic test known as Small Area for Exposure Radiography (SAFERAD), which enables testers to conduct radiographic work during the day – as opposed to conventional

radiography which could only be conducted at night due to radiation levels. It also rolled out a 3D mapping technique using laser technology to check for possible deformation of in-service equipment, and a Pulsed Eddy Current Technique to monitor corrosion of piping in refineries and chemical plants.

Besides Inspection and Testing services, SETSCO has also broadened its scope in the Certification space. SETSCO was one of the three assessment bodies appointed by the Infocomm Media Development Authority and the Personal Data Protection Commission to conduct independent audit of firms which wished to apply for the Data Protection Trustmark Certification.

As an industry leader in Inspection and Testing services, VICOM takes it upon itself to ensure the sustainability of this generation and the next. In making our contributions to society at large, we are guided by our values and principles. A separate section on Sustainability appears in this Annual Report while a fuller one on the ComfortDelGro Group's activities appears as a separate Group Sustainability Report that accompanies the Group's Annual Report.

FINANCIAL RESULTS

Group total revenue in 2018 hit the \$100-million mark. The figure of \$100.1 million represents an increase of 3.1% over 2017. Net profit attributable to shareholders increased by 30.9% or \$8.2

CHAIRMAN'S STATEMENT

million to \$34.7 million. Without the exceptional item mentioned above, the increase would be about \$0.5 million or 2.1%. Earnings per share was 39.15 cents, a rise of 9.25 cents or 30.9%.

Net asset value per ordinary share was 170.16 cents compared to 167.34 cents a year ago.

Though the present dividend policy is to distribute 90% of our profits, the Board of Directors decided to maintain its 2017's practice of paying out 120% of its profits for 2018. Accordingly, the Board has recommended that a one-tier tax-exempt final dividend of 23.17 cents per share be paid. Together with the one-tier tax-exempt interim dividend of 13.46 cents per share paid earlier, the total dividend for the year 2018 would be 36.63 cents per share (2017: 36.00 cents). The Board also decided that with the exceptional gain mentioned above, a special dividend of 8.62 cents per share would also be recommended for Shareholders' approval at its Annual General Meeting (AGM) to be held on 24 April 2019. In all, the combined dividend for 2018 would be 45.25 cents per share. This is 9.25 cents or 25.7% higher than 2017. This dividend payout 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. Viewed against the year's end closing price of \$6.00, the 2018 dividends, ordinary and special, will give a dividend yield of 7.5% (2017: 6.2%).

RANKING

VICOM continued to perform creditably in the Singapore Governance and Transparency Index. In 2018, out of 589 companies covered, VICOM was ranked 17th with a score of 100. Although our ranking dropped from the 16th place previously, our score was higher than the 95 attained in 2017. The overall average score of all the companies in 2018 was 56.3.

Based on the ASEAN Corporate Governance Scorecard 2018, VICOM was ranked 32nd out of the 100 largest listed companies in Singapore by market capitalisation. We were unplaced a year ago.

At the Securities Investors Association Singapore (SIAS) Investors' Choice Award 2018, VICOM won two awards, winning the Singapore Corporate Governance Award in the Mid-Cap Category and finishing Runner-Up in the Most Transparent Company Award, Services Category.

In a challenging year, VICOM outperformed the FTSE ST All-Share Index and FTSE ST Mid-Cap Index by 13.8% and 14.1% points respectively.

CODE OF CORPORATE GOVERNANCE ('CODE')

The revised Code or Code 2018 was announced in August 2018. As expected, the significant changes touch on shifting some of the guidance points from 'Comply or Explain' to 'Listing Rules'. In other words, these are now mandatory. I see no difficulty in us adopting them.

The other major issue is the Nine-Year Rule for independent directors, which I think we should also have no difficulty complying with.

Our female Director participation rate is high at 22%. We have already achieved the target set by the Diversity Action Committee of 20% by 2020.

Our non-executive Directors constitute a majority in the composition of our Board, in contrast with the 23.2% revealed by the Singapore Directorship Report 2018. While close to 51% of the surveyed companies have an Executive Chairman, we belong to the minority group. We also belong to the category of 33.2% of companies which release their directors' remuneration on a named basis. While more than three-quarters of directors attended 75% or more of board meetings, our percentage



Another area of focus in 2019 will be the smooth execution of renovation works of the new SETSCO property with targeted completion in mid-2020. Management will be retrofitting the six-storey building to house different test laboratories and offices, including adding a dormitory for our laboratory technicians.



is 100%. On gender diversity, we are way ahead when 50% of the boards surveyed continue not to have any female representation and another 34.9% have one female director only.

THE YEAR AHEAD

Management is looking to upgrade the VETL to test emissions under the Worldwide Harmonised Light Duty Vehicles Test Procedure which has already been adopted by Japan and the European Union.

Another area of focus in 2019 will be the smooth execution of renovation works of the new SETSCO property with targeted completion in mid-2020. Management will be retrofitting the six-storey building to house different test laboratories and offices, including adding a dormitory for our laboratory technicians. It is also a

good opportunity to streamline workflow and processes to derive better efficiency and raise productivity.

The Group will continue to look for opportunities to grow the businesses.

BOARD RENEWAL

At the AGM in 2018, we saw the retirement of two long time Directors, Mr Ong Teong Wan and Mr Sim Cheok Lim, who were first appointed to the Board in 1983 and 1984 respectively. The Group is very grateful for their exemplary and dedicated services over more than three decades of tenure.

In 2018, we welcomed two new independent Directors in Dr Tan Kim Siew and Mr Soh Chung Hian. Dr Tan, a retired Permanent Secretary of the Singapore Civil Service, is presently a Senior Consultant in the Ministry of Finance and Chairman of the Governing Board for the Mechanobiology Institute, National University of Singapore while Mr Soh was a partner of Ernst & Young LLP, Singapore with 35 years of experience in auditing many publicly listed companies and working on many Initial Public Offerings of listed companies. Since joining the Board, they have made many valuable contributions and we look forward to their continued contributions. Dr Tan and Mr Soh will present themselves for election as Directors at the upcoming AGM, and I look forward to your support.

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 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 2019

