

“

Amid this environment of change, we are reviewing our business models and accelerating our digitalisation programmes. These are exceptional times and we will need to make exceptional decisions.

”



CHAIRMAN'S STATEMENT

INTRODUCTION

2020 will always be remembered as the year of unprecedented changes.

The world was confronted by a global pandemic the likes of which have not been seen in over a century. From China in December 2019, we in Singapore experienced the effect in end-January 2020. Global business took a deep dive. Lockdowns and international cross-border travels were the order of the day with businesses almost at a standstill.

The COVID-19 pandemic cast a formidable shadow over Singapore's economy and changed the way we live, work and play. Not only was a Circuit Breaker implemented within Singapore, cross border travels were also imposed.

As a business, we were very fortunate that our vehicle inspection business escaped largely unscathed as it was considered an essential service. All seven inspection centres were able to continue operating throughout the Circuit Breaker, albeit under stricter safe management measures.

Demand for other "non-essential" services like accident repair, insurance sales and new car inspection fell as economic activity ground to a halt.

The impact was greater on our non-vehicle testing and inspection business, Seteco Services Pte Ltd (SETSCO), a wholly-owned subsidiary of VICOM Ltd ("VICOM" or the "Company") particularly in the Construction, Marine and Process sectors where our clients were affected by the temporary stop-work order during the Circuit Breaker, and the protracted resumption of work activities in Phase 2 Re-opening.

Against such a backdrop, the Singapore Government provided \$100 billion worth of aid to all the companies and self-employed persons. These were essentially in the form of Jobs Support Scheme (JSS) in which Government supported staff salaries from 25% to 75% depending on the nature of the business. Given the lacklustre business situation, the JSS was a much welcome relief that helped us tide over choppy waters.

OUR BUSINESSES

Despite the two-month Circuit Breaker (April and May 2020) and the fact that private vehicles due for inspection were granted a six-month deferment from the Land Transport Authority (LTA), 493,520 vehicles went through our inspection lanes, representing an increase of 30,802 vehicles or 7% from 2019.

We also continued to hold onto our pole position in the vehicle testing business with a market share of 75.2%, higher than the 74.0% in 2019.

With the deferment, motorists were worried that they were unable to renew their road tax in time. As a result, our Customer Service hotline experienced a sudden surge in the volume of calls. Despite the long queue and longer waiting time for vehicle inspection in the second half of the year, we received a total of 5,436 compliments for our vehicle inspectors, slightly more than 2019. In fact, close to 80% of our vehicle inspectors and cashiers were commended during the year – a testament of our achievement in customer service excellence.

The Personal Mobility Devices (PMD) testing, which was supposed to have commenced in April 2020, was delayed by five months and only rolled out in September 2020. The "Point-to-Point (P2P) Passenger Transport Act" passed in Parliament in 2019 requiring all licensed ride-hail and street-hail service providers with a fleet size of more than 800 vehicles to have their vehicles inspected, was shelved and will only commence in April 2021.

Demand for our vehicle type approval inspection and emission testing services for new cars fell as bidding for the Certificate of Entitlement was suspended for three months (April to June 2020) and car showrooms had to close during the Circuit Breaker.

With many people working from home, traffic on the roads was reduced and correspondingly, so did the overall accident rate. As such, our VICOM Assessment Centre conducted fewer accident reports and surveys. The impact

CHAIRMAN'S STATEMENT

continued even after the Circuit Breaker, albeit to a lesser extent, as telecommuting remained the norm.

We managed to collaborate with Diners Club at the beginning of 2020, right before the outbreak, to offer motorists the option of pre-paying the inspection fees online. This has not only helped to shave their waiting time in the entire vehicle inspection process, but it has also minimised the risk of contact between our cashiers and motorists by the time the COVID-19 pandemic happened. In July, we expanded the online pre-payment option to include PayNow so that more motorists can use the online pre-payment services.

We inked an agreement at the end of 2019 to allow EZ-Link Pte Ltd to raise public awareness of its various cashless payment services for the new generation onboard units in vehicles at our centres. We also entered into a win-win partnership with Motorist.sg, an up-and-coming digital platform that provides "automotive concierge" services to its members. Through it, VICOM promotes the platform and in return, Motorist.sg promotes its car evaluation services.

As for SETSCO, due to the profound impact that COVID-19 had brought to the economy and the businesses that it served across various sectors and industries, it would have registered its first loss in 2020 had it not been for Government financial relief.

But it was not all gloom and doom for SETSCO. The COVID-19 pandemic presented a new business opportunity. We started testing surgical masks and screening wastewater from the dormitories to screen for SARS-CoV-2, the causative virus for COVID-19.

In the construction sector, SETSCO secured three out of nine testing packages for the Jurong Region Line (JRL), a 24km-long MRT line that will serve both existing and future development in the western part of Singapore. It also successfully secured a Non-Destructive Testing (NDT) service contract with a major oil company and two other NDT service contracts with two major companies in the process industry.

A sizable three-year food and water testing contract with the Singapore Food Agency, involving the microbiological analysis of food and water samples, was secured, with the option to extend the contract for another two years. A separate three-year contract with the Public Utilities Board (PUB), involving the testing of air and water samples from the western sector of Singapore such as Jurong Water Reclamation Plant and Ulu Pandan Water Reclamation Plant, was also awarded.

SETSCO has also been building its testing capabilities to tap into the growth in the Medical and Life Sciences sector. With the capability now to perform the Sterility Test and Bacterial Endotoxin Test, SETSCO successfully made inroads into the pharmaceutical industry and won a few tenders to conduct such tests.

SUSTAINABILITY

As a leader in the Testing, Inspection and Certification industry, VICOM takes great pride in being at the forefront of creating a safer and greener tomorrow.

A more detailed write up on our sustainability efforts can be found in the Sustainability section of this Annual Report. Our parent company, ComfortDelGro Corporation Limited ("ComfortDelGro"), has also produced a comprehensive Sustainability Report.

“

The COVID-19 pandemic
cast a formidable
shadow over
Singapore's economy
and changed the
way we live,
work and play.

”



CHAIRMAN'S STATEMENT

SHARE SPLIT

During the Annual General Meeting (AGM) held in May 2020, we presented the Board's proposal for a share split of every one existing ordinary share in the capital of the Company into four shares.

This was done as we believed it will be beneficial to the Company and Shareholders for two reasons. One, the share split will make each share more affordable to investors, thus encouraging greater participation and flexibility. Two, the number of Shareholders after the share split may increase and it may broaden the shareholder base of the Company, given that investment in the shares would become more accessible to investors. I am pleased that our Shareholders supported the proposal then.

On 12 June 2020, the Board announced the completion of the share split. Following this, the post share split price of VICOM was \$2.41 per ordinary share. This was 23.3% higher than the adjusted price of \$1.955 per ordinary share when the share split proposal was announced by the Board on 12 February 2020. This is testament that we have made the right decision.

FINANCIAL RESULTS

Because of the COVID-19 crisis, Management undertook a worst-case scenario planning exercise in cash flows and kept the Board of Directors fully updated. We committed to avoid non mission-critical capital expenditure to conserve cash. Even mid-year interim dividends were not declared.

To keep manpower costs down, we put our employees on shorter work weeks and had them utilise their annual leave, all of which were supported by our Union leaders. On top of that, our CEO and senior staff ranked Vice-President and above took a 10% paycut for five months. Directors of our Company also took a 20% cut in their annual directors' fees proportionally. This is how we lead by example.

2020 financial results therefore could not be better or near to 2019 levels. I expect that Shareholders will understand that these are unprecedented times. Group revenue decreased by 16.6% or \$17.3 million to \$86.4 million in 2020. Net profit attributable to shareholders decreased by 13.8% or \$3.9 million to \$24.5 million. This is after factoring Government Relief of \$7.7 million for 2020.

Earnings per share for 2020 was 6.91 cents compared against 8.01 cents* a year ago. Net asset value per ordinary share was 37.86 cents compared to 37.04 cents* a year ago.

Government financial support is intended to protect jobs and business. The Board believes that it would be neither appropriate nor ethical to use such support for either staff bonus or dividend payment to Shareholders. The Board has recommended that a one-tier tax-exempt first and final dividend of 6.22 cents per share for Shareholders' approval. No interim dividend was declared in 2020, in order to conserve cash during the period of COVID-19 uncertainties. The total dividend for the year 2020 at 6.22 cents per share represents a total payout ratio of 90%. Viewed against the year's end closing price of \$2.16, the 2020 dividends will represent a dividend yield of 2.9%.

CORPORATE GOVERNANCE

The nine-year rule for independent directors will come into effect on 1 January 2022. The Singapore Exchange (SGX) Rules stipulate that directors who have accumulated a total of nine or more years in their tenure on 1 January 2022 will be classified as non-independent unless prior approvals have been obtained from Shareholders. We have 2 out of 10 Directors in VICOM that fall in this category. I believe this to be an acceptable balance of experience and renewal.

In the 12th Annual Governance and Transparency Index Survey 2020, which assessed listed companies on corporate governance disclosures and practices,

* Adjusted for the increase in the number of ordinary shares arising from the Share Split on 12 June 2020.

as well as timeliness, accessibility and transparency of their financial results announcements, VICOM did well to advance its score from 101 to 107. Its rose from the 17th spot to 16th. This places it in the top 3% among the 577 listed companies in 2020.

In its latest report released in March 2020, the Council for Board Diversity reflected that the pace of increase of women directors slowed down from previous years. Among the 100 largest listed companies in SGX, women on average made up 16.2% of directors as at end of 2019. I am pleased to advise that our percentage in VICOM is of the order of 30% or three female directors, well above the target stipulated by the Council.

In market capitalisation, out of 706 listed companies on the SGX as at 31 December 2020, VICOM was ranked 101st (2019: 125th). Our market capitalisation was \$765.9 million. This is a rise of \$80.7 million or 11.8%, probably due to the effect of our share split.

Quarterly reporting ceased from 7 February 2020. We however continued to provide some basic financial figures as substitutes in the first and third quarters to keep Shareholders and investors informed of our progress.

As a result of restrictions imposed by COVID-19 pandemic, our AGM was held virtually through electronic means. It was not entirely satisfactory as we were not able to mingle with our Shareholders after the meetings as we had done in the past. There was also no follow-up questioning after each advanced question was answered.

It is my hope that we will have physical AGMs in 2021. But, come 28 April 2021, we will only be able to conduct a hybrid-AGM, where there will be limited number of shareholders attending in person, while the rest can only participate through a webcast.

DIRECTORS

In 2020, we welcomed a new independent Director in Ms Wong Yoke Woon. Ms Wong is Deputy Chief Executive Officer (DY CEO) taking care of the Job Security Council (JSC) Outreach Group. The JSC Outreach Group consists of sectors under the clusters such as Built Environment, Essential Domestic Services, Lifestyle, Manufacturing, Modern Services and Trade and Connectivity. She also oversees the operations at the Singapore Bus Academy, the Career Centres at e2i Central and West as well as administers programmes that support workers and companies in training and job redesign needs. Since joining the Board, Ms Wong has made many valuable contributions and we look forward to her continued contributions.

Ms Wong, Mr Sim Wing Yew, Mr Goh Yeow Tin, Mr Soh Chung Hian, Daniel and I will present ourselves for election and re-election as Directors at the upcoming AGM, and we look forward to your support.

It is inevitable that with such early acceleration of planned retirement of Directors with more than nine years of service at each AGM, and new Directors appointed annually, the pace for retirement of long-tenure Directors will slow down as it is our intention to have a balance of Directors with different years of service to maintain continuity.

Now that our succession plans of Director renewals have been put in place after four consecutive years of active execution, the slowdown of the pace will give Directors time to settle down and consolidate their plans, build on teamwork and board-management relationships. We have a good mix of skill-sets among our Directors in technology, finance, as well as food testing. They are well represented in terms of tripartite experience from the government, labour and business sectors.

CHAIRMAN'S STATEMENT

for Board Diversity. Directors have to work well with Management in mapping strategies and setting directions. They should guide, advise and counsel Management and staff with realistic examples and effective networking. The challenge is to ensure that all views of our varied Directors are considered and no group-think exists.

We shall be having our Directors' Biennial Retreat with Senior Management in 2021. This is very timely in the light of COVID-19. Significant topics in new business models, enhanced role of technology, expanded role of government, style of working arrangements and future black swans including pandemics will be reviewed and debated.

THE YEAR AHEAD

The outlook looks uncertain with international travel still very much curtailed. Global economic recovery is expected to be gradual and uneven. Geopolitics is also uncertain and divided. These uncertainties are not conducive for business undertakings.

However, with the Nation's push towards clean emission vehicles by 2040, we have seen the roll-out of several vehicle emission schemes in recent years such as the Vehicular Emissions Scheme to promote ownership of cleaner cars.

Coupled with the latest Commercial Vehicle Emissions Scheme (CVES) to be effective April 2021, demand for VICOM Emission Test Laboratory (VETL) services should continue to be viable as parallel car importers, which are VICOM's major clients, are expected to bring in more clean emission vehicle models.

Given the continuous strong endorsement by the Government to ensure road-worthiness and environmental sustainability of our vehicles, and the fact that private hire vehicle inspection should start in April 2021, the Vehicle Inspection business is expected to remain strong.

On 10 February 2021, the Government unveiled the Singapore Green Plan 2030, a "whole-of-nation movement" to advance the national agenda on sustainable development. The Plan, which is spearheaded by five ministries, including the Ministry of Transport, will chart Singapore's green targets over the next 10 years, two of which are to halve its 2030 peak Greenhouse Gas emissions by 2050 and achieve its long-term net-zero emissions goal as soon as it is viable. This also requires all new car registrations to be cleaner-energy models from 2030, and for the targeted number of electric vehicles (EV) charging points to be doubled by 2030.

It was also announced during the Singapore Budget 2021 that \$30 million will be set aside over the next five years for EV-related initiatives as well as measures that would encourage the use of EVs. For instance, an early adoption incentive scheme was rolled out for EV buyers from 2021 to 2023, offering a 45% rebate on the Annual Registration Fee, capped at \$20,000 per vehicle.

The overall business outlook for SETSCO in the years ahead will be dependent on the recovery of the industries that it serves. While the economy is expected to move gradually out of recession, SETSCO business will remain uneven across sectors. Nonetheless, SETSCO will continue to monitor the changing trends in a post COVID-19 world, set its sights on adopting and developing new capabilities, especially in the emerging sectors such as pharmaceutical and environmental.

Crises tend to serve as a good time for reflection and recalibration. As such, we took the opportunity to accelerate our digitalisation activities. One of it was the formation of the Digital Steering Committee (DSC). The ComfortDelGro Group Digital Office, which is part of the DSC, is helping to map out VICOM's strategic digital vision for the next three years. In this new space, we will have to

strategic digital vision for the next three years. In this new space, we will have to harness advanced technologies that will enable transformation to take place, such as data analytics, IOT (Internet-of-things), Artificial Intelligence (AI) to create value proposition and growth opportunities for VICOM.

As part of this digital transformation, VICOM will be embarking on an online priority booking system for vehicle inspection in the last quarter of 2021. The booking system will incorporate the existing online pre-payment service so as to make the experience as seamless as possible for motorists who have been given priority.

Renovation work on our newly acquired premises, located at Bukit Batok Street 23, was delayed by about six months because of COVID-19. It will be completed in the second quarter of 2021.

APPRECIATION

Management has been under great stress ever since the start of the pandemic. We had to be concerned with the well-being of not only our staff but also customers, partners and other stakeholders. Civilisation as we know it is under threat and we have to play our part.

On behalf of the Board of Directors, I wish to thank the entire Management and staff under the capable leadership of CEO Sim Wing Yew for doing an excellent job in keeping the morale high. Special thanks go out to our many frontline staff who put their own health on the line as they go about their daily work.

I also wish to thank all the Authorities for all their assistance, financial and otherwise, in helping us through this difficult time. Teamwork has been strong throughout the crisis and it has helped make a very difficult situation slightly less challenging. I also wish to express my deepest appreciation to the Union that worked with us during these trying times.

I would also like to thank my fellow Directors for their invaluable contributions during this difficult time. And finally, to our Shareholders, thank you for your continued support.

It is my hope that 2021 will be a better year as we continue to face the pandemic.

LIM JIT POH

Chairman

MARCH 2021