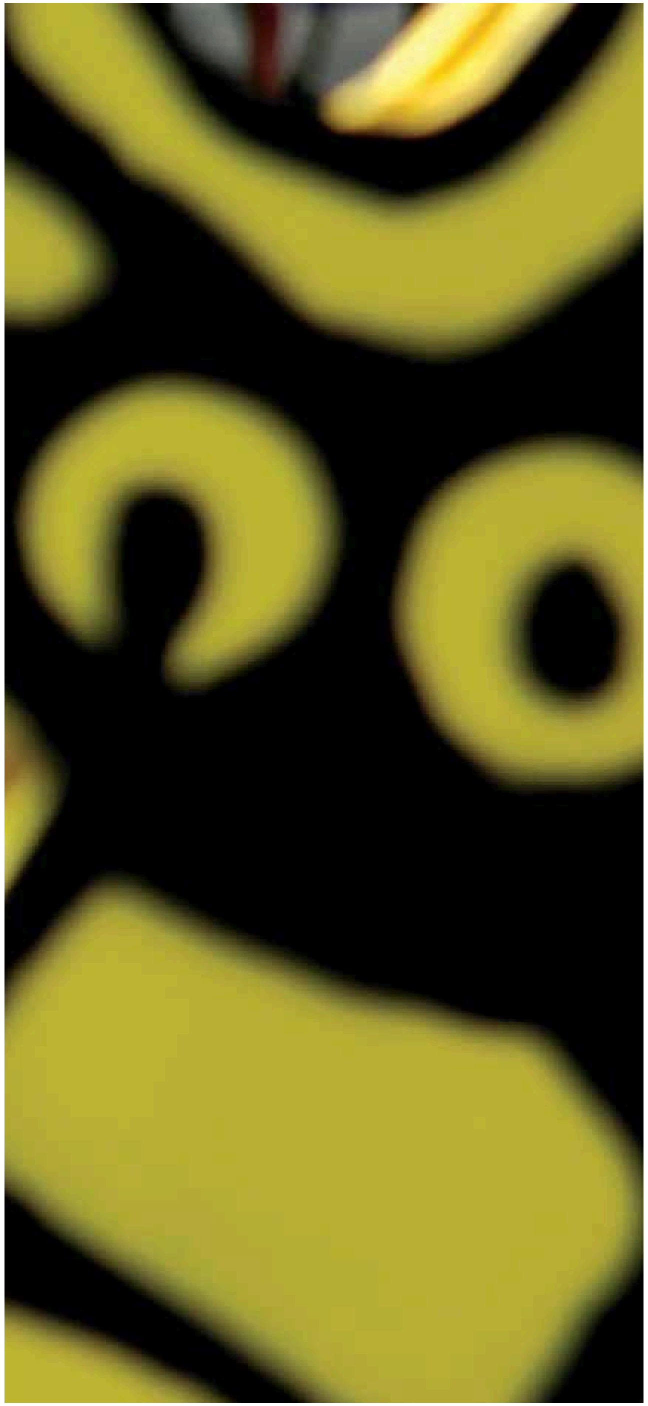
CHAPTER THREE

DELIVERING ON PROMISES

WHEN COMFORT AND DELGRO CAME TOGETHER, PROMISES OF GREATER EFFICIENCY, PRODUCTIVITY AND GROWTH WERE MADE. THE ENLARGED ENTITY, IT WAS PLEDGED, WOULD ELIMINATE WASTEFUL DUPLICATION, CONSOLIDATE OPERATIONS AND FOCUS ON EXPANDING ITS EXTERNAL WING. AND SO IT DID.



"In 2005, the Group ventured into outdoor advertising with an impactful campaign involving 1,000 large cut-outs of cows in bright pink, yellow and orange. Moove Media Pte Ltd caught the public's imagination and within a year, its business grew by 25%.

Other than closing down loss-making operations in the UK and consolidating operational functions in the various business units, the Group also merged backroom operations like finance, human resource, internal audit and corporate communications. It closed down companies which served no useful purpose and streamlined the Group structure. It also ventured into new transport-related businesses which have flourished over the years.

The first new business was that of insurance broking. In 2004, ComfortDelGro Insurance Brokers Pte Ltd was set up as an associate, with the aim of providing the Group with a dedicated insurance broking arm. Five years later, the in-house insurance broking arm continues to save large sums of money for the Group whilst extending the amount of coverage for the various businesses. It has also grown its external business and obtained a reinsurance broking licence from the Monetary Authority of Singapore.

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Over the years, the Group has also worked on developing itself as a good corporate citizen, dedicating itself to the needs of the elderly, the sick and the less privileged. Besides donating millions to those less fortunate, it also lent assistance to educational institutions and promoted the labour movement.

All around the world, it strove to do its bit for society. In Australia, for instance, it adopted the West Sydney Razorbacks, a basketball team which has made community giving a part of its motto, visiting hospitals regularly and caring for the less fortunate. In Singapore, the Group has adopted the Home Nursing Foundation which provides medical care to the under-privileged elderly. It has also launched several community programmes including working with schools to keep buses and interchanges clean.

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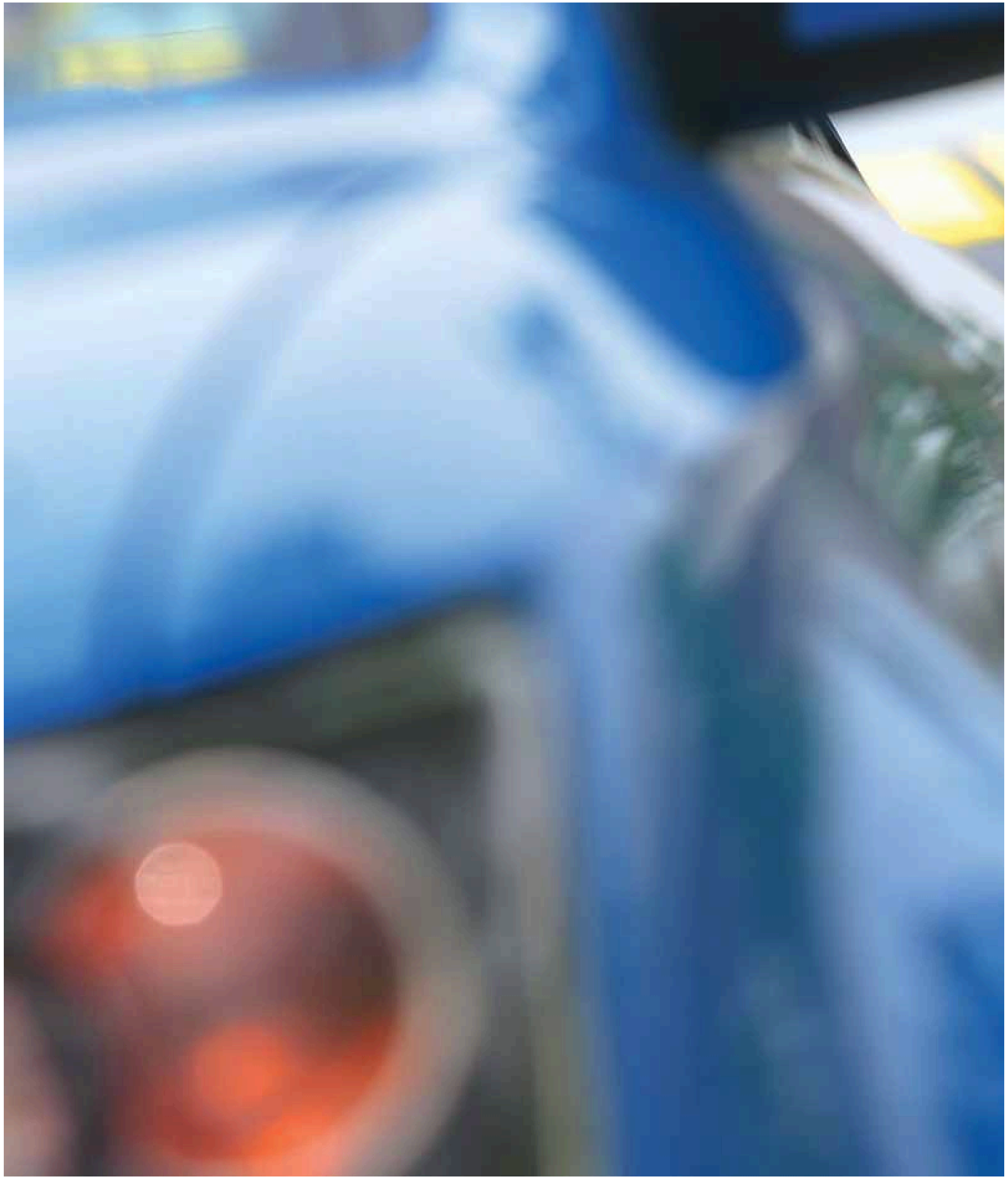
In 2007, the Group added a new dimension to its corporate charter – launching its Green Statement.

As MD/GCEO Mr Kua put it: "The nature of our business makes us a contributor to global warming and we want to do our part to make a difference. We are instilling in our people the need to reuse, recycle and conserve resources. We keep a close eye on new developments to stay abreast of new ways to take care of our planet. We started some years back, reducing our use of environmentally unfriendly materials and processes. We reclaim and recycle all of our scrap metal, tyres and batteries and we buy fuel efficient and environmentally friendly vehicles. We do these because we care."

Certainly, by the end of the first five years of incorporation, ComfortDelGro had grown not only financially, but also geographically. It had evolved, from a Singapore-based land transport company to an international organisation, with strong codes of corporate governance and social responsibilities.

Indeed, as ComfortDelGro continued to grow its wealth, its investments and its potential, early skepticism about the benefits of the merger dissipated. In fact, before long, many came to see the wisdom of the tie-up.



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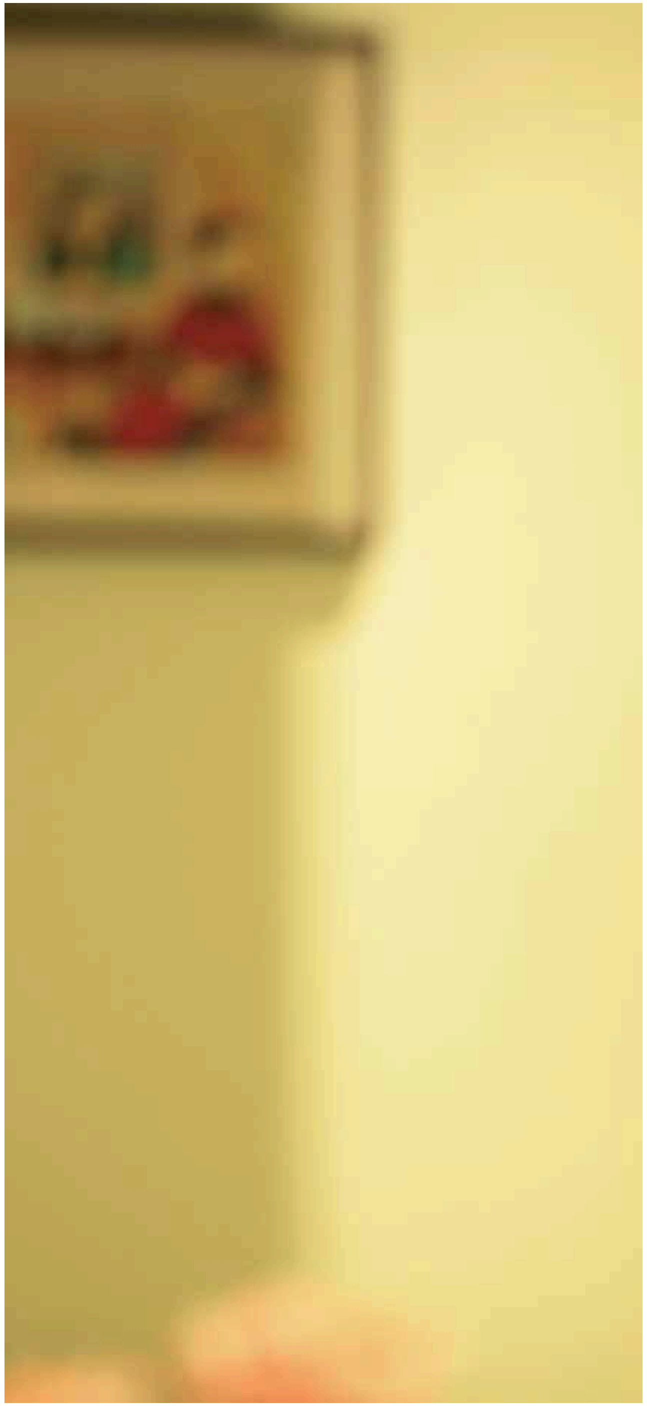
INSTANT MILLIONAIRES



In the list of the 20 largest shareholders of ComfortDelGro, one name stands out.

He is Mr Peter Yim, the only individual among the top 20. The rest are institutions. Mr Yim holds 6.5 million ComfortDelGro shares, equivalent to 0.5% of the second-largest land transport operator in the world.

The former professional surveyor-turned-full time investor has made ComfortDelGro the "core holding" in his large stock portfolio, which includes shares of companies in sectors such as insurance, food and beverage, technology and oil.

When Comfort and DelGro merged, Mr Yim had kept his 1% shareholding of bus operator DelGro. He had championed the merger at the Annual General Meeting held to discuss the proposal, he says, because of the potential he saw in the new transport giant.

"Why did I support it? For the same reason I still hold on to my ComfortDelGro shares," says Mr Yim. "It lies in what I call the "buy and hold forever" category, because it is a good performer and satisfies all my investment considerations."

ComfortDelGro, he explains, met his three main criteria for holding onto a stock – it was financially viable and sustainable, its management was honest and competent, and it had great investment merits.

Describing the operator as a "three-in-one" play, he notes that it has great potential in growth and yield, the result of a bold, daring vision and mission. "The company is the world's second-largest land transport company, and is aspiring to be the world's largest, by growing its external wing, and to be the undisputed global leader in land transport," he observes.

Mr Yim's is a story that was repeated many times over – from retail investors to employees, from punters to large institutional funds. In the first five years alone, close to S$770 million in dividends were paid out to shareholders, representing over 76% of the Group's total net profit.

As Mr Kua puts it: "After the merger, millionaires were created. Pre-merger, DelGro's stock options had been underwater – its holders couldn't sell. But after the merger, many became rich."

Indeed, the success of ComfortDelGro has become the success of its shareholders. Mr Lim Boon Heng, Minister, Prime Minister's Office and former labour union chief, has no qualms about describing ComfortDelGro, the SLF's largest single investment, as "a good investment".

He adds, "With the dividends it received over the years, the SLF has provided funds for the development of social and recreational facilities for workers, such as the resort in Pasir Ris. It has also provided financial relief to workers and their families: public transport vouchers and Back-to-School vouchers for school children."

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CRITICS SILENCED

The success of ComfortDelGro over the last five years has won over many hearts – including those that were doubtful of its future at the beginning.

One such convert was Mr Christopher Tan, senior Transport correspondent with Singapore's national daily, The Straits Times. When the merger was announced in 2003, he was highly skeptical of its success. Five years later, he says: "I must admit I had great doubts about how the merger will benefit shareholders and commuters. But I am happy to have been proven wrong. ComfortDelGro's growth, fuelled by a hunger to grow an overseas arm, has been phenomenal. The goodies for commuters have not been as obvious, but changes announced in the Land Transport Review will address that."

Ms Nancy Teo too was one of the many members of the SLF who had been worried about the dilution of the SLF's stake in Comfort. Although she knew that the SLF could only gain from the merger of two profitable companies, she was concerned then about the offer price and about the size of the stake the SLF would hold in the enlarged entity.

"As it turned out," she says, "independent financial assessments undertaken by the new company and the SLF separately confirmed that it should be a merger of equals. This meant that the SLF's share in the new company would be halved to 18%, but the pie had doubled."

The wisdom of the merger, she adds, came true quickly after the two companies united. "I knew that we had done the right thing when I saw the substantial savings that were derived from the streamlining and integration of overheads and support operations after the merger. The effect was immediate and translated into higher earnings. I was heartened that the management was serious and very focused on taking full advantage of this benefit of the merger."

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TAKING FLIG

Within a few years, ComfortDelGro's overseas expansion took off. The slew of ventures abroad saw its market capitalisation and profits rising. Within a year of the merger, ComfortDelGro had doubled its value to S$2.39 billion, S$1.15 billion more than the two companies' combined value before the merger.

By 2007, it had invested more than S$740 million abroad and reached a total market capitalisation of S$3.33 billion. It boasted a fleet of 19,852 vehicles across China, the UK, Australia, Ireland, Vietnam and Malaysia, almost equivalent to its local fleet of 20,596.

It was a huge step up from the S$419 million it had invested abroad at the time of the merger in 2003, when it had a market capitalisation of just S$1.51 billion and a fleet of 12,821.

More significantly, the earnings of the ventures abroad were playing an increasingly bigger role in pushing up its overall profits – exactly what ComfortDelGro had promised in its merger document. By 2007, overseas ventures were

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accounting for 47% of the group's total turnover – more than double the 23% at the time of merger and not far off from the 50% set as the target.

Notably, its rapid expansion overseas had brought benefits not only for its own bottom line, but also for the transport scene in the countries it had entered.

Dr Wang Kai Yuen, who sits on the ComfortDelGro Board, sums it up nicely: "As an Independent Director, the transformation of CDG from a Singapore-focused company to a global corporation with major operations in UK, China, Australia and Singapore has been a exhilarating and rewarding experience for me.

To achieve this in the short span of five years is a significant contribution made possible through the hard work and dedication of a strong management team under the leadership of MD/GCEO Mr Kua as well as the able stewardship of Chairman Mr Lim. I look forward to another five years of growth in the next Cycle of CDG's continued development as a global giant in the land transportation industry."

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PERFECT

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Mr Lim and Mr Kua are fond of saying that Comfort and DelGro were a very good fit. What's plain to see is that the same could be said of the two men.

"He's a great guy," Mr Kua puts it simply. Mr Lim in turn has gone on record to state his "good fortune in working closely with the MD/Group CEO with whom I conceptualised and executed the merger proposal."

This unity in ideals and oneness in thought has impressed many ComfortDelGro staff as well as shareholders. Shenyang-based Mr Choo Peng Yen ascribes part of the success of the merger to their abilities, which he believes had helped convince investors of the wisdom of the merger in the first place.

"They could eyeball the two top guys who were going to run this and they liked what they saw," he recalls of the time Mr Lim and Mr Kua had presented their case to shareholders before the merger. "They demonstrated to the investors that they were on top of the job, and that they knew exactly what was going on."

"It gives people the confidence that you know what you're doing and you're a hands-on manager."

THE NEXT CHAPTER

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Negotiating the bends and potholes of international business is a challenge that ComfortDelGro is well poised to handle. As Chairman Mr Lim observes, five years of operations as one entity after the merger have left it well tuned for the journey ahead.

All these efforts have made ComfortDelGro the global leader it is now, and prepared it for the road ahead. Negotiating the bends and potholes of international business is a challenge that ComfortDelGro is well poised to handle. As Chairman Mr Lim observes, five years of operations as one entity after the merger have left it well tuned for the journey ahead.

The world's second largest land transport group has earned a reputation for being a global leader in the industry, not only because of its sheer size, but also because of the contributions it has made to the economies it operates in, both locally and abroad.

On local shores, the North East Line has started to turn in profits after its somewhat rocky start, and the bus and taxi business continue to do well. In 2007, ComfortDelGro's taxi operations drew an astounding 20 million call bookings, a fifth more than it did in 2006. Its other business arms, such as its driving school, vehicles advertising, insurance broking, and repairs and maintenance services business, are posting strong growth.

Abroad, the company is well on track to meeting its target of achieving at least 50% of its revenue from overseas operations within five to seven years after the merger.

In its overseas markets of Australia, China and the United Kingdom, and others such as Malaysia and Vietnam, ComfortDelGro has invested a whopping S$740 million, and its business development team continues to hunt for more opportunities. Among others, the Group is waiting for Ireland's land transport business to liberalise, betting on a boom in its operations at British airports, and counting on the rapid growth in China.

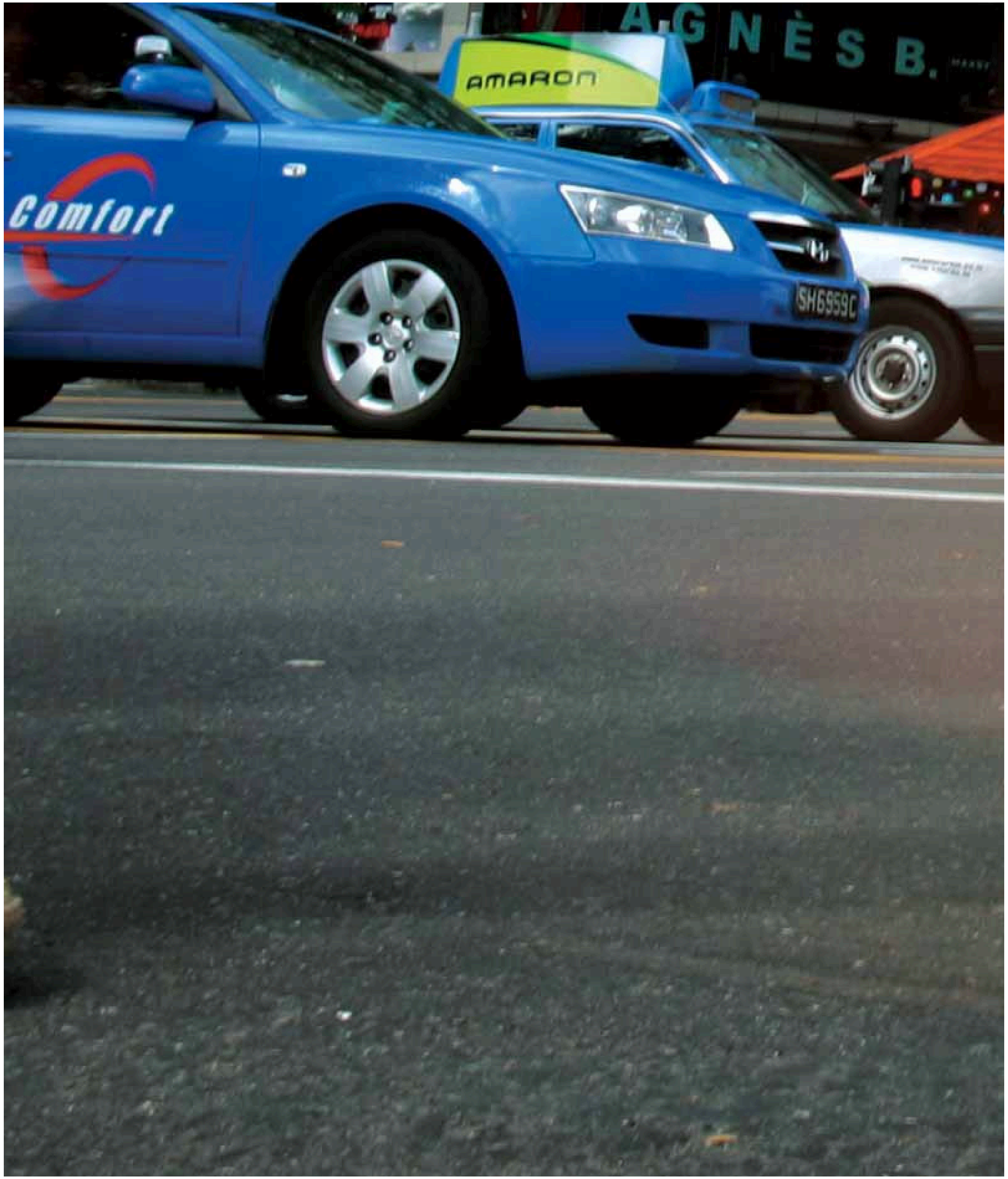
The next chapter for the operator is to build on its existing global footprint. As Mr Lim puts it, this will be done in the same way it was done in the first five years – at a "punishing pace".

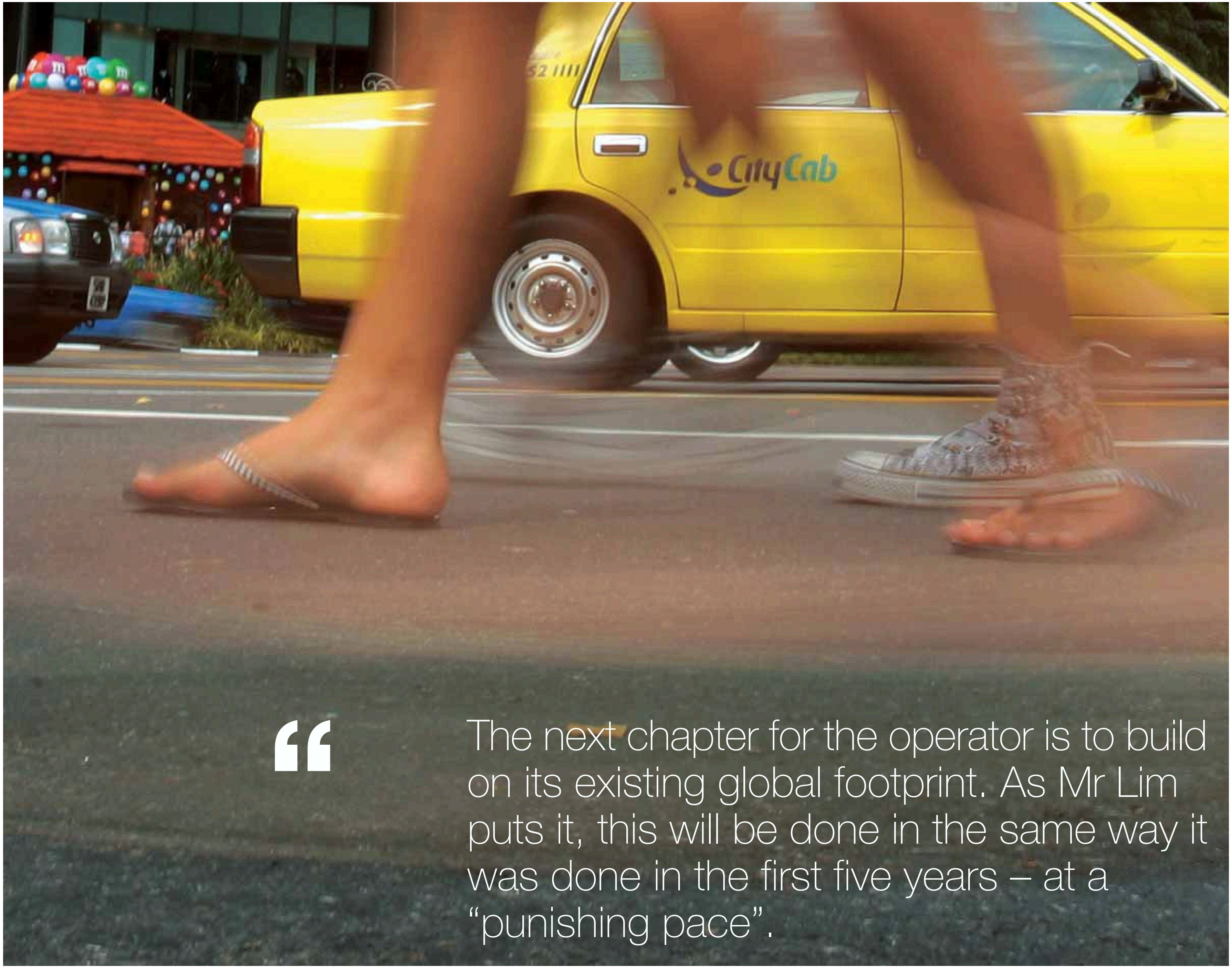
Soon, ComfortDelGro will attain its 50% target for overseas operations, whereupon the Group intends to draw up a new blueprint, strategy and direction to grow further.

The road ahead, however, will be far from smooth.

In its first few years of existence, the transport operator had already experienced the pains and heartaches of merger as well as the unexpected turns of business in a globalised economy. As quickly as ComfortDelGro loped past the initial hurdles of merger, it soon faced the challenges of SARS and high oil prices.

Some of these challenges are still around. Mr Kua is not hesitant to talk about the "large negative financial impact" that the rise in oil prices has had on the operator and its share price. The volatility of oil prices is just one of the many expected and unexpected rocky stretches that ComfortDelGro has to prepare for, as it drives into the future.





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THE FULLERTON HOTEL
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SBS Transit

"At the same time, the operator has been quick to respond to calls by the community and the Government to provide for less-abled passengers. The result: The introduction of low-floor, wheelchair accessible buses.

Another is the intensifying competition in the taxi industry. With competitors posting losses, ComfortDelGro can take some comfort in the fact that it has managed to stay in the black, amid the rising supply of taxis, rising diesel prices and higher expectations of commuters. Some of the challenges, however, could also mean great opportunities for ComfortDelGro to strengthen its position as a local and global leader in land transport, not just in monetary terms, but also in its level of service and contributions to the community.

Take for instance, a call by the Singapore Government to transport operators to improve bus services especially during peak hours. It prompted ComfortDelGro to plan for the future, as it studies how it could address issues such as bus arrival and headway times, over-crowdedness and traffic conditions on the roads.

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Indeed, ever since its merger, ComfortDelGro has been looking far ahead on its journey. The Group is entering what Chairman Mr Lim calls the "Second Cycle" – and is already planning its strategies from 2008 to 2012. The challenges are, in a way, the result of the Group's current success.

First, having expanded so aggressively, where can it venture from now on, in terms of business areas, beyond its current seven business areas? Second, where should it go geographically? Finally, and most crucially, can it continue its phenomenal run of 25% per annum returns to shareholders, as it has done in the first five years?

THE MERGER, EXCITING AND ABSORBING AS IT WAS, WAS ONLY THE START.

THE NEXT CHAPTER IS WHERE THE FUTURE LIES.
IT IS WHERE THE VISION WILL UNFOLD.