Chairman's Statement

Introduction

2014 was, for all intents and purposes, a very challenging year. Economically, politically and even socially, many countries around the world faced countless obstacles during the year.

Indeed, the New Normal that I reflected in my last Statement continued to take root.

In the aftermath of the 2011 Arab Spring, the world has witnessed the frightening birth of ISIS (Islamic State of Iraq and Syria). Across the Black Sea, the situation in Ukraine escalated during the year resulting in increased tension in the region. In Scotland, attempts to gain independence from the United Kingdom (UK) failed but the referendum has raised the possibility of similar actions elsewhere in the world.

Within Asia, the tussle between China and Japan over the sovereignty of Diaoyu/Senkaku islands continued. The emergence of new leaderships in India and Indonesia could spell changes and shifts in policies in favour of foreign investments. Likewise, the peaceful atmosphere among the 10 ASEAN Member States could also encourage an increase in foreign investments.

Providing a bright spark to the global economy was the United States, which showed signs of recovery in 2014, although it must be noted that the full effects of the conclusion of the Quantitative Easing (QE) exercises in October 2014 have yet to be felt. In Japan, similar QE efforts have not produced the desired outcomes. Elsewhere, the European Central Bank has announced plans to launch its own QE with a €1.1 trillion bond-buying programme to boost its stagnant economy.

China, which has been powering growth in the last few decades, has been experiencing a slowdown. Consequently, the International Monetary Fund and the World Bank have forecast slower growth for the global economy in 2015.

Currency fluctuations continued to prevail in 2014. In our global business, the three major currencies which have a significant influence on our accounts are the Chinese Renminbi (RMB), the Australian Dollar (A$) and the UK Sterling Pound (£). At the end of December 2014, the A$ weakened against the Singapore Dollar while the RMB and the Sterling Pound strengthened when compared to the situation a year ago.

Corporate Governance

(i) The Companies Act

Corporate governance continued to feature prominently in 2014. Massive amendments to The Companies Act which I mentioned in my last two reports in 2012 and 2013 were finally adopted in the Parliament in October 2014.

(ii) Board Diversity

The issue of board diversity assumed a tentative conclusion during the year when The Task Force, which was set up in 2013, released its findings and recommendations in April 2014 in a report entitled "Gender Diversity On Boards: A Business Imperative". Its 10 recommendations suggest a soft approach to increase participation of women on the Boards of listed companies. It has deliberately decided against instituting quotas, enacting laws or offering incentives to get companies to appoint more women on the boards.

Meanwhile, the Singapore Board Diversity Report 2014, a joint initiative between the Centre of Governance, Institutions and Organisations at the National University of Singapore and Board Agender, revealed that female representation on Boards had increased from 7.9% to 8.3%. This report, the fourth in the series, had been extended to include diversity in ethnicity and age as well.

The inaugural Singapore Directorship Report 2014, produced by the Singapore Institute of Directors and the Institute of Singapore Chartered Accountants, claimed that it was a definitive study on the state of directorships of listed entities on the Singapore Exchange (SGX).

(iii) Singapore Exchange

As a listed entity, we take a keen interest in all developments involving our listing status. In 2014, the SGX announced that it would make shares more affordable to the investing public by decreasing the board lot of 1,000 shares to 100 shares. This came into effect on 19 January 2015. It also announced plans to consolidate penny stocks so that they would trade with a minimum price of S$0.20. This measure to curb excessive speculation was launched on 2 March 2015.

Another issue that will have significant impact on us and all listed entities is the recommendation to demarcate the SGX's dual role of regulator and listed entity.

Revenues at a Glance

Singapore
S$2,399.6m

United Kingdom
S$998.4m

It is also reported that the SGX will make sustainability reporting mandatory by 2017/18. This sustainability report will cover a company's economic, environmental and social impacts.

(iv) Audits

I continued my practice of meeting the Chairmen of the Audit and Risk Committees (ARC) of our three listed companies during the year. These meetings were conducted in the absence of Management but in the presence of the External Auditors. The meetings were held in addition to those chaired by the Chairman of each ARC with the External Auditors without Management. I am very pleased to report that all parties have reported cordial working relationships and that prompt assistance has been provided by Management to the ARC and the External Auditors. In the year under review, 21 internal audits were conducted including seven confined to overseas entities. The internal audits aim to provide independent and objective evaluation of internal control systems, risk management, corporate governance processes and recommend improvements. No major issues surfaced.

PricewaterhouseCoopers was appointed to conduct a quality assurance review of our internal audit function. This is to assess whether our Internal Audit Department comply with the standards set by the Institute of Internal Auditors.

(v) Investor Relations and Awards

We continued to have an active investor relations (IR) programme, holding regular meetings with fund managers and analysts. We also conducted analysts briefings after each quarterly result. In all, we held 156 IR meetings during the year. As at the end of December 2014, 12 research houses were tracking our stock with about 100 reports issued during the year.

Our shareholders are also kept fully informed of significant activities. Our websites are updated regularly and public announcements are made promptly. The announcement dates of our results every quarter are made well in advance. Our Annual General Meeting is well attended with the full Board in attendance. Voting of resolutions is done by electronic poll and results are tabulated and instantly announced.

Australia
S$413.5m

China
S$212.9m

Ireland
S$15.7m

Vietnam
S$7.1m

Malaysia
S$4.1m

Chairman's Statement

A breakdown by nationality shows that the majority of our shareholders come from Singapore (29%), North America (25%) and UK (16%).

ComfortDelGro Corporation Limited and its two listed subsidiaries continued to fare well in the annual Business Times' Governance and Transparency Index with all placed within the top 50 ranking. This translated into the top 7% of the 644 listed companies surveyed. VICOM Ltd was ranked 37th, ComfortDelGro 41st and SBS Transit Ltd 45th.

We also did well at the 2014 Securities Investors Association (Singapore) Investors' Choice Awards. ComfortDelGro was awarded Runner-Up for the "Most Transparent Company" in the Travel, Leisure and Automobiles & Parts category while SBS Transit was awarded Runner-Up for the Singapore Corporate Governance Award in the Mid-Cap category.

ComfortDelGro continued to be one of the 30 component stocks of the Straits Times Index (STI). At the end of December 2014, ComfortDelGro had a market capitalisation of S$5.56 billion which was 30% more than the December 2013 value of S$4.27 billion. Significantly, our market capitalisation crossed the S$5 billion-mark for the first time, pushing us to 33rd position on the SGX, up from 41st previously. This represents a threefold increase from the S$1.67 billion market capitalisation we started out with when we were listed in 2003.

As a component stock of STI, we outperformed the STI by 23.1 percentage points and the FTSE ST All-Share Index by 24.6 percentage points.

Based on these indicators alone, it was certainly a very good year.

Singapore Business

(i) Developments

Singapore avoided most of the economic problems which plagued many developed and developing countries in 2014. In fact, it continued to record full employment during the year. That enviable position was, however, accompanied by a different set of problems and issues.

One of the main issues that gained traction during the year was the increasing dependency on foreign manpower – both skilled and unskilled. The resultant restriction on foreign workers being brought into Singapore has made it increasingly difficult for companies like ours to replace and expand our workforce.

In the scheduled bus business in Singapore, a major change in policy was announced by the Land Transport Authority (LTA) in May 2014, marking a paradigm shift in the way the bus business is run in Singapore. Under the new Government Contracting Model, LTA will pay operators to operate bus services through competitive tenders based on gross cost. The Government will take on the revenue risk while successful tenderers will focus on delivering services subject to various standards. Barriers to entry for new entrants of the industry have been lifted with bus assets and infrastructure provided by the Government and arrangements being put in place to transfer staff on present routes to successful tenderers. The purpose of this approach is to make it easier for the further liberalisation of the industry. We are confident that our experience in London and Sydney, which already operate on a contracting system, will stand us in good stead. More details of this appear in the annual report of our listed subsidiary, SBS Transit.

The Bus Service Enhancement Programme (BSEP), which began in September 2012, continued into 2014. To-date, a total of 371 Government funded buses have been rolled out – two years ahead of schedule. The Government plans to add another 296 buses under BSEP 2 from 2015 to 2017 for SBS Transit.

In the unscheduled bus operations, our subsidiary, ComfortDelGro Bus Pte Ltd, has been participating and winning City Direct routes which connect Housing and Development Board towns to the City. We also won a contract to operate a Peak Period Short Service which supplements the Public Bus Feeder Services.

As I mentioned in my last annual report, under the 2013 refreshed Land Transport Master Plan (LTMP), the rail network will double from 178km presently to 360km by 2030. No major rail lines were launched in 2014 but we expect our Downtown Line Stage Two (DTL 2) to be ready for operation in the first quarter of 2016.

On taxi operations, I am pleased to report that we were able to achieve all standards laid down by the LTA. In the area of Taxi Availability, we met all requirements and consequently, became the only operator allowed to expand our fleet in

2015. The LTA raised the standard on Taxi Availability further, requiring 85% of an operator's fleet to be on the roads during weekdays for a minimum of 250km a day, up from 80% previously. I see no difficulty in us meeting the new requirement.

The Certificate of Entitlement mechanism was further reviewed in 2014 and the Authorities have announced that the annual motor vehicle growth rate will be reduced from 0.5% to 0.25% for the period February 2015 to January 2018. This will have implications on our vehicle inspection, taxi and car rental businesses.

(ii) Businesses

We experienced broad-based revenue growth in 2014. Our businesses in Singapore increased their topline during the year, on strong demand and the introduction of new services.

Our taxi operation continued to maintain its pole position with a slight increase in the market share. Despite competition from new booking apps, our app continued to prove attractive to commuters. Since its launch in 2010, it has been downloaded 2.6 million times. In 2014, thanks to increased automation in our booking system, we had 35.6 million successful booking jobs – a 10% increase over 2013.

In the rail business, we continued to grow our operations and are preparing to launch DTL 2 in the first quarter of 2016. After its first year of operation, DTL 1 is experiencing a steady growth in ridership. We expect start up costs to continue to weigh on the DTL for the next few years.

Our testing services, both vehicle and non-vehicle, continue to perform satisfactorily. In the case of the latter, we have ventured into the medical field and are now registered with the Health Promotion Board to provide blood screening services. We also secured a prestigious project in Baku, Azerbaijan, to carry out glass inspection for a commercial building. More details can be found in the annual report of our listed subsidiary, VICOM.

The remaining business units – automotive engineering, car rental, driving school, vehicle advertising and insurance broking – continued to perform satisfactorily. On their own, most remain leaders in their respective fields.

Overseas Business

(i) Divestments and Acquisitions

In our constant review of our overseas investments, we took advantage of the investment climate to divest two small and insignificant operations inherited from our predecessor. These are the 76% stake in Yantai ComfortDelGro Automobile Services Co., Ltd which operates 20 taxis and the 25% shareholding in Hengyang CityCab Bus Services Co., Ltd which owns 98 buses.

We continue to grow our taxi fleets organically in China. In 2014, we added 175 new taxis to our fleets in Nanjing (85 taxis), Nanning (50 taxis), Beijing (25 taxis) and Suzhou (15 taxis). We also extended our 20-year joint venture agreement in Suzhou by another 15 years to 2029.

We made two investments in Australia in 2014 totalling some S$28.3 million. These are the 100% acquisition of the assets of the Blue Mountains Bus Company and a 49% investment in Phillip Boyle and Associates Pty Ltd. The former comprises three depots and 101 buses and coaches operating in the tourist hotspot, the Blue Mountains. The latter is a niche bus planning and scheduling consultancy firm based in Melbourne.

(ii) Businesses

(a) China

After divesting our investments in Yantai and Hengyang, we now operate in 11 cities in China (Beijing, Chengdu, Chongqing, Guangzhou, Jilin, Nanjing, Nanning, Shanghai, Shenyang, Suzhou and Tianjin). We remain focussed on the five business areas of taxi, bus station, car rental & leasing, vehicle inspection and driving school.

The taxi business continued to be the star performer in 2014, accounting for close to 80% of total revenue from China. We now operate in nine cities with a total of 10,878 taxis, about 1% more than the 10,752 in 2013. The combined fleet size is about 65% of Singapore's fleet. Our fleets in Nanning (17% market share) and Jilin (14% market share) continue to be leaders in their respective cities. Shenyang (6% market share) and Chengdu (7% market share) ranked second in their cities, while Beijing (8% market share) is third. Nanjing (6% market share) and Suzhou (4% market share) ranked fourth where they operate. We continue to experience rising costs especially in the area of social insurance contributions.

Chairman's Statement

The bus station business in Guangzhou continued to perform well. It contributed about 14% of total China revenue. The challenges ahead will come from the implementation of high speed rail network linking Guangzhou to other cities.

(b) UK/Ireland

We continue to operate scheduled bus, coach, taxi circuit and private hire vehicle businesses in the UK and Ireland. We added Killarney in Ireland to our operations and now operate in Aberdeen, Birmingham, Clifden, Cork, Dublin, Edinburgh, Galway, Glasgow, Killarney, Liverpool and London.

In the scheduled bus business, our wholly-owned subsidiary Metroline Limited runs about 1,700 buses out of 14 garages. Our market share is about 18% placing us in third position in London. This sector contributes about 76% of the total UK/Ireland revenue.

Our inter-city coach business in the UK operates throughout Scotland as well as between Scotland and London. We also run coach services in London and Ireland with the latter linking Clifden, Cork, Dublin, Galway and Killarney. The coach business is doing well contributing about 11% of the total UK/Ireland revenue.

The taxi circuit business in five cities: Aberdeen, Birmingham, Edinburgh, Liverpool and London, continues to face stiff competition from the private hire business. Its contribution to the total UK/Ireland revenue is close to that of the coaches at about 13%.

(c) Australia

We operate bus, taxi circuit and vehicle advertising businesses in Australia, where we are present in key cities like Canberra, Melbourne, Perth, Queanbeyan and Sydney.

Accounting for the bulk of about 94% of total Australian revenue is our bus business where the combined operations in Melbourne, Queanbeyan and Sydney translate to a total of 1,697 buses. During the year, we also added to our bus fleet through the acquisition of the bus operations of the Blue Mountains Bus Company.

In the taxi circuit business in Perth, we continue to be the leader in the market.

(d) Vietnam

The Vietnamese economy remains weak and this has affected our taxi business. The combined fleet of our two taxi companies in Ho Chi Minh represents about 7% of the market and ranks third in the industry.

(e) Malaysia

We continue to run auto leasing services in Kuala Lumpur, Malaysia. The operation is doing well with a reasonable fleet size.

Of the overseas operations, our operations in UK/Ireland accounted for about 61% of total overseas revenue, followed by Australia with 25% and China at 13%. Contributions by Vietnam and Malaysia are small and account for the remainder.

Manpower

Our manpower requirements have continued to grow in tandem with the growth of our business. In 2014, we had a staff strength of 21,646 which is about 3% higher than the previous year's figure of 21,042. As a global group, there is a good mix of nationalities among our staff with Singaporeans accounting for 29%. This is followed by Malaysians at 20%, British at 15%, People's Republic of China nationals at 11%, and Australians at 9%. Together these five major nationalities constitute about 84% of our workforce. About 45% of our staff is based outside Singapore.

To meet the critical shortage of manpower in Singapore, we worked closely with the army's combat service units in attracting national servicemen who have been vocationalised as drivers and technicians and who were due to complete their two-year terms. We also worked with the National Trades Union Congress in targetting stay-at-home mothers.

The challenges in the coming years will be to work with the Government to re-balance the workforce, to drive up productivity through the use of suitable technologies and to review our work processes. We also need to focus more robustly on retention strategies to keep our quality employees.

Concurrently, we expect wage bills in all our operations to rise going forward.

Information Technology

We continue to invest in information technology to support the Group's business unit strategies for revenue growth, customer service quality and operational efficiencies.

In Singapore, the taxi booking and despatch system has been enhanced to cater to the huge workload capacity with automation reaching 90%. Likewise, cashless mobile payments further improved by 12% in 2014.

Finance

I am very pleased to report that we had another successful year in 2014 with Group revenue reaching a new high of S$4.051 billion, a rise of 8.1% over 2013. Group operating profit grew at a slower but respectable rate of 3.7% to S$442.1 million as a result of rising costs in wages.

As before, the bus and the taxi sectors continued to dominate the revenue figures at 51% and 32% respectively of Group total revenue. Together they accounted for 83% of the Group total revenue. This is 1 percentage point higher than the 2013's figure of 82%.

These two sectors also continued to contribute substantially at the respective 37% and 34% of the Group total operating profit. When combined, their share was a significant 71%, similar to the 2013 position.

Our overseas operations accounted for 41% of the Group total revenue, similar to the 2013 contribution. The overseas operating profit was 49% of the Group total operating profit, similar to 2013.

Combined overseas bus revenue and operating profit accounted for 62% and 91% of the Group bus revenue and operating profit respectively. However, in the taxi business, the reverse is true with overseas revenue and operating profit representing 25% and 34% respectively of the Group figures.

Profit before tax in 2014 was S$436.3 million. This is 5.3% better than 2013. Profit attributable to shareholders stood at S$283.5 million which is 7.7% higher than 2013. Earnings per share in 2014 was 13.29 cents compared to 12.43 cents in 2013. Net asset value per share increased from 101.37 cents to 102.36 cents. Returns on both equity and total assets were 13.1% and 6.7% respectively whereas the 2013 respective figures were 12.6% and 6.6%.

Our Group total capital expenditure in 2014 was S$511.6 million, 2.3% higher than 2013. A high 77% of the expenditure was incurred in Singapore.

Overseas investment in 2014 was about S$28.3 million mainly in Australia. In 2013, we invested a substantially higher amount in the UK.

Our Group Balance Sheet continues to remain strong and healthy. Total assets reached S$5.23 billion by the end of December 2014, a 2.9% increase over 2013. Our shareholders' equity without minority interest continued to rise to S$2.19 billion, an increase of about 1.6% over 2013. We have total borrowings of about S$737.1 million compared to S$807.9 million in 2013, a dip of 8.8% from 2013. The gross gearing ratio declined to 26.0% from 28.9% in 2013. Excluding BSEP borrowings, we have a higher net cash position of S$151.6 million compared to S$100.3 million in 2013.

Your Directors have recommended a tax-exempt one-tier final dividend of 4.50 cents per share. This will be subject to Shareholders' approval at the Annual General Meeting on 24 April 2015. Together with the tax-exempt one-tier interim dividend of 3.75 cents per share paid on 28 August 2014, the total dividend for 2014 would be 8.25 cents per share. This is 12.2 percentage points higher than our declared policy of distributing at least 50% of our profit. When pitched against our year-end closing price of S$2.60, this dividend payout represents a yield of 3.2%. Together with the share price increase of 59 cents year-on-year, the total shareholder return for 2014 was approximately 33.5%.

Corporate Social Responsibility

We view corporate social responsibility seriously and believe in Shared Value Creation. We believe in pursuing benefits for both the business and the society concurrently.

In helping the community, our various businesses plan and execute programmes peculiar to the needs of their communities. In Singapore, we ended our five-year partnership with the Lions Befrienders Service Association (Singapore) in 2014 and renewed it for another five years. The assistance rendered included replacing old furniture for seniors living in one-room flats like mattresses and bed frames as well as getting new electrical appliances for them like washing machines, refrigerators, rice cookers, televisions, radios, electric kettles and fans.

For the physically handicapped, we support various charitable causes and community projects. These include travel vouchers, discounted bus charters, free transport transfers, waiver of booking fees for taxi trips and free rides for the disabled.

In the area of safety, we held training and re-training courses for our drivers, and helped the Singapore Road Safety Council in its Road Safety Public Awareness Campaign. We continued to help primary school children by educating them on road safety in addition to conducting school talks and visits on safety and graciousness on board buses and trains. We also conducted train safety and evacuation exercises.

Chairman's Statement

In the area of environmentalism, we are pleased to say that all our vehicles are environmentally friendly, complying with or even exceeding the various regulatory requirements in the countries we operate in. In some locations, Compressed Natural Gas is employed. The Group continuously works with staff to inculcate the concept of Green Culture.

Outlook and Challenges

As Singapore's economy continues to restructure, slower growth is expected. With limited available manpower resources, we expect our costs in human resource to continue rising.

While we continue to work at improving our productivity levels, there is currently still a natural limit to how much we can automate since driverless vehicles are still not a reality. Indeed, there is a limit to human productivity as the bulk of our staff is confined to driving vehicles. Manpower retention at this level is therefore our foremost priority.

Rapid application of technology will continue to be widely used throughout our businesses. We will continue to watch the developments in the area of driverless vehicles. Meanwhile, environmentally friendly vehicles or vehicles with higher standards in terms of emission will be a mid-term substitute.

We have submitted a competitive bid for the first bus contract under the Government Contracting Model in Singapore. Results are expected in the second quarter of 2015 with implementation in 2016. Nevertheless, the remaining existing uncontested routes will continue to be operated by the incumbents under negotiated contracts for about five years after the expiry of the Bus Service Operating Licence in August 2016.

While the refreshed LTMP is being implemented in Singapore, we are confident that commuters will be better served with more buses under the BSEP 2.

We will continue to cooperate with our worker unions to reward our staff fairly and ensure their well being is protected. This is because they are the backbone of our operations.

Our overseas ventures will continue to be challenging. Uncertainty in the economy of the European Union coupled with a general slowdown of the economies in China and Australia will be very challenging to our existing operations in these regions.

We shall continue in our overseas pursuits, both organically and through acquisitions. Competition is expected to be keen.

Appreciation

The continued success of our Group does not come by chance. Dedication, commitment and hard work are crucial. In this respect, I must congratulate and thank our Managing Director/Group Chief Executive Officer Mr Kua Hong Pak for his unstinting efforts, selfless attitude and perseverance in driving and managing the Group. His exemplary leadership has contributed immensely to the Group's success and reputation.

I must also thank Management and staff for the hard work they have put in, day in and day out, rain or shine.

To our Unions, it has been our fortune and pleasure to work with them and we remain grateful for their understanding, assistance and encouragement.

To the Authorities in the countries where we operate, I must express my appreciation for their trust and confidence in us.

To my fellow Directors, I thank them for their valuable contributions and for the confidence and trust they have given me.

Looking forward, I remain very confident that the Group will continue to grow even as we face mounting challenges.

Lim Jit Poh
Chairman
March 2015