CHAIRMAN'S STATEMENT

THE NEW NORMAL

In my mind, the term, 'New Normal', first coined during the 2008 global financial crisis, resurfaced in 2013 amid a landscape of vast political and economic changes.

Politically, 2013 was fraught with uncertainty. Chemical weapons were reportedly employed in Syria, while the United States underwent yet another round of internal political strife. Problems continued to plague Europe while relations between Japan and China worsened over the sovereignty of the Diaoyu/Senkaku Islands.

Economically, the US economy was still unpredictable while the Euro Zone entered its fourth year of recession, with some members still registering very high unemployment rates. China's economy, which has been the engine powering the global economy, started to slow while Japan was trying hard to revive its economy with another form of Quantitative Easing commonly known as Abenomics. India continued to struggle with its modernisation plans while most parts of ASEAN remained in the doldrums. Myanmar, which had hitherto been closed off from the global economy, was slowly opening up its doors.

On the currency front, the US Dollar remained weak for a large part of the year because of its Quantitative Easing activities, strengthening only towards the end of 2013 when an announcement was made on its tapering policy. Similarly, the Sterling Pound weakened against the Singapore Dollar for most of 2013 and gained ground towards the end of the year. The Australian Dollar continued to weaken as growth slowed while the Chinese Renminbi (RMB), which had strengthened, looks set to be internationalised. All in, the currency situation remains highly unpredictable.

For sure, a new normal that smacked of uncertainty, had indeed taken root.

CORPORATE GOVERNANCE

Corporate Singapore and issues on Governance continued to evolve in 2013.

(i) Revised Code of Corporate Governance

The Revised Code of Corporate Governance was put into effect in 2013. Our position on some of the major issues has already been reflected in our 2012 Annual Report. These are also included in this annual report under the section 'Corporate Governance'.

(ii) The Companies Act

The Singapore Government is seeking further public views on the proposed amendments to the Companies Act with a Draft Companies (Amendment) Bill 2013 comprising 55 consultation questions. As at the end of 2013, the Draft Bill had yet to reach Parliament.

(iii) Board Diversity

Diversity of board representation is becoming a subject of public interest and debate.

REVENUES AT A GLANCE

Singapore	United Kingdom	Australia	China	Ireland	Vietnam	Malaysia
S$ 2,229.8m	S$ 788.1m	S$ 485.0m	S$ 220.1m	S$ 14.2m	S$ 6.3m	S$ 4.2m

The 2013 Singapore Board Diversity Report indicated that some companies with meaningful female director participation have enjoyed better returns on assets and returns on equity, although not necessarily on market value. The 2013 Report, which was undertaken by the National University of Singapore Business School's Centre for Governance, Institutions and Organisations and Board Agender, an arm of the Singapore Council of Women's Organisations, found that of the 677 Singapore Stock Exchange (SES) listed companies studied, 7.9% of the total number of board directors were women compared to 7.3% in 2012 and 6.9% in 2011.

Meanwhile, the Singapore National Employers Federation and the Singapore Institute of Directors have embarked on a survey to address gender diversity issues.

A Task Force, initiated by the Speaker of Parliament when she was then the Minister of State for Social and Family Development, and comprising the former Chairman of the SES, its present Chief Executive Officer (CEO) and three prominent women directors, is expected to publish its report on gender diversity in senior management and its impact on corporate performance and governance in 2014.

(iv) Stock Exchange

In Singapore, where we are listed, there were still a few cases of insider trading with the culprits punished accordingly. In the investment scene, a shortselling research house which cited huge negative cash flows of an SGX-listed company, resulted in a sharp fall of 20% of the market price of the company. This is the first time that such an attack happened in Singapore. In yet another case, an American research house accused another SGX-listed company of fabricating sales figures. This had also resulted in the company's share price diving by an even higher 50%.

(v) Audits

We conducted 21 internal audits during the year, eight of which were of our overseas units. The approach is still risk-based. All our three listed companies were covered. The overall outcome is that strong internal control systems are in place within the Group. There were no major issues of concern.

I also continued my practice of meeting the External Auditors and Chairmen of all our three Audit and Risk Committees (ARC) without the presence of Management. This was conducted over and above the meetings which our three ARCs held with our External Auditors and Internal Auditor, also in the absence of Management. All parties were happy with the activities undertaken and the assistance provided by Management in the course of their work.

(vi) Rankings and Awards

We continued to be one of the 30 component stocks of the Straits Times Index (STI). All our three listed companies ranked highly in the 2013 Business Times Governance and Transparency Index. Of the 663 companies covered, we ranked in the top 10% with ComfortDelGro Corporation Limited ranked 35th, VICOM Ltd 52nd and SBS Transit Ltd 57th.

At the 2013 Singapore Corporate Awards, VICOM won the Best Investor Relations Award (Bronze) for companies with a market capitalisation of between S$300 million and S$1 billion. At the 2013 Securities Investors Association of Singapore (SIAS) Investors' Choice Awards, ComfortDelGro won the "Most Transparent Company Award" in the Travel, Leisure and Automobiles and Parts Category while SBS Transit was the Runner-Up in the "Singapore Corporate Governance Award" in the Mid-Cap category.

SINGAPORE BUSINESS

Intensive efforts continued to be made by the Singapore Government to improve public land transport services. The rollout of the S$1.1 billion Bus Service Enhancement Programme (BSEP), which commenced in September 2012, intensified during the year with the introduction of new bus routes and the addition of new buses to existing routes.

More bus lanes, full-day bus lanes and bus bays under the Mandatory Give-Way to Buses Scheme were also added. More City Direct bus services connecting major Housing and Development Board towns to the City were introduced. The Land Transport Authority's two public tenders in this area on this were completed in 2013. Our unscheduled bus subsidiary, ComfortDelGro Bus Pte Ltd, was successful in both tenders. Towards the end of the year, a third tender was announced.

The first stage of Singapore's newest Mass Rapid Transit (MRT) line, the Downtown Line (DTL), commenced operations in late December 2013. Operated by our listed subsidiary, SBS Transit, it began revenue service on six stations serving mainly the Central Business District. Demand on this Line has been encouraging.

As part of the Government's drive to reduce congestion problems and to make public transport travel more conducive, organisations have been encouraged to stagger their operating hours. The Government also gave free travel at selected MRT stations during pre-peak morning hours in an attempt to adjust travel patterns.

The 2008 Land Transport Master Plan (LTMP) was reviewed and a refreshed Plan was released. Under the revised 2013 Plan, the rail network will double to 360km in 2030 from the present 178km. Two new major lines will be introduced – the Cross Island Line (50km) and the Jurong Region Line (20km).

The Fare Review Mechanism Committee released its long-awaited Report during the year and the Government had accepted all its recommendations. The overall emphasis is to keep public transport fares affordable and the public transport system financially sustainable. The New Fare Formula has been slightly modified with the addition of a new energy component. Instead of using the consumer price index for all items, a core consumer price index which excludes accommodation and private transport has been incorporated. The wage index and the productivity extraction have however been retained. Another feature of the New Fare Formula is a flexible mechanism that allows for the rollover of unused fare adjustments to the following year. Of significance is the mandatory contribution by the operators to the Public Transport Fund. This has been set at between 20% and 50% of the increase in fare revenue. The New Fare Formula is applicable for the period 2013 to 2017.

In the first year of implementation of the New Fare Formula, the Public Transport Council had increased the 2014 fares by 3.2%, a figure lower than the average national wage rise as indicated by the Minister for Transport. It also carried over the remaining 3.4% to the following year in accordance with the New Fare Formula. More details of these appear in SBS Transit's Annual Report.

In the case of taxis, I had mentioned in my last report that a taxi availability standard was introduced in January 2013 in which 70% of taxis were required to be on the roads for a minimum mileage of 250km a day. We had no difficulty in meeting this requirement. In 2014, the target will be increased to 80%. By 2015, the percentage will be further increased to 85%.

Under the new regulations, taxi operators which meet the standard are permitted to expand their fleets by 2%. Our two brands, Comfort Transportation and CityCab, were therefore allowed to expand their fleets in the first half year of 2014. Of the four taxi operators which came into the market place after the deregulation of the taxi industry in 2002, none was able to make the grade and one even bowed out of the scene completely when it was unable to meet the stipulated minimum of a fleet of 800 taxis.

The stated policy of reducing the growth rate of new Certificates of Entitlement (COEs) has pushed up the cost of car ownership in Singapore. This has increased the cost of operation for our taxi operations but has conversely benefitted our vehicle inspection business as more car owners kept their vehicles longer.

In 2013, all our businesses in Singapore continued to perform satisfactorily under an environment of slower growth.

Our scheduled bus operations in Singapore continued to incur losses during the year despite ridership growth as operating costs increased. Preparation for the launch of the DTL Stage One went on full gear in the year under review. The North East Line and the two Light Rail Transits continued to generate increased revenue. Full details of our scheduled bus and rail operations appear in our listed SBS Transit's Annual Report.

Our taxi operations continued to perform well in the competitive environment. It maintained its leadership position. The fleet increased in size during the year to cater to higher demand. Its supporting facilities like the call centre were expanded resulting in a very high rate of automation use, and improving productivity and efficiency. More cashless transactions in taxi fare payments were done and with more credit and debit cards.

Our testing services business continued to surpass last year's performance. Full details appear in our listed VICOM's Annual Report.

The remaining businesses in the Group – unscheduled bus, car rental and leasing, driving school, automotive engineering, vehicle advertising and insurance broking – continued to perform satisfactorily during the year.

OVERSEAS BUSINESS

(i) Divestments and Acquisitions

We constantly review our overseas investments. We will not hesitate to rectify situations which have turned unfavourable and to exit businesses which have poor returns. This is evidenced by our exit from our bus investments in Shenyang. We also sold our car distribution business in Suzhou because of thinning margins.

We continue to expand our taxi fleets in China when opportunities present themselves. In 2013, we were successful in public tenders in two cities. Nanjing secured 82 new taxi licences through a tender, thereby expanding our fleet from 560 to 642. We also rented, with an option to purchase, a 6,667 sq m piece of land to house all our taxi operations under one roof. Nanning also acquired 29 new taxi licences to expand our fleet from 775 to 804. Our Jilin taxi operation also acquired an 18,000 sq m site for the development of an integrated taxi service.

In Melbourne, Australia, we bought five bus routes and 42 buses for S$26.2 million from Driver Group Pty Ltd. We retained our New South Wales (NSW) Metropolitan Bus service contracts in Region 4 where we are now the sole operator with 500 buses. In Perth, Swan Taxis Pty Ltd benefitted from new taxi plates released by the Government. We increased our taxi fleet from 2,049 to 2,070.

In the United Kingdom (UK), we bought the West London bus operations from the First Group plc for S$111.1 million. This was a very rare opportunity given how infrequent bus operations in Central London come up for sale. The business operates from five garages and has a fleet of 494 buses with about 1,700 employees. With this acquisition, our market share in London has risen from 14% to about 18%. We now rank third in London.

(ii) Business Operations

We continue to have investments in 12 cities in China (Beijing, Chengdu, Chongqing, Guangzhou, Hengyang, Jilin, Nanning, Nanjing, Shanghai, Shenyang, Suzhou and Yantai). We continue to have businesses in six areas such as taxi, bus, bus depot, car rental and leasing, vehicle inspection and driving school services.

In the taxi business, we operate in nine cities with a total fleet size of 10,752. This is a net gain of 124 or 1.2% over 2012. The combined fleet size in China is about 65% of our size in Singapore. The increases were confined to four cities: Nanjing (82), Nanning (29), Beijing (25) and Chengdu (20). We are leaders in Nanning (16% market share) and Jilin (14% market share), second in Chengdu (7% market share), third in Beijing (8% market share) and Shenyang (6% market share), fourth in Nanjing (6% market share) and sixth in Suzhou (4% market share).

The taxi sector is still the biggest contributor to revenue amongst our businesses in China. Operating costs in China are on the rise with different incentives for hirers at different locations. Some expect operators to provide wages to the hirers together with paid leave. Some expect operators to provide fuel subsidy.

Our bus depot business in Guangzhou continues to increase its profitability. There are challenges ahead as more high speed rails linking Guangzhou with other cities are introduced. There is also the added problem of a slowdown in passenger and cargo traffic as industries continue to move out of the Pearl Delta area.

We operate scheduled bus, coach, taxi circuit and private vehicle hire businesses in the UK and Ireland. We operate in seven cities: Aberdeen, Birmingham, Dublin, Edinburgh, Glasgow, Liverpool and London. In the scheduled bus business, the most significant event during the year was the acquisition of the five garages and routes previously operated by the First Group in London. The business has been renamed Metroline West Limited to distinguish it from Metroline Travel Limited. We now have 1,702 buses in London. This is about 43% of Singapore's fleet size. The two London operations did well in 2013.

In the coach business, we have an operation in London, an inter-city operation between Scotland and London as well as coach services within Ireland linking Clifden, Cork, Dublin, and Galway. The coach business is doing well.

The taxi circuit business continued to face challenges given the difficult business environment. It has also been competing fiercely with the private vehicle hire business as a result of austerity measures undertaken by corporations.

In Australia, we continue to operate in three business areas – bus, taxi circuit and vehicle advertising – in five cities namely Canberra, Melbourne, Perth, Queanbeyan and Sydney. The bus operations are in Melbourne, Queanbeyan and Sydney. The combined fleet size in Australia of 1,640 buses is about 41% of Singapore's fleet size. The business is doing well.

Swan Taxis in Perth continued to perform up to our satisfaction, growing about 1.8% in 2013. The vehicle advertising business in Australia is small and still in its infancy stages. The largest contributor among the business operations in Australia is the bus business.

The taxi business in Ho Chi Minh City, Vietnam and the car rental business in Kuala Lumpur, Malaysia, continued to be profitable. Their contributions to total overseas revenue were relatively insignificant.

Of the three major overseas destinations, the UK/Ireland segment accounted for the majority share of 53% in total overseas revenue, followed by Australia at 32% with China at 15%.

In the Group's bus business, overseas revenue accounted for about 62% of total bus revenue while operating profit accounted for close to 92%. It was the reverse in the case of the taxi segment with overseas accounting for 25% of the Group's total taxi revenue and 34% of the Group's total taxi operating profit.

MANPOWER

Manpower is a very critical issue in our business. In 2013, we had 21,042 staff on our payroll, an increase of 3.8% over 2012. The increase was due primarily to our major bus acquisition in London as well as our build-up for the operation of the DTL in Singapore.

Overall staff profile remains unchanged with Singaporeans taking up 28% of our total workforce. Others are Malaysians (18%), British (14%), PRC nationals (12%) and Australians (10%). 46% of our staff are based outside Singapore.

In Singapore, we continue to face manpower shortages especially in the bus business. An increase in the wages of Bus Captains (BC) helped to alleviate some of the pressure resulting from the rollout of the BSEP programme.

There were three significant manpower developments in Singapore in 2013. The first was the extension of our retirement age from 65 years to 67 years. The second was the introduction of the Personal Data Protection Act in January 2014. Under the Act, two elements are of importance to us. These are personal data protection which will be enforced in July 2014 and the "Do Not Call" registry which came into effect in January 2014. As required by the Act, respective Data Protection Officers have been appointed by the respective business units. The third development is the push for the unionisation of the PMEs (Professionals, Managers and Executives).

Rising wage bills are expected in all our operations.

INFORMATION TECHNOLOGY

Besides manpower, information technology (IT) is another issue that is of importance to our business. We invested close to S$16 million in IT in 2013 for the purposes of revenue growth, customer service quality and operational efficiencies. The amount spent on capital expenditure represented 0.24% of our total revenue. In 2012, it was 0.20%.

In 2013, IT security in the Group was enhanced to provide a multi-tier defence protection for our IT services and applications against a new breed of malware and cyber-attack threats that had emerged globally.

The booking and despatch system of Singapore's taxi business was enhanced to increase the capacity as well as to improve the call centre efficiency and cater rates for customer bookings. Automated bookings now account for 88% of all bookings.

The Intelligent Route Information System or *iris* app reached over one million users in Singapore in 2013. This system is also used to communicate rail and bus service disruption notifications to commuters.

In UK, all the taxi operations outside London are being upgraded with the MT Data taxi booking and despatch systems. This system is also used by Swan Taxis in Perth.

FINANCE

I am very pleased to report that 2013 was another successful year with total Group revenue growing by 5.7% to S$3.75 billion. Group operating profit rose slower than revenue but still achieved a respectable 3.4% growth to S$426.3 million. Both bus and taxi sectors continued to top the revenue figures at 50% and 32% respectively of total Group revenue, with the bus business accounting for a larger chunk of the increase in Group revenue compared to previously. Combined, these two businesses accounted for 82% of total Group revenue.

In Group operating profit, both bus and taxi sectors took top spots with 37% and 34% respectively of total Group operating profit. Bus business made a bigger contribution compared to 2012, improving by about 2% points.

Our overseas operations accounted for about 41% of total Group revenue, similar to the 2012 contribution, while overseas operating profit accounted for close to 49% of total Group operating profit, compared to 46% previously. In fact, the strong Singapore dollar had brought down these overseas figures.

In the bus business, the combined operations in London and Australia outshone the Singapore numbers in both revenue and operating profit. Overseas revenue in bus was 62% of total Group bus revenue while operating profit was 92% of total Group bus operating profit. These were 1% point each higher than 2012. It was a different phenomenon in the taxi sector in which the overseas segment took up 26% of total Group taxi revenue and operating profit contributed 34% of total Group taxi operating profit. This compared to 27% and 34% respectively in 2012.

Profit before tax in 2013 was S$414.3 million. This is 4.6% better than 2012. Correspondingly, net profit attributable to shareholders was S$263.2 million. This is also 5.7% better than 2012. Earnings per share in 2013 was 12.43 cents compared to 11.89 cents in 2012. This is 4.5% better. Net asset value per share reached 101.37 cents in 2013. This is 5.83 cents or 6.1% higher than 2012. Returns on both equity and total assets were 12.64% and 6.64% respectively.

Our Group capital expenditure in 2013 was S$500.1 million. This is 3.8% lower than 2012. The bulk of the capital expenditure was in Singapore.

Overseas investment in 2013 was higher than 2012 at S$137.3 million. This is due to the large bus acquisition in London, as well as the smaller bus acquisition in Melbourne, Australia.

The Balance Sheet of the Group continues to be strong. Total assets stood at S$5.08 billion as at the end of 2013. This is S$238.9 million or 4.9% higher than 2012. Total shareholders' equity without minority interest had risen by 7.3% to S$2.15 billion. The Group's total borrowings was S$807.9 million, 14.8% more than 2012. There was however a net cash position of S$22.7 million compared to a net debt position of S$9.0 million a year ago. The Group's gross gearing ratio was 28.9% as at 31 December 2013 compared to 26.7% as at 31 December 2012.

Your Directors have recommended a tax-exempt one-tier final dividend of 4 cents per share. This will be subject to Shareholders' approval at its Annual General Meeting on 25 April 2014. Together with the tax-exempt one-tier interim dividend of 3 cents per share paid earlier, the total dividend for 2013 would be 7 cents per share. This is in line with our declared policy of paying at least 50% of our profit as dividend. The 2013 figure represents about 56.5% of our payout ratio. Against the year-end price of S$2.01, this gives a dividend yield of 3.48%.

INVESTOR RELATIONS

We continue to have an active investor relations programme. Our investor relations unit held 135 meetings with research houses and analysts in 2013. We also participated in seven investor conferences and non-deal roadshows in Singapore, Hong Kong and Tokyo. More than 120 reports were issued by 13 research houses on our Group.

All our Shareholders are kept fully informed of significant activities that have bearings on investment. Our websites are updated regularly and public announcements are made promptly. Our dates of releasing our quarterly results are made in advance. Our annual Shareholders' Meeting is well publicised via the release of our Annual Report. The Shareholders' Meeting is held transparently with the Board of Directors in full attendance. Voting of resolutions is done by polls electronically and in a very transparent manner.

At the end of 2013, our market capitalisation was S$4.272 billion. This is an increase of 14.2% over 2012. We were placed at 41st position out of over 800 listed companies in Singapore compared to our 47th position in 2012. We outperformed the ST Index and FTSE ST All-Share Index by 12.9% and 13.9% points respectively.

CORPORATE COMMUNICATIONS AND SOCIAL RESPONSIBILITY

In the nature of our land transport business, we are in contact with commuters and passengers daily. In every one of our locations, be it Singapore or overseas, specific staff are assigned to handle this subject. Whether we are in the right or wrong, we respond to every query and occurrence promptly.

In the area of corporate social responsibility, we continued to focus on extending a helping hand to the community, the poor, the sick, the underprivileged and the aged.

In Singapore, we are now in the fourth year of our five-year partnership with Lions Befrienders Service Association (Singapore). Through it, we continued with the Home Improvement Programme to help the elderly by improving the quality of living. In UK, the Memorandum of Understanding with Brathay Trust entered its second year to help reduce anti-social behaviour amongst vulnerable youths through education and mentorship. Metroline also continued with its Wheel Power! initiative that mobilises and coordinates skills available in the Company to promote volunteerism within the London community.

CHAIRMAN'S STATEMENT

In China, we pledged to help another school in a remote village to upgrade its facilities including adding air-conditioning, a new library and playground. We also made cash donations in Ya'an, Sichuan, when the earthquake struck earlier in 2013.

In Australia, we worked with the NSW police to promote safety on board buses for children.

We provided free train rides to the elderly residents from Kwong Wai Shui Hospital in Singapore. We also provided free taxi rides to the needy including poor families, chronically-ill children, the disabled and their families. For the Handicaps Welfare Association, we waived booking charges for taxi trips. We provided engineering maintenance services to charitable organisations at subsidised rates. In China, we provided free taxi rides to needy students during the National Education Entrance Examination as well as blood donors and the disabled. Free travel vouchers were provided to charities in Scotland. In Melbourne, free two-way transfers for volunteers of the Salvation Army and the Red Cross Society were provided throughout the year. In Sydney, we provided discounted charters to schools.

In the area of environmentalism, practically all our operations are equipped with vehicles that are of Euro 4 or 5 standards. In China, we continued to care for the trees we planted to offset the carbon footprint of the vehicles bought. In UK, we upped our Green quotient by taking on not just one but two carbon-offsetting projects.

Earth Hour continued to be observed throughout the Group.

CHALLENGES

Singapore is in a state of change. The land transport business is undergoing unprecedented expansion to cope with the increased population. Manpower shortage is becoming critical. We are therefore faced with the singular problem of balancing wages with the shortfall in headcount. All eyes continue to be glued on any impending changes to the Employment of Foreign Manpower Act, Industrial Relations Act and Employment Act.

As the Authorities began to implement the 2013 Land Transport Master Plan and the New Fare Formula, contestability in bus and rail operations is expected. Contestability trials are ongoing and their eventual outcomes will have consequences on our future business decisions and models.

The global scene is expected to remain uncertain. While overseas expansion continues to be our focus and attention, intense competition is also expected. Rising costs in developing and developed economies will continue to reign.

The search for vehicles with better emission continues to rank high on our list of priorities as protection of the environment is of paramount importance to us. We are also keeping a keen eye on the commercialisation of driverless vehicles.

We continue to employ technology in all our businesses, with a view to update and improve all the time.

We are only as good as our staff which is why their welfare and well-being is never compromised.

In meeting the high standards laid down by the Authorities, we have to strike a balance with the expectations of our commuters as well as our Shareholders.

APPRECIATION

I wish to thank Managing Director/Group CEO Kua Hong Pak for his exemplary leadership, extreme perseverance, hard work and determination in managing and guiding the Group under challenging conditions, both locally and abroad. I also wish to thank all our staff for their commitment, sacrifice and hard work in delivering their services.

My appreciation also goes to my fellow Directors for their understanding, cooperation and assistance as we face mammoth challenges in an evolving corporate environment and amidst new business conditions.

My gratitude also goes to the various Governments and Authorities for entrusting us the responsibility of delivering important land transport services to the populations and the communities we serve.

To the Unions in the countries where we operate, thank you for your understanding and continued cooperation as we work together to look after the welfare and well-being of our staff.

To the Customers we serve, thank you for your continued support.

I am very confident that we will continue to grow and overcome the challenges that mark our path.

LIM JIT POH

Chairman
February 2014