CHAPTER ONE

COMFORT

+

A PERFECT MATCH

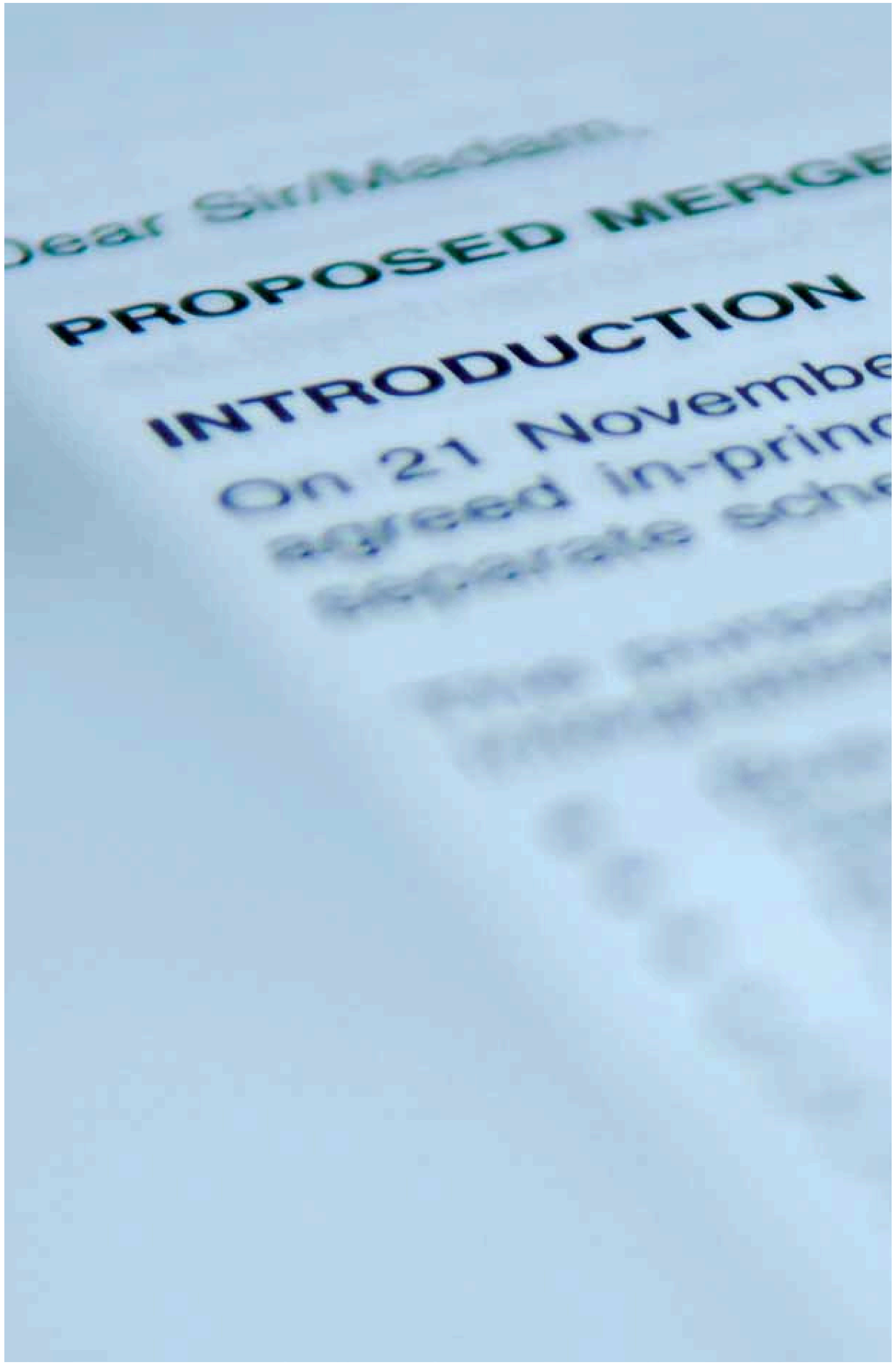
DELGRO

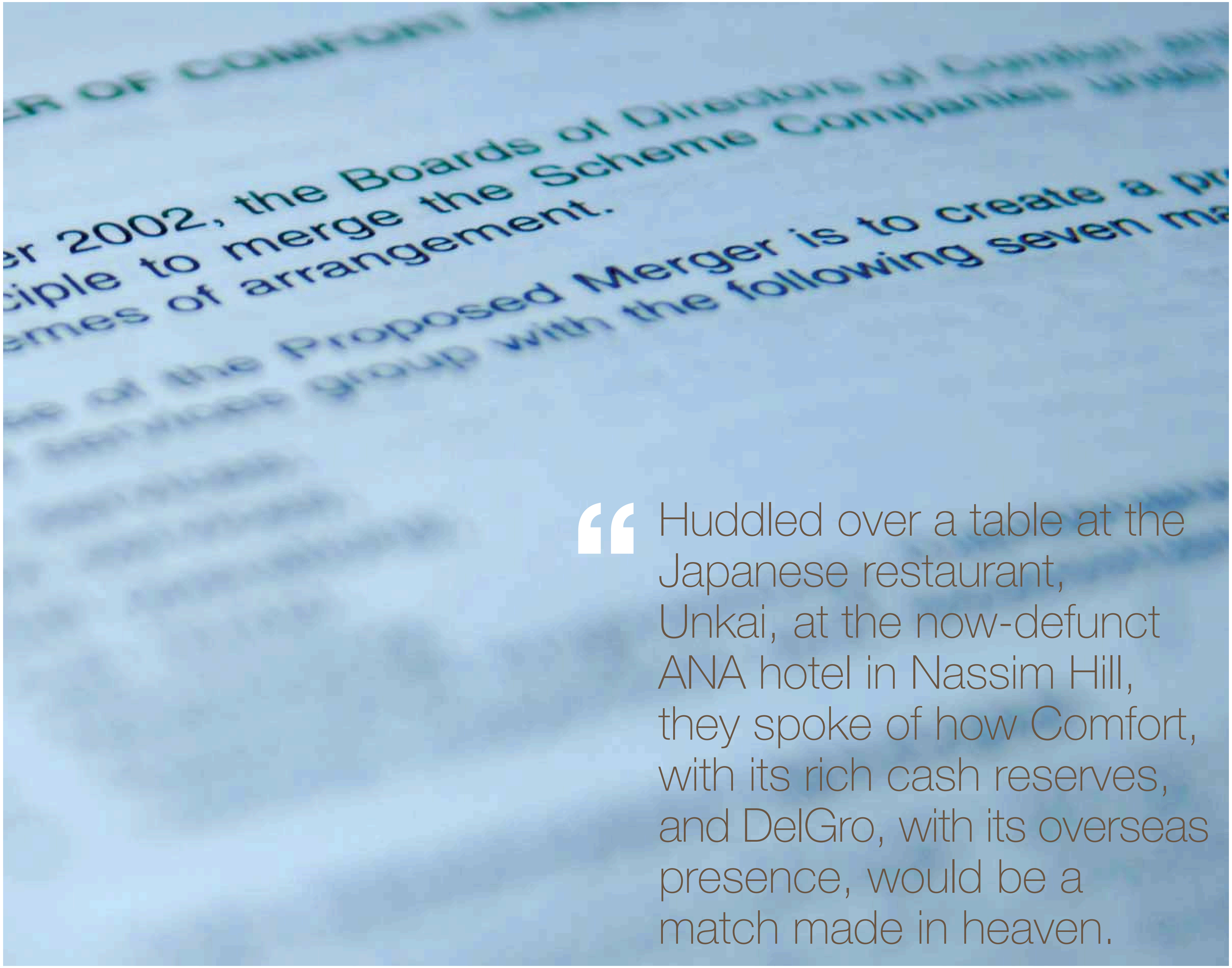
THE TWO MEN PRETENDED IT WAS JUST DINNER: SUSHI AND SAKE BETWEEN TWO FRIENDS. BUT FOR A YEAR, LIM JIT POH AND KUA HONG PAK WERE ACTUALLY PLANNING AN IMPORTANT DEAL – A MERGER WHICH WOULD RESULT IN ONE OF THE WORLD'S LARGEST TRANSPORT COMPANIES.

Huddled over a table at the Japanese restaurant, Unkai, at the now-defunct ANA hotel in Nassim Hill, they spoke of how Comfort, with its rich cash reserves, and DelGro, with its overseas presence, would be a match made in heaven.

But as both companies were listed and had operations which had a large impact on the everyday lives of Singaporeans, the two gentlemen knew that they had to tread carefully. That meant that meetings had to stay secret to everyone – the media, the stock markets and shareholders – until they were ready to announce a proposal to merge the two companies.

On 21 November 2002, they were.





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AN IDEA BORN

The idea to marry the two companies was born in late-2001, a year before the merger proposal was announced. It began in the minds of two men who sat on the boards of companies which were increasingly shaping up as rivals: Mr Lim, then Chairman of Comfort Group and Non-Executive Director of DelGro, and Mr Kua, who sat on the DelGro board.

Comfort, which was formed from an old transport cooperative under the wings of the National Trades Union Congress (NTUC), was Singapore's biggest taxi operator with a fleet of 11,340 vehicles under its Comfort and Yellow-Top brands. It also had 401 buses plying unscheduled routes.

DelGro, the parent of SBS Transit, the No.1 bus operator in Singapore with 2,872 buses then, also ran a fleet of 5,116 CityCab taxis.

The two companies were different – and yet similar in so many ways.

A common vision was born.

Mr Lim, now ComfortDelGro's Chairman, explained: "If Comfort and DelGro hadn't merged, five years down the road, where would they have been? In the case of Comfort, depending on the taxi business in the limited local market meant not being able to achieve economies of scale to boost profitability and get better deals on fuel that we could pass on to our taxi drivers as subsidies."

Mr Kua, ComfortDelGro's Managing Director and Group Chief Executive Officer, added: "We wanted to grow the organisation. We wanted to put it together so that we would have the financial strength, the credibility, and the image to really compete on the global stage and make our presence felt in a meaningful way. As smaller players, when we go abroad, no one takes us seriously.

"Not only that, Comfort and DelGro were competing against each other and some people were asking, "Why are we doing this? The Koreans don't do this, the Japanese don't do this, why are Singapore companies doing this?"" he said.

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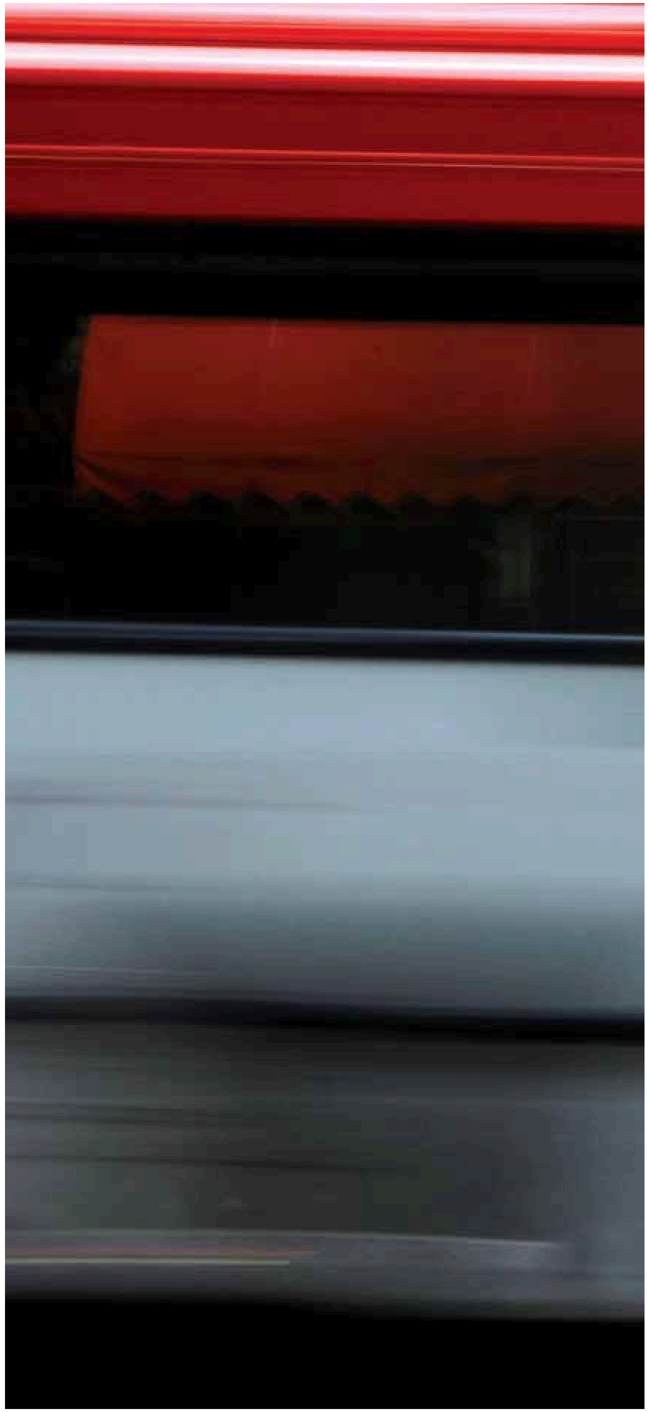

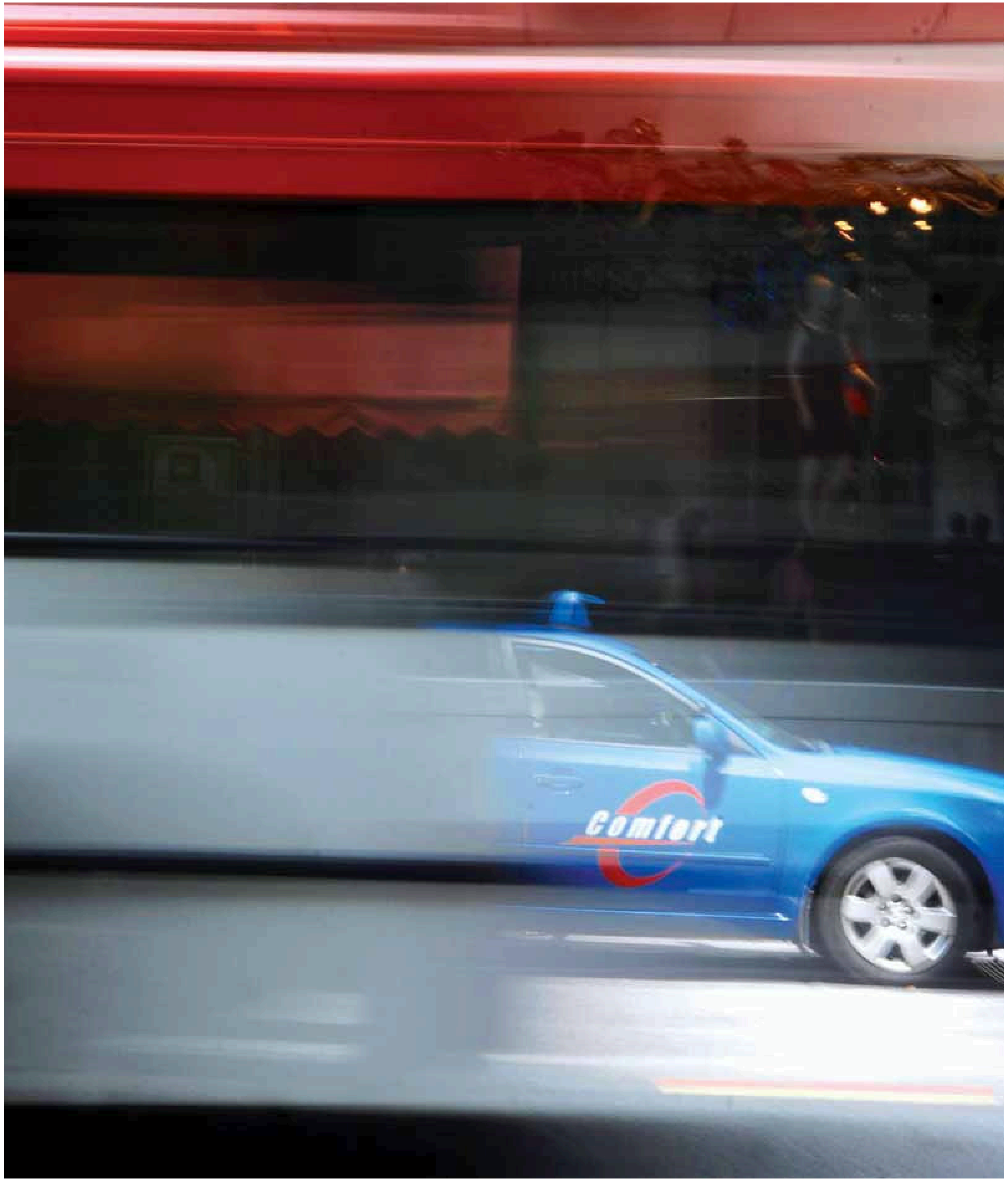

Mr Lim was also unhappy with the pace at which Comfort was expanding overseas. At the time of the merger proposal, Comfort had invested a mere S$33 million abroad.

"The people running our overseas operations were satisfied with having only 50 taxis in Xiamen, 50 in Suzhou," he said.

"As Non-Executive Chairman, I was not very happy. I set a target – S$100 million for expansion. I tried to change the mindset. I told them that so long as they could get better returns than a fixed deposit rate, I would be quite happy but they had to have at least 200 taxis per overseas entity, not 50."

DelGro, in contrast, had been growing its overseas presence but was facing significant challenges managing these overseas operations.

"So, we sat down and mulled over it. Why not put Comfort and DelGro together?"

WHEELS IN MOTION

DelGro had no dominant local owner but Comfort's biggest shareholder was the Singapore Labour Foundation (SLF).

Given Comfort's ownership, the green light to go with the merger had to come from the SLF. And so Mr Lim and Mr Kua approached the then labour chief, Mr Lim Boon Heng, Secretary-General of the National Trades Union Congress (NTUC) and Deputy Chairman of the SLF.

They asked: "Can we proceed?"

The answer? Yes.

Recalling the events, Mr Lim Boon Heng, now Minister in the Prime Minister's Office, said: "I thought it was an interesting proposition. The NTUC had vested its shares in Comfort to the SLF. Those shares had grown in value, and accounted for a majority of the assets of SLF.

"The merged entity would be more efficient in the use of manpower resources, and financially stronger than each individual company," he said.

With the blessing of the single biggest stakeholder, Mr Lim and Mr Kua then had to gain the support of the two companies' Board of Directors.

Dr Ho Kah Leong, a former board member of Comfort, said that the idea of a merger "did not come as a shock" to him.

The former Senior Parliamentary Secretary of the Ministry of Communications, Information and the Arts, said: "When I was in the Government, we had been discussing how to rationalise the transport system. This merger seemed a good way of streamlining. Under one big company, we could do so much more. I was all for the merger – to me, it was all quite straightforward. Of course, there were the details about how to deploy the manpower, the technical problems and so forth.

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...We both agreed that Comfort and DelGro combined together was a beautiful name.

“But for the major issues, there was no disagreement,” he said.

To get things in motion, Mr Lim and Mr Kua set up a S$2 company with a single share each. These shares were then subdivided into eight equal shares in the new company.

Said Mr Lim: “Had we been greedy and started out with S$100,000 instead of S$2, we would have become millionaires.”

In deciding the name of the new company, both men decided to go with first principles.

Said Mr Lim: “The old SBS (Singapore Bus Service) spent S$1 million on external consultants to change its name to DelGro. We didn’t want to spend that kind of money. We both agreed that Comfort and DelGro combined together was a beautiful name.”

And so it was all systems go. Mr Lim and Mr Kua knew that there was no time to waste. The secret, so well kept for a year, was in danger of slipping out. Working almost all night long on 20 November 2002, the boards of the two companies met to come up with a seven-page press statement to be released the next day.

Recalling the late night meeting, Ms Nancy Teo, who was then Chief Executive of the SLF, said: “It was a good meeting, chaired by Mr Lim. Both sides were free to express their views. I could sense that we all felt that we were at the threshold of a new era.

“Together with the others, I was convinced of the benefits of the merger. I just hoped that the public and shareholders would feel the same on reading the news.”

SURPR!SE ANNOUNCEMENT

THE PRESS RELEASE ANNOUNCING THE MERGER PROPOSAL ON 21 NOVEMBER 2002, TOOK THE MEDIA AND THE STOCK MARKETS COMPLETELY BY SURPRISE. SURE, THERE HAD BEEN TALK OF A POSSIBLE TIE-UP WHEN THE SHARES OF COMFORT AND DELGRO, AND THEIR TWO LISTED SUBSIDIARIES, SBS TRANSIT LTD AND VICOM LTD, WERE SUSPENDED THE DAY BEFORE THE ANNOUNCEMENT, BUT NO ONE FIGURED IT WOULD BE ON SUCH A LARGE SCALE. THE BUSINESS TIMES HAD, FOR EXAMPLE, SPECULATED ON A MERGER OF THE FIRMS' VEHICLE ASSESSMENT CENTRES.

How wrong they all were.

Not surprisingly, the news made the headlines in all newspapers. A transport giant was to be born, they said.

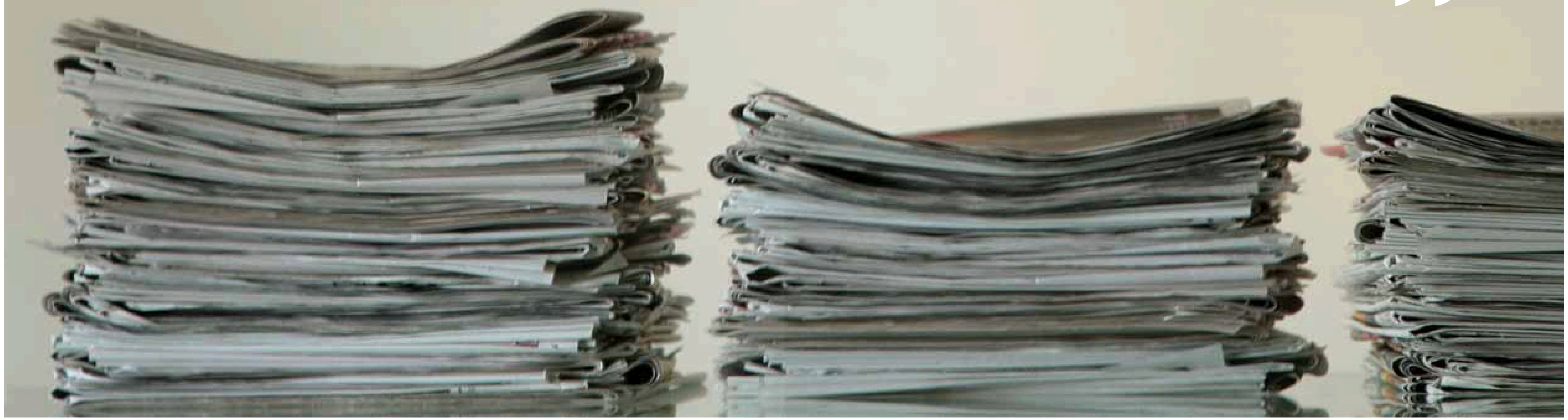
But not everyone was convinced and the skeptics were out in full force.

> "However, uncertainty over ridership and earnings looms. One analyst who requested anonymity said the delay in the north-east MRT line could have a significant impact on DelGro's bottom line this year.

The Business Times, Wednesday, April 2, 2003

"The main thing was that people were unhappy with the share swap ratio," said a prominent shareholder who insisted on anonymity. "They felt that the merger was a good thing, but Comfort shareholders could have gotten more shares in the new company."

The Business Times, Wednesday, March 20, 2003

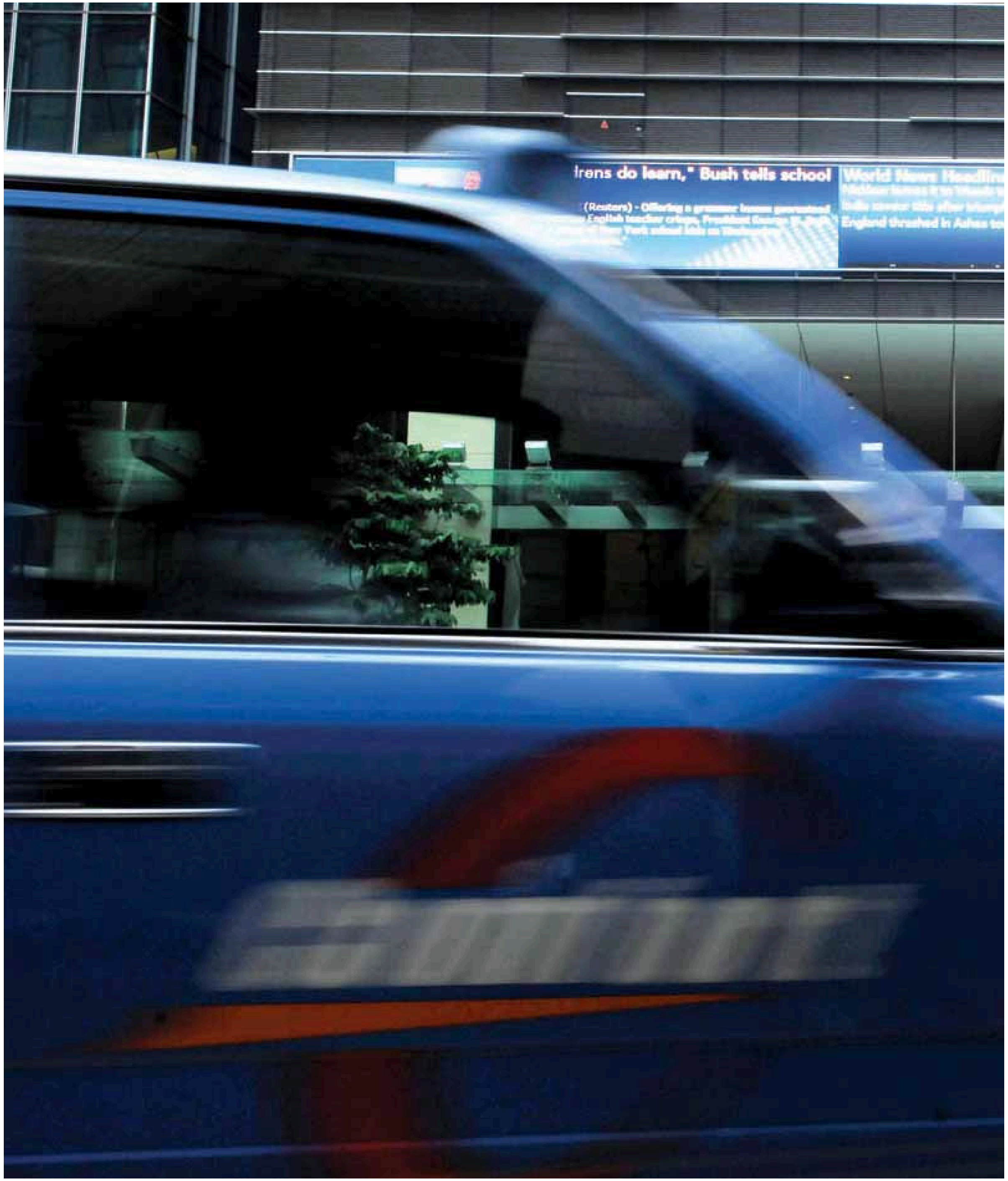


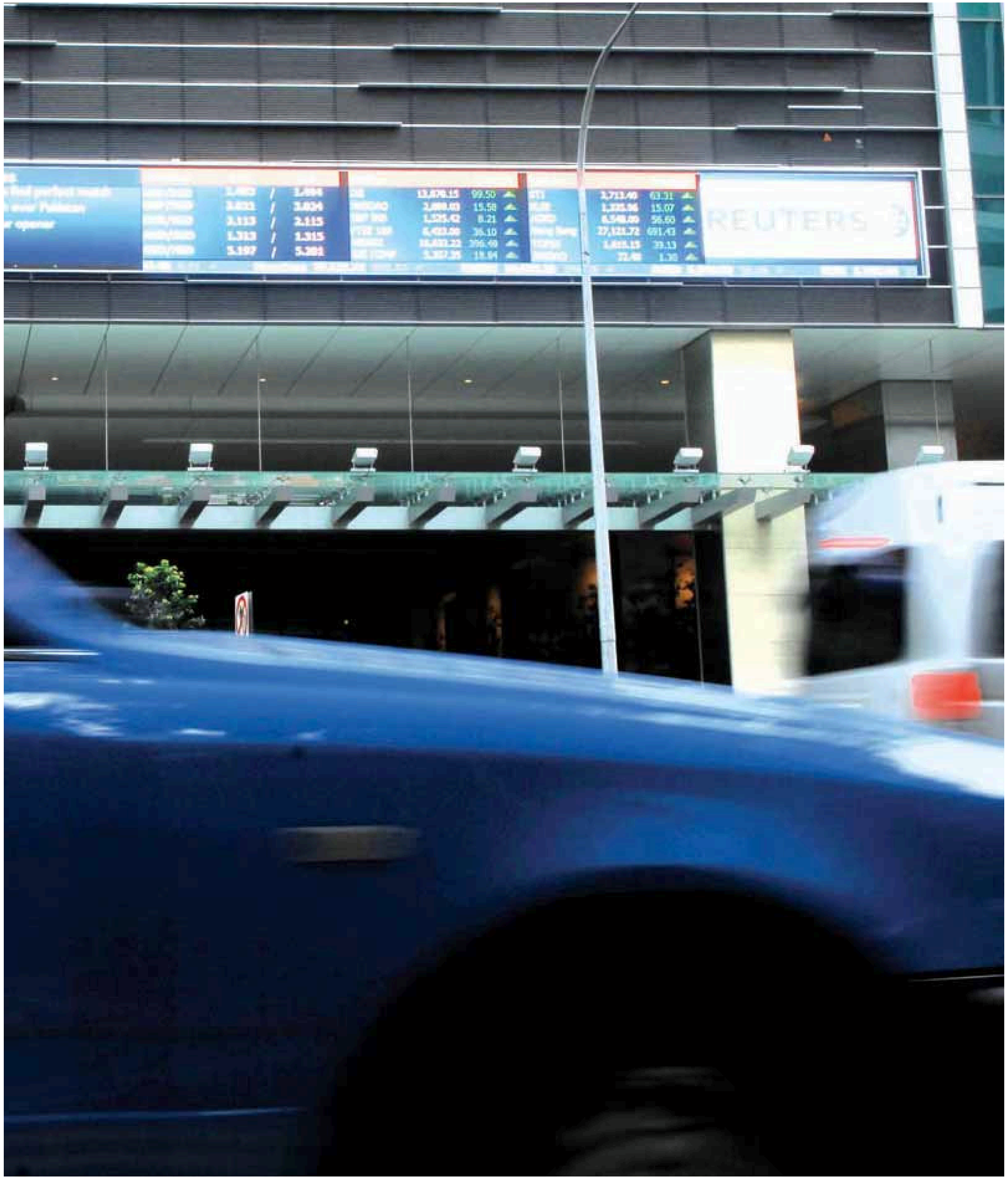
As Mr Lim puts it, it was "full of heartache and headache."

One of the most vocal was transport correspondent Christopher Tan, who was then with the Business Times. Using DaimlerChrysler and SMRT as examples, Mr Tan noted that mergers do not always work out well for shareholders. DaimlerChrysler stock has been trading at less than half the value of Daimler-Benz, prompting at least one prominent shareholder to sue for dissolution. In the Singapore context, the scribe cited the example of the SMRT-Tibs merger of 2001. By November of 2002, Tibs' share price had plunged from S$2 pre-merger to 65 cents, trading as SMRT Corp.

Shareholders too, had their misgivings. Comfort's shareholders felt they had less to gain than their counterparts in DelGro. Comfort was almost debt-free, more profitable than DelGro and paid out more bonuses to its shareholders. A merger with a less profitable entity, Comfort's shareholders felt, would result in the group's overall rates of return being lowered.

In the words of Mr Tan, Comfort shareholders were marrying into a "bigger but poorer family".





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Another group of stakeholders who was unhappy were the commuters.

Many wrote to the forum pages of the local newspapers urging the Public Transport Council to look into the effects of the merger before giving the green light.

One felt that the merger was not necessary to enjoy cost savings. He asked: “Could these economies of scale be reached by the existing firms on their own through internal growth? Are they already at a maximum now due to the current sizes of the two firms?” He also wanted a guarantee that any cost savings generated by the merger would be “directly passed on to consumers”.

Even the Government was apprehensive.

Reflecting on the chain of events, Mr Yeo Cheow Tong, who was Transport Minister at that time, admitted that he had “mixed feelings”.

“On one hand, I was concerned that this would result in the creation of a very dominant taxi operator, and stifle the development of the taxi industry. I am a firm believer in the benefits of competition, as competition spurs the players to do better, to innovate, and to provide better services to customers. On the other hand, having a larger operator may give it greater resources to explore and introduce new technologies aimed at improving the service level to consumers, as well as improving the welfare of its taxi drivers,” he said.

But Mr Lim and Mr Kua were not daunted.

Together with a few support staff, they set out to key financial centres in London, Edinburgh and Hong Kong to convince foreign shareholders and fund managers of the benefits of the proposed merger. Conference calls were also made to other shareholders in New York, Tokyo and Luxemburg.

It was, in Mr Kua’s words, a lot of hard work, “talking morning to night until my voice was totally gone”.

But it was worth it. On 19 March 2003, shareholders of both Comfort and DelGro voted overwhelmingly for the merger.

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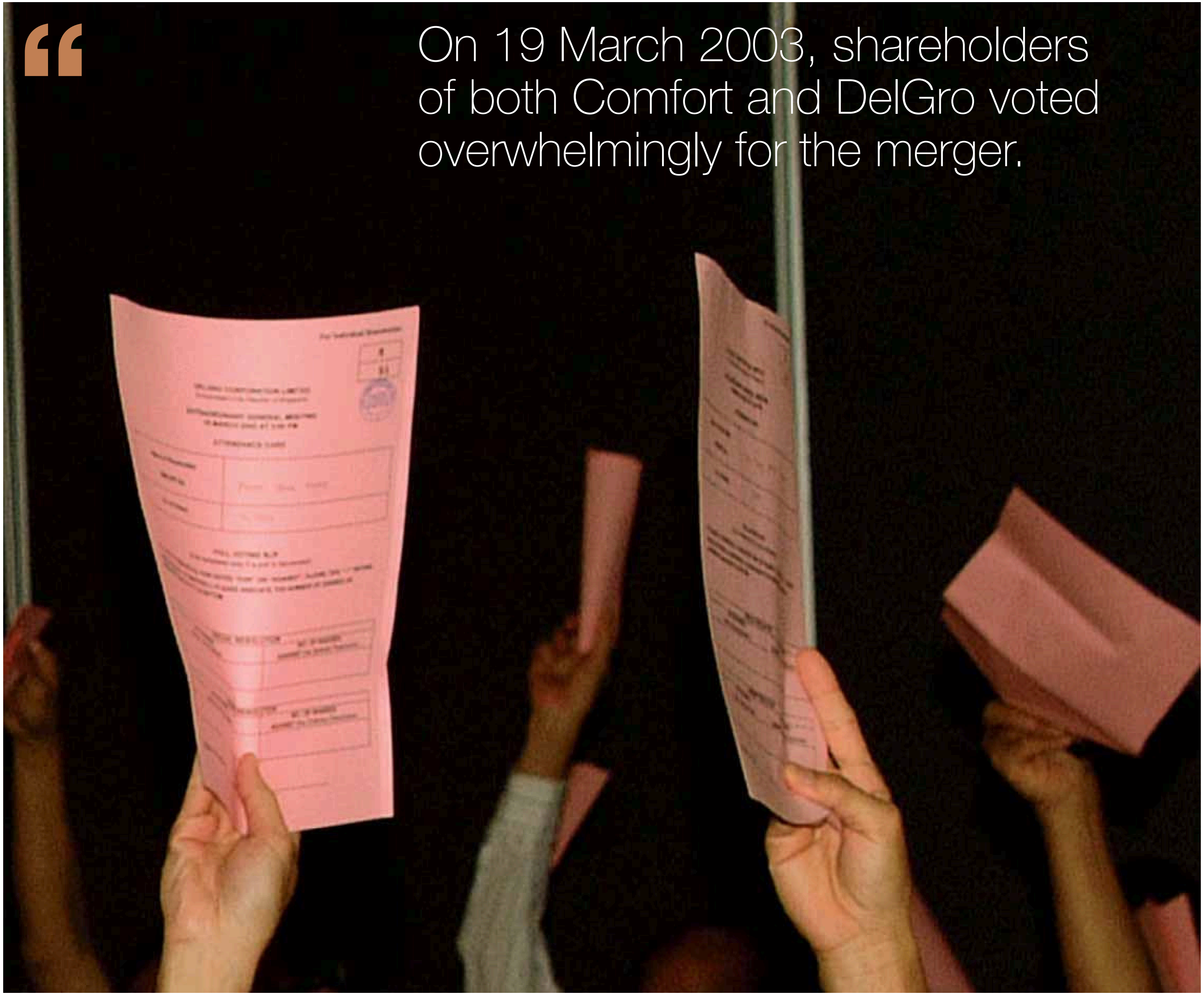

A NEW DAWN HAD BEGUN


DELGRO