

Chapter 1



Managing during Turbulent Times

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“We manage our staff the same way as we manage our balance sheet. If you have not managed your balance sheet well all this time, then you can’t save it now. So if your human resource management is screwed up, don’t expect them to do better during bad times.”

“We have consistently adhered to strict financial discipline in investment management. We will not mindlessly ‘bid to win’ projects and will avoid mega projects with heavy financial burden. Any project with big capital requirements will have to be vigilantly scrutinised and reviewed, taking into account the current credit conditions and financial market conditions in the months or years ahead.”

“Be Paranoid of what can go wrong and Persevere to reach Perfection. These 3 Ps are good underlying guiding principles for us in CapitaLand, whether we are building and opening an office building, shopping mall, serviced residence or condominium.”



Managing during Turbulent Times

Liew Mun Leong/President & CEO/CL/SG

Sent: Sunday, 5 October 2008, 7:19 PM

To: All Staff

cc: Board of Directors



Dear Colleagues,

The current global economic crisis is deteriorating very rapidly. The situation is grim all over the world from the US, Europe to Asia. It has happened so fast that no one would believe that Wall Street's blue chips such as Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers and Merrill Lynch would fall in such rapid succession. Even giants such as AIG, Goldman Sachs and Morgan Stanley need to be rescued. The "theory of common happiness" which happily infected the whole world just a year ago is in sharp contrast to the current turmoil engulfing financial markets all over the world and has now turned into the "theory of common misery".

I have been asked many questions by the media, analysts, investors, colleagues and friends how this "Financial 9/11" shock has affected us. To their questions, let me tell you what I told them.

WHY IS OUR SHARE PRICE SO BADLY AFFECTED?

Our fundamentals are strong and we have done quite well year-to-date, though we would not expect to repeat the supernormal profit¹ achieved last year. But the market is no longer based on fundamentals as it fluctuates widely, closely tracking the depressed mood on Wall Street. Sometimes it almost appears as if we are listed there. There are several reasons why our share price has taken an illogical beating.

- (a) We are an international company with investments and operations in many countries in Asia Pacific and Europe. Any economic ups and downs will influence our share price accordingly, and oftentimes, absolutely without consideration for the fundamentals of our company. Our share price has benefited from the upswing attributable to our geographic locations in the last few years and any mood swing downwards now will correspondingly hit us. The knife does cut both ways!
- (b) Redemption by hedge funds. In a scramble to regain position and liquidity, fund managers may have to liquidate their investments in time. Their divestments of choice are the investee companies which have trading liquidity, willing buyers (blue-chip companies) and yet could realise gains upon divestment. CapitaLand is one such candidate.
- (c) Same motivation for retail investors who had bought our shares at a relatively low price. If they are burnt by the stock market now, they may need to liquidate their positions to raise cash and hopefully still retain some profit.
- (d) There are now also some sceptics of our international strategy, such as our investment in China, Vietnam, Australia and the poor performances from Asian REITs. Some analysts and journalists are writing down these strategies, speculatively, given the downswing. (I wonder how many of these sceptics have actually visited these countries to understand the

fundamentals.) We are a long-term real estate player and our commitment to these economies remains steadfast and strong. In the overseas markets such as China, we have been there for more than 14 years. We operate as a local company and we have competent people who understand the market there. We continue to believe in the fundamentals of these markets.

- (e) Intuitively, I think some short selling of our shares has been going on and such trades are detrimental to our share price. CapitaLand is the most liquid amongst all listed property stocks in Singapore. Harold Woo² told me that our shares are easy to “borrow” and therefore many fund managers may short them to hedge their less liquid property portfolios. Sounds like practical market play.

HOW STRONG ARE WE FINANCIALLY?

During this credit crisis period, it is not enough to say you have made lots of profit or have a healthy order book. Investors want to see your balance sheet; how liquid you are; how you are managing your debt, especially your short-term debt; and how much cash you are holding.

Indeed, we do have a very strong and healthy balance sheet. In fact it is stronger than ever before. As of end June 2008, we had S\$3.4 billion in cash before taking into account the divestment proceeds of a few hundred million dollars made within the last few months. Our net debt-to-equity ratio is now a healthy 0.43. I believe it is currently one of the lowest amongst Singapore property companies. In addition, we have undrawn commitments of S\$2.2 billion from our private equity funds.

Call them “blessings in disguise”. Because we failed to secure the two Integrated Resorts, the two Marina Bay Financial Center sites, the Enggor/Anson Road site, the JTC privatisation project and the Somerset Central mall site, compared to our competitors, we are much less geared and have less credit concerns to worry about. All these multi-billion-dollar undertakings would have weighed heavily on our books if our bids had been successful!

We are therefore in a favourable position to ride out the current credit and capital market turmoil. Indeed with such strong “relative combat power”, we are ready to seize opportunities in this capital-constrained environment and look out for distressed assets and companies to collaborate with. We are in an enviable position to “plant seeds” during this down cycle. We did this during the down cycle of the 1997 Asian Financial Crisis when we acquired Furama Hotel to build AIG Tower in Hong Kong, developed the Canary Riverside Project in Canary Wharf, London, built Raffles City Shanghai, and bought and refurbished Capital Tower Beijing.

In fact, our former board member Andrew Buxton commented that management has been “actively managing the balance sheet” all these years. You may have heard me mention before that if you want to invest S\$1, bring me S\$2 first. Whilst aggressively expanding our business, we have been prudent and disciplined in investment management. Gail Fosler, President of The Conference Board and one of CapitaLand’s International Advisory Panel members, has termed this as “disciplined aggression”.

Someone once asked me whether any correction could be done at this point to save a company’s balance sheet to cope with the financial crisis. I coldly told him that if he were having trouble with his balance sheet now, at this crucial time, it would be too late to do anything to save it. The market has frozen up, there is market disruption and no bank is lending to anyone—not even to other banks. An industrialist in Ohio in the US was once quoted as saying: “Unless you have more cash than you need to borrow, they (local banks) won’t do business with you.” Sounds silly, but it’s true.

SHARE PRICE VERSUS OUR PERFORMANCE

Share price fluctuations are now in some form of dissonance with our business performance. We should not confuse the current share price with our performance or with the health of our balance sheet. The market turmoil in the financial markets may have adversely affected our share price for the above reasons, but our balance sheet is extremely strong (compared to other property

companies!). And we have done very well in our business operations, though some slowdown is expected in the near future. We should not be distracted here.

WILL WE CHANGE OUR STRATEGY NOW?

Our corporate strategy has been planned for both up and down cycles. They are embodied in three simple words: Focus, Balance and Scale. We remain focused in our real estate sectors, balanced in our investment approach and continue to maintain scale and scalability in business operations. We may carry out some minor adjustments and changes whenever circumstances dictate but it will be within the framework of these three key words. Adjustments, if any, must be fast. Here are some illustrations:

- (a) About two years ago, we realised that whilst our investments were focused and reaping opportunities in the Asia-Pacific region, we were operating in strong growth but oil-poor countries. We had nothing invested in oil-rich geographies. We needed a little balance here. So we investigated and explored opportunities in the Gulf Cooperation Council region and Russia. Eventually we invested in a Raffles City in Bahrain and a township in Abu Dhabi, both of which are doing well now. Russia was tempting but after several on-site business development and careful due diligence studies (the conflict in Georgia didn't help matters) we decided that we were not ready to be there for the time being. We did not jump into the market, but we will keep a watching brief.
- (b) Similarly, when the market was bullish, we aspired to venture into the industrial and logistics real estate sector to capture the growing industrialisation sector in Russia, China, India and Vietnam. Our subsidiary, Australand, is a prime industrial and logistics developer in Australia. It would be strategic to capitalise on their strength and track record if we were to form a joint venture to enter these emerging markets. After giving much consideration to today's down cycle, we decided to shelve that initiative for the time being.

- (c) We have consistently adhered to strict financial discipline in investment management. We will not mindlessly “bid to win” projects and will avoid mega projects with heavy financial burden. Any project with big capital requirements will have to be vigilantly scrutinised and reviewed, taking into account the current credit conditions and financial market conditions in the months or years ahead.

SO WHAT IS OUR FOCUSED STRATEGY NOW?

In his book *Managing in Turbulent Times*, Peter Drucker advised that in a volatile environment, management should go back to the fundamentals of business and stick to the basics. We intend to do just that. We will focus resources in our key sectors, namely residential, shopping malls, offices, integrated developments and serviced residences and in our main Asia Pacific and European markets (for Ascott). We believe in the demand fundamentals in these markets and we are “long” in our investment strategy there. In real estate, we cannot take a short-term view and jump in and out of the market.

SO WHAT ELSE DO WE DO WITH OUR ACCUMULATED CASH?

This is an often asked question. First, we will continue to build up our cash position, S\$3 billion or S\$4 billion notwithstanding. We will watch the distressed market very carefully to seek opportunities but not jump in at first glance. An opportunity may be cheap, but is it good? Is it going to be part of our focused strategy? Can we add value to it? Will it still be cheaper later when it hurts more? We have dedicated human resources to study the market situation closely. An eminent US economist Paul Romer once said: “A crisis is a terrible thing to waste.” Yes, provided you do not get yourself into a crisis trying not to waste it.

The Office of the President³ has been meeting every Monday morning to study our financial position (including balance sheet ratios, cash flow and investment allocation) and to review investments and divestments critically. Every alternate Monday morning,

the Council of CEOs (comprising all CEOs and corporate functional heads) meets us to update on the latest situation in various markets. Together, we closely monitor the situation and review our options. This is called high-context management.

HOW DO WE MANAGE OUR HUMAN RESOURCE NOW?

We have steadfastly said that People are the most important assets in our company. This is the case whether in bad or good times. It is not about location or timing but People. It is People who create value and are able to time the investment or divestment. Remember, our mantra is *Building People*.

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Cutting staff?

Whether in good or bad times, we will continue to “hire and fire”. I have said this before during the 1997 Asian Financial Crisis. If you are doing your job well, we don’t believe in firing you indiscriminately to cut cost. However, you can be fired even during good times if you don’t pull your weight. We will still continue to hire during bad times as this is the best time to attract talent in the market. It is about being rigorous but not ruthless.

How do we manage our staff during the crisis?

We manage our staff the same way as we manage our balance sheet. If you have not managed your balance sheet well all this time, then you can’t save it now. So if your human resource

management is screwed up, don't expect them to do better during bad times. They can't improve overnight. You may see lower staff turnover, though. The talent pool that we have built up would be put to the test. During bad times, I am convinced that they will stand by us and serve us well, as we have trained them and have looked after them all this time. They will believe in us.

In fact, during times of crisis, we will intensify the training and development of our talent pool. We did exactly that during the SARS⁴ period when there were literally few or no customers to serve. I believe this is the time to invest in our staff more aggressively.

During turbulent times, I think the best corporate strategy is to recruit and retain talented people in our company. I remember reading about what the chairman of Wells Fargo did several decades ago when the US financial industry went through a very uncertain and volatile period of banking deregulation. Which way would it go? His only strategy was to recruit the right talent around him to manage the company during the turbulent and uncertain times. And they succeeded. I noticed that during the current economic crisis, their share price suffered the least in the market—some 2%—the last time I checked. And they are trying to acquire Wachovia Bank (the sixth-largest US lender) with an offer of US\$15.1 billion—a very audacious move but their talented people must have done their maths.⁵

COST MANAGEMENT

We have been practising stringent cost management so far, but in tougher times we should do even more to save on costs. Do more with less, use internal resources instead of outsourcing, plan our travel more rigorously to pack more into the agenda and so on. I will leave you to exercise prudence and discipline in your expenditures.

CONCLUSIONS

- (a) The business situation is deteriorating and is grim. We are heading towards a long and deep recession. How long will

it last? I don't pretend to know and nobody can tell you for sure.

- (b) We have built up an enviably strong balance sheet.
- (c) We will continue to build on our cash position but will look out cautiously for good investment opportunities. We are not in a hurry to jump at opportunities. We must maintain financial discipline. Learn to say no first.
- (d) Our share price has been badly affected but we must not let it distract us from our performance, focus and clear thinking. Don't worry. Like what golfers say: "Keep your eyes on the ball and hit it right."
- (e) We will stay focused on our corporate strategy and reinforce our position in the key sectors (residential, shopping malls, serviced residences, integrated developments, and real estate financial services such as fund management) and geographies we are currently in. The fundamentals have not changed.
- (f) We will continue to forge ahead with *Building People* and accumulating "human capital in our balance sheet".
- (g) Exert more on cost management.

ONE FINAL WORD

The team has gone through the Asian Financial Crisis in the late 90s. When we started CapitaLand in 2000 as a listed company, we had to cope with the financial storm in the first four years. We started from scratch with no track record. Plenty of investors and analysts were sceptical about our overseas experiences, heavy debt burden and low cash base. We have proven them wrong on many scores.

Now we have a stronger ship (strong balance sheet), with a much closer and more experienced crew (after eight years of going through thick and thin together) and a long, successful track

record. Our company has grown both in size and depth, expanded geographically and gained extensive experience in the various markets. No doubt this storm looming before us is bigger and the ocean we are sailing in is much larger. But we are on a stronger ship with a more experienced crew! I am confident we will ride out this storm into the next growth cycle. Just stay on board, hang on tight and stay focused on what we are doing!

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End Notes

1. CapitaLand Limited posted profit after tax and minority interests (PATMI) of about S\$2.8 billion for FY2007.
2. Harold Woo is senior vice president (Investor Relations) of CapitaLand Limited.
3. The Office of the President comprises CapitaLand's key executives and provides oversight and direction for the Group.
4. Severe Acute Respiratory Syndrome, or SARS, is an acute respiratory illness caused by the SARS coronavirus. The SARS period referred to here is a pandemic that occurred between November 2002 and July 2003.
5. Wells Fargo & Company completed its merger with Wachovia Corporation on 31 December 2008.



Can the Current Global Economic Crisis Change and Improve Our Retail Industry?

Liew Mun Leong/President & CEO/CL/SG

Sent: Sunday, 18 January 2009, 8:44 PM

To: All Staff

cc: Board of Directors



Dear Colleagues,

Shopping is not for personal fun and pleasure only. Besides earning significant dollars from tourists, it stimulates local consumption and helps drive our domestic economy. From my observations and experiences however, I am worried about the quality of the retail services in Singapore. Recently, I impressed upon our shopping mall colleagues that we have to help our tenants in whatever ways we could, to support them during this difficult economic time. If they can't survive, we can't survive. I have been comparing the service level across shopping malls in Singapore, Hong Kong, China and Japan. Whilst Hong Kong has changed its service levels drastically (unbelievably almost overnight) for the better after the bitter Asian Financial Crisis, Singapore has hardly raised its service levels. In fact, the service levels have deteriorated, in my opinion.

HONG KONG

Let me first talk about Hong Kong. Hong Kong's retail industry is somehow in the forefront in terms of product range and design,

and generally is ahead of Singapore. I don't understand why but it still is ahead, especially in fashion. Why can't we catch up? Before the Asian Financial Crisis, shop assistants were notoriously known to be snobbish and arrogant towards customers who were dressed casually. The shop assistants would give a critical glance at how you were attired and then treat you discriminatorily. Singaporean shoppers who are often modestly dressed (like me) would have encountered such poor treatment then in Hong Kong. Their standard welcoming (or unwelcoming) treatment was to size up the customer's attire before greeting the customer. Not anymore. Since the Asian Financial Crisis, when they were dealt a big blow, they made a sudden and complete turnaround in their service attitude. It is amazing how fast Hongkongers have changed to survive the crisis.

Walk into any Hong Kong shopping mall now and every shop assistant will typically welcome you with a ready "Welcome and please browse at your convenience" in very polite Cantonese. Because of the recent large influx of Chinese shoppers, they are learning Mandarin to converse with them. Even when you walk out without making a purchase, they will still thank you politely for dropping by the store. Want to try a pair of shoes which you have spotted on the shelves? They will bring you various sizes for fittings. What if there's no stock? They will quickly bring you the right size, from God knows where, as though they were all on standby. If you buy something, they will tempt you to buy more with various innovative and irresistible discounts and incentives. In handling transactions, they will wrap up your purchase super fast, process your purchase quickly and have your credit card back to you within minutes. Their cashiers are super efficient and extremely well trained to collect payment quickly! The retail assistants, who are usually very young girls, are eager to please shoppers (whoever they are), clinch sales and equally quick to collect your money. Yet, it is all a very pleasant experience.

Once, I walked into a Marks & Spencer (M&S) shop in Hong Kong to buy a pair of socks (amongst other items) as I was having trouble with the pair I was wearing. (Obviously I had bought cheap socks!!) The cashier checked every item I bought to make sure

they were in the right size and colour. Very efficiently and neatly, she packaged them. The transaction was taken care of in a smooth and quick manner. Impressed, I walked away with my purchases to a nearby chair to change into the newly purchased pair of socks. She saw me stuffing the old pair of socks into the M&S bag and must have felt it was not quite the right thing to do. She emerged from behind the counter, approached me and with a gentle smile handed me a smaller M&S plastic bag for the old pair of socks. How nice of her! Her thoughtfulness and helpfulness pleased me a lot. I thanked her profusely for her kindness, though I was somewhat embarrassed to be caught doing something unbecoming with my old socks, which should have been thrown away.

I often have had similar delightful experiences in Hong Kong restaurants. The staff are familiar with the daily specials and are able to offer suggestions on what to order. They are also brisk and prompt in serving the food. It is commonly acknowledged that Hong Kong still beats us in food cuisine and the service level is noticeably higher too. They attend to your bill and credit card transactions quickly. That is why they can easily execute three turnarounds in their restaurants—meaning three cycles of diners can occupy the same table within one dining session. I have heard that for Chinese New Year, they aim to achieve four turnarounds—one every hour! The restaurants are highly conscious of the need to be productive as rental costs are very much higher than that in Singapore. They are also enthusiastic about ensuring your patronage.

JAPAN

Japan offers shopping and dining experiences *par excellence*. Service staff welcome you with the sincere and warm greeting of “*Irrashaimase*” (“Welcome” in Japanese). Japanese restaurants often showcase their dishes as realistic plastic models in window displays in front of the restaurants. So as a foreigner who doesn’t understand Japanese, I can order my meal by just pointing to what I want in the display. I will also know the exact price I have to pay. It is very customer-centric. Frankly, you can eat quite economically in Japan if you know upfront exactly what you are

ordering and the exact price. Service staff are famously known for their politeness, and again, their efficiency in handling bill payments. The bill is left on the table face down (I guess it is rude to show the price so blatantly) and you can settle it at the counter yourself. You don't have to attract the waiter's attention. In Singapore, waiters seem to be "blind" to your attempts to gain their attention, take forever with the bill, and when you hand over your credit card or cash, it is another long wait for the credit card slip or the change. The best thing about Japan is that there is no practice of tipping. The food may cost a little more but you get quality food and courteous service. The good service provided is not motivated by tips, whereas in the US, a minimum 15% tip is expected (you have to mentally calculate how much this is). Frankly, I feel that waiters who are only motivated by tips are quite artificial in their service.

Recently I bought a small "Japanese New Year Bull" that cost only ¥2,000 (about US\$20). The retail attendant wrapped it meticulously with bubble wrap as she must have guessed that as a foreigner I would need to carry it with me onto the plane. She gave me a wide selection of wrapping paper and coloured ribbons to choose from before putting the package in a nice shopping bag. She then walked me out of the shop, bowed gracefully and thanked me for my patronage. All that for a US\$20 purchase!

Claiming a tax refund in Japan is a breeze compared to other countries. I had difficulties doing this in Paris and Barcelona. The waits were lengthy and the customer service officers were not very friendly. The process made me feel as if they were doing me a big favour. In Japan, the system is very customer-friendly. In many shops, you can claim tax refunds in cash directly if your purchase is more than ¥10,000 (US\$100). All you need is your passport and just a few minutes' wait. The consumption tax is 5% and you can get the full 5% tax rebate in cash immediately from the vendor. There is no hassle. Try that in Europe and you will see the vast difference. You don't get the full refund, only a small portion of it. Then you have to show your purchases at the airport customs to prove that you are taking them out of Europe, and the queue is often frustratingly long. Hence, it's wise to budget some time for

the process of making your claims (that is, if you know exactly where the VAT refund counter is) if you don't want to miss your flight.

In fact, our country manager in Japan, Tan Lai Seng¹, has pointed out to me that you may use your credit card to make payment and yet receive an immediate tax refund in cash. What happens if your credit card is not valid while the vendor has already refunded you the tax in cash? Well, the Japanese vendors trust their customers!

So in Japan you are virtually guaranteed wonderful product quality and service. What about Singapore?

SINGAPORE

My experience with the service level of Singapore's retail industry has not been very encouraging. Personal encounters over the years tell me that standards have in fact deteriorated.

Often, when I am trying to get the assistant's help to look for my size or choice of colours for shirts or shoes, the common answer is "They are all there!", meaning "Go look for them yourself!" No attempt is made by the assistant to search the store, let alone try to find one from another store. They don't seem eager to help you find the suitable size or colours you want. Are they keen to make the sale?

Several years ago, I was trying to buy a *batik* shirt for a formal Indonesian dinner. I went to five shops but none had it. One retail assistant in a well-known mall even asked me what a *batik* shirt was. The *batik* shirt is Singapore's national costume, yet she didn't know what it was! Again, the retail assistants were not particularly helpful.

Last year, amid the US presidential election fever, I was trying to buy a biography of Ronald Reagan at a well-known American bookshop in Singapore. I couldn't find one on the shelves so I enquired at the information counter. The young lady there didn't know who Ronald Reagan was and sought help from her supervisor. She had no clue either. So I spelt out his name carefully. I added that he was a recent former US president. Their honest but shocking

response was: "We don't know him. We are Singaporeans!" I thought I was in a reputable American bookshop seeking help from its information counter service staff!

Quite a number of cashiers in Singapore are not well trained and their tardiness often gives customers bad experiences. I once bought some toiletries from a shop in Changi Airport Terminal 3. There were 11 passengers queuing to pay up but the cashier was agonisingly slow because she was unfamiliar with the cash register. To make matters worse, she was joking and chatting with her colleagues. The waiting customers became jittery and frustrated. I went up to the cashier to hurry her, pointing out that she was upsetting international passengers in our world-renowned Changi Airport. During another visit, I encountered similar delays at the cashier even though the queue was short. I complained to the staff in Changi Airport and the owner of that shop promised to improve his shop's efficiency while blaming a shortage of skilled staff for the hiccups.

In May 2002, I wrote an email about an unhappy experience I had at the cafeteria at Raffles Hospital in Singapore (Knock Out Kaya Toast on p 74 of my book *Building People: Sunday Emails from a CEO*). I wrote about how a very aggressive stall sold a breakfast set of two eggs, one Kaya² toast plus coffee for S\$1 to compete with a similar breakfast set from the famous Ya Kun³ that costs S\$3.30. Now, seven years later, I went to the same cafeteria after my annual medical appointment to have breakfast. Guess what? Ya Kun had moved out and another stall had taken over, selling the same breakfast set (eggs, bread and coffee) for S\$2.80 instead of the fiercely competitive S\$1 or the overpriced S\$3.30 Ya Kun set. I thought it was a fair price and readily bought a set. But I found the coffee too thick for my liking and went back to the stall assistant for a cup of hot water to dilute the overconcentrated coffee. She handed me a cup of hot water but said it cost 30 cents!! To me, that was outright swindling. My protest was brushed aside rudely. How could a simple cup of hot water cost 30 cents?! That was hardly good service or value to customers. Our vendors had better realise that.

Retail assistants in Singapore's restaurants and shops don't seem to smile. When you walk into a shop or restaurant, you

don't hear the loud and warm welcome greetings you receive in Japan and Hong Kong. I feel that our retail assistants are generally not well trained, do not know their products and seem not to be interested in a retail career. This is quite similar to what's happening in China, though the restaurant waiters and waitresses there do welcome you with "*Huan Ying, Huan Ying*" (欢迎, 欢迎) and thank you with "*Xie Xie*" (谢谢) when you leave. During staff communication sessions in Beijing and Guangzhou last week, I stressed to my colleagues that they should smile more to customers.

CHANGE TO SURVIVE

At the end of the day, the customer is king and has the right to expect efficient and pleasant service. I have often refused to buy something from a shop—even though there was something I wanted and the price was the lowest compared to other shops—because the sales staff were impolite or did not care to attend to me.

So the questions are: How do we improve our quality of service in the retail sector? How did Hong Kong manage to change the rude attitude of sales assistants for the better? I guess their survival instincts made them realise that they had to change. Does it boil down to training? Are our attitudes towards customer service preventing us from excelling in the retail industry? How have the Japanese been able to do it so well for so long? They are proud of the profession they are in. Many say it is a cultural issue. I think we have to recognise that we must change to have a chance of surviving these tough economic times.

The examples above may be isolated incidents. It may be unfair to generalise that all service in Singapore is poor. But I want to provoke the service industry to change quickly. Given the current economic crisis, it may be timely to make drastic improvements to our service industry—similar to what Hong Kong has done during the Asian Financial Crisis—to enable ourselves to become a globally competitive company. It is "*The Last Four Legs*"⁴ analogy that I talked about in my earlier book *Building People: Sunday Emails from a CEO* (p 190).

CapitaLand, as a leading shopping mall owner/manager and real estate company, must take the lead in improving service levels in shopping mall management and office leasing, the marketing of our residential units, how we serve our serviced residence guests, as well as other services within the Group.

<http://www.pbookshop.com>

End Notes

1. Tan Lai Seng is now vice president, business development and asset management (Asia Pacific) of The Ascott Limited.
2. Kaya (meaning "rich" in Malay, based on its golden colour) is a jam made from coconut milk, eggs, pandan leaves and sugar.
3. Ya Kun is a well-known chain in Singapore serving kaya toast, eggs and traditional coffee and tea.
4. "The Last Four Legs" refers to the final encounter between the customer and the service provider. This is the "moment of truth", as quality in the service industry often depends on this final encounter.



**2010 New Year
Message:
We Survived
the Cold
Winter Year**

Liew Mun Leong/President & CEO/CL/SG

Sent: Friday, 1 January 2010, 12:03 AM

To: All Staff

cc: Board of Directors



Dear Colleagues,

First let me wish you a Happy and Healthy New Year for 2010.

At the beginning of 2009, I made a wish. I wished for a time machine to fast-forward to the end of 2009. We could then suffer none of the agony of the Great Recession. Given our trepidation, how did we eventually fare in 2009? Not that badly really, considering the very dismal situation the world was sinking into.

HOW DID THE GROUP PERFORM IN 2009?

We entered 2009 with an extremely gloomy outlook for the world economy. It seemed then that no country, no company and no individual, no matter how powerful, well-endowed or rich, would be spared the hit. We prepared ourselves to ride out the “long, cold winter”. We took some very hard decisions to literally halt business development initiatives (apart from hopeful bottom fishing for distressed assets or companies to acquire). We temporarily trimmed or even froze some projects, and reduced corporate costs such as

travel expenses. But we stayed true to our long-held conviction that People were our best assets. We were steadfast in sticking to our no-retrenchment policy even during such a financially challenging time and we took voluntary salary cuts to save jobs instead.

Despite the extremely tough and uncertain financial market conditions, we managed to pull through the year quite well. Investors continued to put their faith (and money) in the CapitaLand Group of companies¹ because of our track record of delivering results and creating value for our stakeholders. Throughout the year, we strengthened our balance sheet further and enhanced our financial flexibility through various capital raising exercises, most notably:

- The highly successful rights issue by CapitaLand, which was 22% oversubscribed and raised over S\$1.8 billion in proceeds.
- The S\$1.2 billion convertible bonds issue by CapitaLand.
- The rights issues by CapitaMall Trust (S\$1.2 billion), CapitaCommercial Trust (S\$0.8 billion) and Australand (A\$475 million).

On the operations front, our strategic business units (SBUs) maintained their growth momentum despite the challenging market conditions. For the nine months ending September 2009, we delivered S\$2.1 billion in revenue and achieved PATMI (excluding revaluations and impairments) of over S\$452 million. We were profitable and escaped the grim prospect of reporting a loss for the year. We picked up numerous prestigious awards, including global, regional and country awards for our residential and retail operations at the *Euromoney Real Estate Awards 2009*. Below are some of the noteworthy achievements of our business operations in 2009:

In Singapore

- Launched the iconic and unique The Interlace residential project and continued strong sales for The Orchard Residences, The Wharf Residence and Latitude.



The Interlace, Singapore

- Opened ION Orchard successfully. Within a short few months of opening its doors, ION Orchard has become the hottest, “must-go” retail destination in Singapore. On average, more than four million people visit ION Orchard every month.
- Divested two industrial properties, namely Kallang Bahru Complex and Kallang Avenue Industrial Centre.

In China

- Sold close to 2,400 units in Beijing, Shanghai, Hangzhou, Ningbo, Foshan and Chengdu. That was more than the 800 units sold in 2008.

- Opened Raffles City Beijing and eight malls in eight other cities.
- Continued expansion of The Ascott Limited's three serviced residence brands (Ascott, Somerset and Citadines) into cities such as Beijing, Shanghai, Chongqing, Shenzhen and Xi'an.
- We celebrated CapitaLand's 15th anniversary in China. Today, CapitaLand has a portfolio in China worth over S\$20 billion, covering more than 100 projects in 40 cities across the country. We all have cause for celebration.

In Vietnam

- Successfully launched preview sales of one block of Mulberry Lane, our first residential project in Hanoi. All soft-launched units were fully sold.
- Secured a contract to manage an Ascott property in Hai Phong. Ascott is consolidating its position as the largest international serviced residence operator in Vietnam.
- Conferred the prestigious *Golden Dragon Award* for CapitaLand (Vietnam) Holdings and The Ascott Limited for their foreign direct investment enterprises that have made significant contributions to Vietnam's economic development.

Besides strengthening our balance sheet, we have improved our core operations and made certain organisational changes:

- Senior management changes in the corporate office and the Ascott, CapitaLand China Holdings, CapitaLand Commercial and CapitaLand Financial SBUs. This is an important feature of the Group's talent and succession management plan, allowing younger senior officers to take over leadership roles in SBUs. The new and younger team is now highly motivated to bring CapitaLand to its next level of growth.



(Left to right) Mr Hsieh Fu Hua, the then CEO of Singapore Exchange, with Dr Hu Tsu Tau, chairman of CapitaLand Group, and the author sounding the gong on the morning of the first day of trading of CapitaMalls Asia (CMA). At S\$2.8 billion, the IPO was Singapore's largest in over a decade.

- Establishment of the CapitaLand China Executive Committee and CapitaLand Vietnam Executive Committee to better coordinate and align investments, operations, branding and resources in China and Vietnam respectively, and spearhead our growth in these countries.
- Establishment of the Operations Compliance Unit to formulate CapitaLand standards for business ethics and conduct.

More significantly, our shopping mall business, CapitaMalls Asia (CMA), was successfully listed in Singapore. The IPO raised S\$2.8 billion and the retail offering was 4.9 times subscribed, once again demonstrating investors' confidence in CapitaLand Group's



Representatives of CapitaLand Muchuan Green Hope School, Sichuan, presenting a gift to Ms Ho Ching, executive director and CEO of Temasek Holdings, during CapitaLand's "15 Years in China" celebrations in Shanghai.

ability to deliver value for its shareholders. The listing of CapitaMalls Asia is not just a capital-raising exercise for CapitaLand to grow its multi-sector and multi-geographical businesses, but is also an important step towards enabling the Group to accelerate the growth of its shopping mall business and extend its market leadership in that area.

Although we have all been busy focusing on our finances and business operations, we have not forgotten our role as corporate citizens. I am pleased that on the corporate social responsibility (CSR) front, we have continued to actively contribute to the communities that we operate in, through philanthropic and/or green initiatives such as:

- Conservation donation to support the pair of giant panda cubs Singapore will receive from China in 2011.

- *We are One* project to raise funds for Community Chest and President's Challenge 2009.
- *Back to School* outing where CapitaLand volunteers brought needy students to buy school necessities at a CapitaLand mall using shopping vouchers donated by the CapitaLand Hope Foundation².
- *Green for Hope* project to help underprivileged students in Singapore with basic education expenses and at the same time encourage Singapore school children to practise the three Rs of waste management—Reduce, Reuse and Recycle.
- Donation of an eco-friendly electric boat to PUB³ for conducting river clean-ups.

Our CSR efforts and contributions did not go unnoticed and we received several awards during the year on this front, such as PUB's *Watermark Award*, Cityscape's *Best Developer (Corporate Social Responsibility) Award* for the CapitaLand Muchuan Green Hope School in Sichuan Province, China, and the NVPC's⁴ *Corporate Citizen Award for Philanthropy*.

It was a tough and hectic year but we emerged from the storm stronger in our balance sheet and in spirit, all ready for new challenges ahead. All the achievements would not have been possible without the collaborative and collective hard work and commitment of our colleagues and the support of our board of directors, shareholders and partners. My heartfelt thanks to all of you for your efforts and sacrifices in helping the company ride out the storm once again.

LOOKING AHEAD—2010

Although the world economy has recovered faster and better than expected, 2010 will still not be easy. Uncertainty remains. While there have been some positive signs, there is still doubt as to whether the strength and momentum of recovery can be sustained.

For some time now, and even before the current economic crisis, I have always been fearful that economic cycles are going to be sharper and shorter. So we have to prepare for this. We have to keep a watchful eye on the impact of governments starting to unwind their stimulus packages and implementing policies in response to asset bubbles forming rapidly in certain Asian countries. There are also dangers of overswinging the pendulum. Nonetheless, opportunities still abound for us, particularly in our key markets. Our main strategic thrusts for the next phase of growth are to:

- Continue to grow our China business;
- Expand in Vietnam;
- Seek further opportunities in Singapore;
- Extend our leadership position in Asian shopping malls;
- Build Ascott's global dominance; and
- Grow the financial services franchise.

CapitaLand celebrates its 10th anniversary in November 2010. Looking back, I am really proud of what we have achieved together. When we first started out, we never envisaged that CapitaLand could be what it is today. In November 2000, following the merger of Pidemco Land and DBS Land⁵, we were greeted with scepticism about our ability to deliver on our stated strategy to expand overseas and on our real estate financial business. But we have come a long way. Today, we are recognised as one of the leading real estate companies in Asia, operating in more than 110 cities across over 20 countries.

A comparison of where we were when we started nine years ago and now illustrates how much we have grown and progressed:

	NOVEMBER 2000	DECEMBER 2009
Listed companies	4	8
Market capitalisation	S\$8.9 billion	S\$40.3 billion
Total assets	S\$26.8 billion	S\$57.7 billion

More than just being financially dominant, we have a track record of pioneering innovations in real estate financial products and being always ahead of the curve in the industry. Today, we are one of the largest private equity real estate fund managers in Asia, managing 16 funds with assets under management of more than S\$26 billion. The market has much more confidence now in what we do or plan to do. It has taken us slightly more than nine years to build CapitaLand's track record and reputation and to gain the market's confidence.

It is crucial that we continue on this path by:

- (a) Promoting the right core values in the company.
- (b) Understanding the fundamentals of our business. These must not be based on speculation or clever financial engineering without creation of real value. We are a real estate company and we must create actual value through real estate products.
- (c) Adopting strict discipline in financial management. Capital productivity is key.
- (d) Executing our strategies and planning well. Delivering quality products and services to our customers, whether they are shopping malls or office tenants, home buyers, or serviced residence guests.
- (e) Maintaining our innovativeness to be ahead of the curve. We must be entrepreneurial enough to spot opportunities and confident enough to take "big swings" when these arise.

- (f) Building a strong talent pool and management bench and investing in human capital continuously. *Building People* is the cornerstone of our success. Only then can we build a prosperous and lasting company.

Happy and Healthy New Year!

<http://www.pbookshop.com>

End Notes

1. CapitaLand Group comprised eight listed entities as at 31 December 2009, including Australand, CapitaMalls Asia, CapitaMall Trust, CapitaCommercial Trust, Ascott Residence Trust, CapitaRetail China Trust and Quill Capita Trust.
2. CapitaLand Hope Foundation is the philanthropic arm of CapitaLand Group.
3. PUB is Singapore's national water agency.
4. NVPC is Singapore's National Volunteer & Philanthropy Centre.
5. CapitaLand Limited was formed in November 2000 from the merger of Pidemco Land Limited and DBS Land Limited.



British Airways Cancels Flights as T5 Chaos Continues

Liew Mun Leong/President & CEO/CL/SG

Sent: Sunday, 30 March 2008, 4:56 PM

To: All Staff

cc: Board of Directors



Dear Colleagues,

Have you been to Terminal 3 (T3) of Singapore's Changi Airport? Most of you must have—either flying off or flying back home or just converging around its vast basement food court selling Singapore's culinary favourites. It is now not only a successful international airport terminal that people talk about and some claim as a "must see" for airport planners, but also a huge entertainment and F&B centre for many Singaporeans families in the evenings. "Let Singaporeans enjoy our T3", I told my CAAS colleagues¹. Many Singaporeans might have assumed that when we opened T3 on 9 January this year, things would turn out right, like they did at the opening of T1 and T2 in 1981 and 1990 respectively. Not quite, let me tell you.

Many airports have been blighted by severe crises on the first few days of opening. Some take months to sort out the technical glitches. Last Thursday, London's Heathrow Airport opened its brand new, state-of-the-art £4 billion (about S\$12 billion) Terminal 5 (Changi Airport's T3 cost S\$1.7 billion). Unfortunately, it has turned out to be a disastrous opening right up till now. A total of

68 flights were cancelled on day one, 72 on day two and 68 on day three. Today (Day 4), another 37 flights were aborted. All told, 245 flights were cancelled during the first four days of the airport's opening. If there were say, an average of 200 passengers per flight, then about 50,000 people would not have been able to fly as scheduled. British Airways confirmed that 15,000 bags are currently stranded at T5 although BBC sources suggest that the number was closer to 20,000. Imagine the passengers' frustrations. They would miss important business meetings or holidays, not be able to meet their friends or loved ones in time, or simply be unable to go home. When flights were available, many could leave but did so without their luggage. What caused the hiccups?

Professor Kenneth Curtis, one of our board members, teased me over the weekend: "Watch out, another job may be coming your way". Changi Airport International, the commercial arm of CAAS, does in fact undertake consultation and operation management business for other airports. "This one, however, is too big a fish for us", I replied (see our email exchange below). I thought I should share with you the complexity of building and opening an airport terminal so that the next time your flight is cancelled (touch wood!), you can better understand why (even though it may not help your situation).

To me, an airport is probably the most complex public institution to perfect. It has to have factory-like efficiency and effectiveness in handling passengers, baggage and cargo (we monitor their clearance times). Air passengers, whether arriving or departing, like to be welcomed by luxurious comforts of a five-star hotel and the service of a well-tenanted shopping mall, with a whole range of reasonable to high-end offerings from economical fast food to international cuisine. Hotel accommodation within the airport is also a must these days. Essentially, the airport must work like a city and factory. We now also have the arduous and mostly unappreciated task of running immigration, customs and security systems thoroughly to counter terrorism threats. Which other public building has such demanding and exacting requirements to meet and not make any mistakes?! Changi Airport handles more than 100,000 passengers every day for 365 days. It is not just about

buying the latest, most expensive and sophisticated technology for the terminal. It is really a very large, multi-systems complex. And systems can fail.

Yes, an international airport is hard to plan, design, construct, maintain and manage. For Singapore, where almost all international visitors have to come through Changi Airport, we have no choice but to get it right the first time, every time, all the time. It is the first contact point for visitors for Singapore or for any country.

There are plenty of lessons to learn here. Be *Paranoid* of what can go wrong and *Persevere* to reach *Perfection*. These 3 Ps are good underlying guiding principles for us in CapitaLand, whether we are building and opening an airport, office building, shopping mall, serviced residence or condominium.

From: Ken Courtis
To: Liew Mun Leong/President & CEO/CL/SG
Sent: Saturday, 29 March 2008, 1:34 AM
Subject: British Airways Cancels Flights as T5 Chaos
Continues

Dear Mun Leong-

Watch out, as another job may be coming your way....

Kindest,
Ken

From: Liew Mun Leong/President & CEO/CL/SG
Sent: Saturday, 29 March 2008, 12:13 PM
To: Ken Courtis
Subject: Re: British Airways Cancels Flights as T5 Chaos
Continues

Dear Ken,

You know, the opening of almost all international airport terminals, save fortunately for Changi Airport T1, T2 and T3 in 1981, 1990, and 2008 respectively, invariably face crises on the first few days of opening. This is true at least for airport terminals I am familiar with. Sometimes, it takes weeks or even months to get these airports operating smoothly, for example, Bangkok Airport.

Baggage, flight information, check-ins, elevators, escalators, water, power, air-conditioners, toilets, you name it—everything can choose to go wrong at the same time. That's Murphy's Law at work.

It happened notoriously in Malaysia KLIA, Hong Kong, Guangzhou, Shanghai and Bangkok. Some, such as Bangkok, had to close down temporarily for months. Heathrow Airport T5 now joins the ranks!

Most of us travel frequently and we have suffered painfully because of badly run airports. We know how bad it can be.

To be fair, to get everything right in a very large multi-systems complex of two to three million square feet is extremely difficult. This is especially so when everything is expected to run correctly for more than 100,000 anxious air passengers passing through an international airport terminal each day. I know this as I was actively involved in the building and opening of the terminals in Changi Airport in my former job and even now.

At Changi Airport, we were paranoid about what could go wrong at the recent opening of our three-million-square-foot T3 on 9 January 2008, just as we were in the opening of T1 and T2 in 1981 and 1990 respectively. Never mind the fact that we had spent every effort to plan, design and construct it carefully. Systems do go wrong, so we ran them in for a full six months and conducted dry runs over and over again. Besides thorough and very careful technical commissioning, we also engaged hundreds of students as passengers with dummy baggage to test all systems numerous times. They had fun and we felt safer with our systems. Our solution was to test all operation systems till we felt they had reached perfection. We didn't take any chances and made no assumptions.

We had also worked closely with our clients and stakeholders, from airlines, ground baggage handlers, police and security, immigration, customs to retailers and F&B operators as they are all part of the airport systems which can fail and affect operations.

Another point is that in most countries, they have top administrators, managers, planners and engineers at the airports. My prejudice is that I suspect they lack strong middle and lower management to support these large multi-systems. We do have strong and committed leadership here in our Ministry of Transport and Changi Airport to supervise and oversee every minor detail. We also have strong middle and lower management and equally committed workers to make things work. It is about execution and implementation ultimately. Our unions don't go on strike! All levels of staff at Changi Airport are dedicated to make the airport a success. It is not only about trying to win the Best Airport in the World Award—which we did not set out to do in 1975 (at least it was not my intention then) but which we did for 20 years—but also to assure all visitors to Singapore that things work well when they land here for the first time and every time.

The Brits are well known for being good at crisis management, and they tackle it head-on!

For us, we feel it pays to be paranoid! Sorry it's a long reply to your one-sentence teaser email but it does evoke my sentiments about building and running airports and my strong beliefs in the virtue of being paranoid.

Kindest,
Liew Mun Leong

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End Note

1. Mr Liew served as chairman of the Civil Aviation Authority of Singapore (CAAS) from 1 September 2005 until its corporatisation in July 2009, when he became chairman of Changi Airport Group (Singapore) Pte Ltd, a position he continues to hold today.



Business Times **Articles**

Liew Mun Leong/President & CEO/CL/SG

Sent: Wednesday, 26 March 2008, 10:31 PM

To: All Staff

cc: Board of Directors



Dear Colleagues,

I am sending two *Business Times* (BT) articles (please see Appendix) for your reading in case you missed them (especially for our overseas colleagues). BT senior correspondent, Teh Hooi Ling, has drawn in her article a few good lessons on our short seven years of corporate history. It may be meaningful for our colleagues to understand these hard lessons, especially those who joined us recently during the good times and have not encountered any crisis.

By now, all of us should be aware that there will be very tough times ahead for the global economy. The real estate industry could be the hardest hit by this down cycle. Falling housing prices, related subprime mortgage problems and the resultant credit crunch in the US are responsible for the present global financial crisis. The US is in a recession triggered by its beleaguered financial industry. It is disturbing and sometimes boring to keep reading every day about the near demise of Wall Street banks and their unbelievable woes. At one time, I thought they were really smart and creative to produce money-making financial products. The

impact of the distressed US financial industry is reverberating through the economy, even beyond US shores. No sector is spared until the financial market finds a way out of the crisis. The economic meltdown is said to be the worst since World War II. Someone once wrote: "Main Street will have to pay for the sins of Wall Street." There is no point cursing it now.

How long will the financial crisis last? No one has the answer. There are too many unknowns and uncertainties in the financial industry. The US is expected to face more assaults on its economy. After several years of uninterrupted growth, the US economy is now struggling against rising oil prices, growing inflation, a depreciating dollar and softening consumer confidence.

CapitaLand must also brace itself against such tough times by being cautious, yet steady, in consolidating our position. I had a meeting with all the CEOs recently. We agreed that we are financially strong enough to weather the crisis and turn such a down cycle to our advantage. Let me use an analogy from my experience as a frequent air traveller:

We are experiencing turbulence as we fly. All the headwind and air vortices are causing a bumpy ride. There is however no reason to panic. We just need to buckle up and brace ourselves for the rough ride. All food and beverage services will be suspended to avoid accidents. Meanwhile, we must heed the pilot's announcements and advice, and not walk around. Even the most seasoned frequent flyer will experience some discomfort despite taking all the precautionary measures.

Fly we must. Fortunately, we are flying in a solidly built, modern aircraft, manned by well-trained and disciplined crew. Most importantly, I believe it is piloted by tough men and women. We can weather and ride out this storm. Since we have sat through several such bumpy rides, we are now well prepared and trained to follow the standard operating procedures!



Love of Money: The Collapse of Lehman Brothers

Liew Mun Leong/President & CEO/CL/SG

Sent: Sunday, 21 March 2010, 7:08 PM

To: All Staff

cc: Board of Directors



Dear Colleagues,

Whilst having lunch on a Singapore Airlines flight, I watched a TV documentary called *Love of Money*. Produced by the BBC, it was thrilling, inspiring and full of business and human lessons to learn from. I watched it again for the second time on my return to Singapore and this time, I skipped lunch to focus on taking notes. As many of you may not have caught the programme, I will summarise the gist of it for you. Watch it if you have a chance. I have encouraged all my CEOs to do so.

Love of Money describes the last three fateful days that led to the collapse of Lehman Brothers before it filed for Chapter 11 bankruptcy protection on 15 September 2008. It is the largest bankruptcy in US history with Lehman Brothers holding more than US\$639 billion in assets (170 times that of CapitaLand's) but saddled with bank debt of US\$613 billion and another US\$155 billion in bond debt. The bank's bankruptcy wiped out US\$700 billion from Wall Street with the Dow Jones dropping more than 500 points in a single day—the largest plunge since the terrorist attack on 11 September 2001. The consequences were

worse than anticipated. The money market froze and crippled the global economy. The credit market was shut down for two days and there was literally no credit for the whole business world to work with. Even large US corporations were hit badly. According to Assistant Treasury Secretary Neel Kashkari, some corporations suddenly could not finance their investments or even pay their employees. Lehman might need a bailout of US\$25 billion to US\$30 billion but this pales in comparison with the destruction of economic values and the dire consequences that reverberated throughout Wall Street and the world economy. Lehman Brothers' bankruptcy was estimated to be 10 times larger than Enron's. All over the world, business confidence was shaken. The worrying question was: Who would go down next and who would be going down along with it?

Lehman was then the fourth-largest investment bank in the US and had 158 years of corporate history. Lauded as the "Master of the Universe", it was one of the originators of Wall Street. It was flying high and for so long. So what happened to this legendary institution which had lasted for more than one-and-a-half centuries? Commenters attributed it to GREED and HUBRIS. Returns were so good that greed took over. They geared up heavily to bank on the "good returns" business. To them, risk was not a factor. At one point, for every US\$1 they owned, they were borrowing US\$44, whilst other investment bankers made do with a low US\$20.

From 1994 to 2008, Lehman's share price surged from US\$4 to US\$82 apiece. Shareholders were elated and so were the employees as the reward system was a "life changer". One Lehman trader said he made the firm a profit of US\$30 million in 2006 and received a bonus of more than US\$1 million. What about his colleagues who made US\$100 million to US\$200 million in profits? They would get more than a bonus of US\$10 million each, he said. In 2004, Lehman earned a profit of US\$11 billion and US\$5 billion went to employee compensation (the bank had 25,000 employees). In 2007, profit doubled and employees received US\$9 billion. Between 2000 and 2008, CEO Richard Fuld was reportedly paid between US\$310 million and US\$500 million!!

Lehman Brothers is still facing litigation as tens of thousands of investors all over the world lost their savings investing in the infamous Lehman minibonds and other structured financial products. Many scholars and financial specialists are analysing what and why things went wrong in this long-established financial institution. The most interesting part of the show depicts what took place on the evening of 13 September 2008. On that fateful Friday, US Treasury Secretary Hank Paulson hurriedly summoned Wall Street's top bankers to discuss the rescue of Lehman Brothers. On that day, Lehman's share price plummeted and the company lost US\$8 million per minute in market capitalisation. All the bankers were marshalled into the due diligence (DD) rooms of the respective banks to hammer out their proposals, if any, before the weekend. Bank of America (BOA) had the largest DD room and Barclays the second largest. They were also seen to be the companies most interested in a takeover.

John Thain, the CEO of Merrill Lynch, was present and witnessed the suffering on the faces of the Lehman Brothers' representatives as they were under tremendous pressure. He was paranoid that the fallout could cause a domino effect. Merrill Lynch might be the next victim on Wall Street. Thain had just taken over the helm barely two years before. He reckoned he had better get Merrill Lynch to run faster than the next potential victim before they were caught and eaten up mercilessly like Lehman.

On 14 September 2008, a Saturday night, Thain walked out of the DD room, and from the pavement outside the building, he called Kenneth Lewis, the BOA Chairman, on his mobile phone. Thain offered his own firm Merrill Lynch to Lewis, and Lewis offered to meet as BOA had been courting Merrill for several years now. The next morning, Lewis flew in his corporate jet to meet Thain in a private corporate apartment, a few blocks away from the Lehman Brothers office, and sewed up the deal to merge Merrill Lynch with BOA. It was a brilliant last-minute exit, or escape as some might call it, for Merrill Lynch.

The news came as a bombshell to the Lehman Brothers management who understandably felt stood up. But they had a

Plan B. There was still another potential saviour or white knight in the wings—Barclays Bank. Barclays President Bob Diamond and his boss were still keen on Lehman Brothers and they kept up with the negotiations. The deal was almost done except for one obstacle. Who would provide the liquidity guarantee for the transaction? Paulson would not authorise the guarantee and neither would Alistair Darling, the British Chancellor of the Exchequer. The British government would not allow the transaction and they could not give a guarantee for an American bank. The discussion sank into an impasse. There was no Plan C. As the weekend passed, there was panic in the air as the helpless Richard Fuld, Lehman's CEO, didn't believe his attorney that there was nothing more that could be done except to prepare for bankruptcy filing.

According to the BBC documentary, there was yet another but slim chance to salvage the deal. US President George Bush's second cousin by the name of George Walker was said to have made a phone call to the White House to speak to the President—it was Lehman Brothers' last-ditch struggle for survival. The White House operator put the call on hold—it seemed like an eternity—before replying that the President could not take the call. That night marked the darkest hour for Lehman Brothers. It signalled the end of an old establishment by just the press of a button on the computer. Lehman's share price was US\$85 at its peak, but now had crashed to a dismal 3 US cents.

The lessons for us:

- (a) Be always disciplined and cautious about capital management. Risk and leverage must be thoroughly computed and continuously taken care of.
- (b) Beware of businesses with returns that are too good.
- (c) Don't let greed and hubris take over. They can slowly creep into organisations and people.
- (d) Like John Thain, be acutely aware of looming danger and run faster than the next victim. It pays to be paranoid.

Don't let greed and hubris take over. They can slowly creep into organisations and people.

This email cannot adequately describe the drama, anger, fear, anxiety and emotions depicted in the TV documentary. I may not have all the facts and figures right. If you have the chance, please watch the documentary for the gripping drama. And learn from it.

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