Strategy Building and Sustaining Competitive Advantage: A Case Study of Shangri-La Hotels (Malaysia) Berhad

Introduction

In spite of growing rivalry in the domestic and global market, strong guests' demands, fast progression of technologies and on-going economic uncertainties, Shangri-La Hotels (Malaysia) Berhad (SHMB) is still poised for success. The outlook of Shangri-La hotels businesses for 2014 appears to be encouraging. In a highly competitive industry, Shangri-La hotels continually honoured worldwide recognition for their extraordinary service and Asian hospitality. For instance, in 2015 Shangri-La Hotel Kuala Lumpur was named the Top Hotels in Malaysia, Top Hotels for Romance, Top Luxury Hotels and Top Hotels for Service by TripAdvisor Travellers' Choice Awards.

Furthermore, Shangri-La Kuala Lumpur has once again retained the position as one of the best eco-friendly hotels in Asia by winning the ASEAN Green Hotel Award 2014-2016 for the fourth time running, having previously been awarded the awards in 2008-2010, 2010-2012 and 2012-2014. Three other SHMB such as Shangri-La Tanjung Aru Resort & Spa, Kota Kinabalu, Shangri-La Rasa Ria Resort & Spa, Kota Kinabalu and Shangri-La Rasa Sayang Resort & Spa, Penang were also honoured with this award.

During the twelve months to 31 December 2014, SHMB registered marginal increase in the revenue to RM513.679 million from RM511.225 million recorded in 2013. Specifically, Shangri-La registered higher revenue of RM487,458 from hotels and resorts segment in 2014 compared to RM485,487 in 2013. Throughout 2014, SHMB generally enjoyed more favourable market condition as leisure and business travel continued to grow at a healthy pace.

The reinforcement of its leadership position and competitiveness within the industry by maintaining and enhancing the quality of its portfolio through on-going capital investment programmes, underpinned by product and service innovation, while maintaining unrelenting focus on delivering the highest standards of service to guests definitely improved the financial performance and operational effectiveness.

In today's highly competitive and rapidly evolving market, numerous hoteliers are still facing several challenges. Hence, why certain hotels succeed in a dynamic competitive environment while rest fail? The answer might be simple and straightforward, but it is not easy. Hotels that grow and change are hotels that know how to build resilient strategies that secure and sustain competitive advantage.

The notion of strategy building and sustaining competitive advantage are at the very heart of business success. In view of that, this case is about the true competencies of Shangri-La hotels in overcoming the challenges in the 21st century based on the right strategy formulation, implementation, evaluation, and control and recognize its efforts to achieve the corporate goals as well as helping Malaysia to attain high income nation in 2020.

History and growth of Shangri-La Group

The Shangri-La story began in 1971 with the first deluxe hotel in Singapore. Inspired by the legendary land featured in James Hilton's 1933 novel, Lost Horizon, the name Shangri-La encapsulates the serenity and service for which the hotels and resorts are renowned worldwide. Today, Hong Kong-based Shangri-La Hotels and Resorts is Asia Pacific's leading luxury hotel group.

The hotel also regarded as one of the world’s finest hotel ownership and management companies. With over 85 hotels and resorts throughout Asia Pacific, North America, the Middle East, and Europe, the Shangri-La group has a room inventory of over 37,000. In addition, new hotels are under development in Mainland China, Hong Kong, India, Mongolia, Myanmar, Philippines, Singapore, Qatar, Sri Lanka and South Africa.

Today’s Shangri-La Hotels are known as five-star luxury hotels and located in premier city addresses across Asia Pacific, North America, the Middle East, and Europe. “To treat a stranger as one of our own" characterizes the hospitality one can expect from Shangri-La. Discerning travellers will enjoy world-class service amidst tranquil surroundings, coupled with inspirational architecture and design. The finest dining experiences at every hotel and resort ensure that every palate is pampered.

But what makes each stay truly memorable is something more exquisite and rare Shangri-La’s special kind of hospitality. Shangri-La Resorts offer travellers and families a relaxing and engaging vacation in some of the world's most exotic destinations. The guests can choose from a range of vibrant cultural experiences, recreational and rejuvenation activities amidst the natural splendour of a tranquil, tropical retreat. Besides world-class five-star service, expect the finest culinary delights that will please the most discerning palates.

Shangri-La has three major brands under its family; Traders, Kerry and Jen. Traders Hotels are the practical choice for both business and leisure travellers which located in the business hubs of Australia, Asia and the Middle East. Traders Hotels cater to savvy and passionate travellers who appreciate smart functionality and getting things done. Guests will enjoy a blend of thoughtful simplicity and the warmth and sincerity of Asian hospitality. Each Traders hotel is, therefore, a vibrant yet professional environment, designed to complement guests at work, rest or play.

Kerry Hotels is a new five-star brand in the Shangri-La family. It was launched in Shanghai and Beijing in 2011. Kerry Hotels are vibrant and buzzing with life and activity. Each Kerry hotel is defined by a spirited style and a careful attentiveness that bestows a sense of individuality to all guests. With unique, functional designs and enthusiastic, intuitive service, Kerry Hotels are places for a luxurious stay and inspirational experiences.

The Traders brand has had 30 years of success history in generating solid business, carving out a niche amidst a highly competitive industry and building a loyal base of customers. However, based on extensive consumer research and insight into the way its target market lives and travels, including talking and listening to its customers, they recognised and responded to the global travel trends and particular needs of this new generation travellers. This will keep them relevant and competitive for the next 20 years to come. So, Shangri-La launches new brand, Hotel Jen which rebrands existing Traders.

Hotel Jen is a diverse collection of mid-range hotels in the best locations across Asia Pacific. The first Hotel Jen launched with the opening of Hotel Jen Orchard gateway Singapore on September 15, 2014. The brand is the brainchild of virtual persona Jen, a professional hotelier and all-time lover of life, travel and discovery. Jen's unique brand of style and service delivery appeals to what she calls a "New Generation" of travellers.

The hotel is certainly delivers quality, comfort, convenience and value, but what makes it special is the way Jen makes people feel: excited and happy, respected and cared for, and as valued members of a group of likeminded adventurers in life. Jen's dream is for every stay to start with anticipation and end on a high. Hotel Jen is Jen's own inspiration and she can't wait to share it with you. So stay with Jen and experience "That Jen Feeling" for yourself soon.

Shangri-La Culture

Through the years, Shangri-La's philosophy has been "Shangri-La Hospitality from a caring family." Shangri-La has always believed in the unique characteristics encapsulated by Asian hospitality. The group is committed in providing guests with distinctive Asian standards of hospitality and service enables them to stand out amongst their peers. This quality remains the cornerstone of its reputation as a world-class hotel group. "Pride without arrogance" is of particular importance to the group.

The hotel take pride in every achievements, while remaining outwardly humble. In striving to delight customers each and every time they stay with them, the hotel aims to exceed expectations through consistent quality and value in every product and service offered. That's why Shangri-La looks for trend setters and professionals who are motivated by innovation and driven by achievement.

Overview of Shangri-La Hotels (Malaysia) Berhad

Shangri-La Hotels (Malaysia) Berhad (SHMB) is an investment holding company which incorporated with limited liability and traded on Bursa Malaysia Securities Berhad. SMHB engaged in the operation of hotels, beach resorts, golf course, clubhouse, property management and commercial laundry.

In Malaysia, the hotel properties include Shangri-La Rasa Ria Resort, Kota Kinabalu, Shangri-La Tanjung Aru Resort and Spa, Kota Kinabalu, Putrajaya Shangri-La, Shangri-La Kuala Lumpur, Traders hotel, Kuala Lumpur, Hotel Jen, Penang, Golden Sands Resort, Penang, Shangri-La Rasa Sayang Resort and Spa, Penang and Hotel Jen, Puteri Harbour Johor.

Vision and Mission

SHMB vision is "To be the first choice for guests, colleagues, shareholders and business partners." Meanwhile, the mission is "To delight our guests every time by creating engaging experiences straight from our heart." In addition to the vision and mission statements, SHMB is guided by its high standards, which includes the following guiding principles:

- ✓ Ensure leadership drives for results
- ✓ Make guest loyalty a key driver of our business
- ✓ Enable decision-making at the guest contact point
- ✓ Be committed to the financial success of our own unit and of our company
- ✓ Create an environment where our colleagues may achieve their personal and career goals
- ✓ Demonstrate honesty, care and integrity in all our relationships
- ✓ Ensure our policies and processes are guest and colleague-friendly
- ✓ Remain deeply committed to our social responsibility by making a positive contribution to our communities, environment, colleagues, guests and business partners

Corporate Governance

Board of Directors

The Board of Directors is currently made up of nine members, comprising seven non-executive directors and two executive directors. Figure 1 illustrates the Organizational Chart of SHMB (See Exhibit 1). The names and biographical details of each director in office as of 31st December 2014 were as follows:

Tan Sri A. Razak bin Ramli (age 65) was appointed to the Board of SHMB on 1st November 2004 and became Board Chairman on 19th May 2005.

Madam Kuok Oon Kwong (age 67) is joined the Board on November 14, 1996 and was appointed as Managing Director on November 16, 1998. She is the Chairman of the Policy Implementation Committee and in her capacity as Managing Director, she oversees business operations.

Datin Rozina Mohd Amin (age 54) is Company Secretary and Non-Independent Executive Director. She was appointed as an Executive Director on June 1, 1998. She also has been a member of the Policy Implementation Committee since 1996.

Dato' Haris Onn bin Hussein (age 47) is Independent Non-Executive Director. He was appointed to the Board on October 17, 2006.

Dato' Seri Ismail Farouk Abdullah (age 68) is Independent Non-Executive Director. He was appointed to the Board on June 23, 1979. He is also Chairman of the Company's Audit Committee and is Member of the Nomination & Remuneration Committee.

Dato' Khoo Eng Min (age 72) was appointed to the Board on 10 June 2008. On 23 February 2015 SHMB announced the resignation of Dato' Khoo Eng Min as Non Independent & Non-Executive Director of the company, due to health conditions. Mr. Tan Yew Jin (age 72) has been Non-Independent Non-Executive Director since October 17, 2006. He is Member of the Company's Audit Committee.

Datuk Supperamaniam a/l Manickam serves as Independent Non-Executive Director. He was appointed to the Board on January 3, 2005 and is Member of the Audit Committee and Nomination & Remuneration Committee.

Dato' Dr. Tan Tat Wai (age 67) is Independent Non-Executive Director. He was appointed to the Board on June 6, 1995 and is currently Chairman of the Nomination & Remuneration Committee.

The board has made tremendous contribution to the company and always committed to high standards of corporate governance. The Board recognises effective governance as fundamental to SMHB to deliver a sustainable growth in return for its shareholders over the long term. The Board also strives to maintain the highest levels of accountability, integrity and business conduct through SMHB's core values and Code of Ethics, which fully embedded in every part of the organization.

In accordance to the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia), this statement describes the way in which the company has applied the principles and recommendations set out in the Malaysian Code on Corporate Governance 2012 (the 2012 Code). Exhibit 2 shows the top management of SHMB that leads Shangri-La Rasa Ria Resort, Kota Kinabalu, Shangri-La Tanjung Aru Resort and Spa, Kota Kinabalu, Putrajaya Shangri-La, Shangri-La Kuala Lumpur, Shangri-La Rasa Sayang Resort and Spa, Penang, Traders hotel, Kuala Lumpur, Hotel Jen, Penang, Golden Sands Resort, Penang, and Hotel Jen Puteri Harbour Johor.

Shangri-La Hotel Kuala Lumpur

Financial performance

The financial performance of Shangri-La Hotel Kuala Lumpur improved further with stronger food and beverage business combined with effective cost saving measures. The revenue for the year was RM192.224 million as against RM192.589 million in 2013, with higher contribution from food and beverage. The hotel's pre-tax profit nevertheless advanced 7% to RM46.234 million in 2014 compared to RM43.222 million on the year before, driven mainly by cost saving and a lower depreciation charge.

Food and beverage revenue

The hotel's food and beverage revenue for 2014 climbed to RM93.626 million from RM92.881 million in 2013. The hotel's outlets reported higher revenue underpinned by increase average checks, especially at the coffee shop, Lemon Garden Café, Arthur Bar & Grill and Shang Palace.

This was particularly offset by a reduced revenue contribution from banqueting business due to a fall in average checks resulting from stiff price competition. The combination of a growth in revenue and a drop in operating costs achieved through cost savings measures pushed up the hotel's food and beverage profit by 2% to RM37.100 million in 2014 compared to RM36.381 million the prior year.

Room revenue

Room revenue of RM92.514 million 2014 was marginally down in comparison to the previous year's figure of RM93.369 million as a higher average room rate was outweighed by a decline in occupancy levels. As a result, room profit was slightly lower at RM72.973 million versus RM72.979 million in 2013. Average room rates rose across almost all segments in particularly the corporate group segments and leisure individual and leisure group segments.

Occupancy however decreased to 77% as against 81% in 2013, mainly due to a reduction in room night bookings mainly from the individual and leisure group segments of Australia, Hong Kong and the Middle East. To cushion the drop in leisure business, the hotel offered attractive packages with special rates targeting the Malaysian and Singaporean markets so as to generate business during holiday seasons and weekends.

Awards and recognition

The hotel aims to deliver excellent service, gracious hospitality and superb facilities and continued to garner prestigious awards during the year. It was named one of the Best Hotels in Southeast Asia by Conde Nast Traveller in its Reader's Choice Awards 2014. Meanwhile, Travel + Leisure magazine ranked the hotel as the Best Hotel in Kuala Lumpur for 2014 and it was also voted as one of the Top 25 hotels in Malaysia by TripAdvisor in its 2014 Travellers Choice Awards.

The hotel's main focus is on stepping up corporate business from its key markets of Malaysia, Singapore, Australia and the UK as well as on expanding its meeting and incentive markets in Malaysia, the Middle East and China. It also aims to grow its convention business in the banking and finance, pharmaceutical and medical sectors. The hotel intensifies its upselling activities so as to win higher rated business for its Horizon rooms and suites to maximise room yield.

For its leisure markets, it concentrates on boosting volume from the UK, Australia and the Middle East and Japan besides venturing into the new market of Korea. In addition, to spur its weekend business, the hotel also continues to offer the Malaysia and Singaporean market packages with value added benefits and attractive promotions. The hotel introduces a new range of creative food promotions, revamp its food concepts and further enhance service quality across all its outlets to expand its food and beverage business.

In addition, it continues to promote its loyalty food and beverage programme so as to expand the local community customer base and drive business for the outlets. Meanwhile, the hotel grows its banqueting and outside catering business through innovative sales and marketing programmes and introduces more competitive meeting packages to secure a higher number of conventions, corporate meetings, government functions, high profile weddings and social events.

Hotel Jen Penang

Financial performance

Traders Hotel Penang was rebranded as Hotel Jen Penang on 4th November 2014. This was in line with a major initiative by Shangri-La International Hotel Management to rebrand all of its Traders Hotels as Hotel Jen. During the year, Hotel Jen Penang delivered healthy growth in both revenue and profit underpinned by stronger corporate demand. Revenue was up 4% to RM43.148 million compared with RM41.382 million in 2013, while pre-tax profit improved by 11% to RM8.697 million from RM 7.813 million the previous year.

Room revenue

Room occupancy rose from 80% to 83% mainly due to higher room night bookings generated from its long stay corporate segment primarily from Japan. There was also higher demand from the meeting and incentive segments from Malaysia and Singapore. As a result, room revenue for 2014 gained 5% to RM30.810 million from the RM29.262 million generated the year before, and rooms profit climbed 8% to RM23.524 million in 2014 as against RM21.838 million in 2013.

Food and beverage revenue

The hotel's food and beverage revenue of RM10.676 million for 2014 was slightly up on the RM10.570 million recorded in 2013. This was mainly due to rise in revenue from the outlets driven by an increase in covers, particularly from the coffee shop, The Iskander. However, this was largely offset by a drop in revenue contribution from the banqueting business, with stiff pricing competition causing a reduction in average checks. Nevertheless, profit rose by 9% to RM2.547 million in 2014 from RM2.334 million in 2013 as a result of effective cost saving measures undertaken during the year.

The hotel focuses to deliver higher business volumes from its key corporate markets of Malaysia, Japan and Singapore and to build its corporate customer base particularly in the electrical and electronic sectors. The hotel also aims to win new business in the long stay segment and to expand its market share in the meeting and incentive segment of Malaysia and Singapore.

Meanwhile, the hotel continues to increase its leisure business from Indonesia and introduces attractive weekend and holiday packages for its tour segment from Taiwan and China.

To further improve the business volume and competitiveness of the hotel's food and beverage outlets, new food concepts and attractive buffet and dining promotions are launched. At the same time, greater marketing efforts are made to grow patronage for its outlets from the local community. In addition, competitive and value added packages are inaugurated to secure more corporate events and social functions to develop its banqueting and outdoor catering business.

Rasa Sayang Resort

Financial performance

Rasa Sayang Resort experienced a 10% fall in total revenue to RM69.707 million from RM77.442 million in 2013, while pre-tax profit was down 37% to RM12.061 million from RM19.129 million the previous year. The declined financial performance reflects the impact of the major renovation of all the resort's Garden Wing guestrooms, which resulted in a significant drop in the number of rooms available for sale for the greater part of the year. The renovations started in April 2014 and were successfully completed by mid-December 2014. The improved room product received an encouraging response from guests, and further strengthens the resort's position and enables it to compete more effectively in the market.

Room revenue

In 2014, the resort's occupancy was 53% as against 67% the year before. Lower room night bookings were recorded in almost all segments, especially the leisure group and leisure individual segments of the UK, Australia, the Middle East and Malaysia, as well as in the meeting and incentive segments, particularly from Malaysia and Singapore. As a result, total room revenue decreased by 13% to RM41.699 million from RM47.960 million in 2013, and profit also declined 13% to RM33.654 million from RM38.880 million the preceding year.

Food and beverage revenue

In line with lower occupancy, the resort's food and beverage operations delivered weaker results. Almost all outlets recorded fewer covers, especially the coffee shop, Spice Market and Tepi Laut. Banqueting business also slipped due to a smaller number of corporate meetings and social events. As a result, the resort's food and beverage revenue was down 5% to RM23.869 million from RM25.222 million the prior year, while profit decreased by 9% to RM8.960 million from RM9.811 million in 2013.

Awards and recognitions

The resort was voted one of the Top 25 Hotels and Resorts in Asia by Smart Travel Asia Magazine in its 2014 Best in Travel Poll. It was also named one of the Top 10 Hotels in Malaysia by TripAdvisor in its 2014 Travellers' Choice Awards.

The resort boosts its sales and marketing efforts to drive higher business volumes from its key leisure markets of Australia, the Middle East, Malaysia and the UK. It also works on sourcing new business from the emerging markets of China and India. Meanwhile, increased efforts are made to grow corporate meetings business from Malaysia, Singapore and Hong Kong. Besides this, the resort aims to improve room yield through a more effective rate management strategy and aggressive upselling incentives.

Golden Sands Resort

Financial performance

Stronger leisure demand coupled with higher average room rates enabled Golden Sands Resort to grow its total revenue by 7% to RM60.415 million from RM56.429 million the year before. Pre-tax profit, meanwhile, advanced by 8% to RM17.394 million compared with RM16.070 million in 2013.

Room revenue

During the year, the resort's occupancy climbed to 76% from 72% the prior year, while its average room rate was up 3%. This led to a 10% increase in total room revenue to RM41.977 million from RM38.223 million in 2013, and a 10% rise in profit to RM34.818 million from RM31.512 million the previous year. These results were underpinned by higher room night bookings from its leisure group and packages segments from Malaysia, Australia, Singapore and the Middle East combined with improved average room rates particularly in the leisure group segment.

Food and beverage revenue

The resort's food and beverage operations, on the other hand, delivered a weaker performance, owing largely to stiff pricing competition in tough market conditions. Total food and beverage revenue increased to RM15.839 million from RM15.603 million in 2013, mainly from the higher revenue contribution of coffee shop. However, profit declined to RM4.550 million from RM4.580 million in 2013, with the growth in revenue unable to offset the impact of rising cost pressures.

The resort focuses its sales and marketing initiatives on spurring business volumes from its key leisure markets of Australia, the Middle East, Malaysia and the UK. It also sources new business from the emerging markets of China and India. Besides this, greater efforts are made to secure more corporate meetings from Malaysia and Singapore and to expand group tours business from Hong Kong and Japan. New food and beverage concepts and more exciting food promotions are devised specifically to attract both the local community and in-house guests.

In addition, innovative dining packages continue to be offered through partnerships with major credit card merchants so as to generate recurring business. The resort also steps up its marketing efforts to further grow its banqueting and local catering business, and again launches a range of value-added packages to win more corporate meetings, weddings and social events. At the same time, the resort continues to raise its service standards and improve its operating efficiency.

Rasa Ria Resort

Financial performance

In 2014, higher average room rates and enhanced food and beverage business drove up total revenue at Rasa Ria Resort by 3% to RM117.033 million from RM113.255 million the year before. Pre-tax profit, however, eased from RM28.132 million to RM24.896 million owing to a charge of RM5.300 million for constructing a road to provide public access to the nearby beach and villages, as required by the local district council. Excluding this charge, the resort's pre-tax profit for 2014 was RM30.196 million, 7% up on the 2013 figure of RM28.132 million.

Room revenue

During the year, the resort's occupancy level declined to 70% from 75% in 2013 due to a reduction in room night bookings mainly in the leisure individual, leisure group and tours segments from China, Hong Kong, Taiwan and Korea. On the other hand, an effective rate strategy secured higher average room rates across almost all segments. This pushed up total room revenue by 2% to RM67.946 million from RM66.318 million in 2013, while room profit gained 3% to RM58.574 million from RM56.698 million.

Food and beverage revenue

Meanwhile, the resort's food and beverage performance improved, with revenue climbing 6% to RM37.667 million from RM35.566 million in 2013 and profit advancing by 10% to RM14.021 million from RM12.711 million the previous year. These results were spurred mainly by a bigger contribution from the outlets on the back of higher average checks, mainly at Coffee Terrace, Naan and Tepi Laut. The banqueting business also did well, with both covers and average check benefitting from a growth in corporate meetings and social events.

Awards and recognitions

The resort garnered a number of prestigious awards in recognition of its product quality and service excellence in 2014. It was listed among the Top 20 Best Hotels in the Asia and India Category in the Condé Nast Readers' Travel Awards 2014, and was ranked one of the Best Luxury Hotels in Malaysia by TripAdvisor in its Travellers' Choice Awards 2014.

The new Ocean Wing extension, begun in March 2013, was completed and opened in early April 2015. The extension comprises two additional blocks which add 83 guestrooms to the resort's room inventory, as well as a new lobby and reception and an all-day dining restaurant. The resort has launched a marketing and advertising programme to create awareness of the extension, which has been well received in the market. In tandem with the extension the resort refurbished all of the 90 guestrooms in the existing Ocean Wing. Together, these initiatives bolster the resort's leadership position in both the local and the international markets besides providing a strong foundation for future growth.

Risk Management and Internal Control Processes

SHMB has an established framework of procedures and internal controls of which each operating business unit are required to comply. All its hotel and resort are required to maintain systems of internal control in accordance to the nature and scale of their business activities and to address all significant operational, financial and compliance risk.

Organizational structure with key responsibilities such as the board, the board committees and executive management of the group's major operating units are well defined at SHMB. Specfically the audit committee of the board currently comprise three non-executive directors; two of them are independent and has full access to both the internal and external auditors. Further more, key policies and control procedures regulating financial and operating activities are clearly documented in manuals for hotel operating units.

To ensure its competitiveness, the company has established policy implementation committee (PIC) that is responsible to look in detail the annual budgets and strategic matter such as business strategies, financial and operating targets, performance indicators and capital expenditure process. SHMB comprehensive financial reporting system has enable the executive management of major operating units, the executive directors and the board to make better decisions.

Detailed management accounts are prepared by each operating unit based on an annual budget with monthly reports are compared against budget analysis of significant variances as well as key performance indicators. The group has clear procedures for the appraisal of major capital expenditure, asset disposal and major business transactions which must be approved by the board as well as detailed procedures and authority levels relating to all other expenditure.

SHMB gives great emphasis on communicating information relating to business plan and performance to employees as to encourage participation and to create awareness of the financial and economic factors affecting the group. Internal audit plays a critical role in the objective assessment of SHMB's business process by providing the audit committee of the board with reasonable independent assurance on the effectiveness and integrity of SHMB internal control system.

To enhance total good governance, SHMB has whistle blowing and whistle blower protection policy to demonstrate its commitment to conducting its business according to the highest standards of openness, probity and accountability as well as enable employees and business associates to report suspected wrongdoing as soon as possible.

Corporate Social Responsibility

SHMB is fully committed to sound principles of Corporate Social Responsibility (CSR). CSR is integral to the hotel in conducting its business and underpins their long-term growth strategy. SHMB places a strong focus on engagement with stakeholders at all levels including employees, customers, shareholders and local communities.

This is supported through SHMB commitment when working closely and participates in extensive dialogue with local authorities and government bodies at both national and local levels on environment related issues to deliver common goals and objectives. Specifically, CSR committee oversees the on-going development and implementation of the Group's CSR policies and practices as well as to monitor progress in the key areas of environmental management, employment, health and safety, community support and supply chain management.

Environmental Sustainability

SHMB is acknowledged by the government on its responsibilities for managing and reducing the impact of its businesses on the environment and committed to making continuous improvement in environmental performance. Thus, SHMB follow an Environmental Management System (EMS) Manual, which helps to identify and address the immediate and long-term impact of the hotel's operations on its local environment.

This has enabled all SHMB's hotels having attained ISO 14001 accreditation and international standard of environmental management. SHMB has also made significant investment in initiatives to improve efficiency in the use of resources including energy and water. Furthermore, SHMB continue to roll out energy saving measures such as replacing older equipment with energy efficient alternatives like at Shangri-La Hotel Kuala Lumpur, which all its lifts and escalators have been upgraded with modern technology such as built-in sensors, converted the use of LPG to natural gas for the boilers and energy saving LED bulbs.

In addition, SHMB's hotels and resorts use new environmentally friendly CFC free high efficiency chillers, guestrooms electronic control systems, high efficiency lighting, water saving flush system, other water saving devices and water purification system. SHMB also explored opportunities to improve its waste management programmes through the recycling of waste such as glass bottles, papers, plastics, metal and used cooking oil via segregation and recycling programmes.

SHMB also gives importance to conservation and biodiversity, so each of their resorts has a "Sanctuary" and "Shangri-La Care for Nature Project". For example, Rasa Ria Resort Sabah has the "Orangutan Care Project" and at Rasa Sayang Resort and Golden Sand has the "Turtle Care Project".

Human Resources Sustainability

The company believes employees are central to the continued success of their business and reputation for service excellence. SHMB embraces diversity and operates a non-discriminatory employment policy by providing equal opportunities in all aspects of employment. Specifically, SHMB provides working environment that fosters continuous development and innovation of employees at all levels. These enable SMHB to maximise their potential and capabilities from within. Every hotel employee is required to participate in the Shangri-La Care Programme which is designed to promote the understanding and daily practice of the Group's core values and code of ethics.

The programme consists of four modules called Shangri-La Hospitality from a Caring Family, Delighting and Engaging with Guests, Taking Ownership and Recovering to Gain Loyalty. SHMB also operate a wide range of service and functional skills training activities for employees of all levels, including training programmes and internal training courses to develop and improve the management and leadership skills of top talent and high potential employees.

The group has in place four core development programmes for managerial employees with potential that create pathway fr internal promotion, namely the Corporate Service Executive Training Programme, the Corporate Executive Trainee Programme, Corporate Management Trainee Programme and Corporate Trainee Programme. Furthermore, the group provides opportunities for selected employees to attend training at the Shangri-La Academy in China for its certificate, diploma and management development programmes. In 2014, a total of 35 employees from Group's hotels and resorts attended the Academy.

The group has cultivated special skills by creating employment opportunities of people with disabilities (PWDs). The group targeted 2% of each hotel's staff to be PWDs that are working in various divisions and as at the end of 2014 Shangri-La Hotel Kuala Lumpur and Hotel Jen Penang have exceeded the target while the other three hotels are making good progress to achieve the target. Rasa Ria resort has also received a Gold Award from the Social Security Organization (SOCSO) for its initiative in employing PWDs under the Return to Work programme. Besides that, employee feedback and suggestions are encouraged through its staff opinion surveys, speak-up programmes, team meetings and two way dialogue sessions.

Employees are kept informed of business developments through a variety of communication channels.

Health and Safety Sustainability

SHMB places a strong emphasis on ensuring the highest level of food safety and on managing food safety risk under the stringent Shangri-La Food Safety Management System (SFSMS). The SFSMS is a comprehensive system covering the receiving, preparing, cooking and serving of food items and safeguard against the cross-contamination of products. More significantly, four of their hotels and resorts have now attained Hazard Analysis and Critical Control Point System (HACCP) certificate.

HACCP is global food safety standard system and is one of the most sought after accreditations in the hospitality industry. Furthermore, four hotels obtained Occupational Health and Safety Management System (OHSAS 18001). OHSAS 18001 is an international occupational health and safety management system which helps organizations to control and manage the health and safety risks associated with its business activities.

The Community Sustainability

SHMB is conscious on its responsibility to act as a good corporate citizen and encourage its hotels to engage with local communities in their area of operation. “Embrace, Shangri-La Care for People Project” aims to build, strengthen and sustain local communities through various specific education and health projects, infrastructural support, fundraising, corporate donations, living skills training and hotel apprenticeship. SHMB provides not only positive economic benefits through employment opportunities but also significant training support for developing the capabilities of many locals so as to groom them for senior roles. Its provide practical training on various aspects of hotel operations for students from local higher learning instituions, which include community programmes like Young Enterprise Programme, Embrace Gift of Life Project, Embrace Gift of Limb Project and Embrace Shangri-La’s Care for People Project.

Supply Chain Sustainability

To remain competitive, SHMB provides CSR guidelines for its major suppliers. Procedures are clearly defined and its implementation are closely monitored. Specifically, in accordance with SHMB Corporate Purchasing Policy, suppliers are required to comply with its supplier code of conduct, which is included as an appendix to every supplier contract and regularly reviewed to ensure compliance. The code is closely aligned with SHMB’s core values and incorporates recognised international best practices in the area of labour and human rights, health and safety, environment impact, ethics and management commitment.

Financial Position

Revenue

In the twelve months to 31 December 2014, SHMB registered a marginal increase in revenue to RM513.679 million from RM511.225 million reported in 2013, as higher contributions mostly from Rasa Ria Resort and Golden Sands Resort, were largely offset by a fall in revenue at Rasa Sayang Resort due to the disruption caused by the renovation programme of all its Garden Wing guestrooms for the most part of 2014. The Group pre-tax profit for 2014 dropped to RM119.497 million, 29% lower than last year's profit of RM168.181 million.

Correspondingly, net profit attributable to shareholders for 2014 fell by 39% to RM79.340 million, compared with the RM130.367 million earned in 2013. The 2013 result included a reversal of an impairment provision of RM29.744 million related to investments in Myanmar. Earnings per share for 2014 were 18.03 sen, down from 29.63 sen in 2013. Excluding the impact of non-operating items, the Group net profit for 2014 was RM87.127 million, a decrease of 8% from RM94.397 million recorded in the previous year, principally as a result of a significant reduction in contribution from Rasa Sayang Resort.

Net Asset

At the end of 2014, net assets attributable to shareholders stood at RM954.979 million, representing a net asset value per share of RM2.17, the same level as at end of 2013.

Cash Flow

At 31 December 2014, the Group had a consolidated net debt position of RM29.211 million, while net gearing was 3% of shareholders' equity, compared to 2% at the previous year end. The healthy balance sheet and financial capacity enabled SHMB to take advantage of investment opportunities, and allow to press on with its initiatives for further growth.

Dividend

Given these results, the Board of Directors are recommending a final single-tier dividend of 9 sen per share which, together with the interim single-tier dividend of 3 sen per share paid in November last year, brought the full year dividend for 2014 to 12 sen per share. In the financial year 2013, a total single-tier dividend of 18 sen per share was paid, made up of a final of 10 sen per share and an interim of 3 sen per share, plus a special dividend of 5 sen per share.

Management Strategies

SHMB determined to build strong marketing capability and cost performance, while driving service and product improvements in response to the challenging operating environment. This enables to further bolster the competitive position and to achieve higher returns from hotels and investment properties. SHMB step up marketing programmes and activities so as to maximise revenue opportunities in key leisure and corporate travel markets. Simultaneously, SHMB implements more innovative marketing initiatives, promotions and packages aimed at stimulating demand and aggressively increasing market penetration in emerging markets with high growth potential.

SHMB develops and maintain both strong sales and marketing network and close business relationships with existing and potential major suppliers and key customer accounts and these further increase its brand and product awareness. It also builds and improves the capabilities of sales and marketing teams to sharpen market execution and performance. In 2014, SHMB was focusing on revenue-enhancing programmes and its effective rate strategies had led to healthy market share gains of its individual hotel markets.

In the phase of increasing cost pressures, SHMB focuses on generating sustainable growth in operating margins by driving their planned efficiency programmes, raising labour productivity and their work processes, while keeping costs under tight control. Concerted efforts in these areas during 2014 ensured that the majority of its businesses achieved good increases in operating margins.

SHMB also take prudent and disciplined approach to capital expenditure. In 2014, the capital expenditure was mainly deployed on the renovation of the Garden Wing guestrooms at Rasa Sayang Resort and the completion of the new extension project at Rasa Ria Resort. The group also increased its investments for new or upgrades IT equipment as the management believes advanced technology would boosts operational effectiveness.

SHMB continues to invest in maintaining and enhancing the high quality and standards of its existing products and facilities to strengthen and fortify leadership in the hotel industry. This is backed by a strong programme of innovative products and dining concepts as continually responds to changing customer trends and expectations.

SHMB also continuously focuses on improving its customer service capabilities across all business activities and on becoming ever more responsive to customer needs. Meanwhile, to further reinforce their operational capability and to support its growth ambitions, the hotels continued to prioritise the development of its people at every level of the organisation.

This involves not only upgrading the skills, core competencies and productivity but uplifting its performance via well-embedded training, management and leadership programmes. As it also regard staff wellbeing as of paramount importance, in 2014, SHMB introduced a number of fresh initiatives to promote safety and health. Building its commitment to product quality, in April

2014, the hotels embarked on a programme to comprehensively refurbish the Garden Wing guestrooms at Rasa Sayang Resort. With the newly renovated rooms, the resort is better placed to compete well in the local market. The project had successfully completed in April 2015 after a 24-month construction period has been very well received in the marketplace.

This major undertaking has consolidated the Sabah hotel market as well as providing the resort with significant growth opportunities in the years ahead. As a responsible business entitiy, SHMB has strong commitment to business sustainability. Its market-leading brands and high quality assets, combined with financial strength and operational expertise had enable SHMB to position itself better to withstand the challenges ahead and to benefit from any improvements in market conditions.

Contemporary Business Environment

The government of Malaysia has sound vision and plan for the country. Specifically, the government strengthens its macroeconomic policies by introducing New Economic Model (NEM), Economic Transformation Program (ETP), National Key Economic Areas (NKEA), Strategic Reforms Initiatives, 1 Malaysia concept, Government Transformation Program (GTP), 10th Malaysia Plan 2011-2015, five economic growth corridors and existing Vision 2020 which could transform Malaysia to be high income nation.

Furthermore, the government gives some tax deduction or exemption for pioneer status, overseas promotion, approved trade fair, tour operators and stamp duty. In addition, they provide Investment Tax Allowance (ITA) for new hotel construction or renovation. From 1st April 2015, Malaysian government implemented 6% of Good and Services Tax (GST) replaced its 10% Sales Tax and 6% Services Tax. The GST implementation is part of the government's tax reform programme to enhance the capability, effectiveness and transparency of tax administration and management. It is very clear that the government invested back most of the tax collected for infrastructure development that support more industries including hospitality sector.

Notably, Malaysia is rapidly developing economy in Asia Pacific region. In the first quarter of 2015, the GDP expanded by 5.6% over a year earlier. The service sector contributed 54% for the GDP. Malaysian government’s forecast of growth for 2015 from 5-6% previously to now 4.5-5.5%. Malaysian Investment Development Authority (MIDA) highlighted that there are wide investment opportunities in Malaysia. Investment climate in Malaysia is growing and attracting many investors to invest in this country. Recently, Foreign Direct Investment (FDI) Confidence Index study shows that Malaysia is 10th most attractive destination. In 2014, the Asia Pacific Investment Climate Index shows that Malaysia ranked at 9th from the 20 countries. These scenarios positively affect hotel and tourism sectors.

Based on the report of Department of Statistics, Malaysia in May 2015, Malaysia’s population recorded as 30.5 million. Malaysia’s population comprise of Malays 50.4%, Chinese 23.7%, Indian 7.1 %, Indigenous 11% and others 7.8%. Furthermore, 72% of total population lived in urban areas. Every single citizen is a prospect to boost local tourism industry. Furthermore, in 2014 Malaysia recorded 27.4 million foreign tourist arrivals.

Malaysia is considered as upper middle income nation. The 2014 household income survey found that average monthly income of Malaysian household rose from RM 5000 in 2012 to RM 5900 in 2014. Due to rising household income and educational level the lifestyle and customer buying behavior or patterns have changed. Currently, Malaysians become more sophisticated and cosmopolitan and looking for greener, healthier and beautiful lifestyles.

From religious perspectives, halal certificate given by Jabatan Kemajuan Islam Malaysia (JAKIM) is crucial for hotels to possess if they intends to attract Muslim community. Such halal certificate will not attract Muslim guests only but non-Muslims too. On the other hand, Statistics Department said Malaysia's unemployment rate rose 0.1% to 3.2% in February 2015 from 3.1%. This situation will somehow affect Malaysia economy and it certainly requires government and firms to be more creative in creating new jobs.

Recent survey of TripAdvisor Inc shows that 93% of Malaysian travellers used online resources to plan their trip. Current technology development in Malaysia could be seen from the use of SOTA (Smart Online Travel Assistant) and SoLoMo (Social, Local & Mobile). Specifically, SoLoMo assists the travellers in making better decisions. Furthermore, the TripBarometer survey found that 35% of Malaysian travellers booked their accommodations via online and this development has endorsed the important of e-commerce in today's business environment.

Generally people used more social media such as websites, Facebook, twitter and mobile applications to survey and book the hotels. Good transporation infrastructure also important in tourism industry. Airline industry plays a key role in hotel business development. In Malaysia there are several local based airlines such as Malaysia Airlines System (MAS), Air Asia, Firefly and Malindo. Air Asia, Firefly and Malindo provides cheapest flights for travellers. Besides local airlines, there are approximately 52 airline companies operating in Malaysia airports which give ample service for the tourists.

Unfortunately, the Malaysian airlines tragedies in 2014 had declined visitor arrivals to Malaysia. Malaysia's newly constructed electrified double track railway would create better growth prospect for the sector. Furthermore, the Land Public Transport Commission (SPAD) and Ministry of Tourism implementing Taxi Transformation Plan and Taxi Ambassador Program to advance the local transportation. All these would boost the tourism sector further.

No doubt that tourism industy effects ecosystem. Water pollution, air pollution, wastage problems, deforestation, soil erosion, species endangering and natural disasters are among common issues associated to unethical business conducts. Lately, Malaysia regularly faces haze problem where the Air Pollution Index (API) reached almost 746.

Malaysia through Department of Environment, Ministry of Natural Resources and Environment is responsible for implementation and monitoring of Environmental Quality Act 1974 besides various environmental policies such as water quality management, air quality management, waste management, environment and climate change, reduction of greenhouse gases and so on. Malaysia also has great diversity of ecosystem. National Biodiversity Policy 1998 is one of the important local agenda of Department of Environment. Thus, the quality environment is a key asset for the tourism areas.

In Malaysia, there are lot of hotels and resort, strategically located in various places. The statistic shows that, currently Malaysia has 475 of 3 to 5 star hotels. Among major competitors in the sector are Marriot, Intercontinental, Sheraton, E&O, The Westin, Hyatt, Le Meridian, The Ritz Carlton and Hilton. Competition is more on competitive pricing, promotion, advertising activities to attract more customers and most of them offer almost the same quality services. From time to time, there are new hotels entering the luxury hotel market.

The competition is shaped up by national plan in which Malaysia focuses to increase number of 4 and 5 star hotels under NKEA agenda. Therefore, under the 2012 budget, Ministry of Finance had approved investment tax allowance and pioneer status for new 4 and 5 star hotels. In 2012, an additional 3648 new 4 star and 5 star hotel rooms were completed. Hotels need lot of suppliers to run their day to day business operation. The amount of suppliers is high and this enable the market to remain competitive.

Besides competition among themselves, the hotels are facing pressures of alternatives from homestay program. Currently, there are 219 homestay in Malaysia registered under Ministry of Tourism. It only requires low capital and maintenance cost to maintain the homestay and also encouraged by Ministry of Tourism, Malaysia. Customers sometimes tend to look for more alternatives which fulfil their requirement. Overall, it shows that there are numerous challenges in general and industry environments.

Future Outlook

The outlook for hotel businesses is expected to be more challenging during 2016 onwards in an uncertain operating environment and with heightened competition in certain marketplaces. In response to the challenging operating environment, SHMB determined to build their strong marketing capability and cost performance, while driving service and product improvement.

This further bolsters its competitive position and to achieve higher returns from its businesses. Thus, with the right strategies building and sustaining competitive advantage initiatives, SHMB is truly competent enough to overcome the hurdles in 21st centuries. SHMB needs to continually use strategic planning so it will be successful in the competitive industry of hospitality.

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EXHIBITS

Exhibit 1: Organizational Chart

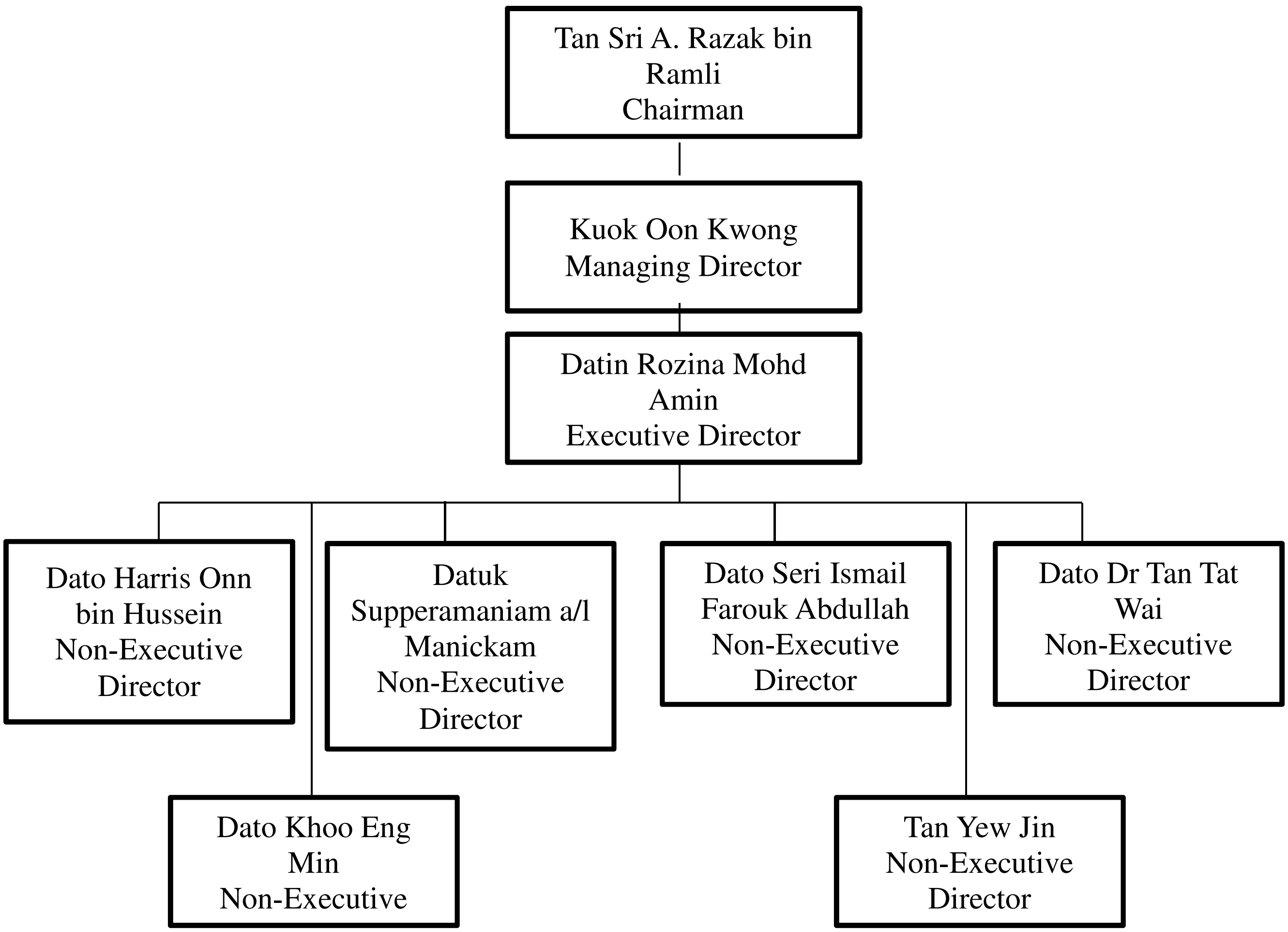

Exhibit 2: Top Management

1. **Shangri-La Rasa Ria Resort, Kota Kinabalu**

   Jean-Marc Michel
   General Manager

   Suzaini Ghani
   Director of Sales & Marketing

   Tina Goh
   Director of Communications

2. **Shangri-La Tanjung Aru Resort and Spa, Kota Kinabalu**

   Andrew den Oudsten
   General Manager

   Michele Ma
   Director of Sales & Marketing

   Claudina Wong
   Director of Communications

3. **Putrajaya Shangri-La**

   Atiq Rehman
   General Manager

   Rodziah Salleh
   Director of Sales and Marketing

4. **Shangri-La Kuala Lumpur**

   Manfred Weber
   General Manager

   Cheah Keat Fui
   Director of Sales and Marketing

   Rosemarie Wee
   Area Director of Communications

5. **Shangri-La Rasa Sayang Resort and Spa, Penang**

   Elaine Yue
   General Manager

   Alex Pasion
   Director of Sales

   Suleiman Tunku Abdul Rahman
   Director of Communications

6. **Traders hotel, Kuala Lumpur**

   Christian Nannucci
   General Manager

   Tammy Khoo
   Director of Sales & Marketing

   Theresa Goh
   Communications Manager

7. **Hotel Jen, Penang**

   Gavin Weightman
   General Manager

8. **Golden Sands Resort, Penang**

   Keith Tomkies
   General Manager

   Alex Pasion
   Director of Sales

   Suleiman Tunku Abdul Rahman
   Director of Communications

9. **Hotel Jen, Puteri Harbour Johor**

   Sigi Bierbaumer
   General Manager

Exhibit 3: Income Statement

Income statement					
Year Ending December 31	**2010**	**2011**	**2012**	**2013**	**2014**
Revenue (RM'000)	**422,002**	**479,731**	**469,572**	**511,225**	**513,679**
Operating profit before exceptional item	**-**	**-**	**102,760**	**129,716**	**120,473**
Exceptional item	-	-	-	29,744	-
Operating profit	**95,626**	**82,890**	**102,760**	**159,460**	**120,473**
Interest income	262	408	444	1,312	2,438
Interest expense	(5,057)	(3,018)	(1,920)	(1,416)	(2,092)
Share of results of associated companies	451	558	1,186	8,825	(1,322)
Profit before tax	**91,282**	**80,838**	**102,470**	**168,181**	**119,497**
Tax expense	(11,785)	(15,514)	(30,373)	(28,373)	(33,705)
Net income	**79,497**	**65,324**	**72,097**	**139,808**	**85,792**
Profit attributable to:					
Shareholders of the Company	69,959	60,564	67,389	130,367	79,340
Non-controlling interests	9,538	4,760	4,708	9,441	6,452
Profit for the year	**79,497**	**65,324**	**72,097**	**139,808**	**85,792**
Basic earnings per ordinary share (sen)	**15.9**	**13.8**	**15.32**	**29.63**	**18.03**

Exhibit 4: Balance Sheet

Balance Sheet

Year Ending December 31 (RM'000)	**2010**	**2011**	**2012**	**2013**	**2014**
Assets					
Non-current assets					
Property, plant and equipment	745,351	731,059	730,885	707,788	757,829
Investment properties	266,846	266,899	269,280	280,860	285,630
Investments in subsidiaries	-	-	-	-	-
Interests in associates	10,291	10,291	50,726	152,154	128,484
Property development expenditure	12,240	12,240	12,286	12,286	12,286
	1,034,728	**1,026,967**	**1,065,304**	**1,153,088**	**1,184,229**
Current assets					
Inventories	8,754	8,809	8,911	8,440	8,527
Trade and other receivables, prepayments and deposits	24,796	23,938	29,138	27,533	26,563
Tax recoverable	3,246	1,765	1,061	434	3,062
Cash and cash equivalents	17,200	21,655	27,605	93,719	56,595
	53,996	**56,167**	**66,715**	**130,126**	**94,747**
Total assets	**1,088,724**	**1,083,134**	**1,132,019**	**1,283,214**	**1,278,976**
Equity					
Share capital	440,000	440,000	440,000	440,000	440,000
Reserves	351,834	382,698	428,932	514,839	514,979
Total equity attributable to shareholders of the Company	791,834	822,698	868,932	954,839	954,979
Non-controlling interests	78,610	82,530	86,314	94,712	100,164
Total equity	**870,444**	**905,228**	**955,246**	**1,049,551**	**1,055,143**
Liabilities					
Non-current liabilities	46,258	5,306	-	-	-
Retirement benefits	12,878	13,404	15,058	17,864	19,676
Deferred tax liabilities	16,845	18,664	15,540	16,423	21,932
	75,981	**37,374**	**30,598**	**34,287**	**41,608**
Current liabilities					
Short-term borrowings	81,441	75,887	60,054	111,482	85,806
Trade and other payables	59,952	63,892	83,042	86,077	96,125
Current tax liabilities	933	753	3,079	1,817	294
	142,299	**140,532**	**146,175**	**199,376**	**182,225**
Total liabilities	**218,280**	**177,906**	**176,773**	**233,663**	**223,833**
Total equity and liabilities	**1,088,724**	**1,083,134**	**1,132,019**	**1,283,214**	**1,278,976**