Teaching Note

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

Case synopsis

This case study focuses on the best strategic initiatives of Shangri-La hotels (Malaysia) Berhad (SHMB) in strategy building and sustaining competitive advantage. It presently owns nine branches, namely Shangri-La's Rasa Ria Resort, Kota Kinabalu, Shangri-La's Tanjung Aru Resort and Spa, Kota Kinabalu, Putrajaya Shangri-La, Shangri-La Hotel, Kuala Lumpur, Traders Hotel, Kuala Lumpur, Traders Hotel, Puteri Harbour, Johor, Malaysia, Golden Sands Resort, Penang, Shangri-La's Rasa Sayang Resort & Spa, Penang and Hotel Jen Penang (Formerly Traders Hotel, Penang).

The group is engaged in the ownership and operation of hotels and beach resorts, a golf course, investment properties and a commercial laundry. Hotel business represents a critical part of the tourism sector, which plays a pivotal role in driving the nation’s economic transformation agenda. Therefore, the Malaysian government is constantly implementing various policies and agendas to uphold the industry’s competitiveness and profitability growth. Although, the concerted efforts are underway, but some hoteliers are still facing several challenges in today’s highly competitive and rapidly evolving market.

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 study mainly intends to analyse a case of successful SHMB from a strategic management perspective.

There is an urgent need to look into the true competencies of SHMB in overcoming the challenges in the 21st century based on the right strategy formulation, implementation, evaluation, direction and decision making process and recognize their efforts to attain high income nation in 2020 as well as continuing to grow in the industry it now dominates.

Case Subjects and Issues

Hospitality Industry, Strategic Formulation, Strategic Implementation, Strategy Evaluation, Management Strategy, Environmental Scanning, Industry Analysis, SWOT Analysis
Case Objectives

This case study designed to illustrate the practical application of the theoretical concepts covered during strategic management, management & strategic hospitality management lectures. Specifically, the case focuses on best strategic initiatives. Working on this case study will show the student how to:

1. Explain the key internal and external environmental forces.
2. Determine the strengths, weaknesses, opportunities and threats of an organization.
3. Understand the process of strategy formulation, implementation and evaluation.
4. Identify the strategic initiatives.

Suggested Classroom Approaches to the Case

1. This is an excellent case for a team presentation. It is an interesting case for students.
2. This is an excellent case for an exam or written case analysis.
3. This case is an excellent for an individual or team strategic audit.
4. This is a good case for instructor-led discussion.

Target Group

1. Top level managers, middle level managers and executives (for workshop's purpose).
2. MBA students and other business related postgraduate students.
3. Undergraduate students of Strategic Management (Capstone), Principle of Management & Strategic Hospitality Management.

Case Leading / Teaching Strategies

1. The students will be given the case a week before and to update themselves on any of the following topics:
   ✓ Internal and external analysis
   ✓ Strategy formulation
   ✓ Strategy Implementation
   ✓ Strategy Evaluation & Control

2. The class is to be divided into groups of 4 or 5.

3. The suggested class plan:
   ✓ Students need to discuss in small groups before coming to class and prepare a report on their analysis.
   ✓ Class discussion begins with the case synopsis by the instructor.
   ✓ The focus of discussion then moves to analysing the key / leading questions provided.
   ✓ Conclude the session with closing remarks.
Discussion Questions

1. What is the current situation / performance of Shangri-La Hotels (Malaysia) Berhad?
2. What is the vision, mission and philosophies of Shangri-La Hotels (Malaysia) Berhad?
3. What are the guiding principles of Shangri-La Hotels (Malaysia) Berhad?
4. What do you think about the corporate governance of Shangri-La Hotels (Malaysia) Berhad?
5. Identify and discuss what corporate, business and functional level strategies implemented by Shangri-La Hotels (Malaysia) Berhad.
7. Discuss the internal factors affecting Shangri-La Hotels (Malaysia) Berhad?
8. What are the strengths and weaknesses of Shangri-La Hotels (Malaysia) Berhad? Prepare Internal Factor Analysis Summary (IFAS).
9. Discuss the external factors affecting Shangri-La Hotels (Malaysia) Berhad?
10. Evaluate and discuss the task environment using Porter’s five forces.
11. What are the opportunities and threats of Shangri-La Hotels (Malaysia) Berhad? Prepare External Factor Analysis Summary (EFAS).
12. What are the strategic factors facing by Shangri-La Hotels (Malaysia) Berhad? Prepare Strategic Factor Analysis Summary (SFAS).
13. What are the strategic issues or areas need to be evaluated and control by Shangri-La Hotels (Malaysia) Berhad to achieve better performance in future?
Student Strategic Audit / Answers

1. Current situation

Current performance
- Marginal increase in revenue to RM513.679 million from RM511.225 million reported in 2013.
- Pre-tax profit for 2014 dropped to RM119.497 million, 29% lower than last year’s profit of RM168.181 million.
- Net profit attributable to shareholders for 2014 fell by 39% to RM79.340 million, compared with the RM130.367 million earned in 2013.
- Earnings per share for 2014 were 18.03 sen, down from 29.63 sen in 2013.
- Occupancy rates Hotel Shangri-La Kuala Lumpur (77%), Hotel Jen Penang (83%), Rasa Sayang Resort (53%), Golden Sands Resort (76%) and Rasa Ria Resort (70%) in 2014.
- Shangri-La hotels continually honoured worldwide recognition for their extraordinary service and Asian hospitality.

2. Strategic posture

Vision
- To be the first choice for guests, colleagues, shareholders and business partners.

Mission
- To delight our guests every time by creating engaging experiences straight from our heart.

Philosophies
- Shangri-La Hospitality from a caring family.
- Pride without arrogance.

3. Guiding principles or policies

- 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 social responsibility by making a positive contribution to communities, environment, colleagues, guests and business partners

4. Corporate governance

Board of Directors

• Nine members, comprising seven non-executive directors and two executive directors.
• Committed to high standards of corporate governance.
• Strives to maintain the highest levels of accountability, integrity and business conduct through the Group’s core values and Code of Ethics, which fully embedded in every part of the organization.

Top Management

• Every Shangri-La hotels have excellent management teams.
• Strategic management is an important component of each hotel.

5. Management Strategy Implementation

- Corporate level strategy
  - Growth strategy
    • Improves and expands its existing services to attract more customers.
    • Strives to improve its customer services.
    • Acquired similar or complementary business.
  - Expansion strategy
    ✓ Make renovations and expansions of hotels and resorts.

- Business level strategy
  ✓ Focus Differentiation strategy
    • Aim the upper middle and upper class people with high income.
    • Fulfil the needs of those who prefer and demand luxury and standard services.
    • Offer superior and unique value.
  ✓ Revenue management strategy
    • Revenue-enhancing programmes and effective rate strategies led to healthy market share gains and enabled most of its hotels either to maintain or strengthen the competitive positions in individual markets.
Functional level strategy

✓ Innovation
  • Innovative marketing initiatives, promotions and packages aimed at stimulating demand and aggressively increasing market penetration in emerging markets with high growth potential.

✓ Human Resource Management
  • Upgrading employees’ skills, core competencies, productivity as well as uplifting the performance via well-embedded training, management and leadership programmes.

✓ Technology Development
  • Increased investments in new IT equipment and upgrades to the IT infrastructure and critical system.

✓ Finance
  • Invest in maintaining and enhancing the high quality and standards of its existing products and facilities.

✓ Operations
  • Focusing on generating sustainable growth in operating margins by driving its planned efficiency programmes, raising labour productivity and optimising the work processes, while keeping costs under tight control.

✓ Marketing and sales
  • Build strong marketing capability and cost performance, while driving service and product improvements.
  • Strong sales and marketing network and close business relationships with existing and potential major suppliers and key customer accounts.
6. Financial Analysis

<table>
<thead>
<tr>
<th>Financial Ratios</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity ratios</strong></td>
<td></td>
<td></td>
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<tr>
<td>Current ratio</td>
<td>0.38</td>
<td>0.40</td>
<td>0.46</td>
<td>0.65</td>
<td>0.52</td>
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<td>Quick ratio</td>
<td>0.32</td>
<td>0.34</td>
<td>0.40</td>
<td>0.61</td>
<td>0.47</td>
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<td><strong>Profitability ratios</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Net profit margin (%)</td>
<td>18.84</td>
<td>13.62</td>
<td>15.35</td>
<td>27.35</td>
<td>16.70</td>
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<td>Return on total assets (%)</td>
<td>6.4</td>
<td>5.1</td>
<td>6.0</td>
<td>10.2</td>
<td>6.2</td>
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<td>Return on shareholder’s equity</td>
<td>8.7</td>
<td>6.7</td>
<td>7.8</td>
<td>13.7</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Activity ratios</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total assets turnover</td>
<td>0.39</td>
<td>0.44</td>
<td>0.41</td>
<td>0.40</td>
<td>0.43</td>
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<tr>
<td>Inventory turnover</td>
<td>48.21</td>
<td>54.46</td>
<td>52.70</td>
<td>60.57</td>
<td>59.93</td>
</tr>
<tr>
<td><strong>Leverage ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Times interest earned ratio</td>
<td>9.57</td>
<td>16.98</td>
<td>21.77</td>
<td>17.81</td>
<td>18.52</td>
</tr>
<tr>
<td>Net borrowings to shareholders’ equity</td>
<td>11.0</td>
<td>5.7</td>
<td>3.7</td>
<td>1.9</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Growth ratios</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Sales (%)</td>
<td>14.87</td>
<td>13.68</td>
<td>-2.12</td>
<td>8.87</td>
<td>4.80</td>
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<tr>
<td>Net income (%)</td>
<td>80.0</td>
<td>-21.69</td>
<td>10.37</td>
<td>93.92</td>
<td>-38.63</td>
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<tr>
<td>Dividends per share (%)</td>
<td>98.75</td>
<td>-13.21</td>
<td>11.01</td>
<td>93.41</td>
<td>-39.15</td>
</tr>
</tbody>
</table>

Exhibit 1 and 2 show the revenue by segment and revenue of hotels and resorts by department. Exhibit 3 and 4 show the common sized statements and consolidated balance sheet.

7. Internal Environment (IFAS)

**Corporate Culture**

- Shangri-La Hospitality from a caring family. (S)
- Providing guests with distinctive Asian standards of hospitality and service (S)
- Striving to delight customers each and every time, its aim to exceed expectations through consistent quality and value in products and services. (S)
Corporate Resources

1. Marketing
   - Marketing programmes and activities to maximise revenue opportunities in key leisure and corporate travel markets. (S)
   - Innovative marketing initiatives, promotions and packages aimed at stimulating demand and aggressively increasing market penetration in emerging markets with high growth potential. (S)
   - Increase brand and product awareness. (S)
   - Strong sales and marketing network and close business relationships with existing and potential major suppliers and key customer accounts. (S)
   - Building and improving the capabilities of the sales and marketing teams. (S)
   - Revenue-enhancing programmes and effective rate strategies led to healthy market share gains and enabled most of its hotels either to maintain or strengthen the competitive positions in their individual markets. (S)
   - Strong programme of innovative products and dining concepts to continually respond to changing customer trends and expectations. (S)

2. Finance
   - Registered a marginal increase in revenue to RM513.679 million from RM511.225 million reported in 2013. (S)
   - Pre-tax profit for 2014 dropped to RM119.497 million, 29% lower than last year’s profit of RM168.181 million. (W)
   - Healthy balance sheet and financial capacity. (S)
   - Room occupancy increased. (S)
   - Food and beverage contributes more revenues. (S)
   - 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. (W)

3. Operations
   - Generating sustainable growth in operating margins by driving its planned efficiency programmes, raising labour productivity and optimising the work processes, while keeping costs under tight control. (S)
   - Develop and implement Corporate Social Responsibility (CSR) programmes. (S)
   - Corporate governance equally seriously and practice the highest level of integrity and ethical conduct throughout its organisation. (S)
   - Newly renovated rooms, the resort are better placed to compete well in the local market. (S)
• Follow an Environmental Management System (EMS) Manual. (S)
• 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). (S)

4. Human Resources Management
• Regarding staff wellbeing as of paramount importance, in 2014 SHMB introduced a number of fresh initiatives to promote safety and health. (S)
• 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. (S)
• Four modules called Shangri-La Hospitality from a Caring Family, Delighting and Engaging with Guests, Taking Ownership and Recovering to Gain Loyalty. (S)
• Operate a wide range of service and functional skills training activities for all levels of employees, including training programmes and internal training courses to develop and improve the management and leadership skills of top talent and high potential employees. (S)
• Four core development programmes for managerial employees with potential, namely the Corporate Service Executive Training Programme, the Corporate Executive Trainee Programme, Corporate Management Trainee Programme and Corporate Trainee Programme. (S)
• Provided opportunities for selected employees to attend training at the Shangri-La Academy in China through its certificate, diploma and management development programmes. (S)
• Increase the employment opportunities of people with disabilities (PWDs), the Group has cultivated specialised skills during the employment. (S)
• 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. (S)

5. Information System
• Although it is not mentioned in the case, SHMB’s information system is assumed to be quite extensive to record guest reservations. (S)
• MontOra Software takes care of the day to day requirements of the hotel. It is the world best-known solution in this field called Micros-Fidelio. MontOra Software has an exclusive contract for distributing Micros-Fidelio products for Montenegro. (S)
• Increased investments in new IT equipment and upgrades the IT infrastructure, critical systems and advanced technology to boost the operational effectiveness. (S)
6. **Supply Chain Management**
   - Supplier code of conduct. (S)
   - Recognised international best practices in the area of labour and human rights, health and safety, environment impact, ethics and management commitment. (S)

7. **Risk Management** (S)
   - Organization structure with key responsibilities clearly defined
   - Independence of audit committee
   - Documented internal policies & procedures
   - Detailed budgeting process
   - Comprehensive system of financial reporting
   - Established capital expenditure approval process
   - Employee competency
   - Internal audit
   - Whistleblowing and whistle blower protection policy

8. **Summary of internal factors** (See IFAS Table, Exhibit 5)

   **Strengths**
   - Strong brand image
   - Strong marketing, sales and promotion
   - Experienced managers and efficient top management
   - Healthy balance sheet and financial capacity
   - Corporate Social Responsibility (CSR)
   - Efficient Human resource management
   - Extensive information system
   - Best supply chain management
   - Efficient risk management
   - Received numerous awards & recognitions

   **Weakness**
   - Pre-tax profit for 2014 dropped to RM119.497 million, 29% lower than last year’s profit of RM168.181 million
9. External environment (EFAS)

Political
- 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. (O)
- Malaysian government implemented 6% of Good and Services Tax (GST) replaced its 10% Sales Tax and 6% Services Tax. (O/T)
- New Economic Model (NEM), Economic Transformation Program (ETP), National Key Economic Areas (NKEA), Strategic Reforms Initiatives, Concept 1 Malaysia, Government Transformation Program (GTP), 10th Malaysia Plan 2011-2015, five economic growth corridors and Vision 2020. (O)

Economic
- First quarter of 2015, the GDP expanded by 5.6%. (O)
- 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%. (O)
- Wide investment opportunities. (O)
- Asia Pacific Investment Climate Index shows that Malaysia ranked at 9th position from the 20 countries. (O)

Social
- Malaysia’s population recorded as 30.5 million and increasing. (O)
- In 2014 Malaysia recorded 27.4 million foreign tourist arrivals. (O)
- Due to rising household income and educational level the lifestyle and customer buying behavior or patterns were changed. (O)
- Becomes more sophisticated and cosmopolitan and looking for greener, healthier, beautiful lifestyles. (O/T)
- The unemployment rate rose. (T)
- The Muslim community halal certificate is a very important recognition, which given by JAKIM. (O/T)

Technological
- 93% of Malaysian travellers had used online resources to plan their trip.
- SOTA (Smart Online Travel Assistant) and SoLoMo (Social, Local & Mobile). SoLoMo influence the travellers become more knowledgeable and seeking better decisions. (O)
- E-commerce becomes a vital business tool. (O)
• Guest used more social media such as websites, Facebook, twitter and mobile applications to survey and book the hotels. (O)
• Malaysia Airlines, Air Asia, Firefly and Malindo. Air Asia and Malindo provide cheapest flights for the travellers. (O)
• The Land Public Transport Commission (SPAD) and Ministry of Tourism implementing Taxi Transformation Plan and Taxi Ambassador Program to advance the local transportation. (O)
• Malaysian Airlines (MAS) and Air Asia tragedies in 2014. (T)

Environment

• Monitoring Environmental Quality Act 1974 and various environmental policies such as water quality management, air quality management, waste management, environment and climate change, reduction of greenhouse gases and so on. (O)
• Malaysia has great diversity of ecosystems. (O)
• National Biodiversity Policy 1998 is one of the important local agenda. (O/T)

10. Task Environment

a) Threat of new entrants: Moderate
   • Need larger start-up capital investment
   • Ministry of Finance approved investment tax allowance and pioneer status for new hotel with 4 star and 5 star rating

b) Rivalry among competitors: Very high
   • Existing competitors involve with competitive pricing, promotion and advertising activities.
   • Involved in almost the same quality of services.

c) Threats of substitutes: High
   • Homestay program

d) Bargaining power of suppliers: Low
   • Need lot of suppliers to run their day to day business operation
   • Switching cost

e) Bargaining power of buyers: Moderate
   • A lot of hotels and resorts
   • Possible to choose hotels which fair price and fine quality service.
   • Shangri-La hotels and resorts provide promotions, reasonable price and quality service.
11. Summary of external factors (See EFAS Table, Exhibit 6)

*Opportunities*

- Tax deduction/exemption for double tax deduction & Pioneer status tax exemptions and Investment Tax Allowance (ITA)
- Malaysian government’s strategic plans
- GDP and economic growth
- Wide investment opportunities
- Population and tourist arrivals increase
- Usage of e-commerce, social media and online resources
- Cheap transportation
- Great diversity of ecosystems and environmental policy
- Customer buying behavior or patterns changing

*Threats*

- Increase unemployment rate
- Malaysian Airlines (MAS) and Air Asia tragedies in 2014 (Disaster & Terrorism)
- Very competitive industry
- Threat of substitutes

12. Strategic Factors (SFAS See Exhibit 7)

a. Strategic Alternatives

1. **Stability strategy**

   SHMB is doing well and successful. This strategy will help to improve further the financial position and reduce debt. This strategy is less risky, easy and more comfortable to pursue when the environment is stable with few threats and few opportunities. Managers only have to change the strategies in extraordinary time.

   **Cons:** Lose opportunities and market share

2. **Growth- Expansion strategy**

   SHMB serves additional product / service / market / functions. It's able to focus on strategic decisions on a major increase in the pace of activities / assets within the present business (concentric diversification). This strategy enables the SHMB overcome challenges in a volatile industry, external pressure from stakeholders, increase effectiveness and give benefits to society.

   **Cons:** Additional debt

3. **Retrenchment- Not an option**
b. Recommended Strategy

Growth strategy- Continue making expansion to acquire market in order to establish attractive Asian brand. SHMB should continue to make a renovation and product differentiation to provide better customer service and keep high quality image.

Implementation

Generally, SHMB doesn’t require any extensive change in current strategy implementation.

- Top management should closely monitor the industry and general economic trends to determine whether demand will rebound as expected.
- If not, management should formulate alternate strategies that adjust to these conditions.

Enclosed, several strategic recommendations to SHMB for short, intermediate and long term based on SFAS are provided.

Short term

1. Innovation strategy – Build more innovative marketing initiatives, promotions and packages to increase market penetration. Create strong sales, marketing network and close relationship with suppliers.

2. Differentiation strategy – Create unique products, attractive holiday packages and dining concepts.

3. Customer orientation strategy – Improve customer service capabilities and more responsive to customer needs. Let the customers drive services.

4. Effective facilities management strategy - Utilise facilities management approach to hotel renovation to enable long-term strategic planning.

Intermediate

1. Information technology strategy - Increase usage of electronic commerce, which can provide numerous benefits; product promotion, cost saving, timely information, shortened remittance time, information consistency, better customer service, better customer relationship, customization of products, competitive advantages and convenience of doing business.

2. Network strategy- Utilise of government plans and policies for future growth. Use the government tax deduction / exemption for pioneer status, overseas promotion,
approved trade fair, tour operators, stamp duty and Investment Tax Allowance (ITA).

3. Human resource strategy- Create more jobs with better pay to continue growth and reduce unemployment rate. Provide training, upgrading the skills, management and leadership programmes.

Long term

1. Market expansion and branding strategy - Step up corporate business from key markets of Malaysia, Singapore, Australia and the UK along with an expanded meeting and incentive markets in Malaysia, the Middle East and China to establish Asian brand.

2. Corporate social responsibility strategy – Build strong CSR strategy in human resources, customers, shareholders and local communities for sustainable future development as well as company, community and environmental benefits.


13. Strategy Evaluation and Control

After each of the above action plans is fully developed, SHMB should set up an evaluation / control system to monitor;

- market share in target markets and analyse trends
- cost of revenue to check improvement in efficiency
- quality of products and services as viewed by customers
- growth of hospitality industry trends
- strong marketing capability and cost performance
- competitive position and higher returns
- product and service improvement
Exhibit 1: Revenue by segment

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Hotels</td>
<td>177,508</td>
<td>199,814</td>
<td>224,762</td>
<td>233,971</td>
<td>235,372</td>
</tr>
<tr>
<td>Resorts</td>
<td>220,913</td>
<td>208,308</td>
<td>220,736</td>
<td>252,086</td>
<td>251,516</td>
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</table>

![Graph showing revenue by segment from 2010 to 2014](image)
Exhibit 2: Revenue of hotels and resorts by department

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td><strong>Rooms</strong></td>
<td>222,853</td>
<td>225,038</td>
<td>248,011</td>
<td>275,159</td>
<td>274,946</td>
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<tr>
<td><strong>Food and beverages</strong></td>
<td>146,923</td>
<td>155,204</td>
<td>167,536</td>
<td>182,574</td>
<td>180,402</td>
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</table>
Exhibit 3: Common sized statements

Consolidated income statement

<table>
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<tr>
<th>Year Ending December 31</th>
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<th>2011</th>
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<th>2014</th>
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<tr>
<td>Revenue (RM’000)</td>
<td>422,002</td>
<td>479,731</td>
<td>469,572</td>
<td>511,225</td>
<td>513,679</td>
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<td>Operating profit before exceptional item</td>
<td>-</td>
<td>-</td>
<td>102,760</td>
<td>129,716</td>
<td>120,473</td>
</tr>
<tr>
<td>Exceptional item</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,744</td>
<td>-</td>
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<tr>
<td>Operating profit</td>
<td>95,626</td>
<td>82,890</td>
<td>102,760</td>
<td>159,460</td>
<td>120,473</td>
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<tr>
<td>Interest income</td>
<td>262</td>
<td>408</td>
<td>444</td>
<td>1,312</td>
<td>2,438</td>
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<tr>
<td>Interest expense</td>
<td>(5,057)</td>
<td>(3,018)</td>
<td>(1,920)</td>
<td>(1,416)</td>
<td>(2,092)</td>
</tr>
<tr>
<td>Share of results of associated companies</td>
<td>451</td>
<td>558</td>
<td>1,186</td>
<td>8,825</td>
<td>(1,322)</td>
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<tr>
<td>Profit before tax</td>
<td>91,282</td>
<td>80,838</td>
<td>102,470</td>
<td>168,181</td>
<td>119,497</td>
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<tr>
<td>Tax expense</td>
<td>(11,785)</td>
<td>(15,514)</td>
<td>(30,373)</td>
<td>(28,373)</td>
<td>(33,705)</td>
</tr>
<tr>
<td>Net income</td>
<td>79,497</td>
<td>65,324</td>
<td>72,097</td>
<td>139,808</td>
<td>85,792</td>
</tr>
</tbody>
</table>

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: Consolidated balance sheet**

<table>
<thead>
<tr>
<th>Year Ending December 31 (RM'000)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>745,351</td>
<td>731,059</td>
<td>730,885</td>
<td>707,788</td>
<td>757,829</td>
</tr>
<tr>
<td>Investment properties</td>
<td>266,846</td>
<td>266,899</td>
<td>269,280</td>
<td>280,860</td>
<td>285,630</td>
</tr>
<tr>
<td>Investments in subsidiaries</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interests in associates</td>
<td>10,291</td>
<td>10,291</td>
<td>50,726</td>
<td>152,154</td>
<td>128,484</td>
</tr>
<tr>
<td>Property development expenditure</td>
<td>12,240</td>
<td>12,240</td>
<td>12,286</td>
<td>12,286</td>
<td>12,286</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>1,034,728</td>
<td>1,026,967</td>
<td>1,065,304</td>
<td>1,153,088</td>
<td>1,184,229</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,088,724</td>
<td>1,083,134</td>
<td>1,132,019</td>
<td>1,283,214</td>
<td>1,278,976</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>440,000</td>
<td>440,000</td>
<td>440,000</td>
<td>440,000</td>
<td>440,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>351,834</td>
<td>382,698</td>
<td>428,932</td>
<td>514,839</td>
<td>514,979</td>
</tr>
<tr>
<td><strong>Total equity attributable to shareholders of the Company</strong></td>
<td>791,834</td>
<td>822,698</td>
<td>868,832</td>
<td>954,839</td>
<td>954,979</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>78,610</td>
<td>82,530</td>
<td>86,314</td>
<td>94,712</td>
<td>100,164</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>870,444</td>
<td>905,228</td>
<td>955,246</td>
<td>1,049,551</td>
<td>1,055,143</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>46,258</td>
<td>5,306</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>12,878</td>
<td>13,404</td>
<td>15,058</td>
<td>17,864</td>
<td>19,676</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>16,845</td>
<td>18,664</td>
<td>15,540</td>
<td>16,423</td>
<td>21,932</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>75,981</td>
<td>37,374</td>
<td>30,598</td>
<td>34,287</td>
<td>41,608</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>81,441</td>
<td>75,887</td>
<td>60,054</td>
<td>111,482</td>
<td>85,806</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>59,952</td>
<td>63,892</td>
<td>83,042</td>
<td>86,077</td>
<td>96,125</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>933</td>
<td>753</td>
<td>3,079</td>
<td>1,817</td>
<td>294</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>142,299</td>
<td>140,532</td>
<td>146,175</td>
<td>199,376</td>
<td>182,225</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>1,088,724</td>
<td>1,083,134</td>
<td>1,132,019</td>
<td>1,283,214</td>
<td>1,278,976</td>
</tr>
</tbody>
</table>
### Exhibit 5: IFAS (Internal Factor Analysis Summary)

<table>
<thead>
<tr>
<th>Key Internal Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong brand image</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Established Asian brand</td>
</tr>
<tr>
<td>Strong marketing, sales and promotion</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Increase revenue</td>
</tr>
<tr>
<td>Experienced managers and efficient top management</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Strategic planning</td>
</tr>
<tr>
<td>Healthy balance sheet and financial capacity</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Increase stakeholders confidence</td>
</tr>
<tr>
<td>Corporate Social Responsibility (CSR)</td>
<td>0.15</td>
<td>5</td>
<td>0.75</td>
<td>Efficient sustainability efforts</td>
</tr>
<tr>
<td>Efficient Human resource management</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Create efficient workforce</td>
</tr>
<tr>
<td>Extensive information system</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Provide quality service</td>
</tr>
<tr>
<td>Best supply chain management</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Supplier code conduct</td>
</tr>
<tr>
<td>Efficient risk management</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Effective</td>
</tr>
<tr>
<td>Received numerous awards &amp; recognitions</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Best quality</td>
</tr>
<tr>
<td><strong>Weakness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit dropped</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Due to expansion activities</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1.00</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 6: EFAS (External Factor Analysis Summary)

<table>
<thead>
<tr>
<th>Key External Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax deduction/exemption for double tax deduction &amp; Pioneer status tax exemptions and</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Further growth</td>
</tr>
<tr>
<td>Investment Tax Allowance (ITA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysian government’s strategic plans</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Government support</td>
</tr>
<tr>
<td>GDP and economic growth</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td>Wide investment opportunities</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Increase market share</td>
</tr>
<tr>
<td>Population and tourist arrivals increase</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Great number of potential customer</td>
</tr>
<tr>
<td>Usage of e-commerce, social media and online resources</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Marketing method</td>
</tr>
<tr>
<td>Cheap transportation</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Flight, Train &amp; Taxi</td>
</tr>
<tr>
<td>Great diversity of ecosystems and environmental policy</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Uniqueness</td>
</tr>
<tr>
<td>Customer buying behavior or patterns changing</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>Developing market segment &amp; new offerings</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase unemployment rate</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td>Malaysian Airlines (MAS) and Air Asia tragedies in 2014</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>(Disaster &amp; Terrorism)</td>
</tr>
<tr>
<td>Very competitive industry</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Many major competitors</td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>Homestay</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1.00</td>
<td></td>
<td>3.70</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 7: SFAS (Strategic Factor Analysis Summary)

<table>
<thead>
<tr>
<th>Key Strategic Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Duration</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong brand image (S)</td>
<td>0.15</td>
<td>5</td>
<td>0.75</td>
<td>x</td>
<td>Make market expansion &amp; Branding strategy</td>
</tr>
<tr>
<td>Very competitive industry (T)</td>
<td>0.15</td>
<td>4</td>
<td>0.60</td>
<td>x</td>
<td>x x Differentiation</td>
</tr>
<tr>
<td>Strong marketing, sales and promotion (S)</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>x</td>
<td>Innovation</td>
</tr>
<tr>
<td>Corporate Social Responsibility (CSR) (S)</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>x</td>
<td>CSR strategy for sustainability</td>
</tr>
<tr>
<td>Healthy balance sheet and financial capacity (S)</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>x</td>
<td>Financial strategy</td>
</tr>
<tr>
<td>Malaysian government’s strategic plans (O)</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
<td>x</td>
<td>x Key to future growth</td>
</tr>
<tr>
<td>Usage of e-commerce, social media and online resources (O)</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
<td>x</td>
<td>x Information technology strategy</td>
</tr>
<tr>
<td>Customer buying behavior or patterns changing (O)</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>x</td>
<td>Customer orientation</td>
</tr>
<tr>
<td>Increase unemployment rate (T)</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>x</td>
<td>Create jobs, training and better wage</td>
</tr>
<tr>
<td>Malaysian Airlines (MAS) and Air Asia tragedies in 2014 (T)</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
<td>x</td>
<td>Tight security</td>
</tr>
<tr>
<td>Net profit dropped (W)</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
<td>x</td>
<td>Effective facilities management</td>
</tr>
<tr>
<td>Threat of substitutes (T)</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
<td>x</td>
<td>Value added offerings</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td><strong>1.00</strong></td>
<td><strong>4.05</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>