UNIVERSITI PUTRA MALAYSIA

A CASE STUDY:
THE CASE OF PPB HARTABINA SDN BHD

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THIS PROJECT CASE STUDY IS PART OF THE REQUIREMENT TO FULFIL THE MASTER OF BUSINESS ADMINISTRATION (MBA) PROGRAM.

FACULTY OF ECONOMICS AND MANAGEMENT

UNIVERSITY PUTRA MALAYSIA

SERDANG, SELANGOR DARUL ESHAN

AUGUST 1997

PENGESAHAN

Kertas projek yang bertajuk 'THE CASE OF PPB HARTABINA SDN BHD' yang disediakan oleh :

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telah disemak dan diterima sebagai memenuhi sebahagian daripada syarat yang ditetapkan oleh Fakulti Ekonomi dan Pengurusan bagi dikurniakan Sarjana Pengurusan Perniagaan.

Laporan ini diterima untuk diperiksa.

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PENGAKUAN KEASLIAN LAPORAN

Saya akui laporan ini adalah hasil kerja saya sendiri kecuali nukilan and ringkasan yang tiap-tiap satunya telah saya jelaskan sumbernya.

1hb Ogos 1997

CHOONG CHEE YOONG

45087

PENGHARGAAN

Setinggi penghargaan saya rakamkan kepada Prof. Madya Dr. Zainal Abidin Mohamed selaku penyelia projek ini, di atas segala bimbingan, galakan dan nasihat yang diberikan sepanjang perlaksanakan projek ini.

Saya juga ingin merakamkan penghargaan kepada En. Yeo Yock Su, Managing Director PPB Hartabina Sdn Bhd, atas segala tunjuk ajar dan kesabaran selama pengajian saya ini.

Tidak ketinggalan juga kepada rakan-rakan terutama Chui Peng, Noordiney, Yoke Mei dan Sip Peng yang banyak membantu secara lansung atau tidak lansung bagi menyiapkan projek ini.

Akhir sekali saya merakamkan setinggi penghargaan buat keluarga tercinta yang banyak membantu dari segi galakan sehingga saya dapat menamatkan pengajian.

Sekian, Terima kasih.

CHOONG CHEE YOONG

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ABSTRACT

PPB Hartabina Sdn Bhd is a 100% subsidiary of Perlis Plantations Bhd. The latter is one of the listed companies on the Kuala Lumpur Stock Exchange under the stable of companies controlled by Kuok Bros. Sdn Bhd.

The case on PPB Hartabina Sdn Bhd is written with the intention to explore and review into new direction(s) the company can undertake for its future expansion and growth. It looks into the company's history, set-up, place and relationship in general with the group of companies under the conglomerate of Perlis Plantations Bhd.

It is also written with the purpose of viewing the company from a distant and unattached, hopefully fresh and revealing perspective as to the potential the company has.

In conclusion, the strategy for PPB Hartabina Sdn Bhd is as follows:

Priority 1 : To concentrate on its own property development especially the Phase 2 Residential Development Taman Segar,Cheras, Kuala Lumpur to generate the cash flow and profits for future investments in land banks.

Priority 2 : To develop the property management arm to ensure the various commercial buildings and shopping complexes own by itself or the Perlis Plantations Group of companies, are being maintained in high standard and, thus conserving and enhancing their capital values.

Priority 3 : On a lower priority, to provide project management services for the rest of the associated and sister companies of the Group, as and when the need arises, though there may be surplus staffing resources which may be not efficiently utilized during the intermittent period.

TABLE OF CONTENTS

Title of the Project Case Study *i*

Pengesahan *ii*

Pengakuan Keaslian Laporan *iii*

Penghargaan *iv*

Abstract *v*

PART ONE : THE CASE

1. INTRODUCTION *1*

2. PERLIS PLANTATIONS BHD. CORPORATE PROFILE *2*
   - 2.1. Property *2*
   - 2.2. Food Industries *10*
   - 2.3. Plantations *11*
   - 2.4. Hotels *13*
   - 2.5. Shipping and Commodity Trading *15*
   - 2.6. Entertaining and Retailing *15*
   - 2.7. Manufacturing and Services *16*

3. PPB HARTABINA SDN BHD CORPORATE HISTORY *18*

4. PPB HARTABINA SDN BHD ORGANIZATION STRUCTURE *22*
   - 4.1. Project Management (Technical Aspects) *22*
   - 4.2. Project Management (Financial Aspects) *25*
   - 4.3. Property Management-Shopping Complex and Apartments *26*
   - 4.4. Marketing *28*

5. PHASE TWO RESIDENTIAL DEVELOPMENT TAMAN SEGAR *29*
- 5.1. The Site *29*
- 5.2. Infrastructure *31*
- 5.3. Proposed Development for Phase 2 Residential *33*
- 5.4. Semi-Detached Houses *33*
- 5.5. Bungalows *35*
- 5.6. Condominiums *37*

6. PPB HARTABINA SDN. BHD. COMPANY PERFORMANCE *39*

7. THE TASKS AHEAD *41*

8. OVERALL PROPERTY MARKET CONDITION *42*
- 8.1. The Malaysian Economy *42*
- 8.2. The Property Market *46*
- 8.3. Kuala Lumpur Property Market *48*
- 8.4. Selangor Property Market *52*
  - 8.4.1. Residential Property *53*
  - 8.4.2. Office Property *54*
  - 8.4.3. Retail Property *55*
  - 8.4.4. Industrial Property *56*
- 8.5. Second Hand Transactions of Existing Residential Units *57*

PART TWO : THE TEACHING GUIDE *60*

1. CASE TITLE *60*

2. SYNOPSIS OF THE CASE *60*

3. CASE OBJECTIVE *60*

4. TARGET GROUPS *61*

5. CASE LEADING STRATEGY *61*

6. SUGGESTED QUESTIONS *62*

7. ANALYSIS *63*
7.1. SWOT Analysis
7.2. Dominant Economic Characteristics of the Property Industry

8. ALTERNATIVES *69*
8.1. Alternative 1
8.2. Alternative 2
8.3. Alternative 3

9. RECOMMENDED ALTERNATIVE *70*

10. POST CASE INFORMATION *71*

APPENDIXES

1. APPENDIX A : PERFORMANCE OF PERLIS PLANTATIONS BHD BY SEGMENT

2. APPENDIX B : BALANCE SHEET AND PROFIT AND LOSS FOR YEAR 1993 TO 1996

LIST OF TABLES

TABLE 1 : SHANGRI-LA HOTELS IN MALAYSIA

TABLE 2 : PROPOSED HOUSING MIX, PHASE 2 TAMAN SEGAR

TABLE 3 : FEASIBILITY STUDY PHASE 2 TAMAN SEGAR

TABLE 4 : MALAYSIAN REAL GDP GROWTH 1981-1995

TABLE 5 : MALAYSIAN GDP BY INDUSTRY IN 1978 CONSTANT PRICES

TABLE 6 : NUMBER AND VALUE OF PROPERTIES TRANSACTED IN KUALA LUMPUR

TABLE 7 : TREND OF PROPERTY TRANSACTIONS IN SELANGOR

LIST OF CHARTS

CHART 1 : PERLIS PLANTATIONS BHD CORPORATE STRUCTURE

CHART 2 : PPB HARTABINA SDN BHD ORGANIZATION CHART

CHART 3 : PROPERTY MANAGEMENT ORGANIZATION CHART

LIST OF MAPS

MAP 1 : LOCATION PLAN OF TAMAN SEGAR

PART ONE - THE CASE

1. INTRODUCTION

Mr. Tan Lai Beng (TLB); the Managing Director of PPB Hartabina Sdn Bhd (HSB), was walking out of the Board Meeting of Cathay Cinemas Sdn Bhd. He was concerned of the decision made during the meeting. The Board of Cathay Cinemas Sdn Bhd had just decided to defer their commercial center project in Petaling Jaya. PPB Hartabina Sdn Bhd was to be the project manager for the project. With an estimated project development cost of RM300 million, HSB would earn a project management fee of RM25 million over a period of 3 years. The project management fees for this project had already being reported in the accounts as one of the main source of income for the year. With this project deferred, HSB would find itself in deficit.

An EXCO meeting was earlier scheduled in a month's time. Mr. TLB had to provide his usual up-date of the projects at hand. Mr. TLB realized that the forthcoming EXCO meeting was much more important than the usual meeting. There were other projects that had also being shelved. HSB had relied on these projects for their revenue the last few years. Mr. TLB had to review the present position of HSB and to discuss at the coming EXCO meeting. He had to convince the EXCO of the direction HSB must take in order to grow and to exploit the opportunities now available in the property market.

2. PERLIS PLANTATIONS BHD - CORPORATE PROFILE

HSB was a 100% subsidiary of Perlis Plantations Bhd (PPB) which was a conglomerate with major business activities in properties, food industries, plantations, hotels, shipping, commodity trading, entertainment, manufacturing, retailing and services. The PPB Group's corporate structure was shown in Chart 1.

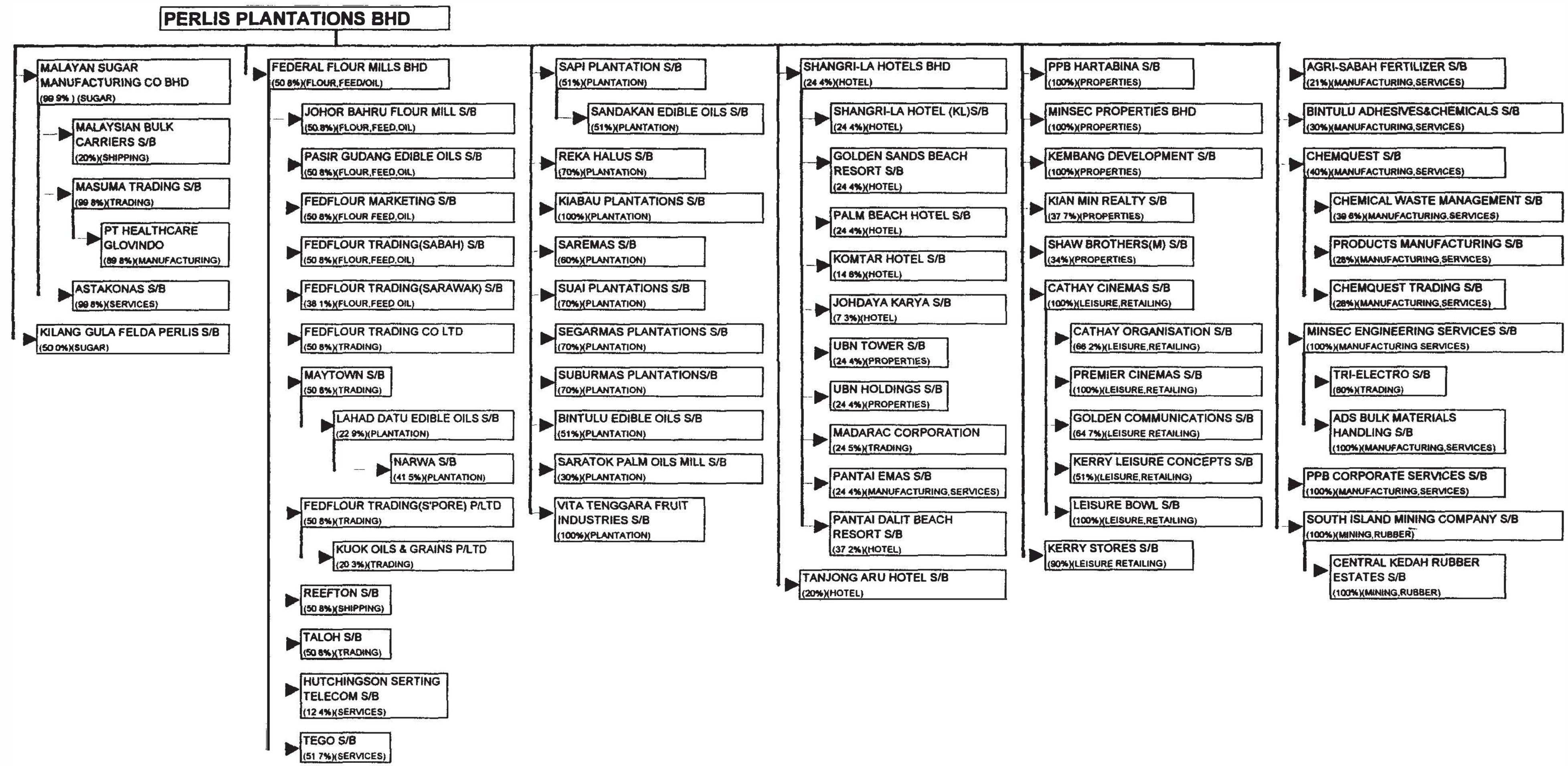
The financial performance of PPB by each segment above was shown in Appendix A.

2.1. PROPERTY

PPB Hartabina Sdn Bhd (HSB), was a developer of Taman Segar which was located in Cheras, Kuala Lumpur. Taman Segar consisted of residential units and self-contained commercial business center. The main buildings in the commercial business center were the 500,000 square feet shopping complex; Cheras LeisureMall (CLM), and 150,000 square feet commercial cum office block; Cheras Plaza(CP). Both buildings were owned and managed by HSB.

Cheras LeisureMall was fully integrated shopping mall with supermarket, departmental store, 32-lane bowling center, 4 cineplexes with total of 1,600 seats and a family amusement center. There were a wide range of international food and beverage outlets

CHART 1 - PERLIS PLANTATIONS BHD CORPORATE STRUCTURE



NOTE THE PERCENTAGES SHOWN INDICATED THE EFFECTIVE PERLIS PLANTATIONS BHD GROUP INTEREST and retail shops. In all, there were 210 tenants in Cheras LeisureMall. Cheras LeisureMall was fully rented out.

Meanwhile, Cheras Plaza was rented out to an educational institution on a 12-year lease. Renovation works were in progress to modify the building ready for use by the institution. Under the lease agreement, HSB agreed to maintain the main equipment such as the escalators, lifts, air-conditioning cooling towers and air handling units. The tenant was to take over the building by June 1997

Within the next 12 months, the Phase 2 Residential Development Taman Segar would be launch. It consisted of 290 units of semi-detached housing units, 30 units of bungalows, 540 units of condominium apartments and 640 units of low-costs flats located on 70 acres of prime hillside land.

HSB also functioned as a project manager for the various property development projects of its sister or associated companies. Such projects that were still under planning or in the process of construction were as followed:

1. Ampang MegaMall, a joint venture with General Corporation Bhd on a 5.4 acre site at Jalan Ampang, Kuala Lumpur. The proposed project comprised of a retail and leisure complex, condominiums and offices, with a gross built-up area of about 1.8 million square feet.

In 1993, General Corporation Bhd had the idea of a joint venture with PPB who owned the adjoining 3 acres of commercial land. Talks were long drawn between both parties on the terms of the joint venture. Eventually it was decided on a 50-50 joint venture with PPB responsible for the project management and the marketing services of the new project as well as the existing shopping complex and office block; Ampang City.

From 1994, design process had commenced in earnest with the team of project consultants. Finally after going through over 20 design concepts, the owners agreed on the conceptual design which was subsequently submitted to Dewan Bandaraya Kuala Lumpur in late 1994. Planning approval was obtained in 1996 despite high level lobbying by General Corporation Bhd and PPB for an early approval. The project was only scheduled for commencement by late 1998, causing a delay of over 2 years.

"I did not foresee that we will have so many problems and difficulties in this project. Firstly, the land acquisition problem with the authorities on the Middle Ring Road project, whereby the authorities literally acquired our service roads. This reduced our building size. Moreover we had constructed the car park basements based on the earlier approvals, which now would be under the public roads. There will be long tussle with Land Office on the strata rights later. These delays increased our project management costs, considering our fees are fixed on the project construction costs," reviewed Mr. LTB during a chit-chat with his counterpart from General Corporation Bhd after a technical meeting with the project consultant team. “Will the owners consider an increase in our fees?” half joked Mr. LTB.

2. Shaw Centrepoint, a shopping complex of about 600,000 square feet on the former Lido and Capital cinema sites in Klang. It offered six levels of retail and food outlets and a family amusement center. Shaw Brothers(M) Sdn Bhd which PPB held a 30% equity, was the owner.

Planning for the project commenced in 1984. The project went through a period of hot-cold treatment from the Board of Directors. The three major shareholders; Shaw Organization Sdn Bhd, UEP Bhd, and PPB, often had differing opinions and ideas on the project. By 1993, the project had obtained the necessary approvals from the Klang Council and construction works commenced. The project was scheduled for completion by late 1996.

“At least we earned a 10% fee here, which amounted to about RM8 million. Over the period, we earned an average RM600,000 per annum,” indicated Ms Yip Wei Li, the accountant. “Our other projects do not such high fees”.

3. New World Park Development in Penang was owned by MSM. The proposed project consisted of 1.5 million square feet of shopping and retail area, a 300 room hotel, 100 unit condominium block and 200,000 square feet of office area.

In 1976, MSM bought the property from Shaw Brothers (M) Sdn Bhd. By 1995 and after incurring an expense of RM5.5million in the form of consultancy fees for the various architects and submissions to the Penang Council, the project was only up to the first stage approval for a project ,that is, of Planning Approval. By 1995, five different groups of the in-house project management team had came, worked on the project and gone. The present project management team was the sixth group.

"Have you ever wondered whether MSM is serious with the project?" asked Mr. TLB. It was natural to be puzzled, considering the huge holding costs, professional fees wasted and time spent by HSB's project management team , yet the project was still only at the early phase of approval.

4. Lincoln Centre Development, a proposed office complex of about 500,000 square feet in Kuala Lumpur which was to be the future head-office for the PPB Group. The land was owned by Sri Mersing Sdn Bhd, a wholly owned subsidiary of Kuok Bros. Sdn Bhd.

The property was previously used by the education institution; Lincoln Centre which was operated by the American Embassy. Kuok Bros (M) Sdn Bhd bought over the property in 1975 with the intention of locating the corporate head-office here. Various design proposals had been submitted for the owner's decision. So far the owners had yet to make a decision.

"This project is dragging as long as the New World Park Development by MSM. Until the owners made up their minds, we will be providing the necessary services. We will not expect to make any profit out of this project," reiterated Mr. TLB when asked of his comment.

5. Wisma Perak Development, a proposed service apartment project located at Jalan Perak, Kuala Lumpur. The land size was about 3 acres, situated in the Golden Triangle of Kuala Lumpur. The land was owned by Kuok Bros (M) Sdn Bhd.

The property bought in 1978, had been under planning since 1980. Various conceptual designs on the best use of the land were developed by architects such as Hawaiian Architect from U.S.A. It was only in 1993 that the owners made their latest decision to develop the property as service apartment in view of the success of the service apartments in UBN Tower. However, no submission had been made to Dewan Bandaraya Kuala Lumpur and the vacant land was leased out to a car park operator.

"We will not proceed further than these preliminary conceptual plans until the owners made a firm decision. Otherwise, I am afraid it will a waste of time and resources. Besides, we did not receive any approvals from the owners on our fee proposal. Our company has to be a profit center in its own right," explained Mr. TLB when queried by the audit committee on the expenses incurred for the project.

6. Jalan Bandar Development, a proposed 3-star hotel (Shangri-La's Traders Hotel concept) project located at Jalan Bandar, Kuala Lumpur. The existing buildings were under the Conservation Heritage Act, thus the facades of the buildings must be preserved. The total land area was slightly over an acre. The land was owned by Kuok Bros (M) Sdn Bhd.

Though strategically located in China Town in the middle of Kuala Lumpur, the potential use of the property was limited. The size was small (a little over an acre), which after setbacks for roads etc. as required by the authorities, would reduced the land size to about three quarters of an acre. Furthermore, the purchase price paid for these properties were high, about RM350 per square feet.

"We are running short of new ideas for this property. In order to be viable economically, we need to double the build-up area of the hotel. By doing so, we again evoke on the car-park requirement which will also double the number of bays. We do not have enough land area for the car parking purposes as the land is narrow and long," the architect for the project indicated to Mr. TLB during a recent project presentation.

7. Kembang Development, a proposed 10 storey office block located at Victoria Street, Penang. The land area was under 2 acres with an existing block of four-storey shophouse on the property. The block of shophouse was under the Conservation Heritage Act that required the facades to be preserved.

This property was bought in the 1960's. Being a building under the Rent Control Act, the owners could only redeveloped the property upon compensating a massive sum of money to the existing fifteen numbers of tenants. As these tenants were operating and conducting commercial activities on the premises, the compensation levels were even higher than those for residential purposes.

"Let us wait further before deciding the next course of action. The development costs are higher due the compensations and the restrictions placed by the Conservation Act. We have in mind an office block which we consider as the best alternative and use of the land," said a Board Member to Mr. TLB.

8. Golden Sands Hotel Development in Penang, whereby the existing hotel was demolished to be build anew. The Golden Sands Hotel was one of the hotels under the Shangri-La Hotels (M) Bhd Group. The hotel was bought in 1980 from its original founders. The original founders operated Golden Sands Hotel as budget hotel.

When Shangri-La Hotel(M) Bhd bought the property, it was renovated and upgraded to a four-star resort. Being located just adjacent Rasa Sayang Resort, it enjoyed the spill-over effect from segment of the guests who wanted to book in Rasa Sayang but could not due full house. However, the owners felt the time was ripe for a complete change of image. Thus the existing buildings were demolished for a complete rebuilding of the resort.

"We will not be in time for the Commonwealth Games in 1998. We started too late. With all the delays caused by the owners as they changed their decision or perhaps we should say, their indecision. Imagine we closed the resort a year before we commenced the demolition works and had a full team of project site staff on full payroll throughout the entire period. It was lucky that they did not resign," Mr. TLB briefed Datuk Karim, a visiting Director from Shangri-La International Management Hong Kong.

2.2. FOOD INDUSTRIES

With 59.5% of the Perlis Plantations Bhd (PPB) Group's total turnover and 48.5% of its profit before tax, the food industries segment remained a major contributor to the PPB Group's profits. PPB had a 4,560 hectare sugar cane plantation at Chuping, Perlis. The plantation produced cane for processing at the integrated sugar mill and refinery owned by a 50% associate company; Kilang Gula Felda Perlis Sdn Bhd (KGFP).

Malayan Sugar Manufacturing Company Bhd (MSM), a 99.8% subsidiary of PPB, operated the region's largest sugar refinery at Prai, Province Wellesley. It also refined imported raw sugar. The refinery supplied refined sugar to local food industries and domestic consumers and for export.

Federal Flour Mills Bhd (FFM), a 50.8% subsidiary of PPB, was the country's largest flour miller with facilities located at Port Klang and Pasir Gudang, Johor. FFM supplied flour to industries for noodles, bread and biscuit manufacturing and also to domestic consumers under a variety of brand names. FFM was also the biggest feed miller in Malaysia with a total of six feed mills in Peninsular and East Malaysia. It operated the two largest soyabean crushing plants in the country that supplied soyabean meal for the local feedmill industry.

The FFM Group also had the country's largest palm oil refining capacity with refineries in Peninsular and East Malaysia. It produced cooking oils that were marketed under its own brands. FFM's breeder farm in Negeri Sembilan was operating at its full production capacity of 1.5 million day-old chicks per month since 1995. FFM's other activities include polybags and steel drum manufacturing, consumer marketing and telecommunications services.

2.3. PLANTATIONS

As at end 1995, the PPB Group's oil palm operations in Sabah and Sarawak composed of a total planted area of more than 37,000 hectares, three palm oil mills, three refineries and two palm kernel crushing plants. In Sabah, Sapi Plantations Sdn Bhd (SAPI) had completed planting of its 13,300 hectare estate of which about 81% was matured. Its second palm oil mill with a capacity of 30 tonnes per hour, commenced operations in August 1995.

The expansion of Sandakan Edible Oils Sdn Bhd's (SEO) refinery, fractionation and kernel crushing plants were completed in the last quarter of 1995. Expansion of storage tank capacity to an eventual 120,000 tonnes was under planning for completion by the year 2000. Lahat Datu Edible Oils Sdn Bhd (LDEO), a 45% associate company of FFM, also operated a palm oil refinery and palm kernel crushing plant at Lahad Datu. Narwa Sdn Bhd undertook the packing of branded cooking oil and marketing of consumer products in Sabah. The PPB Group's other subsidiaries engaged in oil palm cultivation in Sabah were Reka Halus Sdn Bhd and Kiabau Plantations Sdn Bhd that together had planted a total of about 6,000 hectares.

In Sarawak, Saremas Sdn Bhd (SSB) had planted a total 7,500 hectares out of a gross area of 12,200 hectares with 85% of the planted area consisting of mature palms, whilst Suai Plantations Sdn Bhd (SUAI) had fully planted its 4,700 hectares. SSB had also upgraded its palm oil mill to 60 tonnes per hour in 1995. Planting of a further 10,700 hectares out of 13,400 hectares of land owned by two other subsidiaries was scheduled to be completed in 1998. Bintulu Edible Oils Sdn Bhd (BEO) which owned and operated a palm oil refinery in Bintulu, completed construction of a second dry fractionation plant in October 1995 that commenced operations in the same month.

The PPB Group's East Malaysian plantation-based subsidiary and associated companies were being merged under a newly incorporated company; PPB Oil Palms Bhd (PPBOP), which would seek a listing on the Main Board of Kuala Lumpur Stock Exchange. The listing exercise, which was expected to be completed in late 1996, would rationalize PPB's investments in oil palm activities and enhanced their contribution to the PPB Group's results.

2.4. HOTELS

Shangri-La Hotels(M) Bhd (SHMB) offered more than 2,000 hotel rooms in resort and city locations in Penang, Kota Kinabalu and Kuala Lumpur. SHMB also had a 30% interest in the Shangri-La Hotel, Johor Bahru which was under construction. The latest addition; the Tanjung Aru Resort, enjoyed a full year of its deluxe rooms; Kinabalu Wing. The resort had achieved an improved occupancy rate and higher patronage of its facilities, benefited from the increase in business and tourism activities in Kota Kinabalu. The first nine holes of the golf course at Rasa Ria Resort in Tuaran, Sabah were completed in December 1995. The entire 18-hole course and the 330-room beach resort were scheduled to open in June 1996.