



UNIVERSITI PUTRA MALAYSIA

**GOLDEN PLANTATION BERHAD:
PROPOSED ACQUISITION OF PLAZA CAHAYA**

FONG CHEE KHUEN

GSM 1999 4

**GOLDEN PLANTATION BERHAD:
PROPOSED ACQUISITION OF PLAZA CAHAYA**

**FONG CHEE KHUEN
MASTER OF BUSINESS ADMINISTRATION**

**FACULTY OF ECONOMIC AND MANAGEMENT
UNIVERSITI PUTRA MALAYSIA
SERDANG, SELNAGOR
1998/1999**



**A case study in
Golden Plantation Berhad:
Proposed Acquisition Of Plaza Cahaya**

By

**Fong Chee Khuen
Matrix No: GS01416**

**Faculty of Economic and Management
Universiti Putra Malaysia
Serdang, Selangor Darul Ehsan**

July 1999



TABLE OF CONTENTS

	Page
<u>PART I</u>	
1.0 The Offer	1
2.0 The Organization	4
2.1 Introduction – Golden Plantation Berhad	4
2.2 Group Corporate Structure	5
2.3 GPB’s Organization Structure and Key Management Personnel	6
2.4 GPB’s Major Business Division	10
2.4.1 Hotel Division	10
2.4.2 Plantation Division	14
2.4.3 Property Development Division	16
2.5 GPB’s Group Financial Results	16
3.0 The Proposed Acquisition	18
3.1 Saujana Juara Sdn Bhd	18
3.1.1 SJSB Organization Structure	19
3.1.2 SJSB Financial Position	20
3.1.3 Revenue Forecast and Projections	21
3.2 Plaza Cahaya	21
3.3 Funding and Acquisition Considerations	23
4.0 Malaysia’s Economy Condition	25
4.1 The Stock Market	25
4.2 The Property Market	26
4.3 Government Action and Its Results	27
5.0 The Decision	30

PART II

6.0	Summary of the Case	31
7.0	Situation Analysis	31
7.1	The Company – GPB	31
7.2	The Offer – Plaza Cahaya	33
7.3	Malaysia Economy Condition	34
8.0	Problem Statement	36
9.0	SWOT Analysis	37
9.1	Opportunities	37
9.2	Threat	38
9.3	Strength	38
9.4	Weakness	39
10.0	Strategic Analysis	39
10.1	SWOT Analysis Evaluation	39
10.1.1	Aggressive Strategies	39
10.1.2	Competitive Strategies	40
10.1.3	Defensive Strategies	40
10.1.4	Liquidation Strategies	41
10.2	SPACE Model	41
11.0	Alternatives and Evaluation	42
11.1	Evaluation of Alternatives	42
11.1.1	Cost	42
11.1.2	Future Return	43
11.1.3	Feasibility of Acquisition	43
12.0	Implementation	45
12.1	Feasibility Study	45
12.2	Acquisition Consideration	46

12.3 Signing of Agreement	46
12.4 Preparation of Paperwork for Submission to Authorities	46
12.5 Approval Obtained	47
 13.0 Conclusion	 48

APPENDIXES

Part I:

Appendix I	GPB's Profit & Loss Statement and Balance Sheet
Appendix II	SJSB's Profit & Loss Statement and Balance Sheet
Appendix III	Rental Pricing Comparison

Part II:

Appendix IV	Ratio Analysis
Appendix V	SWOT Analysis – External and Internal Factors Evaluation
Appendix VI	SWOT Analysis – Strategies Recommended
Appendix VII	SPACE Model Analysis
Appendix VIII	SPACE Model Analysis

PART I

GOLDEN PLANTATION BERHAD: PROPOSED ACQUISITION OF PLAZA CAHAYA

1.0 THE OFFER

It was 11:00 a.m. in the Wednesday morning, 5 May 1999. All the members of the Board of Directors were sitting in the meeting room waiting for Dato' Lee Chong Peng, the Managing Director of Golden Plantation Berhad (GPB), who had called for the meeting early that morning.

“Good morning gentlemen.” greeted Dato' Lee while entering the meeting room together with Datuk Roslan Bin Bujang, the Chairman of the Company. Immediately, Dato' Lee started the meeting.

“The reason I called for this meeting is to consider the feasibility of taking over Plaza Cahaya, a 22 storeys office cum condominium twin tower located in Jalan Ampang.” said Dato' Lee.

“I had dinner yesterday with Datuk Chong, the owner of Plaza Cahaya, and he had expressed his intention to dispose-off the property. He had made us an offer of RM160 million for the plaza, which I reckon the property will easily cost around RM250 million in the market. I see this as a good buy.” explained Dato' Lee.

“The property is still under construction and it is now 80% completed. It will be ready for occupancy in January 2000.” explained further by Dato' Lee.

“Dato’, how are we going to buy the plaza, looking at our tight liquidity in the Company. Besides that, the property market is still very buoyant. It will be a high risk capital investment for us.” asked Tan Sri Ahmad Sulaiman Yusof, one of the directors of GPB.

“The Company is in red since last financial year and I forecasted the Company’s performance will decline further this year. The Company is already highly geared.” explained Mr. Woo Ting Yan, the Financial Controller cum Company Secretary for GPB.

“Malaysia’s economy have shown improvement since early 1999 and I am confident that the market will be back by the end of this year. If we takeover Plaza Cahaya now, there is a high possibility that GPB will able to generate lucrative income from the rental of office and condominium. Not to mention also the huge capital gain the Company will make if we dispose-off the property then.” said Dato’ Lee.

“Where are we going to get the fund from for this acquisition?” asked Mr. Lim Tong Fei, the Executive Director of GPB.

“We can do a share swop or borrow money from banks or financial institutions. Isn’t Bank Negara Malaysia (BNM) encouraged the banks and financial institutions to have a loan growth of at least 8%. There is still a long way for them to achieve the target. As a result, I am confident that we will able to source for the financing from the banks.” said Dato’ Lee.

“I would suggest that we need to determine the direction of the Company first before we decide whether to acquire Plaza Cahaya. Do we still want to concentrate on our core business which is the hotel industry and the plantation industry?” asked Datuk Roslan.

“I do agree with Datuk Roslan suggestion.” Said Mr. Lim. “We need to determine whether should we go for an expansionary strategy, diversify into other sector, or want to remain competitive in our core business.” Said Mr. Lim.

“We better be fast. There are rumors in the market that Datuk Chong has also made such offer to few other Public Listed Company (PLC). We better decide fast before we miss the ship.” explained Dato’ Lee.

“There are other office buildings on sale now in the market. I reckon that we should not be too hurry in making our decision. It is a buyer market now. We should determine our company direction first before any further move.” said Mr. Woo.

After the meeting, Dato’ Lee walked back to his office and start thinking about the offer by Datuk Chong. No doubt the property priced at RM160 million was an attractive offer, he needed to consider the questions raised during the meeting by the members of the Board, especially on the Company’s direction, financial position of the Company and the overall economy condition in the country. He had to look into various aspect of the proposal before making his decision.

2.0 THE ORGANIZATION

2.1 Introduction - Golden Plantation Berhad

Golden Plantation Berhad (GPB) was incorporated on 1 October 1968 with its principal activities in those early years involving in the cultivation of sugar cane, processing of cane, refined sugar and its by-product in Dinding, Perak. GPB was officially listed on the Kuala Lumpur Stock Exchange (KLSE) and Stock Exchange of Singapore (SES) on 3 May 1971. However, trading of GPB's shares was suspended when the company ceased operation in 1975 due to continuing operating losses. With the completion of the relevant stages of Reconstruction Scheme, these shares were relisted on 1 November 1989. Subsequently, in compliance with Malaysia Government's policy and KLSE's requirement, GPB's shares were delisted from SES with effective from 1 January 1990.

The Reconstruction Scheme in Feb 1989 had successfully restructured and transformed GPB by way of acquisition of income-producing oil palm plantation estates. Following another recent corporate exercise in 1995, GPB had ventured into two major businesses namely property development sector and hotel services sector by acquiring few pieces of landbank in the Klang Valley and the acquisition of Dyman Corporation (M) Sdn Bhd which owned the Century Hotel Kuala Lumpur (CHKL).

2.2 Group Corporate Structure

GPB had only four subsidiaries under the Company. GPB's corporate structure was as follow:

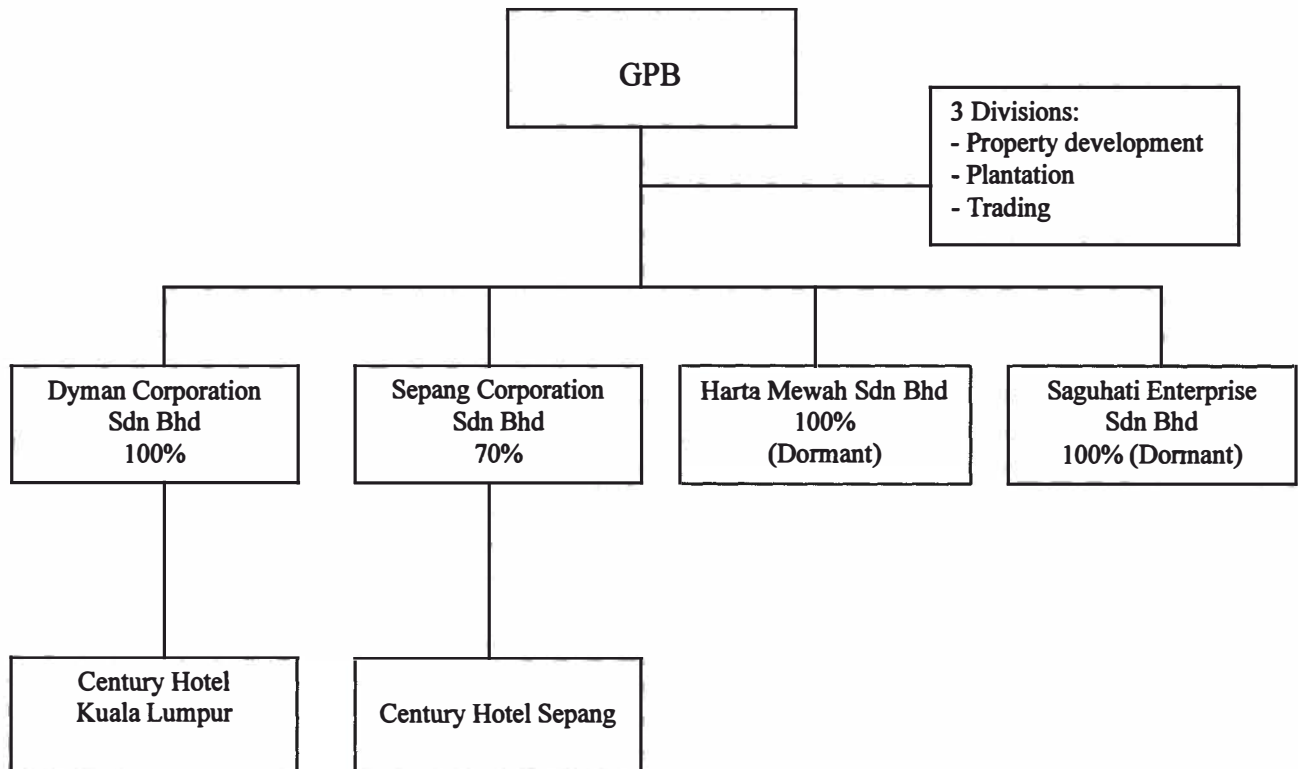


Figure 1: GPB's Corporate Structure

Source: GPB's Company Profile

GPB hotel division was placed under two subsidiaries namely Dyman Corporation Sdn Bhd (DCSB) and Sepang Corporation Sdn Bhd (SCSB) which were the holding company for Century Hotel Kuala Lumpur and Century Hotel Sepang

respectively. The other three business division i.e. the plantation, the property development and the trading division were placed under GPB.

2.3 GPB's Organization Structure and Key Management Personnel

The Company only had three departments i.e. the Finance Department, the Internal Audit Department and the Marketing Department. Each department was headed by a manager. All the three managers reported to the Company Secretary cum Financial Controller who ultimately reported to the Board of Directors.

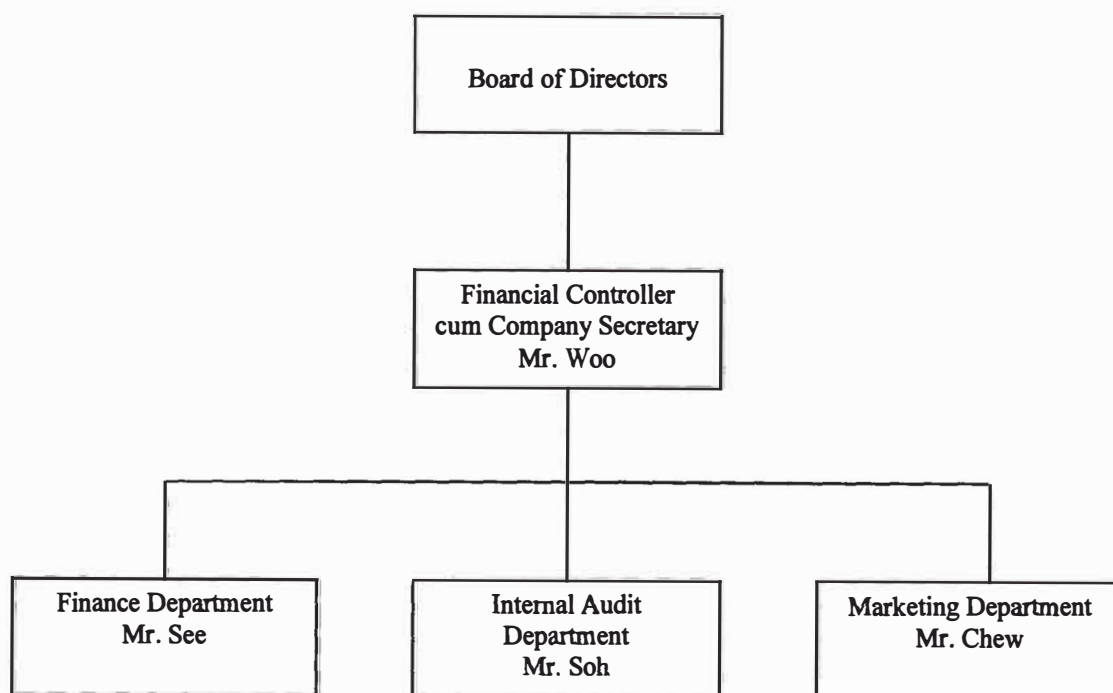


Figure 2: GPB's Organization Structure

Source: GPB's Company Profile

GPB's Board of Directors was consisting of nine directors which was leaded by Dato' Lee as the Chief Executive Office (CEO). Dato' Lee was assisted by Mr. Woo who leaded few managers. The few key directors and management who run the operation of GPB were as follows:

Datuk Roslan Bin Bujang was the Chairman of GPB. He was a Member of Parliament Upper House from 1991 to 1997 and currently the President of the Senator Club. He was the UMNO Division Chief, Bandar Tun Razak and he sit on the board of Amanah Yayasan Wilayah Persekutuan. He was the senior Private Secretary for the Ministry of National and Rural Development from 1985 to 1987.

Dato' Lee Chong Peng was appointed the Managing Director of GPB in March 1996. He oversees the overall operation of GPB. He was in the construction and property development industry for the past 30 years. In 1965 he set up his own construction company, Fortune Construction Co which undertook few sub-contracting works under the Government contracts. His break came through when his company was awarded the Government Turnkey contracts to construct reservoirs and other infrastructure projects, all of which were successfully completed on schedule and within budget. His company had successfully completed the Durian Tunggal Water Supply Scheme in Malacca in the seventies and the Semenyih Water Supply Scheme in Selangor in the early eighties.

Lee Seng Bok was the eldest son of Dato' Lee Chong Peng. He was appointed Executive Director of the Company on 4 March 1996. He holds a Bachelor Degree in

Civil Engineering (London) and a Master Degree in Business Administration from Cranfield School of Management, England. After graduation in 1986, he joined his father's business and managed the banking and corporate affairs of all the companies under the group.

Lee Beng Lian was the second child of Dato' Lee Chong Peng. She was appointed Executive Director of the Company on 4 March 1996. She holds a Bachelor Degree in Computer and Management Science (UK) and a Master Degree in Management Science from Imperial College, London. Upon completion of her tertiary education, she joined her father's business and was in charge of the day to day operations of the Group. Her biggest challenge was drawing up and finalising the concept and design of Century Hotel Kuala Lumpur plus the eventual operation of the hotel in December 1994.

YBhg Dato' Haji Mustapha Hassan is the Director of GPB. He was a lawyer by profession and he sit in the Board of Directors for few other Public Listed Company. He was the chief of UMNO Petaling Jaya Division since 1985.

YBhg Tan Sri Ahmad Sulaiman Yusof joined the Board in June 1993. He served in few various government ministries before he retired in 1991. Currently he was sitting in the Board of few Public Listed Company such as Rahman Hydraulic Tin Berhad and Nanyang Press Malaya Berhad.

Besides the above directors who had strong political background, GPB was also lead by few professionally trained directors and management.

Mr. Lim Tong Fei was the Executive Director for GPB. He was a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Accountants. He had vast experience in the property development and construction industry.

Mr. Woo Ting Yan was the Company Secretary and Financial Controller of GPB. He was a member of the Malaysian Association of Certified Public Accountants and a member of the Malaysian Institute of Accountants. Before joining GPB, Mr. Woo was attached to Arthur Anderson as an audit senior and had six years experience in financial and statutory audit in Public Listed Company.

GPB's plantation division was headed by Mr. Mah Seng Leong. He had more than 20 years of experience in the plantation industry.

2.4 GPB's Major Business Division

2.4.1 Hotel Division

GPB's wholly owned subsidiary, Dyman Corporation Sdn Bhd owned the Century Hotel Kuala Lumpur (CHKL) which started its operation in December 1994. Being located at the beginning stretch of Jalan Ipoh, CHKL was within walking distance to Putra World Trade Centre (PWTC), the prime venue for international and local convention and conferences. Coupled with the other two hotels in the vicinity, i.e. the Pan Pacific Hotel and the Legend Hotel, this area was known as the "Diamond Triangle" by the hotel industry.

CHKL with its 788 guestrooms commanded good occupancy. Together with its three major Foods and Beverages (F&B) outlets comprising of the Arina Coffee House, Century Palace Chinese Restaurant and the Prima Century Mediterranean Restaurant, CHKL had emerged as a major player in the hotel industry in Klang valley.

The hotel industry was one of the industry which was badly affected by the economic downturn. In Kuala Lumpur, hotel occupancies dropped to an average of 52.8% last year. The average rack rates also dipped averagely 15% from 1997 prices.

CHKL average occupancy for the last few months were below the market average of approximately 50% with an average room rates of approximately RM80.00 (refer to

Figure 3 & 4). CHKL performance was badly affected with this decrease of occupancy and average room rates.

A major contributing factor for the decrease of occupancy and average room rates was due to the 23% increase of room supply from 16,989 rooms in 1997 to 20,914 rooms last year. There will be additional 12,030 rooms presently under construction which were expected to be ready by year 1999, not to mention a further 15,143 rooms on the drawing board. This huge increase in room supply was an alarming indicator to the hoteliers. Come year 2001, there will be over supply of rooms in the Klang Valley which will ultimately forced the rack rates down.

The recent political unrest resulted from the sacking of the former Deputy Prime Minister and the outbreak of certain diseases such as the coxsackie, JE and the hendra like “Nipah” virus had indirectly resulted the decline in foreign visitors to our country. Not to mention also the negative publicity of the haze problem by the foreign media, who has caused the tourist to change their vacation plan to Malaysia.

Despite the facts that there will be oversupply of hotel rooms in the Klang Valley, the hotel industry was still expected to have a positive growth. The depreciation of ringgit at RM3.80 to USD1.00 as compared to RM2.50 a year ago had made Malaysia a cheaper place for the tourist. Malaysia had become one of the cheapest destination in Asean. As according to the Mid-term Review of the Seventh Malaysia Plan 1996-2000, it was projected the hotel industry will has a growth rate of 2.7% for year 1999.

With the government effort in promoting Malaysia as a tourism destination and the various activities organized by the Tourism Promotion Board, it was projected that tourist arrival will reach 20 million in year 2000.

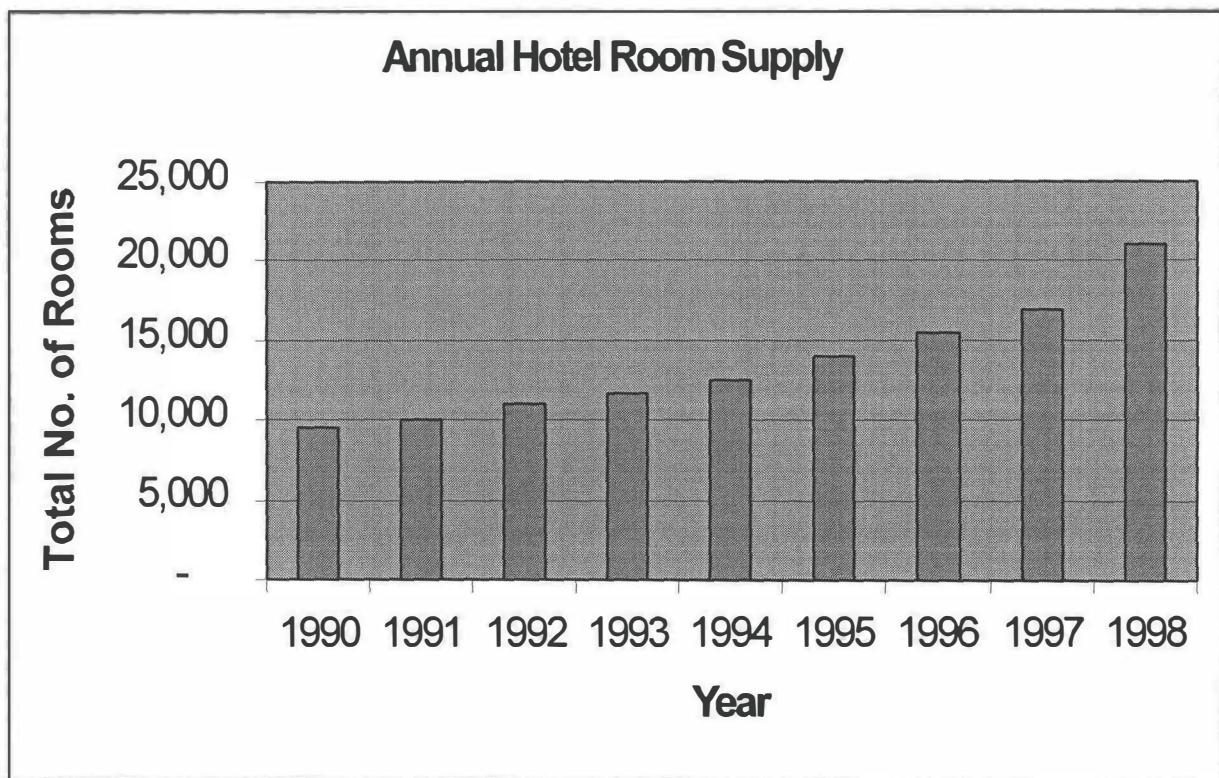


Figure 3: Annual Hotel Rooms Supply, Kuala Lumpur 1990 - 1998

Source: Research Inc. (Asia) & Tourism Malaysia

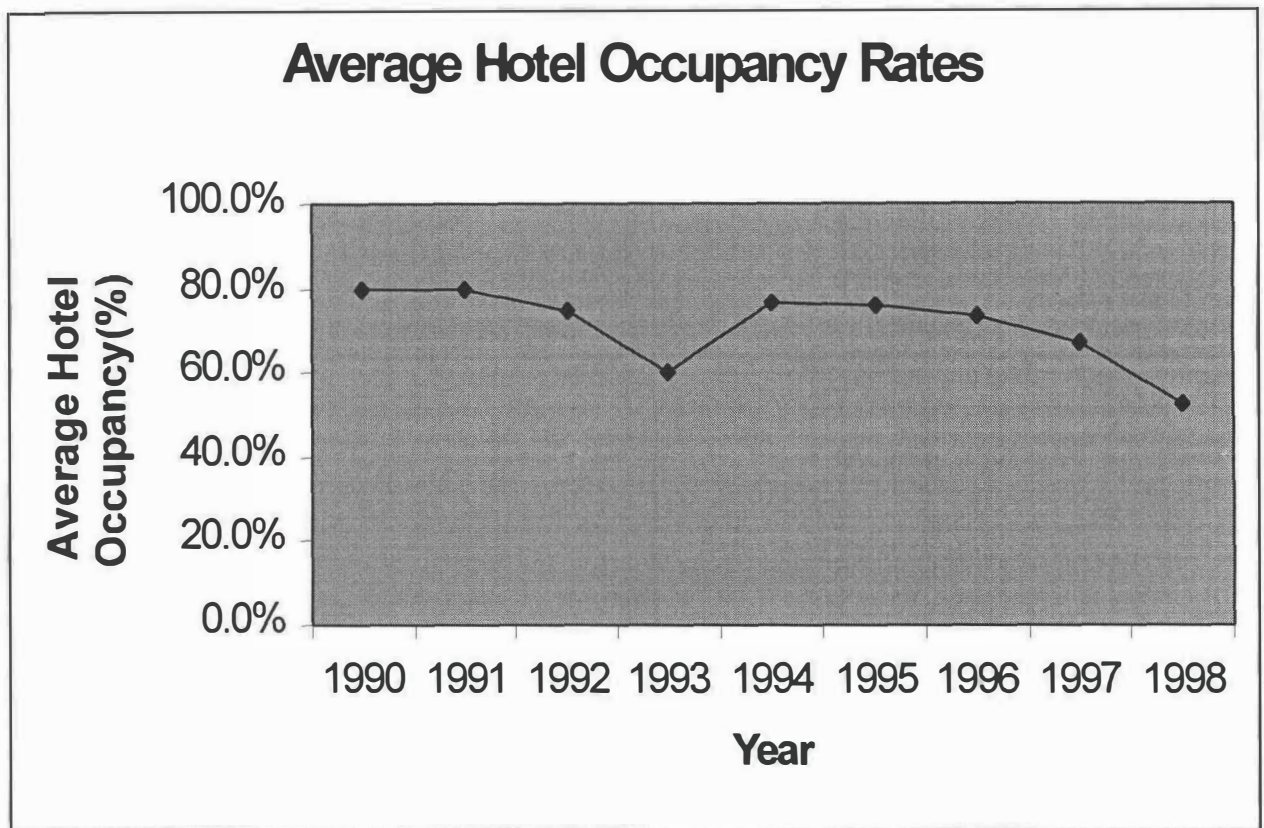


Figure 4: Average Hotel Occupancy Rates, Kuala Lumpur 1990 – 1998

Source: Research Inc. (Asia) & Tourism Malaysia

2.4.2 Plantation Division

Both the Company's oil palm estates namely Hilir Perak Estates and Teluk Cempaka Estates were situated at Teluk Intan, Perak with total acreage spanning approximately 4,000 acres. Presently, the estates were undergoing replanting stages, which will spread through a period of five years. The plantation sector had contributed approximately 20% to the Group's profit.

The plantation sector, the oldest industry in the country, has performed well in 1998. During the currency crisis, ringgit's depreciation against the US dollar had able to boost up the oil palm industry. Every RM100 increase in Crude Palm Oil (CPO) prices, the earnings of companies' will went up by about 7% to 8%.

Analysts have projected that, at least for the next two to three years, the palm oil industry will still enjoy high revenues. The CPO price was expected to trade between the range of RM1,600 to RM2,000 in the next two years, as compared to RM1,279 per tonne in January 1997. The plantation industry was projected to has a growth rate of 5.2% for year 1999.

As refer to the total FFB production among other PLCs (Table 1), GPB was a small player in the oil palm industry. Major players were like Chin Teck Plantations Berhad, Golden Hope Plantations Bhd, Kumpulan Guthrie Bhd, Kuala Lumpur Kepong

Bhd and IOI Corporation Bhd. The total productions of Fresh Fruit Bunches (FFB) for these companies were as follows:

Company	FFB (Mt)	FFB (%)
Asiatic Development Bhd	481,696	4.21%
Austral Enterprise Bhd	499,226	4.36%
Best World Land Bhd	61,000	0.53%
Bukit Katil Resources Bhd	6,280	0.05%
Chin Teck Plantations Bhd	177,160	1.55%
Far East Holdings Bhd	203,608	1.78%
Golden Hope Plantation Bhd	1,484,717	12.98%
Golden Plantation Bhd	24,167	0.21%
Guthrie Ropel Bhd	328,531	2.87%
Highlands & Lowlands Bhd	853,620	7.46%
IOI Corporation Bhd	949,694	8.30%
Johore Tenggara Oil Palm Bhd	231,920	2.03%
Kluang Rubber Co (M) Bhd	11,921	0.10%
Kretam Holdings Bhd	188,943	1.65%
Kuala Lumpur Kepong Bhd	1,128,694	9.87%
Kuala Sidim Bhd	641,130	5.60%
Kulim (M) Bhd	981,528	8.58%
Kumpulan Guthrie Bhd	1,451,472	12.69%
Kwantas Corporation Bhd	214,761	1.88%
Lingui Development Bhd	130,000	1.14%
Mentakab Rubber Co (M) Bhd	5,432	0.05%
Negri Sembilan Oil Palm Bhd	109,236	0.95%
PPB Oil Palm Bhd	591,556	5.17%
Riverview Rubber Estates Bhd	17,901	0.16%
Sarawak Oil Palm Bhd	173,376	1.52%
SCB Development Bhd	90,288	0.79%
Sungei Bagan Rubber Co (M) Bhd	15,046	0.13%
TDM Bhd	277,538	2.43%
The United Malacca Rubber Est. Bhd	40,374	0.35%
Westmont Land (Asia) Bhd	70,058	0.61%
Total	11,440,873	100.00%

Table 1: FFB Production As at 29/1/99:

Source: Investors Digest, Mid-February 1999

2.4.3 Property Development Division

GPB was currently developing the KJ Prima Industrial Park in Klang and the BB Prima Industrial Park in Batang Berjuntai. Two other proposed development in the planning will be the development of a condominium project in Setapak and a mixed development project (residential cum commercial) in Sungai Long, Cheras. These four massive projects will be the major ongoing concern for GPB.

GPB ventured into property industry in 1995. The total gross development value (GDV) of approximately RM750 million for the four projects was insignificant if compared to the major players in the property industry. However, if the property market recovered, GPB will be able to have its own shares of the cake.

2.5 GPB's Group Financial Results

The Current economic crisis faced by Malaysia had adversely hit GPB. GPB was, for the first time, in red for Financial Year End (FYE) 1998 since the restructuring exercise in 1989 which turned GPB into a profit making company. It was projected that the Company's financial performance will further decline in FYE 1999 and FYE 2000.

The property and the hotel industries were badly hit during the economic downturn. These two industries were the core industries which contributed approximately

75% of the total profit for GPB previously. The slow down in both the industries and the sluggish economy condition, the property and hotel industries were not expected to turnaround in the near future. The profit & loss statement and balance sheet are attached as Appendix 1.