

Qualification Programme (QP) Case Analysis Competition 2008

The Case

It was June 2007 and Paul Tan was discussing with Board Chairman, James Yeung, the recent developments in the Tan's Travel Limited (Tan's) business.

James observed; "Paul we have come a long way since 2004 when we put together our investment package to obtain a controlling interest in the company."

"Yes", replied Paul; "The company has a good track record. However we should now be thinking about other possible business opportunities."

Paul Tan was appointed Chief Executive Officer of the Tan's Travel Group, effective December 2004, after leading a consortium of investors, which formed the Company and acquired the Connect Group. Paul was formerly the Chief Operating Officer of Asia Holidays and Chief Executive Officer of Top-people Travel and Technology Ltd. He commenced his international business career with Pacific Tyres, where he spent 16 years in various senior management positions in Sales and Accounting. Between 1994 and 1998, Paul held management roles with Topdata Ltd. and Amroc Ltd. In each of his assignments, Paul has led the respective organisations through periods of major change towards more positive development and growth.

Paul continued; "I believe that it is now time to consider other business opportunities in order to grow the business to a viable international size and to reap some of the synergies which are likely to be available from travel businesses which are a good fit with ours."

"Can you expand on that?" asked James.

"Sure", said Paul; "Growth is necessary to compete in a market increasingly dominated by larger players. There is room for smaller niche operators and larger players, but it is more difficult for those in between, and that is where Tan's is on the world-wide stage. I also believe that the business needs to go to the next level of investment required to support and spread the cost of investment in management, information technology, etc. We should possibly look for acquisitions to double the size of the company, rather than engage in incremental growth. Also we should continue to diversify the nature of our company."

James chipped in; "But that will require a large amount of finance, and we do not have it."

"Yes", replied Paul; "We will need to fund any acquisitions and other forms of growth. At this stage I am a little unsure as to the appropriate type of funding. Also we will need to carry out a SWOT analysis of the business."

Both men agreed that it was timely that consideration be given to the company's strategic direction. At this point James raised another issue with Paul.

James said: "While we've made some improvements in our financial reporting, I'm concerned about the company's relatively poor performance measurement mechanisms, especially for measuring non-financial performance."

"I agree", replied Paul; "We tend to focus more on the financial numbers rather than other measures of performance."

The next day, Paul Tan discussed with Peter Thompson, CFO and Group Company Secretary, some of the issues raised by James Yeung. Peter agreed to look at the financial implications of possible growth strategies.

History of the Business to 2007

Tan's business has origins dating back to 1969 with the establishment of a travel agency in Causeway Bay, Hong Kong. Throughout its history, the company has grown organically, by acquisition and via the development of new businesses. The business has developed into a leading provider of services to the airline and travel industry, with operations in Hong Kong, Mainland China, Australia, South East Asia and North America.

From 1997 until December 2003, the business, known as the Connect Group, was 50% owned by UK Airways. In December 2004, Tan's Travel was established by "Big Merchant Bank Limited", Paul Tan and Oxford Partners to acquire Connect. Subsequent to the acquisition, a number of senior managers and the previous Joint Managing Directors (Jonathan Ng and Leslie Chong) acquired an interest in the company.

The key events in Tan's development are set out in the table below:

Year	Key Events
1969	Raymond Loke established travel agency Loke Travel in Causeway Bay, Hong Kong
1978	Jonathan Ng joined Loke Travel at the Causeway Bay location
1982	Loke Travel and China Travel (Henry Wu) merged to form Connect International Travel (three offices: Causeway Bay, Central and Kowloon)
1988	Leslie Chong joined Connect and formed Global Aviation Systems (GAS). Connect opened New Territories office
1997	UK Airways acquired 50% of Connect Group
1998	GAS opened office in Mainland China
1999	GAS Cargo established
2000	Travel Indo Chine acquired North American operations established Travel Indo Chine opened Vietnam office
2001	Gadabout North America acquired Air Asia Holidays contract secured by Connect
2002	Cleverfares launched
2003	Oldmans Holidays and Ski Swift acquired
2004	Paul Tan's consortium acquired Connect Group Paul Tan appointed CEO Travel Indo Chine commenced operations in Cambodia

Business Profile

Tan's is now an integrated group providing a complementary range of services to the airline and travel industry.

Tan's operates predominantly in the Hong Kong and Mainland China international outbound travel market, with complementary businesses in Australia, South East Asia and North America. Tan's acts as an intermediary between providers of transport, accommodation and leisure services and travel agents. Owing to its size and range of operations, the company is able to negotiate favourable rates and volume based incentives arrangements with most of the major airlines of the world. For the sale of leisure packages, Tan's negotiates prices with travel suppliers (e.g. hotels, airlines, tourist attractions, etc) and packages these for sale through travel agents or direct to consumers. The company does not pre-buy any products or hold any stock.

The company operates through two divisions:

- **Air Services** through Connect International, Cleverfares, Global Aviation Systems and CIAG (the Connect International Agency Group); and
- **Leisure** through Asia Vacations, Air Asia Holidays, Ski Swift, Oldmans Holidays, Travel Indo Chine and Rail Tickets.

Air Services

Connect International provides Hong Kong and Mainland China travel agents with an extensive range of international airfares and ticketing services. It sells airfares on behalf of 60 international airlines to some 300 travel outlets in all parts of Hong Kong and China. Connect International is the market leader in Hong Kong and China. Over the past two years, the company has significantly reduced its exposure to the Hong Kong and Mainland China domestic airfare market.

Cleverfares, a large scale Airfares Database and Electronic Distribution System, was launched to the Hong Kong and Mainland China travel agency community in 2002. Cleverfares provides electronic distribution of international airlines information. Tan's has recently upgraded Cleverfares to the Microsoft .NET platform. More than 2,000 travel agents worldwide use Cleverfares daily to obtain information and rules about the highly complex international airline environment and to process bookings. Cleverfares is the market leader in Hong Kong and Mainland China and was awarded the 2005 National Travel Industry Award for 'Best Agency Support Services'. The company has recently launched an internet based search and booking facility pursuant to an agreement with Galileo, an international reservations agency, for which the company has lodged a patent application.

Global Aviation Systems (GAS) started in 1988 and is a General Sales Agent for international airlines. The business provides a menu of marketing, ticketing and administrative services to international airlines that prefer not to commit to the substantial fixed cost of establishing and operating a local operation. Services include passenger and cargo operations. GAS represents 23 international airlines and is the clear market leader in Hong Kong and Mainland China.

CIAG (Connect International Agency Group) is a buying group of around 100 independent travel agencies throughout Hong Kong and Mainland China. CIAG group members receive additional income through preferred arrangements with industry suppliers and provide significant revenue to a number of Tan's brands.

Leisure

Asia Vacations. Gadabout North America is licensed to use the trademark "Asia Vacations" in Canada, the Caribbean, Central America, Mexico, South America and the USA under an agreement with Asia Airways Limited that expires in 2008. Gadabout is based in Los Angeles and uses the "Asia Vacations" brand to sell holiday packages and travel to Hong Kong and Mainland China, Australia, Hawaii, Fiji and Tahiti for North American based travellers. The company has preferred selling arrangements with a number of the major retail chains and has resident sales representatives located across the USA. It is a leading supplier of Asian holidays to North American travellers.

Travel Indo Chine is a specialist business of Tan's focused on innovative tourism to Vietnam, China, Cambodia, Thailand and Laos. Travel Indo Chine has offices in Vietnam and Cambodia and programmes are sold in Hong Kong and Mainland China, UK, USA and Australia. Travel Indo Chine was established in 1999, acquired by Tan's shortly thereafter and is the leading operator of escorted small group journeys to Vietnam.

Air Asia Holidays commenced operations in 2001 providing holiday packages, stopovers, car hire, coach tours and sightseeing tours in Australia, Pacific Islands, USA, Canada and UK/Europe, to Hong Kong and Mainland China travellers. It is a major wholesaler to Australia and has developed a strong consumer and retail brand in Hong Kong and Mainland China.

Oldmans Holidays is a long established travel wholesaler to Australia, offering a wide range of options for the independent traveller. The Oldmans brand has been active for 125 years. Tan's acquired Oldmans Holidays in 2003.

Ski Swift is a major Hong Kong and Mainland China wholesaler of ski package holidays to New Zealand and Australia. Ski Swift also offers ski holidays to the USA and Canada. It was acquired by Tan's in 2003.

Rail Tickets was established in 1998 and provides rail passes and point to point rail journeys across Europe, UK and USA.

Business Strategy and Competitive Advantages

The following section gives an overview of the perceived competitive advantages and key strategies for the company's two operating divisions.

Air Services

The major competitive advantage of the Air Services division is its long standing relationships with a wide range of international airline partners. These relationships have created the products and revenue streams which Tan's has used to service the travel agency community.

Due to its strong track record of operational excellence and service, Tan's is the market leader in most of the segments in the Air Services business. A key factor to Tan's success is the Cleverfares technology, which is an industry leader in functionality and content. All of the company's businesses are led by competent and experienced managers. This is significant in a complex industry where relationships are important for continuity of business dealings.

Over the past two years, Tan's has significantly reduced its exposure to the Hong Kong and Mainland China domestic airfare market to concentrate on the more profitable international travel markets.

Looking forward, the company's strategy for Air Services is to:

- Maximise profitability within a long term growth market through strong margin and cost control;
- Continue to invest in technology to drive efficiency; and
- Carefully pursue compatible acquisitions in Hong Kong, Mainland China, South East Asia and Australia.

Leisure

The Leisure division has a portfolio of high profile brands operated by experienced senior managers. Each brand has a specific geographic focus and offers in depth knowledge and experience in each destination. Due to these core strengths, Tan's has market leadership positions with a number of its Leisure brands.

Tan's Leisure brands are important to suppliers because of the volumes they transact in specific markets, and are important to travel agents to round out the full product range offered to consumers.

Over recent years, the Leisure division has grown substantially in terms of revenue and profit. The strategy to maintain this growth and profitability is to:

- Introduce new destinations within existing brands. Examples include:
 - Asia Vacations – Philippines / Thailand / Malaysia / India
 - Air Asia Holidays – San Francisco
 - Oldmans Holidays – Pacific Islands
 - Travel Indo Chine – Additional areas in South-East Asia.
- Maintain strong margin and cost control
- Invest in a new computer system in Hong Kong and Mainland China that will provide enhanced internet connections for travel agents and improved consumer direct selling capability
- Aggressively develop Travel Indo Chine's international sales operations
- Pursue bolt-on acquisitions in North America, Australia, Hong Kong, Mainland China, and Pacific Islands.

Geographic Presence

Tan's Hong Kong and Mainland China office locations include Hong Kong (Causeway Bay, Wan Chai, Central, Sheng Wan, Stanley), Kowloon (3 locations), New Territories (2 locations), Shenzhen (2 locations), Guangzhou (3 locations), Beijing (4 locations), Shanghai (6 locations) and many other Mainland cities. Its international offices include Sydney in Australia, Los Angeles in the USA, Ho Chi Minh City and Hanoi in Vietnam, and Siem Riep and Phnom Penh in Cambodia.

The Company's corporate office is located in Hong Kong, where the Company's IT infrastructure is maintained. All operating sites are leased.

Tan's represents 23 international airlines from Europe, Africa, Middle East, Asia, Pacific and the Americas in its sales agency business, and sells tickets from 60 airlines through Connect International.

Information Technology

Information systems are critical to the company's success. Commensurate with the size and complexity of Tan's operations, a variety of IT systems are used. As described previously, Cleverfares provides electronic distribution of international airlines information and has recently upgraded Cleverfares to the Microsoft .NET platform.

The company's ticketing system enables a fast turnaround of tickets to the customer. The company uses a range of other software including:

- Sirius general ledger system for accounting;
- TRAM and RESWIZARD for holiday package reservations and accounting; and
- Calypso for holiday package reservations and accounting in North America.

One of the most important aspects of the company is its ability to handle and distribute information. Tan's has a team dedicated to constantly developing the most appropriate systems to satisfy customers' needs. The use of technology will enable Tan's to improve its ability to deliver a faster and more professional product to the customer. To this extent, the company has partnered with Galileo (a well-known global airline reservation system) to develop joint technology initiatives.

Company Strengths

Paul Tan believes that Tan's possesses a number of attributes, which have marked out the company as being a strong player in the Hong Kong and Mainland China travel market. Paul knows that if the company was to attract additional funding, its strengths would have to be emphasised. He has committed them to paper.

1. Leading market positions
 - Connect International is the market leader in the wholesale distribution of international airfares and ticketing services in Hong Kong and Mainland China.
 - Global Aviation Systems is the market leader in Hong Kong and Mainland China in the representation of international airlines.
 - Cleverfares, Asia Vacations, Travel Indo Chine and Air Asia Holidays are leaders within each of their respective markets.
 - Tan's has developed strong relationships with airlines and other industry participants over its 38 year history.
2. Portfolio of leading brands
 - Strong brands with significant market positions that are well recognised within the travel industry and, in the case of Tan's leisure brands, by retail customers.
3. World class technology
 - The Cleverfares International Airfares Database and Electronic Distribution System is used by more than 2,000 travel agents world-wide to access daily, both published and private fares.
4. Resilient earnings from diversified activities and strong financial performance.
 - Despite major external shocks such as September 11, Bali terrorist bombings, SARS, the Iraqi war, and the Asian tsunami, Tan's diversified portfolio has allowed the Company to continue delivering profits, year after year.
 - A strong balance sheet, low capital requirements and strong cash flow from operations enable the Company to provide an attractive dividend yield.
5. Experienced and committed management team
 - Senior management are experts within the travel industry. All the General Managers of companies in the group have been with Tan's for more than 7 years with an average tenure of over 10 years.
6. Strong platform for growth
 - The product range, industry position, technology, management and expertise to capitalise on growth opportunities, provide a strong platform.
 - The range of services offered to customers can be increased within the existing infrastructure.
 - Acquisition opportunities will continue to arise through anticipated industry rationalisation.

Paul recognised that these strengths would need to be articulated further, and that a realistic assessment needed to be made of the risks facing the company, before considering major growth opportunities.

Industry Overview

An overview of the airline travel and leisure travel industries, as it affects Tan's, has to consider a number of factors. The main ones are:

- The nature of international outbound travel from Hong Kong and Mainland China
- Other participants in the travel industry
- The nature and impact of industry regulation

International Outbound Travel from Hong Kong and Mainland China

International air travel is a large and growing market in Hong Kong and Mainland China. In 2004 approximately \$3.0 billion of travel business was processed by members of the Travel Agents Association of Hong Kong and Mainland China.

External Shocks in Recent Years

The outbound travel market is robust and has maintained its long term growth trend despite the significant external shocks of September 11, Bali bombings, Iraqi war, SARS and the Asian tsunami. In 1997 - 1999, growth in international passenger traffic was lower due to the effects of the Asian economic crisis. After recovering strongly in 2000, the effect of the September 11 terrorist attacks, the Bali bombings, Gulf War II and SARS led to a levelling in the number of international outbound travel passengers from Hong Kong and Mainland China in 2001 and 2002. Passenger numbers recovered in 2003, and in 2005-2006 the numbers jumped by 26%.

Forecast of upward trend

The value of international travel to and from Hong Kong and Mainland China increased during the period 2002 to 2006, and is forecast to continue its upward trend.

For example, according to the Hong Kong Tourism Commission, the tourism industry made another new record in 2005 with over 23 million visitor arrivals, up 7.1% year-on-year. Most of the long haul and short haul markets such as the American, European, Australasian, and Southeast Asian markets had picked up strongly with double-digit growth. Mainland was still the largest source market with arrivals increasing moderately by 2.4% to more than 12.5 million.

Participants in the Travel Industry

Travel markets are large and complex, but can be divided into four broad categories of key participants: Suppliers, Wholesalers, Retailers, and Consumers.

Suppliers provide transport, accommodation and leisure activities, and they also sell directly to consumers. The major groups of suppliers are:

- Airlines
- Hotels
- Bus, ferry and rail transport companies
- Tour providers
- Attractions
- Travel insurers
- Car hire firms

Wholesalers sell travel packages and airline tickets to retail travel agents. The major groups of wholesalers are:

- Airline ticket wholesalers
- Holiday package sellers

Tan's is heavily involved in this area via the following businesses:

- Connect International
- Cleverfares
- Global Aviation
- Asia Vacations
- Travel Indo Chine
- Air Asia Holidays
- Oldmans Holidays
- Ski Swift
- Rail Tickets

Retailers sell travel products and services to consumers or companies. The major groups of retailers are:

- Branded groups
- Independent agents
- E-commerce agents
- Travel managers
- Meeting and Incentive Houses

The Tan's involvement in this area is through Connect International Agency Group (CIAG).

Consumers are end purchasers of travel products or services. These are Tan's customers, and consist of three major groups:

- Business,
- Holidays,
- Visiting friends and relatives (VFR)

Additional Information on Suppliers, Wholesalers, Retailers, and Consumers

Suppliers

On international routes, around 60 airlines operate scheduled services to and from the Hong Kong and Mainland China region. Asia Airways has the largest market share. There are another 50 or so international airlines that do not operate scheduled services to Hong Kong and Mainland China but sell tickets on their international network to the Hong Kong and Mainland China travel market. In addition to the major airlines, there are a wide range of providers of accommodation, ground transport and leisure activities.

Wholesalers

Airline ticket wholesalers provide the complete range of international airfares for retail travel agents. The range of airlines and different ticket prices result in over 50,000 different international airfares on sale in the Hong Kong and Mainland China market. Ticket wholesalers also provide important information on individual fare conditions as well as extending credit facilities to retail travel agents. Tour wholesalers provide holiday packages for sale through retail travel agents. In some cases, these packages are also sold directly to consumers by the tour wholesaler. The tour wholesaler buys in bulk from suppliers and constructs a package of products and services at a price usually more attractive than that achievable by an individual retail travel agent. The tour wholesaler has specialist in-depth knowledge of the destination and manages the currency risk on the transaction. A holiday package typically includes airfares, airport transfers, hotel accommodation, passes to local attractions, local tours, a detailed travel itinerary and specific information on the holiday destination.

Retailers

Travel agents are the main retailers of travel in the Hong Kong and Mainland China market although most suppliers and some wholesalers also sell directly to consumers. There are about 250 retail travel agency locations across Hong Kong, divided into four broad categories; corporate travel managers, branded groups, independent agents, and e-commerce agents.

In some cases, independent agents have joined together into buying groups. CIAG (Connect International Agency Group) is an example of an effective travel agency buying group.

The following are some examples of retailers in each of the four broad categories.

Corporate Travel Managers

- Carlson Wagonlit
- Farrington American Express
- Pioneer Travel Services

Branded Groups

- Farrington American Express
- China Travel Net
- SKY Travel
- Marco Polo Travel

Independent agents

- Any Tours
- Jebesen Travel
- Kenstar Travel
- Tiglion Travel Services

E-Commerce Agents

- Aero International
- Expedia
- Priceline
- Zuji

Consumers

Consumers travel for three main reasons:

- Business
- Holidays, including "Free Independent Travellers" (FITs)
- Visiting friends and relatives (VFR)

Hong Kong and Mainland China travel consumers have a very wide range of international airlines and destinations from which to choose. One of the main drivers of growth in international travel by Hong Kong and Mainland China travellers is GDP per capita. This has grown strongly over the last decade and this trend is expected to continue.

Industry Regulation

The Travel Industry Council of Hong Kong (TIC) was established in 1978 to protect the interests of travel agents. After continuous lobbying by the TIC, the Government enacted the Travel Agents Ordinance in 1985 to make it mandatory for all outbound travel agents to be licensed.

When the Government amended the Ordinance in 1988, recognition was accorded to the TIC because of its unstinting efforts in representing and regulating the industry since its inception. Under the Travel Agents (Amendment) Ordinance 1988, TIC membership became a statutory requirement for obtaining the Travel Agent's Licence to carry on travel business.

A TIC Reserve Fund (TICRF) was subsequently set up as one of the measures to protect outbound travellers. Travel agents were required to contribute one per cent of the tour fare received as levy to the TICRF. In the event of agent default, affected travellers were entitled to an ex gratia payment of 70 per cent of the tour fare paid. The TIC has since then been working closely with the Travel Agents Registry to monitor the operation of travel agents and to maintain the high professional standard of the industry.

In 1991, the Joint Council of the Travel Industry, the TIC being one of its six members, succeeded in securing a seat on the Legislative Council returned through functional constituency elections, thereby ensuring a voice of the travel industry being heard in the legislature.

In September 1992, the Government reduced the levy level from one per cent to 0.5 per cent and raised the ceiling of the ex gratia payment from 70 per cent to 80 per cent of the tour fare paid. In October 1993, the Travel Agents (Amendment) Ordinance 1993 was put into force and the statutory [Travel Industry Compensation Fund](#) (TICF) was set up to replace the TICRF.

The [Package Tour Accident Contingency Fund Scheme](#) was introduced in February 1996 to widen the protection net for travellers. The scheme, financed by the TICF, aims to provide financial relief of up to HK\$180,000 to outbound travellers who have run into an accident while touring abroad and to their relatives.

In view of the huge reserves of the TICF, the TIC proposed to the Government to increase the ex gratia payment to 90 per cent of the tour fare paid; the proposal was adopted in December 1996. The levy was also reduced from 0.5 per cent to 0.3 per cent in May 1997.

With the Travel Agents (Amendment) Ordinance 2002 taking effect in November 2002, all inbound travel agents providing travel services for overseas visitors are required to apply for the Travel Agent's Licence, and one of the licensing conditions is to become TIC members first. In other words, inbound travel agents, like their outbound counterparts, are also subject to the regulation of the TIC, which is proof of the recognition of the Government and the public for the work of the TIC.

People

Board of Directors

The Tan's Board consists of five people:

James Yeung	Non-Executive Chairman
Paul Tan	Managing Director and Chief Executive Officer
Geoff Bowland	Non-Executive Director
John Yip	Non-Executive Director
Michael Leung	Alternate Director for John Yip

Further details of these people are contained in Appendix A.

Senior Management

The following are the senior management of the company:

Peter Thompson	Chief Financial Officer and Group Company Secretary
Sally Yau	General Manager, Marketing / Smartfares
Ronald Lok	General Manager, Connect International
Leslie Chong	General Manager, Global Aviation Systems
Randall Shiu	General Manager, Hong Kong and Mainland China Leisure
Patrick Ho	General Manager, Travel Indo Chine
Malcolm Bowman	Consultant, Travel Indo Chine
Rod Wester	President, North America

Further details of these people are contained in Appendix A.

Employee Information

At 30 June 2007, the company employed 295 employees across all of its operations:

Air Services	180
Leisure	97
Head Office, Finance and Information Technology	18
Total Employees at 30 June 2007	<u>295</u>

There are a total of 18 people in management roles, including the eight senior staff listed above. These 18 people all have formal contracts with Tan's and their remuneration arrangements have both a base salary and incentive arrangement based on their individual performance and either their business unit performance or the performance of the group as a whole.

As a service business, the employees of Tan's are a critical component of the company's performance. The company operates a structured remuneration review process annually, monitors staff turnover closely and, where appropriate, remunerates employees on a performance basis. In addition, to foster good communication and teamwork, the CEO holds bi-annual employee forums for all staff and industry partners to communicate progress and recognise performance.

Corporate Directory

Tan's Travel Limited

2XX Gloucester Road
Causeway Bay, Hong Kong
+852 XXXX XXXX
www.tanstravel.com.hk

Directors:

James Yeung
Paul Tan
Geoff Bowland
John Yip
Michael Leung

Non-Executive Chairman
Managing Director and CEO
Non-Executive Director
Non-Executive Director
Alternate Director for John Yip

Company Secretary:

Peter Thompson

Lawyers to the Company:

Biggs and Huang

Big Building Centre
Queens Road East
Hong Kong

Auditors to the Company:

Big Four Firm

Big Four Building
123 Big Centre
Hong Kong

Appendix A: Directors and Senior Management

BOARD OF TAN'S TRAVEL LIMITED

James Yeung, BSc
Non-Executive Chairman

James' career includes 25 years with the national carrier, Asia Airlines, in senior positions in Hong Kong and Mainland China, Asia, Europe and North America, culminating as Chief Executive Officer. He then spent seven years with "Media Limited" as General Manager, Commercial. James is now a professional company director and management consultant. He joined the Board in 2004 as the Non-Executive Chairman. He holds honorary positions in some professional organisations, and is a director of a number of other companies in the tourist industry.

Paul Tan BCom, MBA, CPA
Managing Director and Chief Executive Officer

Paul was appointed Chief Executive Officer of the Tan's Group, effective December 2004, after leading a consortium of investors that acquired the Company. Paul was formerly the Chief Operating Officer of Asia Holidays and Chief Executive Officer of Top-people Travel and Technology Ltd. He commenced his international business career with Pacific Tyres, where he spent 16 years in various senior management positions in Sales and Accounting. Between 1994 and 1998, Paul held management roles with Topdata Ltd and Amroc Ltd. In each of his assignments, Paul has led the respective organisations through periods of major change towards more positive development and growth.

Geoff Bowland BCom, CPA
Non-Executive Director

Based in Hong Kong, Geoff was appointed to the Board in February 2005. He is a professional company director, whose positions include Chairman of RSSS Holdings Limited and a director of a Hong Kong and Mainland China listed tourism company. He also holds directorships in other commercial and not-for-profit organisations. Geoff has 35 years experience in the accounting profession and was a Big Four partner, including Hong Kong managing partner from 1990 to 1998.

John Yip BCom, LLB
Non-Executive Director

John joined the Board in December 2003 as a Non-Executive Director. John is currently Joint Managing Director of Oxford Partners, a private equity firm. He commenced his career in investment banking working with "International Merchant Bank", both in Hong Kong and London, and has taken active roles with, and invested in, a range of public and private companies.

Michael Leung BSc (Hons), MBA (Stanford)
Alternate Director for John Yip

Michael Leung has 25 years of operating, advising and investment experience gained in Europe, the USA, Hong Kong and Mainland China. He is currently Joint Managing Director of Oxford Partners, a private equity firm. Prior to co-founding Oxford in 1999, Michael was a senior partner at strategy consultants, Bane & Company. He also currently serves as Chairman of River Solutions Limited.

SENIOR MANAGEMENT

Tan's has an experienced and committed senior management team, which has a strong culture of operational excellence, cost control and profit achievement. Each of the Chief Executive Officer's direct reports has been employed by the company for more than seven years, with an average greater than ten years. The company is divided into five semiautonomous business units, supported by strong financial control and marketing disciplines.

Peter Thompson

Chief Financial Officer and Group Company Secretary. Age 45; Based in Hong Kong

Peter joined the group in 1990, having previously held senior accounting roles in private and public companies, primarily in the transport and metal manufacturing industries. Peter has been Chief Financial Officer and Group Company Secretary since February 2004. He is responsible for overseeing the finance, information technology and human resource operations within Tan's.

Sally Yau

General Manager, Marketing / Cleverfares. Age: 40; Based in Hong Kong

Sally is responsible for Tan's external marketing and communications, as well as the management of Cleverfares, national retail accounts, airline contracting, pricing and product development. She is also involved in managing overall business relationships and contract negotiations with airlines and key Hong Kong and Mainland China retail agency chains. Since joining the group in 1989, Sally has held a number of positions including Airline Relationship and Product Development Manager, Marketing Executive for Global Aviation Systems and Sales Executive for Connect International. Sally has been instrumental in the design and implementation of Tan's airfares database, Cleverfares.

Ronald Lok

General Manager, Connect International. Age: 43; Based in Hong Kong

Ronald joined the group in 1996 and is currently General Manager, Connect International. His experience in the travel industry spans numerous management positions at Tan's including General Manager for City Travel, Projects and Operations Manager, Sales and Marketing Manager for Kowloon, and Internet Travel Manager Brighttravel Solutions.

Leslie Chong

General Manager, Global Aviation Systems. Age: 55; Based in Hong Kong

Leslie is responsible for both the passenger and cargo divisions of GAS, and manages contracts and airline relationships with the GAS principals. Since joining the group in 1988, Leslie has worked in all divisions of the company, holding executive and management positions. Prior to joining the group, Leslie worked for UK Airways for 13 years where he held a number of managerial roles such as Chief Reservations Officer and Area Reservations Liaison Officer for the Gulf States. He was subsequently seconded to and employed by Razoo Travel (General Sales Agent for a number of international airlines including UK Airways, Asia, USA Airlines and Canada Airlines) to manage their sales and marketing operations in the Middle East.

Randall Shiu

General Manager, Hong Kong and Mainland China Leisure. Age: 40; Based in Hong Kong

Randall is General Manager of Hong Kong and Mainland China Leisure, responsible for the Hong Kong and Mainland China leisure operations of the Group. Since joining the group in 1997, Randall has significantly increased the Leisure division's brands and sales performance, and implemented the provision of outsourced holiday packaging for airline customers. Randall has undertaken a broad range of roles in a travel career spanning 24 years, including Call Centre Operations, Sales and Marketing, and General Management. Prior to joining the group, he was the General Manager of Top-people Holidays from 1995.

Patrick Ho***General Manager, Travel Indo Chine. Age: 38; Based in Hong Kong***

Together with Malcolm Bowman, Patrick founded Travel Indo Chine in 1994. Since then, he has been actively involved in the establishment, positioning and growth of the brand. As well as Patrick's involvement in the design and development of new products, he has been responsible for guiding all aspects of the Hong Kong and Mainland China division's marketing and operations as well as playing a role in the development of international clients.

Malcolm Bowman***Consultant, Travel Indo Chine. Age: 38; Based in Ho Chi Minh City, Vietnam***

Malcolm co-founded Travel Indo Chine in 1994 and has since lived in Vietnam. He has overseen the ground operations and been actively involved in the development of both Travel Indo Chine products as well as the ongoing development of marketing and business partnerships. Malcolm is also responsible for development of the Travel Indo Chine business in North America and Europe.

Rod Wester***President, North America. Age: 56; Based in Los Angeles, USA***

Rod is President of Connect International Travel Inc. and Gadabout North America (Asia Vacations) and is based in Los Angeles. Since joining the Company in 1997, Rod has been responsible for the Company's activities in North America, including the negotiation of contracts for major travel programs to Hong Kong and Mainland China, Australia, Fiji and Tahiti as well as working with all of the major carriers servicing the USA to Hong Kong and Mainland China route. Rod has extensive experience in the travel industry in North America, Australia and Asia, having worked in senior roles with companies involved in both wholesale programs to the South Pacific, Asia and Europe as well as air ticket wholesaling.

Appendix B: Summary Financial Statements for Tan's Travel Ltd. and its Subsidiaries

Consolidated Income Statement For the year ended 31 March 2007

	2007 HK\$'000	2006 HK\$'000
Turnover	426,616	299,235
Direct operating costs	<u>-214,953</u>	<u>-143,646</u>
Gross profit	<u>211,663</u>	<u>155,589</u>
Investment income	3,246	3,049
Other income	668	696
Distribution and selling expenses	-6,484	-7,459
Administrative expenses	-32,474	-26,570
Finance costs	-13,012	-9,365
Reversal of impairment loss in respect of leasehold land and buildings	214	69
Share of results of associates	-5,389	-2
Impairment loss recognized in respect of loan and interest receivables	-1,348	-
Impairment loss recognized in respect of available-for-sale investments	-814	-2,490
Impairment loss recognized in respect of goodwill	-1,021	-581
Decrease in fair value of investments held for trading	-814	-717
Gain on disposal of subsidiaries	8,577	30
Discount on acquisition of subsidiaries	4,734	-
Profit before taxation	<u>167,746</u>	<u>112,249</u>
Taxation credit	4,663	191
Profit for the year	<u>172,409</u>	<u>112,440</u>
Attributable to:		
Shareholders of the parent	130,340	91,674
Minority interests	42,069	20,766
Dividends	40,525	20,919

Consolidated Balance Sheet
At 31 March 2007

	2007	2006
	HK\$'000	HK\$'000
Non-current assets		
Property, plant and equipment	215,094	160,837
Investment properties	32,494	9,000
Interest in associates	6,614	7,403
Interest in a jointly controlled entity	633	-
Available-for-sale investments	24,589	7,454
Goodwill	1,681	4,241
Other intangible assets	34,829	-
Investment deposits and other assets	39,786	16,550
	<u>355,720</u>	<u>205,485</u>
Current assets		
Property held for sale, at cost	-	10
Inventories	848	743
Amounts due from related companies	6,538	5,947
Amounts due from associates	30,915	2,876
Trade and other receivables	41,157	43,124
Loan receivables	9,435	37,288
Loans to related companies	3,598	-
Investments held for trading	2,753	713
Pledged bank deposits	1,192	1,146
Bank balances and cash	19,905	55,552
	<u>116,341</u>	<u>147,399</u>
Assets classified as held for sale	<u>9,231</u>	<u>30,534</u>
	<u>125,572</u>	<u>177,933</u>
Current liabilities		
Trade and other payables	53,694	22,898
Loans from related companies	16,705	18,633
Amounts due to associates	1,275	1,335
Tax payable	211	-
Amounts due to related companies	5,352	19,248
Obligations under finance leases		
– amount due within one year	105	83
Borrowings		
– amount due within one year	8,875	5,927
Promissory note	10,646	-
Consideration note	2,155	-
Amounts due to minority shareholders of subsidiaries	9,876	8,868
	<u>108,894</u>	<u>76,992</u>
Liabilities associated with assets classified as held for sale	<u>2,102</u>	<u>17</u>
	<u>110,996</u>	<u>77,009</u>
Total assets less current liabilities	<u>370,296</u>	<u>306,409</u>

Consolidated Balance Sheet (continued)
At 31 March 2007

	2007 HK\$'000	2006 HK\$'000
Non-current liabilities		
Obligations under finance leases		
– amount due after one year	517	-
Borrowings		
– amount due after one year	48,166	50,846
Convertible notes	43,420	60,402
Deferred taxation	12,010	17,018
	<u>104,113</u>	<u>128,266</u>
Net assets	<u>266,183</u>	<u>178,143</u>
Capital and reserves		
Share capital	18,588	12,106
Reserves	198,241	128,425
Equity attributable to shareholders of the parent	<u>216,829</u>	<u>140,531</u>
Minority interests	49,354	37,612
Total equity	<u><u>266,183</u></u>	<u><u>178,143</u></u>

Appendix C: Business Unit Analyses

	Revenue Contribution		ROI	
	2007	2006	2007	2006
<u>Air Services</u>				
Connect International	11.5%	15.2%	8.2%	9.9%
Cleverfares	16.0%	15.5%	12.6%	10.5%
Global Aviation Systems	8.3%	6.5%	14.5%	14.3%
CIAG	7.5%	11.3%	N/A	N/A
<u>Leisure</u>				
Asia Vacations	12.8%	11.4%	13.5%	11.7%
Travel Indo Chine	14.2%	9.8%	22.5%	8.8%
Air Asia Holidays	10.4%	10.7%	10.5%	9.9%
Oldmans Holidays	8.4%	7.5%	14.8%	12.9%
Ski Swift	6.2%	5.8%	7.7%	6.5%
Rail Tickets	4.7%	6.3%	20.5%	18.3%

Required:

1. Analyze the status and performance of Tan's Travel Limited for the past two years; and
2. Propose to the Board of Directors a strategy for the next five years to grow the company.

Case Problem in Brief

International travel is a large and growing market in Hong Kong and Mainland China. In 2004, approximately HK\$3 billion of travel business was processed by members of the Travel Agents Association of Hong Kong and Mainland China. The value of international travel to and from Hong Kong is forecast to continue its upward trend.

Tan's Travel Limited (Tan's) is engaged in the business of Air Services and Leisure Package tour. It was established through acquisition of the Connect Group by a consortium of investors in 2004. Tan's operates predominantly in the Hong Kong and Mainland China international outbound travel market, with complementary businesses in Australia, South East Asia and North America. Tan's acts as an intermediary between providers of transport, accommodation and leisure services and travel agents. Tan's has a good track record in terms of growth and profitability.

During a recent meeting between the Chairman and the CEO, it was commented that the company should work out possible business opportunities in order to grow the business to a viable international size and to reap any synergies with other suitable travel businesses. Both agreed that it was time to consider the company's strategic direction in the next five years.

You are required to analyze the status and performance of Tan's, and to propose to the Board of Directors a strategy for the next five years to grow the company.

(Full details of the case will be available on the Institute's website from 20 August 2008 at http://www.hkicpa.org.hk/students/case_competition.php)