

1. Executive Summary

Outline of Methodology

In order to conduct the economic feasibility study of the proposed development in Lombok, which comprises the development of a 75-room five-star deluxe hotel (the Hotel), a dolphinarium and an equestrian centre, we have carried out the following steps:

- Analysed the economic, political and tourist climate in Indonesia and Lombok;
- Reviewed the performance of comparable five-star deluxe hotels in Southeast Asia, comparable dolphinariums worldwide and comparable equestrian centres throughout Southeast Asia;
- Assessed the suitability of the proposed site and its ability to attract demand for each component of the development;
- Conducted numerous interviews with tour operators in key feeder markets for five-star deluxe accommodation to identify the likely level and build-up of demand at the proposed Hotel. In addition, we have used comparable actual operating statements of comparable five-star deluxe hotels in Indonesia and Lombok to project the performance of the proposed Hotel;
- We have spoken to the operators / owners of comparable dolphinariums and equestrian centres to research and identify pertinent operating characteristics of their operations and to identify the likely build-up of demand at both the dolphinarium and equestrian centres at the proposed Hotel;
- Based on our research of comparable five-star deluxe hotels, comparable dolphinariums and comparable equestrian centres, we have projected a ten-year cash flow for each component of the development;
- Subsequently, we have assessed and commented on the financial feasibility of the entire development;
- In addition, for illustrative purposes only, we have prepared a ten-year cash flow projection and feasibility analysis for an additional 200-room five-star hotel, which could be located adjacent to the proposed five star deluxe Hotel.

Indonesia

Indonesia is the largest archipelago in the world with approximately 17,508 islands and is geographically positioned below Malaysia and Singapore in the west and below Brunei and Philippines in the east.

Indonesia declared its independence from Japan in 1945, with President Sukarno as its first leader. The ensuing years witnessed economic hardship, international isolation and ideological conflicts. This resulted in a coup in 1965, during which General Soeharto took power. Soeharto presided over Indonesia for 32 years, but was unable to correct the country's worsening economic and social problems. As a result, his vice-president, B.J. Habibie, took over in 1998. However, Indonesia continued to experience social unrest, including outbreaks of serious rioting and looting in Jakarta as well as other cities across the country, such as Lombok.

During this time, the business climate was negatively impacted and the continuing economic crisis generated severe distress, particularly among the poorest sectors of society, posing risks of greater social upheaval. In October 1999, President Abdurrahman Wahid, a moderate Islamic cleric and long-time opposition leader, succeeded Mr Habibie. However, Mr. Wahid was impeached in July 2001 and replaced by his Vice-President, Mrs. Megawati, President Sukarno's daughter. Although Mrs. Megawati's election was internationally acclaimed, she faces huge problems. Three years after Soeharto's fall, Indonesia's GDP is still more than 10% lower than before Asia's financial crisis. However, as there is a general consensus among political players for a period of political stability, Mrs. Megawati is expected to remain in office until the next parliamentary and presidential elections in 2004.

According to a recent EIU statement, economic growth will continue in 2002, led by steady growth in private consumption and renewed export demand. This trend is likely to persist into 2003 and will be supported by some recovery in both public and private investments.

Lombok

A mainly Muslim island, Lombok is located amidst Bali to the west, and Sumbawa to the east. Lombok and Sumbawa are the two main provincial islands of the province of Nusa Tenggara Barat (NTB), with the capital city Mataram located on the west of Lombok. The authorities in Jakarta generally appoint the provincial governor. Recently however, the appointed governor has been a local person, widely regarded as a positive improvement. In addition, more authority and power have been delegated to the provincial governors, including the responsibility for the development of tourism on the island.

Infrastructure

The infrastructure on Lombok is reasonably well developed. The island has an international airport, which after the current renovations and upgrades will be able to accommodate up to 2,000 passenger movements daily. However, accessibility to Lombok is somewhat limited. Lombok is only served by two international air routes, namely Singapore and Kuala Lumpur. Lombok is therefore at a competitive disadvantage compared to more developed destinations across Southeast Asia, which generally benefit from better accessibility.

Lombok has a well-maintained internal road network, which facilitates travel around

the island, although some outlying villages may be somewhat difficult to access. The developed areas of Lombok, mostly the areas within reasonable proximity to the main cities are serviced by water and power supply mains. However, the outlying areas around Lombok lack developed infrastructure, and as such, development projects in remote areas around Lombok would likely have to be self-sufficient in terms of power, water and telecommunication infrastructure.

In recent years, the perception of travel to Lombok has been negatively impacted; first by the 1997 riots in Mataram and Praya following the economic crisis and second by the riots in January 2000. Many international tour operators displaced demand from Lombok and other parts of Indonesia to 'safer' destinations throughout Southeast Asia, such as Thailand and Malaysia. However, with no further riots or negative publicity, the tourist industry in Lombok is expected to recover slowly.

Tourism

Lombok is famous for its beaches, trekking and diving areas. The island's charm lies in its centuries-old culture, tranquil coastal areas with virgin beaches and green mountains. Mount Rinjani, an active volcano, is the second highest mountain in Indonesia and the Gilis, just off the north coast, are three small islands featuring white sand beaches and coral formations. The total number of passenger arrivals to Lombok saw a big increase over the period 1995-97. This was a result of the development and popularity of Lombok as a tourist destination. Between 1998 and 2001, passenger movements at Selaparang Airport declined by approximately 2% per annum, largely due to the previously discussed unrest and instability.

Between 1990 and 1997, the supply of four- and five-star hotel accommodation in Lombok increased from approximately 330 rooms to 1,150 rooms. From 1997 onwards, hotel development came to a standstill as the performance of the hotel market in Lombok came under pressure, thereby making hotel development difficult to justify. Currently, there are approximately 1,150 four- and five-star hotel rooms in Lombok, of which we consider the Oberoi Lombok to be the only international standard five-star deluxe hotel.

As Lombok becomes more stable, both economically and politically, we consider that it would offer significant potential as a tourist destination.

Proposed Hotel

The proposed Hotel will be positioned as a five-star deluxe hotel. As there is only one five-star deluxe hotel in Lombok at the moment – the Oberoi, we have based our research and analysis on comparable five-star deluxe resort hotels in Bali and Southeast Asia. We have considered the following hotels in our analysis:

Indonesia

The Four Seasons Jimbaran, the Four Seasons Sayan, the Ritz Carlton Bali (villas only), the Oberoi Lombok (villas only) and the Oberoi Bali (villas only).

Thailand

The Rayavadee, Krabi, the Banyan Tree, Phuket, the Santiburi, Koh Samui (villas only) and the Baan Taling Ngam, Koh Samui (villas only).

Malaysia

The Datai, Langkawi (villas only) and the Andaman, Langkawi (villas only).

Market Segmentation

In 2001, the demand for five-star deluxe resort hotels was heavily reliant on tour operator business, predominantly from Europe, Southeast Asia and Japan. Tour operator business represented approximately 60% of total accommodated demand, whilst Free Independent Travellers (FIT) and Meeting, Incentive, Convention and Exhibition (MICE) business accounted for approximately 30% and 10%, respectively, of total accommodated demand.

Market Performance

The annual occupancy levels of comparable five-star deluxe hotels remained between 62% and 65% between 1999 and 2001. Hotels benefiting from strong brands and locations offering good accessibility and well-developed infrastructure, such as Bali and Phuket, tend to achieve the highest occupancy levels.

The average room rate (ARR) for villa-style accommodation ranged between US\$172 and US\$390 in 2001, the average being approximately US\$315. Hotels benefiting from good accessibility and strong international branding tend to accommodate higher paying demand and achieve the highest ARR. In 1999 and 2000, following the increased popularity of resort destinations in Southeast Asia, many hotels were able to increase their ARR. However, many hotels in Southeast Asia suffered from a decline in demand during 2001, following the events of September 11. In order to maintain occupancy levels, hotels accommodated demand from lower paying market segments, which negatively impacted the ARR performance of most hotels. As a result, market-wide ARR declined in 2001 over 2000 levels.

Proposed Hotel – Component One

The proposed Hotel site is located on the southern tip of the Kaliantan peninsula, on Lombok Island. Upon completion of the main access road to the Hotel site, the travel time to Mataram Airport will be reduced to approximately one hour.

We consider the proposed site to be good for hotel development. The site offers excellent beach frontage and we consider that the appropriate level of privacy can be created to support a five-star deluxe hotel development. Furthermore, due to good site elevation, we consider that all the hotel villas will benefit from ocean views. In addition, the site contains sufficient space to offer both the appropriate mix of guest facilities and the required infrastructural and back-of house areas a hotel of this type and in this location is likely to require.

The proposed Hotel will comprise 75 guestrooms and will be an all-villa style concept. Each villa will benefit from a private plunge pool, outside seating and dining areas and a high level of privacy in order to create a truly luxurious and exclusive product. The Hotel will include three small restaurants and two bars, limited meeting space and recreational and other facilities typically found in a five-star deluxe hotel.

Our projections of income and expense assume that the Hotel will be constructed and maintained at an international five-star deluxe standard and that a professional international deluxe hotel management company, such as Four Seasons Hotel & Resorts or Banyan Tree Hotels & Resorts, will manage the resort.

We have assumed a development cost of US\$325,000 per room, or approximately US\$24,400,000 for the entire hotel development. This estimate is based on our understanding of comparable development costs for villa-style hotels in Southeast Asia.

Performance Projections

Table 1-1, overleaf, sets out the forecast performance for the proposed Hotel. In addition, we include our internal rate of return, operational break-even point and investment payback period for the Hotel. For our financial analysis, we have assumed the following investment parameters:

- 50% leverage;
- 10-year amortisation period;
- Interest rate of 9.0%; and a
- Terminal capitalisation rate of 12.0%.

Table 1-1 Projected Performance, Proposed Five-Star Deluxe Hotel, Lombok, 2005-08 (US\$)

	2005	2006	2007	2008
Occupancy %	35.0%	50.0%	62.0%	70.0%
% Point Change	—	15.0%	12.0%	8.0%
Average Room Rate	309	345	382	392
% Change	—	11.5%	10.8%	2.5%
RevPAR	108	172	237	274
% Change	—	59.3%	37.4%	15.7%
Rooms Revenue	2,961	4,719	6,483	7,503
% Change	—	59.3%	37.4%	15.7%
House Profit	1,201	3,146	5,049	6,147
House Profit %	21.9%	40.4%	50.1%	53.5%
Net Income	791	2,404	3,935	4,857
Net Income %	14.5%	30.9%	39.1%	42.3%
Internal Rate of Return ¹				22.9%
Hotel Operational Break-Even Point				40.4%
Payback Period				6 - 7 years

Note: ¹ Assumes 50% Leverage, 10-year Amortisation, 9% cost of debt, 12% Terminal Capitalisation Rate

Proposed Dolphinarium – Component Two

Having reviewed comparable dolphinariums worldwide, including stand-alone dolphinariums and dolphinariums within hotel developments, we make the following recommendations regarding the proposed dolphinarium:

From our discussions with hotel management companies, the seclusion of the Hotel from the dolphinarium is an important consideration from a brand positioning perspective. Therefore, the dolphinarium should be a separate component in the development, with its own entrance and management.

We recommend that the dolphinarium contain one main dolphin area (to be built in the sea), three separate pools for dolphin interaction, a classroom suitable for presentations and seminars, changing rooms, a gift shop, a limited cafeteria, and an office / administrative area.

We have assumed that the proposed dolphinarium will attract demand from the proposed Hotel as well as from tourists staying in other four and five star hotels in Lombok. Our projection of future demand is based on our analysis of the levels of demand achieved at comparable dolphinariums.

Owing to Lombok's remote location and the lack of international first class hospitals, the level of dolphin therapy that can be offered is limited. Our research of comparable dolphinariums indicates that for attracting significant demand for therapy, the proximity of an international standard hospital is very important. Furthermore, the ease of travel, i.e. a good volume of direct international flights, is a very important consideration. Therefore, we recommend that the proposed dolphinarium focus primarily on leisure-based activities such as diving, snorkelling and swimming with dolphins. In the long term however, assuming the continued development of infrastructure in Lombok, we consider that therapy-related treatments could be accommodated at the dolphinarium to a greater degree.

We have assumed a development budget of US\$500,000 for the proposed dolphinarium.

Table 1-2, below, sets out the forecast performance for the proposed dolphinarium in Lombok. In addition, we set out the annual average cash-on-cash yield throughout the ten-year projection period and the investment payback period.

Table 1-2 Projected Performance, Proposed Dolphinarium, Lombok, 2005- 08 (US\$)

	2005	2006	2007	2008
Total Revenue	310	358	418	470
% Change	-			
Gross Profit	(5)	36	88	131
Gross Profit %	-2%	10%	21%	28%
Net Income	-26	13	62	104
Net Income %	-8%	4%	15%	22%
Average Cash-on-Cash Yield (Years 1-10)				17%
Payback Period				7 - 8 years

Proposed
Equestrian
Centre –
Component
Three

Having reviewed comparable equestrian centres throughout Southeast Asia, including stand-alone equestrian centres and equestrian centres within hotel developments, we make the following recommendations regarding the proposed equestrian centre:

The equestrian centre should be a separate component in the development, with its own entrance and management. We recommend that the equestrian centre contain one main paddock area, eight stables, changing rooms and an office / administrative area.

We have assumed that the proposed equestrian centre will attract demand from the proposed Hotel as well as from tourists staying in other four- and five star hotels in Lombok. Our projection of future demand is based on our analysis of the levels of demand achieved at comparable equestrian centres.

We have assumed a development budget of US\$88,000 for the proposed equestrian centre.

Table 1-3, below, sets out the forecast performance for the proposed equestrian centre in Lombok. In addition, we set out the annual average cash-on-cash yield throughout the ten-year projection period and the investment payback period.

Table 1-3 Projected Performance, Proposed Equestrian Centre, Lombok, 2005-08 (US\$)

	2005	2006	2007	2008
Total Revenue	78	113	149	168
% Change	—	44.4%	32.3%	12.8%
Gross Profit	-19	13	47	64
Gross Profit %	-24.6%	11.6%	31.5%	37.7%
Net Income	-32	-1	31	47
Net Income %	-41.2%	-1.2%	20.8%	27.7%
Average Cash-on-Cash Yield (Years 1-10)				52%
Payback Period				4 - 5 years

Additional Five-Star Hotel

We have included a sensitivity analysis for an additional 200-bedroom internationally branded five-star hotel. However, considering the current hotel market conditions for four-star deluxe and five-star hotels in Lombok, we conclude that the current market is not strong enough to absorb a new internationally branded five-star hotel. Therefore, we do not recommend developing a second five-star hotel on the site at the moment.

ENTIRE DEVELOPMENT

Table 1-4, below, sets out the forecast net income for the entire development and sets out our projection of the internal rate of rate (IRR) and the total investment payback period.

Table 1-4 Cash Flow Projections, Entire Development, 2005-08 (US\$)

Component	Assumed Development Cost	Year 1	Year 2	Year 3	Year 4
Five-Star Deluxe Hotel	(24.400.000)	791.000	2.404.000	3.935.000	4.857.000
Dolphinarium	(500.000)	(26.000)	13.000	62.000	104.000
Equestrian Centre	(88.000)	(32.000)	(1.000)	31.000	47.000
Entire Development	(24.988.000)	733.000	2.416.000	4.028.000	5.008.000
Internal Rate of Return ¹					22%
Pay Back Period					4 - 5 Years
Note: ¹ Assumes 50% Leverage, 10-year Amortisation, 9% cost of debt, 12% Terminal Capitalisation Rate We have only assumed a terminal sale for the Proposed Hotel.					

CONCLUSION

We consider the IRR indicated in Table 1-5, above, to be in line with the investment return requirements of typical investors for a project of this type and at this destination.

We consider that while the market in Lombok can support the development of a well-positioned five-star deluxe hotel, it cannot support the development of a conventional five-star hotel. Furthermore, the dolphinarium and equestrian centre components should be positioned as individual entities to avoid diluting the positioning of the proposed Hotel. In addition, the dolphinarium and equestrian centre components should be promoted and positioned separately in order to maximise their individual performance.