

2. Nature of the Assignment

Subject of the Economic Feasibility Study	<p>The subject of this study is the site of a proposed five-star deluxe hotel (the Hotel) to be located on the southeast peninsula of Kaliantan, Lombok. The Hotel will be part of a mixed component development, which in addition to the Hotel, will also include a dolphinarium and an equestrian centre. Each component of the development has been considered within this study.</p> <p>The Hotel is to be positioned as an exclusive five-star deluxe resort hotel. We have assumed that an international hotel management company such as Four Seasons Hotels & Resorts or Banyan Tree Hotels and Resorts will manage the Hotel.</p> <p>PT Naga Permai currently owns the site for the proposed Hotel. In addition, they could be in a position to acquire or jointly develop land adjacent to the subject site for the development of a second five-star hotel. We have analysed the second scenario in Chapter 13 of this report.</p>
Objective of the Market Study	<p>The objective of this assignment is to perform an economic feasibility study in order to evaluate market demand and to project income and expense for each component of the development.</p>
Use of the Market Study	<p>This report has been prepared for the use of PT Naga Permai to assist them to assess the financial feasibility of the development. Furthermore, we understand that this report may be used to assist in raising finance for the development. The information presented in this report should not be disseminated to the public or third parties without the prior written consent of HVS International Singapore.</p>
Fieldwork	<p>Erik van Keulen and Phil Golding conducted fieldwork for this assignment in May 2002 and the analysis was performed shortly thereafter. All our projections are expressed in inflated US dollars (US\$) and commence from 1 January 2005, the assumed opening date of the Hotel.</p>
Caveat	<p>Our projections are based on the market conditions prevailing at the time of our fieldwork. We reserve the right to amend our projections should any abnormal conditions subsequently arise in the market area.</p>
Scope of the Economic Feasibility Study	<p>The methodology used to develop this economic feasibility study and financial projections are based on the market research and valuation techniques set forth in textbooks written by HVS International for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled <i>The Valuation of Hotels and Motels</i>,¹ <i>Hotels, Motels and Restaurants: Valuations and Market Studies</i>,² <i>The Computerized Income Approach to Hotel/Motel Market Studies and Valuations</i>,³ and <i>Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations</i>.⁴</p> <p>In order to carry out the Economic Feasibility Study for the entire development, we have incorporated the following steps in our analysis:</p>

Component One –
The
Hotel

1. The surrounding environment and comparable resort destinations throughout Southeast Asia have been reviewed to identify specific tourism-related, economic and demographic trends that may have an impact on demand for the proposed Hotel;
2. Each available market segment has been analysed to identify the characteristics of guests using five-star deluxe hotel accommodation;
3. The facilities of existing five-star deluxe hotels have been analysed and form the basis of our recommendations of facilities for the proposed Hotel;
4. A number of comparable five-star deluxe hotels in Southeast Asia have been identified to assess the level of demand and typical performance of five-star deluxe hotels in this part of the world;
5. On the basis of interviews with leading tour operators and wholesalers in key feeder-markets, we have used a demand build approach to project future demand levels at the proposed Hotel. In addition, we have used our in-house database of actual hotel operating statements of comparable hotels in the region to benchmark the proposed Hotel's performance vis-à-vis these hotels;
6. On the basis of our ten-year projection of income and expense and our investment parameter assumptions, we have provided our feasibility conclusions, which include an internal rate of return analysis, an operational and financial breakeven analysis and an indication of the payback period for the total investment.

¹ Stephen Rushmore (1978) *The Valuation of Hotels and Motels*, American Institute of Real Estate Appraisers, Chicago.

² Stephen Rushmore (1983) *Hotels, Motels and Restaurants: Valuations and Market Studies*, American Institute of Real Estate Appraisers, Chicago.

³ Stephen Rushmore (1990) *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*, American Institute of Real Estate Appraisers, Chicago.

⁴ Stephen Rushmore (1992) *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*, Appraisal Institute, Chicago.

Component Two –
The
Dolphinarium

To prepare the projections for the proposed dolphinarium, we have undertaken the following steps in our analysis:

1. We have spoken to representatives of dolphinariums worldwide, both those that operate within hotels as well as independent centres. Following this research, we have made recommendations with regards to the proposed facilities and services offered for the proposed dolphinarium;

2. We have analysed the usage of dolphinariums worldwide. In addition, we have researched the surrounding environment to identify specific tourism-related, economic and demographic trends that may have an impact on the level of visitors to the dolphinarium in Lombok;
3. Based on performance trends of dolphinariums worldwide, we have projected income and expense over a period of ten years for the proposed dolphinarium;
4. On the basis of our ten-year projection of income and expense and our investment parameter assumptions, we have provided our feasibility conclusions, which include an internal rate of return analysis and an indication of the payback period for the investment.

**Component Three –
The Equestrian
Centre**

To arrive at our projections for the proposed equestrian centre, we have carried out the following steps in our analysis:

1. We have spoken to representatives of comparable equestrian centres throughout Southeast Asia. Following this research, we have made recommendations with regards to the proposed facilities and services offered for the proposed equestrian centre;
2. We have analysed the usage of comparable equestrian centres and researched the surrounding environment to identify specific tourism-related, economic and demographic trends that may have an impact on the level of demand to the proposed equestrian centre in Lombok;
3. Based on performance trends of comparable equestrian centres in the region, we have projected income and expense over a period of ten years for the proposed equestrian centre;
4. On the basis of our ten-year projection of income and expense and our investment parameter assumptions, we have provided our feasibility conclusions, which include an internal rate of return analysis and an indication of the payback period for the investment.

Entire Development

Based on each of the three separate analyses, we have assessed the financial feasibility of the entire development.

**Second Scenario –
Proposed 200-room
Five-Star Hotel**

Based on operating performance levels of comparable five-star hotels in Bali and other parts of Indonesia, we have prepared a projection of income and expense for an additional 200-guestroom five-star hotel. Our projections assume that the hotel will be branded and managed by an international hotel management company such as Marriott, Starwood or Hilton and that it will be located adjacent to the proposed five-star deluxe resort Hotel.