



- *Sea Hot Spring Hotel*



Lotus Sea Hot Spring Hotel

MKT3651 Final Report of Business Environment in China

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Business Plan

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Appendix



1 Executive Summary

This business plan is made for our investment project on developing the Lotus Sea Hot Spring Hotel in entering into mainland China's market.

In reality, Chinese tourism industry has growing rapidly in recent years, and the growth rate helps China become one of the favourite tourists' attractions in the near future. It is no doubt that demand of hotel accommodations will increase because of the increasing numbers of tourists visiting China. Hotels with themes like hot springs hotel are getting more and more popular in China. Moreover, people are more willing to spend money on leisure term as well as concerning their healthiness, therefore hot spring hotel can provide people with recreation and health care function to fulfil their needs.

Due to our well-established reputation and know-how in providing qualified hot spring service and accommodation in Taiwan, we believe there is a chance for us to expand the scope of our business in order to increase profit and acquire international experience. Accordingly, Sea Gaia wishes to enter Chinese market by forming a joint venture. As we are a non-local investor, we choose to run an equity joint venture with Guangzhou Oriental Hotel which is a famous and experienced partner, Consequently, it is believed that the joint investment in China will be of mutual benefit to both Sea Gaia and our company when it comes to increasing company profits.

With a newly found great natural hot spring resources in Zhangpo Fujian, a favourable political environment and a well-developed infrastructure, these favourable natural conditions will definitely provide benefit for our investment in Fujian. Hence, we decide to propose building a hot spring hotel in Zhangpo, Fujian.



2 Company Profile

2.1 The Lotus Sea Hot Spring Hotel

Formal status	Equity Joint Venture Capital : RMB 269,087,030 Personnel : 750
Mission statement	To provide more than a high quality standard service: to establish the Zen ambience and refresh our customer's minds in a paradisiacal location
Location¹	Zhangpo district, Fujian province, China
Scale	70.000 m ²
Variety of hot spring	70 private hot spring pools + 56 collective pools
Business scope	Hot Spring activities Accommodation Business seminars Food and beverage Relaxation centre Massage Spa
Target customers	Family and tourists Upper-middle class Upper-class Business people
Strategy	=> to differentiate our product/service line
Capability	- hot spring service = 708 persons - hotel accommodation = 900 persons - restaurants = 290 persons

¹ For the location, please see appendix 1



2.2 The Investment

<i>Investment budget²</i>	<i>% of total cost</i>	<i>A m o u n t i n</i> <i>R M B</i>
<i>The Hotel</i>		
<i>- Premise</i>	80%	¥160,000,000.00
<i>- Equipment</i>	18%	¥36,000,000.00
<i>- Business reg. + licence</i>	1%	¥2,000,000.00
<i>- Other fees</i>	1%	¥2,000,000.00
<i>Total cost for Hotel</i>	100%	¥200,000,000.00
<i>Hot Spring</i>		
<i>- Premise</i>	80%	¥48,000,000.00
<i>- Equipment</i>	18%	¥10,800,000.00
<i>- Business reg. + licence</i>	1%	¥600,000.00
<i>- Other fees</i>	1%	¥600,000.00
<i>Total cost for Hot Spring</i>	100%	¥60,000,000.00
<i>Restaurants</i>		
<i>- Equipment</i>	90%	¥4,050,000.00
<i>- Business reg. + licence</i>	5%	¥225,000.00
<i>- Other fees</i>	5%	¥225,000.00
<i>Total cost for Restaurants</i>	100%	¥4,500,000.00
<i>Temporary office</i>		
<i>- Rent</i>		¥1,200,000.00
<i>- Salary</i>		¥658,630.00
<i>- Equipment</i>		¥100,000.00
<i>- Utilities</i>		¥168,000.00
<i>- Promotional expenses</i>		¥2,460,400.00
<i>Total cost for Temporary office</i>		¥2,230,200.00
<i>Total Investment Costs</i>		¥269,087,030.00

² For further elaboration on the estimates, please see appendix 2



2.3 Licensing

2.3.1 Investment application procedure³

First of all, our business should get the project name approval and give notice to the zone authority by going through standard registration procedures in order to establish an enterprise.

The second step to get the project approval. As a foreign investor, we need to present an article of association, joint-venture contract and other supporting documents in order to get the 'project approval certificate'.

The last step is to register for business licenses with the local office of The State Administration for Industry and Commerce (SAIC). Also, it is a must of our company to get an extra 'approval certificate' from national level authorities because the total investment of our project exceeded US\$30 million.

2.3.2 Intellectual property right⁴

Trademark

To protect our business trademark, we will register our business trademark for specific classes of services from The State Administration for Industry and Commerce (SAIC), China's Trademark Office (TMO), an agency under SAIC. Also, our company would like to file an application to the International Bureau of World Intellectual Property Organization (WIPO) so as to add China into the list of countries for registration of our trademark. The international registration which is renewable will be valid for 20 years and.

³ For more details please see the references in appendix3

⁴ For more details please see the references in appendix3



- *Sea Hot Spring Hotel*

Apart from registering the trademark, our company would like to create simple phonetic equivalents for the company name. It is because the phonetic option will highly affect sales and promotion.



3 Joint Venture Partnership

3.1 The proposal: Equity Joint Venture

Our investment requires a large amount of fixed assets for the hotel, hot spring resort and restaurants. Therefore, forming an equity joint venture with the Guangzhou Oriental Hotel is recommended in order to share the initial costs.

3.1.1 Our partner's strengths

Founded in 1961, the Guangzhou Oriental Hotel is a well-known five-star hotel with eight-hundred-and-fifty-room in the Guangdong province. It was the first company listed in the hotel industry, and it offers a mixture of high standard Chinese and Western style in a peaceful and luxurious area.

The Joint Venture will allow us to benefit from:

- their know-how in running huge hotels
- their advice in the implementation of specific Japanese-oriented offer in a quite reluctant environment
- their social network among authorities and customers which may add to ours, it will increase the attractiveness of our company and the awareness of potential customers

Since Guangzhou Oriental Hotel is a large-scale with long operation history organization, we wish Guangzhou Oriental Hotel can contribute the skills required for managing a luxurious resort or hotel and local market knowledge to the Lotus Sea Hot Spring Hotel.

Guangzhou Oriental Hotel has its own well-established customer profiles, and we wish the joint venture can help deliver an introduction of customer flow from Guangzhou Oriental Hotel to Lotus Sea Hot Spring Hotel. As Guangzhou Oriental Hotel is a well-known brand in the area, we wish customers would visit our new Hotel by the referral of the Guangzhou Oriental Hotel.



3.1.2 Joint Venture description

<i>Part of Investment</i>	<i>%</i>	<i>Amount in RMB</i>	<i>Shares in %</i>
<i>Sea Gaia</i>	52	139,925,255.60	41
<i>- Company investment</i>	40	55,970,102.24	
<i>- Bank loan</i>	60	83,955,153.36	
<i>Guangzhou Oriental Hotel</i>	24	64,580,887.20	49
<i>Bank of China</i>	24	64,580,887.20	10
<i>Total Investment</i>	100	269,087,030.00	100

The investment repartition is divided unequally between three parties. This reflects the common business practice in China, in other words, the foreign investor contributes more in terms of capital whereas the local company receives a larger amount of shares. In order to minimize the financial risk of our company and settling possible disagreements between the partner companies, it has been decided to grant the Bank of China 10% of the company shares for financial assistance. In this situation, no parties will dominate the management operations and the amount of capital. One cannot deny that one of the benefits of partnering with Guangzhou Oriental Hotel is to reduce our investment on financial assets. Despite the fact that we provide the larger amount of capital for the investment and hold fewer shares than our partner, we still believe this practice will benefit to our company as it enables us to increase the scope of our business.

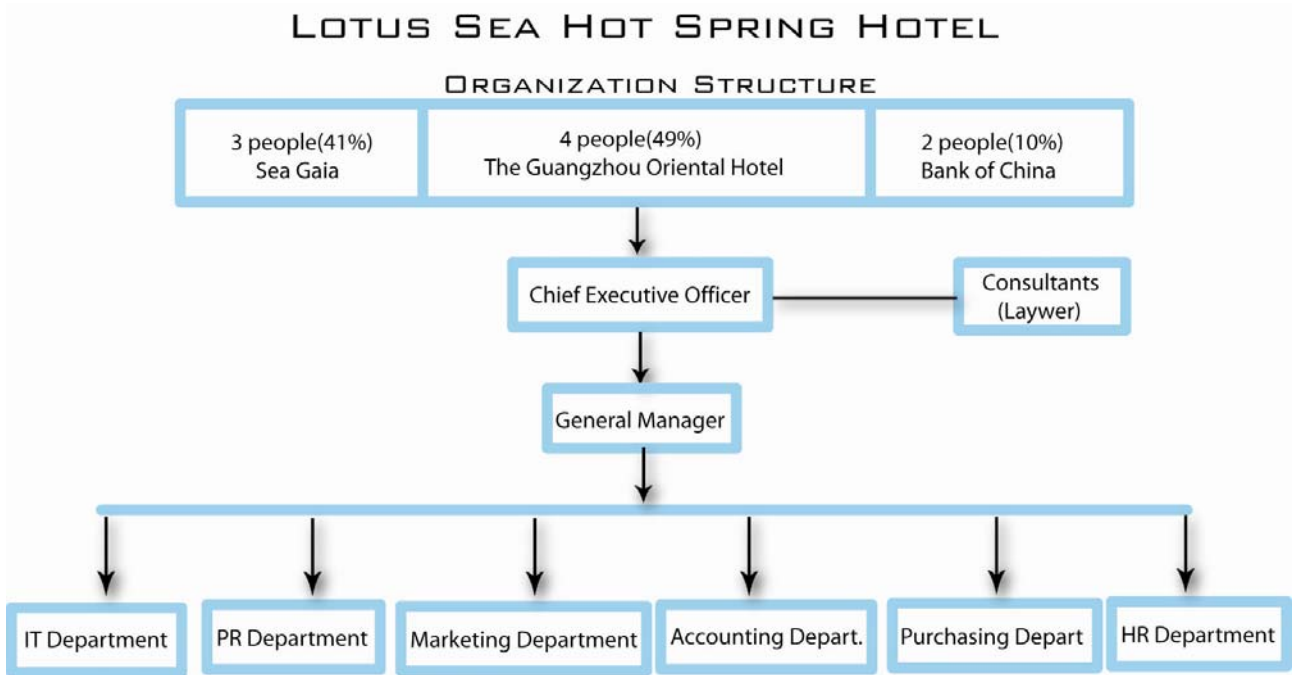


Management Team (including each department within the business)

Board of director	
-Sea Gaia	41% - 3 people
-The Guangzhou Oriental Hotel	49% - 4 people
-Bank of China	10% - 2 people
Executives*	
- Sea Gaia	40% - 15 people
- The Guangzhou Oriental Hotel	40% - 15 people
- Locals	20% - 6 people
Employees**	100% - 714 people

* Considering the lack of managers in the Chinese market, we will make use of trained managers from the partner hotels.

** hiring local people will back our project among authorities





4 Market Analysis

4.1 Benchmarked Company

The hot spring hotel industry is still a newly developed business in China. Accordingly, it is more difficult to acquire market knowledge and the cooperation with a local partner. Likewise, it is useful to have a benchmarked company in order to offer us some guidelines and references about the current operation of the market.

Our benchmarked company

Based on three criteria - scale of company, quality of service and minerals of hot spring, we chose the Ocean Spring Resort as our benchmarked company which is a well established company with similar business approaches and good operating results.

*Similar Resources*⁵

Both companies have rich ocean hot spring resources which is very good for human's health. Thus, Ocean Spring Resort's hot spring was valued as "The first Spring of Southern Ocean".

*Similar Mission*⁶

Both of us aim at providing one-stop hot spring service and personalized service to satisfy our customers' need. Ocean Spring provides 56 hot spring pool and many other services such as skin-care centre, massage and multi-language service.

*Similar Target*⁷

Both of us target to attract the maximum number of tourists and business people. Ocean Spring attracts about 2.5 million tourists and businessmen each year from the near provinces. Also, it is the largest hot spring resort in China.

⁵ 南海第一泉-領略溫泉文化精髓

<http://www.oceanspringresort.com/OceanSpring/hotspring/introduce.htm>

⁶ 人性化的服務

<http://www.oceanspringresort.com/OceanSpring/hotspring/fuwu.htm>

⁷ 香港中旅今年盈利樂觀 短期支持區 1.90 港元之上

<http://www.oceanspringresort.com/OceanSpring/osr/news10.htm>

全國最大旅遊度假區珠海海泉灣開業

<http://gd.sina.com.cn/life/news/2006-01-26/2134064.html>



4.2 General Market Analysis

According to recent surveys, Chinese tourism industry is expected to increase by an annual rate of 10.4% over the next 10 years⁸. Consequently, it is predicted that China will become the no. 1 tourists' attraction in the world within the next decade. Following recent trends, the hotel sector will offer many opportunities for foreign investors. Besides, it is noticeable that the Chinese are spending more time and money on leisure activities which contributed to the booming domestic tourism with produced revenue of USD 46.9 billion in 2002⁹. The expected increase in domestic travel is likely to increase the demand for entertainment, restaurants etc. Furthermore, China has seen a rise in the number of foreign tourists and the number is expected to increase even more over the next decade.

4.3 Specific Location Analysis

4.3.1 Natural resources

Recently, in the Zhangpo district (漳浦區) of Fujian province (福建省), geologists have found a rare ocean hot-spring that is regarded to be very rich. With an available water volume of 10000 m³ per day,¹⁰ the hot spring found offers a potential for developing a profitable hot spring hotel. Moreover, the Fujian province offers many tourist attractions including a 4A rank scenes area in Zhangpo (漳浦區) district. Hence, the local government plans to modify the area to a tourism hot spot which provide benefit to us when attracting tourists

4.3.2 Political Environment

In the Fujian province, there is a "Three Links" policy that aims at facilitating trade, postal and transportation links between Taiwan and the Fujian province. Advent with the "Three Links" policies, Taiwan and the Fujian province will have special ports with direct routes. In Fujian province, a port is located at Xiamen (廈門) which is close to our new hot-spring hotel. Besides, there are considerable population of Taiwanese who have higher income, as there is a policy which allows Taiwanese pay lesser tax and have more welfare in Fujian.

⁸ http://english.people.com.cn/data/China_in_brief/Economy/Tourism.html, 2006-10-02

⁹ http://www.researchandmarkets.com/reportinfo.asp?report_id=220246, 2006-10-02

¹⁰ <http://college.sina.com.cn/eraAction.do?method=list&collegeId=10015&eraType2Name=%E5%85%B6%E4%BB%96&eraType1=101&eraType2=1403>



4.3.3 Infrastructure

The local infrastructure is convenient for tourists and businessmen to commute to Zhanpo. The transportation network at Zhangpo district (漳浦區) is very convenient and comprehensive. There are highways and ships which connect Zhanpo district to Xiamen and Xiamen International Airport.

4.3.4 Customer Analysis

According to the Fujian tourism statistics in 2004¹¹, it is known that the population of stay-over-night tourist has grown rapidly. In 2004 there were 33million person-time stayed in the province and it consisted of 71.1% of the country's total received tourist population figure. When compared with the figures in 2002, it has grown by 12.1% which make it a great opportunity to run hotel accommodation business in Fujian. In addition, the resource of hot spring tourism in Fujian is very rich¹² and has strong development potential. As hot spring tourism products can achieve both recreation and health care purposes, especially welcomed by tourists from Taiwan, Hong Kong, and South Asia.

Based on these trends in tourism, Sea Gaia sees a definite potential in creating a hot spring hotel in this area. In the Fujian province the average annual income per capita is RMB\$12117 implying that the purchasing power is too low to cater enough target customers from this province alone. However, the Guangdong province and our home market of Taiwan are close to the Fujian province. Hence the average annual income per capita is RMB\$ 14953 and RMB\$ 117239, respectively, meaning that there is a prospective amount of potential customers for our hot spring hotel.

We found that it will be more suitable in targeting the middle class customers for our five-stars Lotus Sea as they have higher purchasing power, for instance, the Guangdong tourists, as well as the businessmen who work in Fujian mainly from Taiwan. Our partner Guangzhou Oriental Hotel can benefit to the Lotus Sea from referring customers from Guangdong.

¹¹ 2004年福建国内旅游收入 462.59 亿元 同比增长 49%
http://www.stats.gov.cn/was40/gitjj_detail.jsp?searchword=%B8%A3%BD%A8+%C2%C3%D3%CE&channelid=6697&record=1

¹²福建省首家国家 4A 级温泉旅游景区揭牌
<http://www.fjta.com/htmlnews/2006-4-19/2006419160237.htm>



4.3.5 Competitor analysis

Following table is the competitor analysis of our three main competitors in Fujian.

	<i>Riyuegu Hot Springs Resort¹³</i>	<i>Golden Soup International Hot Spring Resort¹⁴</i>	<i>Fuzhou Qingyunshan Hot Spring Hotel¹⁵</i>
Competitor's Mission	To provide a premium hotel services on hot springs supplementary with sophisticated facilities	To be a best resort for family gathering, personal parties and business conference providing high quality services of food and hot spring	On top of being a hotel, they aim to provide a natural environment and atmosphere with a multifunctional services
Current status	National AAAA Tourist Attraction Hot springs Hotel	Provide the largest hot spring in urban area 8 ¹⁶ .	National AAAA Tourist Attraction Hot springs Hotel
Scale	65.000 m2	> 20.000 m2	71.000 m2
Hot spring material	Fresh water	Fresh water	Fresh water
Variety of hot spring	72 hot spring pools, 35 kinds of hot spring	12 themes of hot spring pools, 8 hydropathical pools	More than 70 hot spring pools
Business scope	Hot spring Activities Accommodation Food and beverage Dinning Entertainment Meetings & Banquets Club Gift shop Spa & Massage	Hot spring activities Accommodation Business meetings Group activities Gym Centre Massage Beauty Centre Food and beverage	Hot spring activities Accommodation Food and beverage Business meetings Classroom Recreation facilities Beauty Centre Hair salon Shopping mall Massage
Target customer	Middle to upper class	Middle class	Middle class
Competitor's strategies	1) Food festival 2) Provide different packages with discount to attract more consumers 3) Diversification of hot spring pools ¹⁷	Provide different themes to attract customers	Provide accommodation and hot spring surrounding by natural environment

¹³ http://www.riyuegu.com/index_eng.htm Riyuegu Hotsprings Resort

¹⁴ <http://sca.sohu.com/showinfo.php?id=346213> 金汤国际温泉度假村

¹⁵ <http://www.qingyunshan.com/qysywq/gxjj.html> 福州青云山御温泉酒店

¹⁶ <http://www.wq18.com/shownews.asp?id=1683> 福州打造“中国温泉城”

¹⁷ <http://www.wq18.com/shownews.asp?id=2424> 厦门日月谷温泉举办异国美食节



Competitor's capabilities	1) About 2000 customers/per day 2) Awarded two "golden key" 3) Awarded "诚信维权单位" ¹⁸	Located in urban area, easy accessible	About 1500 customers/per day ¹⁹
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In addition, there are several hot spring resort projects in progress, and two of which²⁰ cost sixty million US dollars in total. As they have a certain extent of competitiveness, thus, we should pay attention to this competitor also.

¹⁸ <http://www.wq18.com/shownews.asp?id=2024> 厦门日月谷温泉获全国诚信维权单位

<http://www.wq18.com/shownews.asp?id=2264> 日月谷温泉酒店添两把“金钥匙”

¹⁹ <http://www.wq18.com/shownews.asp?id=2230> 福建青云山御温泉明起接待游客

²⁰ <http://www.wq18.com/shownews.asp?id=1929> 福州：“中国温泉城”梦想可期



5 Marketing Strategy

5.1 Product

In order to become a leading hot spring hotel in Fujian, we have decided to provide comprehensive products and services and classify them into five areas, accommodation, hot spring activities, food and beverages, business seminars and others²¹.

- *Accommodation*

As we mainly focus on targeting middle to upper class customers, we decided to provide 70 Deluxe Sea Lotus Suite to satisfy customers' insistence of high quality and noble taste. Each suite has individual hot spring pool. Apart from that, we will provide different types of standard rooms, 80 Japanese Lotus, 100 Western Lotus, 100 Sino-western Lotus and 100 Japanese-western Lotus. All of them will be equipped with five-star hotel amenities.

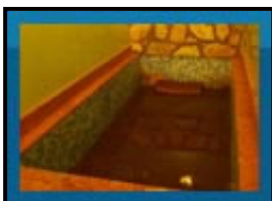
- *Hot spring activities*

We provide ocean hot spring which is the main characteristic and selling point of our hot spring because of its uniqueness. We have decided to build 46 ten-people hot spring pools, 8 six-people hot spring pools, 2 thirty-people hot spring pools and 70 individual hot spring pools for the suites. Overall, we provide three different themes for our hot spring pools, and they are Chinese style, Japanese style and Western style.



Chinese style

The pools are provided with different medical functions. Different materials such as rose, lemon, ginseng and some Chinese herbs will be added in the hot spring pools.



Japanese style

For the Japanese style, we decided to provide hot sand pool, couples pool, black mud pool.

²¹ For further readings on our benchmarked company, please see appendix 3



Western style

We have adopted the European style hot spring pools. For example, Dead Sea hot spring pool, Roman hot spring pool, western spas and bubbles hot spring pool.

- *Food and beverages*

As a high class hotel, it's very important to provide high quality food and beverage to our customers. Therefore, we will build three big and small restaurants respectively. Again, they will be in Chinese, Japanese and Western style.

- *Business seminars*

One of our main customers is businessman, so we will offer 20 conference rooms for their business meetings and activities.

- *Others*

A set of facilities will be provided to achieve one-stop service. They are relaxation centre, skin care centre; massage centre, swimming pools, gym centre etc.

5.2 Prices

<i>Type of room</i>	<i>No. of People</i>	<i>Tariff Rates on a 2 people basis (standard/superior) breakfast included)</i>	
<i>A- Japanese Lotus</i>	2	900-1000; 1200-1300	
<i>B- Western Lotus</i>	2	900-1000; 1200-1300	
<i>C- Sino-western Lotus</i>	2	900-1000; 1200-1300	
<i>D- Japanese-western Lotus</i>	2	900-1000; 1200-1300	
<i>E- Deluxe Sea Lotus Suite</i>	2	2500-2800	
<i>Type of restaurants</i>	<i>Capacity</i>	<i>Average prices (lunch/dinner)</i>	
<i>Chinese</i>	150	150 – 225	
<i>Western</i>	70	180 – 300	
<i>Japanese</i>	70	170 – 250	
<i>Total</i>	290	245	
<i>Snacks</i>	750	10	
<i>Room service</i>	80 (expected)	150 – 250	



5.3 Promotion

Promotional strategy is very important, as we have to establish a good image so as to attract more potential customers of enjoying the services in our hotel. We decide to take the following actions:

1. Advertisement

As advertisement is the most efficient way to promote our hotel, we decided to make advertisements on Television; travellers' websites; travelling magazines; newspapers; tourists' guides.

- **Television**

We choose to post advertisements on some popular TV channels, like channels of CCTV. We aim not only reaching the potential customers in Fujian or Taiwan, but also customers all over China.

e.g. UCCTV²² (旅游频道) UCCTV is a well-developed web TV channel, it provides all-rounded travelling information to visitors like information of attractions introduction, travel routes suggestion, accommodation booking, etc.

- **Traveller's websites**

Posting our advertisements online can reach more non-local potential customers.

e.g. 中国温泉在线²³ This « China Hot Spring Online » web site gathers the information of hot spring and hot spring hotels not only in China, but also all over the world.

- **Travelling magazines**

Advertising on some travel theme magazines can help reach our potential customers.

e.g. 网易旅游电子杂志²⁴ The TRAVELEASE magazines is a very attractive monthly travelling magazines with a monthly theme on introducing journey to a country.

- **Newspapers**

Choosing mass media like newspapers, can promote our hotel to more people, e.g. Travel Daily²⁵ Travel Daily provides the readers with daily travel news, tourism industry news, as well as airline industries news etc.

²² <http://www.ucctv.com/> 旅游频道

²³ <http://www.wq18.com/> 中国温泉在线

²⁴ <http://zine.travel.163.com/> 网易旅游电子杂志

²⁵ <http://www.traveldaily.cn/> Travel Daily



- Outdoor advertising

We would like to make use of outdoor advertising as this form of advertising is becoming more and more popular. Therefore, we decided to have Lotus billboards in some eye-catching places, such as sides of highways and national roads.

By doing the advertisements on the intermediaries mentioned above, we can reach many potential customers not only from Guangdong and Taiwan, but customers all over the world.

2. Inviting journalists and reporters

For hotel industry, word-of-mouth can be a very strong tool to promote our hotel. So, we planned to invite journalists and reporters to enjoy our hotel services, as they can help us to recommend our hotel to their readers.

3. Making travelling documentary

We decided to make travelling documentary to introduce our hotel, as it can let our customers to have a deeper insight to our hotel. To achieve this, inviting some well-known artists to be our spokesperson would be a good choice.

4. Cooperating with the travel agencies

We decided to cooperate with the main travel agencies in Fujian Province²⁶, Guangdong Province²⁷ and Taiwan²⁸. We would offer special packages, like special discounts for group booking, so as to attract more customers; buy one get one free tickets for purchasing the hot springs services, so as to make a chance for the customers to come to use our services again. Moreover, we will cooperate with airline companies, like DongFang Airline, and then customers can reserve the air tickets and hotel rooms through our online or phone service. It means that customers only need to call our hotline or surf our home website to reserve the DongFang air tickets and rooms together. It is very convenient for our customers by saving their time on booking airtickets and rooms.

²⁶ <http://www.ctsfj.com/> 福建省中国旅行社

<http://www.fjct.com/> 福建康辉国际旅行社

²⁷ <http://www.sz-gl.com/> 深圳市鹏运国际旅行社

<http://www.tieqing.com/> 广东铁青国际旅行社有限责任公司

²⁸ <http://www.sevengood.com.tw/> 七好旅遊

<http://www.888travel.com.tw/> 中國國際旅行社有限公司



5. Providing premium membership

To acquire and retrain the valuable customers, premium membership will be developed. There are two kinds of memberships and both are totally free of charge.

For Individual Customer

If the customers rent our hotel for more than 20 days within a month, they can get our premium membership. For our members, they can get extra 5% off discount on the accommodation and hot-spring services. The customers join the membership automatically after renting 20 days within a month. The customers' information would automatically store in our customers database which records what the services purchase, how frequent they use and how long they prefer, etc. It will be used for planning to offer special discounts for the accommodation and hot-spring services. Moreover, they can receive our anniversary gifts and brochures about our new promotion products and services every year. The purchasing intention can be increased due to the lower price and higher satisfaction. Friends of the member will be more likely to use our services as they can enjoy special offers. It is useful to create the positive word of mouth.

For Company Customer

All companies have business in Fujian province so their staff may need to visit to Fujian province frequently. Those companies are benefit from our premium membership because they can get discount when reserve our services, if they join our membership scheme for company. It means that the businessmen from the membership companies, and then they can get discount to book our services through their companies.

5.4 Place

There are several ways for customers to book our rooms or services. We use two distribution ways mainly, electronic channels and direct marketing channels respectively.

Electronic channels

For many industrial, advances in electronic commerce have opened new avenues for reaching buyers and creating customers value. Interactive electronic technology has made possible electronic marketing channel which employ the Internet to make goods and services available for consumption or use by consumers. It means that our customers can reserve our services through our official website. After that, we will cooperate with travel agent companies; airline companies and therefore



our customers can book our services through out our partner travel agent companies. It is predicted that electronic channels will be one of the major sources of income for

Lotus.

Direct marketing channels

Our customers can reserve our services by phone or come to our office directly. Moreover, customers can book our rooms or services through the travel agencies or airline companies, which we are connected to.

5.5 Lobbying the Fujian Government

China is a unique place where “guanxi” (that means relationship) is always emphasized when doing business. Therefore, Lotus Sea give donation to local social welfare and be an environmental friendly enterprise so as to lobby local government to build up good “guanxi” with government and to build a good reputation and brand awareness to local citizens.

Social welfare donation

In order to get the operation license and support from the local government, building up long-term relationship with government and citizens is necessary. Lotus will make donation China social welfare like constructing roads in local areas. For instance, we will donate 5% of our Net Profit every year. Donation, as one of the publicity tools, not only raises public awareness, but also contributes to a positive image and change on public perception on Lotus. Moreover, it is our main lobbying tool to get license and support from local government.

Environmental friendly enterprise

Apart from the donation to local social welfare, Lotus strives to make our business as environmental friendly as possible. Economic development grows rapidly in China during last several decades. However, it comes with many negative effects and problems. Environmental pollution is a major problem and become an obstacle for the continual economic development. Thus, central government advocates establishing environmental friendly companies in China. Accordingly, our business can contribute to the sustainable development in the Fujian province by recycling the water



and hence, limiting environmental pollution. Therefore, Lotus can get support and reduce the risk of rejection from the local government

5.6 Year Plan

5.2.1 One Year Plan

1 Nov 2006 – 31 Dec 2006	1 Jan 2007	1 Aug 2007 – 31 Oct 2006
--Prepare documents and getting official licenses	--Start building up the hotel	--Employ Hotel, Restaurant and Hot spring staff
--Search suitable location	--Search the best suppliers	--Provide training to staff
--Connect and sign up the contract with Guangzhou Oriental Hotel		
--Create brand awareness		
--Implement the membership project		

In the first year, we are mainly focusing on getting the official licenses and finishing the construction parts included Hotel, Restaurant and Hot spring pools. At the same time, our company would like to create brand awareness through making advertisement and traveling documentary. As we know that keeping our customers satisfied is the key factor to make our business succeed, we planned to implement membership project in the first year in order to provide tailor-made services to our valuable customers in this year.

For the first and second months that are from November 2006 we would go to Zhangpo district, Fujian province in order to prepare the documents and official licenses for operation. Also, we could search suitable location for our hotel. Connecting and signing up the contract with our partner, Guangzhou Oriental Hotel, is the first thing we have to do.

For the third month, January, our business would be expected to start the construction work of our hotel in this month. Furthermore, we would search the best suppliers to provide food, stationeries, furniture, etc.

On 1 August 2007, it is the time for us to employ Hotel, Restaurant and Hot spring staff in different levels and provide training to our staff who works in different departments.



5.2.2 Five Year Plan

- To build a maturity management and employment system
- To train our staff on a continual basis
- To diversify our services and products (e.g. providing more hot spring pools with different themes)
- To cooperate with outside companies (e.g. travel agents) to provide different travel packages
- To acquire more knowledge about the business environment in China, especially Zhangpo district
- To be the top 3 in the Fujian province by increasing market share
- To expand our business into other cities

After gaining two years experience of running a hotel, it is believed that we would have more insights on how to manage the hotel more effectively and efficiently. For example, we might encounter many management problems such as the daily operation, the supply chain of the food, the cooperation with the partner. By doing so, we could build a maturity management and employment system since we had gained our management experience in the business.

On the other hand, we would like to train our staff on a continual basis. Our staffs are required to attend certain training courses regularly, so as to obtain the most updated knowledge about serving the customers.

In order to reduce the risk of operation, we would like to diversify our services and products (e.g. providing more hot spring pools with different themes). Besides, we will cooperate with outside companies (e.g. travel agents and airline companies) with us, so as to provide different travel packages and special offers to customers.

Apart from that, we have coped with many people who come from different levels and areas, such as the government, suppliers, customers, other intermediaries, so we can understand the market situation in China and acquire more knowledge about the business environment in China, especially in Zhangpo district. This information is very useful for our further expansion in the future.



As we would like to be the top 3 in the Fujian province, we must increase our market share. We may do more researches to evaluate the potential customers and to build a long term relationship with our customers.

Furthermore, assessing the possibility of expanding through opening new hot spring hotels in other cities is very important for us because it will come with lots of advantages to us. For example, it may boost profits, increase the market share and raise our brand awareness in the public.



6 Financial Plan

6.1 Sales and Revenue Forecast

<i>Revenue per day</i>	<i>1st year</i>	<i>5th year</i>	<i>Evolution</i>
<i>Hotel industry</i>			
- Room available	400 rooms	450 rooms	12.5%
- Room occupancy	50%	68%	36% ²⁹
- Revenue	¥226,500 per day	¥349,800 per day	54.4%
<i>Hot spring services</i>			
- Revenue	¥150,000 per day	¥200,000 per day	33.3%
- Users	750 people per day	1000 people per day	33.3%
<i>Restaurants (food and beverage)</i>			
- Revenue	¥211,000 per day	¥321,500 per day	48.1%
-Users	700 people per day	1000 people per day	42.8%
<i>Extra services</i>	¥32,000 per day	¥55,080 per day	72,1%
TOTAL revenue per year	¥223,020,000	¥330,256,800	48,09%

6.2 Budget³⁰

Five-year budget	2008	2012
Revenue		
<i>Hotel</i>		
Rooms	¥81,540,000	¥125,928,000
Others	¥11,520,000	¥19,828,800
<i>Hotspring</i>	¥54,000,000	¥72,000,000
<i>Restaurant</i>	¥75,960,000	¥112,500,000
Total revenue	¥223,020,000	¥330,256,800
Expense		
<i>Hotel</i>	¥29,997,250	¥47,695,630
<i>Hot spring</i>	¥29,957,250	¥42,539,300
<i>Restaurant</i>	¥17,378,625	¥23,113,571
<i>Office</i>	¥7,428,625	¥7,577,197
Total expense	¥84,761,750	¥120,925,698

²⁹ Room occupancy and rates are budgeted according to general market trends within the hotel industry. For details please see appendix 4.

³⁰ For the explanations, please see appendix 5



Profit's Repartition	1st year	5th year
Total revenue	¥223,020,000	¥330,256,800
Total expense	¥84,761,750	¥120,925,698
Gross profit	¥138,258,250	¥209,331,102
- Administrative expenses	¥1,500,000	¥1,950,000
- Other operating expenses	¥12,000,000	¥15,600,000
- Amortization of assets	¥16,085,000	¥16,085,000
- Environmental costs	¥13,800,000	¥20,900,000
Operating profit	¥94,873,250	¥156,796,102
- Financial costs	¥1,500,000	¥2,100,000
- Loan interests	¥3,147,000	¥5,713,200
Profit before income tax	¥90,226,250	¥146,982,902
- Income tax	¥24,361,087.5	¥39,685,384
- General Reserve ³¹	¥3,293,258	¥5,364,876
Net profit	¥62,571,904	¥101,932,643
Repartition of profit		
- Retained profit	¥2,571,904	¥11,932,643
- Lotus Sea Hotel Shareholders	¥60,000,000	¥90,000,000
➤ Sea Gaia	¥24,600,000	¥36,900,000
➤ Guandong Oriental Hotel	¥29,400,000	¥44,100,000
➤ Bank of China	¥6,000,000	¥9,000,000

³¹ 5% of Net Profit for social welfare



7 Risk Assessment

7.1 Risk Identification and Reduction

7.1.1 Cultural Conflicts

The greatest risk of the investment project is related to the unification of different company cultures. Internal conflicts are likely to appear as we plan to bring together managers from the respective companies. Not only may different managerial perceptions cause confusion and possible division between employees, the partition within the company might spread to affect customer perceptions in terms of service and quality. Overall speaking, our business relies on customer satisfaction and good reputation, thus, profits and long-term earnings will be negatively influenced if the joint venture partnership seems split.

To avoid conflicts, we plan to undertake a variety of initiatives to build a common corporate culture. Amongst others, we aim at establishing service seminars and joint managerial courses to unify employee actions. Furthermore, a new business policy will be formulated to guide employees' behaviour and secure a high quality of delivered service.

Customer profile

Guangdong customers are our target customers in the Lotus Sea Hot Spring Hotel, by operating with a Guangdong hotel can allow us to attract more customers from Guangdong to visit the Lotus Sea Hot Spring Hotel in Fujian.

7.1.2 Budgetary Constraints

To create sustainable profits, revenue must be kept high to cover many other fixed costs. Because the business is new, the revenue might not be high enough to ensure a reasonable payoff. In this situation, the marketing effort and the service quality will be key factors in attaining the estimated



revenue. Accordingly, we have created a special profile or brand name, and contemplate on spending much effort on promotion and service to attract and keep customers.

7.1.3 Governmental Constraints

As a foreign company, we do not have good relationship with local government and the government do not has deeper understanding of our company. Therefore, it may become obstacle for us to get the certificate of operating our new hot spring hotel from government, we have two solutions for those problems.

Building up environmental friendly enterprise

We need a certificate from the government to realise the business plan. In order to get the government's approval, we strive to make our business as environmental friendly as possible. Accordingly, our business can contribute to the sustainable development in the Fujian province by recycling the water and hence, limiting environmental pollution. Also, the environment protection has been a hot issue in China economic development recently, we have some measurement in the hot spring operation. These prospects of our hot spring business might reduce the risk of governmental interference or rejection of the investment project and might even foster governmental support and strengthen our CSR profile among customers. Furthermore, gaining the relevant skills and experience of operating ocean hot springs becomes important when applying for an exclusive operating permission from the government.

Donation for social welfare

Although it may be a challenge for us, as a Taiwan company, to build a hotel in Fujian with a non-local based partner, we believe that this joint venture can benefit the Fujian government in several ways. In this project, we plan to build the infrastructure nearby our hotel, so as to assist the government in development of social infrastructure. Moreover, building a high class hot spring hotel in the area can attract more tourists' flow in the district, and this can surely make a growth in the tourism industry in the district. The points mentioned above are some benefits to the local government, and more details are mentioned in the marketing strategy section.



7.1.4 Recruitment

Our service quality is greatly affected by our staff as labour quality in China varies a lot.³² To create a good reputation and perform excellent services, the employee recruitment therefore becomes important. Employees might not possess the knowledge within the field of international service standards, the hotel management team will pay extra attention to employee training and service upgrading to avoid negative impacts on the company reputation.

³² “Service quality in China’s hotel industry.” <http://www.emeraldinsight.com>



Appendix 1

Lotus Sea Hot Spring Hotel - the Location Area



http://encarta.msn.com/map_701510630/Fujian.html



Appendix 2

<i>Investment Budget</i>	<i>Amount in US\$</i>	<i>Amount in RMB</i>
<i>The Hotel</i>	25,421,682.15	200,000,000
<i>The Hot Spring Service</i>	7,626,504.65	60,000,000
<i>The Restaurants</i>	571,987.85	4,500,000
<i>The Temporary Office</i>	596,426.98	4,690,600
<i>Total Investment</i>	34,215,402.12	269,087,030

The above numbers are based on other investment projects. Looking at similar hot spring projects in the Fujian province the average expected investment is \$12million and we therefore think it is reasonable to expect our hot spring construction to cost a little less as we will budget the restaurant, conference room etc. with the hotel construction. The following project descriptions are taken from the official Fujian government site: http://de.fjta.com/FJTIS/FL/investment/index.aspx?mt_id=14

- The centre covers land area 350 mu, construction items include outdoor hot spring swimming pool, hot spring physiotherapy centre, entertainment place, training centre, conference centre, food & drinks, and auxiliary facilities. Total Investment: USD 18 million
- Development area 600 mu, construction items include hot spring swimming pool, conference centre, hot spring hotel, hot spring villas, auxiliary hot spring sauna, recuperation, fitness facilities, as well as tennis court, basketball court, fitness room, golf practice course facilities. Total Investment: USD 12 million
- Scale and Content of Construction: Hot spring hotel, Farmer inn. Development of sightseeing agriculture of all-seasons crop planting and special breeding. Hot spring swimming pool, bath house and other hot spring leisure medical care and health care tourist items. Total Investment: USD 6 million.

Looking at the hotel construction, the investment amount is set according to similar hotel projects and according budget in the Fujian province. Since, two of the hotel projects are smaller in scale and scope, we think the correct price is \$25 million reflecting the first option, however somewhat smaller as we have already budgeted for extra land in the hot spring estimate. The project descriptions are again taken from the above mentioned homepage.

- The totally occupation area will be 762 mu, hereinto, 312 mu are for the hotel construction (built-up areas 21.6 thousand m²), and other 441mu are for integrated use. The hotel is a synthetic one with functions of accommodation, recessing, amusement and holiday spending. Total Investment: USD 30 million
- To set up a luxury four-star hotel with gathering functions as accommodation, meal and drinking, amusement, physical therapy and sauna, emporium, supermarket and commerce conference service. The hotel is proposed to be a 15-stored building with a land occupation area of 30 mu and a construction area of 28000 m². Total Investment: USD 12 million

For the restaurant business, it has been difficult to find concrete forecasts. The price, however, has been set without the need for constructing a building as the premise already is part of the hotel complex.

Apart from setting up the hotel, the hot spring and the restaurants, we also contemplate on having a temporary office while the hotel is being constructed. The monthly rent is estimated to be



RMB100000. We will have 1 executive, 5 manager and 10 staff in the temporary office and their salary will be RMB 250000, RMB 57900 and RMB 11913 respectively. They will perform the initial marketing and promotion activities, contact suppliers etc. Lastly, we have set aside an amount to cover promotion activities prior to the opening of the Lotus Sea which has been set at 1% of the estimated first year revenue = ¥ 2,460,400.00.



Appendix 3

<http://www.fujian.gov.cn/department/index.jsp?currCatalogID=20041001200058>

福建省人民政府

<http://www.hostelabc.com/hostelabc/news146/>

1. 两套不同的行业管理体制涉外酒店制度，指酒店经营中接待国外人员入住，资格牌照须经公安部门和旅游管理部门批准，有涉外资格的酒店被称"旅游涉外饭店"，涉外酒店的行业管理归旅游行政管理部门，非涉外酒店的行业管理归商业行政管理部门，酒店实施涉外制度，形成旅游局管理涉外酒店的行业管理，商业部管理非涉外酒店的行业管理，作为统一的、有交叉的、有市场内在联系的酒店业被体制因素分割，旅游行业管理重点是高档酒店，商业部行业管理高档酒店以外的普通旅馆及经济型酒店。

<http://www.sccietac.org/cietac/big5/content/content.jsp?id=686>

管理公司應聯同酒店業主採取必要措施，獲得因酒店供應、管理和經營而需要之牌照和準許證。



Appendix 4

China Hotel Performance on Selected Markets Year-to-August 2004

	Occupancy			RevPAR		
	Year-to August 2004 (%)	% Change to 2003	% Change to 2000	Year-to August 2004 (CNY)	% Change to 2003	% Change to 2000
All Hotels	73.7	41	5	567	67	20
Primary Cities	76.0	49	4	681	76	18
Secondary Cities	70.0	29	9	352	40	21
Regional Cities	68.5	26	6	371	42	37

Source: HotelBenchmark Survey by Deloitte

Sales and revenue forecast

2007: Hotel construction

January 2008: opening => 400 rooms available (70 A, 90 B, 90 C, 90 D, 60 E)

- Room-occupancy rate expected: 50% => 200 rooms (170 ABCD, 30 E)
- Average room-price (without hotspring service): 900; 2450 => 226,500
- Hot spring users expected: 200 dollars, 500 the first semester, 1000 the second = average 750 => 150,000
- Restaurants: 700 persons a day expected, average spending : 245 => 171,500
- Snacks and room service => 39,500
- Extra services: expected 80 dollars per day, per hotel customers => 32,000

Total for one operating day: 619,500

One year: 223,020,000 dollars

January 2012: 5 year operation => 450 rooms available (80 A, 100 B, 100 C, 100 D, 70 E)

- Room-occupancy rate expected: 68% => 306 (258 ABCD, 48 E)
- Average room-price(without hotspring service): 900; 2450 => 349,800
- Hot spring users expected: 200 dollars, 1000 users => 200,000
- Restaurants: 1000 persons a day expected, average spending : 245 => 245,000
- Snacks and room service => 150 users expected for room service => 67,500
- Extra services: expected 90 dollars per day, per hotel customers => 55,080

Total for one operating day: 917,380

One year: 330,256,800 dollars



Appendix 5

Detailed first year and five year budget (refer to attached Excel file): BIC(1).xls

Explanation of the first year budget from the attached file (profit 1 year):

This profit budget is used to forecast the cost, revenue and profit of the hot spring hotel when it starts its first year operation.

1.1 For the hotel part, since there will be a significant revenue other than rental revenue of rooms, there are two items in hotel revenue part.

1.1.1 For the rooms' part, our hotel will include three kinds of rooms, Standard, Superior and Deluxe. Their fees are RMB 900-100, RMB 1,200-1,300 and RMB 2,500-2,800 respectively.

1.1.2 For the others in hotel part, this part includes extra room services revenue and rental revenue of conference rooms and other venues.

2.1.1, 2.2.1, 2.3.1 & 2.4.1 For Salary, we have 6 executives, 30 department managers and 750 staff, and their average yearly salary are RMB 250,000, RMB 57,900 and RMB 11,913 respectively.

	Executives	Managers	Staff
Hotel	2	10	310
Hot spring	2	10	285
Restaurants	1	5	120
Office	1	5	35
Total	6	30	750

- [http://content.chinahr.com/jobs/jobs_salary/salary_report/Article\(36239\)ArticleInfo.view](http://content.chinahr.com/jobs/jobs_salary/salary_report/Article(36239)ArticleInfo.view) 饭店经理人十年后高薪
- <http://www.stats.gov.cn/tjsj/nds/j/2005/html/E0525c.htm> 各地区按行业分职工平均工资
- http://big5.ce.cn/cysc/ztpd/2006/cnxc/05/200605/30/t20060530_7149349.shtml 05年酒店行业薪酬明显提速 高层年薪突破25万

2.1.2 For utilities of hotel, it includes electricity, water and gas expenses.

Fees of utilities	Electricity	Water	Gas
Hotel	RMB0.848 KW/h	RMB2.22/ton	RMB10.9/m ³
Hot spring	RMB0.848 KW/h	RMB2.22/ton	RMB10.9/ m ³
Restaurants	RMB0.848 KW/h	RMB2.22/ton	RMB10.9/ m ³
Office	RMB0.863 KW/h	RMB1.92/ton	-

- <http://zs.zhangzhou.gov.cn/ShowArticle.asp?ArticleID=972> 福建省电网销售电价表
- <http://www.yufufei.com/news/view1.asp?id=6006> [漳州]管道燃气价仍10.9元/m³
- <http://zs.zhangzhou.gov.cn/ShowArticle.asp?ArticleID=963> 漳州市销售水价表



2.1.4, 2.2.4&2.3.4 For “insurance of hotel, hot spring and restaurants” in our budget, they include insurance expenses for our staff and customers.

2.1.5, 2.2.5&2.3.5 For “training of hotel, hot spring and restaurants” in our budget, they are expenses for training our staff to improve their services qualities.

2.1.6 For the transportation of hotel’s expense, it is an expense for using shuttle buses to carry our customers and staff from town centre to hotel.

2.1.8, 2.2.6 &2.3.6 For the advertisement of hotel, hot spring and restaurants, three different parties may have advertisements separately. However, when they advertise together, the expense would be distributed according this proportion, 40% for hotel part, 40% for hot spring part and 20% for restaurants part.

2.1.7, 2.2.7 &2.3.7 For inventory of hotel, hot spring and restaurants, these include all items that would be frequently replaced. Also, for the inventory of restaurants, it includes foods and beverages.

3 The income tax rate is 30%-24%, we use the average 27% for calculation.

1 <http://www.zhangzhou.gov.cn/ShowArticle.asp?ArticleID=1356>外商投资企业税收优惠摘要

Explanation of investment cost from attached file (investment):

1 For hotel of investment cost, it will include the cost of having company’s office in the hotel building.

3 For restaurants of investment cost, as all restaurants will be inside the hotel, there will be no premise related item.

4 We will start a temporary office when the business plan approved. It will support construction and operation of the hotel until the new office inside the hotel ready.

4.1 Rent of the temporary office will be RMB 100,000 per month and we estimate that the temporary office will operate for a year.

4.2 There will be 1 executive, 5 manager and 50 staff in the temporary office and their salary will be RMB 250,000, RMB 57,900 and RMB 11,913 respectively. Also, after the new office ready, all staff will move to the new office.

4.4 Utilities will include water and electricity only.