Investment Opportunities in the Tourism and Travel-related Services Industry in Taiwan

I. Reasons to Invest the Tourism Industry in Taiwan

A. The tourism industry market in Taiwan grows rapidly, and the total income in 2011 reached 636.3 billion NTD.

B. The international competitiveness of Taiwan's Tourism Industry continually climbs.

C. The government has invested 17.4 billion NTD to build up a country of tourism.

D. The total expense of domestic travel in 2011 grew to 310.3 billion NTD, and the growth rate reaches 30.3%.

E. The hotel investment moves toward a polarized development ever since Taiwan grants independent tourists from China. Premium and expensive hotel as well as fair price chain hotel both become the investment trend.

F. Tourist agencies gradually expand its scale and develops its own brand. For example, star travel and lion travel become or are applying for listed company/OTC.

G. Innovative tourism industry develops vigorously, and has gradually become the spotlight for investment.

II. The Tourist Industry Market Scale Grows Rapidly

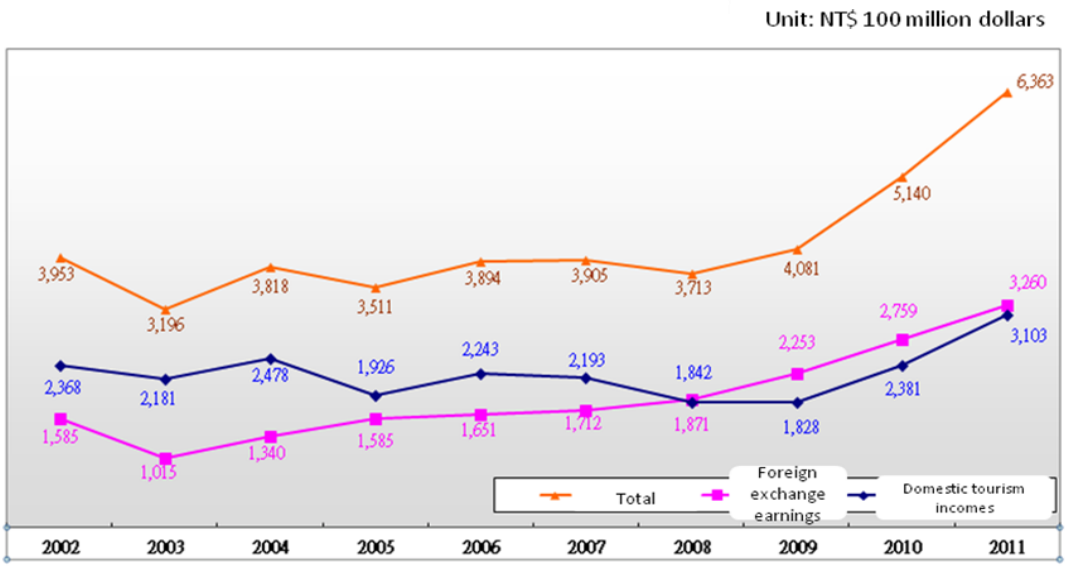


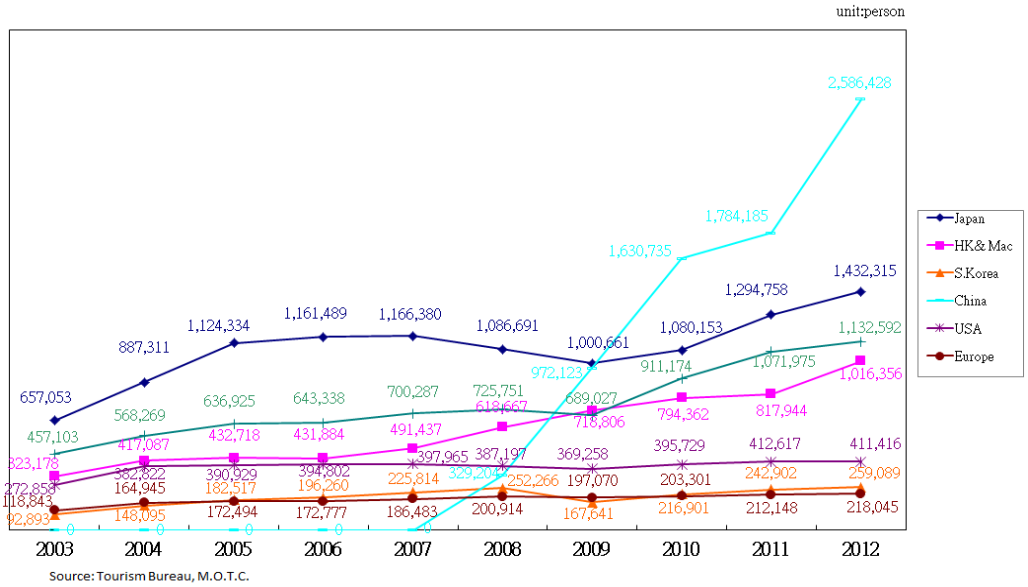
Figure 1. Foreign exchange earnings from tourism, domestic tourism incomes and total incomes from both in ten years
Source Source: Tourism Bureau, Ministry of Transportation and Communications

A. Taiwan's tourism and travel-related services grows rapidly in the three years as a result of the influence of cross straits trade normalization and the China tourist boom

1. Taiwan's tourism and travel-related services brought NT$ 636.3 billion dollars income in 2011. According to the research (as shown in Figure 1) made by Tourism Bureau, Ministry of Transportation and Communications, the income of Taiwan's tourism and travel-related services is quite steady before 2008, the average is no more than NT$400 billion dollars. However, the income of Taiwan's tourism and travel-related services boosts in the recent three years, and arrives more than NT$ 400 billion dollars in 2009 for the first time. In the next year, the income rises to NT$ 500 billion dollars, and it reaches up to NT$ 636.6 billion dollars in 2011. Tourism and travel-related services has become a focus industry that grabs everyone's attention in the recent times.
2. Foreign exchange earnings from tourism have exceeded domestic tourism incomes. 2008 is a watershed year in that foreign exchange earnings from

tourism have exceeded domestic tourism incomes in 2008, indicating the target market of Taiwan's tourism industry have shift from domestic market to international market. Moreover, it also proves that tourism industry is an eco-friendly industry that creates foreign exchange earnings without making industrial pollution.

B. For the first time, the total number of tourists broke through 7 million in 2012. Only five years after since the government grants independent tourists from China, the number of Chinese tourists reaches up to 2,586,428 in 2012. That is, Chinese tourists account for the most inboard visitors in Taiwan, followed by Japanese tourists. The number of Japanese tourists is quite steady with 1 to 1.1 million tourists per year. However, thanks to the generous donation from Taiwan than any other country or region in the world after 311 Earthquake in 2011, Japanese tourists thus have a favorable impression over Taiwan. The number of Japanese tourists for the first time arrives at 1.4 million in 2012, and the exact number is 1,432,315. The growing of Japanese tourists is very crucial as they have the greatest consumption capacity among all inboard visitors. At the same time, the number of tourists from Southeast Asia grows gradually, and it rises to 1,132,592 in 2012.



Source: Tourism Bureau, M.O.T.C. Rep. of China

Figure 2. Major Visitors Statistics from 2003~2012

III. Taiwan Becomes More Competitive in International Tourism and Travel-Related Services.

According to the travel & tourism competitiveness index (TTCI) indicated in 2011 World Economic Forum (WEF), the ranking of Taiwan improves from 43th to 37th among 139 countries in 2009. **According to the Tourism Bureau's analysis, the WEF's tourism competitiveness covers a wide range of rating items, Taiwan-owned communications indicators of the popularity of the telephone line is the highest in the world, the quality of the facilities of the railway track and road network are ranking 8 and 9, WEF's monthly / quarterly sightseeing information timely indicators, Taiwan were ranked 12th in 2011. In addition, Taiwan's tourism marketing and brand effective indicators were increased dramatically from ranking 76 to 49,**it shows that the strategy of "Innovative marketing and enhancing global linkage" not only attracts foreign tourists, but also receives affirmation from enterprises.

IV. The Government Makes an All-out Effort in Building up a Country of Tourism

President Ma announces the policy of "peace between cross straits in golden decade, national vision", actively motivating tourism and making Taiwan a country of tourism. Tourism bureau, ministry of transport (MOT) has invested 17.8 billion NTD to upgrade the tourism industry from 2012 to 2015, with the aim of developing the important domestic tourist attractions and opening up "Time for Taiwan"—a new tourism era for Taiwan. We have 7 million international tourists in 2012, and we expect more in the following year. There is still a lot of room to grow in tourism and travel-related services in Taiwan, yet it shows that the government's efforts in creating investment opportunities for tourism and travel-related service industry.

V. Domestic Tourism Market Keeps Growing

The number of domestic trips counted 152.27 million in 2011, growing at a rate of 22.9% in comparison to 2010. The average of Taiwanese domestic trip was 7.42 trips, growing 1.34 trips than last year, if it containing accompanying under 12 years old

childrens, the total trips are 17.728 million With the growing of domestic trips, the expenditure on travel and tourism increased at an annual rate of 30.3%. That is to say, the total expenditure on domestic travel and tourism rose from NT$ 238.1 billion dollars in 2010 to NT$ 310.3 billion dollars in 2011.

The number of Taiwanese who took a domestic travel in 2011 has grown, and the percentage has risen 1.5% and reached 95.4%, indicating a relatively high percentage in taking domestic travel. The average of length of stay is 1.5 days. 70% domestic travel is "Same-day Travel" probably as a result of convenient transportation. Therefore, with a better service of package tour, there is still a lot of room to grow in the future.

Table 1 domestic tourism an important indicator

比　較	2011	2010	2011vs2010
Domestic travel ratio	95.4%	93.9%	+1.5%
The average number of trips/ per person	7.42	6.08	+1.34
Total domestic trips	152,268,000	123,937,000	+22.9%
Average travel day	1.50	1.49	+0.01day
The proportion of holiday travel	69.7%	71.9%	-2.2%
Tourism overall satisfaction	98.1%	98.0%	
Average cost of per person/per day	NT$1,359	NT$1,289	+5.4%
Average cost/per trip	NT$2,038	NT$1,921	+6.1%
Total cost	NT$310.3 billion	NT$238.1 billion	+30.3%

Source：Tourism Bureau, M.O.T.C. Rep. of China

VI. The Hotel Investment Moves toward Polarized Development Since Taiwan Grants Independent Tourists from China

The tourism services is a multi-objective comprehensive businss, it is Integrated natural resources, cultural assets, transportation, hotels, restaurants, shopping centers,

shops, leisure facilities, playgrounds, tourism marketing promotion and other business, upstream and downstream of the whole industry with the participation of industry is shown in Figure 3. The hotel provide passenger accommodation, catering, social, meeting space, health care, entertainment, shopping, and many other functions, hotel is the most critical part of the tourism industry, the quality of its services, the number of rooms, business management, will be affect to tourism the development.

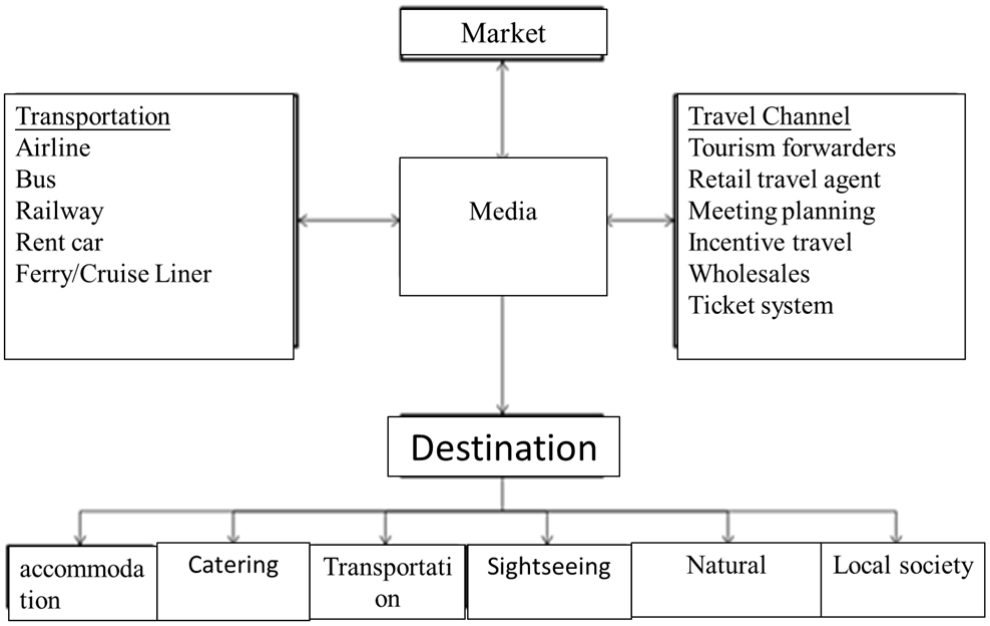


Figure 3

A. In recent years, the international hotel numbers, room numbers and occupancy rate gradually rise

Table 2.

Year	International Tourist Hotels				Tourist Hotels			
	No.	Room	Ave. price (NT$)	Occupancy rates	No.	Room	Ave. price (NT$)	Occupancy rates
2007	60	17,733	3,390	68.55	30	3,438	2,226	60.08
2008	61	18,092	3,387	66.04	31	3,679	2,234	57.87
2009	64	18,645	3,158	63.89	31	3,750	2,202	55.78
2010	68	19,894	3,232	68.88	36	5,006	2,280	65.20
2011	70	20,382	3,448	69.52	36	4,951	2,496	62.20
2012	70	20,339	3,628	70.93	38	5,178	2,654	66.21

Source: Tourism Bureau, M.O.T.C. Rep. of China

According to the statistics announced by Tourism Bureau, the number of international hotels is steady before 2008. However, after Taiwan grants independent tourists from China, we have increased about ten new international hotels within three years. The number of rooms increases at a large scale as well. Although the average unit price only rises slightly, the occupancy rate holds steady, which clearly shows the market demand. However, the growth rate of tourist inns is relatively small in comparison to international hotels.

B. Inboard Visitor Increases, Benefiting the Hotel Industry

Table 3. The operating performance of listed companies in tourism and travel-related services industry in 2012.

Listed company/ OTC code	Revenue (NT$: million)	Gross Profit Margin	Operating Margin	Pretax income	Net Profit Ratio	After-tax EPS (NT$)
VEQE (2701)	343	48.60%	40.28%	71.88%	61.03%	0.32
Hotel Holiday Garden (2702)	204	66.56%	12.57%	30.56%	34.51%	0.57
The Ambassador Hotel (2704)	2,887	44.00%	11.18%	12.39%	9.79%	0.35
Nathan Hotel (2705)	2,736	29.96%	-1.83%	-2.78%	-3.85%	-0.37
First Hotel Company (2706)	360	64.74%	56.36%	92.29%	77.35%	0.41
Grand Formosa Regent Taipei (2707)	3,173	44.01%	33.61%	35.15%	29.24%	6.37
The Landis Group (5703)	545	72.51%	11.11%	13.06%	12.83%	0.57
Royal Chihpen (5704)	285	41.78%	9.50%	12.17%	10.23%	0.32

Source: Market Observation Post system

Based on the analysis of the Industrial Bank of Taiwan, tourists to visit Taiwan to the proportion of industry supply and demand, the most direct benefit for the hotel

industry, the aviation industry, car rental, travel services, which hotels are most directly benefit from immigration tomost travelers to Taipei Hotel as a preferred accommodation, catering by selective diversification of direct benefit to a lesser extent, aviation, although the degree of benefit is high, but broken down inbound and outbound data can be found in to outbound domestic airlines bybenefits of a higher degree**.**

According to Tourism Bureau statistics, for the inboard visitors in 2011, the expenditure in accommodation takes up 35% of the total, followed by 33.49% for the shopping, 8.89% for the transportation. These figures indicate hotel industry directly benefits from the encouragement of the tourism. However, Management ability crucially determines the performance. In the listed companies in tourism and travel-related services industry, the performance greatly differs from each other. As shown in Table 1, Regent Taipei, usually the "King Stock" among all the other companies, has a better operating performance than the industry standard.

C. The investment of tourist hotel continues to increase

According to the statistics of Tourism Bureau in 2011, 36 tourist hotels are built up between 2011 to 2017, and 8,706 rooms are increased. From 2011 to 2013, more than 20 tourist hotels are under construction with the investment amount of 1 billion NTD. Take W Hotel for example. Located at the Xin-yi planning district area, it is an international tourist hotel invested by Uni-President Group with 1.5 billion NTD for its internal decoration, and is commissioned to manage by Starwood hotel group's W Hotel group. W Hotel opened at the early 2011.

More and more companies in construction industry start to invest in tourism and travel-related services industry, seeing a promising future in Taiwan's tourism and travel-related services industry. It seems to be a res olution to the challenging fluctuations in the economy. The biggest listed construction company "Cathay Real Estate Development Co., Ltd" will establish Cathay Business Hotel, which will be a 100% reinvestment from its own construction company.

D. Thriving investment trend of fair price hotel

As the inbound visitors greatly increase, a new wave of investment for fair price hotel is rising as well. Many old office building particularly undergoes renovation so as to collect a large amount of rental. The listed company "Wanhwa Enterprise Company" rent buildings out to "Regent Taipei," establishing budget hotel "Just Sleep", "Well Glory Development Co., Ltd." makes its "Oversea Chinese Commercial Bank Headquarters Building" on Xiangyang Road "Look Hotel Taipei." "The Shanghai Commercial & Savings Bank Building" at the intersection of Minquan East Road and Zhongshan North Road will become "K Hotel." In the new wave of transformation, the competition is fierce in that supply has outpaced demand. Therefore, the operations management skills are the key to success, and that's the lesson that investors should bear in mind.

E. Expensive and premium hotels are highly attractive investment

Many experts and scholars in tourism warn the risks of oversupply. Take the target "ten million tourists" in 2015 for example; there are still three million tourists to grow. However, the supply keeps growing at the same time since current occupancy rate is still below 70%. From an investor's point of view, there are still great business opportunities in a high-growth market. The investment advisory of IBT Securities analyzes that the average room price for Caesar Park Hotel is 5,210 NTD, Chateau Beach Resort for 5,065 NTD, and the Lalu even reaches 10,355 NTD. Even so, their occupancy rates are respectively 83.95%, 80% and 81.99%, which are all above average. Therefore, high price and high quality hotel services will become worthy of investment in the future.

VII. Tourist Agencies Gradually Expand its Scale and Develop its Brand

Travel industry plays an important role in tourism and travel-related services industry. Taiwan has 2,420 travel agencies by the end of 2012. The number of Taiwan's travel agencies holds steady in five years. On top of that, most of the travel

agencies in Taiwan operate at a relatively smaller scale. Currently there are 1,075 small travel agencies that have less than ten employees. Although the diversified types of travel agencies offer multiple travel services, the uneven quality is a problem in the market of fierce competition.

Table 4 Taiwan travel agents statistics from 2002~2012

Year	Complex		Type A		Type B		Total	
	Headquarter	Branch	Headquarter	Branch	Headquarter	Branch	Headquarter	Branch
2002	84	163	1,698	439	103	4	1,885	606
2003	79	147	1,737	413	107	3	1,923	563
2004	82	148	1,803	407	115	5	2,000	560
2005	81	153	1,842	412	129	4	2,052	569
2006	89	181	1,896	382	141	11	2,126	574
2007	89	221	1,939	377	150	11	2,178	609
2008	92	308	1,989	385	149	9	2,230	702
2009	89	313	1,927	338	146	10	2,162	661
2010	94	308	1,978	339	167	10	2,239	657
2011	97	331	2,038	349	177	9	2,312	689
2012	101	362	2,131	359	188	12	2,420	733

Source：Tourism Bureau, M.O.T.C. Rep. of China

Another feature of operation model of travel agencies is primarily for the collection and payment of the nature of its business, it is very important in the management of cash flow, which often vicious closure of the case. As a result, until 2001 Taiwan OTC travel agency - Phoenix Travel Phoenix travel agency is also experiencing a decade after the successful transfer listed, it is currently the only listed travel agents. The Phoenix Travel publicly traded is not the largest or highest profit, but the most open and transparent corporate governance. With the popularity of e-commerce, tourist agencies expand its scales as well, and the online tourist agency is no exception. The most well-known ones are the emerging tourist agencies such as ezTravel, Star travel, and the traditional agency Lion travel. EZ Travel was already list in Emerging in 2007,

and planning list on OTC in 2008, but later withdraw the application, and in 2009 the continent's largest online travel agency Ctrip general offer., The main reason of Ctrip to integrate the resources of EZ Travel & Ctrip is, Ctrip very optimistic about the business opportunities of mainland tourists to Taiwan Star travel has become listed company/OTC on Feb 24, 2012, which is the second tourist agency that succeeded in applying for OTC in the past 10 years after Phoenix Travel. Lion Travel has been established for several years. After several years of efforts and transformation, it has become one of the leading tourist groups in Taiwan. Its website traffic ranks as the top in the website status random survey of Alexa.com, and its revenue breaks through 20 billion NTD. It plans to apply for OTC trading in Oct. 2012 and apply for listed company by 2013.

So far, Tourism Bureau is actively encouraging the tourist agencies to develop its own brand and to incorporate with business mode management. Also, Tourism Bureau is motivating the amendment of related regulations, providing complementary measures such as management and assistance. Encouraging the tourist agencies to develop its brand and management scale is an inevitable policy. Therefore, to strategic investors who have resources, there are many travel agencies with similar scale as “Lion Travel” or “Phoenix Travel” that are worthy of investment.

VIII. Innovative Tourism has Gradually Become the Investment Spotlight

In addition to traditional travel-related service providers, Taiwan has many innovative service modes that not only successfully draw the attention from the consumers, but also have a striking performance. If they can cooperate with investors who have resources such as funding and management skills, there will be more stars in the industry in the future. First, we will analyze the consumption patterns of foreign tourists, and try to find the possible profit sources. We will introduce two kinds of travel-related service companies with distinguishing characteristics later.

A. The analysis of the consumption patterns of foreign tourists in Taiwan

As shown in Table 2, the average of foreign respondent tourists' daily expenditure is US$ 257.82 dollars per one person, and the growth rate is 16.22%. Expenditure within the hotel accounts for the highest among others (35.06% of total), followed by shopping, which accounts for 33.49% of the total spending, while expenditure on catering out of the hotel accounts for 12.44%. The main purpose of the tourist to visit Taiwan, the sightseeing purpose with highest spending power (an average of $ 280.41 per person/per day), followed by the international conference or exhibition purposes passengers (an average of $ 256.39 per person/per day), and the third for business travelers (an average of $ 233.22 per person/per day). According to the analysis made on the major markets, travel and tourism spending from Japanese tourists is the highest— US$ 348.12 dollars for each tourist a day. Travel and tourism expenditure from Chinese tourists is the second— US$ 270.31 dollars for each tourist a day.

As for the shopping expenditure, each Chinese tourist spends US$ 163.91 dollars on shopping per day. It is higher than the average shopping spending of foreign tourists: US$ 146.96 dollars, and it is also higher than the average shopping expenditure of Japanese tourists: US$ 123.28 dollars. If we analyze the expenditure on shopping further, we will notice that Japanese tourists buy local specialties most, and the expenditure on local specialties accounts for 60.28% in total. Chinese tourists buy jewelry or jade most, and their expenditure accounts for 32.12% while the expenditure on local specialties accounts for 25.18% on Chinese tourists. It shows that local specialties peddlers earn the most benefits in the market.

Table 5. The average and detailed catalogs of foreign respondent tourists' daily spending

Units: US$ dollars

Market		Expenditure within the Hotel	Expenditure on Catering out of the Hotel	Transportation Cost within Taiwan	Entertainment Expenses	Incidentals	Expenditure on Shopping	Total
Total	Amount	90.39	32.08	22.92	22.07	4.01	86.35	257.82
	Rate	35.06%	12.44%	8.89%	8.56%	1.56%	33.49%	100.00%
Japan	Amount	133.78	50.85	34.51	46.82	5.77	76.39	348.12
	Rate	38.43%	14.61%	9.91%	13.45%	1.66%	21.94%	100.00%
China	Amount	44.51	20.01	16.79	25.56	3.54	159.90	270.31
	Rate	16.47%	7.40%	6.21%	9.46%	1.31%	59.15%	100.00%
Hong Kong Macao	Amount	81.85	36.78	20.86	10.93	3.06	59.13	212.61
	Rate	38.50%	17.30%	9.81%	5.14%	1.44%	27.81%	100.00%
Singapore	Amount	89.28	36.80	23.38	16.44	4.04	90.66	260.60
	Rate	34.26%	14.12%	8.97%	6.31%	1.55%	34.79%	100.00%
Korea	Amount	74.39	32.70	23.23	8.38	4.31	36.77	179.78
	Rate	41.38%	18.19%	12.92%	4.66%	2.40%	20.45%	100.00%
Malaysia	Amount	54.95	29.37	21.10	7.84	6.17	56.36	175.79
	Rate	31.26%	16.71%	12.00%	4.46%	3.51%	32.06%	100.00%
America	Amount	134.76	27.54	19.42	4.85	3.38	15.85	205.80
	Rate	65.48%	13.38%	9.44%	2.36%	1.64%	7.70%	100.00%
Europe	Amount	119.24	22.87	20.87	5.09	5.09	20.45	193.61
	Rate	61.59%	11.81%	10.78%	2.63%	2.63%	10.56%	100.00%
New Zealand and Australia	Amount	82.93	19.06	16.46	6.79	2.47	20.64	148.35
	Rate	55.90%	12.85%	11.10%	4.58%	1.66%	13.91%	100.00%

Source: Tourism Bureau, Ministry of Transportation and Communications

B. Tourism factories that integrate different services

"The Tourism Factory Project" was initiated from 2003 by the Industrial Development Bureau, Ministry of Economic Affairs, and the Central Region Office of

the Ministry of Economic Affairs, while the evaluation standard and contents of the tourism factory assistance project is outsourced to the Industrial Technology Research Institute. So far, almost a hundred tourism factories from all industries have been successfully selected throughout Taiwan. Tourism factories with unique industry history and culture integrate all-round business modes such as art and culture, education, tourism and leisure activities, transforming into an “organic factory”. It not only enables the transformation of Taiwan traditional industries, but also becomes a culture innovative industry, an important landmark for both domestic travel and inbound visitors.

According to the analysis above, local specialties are especially welcomed by Japanese and Chinese tourists. Thus, sales that are able to combine with tourist groups are able to create the most value. Take Vigor Kobo for instance: it is able to sell 120,000 pineapple cakes within a day. In recent years, Vigor Kobo has particularly laid its sales emphasis on the tourists, striking a record with 700 million NTD of revenue in 2011.

“Vigor Kobo” spends NT$ 3 hundred million dollars to invite the team who have designed “Pavilion of Dreams” for “2010 Taipei International Flora Exposition” to build the Vigor Kobo Dream Factory of Pineapple Cakes. With the latest interactive technology, the escalator mimics the core of pineapple, since you entering the tunnel of the pineapple core, and you’ll be flourished by the fragrant scent of pineapple and the sounds of insects and birds all the way through the tunnel. The end of the tunnel come the area of modern technique counter-interaction section. It is very creative and fun. You can also enjoy making pineapple cakes yourself. The combination of recreation and shopping brings a hundred groups of tourists and almost 3,000 consumers’ business opportunity. If the upper limit of Chinese tourists allowed is 5,000 tourists per day, and there are two out of three Chinese tourists who go shopping in the factory.

" Vigor Kobo " has also planning OTC, also a lot of similar the " Vigor Kobo " rising star, with the target to double tourist arrivals should be full of investment opportunities

C. **Large chain business incorporating B&B with food and beverage**

Traditionally, the image of “Bed and Breakfast” is cheap and cordial, but without complete service like a hotel or operates like a micro-enterprise. However, Taiwan’s “Bed and Breakfast” is thriving and has become amazingly creative in recent years. It is no longer “sideline business”, on the contrary; it operation style has become professional, chain-oriented and high-priced. Although the regulations and laws limit the development of “Bed and Breakfast” in Taiwan so far, it is expected to change along with the amended regulations. The combination of “Bed and Breakfast” and catering as well as the chain enterprises (direct or joining) makes “Bed and Breakfast” full of potential and worthy of investment.

“Lavender Cottage” is exactly the story. In 2001, two girls established the first “Lavender Cottage” in Shinshou Taichung to make their dream come true. Established in 2001, Lavender Cottage earned only 3000 NTD on its first day. After ten years, Lavender Cottage has become a group with 5 brands, 12 locations, creating millions of dollars on a single day, with 500 million of annual revenue. Its related enterprises include 5 leisure industry brands: Lavender Cottage, Adagio, Tung Blossom Village, Moecoeur, and Vanilla Shop. In 2009, it invested 100 million Yen acquiring the overseas B&B in Hokaido, Japan, the country of lavender. At the same time, they established “Adagio ” Japan branch which means they successfully expended to overseas recreation and travel market. It is the first B&B that enters the Japan market. The EPS of “Adagio” is more than NT$ 6 and its investment attractiveness is very high. In the future, B&B with similar business mode carries the similar investment potential.