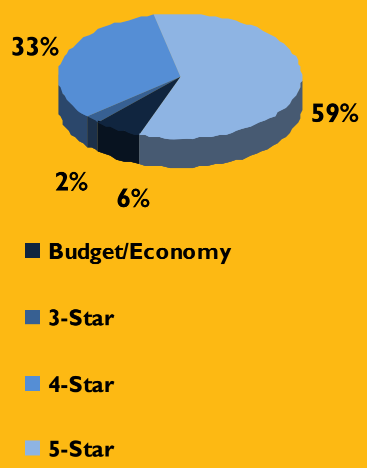
SHANGHAI
HOTEL MARKET SENTIMENT SURVEY

May 2010

SHARE OF RESPONDENTS



INTRODUCTION

The Horwath HTL Shanghai Hotel Market Sentiment Survey, part of a national assessment, has been designed to provide the Shanghai hotel industry a quick assessment of the future market outlook. The survey focuses on the outlook for occupancy, average room rates and total revenue.

In this survey, hoteliers have also been asked to make comments on their expectations for the year of 2010 in comparison to the last year, as well as comment on the impact of key factors that drive room night demand growth.

This report summarizes the outcome of the survey and compares the Shanghai market sentiment with that of other markets across China. Of the 47 respondents from Shanghai, the majority of them were from 5-star hotels (59 percent), followed by 4-star hotels at 33 percent. The number of respondents from the 3-star and budget sectors has slightly declined compared to the report in July 2009, combined at 8 percent. The composition of the participating properties from Shanghai in terms of star classification is consistent with that across China, with budget/economy properties in Shanghai at 6 percent and 5-star properties at 59 percent, which is the same percentage of a total of 383 respondents across China.

Having been through one of the worst years in recent history, it is not surprising to find most markets across China, including Shanghai, have a vastly improved outlook for 2010. This is in line with our survey findings of the China Hotel Market Sentiment Survey. The following analysis provides some useful insight as to the expectations for different hotel markets across Shanghai.

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SENTIMENT RANKINGS

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By Key City	Score		
	Feb '09	Jul '09	Jan '10
1. Shanghai	**-40**	**-70**	**65**
2. Sanya	-38	-16	65
3. Shenzhen	-55	-66	52
4. Chongqing	20	48	52
5. Beijing	-50	-64	51
6. Suzhou	-44	-58	51
7. Guangzhou	2	-56	46
8. Hangzhou	-44	-11	37
9. Dalian	-84	-73	32

"Shanghai ranked 1st with a score of positive 65, which had a big shift in sentiment through July 2009."

RANKING SCORE KEY

Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

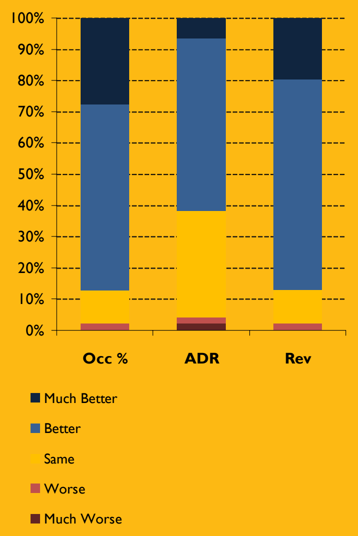
As a way to measure and compare the results across regions and cities in China, we have created an index to formulate an overall average sentiment score from all survey questions. Points were assigned to each corresponding response and compounded accordingly. The index utilized a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year whereas a positive 150 signifies a very optimistic outlook. The sentiment index or score allows trends to be observed over time.

After a deterioration of the market sentiment in the July 2009 China Survey, hoteliers across all regions and key cities in China have returned to a positive frame of mind in 2010. Naturally the positive outlook for 2010 is relative to the poor performances recorded across the region in 2009 and should be viewed in that context.

Shanghai`s ranking has taken a big shift from the previous report after being ranked 12th with a score of negative 70 in July 2009. Shanghai is currently ranked 1st with a score of positive 65, indicating that hoteliers in Shanghai are eagerly expecting significant improvement performance in 2010.

Within the Shanghai market, the 3-star and below submarket registered the highest positive score of 73, while the 5-star submarket scored a slightly lower positive score of 65, 4-star submarket showed their optimistic sentiment at the score of 63. This is a clear signaling that all submarkets in Shanghai expect to see a return to growth.

RATIO OF RESPONSES



"Significantly, only 2 percent of hoteliers expect occupancy will be worse than 2009."

EXPECTATION FOR 2010

Key Cities	Occ	ADR	Rev	Avg
Chongqing	63	43	63	57
Chengdu	66	56	66	63
Hangzhou	44	25	38	35
Wuhan	75	70	75	73
Sanya	73	60	83	72
Nanjing	61	27	61	50
Qingdao	83	25	75	61
Guangzhou	60	30	60	50
Suzhou	75	34	48	52
Beijing	70	24	59	51
Shenzhen	63	49	66	59
Shanghai	**85**	**46**	**78**	**70**
Tianjin	75	8	50	44

2010 MARKET OUTLOOK – WHAT IS YOUR ASSESSMENT OF THE HOTEL MARKET FOR 2010 VS. 2009?

Shanghai hoteliers were asked their expectation for performance levels in 2010 compared to that recorded in 2009, in relation to hotel occupancy (Occ), average room rate (ARR) and hotel revenues. The majority of respondents stated that they expected occupancy and total revenue to perform better in 2010 in comparison to 2009.

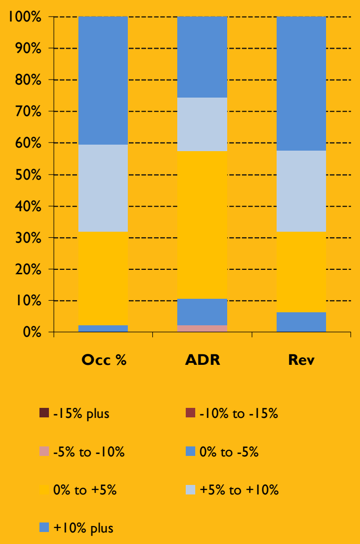
In response to the market wide occupancy performance for the coming year, 60 percent of Shanghai hoteliers replied that they expect better performance in occupancy levels compared with 2009, and 28 percent expect occupancy to be much better. A total of 11 percent expect that performance will be as same as 2009. Significantly, only 2 percent of Shanghai hoteliers believe that occupancy performance will be worse than that recorded in 2009.

The outlook for average daily rates is not as positive, with 34 percent of Shanghai hoteliers replying that ADR will remain the same as it was in 2009, while 62 percent of respondents hold optimistic outlook. However, 4 percent of respondents still worried that ADR will further decline in 2010.

In terms of total revenue, a clear majority of 87 percent of Shanghai respondents expect that hotel revenues will be higher or much higher compared to 2009, while 11 percent of respondents feel that their revenue level will remain the same. 2 percent of Shanghai hoteliers expect revenue will be lower than that recorded in 2009.

All cities we listed showed a positive outlook for 2010, particularly in regards to occupancy. The most positive cities were Wuhan, and Sanya, with a score at positive 73 and 72 respectively. Shanghai recorded a positive average score of 70. Hoteliers in Shanghai have more confidence in market occupancy growth but hold a relatively cautious outlook on the ADR performance in 2010, a similar sentiment reflected across the nation.

RATIO OF RESPONSE



" Shanghai hoteliers have the most optimistic expectations in the coming year"

EXPECTATION FOR 2010

Key Cities	Occ	ADR	Rev	Avg
Chongqing	68	74	76	73
Chengdu	56	56	69	60
Hangzhou	54	58	54	56
Wuhan	77	67	83	76
Sanya	80	75	88	81
Nanjing	64	41	59	55
Qingdao	89	56	94	80
Guangzhou	80	50	70	67
Suzhou	77	36	68	61
Beijing	89	51	90	77
Shenzhen	79	65	86	76
Shanghai	**103**	**77**	**102**	**94**
Tianjin	61	28	50	46

HOTEL PERFORMANCE EXPECTATION – FOR YOUR HOTEL, WHAT IS YOUR EXPECTATION FOR GROWTH/DECLINE FOR 2010 VS. 2009?

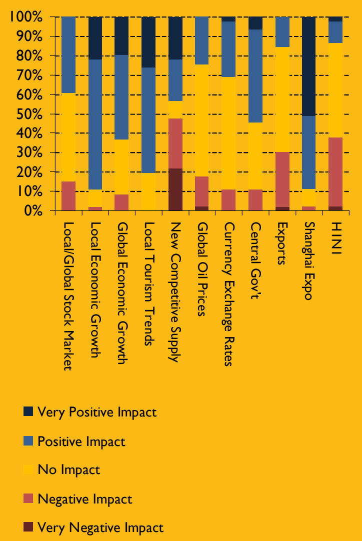
The second survey question asked hoteliers to give their expectation of how their respective hotels will fare in 2010 in comparison to 2009, in percentage terms.

All cities had positive sentiment scores for their respective hotel performance outlook. For question 2, the average China sentiment score was positive 71. Shanghai hoteliers showed the highest expectations for their respective hotels to perform better than market in the coming year with a score of positive 94.

As with the general outlook for question 1, in all key cities, hoteliers were more optimistic in regards to occupancy growth than ADR. Among the key cities, Shanghai is the most optimistic city, scoring 94, which should be mainly attributed to their positive outlook for the World Expo.

Over 68 percent of Shanghai hoteliers expect to see an improvement in occupancy and revenue growth of at least 5 percent. However, as can be seen, the majority of Shanghai hoteliers do not expect to see the same increase in ADR for 2010, with over 46 percent of hoteliers expecting to see less than a 5 percent increase.

RATIO OF RESPONSES



"Over 88 percent of respondents expect a positive impact from Shanghai Expo in 2010"

FACTORS AFFECTING PERFORMANCE RANKING

1. Local/Global Stock Market	18
2. Local Economic Trends	82
3. Global Economic Growth Trends	55
4. Local Tourism Trends	80
5. New Competitive Supply	(3)
6. Global Oil Prices	3
7. Currency Exchange Rate	17
8. Central Government Policy	38
9. Exports	(13)
10. Shanghai Expo	103
11. H1N1	(18)

FACTORS EFFECTING PERFORMANCE – HOW EACH OF THE FACTORS BELOW ARE EXPECTED TO INFLUENCE HOTEL MARKET PERFORMANCE IN 2010?

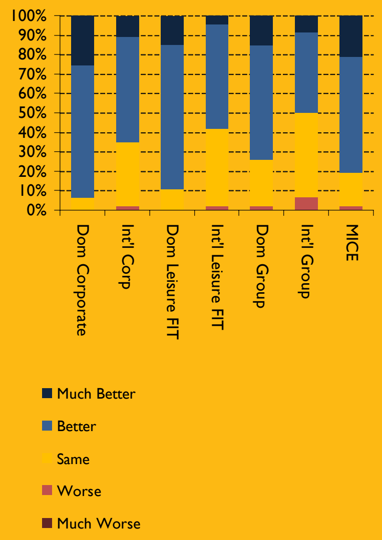
Each hotelier was also asked to gauge their attitude towards eleven factors and how these will impact their hotels' performance in 2010.

1. Local/global stock market performance
2. Local economic growth trends
3. Global economic growth trends
4. Local tourism trends
5. New competitive supply additions
6. Global oil prices
7. Currency exchange rates
8. Central Government Policy
9. Decline in exports
10. Shanghai Expo
11. H1N1 virus

Shanghai hoteliers ranked Shanghai Expo to be the most positive of the 11 factors listed for 2010 with a sentiment score of 103 and over 88 percent of Shanghai respondents expecting a positive impact. Significantly, no hoteliers in the 4-star submarket expect Shanghai Expo to have a negative impact on performance, or even a neutral impact. Local economic trends are also cause for optimism with 89 percent of Shanghai respondents indicating that local economic trends would have a positive impact on performance in 2010, with a sentiment score of positive 82.

Most negative was the H1N1 virus at a score of negative 18, although 49 percent of Shanghai hoteliers expect that H1N1 would have no impact on performance. Decline in exports and new competitive supply are expected to continue to have a negative impact on performance levels in 2010 with about 30 percent of respondents expecting a decline in exports to negatively impact performance, while 48 percent of Shanghai respondents expect new competitive supply to negatively impact performance.

RATIO OF RESPONSES



"The majority of Shanghai hoteliers had a positive outlook about the future performance of domestic demand and MICE segments"

MARKET SEGMENT PERFORMANCE	
1. Domestic Corporate	89
2. Foreign Corporate	55
3. Domestic Leisure FIT	78
4. Foreign Leisure FIT	45
5. Domestic Leisure Group	65
6. Foreign Leisure Group	39
7. MICE	75

MARKET SEGMENT PERFORMANCE – HOW ARE EACH OF THE MAJOR DEMAND SEGMENTS EXPECTED TO PERFORM IN 2010 VS. 2009?

The last question dealt with each participant's opinion with regard to primary market demand segments which were Corporate, Leisure FIT, Leisure Group and MICE (Meetings, Incentive, Conference, and Exhibition) and how they are expected to perform in 2010.

The majority of Shanghai hoteliers had positive opinions about the future performance of the domestic corporate, domestic leisure FIT, domestic leisure group and MICE demand segments, with over 74 percent of respondents expecting a better or much better performance for these demand segments, which should be attributed to a return to economic growth across the globe, a strong domestic market, the 2010 World Expo and the continued benefit from a positive central government policy.

Despite the positive outlook, hoteliers in Shanghai are not as optimistic towards demand growth from international demand sources. All international demand segments scored a lower sentiment ranking than their respective domestic counterparts. The leisure group segment also scored low in comparison to the other demand segments.

The Shanghai 5-star submarket generally followed the same trend. Foreign leisure group and foreign leisure FIT registered the lowest sentiment scores of positive 33 and 40. On the contrary, hoteliers showed a very optimistic outlook for the domestic corporate demand of the 5-star submarket, with a sentiment score of 91. The high expectation of domestic corporate demand growth indicated that Shanghai hoteliers are looking forward of more corporate activities under the positive economic environment in 2010 thanks to its position as the economic and financial centre of China.

CONCLUSIONS

In conclusion, hoteliers in Shanghai recorded significant improvement in their sentiment towards the market outlook since the last survey in July 2009, with all respondents managing to record an overall sentiment score that was positive. The domestic corporate, domestic leisure FIT, domestic leisure group and MICE demand segments were expected to have the most positive influence on demand growth in 2010, indicating that hoteliers are relatively optimistic about the domestic market. The survey respondents showed more conservative expectation on international demand sources, especially on both foreign leisure FIT and group segments. Also, the majority of Shanghai hoteliers expect Shanghai Expo to have the most positive impact on market performance in 2010.

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