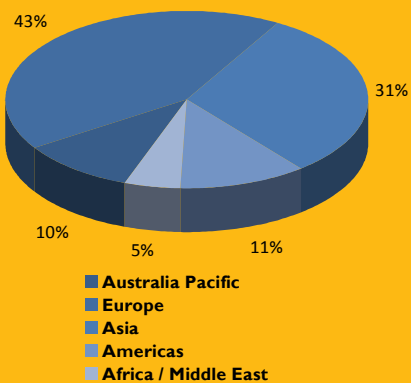




HONG KONG HOTEL MARKET SENTIMENT SURVEY

February 2010

SHARE OF RESPONDENTS
BY REGION



GLOBAL SURVEY INTRODUCTION

The Horwath HTL Hong Kong Hotel Market Sentiment Survey is part of a broad global survey that gives a quick assessment of the market outlook for the global hotel industry, by the people on the ground, running the hotels. The survey focuses on the current outlook for occupancy, average room rates and total revenue and what the operators feel is going to happen based on their experience.

On a global level, we aggregated the sentiment of the 2,090 respondents, 42 percent of them came from Europe, 31 percent from Asia, 11 percent from the Americas, 10 from Australia Pacific, and 5 from Africa/Middle East.

Having been through one of the worst years in recent history, it is not surprising to find most markets across the world have a vastly improved outlook for 2010, although this is not to say hoteliers expect strong performance levels. It suggests rather that in most markets, hoteliers believe we have seen the bottom and are on the way up. We hope that the following analysis provides some useful insight as to the expectations for different hotel markets across the world.

This is the third global survey by Horwath HTL, and we have analyzed previous sentiment scores in order to provide some context to the sentiment scores recorded.



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SENTIMENT RANKINGS

By Region	Score		
	Feb '09	Jul '09	Jan '10
1. Asia	-41	-41	47
2. Africa / Middle East	-21	-22	43
3. Australia Pacific	-34	-48	42
4. Americas	-25	-28	21
5. Europe	-36	-55	9
6. Global Ave	-35	-44	27
Top 5 Countries	Score		
	Feb '09	Jul '09	Jan '10
1. Hong Kong	-53	-94	82
2. China	-41	-44	64
3. Indonesia	-4	19	50
4. South Africa	-21	-22	45
5. Australia	-34	-48	42

“Europe continues to be the most pessimistic region in the survey”

RANKING SCORE KEY

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

GLOBAL

SENTIMENT RANKINGS

As a way to measure and compare the results across regions and countries, we have created an index to formulate an overall average sentiment score from all survey questions. Points are assigned to each corresponding response and compounded accordingly. The index utilizes 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, and positive 150 signifies a very optimistic outlook. The index also allows us to track changes in market sentiment over time.

After a deterioration of the market sentiment in the July 2009 Global Survey, hoteliers 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 globe in 2009 and should be viewed in that context. A positive sentiment, nonetheless, indicates that in most markets across the world, we should expect to see a return to growth, particularly in occupancy performance.

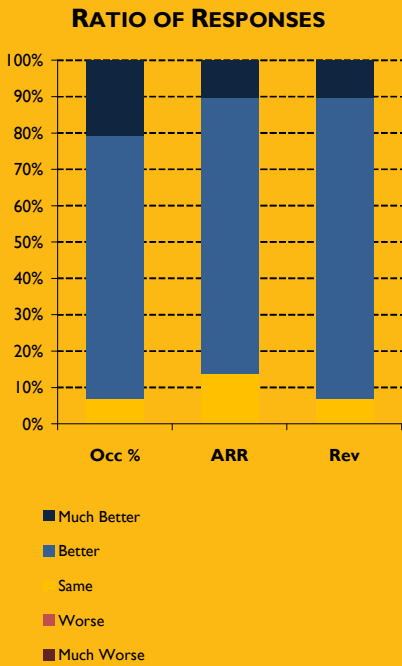
Asia and Australia Pacific had the biggest shift in sentiment, with both regions previously among the least positive mid-2009. A positive economic outlook in these regions has led hoteliers to believe that the market reached bottom in 2009 and things are on the way up in 2010. Positive thinking was most notable in Hong Kong (82), China (64) and Australia (42). Indonesia (50), despite having a relatively positive 2009, continues to record improved sentiment for 2010, perhaps a more impressive feat than the strong turnaround just mentioned for other countries in the region.

Europe continues to be the most pessimistic region in the survey with a sentiment score of 9, barely moving into positive territory. This can be viewed as hoteliers believe the market has hit bottom, but do not expect to see much change for 2010. Countries such as Spain (-14), Romania (-13), France (-6) and Italy (-5) continue to be negative while the UK (42) and the Netherlands (39) have a positive outlook. Within the Americas, the USA believe 2010 will be the same as 2009 (not a good thing), while Canada is much more positive with a score of 21 (compared to -49 in July 2009).

HONG KONG

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

The first survey question gauged hoteliers' expectations of market-wide performance levels in 2010 compared to that recorded in 2009, in relation to hotel occupancy (Occ), average room rate (ARR) and hotel revenues. In all three categories, none of the respondents expected performance declines. In fact, over 85 percent of respondents expected better or much better performance in 2010 in all three categories.



"In all three categories (occupancy, ARR, and revenues), none of the respondents expected performance declines."

EXPECTATION FOR 2010

	Avg	Occ	ARR	Rev
Asia	38	51	19	43
Hong Kong	78	85	72	78

Occupancy

Occupancy scored an Asia-regional average sentiment score of 51 wherein 91 percent of respondents expect status quo or growth in occupancy levels in 2010. 9 percent of hoteliers in Asia expected occupancy to drop in 2010. For Hong Kong, the average sentiment score for occupancy was positive 85, with 93 percent of hoteliers expecting growth in market-wide occupancy in 2010.

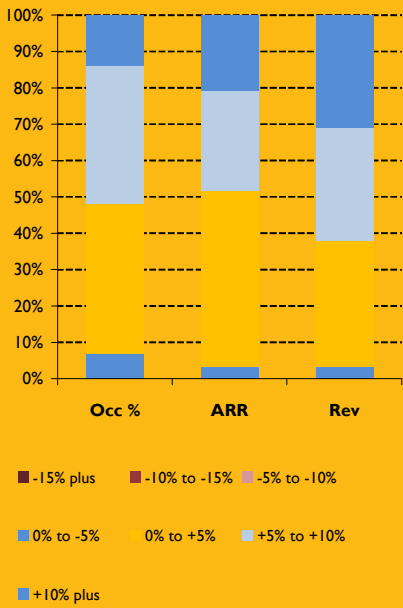
Average Room Rate

The Asia regional average sentiment with regard to ARR expectations was notably lower, at positive 19. Nearly 20 percent of all respondents predict that ARR will decline in 2010. In Hong Kong, respondents had a much more positive outlook on ARR, with a sentiment score of positive 72.

Revenues

For revenues, the Asia regional sentiment score was positive 43, with 16 percent of hoteliers expecting lower revenues (the rest expecting status quo or higher revenues). Again, Hong Kong beats the sentiment of Asia overall with a score of positive 78, signaling much more optimism for the recovery of the hotel market.

RATIO OF RESPONSES



“The highest degree of optimism is seen for the revenues category, where 31 percent of respondents expect revenues to grow 10 percent or more in 2010”

EXPECTATION FOR 2010				
	Avg	Occ	ARR	Rev
Asia	57	64	43	64
Hong Kong	86	79	83	95

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.

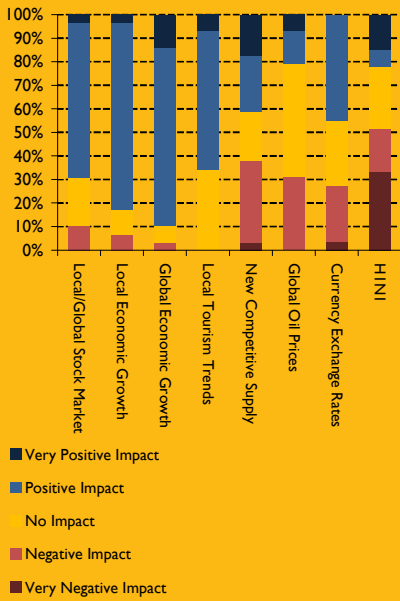
The bulk of the responses in this category show a cautious optimism for occupancy, ARR, and revenues (anticipating 0 to positive 5 percent change). Respondents who expect growth of positive 5 to 10 percent in the three indicators are represented as follows: 38 percent of respondents for occupancy, 28 percent of respondents for ARR, and 31 percent of respondents for revenues. The highest degree of optimism is seen for the revenues category, where 31 percent of respondents expect revenues to grow 10 percent or more in 2010.

Only a small percentage of respondents expected 0 to negative 5 percent change in the indicators (7 percent of respondents for occupancy, 3 percent of respondents for both ARR and revenues).

The average sentiment score of Hong Kong hoteliers (as pertaining to their individual hotels) is 86, compared to the Asia regional average of 57. For Hong Kong, the leading category of optimism for hoteliers is revenues, which recorded a sentiment score of 95.

From these results, we can also infer that hoteliers in Hong Kong are generally more optimistic about the performance of their respective hotels than the overall market (hotel sentiment average 86 vs. market-wide sentiment average 78).

RATIO OF RESPONSES



“Global Economic Growth has received the highest sentiment score of 75, and 90 percent of our respondents believe that this factor will have a positive or very positive impact on hotel market performance.”

FACTORS AFFECTING PERFORMANCE RANKING

Global Economic Growth	75
Local Economic Growth	59
Local Tourism Trends	54
Local/Global Stock Market	47
New Competitive Supply	13
Currency Exchange Rates	10
Global Oil Prices	(3)
HINI	(36)

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

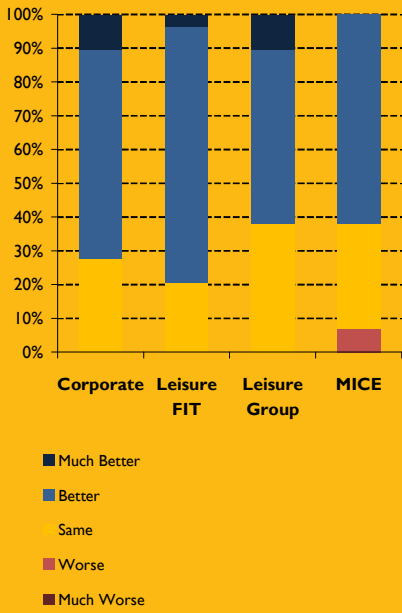
Each hotelier was also asked to gauge their attitude towards eight factors and how these will impact their hotels’ performance in 2010.

1. Local/global stock market
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. HINI virus

Global Economic Growth has received the highest sentiment score of 75, and 90 percent of our respondents believe that this factor will have a positive or very positive impact on hotel market performance. This result speaks to Hong Kong’s status as a truly global city, with strong fundamentals to attract all forms of hotel demand from all over the world. As such, the perceived global economic recovery is sure to spur hotel market growth in 2010. Local Economic Growth and Local Tourism Trends are more or less on par with each other in their sentiment scores (59 and 54).

The category perceived to have the most negative impact on hotel market performance is the HINI virus, with a sentiment score of negative 36. The negative perception of HINI is to be expected in Hong Kong, as the virus has forced the creation of various travel precautions and customs procedures. The March 2009 quarantine of the Metropark Hotel in Wanchai has certainly increased general caution against this virus. We note that in Hong Kong, New Competitive Supply is viewed as a positive influence to the hotel market (score of 13) whereas in Asia it is seen to be negative (score of negative 5). This speaks to the strength of Hong Kong’s perceived demand growth in this coming year.

RATIO OF RESPONSES



“Hoteliers in Hong Kong are generally optimistic about each market segment, expecting either status quo or improved performance.”

MARKET SEGMENT PERFORMANCE

1. Corporate	62
2. Leisure FIT	62
3. Leisure Group	54
4. MICE	41

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

The last survey question gauged our respondents’ growth expectations for the major demand segments (Corporate, Leisure FIT, Leisure Group and MICE) in 2010.

Hoteliers in Hong Kong are generally optimistic about each market segment, expecting either status quo or improved performance. The MICE segment is the only category where some respondents expected worse performance in 2010 (7 percent of respondents). Furthermore, none of the respondents expect “Much Better” performance in this segment.

In the past two years, it has been observed that Hong Kong is increasingly losing its competitive edge in the regional MICE market due to the lack of new convention/exhibition venues to compete with burgeoning markets like Shanghai, Singapore, and Macao. Interestingly, for Asia in general, respondents scored MICE as their most bullish segment (sentiment score of 42). While new MICE products such as Venetian Macao and Marina Bay Sands Singapore may detract from Hong Kong’s MICE appeal, they certainly push Asia to become a viable global convention/exhibition option.

The Corporate and Leisure FIT segments are on par with each other at a sentiment score of 62. Hong Kong remains one of the key commercial hubs of Asia and an important gateway to Mainland China. The Leisure FIT segment continues to be driven largely by Mainland Chinese tourists.

Asia-wide, Corporate and Leisure FIT segments received scores of 34 and 38, respectively. Compared to these scores, Hong Kong is certainly distinguished as a compelling commercial *and* leisure destination.

CONCLUSION

According to a 2009 study by Horwath HTL using data provided by the Hong Kong Tourism Board, the 19-year average hotel occupancy (High Tariff A, High Tariff B, Medium Tariff categories) from 1990 to 2008 was 82 percent. By any measure, this represents a very robust hotel market with strong underlying demand. Furthermore, this market is a resilient one. Though occupancy dropped to 70 percent in 2003 due to the SARS outbreak, it swiftly rebounded to 88 percent in 2004 (due in large part to the establishment of individual travel permits of Mainland Chinese tourists). Hong Kong remains a top Asian destination with integrated business and leisure resources that sustain strong fundamental hotel demand.

As we seemingly near the end of the most far-reaching economic crisis of our time, hoteliers in Hong Kong are overwhelmingly optimistic about the market's recovery in 2010. Horwath HTL's Global Hotel Market Sentiment Survey has found Hong Kong's hoteliers to be the most bullish among all the regions, countries, and destinations surveyed. According to our results, general sentiment advises that the worst is over for Hong Kong, and 2010 should be a year of marked growth.

Other Market Sentiment Reports

BY REGION

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 Germany Hungary India Indonesia Italy Japan
 Mexico Norway Romania Serbia South Africa Spain

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