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INDUSTRY OVERVIEW

Certain information and statistics set out in this section have been extracted from various government publications, market data providers and other independent third party sources. The Company believes that these sources are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

SOURCES OF INFORMATION

Certain information and statistics set forth in this section are derived from publications and reports of the National Bureau of Statistics of China, International Monetary Fund, the China Statistical Yearbook 2010, the National Tourism Administration, the Yearbook of China Tourism Statistics 2001 to 2010, the China Hotel Association, the 2009 PRC chain budget hotel industry report by 上海盈碟酒店管理諮詢有限公司 (Shanghai Inntie Hotel Management Consultancy Company Limited*) (“**Inntie**”) and the Guangdong Tourism Board. Publications and reports of these organisations were prepared in the ordinary course of business and not commissioned by the Company. Aside from the Yearbook of China Tourism Statistics purchased by the Company at a total cost of approximately RMB250, all articles and statistics reports, etc. mentioned above are obtained from public domain or the internet.

The National Bureau of Statistics of China

The National Bureau of Statistics of China is an agency directly under the State Council in charge of statistics and economic accounting in the PRC. The information disclosed in this document from the National Bureau of Statistics of China is publicly available information.

International Monetary Fund

The International Monetary Fund is an organisation of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The information disclosed in this document from the International Monetary Fund is publicly available information.

The National Tourism Administration

The National Tourism Administration of the PRC is an agency directly under the State Council in charge of tourism development in the PRC. The information disclosed in this document from the National Tourism Administration of the PRC is publicly available information.

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The China Hotel Association

The China Hotel Association is a non-profit organisation with its establishment approved by the PRC government. The China Hotel Association promotes and coordinates the development and the sustainability of the hotel industry in the PRC. The information disclosed in this document from the China Hotel Association is publicly available information.

上海盈碟酒店管理諮詢有限公司 (Shanghai Inntie Hotel Management Consultancy Company Limited*)

Inntie is a hotel training and management consultancy company. The information disclosed in this document from Inntie is publicly available information.

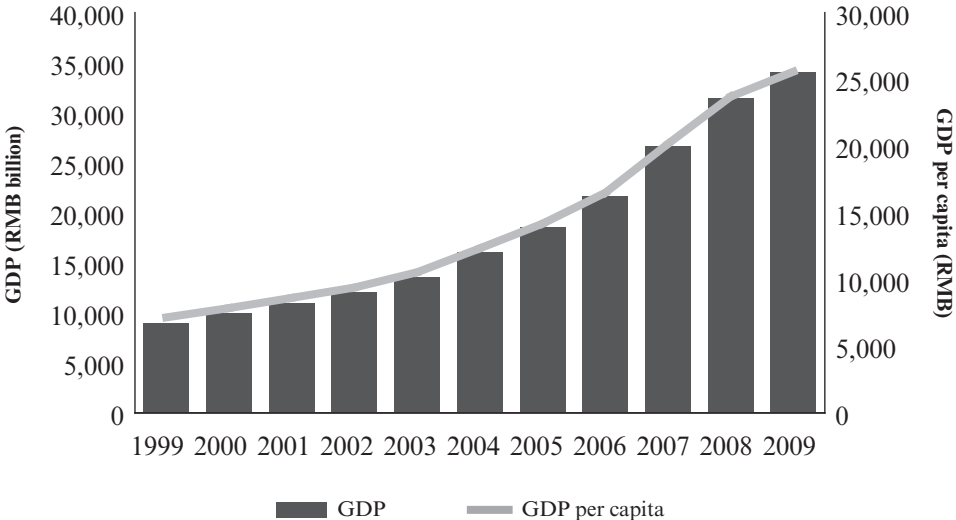
The Guangdong Tourism Board

The Guangdong Tourism Board is the government agency of the Guangdong Province, the PRC responsible for planning, promoting and regulating the local tourism industry. The information disclosed in this document from the Guangdong Tourism Board is publicly available information.

HOTEL INDUSTRY OVERVIEW

The PRC economy

The PRC economy has been growing at an accelerated pace in the past decade. According to the National Bureau of Statistics of China, the PRC’s GDP and GDP per capita grew at CAGR of approximately 14.3% and approximately 13.6%, respectively from 1999 to 2009. The following chart illustrates the PRC’s GDP and GDP per capita from 1999 to 2009:



Source: The China Statistical Yearbook 2010

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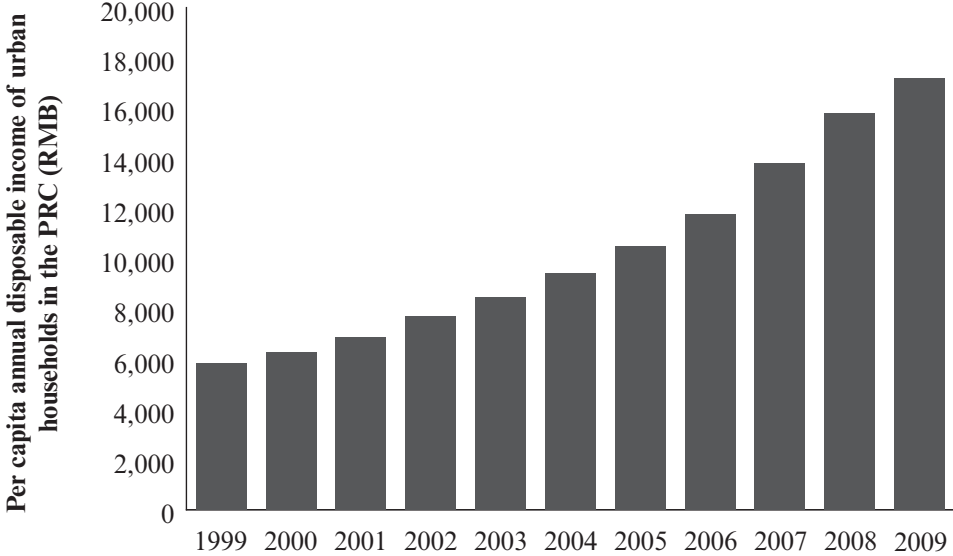
The PRC economy is expected to sustain its growth in the next five years. According to the projection from the International Monetary Fund, the PRC economy will grow at 9.6% and 9.5% in 2011 and 2015, respectively annually. The table below shows the forecast growth rate of GDP of selected countries or region in 2011 and 2015:

	Forecast	
	2011 (%)	2015 (%)
The PRC	9.6	9.5
Hong Kong	4.7	4.3
US	2.3	2.6
Euro Area (<i>Note</i>)	1.5	1.7

Source: International Monetary Fund — World Economic Outlook October 2010

Note: Euro Area includes Germany, France, Italy, Spain, Netherlands, Belgium, Greece, Austria, Portugal, Finland, Ireland, Slovak Republic, Slovenia, Luxembourg, Cyprus and Malta.

Improvement in the PRC economy has enhanced the spending capacity of the PRC households. The per capita annual disposable income of urban households in the PRC increased by a CAGR of approximately 11.4% from 1999 to 2009. The chart below shows the per capita annual disposable income of urban households in the PRC from 1999 to 2009:



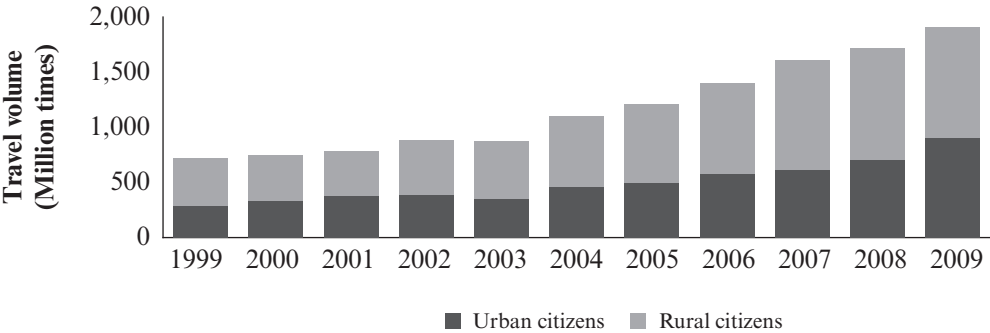
Source: The China Statistical Yearbooks 2000 to 2010

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The PRC tourism industry

Domestic tourism

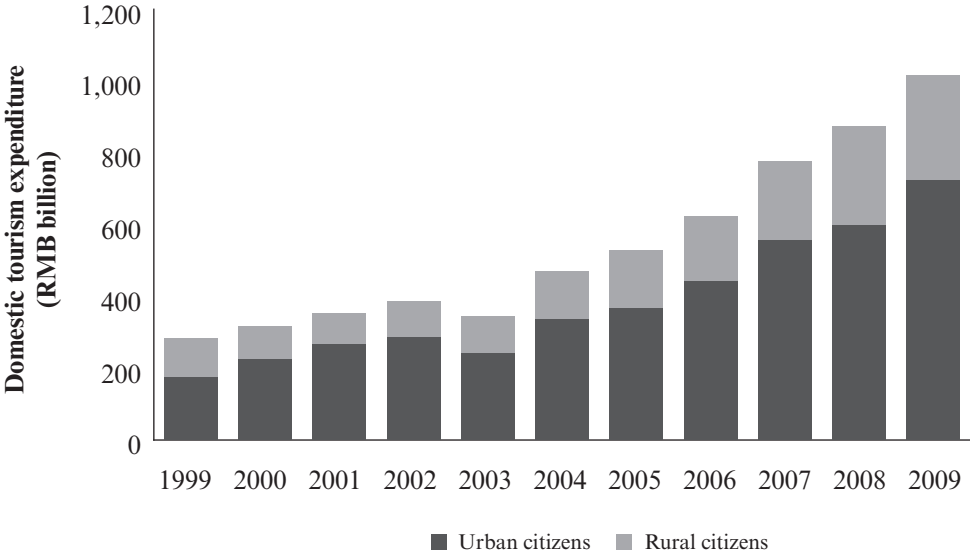
Consistent with the growth in the PRC economy and wealth, the number of times of domestic travel of urban and rural citizens in the PRC increased from approximately 284 million times and approximately 435 million times in 1999 to approximately 903 million times and approximately 999 million times in 2009, respectively. The increase in number of times of travel represents a CAGR of approximately 12.3% and approximately 8.7% for urban and rural citizen from 1999 to 2009, respectively. The following chart illustrates the growth of the number of times of domestic travel of urban and rural citizens in the PRC from 1999 to 2009:



Source: The China Statistical Yearbook 2010

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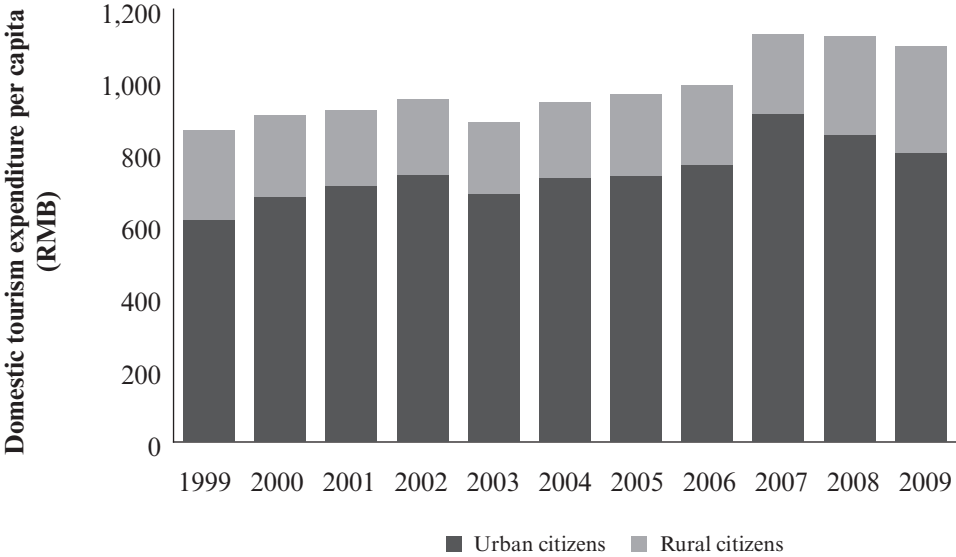
Due to the improvement in the economy, together with the rapid development of the traffic network, the number of times of domestic travel in the PRC increased substantially, which in turn also increases the total domestic tourism expenditure in the PRC. The total domestic tourism expenditure in the PRC increased from approximately RMB174.8 billion and approximately RMB108.4 billion for urban and rural citizens in the PRC in 1999 to approximately RMB723.4 billion and approximately RMB294.99 billion in 2009, respectively. The following chart illustrates the growth in tourism expenditure for urban and rural citizens in the PRC from 1999 to 2009:



Source: The China Statistical Yearbook 2010

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The domestic tourism expenditure per capita increased from approximately RMB615 and approximately RMB250 for urban and rural citizens in the PRC in 1999 to approximately RMB801 and approximately RMB295 in 2009 respectively. The following chart illustrates the growth in domestic tourism expenditure per capita in the PRC from 1999 to 2009:

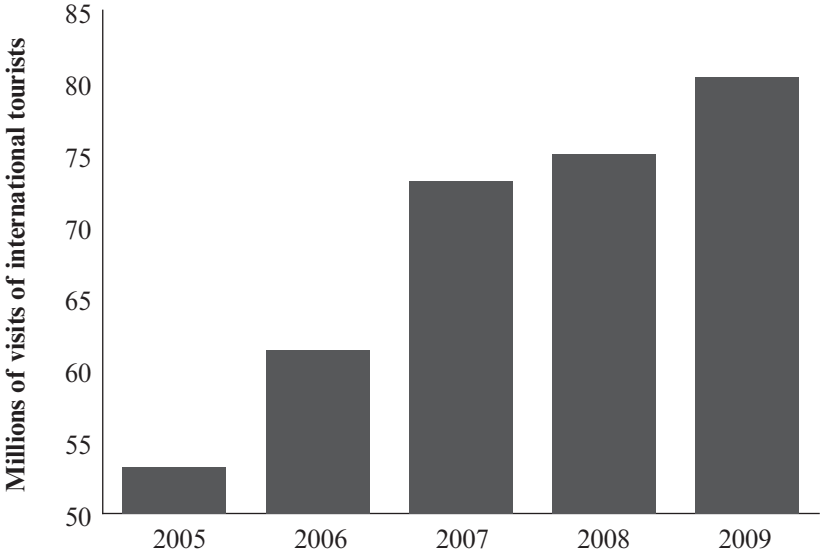


Source: The China Statistical Yearbook 2010

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Inbound tourism

Pursuant to the National Tourism Administration of the PRC, the number of visits of international tourists increased at a CAGR of approximately 10.8% from 2005 to 2009. The chart below shows the growth of number of visits of international tourists in the PRC from 2005 to 2009:



Source: The National Tourism Administration of the PRC

The Guangdong Province had the highest international tourism receipt in the PRC in 2009. The following table illustrates the top 10 provinces/major cities with the highest international tourism receipt in the PRC in 2009:

Province/City	US\$ million
Guangdong	10,028
Shanghai	4,744
Beijing	4,357
Jiangsu	4,016
Zhejiang	3,224
Fujian	2,599
Liaoning	1,856
Shandong	1,765
Tianjin	1,183
Yunnan	1,172

Source: The Yearbook of China Tourism Statistics 2009

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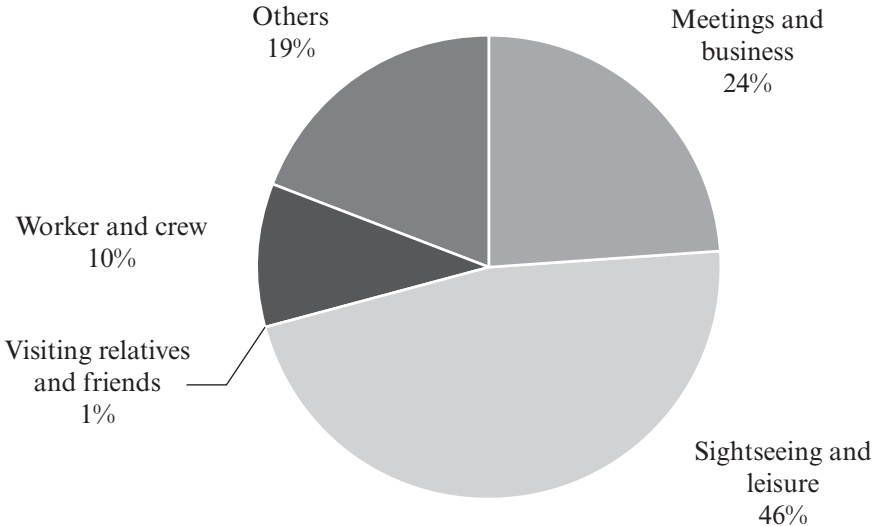
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The number of arrivals of international tourists to the Guangdong Province accounted for approximately 34% of the total number of arrivals of international tourists visiting the PRC in 2009. The table below shows the top 10 provinces/major cities with the highest number of arrivals of foreign tourists in the PRC in 2009:

Province/City	Arrivals	Approximate % of total arrivals
Guangdong	27,478,009	34%
Zhejiang	5,706,385	7%
Jiangsu	5,568,257	7%
Shanghai	5,333,935	7%
Beijing	4,125,145	5%
Fujian	3,120,348	4%
Shandong	3,100,379	4%
Liaoning	2,931,954	4%
Yunnan	2,844,902	4%
Guangxi	2,098,516	3%

Source: The Yearbook of China Tourism Statistics 2009

Most of the international tourists visiting the PRC are for sightseeing and leisure while approximately 24% of the international tourists visited the PRC for the purpose of meetings and business in 2009. The graph below illustrates the purpose of visits by international tourists in 2009:

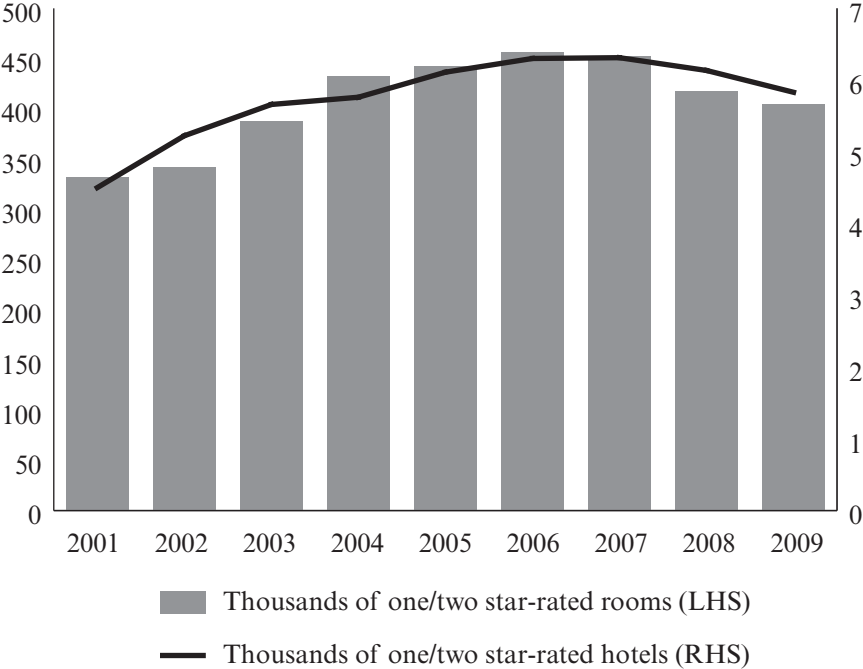


Source: The National Tourism Administration of the PRC

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Hotel industry in the PRC

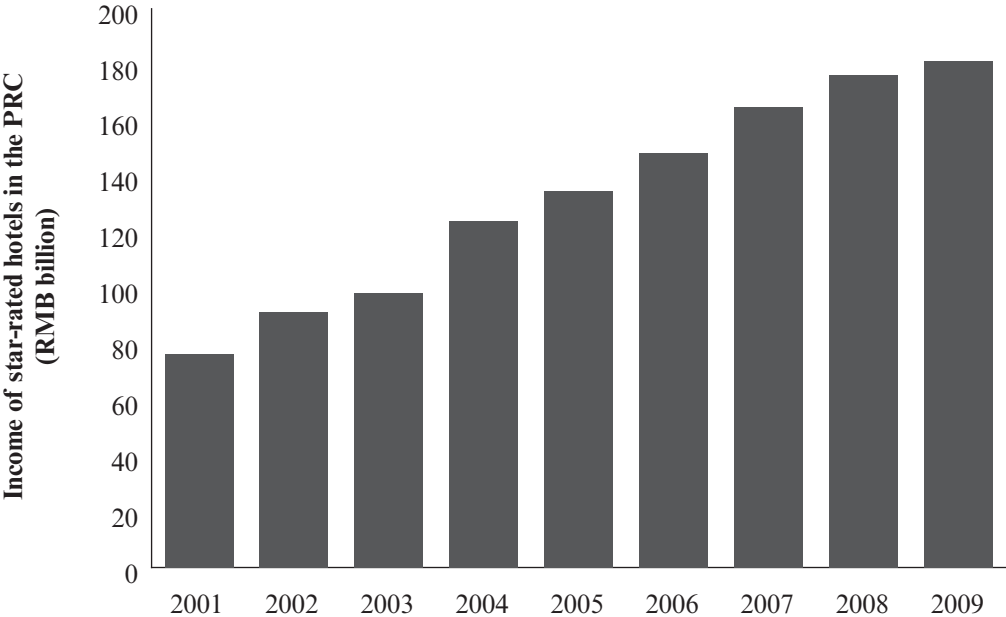
The number of the one/two star-rated hotels in the PRC, which the Directors consider as direct competitors of the Group in addition to other non star-rated budget hotels, steadily increased from 4,501 hotels in 2001 to 5,830 hotels in 2009. The chart below illustrates the growth of the one/two star-rated hotels in terms of the number of hotel rooms and hotels from 2001 to 2009:



Sources: The Yearbook of China Tourism Statistics 2001–2009 and the National Tourism Administration of the PRC

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In concurrence with the growth in the PRC’s overall economy and tourism industry, the total income of hotels in the PRC increased at a CAGR of approximately 11.4% from 2001 to 2009. The chart below illustrates the growth in income of star-rated hotels in the PRC from 2001 to 2009:

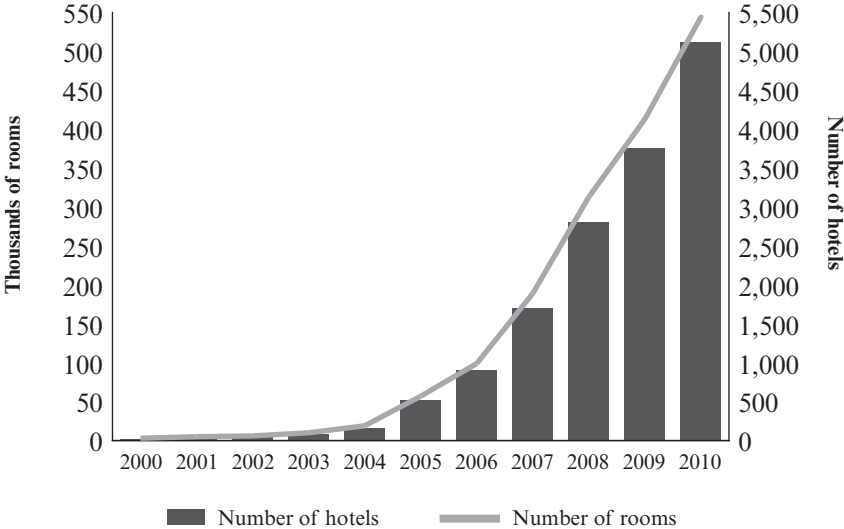


Source: The National Tourism Administration of the PRC

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Budget hotel industry in the PRC

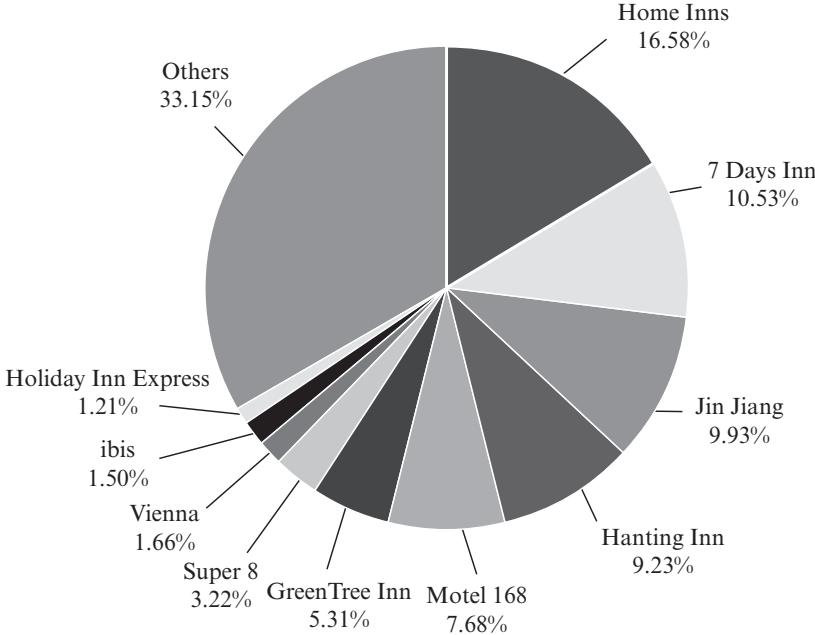
The development of budget hotels has accelerated in recent years with the number of rooms increased from 3,236 in 2000 to 544,210 in 2010 at a CAGR of approximately 15.8%. The major reasons for the growth of the number of budget hotels include the rapid development in the economy of the PRC and the increase in disposable income, according to the China Hotel Association. Although the per capita annual disposable income has been increasing in recent years, the domestic tourism expenditure per capita has increased in a much slower pace comparatively, which indicated that the PRC residents are cost conscious in tourism expenditure. Budget hotels in the PRC are popular among tourists and business travellers on limited budgets. In particular, small and medium sized corporations are the major target customers for budget hotels in the PRC due to the constraint in travel budget. The growth of the number of small and medium sized corporations has also contributed to the development of the budget hotels. The number of budget hotel and the number of budget hotel rooms has grown at a CAGR of approximately 21.3% and approximately 15.8%, respectively from 2000 to 2010. The following chart shows the growth in the number of budget hotels and the number of budget hotel rooms in the PRC from 2000 to 2010:



Source: Innite

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The budget hotel industry is dominated by the top players. The top 10 players accounted for approximately 66.85% of the total number of budget hotels in the PRC in the first quarter of 2011. Within the budget hotel industry, the budget hotel service providers vary in price and quality. For instance, the Bestay Hotel Express provides a low end but value accommodation service whilst the Heyi hotels provide more luxurious decorations with a higher price. The market players compete by capturing potential market share, and enhancing brand management and operation cost control. The following chart illustrates the market share of number of budget hotels by the top market players in the PRC in the first quarter of 2011:



Source: Inntie

In the PRC, approximately 66.4% of the budget hotels marketed at ARR equivalent to or below RMB200 in the first quarter of 2011, according to Inntie. The following table shows the ARR of budget hotels in major cities in the PRC in the first quarter of 2011:

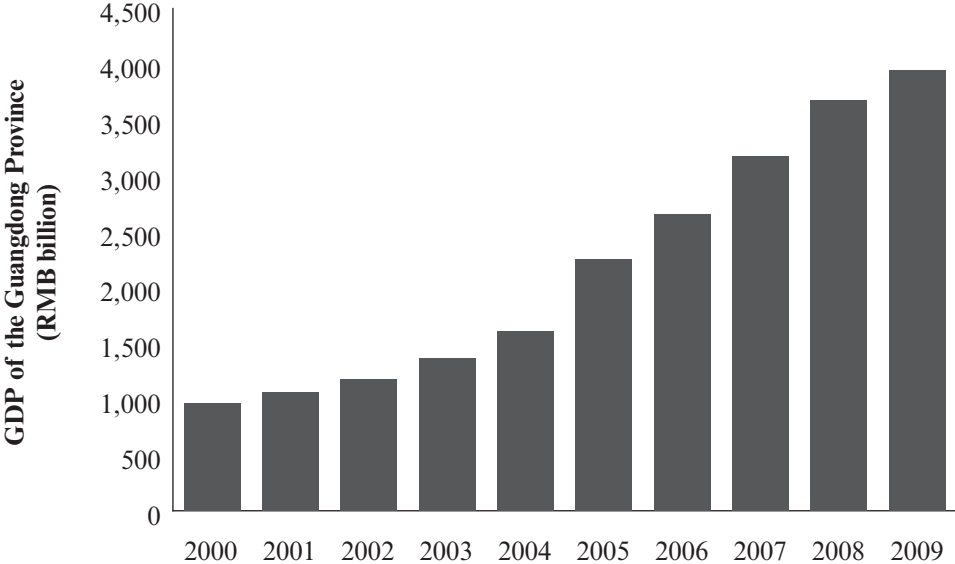
	Nanjing	Guangzhou	Hangzhou	Shenzhen	Beijing	Shanghai
ARR (RMB)	193.88	221.40	214.74	213.77	244.09	232.50

Source: Inntie

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Tourism and hotel industry of the Guangdong Province

The Guangdong Province is one of the major provinces in the PRC. The GDP contributed by the Guangdong Province in 2009 was the highest amongst all other provinces at approximately 10.8% according to the China Statistical Yearbook 2010. The GDP of the Guangdong Province increased at a CAGR of approximately 16.9% from 2000 to 2009. The following chart shows the growth in GDP of the Guangdong Province from 2000 to 2009:



Source: The China Statistical Yearbook 2010

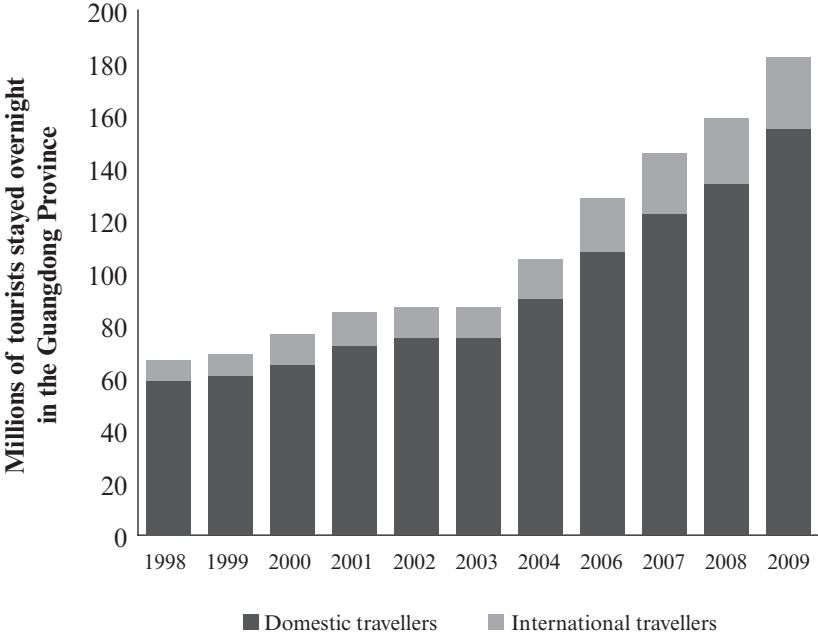
In 2008, the total income of the Guangdong Province from tourism amounted to approximately RMB266.8 billion with an increase of approximately 8.67% from 2007 according to the Yearbook of China Tourism Statistics 2009.

The Guangdong Province has a number of tourism attractions. Danxia, Xijiao, Luofu, and Boluo mountains are unique natural sceneries. In addition, the Guangdong Province is the base for the production facilities and offices of a wide range of multinational and Chinese corporations. The Guangdong Province also hosts the largest Import and Export Fair in China, the Canton Fair, in Guangzhou every year.

In 2010, the Asian games was held in Guangzhou with 45 countries attending. According to the People’s Government of the Guangdong Province, there were in total 10,156 sportsman, 7,787 technical officers and 9,049 registered media personnel involved in the Asian games. In August 2011, the Universiade 2011 will be held in Shenzhen, Guangdong Province. There will be representatives from all over the world of which 438 representatives will be from 75 universities of 21 different provinces, autonomous regions and municipalities in the PRC.

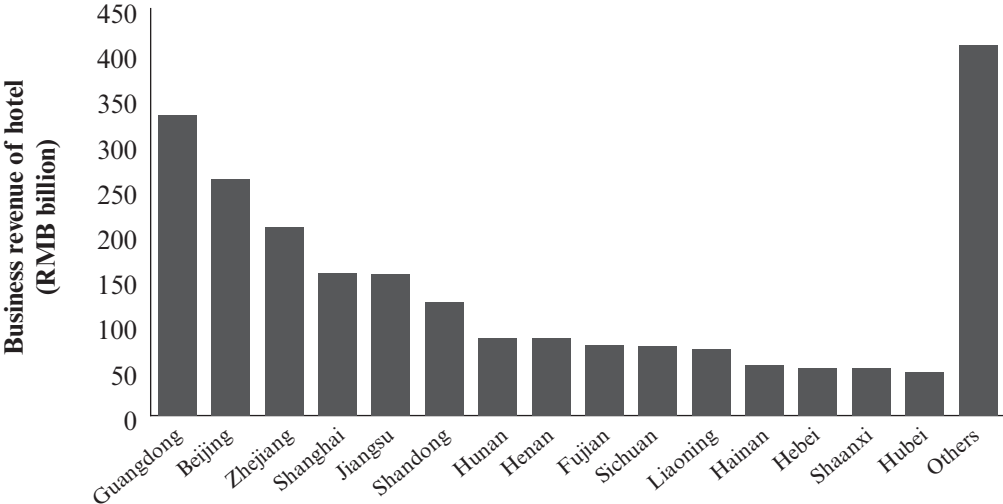
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According to the Guangdong Tourism Board, the number of tourists stayed overnight in the Guangdong Province increased at a CAGR of approximately 9.6% from 1998 to 2009, reaching approximately 182 million tourists in 2009. The following chart shows the number of domestic and international tourists stayed overnight in the Guangdong Province from 1998 to 2009:



Source: the Guangdong Tourism Board

Further, the business revenue from hotels in the Guangdong Province was the highest amongst all regions in the PRC in 2009, according to the China Statistic Yearbook 2010. In 2009, the hotel industry in the Guangdong Province generated a revenue of approximately RMB332.3 billion. The chart below illustrates the business revenue of hotels in 2009 by regions:

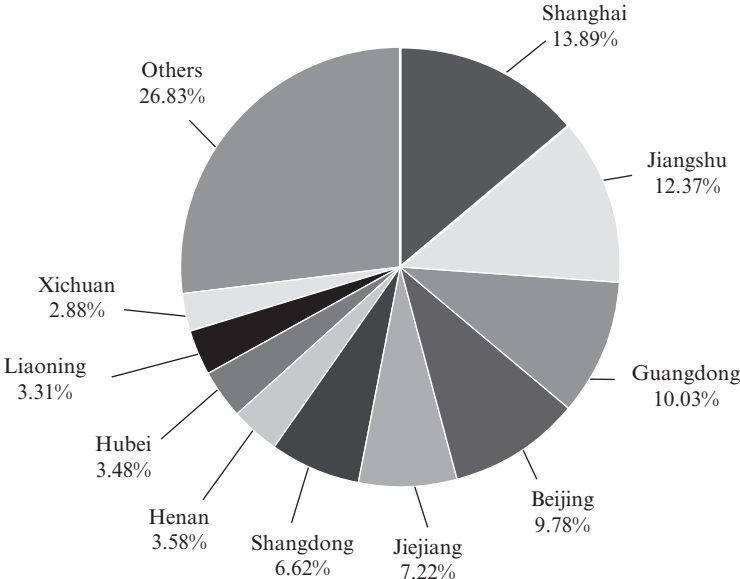


Source: The China Statistical Yearbook 2010

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The number of rooms of budget hotels in the Guangdong Province is the third highest comparing with other regions in the PRC. The following chart illustrates the distribution of budget hotels by regions in the PRC in the first quarter of 2011:



Source: Inntie