
HOTEL INDUSTRY IN HONG KONG

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The Market Consultant was commissioned by the REIT Manager to prepare a report on the hotel property market in Hong Kong. The following is a summary of the Market Consultant's letter in relation to its Hotel Sector Report, the full text and sources of which are set out in Appendix V to this Offering Circular. All views expressed in this summary are the independent views of the Market Consultant. The information has not been independently verified by the REIT Manager, the Trustee, the Joint Global Coordinators or any other person. Much of this information is based on estimates and should therefore be regarded as indicative only and treated with appropriate caution.

Executive Summary

Overview

Hong Kong's economy is open and internationally-oriented and functions as a trading and service center, benefiting from its exposure to overseas markets and its close relationship with mainland China. It was ranked the freest economy among 157 economies in 2007 by The Heritage Foundation¹ and second in the World Competitiveness Scorecard² in 2006, compiled by the Swiss based International Institute for Management and Development ("IMD").

Hong Kong's economy has more than doubled in size over the past two decades with Gross Domestic Product ("GDP") growing at an average annual rate of 5% in real terms. Growth in 2004 was approximately 8.6%, the fastest rise since 2000 and this momentum continued into 2005 which recorded a healthy growth rate of 7.3%. Long term real GDP growth is expected to remain reasonably high, averaging approximately 5.1% per annum between 2006 and 2010³, compared with 4.3% per annum between 2001 and 2005. This anticipated growth between 2006 and 2010 is expected to be supported by a steady improvement in unemployment rates, rising nominal incomes, strong tourism spending and an upswing in investment.

Tourism is one of the major pillars of the Hong Kong economy. In 2006, a record number of over 25 million international visitor arrivals was recorded and tourism expenditure totaled approximately HK\$117.3 billion, and in 2005, tourism expenditure (HK\$105.7 billion) contributed 12.5% to GDP. The sector is also a major employer in Hong Kong.

As a result of the significantly increasing mainland Chinese visitor arrivals driven by the PRC's Individual Visit Scheme ("IVS"), as well as growth in arrivals from most other major overseas markets (including the traditional long-haul markets), Hong Kong has witnessed a particularly dramatic 63% increase in international visitors since 2003. New tourist attractions such as Disneyland, new commercial facilities such as AsiaWorld-Expo and improvements to Hong Kong's world-class transport infrastructure are all expected to support this growth in the future.

Rising numbers of tourists have resulted in a sharp increase in hotel occupancy rates from 70% in 2003 to 87% in 2006. Average room rates have risen in parallel, from HK\$674 in 2003 to HK\$1,091 in 2006.

Notes:

- (1) 2007 Index of Economic Freedom, The Heritage Foundation
- (2) World Competitiveness Yearbook 2006, International Institute for Management and Development
- (3) Source: Consensus Economics, October 2006

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Even though hotel developers will attempt to keep pace with this unprecedented rise in the numbers of vacationers and business travelers, future demand for hotel rooms is expected to exceed supply.

Given high forecast visitor arrivals numbers to 2010, hotel demand is expected to remain under sustained upward pressure and average hotel room rates are projected to rise by 10% in 2007 and by between 6% and 8% per annum from 2008 to 2010 for the overall Hong Kong hotel market.

The Tourism Industry

Visitor Arrivals

Hong Kong ranked highest in Asia and 6th in the world in terms of travel and tourism competitiveness, according to the first ever Travel & Tourism Competitiveness Index (“**TTCI**”) 2007 compiled by the World Economic Forum, covering 124 countries. Out of the 13 factors taken into consideration in determining the ranking of TTCI, Hong Kong ranked highest under ‘Policy Rules and Regulations’ as well as ‘Health and Hygiene’, while the city also ranked high in the areas of ‘Safety and Security’, ‘Air Transport Infrastructure’, ‘Ground Transport Infrastructure’ as well as ‘Human Capital’. In 2005, the city was ranked second in Asia (after Tokyo) and 10th in the world in terms of Revenue per Available Room (“**RevPAR**”). A short flight from most of Asia’s major cities, Hong Kong’s easy accessibility makes it especially attractive as a tourist destination. Almost one-third of the world’s population lives within five hours flying time.

According to the HKTB, visitor arrivals grew by a remarkable 40% in 2004 from SARS impacted 2003, primarily due to a significant increase of mainland Chinese visitors (a 45% year-on-year growth). The number of visitors from elsewhere in Asia grew by 29% over the same period. Growth has also been marked from traditional long-haul markets such as Europe, North America, Australia and New Zealand which grew by 51% from 2003 to 2004. A more moderate 7% increase in total visitor arrivals was recorded from 2004 to 2005 and the compounded annual growth rate of visitor arrivals between 2000 and 2005 was approximately 12% per annum.

Visitor Arrivals, 2000 - 2006

Year	Visitor Arrivals (Year on Year Change)		
	Mainland Chinese	Non-Mainland Chinese	Total
2000	3,785,845 (+23%)	9,273,632 (+21%)	13,059,477 (+22%)
2001	4,448,583 (+18%)	9,276,749 (0)	13,725,332 (+5%)
2002	6,825,199 (+53%)	9,741,183 (+5%)	16,566,382 (+21%)
2003	8,467,211 (+24%)	7,069,628 (-27%)	15,536,839 (-6%)
2004	12,245,862 (+45%)	9,564,768 (+35%)	21,810,630 (+40%)
2005	12,541,400 (+2%)	10,818,017 (+13%)	23,359,417 (+7%)
2006	13,591,342 (+8%)	11,659,782 (+8%)	25,251,124 (+8%)

Source: HKTB, Savills Research & Consultancy

Notes:

(4) Source: Hotel Benchmark™ Global Performance Review Spring 2006, Deloitte

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The strong increase in the number of non-mainland Chinese visitors recorded in 2004 and 2005 partly reflected a strong international economy, but also a recovery in some of Asia's key markets, as well as the popularity of Hong Kong as both a business and leisure destination.

Mainland Chinese visitor arrival growth rebounded strongly in 2006. According to the HKTB, the number of Mainland Chinese visitors in 2006 totaled approximately 13.6 million, up 8% from 2005 when arrivals from this key source market increased by a modest 2%.

The slowdown in 2005 can be attributed to a number of factors. The opening of Hong Kong Disneyland in September may have led some visitors to defer travel plans until the end of 2005 or into 2006. The high base of comparison in 2004 when a 45% increase to 12,245,862 arrivals was recorded also helps explain the modest 2% growth rate. Other factors may include the relatively poor weather experienced by Hong Kong in 2005 as well as growing competition from other destinations.

Hong Kong was the most visited destination in Asia by mainland Chinese in 2004 followed by Macau and the two cities combined absorbed 85% of all mainland tourists visiting Asian locations outside mainland China in that year. In 2004, Hong Kong was also popular among short haul visitors and ranked second most attractive destination for Taiwanese and fourth most attractive for Koreans. For visitors from the US and Canada, Hong Kong was the second most preferred destination after mainland China⁵.

Hong Kong's principal appeal as part of the 'Sino-sphere', lies in its cultural and linguistic familiarity to mainland Chinese. For the inexperienced outbound PRC traveler, this provides a high level of comfort. It is also China's most cosmopolitan and prosperous city and as an historical anomaly, attracts considerable interest. Golden Bauhinia Square, the site of the 1997 return of sovereignty over Hong Kong to mainland China, attracts 20% of all mainland Chinese visitors⁶. For other nationalities, Hong Kong offers a wide range of diversions including a well-developed retail sector, a range of fine dining, theme parks such as Disneyland and Ocean Park and a spectacular harbor setting.

Market Segmentation

Purpose of Visit - All Overnight Visitors, 2001 to 2005⁷

Year	Vacation	Visiting Friends / Relatives	Business / Meetings	En Route	Others	Total
2001	4,439,100 (50%)	887,820 (10%)	2,663,460 (30%)	799,038 (9%)	177,564 (1%)	8,966,982
2002	5,023,689 (47%)	1,496,418 (14%)	3,420,384 (32%)	748,209 (7%)	0 (<1%)	10,688,700
2003	4,354,200 (45%)	1,741,680 (18%)	2,999,560 (31%)	580,560 (6%)	96,760 (1%)	9,772,760
2004	6,827,300 (50%)	2,730,920 (20%)	3,413,650 (25%)	682,730 (5%)	136,546 (1%)	13,791,146
2005	7,386,500 (50%)	2,806,889 (19%)	3,545,544 (24%)	738,655 (5%)	147,731 (1%)	14,625,319

Source: HKTB, Savills Research & Consultancy

Notes:

(5) Source: HKTB

(6) Source: Visitor Profile Report — 2005, HKTB

(7) These figures are derived by multiplying the percentage of each category as provided by the Visitor Profile Report (Source: HKTB, 2001-2005) with the total overnight visitor numbers of the relevant year. The percentage of "others" in 2002 is marked as "less than 0.5%" in the said report and is assumed to be zero as percentages of other categories add up to 100%.

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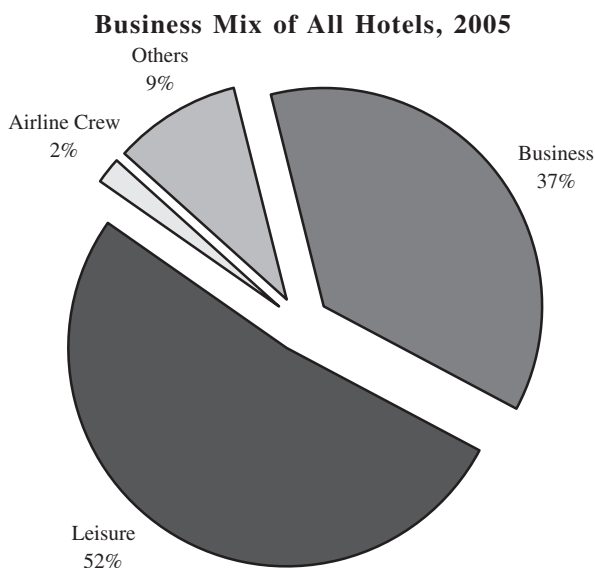
The number of non-mainland Chinese overnight business/meeting travelers, who represented 64% of all overnight business/meeting travelers in 2005, has increased by 14% from 2001 to 2005, while the number of vacation travelers from these countries increased by 17% over the same period. This trend shows that Hong Kong is becoming increasingly attractive to overseas (non-mainland Chinese) businessmen, likely due to its unique role within the Pearl River Delta (“PRD”) Region as a provider of logistics, management, finance and high-level business services such as law and accounting.

Purpose of Visit - Non-Mainland Chinese Visitors, 2001 to 2005⁸

Year	Vacation	Visiting Friends / Relatives	Business / Meetings	En Route	Others	Total
2001	2,814,173 (48%)	550,571 (9%)	1,988,962 (34%)	431,130 (7%)	146,905 (2%)	5,931,741
2002	3,120,769 (52%)	449,812 (8%)	1,898,048 (32%)	462,771 (8%)	0 (<1%)	5,931,400
2003	1,735,650 (43%)	375,480 (9%)	1,519,510 (38%)	295,935 (7%)	96,760 (3%)	4,023,335
2004	2,852,411 (48%)	548,628 (9%)	2,166,626 (36%)	370,974 (6%)	58,607 (1%)	5,997,246
2005	3,291,403 (50%)	478,276 (7%)	2,260,792 (34%)	497,764 (8%)	67,434 (1%)	6,595,669

Source: HKTB, Savills Research & Consultancy

According to HKTB, in 2005, business travelers⁹ accounted for approximately 37% of guests received by all hotels, while leisure travelers¹⁰ represented approximately 52% of the market. Airline crew¹¹, meanwhile, shared approximately 2% of the market.



Source: HKTB, Savills Research & Consultancy

Notes:

- (8) These figures are derived by multiplying the percentage of each category as provided by the Visitor Profile Report (Source: HKTB 2001-2005) with the total overnight visitor numbers of the relevant year. The percentage of “others” in 2002 is marked as “less than 0.5%” in the said report and is assumed to be zero as percentages of other categories add up to 100%.
- (9) Including Government Officials, Business Travelers, In-house Meeting and Other M.I.C.E. according to HKTB’s classification
- (10) Including Individual Tourists and Group Tours
- (11) Data start from 2002, grouped under others before

The pattern of market share was broadly stable from 1997 to 2001 but the share of leisure travelers started to increase from 2002, coinciding with the sharp increase of mainland Chinese visitors to Hong Kong in that year (53% year-on-year growth). The dramatic increase of mainland Chinese visitors for vacation and visiting friends/relatives, largely boosted by the IVS, was the key reason behind the increasing market share of leisure travelers.

On the other hand, the total number of high-spending business overnight travelers recorded a healthy increase of 33% from 2001 to 3.5 million in 2005, reflecting Hong Kong's role as a global center for trade, finance, business and communications. In the tourism industry, business travelers are considered to be a high-spending category of visitors. Business travelers tend to be less cost-conscious as their spending during a business trip is often reimbursed by their employers.

Mainland Chinese Visitors Characteristics

The robust growth in mainland Chinese visitors to Hong Kong has made them the single most important source of tourists to Hong Kong and in 2006, they totaled approximately 13.6 million, representing approximately 53.8% of that year's arrivals. Arrivals from the Greater PRD region and China's prosperous east coast cities are particularly prominent as rapid economic growth, rising income levels and more leisure time have encouraged wealthier residents to travel outside of China in greater numbers over recent years. It is noteworthy that the average disposable income of urban residents in China increased by 67% between 2000 and 2005¹². Forecasts are for a further 28% rise by 2010¹³. Mainland China's middle class population is also growing quickly due to the rapidly rising economy. With the increasing incomes of mainland Chinese, and changing consumer behavior, their demand for outbound travel and quality hotels is expected to increase over time. In 2005, per capita overnight visitor spending on hotel bills by mainland Chinese visitors in Hong Kong increased by 11% year-on-year¹⁴. Affordability of this key demand group is also expected to improve along with the gradual increase in the value of the RMB.

A series of measures introduced from 2001 onwards to relax restrictions on travel by mainland Chinese to Hong Kong (application procedures as well as currency controls) has made traveling to Hong Kong easier and more convenient for PRC residents, boosting arrivals numbers significantly and increasing hotel room occupancy rates. The IVS introduced in July 2003, which allows travelers from selected mainland cities to visit Hong Kong independently instead of coming in tour groups only, has now been extended to 49 cities in China (including the 5 new cities incorporated into the scheme since January 2007), representing more than 260 million people.

In 2006, approximately 6.6 million mainland Chinese visited Hong Kong via the IVS, an increase of around 1.1 million visitors (+20%) over 2005, though slightly lower than the increase from 2004 to 2005 of 1.24 million visitors (+29%). Nevertheless, the 20% growth was already much higher than the overall Mainland visitors growth over 2006 (+8%), and the 29% growth recorded in 2005 was off a lower base (2.96 million IVS visitors in 2004) and smaller IVS coverage (IVS covered 32 cities with 158 million residents in 2004). As the Hong Kong Government continues in its efforts to include more cities into the IVS, the number of mainland Chinese visitors to Hong Kong is expected to increase.

Notes:

(12) Source: National Bureau of Statistics of China

(13) According to the 11th Five-Year (2006 - 2010) Plan announced in the National People's Congress, urban per capita disposable income in 2010 would be RMB13,390, compared with RMB10,493 in 2005

(14) Source: HKTG, A Statistical Review of Hong Kong Tourism 2005

The M.I.C.E. Market in Hong Kong

Hong Kong has developed into a center for conventions and exhibitions in Asia, and the M.I.C.E. (meetings, incentives, conventions and exhibitions) market is developing rapidly. In 2005, approximately 1.4 million M.I.C.E. visitors came to Hong Kong, an 8% increase from 2004 and a 193% increase when compared with 2001. The proportion of M.I.C.E. visitors to total visitor arrivals also increased from 3.4% in 2001 to 5.8% in 2005. In 2004, each M.I.C.E. visitor intended to spend on average HK\$10,000 during his/her stay in Hong Kong, more than double the overall per capita visitor spending (HK\$4,478) in the same year¹⁵.

The Trade Development Council has succeeded in organizing a large number of popular and recurrent international/local events, including the Hong Kong International Jewelry Show, Hong Kong Watch and Clock Fair, Hong Kong International Film and TV Market and Hong Kong Book Fair, attracting numerous foreign business visitors. A number of well-known international events have also been held in Hong Kong, such as the Annual Meetings of the World Bank Group and the International Monetary Fund (1997), the Forbes Global CEO Conference (2002), the Business Week Annual CEO Forum (2003), and the latest round of the World Trade Organization Ministerial Conference (2005). The closer collaboration of the Government of the People's Republic of China ("**Central Government**") and the Government of the Hong Kong Special Administrative Region ("**HKSAR**") will attract more international events to Hong Kong, which should help further develop this sector.

The recently completed AsiaWorld-Expo convention center at Hong Kong Airport (at 753,000 sq. ft., Asia's largest), as well as the plan to expand the existing Hong Kong Convention and Exhibition Centre ("**HKCEC**") in Wanchai by 200,000 sq. ft., should further increase Hong Kong's draw as a major M.I.C.E. market in Asia, in turn attracting more business travelers to Hong Kong.

Tourism and Transport Infrastructure

While new attractions including the opening of the Tung Chung Cable Car (Ngong Ping 360) (opened in September 2006) and Hong Kong Wetland Park (opened in May 2006) and the construction of the Tsim Sha Tsui Promenade Beautification Project and the Ocean Park Redevelopment Project are underway, other initiatives aimed at enhancing Hong Kong's appeal to tourists are under study such as the Aberdeen Tourism Project, Hong Kong Disneyland Phase 2, a new cruise terminal and various tourism and recreation proposals on Lantau Island including the development of spa and resort facilities.

Besides local tourism infrastructure proposals, there are also a number of transport projects underway/under planning to further enhance the integration of Hong Kong and southern China, in turn making it easier for southern Chinese residents to visit Hong Kong. In 2005, 64% of mainland Chinese visitors to Hong Kong came from southern Guangdong Province, one of China's wealthiest regions.

Hong Kong International Airport's passenger traffic increased dramatically from 30.4 million persons in 1999 to 44.5 million persons in 2006. A plan to upgrade and expand Hong Kong International Airport should also serve to facilitate more efficient passenger handling, which should be beneficial to the local tourist industry. By 2010, it is anticipated that the airport will be capable of handling 50 million visitors a year¹⁶, securing Hong Kong's position as the PRD's major hub and gateway.

Notes:

(15) Source: Hong Kong Trade Development Council

(16) Source: Hong Kong Airport Authority

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The Hotel Sector

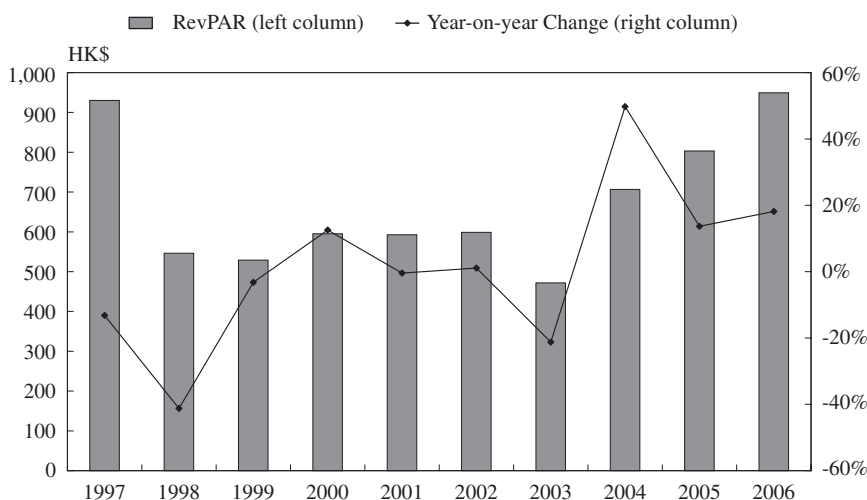
Introduction

At the end of 2006, there were 126 hotels in Hong Kong comprising 47,128 rooms. The HKTB classifies hotels into¹⁷ High Tariff A, High Tariff B, Medium Tariff and unclassified¹⁸. At the end of 2005, in terms of number of rooms (total number of hotel rooms in 2005 stood at 43,866 rooms), approximately 25% were classed as High Tariff A, 42% were High Tariff B (the largest market share) and Medium Tariff represented 26%.

High Tariff hotels receive more business travelers while the Medium Tariff hotels are more popular among individual tourists and tour groups. Meanwhile, visitors from western countries are generally more willing to stay in High Tariff hotels while mainland Chinese visitors have tended to choose more economic options.

RevPAR fell from 1997 to 1999, due mainly to the Asian Financial Crisis and falling visitor arrivals in 1997 and 1998. As visitor arrivals in 2000 increased by 21% year-on-year while a net increase of only 12% was recorded in the number of hotel rooms, RevPAR increased by 13% that year. RevPAR in 2001 and 2002 was reduced by the effects of terrorist attacks in the U.S. in September 2001 and dropped sharply in 2003 when the economy was hard hit by the outbreak of Severe Acute Respiratory Syndrome (“SARS”) and the second Iraq war. A marked increase in revenue was recorded for 2004 following the surge in visitor numbers that year. The growth momentum continued and at the end of 2006, RevPAR reached HK\$949, the highest level since 1997.

Revenue per Available Room (RevPAR) of All Hotels, 1997 to 2006



Source: HKTB, Savills Research & Consultancy

Notes:

(17) Based on facilities, location, staff to room ratio, achieved room rate and business mix of hotels

(18) In 2006, the average room rates of High Tariff A, High Tariff B and Medium Tariff hotels were HK\$1,906, HK\$831 and HK\$537 respectively. Source: HKTB

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According to Euromonitor¹⁹, The Hong Kong and Shanghai Hotel Group, Shangri-la Hotels and Resorts, Mandarin Oriental Hotel Group and Regal were the top four companies in terms of market share in 2004²⁰, and combined to represent approximately 30% of the hotel industry²¹. Regal ranked third among the aforesaid top four key players, with a market share of 7.3% in 2004.

The ranking and market share of Regal from 2001 to 2004 are listed below.

Regal Market Share and Ranking, 2001 to 2004

	2001	2002	2003	2004
Ranking	2*	3	4	3
Market Share	7.3%	6.8%	7.6%	7.3%

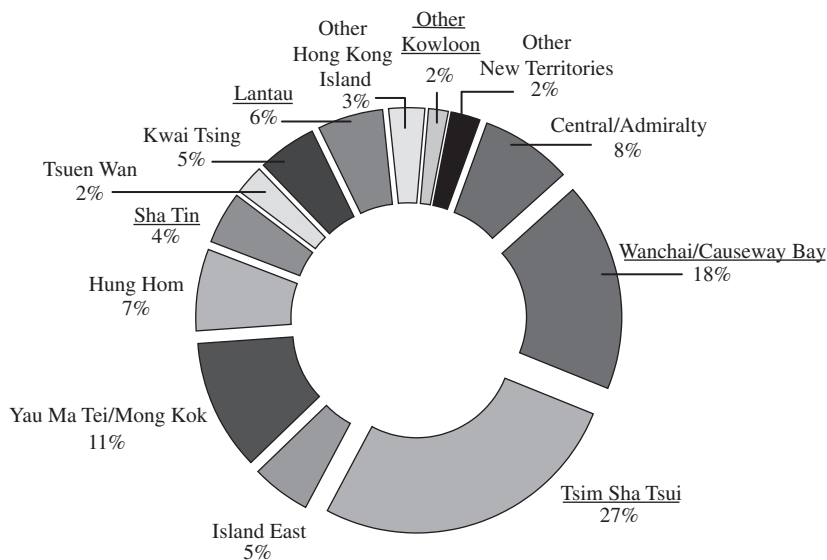
Source: Euromonitor

* Tied with The Hong Kong and Shanghai Hotel Group in second place with 7.3 per cent market share each

Supply of Hotel Rooms

According to HKTB, Tsim Sha Tsui is the most concentrated hotel district in Hong Kong as it has more than 12,500 rooms, or 27% of the total number of rooms available in Hong Kong in 2006. The next most concentrated hotel district is Wanchai/Causeway Bay which comprised approximately 8,400 rooms, or 18% of the total stock of rooms.

Distribution of Hotel Stock



Source: HKTB, Savills Research & Consultancy

Note: Districts where the Regal Hotels located are underlined

Notes:

- (19) Travel and Tourism in Hong Kong, China (May 2005), Euromonitor International, Global Market Information Database for Hong Kong Trade Development Council
- (20) Note that the Hong Kong and Shanghai Hotel Group sold The Kowloon Hotel in February 2005 which could affect its market share ranking from that year
- (21) Based on companies' consumer value sales

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Map of Hong Kong



Note: Core Areas in Red

Source: Savills Research & Consultancy

With visitor arrivals hitting new highs, the hotel market, in terms of both number of hotel rooms and revenue generated, has expanded rapidly over the past few years. In 2006, approximately 4,002 new rooms were completed²², most of them in Kowloon.

According to HKTB, thirty-four new hotels and four extension projects of existing hotels comprising 11,794 rooms are scheduled for completion between 2007 and 2010 taking the total number of hotel rooms in Hong Kong to 58,922 by 2010. Of the 34 new hotels scheduled for completion over the next four years from 2007, construction of 28 has started, involving around 10,238 rooms. Together with the four extension projects under construction representing a further 468 rooms, approximately 91% of forecast new hotel rooms are under construction with a substantial number of rooms expected to be completed by the end of 2007 (net increase of 7,083 rooms in 2007).

Notes:

(22) Excludes three hotels reopened after renovation (881 rooms). Accordingly to the HKTB, 13 hotels with 5,088 hotel rooms were opened in 2006. Savills adjusted the number of new hotel rooms in 2006 to 4,002 rooms as 1) according to the HKTB, 3 hotels (881 rooms) out of the 13 new hotels were existing hotels closed for renovation earlier in 2006 (deducted from hotel stock calculation) and were subsequently reopened in 2006 (added back to hotel stock calculation), and thus should not be counted towards new hotel room supply in 2006; and 2) according to the HKTB, Caritas Oswald Cheung International House (324 rooms) was opened in September 2006 with 119 rooms in operation only, and therefore only 119 rooms (instead of 324 rooms) should be counted towards new hotel room supply in 2006.

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Total Number of Hotels/Hotel Rooms, 2000 - 2010E

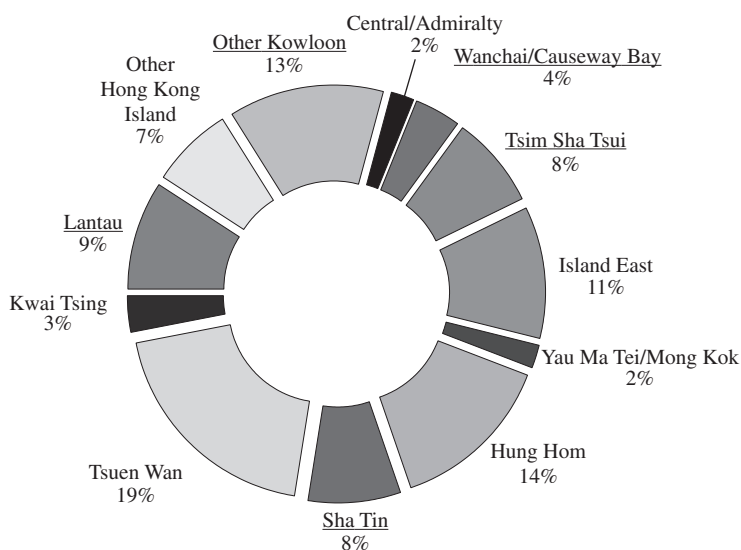
	No. of Hotels	No. of Rooms	YoY Change (%)
2000	95	36,749	+11.8%
2001	98	37,132	+1.0%
2002	98	38,949	+4.9%
2003	96	38,133	-2.1%
2004	101	39,128	+2.6%
2005	118	43,866 ²³	+12.1%
2006	126	47,128 ²⁴	+7.4%
2007E	145	54,211	+15.0%
2008E	152	56,348	+3.9%
2009E	159	58,822	+4.4%
2010E	160	58,922	+0.2%

Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

Note: Information sourced from and confirmed by Regal is related to the number of rooms to be completed under the Asset Enhancement Program.

A majority (86% or 10,188 rooms) of the new supply of hotel rooms will be located in non-traditional tourist areas such as Island East, Kwai Tsing, Tsuen Wan and Hung Hom and room availability in core areas is therefore expected to remain more restricted.

Supply of New Hotel Rooms by Location, 2007E - 2010E



Source: HKTB, Savills Research & Consultancy

Note: Districts where the Initial Hotel Properties are located are underlined.

Note:

(23) Includes a net decrease of 2 existing rooms

(24) Includes a net increase of 17 existing rooms and the closure of Hyatt Regency Hotel (net decrease of 723 rooms)

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The influx of tourists since mid-2003 due to the gradual implementation of the Individual Visit Scheme has induced many developers to utilize the new zoning regulations to transform their industrial properties into hotel developments. From 2003 onwards, a total of 38 projects was approved by the Town Planning Board for change from industrial to hotel use, with a total Gross Floor Area of nearly 10 million sq.ft. gross and approximately 20,500 hotel rooms. Nevertheless, only five of these hotel projects have land premiums (a fee paid to the Government for change of use of the land and which is a pre-requisite for construction to begin) agreed.

In view of the robust recovery of the office market, some developers changed their plans since their original application. For example, Sun Hung Kai Properties will now develop Millennium City VI, 932 Kwun Tong Road and 909 Cheung Sha Wan Road into office buildings. Five approved projects will be changed to office use while three others will be developed into industrial premises.

Demand for Hotel Rooms

Supply of new hotel rooms over the past few years has failed to keep pace with the rapidly rising numbers of visitors, driving occupancy rates up since 1998 with exceptions noted in 2001, the year of terrorist attacks in the U.S., and 2003, the year of SARS.

Average Hotel Occupancy Rates, 2000 - 2006

	All Hotels	High Tariff A	High Tariff B
	Rooms Occupied (Occupancy Rate²⁵)		
2000	27,466 (83%)	7,894 (82%)	11,476 (84%)
2001	26,580 (79%)	6,923 (74%)	11,618 (81%)
2002	29,003 (84%)	6,844 (80%)	13,105 (86%)
2003	23,126 (70%)	5,307 (67%)	10,457 (72%)
2004	30,109 (88%)	7,506 (84%)	13,484 (89%)
2005	31,348 (86%)	7,915 (84%)	14,575 (86%)
2006	n/a ²⁶ (87%) ²⁷	n/a ²⁶ (85%) ²⁷	n/a ²⁶ (88%) ²⁷

Source: HKTB, Savills Research & Consultancy

The number of rooms occupied in 2005 was 31,348, higher than 2004 (30,109) and higher than 2000 by approximately 14%, reflecting a rise in actual demand for rooms despite a marginal decline of occupancy rate from 88% in 2004 to 86% in 2005.

Notes:

- (25) According to the HKTB, occupancy rates are estimated by Total Rooms Occupied divided by Total Rooms Available for Sale per Day. It is noteworthy that Total Rooms Available for Sale per Day is different from total number of rooms shown in the previous table on the previous page. While the total number of rooms captures all rooms comprised in all hotels, Total Rooms Available for Sale per Day excluded rooms closed for renovation and thus not available for sale.
- (26) Actual figure is not available at the time of Latest Practicable Date.
- (27) According to the HKTB, the occupancy rate is calculated based on daily rooms occupied against daily rooms available for sale, rooms under repair or being refurbished are excluded. HKTB only releases the daily room occupied figures on an annual basis.

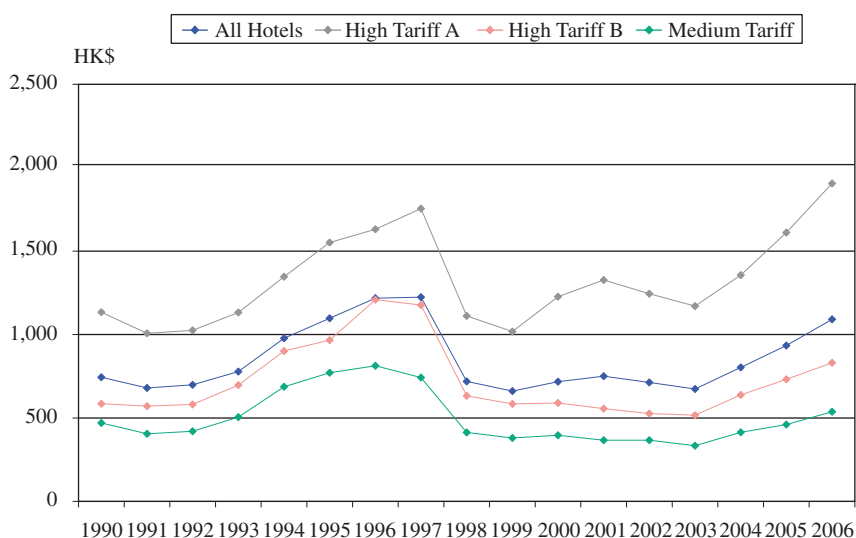
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Strong demand for hotel rooms has continued in 2006. The occupancy rate of all hotels in 2006 was 87%, compared with 86% recorded for the same period of 2005. The occupancy rates of High Tariff A and High Tariff B hotels in 2006 reached 85% (compared with 84% in 2005) and 88% (compared with 86% in 2005) respectively.

Average Room Rates

The average hotel room rate (all hotels) rose by 31% from 2002 to 2005 while the average room rate of High Tariff B hotels recorded a higher than average growth rate of 39%. However, average room rates (all hotels) at the end of 2005 were still 24% below the peak levels recorded in 1997.

Average Room Rates by Category, 1990 - 2006



Source: HKTB, Savills Research & Consultancy

Average room rates have continued to rise rapidly in 2006 in view of the strong demand. According to the HKTB, the average room rates of overall, High Tariff A and High Tariff B hotels in 2006 have increased by 17%, 18% and 14% respectively, compared with the same period of 2005.

As a result of the stronger occupancy rate and strong average room rate growth, RevPARs of overall, High Tariff A and High Tariff B hotels in 2006 have risen in parallel by 18%, 20% and 16%, respectively.

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Outlook

Planned tourist infrastructure as well as further development of the M.I.C.E. market should attract more vacation and business overnight visitors to Hong Kong. The completion of various transport infrastructure projects providing further linkages between Hong Kong and southern China will also serve to increase mainland Chinese visitor arrivals, while the airport enhancement project should facilitate the more efficient handling of international visitors.

Visitor Arrivals Forecast, 2007 - 2010E

	Total	Year-on-Year % Change
2007*	27,800,000	+10.1%
2008*	29,400,000	+5.7%
2009**	32,000,000	+8.8%
2010***	34,800,000	+8.8%

Source: * Pacific Asia Travel Association (“PATA”)²⁸, ** Interpolation of 2008 and 2010 figures, *** Hong Kong 2030 Study²⁹

The total number of visitor arrivals by 2010, estimated to be 34.8 million, is significantly more when compared with the 2005 figure of approximately 23.4 million. However, comparing the estimated average annual growth rate (“AAGR”) between 2007 and 2010 of approximately 8.4% and the historic AAGR between 1997 and 2006 of 9.0%, the forecast does not appear particularly aggressive, especially when factors including the closer integration between Hong Kong and China as well as the imminent opening of various tourist infrastructure are considered.

The steady appreciation of Renminbi is also expected to encourage more mainland Chinese to visit Hong Kong. The average spending by mainland visitors is also expected to rise as goods and services denominated in Hong Kong dollars become relatively cheaper due to expected appreciation of Renminbi. Over 2006 the Renminbi appreciated by approximately 4 per cent against the Hong Kong dollar and on January 11, 2007 stood at slightly above parity for the first time in 13 years.

Notes:

- (28) Founded in 1951, the Pacific Asia Travel Association (“PATA”) is an authority, advocate and catalyst for the development of Asia Pacific’s travel and tourism industry. It provides leadership and advocacy to the collective efforts of nearly 100 government, state and city tourism bodies, more than 55 airlines and cruise lines, and hundreds of travel industry companies. The methodology of forecasting visitor arrivals adopted by PATA is termed structural integrated time-series econometric analysis (“SITEA”) and details of this forecasting is described in its publication Asia Pacific Tourism Forecast, 2005 to 2007.
- (29) Hong Kong 2030: Planning Vision and Strategy is a Government initiative known as the HK 2030 Study, in respect of which the report was issued in February 2001 which is intended to provide a long-term planning framework to guide the development of Hong Kong. Autoregressive integrated moving average (“ARIMA”) analysis is adopted as the estimation and forecasting approach and details of the methodology is described in Information Note No. 14 — Technical Note on the Assumptions on Visitor Arrivals.

HOTEL INDUSTRY IN HONG KONG

Hotel Room Demand Forecast

According to the HKTB, in 2005, 31,348 rooms were occupied daily, producing approximately 11.4 million paid room nights for the year as a whole. In the same year, the average number of guests per room was 1.43 and the average length of stay of all visitors in that year was 3.66 nights. Based on this data, approximately 4.5 million visitors were estimated to have stayed in hotels in 2005, representing approximately 30% of total overnight visitors.

Hotel Room Demand Forecast, 2003 to 2008E

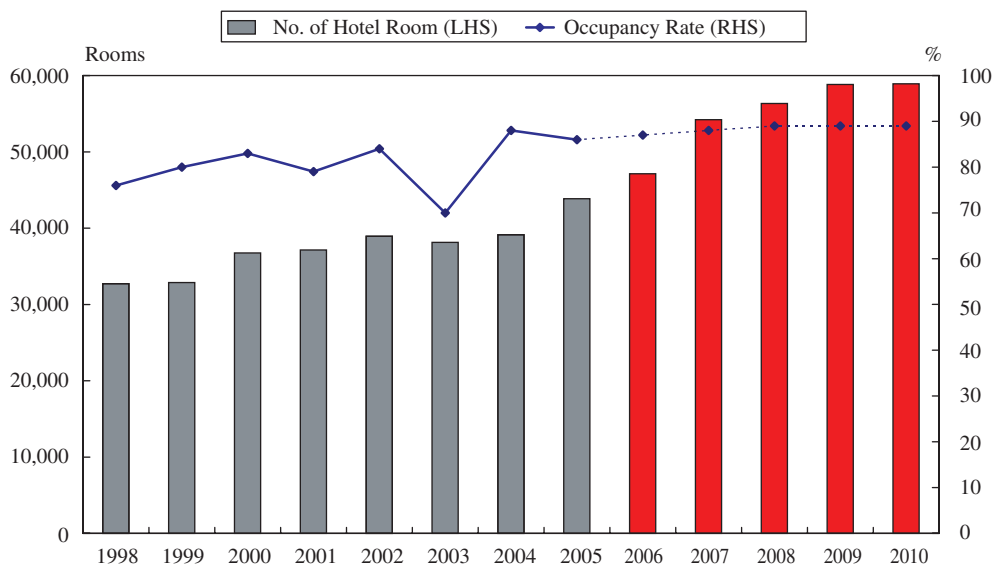
	2003	2004	2005	2006E	2007E	2008E
Hotel Rooms Occupied	23,126	30,109	31,348	36,727	42,694	45,152
Average Length of Stay (Nights)	4.06	3.73	3.66	3.49	3.49	3.49
Average Number of Guests per room	1.31	1.43	1.43	1.46	1.46	1.46

Note: Market Consultant's projected numbers in italics

Source: HKTB, PATA, Savills Research & Consultancy

This analysis can be used to project future demand for hotel rooms by adopting the visitor arrivals forecast by the PATA, which projects visitor arrivals to Hong Kong to reach 29.4 million by 2008, and assumptions on the future ratio of hotel guests to total overnight visitors, average number of guests per room and average lengths of stay.

Number of Hotel Rooms and Occupancy Rates, 1998 to 2010E



Source: HKTB, Savills Research & Consultancy

HOTEL INDUSTRY IN HONG KONG

Occupancy Rate Projections

Summary of Average Occupancy Rate Projections, 2007 to 2010E

Year	All Hotels	High Tariff A	High Tariff B
2007	88%	86%	90%
2008 to 2010	89%	87%	91%

Source: Savills Research & Consultancy

According to the forecasts made by PATA and the Planning Department in “Hong Kong 2030: Planning Vision and Strategy”, the total number of visitor arrivals in Hong Kong will reach 29.4 million in 2008 and 34.8 million in 2010 respectively.

It has been assumed that the average number of guests per room and the average length of stay of all visitors from 2006 will be the same as the average figures from 1998 to 2005.

Even though new rooms will be added and room rates are expected to increase, the anticipated significant increase in the number of visitor arrivals is expected to drive up demand for hotel accommodation, resulting in an increase in the average occupancy rate in hotels in Hong Kong as a whole, in both High Tariff A and High Tariff B hotels.

Average Room Rate Forecast

The projected strong demand growth in excess of supply is expected to provide a solid foundation for further room rate rises over the next few years. The expected rise in room rates is supported by the rising number of long-haul market visitors, business travelers and more affluent mainland arrivals.

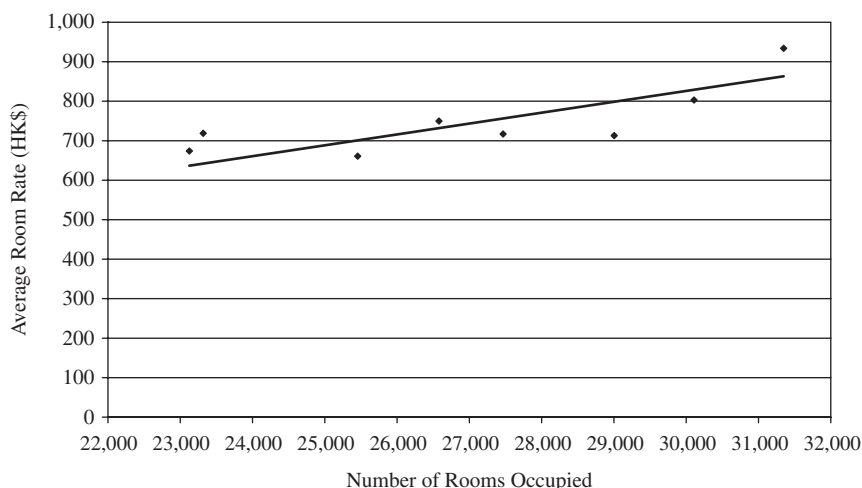
The movement of average room rates has been highly positively correlated with the number of rooms occupied between 1998 and 2005³⁰. Assuming this relationship holds in future, the average room rate is projected to rise by 10% in 2007 and between 6% and 8% per annum between 2008 and 2010. Based on this model, average room rates will reach the previous peak levels in 1997 again by 2008.

Note:

(30) This historic time frame was chosen so as to match the occupancy rate analysis which starts from 1998, due to limited availability of data.

HOTEL INDUSTRY IN HONG KONG

Number of Rooms Occupied vs Average Room Rates, 1998 to 2005



Source: HKTB, Savills Research & Consultancy

Looking at the historic relationship between room rates (All Hotels) and High Tariff hotel rates, the latter have tended to rise more than average in good years³¹, especially High Tariff B rates³². High Tariff B hotel rates also declined slower than average in bad years³³ over the same period.³⁴

Summary of Average Room Rate Projections, 2007 to 2010E

	All Hotels	High Tariff A Hotels	High Tariff B Hotels
2007	+8% – 10%	+8% – 10%	+8% – 12%
2008 - 2010	+6% – 8% per annum	+6% – 8% per annum	+6% – 11% per annum

Source: Savills Research & Consultancy

RevPAR of all hotels is expected to increase by an average annual growth rate of 8% per annum from 2007 to 2010, while RevPAR of High Tariff A and B hotels is projected to increase by rates of 9% and 10% per annum respectively. Since occupancy rates are already at high levels, RevPAR is expected to be largely driven by room rate growth, commensurate with our discussion on hotel industry cycles.

Notes:

- (31) Good years mean years when average room rates recorded positive growth over the year before.
- (32) Data from 1992 to 2006 showed that the average increment of High Tariff A hotels was 1 percentage point higher than All Hotels during rising years and the average increment of High Tariff B hotels was 3 percentage points higher than All Hotels during rising years.
- (33) Bad years mean years when average room rates recorded negative growth over the year before.
- (34) Data from 1992 to 2006 showed that the average decline of High Tariff B hotels was 3 percentage points lower than All Hotels during declining years.

HOTEL INDUSTRY IN HONG KONG

RevPAR Growth Rates Summary, 1992 to 2010E

	All Hotels	High Tariff A	High Tariff B
1. 15 years (1992 to 2006) historic average	6% per annum	8% per annum	6% per annum
2. 10 years (1997 to 2006) historic average	2% per annum	4% per annum	-1% per annum
3. 5 years (2002 to 2006) historic average	12% per annum	13% per annum	13% per annum
4. Rising Years Average (1992 — 1996, 2000, 2002, 2004 — 2006)	18% per annum	19% per annum	18% per annum
5. Rising Years Average Except 2004 to moderate the exceptional bounce back effect from SARS	14% per annum	16% per annum	15% per annum
6. Pre 1997 Rising Years Average (1992 — 1996)	16% per annum	14% per annum	20% per annum
7. Post 1997 Rising Years Average (2000, 2002, 2004-6)	19% per annum	23% per annum	17% per annum
8. Declining Years Average (1997 — 1999, 2001, 2003)	-16% per annum	-15% per annum	-19% per annum
9. Projected Average Growth Rates for 2007 to 2010	8% per annum	9% per annum	10% per annum

Source: HKTB, Savills Research & Consultancy

In absolute terms, RevPAR of all hotels is expected to surpass the peak levels recorded in 1996 (HK\$1,072) by 2008 and based on the assumptions of 89% occupancy rates in 2009 and 2010, RevPAR of all hotels will be 22% higher than 1996 by 2010. RevPAR of High Tariff A hotels has already returned to levels close to the 1996 peak (HK\$1,403) in 2005 and by 2010, is projected to exceed this peak by 62%. RevPAR of High Tariff B hotels, although expected to rise faster, in absolute terms, is expected to return to 1996 peak levels (HK\$1,100) by 2010. The higher RevPAR reflects strong forecast growth in the total number of visitor arrivals (197% from 1996 to 2010) ahead of hotel supply (86% from 1996 to 2010).

It is noteworthy that RevPAR could be affected by exogenous factors such as global financial shocks, bird flu, terrorist attacks or similar events which would have a direct impact on Hong Kong's hospitality sector. The probability, timing and impact of such events is very difficult to measure with any certainty.

The above projections are broad industry averages and the performance of individual hotels will deviate from the mean due to specific micro-market factors. Hotels facing less competition within their surrounding areas, offering superior amenities, or in close proximity to improved infrastructure are therefore expected to outperform the market as a whole.