

ASIA HOTEL VALUATION INDEX 2008

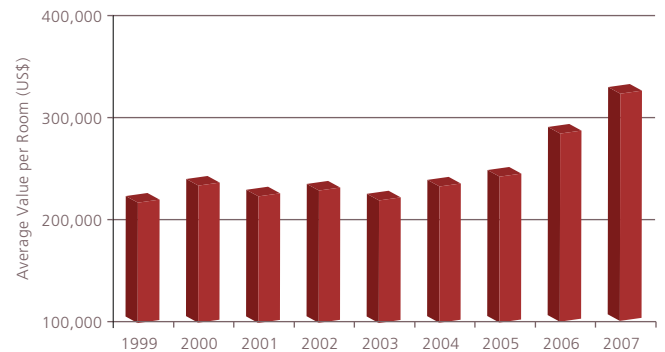
2007 was a bumper year for the tourism and hospitality industries in Asia. According to statistics from the United Nations World Tourism Organisation (UNWTO), international tourism in the world grew by 6% last year, with international arrivals growing above average growth rates at 10% for the Asia Pacific region. Driven by the strong global economic growth, climate change and growing recognition of tourism's contribution to the local economy, most Asian destinations, including Japan (+14%), Malaysia (+20%), Cambodia (+19%), Vietnam (+16%), Indonesia (+15%), India (+13%) and China (+10%), booked historical record arrivals and double-digit arrival growth. This growth of the tourism industry in Asia Pacific, which translated into higher occupancies and room rates in Asian hotels and resorts in 2007, has been phenomenal, given several isolated negative events taking place including the sub-prime crisis during the second half of the year and political transition taking place in several countries.

In the midst of this robust state of the tourism industry, the Asia Pacific region also saw record levels of investment and development activity in the hospitality industry. Notably, the largest hotel transaction in Asia was concluded in April 2007 between Morgan Stanley and All Nippon Airways Company Limited for its portfolio of ANA hotels and two property management units for US\$2.4 billion. Hilton Hotels Corporation, which included eight of its hotels in Asia Pacific, was also acquired by US private equity firm, Blackstone Group, for an aggregate US\$26 billion in the last year.

The value of a hotel property is the present worth of its future economic and other benefits. Knowledgeable hotel investors, whilst concerned with cashflow in progress, will take into consideration future risk and return profiles. The value of a hotel tends to fluctuate in line with market conditions, investor sentiment and performance outlook.

The Hotel Valuation Index (HVI) is a hotel valuation benchmark developed by HVS. It provides an indication of the average percentage change in the values of five-star hotels across 13 markets in Asia. The HVI also reports the estimated average value per room, allowing the ranking of each market relative to an average of the markets reviewed.

Hotel Valuation Index 2008



The HVI 2008 shows that, on average, values of five-star hotels across selected key markets in Asia experienced a growth of 14% in 2007 as compared to a 17% increase in 2006. All of the markets reviewed in this year's Asia HVI recorded an increase in hotel values while ten of the 13 markets reviewed experienced double-digit growth. Tokyo and Hong Kong remained as the market leaders among the cities reviewed, averaging at 5% and 11% growth rates, respectively. Singapore continued to grow 26% in 2007, while Shanghai hotel values surged a further 26% in 2007 on the back of 2006's growth of 27%. This resulted in both cities to leapfrog Seoul, whose hotel values increased 2% in 2007. With preparations for the much-awaited Olympic Games underway and the influx of new generation five-star hotels, Beijing hotel values increased 29% in 2007 – the highest growth rate among all cities. Although Thailand is undergoing a period of political transition since end-2006, its tourism sector has remained resilient, translating into an increase of 15% and 10% in hotel values (US Dollar terms) in Bangkok and Phuket, respectively. Bali, Kuala Lumpur and Jakarta also benefitted from the buoyant regional tourism conditions to book significant growth in hotel values.

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Average Value per Room for Five-Star Hotels in Asia, 1999–07 (US\$)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Tokyo	683,000	697,000	665,000	683,000	671,000	698,000	725,000	831,000	871,000
Hong Kong	398,000	477,000	441,000	469,000	445,000	496,000	546,000	624,000	695,000
Singapore	256,000	281,000	256,000	260,000	245,000	259,000	285,000	384,000	483,000
Shanghai	177,000	196,000	201,000	219,000	218,000	238,000	249,000	315,000	396,000
Seoul	310,000	326,000	308,000	330,000	317,000	321,000	333,000	387,000	393,000
Average	223,000	240,000	229,000	235,000	225,000	239,000	249,000	292,000	332,000
Beijing	140,000	147,000	151,000	159,000	150,000	170,000	184,000	229,000	296,000
Bangkok	154,000	167,000	173,000	190,000	184,000	194,000	201,000	195,000	225,000
Phuket	202,000	220,000	214,000	204,000	193,000	184,000	168,000	193,000	212,000
Taipei	182,000	184,000	170,000	165,000	160,000	166,000	171,000	182,000	186,000
Bali	141,000	161,000	156,000	133,000	125,000	143,000	122,000	138,000	169,000
Kuala Lumpur	75,000	92,000	90,000	92,000	87,000	94,000	99,000	131,000	166,000
Jakarta	70,000	79,000	74,000	65,000	61,000	72,000	76,000	94,000	114,000
Manila	116,000	97,000	84,000	81,000	75,000	75,000	77,000	96,000	111,000

Source: HVS

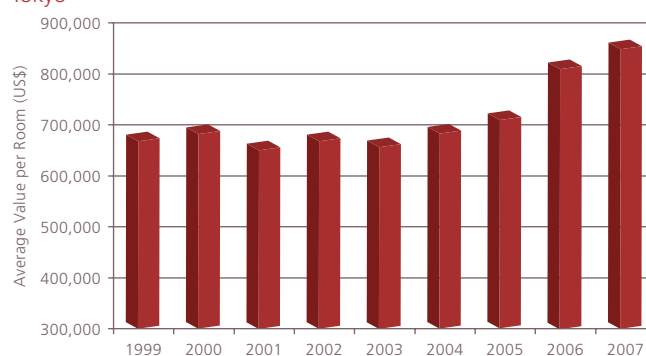
Performance in 2007

In the wake of healthy regional economic growth, the lodging industry in Asia thrived with increased tourism travels. The harsher-than-usual weather conditions experienced in Europe and North America due probably to the global climate change has also driven many travellers from temperate countries to tropical Asian countries such as Thailand, Malaysia, Singapore, the Maldives and Indonesia to avoid the winter season. Business travel also saw a significant increase in 2007 as participation in Asia's economic growth becomes more important.

The greater awareness of tourism being a significant contributor of economic progress among Asian governments has also led to a race to woo tourists from all over the world. This in turn has brought about increased governmental investments in tourism infrastructure, marketing and promotion of domestic tourism markets, liberalisation of air transportation and greater regional cooperation. National airlines are aggressively upgrading their fleet of aircrafts, most notably, the Singapore Airlines rolled out the world's first technologically advanced commercial airplane, the Airbus A380, while budget airlines such as Air Asia, Tiger Airways and Jetstar are expanding their geographical routes. Airports in Asia are also being upgraded or expanded to meet the sustained surge in air travel to the region. Greater cooperation between Asian countries to liberalise air travel and travel documentation requirements has also contributed to the increased demand for accommodation.

Tokyo remained the most expensive city in Asia for hotel accommodation for yet another year. Hotel values in the city increased by 5% over 2006 values to US\$871,000 in 2007. The continued disposal of non-core hotel assets by Japanese companies to foreign investors and the deregulation of office building density with the inclusion of a hotel component in mixed-use developments had resulted in the introduction of internationally branded five-star hotels which offer unprecedented luxury accommodation products in the market. This has raised the benchmark for hotel standards in Tokyo and created upward pressures on room rates.

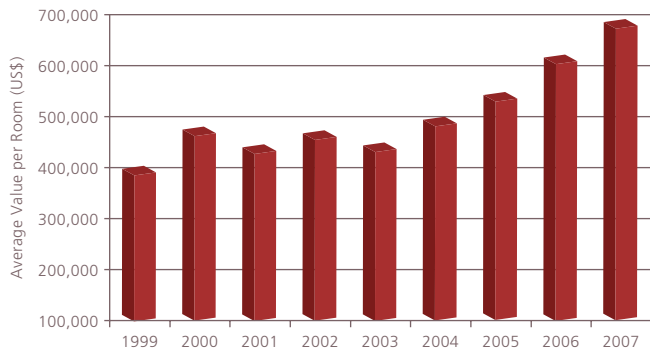
Tokyo



Hong Kong continued to reinvent its tourism drivers despite retaining its position as the city with the second highest hotel values in Asia. Upgrading programmes for its major retail

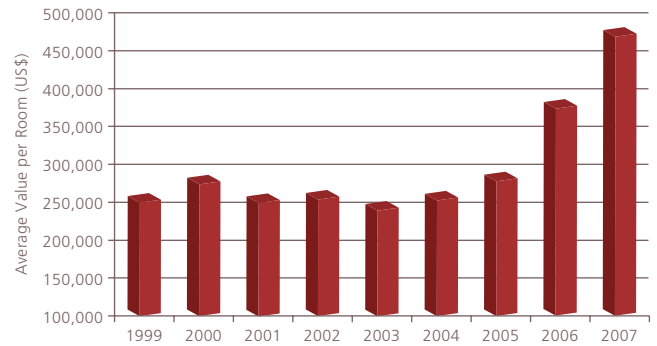
areas are currently ongoing to attract shoppers from all over the world. One of such developments include the widening of the pavements along Mong Kok's famous Tung Choi Street. The Hong Kong government also gave approvals to extend the third phase of the Hong Kong Convention and Exhibition Centre in order to protect its MICE industry from the emerging competition from Macau. Overall, Hong Kong attracted 28 million visitors in 2007, a 10% increase from 2006. This translated into an annual occupancy in the high 80-percentile with corresponding increases in room rates and hotel values.

Hong Kong



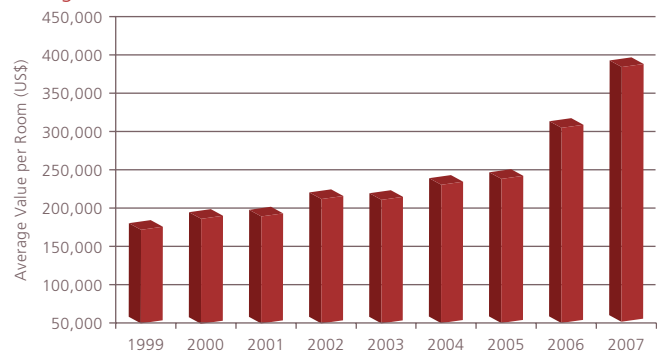
The operating performance of **Singapore** five-star hotels continued its bull run after a stellar 35% increase in hotel values in 2006. Against a strong economic landscape, significant growth in demand from the Corporate and Leisure segments resulted in hotel values increasing 26% to US\$483,000 in 2007, promoting the country to third place in this year's HVI rankings. With the surge in demand and the limited supply of hotel rooms, occupancies of hotels in Singapore hovered at the high 80-percentile to low 90-percentile range and caused upward pressures on room rates. According to official statistics, record-highs for average room rates have been broken thrice in the year 2007. Despite welcoming a record 10.3 million visitors in 2007, the country continued to hit headlines on the tourism front with the introduction of the world's first Formula One night race to be held in September 2008, the delivery of the world's first Airbus A380 'superjumbo' jet and the addition of more tourist attractions such as the Singapore Flyer.

Singapore



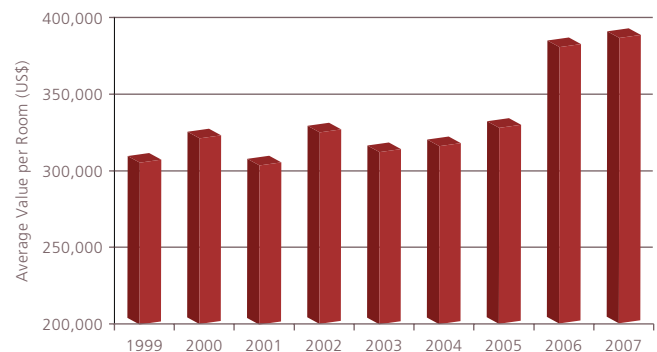
Shanghai, being the economic and financial centre of one of Asia's fastest growing economies, has experienced exceptional progress in its economic development, which translated into increases in both lodging demand and room rates from the Corporate and Leisure segments in recent years, including the year 2007.

Shanghai



Five-star hotels in **Seoul** posted a marginal 2% increase in hotel values due to lingering but reduced tensions from its socialist counterpart after North Korea announced its decision to renounce its nuclear ambitions. Tourist arrivals grew approximately 3% from 2006 to 2007.

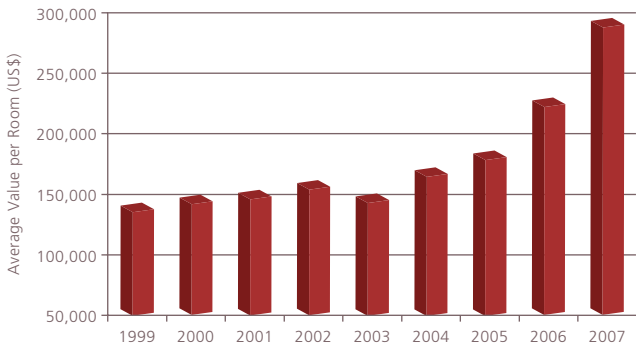
Seoul



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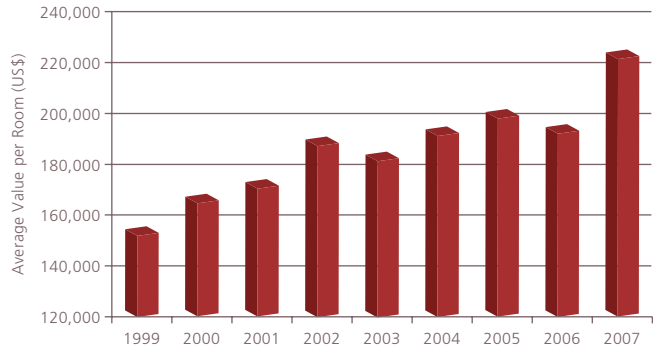
As the city gears up for the much-anticipated XXIX Olympic Games in 2008, **Beijing** continues to see a plethora of new local and internationally branded hotels opening in the city to capitalise on this prestigious global event. Despite the surge in new accommodation supply, visitor arrivals and demand for accommodation grew significantly to record a 29% increase in hotel values from 2006 – the highest recorded increase in hotel values in this year’s HVI review. Existing hotels are also actively increasing room rates leading up to the 2008 Olympic Games. The central government’s concerted efforts to invest in tourism facilities, public infrastructure and social/cultural education are aimed at creating a tourist-friendly and mature tourism destination after the world’s largest sporting event, however, there is a potential risk of oversupply in the medium-term, due to the current influx of new hotel developments.

Beijing

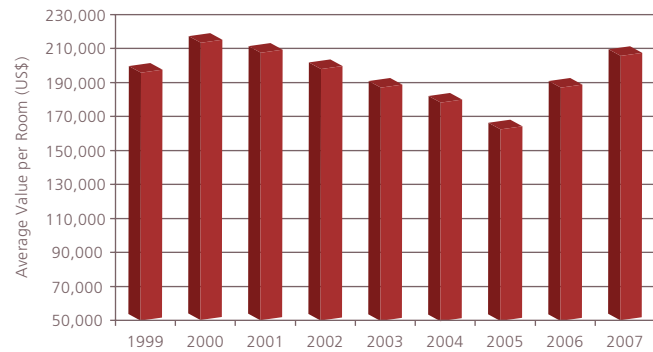


Thailand’s tourism sector continues to prove its resilience in spite of an eventful 2007. According to official figures, despite the mixed tourism sentiments among tourists and investors in Thailand attributed to the political transition period and isolated events of social unrest, the country’s tourist arrivals grew with increased flight frequencies. The anticipated entry of a new generation of five-star hotel developments, the attractiveness of **Bangkok** as a leisure destination and the strengthening of the Thai Baht translated into an improved hotel value in US Dollar terms in 2007. **Phuket**, being one of Asia’s most established tourist resort destinations, remains popular. Despite the aviation incident in September 2007 involving budget airline One Two Go Flight 269, its tourist arrivals remain somewhat unaffected and several internationally branded resorts like the Jumeirah and the Shangri-La are slated to open in the medium-term.

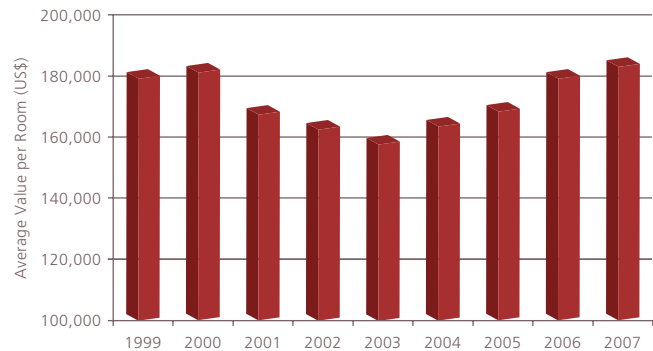
Bangkok



Phuket

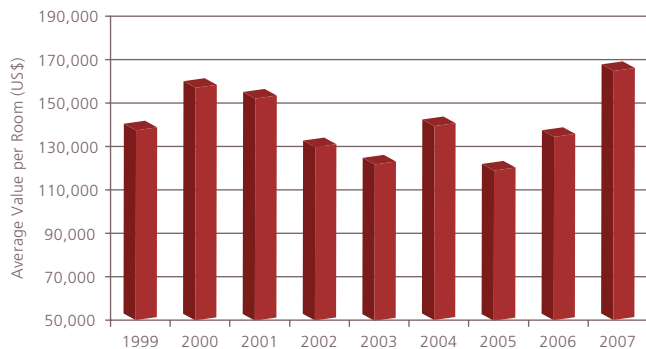


Taipei



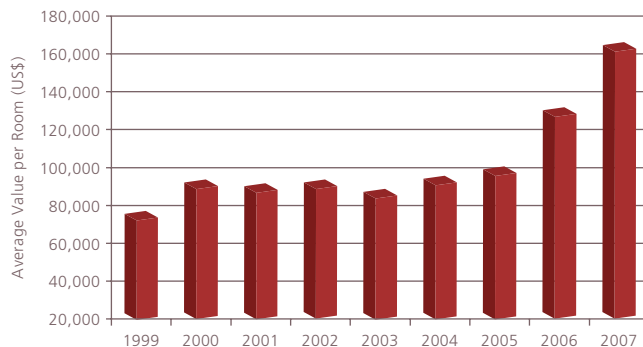
The recovery of the tourism market in **Bali** has been significant after the bombing incident in 2005, proving its popularity as one of Asia’s leading resort destinations. Although several travel advisories were issued by Australia and several European countries over the year, visitor arrivals increased more than 30% in 2007, with Australians making up approximately 15% of total arrivals. Bali also hosted the UN Climate Change Conference in December 2007, which turned out a success and signalled the confidence given to the revamped security of the island. With this renewed interest and demand for accommodation, hotel values increased approximately 22% in 2007.

Bali



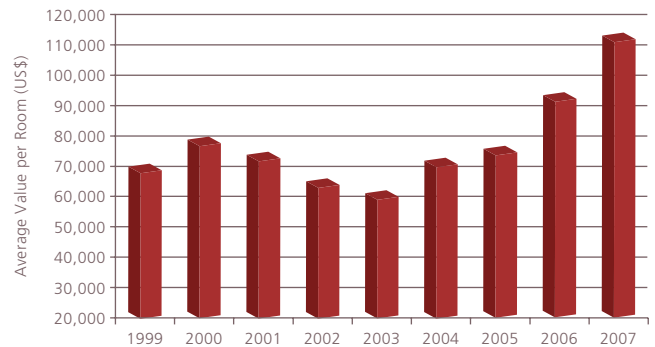
After a successful tourism campaign with the 'Visit Malaysia Year 2007', Kuala Lumpur is reaping the fruits of the efforts by the Malaysia Tourism Promotion Board. Coupled with the positive economic environment and expansion of its aviation industry, the hotel market experienced a boom with improved occupancies and room rates, increased hotel developments and strong investor interest for hotel assets. These factors have contributed to hotel values increasing by approximately 25% in 2007.

Kuala Lumpur

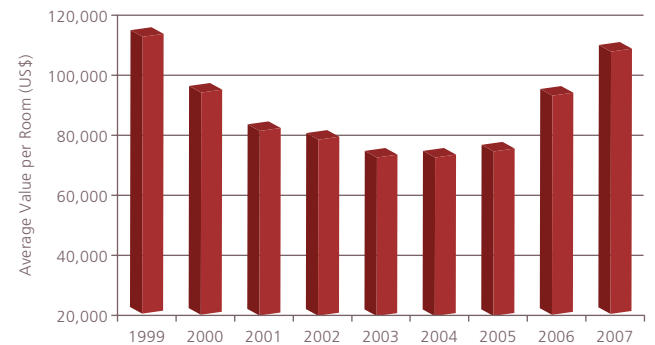


After years of political and social instability in the Philippines and Indonesia, hotel investors and developers are beginning to show interest in **Jakarta** and **Manila**, particularly in new key areas of development. Tourist arrivals and business travel have also edged upwards, fuelling the demand for accommodation, which in turn caused hotel values to appreciate by approximately 20% and 15%, respectively.

Jakarta



Manila



Conclusion

The year 2007 has been an exceptional one for the tourism and hotel industries in Asia, marked by the liberalisation of air travel, expanding aviation industry and increased travel into and within Asia, which translated into higher occupancies and room rates for hotels in most Asian cities, new hotel developments in untapped markets and a vibrant hotel investment arena. The growing affluence of travellers as a result of several years of economic progression regionally and internationally has contributed to the financial performance of Asian hotel properties, resulting in unprecedented growth levels in hotel values in several key cities reviewed.

Looking ahead for 2008, while the USA – the largest economy in the world – is expecting to experience a slowdown, Asia is expected to fare relatively better as the regional economies will continue to benefit from the growth of China and India. The

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sentiment in the hospitality industry in Asia is likely to remain cautiously optimistic as the Asian travel industry continues to expand. The political willpower to collaborate among Asian countries would be key in determining the growth of the region's tourism and hotel industries in years to come. Nevertheless, the upcoming global events to be held in Asia, particularly the Olympic Games and World Expo, and the deliberation of several countries such as Japan, Vietnam and Korea to legalise and expand gaming activities, following the success of the Macau and Singapore models, are likely to hold Asia's tourism industry in good stead in the short-to-medium term, barring any unforeseen events.



HVS is the world's leading hospitality consulting firm, specialising in valuation, consulting, advisory and investment services. For further details, please contact the Singapore regional office at +65 6293 4415 (Tel) or +65 6293 5426 (Fax)

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