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11 April 2011

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Dear Manager, Trustee and Joint Listing Agents,

Beijing Luxury Hotel and Serviced Apartments Market Study

Jones Lang LaSalle-CIEC Co., Ltd. was instructed by Beijing Oriental Plaza Company Limited to provide an independent assessment ("Study") of the Beijing luxury hotel and serviced apartments sectors in connection to the launch of a Real Estate Investment Trust ("REIT") initially with the sole asset being Oriental Plaza. This report is prepared for the purpose of incorporation in the offering circular of the REIT and the information will become part of the offering circular for the launch of the REIT.

Date of Assignment

The contract engaging Jones Lang LaSalle-CIEC Co., Ltd. was executed on 28th September, 2010. This report reflects data and comments made according to desktop research conducted between 28th and 30th September, 2010.

Statement of Pecuniary Interest

We confirm that Jones Lang LaSalle-CIEC Co., Ltd. has no pecuniary or other interest in the market that would conflict with proper assessment or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. This position will be maintained until the purpose for which this Study is being obtained is completed.

Information Utilised

Our review is based on information developed from research of the markets, knowledge of the industry and certain information provided by Beijing Oriental Plaza Company Limited, which is integral to the outcome of our estimations. We have also obtained data and information for this assignment from a wide range of sources. Whilst due care has been undertaken in the application of this information, its accuracy cannot be verified by Jones Lang LaSalle-CIEC Co., Ltd.. Should it be revealed that any of this information is inaccurate or misleading so that its use would affect our Study, then Jones Lang LaSalle-CIEC Co., Ltd. reserves the right to amend its opinions and report. The sources and bases of the estimates and assumptions are stated in the body of the document. We have no responsibility to update this Study for events and circumstances occurring after the date of issuance.

Qualifications and Assumptions

This Study is based on current as well as likely future conditions as perceived by the market. We do stress that the estimation of future market conditions is a very problematic exercise, which, at best, should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forward projections involves assumptions regarding a considerable number of variables, which are acutely sensitive to changing conditions.

- In preparation of this Study, we have made the following assumptions: It must be recognised that, in the current economic climate, consumption and capital markets are subject to significant volatility and uncertainty.
- Against the backdrop of the recent global economic downturn, China's economy has experienced a milder growth pace as compared to the earlier years of development. While gradual recovery has been experienced at the local and national levels in 2010, there are concerns of a slow overseas recovery casting over the outlook of 2011.
- China's political situation and currency exchange rate against other major international currencies will remain stable.
- Disregarding short-term impacts, tourism trends in China are forecasted to be at least maintained with gradual improvement in visitor arrivals in the near future.
- There will not be a resurgence of Severe Acute Respiratory Syndrome (SARS) nor will there be any other disease or epidemic outbreaks that could cause a long-term negative impact on the hotel and tourism markets of China and Asia.
- It must be recognised that the real estate investment market is subjected to fluctuations and that estimations of future market conditions may become out of date after an extended period from the date of this Study. Further, the government may adopt measures and policies that have an immediate and sweeping impact on the real estate market in order to maintain stability of the macro economy.

Should you have any questions regarding this study, please do not hesitate to contact us.

Yours sincerely,

Jones Lang LaSalle-CIEC Co., Ltd.

1.0 Beijing Hotel Market Introduction

Home to 19.7 million¹ permanent residents (of which 12.5 million are registered permanent residents) and many expatriates and students, Beijing embodies the political, economic and cultural capital of China. It is one of the fastest growing cities in the world. Fuelled by China's economic open-door policy, Beijing was arguably one of the first cities in the Mainland to take off economically. Despite a few bumps in the past, Beijing saw unprecedented growth between 1999 and 2009 and the momentum has no signs of slowing down. In 2009, Beijing's average GDP per capita reached RMB70,452 (or USD 10,314), second only to Shanghai's per capita GDP of RMB77,764.

The most significant event that cast a lasting impact on Beijing's tourism and hotel market in recent years was the 2008 Summer Olympics hosted in Beijing. The successful execution of the event has put Beijing on the global map. While the two-week event generated a significant amount of domestic and international visitors to Beijing, the more notable impact of Beijing's hosting of the Olympics has continued after the event — in preparation to take its place on the world's centre stage, Beijing underwent a comprehensive facelift and spent over USD41 billion² for 800 infrastructure projects that largely modernised the ancient city and expedited future growth. On the hotel front, although a number of hotels opened prior to and around the Olympics, the new stock has also largely improved the quality of hotel offerings in Beijing and further improved the city's attractiveness for global meetings.

In many ways, the Olympics became a catalyst that propelled this ancient city into the 21st century and was a turning point of the city's hotel industry. While the global financial crisis continues to have a lingering impact overseas, China and Beijing's economy has recovered relatively quickly. This is also evident in Beijing's hotel market performance. As China continues to grow and gain importance in the global market, Beijing will further secure its position on the world stage thereby fueling growth of the local economy and hotel demand.

1.1 Beijing Tourism Market Overview

Tourism Fact Sheet³

Overall Tourist Arrivals

- Historical CAAC⁴ (2000 – 2010) = 5.9% per annum
- Total tourist arrivals in 2010 = 185 million

Domestic Tourist Arrivals

- Historical CAAC (2000 – 2010) = 5.9% per annum
- Total tourist arrivals in 2010 = 180 million

International Tourist Arrivals

- Historical CAAC (2000 – 2010) = 5.7% per annum
- Total tourist arrivals in 2010 = 4.9 million (an increase of 18.8% year-on-year growth)
- Top five source countries of tourists in 2010: United States, Japan, South Korea, Germany, Russia
- Peak months = April, May, August, September, October; Shoulder = March, June, July; Low = January, February, November, December

¹ According to Beijing Bureau of Statistics, 2009 data.

² South China Morning Post, Intensive Preparation 30 December 2007.

³ As per latest data available

⁴ CAAC – Compounded Average Annual Change.

Tourism ReceiptsFrom Domestic Travellers

- Historical CAAC (2000 – 2009) = 13.5% per annum
- Tourism receipts in 2010 = RMB 242.5 billion

From International Travellers

- Historical CAAC (2000 – 2009) = 6.2% per annum
- Tourism receipts in 2010 = USD 5.0 billion

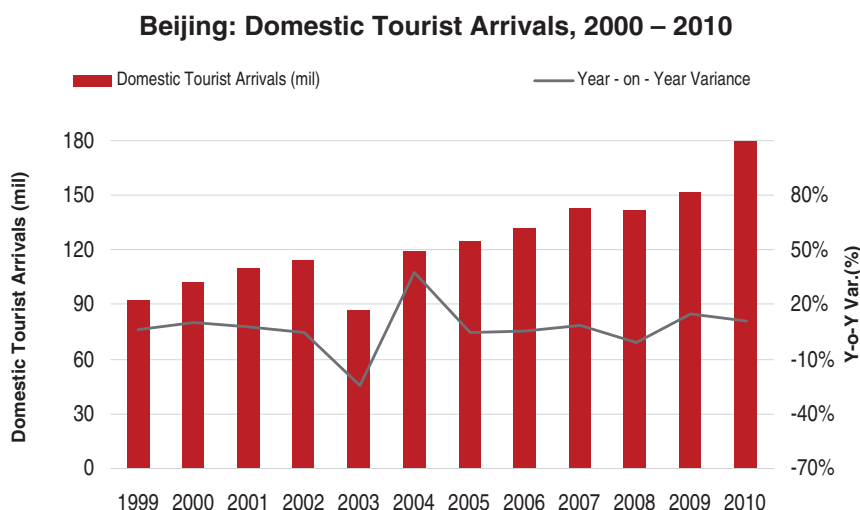
Source: Jones Lang LaSalle Hotels, Beijing Tourism Bureau

Domestic Tourist Arrivals

Domestic tourist arrivals after 2003 have grown steadily (an increase of approximately 6.3% in CAAC between 2004 and 2007) although at a slower pace than international tourist arrivals, which grew at a CAAC of approximately 11.3% in the same period. In 2007, domestic tourist arrivals reached 142 million. Contrary to international tourist arrivals, domestic tourist arrivals in 2008 were only marginally lower (approximately a decrease of 0.7%) than the year before.

Although domestic visitor arrivals to Beijing were also affected by travel restrictions in the lead up to and during the Olympic Games, they were more resilient to global events, including but not limited to the worldwide economic downturn. Domestic visitor arrivals saw a significant year-on-year increase in both 2009 and 2010.

The following graph shows the trend of domestic visitor arrivals to Beijing between 2000 and 2010.



Source: Beijing Tourism Bureau

Beijing: Change in Domestic Tourist Arrivals, 2010

	2010	Y-o-y Change (%)	Historical CAAC (2000 – 2010)
Total Number of Domestic Tourist Arrivals (million)	180	10.7%	+5.9% per annum

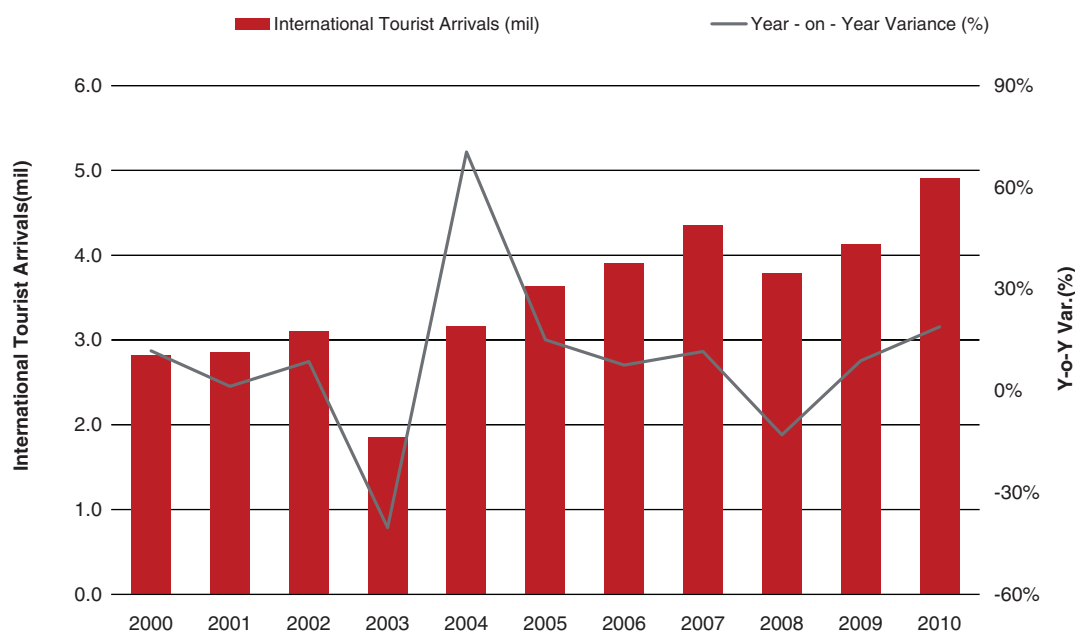
Source: Jones Lang LaSalle Hotels, Beijing Tourism Bureau

International Tourist Arrivals

With the exception of a significant drop in tourism demand in 2003 as a result of the outbreak of SARS, international arrivals to Beijing have grown steadily. Between 2004 and 2007, international visitor arrivals grew at an impressive double-digit rate of approximately 11.3% (CAAC), resulting in a record volume of approximately 4.4 million arrivals in 2007. In 2008, however, this dropped by approximately 13.0%. Tightened visa regulations in the lead up to and during the Olympic Games significantly limited the much anticipated international tourist flow to the city. Moreover, the global financial crisis and the consequently slowing economic development in the third and fourth quarter of 2008 put further constraint on tourist demand. As a result, international visitor arrivals in 2008 declined approximately 13.0%.

Despite the on-going impact of the weak global economy, international tourist arrivals to Beijing showed some signs of recovery by the end of 2009. With approximately 4.1 million arrivals, international travellers were up by approximately 8.8% over 2008. Although still lower than the record volume seen in 2007, international tourist arrivals in 2009 surpassed the number of arrivals in 2006 by almost approximately 5.7% thus indicating initial signs of an upswing. Recovery started to gain further momentum in 2010, as international tourist arrivals increased by approximately 18.8% over 2009 reaching a historic record of approximately 4.9 million.

As the following supporting graph shows, international tourist arrivals to Beijing have grown at a strong pace since 2000.

Beijing: International Tourist Arrivals, 2000 – 2010

Note: Includes arrivals from Hong Kong, Macao and Taiwan
Source: Beijing Tourism Bureau

Beijing: Change in International Visitor Arrivals, 2010

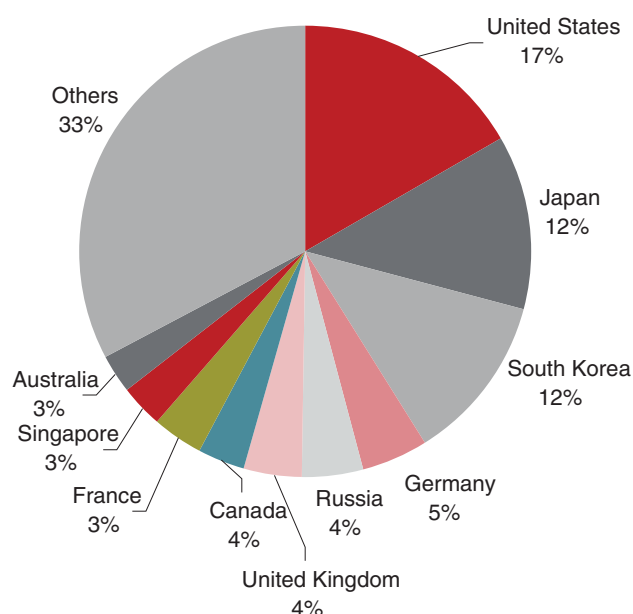
	2010	Y-o-y Change (%)	Historical CAAC (2000 – 2010)
Total Number of International Visitor Arrivals (million)	4.9	+18.8%	+5.7% per annum

Source: Jones Lang LaSalle Hotels, Beijing Tourism Bureau

Origin of Travelers

As in previous years, the United States led Japan and South Korea as the top source market in 2010, accounting for 16.6% of total foreign arrivals.

In 2009, although arrivals from Russia (a decrease of 16.6%), France (a decrease of 11.0%), the United Kingdom (a decrease of 7.2%) and Australia (a decrease of 5.9%) reported a strong drop over 2008 results, a healthy recovery was seen from some of the key Asian markets, such as Japan (an increase of 15.5%) and Singapore (an increase of 18.2%). In 2010, along with the stronger recovery, the numbers showed a more positive picture. Arrivals from the United Kingdom showed an annual growth of 2.9% while arrivals from all other top markets showed double-digit growth over 2009 levels.

Beijing: Top 10 Foreign Feeder Markets, 2010

Note: Not include arrivals from Hong Kong, Macao and Taiwan

Source: Jones Lang LaSalle Hotels, Beijing Tourism Bureau

Seasonality

As the supporting graph shows, the peak season for inbound travel to Beijing is between April and May and August through to October. January, February, November and December are the quieter months while March, June and July are shoulder periods.



Note: Include arrivals from Hong Kong, Macao and Taiwan
Source: Jones Lang LaSalle Hotels, Beijing Tourism Bureau

As evident from the graph above, 2008 was an exceptional year. Due to visa restrictions implemented early that year, international visitor arrivals started to decrease in April and reached a record low for the month of July compared to other years. Tourist numbers picked up during the Olympic Games in August although the month also ended up being weaker than in previous years. When the global financial crisis became a world-wide phenomenon in September 2008, international arrivals plummeted again with a slight increase in October facilitated by the generally stronger Meetings, Incentives, Conventions and Exhibitions (MICE) business.

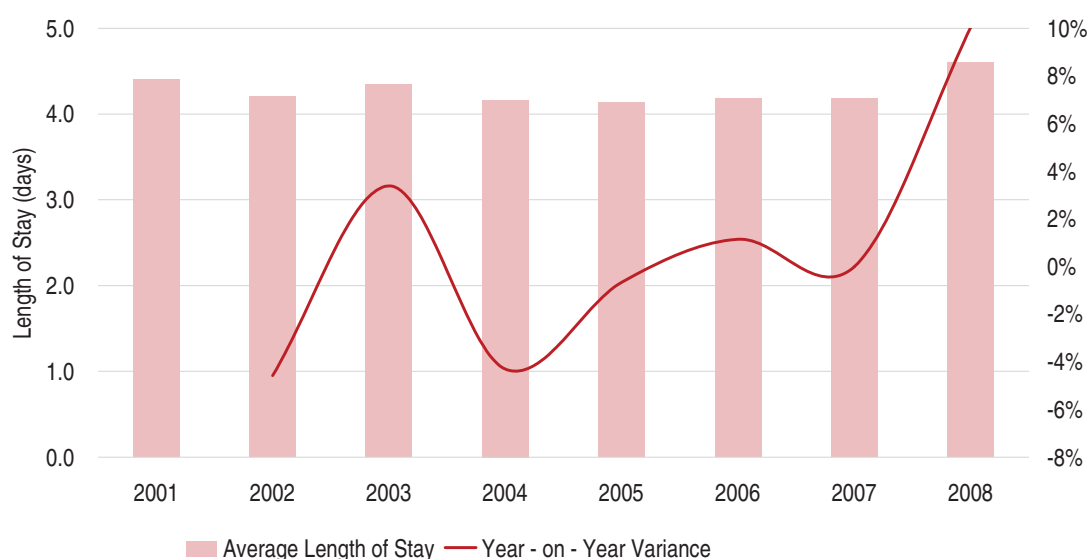
In 2009, Chinese New Year was relatively early. As such, the volume of international tourist arrivals was lower than in the first two months of 2008. Over the year, 2009 however reflected similar seasonality patterns to many (not 2008) years. The impact of the 60th anniversary celebrations of the founding of the People's Republic of China in October 2009 was observed to be relatively minor, indicating that this has been a predominantly domestic event.

In 2010, the impressive recovery of the international tourism market enabled the international tourist arrivals to follow the seasonality patterns of normal years such as in 2007. Growth of tourism arrivals over previous years' levels was particularly pronounced in the traditional high-season months, i.e. April, May, June and September.

Average Length of Stay

According to the latest statistical data (2008) published by the Beijing Tourism Bureau, the average length of stay of international travellers has fluctuated in a tight range of 4.1 and 4.6 days between 2001 and 2008. As shown in the supporting graph, the average length of stay has, after having dropped in 2004 and 2005 to its lowest level, increased again in 2006 and reached its record level of 4.6 in 2008. This was higher than Shanghai's 3.7 days. Based on anecdotal evidence, this is a result of the higher share of leisure travellers to Beijing, who tend to stay longer than corporate travelers.

Beijing: Average Length of Stay, 2001 – 2008



Source: Jones Lang LaSalle Hotels, Beijing Tourism Bureau

1.2 Beijing Tourism Demand Generators

Office Clusters

Commercial real estate development has been playing a pivotal role in shaping China's hotel markets. Availability of high-quality office space remains one of the key factors for location decisions of international corporations and increasingly, large domestic companies. Considering China's emerging shift towards the tertiary sector, of which the enterprises are typically office occupiers, office supply will become an increasingly important indicator of corporate lodging demand.

In brief, Beijing's office supply can be divided into six sub-markets with relevance for the hotel market, namely the Central Business District (CBD), East Second Ring Road, East Chang'an Avenue, the Third Embassy Area, Financial Street, Wangfujing and Zhongguancun Area. At the end of 2010, total stock of Grade A office supply in Beijing amounted to 5.4 million square metres.

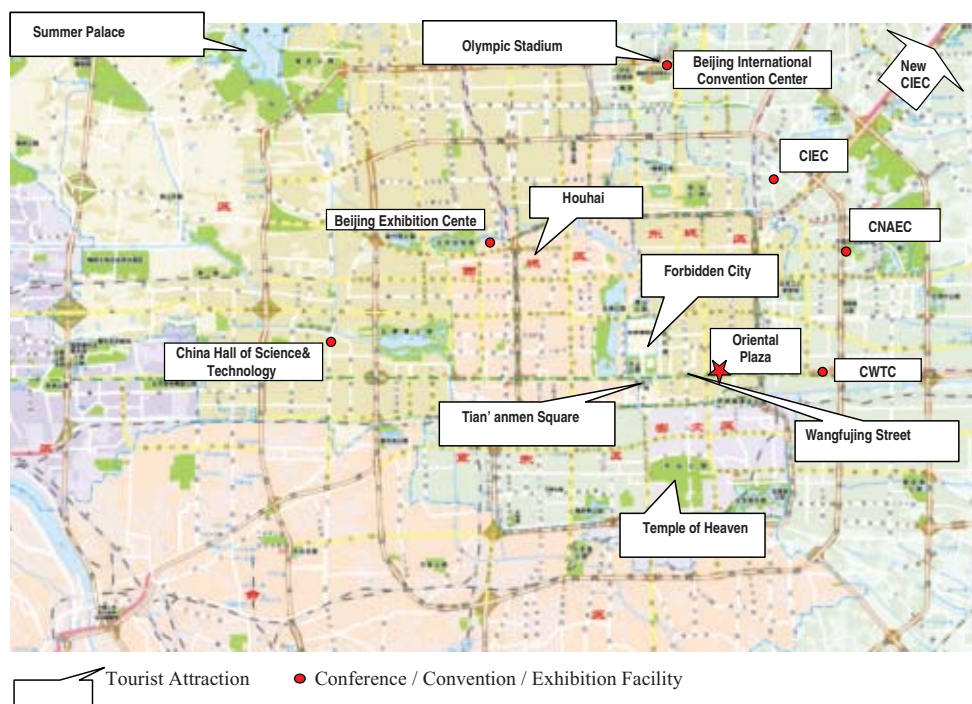
In addition to the aforementioned office markets, there are 28 major industrial parks in Beijing, including the three national level development areas namely Beijing Economic Technological Development Area, Zhongguancun Science Park and Beijing Tianzhu Processing Zone.

Meeting, Convention and Exhibition Facilities (MICE)

Beijing also represents an internationally recognised MICE destination, ranking first in the country in terms of meetings. Phase I of the city's largest exhibition facility, the New China International Exhibition Centre, opened in April 2008. The Centre features some 200,000 square metres of indoor exhibition space and around 1.0 million square metres of commercial facilities. The Centre has been and will continue to attract large-scale events of international reputation and generate hotel demand for the city.

The map below identifies the city's major conference, convention and exhibition facilities, as well as key tourist attractions.

Beijing: Key Conference, Convention and Exhibition Facilities and Key Tourist Attractions



Key: CIEC – China International Exhibition Centre
 New CIEC – New China International Exhibition Centre
 CNAEC – China National Agricultural Exhibition Centre
 CWTC – China World Trade Centre

Source: Jones Lang LaSalle Hotels

Key Tourist Attractions

As the capital of China for many centuries, Beijing offers a number of landmark monuments that are a “must see” when visiting China. Some of the most popular cultural and historical sites in and around Beijing are listed on the previous page.

As evident from the map above, key tourist destinations are clustered in Beijing's downtown area close to Tian'anmen Square. Leisure travellers to Beijing tend to exhibit a relatively high sensitivity with regards to location and prefer to choose their place of stay subject to its proximity to the tourist spots to be visited. Hence, hotels in downtown Beijing and particularly along Chang'an Avenue and in the Wangfujing area have historically reported a relatively higher share of leisure travellers than hotels in other parts of the city.

In preparation for the Olympic Games and as part of the 11th Five-Year Plan (2006 to 2010), a series of tourism projects were completed. Among those are the re-development of the Olympic venues into a modern leisure and entertainment park, the establishment of the Qianmen-Dashilan traditional commercial area and the development of the Shichahai cultural area. Furthermore, new landmark buildings, such as the National Centre of Performing Arts and CCTV headquarters, have gained world attention and are further evidence of Beijing's growing attractiveness.

Leisure travellers represent a key overnight demand generator in Beijing. They are not only attracted by the various and world-famous sights in and around the city but also choose Beijing a key starting point for tours around China.

Infrastructure

Driven by the 2008 Olympic Games, Beijing has undergone a considerable infrastructural facelift. With the development of a new airport terminal, four new subway lines, new expressways and additional road connections between the six concentric ring roads, accessibility to and within the city has been enhanced considerably.

Roads

Ostensibly to accommodate passenger traffic during the Olympics, the Beijing Municipal Government almost tripled the length of its expressway network. This included additional ring roads and expressways with the goal to link “every town with a population greater than 50,000” with downtown Beijing.

The capital currently has national highways linking to Zhuhai, Shenzhen, Shenyang, Harbin, Guangzhou and Kunming. In addition, the city also has more than 13,000 kilometres of local highways linking its rural towns and villages in the suburbs. The city’s highway development plan aims at building expressways to connect all key towns in the countryside on the outskirts of the city by 2010.

The Beijing Municipal Government has also made significant investments in the development of its road system, which now consists of a web of concentric ring roads with major spokes radiating from the centre of the city.

Rail

As the national capital, Beijing is one of the largest railway hubs in China. Major trunk railway lines run between Beijing-Kowloon (Hong Kong), Beijing-Guangzhou, Beijing-Shanghai, and Beijing-Harbin. Beijing has three major rail stations: Beijing Station, Beijing West Station and Beijing South Station. Freight stations are located outside of Beijing proper and include Shuangqiao, Huairou, Shijingshan, Fengtai, and Sanjiadian stations.

Significant investments were devoted to road and railway improvements in the lead up to the Beijing Olympic Games. One of the key projects is the high-speed rail link connecting Shanghai and Beijing. With the completion of 1,318 kilometres of railway by 2013, rail travel time between China’s two major cities will be more than halved from twelve hours to under five. The project is the biggest investment in the nation’s medium and long-term railway development plan and is estimated to require around RMB 200 billion (nearly USD 30 billion) in funds.

Metro System

Beijing’s first metro line started operations in 1969, making Beijing the first city in China to feature an underground transportation system. Currently, there are several metro lines in operation, including No. 1, 2, 5, 10, 13, Batong Line and the Airport Express. Its 198 kilometres of railway is estimated to serve more than 1.5 million commuters every day.

According to Beijing Metro Transport Construction Management Company, Beijing’s total mileage of metro lines is supposed to reach 561 kilometres by 2015. Lengthwise, the capital’s metro system is targeted to overtake the systems in London, Paris and Madrid with an ambitious goal of 19 lines by 2015.

Governmental plans unveiled in 2007 stated the creation of a network with three circular, four horizontal, five vertical and seven radial lines. Upon completion by 2015, the city is expected to benefit from an even denser network in the centre and also improved connections to the suburbs.

Air Transport

There are two airports in Beijing, namely Beijing Nanyuan Airport and Beijing Capital International Airport ("BCIA").

Beijing Nanyuan Airport was converted to a civilian and military airport from a purely military airport in the 1990s. The airport serves domestic flights only. Since the completion of its expansion in 2007, it is capable of handling some 600,000 passengers per year.

BCIA is located approximately 27 kilometres northeast of Beijing. The airport experienced three extension phases in the last decade, including the opening of Terminal 2 in 1999, the opening of Terminal 1 in 2003 and the opening of Terminal 3 in 2008. Terminal 1 covers an area of 60,000 square metres and is designed to serve 60 flights daily and 1,500 passengers per peak hour. Terminal 2 covers an area of 336,000 square metres and is equipped with modern facilities to handle 26.5 million passengers per annum or approximately 9,200 passengers per peak hour. When the newly-opened Terminal 3 opened, it was the largest roofed building terminal in the world. Its opening prior to the Olympic Games in 2008 gave BCIA the ability to handle 78 million passengers and 1.8 million tons of freight per annum.

As the main international passage to China, BCIA currently services 20 domestic and 58 international airline companies. As at the end of 2010, there were 214 destinations flying out of BCIA, including 118 domestic and 96 international destinations.

The graph below shows the steady development of passenger volume at BCIA between 2000 and 2010.



Source: Jones Lang LaSalle Hotels, Beijing Capital International Airport Co. Ltd.

Following a slight reduction in 2003, the year when SARS broke out, passenger numbers grew at an impressive CAAC of 13.4% between 2004 and 2009. In 2010, the airport reported a passenger volume of 73.9 million, a 13.1% increase over 2009 levels. As such, the airport ranked second in the world in terms of passenger throughput.

According to the latest data available, in 2009 domestic flights amounted to around 392,700, accounting for 80.4% of total flights. International flights, including to/from Hong Kong and Macao, reached 95,800 or 19.6% of total flights.

It is widely anticipated that BCIA will overtake Tokyo International Airport to become the busiest airport in Asia by 2020. By then, BCIA is expected to catch up with the world's leading airports of Atlanta International Airport and Chicago International Airport in terms of number of total flights.

The Civil Aviation Administration of China has also announced that construction of what will be Beijing's third airport will begin shortly after 2010. This third airport is supposed to be devoted to domestic flights and it would appear that the capital region's airport infrastructure will be developed in a manner similar to the Pudong-Hongqiao model in Shanghai, whereby the former handles international flights and the latter mostly domestic ones. The new airport is likely to be located in Beijing's southern Daxing District. The National Development and Reform Commission (NDRC) brought up the potential need for a second airport in Beijing in 2003 when it approved the expansion of the current capital airport, citing strong increases in demand for air travel as the rationale for the construction of a third, domestic airport. A complete feasibility study for this project has yet to be released though passenger flow data for the existing airports speak of the underlying demand.

Although China's capital has developed into an international aviation hub, BCIA's cargo capacity is only half that of Shanghai's and will be smaller than Baiyun Airport in Guangzhou once it reaches its full capacity. However, along with the development of Beijing's neighbouring city, Tianjin, the Tianjin Binhai International Airport is currently being expanded with the aim to turn the city into the most important air cargo transportation and distribution hub in Northeast Asia.

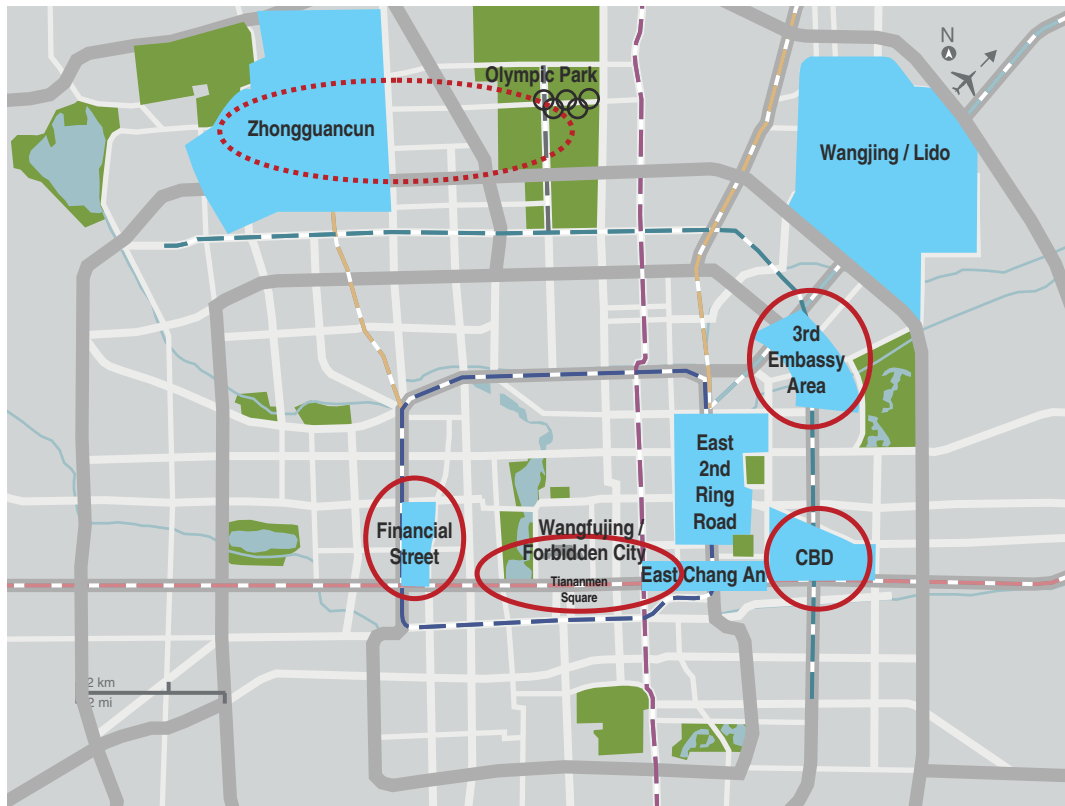
Ports

Beijing is not a port city, although there are three ports on its periphery that handle the majority of its ocean freight. The first, Tianjin (140 kilometres away), is a major cargo and crude oil hub for northern China. The second, Qinhuangdao Port (340 kilometres away), is primarily a cargo facility, and the third, Jingtang Port (230 kilometres away), is currently under construction but promises to be the deepest water port in the area. These facilities are accessible from Beijing via the Beijing-Shenyang and Beijing-Tianjin-Tanggu expressways.

1.3 Beijing Hotel Market Overview

The majority of Beijing's internationally branded five-star hotels are located in the centre and east of the city. The city's hotel market loosely follows office sub-markets, but more concentrated in the following areas: (1) Dongcheng (including Wangfujing and East Chang'an Avenue), (2) CBD, (3) Xicheng and Financial Street, (4) Liangmaqiao (including the Second and Third Embassy Areas and along North-Eastern Third Ring Road), and (5) Northern and Zhongguancun Area. In addition to these sub-markets, additional ones are taking shape as Beijing continues to expand. However, these new sub-markets remain small, from both supply and demand perspectives.

Major Hotel Submarkets in Beijing



Source: Jones Lang LaSalle Hotels

Located near the centre of Beijing is **Dongcheng**, a district representing the political and historical centre of the city. It is home to Tiananmen Square and the Forbidden City. Traditionally more leisure and government oriented, the development of Oriental Plaza by Hong Kong property tycoon Li Ka-Shing has rejuvenated the Dongcheng area and added a significant amount of Grade A office space to the area. Within Dongcheng, the office market of East Chang'an Avenue (which runs from Tiananmen Square to the western edge of the CBD) consists of a number of for-lease office buildings (a prominent one being Oriental Plaza) scattered between government offices and well-established five-star hotels. The occupied offices and related businesses have been the basis of corporate hotel demand in the area. Dongcheng district also features prominent retail malls of Wangfujing, Oriental Plaza and the boutiques in the Peninsula Palace Hotel. Hotel demand for lodging in this area has traditionally been more leisure-oriented and is thus more exposed to seasonality and rate sensitivity than properties in the CBD. The hotel RevPAR (revenue per available room) leader in Dongcheng has been Grand Hyatt Beijing, an integrated part of the Oriental Plaza mixed-use project.

East of Dongcheng/Wangfujing is Beijing's Central Business District (**CBD**), which is a government demarcated area that stretches from Dong Da Qiao in the West to Xi Da Wang Road in the East and from Guang Dong Dian Bei Street and Chaoyang Road in the North to Tonghui River in the South. As the city's district with the highest concentration of international Grade A office buildings including the China World Trade Centre, Kerry Centre, Fortune Plaza, Yin Tai Centre and China Central Place, the CBD is home to a large number of multinational corporations. Demand for lodging in the CBD is hence predominantly commercial, and as a function of the area's corporate occupier profile, primarily high-end.

Extending to the West from Tiananmen Square and Dongcheng is **Xicheng** district, with its Xidan retail area and Financial Street. In the past, it has upheld a more domestic profile in contrast to the

more international CBD and Liangmaqiao markets. For domestic corporate and institutional occupiers of the financial, insurance and real estate sector, Xicheng has traditionally been the preferred office location. Hence, demand for transient accommodation has historically been largely corporate with higher price sensitivity than in the international areas in the East. Nevertheless, the lodging market has seen an increase of high-end demand and greater product diversification with international hotels such as the InterContinental Beijing Financial Street, the Ritz-Carlton Financial Street, and the Westin Beijing Financial Street opening.

To the north of Beijing, there are two additional hotel sub-markets, namely the **Liangmaqiao and the Northern Area**. Liangmaqiao is located around the North-Eastern Third Ring Road, leading from the Changhong Bridge to the Airport Expressway. The area is adjacent to the Second and Third Embassy Area and hosts a number of office developments, which are slightly lower positioned and more dispersed than their counterparts in the CBD, constitute the key lodging demand generators of this area. The Liangmaqiao area also benefits from its proximity to a number of secondary sources of transient and meetings demand such as the National Agriculture Exhibition Centre and the China International Exhibition Centre.

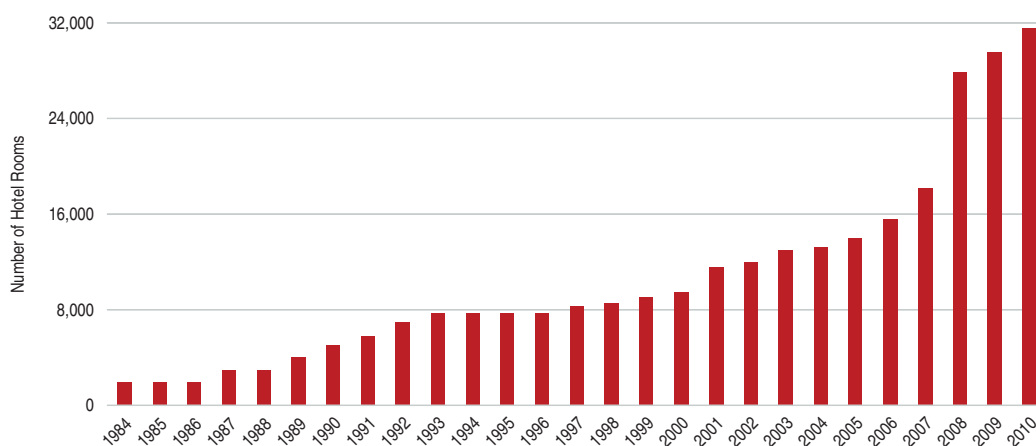
The **Northern Area** stretches from Zhongguancun, also termed Beijing's Silicon Valley, to the Asian Games Village and the Olympic Green. In the vicinity of Beijing's major universities, the area primarily accommodates research and development (R&D) facilities, science and technology parks as well as a number of domestic petrol and mining corporations along the northern 2nd and 3rd ring roads. While the Northern Area has historically lagged behind in development, it has clearly benefited from its proximity to the universities' intellectual capital and also has more recently started to attract an increasing amount of commercial investment resulting from a gradual upgrading of office stock. Lodging demand nevertheless remains primarily domestic, mid-market and geographically dispersed across the area.

In addition to a strong economy building on Beijing's political status and the existence of the headquarters of many state-owned enterprises and financial institutions, the city is arguably the most important tourist destination in China for both domestic and overseas visitors. Beijing also hosts the most international association meetings in China, and is the second largest MICE market in the country. As such, Beijing hotels enjoy multi-faceted sources of demand. The exposure and significance of Beijing has in the past attracted many international and domestic hotel operators to establish a presence in the city.

Despite the recent turmoil in the world's financial markets and the subsequent tightened financial environment, a number of stimulus measures launched by the central and municipal governments in 2009 have helped to support hotel development and construction work in Beijing. The deferral on land payments by developers (Beijing specific), as well as the central government's recent approval for domestic insurance companies to invest in real estate are examples of some of the measures that will have an impact on future supply.

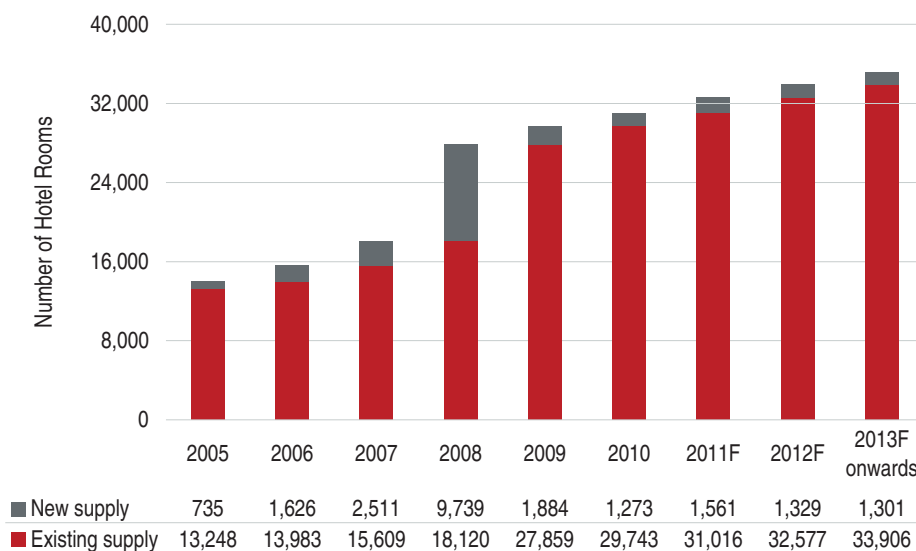
1.4 Beijing High-end Hotel Supply

The first internationally-branded, five-star hotel to open in Beijing was the Beijing Great Wall Sheraton hotel located in the present-day Third Embassy Area. Since then, a number of internationally-branded hotels, including the China World Hotel Beijing and Hilton Beijing hotel have opened and largely cater to the growing market of inbound visitors to Beijing. When the Grand Hyatt Beijing opened in 2001, it was the largest five-star hotel in Beijing, which along with the Tower Offices, the Tower Apartments and the mall at Oriental Plaza, has created one of the iconic-developments in Beijing. The Grand Hyatt Beijing was the largest internationally-branded hotel in Beijing (in terms of room count) until the Beijing Marriott City Wall opened in 2008.

Beijing: Hotel Supply – A Historical Perspective

Source: Jones Lang LaSalle Hotels

As of end-December 2009, Beijing offered 757 star-rated hotels based on statistics published by the Beijing Tourism Administration. The graph above charts the growth of number of rooms provided by internationally branded four-and five-star hotels in Beijing.

Growth of Number of Rooms Provided by High-end Internationally Branded Hotels in Beijing*

* As at December 2010; Source: Jones Lang LaSalle Hotels

Between 2005 and 2009 Beijing's internationally branded hotel supply grew at a CAAC of 20.8%, increasing from 13,983 rooms to 29,743 rooms at the end of 2009. 2008, the year of the Olympic Games, saw the most substantial increase in new supply with close to 10,000 guest rooms being added to Beijing's internationally branded high-end hotel room stock.

In 2009 and 2010, a total of 3,157 rooms of internationally branded high-end hotels entered the Beijing market. A minimum amount of 4,191 new guest rooms are expected to be introduced in 2011 and beyond.

APPENDIX VII
**LETTER FROM JLL IN RELATION TO SERVICED APARTMENT
PROPERTY MARKET AND HOTEL INDUSTRY IN BEIJING**

The following tables set out the developments completed in 2009 and 2010 and the anticipated pipeline of hotel supply by the end of 2014:

	Properties Opened in 2009 and 2010	District	Room Count
1	Ariva Beijing West Hotel (Rebranding)	Haidian — Zhongguancun	318
2	Beijing Marriott Hotel Northeast	Chaoyang — Xiaoyun Road	321
3	Holiday Inn Beijing Moon River	Tongzhou	139
4	Holiday Inn Beijing Deshengmen	Xicheng	309
5	Park Plaza Beijing West	Haidian — Near Olympic venue	263
6	Pullman Beijing West Wanda	Shijinshan	312
7	Fairmont Beijing	Chaoyang — CBD	222
8	Hilton Beijing Capital Airport	Chaoyang — CBD	323
9	Holiday Inn Beijing Focus Square	Chaoyang — Wangjing	296
10	Langham Place Beijing Capital Airport Hotel	Chaoyang — Beijing Capital International Airport Terminal Three	376
11	China World Hotel Summit Wing	Chaoyang — CBD	278
		Sub-Total	3,157

	Properties Planned to Open in 2011	District	Room Count
1	Crowne Plaza Beijing Chaoyang U-Town	Chaoyang — Chaoyangmen	360
2	The Diaoyutai Art Hotel	Dongcheng — Lama Temple	103
3	Langham Place Hotel	Chaoyang — Chaoyangmen	422
4	Eclat Hotel	Chaoyang — Dongdaqiao Road	100
5	Guoman Hotel Beijing	Dongcheng — Dongzhimen	TBC
6	Sheraton Beijing Dongcheng Hotel	Chaoyang — North Third Ring	470
7	Taj Hotel Temple of Heaven Park	Chongwen — Temple of Heaven	106
		Sub-Total	1,561+

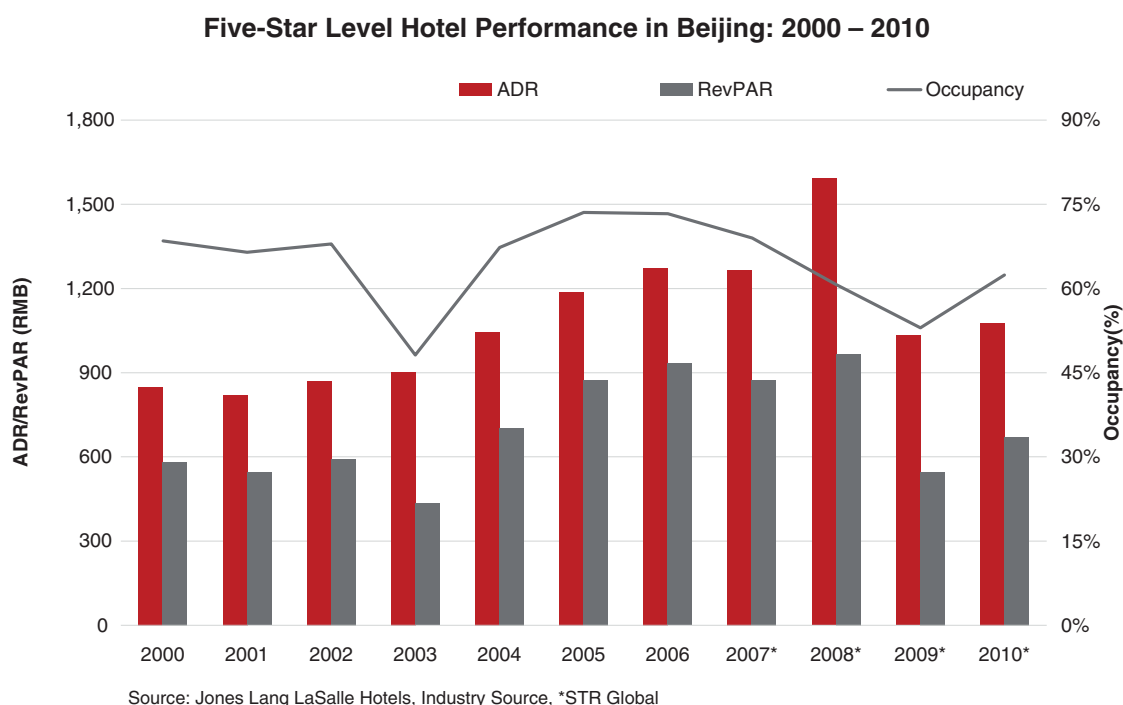
	Properties Planned to Open from 2012 onwards	District	Room Count
1	Four Seasons Beijing	Chaoyang — East 3rd Ring Road	320
2	Beijing EAST	Chaoyang — Jiang Tai	369
3	Conrad Beijing	Chaoyang — CBD	300
4	Jingguang New World hotel project (Rebranding)	Chaoyang — CBD	TBC
5	New World Hotel Beijing Chongwenmen	Chongwen — Chongwenmen	340
6	Boutique Hotel Project	Dongcheng — Wangfujing	TBC
7	InterContinental Beijing City Centre	Chaoyang — Sanlitun	320
8	Mandarin Oriental	Chaoyang — CBD	241
9	Waldorf Astoria Beijing	Dongcheng — Wangfujing	175
10	Four Seasons Beijing, Financial Street	Xicheng-Financial Street	225
11	W Beijing	Chaoyang — Chang'an Avenue	340
12	Hotel Nuo	Chaoyang — East 4rd Ring Road	TBC
		Sub-Total	2,630+

TBC: To be confirmed

Source: Jones Lang LaSalle Hotels, Industry Sources, December 2010

1.5 Beijing Five-Star Hotel Performance

The following chart illustrates the performance of five-star level hotels in Beijing. The sample comprises a total of 11,692 rooms in 2010.



Following a strong decline in occupancy in 2003, both Average Daily Rate (ADR⁵) and occupancy⁶ quickly recovered and grew at a compound annual average change of approximately 12.2% and approximately 15.0% between 2003 and 2006, respectively. Revenue per Available Room⁷ (RevPAR), as a consequence, increased at a compound annual average change approximately 29.1% during the same period and reached a record level of approximately RMB 934 in 2006.

With the opening of new hotels and consequently heightened competition, occupancy started to show the first sign of pressure in 2007, dropping by approximately 5.4 percentage points over the previous year. This trend continued in 2008 (despite the Olympics) and into 2009 as a result of new supply and the global financial crisis. The occupancy rate in 2009 reached a low point of approximately 53.0%.

Much of the growth in ADR in 2008 can be attributed to the Olympic Games and the premium rates achieved during the summer months. However, when excluding the Olympic impact in the month of August (where ADR increased approximately 248.0% over 2007), year-end ADR and RevPAR results in 2008 recorded a decline as compared to 2007.

Strong competition caused by an influx of new supply entered the market prior to and around the Olympics and reduced travel and travel budgets as a result of the global financial crisis have put pressure on Beijing's five-star hotel performance in 2009. The market achieved a full year occupancy

5 ADR — can be calculated as Rooms Revenue / Paid Rooms Occupied.

6 Occupancy — can be calculated as Rooms in Use / Rooms Available.

7 RevPAR — can be calculated as Total Rooms Revenues / Rooms Available for Sale.

of 53.0%, room rates in the order of RMB1,032 and a RevPAR of RMB547. A strong decline in both ADR (a decrease of approximately 18.6%) and occupancy (a decrease of approximately 16.0 percentage points) resulted in a severe drop in RevPAR of 37.5% over the same period in 2007⁸.

After two years of performance decline, the Beijing hotel market finally saw an upswing in performance in 2010. With a moderate amount of hotel openings and impressive growth in international tourism arrivals (an increase of approximately 18.8%), the occupancy rate for the Beijing five-star hotel market witnessed a pronounced increase that started in January of 2010 and reached 62.4% by the end of the year. Continuous improvement in occupancy has provided hoteliers much confidence in more aggressive pricing strategies, which translated into room rate increases in the last two quarters of the year. With the benefit of occupancy and rate growth of 9.4 percentage points and 4.4% respectively, Revenue per Available Room (RevPAR) for Beijing's five-star hotels increased a solid 22.8% in 2010.

Grand Hyatt Beijing Performance

Irrespective of the recent challenging macro-environment, the Grand Hyatt Beijing has been able to minimise the impact on its performance. Hotel performance has rebounded ahead of the market once overall conditions started to improve. Despite market conditions, the hotel has been able to maintain a leading position in the market, suggesting management's capability to adjust to market conditions and maintain the hotel's competitiveness against new and existing hotel supply.

Grand Hyatt Beijing's location, adjacent to the well-known Wangfujing shopping district and part of a 800,000 square-metre mixed use complex including Grade A offices, serviced apartments and retail has allowed the hotel to capture a significant amount of corporate business and a balance of MICE and leisure demand. The large portion of high-end corporate business also contributes to the hotel's ability to achieve high room rates.

According to Grand Hyatt Beijing, the hotel's competitive set includes the Peninsula Beijing, the China World Hotel, the Kerry Centre Hotel, Westin Beijing Financial Street and Regent Hotel Beijing, a total of 2,714 rooms. Against this competitive set and Beijing's five-star hotels, Grand Hyatt Beijing has consistently achieved a leading position in average room rate, occupancy and RevPAR. Between 2007 and 2010⁹, Grand Hyatt Beijing has impressed with monthly RevPAR premiums ranging from RMB 280 to RMB 580 against its competitive set.

Since its opening, Grand Hyatt Beijing has achieved numerous prestigious awards, which also include many food and beverage recognitions, distinctions which are not easily achieved by hotel restaurants. For instance, the hotel's restaurant, Made in China, has become a well-known restaurant in Beijing including being named amongst the Best 50 Restaurants in China by Food & Wine (Chinese version) in 2010.

Further, Grand Hyatt Beijing's location and integration with mixed-use components of Oriental Plaza has allowed the hotel to cater to a balanced mix of corporate, MICE and other leisure demand. This not only enables the hotel to maximise its capture of hotel demand, but also allows it to hedge against seasonality and low demand in any of the sectors.

1.6 Hotel Market Trend and Outlook

2009 was a challenging year for hotels in China in general and particularly for Beijing. Following the entry of over 10,000 hotel rooms during the Olympic year, the prevailing global financial crisis caused a worldwide decline in travel demand and resulted in curtailed travel budgets, particularly affecting demand for high-end hotels. Challenging conditions from both the demand and supply side created significant pressure on occupancy and room rate among Beijing's hotels.

⁸ With the Olympic Games having an extraordinary, one-time effect on ADR, 2008 is not a suitable basis for comparison. Therefore, we have made reference to performance in 2009 over 2007.

⁹ According to STR reports provided by Grand Hyatt Beijing.

2010 was a much better year with occupancy improving markedly. On the other hand, this recovery was largely from an occupancy perspective with room rates recovering to a relatively lesser extent. It is not uncommon for hotel operators to be cautious in increasing rates until occupancy levels experience more consistent improvements and for rates to not increase “real-time” due to a time lapse in pre-committed contracts. Therefore, as mentioned earlier, hoteliers shifted to more aggressive pricing strategies only in the last two quarters of 2010 while occupancy had started to increase already in January.

In light of historical performance, the short to medium outlook of the market appears to be positive for hotels in Beijing:

- The city’s economic fundamentals remain sound. Beijing’s position as the political centre of China will be the foundation for growth of the city’s headquarter economy. By 2012, Beijing is expected to provide more than six million square metres of Grade A office space and rank second in the country after Shanghai in terms of supply. The take up of new office space in Beijing is also expected to correspond to an increase in corporate hotel demand in the future. Availability of high-quality office space, rapid growth of suburban development zone and business park locations and government incentives for the establishment of domestic or regional headquarters in Beijing are all reflective of the government’s efforts to attract businesses to Beijing and expedite the city’s economic growth. The continued growth of Beijing’s corporate community should bring a commensurate increase in corporate travel and be one of the most important growth drivers for lodging demand in the medium and long-term.
- The presence of government institutions, the city’s cultural appeal as a tourism destination as well as the availability of world-class facilities and infrastructure have started to foster the emergence of a steadily growing MICE sector and, accordingly, hotel demand. Beijing has enjoyed significant appeal to the international community of meeting planners and is likely to see strong growth in the MICE travel and hotel demand in the near future.
- Beijing’s corporate, leisure, MICE and government-related lodging demand has evolved to create a diversified mix of segments which not only complement each other with regard to their seasonal occurrence, but also create a demand environment that enjoys significant resilience.
- Recent performance trends in 2010 indicate that the market has seen solid recovery in tourism demand and subsequently hotel occupancy. Room rates, albeit slightly later, have also started to grow with the 2010 ADR of five-star hotels increasing by 4.4% over 2009. Against the backdrop of an optimistic demand growth scenario as the world economy gradually strides towards recovery and moderate new supply levels in the near future, there are reasons to believe that room rate growth across Beijing’s four-and five-star markets will resume growth in 2011.

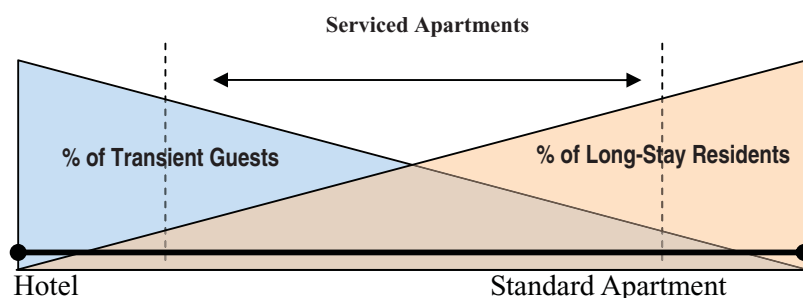
2.0 Beijing Serviced Apartment Market Study

2.1 Definition of Serviced Apartment

Serviced apartments are a property hybrid located on a continuum between hotels and residential apartments. Both products are differentiated primarily by the duration of stay, which is reflected in a properties’ facility offering. Hotels traditionally cater to temporary and shorter-term lodging needs, while apartments provide long-term accommodation.

Serviced apartment properties generally take a fluid positioning on the residential-hotel continuum and owners and managers can adjust this position in response to the performance of either market. For real estate investors, this flexibility can be helpful to mitigate risks and acts as a natural hedge against the volatility and cyclical nature of both the residential and hotel markets.

THE HOTEL – APARTMENT CONTINUUM



Source: Jones Lang LaSalle Hotels

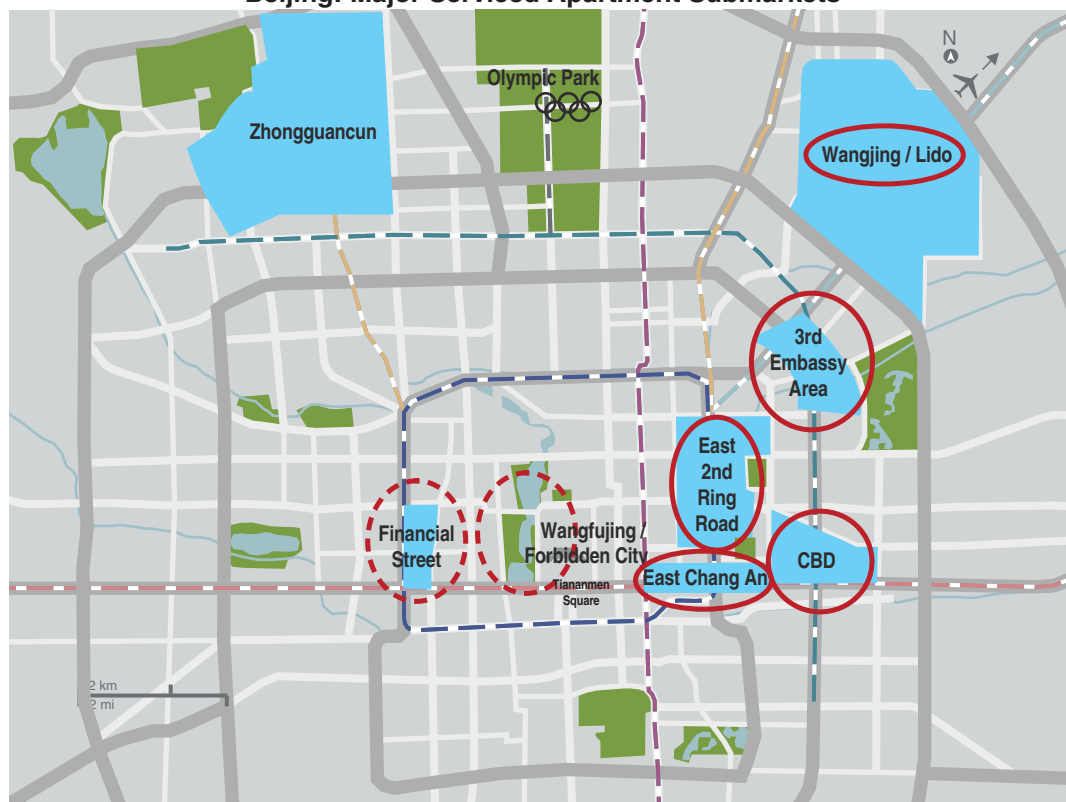
Whilst there is no official definition of the serviced apartment product in Beijing, for the purpose of this document, the definition is understood to be:

Resident profile:	Apartment properties accepting short, medium and long term stay
Positioning:	Properties catering to high-end, international market
Service package:	Properties offering housekeeping services as a standard part of the service package
Ownership structure:	Properties owned by majority shareholders en-bloc
Operators:	Properties operated by developers, serviced apartment operators or hotel operators

2.2 Beijing Serviced Apartment Supply

Geographical Distribution of Supply and Submarkets

Beijing: Major Serviced Apartment Submarkets

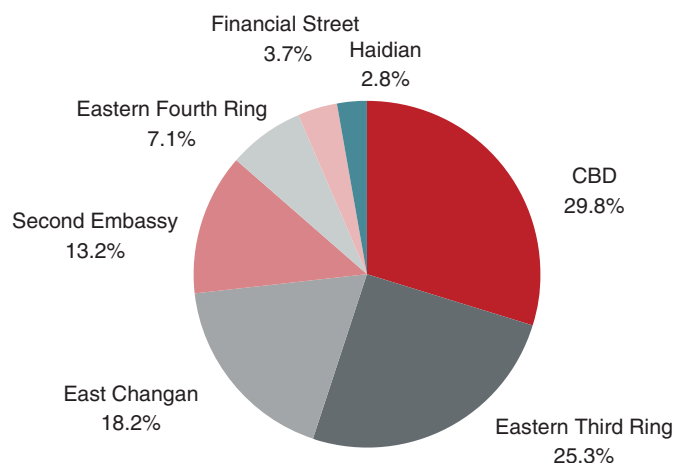


Source: Jones Lang LaSalle Hotels

The majority of serviced apartment supply in Beijing is concentrated in the key commercial districts of East Chang'an Avenue (including Wangfujing), Third Embassy Area and the CBD. Less commercially focused locations such as the Second Embassy Area/East Second Ring Road and the East Fourth Ring Road have also become home to serviced apartment development given their easy access to the key international commercial districts highlighted above. With increased foreign enterprises now located in emergent areas such as Haidian and Financial Street (in the west), these areas have also witnessed new supply of serviced apartments.

The chart below illustrates the geographical distribution of key serviced apartment supply in Beijing as of December 2010. East Chang'an Avenue/Wangfujing area makes up 18.2% of the total supply in Beijing and within this set, The Tower Apartments at Oriental Plaza contributed 613 units, making it the largest serviced apartment not only in this sub-market but also the largest in the Beijing market.

Geographic Distribution of Beijing Serviced Apartment Stock



Source: Jones Lang LaSalle Hotels, Industry Source

Existing Supply

In general, the development of serviced apartment supply in Beijing can be classified into three major phases:

Phase I

The late 1980's and early 1990's saw the first wave of serviced apartments enter the Beijing market. They were located primarily in Beijing's North-East and East, along the East Third Ring Road. CAAC of supply over the four-year period between 1989 and 1993 amounted to 26.8%.

Phase II

The second generation of serviced apartment development coincided with the emergence of the CBD and the redevelopment of new offices in the Wangfujing district in the late 1990's/early 2000's, including the opening of the Oriental Plaza mixed-use complex in 2002 with its 613-units of serviced apartments. CAAC of supply over the five-year period between 1998 and 2003 was 20.8%.

The segregation of domestic and foreign approved residences was lifted by the Beijing Municipal Bureau for Land Resources and Housing Management on 1 September 2002. The impact of this change has allowed the upper end of the domestic housing market to start merging with the lower end of the previously foreign-approved market. As a result of this effective convergence of existing supply, supply growth was relatively limited during 2003 – 2005, recording a CAAC of only 3.6%.

The consequences of the deregulation on the market took one to two years to become material. The result was a strong supply growth at the lower end of the previously foreign-approved market attracted by the prospects of a continuously growing Chinese upper class and increasingly budget conscious multinational corporate tenants. In the early years following deregulation, serviced apartments saw more intense competition for long-stay demand and operators responded to this by partially re-defining their business mix, accepting a higher proportion of transient and mid-term residents.

Phase III

The continuous growth of Beijing's economy and foreign investment in particular led to another wave of new serviced apartment developments in the capital city between 2007 and 2008. The 2008 Olympics and the preceding construction moratorium created a concentration of new supply entering the market during this period.

Properties which opened in 2008 include Lanson Place, Shama Luxe Chang'an and Fraser Suites CBD. By the end of 2008, Beijing's serviced apartment inventory totaled approximately 4,976 units. Supply growth between 2006 and 2008 reached a CAAC of 20.6%.

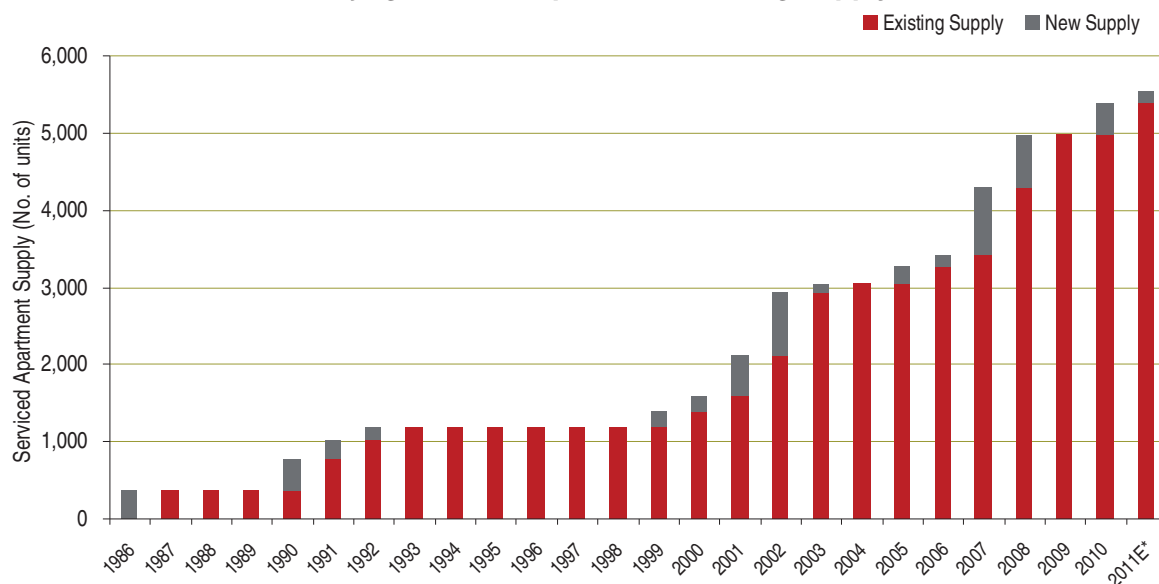
In 2009, two major factors caused a general decline in Beijing's serviced apartment market occupancy and rental rates: the global financial crisis caused many multinational companies to reduce expatriate staff in China and/or lower housing budgets; this, coupled with a significant amount of new supply in hotels and non-serviced apartments opening prior to and in 2009, resulted in downward pressure on serviced apartments' performance.

It is interesting to note that in 2009, while there were new serviced apartments that entered the market, including Ascott Raffles City, Millennium Residences, and Sandalwood Beijing Marriott Executive Apartments, a few owners also decided to strata-title and sell their properties as the residential market received a boost due to government's stimulus policies. Properties that were converted from serviced apartments to strata-title sold units included Shama Luxe Chang'an, Marriott Executive Apartments and Oakwood Residence (east third ring road). As a result, the net increase of new supply serviced apartments was only 10 units and the total stock stood at 4,986 units by the end of 2009.

In 2010, the new additions to supply remained limited. With the 407-unit Oakwood Residence Dongzhimen being the only new property, the total stock of serviced apartments achieved 5,393 units by the end of 2010.

The chart below illustrates the historical and projected supply of key serviced apartment projects in Beijing.

Beijing Serviced Apartment Existing Supply



Source: Jones Lang LaSalle Hotels, Industry Source

Future Supply

Many international serviced apartment and hotel operators have already established their presences in Beijing and, in order for them to further capture market share, many are introducing new brands of varying tiers to the market. This trend will result in further segmentation of the market. For example Frasers Hospitality opened Fraser Residences CBD East in 2007, followed by Fraser Suites CBD in 2008 and Fraser Place is expected to open in 2011. While these three properties are managed by Fraser, each brand offers a different product and price point.

In 2010, the only new supply of serviced apartments in Beijing was a 407-unit Oakwood Residence located in Dongzhimenwai Xiejie. An additional property, Fraser Place, is expected to have 150 units and to open in 2011. No new supply is expected to open in the Wangfujing area before 2012.

The table below details recently opened projects and planned supply in the pipeline.

Properties Opened in 2009 and 2010

	District	Units
Ascott Raffles City	2nd Embassy	162
Millennium Residences	CBD	329
The Sandalwood Beijing Marriott Executive Apartment	Eastern Fourth Ring	168
Oakwood Residence Dongzhimen	Chaoyang — Second Embassy	407
	Sub-Total	1,066

Properties Planned to Open in 2011

	District	Units
Fraser Place	Chaoyang — Sanyuan Bridge	150
	Sub-Total	150

Source: Jones Lang LaSalle Hotels, Industry Sources (December 2010)

2.3 Beijing Serviced Apartment Demand Characteristics

Demand characteristics for serviced apartments in Beijing can be inferred from the most recent survey conducted in April 2010 amongst 2,800 units of key serviced apartments in the city. The survey results generally reflect the demand characteristics of 2009. It should be noted that while the survey included nearly half (46%) of the serviced apartment stock in Beijing, the results only present general trends and observations of the sample taken at a specific time. The results of the survey should only be used as a reference of demand characteristics instead of an all-encompassing or absolute representation of the market.

Length of Stay

Based on the length of stay, serviced apartments in Beijing generally capture three main types of demand, namely long-term, medium-term and short-term/transient. The tables below summarises the key characteristics of these three types of demand.

Type	Short-term / transient	Medium-term	Long-term
Length of Stay	Below 1 month	1 – 6 months	Above 6 months
Purpose of Travel	<ul style="list-style-type: none"> • Business • Leisure 	<ul style="list-style-type: none"> • Project-related • Transition period during housing search before moving into residential property 	<ul style="list-style-type: none"> • Relocation
Household Size	<ul style="list-style-type: none"> • Single • Family (leisure) 	<ul style="list-style-type: none"> • Single 	<ul style="list-style-type: none"> • Single/Couple • Family
Selection criteria	<ul style="list-style-type: none"> • Distance to work • Location convenience 	<ul style="list-style-type: none"> • Distance to work • Location convenience • Living amenities 	<ul style="list-style-type: none"> • Environment • Distance to international schools and hospitals (especially for families) • Living amenities • Residential feel • Community
Unit preference	<ul style="list-style-type: none"> • Studio • One-bedroom 	<ul style="list-style-type: none"> • One- and two-bedroom • Duplex/ penthouse 	<ul style="list-style-type: none"> • One- to four-bedroom
Housing decision makers	<ul style="list-style-type: none"> • Company • Individual (leisure) 	<ul style="list-style-type: none"> • Company 	<ul style="list-style-type: none"> • Company provides a budget and the individual makes the decision
Sensitivity to the distance between work and accommodation	<ul style="list-style-type: none"> • Very sensitive 	<ul style="list-style-type: none"> • Somewhat sensitive 	<ul style="list-style-type: none"> • Insensitive
Maximum travel time between work and accommodation	<ul style="list-style-type: none"> • 15 – 20 minutes drive 	<ul style="list-style-type: none"> • 20 – 30 minutes drive 	<ul style="list-style-type: none"> • 30 – 60 minutes drive

Source: Jones Lang LaSalle Hotels

Long-term Stay

Long-term stay demand is typically generated by expatriates working in Beijing. Expatriate postings usually last between two to five years. The serviced apartment lease term is normally one year or longer. Expatriates are generally allocated housing budgets by their employers and tend to select serviced apartments whose rental is within their budgets.

This resident segment looks for comfort, livable amenities and a residential environment. As such, residential ambience, tenant community and distance to international schools (for families) usually take priority over the length of commute to work.

Among the serviced apartments surveyed, approximately 59.9% of tenants stay beyond six months, making this the primary source of demand.

Medium-term Stay

Medium-term stay demand is usually generated by professionals who are working on projects or assignments in Beijing for a defined period of time, for example, a product launch or a construction project. Another source of medium-term stay demand is generated by expatriates who are in transition and searching for long-term lodging. Prior to selecting their more permanent accommodation, they typically stay at a serviced apartment as a temporary residence. Travel distance or convenience to / from the place of work is important.

Survey results indicated that approximately 31.0% of researched serviced apartment residents stay for between one to six months.

Short-term Stay

Short-term stay demand consists of business travellers and, occasionally, families travelling for leisure. Business travellers usually value proximity of the property to their place of work and sometimes prefer serviced apartments over hotels for space and a less “transient” or “hotel” feel. Contrary to the long-term stay segment, where guests generally have the flexibility to select the property for their stay, short-term guests’ choice of lodging is often driven by their company’s corporate contract.

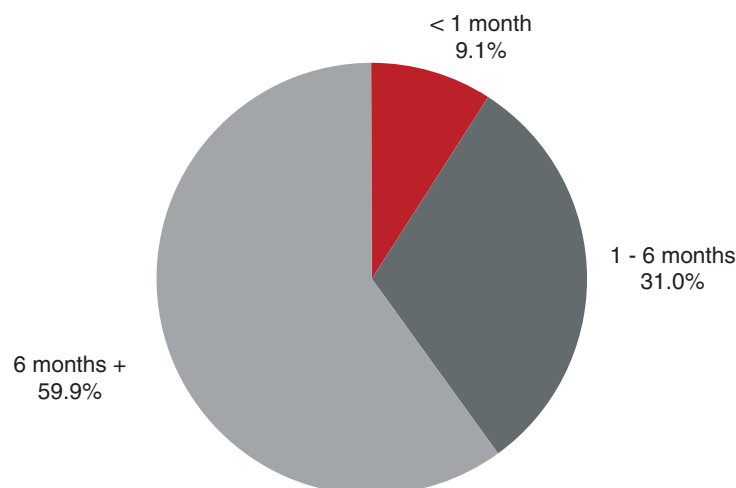
The market is somewhat split in terms of serviced apartments catering to short-term customers. While some serviced apartments are not willing, or have the set up, to accept short-term stay requests and only would do so if the request comes from a company that is also using the property for long-term stay, some serviced apartments are actively targeting short-term demand and increasingly using their Global Distribution System (GDS) and online booking engines. However, government is changing requirements that serviced apartment operators to also have hotel operation license in order to take in short-term customers. This will reduce the ability of serviced apartment operators to target short term demand.

Short-term stay demand, which competes directly with the hotel market, can be classified as stays of less than one month and when analysed across the surveyed properties, contributes only approximately 9.1% of total market share. The Tower Apartments at Oriental Plaza captured no short-stay demand largely because of the complex’s affiliation with Grand Hyatt Beijing, where short-term stay demand are typically be serviced by the hotel and the Tower Apartments be marketed towards mid-to long-term stay customers.

The broad market trends for short-term stay demand are aligned with the hotel sector and as such, can be analysed in terms of visitor arrivals into Beijing, the geographic origin of travelers, seasonality trends and the average length of stay highlighted in the hotel section of this report.

The following chart illustrates demand segmentation based on length of stay among the surveyed serviced apartment properties.

Beijing Serviced Apartment Demand - Length of Stay



Source: Jones Lang LaSalle Hotels, Industry Source

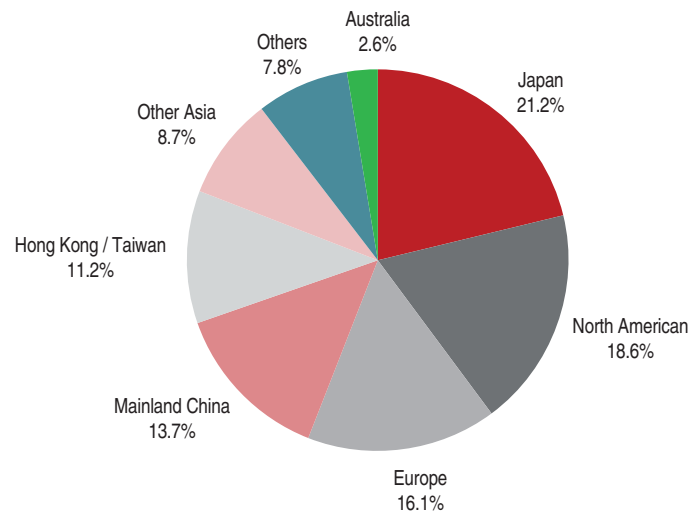
Nationality

Demand for serviced apartments illustrates the following source market segmentation:

- Japan comprised the largest geographic demand group in 2009 among the surveyed properties, contributing 21.2% to total market demand,
- North America and other European countries were the second and third largest contributors, accounting for 18.6% and 16.1% of total demand, respectively
- Mainland Chinese residents constituted the fourth largest segment representing primarily short-stay guests who chose to stay at serviced apartments as an alternative to hotels.

The increased contribution from mainland Chinese residents in 2009 is a reflection of the concerted effort of serviced apartment operators to change their segmentation strategy and counter the impact of the global credit crunch in 2008 and 2009. With a number of multinational companies repatriating Beijing-based staff, this resulted in vacancies driving operators to shift their marketing focus on to the domestic market. In light of this, the market share of mainland Chinese customers in 2009 reached a record level of 13.7%, compared to only 3.5% in 2006.

Beijing Served Apartment Demand - Geographic Origin



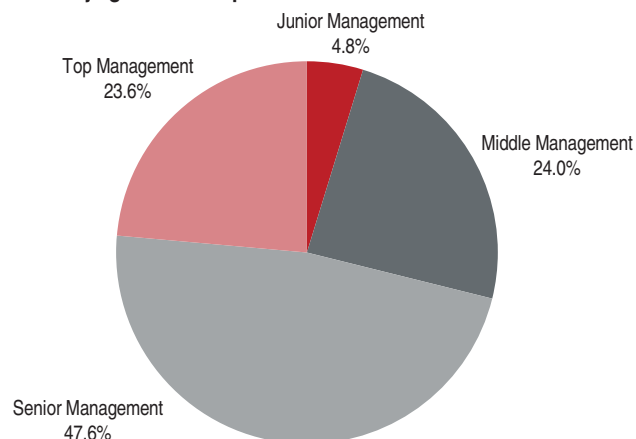
Source: Jones Lang LaSalle Hotels. Industry Source

When compared to the surveyed sample, Oriental Plaza apartments displayed a very similar guest origin pattern, with Hong Kong/Macau and Mainland China being the largest contributor, followed by guests from Japan, North America and Europe.

Guests Profile

The surveyed serviced apartments also revealed that among their tenants, 47.6% belong to senior management, 24.0% to middle management, 23.6% to top management and 4.8% to junior management. For The Tower Apartments, senior (50%) and middle management (40%) are the dominating guest profiles of its tenants.

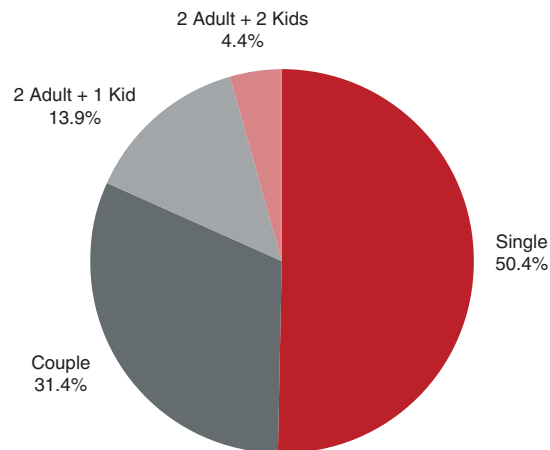
Beijing Served Apartment Demand - Guests Profile



Source : Jones Lang LaSalle Hotels, Industry Source

Household Size

In Beijing, those who stay at serviced apartments tend to be small households of either singles or couples. The surveyed serviced apartments indicated these two groups combined made up over 81% of demand. This is followed by two adults with one child (at 13.9% of total) and large households made up the smallest portion at 4.4% of total. The sample result is generally applicable to serviced apartments in many markets across China, as larger households generally prefer villas or larger residential apartments that offer more space.

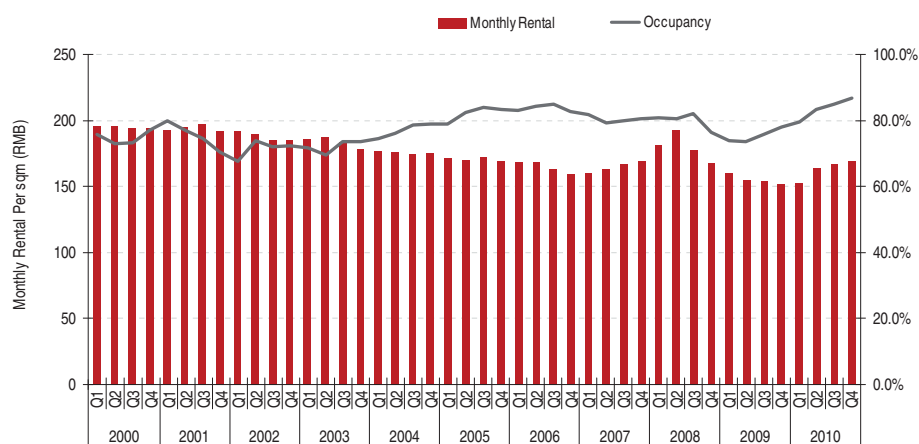
Beijing Serviced Apartment Demand - Household Size

Source: Jones Lang LaSalle Hotels, Industry Source

When compared to the surveyed sample, customers at The Tower Apartments have a higher weight of singles (65%) and couples (35%). This higher profile of singles and couples is reflective of the property's city-centre location and its unit-mix with studio, one and two-bedroom units making up 94% of its inventory.

2.4 Beijing Serviced Apartment Market Performance

The graph below illustrates the quarterly performance among a selected sample of 8,427 units of serviced apartments in Beijing between 2000 and 2010.

Beijing Serviced Apartment Performance

Source: Jones Lang LaSalle Hotels

Occupancy

Between 2000 and 2005, occupancies in the Beijing serviced apartment sector remained relatively stable, oscillating between the 70% and 80% mark. Unlike the hotel industry which was significantly impacted by the SARS epidemic in 2003, the strong share of long-term tenants created a buffer for the serviced apartment sector to maintain robust occupancy levels.

Occupancies saw a marked upward trend between the second quarter in 2004 (70.0%) and the fourth quarter in 2006 (85.1%), growing at an average 2.0% per quarter. Thereafter, the market maintained an occupancy level around 80.0% (between 79.2% and 81.8%), and peaked in the third quarter of 2008 at 82.0% boosted by demand generated during the Olympic Games.

We note that the growth in occupancy occurred notwithstanding high levels of new supply. During the period between 2004 and 2008, 2,000 new serviced apartment units were added to the market from about 3,000 units to close to 5,000 units. The strong market performance was primarily driven by:

- Strong medium-term and long-term stay demand generated by projects directly or indirectly related to the 2008 Olympic Games;
- Strong demand and limited new supply in Beijing's high-end hotel sector (before 2006), which allowed serviced apartments to compete with hotels in the short-stay segment;
- Decreases in overall rental levels, reflecting serviced apartments discounting rentals to attract more tenants.

However, starting in the fourth quarter of 2008, occupancies began to decline and reached 75.5% by the first quarter of 2009. This decline is the cumulative effect of:

- Reduction in expatriate relocation and corporate travel as a result of the global financial crisis;
- New supply pressure from hotel and non-serviced properties having entered the market in the years leading to the Olympics.

In the second and third quarter of 2009, occupancies started to pick up and reached 78.0% by the last quarter of 2009.

This upward trend has continued into 2010, reflecting in part the improved global corporate environment and a relatively stabilised amount of new supply. In line with economic recovery, Beijing has seen a pickup in business activities, which is bringing in new expatriates and generating fresh demand for serviced apartments. In the fourth quarter of 2010, the market occupancy reached 86.9%.

Rentals

Compared to occupancy levels, serviced apartment rental rates have seen greater fluctuations, reflecting relatively elastic pricing strategies / acceptance by owners and operators. Between the third quarter of 2003 and the third quarter of 2007, the serviced apartment industry saw a relative decline in rental levels. While this decline was offset to some extent by higher occupancy levels, we attribute the following factors to the decline:

- The deregulation of the residential market in 2002 created competition for serviced apartments from the non-serviced residential sector;
- Substantial new serviced apartment supply entered the market during that time, increasing competition within the serviced apartment sector;
- Exchange rate pressure: the depreciation of the US dollar generated strong pressure on rentals as companies continued to maintain rental budgets in USD. This in turn converted to lower amounts in RMB available to allocate to serviced apartments rentals.

Rents achieved record heights (an average of RMB 226 per square metre per month) in the lead up to and during the Olympics between the fourth quarter 2007 and the third quarter 2008, when many serviced apartments were rented to corporate or diplomatic groups for extended periods of time.

Due to the negative impact of the global financial crisis and increased competition from new supply of high-end hotels, rents started to decrease in the third quarter of 2008 and ended the year at an average of RMB 168 per square metre. This trend continued into 2009 where average monthly rents per square metre declined from RMB 160 in the first quarter to RMB 152 in the fourth quarter of 2009, while rental rates increased slightly and reached RMB 153 in the first quarter of 2010. As occupancy recovered, rentals also improved and by the fourth quarter of 2010 experienced a solid increase of 11.3% compared to the same period in 2009 reaching RMB 168.

Anecdotal evidence from interviews with serviced apartment operators suggests that the occupancy and rental increase could also be driven by conversion of some serviced-apartments into strata-title sale residential projects which reduced the supply of serviced markets in the city. Further, as demand increases and occupancy generally recovers, operators are also more comfortable to increase rates to improve yield.

2.5 Beijing Serviced Apartment Market Trends and Outlook

Based on analysis of the current market dynamics, the following commentary summarizes some of the key trends in the Beijing's serviced apartment market.

- *Changes to the expatriate mix:* For expatriate families, multinational companies typically cover education and medical expenses for all family members and provide higher housing budgets allowing the renting of sufficiently large residential units. As such, relocating expatriate managers with families is generally more costly than relocating singles or couples. Expatriates with families tend to be middle to senior management. With increased pressure on rationalising costs, multinational companies have most recently shown a stronger propensity to localise middle and senior management positions in order to repatriate or to avoid relocating expatriate families. Heightened costs awareness has also resulted in a decrease in the proportion of families within the Beijing expatriate community and, on the other hand, has correspondingly increased the proportion of singles and childless couples. This trend represents an opportunity for serviced apartments catering primarily to singles and couples. The Tower Apartments at Oriental Plaza have traditionally catered to small-size households and have an advantage to benefit from this market trend.
- *Increasing domestic demand:* Partly driven by the recent global economic downturn and partly by the overall trend of companies hiring local talents, serviced apartments are increasingly capturing those customers. This trend is likely to continue in the future, prompting operators to be more proactive in addressing the needs of this customer group.
- *Replacing long-term relocation with project work:* Against the backdrop of higher cost sensitivity of multinational companies and an increasingly better-educated local labour pool, multinational companies are exhibiting a stronger preference for moving foreign specialists into Beijing on an assignment basis, rather than relocating expatriates for the longer term. This has resulted in an increasing demand for medium-and short-stay accommodation in exchange of long-term stay demand.
- *Increasing product and market segmentation:* It should be noted that with the increase in serviced apartment supply in Beijing, the market has also become more diverse. Serviced apartment operators with multiple brands are offering products at different price levels and facilities, which increases their total market share. This in turn, is creating sub-markets within greater Beijing, geographically and in terms of price points within the serviced apartment sector.
- *Less intensive competitive market environment moving forward:* Intense competition posed the greatest challenge to Beijing's serviced apartment market since 2008, causing both rental rates and occupancy to decline. In particular as new serviced apartments

located in core commercial areas became available at lower rents, serviced apartments in less central areas or properties with less well maintained facilities faced the greatest pressure on rates. However, as seen in results for 2010, overall demand increased and the conversion of some serviced-apartments into strata-title sale residential projects had, to some extent, reduced supply stock and subsequently competitive pressure among serviced-apartment properties.

As the country's capital and economic powerhouse, Beijing has always drawn and is likely to continue to attract national and regional headquarters of multinational companies, diplomatic representations and non-governmental organizations with an increasing need for high-end housing. As such, the city has seen an accelerating number of serviced apartment openings in recent years. Although demand growth has been generally keeping pace with supply, the recent global financial crisis and the consequently heightened cost awareness among multinational companies have resulted in lower demand and price levels in recent years. Yet, as seen in the results recorded in 2010, the rates have already started to increase.

At the hotel-end of the spectrum, strong supply in the hotel sector leading to the Olympic Games led to intense competition which also impacted the serviced apartments, especially for short-term stay demand. Although short-term stay comprises the smallest demand segment for serviced apartments, many properties have responded to the shifting dynamic by allocating resources and offering more flexible service and facilities to capture such demand.

In the short to medium-term, as global economies improve and local markets continue to grow, demand for serviced apartments is anticipated to increase correspondingly. This, combined with a relatively limited pipeline of new serviced apartments entering the Beijing market in the near term, is likely to provide a good basis for occupancy and rate growth.