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MarketView
Hong Kong Retail

FOURTH QUARTER 2007

The Hong Kong retail sector extended its buoyant performance from the third quarter of 2007 and trekked steadily upwards in the fourth quarter. Amid a more robust domestic economy with a low unemployment rate and rising GDP and CPI readings, festive spending near the end of 2007 registered one of the strongest performances in over a decade. Retail sales experienced strong growth in 2007, and sales of luxury goods were particularly bullish, underlining the encouraging spending sentiment. According to government sources, the sales volume of motor vehicles and parts increased the most, rising 41.2% y-o-y, a clear indication of strong domestic spending and a healthy retail market with higher expenditure. Total retail sales increased by 12.4% y-o-y in value to $222.6 million, and 9.9% YTD in volume, over the first 11 months of 2007, compared with the same period in 2006.

With the prevailing positive economic sentiment, both retail landlords and retailers, especially global brands, are still highly optimistic about Hong Kong's retail market. Capitalizing on rising demand from international brands and the persistent shortage of desirable retail supply in prime shopping districts, rent in these districts remained generally bullish, despite rental and capital value growth returned to normal after skyrocketing in the third quarter. There has understandably been a consolidation on the back of low market activity as the year-end approaches, especially in quality retail locations such as Central. The market in prime districts has already witnessed early pre-commitments for prime shop space months before present leases expire; landlords are not in any hurry to commit to new offerings on the heels of the exceptional demand.

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Whilst the rent of prime retail streets will remain high as long as international brands continue to actively absorb the limited supply of retail space in prime shopping districts, rent in second-tier locations may waver, even with the current buoyancy in the retail market. Although some local chain-stores choose to relocate their shops to outlying areas in order to avoid sky-high rents, most prefer to either adopt a wait-and-see approach or are implementing cautious branch-out strategies. Location is still the key consideration and retailers will not invest in areas where they do not have strong confidence in their ability to turn a profit. Some landlords in second-tier locations may have over-valued their premises in the current booming environment, deterring small- to medium-scale retailers from opening shops there. Since international brands will not open shops in non-prime locations, second-tier retail districts are likely to continue to see vacancies.

QUICK STATS

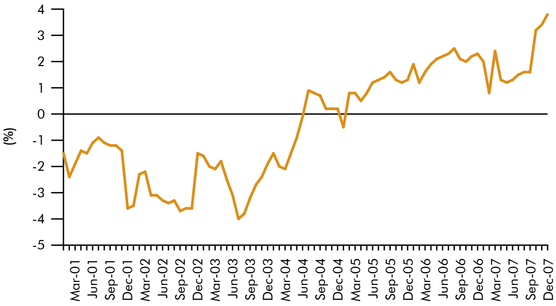
	Change in Q3 07	Change in Q4 07
New Supply	↔	↑
Demand	↑	↑
Vacancy Rate	↔	↔
Prime Rents	↑	↑

SELECTED LEASING TRANSACTIONS IN 4Q 2007

District	Property	Size (sf)	Tenant
Central	Shop 1, G/F, Regent Centre 88 Queen's Road Central	4,041 (gross)	Sa Sa Cosmetic
Central	G/F, 37 Des Voeux Road Central	1,000 (gross)	Smartone
Central	G/F, 55 Queen's Road Central	810 (gross)	Luk Fook Jewellery
Causeway Bay	Shop B, G/F, Style House, 310 Gloucester Road	1,450 (lettable)	Moiselle
Causeway Bay	Shop 20, G/F, 1/F, Excelsior Plaza, 24 East Point Road	G/F: 937 (gross) 1/F: 1,766	Sa Sa Cosmetic
Causeway Bay	G/F, 15 Yun Ping Road	2,414 (gross)	The Links
Causeway Bay	Shops A4 & A5, G/F, 16 Kai Chiu Road	500 (gross)	Swatch
Tsim Sha Tsui	Shops A & G, G/F, 66-70 Nathan Road	1,500 (gross)	Time Zone
Tsim Sha Tsui	Shop 8, G/F, Parklane Shopper's Boulevard Site D	651 (gross)	Salad Jeans
Tsim Sha Tsui	Shop C1(A), G/F, 27-33 Nathan Road	613 (gross)	ECC Watch

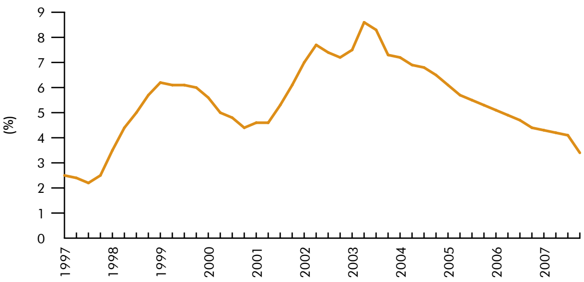
ECONOMIC CONDITIONS

Hong Kong Inflation Rate



Source: Census & Statistics Department
Remark: As from the reference month of October 2005 onwards, the year-on-year rates of change are derived from the new 2004/05-based Consumer Price Indices.

Hong Kong Unemployment Rate



Source: Census & Statistics Department

Hong Kong's inflation rate was recorded at 3.8% in December 2007, some 40 basis points higher than the 3.4% rate in November. The increase was mainly due to the upsurge in the cost of basic foodstuffs. Apart from food, prices for housing, miscellaneous goods, meals bought away from home, and electricity, gas and water were other major contributing factors driving up the inflation rate. Under the current sustained economic expansion, surging food and oil prices, weakening of the US dollar and the appreciation of RMB should continue to stimulate inflation. Yet, the persistent increase in labour productivity should moderate upward price pressure to some extent for the next few months.

The labour market was relatively robust in the fourth quarter, with total employment surging to a new record high of over 3.53 million in 2007. After making the seasonal adjustments, the unemployment and the underemployment rates dropped to 3.4% and 2.1%, respectively, with the former being the lowest for over nine and a half years. This underlined the strength and growth of Hong Kong's economy. While the labour market continues to tighten, considerable salary increases are expected as employers are keen to acquire and/or to retain quality and experienced staff.

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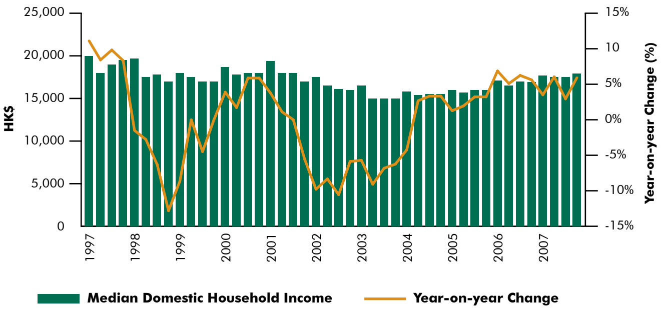
MEDIAN MONTHLY DOMESTIC HOUSEHOLD INCOME (MMDHI)

Median Household Income in Hong Kong

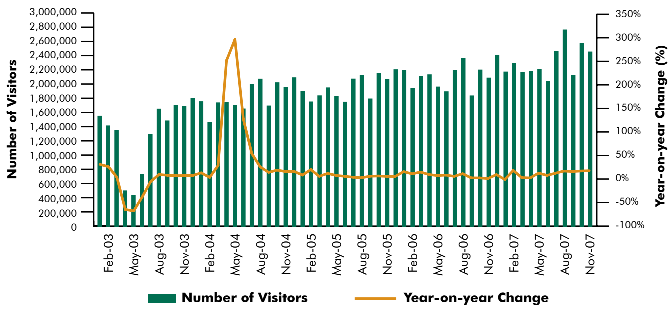


Source: Census & Statistics Department

The MMDHI was recorded at $17,900 from September to November 2007, slightly increased from the third quarter figure of $17,500. Growth was likely due to the tightened labour market and salary rises along with the prevailing optimistic economic sentiment. Provisionally, the recent recorded MMDHI indicated a y-o-y increase of 5.9%, which was significantly greater than the y-o-y growth of 2.9% in the previous quarter. Given the strength of the domestic economy and rapid increase in labour productivity, the MMDHI is expected to register positive growth over the near- to medium-term on the back of a continuing tight labour market and a robust economic outlook.

TOURIST ARRIVALS

Visitor Arrivals in Hong Kong

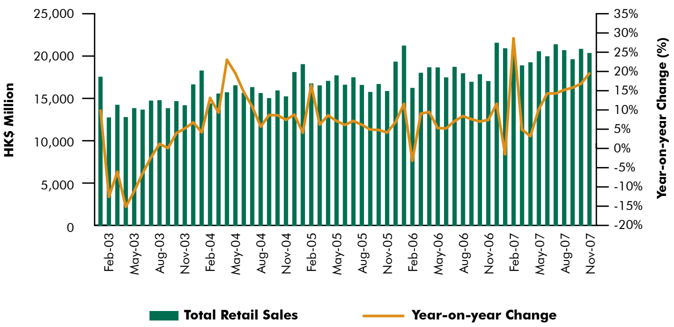


Source: Hong Kong Tourism Board

In November 2007, 2.45 million tourists visited Hong Kong, a y-o-y increase of 17.6%. Total tourist arrivals for the first 11 months of 2007 reached 25.4 million, rose some 11.1% over the same period in 2006. Arrivals from the Mainland registered a substantial rise of 23.7% over November 2006 to 1.29 million. Considerable gains were also observed in other tourist groups. For instance, tourists from the Americas; Europe, Africa and the Middle East; and South and Southeast Asia increased 14.7%, 13.9% and 13.4% y-o-y, respectively. Among the total monthly tourist arrivals, over 1.48 million were overnight visitors, representing 60.5% of the total, while the remaining 39.5% were classified as same-day in-town visitors.

RETAIL SALES

Total Retail Sales in Hong Kong

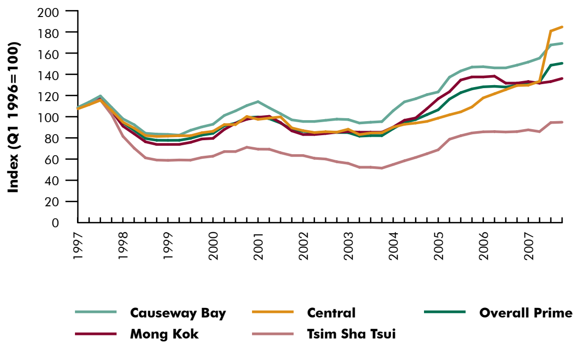


Source: Census & Statistics Department

The total value of retail sales was provisionally estimated at $20.3 billion in November 2007, representing an increase of 19.5% over a year earlier. After taking into account the effect of price changes over the past 12 months, the volume of retail sales grew 15.3% y-o-y. Consumer sentiment was upbeat with a lower unemployment rate, rising income, lower interest rates and growth in inbound tourism. Among all retail categories, the sales volume of motor vehicles and parts increased the most, rising 41.2% y-o-y. This was followed by the sales of another non-essential retail item in electrical goods and photographic equipment, which grew 31.3% y-o-y, suggesting a healthy retail market with higher expenditure and sentiment.

RETAIL RENTAL TRENDS

Prime Retail Rental Indices



Following exceptionally strong growth of overall rents in prime shopping districts in the preceding quarter, average rents increased a moderate 1.2% q-o-q in the fourth quarter. The contained growth reflected retailers' caution in the highly competitive rental market in prime areas. However, both Mong Kok and Central registered notable rental growth due to limited supply in the districts, and retailers were as ever attracted to Hong Kong's vibrant retail markets. Mong Kok recorded an average q-o-q increase of 2.2% in the fourth quarter; while the pace of rental growth in Central slowed slightly, rents rising 2.2% q-o-q. Overall rents in prime shopping districts increased 16% y-o-y, tying the record set in the third quarter of 2007.

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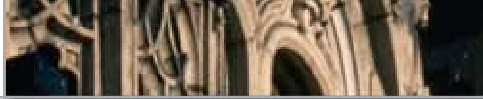

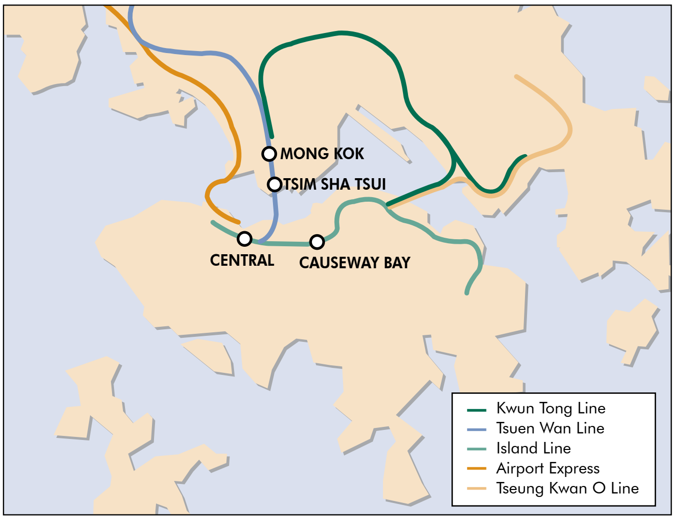

PRIME SHOPPING DISTRICTS IN HONG KONG

CENTRAL
This traditional banking and financial centre of Hong Kong is also a popular shopping hub for middle to upper class shoppers. Strategically linked with the Airport Railway and MTR, and supported by a number of Grade A office buildings, 5-star hotels and prestigious shopping centres in the area, Central has a large catchment area and attracts a broad spectrum of shoppers including tourists, expatriates, office workers, singles and families.

CAUSEWAY BAY
This area attracts a broad mix of international tourists, local shoppers, including office workers from commercial buildings within the area, young shoppers and family shoppers. The area has a comprehensive mix of retailers and restaurateurs catering to young, rich, budget minded and family clientele.

TSIM SHA TSUI
This area has the largest concentration of hotels and attracts tourists, affluent young shoppers predominantly from Kowloon, and office workers from commercial buildings within the area. There is a wide array of retailers ranging from necessity to luxury goods, restaurants, tailors and entertainment venues such as discos and karaoke bars.

MONG KOK
Strategically located along both MTR and KCR lines, Mong Kok also attracts a wide spectrum of shoppers, mainly local residents. The area consists of a number of modern fashion and accessories boutique stores catering to the young and hip crowd.

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TERMINOLOGY

INFLATION RATE:
This refers to the Composite Consumer Price Index (CPI) compiled by the Census and Statistics Department to provide an indicator of overall price movements affecting households. A weighting system is used to represent the relative importance, in terms of expenditure, of individual items in the basket of goods and services consumed by households. The weight of each item represents the importance of the item in the total expenditure of households.

SALEABLE AREA:
The saleable area of a shop unit is measured up to the centre line of the wall separating adjoining units. The full thickness of the external walls and walls separating the units from the common areas, staircases, etc. are included.

GROSS FLOOR AREA:
The gross floor area of a shop unit is measured by adding the proportionate share of the common area to the saleable area of the unit.