

PROPERTY MARKET OVERVIEW

OFFICE SECTOR

- The overall office rental growth tapered off from 6.9% QoQ in 3Q 2006 to 2.7% QoQ in 4Q 2006. On the basis of rental growth, Central remained the key pillar of the office market which has been underpinned by the finance and legal sector.
- Barring any unforeseeable event to derail the growth of the finance industries, it is our view that the whole Grade A office market should be able to see a prospective rental growth in the order of 10% per annum during 2007.

LUXURY RESIDENTIAL SECTOR

- The luxury residential market turned active in 4Q 2006. The number of sale transactions increased about 29% QoQ while the average luxury residential prices edged up 1.5% QoQ to HK\$9,753 per sq ft as at the end of November 2006.
- In anticipation of an interest rate cut in 2007 and the increasing wealth of local residents, luxury residential rental and capital values are expected to increase 9% and 15-20% YoY respectively in 2007.

INDUSTRIAL SECTOR

- Industrial property rental growth tapered off from 1.3% QoQ in 3Q 2006 to about 1% QoQ during 4Q 2006. Factory rentals edged up mildly by 1.1% QoQ to HK\$6.96 per sq ft per month as at the end of November 2006.
- In anticipation of further growth of re-exports and the completion of a number of infrastructure links in Hong Kong, rental and capital values are expected to increase 10-15% YoY in 2007.

RETAIL SECTOR

- Thanks to the buoyant retail sales attributed to the stronger-than-expected local consumption, retail rentals in the core shopping areas saw positive growth in 4Q 2006 with average rental edging up by 2% QoQ to HK\$320 per sq ft per month as at the end of November 2006.
- Given the continued improvement of employment conditions and the expectations of salary rises in 2007, the scenario of further rise of retail sales looks very positive. It is our prediction that retail rental and capital values will grow 8% and 17% YoY respectively in 2007.

MARKET TRENDS



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EXECUTIVE SUMMARY

HONG KONG ECONOMIC INDICATORS								
Indicator	Measure	2005	2006	2007	2008	2009	2010	2011
GDP	YoY % Change	7.3	6.4	4.6	4.8	4.7	4.8	4.7
Population growth (mid-year)	YoY % Change	0.9	0.8	0.8	0.9	0.9	0.9	0.9
Average consumer prices	Rate (%)	0.9	2.0	2.5	2.6	2.9	2.9	2.9
Average unemployment rates	Rate (%)	5.5	4.8	4.6	4.3	4.0	3.9	3.9
Best lending rate	Rate (%)	6.2	8.0	8.3	8.2	8.5	8.5	8.5
Average real wage	YoY % Change	2.6	0.6	1.0	1.2	1.1	1.0	1.2

Source: EIU; Hong Kong SAR Government; Colliers International (Hong Kong) Limited

Stronger-than-expected GDP growth

Largely above market expectations, the local Gross Domestic Product ("GDP") in 3Q 2006 staged a robust rise of 6.8% thanks to the continued contribution from exports of goods and services, and more importantly the stronger-than-expected growth in gross domestic fixed capital formation. On a comparative basis, the GDP in 3Q 2006 was in fact the 12th consecutive quarter having its growth rate staying above its long-term average (i.e. 4.5% year-on-year).

In 3Q 2006, exports of goods re-accelerated to a growth of 8.9% year-on-year ("YoY") due to the renewed weakening of the US dollar and the sustained trade flow of the Mainland. Exports of services grew further by 8.6% during the period as a result of active offshore trade and buoyant financial market activities during the period. Meanwhile, one of the key highlights in 3Q 2006 was the significant 12.7% year-on-year growth in the total gross domestic fixed capital formation, which was a reflection of the strong business confidence and sustained expansion in the private sector.

Against the backdrop of sustained economic expansion, the local environment showed further signs of accelerating inflation. The annualized change in the Composite Consumer Price Index as a proxy to the local inflation edged up from 2.0% YoY in 2Q 2006 to 2.3% YoY in 3Q 2006. Essentially, consumer demand has been holding up well due to rising household income, and more importantly the positive market sentiment attributed to the positive wealth effect from the rise in stock market prices. Meanwhile, the continued appreciation of Renminbi ("RMB") has been contributing to rising inflationary pressure due to the cost rise of imported food stuffs from the Mainland.

The rate cut in Hong Kong

Although the economy witnessed a rise in consumer prices during 3Q 2006, the local interest rate has been staying flat during the bulk of the three-month period between September and November 2006. First of all, the rate pause made by the US Federal Reserve in early August 2006 has been gradually

developed into a "rate plateau" in 4Q 2006 - the target for the federal funds rate was kept unchanged at 5.25% during September and November 2006. Meanwhile, due to the fact that the Hong Kong dollar is pegged to the US dollar, local banks followed suit and maintained their Best Lending Rate ("BLR") unchanged at 8.00% per annum during the bulk of 4Q 2006. However, with plentiful liquidity in the system, HSBC took the lead to cut its BLR by 25 basis points from 8.00% to 7.75% per annum in early November 2006. It was an unusual move since local banks would normally maintain their status quo until a change is done in the US as far as their interest rate policies are concerned.

Property investment market

In general, the environment of the property investment market remained positive due to the continued inflow of liquidity and the trend of accelerating inflation. On the back of rising rentals, whole-block developments in both the industrial and office sector remained popular in the investment community. During the three-month period between September and November 2006, the total value of whole-block office and industrial transactions constituted 85% of the total pie with sales transactions priced at HK\$100 million or above.

Due to the fact that the number of investment-grade properties for sale has been limited, investors continued to keep their focus on the second-tier developments with smaller price brackets in the range of HK\$80 - HK\$400 million. One of the largest whole-block industrial transactions concluded in 4Q 2006 was the sale of Kerry Warehouse (Fanling 1) and Kerry Warehouse (Yuen Long 1) to an international fund for a total consideration of HK\$345 million, or an average unit price of HK\$752 per sq ft. In the office sector, a number of Grade B buildings in various business locations were sold during 4Q 2006. For example, Hang Shun Commercial Building in Tsim Sha Tsui was transacted for HK\$240 million, representing an average unit price of HK\$8,357 per sq ft. Meanwhile, Sam Cheong Building, a Grade B office building comprising a total of 22,500 sq ft floor area in Sheung Wan, was sold for HK\$115 million.

According to the latest economic indicators, more investors are convinced that the local investment property market is going to enter into a new stage of growth in 2007. The rationale is based on two projections. Firstly, the local real estate sector is going to see further rise in rentals given the sustained economic growth and the buoyant occupational demand for real estate. Secondly, Hong Kong is expected to experience a negative interest rate environment in 2007 if the current interest rate cycle is to reverse in the first half of 2007 amid the ongoing trend of accelerating inflation. If the so-called negative interest rate environment is to materialise, more funds will be available in the marketplace, thus providing an additional push to the local investment property market.

Hong Kong property market sector

As discussed earlier, the office and industrial property sector continued to steal the limelight of the local real estate market on both the investment and occupational front in 4Q 2006. Thanks to the sustained occupational demand attributed primarily to the companies engaged in the finance and insurance industries, the Grade A office market in Hong Kong continued to stage further growth during 4Q 2006. Key players in the finance industries e.g. investment banks and securities houses remained bold to go for their expansion plans in anticipation of growing business opportunities and increasing numbers of mainland enterprises coming over to Hong Kong for public listing. For example, **UBS AG** committed to rent 7 floors or a total gross floor area close to 70,000 sq ft at Li Po Chun Chambers, one of the quality office buildings in Sheung Wan, in October 2006 in order to complement its exposure in Central. However, the overall rental momentum showed signs of slowdown in 4Q 2006 since the average Grade A office rental only increased mildly by 2.7% QoQ to HK\$50.88 per sq ft per month as at the end of November 2006 – the slowest quarterly growth since mid-2004.

On the industrial front, the macro-trend was encouraging since the volume of re-exports, one of the key pillars for the industrial market, showed signs of re-acceleration with a double-digit growth of 12% QoQ during 4Q 2006. With sustained occupational demand for industrial and warehousing facilities, average industrial rental continued to stay on its upward trend with about 1% QoQ growth. As mentioned previously, due to the premium yields and expectations of further rental growth in the sector, a number of whole-block industrial developments have been snapped up by institutional investors during 4Q 2006.

In the residential sector, the market sentiment was boosted by the better-than-expected land auction results for the two luxury residential sites in Kowloon Tong and The Peak respectively in 4Q 2006. It illustrated not only the fact that the market is hungry for luxury residential sites but also the demand for quality developments e.g. stand-alone houses in the traditional luxury areas on Hong Kong Island is essentially strong. In 4Q 2006, the total number of sales transactions of luxury houses grew dramatically by 67% QoQ. In the recent primary launch of Severn 8, one of the major luxury developments in The Peak, House number 3 was sold for HK\$170 million, representing an average unit price of over HK\$33,000 per sq ft. Despite the significant increase in the number of sales transactions, the average luxury residential property prices only edged up mildly by 1.5% QoQ to HK\$9,753 per sq ft as at the end of November 2006.

In the retail property market, the bulk of retailers continued to enjoy the growing volume of retail sales as a result of further expansion in the local economy. Private consumption expenditure amongst local households continued to be driven by the feel-good factors such as the ease in the unemployment rate and the positive wealth effect attributed to the record-breaking stock market prices during 4Q 2006. In addition, the expectation of having some solid pay rises in 2007 amongst the bulk of the local households have also contributed to rise in retail sales during 4Q 2006. As such, retailers remained positive and continued to focus on the prime shopping districts in preparing for further business growth in 2007. All in all, retail rentals resumed their upward trend with 2% QoQ growth in 4Q 2006 after a period of consolidation for 4 quarters.

Market outlook

Looking forward, the local property market is expected to head into another strong year in 2007 against the backdrop of various positive economic fundamentals including sustained economic growth and accelerating inflation. The latter, in particular, is going to bring Hong Kong into a negative interest rate environment again if interest rates are to fall while inflation accelerates. In addition, given the prospective appreciation of RMB, the local real estate market will be the key beneficiary due to the continued inflow of liquidity and the corresponding growth of investment demand. Our research suggests that rental and capital values could increase by 8-20% per annum. However, the individual property sector currently experiencing a severe lack of new supply might see exceptional performance in 2007.

OFFICE SECTOR**GRADE A OFFICE RENTS**

	Face Rents (HK\$ / sq ft / month)			Effective Rents (HK\$ / sq ft / month)		
	Nov 05	Nov 06	Nov 07 (f)	Nov 05	Nov 06	Nov 07 (f)
Central	65.91	82.14	94.46	60.78	76.90	88.43
Admiralty	51.18	66.81	73.49	47.20	62.91	69.20
Wan Chai	35.39	42.60	44.73	32.53	39.54	41.51
Causeway Bay	36.43	39.19	40.37	33.45	36.33	37.42
North Point	19.59	24.16	24.88	18.03	22.50	23.17
Quarry Bay	24.72	30.68	32.21	22.86	29.41	30.88
Sheung Wan	30.98	40.18	42.19	28.40	37.35	39.22
Tsim Sha Tsui	34.18	38.45	39.61	31.34	35.83	36.91

GRADE A OFFICE CAPITAL VALUES AND YIELDS

	Capital Values (HK\$ / sq ft)			Yields		
	Nov 05	Nov 06	Nov 07 (f)	Nov 05	Nov 06	Nov 07 (f)
Central	14,286	16,714	19,054	3.3%	3.3%	3.3%
Admiralty	11,235	12,557	13,750	4.0%	3.8%	3.9%
Wan Chai	10,866	12,314	12,929	3.7%	3.6%	3.6%
Tsim Sha Tsui	8,368	10,096	10,399	4.3%	3.8%	3.8%

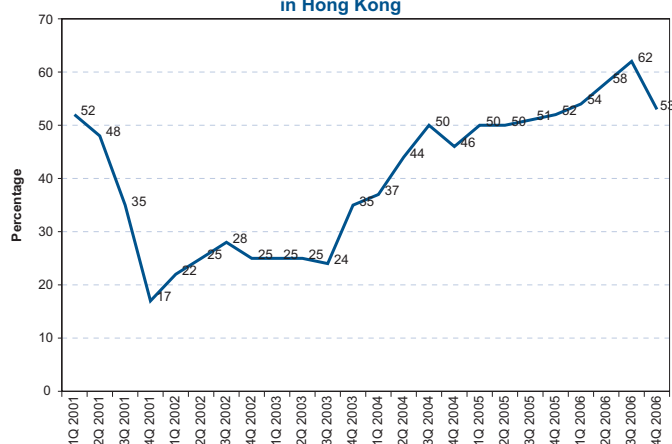
Source: Colliers International (Hong Kong) Limited

On net floor area basis

So far...so good

The overall Grade A office market continued to make further advancement in 4Q 2006. In addition to an ease in oil prices and steady interest rates, the continued deregulation of the banking sector in the Mainland, and the sustained inflow of liquidity have been benefiting a number of industries in Hong Kong. Amongst the various business sectors, companies engaged in the finance and insurance industries remained the most aggressive in taking up office space. Key players including investment banks and securities houses were bold to go for their expansion plans in anticipation of growing business opportunities in 2007. The initial public offering ("IPO") business, in particular, is looking positive since more mainland enterprises are expected to come over to Hong Kong for public listing. Essentially, the financial sector in Hong Kong continued to expand during 4Q 2006. The latest example was **UBS AG**, one of the anchor tenants currently occupying over 200,000 sq ft office space at Two International Finance Centre, who committed to rent a total of over 65,000 sq ft at Li Po Chun Chambers, a quality office building in Sheung Wan, in October 2006 in order to complement its business exposure in Central.

The quarterly survey undertaken by **Hudson**, one of the leading human resources consultants, indicates that employment expectations in Hong Kong continued to grow in 4Q 2006. The

**Permanent Hiring Expectations
in Hong Kong**

Source: The Hudson Report, Hong Kong, October-December 2006

survey shows that 53% of the respondents anticipate headcount growth in 4Q 2006. The banking and legal sectors were the most aggressive with hiring expectations at 61% and 71% respectively. However, the consumer, media/PR/advertising and manufacturing sectors were more cautious with less than 50% of the respective respondents looking to increase headcount during 4Q 2006. In the manufacturing sector, many firms are reported to consolidate after the active hiring made in early 2006. Meanwhile, respondents in the consumer sector became cautious after seeing a substantial run up of rentals.

On the one hand, Hudson's report revealed that some business sectors have taken a breather in expanding their staff force notwithstanding the fact that key players in finance and legal industries have been aggressively forging ahead. On the other hand, it is noteworthy that the percentage of respondents forecasting headcount growth fell for the first time in two years from 62% in 3Q 2006 to 53% in 4Q 2006. The change illustrates that some companies turned cautious due to a significant enlargement of their cost base during the past two years.

Meanwhile, as a point of reference, the **BCG Investment Banking Performance Index**, an index measuring the aggregate profits of ten leading investment banks (with its base equal to 100 in 1Q 2001), dipped for the second consecutive quarter to 136.3 in 3Q 2006 after hitting a record high of 172.8 in 1Q 2006. Although the result of 4Q 2006 is yet to be released, the decline of the Index during 2Q and 3Q 2006 are good enough to illustrate that some signs of slowdown have appeared in the investment banking sector.

Office rental growth tapering off

Going in line with the trends found in Hudson's report and the BCG Investment Banking Performance Index, signs of interim slowdown also appeared in the Grade A office market during 4Q 2006. Notwithstanding its prevailing upward trend, the overall office rental momentum expressed as the percentage of growth quarter-on-quarter tapered off significantly from 6.9% quarter-on-quarter (QoQ) in 3Q 2006 to 2.7% QoQ in 4Q 2006. In the case of the sub-market in Central, the pace of rental growth slowed from 9.2% in 3Q 2006 to 5.2% QoQ in 4Q 2006. On the basis of rental growth, Central remained the key pillar of the Grade A office market which has been underpinned by the finance sector. Despite the continued surge in rentals, a number of finance companies continued to stay in Central due to the expectation of further business growth in the years ahead.

However, the point to note is the discrepancy of rental growth between Central and other non-core districts which illustrates the fact that not every company or business sector feels comfortable with the prevailing level of office rentals. Subject to the available of space, more companies have been looking to relocate from the traditional business locations such as Wan Chai/Causeway Bay to decentralized locations for less expensive rentals during 4Q 2006. As discussed in previous issues, the first stage of decentralization comprising principally companies moving from the Central Business District ("CBD") to Island East, has gradually developed into the second stage - involving companies relocating from the fringe districts on Hong Kong

Island to non-core districts in Kowloon East. As such, office rentals in the decentralized districts on Hong Kong Island were relatively flat during 4Q 2006 and individual buildings in the areas registered rental fall during the period.

Vacancy rate hits a 15-year low

In addition to the buoyant demand in the marketplace, the level of supply on the other side of the equation has been boding well for the office market. As at the end of November 2006, the average vacancy in the whole Grade A market and the sub-market in Central were 3.5% and 2.8% respectively. With reference to the historic time series, both figures already hit their 15-year lows in 2006.

Meanwhile, the aggregate new supply ended the year of 2006 with a total of 1.2 million sq ft new office space. The developments at 100 Queen's Road Central and York House at Landmark East, comprising a total of 255,000 sq ft were the two Grade A projects completed in Central during the year. The total new supply in 2006 was regarded as low compared to the historical average new supply at 0.5 million sq ft. In 2007, the new supply will be principally coming from the non-core districts. The two key projects - Millennium City Phase 6 and Enterprise Square 5 will altogether contribute a total of 620,000 sq ft floor area to the market. The situation of supply squeeze in Central will become even more severe in 2007 since there will be no new development scheduled for completion at all. In 2008, the level of new supply in Kowloon East, comprising Kowloon Bay and Kwun Tong, will expand to nearly 3 million sq ft. As such, the Grade A office buildings due to complete in Kowloon East are going to represent the key alternatives for companies going for quality office space but at a cheaper rate than that in the traditional office districts.

Market cycle

Looking at the office market as a whole, the level of new supply is going to see a dramatic growth in 2008 if the major developments in Kowloon East are due for completion. In anticipation of another round of relocations attributed to the companies moving from the fringe business districts on Hong Kong Island to Kowloon East, the market is likely to see a certain degree of dilution effect to the overall rental growth.

However, there is another train of thought saying that the sub-market in Central will continue to do well in anticipation of the sustained growth of finance industries and the projection of a lack of new supply for at least three years from 2007 to 2009. The prospective rental growth in Central will overshadow the slackening growth in other sub-markets such as Kowloon

East where a spate of new developments will be coming onto the market. Before arriving at our views, the following is the synopsis of the key reasons for being bullish as well as bearish regarding the prospective trend of the Grade A office market in Hong Kong.

The pros and cons

Firstly, the average vacancy rate in the market as discussed earlier has already breached the lows registered in both 1994 and 1997, and reached a 15-year low in 4Q 2006. Meanwhile, although the local office rentals have gone up significantly during the past three years, it has only matched the peak level in 1997 but not the one in 1994. According to our research, the average Grade A office rental was about 17% below the peak of 1997. In other words, office rentals are predicted to have sufficient room to go up if rentals are to achieve a 15-year high similar to the trend of vacancy rates.

Similarly, the share price of Hongkong Land, a listed company holding a significant office portfolio in Central, has surpassed its respective peak in both 1994 and 1997 to an all-time high in 4Q 2006. If the stock investors read the office market correctly, Grade A office rentals in Hong Kong being led by the sub-market in Central will potentially enter into an uncharted territory in 2007.

Secondly, despite the significant run up of office rentals, the current office cycle might be prolonged due to the sustained economic growth in the Mainland. According to the latest projection made by The Economist Intelligence Unit, the economy in China will remain strong in 2007 with its GDP growth anticipated at 9.5% year-on-year ("YoY") further to 10.5% YoY in 2006, primarily because of the robust growth of private consumption.

Thirdly, the finance sector in Hong Kong is expected to remain buoyant. The strong liquidity flow in Hong Kong and other parts of the world will continue to be one of the key drivers for growth. Taking the average daily turnover in the local stock market as an example, the average level in 4Q 2006 increased by 260% to over HK\$40 billion per day compared with the average level in 4Q 2003. On a global dimension, the number and volume of hedge funds have been growing in the past decade. According to a report published by a bank in Japan, the hedge fund industry has grown 37 times in asset volume and 12 times in number since 1990. Looking forward, it is expected to grow by another 60 to 70% and reach US\$1.7 trillion in asset volume and 11,700 in number of funds by 2008.

Despite all the above positive predictions, a number of market players tend to be more cautious due to the recent signs of slackening growth. To recall some of the weakening signals, the key ones include the slowing hiring expectations across the board in Hong Kong in 4Q 2006, the trend of tapering growth for office rentals and rental cuts for individual buildings. In addition, the growth of the finance industries might be slower than expectation if the volume of business particularly in the IPO sector is to set back in 2007.

Our prediction

Taking a research point of view, the local office market is predicted to stay on its upward trend in 2007. It is our view that the recent signs of slowdown in the Grade A office market are going to last for a short period. The market momentum is anticipated to pick up again given the sustained GDP growth powered by the economy in the Mainland and the solid demand fundamentals in the marketplace. The possibility of a market peak in 2007 is possible but unlikely over the next six months. It is because the office market usually stages a significant rental growth in the order of 40% in 6 months before actually hitting its peak with reference to the market performance in 1994 and 1997.

Despite the projection that a new supply cycle will start kicking in during 2008, the majority of the new developments, located largely in decentralized districts, is believed not to create any material impact on the core business districts where office tenants are generally location sensitive. However, the pace of rental growth might slow in late 2007 if individual vendors adopt aggressive marketing strategies in securing tenants for their new developments. Otherwise, barring any unforeseeable event to derail the growth of the finance industries, it is our view that the whole Grade A office market should be able to see a prospective rental growth in the order of 10% per annum during 2007.

However, it is also noteworthy that Hong Kong office market has been volatile in nature. Over the past 25 years, Grade A office rentals have been growing at an average rate of 4% per annum. During two-thirds of the time in the 25-year period, rental growth rates have been falling within a wide range from -17% to +25% per annum. By virtue of the market volatility as a result of external impetus or shock, the local office market could see a stronger growth of 18% per annum in the case of an optimistic scenario, or -3% per annum if something negative appears during 2007.

GRADE A OFFICE SUPPLY IN 2007 - 2010

Building	District	NFA (sq ft)	Developer	Status
2007				
Millennium City Phase 6	Kwun Tong	313,560	Sun Hung Kai Properties	Under construction
633 - 635 King's Road	Quarry Bay	183,377	Shun Ho Resources	Under construction
Enterprise Square 5	Kwun Tong	305,967	Kerry Properties	Under construction
International Commerce Centre (Stage I)	West Kowloon	695,400	Sun Hung Kai Properties	Under construction
Total		1,498,304		
2008				
J/O Sheung Yee Road & Wang Tai Road (NKIL 6280)	Kowloon Bay	601,180	Manhattan	Under construction
J/O Wang Tai Road/Sheung Yuet Road & Wang Chiu Road (NKIL 6310)	Kowloon Bay	517,662	Sino Land	Under construction
Tai Lin Pai Road, Kwai Chung (Phase I)	Kwai Chung	487,900	Sun Hung Kai Properties	Under construction
102 How Ming Street	Kwun Tong	875,500	Winsor Properties	Under construction
223 - 231 Wai Yip Street/39 King Yip Street	Kwun Tong	895,979	Henderson Land	Under construction
One Island East, 18 Westlands Road	Quarry Bay	1,383,572	Swire Properties	Under construction
Total		4,761,792		
2009				
International Commerce Centre (Stage II)	West Kowloon	430,920	Sun Hung Kai Properties	Under construction
Tai Lin Pai Road, Kwai Chung (Phase II)	Kwai Chung	422,450	Sun Hung Kai Properties	Under construction
Total		853,370		
2010 & beyond				
500 Hennessy Road	Causeway Bay	606,684	Hysan Development	Demolition
Central Market Redevelopment	Central	569,500	Hong Kong SAR Government	Existing site
International Commerce Centre (Stage III)	West Kowloon	613,320	Sun Hung Kai Properties	Under construction
4 Lai Yip Street/114 Wai Yip Street	Kwun Tong	248,566	Sun Hung Kai Properties	Under construction
1 Wang Kwong Road	Kowloon Bay	456,424	Billion Development	Demolition
Cityplaza One (Phase II)	Tai Koo Shing	379,191	Swire Properties	On hold
Total		2,873,685		

Source: Colliers International (Hong Kong) Limited

RESIDENTIAL SECTOR**LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS**

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	Nov 05	Nov 06	Nov 07(f)	Nov 05	Nov 06	Nov 07(f)	Nov 05	Nov 06	Nov 07(f)
Peak	39.13	43.80	49.05	12,248	12,963	15,296	3.83%	4.05%	3.85%
South Side	33.91	36.71	40.38	10,015	10,428	12,305	4.06%	4.22%	3.94%
Mid-levels	26.86	29.63	32.30	8,169	8,395	9,570	3.95%	4.24%	4.05%
Happy Valley	24.36	26.59	28.45	7,530	7,688	8,457	3.88%	4.15%	4.04%
North Point	21.25	22.74	23.87	6,396	6,576	7,234	3.99%	4.15%	3.96%
Average	30.42	33.35	36.40	9,390	9,753	11,185	3.89%	4.10%	3.90%

Source: Colliers International (Hong Kong) Limited

Signs of gathering momentum

Thanks to the continued inflow of liquidity and the positive implication of the land auction results in November 2006, the overall luxury residential property market showed signs of gathering momentum in the middle of 4Q 2006. One of the key trends was that the local inter-bank rates continued to come under downward pressure. This can be illustrated by the significant 45% QoQ growth in the volume of daily turnover of the local stock exchange during the three-month period between September and November 2006. A significant portion of the turnover is believed to be "hot monies" which have been pouring into Hong Kong in anticipation of further rise of Renminbi (RMB). Besides, the overall sentiment has been firstly stimulated by the interest rate cut by Hong Kong banks in early November 2006. Despite the federal fund rate in the United States remaining unchanged, HSBC took the lead to cut its best lending rate (BLR) by 25 basis points from 8.00% to 7.75% per annum and other banks followed suit. This was an encouraging move for investors because the rate cut reduced financing costs. Meanwhile, the luxury residential market turned active in 4Q 2006. In the luxury residential sector, the number of sale transactions increased about 29% QoQ during the three months from September to November 2006. Meanwhile, the average luxury residential prices edged up mildly by 1.5% QoQ to HK\$9,753 per sq ft as at the end of November 2006.

Staying in line with the resilient investment sentiment, there have been several large lump-sum investment transactions concluded in the luxury residential market over the three-month period in 4Q 2006. For example, in South Side, Houses A, B, C and D at 12-16 Tai Tam Road were sold to a local investor for a total consideration of HK\$285 million in October 2006. Based on a total floor area of 20,570 sq ft, the average unit price was about HK\$13,855 per sq ft. Besides, six houses in

1-9 Shouson Hill Road East were sold to another local investor for about HK\$280 million in November 2006. Such cases for individual investors purchasing a number of properties at one time were hardly seen in 3Q 2006. Therefore, they revealed that the investment demand in the luxury residential market has returned after potential investors stayed at the sidelines over the first three quarters of 2006.

Divergence in the market

A government land auction was held on 28 November 2006, offering two residential sites for sale, with one at 1 Broadcast Drive, Kowloon Tong, and another one at Area 77, Ma On Shan. The auction for the Kowloon Tong site, which is regarded as a luxury residential area in Kowloon, received active responses from developers. After strong competition among eleven bidders, the site was finally won by Sino Land for HK\$1.94 billion, which is 76% higher than the opening bid at HK\$1.1 billion. Based on a total developable area of 196,592 sq ft, the average land price was HK\$9,868 per sq ft. The second residential site in Ma On Shan attracted 5 developers to participate in the auction. The site was finally won by Cheung Kong at HK\$3.24 billion. With a total developable area of 176,959 sq ft, the average land price was HK\$3,662 per sq ft, representing 35% higher than the opening bid at HK\$2.4 billion.

Comparing the final transacted prices in the auction with the current market level, the average land price of Kowloon Tong's site is close to the sub-market's current apartment price level in the primary sector, and is higher than many surveyors' expectations. After counting different costs during the construction period, the developer's profit and the potential price appreciation, the developer has to mark up a premium of the current land price when they sell the properties two years later. The strong competition in the auction and the final bid price marked developers' confidence for the prospects of the

MAJOR RESIDENTIAL SALE TRANSACTIONS

Month	Property	District	GFA (sq ft)	Price (HK\$ m)	Unit Price (HK\$ / sq ft)
Sep-06	Watford Villa, House 24	The Peak	3,300	72.80	22,061
Oct-06	3 Coombe Road, House 1	The Peak	4,436	150.00	33,814
Nov-06	8 Severn Road, House 3	The Peak	5,067	168.00	33,156
Nov-06	8 Severn Road, House 21	The Peak	3,300	91.80	27,818
Nov-06	Gough Hill Residences, House 5	The Peak	7,857	226.00	28,764
Nov-06	Strawberry Hill, House 18	The Peak	2,880	60.50	21,007
Sep-06	27 Tung Tau Wan Road	South Side	4,273	106.00	24,807
Sep-06	Grosvenor Place, 28/F & 29/F	South Side	4,247	105.00	24,723
Sep-06	Hong Kong Parkview, Tower 15, 18/F, Flat 83	South Side	2,490	30.50	12,249
Sep-06	Redhill Peninsula, Cedar Drive, House 74	South Side	3,020	39.00	12,914
Sep-06	Sea Cliff Mansions, Block B, 8/F, Flat B2	South Side	2,500	25.60	10,240
Sep-06	The Hazelton, House 6	South Side	3,195	42.80	13,396
Oct-06	Grenbelle Garden, House 7	South Side	3,200	50.00	15,625
Oct-06	Redhill Peninsula, Cedar Drive, House B32	South Side	3,020	41.50	13,742
Nov-06	56 Repulse Bay Road, House 47	South Side	4,286	85.00	19,832
Nov-06	Celestial Garden, 12/F, Flat B	South Side	2,363	32.50	13,754
Nov-06	Double Bay, House A6	South Side	4,180	105.00	25,120
Nov-06	Le Palais, House 5	South Side	3,348	39.50	11,798
Nov-06	Manhattan Tower, 17/F, Flat A	South Side	2,243	38.89	17,338
Sep-06	Régence Royale, Tower 2, 15/F, Flat B	Mid-levels	2,522	36.00	14,274
Sep-06	The Albany, 7/F, Flat C	Mid-levels	2,546	36.50	14,336
Sep-06	The Albany, 16/F, Flat A	Mid-levels	2,546	35.50	13,943
Oct-06	26 Magazine Road, 4/F, Flat B	Mid-levels	2,400	34.00	14,167
Oct-06	Régence Royale, Tower 1, 27/F, Flat A	Mid-levels	2,697	53.95	20,004
Oct-06	Victoria Heights, 14/F, Flat B	Mid-levels	2,650	33.80	12,755
Nov-06	Dynasty Court, Tower 4, 34/F, Flat A	Mid-levels	1,962	25.00	12,742
Nov-06	Dynasty Court, Tower 5, 28/F, Flat A	Mid-levels	1,962	20.70	10,550
Nov-06	Estoril Court, Tower 3, 36/F, Flat F	Mid-levels	3,347	36.80	10,995
Nov-06	Grenville House, 10/F, Flat F	Mid-levels	3,700	37.20	10,054
Nov-06	Tavistock, Tower 2, 43/F, Flat C	Mid-levels	1,730	22.38	12,936

Source: Colliers International (Hong Kong) Limited

luxury residential market. Relatively, the average land price of Ma On Shan site is not as high as many market players' expectations. The divergence of developers' response towards the two sites shows that their expectation in the luxury residential market is much stronger than that in the mass market. Moreover, the developers' active acquisition of the luxury site reflected the limited availability of land bank for development in the luxury areas.

Supply continues to be limited

In the luxury residential market, new supply continued to be limited in 2007. The long-term average new supply in the three luxury residential districts, including the Peak, South Side and Mid-levels, is 496 units per year. According to our research,

we expect that there will be 234 units to complete in 2007 in the luxury districts, representing 53% less than the long-term average. Among the three luxury districts, the Peak always provides the least supply. There will be 15 houses expected to complete in the Peak next year, representing 59% less than the sub-market's long-term average. The new luxury supply in South Side and Mid-levels is respectively 52 units and 167 units, representing correspondingly 73% and 38% less than their sub-market's long-term average. As only limited supply is expected in 2007, the current primary stock and the upcoming new units in the luxury districts are able to be sold for premium prices, which has already shown in some transactions in 4Q 2006 listed in the later part of this section.

MAJOR RESIDENTIAL LEASE TRANSACTIONS

Month	Property	District	GFA (sq ft)	Rental (HK\$ / month)	Unit Rental (HK\$ / sq ft / month)
Sep-06	74 Mount Kellett Road	The Peak	3,500	180,000	51.43
Sep-06	Hong Kong Parkview	South Side	2,105	60,000	28.50
Oct-06	101 Repulse Bay Road	South Side	2,400	84,000 *	35.00
Oct-06	South Bay Towers	South Side	1,433	31,000	21.63
Nov-06	3 Repulse Bay Road	South Side	2,161	89,000 *	41.18
Nov-06	Elite Villas	South Side	1,880	50,000	26.60
Nov-06	Repulse Bay Apartments	South Side	2,465	83,000 *	33.67
Nov-06	Three Bays	South Side	3,870	200,000	51.68
Sep-06	Bamboo Grove	Mid-levels	1,844	61,100 *	33.13
Sep-06	Bowen's Lookout	Mid-levels	2,388	88,500	37.06
Sep-06	Queen's Garden	Mid-levels	2,830	84,000 *	29.68
Sep-06	Regent-on-the-Park	Mid-levels	2,700	64,600	23.93
Oct-06	80 Robinson Road	Mid-levels	1,387	44,000 *	31.72
Oct-06	80 Robinson Road	Mid-levels	1,136	31,000 *	27.29
Oct-06	Robinson Place	Mid-levels	1,351	46,000	34.05
Oct-06	Régence Royale	Mid-levels	2,522	112,000	44.41
Nov-06	Bamboo Grove	Mid-levels	1,844	50,300 *	27.28

* Exclusive

Source: Colliers International (Hong Kong) Limited

Sustained leasing demand

As the sales market was seeing improving signs, the luxury leasing sector continued to be supported by strong demand. The average luxury residential rentals edged up 1.6% QoQ from HK\$32.82 per sq ft per month in August 2006 to HK\$33.35 per sq ft per month as at the end of November 2006.

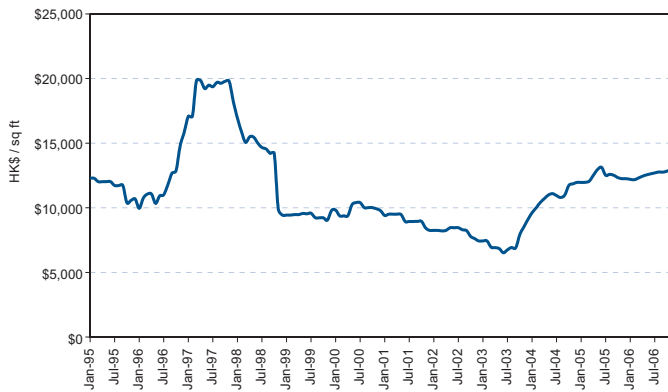
According to the Annual Survey conducted by the Census and Statistics Department of Hong Kong SAR Government, the number of companies in Hong Kong representing parent companies located outside Hong Kong increased 82% YoY to 6,354 as at 1 June 2006. Meanwhile, the number of regional headquarters, offices which have managerial control over offices in the region (i.e. Hong Kong plus one or more other places) on behalf of its parent company located outside Hong Kong, increased 5.2% YoY from 1,167 in mid-2005 to 1,228 in mid-2006. As more regional headquarters locate in Hong Kong, there will be more managerial-level expatriates giving a stronger driving force for the luxury residential leasing market. Not only the favorable factors such as a low and simple tax system and free flow of information, but the upward revised economic growth from 4-5% YoY to 6.5% YoY for 2007 by the government also further enhanced Hong Kong as the destination for foreign/Mainland China companies' regional headquarters.

The Peak

In the Peak, the average luxury residential prices increased 1.5% QoQ to HK\$12,963 per sq ft as at the end of November 2006. Thanks to the public launch of Severn 8 - one of the luxury residential projects developed by Sun Hung Kai Properties, the number of sale transactions in both the primary and secondary market in the Peak during November 2006 was the highest over the past months in 2006. In the case of Severn 8, transacted prices were ranging from HK\$91.8 million to HK\$177 million per house. For example, House 3 was sold for a total consideration of HK\$168 million or an average unit price of HK\$33,156 per sq ft. Meanwhile, House 5 of Gough Hill Residences was sold for HK\$226 million in November 2006, representing the highest lump-sum price of a single house ever transacted in the Peak since 2001. Besides the outperforming sales activity in the brand new houses, the houses in the secondary market were also capable of fetching a high price. House 18 of Strawberry Hill, a benchmark development comprising luxury houses in the sub-market, was sold for HK\$60.5 million in November 2006. The transacted lump-sum price represented a record-high level ever achieved in the development since 1997.

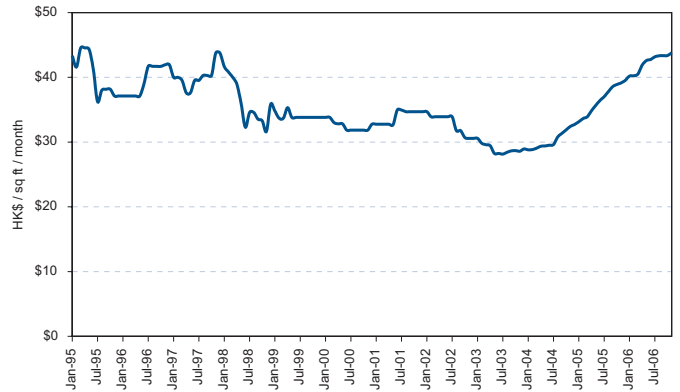
On the leasing front, the average unit rental in the Peak continued its upward growth. During the three-month period from September to November 2006, the average luxury

Luxury Residential Prices - The Peak



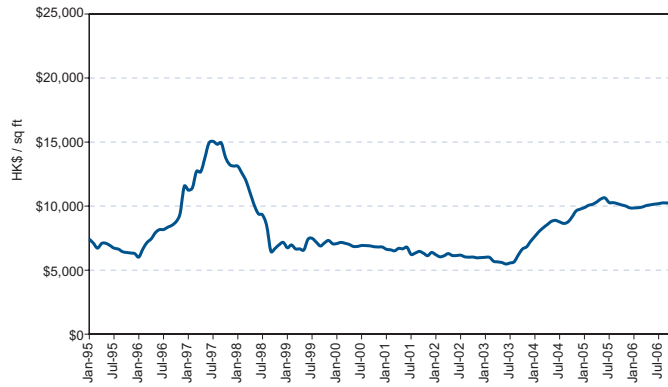
Source: Colliers International (Hong Kong) Limited

Luxury Residential Rentals - The Peak



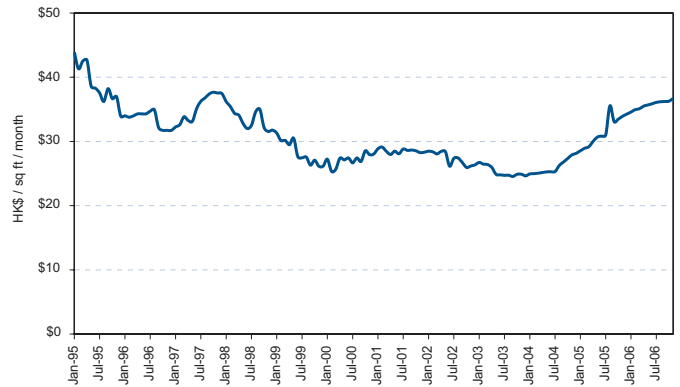
Source: Colliers International (Hong Kong) Limited

Luxury Residential Prices - South Side



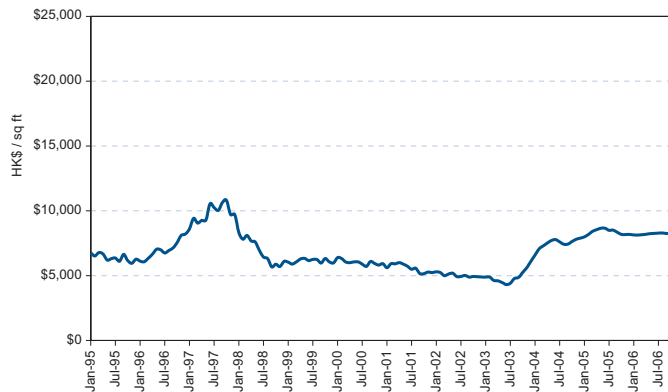
Source: Colliers International (Hong Kong) Limited

Luxury Residential Rentals - South Side



Source: Colliers International (Hong Kong) Limited

Luxury Residential Prices - Mid-levels



Source: Colliers International (Hong Kong) Limited

Luxury Residential Rentals - Mid-levels



Source: Colliers International (Hong Kong) Limited

residential rentals in the sub-market increased 1.1% QoQ from HK\$43.34 per sq ft per month in August 2006 to HK\$43.80 per sq ft per month as at the end of November 2006.

South Side

During the three-month period between September 2006 and November 2006, the average luxury residential price in South Side increased 1.7% QoQ to HK\$10,428 per sq ft. For example, in Hong Kong Parkview, one of the benchmark luxury residential developments in the sub-market, a 2,490 sq-ft unit on the mid-floor zone of Tower 15 was sold for HK\$30.5 million or an average unit price of HK\$12,249 per sq ft in October 2006. Another unit of the same size and orientation on a similar floor zone of Tower 15 was sold for HK\$28.9 million or an average unit price of HK\$11,606 per sq ft in August 2006. After adjusting the floor difference between the two transacted units, the average price of Hong Kong Parkview grew 2.4% from August to October 2006. Pacific View, another popular residential development in the sub-market, also saw a positive growth in its transacted prices. A high-floor unit comprising 1,906 sq ft in Tower 4 was sold for HK\$17.68 million or an average unit price of HK\$9,276 per sq ft in October 2006. Another 2,054 sq-ft unit of similar orientation on the low-floor zone of Tower 3 was transacted at HK\$17 million or an average unit price of HK\$8,277 per sq ft in June 2006. Comparing the two transactions after floor difference adjustment, the average price of Pacific View edged up 1.4% from June to October 2006.

On the leasing front, the average luxury rentals in South Side kept on an upward trend. As at the end of November 2006, the average unit rentals increased 1.4% QoQ to HK\$36.71 per sq ft per month.

Mid-levels

In Mid-levels, the average luxury residential price increased 1.3% QoQ, from HK\$8,289 per sq ft in August 2006 to HK\$8,395 per sq ft as at the end of November 2006. In Tregunter, one

of the benchmark luxury residential developments in the sub-market, active transactions have been seen with positive adjustment in price. For example, a unit, comprising a floor area of 3,050 sq ft, on the high-floor zone of Tower 2 was sold for HK\$24.8 million or an average unit price of HK\$8,131 per sq ft in October 2006. In June 2006, another unit of the same orientation and size at the high-floor zone of Tower 2 was sold for HK\$25 million or an average unit price of HK\$8,197 per sq ft. After adjusting the floor difference, the average price of Tregunter grew 0.68% between June and October 2006. The transactions in Robinson Place, a popular development in the sub-market, can be taken as another example. In November 2006, a low-floor unit at Tower 2, comprising 1,266 sq ft, was sold for an average unit price of HK\$6,951 per sq ft. Another unit at a higher floor level in the same tower, comprising a similar orientation and the same size, was sold for an average unit price of HK\$7,070 per sq ft in September 2006. After adjusting the floor difference between the two transacted units, the average price edged up 1.7% from September to November 2006.

On the leasing front, the luxury residential market saw positive growth in Mid-levels in 4Q 2006. The average luxury unit rentals increased to HK\$29.63 per sq ft per month as at the end of November 2006, representing a growth of 1.9% QoQ.

Market outlook

Looking forward, the luxury residential market is predicted to see a positive growth. It could be attributed to the resuming investment sentiment in anticipation of an interest rate cut in 2007 and the increasing wealth of local residents. Therefore, the capital value is expected to increase 15-20% YoY over the next twelve months. Besides, Hong Kong still has the privilege of being a preferred destination for foreign and Mainland China companies to set up their offices, because of the existing low and simple tax system and the projected stable economic growth next year. Therefore, luxury residential rentals are expected to increase 9% YoY over the next twelve months.

PROSPECTIVE NEW SUPPLY OF SERVICED APARTMENTS

Property	Region	District	No. of units	Anticipated completion	Developer / Landlord
Cheung Wing Road	New Territories	Kwai Chung	648 *	2007	Tung Chun
MTR Kowloon Station (Package VI)	Tsim Sha Tsui fringe	Jordan	700 #	2007	SHK Properties / MTRC
URA (K11), Hanoi Road	Tsim Sha Tsui	Tsim Sha Tsui	345	2007	URA / New World

* Estimated figures

Hotel rooms and serviced apartment units are included

Source: Colliers International (Hong Kong) Limited

CONSENT TO SELL RESIDENTIAL UNITS

District	Development	No. of units	Estimated completion	Developer
September 2006				
IL 8953 s.A & s.B	The Zenith	652	30-Jun-07	Chinese Estates/URA
October 2006				
IL 8969 s.B.	Villa Bel-Air On the Peak, Island South (Phase V)	29	31-Dec-07	Hong Kong Cyberport (Ancillary Development) Limited
STTL 487	Sausalito	1,030	31-Mar-08	Cheung Kong
November 2006				
Lot 1738 RP in DD 122	Mega Town	49	30-Apr-07	Asia Standard International Group Limited
TWTL 407 RP	H Cube	440	31-Mar-07	Nan Fung Textiles Consolidated Limited

Source: Lands Department, HKSAR Government

PROJECTED NEW SUPPLY OF LUXURY RESIDENTIAL UNITS IN 2007

Development	* House	* Apartment	Developer / Owner	No. of units	Status
Peak					
3-5 Plunkett's Road	6 @ 4-s	-	Tai Cheung Properties Holdings Ltd	6	Under Construction
10, 12, 16 & 18 Pollock's Path	4 @ 4-s	-	The Sun's Group Limited	4	Under Construction
30 Peak Road	1 @ 3-s	-	Ho's Investment	1	Under Construction
46 Plantation Road The Peak	4 @ 3-s	-	Park Talent Dev Ltd	4	Under Construction
South Side					
22A, 22B, 22C, 22D Shouson Hill Road	3 @ 3-s	-	Cheung Kong	3	Under Construction
66-72 Mount Davis Road	-	1 @ 13-s	Y.K. Pao's Fund	10	Under Construction
77 Deep Water Bay Road	1 @ 3-s	-	Chojung Co Ltd	1	Under Construction
124 Pokfulam Road	-	1 @ 22-s	Shun Tak Holdings Limited	10	Under Construction
216 Victoria Road	-	2 @ 4-s	Lo & Son Land Invest Co Ltd	28	Under Construction
Cyberport Road Telegraph Bay, Pokfulam (Stages 10-12)	29 @ 4-s	-	PCCW, HKSAR Government	29	Under Construction
Cyberport Road Telegraph Bay, Pokfulam (Stages 10-12) (Towers 10-18)	-	2 @ 28-s, 2 @ 34-s, 2 @ 40-s, 2 @ 41-s	PCCW, HKSAR Government	709	Under Construction
Mid-levels					
12 Tung Shan Terrace	-	1 @ 7-s	Emperor Group	18	Under Construction
31 Robinson Road	-	1 @ 30-s	Kowloon Development	84	Under Construction
39 Conduit Road	-	1 @ 45-s	Henderson Land	65	Under Construction

Note: * No. of blocks @ No. of storey

Source: Colliers International (Hong Kong) Limited

INDUSTRIAL MARKET

INDUSTRIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$/sq ft/month)			Capital Values (HK\$/sq ft)			Yields		
	Nov 05	Nov 06	Nov 07 (f)	Nov 05	Nov 06	Nov 07 (f)	Nov 05	Nov 06	Nov 07 (f)
Factory	6.37	6.96	7.79	949	1,101	1,266	8.06%	7.58%	7.39%
Warehouse	6.25	6.71	7.38	880	990	1,109	8.53%	8.13%	7.99%
I-O Building	10.91	12.20	14.03	1,884	2,150	2,473	6.95%	6.81%	6.81%

Source: Colliers International (Hong Kong) Limited

HONG KONG IMPORTS AND EXPORTS

Date	Imports (HK\$m)	% change (YoY)	Domestic Exports (HK\$m)	% change (YoY)	Re-exports (HK\$m)	% change (YoY)
Aug-04	553,031	20.4%	34,921	1.7%	499,721	19.9%
Nov-04	557,543	13.1%	34,985	10.5%	515,569	16.0%
Feb-05	508,065	11.1%	27,442	-0.7%	459,457	15.1%
May-05	567,886	7.4%	25,946	-9.3%	508,598	10.6%
Aug-05	608,055	9.9%	36,066	3.3%	557,786	11.6%
Nov-05	628,750	12.8%	44,073	26.0%	579,945	12.5%
Feb-06	567,931	11.8%	36,646	33.5%	495,762	7.9%
May-06	622,761	9.7%	32,475	25.2%	543,020	6.8%
Aug-06	676,347	11.2%	38,693	7.3%	609,300	9.2%
Nov-06	703,083	11.8%	32,337	-26.6%	647,016	11.6%

End of 3-month period

Source: HKSAR Government

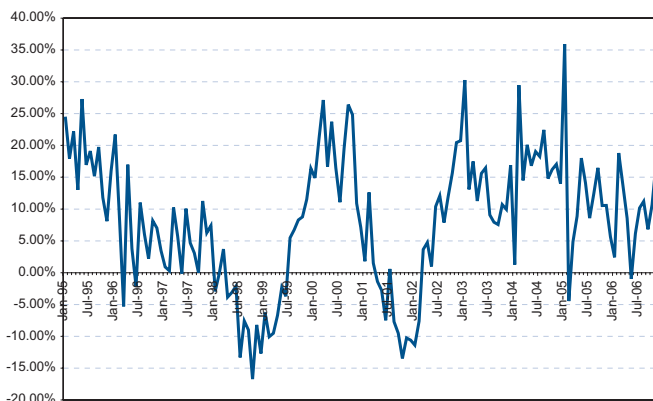
Re-exports growth picking up

Against the backdrop of sustained economic growth in the Mainland and buoyant demand for imports in a number of overseas markets, the total throughput volume of re-exports in Hong Kong continued to benefit according to the latest statistics during the three-month period between September to November 2006. The total volume of re-exports showed signs of re-acceleration to grow 11.6% year-on-year ("YoY") to reach an all-time high of HK\$647 billion during the period.

A rental slowdown

Despite the trend of re-acceleration of re-exports, industrial property rental growth continued to taper off from 1.3% quarter-on-quarter ("QoQ") in 3Q 2006 to about 1% QoQ during 4Q 2006. Factory rentals edged up mildly by 1.1% QoQ to HK\$6.96 per sq ft per month as at the end of November 2006. Warehousing rentals staged a flat growth of 0.5% QoQ to HK\$6.71 per sq ft per month during the same period. Meanwhile, rentals in industrial-office buildings ("I-O") increased 0.8% QoQ to HK\$12.20 per sq ft per month.

Re-export trades year-on-year growth



Source: Census and Statistics Department, HKSAR Government

Sale market remained active

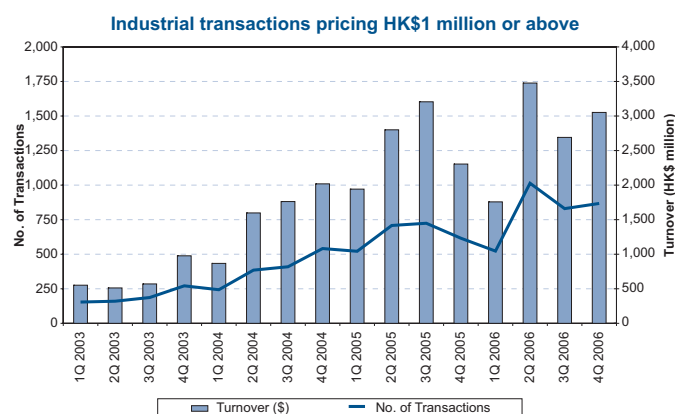
Although industrial rentals were relatively flat, industrial capital values remained buoyant across the board with the growth rates averaging at around 4% QoQ during 4Q 2006 thanks to the continued investment demand attributed to the overseas funds and local industrialists. In the factory sector, average capital value increased 4.2% QoQ to HK\$1,101 per sq ft as at the end of November 2006. In the warehousing sector, average property prices increased 3.6% QoQ to HK\$990 per sq ft while average prices in the I-O sector rose 3.5% QoQ to HK\$2,150 per sq ft as at the end of November 2006.

MAJOR EN-BLOCK INDUSTRIAL TRANSACTIONS (SEPTEMBER - NOVEMBER 2006)

District	Property	GFA (sq ft)	Price (HK\$ million)	Average Price (HK\$ / sq ft)	Purchaser
Shatin	Health Plus Centre	173,600	180.0	1,037	International company
Kwun Tong	Tin's Second House	107,000	150.0	1,402	Local company
Kwun Tong	CFC-CATIC Building	56,200	86.6	1,542	Local investor
Fanling	Lamex Warehouse	110,000	81.0	736	Local investor
Yuen Long	Kerry Godown (Yuen Long 1)	321,000	233.0	726	International fund
Fanling	Kerry Godown (Fanling 2)	137,700	112.0	813	International fund
Yuen Long	Hung Wai Industrial Building	262,300	130.3	497	Local investor

Source: Colliers International (Hong Kong) Limited

In terms of the total number of sales transactions, the industrial property market remained active since there has been a steady group of industrials looking to acquire quality premises for their occupational purpose. The situation has been helped by the unexpected rate cut in November 2006 and the projection of a further rate cut in 2007. During the three-month period ending in November 2006, the number of sales transactions edged up 0.9% QoQ to 1,615 but the total value of sale transactions increased 11.1% QoQ to HK\$3,534 million due to the increase of whole-block transactions during the period. The breakdown of the total number of sales transactions shows that the transactions with lump sum consideration of HK\$1 million or above increased 4.5% QoQ during 4Q 2006 but the total value rose significantly by 13.4% during the period.



Source: EPRC

Prefer buy to lease

In addition to the performance in 4Q 2006, capital values have been going faster than rental values during the full year of 2006. The average rental growth amongst the three industrial sub-sectors was in range of 7-12% per annum. Meanwhile, capital values increased 13-16% in 2006. The trend illustrates that an increasing number of industrial tenants have turned purchasers. The bulk of them prefer buy to lease primarily due to attractive borrowing rates, and more importantly the expectation of further capital appreciation if interest rates are to come down in 2007.

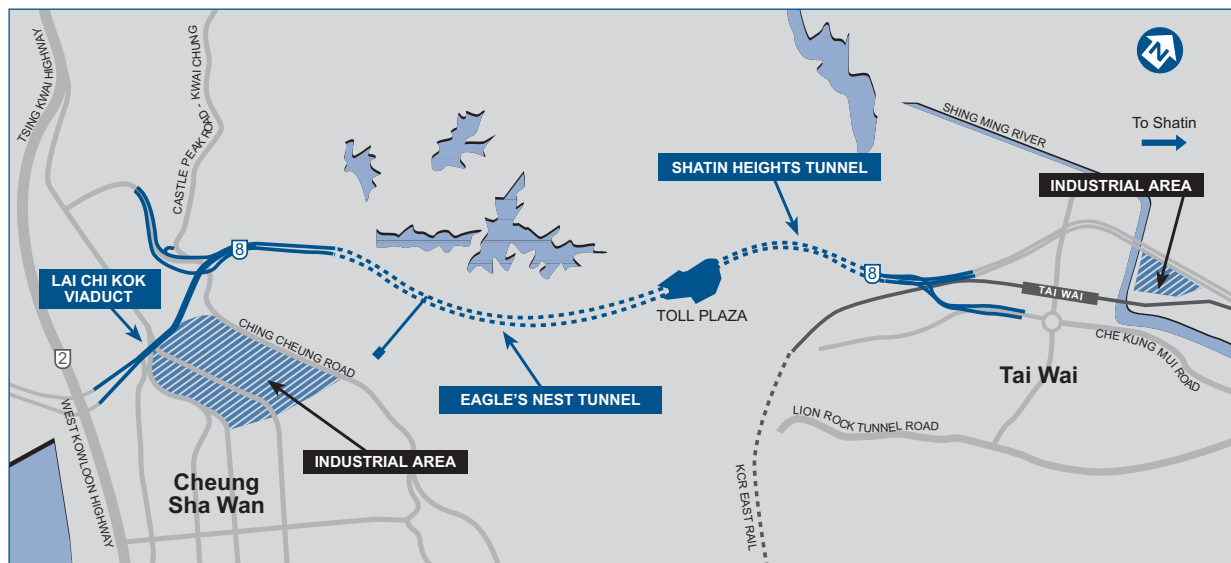
Investment demand

On the investment front, the demand for industrial properties remained buoyant during the three-month period between September and November 2006. The number of whole-block transactions grew significantly in 4Q 2006 since the number and the value of sales transactions with lump-sum consideration at HK\$10 million or above surged 5.1% and 34.2% respectively during the period.

A number of quality developments have been snapped up by purchasers for long-term investment. Amongst the various purchasers, the appetite of the institutional investors showed no sign of abating in terms of expanding their property portfolios in Hong Kong. For example, two whole-block godown facilities have been acquired by an international fund. The first one is Kerry Godown (Yuen Long 1) in Yuen Long which was sold for HK\$233 million or an average unit price of HK\$726 per sq ft. The second one - Kerry Godown (Fanling 2) in Fanling was transacted for HK\$112 million or an average unit price of HK\$813 per sq ft. In addition, the list above is the full list of major whole-block transactions concluded during the three-month period between September and November 2006.

Logistics warehousing

The acquisition of Kerry Godown was in fact a point of reference during the current demand cycle for logistics warehouses. Essentially, a sustained group of logistic companies has been in the market looking to take on additional space for expansion. The prime focus continues to be the quality facilities located at Tsuen Wan and Kwai Chung. For example, ATL Logistics Centre in Kwai Chung was virtually fully-occupied. The lack of available space in quality logistic warehouses has prompted a group of logistics companies to take on bulk space in quality industrial buildings. However, with limited available supply in the marketplace, individual investors/developers have chosen the route of redevelopment despite the involvement of additional risk.

ROUTE 8 - CHEUNG SHA WAN AND SHATIN SECTION

Source: HKSAR Government, Colliers International (Hong Kong) Limited

For example, Ever Gain Group, a Japanese company engaged in investment and development of industrial properties in Hong Kong, has acquired over 90% undivided shares in Lok Shun Factory Building and Lok Shun Seaview Factory Building in Tsuen Wan for a total consideration of HK\$520 million in an attempt to redevelop the site into a logistics centre with a sizeable scale of over 860,000 sq ft.

Office de-centralisation

Taking a boarder perspective, quality industrial properties continued to benefit from the positive spillover of the buoyant office market since a number of companies have been relocating out of the traditional business districts to less expensive areas including some of the industrial districts e.g. Cheung Sha Wan. According to our research, the rental gap between the office rentals in traditional business district and industrial rentals in Cheung Sha Wan narrowed. As at the end of November 2006, the average rent of I-O buildings in Cheung Sha Wan was between HK\$13-14 per sq ft per month. Going forward, the window of opportunity for tenants relocating to Cheung Sha Wan will close as the rental gap between the district and the traditional office districts narrows. The prospective rental savings generated might not be sufficient to cover the relocation costs and other relocation expenses. As such, tenants might have to shift their attention to other areas such as Kwai Chung where industrial rentals are currently fetching a significant discount to the office rentals in traditional business districts.

Transformation of Kwai Chung

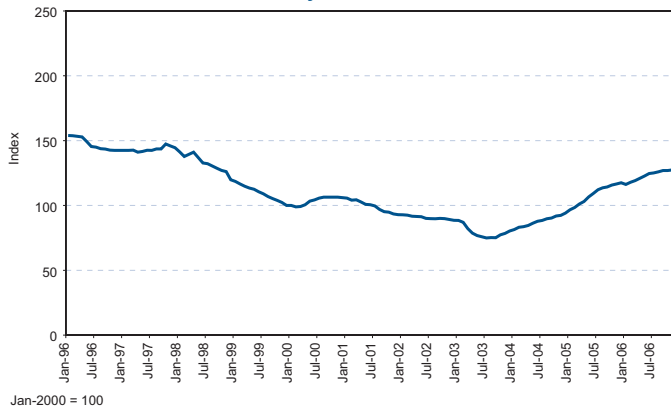
In addition to the trend of relocation, the whole district of Kwai Chung is going to transform into a new centre for office

and industrial tenants. According to the latest statistics, Sun Hung Kai Properties has already started a major redevelopment scheme at Tai Lin Pai Road, Kwai Chung. Upon completion in 2008, the development will be an office/retail complex with a total floor area of about 1 million sq ft. It is our view that the completion of this sizeable project will trigger a spate of redevelopment schemes in the districts, which is expected to transform the whole area into an emerging business district resembling the success of Millennium City in Kwun Tong. Taking a forward looking strategy, a number of prospective purchasers might be tempted to enter the market in order to reap future gains upon the materialisation of the future transformation.

Market outlook

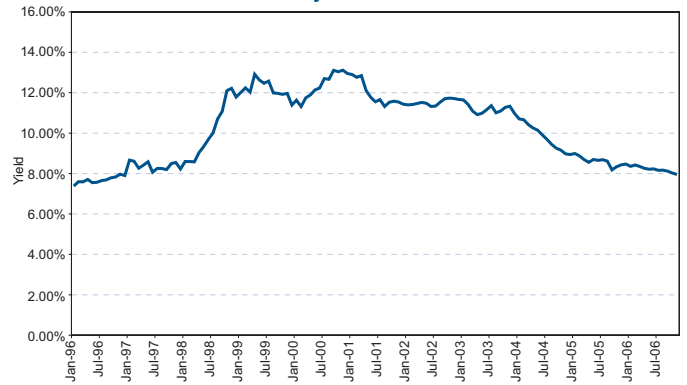
Looking ahead, in anticipation of the sustained economic growth in the Mainland and the resilient demand for imports in the key overseas markets, the industrial property market in Hong Kong is expected to benefit from further growth in the volume of re-exports throughput in 2007. Given the continued growth in the traditional office sector, the local industrial property market is predicted to advance further in 2007. Together with the completion of a number of infrastructure links in Hong Kong, individual sub-markets are going to see exceptional growth given the overall enhancement of transportation efficiency. Essentially, it is our view that rental and capital values in the industrial property market are going to increase 10-15% during the course of 2007.

Factory Rental Index



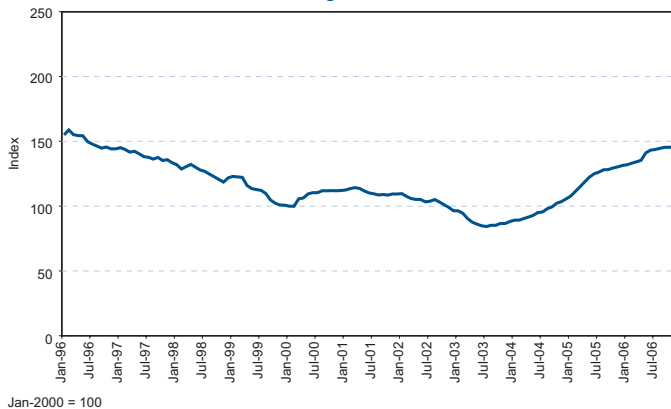
Source: Colliers International (Hong Kong) Limited

Factory Rental Yield



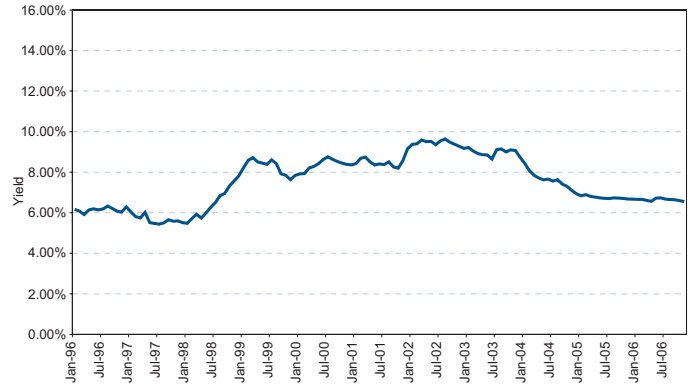
Source: Colliers International (Hong Kong) Limited

I-O Building Rental Index



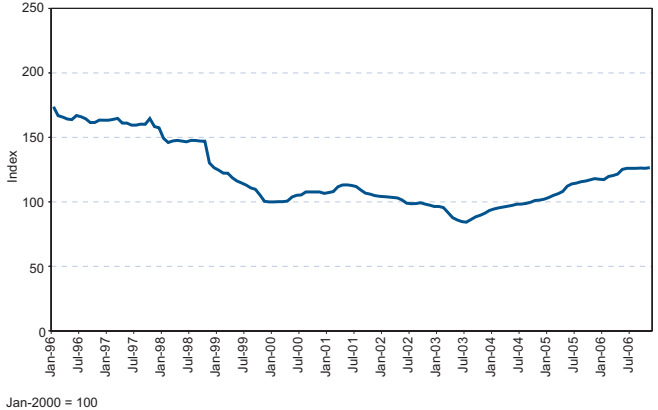
Source: Colliers International (Hong Kong) Limited

I-O Building Rental Yield



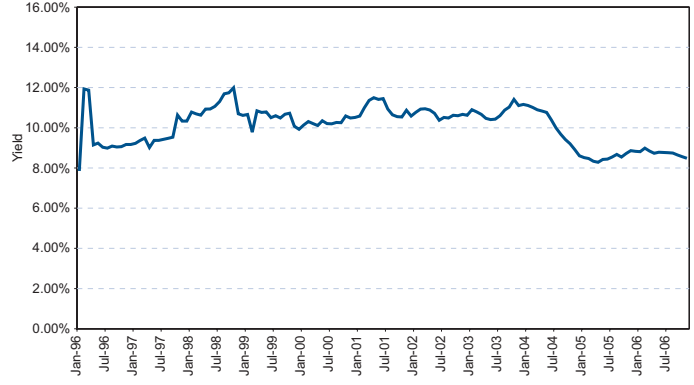
Source: Colliers International (Hong Kong) Limited

Warehouse Rental Index



Source: Colliers International (Hong Kong) Limited

Warehouse Rental Yield



Source: Colliers International (Hong Kong) Limited

RETAIL SECTOR

Solid support for retail sales

During the three-month period between September and November 2006, the value of retail sales was over HK\$51 billion, indicating a growth of 7.3% YoY. The notable growth of retail sales was on the back of increase in both locals' and visitors' consumption. Spending by inbound visitors has been acting as a solid support for local retail sales. Cumulatively, the visitor arrivals for the first eleven months in 2006 increased 8.0% YoY to over 22.8 million. According to the origin of inbound visitors, those who came from the Mainland China represented 54% of the total in 2006. The number of visitor arrivals will grow further as the existing Individual Visit Scheme ("IVS") is made available for application by more citizens in China. According to the Policy Address announced in October 2006, the latest IVS effective from 1 January 2007 covers five additional areas in China - Shijiazhuang in Hebei, Zhengzhou in Henan, Changchun in Jilin, Hefei in Anhui and Wuhan in Hubei, representing a total number of eligible visitors of 36.5 million.

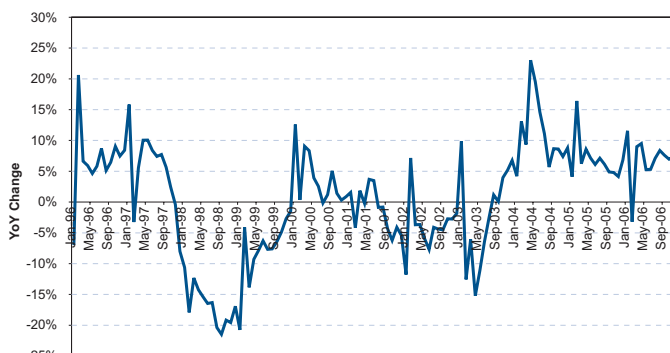
In addition, local consumption has been getting stronger and stronger over the past year. Particularly in 4Q 2006, the spillover of the outperforming stock market on the locals' wealth effect stimulated consumption sentiment. In terms of fundamentals, the unemployment rate dropped further to 4.4% over the period from September to November 2006, representing the lowest level seen since the beginning of 2001. Job security across the board generally stayed at a high level, and upward salary adjustment in 2007 is widely expected by many employees.

Local malls

Over the past two years, the majority of retailers have been focusing on opening their shops in the traditional shopping districts in urban areas such as Mong Kok, Tsim Sha Tsui, Causeway Bay and Central. Their strategy was an attempt to capture the spending of visitors, of which the arrival number has been seeing a sustained increase since the implementation of IVS in mid-2003. Instead of paying full attention to the tourists' spending, the improving local consumption sentiment and capability raised retailers' concerns to capture the residents' spending. For example, APM in Kwun Tong, a 630,000 sq ft shopping mall located outside the traditional shopping districts, has received high popularity since its opening in 2005. Locating in proximity to nearby residential areas in Kowloon East, and with a specified theme of late-night shopping shows its position targeting the local community. According to the annual report 05/06 of its developer, APM is virtually fully-let.

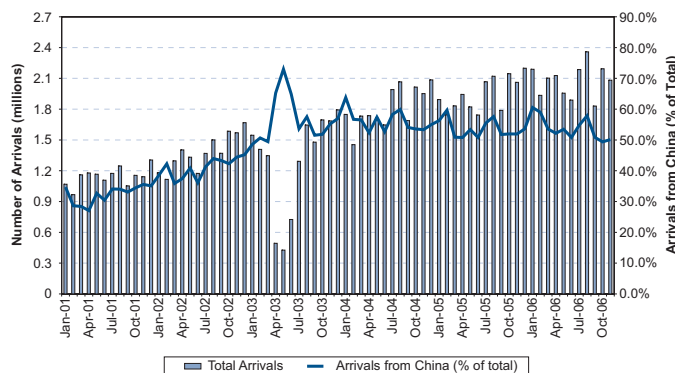
In addition, retailers also extended their attention to the communities in the New Territories. Due to the high population density in Kowloon and Hong Kong Island, population mobility to the New Territories was noticed. According to the Census statistics, the proportion of total population saw a decrease in Hong Kong Island and Kowloon while that of the New Territories demonstrated an increase over the ten-year period between 1991 and 2001. In addition to the public housing estates which formed the major component in the New Territories, many private developers have been making use of the spacious areas to develop large-scale quality residential projects. These projects do not only comprise various facilities in the club houses serving their own residents, some of them also include sizeable shopping malls attracting consumption of nearby communities.

Total Retail Sales



Source: Census and Statistics Department, HKSAR Government

Visitor Arrivals from China



Source: Hong Kong Tourism Board

Some shopping malls in Shatin and Tsuen Wan, two well-developed new towns in the New Territories, demonstrate as the successful examples. However, there are only limited well-managed shopping malls in the New Territories, especially in the northern part, to meet the chain-store and branded retailers' demand. It is expected that upcoming large-scale supplies, for example, the approximately 1 million sq ft shopping centre in Yoho Town in Yuen Long, will draw the attention of the retailers who plan to export their businesses to local communities in the New Territories.

Sales transactions in de-centralized areas

Due to the buoyant leasing demand for shopping centres in non-core areas, investment demand has been on the rise as indicated by the number of sizeable sale transactions registered in 4Q 2006. For example, the retail portion and some car parking spaces of Ocean Shores, a residential development located in Tseung Kwan O, were sold by Swire Properties to a local investor for a total consideration of approximately HK\$84 million in November 2006. Another example was the sale of Allway Gardens Shopping Arcade in Tsuen Wan by Hopewell Holdings to a local investor for a total consideration of HK\$221.8 million. Based on a total rentable floor area of 161,722 sq ft, the average unit price was HK\$1,371 per sq ft.

Sub-market analysis

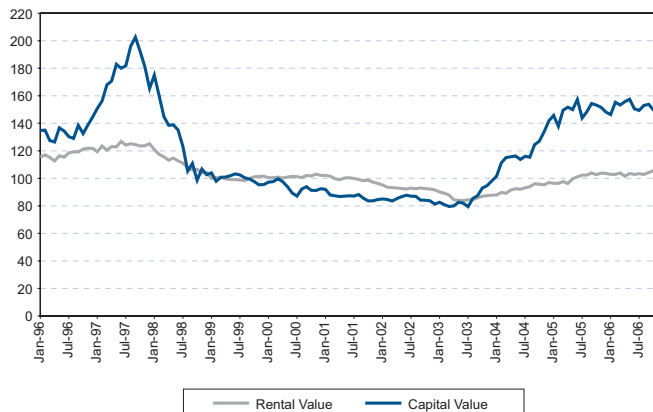
In 4Q 2006, one of the most encouraging market signals was the end of the rental consolidation which had lasted for four quarters from 4Q 2005 to 3Q 2006. The key reason was the stronger-than-expected retail sales attributed to local consumption expenditure. Average retail rental in the traditional shopping areas saw positive growth again in 4Q 2006. According to our research, the average retail rental in the four traditional shopping districts edged up 2% QoQ from HK\$314 per sq ft per month in August 2006 to HK\$320 per sq ft per month as at the end of November 2006.

In Mong Kok, the average retail rental increased 2% QoQ to HK\$295 per sq ft per month as at the end of November 2006. The key characteristic of the sub-market is that there are a number of medium size shopping malls which have been leased to a range of different tenants occupying 100 sq ft to 1,000 sq ft per shop. One of the latest examples is Bank Centre Mall, situated close to the exit of the Mass Transit Railway (MTR) Mong Kok station. In November 2006, a local jewellery shop rented a ground-level unit of the Mall for a monthly rental of HK\$550,000. Based on the shop area of 2,000 sq ft, the average unit rental was HK\$275 per sq ft per month.

In Tsim Sha Tsui, the average unit rental increased 1% QoQ from HK\$290 per sq ft per month in August 2006 to HK\$294 per sq ft per month in November 2006. Canton Road has been a well-known destination for international labels. Meanwhile, an international retail chain rented a ground-floor unit at Silvercord Arcade, 30 Canton Road for a monthly rental of HK\$1.4 million. Based on the total floor area of approximately 2,000 sq ft, the average unit rental was HK\$700 per sq ft per month.

On the sales front, the market transactions showed that investors were discovering potential side-streets in the sub-market. Since the construction of the various redevelopment or renovation projects is currently under way in the sub-market, side-streets situated close to these projects have been favoured by investors. For example, Hankow Road, located next to the redevelopment of the ex-Hyatt Regency Hotel, is building its popularity in the market. In the past year, the ground-floor and the first floor of Hong Kong Pacific Centre in Hankow Road was renovated and sub-divided into various duplex retail units, where several well-known brands ranging from an ice-cream shop to fashion stores are located now. Not only retailers choose to open shops there, investors also showed their interest in acquiring premises in the locality. For example, in October 2006, a ground-level shop 3 at Hankow Centre Arcade, Hankow Road was sold for HK\$12.5 million. Based on a floor area of about 580 sq ft, the average unit price was HK\$21,552 per sq ft.

In Causeway Bay, the average retail rental increased 2% QoQ to HK\$346 per sq ft per month in November 2006. The overall occupancy rate in the sub-market remained buoyant. Prospective tenants are always there in the market looking to secure any prime units due for possession. For example, McDonald's, an international fast food chain store, took the 1st floor with a direct ground-floor entrance in Soundwill Plaza. As the shop is located opposite to Times Square, one of busiest shopping malls in the sub-market, it was leased for a benchmark rental of HK\$730,000 per month. Based on a floor area of about 2,500 sq ft, the average unit rental was about HK\$292 per sq ft per month. Another benchmark transaction in 4Q 2006 was the leasing deal at Yun Ping Road - the high-traffic area in Causeway Bay. In November 2006, a ground-level shop at 19 Yun Ping Road was rented to a famous watch distributor for a monthly rental of HK\$490,000. With a total shop area of about 1,200 sq ft, the average unit rental was HK\$408 per sq ft per month.

Retail Property Index

Source: Rating and Valuation Department, HKSAR Government

In Central, the average retail rentals increased 3% QoQ from HK\$343 per sq ft per month in August 2006 to HK\$353 per sq ft per month as at the end of November 2006. As usual, leasing demand has been strong given the fact that the sub-market is the key shopping district situated in the heart of the central business district of Hong Kong Island. Popular streets such as D'Aguilar Street remained the first priority for most branded retailers to capture customers' patronage and promote

their market image to the passers-by. In November 2006, a ground-level shop with basement at 14-18 D'Aguilar Street was rented by a chain store for a monthly rental of approximately HK\$250,000 per month or an average unit rental of about HK\$125 per sq ft per month.

Market outlook

Essentially, retail rentals of the four major shopping districts have returned to positive growth again in 4Q 2006. It is an encouraging sign not only because the bulk of retailers are positive towards their business growth in 2007, but also it serves as a good reason for a number of investors coming back to the market.

Given the continued improvement of employment conditions and the expectations of salary rises in 2007, local consumption is expected to stage further growth. Coupled with the growing number of visitor arrivals, the scenario of further rise of retail sales looks very positive. Going forward, it is our prediction that the average retail rentals and capital values will grow by 8% YoY and 17 % YoY respectively in 2007.

INDICATIVE RETAIL RENTALS BY MAJOR DISTRICTS

Street Name	Section of Street	Retail Rentals (HK\$ per sq ft) Aug-06	Retail Rentals (HK\$ per sq ft) Nov-06
Mongkok			
Nathan Road (northern section)	From Mongkok Road to Prince Edward Road	140	140
Nathan Road (southern section)	From Dundas Street to Mongkok Road	290	300
Sai Yeung Choi Street (northern section)	From Mongkok Road to Prince Edward Road	230	230
Sai Yeung Choi Street (southern section)	From Dundas Street to Mongkok Road	500	510
Average		290	295
% Change (QoQ)		-4%	2%
Central			
Queen's Road Central	From Garden Road to Pottinger Street	440	460
Des Voeux Road Central	From Garden Road to Pottinger Street	290	300
D'Aguilar Street	N/A	300	300
Average		343	353
% Change (QoQ)		-1%	3%
Tsim Sha Tsui			
Nathan Road	From Salisbury Road to Austin Road	330	330
Cameron Road	N/A	200	190
Peking Road	N/A	350	360
Haiphong Road	N/A	350	360
Granville Road	N/A	220	230
Average		290	294
% Change (QoQ)		-3%	1%
Causeway Bay			
Hennessy Road	From Canal Road to Yee Wo Street	260	270
Yee Woo Street	N/A	330	330
Lockhart Road	From Canal Road to East Point Road	270	270
Russell Street	N/A	610	630
Percival Street	N/A	220	230
Average		338	346
% Change (QoQ)		-2%	2%
Overall			
		314	320
% Change (QoQ)		-3%	2%

N/A = Not Applicable

Source: Colliers International (Hong Kong) Limited



241 Offices Worldwide

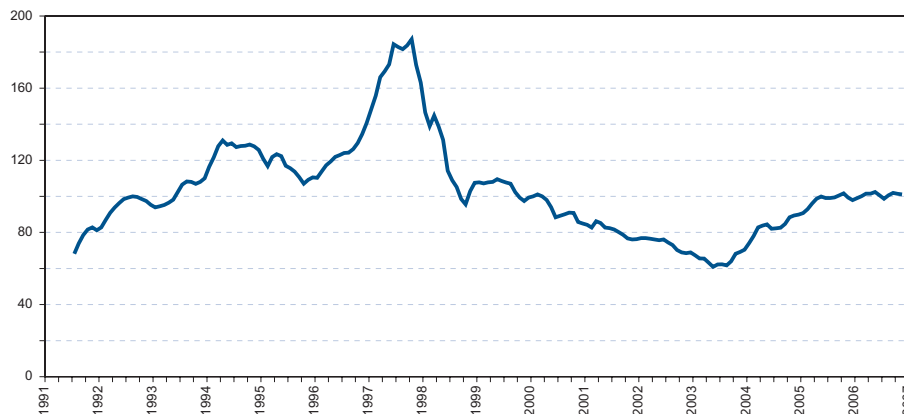
130 Americas
98 United States
18 Canada
14 Latin America
65 Europe, Middle East & Africa
46 Greater Asia

54 Countries on 6 Continents

Argentina	Malaysia
Australia	Mexico
Austria	Netherlands
Belgium	New Zealand
Brazil	Norway
Bulgaria	Peru
Canada	Philippines
Chile	Poland
China	Portugal
Colombia	Romania
Croatia	Russia
Czech Republic	Saudia Arabia
Denmark	Serbia & Montenegro
Estonia	Singapore
Finland	Slovak Republic
France	South Africa
Germany	South Korea
Greece	Spain
Hungary	Sweden
India	Switzerland
Indonesia	Taiwan
Ireland	Turkey
Israel	Ukraine
Italy	United Arab Emirates
Japan	United Kingdom
Latvia	United States
Lithuania	Vietnam

THE UNIVERSITY OF HONG KONG REAL ESTATE INDEX SERIES (HKU-REIS)

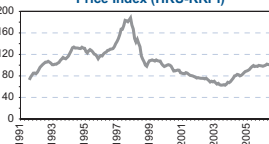
HKU All Residential Price Index (HKU-ARPI)



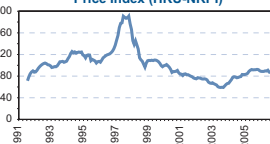
HKU Hong Kong Island Residential Price Index (HKU-HPRI)



HKU Kowloon Residential Price Index (HKU-KPRI)



HKU New Territories Residential Price Index (HKU-NPRI)



(Jan 2000 = 100)

	-3 Years	-1 Year	- 6 Months	- 3 Months	- 1 Month	Current Month (January 2007*)
Indices						
HKU-APRI	69.2	99.3	102.4	100.6	101.4	101.1
HKU-HPRI	73.1	108.6	114.0	112.5	115.2	115.1
HKU-KPRI	67.4	98.7	101.2	101.6	100.7	100.8
HKU-NPRI	66.3	89.8	91.0	87.2	87.2	86.4
% Change						
HKU-APRI	46.1%	1.8%	-1.3%	0.5%	-0.3%	-
HKU-HPRI	57.5%	6.0%	1.0%	2.3%	-0.1%	-
HKU-KPRI	49.6%	2.1%	-0.4%	-0.8%	0.1%	-
HKU-NPRI	30.3%	-3.8%	-5.1%	-0.9%	-0.9%	-

* The most recent index values are based on transactions that took place in the calendar month before the previous month (i.e. up to 6 weeks ago) as it takes time for these transactions to be registered with the Land Registry.

Source: Versitech Limited, the Technology Transfer Office of The University of Hong Kong, 2006

- According to Housing Authority, the total number of residential units available for sale have added up to 59,000 as at the end of December 2006. Individual commentator indicates that it will take about 5 years to absorb all the units based on an average take up rate of 12,000 units per annum in the primary market.
- Due to the impact of the weakening of the Hong Kong dollar, the gradual appreciation of Reminbi and the continued rise in housing rents, the change in consumer prices edged up to 2.3% year-on-year (YoY) in December 2006.
- The Housing Authority received 14,000 applications for the first stage of 3,056 surplus Home Ownership Scheme (HOS) flats. It was an encouraging signal showing the underlying demand for housing units in Hong Kong.

Source: Colliers International (Hong Kong) Limited

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