



The Knowledge

MARKET OVERVIEW | JANUARY | 2008



MARKET TRENDS

OFFICE



LUXURY RESIDENTIAL



INDUSTRIAL



RETAIL



Market Summary

OFFICE SECTOR

- Grade A office rentals remained resilient thanks to the buoyant sub-market in Central. However, due to the anticipated completion of a spate of new developments in Kowloon East, the sub-markets in Island East and Kowloon East were essentially flat. All in all, the average Grade A office rental increased 6.6% quarter-on-quarter (QoQ) to HK\$56.32 per sq ft per month as at the end of November 2007.
- The combined effect of the recent financial credit crisis and quantum of new supply in Kowloon East, we predict that the pace of rental growth in the overall Grade A market is going to slow to 3% per annum in 2008, but Central will outperform the market.

LUXURY RESIDENTIAL SECTOR

- Due to the prospective trend of rising inflation and falling interest rate cuts, more prospective property purchasers entered the market in 4Q 2007. The average luxury residential price increased 9.4% QoQ to HK\$11,846 per sq ft as at the end of November 2007.
- Luxury residential rentals and prices are to rise 15% and 25% per annum respectively in 2008. The pace of rental and capital appreciation might surpass market expectations on the upside should there be any faster-than-expected growth in local inflation and deeper-than-expected rate cuts in the US over the next 12 months.

INDUSTRIAL SECTOR

- Thanks to the sustained growth in external trades, buoyant cargo throughput and rising local consumption expenditure, warehouse rentals increased 3.2% QoQ to HK\$7.32 per sq ft per month as at the end of November 2007.
- Warehousing rentals are predicted to rise 8% YoY in 2008 but factory and industrial-office (I-O) rentals will go relatively flat. Given the sustained investment demand, capital values are expected to achieve 15-18% year-on-year (YoY) growth in 2008.

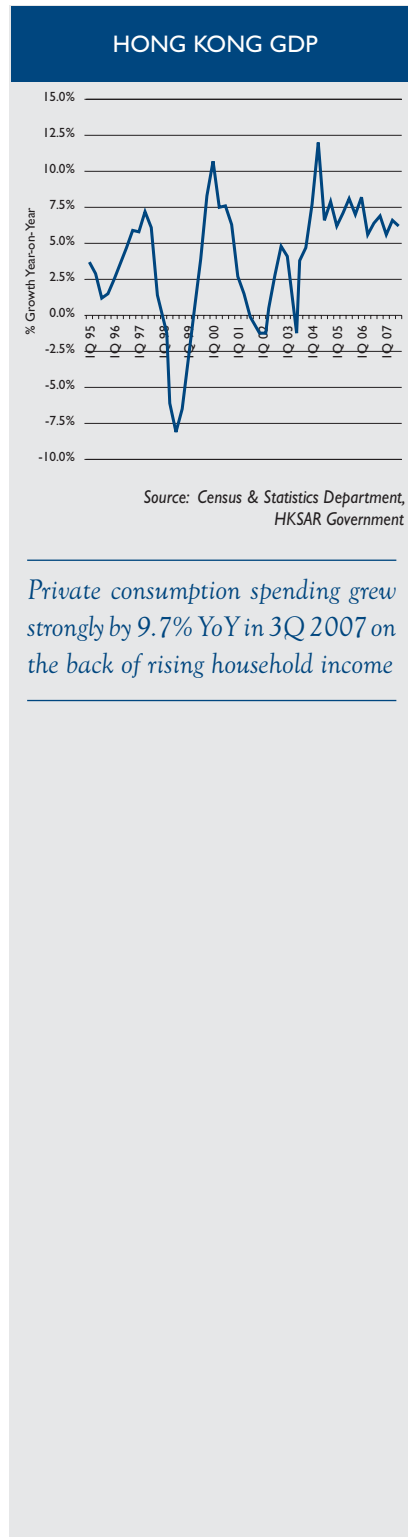
RETAIL SECTOR

- Thanks to the wealth effect created by the booming stock market and the buoyant local spending sentiment throughout 4Q 2007, the retail rental index for traditional shopping districts increased 3% QoQ in 4Q 2007.
- Against the backdrop of rising consumption expenditure and the positive knock-on effect to the volume of retail sales, it is our prediction that average retail rentals and capital values will grow 28% YoY and 30% YoY respectively in 2008.

EXECUTIVE SUMMARY

ECONOMIC INDICATORS	MEASURE	2006	2007	2008	2009	2010	2011	2012
GDP	YoY % Change	6.8	6.1	4.5	5.6	5.4	5.2	5.2
Population growth (mid-year)	YoY % Change	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Average consumer prices	Rate (%)	2.0	2.0	3.3	3.3	3.0	2.9	2.9
Average unemployment rates	Rate (%)	4.8	4.0	3.9	3.9	3.7	3.8	3.7
Best lending rate	Rate (%)	7.9	7.8	7.4	7.7	7.8	8.0	8.0
Average real wage	YoY % Change	0.4	0.9	0.2	0.2	0.6	0.8	0.7

Source: The Economist Intelligent Unit; Hong Kong SAR Government; Colliers International (Hong Kong) Limited



A CATCH UP IN PRIVATE CONSUMPTION

Thanks to the notable growth of merchandise exports and the significant catch up of local private consumption expenditure, the local economy forged further ahead with gross domestic product (GDP) increased by 6.2% year-on-year (“YoY”) in 3Q 2007. The breakdown of GDP components indicated that merchandise exports continued to perform well due to the strong EU market. In addition, exports of services posted a dramatic growth of 12.3% YoY due to the sustained contribution from inbound tourism and the active financial market. Meanwhile, private consumption spending grew strongly by 9.7% YoY in 3Q 2007 on the back of rising household income and more importantly, the wealth effect created by the booming stock market.

MOUNTING INFLATIONARY PRESSURE

In fact, the prevailing buoyant consumption sentiment has been further fueled by the growing inflationary pressure. According to the statistics provided by the Government, the trend of the consumer price index suggests that the local economy is running at a price inflation of 1.6% per annum as of 3Q 2007. At the same time, the Government revised its full-year 2007 forecast for inflation from 1.5% per annum to 2.0% per annum due to the faster-than-expected growth in consumer prices. The two key reasons were attributed to the volatile oil prices and more importantly, the imported price pressure from the continued revaluation of Renminbi (“RMB”). As such, the pace of price rise for a number of items related to energy and imported food stuffs from mainland China was significantly higher than the rest of other consumer goods. Meanwhile, the removal of the rates concession after September 2007 should mean that the local inflation rate is going to be higher in 2008. The above has been concurred by the latest projection by the Economist Intelligence Unit that the annualised

growth of consumer prices is going to accelerate from 2.0% in 2007 to 3.3% in 2008.

FALLING REAL INTEREST RATES

In addition to the projection of a growth of consumer prices, the local economy is likely to see further rate cut in 2008 since the US Federal Reserve is expected to adopt a relaxed monetary policy over the near to medium term in order to mitigate the adverse impact created by the weakening housing market in the US. Due to the fact that the Hong Kong dollar is pegged to the US dollar, the net attributable impact to Hong Kong arising from the trend of accelerating inflation and falling interest rates is the continued fall of real interest rates. This implies that a significant portion of monies deposited in local banking accounts with saving rates at about 1.50% per annum is going to earn negative interest income if the above projection materialises in 2008. In order to get away from having negative interest flow, a portion of the above monies have started flowing into other asset classes including real estate.

PROPERTY INVESTMENT MARKET

As far as the Hong Kong property investment market is concerned, real estate investors have been largely encouraged not only by the prospective fall in real interest rates but also the attractive mortgage terms offered by local banks. During the latest round of interest rate cuts announced by the US Federal Reserve on 11 December 2007, major local banks followed suit quickly to reduce their best lending rates by 25 basis points on the following day. In the case of HSBC, the best lending rate is set at 6.75% in December 2007 but the effective mortgage rate is generally below 5.00%. According to the latest residential mortgage survey conducted by the Hong Kong Monetary Authority in November 2007, the number of new mortgage loans approved during the month and concluded with interest margin at 250 basis points

or more represented 91% of the total. Essentially, the effective mortgage rate for residential property is generally at 4.25% per annum. All of the above positive ingredients have actually been reflected by a significant increase in the number of whole-block transactions during 4Q 2007. The main focus happened to be the second-tier office buildings with a lump sum consideration of HK\$300 - 800 million. One of the key transactions was the office block at 410 Kwun Tong Road which was transacted for HK\$700 million in November 2007. In addition, the strata-title office market in the traditional business districts such as Central and Admiralty was active, and showed a dramatic increase in both transacted prices and volume during 4Q 2007.

HONG KONG PROPERTY MARKET SECTOR

As usual, the fundamental investment thesis of the office sector remained the lack of quality supply in the Central Business District amid the sustained occupational demand. Despite the threat of rising oil prices and the subprime-mortgage problem in the US, the Grade A office market remained firm, thanks to the continued demand growth attributed principally to the finance and legal sectors and, more importantly, to the positive business outlook held by most companies. Generally, hiring expectations across various business sectors remained positive as of 4Q 2007. Although rentals in non-core districts showed signs of softening, the buoyant sub-market in Central continued to be the growth engine driving the whole market. As such, the average effective Grade A office rental increased further by 6.6% quarter-on-quarter (“QoQ”) to HK\$56.33 per sq ft per month as at the end of November 2007.

In the luxury residential property market, there was a significant increase in the number of sale transactions in 4Q 2007 thanks to the positive implications derived from the recent interest rate cuts and the encouraging message conveyed by the Chief Executive’s Policy Speech in October 2007. Underpinned by the buoyant stock market prices, the luxury market was further boosted by the strong buying interests attributed to a group of purchasers who have started to plough back part of their profits earned in the stock market into real estate. With asking prices generally being raised by the bulk of the vendors, the average transacted prices in the luxury sector posted a growth of 9.4% QoQ to HK\$11,846 per sq ft as at the end of November 2007.

In the industrial property market, the warehousing sector continued to register further growth with average rentals increased by 3.2% QoQ to HK\$7.32 per sq ft per month as at the end of November 2007 due to the buoyant demand for logistics facilities catered for both regional and local distribution. The latter was particularly boosted by the prevailing positive consumption sentiment amongst most households in Hong Kong. Facilitated by the completion of infrastructure links, the sub-markets situated close to the port and airport have been appealing to both occupiers and investors. Against the backdrop of inexpensive interest rates, occupiers have become increasingly active to purchase industrial properties for end-user purposes.

In the retail property sector, the bulk of occupiers continued to be challenged by a lack of supply in the marketplace during 4Q 2007 and individual players have to carry forward their expansionary requirements budgeted for 2007 into the next fiscal year. The traditional shopping districts showed further signs of expansion since individual tenants have resorted to the side streets amid a lack of available stock for lease. With the sustained occupational demand attributed to a number of international brands and luxury products retailers, the average retail property rental amongst the four traditional shopping districts increased 2.6% QoQ in 4Q 2007.

MARKET OUTLOOK

Looking forward, the local property market is expected to stage further growth despite the external uncertainties including the threat of the subprime-mortgage problem in the US. Growing inflationary pressure and the prospective rate cut should remain the key market drivers in 2008. Although the pace of rental growth in the Grade A office sector and some of the industrial-office buildings might taper due to the forthcoming office supply cycle, the luxury residential and retail property market are expected to perform in 2008. The feel-good factors such as the buoyant stock market prices and the anticipated launch of the Beijing 2008 Olympics Games has been providing a booster to the market sentiment. As such, the pace of rental and capital appreciation in the luxury residential and retail property market might potentially surpass market expectations on the upside should there be any faster-than-expected growth in local inflation and deeper-than-expected rate cuts in the US during 2008.

The strata-title office market in the traditional business districts such as Central and Admiralty was active, and showed a dramatic increase in both transacted prices and volume during 4Q 2007

Growing inflationary pressure and the prospective rate cut should remain the key market drivers in 2008

GRADE A OFFICE SECTOR

SUB-MARKET BREAKDOWN

	RENTS					
	Face Rents (HK\$ / sq ft / month)			Effective Rents (HK\$ / sq ft / month)		
	Nov 06	Nov 07	Nov 08 (f)	Nov 06	Nov 07	Nov 08 (f)
Central	86.03	106.90	117.59	80.46	100.57	110.63
Admiralty	66.81	79.26	87.18	62.91	74.85	82.34
Wan Chai	42.60	48.08	50.48	39.54	44.59	46.82
Causeway Bay	39.19	43.23	45.39	36.33	40.36	42.37
North Point	24.16	25.60	24.32	22.50	24.25	23.04
Quarry Bay	30.68	29.39	27.92	29.41	26.89	25.55
Sheung Wan	40.18	46.97	49.32	37.35	43.83	46.02
Tsim Sha Tsui	38.45	36.10	34.30	35.83	33.50	31.82
Kwun Tong	27.70	23.96	22.76	25.79	22.63	21.49
Kowloon Bay	21.17	21.81	20.72	20.00	20.45	19.43

	CAPITAL VALUES AND YIELDS					
	Capital Values (HK\$ / sq ft)			Yields		
	Nov 06	Nov 07	Nov 08 (f)	Nov 06	Nov 07	Nov 08 (f)
Central	16,714	21,576	25,460	3.3%	3.1%	2.9%
Admiralty	12,557	15,400	18,172	3.8%	3.7%	3.4%
Wan Chai	12,314	13,745	15,807	3.6%	3.6%	3.3%
Tsim Sha Tsui	10,096	11,286	12,189	3.8%	3.4%	3.0%

On net floor area basis

Source: Colliers International (Hong Kong) Limited

GRADE A OFFICE RENTALS CENTRAL / ADMIRALTY



Source: Colliers International (Hong Kong) Limited

Average rentals in Central showed signs of picking up momentum and posted a growth of 8.1% QoQ to HK\$93.33 per sq ft per month as at the end of November 2007

CONFIDENT MARKET PLAYERS

Despite the imminent threat of rising oil and commodity prices, the local Grade A office market remained firm during 4Q 2007, thanks to the continued demand growth amongst the major occupiers in the marketplace and, more importantly, the general positive business outlook held by most companies. Although there was a certain degree of turbulence in the financial markets created by the subprime-mortgage problem in the US, the local office market was generally calm and the degree of impact was relatively limited as indicated by the resilient performance of office rentals during 4Q 2007.

Lately in December 2007, the local office market generally welcomed the act of international monetary cooperation between the key central banks to ease a credit squeeze that might potentially harm the global economy. In addition, the relaxed monetary policy adopted by the Federal Reserve in the US has been regarded as a pre-emptive strategic move in order to achieve sustained economic growth amid the continued consolidation of the housing market in the US. In fact, the current interest rate trend in the US is a key benefit to Hong Kong since the Hong Kong dollar is pegged to the US dollar.

HIRING EXPECTATIONS REMAINED BUOYANT

In general, the bulk of market players in the local Grade A office sector remained confident as indicated by their positive hiring expectations on a forward looking basis. According to a quarterly survey conducted by Hudson, a leading human resources consultant, hiring expectations rose across the board in 4Q 2007. In fact, the increase was a significant rebound since there were 54% of total respondents reported to take on more staff in 4Q 2007 compared with 49% registered in 3Q 2007. Meanwhile, the banking/financial services remained one of the most optimistic business sectors despite the inherent market volatility attributed to the external uncertainties discussed earlier. The findings of the Hudson survey suggests that the percentage of respondents in the industry planning to grow their headcount increased from 57% in 3Q 2007 to 59% in 4Q 2007. In addition, the legal sector stole the limelight again in 4Q 2007 since 71% of the respondents in the industry planned to increase their staff force as a result of the business growth related to the finance industries e.g. private equity and mergers and acquisitions.

RESILIENT RENTALS

In the office leasing market, overall Grade A office rentals remained resilient thanks to the buoyant sub-market in Central. Despite the volatility in the financial market and the confirmation of Morgan Stanley leaving Central for West Kowloon, there was actually no severe negative impact on the average rental growth during 4Q 2007. Due to the sustained expansionary floor area requirements amongst the key occupiers in the professional sector, average rentals in Central showed signs of picking up momentum and posted a growth of 8.1% QoQ to HK\$93.33 per sq ft per month as at the end of November 2007.

Beyond the Central Business District, the rental performance in other sub-markets was quite diverse. Traditional business districts e.g. Wan Chai and Causeway Bay on Hong Kong Island registered steady growth in line with the overall market. However, due to the anticipated completion of a spate of new developments in Kowloon East, the sub-markets in Island East and Kowloon East were essentially flat. All in all, the average Grade A office rental increased 6.6% QoQ to HK\$56.32 per sq ft per month as at the end of November 2007. In terms of quarterly rental growth, the performance of the Grade A office market in 4Q 2007 was encouraging since the pace of rental growth picked up significantly after a period of slowing growth between 3Q 2006 and 4Q 2007.

TIGHT SUPPLY IN CENTRAL

In addition to the demand factor, the other key reason for the stronger-than-expected rental performance is the prevailing supply gap in Central which is predicted to last for at least three years from 2008 to 2010, before the anticipated completion of a couple of new schemes including the redevelopment of hotel The Ritz-Carlton and the combined redevelopment of Crocodile House 1& 2 and its adjacent Ananda Tower in 2011. In the case of the former, the proposed redevelopment of the Ritz-Carlton site is going to provide 225,000 sq ft new office space to the market. However, it is noteworthy that China Construction Bank, being one of the two owners of the development, will retain a portion of the space for its operations upon completion. In the case of the latter, it was simply a major renovation work or building upgrade after the merger of the two sites. Therefore, the above two schemes will add a total of 326,000 sq ft new Grade A office space to the market by 2011. However, the anticipation completion rate is reckoned to be low compared

to the historical average rate of 500,000 sq ft per annum over the past decades.

Looking at the available stock for lease in the secondary market, the current supply situation in Central remained extremely tight in 4Q 2007. According to our research, there was a total of less than 460,000 sq ft of vacant floor space available for lease in Central and Admiralty. Compared with the total office stock of 21.4 million sq ft, the vacancy rate was 2.1% in November 2007, which was exactly the level of the previous all-time low recorded in October 1997.

THE PLANNING PERSPECTIVE

The existing imbalance between supply and demand is of course attributed to the inelastic nature of the supply cycle in response to the change in demand. However, the more important issue as highlighted in one of the working papers produced by the Planning Department of HKSAR Government in October 2007 is the structural change in demand. According to the research findings by the Government, the quality of the local business environment and the prestige of the location are important considerations. However, the salient point for multinational corporations intending to set up office in Hong Kong, on the real estate front, is the availability of office developments with larger floor plates and better architectural design.

According to our research, one of the most obvious market indicators to illustrate these market preferences is the thick rental premium currently achieved in some of very few office buildings completed in Central over the past five years. Notwithstanding the fact that all of these buildings are in the same locality, their respective office rentals can be 70% higher than the average in the sub-market. Essentially, the key reason for the rental premium is that these buildings are contemporary in design and more importantly, coming with contiguous and sizeable floor plates. The latter has been a key consideration for multinational corporations with floor area requirements in the order of 100,000 sq ft or above.

SUPPLY OF LARGE-SIZED DEVELOPMENTS

However, the office market in Central has been suffering from a lack of new supply as pointed out in the last market report dated October 2007. In addition to the quantity issue, the supply of large-sized office development is equally important. According to the Government, there

GRADE A OFFICE VACANCY RATE CENTRAL & ADMIRALTY



Source: Colliers International (Hong Kong) Limited

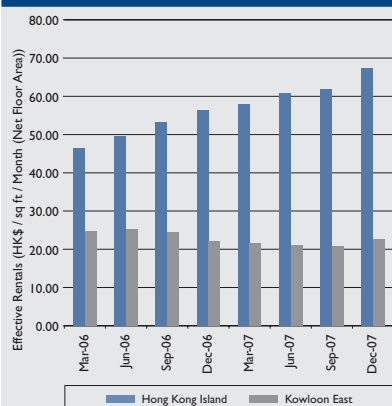
The vacancy rate was 2.1% in November 2007, which was exactly the level of the previous all-time low recorded in October 1997

LARGE-SIZED GRADE A OFFICE DEVELOPMENTS

	Private Redevelopment Project	District	Government Land Project	District
1998	Gateway Tower 2 (Phase 1)	Tsim Sha Tsui	The Center One International Finance Centre (IFC) Cosco Tower, Millennium Plaza	Central Central Central
1999	Cheung Kong Center Gateway Tower 2 (Phase 2) Man Yee Building	Central Tsim Sha Tsui Central	-	-
2000	Gateway Tower 2 (Phase 3)	Tsim Sha Tsui	-	-
2001	-	-	Centrium Metropolis	Central Tsim Sha Tsui
2002	Chater House	Central	-	-
2003	-	-	Two IFC One Peking	Central Tsim Sha Tsui
2004	Three Pacific Place	Wan Chai	-	-
2005	AIG Tower	Central	-	-
2006	-	-	-	-

Source: Planning Department, HKSAR Government

GRADE A OFFICE RENTALS TRENDS



Source: Colliers International (Hong Kong) Limited

Office rentals in the traditional business districts on Hong Kong Island showed signs of picking up momentum. However, the sub-market in Kowloon East remained relatively quiet

were a total of 15 large-sized (i.e. developments with a site area larger than 1,000 sq m) Grade A office developments completed in the traditional office districts of Central, Wan Chai, Causeway Bay, Sheung Wan and Tsim Sha Tsui during the period between 1998 and 2006. All of the 15 new developments provided 1.31 million sq m gross floor area, representing 71% of the total new supply of Grade A development during the same period. If all the large-sized new projects are classified under the source of land supply (i.e. private redevelopment or government land), a key portion representing 41% of the total was actually coming from either land reclamation or a change of use from the public to the private sector. In addition, there was zero completion of large-sized office scheme in 2006. In other words, the market is going to see a significant supply squeeze if the key source of new supply is primarily relying on private redevelopment.

RELOCATIONS

In the case of the Central Business District in Hong Kong, a number of multinational corporations have started looking at other sub-markets in order to implement their expansion plans amid the prevailing tight supply situation in the marketplace. Further to the confirmation of Morgan Stanley leaving Central for the International Commerce Centre (ICC) in West Kowloon, Credit Suisse, one of the world's leading banks in private banking, investment banking and asset management services, has entered into a long-term tenancy agreement in early December

2007 with Sun Hung Kai Properties to take a total of ten floors or a total of 300,000 sq ft space at the ICC. The move by Credit Suisse not only demonstrates its long-term commitment in Hong Kong but also highlights the importance of physical provisions such as architecture, design efficiency and state-of-the-art facilities in office buildings to the benefit of occupiers.

In addition, another major relocation confirmed in 4Q 2007 is DBS Bank (Hong Kong) Limited (DBS) which has pre-committed to take 11 floors at One Island East - the 70-storey office development in Island East. Under a ten-year lease with Swire Properties, DBS will occupy a total of 220,000 sq ft in the development by consolidating its operations in various locations in the Central Business District and Wan Chai under one roof. Lately in early January 2008, JP Morgan has agreed to rent 11 office floors on the high-floor zone at One Island East. Unlike Morgan Stanley and DBS, JP Morgan will retain its Asia-Pacific headquarters at Chater House in Central, housing a maximum of 2,000 staff. Again, the move by JP Morgan can be served as the latest market evidence showing the strong expansionary floor area requirements amongst the key occupiers in the financial sector.

A TWO-TIER MARKET

Going back to Central, individual market analysts have previously anticipated rentals in Central to soften in 2008 particularly when the existing office spaces currently occupied by both Morgan

GRADE A OFFICE SUPPLY (2008 - 2011 & BEYOND)

Building	District	NFA (sq ft)	Developer	Status
2008				
Manhattan Place	Kowloon Bay	601,180	Manhattan	Under construction
Exchange Tower	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
Landmark East	Kwun Tong	875,500	Winsor Properties	Under construction
One Island East	Quarry Bay	1,383,572	Swire Properties	Under construction
Total		3,865,814		
2009				
International Commerce Centre (Stage II)	West Kowloon	435,400	Sun Hung Kai Properties	Under construction
Tai Lin Pai Road, Kwai Chung (Phase II)	Kwai Chung	422,450	Sun Hung Kai Properties	Under construction
4 Lai Yip Street/114 Wai Yip Street	Kwun Tong	248,566	Sun Hung Kai Properties	Under construction
Total		1,106,416		
2010				
International Commerce Centre (Stage III)	West Kowloon	681,100	Sun Hung Kai Properties	Under construction
Po Hing Centre redevelopment, 18 Wang Chiu Road	Kowloon Bay	296,650	Sino Land	Planning
1 Wang Kwong Road	Kowloon Bay	456,424	Billion Development	Under construction
Total		1,434,174		
2011 & beyond				
500 Hennessy Road	Causeway Bay	606,684	Hysan Development	Demolition
Hotel Ritz Carlton redevelopment	Central	191,250	Lai Sun/China Construction Bank	Planning
Crocodile House 1&2 and Ananda Tower redevelopment	Central	135,000	Citigroup	Under construction
Central Market redevelopment	Central	569,500	Hong Kong SAR Government	Existing site
863 – 865 King's Road	North Point	434,350	Kerry Properties	Demolition
Total		1,936,784		

Source: Colliers International (Hong Kong) Limited

Stanley and Credit Suisse are gradually handed back to their vendors. However, the latest rental trend in the Central Business District shows that the demand fundamental has been performing much stronger than market expectations. With the encouraging pre-commitment rates registered in the two major new schemes - ICC in West Kowloon and One Island East in Quarry Bay during the past two quarters, the overall Grade A office market has been encouraged. As mentioned earlier, office rentals in the traditional business districts on Hong Kong Island showed signs of picking up momentum. However, the sub-market in Kowloon East remained relatively quiet. Although there will be three major Grade A office developments scheduled for completion during 2008, there is no confirmation of any major pre-commitment as of 4Q 2007. Unlike the traditional business districts, office rentals in Kowloon East might potentially go down if the respective vendors compete for tenants to fill their buildings over the next 6 to 12 months.

MARKET OUTLOOK

Looking forward, the whole Grade A office sector will continue to be a two-tier market, with diverse rental growth between the core and decentralised districts. The traditional business districts on Hong Kong Island are expected to see further growth during 2008 given the buoyant demand in the finance and legal sector. Rentals in Central in particular are going to achieve double-digit growth during 2008. However, the sub-market of Kowloon East will be challenged by the anticipated supply cycle in 2008. According to our research, a batch of new developments comprising a total of about 4 million sq ft is scheduled for completion in 2008. Should there be a slowdown on prospective demand, the new supply in Kowloon East, representing over 50% of the new space scheduled for completion in 2008, might put additional pressure on rentals. All in all, it is our prediction that the pace of rental growth in the overall Grade A market is going to slow to 3% per annum in 2008.

LUXURY RESIDENTIAL SECTOR

LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	Nov 06	Nov 07	Nov 08(f)	Nov 06	Nov 07	Nov 08(f)	Nov 06	Nov 07	Nov 08(f)
Peak	43.80	48.67	58.41	12,963	17,170	22,320	4.05%	3.40%	3.14%
South Side	36.71	44.14	50.76	10,428	12,372	15,465	4.22%	4.28%	3.94%
Mid-levels	29.63	39.25	45.14	8,395	9,471	11,838	4.24%	4.97%	4.58%
Happy Valley	26.59	33.74	38.80	7,688	9,441	11,802	4.15%	4.29%	3.94%
Island East	22.74	27.82	30.60	6,576	7,446	8,935	4.15%	4.48%	4.11%
Average	33.35	40.17	46.34	9,753	11,846	14,858	4.10%	4.07%	3.74%

Source: Colliers International (Hong Kong) Limited

Amongst the key luxury residential districts, the average luxury residential price increased 9.4% QoQ from HK\$10,829 per sq ft in August 2007 to HK\$11,846 per sq ft as at the end of November 2007

STRONG GROWTH MOMENTUM

Due to the solid local demand and supply fundamentals and the fact that a number of purchasers putting their profits earned in the stock market into the local real estate, the luxury residential market continued to be the key beneficiary. The situation was reflected by the significant surge in transacted price as well as the distinct growth in the number of sale transactions during 4Q 2007.

Meanwhile, amid the prevailing trend of inflation, prospective property purchasers have been encouraged to enter the market. In terms of the change in local consumer prices, there were signs of growing inflationary pressure during 4Q 2007. According to the official statistics produced by the Hong Kong SAR Government, the year-on-year (YoY) change of local consumer prices picked up significantly from 1.6% YoY in August 2007 to 3.4% in November 2007. Against the backdrop of an inflationary environment, there was no interest rate rise. Instead, local interest rates have been edging down because of the currency peg. Being one of the major market boosters, the best lending rate in Hong Kong was reduced by a total of 100 basis points during 4Q 2007.

In terms of the volume of market activity, the total number of sale and purchase agreements (ASP) for residential units increased to 15,759 in November 2007, representing the highest number of transactions in a single month since July 1997. On a quarterly basis, the total number of ASP for residential units increased 18.0% quarter-on-quarter (QoQ) to 35,783 during the three-month period between September and November 2007. In the luxury residential sector, the number of sale transactions with a lump sum consideration of HK\$10 million or above in traditional luxury

districts posted a growth of over 40% QoQ during the same period. In addition, the average transacted prices in the luxury sector showed an increase in market momentum. Amongst the key luxury residential districts, the average luxury residential price increased 9.4% QoQ from HK\$10,829 per sq ft in August 2007 to HK\$11,846 per sq ft as at the end of November 2007.

LIMITED SUPPLY TO CONTINUE IN 2008

It was encouraging to see that the luxury residential market continued to be underpinned by genuine demand against the backdrop of accelerating inflation and falling interest rates. Although demand continued to grow in the marketplace, there was no corresponding increase in supply to satisfy the market needs.

According to our research, the current situation of a lack of new supply in the luxury residential sector is predicted to continue in 2008. In the three traditional luxury districts, there will be a total of 977 new luxury units scheduled for completion in 2008. The Bel-Air No. 8 in Pok Fu Lam, constituting 709 new units, will be the major new supply during the year. Generally, it is going to be a supply blip and the prospective trend of new supply beyond 2008 is going to contract again. Therefore, if Bel-Air No. 8 is stripped off from the supply list, the annual completion rate of new supply over the next three years from 2008 to 2010 is going to fall below the historical average of 550 units per annum.

Looking at the supply projection in each of the luxury districts, the situation of a lack of new stock is not going to improve over the coming three years. In The Peak, the volume of new supply will be doubled in 2008 but it only represents 18 new houses. Essentially, the future supply in the

MAJOR RESIDENTIAL SALES TRANSACTIONS

Month	Property	District	GFA (sq ft)	Price (HK\$ m)	Unit Price (HK\$ / sq ft)
Sep-07	Strawberry Hill, House 24	The Peak	3,250	\$83.00	25,538
Oct-07	28 Gough Hill Road, House 2	The Peak	8,216	\$296.00	36,027
Oct-07	31 Barker Road, House C	The Peak	5,946	\$178.00	29,936
Oct-07	Mountain Lodge, 11/F, Flat B	The Peak	2,600	\$46.50	17,885
Oct-07	Severn 8, House 11	The Peak	4,306	\$171.00	39,712
Oct-07	Severn 8, House 16	The Peak	3,344	\$130.00	38,876
Nov-07	Abergeldie, House 5	The Peak	3,580	\$120.00	33,520
Nov-07	Altadena, 3/F, Flat F2	The Peak	4,500	\$138.00	30,667
Nov-07	Gough Hill Residences, House 3B	The Peak	5,657	\$202.80	35,849
Sep-07	Pine Crest, 18/F, Flat A	South Side	2,250	\$37.50	16,667
Sep-07	Villa Rosa, House 18	South Side	3,960	\$83.80	21,162
Oct-07	Grosvenor Place, 17/F	South Side	2,809	\$56.50	20,114
Oct-07	Hong Kong Parkview, Tower 15, 21/F, Flat 83	South Side	2,490	\$39.80	15,984
Oct-07	Las Pinadas, House 21	South Side	3,395	\$57.60	16,966
Oct-07	L'Harmonie, House F	South Side	3,576	\$69.80	19,519
Oct-07	Regalia Bay, House D5	South Side	4,902	\$77.50	15,810
Oct-07	Repulse Bay Garden, Block 6, 1/F	South Side	2,288	\$22.50	9,834
Oct-07	Ruby Court, Tower 1, 7/F, Flat A	South Side	2,200	\$29.50	13,409
Oct-07	Shouson Hill Road East, House 19	South Side	4,331	\$74.80	17,271
Oct-07	Somerset, 5/F, Flat B	South Side	3,099	\$55.78	17,999
Nov-07	33 Island Road, House 6	South Side	6,079	\$200.00	32,900
Nov-07	37 Repulse Bay Road, 18/F, Flat A	South Side	1,635	\$26.50	16,208
Nov-07	Double Bay, House A6	South Side	4,180	\$160.00	38,278
Nov-07	Hong Kong Parkview, Tower 7, 11/F, Flat 47	South Side	1,860	\$23.12	12,427
Nov-07	Le Palais, House 36	South Side	4,372	\$79.00	18,070
Nov-07	Park Place, Block C, 8/F, Flat 2	South Side	2,288	\$44.80	19,580
Nov-07	Redhill Peninsula, Cedar Drive, House 78	South Side	3,055	\$57.90	18,953
Nov-07	Redhill Peninsula, Cedar Drive, House 94	South Side	3,055	\$48.00	15,712
Nov-07	Redhill Peninsula, Palm Drive, House 10	South Side	3,055	\$57.14	18,705
Nov-07	Regalia Bay, House A19	South Side	4,212	\$60.00	14,245
Nov-07	Repulse Bay Garden, Block 3, 2/F	South Side	2,810	\$37.00	13,167
Nov-07	Repulse Bay Towers, 7-8/F, Flat G	South Side	3,100	\$44.00	14,194
Nov-07	Rosecliff, House 2	South Side	3,980	\$86.00	21,608
Nov-07	Stanley Court, House 1	South Side	2,701	\$41.98	15,542
Oct-07	11 MacDonnell Road, 33/F	Mid-levels	2,352	\$32.19	13,686
Oct-07	Dynasty Court, Tower 1, 35/F, Flat A	Mid-levels	2,680	\$50.18	18,724
Oct-07	Tavistock, Tower 2, 45/F, Flat C	Mid-levels	1,730	\$23.80	13,757
Oct-07	The Albany, 22/F, Flat A	Mid-levels	2,549	\$49.00	19,223
Nov-07	Dynasty Court, Tower 5, 34/F, Flat B	Mid-levels	1,973	\$32.00	16,219
Nov-07	Régence Royale, Tower 1, 16/F, Flat B	Mid-levels	2,522	\$45.00	17,843
Nov-07	Tregunter, Tower 3, 39/F, Flat D	Mid-levels	3,034	\$50.75	16,727

Source: Colliers International (Hong Kong) Limited

MAJOR RESIDENTIAL LEASE TRANSACTIONS

Month	Property	District	GFA (sq ft)	Rental (HK\$ / month)	Unit Rental (HK\$ / sq ft / month)
Sep-07	The Belvedere	The Peak	7,700	414,289	53.80
Oct-07	The Mount Austin	The Peak	1,103	52,000	47.14
Oct-07	56 Repulse Bay Road	South Side	3,236	200,000	61.80
Oct-07	Las Pinadas	South Side	3,453	145,000	41.99
Nov-07	117 Repulse Bay Road	South Side	2,700	180,000	66.67
Nov-07	Helene Tower	South Side	1,875	86,500	46.13
Nov-07	Hong Kong Parkview	South Side	2,692	123,000	45.69
Nov-07	The Manhattan	South Side	1,776	53,000	29.84
Sep-07	80 Robinson Road	Mid-levels	1,400	48,000	34.29
Sep-07	Bon-Point	Mid-levels	1,190	34,000	28.57
Sep-07	The Zenith	Mid-levels	660	18,500	28.03
Sep-07	Tregunter Tower	Mid-levels	3,336	115,000	34.47
Oct-07	2 Old Peak Road	Mid-levels	1,400	60,000	42.86
Oct-07	Bella Vista	Mid-levels	581	19,000	32.70
Oct-07	Hillsborough Court	Mid-levels	1,385	55,000	39.71
Oct-07	Villa Elegance	Mid-levels	3,500	94,000	26.86
Nov-07	2 Park Road	Mid-levels	1,176	36,000	30.61
Nov-07	Branksome Crest	Mid-levels	2,500	124,000	49.60
Nov-07	Robinson Place	Mid-levels	1,350	49,500	36.67
Nov-07	Valiant Park	Mid-levels	669	26,000	38.86

Source: Colliers International (Hong Kong) Limited

Impressed by the bullish land auction results and the prospective capital gains, there are signs that more long-term investor has started entering the market

district will be 59% below the historical average. In South Side, the supply squeeze is going to be the worst amongst three traditional luxury districts in 2008. A total of 11 units are anticipated to be completed during the year, representing 94% below the historical average. In Mid-levels, more new units will be available in 2008. A total of 165 new units will be available in 2008.

WHOLE-BLOCK TRANSACTIONS

Over the three months from September to November 2007, there was no luxury residential site sold by the Government in public auction. However, the prevailing positive market sentiment can be shown by the aggressive bids made by the private sector during the auction of the two mass residential sites.

In September 2007, the site at Tai Po (Tai Po Town Lot No. 186) was sold to a consortium comprising Sino Land, Nan Fung Group, K Wah and USI Holdings. With a lump sum of HK\$4,550 million paid by the consortium, the average land price was HK\$6,368 per sq ft. Compared with the opening price of HK\$3,080 million or average land price of HK\$4,314 per sq ft, the final bid was 48% above the opening price.

In October 2007, the residential plot located at Aberdeen Inland Lot No. 451 was sold to a consortium including Sino Land, K Wah and Nan Fung Group for a total consideration of HK\$5,710 million or an average land price of HK\$8,813 per sq ft. The result was extremely positive since the final price tag was 128% higher than the opening price of HK\$2,500 million.

Impressed by the bullish land auction results and the prospective capital gains, there are signs that more long-term investors have started entering the market. In October 2007, a Korean investment group purchased the whole block of Tower 6 at Bel-Air No. 8 for a lump sum of HK\$1.86 billion or an average price of HK\$12,500 per sq ft.

RENTALS EDGING UP

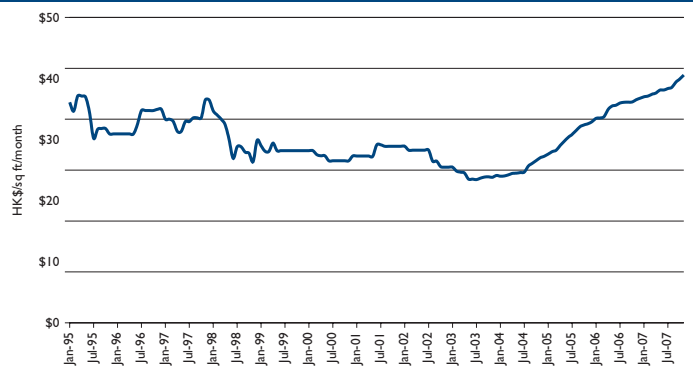
Thanks to the sustained occupational demand attributed to the accounting and finance and legal sector, the average luxury residential rental edged up further by 4.8% QoQ to HK\$40.17 per sq ft per month as at the end of November 2007. The above was concurred by a quarterly survey done by Hudson, a leading human resources consultant,

LUXURY RESIDENTIAL PRICES - PEAK



Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL RENTALS - PEAK



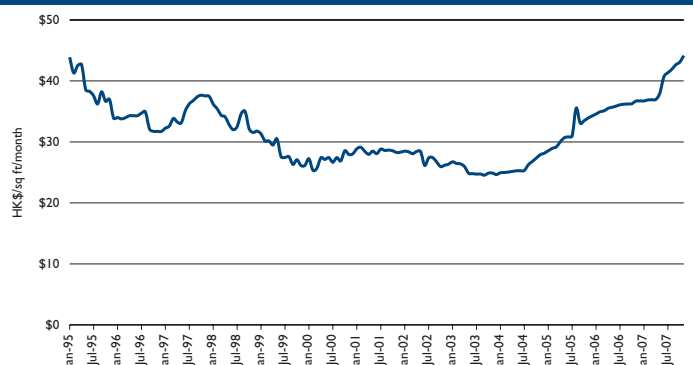
Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL PRICES - SOUTH SIDE



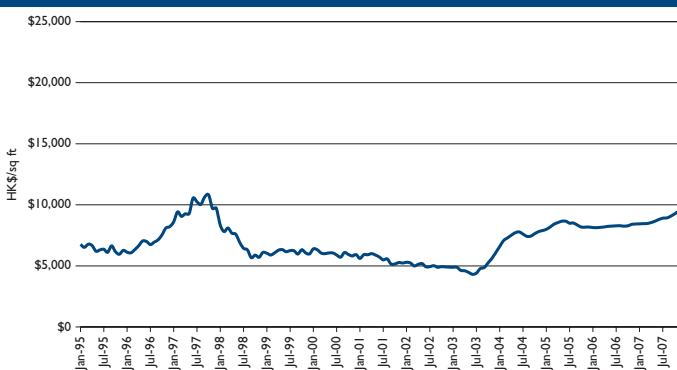
Source: Colliers International (Hong Kong) Limited

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

in 4Q 2007. According to the survey, 54% of the respondents in the survey planned to take on more staff during 4Q 2007. It was significantly higher than the average of 49% recorded in 3Q 2007.

THE PEAK

In 4Q 2007, luxury residential prices in The Peak registered the highest growth amongst the three traditional luxury districts. The average residential price rose 11.8% QoQ from HK\$15,358 per sq ft in August 2007 to HK\$17,170 per sq ft as at the end of November 2007. Brand-new developments continued to fetch a significant price premium above the market average. For example, House 16 at Severn 8 was sold for HK\$130 million in October 2007. With a total gross floor area of 3,344 sq ft, the average unit price was HK\$38,876 per sq ft. Comparing to the sale of House 18 in July 2007 for HK\$109 million or HK\$32,733 per sq ft, there was a capital growth of 19% during the period. Meanwhile, standalone houses with sizeable floor area remained in the market favour. For example, House 2 at 28 Gough Hill Road was sold for HK\$296 million in October 2007. Based on a total gross floor area of 8,216 sq ft, the average unit price was HK\$36,027 per sq ft.

On the leasing front, the average luxury residential rental increased 5.2% QoQ from HK\$46.26 per sq ft per month in August 2007 to HK\$48.67 per sq ft per month as at the end of November 2007.

SOUTH SIDE

In South Side, luxury residential prices grew 10.2% QoQ from HK\$11,222 per sq ft in August 2007 to HK\$12,372 per sq ft as at the end of October 2007. In terms of the number of sale transactions, there was 70% QoQ growth during the period.

As usual, Hong Kong Parkview, one of the popular developments in South Side, the rate of price rise was generally going in line with the average in the sub-market. In November 2007, a mid-floor unit in Tower 14 was sold for HK\$23.6 million. With a total floor area of 1,785 sq ft, the average unit price was HK\$13,221 per sq ft. Another unit in the high-floor zone of Tower 14, comprising the same size and a similar orientation, was sold for HK\$22.8 million, or an average unit price of HK\$12,773 per sq ft. Comparing the two transacted units after adjustment for the floor difference, the price rose 9.7% in Hong Kong Parkview.

Meanwhile, there was similar growth rate recorded in Pacific View – another benchmark development in South Side. In November 2007, a low floor unit in Tower 3 was sold for HK\$23.68 million. Based on a total floor area of 2,054 sq ft, the average unit price was HK\$11,529 per sq ft. Another unit at a low-floor zone of Tower 3, comprising the same floor area and orientation, was sold for HK\$21.68 million or an average unit price of HK\$10,555 per sq ft in July 2007. After floor adjustment for the two transacted units, the average price of Pacific View increased 11.4% between July and November 2007.

On the leasing front, luxury residential rentals continued to stay on its rising trend in 4Q 2007. The average luxury rentals rose 5.3% QoQ from HK\$41.93 per sq ft per month in August 2007 to HK\$44.14 per sq ft per month as at the end of November 2007. Generally, leasing demand for quality houses remained strong. For example, a house in Repulse Bay Road was leased to a tenant engaged in the finance sector for a rental of HK\$200,000 per month, or an average unit rental of HK\$61.8 per sq ft per month during 4Q 2007.

MID-LEVELS

In Mid-levels, the average luxury residential price increased 6.0% QoQ to HK\$9,471 per sq ft as at the end of November 2007. The key development in Mid-levels under pre-sale is, 31 Robinson Road, a brand-new development, comprising a total of 84 luxury apartments, is scheduled for completion in 2008. The average selling prices are ranging from HK\$10,491 per sq ft and HK\$19,753 per sq ft, which was generally higher than the average of HK\$9,471 per sq ft in the sub-market. Due to the scarcity of new launches in the primary market, property purchasers continued to resort to the stock in the secondary market. Some of the popular developments included Dynasty Court, Regence Royale and The Albany.

In Dynasty Court, a mid-floor unit at Tower 4 was sold for HK\$29.8 million in November 2007. With a total floor area of 1,962 sq ft, the average unit price was HK\$15,189 per sq ft. In August 2007, another unit with the same size and similar orientation but located at the high-floor zone of Tower 4 was sold for HK\$29.68 million, or an average unit price of HK\$15,127 per sq ft. Comparing the two transactions, the average price growth at Dynasty Court was 6.9% QoQ during 4Q 2007.

PROSPECTIVE NEW SUPPLY OF SERVICED APARTMENTS

Property	Region	District	No. of units	Anticipated completion	Developer / Landlord
URA (K11), Hanoi Road	Tsim Sha Tsui	Tsim Sha Tsui	383	2008	URA / New World
MTR Kowloon Station (Package VI)	Tsim Sha Tsui fringe	Tsim Sha Tsui	266	2008	SHK Properties / MTRC

Source: Colliers International (Hong Kong) Limited

On the leasing front, luxury residential rentals in Mid-levels also adjusted upwards in 4Q 2007. The average unit price of the sub-market increased 5.2% QoQ from HK\$37.30 per sq ft per month in August 2007 to HK\$39.25 per sq ft per month as at the end of November 2007.

MARKET OUTLOOK

Looking forward, the ongoing growth momentum of the luxury residential market is anticipated to continue over the next 12 month given the prevailing solid demand fundamentals and the

projection of limited supply coming line. With expectations of further interest rate cuts and accelerating inflationary pressure, more investors are expected to enter the market. In addition to the prospective volume growth, luxury residential rentals and prices are to rise 15% and 25% per annum in 2008 according to the base case scenario. However, the pace of rental and capital appreciation might surpass market expectations on the upside should there be any faster-than-expected growth in local inflation and deeper-than-expected rate cuts in the US during 2008.

CONSENT TO SELL RESIDENTIAL UNITS

District	Development	No. of units	Estimated completion	Developer
September 2007				
NKIL 6433 RP	Beacon Lodge	154	8-Jun-08	Urban Renewal Authority
October 2007				
Nil	-	-	-	-
November 2007				
Nil	-	-	-	-

Source: Lands Department, HKSAR Government

PROJECTED NEW SUPPLY OF LUXURY RESIDENTIAL UNITS IN 2008

Development	* House	* Apartment	Developer / Owner	No. of units	Status
Peak					
15 Bluff Path	2 @ 3-s	-	Chuang's Consortium International Ltd	2	Under Construction
3 Middle Gap Road Wanchai	1 @ 3-s	-	Yu Ming	1	Under Construction
3-5 Plunkett's Road	6 @ 4-s	-	Tai Cheung Properties Holdings Ltd	6	Under Construction
36 Plantation Road	9 @ 3-s	-	Jardine Matheson & Co Ltd	9	Under Construction
South Side					
11-12 Headland Road	4 @ 4-s	-	Henderson Land	4	Under Construction
14 Headland Road	-	1 @ 3-s	Kadoorie Estates Ltd	7	Under Construction
Cyberport Road Telegraph Bay, Pokfulam (Stages 10-12) (Tower 10-18)	-	2 @ 28-s, 2 @ 34-s, 2 @ 40-s, 2 @ 41-s	PCPD, HKSAR Government	709	Under Construction
Mid-levels					
20 Tung Shan Terrace	-	1 @ 5-s	Anelco Ltd	16	Under Construction
29 Mosque Street & 35-41 Mosque Junction	-	1 @ 35-s	Kerry Properties	74	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 SECTOR

INDUSTRIAL MARKET - KEY MARKET INDICATORS

	Rents (HK\$ / sq ft / month)			Capital Values (HK\$ / sq ft)			Yields		
	Nov 06	Nov 07	Nov 08 (f)	Nov 06	Nov 07	Nov 08 (f)	Nov 06	Nov 07	Nov 08 (f)
Factory	6.96	7.74	7.82	1,101	1,321	1,493	7.6%	7.0%	6.3%
Warehouse	6.71	7.32	7.91	990	1,187	1,400	8.1%	7.4%	6.8%
I-O Building	12.20	12.96	13.09	2,150	2,384	2,694	6.8%	6.5%	5.8%

Source: Colliers International (Hong Kong) Limited

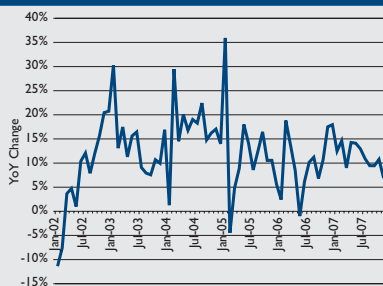
HONG KONG IMPORTS AND EXPORTS

Date*	Imports (HK\$m)	YoY Change	Domestic Exports (HK\$ m)	YoY Change	Re-exports (HK\$ m)	YoY Change
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%
Feb-07	626,254	10.3%	23,171	-36.8%	570,317	15.0%
May-07	699,227	12.3%	25,423	-21.7%	610,609	12.4%
Aug-07	747,640	10.5%	29,754	-23.1%	676,596	11.0%
Nov-07	775,081	10.2%	30,310	-6.3%	705,405	9.0%

*Three-month ended

Source: HKSAR Government

RE-EXPORT TRADES YEAR-ON-YEAR GROWTH



Source: Census and Statistics Department, HKSAR Government

Backed by the growing demand for industrial properties, the rentals edged up by 2% - 3% quarter-on-quarter (QoQ) in 4Q 2007

During the period between September and November 2007, Hong Kong re-exports increased 9.0% year-on-year (YoY) to HK\$705 billion

SUSTAINED RE-EXPORT GROWTH

Mainland China's vibrant trade flows on the back of a buoyant economy, together with the fairly strong performance of the emerging markets in Asia and the EU market, which more than offset the softness of the US market. During the period between September and November 2007, Hong Kong re-exports increased 9.0% year-on-year (YoY) to HK\$705 billion.

On the back of sustained growth in re-exports, the air freight and container throughput volume continued to increase during the three-month period ended in November 2007. Air freight throughput increased 6.7% YoY to 1.06 million tonnes while container throughput edged up by 1.5% YoY to 6.11 million TEUs.

LOGISTICS COMPANIES

On the property front, third-party logistics companies continued to look for quality warehousing premises in view of the sustained growth in external trades, buoyant cargo throughput and rising local consumption expenditure. Because of the growing needs for both regional and local distribution amongst the key logistics operators, the average floor area requirement continued to fetch between 30,000 sq ft and 50,000 sq ft as of 4Q 2007.

RENTALS EDGING UP

Backed by the growing demand for industrial properties, the rentals edged up by 2%-3% quarter-on-quarter (QoQ) in 4Q 2007. As at the end of November 2007, warehouse rentals increased 3.2% QoQ to HK\$7.32 per sq ft per month. Factory rentals increased 2.9% QoQ to HK\$7.74 per sq ft per month. In the industrial-office (I-O) sector, rentals increased 1.7% QoQ to HK\$12.96 per sq ft per month.

RISING CAPITAL VALUES

On the other hand, the interest rate cuts during 4Q 2007 and the expectation of further interest rate cuts in coming quarters has translated into sustained buying interests for industrial properties which in turn fuelled the growth of property prices. In the factory sector, average capital value increased 6.1% QoQ to HK\$1,321 per sq ft as at the end of November 2007. In the warehousing sector, average prices rose 6.9% QoQ to HK\$1,187 per sq ft while the prices in the I-O sector increased 3.7% QoQ to HK\$2,384 per sq ft as at the end of November 2007. Since price growth outpaced rental growth, the average investment yield of prime quality industrial premises dropped below 5% per annum during 4Q 2007.

MAJOR EN-BLOC INDUSTRIAL TRANSACTIONS (SEPTEMBER – NOVEMBER 2007)

District	Property	Price (HK\$ million)	Average Price (HK\$ / sq ft)	Purchaser
Tsing Yi	35-47 Tsing Yi Road	700	459	Investment Fund
Kwun Tong	Smart Shirts Factory Building	323	1,538	Billion Development
Wong Chuk Hang	Woo Kai Lea Industrial Building	110	1,571	Investment company

Source: Colliers International (Hong Kong) Limited

SALES MARKET TOOK A BREATHER

Similar to past quarters, more occupiers turned to the sales market to acquire industrial properties for self-occupation purpose in view of the potential reversionary rental growth of 25% - 30%. However, their offers have not yet caught up to the expectations held by more vendors during 4Q 2007. Therefore, the number of sales transactions decreased 20.6% QoQ to 1,684 while the total value of sales transactions decreased 3.3% to HK\$4,864 million.

STRONG INVESTMENT DEMAND

On the investment front, prospective purchasers were relatively more aggressive as indicated by an increase in the number of sales transactions with a lump sum price of HK\$100 million or above. In addition to the expectations of capital gains, investors continued to be lured by the positive carry after the recent reduction of interest rates. A total of 11 investment sales transactions within the price bracket was recorded compared with four similar transactions in 3Q 2007. Meanwhile, the total value of the sales transactions increased four-fold from HK\$490 million in 3Q 2007 to HK\$2,430 million in 4Q 2007.

NEW INFRASTRUCTURE LINK

In addition, one of the major market drivers in the industrial property market is the gradual completion of a number of infrastructure links. For example, Route 8, a key infrastructure link connecting Shatin and Tsing Yi Island, will be due for completion by stages in 2008 and 2009. The early section, comprising North Lantau Highway and Lantau Link, was completed in 1997. The first remaining section between Shatin and Cheung Sha Wan is scheduled to open in early 2008. The second remaining section between Cheung Sha Wan and Tsing Yi will be completed in mid-2009.

Upon the full completion of Route 8, the transportation time between the international airport/Kwai Chung Port and Shatin will be substantially shortened. Therefore, quality

industrial premises in Shatin will be attractive to end-users as a result of enhancement in transportation efficiency. Therefore, it is our opinion that both rental and capital values of industrial properties in Shatin will see exceptional growth over the coming months.

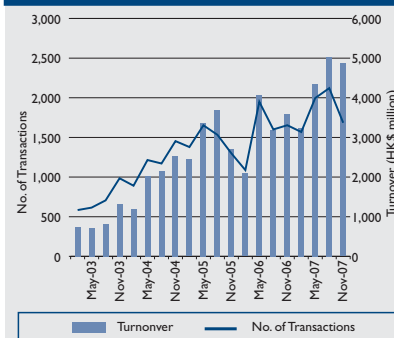
DISTRICT TRANSFORMATION

Due to the continued development of infrastructure and the implementation of a number of town planning initiatives, old industrial districts have been gradually transformed into decentralised business hubs. In the case of Kowloon East, the whole district showed significant changes after a number of local banks (e.g. Standard Chartered Bank, Bank of East Asia and Hang Seng Bank) put some of their divisions in the district. It is particularly the case when the district is provided with more shopping and dining facilities. With the opening of apm and MegaBox - the two sizeable shopping malls in Kowloon East, more prospective tenants have been convinced that Kowloon East is one of the fast-growing areas in the territory.

Similar to Kowloon East, the new Grade A office development coming along the pipeline at Tai Lin Pai Road, Kwai Chung is going to bring changes to the district. Upon the scheduled completion of the first phase of the project in the second half of 2008, a total of 487,900 sq ft of Grade A office premises will be added to the market. Considering the changes brought about by Grade A office and retail developments to Kowloon East, it is our view that the industrial property market in Kwai Chung is going to receive the spill over benefit. Meanwhile, more industrial premises in the area are anticipated to be converted to other uses.

Apart from the anticipated transformation in Kwai Chung, the Tourism Commission's Aberdeen tourism project is expected to stimulate transformation of the industrial area in Aberdeen and Wong Chuk Hang. According to the conceptual design paper, the project will comprise thematic architecture on Aberdeen and Ap Lei Chau seafronts, featuring Chinese and Western seafood restaurants and retail shops, as well as

INDUSTRIAL PROPERTIES STRATA-TITLED TRANSACTIONS



* 3-month period end

Source: Land Registry, HKSAR Government

Offers from perspective buyers have not yet caught up to the expectations held by more vendors during 4Q 2007. Therefore, the number of sales transactions decreased 20.6% QoQ to 1,684

PROPOSED SOUTH ISLAND LINE (EAST)



Source: MTR Corporation

The construction is expected to start in 2011 while full completion will be between 2014 and 2015

open space for alfresco dining and festive and cultural activities. According to the proposal, the relevant works are expected to commence in 2009 for completion in 2012, in order to complement Ocean Park's redevelopment plan. In anticipation of an increase in traffic amid the development of additional tourist facilities in Island South, the Government and the MTR Corporation have planned to develop South Island Line (East) - a new railway linking Aberdeen/Wong Chuk Hang to Admiralty. The construction is expected to start in 2011 while full completion will be between 2014 and 2015.

In view of the future development of new tourist facilities and railway, a group of investors are seeking to acquire en-bloc industrial properties for investment purposes. In 2006, an industrial building in Aberdeen was sold for HK\$86.8 million. In 2007, a total of three industrial buildings in Aberdeen and Wong Chuk Hang were transacted, amounting to a total value of HK\$316.5 million. As Aberdeen and Wong Chuk Hang areas will gradually evolve into a tourist spot, it is anticipated that more industrial premises in the two areas will be converted for commercial, retail and hotel uses.

MARKET OUTLOOK

Looking ahead, the industrial property market is going to benefit from the anticipated growth in the Mainland economy. Although the slackening housing market in the US will remain one of the key uncertainties in the external environment, the prospective reduction of interest rates is expected to mitigate the potential downside risks as far as the US housing market is concerned.

In anticipation of further growth in external trades, the demand for logistics warehousing is forecast to remain buoyant. Warehouse rentals are predicted to increase by 8% over the next 12 months. Factory and I-O rentals are expected to under-perform the warehousing rentals due to the prospective increase of new supply of offices in decentralised districts. According to our research, factory and I-O rentals are expected to edge up marginally by 1% over the next 12 months. Meanwhile, industrial property values will potentially benefit from the strong buying interests amid the negative interest rate environment. The average property prices of warehouse premises are expected to rise 18% YoY while the average factory and I-O prices are forecast to grow 13% YoY in 2008.

FACTORY RENTAL INDEX



Jan-2000 = 100

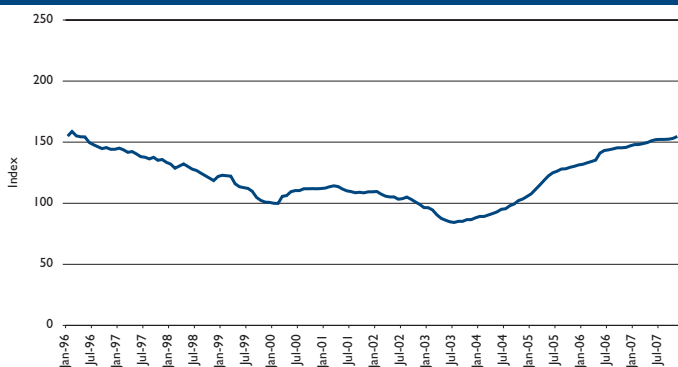
Source: Colliers International (Hong Kong) Limited

FACTORY RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

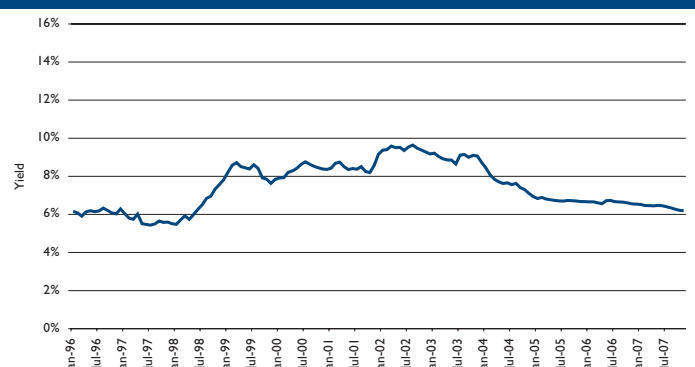
I-O BUILDING RENTAL INDEX



Jan-2000 = 100

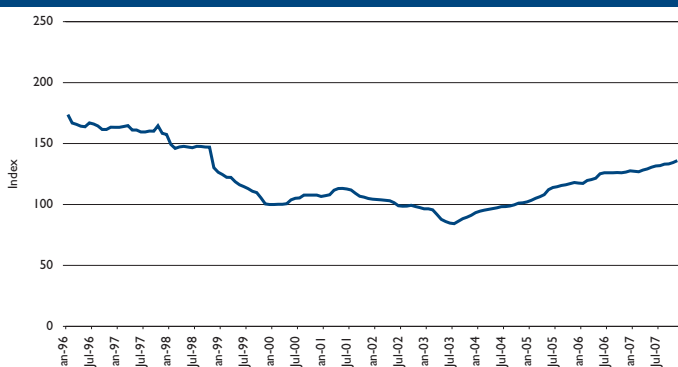
Source: Colliers International (Hong Kong) Limited

I-O BUILDING RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

WAREHOUSE RENTAL INDEX



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

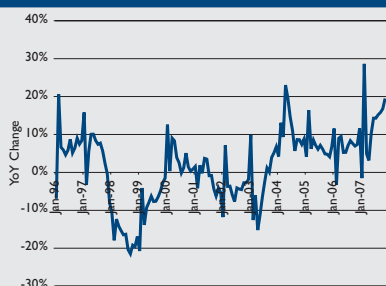
WAREHOUSE RENTAL YIELD



Source: Colliers International (Hong Kong) Limited

RETAIL SECTOR

TOTAL RETAIL SALES



Source: Census and Statistics Department, HKSAR Government

International brands remained the key driver in the market throughout 2007. International fashion labels have continued to seek out retail units in prime locations to expand their network in Hong Kong

STRONG RETAIL SALES

Thanks to the wealth effect created by the booming stock market, buoyant local spending sentiment was sustained throughout 4Q 2007, thus leading to the steady growth of retail sales in Hong Kong. Fundamentally, the buoyant private consumption expenditure has been supported by the rising household income amid the continued fall of unemployment rates. During the period between September and November 2007, the unemployment rate further edged down to 3.6%, compared with that of 4.2% in the previous quarter.

In addition, the total receipts generated from the rising number of inbound visitors continued to be one of the key market drivers for the total volume of retail sales. All in all, the average monthly value of retail sales continued to fetch around HK\$20 billion during the three-month period between September and November 2007. During the period from September to November 2007, inbound visitor arrivals recorded a total of 7.1 million, representing a growth of 16.9% year-on-year over the same period last year.

INVESTORS FAVOUR KEY RETAIL AREAS

On the investment front, the number of sales transactions of retail shops remained active in the key shopping areas. As the stock of sizeable retail space available for sale remained scarce, the major investment activity in 4Q 2007 concentrated on the sale of individual retail units. For example, shops in Causeway Bay, one of the key shopping districts in

Hong Kong, continue to be favoured by investors. Retail units located along Russell Street remained popular in the investment community.

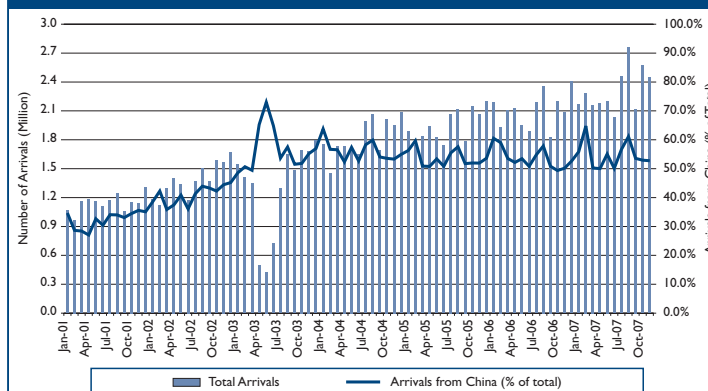
In September 2007, a street-level shop at 20 Russell Street was sold for HK\$178 million. Based on a gross floor area of 1,000 sq ft, the average unit price was HK\$178,000 per sq ft. Besides, another benchmark transaction in Causeway Bay in 4Q 2007 was the sale of the street-level shop at 2 Cannon Street for HK\$198 million in September 2007. With a total floor area of 950 sq ft, the average unit price was HK\$208,421 per sq ft.

In Tsim Sha Tsui, retail shops along Canton Road are often sought-after by investors. A street-level shop including its loft at No.14-16 Canton Road fetched HK\$190 million. Based on a gross floor area of 1,200 sq ft, the average unit price was HK\$158,333 per sq ft.

STRONG LEASING DEMAND SUSTAINED

Not only were investors active in purchasing prime retail units for their portfolios, but also retailers were eager to secure quality locations for their outlets. Some retailers realised that their expansion plans set at the beginning of 2007 could not be achieved because they have faced strong competition to rent desirable locations in key shopping areas. Amongst various retailers, international brands remained the key driver in the market throughout 2007. International fashion labels have continued to seek out retail units in prime locations to expand their network in Hong Kong, while restaurants chains also showed

VISITORS ARRIVALS



Source: Hong Kong Tourism Board

During the period from September to November 2007, inbound visitor arrivals recorded a total of 7.1 million, representing a growth of 16.9% year-on-year over the same period last year

interest in opening new shops. Given sustained encouraging growth in retail sales and the upbeat spending sentiment, leasing demand is expected to remain buoyant in 2008.

NEW SHOPPING MALLS

In addition to shops on popular streets in key retail areas, shopping malls have been favoured by both retailer and shoppers in Hong Kong. Retailers remained keen on securing spaces in shopping malls where centralized and professional property management is available. After the opening of MegaBox in Kowloon Bay in mid 2007, Elements, the sizeable shopping mall located in West Kowloon, was opened in October 2007. Looking ahead, two major new retail complexes in Tsim Sha Tsui will be opened in 2008. The first one is the mall located at the redevelopment project in Hanoi Road with an approximate area of 337,000 sq ft will be directly connected to the MTR network. Another new retail complex will be located in the heritage development of the former Marine Police Headquarters (KIL 11161) located close to Harbour City - one of the most popular shopping malls in Hong Kong. The whole development, including the existing historical building and the new complex, will provide a total of 138,000 sq ft space, housing a hotel with fewer than 30 rooms, food and beverage outlets and retail facilities.

SUB-MARKET ANALYSIS

In light of the buoyant leasing sentiment by retailers, retail rentals and capital values continued to edge up in 4Q 2007. According to the Rating and Valuation Department of Hong Kong SAR Government, the general retail rental and price indices increased 3.5% QoQ and 4.8% QoQ respectively as at the end of November 2007. Meanwhile, according to our research, retail rentals in traditional shopping areas, including Mong Kok, Tsim Sha Tusi, Causeway Bay and Central, increased 3% QoQ as at the end of November 2007.

In Mong Kok, the average retail rental index grew 3% QoQ as at the end of November 2007. In the sub-market, Sai Yeung Choi Street South remained the key retail destination for both locals and visitors. Due to the high pedestrian flow, retailers ranging from electrical appliances, skin care to fashion remained aggressive in opening their outlets in the sub-market. In October 2007,

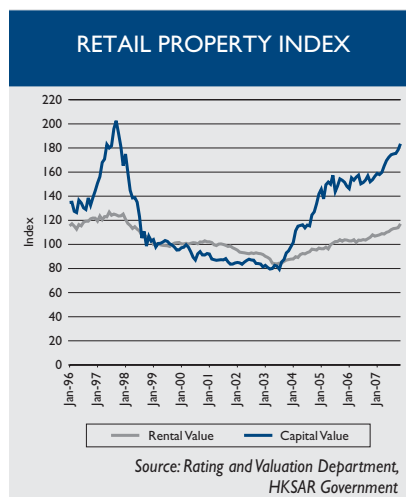
a local casual menswear brand rented a street-level shop in Ginza Plaza at 2A-H Sai Yeung Choi Street South for HK\$550,000 per month. With a total shop size of about 1,545 sq ft, the average unit rental was approximately HK\$356 per sq ft per month.

In Tsim Sha Tsui, the average retail rental index edged up 2% QoQ over the three-month period between September and November 2007. In 4Q 2007, an American burger outlet rented a retail unit on 1/F of The Sun Arcade on Canton Road to open its first shop in Kowloon Peninsula. Based on a monthly rental of HK\$340,000 sq ft and a shop size of about 4,500 sq ft, the average unit rental was approximately HK\$76 per sq ft per month.

Meanwhile, with the 337,000 sq ft shopping mall in the Hanoi Road redevelopment project scheduled for completion in 2008, retail space nearby was much sought-after by retailers. In October 2007, a street-level retail unit at 5 Cameron Road was rented for HK\$275,000 per month. With a shop size of 820 sq ft, the average unit rental was HK\$335 per sq ft per month.

In Causeway Bay, the average retail rental index increased 3% QoQ over the three-month period from September to November 2007. The first-tier streets with high pedestrian flow remained retailers' favourites. For example, two street-level shops at 1-1L Yee Wo Street were rented by a jewellery retailer for approximately HK\$950,000 per month. Based on a shop size of about 1,640 sq ft, the average unit rental was HK\$579 per sq ft per month.

In Central, the average retail rental index saw a growth of 3% QoQ over the three-month period from September to November 2007. In the first three quarters of 2007, international fashion labels were active in securing prime locations in the sub-market. Although fashion retailers generally re-focused on their retail sales business rather than the expansion of their outlet network in 4Q 2007, other businesses continued to search for desired shops amid limited stock available for lease in the sub-market. For example, a street-level shop and its basement, located in the Euro Trade Centre at 13-14 Connaught Road Central, was rented by a bank for HK\$410,000 per month. Based on a total shop size of 4,200 sq ft, the average unit rental was HK\$97.62 per sq ft per month.



The general retail rental and price indices increased 3.5% QoQ and 4.8% QoQ respectively as at the end of November 2007. Meanwhile, according to our research, retail rentals in traditional shopping areas, including Mong Kok, Tsim Sha Tusi, Causeway Bay and Central, increased 3% QoQ to HK\$418 per sq ft per month as at the end of November 2007

MARKET OUTLOOK

Looking ahead, the upward growth momentum of the retail market is expected to continue. Given the steady economic growth and the solid growth of household income, the local spending sentiment remained upbeat. Meanwhile, the ongoing growth of tourism is anticipated to provide another strong boost to the volume of retail sales. In addition, the feel-good factor including the prospective launch of the Beijing 2008 Olympic Games in August 2008 is going to boost market sentiment. Against the backdrop of the sustained positive market sentiment and positive knock-on effect to the volume of retail sales, it is our prediction that average retail rentals and capital values will grow 28% YoY and 30% YoY respectively in 2008.

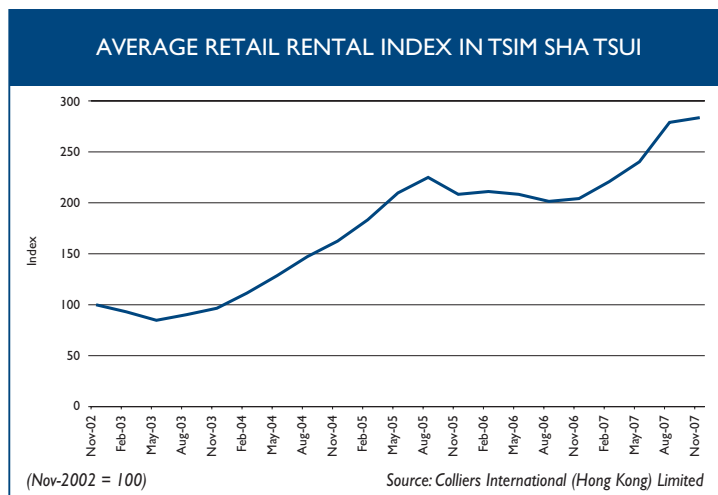
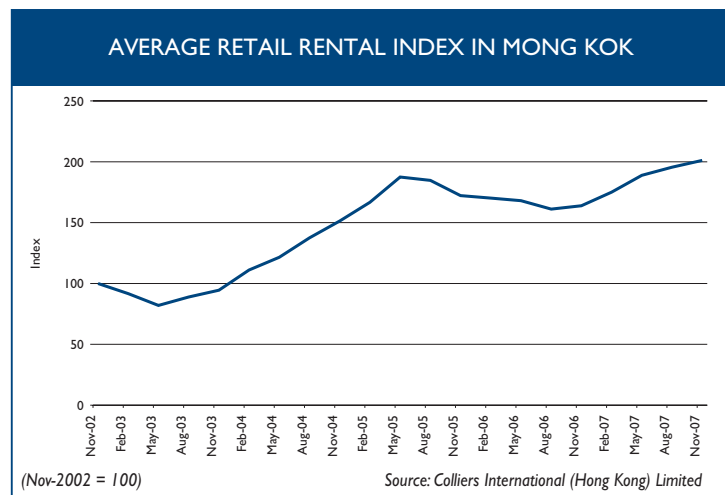
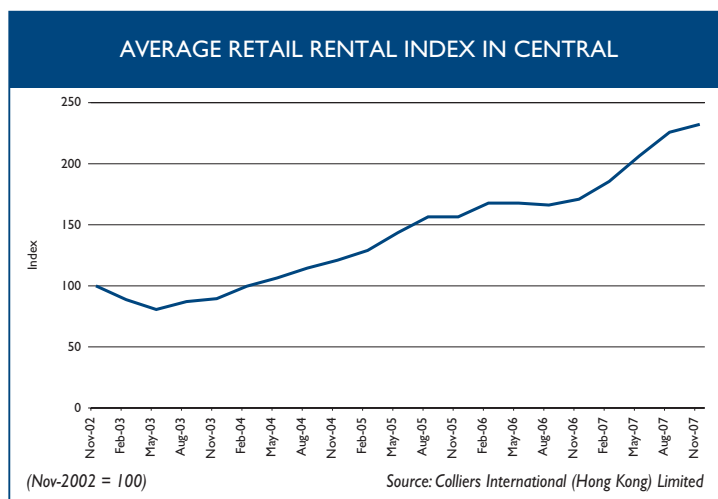
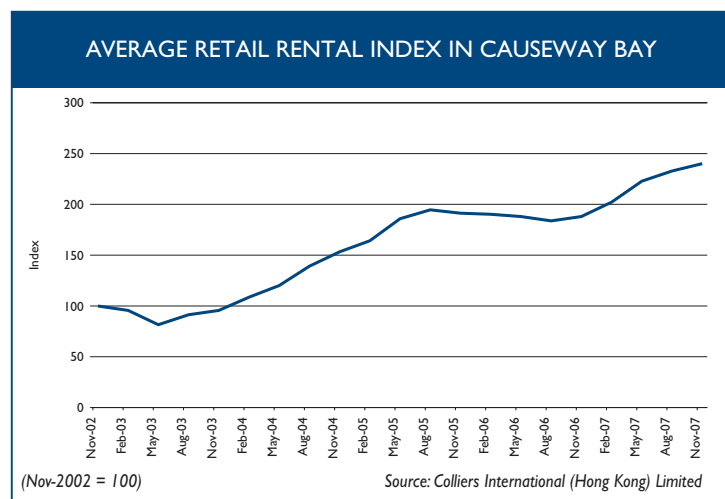
INDICATIVE RETAIL RENTAL INDEX BY MAJOR DISTRICTS

Street Name	Rental Index Aug-07	Rental Index Nov-07
Causeway Bay	233	240
% Change (QoQ)	7%	3%
Central	226	232
% Change (QoQ)	9%	3%
Mong Kok	196	201
% Change (QoQ)	6%	3%
Tsim Sha Tsui	279	284
% Change (QoQ)	8%	2%
Overall	232	238
% Change (QoQ)	8%	3%

(Nov-2002 = 100)

Source: Colliers International (Hong Kong) Limited

* Adjusted growth after sample basket review in August 2007



267 OFFICES IN 57 COUNTRIES ON 6
CONTINENTS

USA 95
Canada 17
Latin America 17
Asia Pacific 53
EMEA 85

\$63.5 billion in annual transaction volume
672.9 million square feet under management
10,171 Professionals

CONTACT INFORMATION

Colliers International (Hong Kong) Limited
Suite 5701 Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Tel : 852 2828 9888
Fax : 852 2828 9899
Company Licence No: C-006052

Piers Brunner
Managing Director
Tel : 852 2822 0727
Fax : 852 2810 5970
Email : Piers.Brunner@colliers.com
Individual Licence No: E-183614

Simon Lo
Director, Research & Consultancy
Tel : 852 2822 0511
Fax : 852 2868 5275
Email : Simon.Lo@colliers.com

The content of this report is for information only and should not be relied upon as a substitute for professional advice, which should be sought from Colliers International prior to acting in reliance upon any such information. The opinions, estimates and information given herein or otherwise in relation hereto are made by Colliers International and affiliated companies in their best judgement, in the utmost good faith and are as far as possible based on data or sources which they believe to be reliable in the contest hereto. Notwithstanding, Colliers International and affiliated companies disclaim to the extent permitted by law, any liability in respect of any claim which may arise from any errors or omissions or from providing such advice, opinions, judgement or information.

Colliers Macaulay Nicolls Inc., and certain of its subsidiaries, is an independently owned and operated business and a member firm of Colliers International Property Consultants, an affiliation of independent companies with over 240 offices throughout more than 50 countries worldwide

**COLLIERS
INTERNATIONAL**