COLLIERS INTERNATIONAL | HONG KONG

The Knowledge

MARKET OVERVIEW | JULY | 2007

MARKET TRENDS

OFFICE ↑

LUXURY RESIDENTIAL ↑

INDUSTRIAL ↑

RETAIL ↑

Market Summary

OFFICE SECTOR

- The average rental in the whole Grade A market increased 5.8% QoQ to HK$53.03 per sq ft per month as at the end of May 2007. Individual top-tier developments in Central such as Two IFC and Chater House continued to lead the market with record-breaking rentals during the period.

- If the pace of demand growth in Central is to slow, the gradual completion of various Grade A office developments in non-traditional business districts is predicted to ease the prospective growth of Grade A office rents to less than 5% over the next 12 months.

LUXURY RESIDENTIAL SECTOR

- Thanks to buoyant sentiment stimulated by the promising local stock market performance, the average luxury residential price increased 4.3% QoQ to HK$10,333 per sq ft as at the end of May 2007.

- With the limited supply situation and sustained solid market sentiment, the luxury residential price is expected to forge ahead 11% YoY in the next twelve months while the luxury residential rental is forecast to grow upward 8% YoY.

INDUSTRIAL SECTOR

- Due to the sustained volume of trade flows, the average factory rental increased 2.7% QoQ to HK$7.38 per sq ft per month as at the end of May 2007.

- Industrial property rentals are predicted to rise 10% while capital values will be boosted by investors and industrialists to rise 18% over the next twelve months.

RETAIL SECTOR

- Buoyed by sustained growth of local consumption and the strong occupational demand for prime retail units, the average retail rentals in traditional shopping districts increased 10% QoQ from HK$345 per sq ft per month in February 2007 to HK$378 per sq ft per month as at the end of May 2007.

- Given the prevailing solid fundamentals, the retail rentals and capital values are expected to see an upward growth of 19% YoY and 25% YoY respectively over the next twelve months.

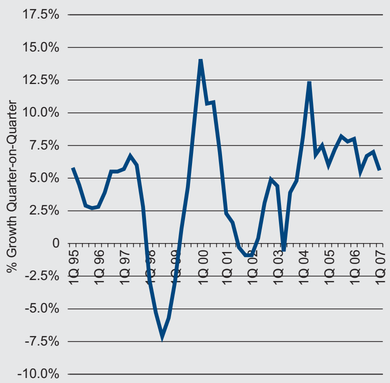
COLLIERS INTERNATIONAL

EXECUTIVE SUMMARY

ECONOMIC INDICATORS	MEASURE	2005	2006	2007	2008	2009	2010	2011
GDP	YoY % Change	7.5	6.8	5.4	5.0	4.9	5.0	5.2
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	2.6	3.2	3.0	3.0	2.9
Average unemployment rates	Rate (%)	5.5	4.4	3.8	3.5	3.2	3.1	3.0
Best lending rate	Rate (%)	6.2	7.9	8.2	8.3	8.4	8.4	8.4
Average real wage	YoY % Change	2.6	0.4	0.1	0.3	0.5	0.6	0.8

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

HONG KONG GDP



Source: Census & Statistics Department, HKSAR Government

The local GDP increased by 5.6% year-on-year during 1Q 2007

The encouraging sign is that the economy has been expanding at an above-trend rate for 14 quarters in a row since mid-2003

PRIVATE CONSUMPTION EXPENDITURE HOLDS FIRM

The local economy continued to deliver solid growth with GDP increased by 5.6% year-on-year ("YoY") during 1Q 2007 thanks to the positive contribution from various economic components across the board. Despite the fact that the pace of economic growth tapered off slightly, the encouraging sign is that the economy has been expanding at an above-trend rate for 14 quarters in a row since mid-2003. As usual, exports of goods and services continued to be the key component driving the economy. Total exports of goods increased 8.2% YoY as a result of the sustained trade flows involving the Mainland. Although there were signs of weakness in the US market, the slack has been picked up by the economic expansion in Europe and Japan. Led by the continued growth of inbound tourism, exports of services forged further ahead with a growth of 8.4% YoY in 1Q 2007.

Thanks to the rise in stock market prices, and more importantly the fact that the economic benefits started filtering through the economy in the form of a solid rise in household income, the growth of local private consumption expenditure picked up its momentum with a further growth of 5.6% YoY in 1Q 2007. Because of the growing demand in the labour market and the continued appreciation of Renminbi ("RMB"), the local economy saw a positive growth of consumer prices in the order of 1.7% YoY in 1Q 2007. Although one-off factors including the rates waiver for two quarters in 2007, the cut of public housing rentals and the implementation of the Pre-primary Education Voucher Scheme are going to slow the inflation in 2007, the local economy is expected to see a faster growth of consumer prices beyond 2007. According to the projection by The Economist Intelligence Unit, local inflation will rise from the average of 2.6% YoY in 2007 to 3.2% YoY in 2008.

PROPERTY INVESTMENT MARKET

Although there was no reduction in interest rates during 2Q 2007, genuine investors including a number of local developers and real estate investment funds remained there in the marketplace to look for investment opportunities. The situation can be illustrated by a number of whole-block sale transactions concluded during the period. Further to the sale of a number of whole-block industrial developments in early 2007, the market focus is found to shift to other property sectors. In the case of the residential sector, the market was surprised with the transaction of three major whole-block developments which were not usually available for sale. As reported, Henredon Court, comprising a total of 10 duplex units at 8 Shouson Hill Road, South Side, was acquired by a local developer for a total consideration of HK$710 million in May 2007 in anticipation of prospective capital growth upon the completion of redevelopment in the future. Meanwhile, Lodge On The Park, the high-rise luxury residential block located at 4 Kennedy Road, Mid-levels, was sold by an international real estate fund to a local property developer for a lump-sum price of about HK$1 billion. Lately, the whole development at 11 Coombe Road, The Peak, was acquired by a local developer for HK$610 million. Meanwhile, in the industrial and commercial sector, there were two major investment transactions in 2Q 2007. The first one was Paul Y. Centre, an industrial/office building located at 51 Hung To Road which changed hands for HK$1,150 million in March 2007. The second was the sale of the 381-room Majestic Hotel and the medium size shopping mall for a total consideration of HK$1,690 million in May 2007.

HONG KONG PROPERTY MARKET SECTOR

In addition to investment demand, the prevailing buying interests have been underpinned by a number of cash-rich end-users. In the luxury residential property sector, the whole market continued to see a healthy growth of both volume and prices. According to our research, the number of sale transactions of top-tier units in the traditional luxury residential districts registered an increase of 25% QoQ during the period. Underpinned by steadily rising rentals, luxury residential property prices posted a further growth of 4.3% QoQ to HK$10,333 per sq ft as at the end of May 2007. Individual brand-new developments in traditional luxury districts continued to surprise the market with record-breaking transaction prices. In the case of Severn 8 - the luxury project developed by Sun Hung Kai Properties in The Peak, record unit prices were set for both The Peak and the whole of Hong Kong during 2Q 2007. Further to the sale of House 8 for an average price of HK$39,100 per sq ft in March 2007, House 1 was recently transacted for HK$210 million, representing a unit price of about HK$41,000 per sq ft.

In the office market, demand for prime office space in core business locations showed no signs of abating thanks to the buoyant finance industries and the positive spill over to other business service sectors. With a general lack of supply in the primary and secondary market, the growth momentum of office rentals was witnessed to pick up in late 2Q 2007. Despite the implementation of a series of measures by the Central Government to cool the overheated stock markets in the mainland, the local Grade A office was largely immune from the adjustments, and continued to grow during the three-month period between March and May 2007. Overall, the average rental in the Grade A office market increased 5.8% QoQ to HK$53.03 per sq ft per month as at the end of May 2007. Office rentals in the top-tier benchmark developments in Central continued to lead the market with record-breaking rentals during the period.

In the retail property sector, the overall demand fundamentals remained solid. On the occupational front, prime retail units continued to be favoured by a broad range of retailers who have been optimistic on the prospective growth of retail sales attributed to both local consumers and overseas visitors. Existing international retailers determined to go ahead with their expansion plans in order to capture the growing spending fueled by the optimism on the Beijing 2008 Olympic Games. Meanwhile, overseas newcomers continued to focus on the prime units in traditional shopping districts in an attempt to set up their flagship stores. Therefore, it was not uncommon for a prime retail unit located in traditional shopping districts to receive rental offers from four or even five different retailers at the same time. Overall, the average ground-floor retail rental in the four traditional shopping districts posted a dramatic growth of 10% QoQ to HK$380 per sq ft per month as at the end of May 2007. From an investment perspective, prospective purchasers remained confident on the ongoing rental growth in the market and prepared to offer aggressive bids, translating into initial investment yields well below 3% p.a. during 2Q 2007.

In the industrial property sector, rentals and capital values remained on their upward trends thanks to the sustained occupational demand on the back of ongoing growth of re-exports and cargo throughput. The warehousing sub-sector saw the strongest growth with the average rental increased by 2.9% QoQ to HK$6.95 per sq ft month as at the end of May 2007. Amid the continued rental growth for quality industrial premises particularly for those located in the area close to the port and airport, individual occupiers have started to rationalise on space usage by moving part of their operations to non-core areas such as Yuen Long. Motivated by promising rental growth, a number of vendors are found to upgrade the functional performance of their industrial premises in order to achieve better rental income after the completion of renovation.

MARKET OUTLOOK

Looking ahead, the local property market is expected to grow further against the backdrop of sound economic fundamentals. In addition to the sustained growth of exports of goods and services, the local private consumption expenditure is going to take up a key role as a growth contributor to the economy. Property rentals are predicted to increase further given a general lack of supply across the various property sectors. As such, more investors will be prompted to enter the market in order to ride the current property cycle.

The local property market is expected to grow further against the backdrop of sound economic fundamentals

More investors will be prompted to enter the market in order to ride the current property cycle

GRADE A OFFICE SECTOR

SUB-MARKET BREAKDOWN

RENTS

	Face Rents (HK$ / sq ft / month)			Effective Rents (HK$ / sq ft / month)		
	May 06	May 07	May 08 (f)	May 06	May 07	May 08 (f)
Central	72.37	97.35	104.16	67.33	91.04	97.42
Admiralty	58.33	74.60	79.07	53.77	70.26	74.48
Wan Chai	39.50	45.20	47.91	36.46	41.97	44.49
Causeway Bay	42.09	40.23	42.25	39.03	37.63	39.51
North Point	23.50	24.69	25.93	21.70	23.41	24.58
Quarry Bay	29.11	29.88	28.39	27.41	28.02	26.62
Sheung Wan	37.63	41.20	43.26	34.68	38.11	40.01
Tsim Sha Tsui	39.34	36.38	33.47	36.55	33.59	30.90

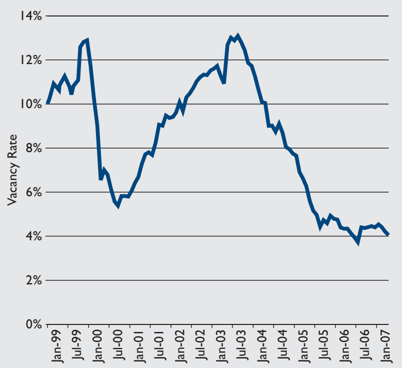
GRADE A OFFICE CAPITAL VALUES AND YIELDS

	Capital Values (HK$ / sq ft)			Yields		
	May 06	May 07	May 08 (f)	May 06	May 07	May 08 (f)
Central	14,739	19,117	22,099	3.5%	3.1%	2.9%
Admiralty	11,507	13,645	15,296	4.3%	3.6%	3.4%
Wan Chai	11,018	13,084	14,693	3.7%	3.6%	3.4%
Tsim Sha Tsui	8,862	10,889	11,259	4.4%	3.4%	3.0%

On net floor area basis

Source: Colliers International (Hong Kong) Limited

GRADE A OFFICE VACANCY RATE



Source: Colliers International (Hong Kong) Limited

The overall Grade A office market continued to be challenged by a general lack of supply in the marketplace

The average vacancy rate edged further down from 4.53% in February 2007 to 4.05% in May 2007

POSITIVE HIRING EXPECTATIONS

Despite the implementation of a series of measures by the Central Government to cool the overheated stock markets in the mainland, the local Grade A office market was largely immune to the adjustments, and continued to grow during the three-month period between March and May 2007. Demand for prime office space in core business locations showed no signs of abating thanks to the buoyant finance industries and the positive spill-over to other business service sectors. The trend was confirmed by the quarterly survey conducted by Hudson, a leading human resources consultant. Essentially, hiring expectations remained positive across all business sectors in Hong Kong since the survey indicates that 56% of the respondents are going to increase headcount in 2Q 2007 compared with 54% in 1Q 2007 - a proxy of demand growth for office space.

Breaking down into individual business sectors, the banking & financial services industries are reported to have the highest hiring expectations since 61% of the respondents were looking to grow their headcount. Going hand–in–hand with the finance industries, the majority of the respondents engaged in the legal sector also planned to increase hiring during 2Q 2007. Due to the expansion in the finance sector, hiring expectations amongst IT & Telecommunications companies exhibited a strong rebound from 32% in 1Q 2007 to 53% in 2Q 2007. Meanwhile, positive signals also appeared in the manufacturing sector which showed a significant rise in hiring expectations from 42% in 1Q 2007 to 57% in 2Q 2007. A number of manufacturing companies wanted to hire more people because of their new production facilities in southern China.

SUPPLY CONSTRAINT

Under the prevailing solid demand fundamentals, the overall Grade A office market continued to be challenged by a general lack of supply in the marketplace. In the secondary market, the average vacancy rate edged further down from 4.53% in February 2007 to 4.05% in May 2007. In the case of the sub-market of Central, the supply of office stock for lease remained scarce, and the average vacancy rate stayed largely around 3% during 2Q 2007. In the primary market, two Grade A office developments were completed during the period between February and May 2007 but they are both located in non-traditional business districts. New supply in Central remained zero.

For the two newly-completed schemes during 2Q 2007, the first one is the 31-storey office building located at 633–635 King's Road, North Point, providing a total gross floor area of 260,000 sq ft. The second project is Enterprise Square Five – one of the decentralised office projects developed by Kerry Properties in Kowloon Bay. The project is a mixed development comprising two 15-storey office towers which are built on top of "Megabox" – the sizeable shopping mall comprising a total retail space of 1 million square feet. To recap, the vendor of Enterprise Square has already secured Hang Seng Bank as one of its anchor tenants to pre-commit one whole office tower (i.e. Tower 2) for a fixed term of six years in May 2006. Recently, DHL, the leading international logistics operator, agreed to take a total of seven floors in Tower 1 of Enterprise Square or a total gross floor area of 120,000 sq ft.

CENTRAL REMAINS THE GROWTH ENGINE

Given the prevailing tight supply situation, the growth momentum for office rentals in Central remained strong. After a short period of slow growth in early 2007, there were signs of rentals picking up in Central during 2Q 2007.

Overall, the average rental in the whole Grade A market increased 5.8% quarter-on-quarter (QoQ) to HK$53.03 per sq ft per month as at the end of May 2007. The sub-market in Central saw distinct rental growth of 8.3% QoQ to HK$85.15 per sq ft per month on an effective basis as at the end of May 2007. Office rentals for individual top-tier benchmark developments in Central such as Two IFC and Chater House continued to lead the market with record-breaking rentals during the period. In May 2007, **Fortis**, an international provider of banking and insurance services to personal, business and institutional customers, is reported to have taken three floors or 33,000 sq ft at Three Exchange Square in Central.

OPTIONS FOR NON-FINANCE TENANTS

For the bulk of tenants engaged in the finance and legal industries, the number of property options remained relatively limited due to the current supply gap in the sub-market of Central. However, the supply situation is actually improving for tenants engaged in non-finance industries such as trading and manufacturing since a spate of new developments located in non-traditional business districts will be coming on the pipeline in 2007 and 2008.

During 2Q 2007, a number of corporations engaged in non-finance sectors have confirmed to relocate to Kowloon East where brand-name developments with quality office space are available to meet their expansion needs. In addition to the case of **DHL** which has chosen Enterprise Square in Kowloon Bay to consolidate their various offices, **Kenfair International (Holdings) Limited**, a locally-listed company engaged in organising trade fairs, recently took a lease of 24,000 sq ft at One Kowloon, Kowloon Bay.

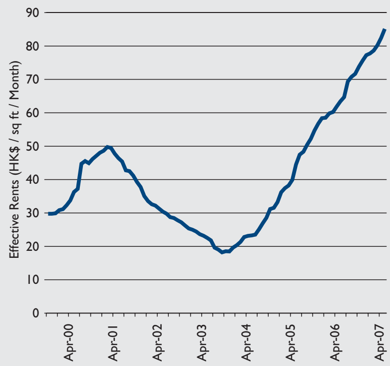
PERCENTAGE GROWTH IS THE KEY

Given the sustained demand growth for office space primarily attributed to the finance and legal industries and the prevailing trend of increasing levels of new supply in non-traditional districts, the direction of the local Grade A office market is essentially a tug-of-war between the strength of the traditional business districts and the dilution effect created by the scheduled completion of the office developments in non-core districts.

Although there has been sustained rental growth in the sub-market of Central, rentals in other non-traditional business locations such as Kowloon East have started feeling the impact of the rising level of supply. According to our research, the average office rental in Kowloon East was flat in 2Q 2007 but it has already fallen by 15-20% year-on-year (YoY) as of the end of May 2007. Therefore, if there were no growth in the core business districts on Hong Kong Island, the whole Grade A market should have already entered into negative growth territory. Going forward, it is critical to examine the prospective growth of the sub-market of Central in order to gauge the direction of the whole market. The following are two key discussion points on the prospective growth of the finance industries – the key tenant group underpinning the sub-market of Central.

Firstly, the latest survey undertaken by the Boston Consulting Group (BCG) provides a very useful piece of information as far as market projection is concerned. According to the breakdown of volume growth by key business lines in the investment banking sector, the projection for 2007 will be a significant slowdown. For example, the anticipated business growth of equities trading is predicted to taper off from 42% in 2006 to 20-22% in 2007. Meanwhile, the growth of the fixed income

GRADE A OFFICE RENTALS CENTRAL

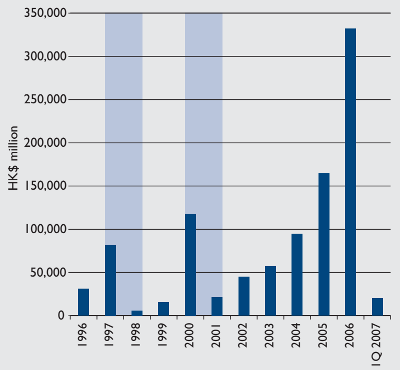


Source: Colliers International (Hong Kong) Limited

After a short period of slow growth in early 2007, there were signs of rentals picking up in Central during 2Q 2007

Rentals in other non-traditional business locations such as Kowloon East have started feeling the impact of the rising level of supply

IPO FUNDS RAISED THROUGH HONG KONG MAIN BOARD



Source: Securities & Futures Commission

The market requires a lot of activities over the coming quarters in 2007 in order to match the level in 2006

The local office market might have to consolidate should there be a drop in volume in 2007

division might slow from 29% in 2006 to 8-13% in 2007. Given the direct relationship between the volume of business growth and the trend of office rentals, in our view, the projection provided by the BCG should sound a note of caution for the local office market.

Secondly, the anticipated market slowdown will become a decline if the total volume in 2007 cannot match the level in 2006. Looking at the volume of equity funds raised through initial public offerings (IPOs) in the main board of the Hong Kong stock exchange, the total volume was a total of slightly above HK$20 billion during 1Q 2007, representing 6% of the total volume of HK$322 billion achieved in the full year of 2006. In other words, the market requires a lot of activities over the coming quarters in 2007 in order to match the level in 2006. Looking at the time series over the past 11 years, a decline of volume happened in 1998 and 2001 when the local office market was in its down cycle. In the worst case scenario, the local office market might have to consolidate should there be a drop in volume in 2007.

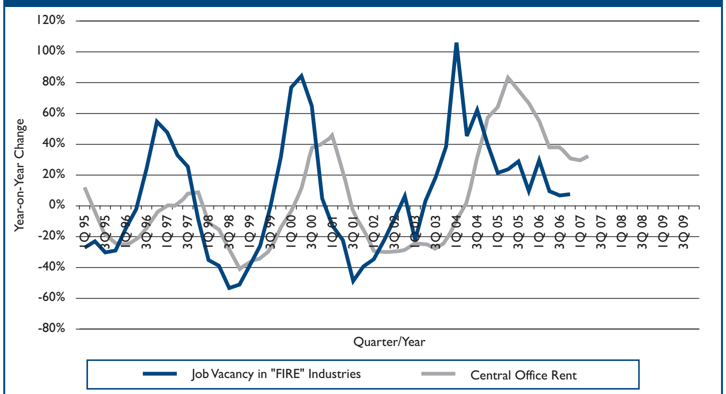
TIME THE MARKET

Taking a different angle to look at the sub-market of Central, the prospective growth of the companies engaged in the finance, insurance, real estate and business services ("FIRE") sectors has been commonly used to determine the future growth of office rentals in Central since the vast majority of the space in Central has been occupied by "FIRE" companies. Meanwhile, the change in the number of job vacancies in the "FIRE" industries is found to bear a significantly close relationship with the YoY change of Grade A office rentals in Central based on the results of statistical analysis.

As shown in the attached chart, the growth of job vacancies reached its peak at 106% YoY in 1Q 2004, and then tapered off continuously to 7.6% YoY in 4Q 2006. In the case of office rentals in Central, the YoY growth peaked at 85% YoY in 2Q 2005. Similar to the trend of "FIRE" job vacancies, the growth rate of Central office rents narrowed to 33% YoY in 2Q 2007. However, the key question is what will happen to the growth rate of Central office rents if there is no growth in "FIRE" job vacancies? History tells us that office rents in Central start to come down after a decline of job vacancies for two quarters. Therefore, if the growth of "FIRE" job vacancies continues to narrow along its current path, it is projected to hit the line of zero growth in late 2007 or early 2008. Accounting for the 2-quarter lag, office rentals in Central are anticipated to change their direction within the two subsequent quarters (i.e. mid-2008).

By adopting a separate methodology of measuring the performance of the local office market in the past decades, it is the feature of the local office market that no single upswing can last for more than 20 quarters from trough to peak. For the current cycle as at 2Q 2007, the market has already gone through a period of 16 quarters since the start of its upswing in 3Q 2003. If the above threshold applies to the current cycle, the market is going to reach its peak at some point before 2Q 2008. This points to the same conclusion arrived from the simple projection of the change of job vacancies in the "FIRE" industries.

OFFICE MARKET CYCLES



Source: Colliers International (Hong Kong) Limited

Rentals in Central are anticipated to change their direction in mid 2008

Building	District	NFA (sq ft)	Developer	Status
GRADE A OFFICE SUPPLY (2007 - 2010 & BEYOND)				
2007				
Millennium City Phase 6	Kwun Tong	301,500	Sun Hung Kai Properties	Under construction
633 - 635 King's Road	Quarry Bay	183,377	Shun Ho Resources	Completed
Enterprise Square 5	Kowloon Bay	357,633	Kerry Properties	Completed
International Commerce Centre (Stage I)	West Kowloon	695,400	Sun Hung Kai Properties	Under construction
Total		**1,537,910**		
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 (KCTL 215) - (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 (KCTL 215) - (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	Foundation
Cityplaza One (Phase II)	Tai Koo Shing	379,191	Swire Properties	On hold
Total		**2,873,684**		

Source: Colliers International (Hong Kong) Limited

MARKET OUTLOOK

Looking ahead, the whole Grade A office market is expected to see further growth given the sustained demand for office space in the "FIRE" industries and a general lack of stock in the traditional business districts on Hong Kong Island. However, the growth pace might continue to narrow due to the gradual completion of various Grade A office developments in non-traditional business districts. In addition, the market is predicted to reach its peak in mid-2008 if the growth pace of the "FIRE" sector and the average rental growth in Central continue to slow over the next 12 months. In particular, this will be the case if developers undercut the market to secure early-bird tenants for their newly-completed developments. Overall, it is our prediction that the prospective growth of Grade A office rents will narrow to less than 5% over the next 12 months.

RESIDENTIAL SECTOR

LUXURY RESIDENTIAL MARKET - KEY MARKET INDICATORS

	Rents (HK$ / sq ft / month)			Capital Values (HK$ / sq ft)			Yields		
	May 06	May 07	May 08(f)	May 06	May 07	May 08(f)	May 06	May 07	May 08(f)
Peak	42.59	45.72	50.15	12,546	14,252	16,389	4.07%	3.85%	3.67%
South Side	35.69	38.02	40.78	10,105	10,800	11,880	4.24%	4.22%	4.12%
Mid-levels	28.68	30.59	32.81	8,236	8,657	9,522	4.18%	4.24%	4.13%
Happy Valley	25.30	28.08	30.45	7,490	8,226	9,213	4.05%	4.10%	3.97%
North Point	22.09	23.35	24.29	6,414	6,840	7,319	4.13%	4.10%	3.98%
Average	32.32	34.63	37.22	9,493	10,333	11,470	4.09%	4.02%	3.89%

Source: Colliers International (Hong Kong) Limited

The overall residential market saw solid growth momentum over the three-month period in 2Q 2007, thanks to buoyant sentiment stimulated by the promising local stock market performance

The number of residential transactions priced at HK$50 million or above increased 24% QoQ

STRONG GROWTH MOMENTUM

The overall residential market saw solid growth momentum over the three-month period in 2Q 2007, thanks to buoyant sentiment stimulated by the promising local stock market performance. According to the Land Registry of Hong Kong SAR Government, the number of sales and purchase agreements of residential building units was 11,110 in May 2007, which was the highest single-month record over the past two years. On a quarterly basis, the luxury residential market, especially the most prime sector, showed significant growth. Over the three-month period from March to May 2007, the number of residential transactions priced at HK$50 million or above increased 24% QoQ. In addition to the encouraging performance in the growth of transaction volume, the luxury residential market also registered an obvious rise during the same period of time. The average luxury residential price increased 4.3% QoQ from HK$9,910 per sq ft in February 2007 to HK$10,333 per sq ft as at the end of May 2007.

CONFIDENCE VOTE BY DEVELOPERS

Obviously, market players showed a strong interest in entering the market in 2Q 2007, based on the buoyant transaction volume and price rise. However, the second quarter has already passed, and the more important issue is how the market will perform in the future. Of course, nobody can be sure of what is going to happen. Therefore, expectation will be the driving force of the market. In order to trace the market expectation, one of the proxies could be how developers act towards the future market. In the three months from March to May 2007, a total of six residential plots were taken out from the Application List for public land auction, with two of them in Tai Po, another two in Tuen Mun, one in West Kowloon and the remaining one in Cheung Chau. Comparing to zero land auctions held in the same period last year, developers speeded up their pace to make attempts to build land banks. Throughout the auctions for the six residential plots, the final transacted price registered a premium ranging from 54% to 147% over their respective opening bids. Strong competition for the sites revealed developers' underlying confidence in the market.

BUOYANT LUXURY LAND DEMAND

Amid strong interest in building land banks by developers, land available for auction by the government i.e. the sites included in the Application List is relatively limited, particularly in the three traditional luxury residential districts – The Peak, South Side and Mid-levels. In the recently released Application List for the fiscal year from April 2007 to March 2008, there are a total of 47 sites available for auction for interested developers, of which 33 sites are zoned for residential use. However, only four sites are located in traditional luxury districts, including two in South Side, one in the Peak and one in Mid-levels. In the latest auctions, the active response of developers to bid revealed their strong appetite for land. Therefore, developers who would like to build their property portfolio in traditional luxury residential districts have tried to explore opportunities directly in the private sector in addition to the government land auctions. Benchmark transactions have been recorded in all the three traditional luxury districts in 2Q 2007.

MAJOR RESIDENTIAL SALES TRANSACTIONS

Month	Property	District	GFA (sq ft)	Price (HK$ m)	Unit Price (HK$ / sq ft)
Mar-07	21 Black's Link	The Peak	3,350	70.88	21,158
Mar-07	Overthorpe, House L	The Peak	2,269	65.00	28,647
Apr-07	Gough Hill Residences, House 3B	The Peak	5,657	180.00	31,819
Apr-07	Kelletteria, House E	The Peak	3,198	75.00	23,452
Apr-07	Severn 8, House 8	The Peak	4,650	180.90	38,903
May-07	9 Severn Road, House 25	The Peak	3,363	100.80	29,973
May-07	Gough Hill Residences, House 3C	The Peak	5,570	203.80	36,589
May-07	Severn 8, House 20	The Peak	3,330	98.80	29,670
Mar-07	Island Grove, House D	South Side	5,080	148.00	29,134
Mar-07	Repulse Bay Belleview Garden, House 11	South Side	3,820	69.25	18,128
Mar-07	Somerset, 9/F, Flat B	South Side	3,099	52.00	16,780
Apr-07	1 Shouson Hill Road East, House 6	South Side	4,331	66.14	15,271
Apr-07	Pinecrest, 5/F, Flat A	South Side	2,250	33.99	15,107
Apr-07	Repulse Bay Garden, Block 12, 13/F	South Side	1,669	20.30	12,163
May-07	16A South Bay Road, House 2	South Side	4,675	113.80	24,342
May-07	16A South Bay Road, House 8	South Side	4,859	126.00	25,931
May-07	45 Island Road, House 7	South Side	2,760	58.00	21,014
May-07	45 Island Road, House 10	South Side	2,719	50.80	18,683
May-07	Bay Villas, House 59	South Side	5,443	111.80	20,540
May-07	Double Bay, House 3	South Side	4,180	122.00	29,187
May-07	Hong Kong Parkview, Tower 6, 5/F, Flat 43	South Side	2,722	31.00	11,389
May-07	Hong Kong Parkview, Tower 10, 11/F, Flat 63	South Side	2,771	28.10	10,141
May-07	Hong Kong Parkview, Tower 15, 7-8/F, Flat 85	South Side	5,240	66.00	12,595
May-07	Redhill Peninsula, Cedar Drive, House 116	South Side	2,985	41.68	13,963
May-07	Regalia Bay, House D1	South Side	5,742	82.30	14,333
May-07	Stanley Court, House 1	South Side	2,701	32.88	12,173
Mar-07	May Tower, Tower 2, 8/F	Mid-levels	3,393	43.00	12,673
Mar-07	The Albany, 30-31/F, Duxplex Unit B	Mid-levels	3,566	68.80	19,293
Apr-07	Estoril Court, Tower 3, 43/F, Flat E & F	Mid-levels	6,694	108.00	16,134
Apr-07	Tavistock, Tower 2, 40/F, Flat C	Mid-levels	1,730	22.00	12,717
May-07	Century Tower, Tower 2, 22/F	Mid-levels	3,663	57.50	15,698
May-07	Dynasty Court, Tower 5, 33/F, Flat A	Mid-levels	1,962	27.00	13,761
May-07	Highcliff, 43/F, Flat A	Mid-levels	3,816	62.32	16,331
May-07	Régence Royale, Tower 1, 26/F, Flat A & B	Mid-levels	5,263	109.00	20,711

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)
Mar-07	127 Repulse Bay Road	South Side	3,008	146,000		48.54
Mar-07	Pacific View	South Side	1,334	39,000		29.24
Apr-07	51-55 Deepwater Bay Road	South Side	3,500	207,200	*	59.20
Apr-07	Unicorn Gardens	South Side	1,700	46,500		27.35
May-07	14 Shouson Hill Road	South Side	3,555	145,000	*	40.79
May-07	Regalia Bay	South Side	4,000	155,000		38.75
May-07	Repulse Bay Apartment	South Side	2,165	70,000	*	32.33
May-07	3 Shouson Hill Road	South Side	3,220	138,000		42.86
May-07	The Repulse Bay	South Side	2,800	94,500	*	33.75
Mar-07	150 Kennedy Road	Mid-levels	1,200	45,000		37.50
Mar-07	Robinson Place	Mid-levels	1,350	53,000		39.26
Mar-07	Seymour Place	Mid-levels	1,100	25,000		22.73
Mar-07	Tregunter	Mid-levels	3,000	80,000	*	26.67
Apr-07	Bamboo Grove	Mid-levels	1,813	57,100		31.49
Apr-07	Bon-Point	Mid-levels	1,228	43,000		35.02
Apr-07	Branksome Crest	Mid-levels	2,355	113,000		47.98
Apr-07	Queen's Garden	Mid-levels	2,830	113,000		39.93
May-07	Aigburth	Mid-levels	3,020	124,000	*	41.06
May-07	Hillsborough Court	Mid-levels	931	36,000		38.67
May-07	2 Old Peak Road	Mid-levels	2,200	82,500		37.50
May-07	Villa Elegance	Mid-levels	3,500	100,000		28.57

** Exclusive*

Source: Colliers International (Hong Kong) Limited

The leasing growth momentum was generally fueled by the buoyant occupation demand

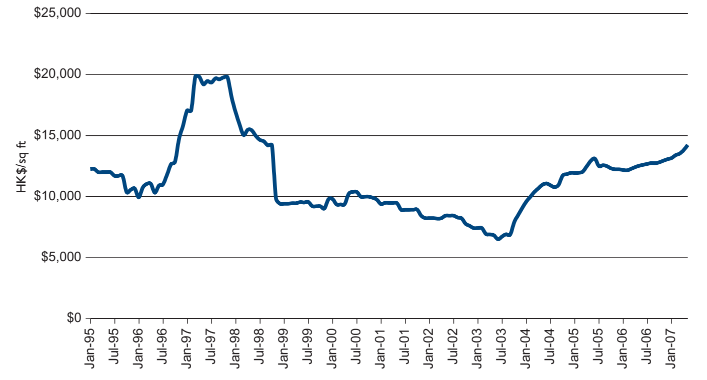
Top tier houses and quality apartments in traditional luxury residential districts were usually in favour

In the Peak, 11 Coombe Road, covering a site area of 18,270 sq ft, was sold to Nan Fung, a local developer, for HK$610 million in May 2007. With a total floor area of 16,000 sq ft, the average unit price was HK$38,125 per sq ft. Besides, South Side, another traditional luxury district, also registered an individual bulk purchase transaction. In May 2007, 10 duplex units in Henredon Court, a low-rise apartment development at 8 Shouson Hill Road, South Side, were sold to Sun Hung Kai Properties for a total consideration of HK$710 million. Not only was the demand for houses and low-rise apartments high, but developers also showed interest in high-rise developments in traditional luxury residential districts. In Mid-levels, Lodge On The Park, the 28-storey apartment block located at 4 Kennedy Road, Mid-levels was sold by Lend Lease, the Australian fund, to Cheung Kong, another local developer, for about HK$1 billion. Based on a total floor area of over 90,000 sq ft, the average unit price is over HK$11,000 per sq ft.

LEASING DEMAND REMAINED STRONG

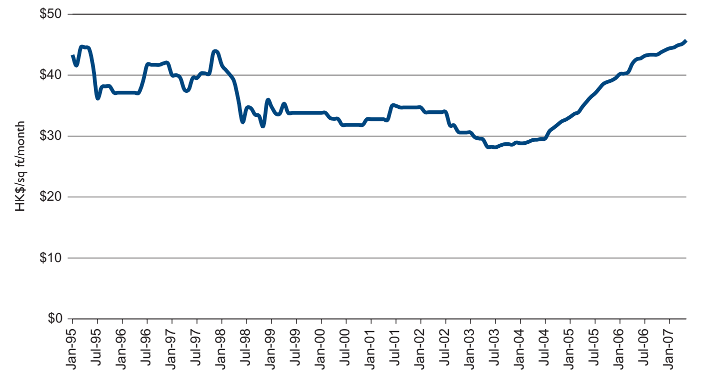
Not only did the luxury residential sales market see encouraging performance in 2Q 2007, the luxury leasing market also followed suit during the same period. The leasing growth momentum was generally fueled by the buoyant occupation demand. In the luxury residential districts, the average rentals registered a rise of 2.9% QoQ from HK$33.7 per sq ft per month in February 2007 to HK$34.6 per sq ft per month as at the end of May 2007. According to the quarterly survey conducted by Hudson, a leading human resources consultant, in 2Q 2007, 56% of the interviewed employers expressed their plan to increase headcount. In the Banking & Professional Services and Legal category, 61% and 60% of the respondents respectively intended to increase hiring. Amongst senior executives in multinational companies (MNCs), top tier houses and quality apartments in traditional luxury residential districts were usually in favour. Besides, amid the contemporary surge

LUXURY RESIDENTIAL PRICES - PEAK



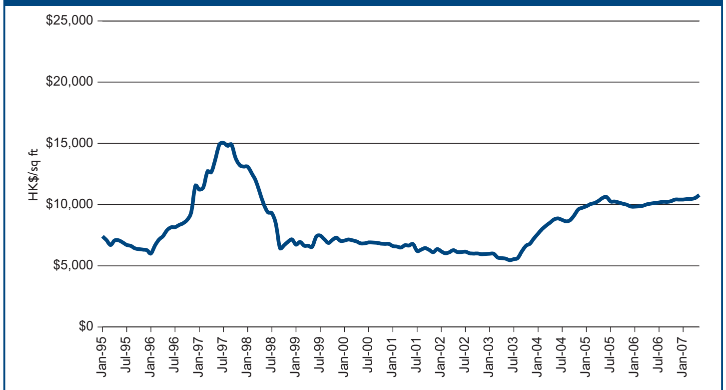
Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL RENTALS - PEAK



Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL PRICES - SOUTH SIDE

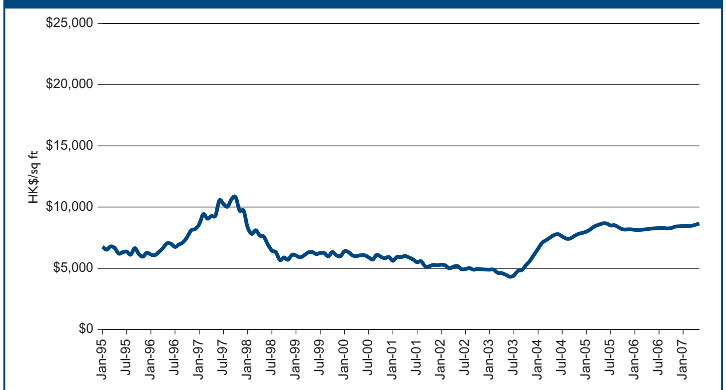


Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL RENTALS - SOUTH SIDE

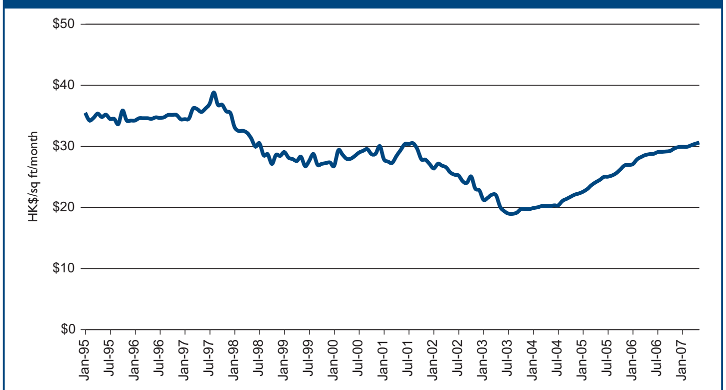
Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL PRICES - MID-LEVELS



Source: Colliers International (Hong Kong) Limited

LUXURY RESIDENTIAL RENTALS - MID-LEVELS



Source: Colliers International (Hong Kong) Limited

The average luxury residential price increased 4.3% QoQ in 2Q 2007

The Peak posted a distinct growth of 6.2% QoQ to HK$14,252 per sq ft during the period

in luxury residential prices, owners marked up a significant growth in their asking rentals when existing leases of their properties approached expiry. Amid the current ongoing rise of luxury residential rentals, MNCs have to keep close track of market rental changes so that they can review their housing allowance for their staff, particularly those senior executives, to maintain their choice in desirable locations.

THE PEAK

Over the three-month period between March and May 2007, the luxury residential price in the Peak recorded the highest growth amongst the traditional luxury residential districts. The average luxury residential price increased 6.2% QoQ from HK$13,417 per sq ft in February 2007 to HK$14,252 per sq ft as at the end of May 2007. Brand new developments in the sub-market continued to be in favour by potential buyers and they were transacted at record prices. Severn 8, the luxury development comprising 22 houses and built by Sun Hung Kai Properties, has surprised the market with its record-breaking transacted prices since its completion in 2003. In March 2007, House 8 was sold for HK$180.9 million. Based on a total floor area of 4,650 sq ft, the average price was HK$38,903 per sq ft, representing the highest unit price in Hong Kong at that time. After three months, this record was broken again by another house transacted in the same development, House 1, for HK$210 million. Based on a total floor area of 5,129 sq ft, the average unit price was HK$40,944 per sq ft, setting a new record for the residential market in Hong Kong.

On the leasing front, the luxury residential rental in the sub-market also saw a rise in 2Q 2007. The average luxury residential rental increased 2.6% QoQ from HK$44.6 per sq ft per month in February 2007 to HK$45.7 per sq ft per month as at the end of May 2007.

SOUTH SIDE

In South Side, the average luxury residential price increased 3.2% QoQ from HK$10,469 per sq ft in February 2007 to HK$10,800 per sq ft in May 2007. Benchmark developments saw a price growth higher than the average of the sub-market. In Hong Kong Parkview, one of the popular luxury residential developments in Repulse Bay, positive price adjustment was observed in 2Q 2007. In Tower 14, a mid-floor unit was sold for HK$21.5 million in May 2007. Based on a total floor area of 1,785 sq ft, the average unit price was HK$12,045 per sq ft. In February 2007, another unit in Tower 14 with the same size and orientation was sold for HK$20.4 million or an average price of HK$11,429 per sq ft. After adjusting the floor difference between the two units, the price in Hong Kong Parkview increased 5.9%. In Pacific View, another benchmark development in the sub-market, also saw similar price adjustment in 2Q 2007. In April 2007, a low-floor unit in Tower 1 was sold for HK$10.3 million. Based on the total floor area of 1,334 sq ft, the average unit price was HK$7,721 per sq ft. In February 2007, a high-floor unit with the same size and orientation in the same tower was sold for HK$11 million or an average price of HK$8,246 per sq ft. By comparing the two transacted units after adjustment of floor difference, the price in the development saw a rise of 5.3%.

On the leasing front, the luxury residential rental in South Side registered upward growth. The average rental in the sub-market saw a rise of 3.1% QoQ from HK$36.9 per sq ft per month in February 2007 to HK$38.0 per sq ft per month as at the end of May 2007.

MID-LEVELS

During the three-month period in 2Q 2007, there was also upward adjustment in the luxury residential price in Mid-levels. The average price in the sub-market increased 2.3% QoQ from HK$8,462 per sq ft in February 2007 to HK$8,657 per sq ft in May 2007. For example, in Tregunter, one of the popular developments in Mid-levels, a low-floor unit in Tower 2 was sold for HK$23.5 million in May 2007. With a total floor area of 3,050 sq ft, the average unit price was HK$7,705 per sq ft. Another unit at about mid-floor zone in Tower 2, comprising the same orientation and size, was transacted for HK$23.8 million or an average price of HK$7,803 per sq ft in February 2007. Comparing the two transacted units after adjustment of floor difference, the average unit price increased 2.7% in the development. Besides, May Tower, another benchmark development in the sub-market, also saw a price growth in 2Q 2007. In May 2007, a low-floor unit in Tower I was sold for HK$26.8 million. Based on a total floor area of

PROSPECTIVE NEW SUPPLY OF SERVICE APARTMENTS

Property	Region	District	No. of units	Anticipated completion	Developer / Landlord
Cheung Wing Road	New Territories	Kwai Chung	648 *	2007	Tung Chun
URA (K11), Hanoi Road	Tsim Sha Tsui	Tsim Sha Tsui	383	2007	URA / New World
MTR Kowloon Station (Package VI)	Tsim Sha Tsui fringe	Tsim Sha Tsui	300	2008	SHK Properties / MTRC

* *Estimated figures*

Source: Colliers International (Hong Kong) Limited

2,850 sq ft, the average unit price was HK$9,404 per sq ft. In January 2007, another low-floor unit of the same size and orientation in Tower I was transacted for HK$27.0 million or an average unit price of HK$9,474 per sq ft. After adjusting the floor difference of the two units, the price in May Tower edged up 1.2%.

Staying in line with the price growth in Mid-levels, the luxury residential rental in the sub-market also increased in 2Q 2007. The average luxury residential rental increased 2.3% QoQ from HK$29.9 per sq ft per month in February 2007 to HK$30.6 per sq ft per month as at the end of May 2007.

MARKET OUTLOOK

Looking forward, the overall luxury residential market is expected to be underpinned by positive growth momentum amid the buoyant land bank building interest of developers and strong purchasing sentiment of potential buyers. With the limited supply situation and sustained solid market sentiment, the luxury residential price is expected to forge ahead 11% YoY in the next twelve months. On the leasing front, the strong occupation demand continued to be a major driving force of the market. In the next twelve months, the luxury residential rental is forecast to grow upward 8% YoY.

The luxury residential price is expected to forge ahead 11% YoY in the next twelve months

CONSENT TO SELL RESIDENTIAL UNITS

District	Development	No. of units	Estimated completion	Developer
March 2007				
NKIL 6272	The Forest Hills	304	30-Apr-08	Global Success Holdings Inc.
April 2007				
STTL 465	Unknown	11	31-May-07	Wang On Group Limited
May 2007				
TCTL 5	Caribbean Coast Phase IV (Tower 15 & 16)	824	4-May-07	MTR Corporation 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 Star Royale Ltd	4	Completed
30 Peak Road	1 @ 3-s	-	Ho's Investment	1	Under Construction
46 Plantation Road	4 @ 3-s	-	Park Talent Development Ltd	4	Completed
South Side					
68 Mount Davis Road	-	1 @ 13-s	Y.K. Pao's Fund	10	Completed
120 Pok Fu Lam Road	-	1 @ 23-s	Shun Tak Holdings Limited	10	Completed
216 Victoria Road	-	2 @ 4-s	Lo & Son Land Invest Co Ltd	28	Under Construction
Cyberport Road, Telegraph Bay, Pok Fu Lam (Stages 10-12)	29 @ 4-s	-	PCPD, HKSAR Government	29	Completed
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 SECTOR

INDUSTRIAL MARKET - KEY MARKET INDICATORS

	Rents (HK$ / sq ft / month)			Capital Values (HK$ / sq ft)			Yields		
	May 06	May 07	May 08 (f)	May 06	May 07	May 08 (f)	May 06	May 07	May 08 (f)
Factory	6.70	7.38	8.12	1,023	1,199	1,415	7.9%	7.4%	6.9%
Warehouse	6.63	6.95	7.64	942	1,069	1,229	8.4%	7.8%	7.5%
I-O Building	11.83	12.65	13.66	2,031	2,252	2,522	7.0%	6.7%	6.5%

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
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%
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%

Source: HKSAR Government

There were signs of accelerating growth happening in both the warehousing and industrial-office (I-O) sector in 2Q 2007

SUSTAINED GROWTH IN RE-EXPORTS

The sustained economic growth in the Mainland and buoyant demand for imports in a number of overseas markets continued to underpin the volume of re-exports. During the three-month period from March to May 2007, the total value of re-exports increased 12.4% year-on-year (YoY) to a total of HK$611 billion.

RISING RENTALS

On the property front, the average rental in the factory sector maintained its pace of steady growth. As at the end of May 2007, the average factory rental increased 2.7% quarter-on-quarter (QoQ) to HK$7.38 per sq ft per month. Meanwhile, there were signs of accelerating growth happening in both the warehousing and industrial-office (I-O) sector. According to our research, the average warehousing rental increased 2.9% QoQ to HK$6.95 per sq ft per month as at the end of May 2007. Meanwhile, rentals in the I-O sector grew 2.1% QoQ to HK$12.65 per sq ft per month during 2Q 2007.

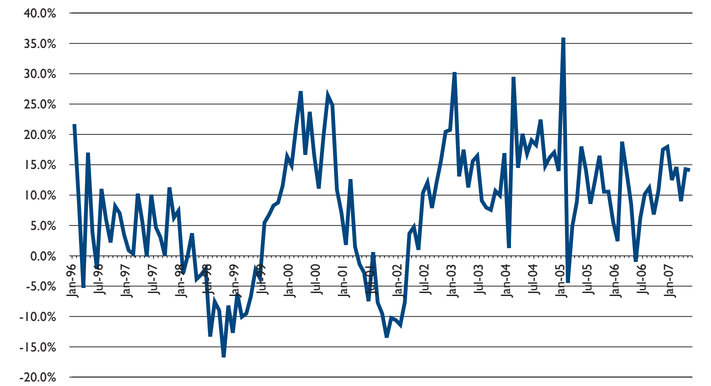
CAPITAL VALUES EDGING UP

On the back of sustained rise in rentals, capital values in the industrial property market continued to grow during 2Q 2007 thanks to the keen buying interests in the marketplace. In the factory sector, average capital value increased 3.9% QoQ to HK$1,199 per sq ft. In the warehousing sector, average price rose 4.1% QoQ to HK$1,069 per sq ft, while the average price of I-O increased 2.1% QoQ to HK$2,252 per sq ft as at the end of May 2007.

INVESTMENT DEMAND

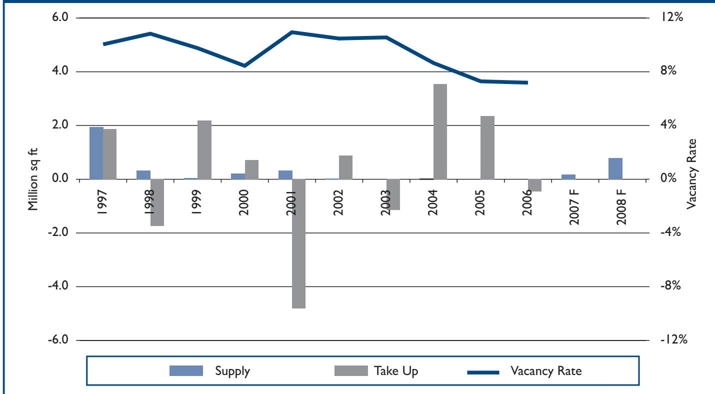
In anticipation of the prospective growth of both rental and capital values in the industrial property market, long-term investors remained keen in acquiring whole-block premises. In 2Q 2007, an investment fund bought Paul Y. Centre, the I-O building in Kwun Tong, for a total consideration of HK$1,150 million, or an average price of HK$3,026 per sq ft based on a total floor area of 380,000 sq ft.

RE-EXPORT TRADES YEAR-ON-YEAR GROWTH



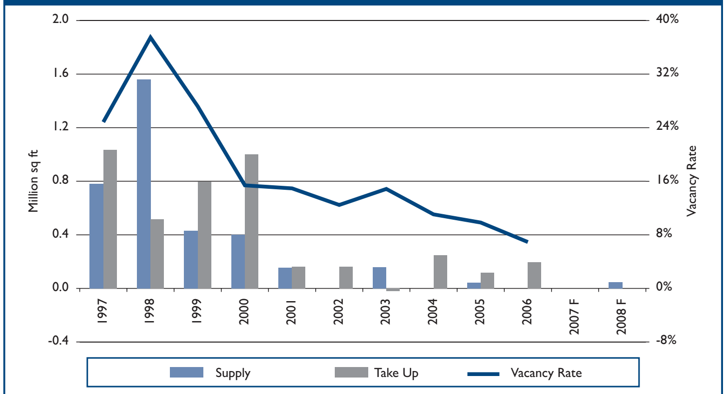
Source: Census and Statistics Department, HKSAR Government

PRIVATE FLATTED FACTORIES SUPPLY, TAKE-UP AND VACANCY RATE TRENDS



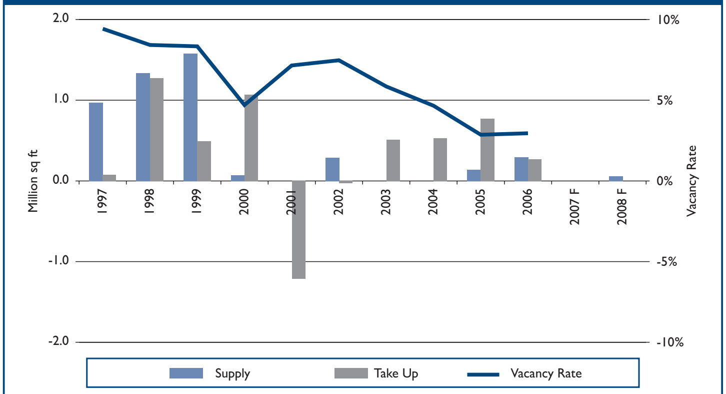
Source: Rating and Valuation Department, HKSAR Government

PRIVATE INDUSTRIAL-OFFICE SUPPLY, TAKE-UP AND VACANCY RATE TRENDS



Source: Rating and Valuation Department, HKSAR Government

PRIVATE WAREHOUSE SUPPLY, TAKE-UP AND VACANCY RATE TRENDS



Source: Rating and Valuation Department, HKSAR Government

After the sale of a spate of whole-block developments in 1Q 2007, the number of available stock for investment sale became even scarcer in 2Q 2007. As a result, a number of investors including the long-term real estate funds have turned their focus to the strata-title market. For example, Mapletree Logistics Trust acquired the 52% strata-title interests at Grandtech Centre, the multi-storey warehouse in Sha Tin, for HK$780 million. The deal translated into an average unit price of HK$1,532 per sq ft given the attributable floor area of 509,180 sq ft. In addition, a local investor purchased two floors at Shield Industrial Centre in Tsuen Wan for HK$50.4 million.

DECLINING STOCK FOR LEASE

In view of the continued surge in both rental and capital values, vendors, including the bulk of the strata-title landlords, have been more willing to keep their premises in vacant possession in order to achieve better selling prices. The net impact on the leasing market is that the amount of stock for lease has contracted, particularly for quality developments in prime locations.

Meanwhile, because of the fact that the market has been running out of stock for lease and the projection that there will be a significant reversionary rental growth, the prevailing demand attributed to the group of users has further benefited the activity in the strata-title sale market. Further to the sale of two floors to a local investor, an industrialist engaged in the electronics industry recently acquired another two floors in Shield Industrial Centre for a lump sum of HK$59 million in order to meet its occupational need.

VACANCY RATES EDGING DOWN

Amid the continued economic growth since 2003, occupiers in the local industrial property market have been going for their expansion strategies and taking on additional floor space. However, due to the supply lag, there has been no significant growth of new stock to satisfy the market demand. As a

INDUSTRIAL NEW SUPPLY

District	Location	Gross Floor Area (sq ft, approximate)	Applicant	Status
Kwun Tong	78 Hung To Road	120,000	Citigold Development Ltd	Under construction
Kwun Tong	52 Hung To Road	125,000	Pioneer Land Development Ltd	Under construction
San Po Kong	1 Tai Yau Street	185,000	Dragon Pacific Development Ltd	Under construction

Source: Buildings Department, HKSAR Government

Given a general lack of stock in prime locations, a number of logistics companies have been prompted to adopt relocation strategies to cope with the current market situation

result, industrial tenants have been focusing on the available stock in the secondary market. Similar to the past quarters, the vacant stock continued to edge down. According to the latest Property Review published by the Rating and Valuation Department of the Hong Kong SAR Government, the average vacancy in the factory sector dropped further from 7.3% in 2005 to 7.2% in 2006. The I-O sector saw a dramatic change from 9.8% in 2005 to 6.9% in 2006. Meanwhile, the warehousing space was virtually fully occupied since the vacancy rate was steady at around 3% at the end of 2006.

IMPROVING NEW SUPPLY

Looking ahead, there will be more industrial supply coming online in 2007 and 2008. According to the Rating and Valuation Department of the Hong Kong SAR Government, a total of 169,000 sq ft of new factory space will be due for completion in 2007. The level of new supply is projected to increase to 782,500 sq ft by 2008 when a spate of industrial developments in Kwun Tong, comprising a total of 590,000 sq ft is available. Although there will be an improvement in the supply condition by 2008, the level of new supply will fall short of the long-term average of 3.1 million sq ft per annum during the period between 1986 and 2006.

The attached table shows the key developments under construction as at 2Q 2007.

THE COPING STRATEGY

Benefiting from its close proximity to Kwai Chung container port and Hong Kong International Airport, the warehouse premises in Kwai Chung, Tsuen Wan and Tsing Yi area have been welcomed by logistics operators. Accounting for over 50% of the warehouse stock in the whole territory, the total stock of warehouses in Kwai Chung, Tsuen Wan and Tsing Yi area have been virtually in full occupancy in 2Q 2007.

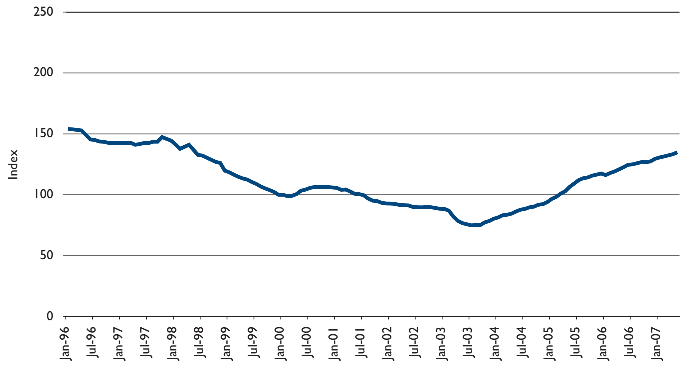
Given a general lack of stock in prime locations, a number of logistics companies have been prompted to adopt relocation strategies to cope with the current market situation. As a property alternative, a logistics company consolidated its warehouses in Cheung Sha Wan and To Kwa Wan to a site in Yuen Long providing the same amount of floor space.

Over the long term, it is anticipated that warehouses in the prime areas including Kwai Chung, Tsuen Wan and Tsing Yi will be primarily used for fast-moving cargoes since these areas are all located close to the airport and container terminals. Meanwhile, as the industrial sites in Kowloon area such as To Kwa Wan are gradually converted for non-industrial use, tenants in the area will gradually relocate to cheaper locations such as Yuen Long and Tuen Mun.

MARKET OUTLOOK

Looking ahead, the prospective growth of re-exports is expected to drive the performance of the local industrial property market. It is our view that rental and capital values in the warehousing market are going to see a further upside of 10% and 15% respectively over the next 12 months. Factory rentals and capital values are expected to rise 10% and 18% during the same forecast period. However, the growth pace of the I-O sector is going to be slowed by an increase in new office supply in Kowloon East. According to our research model, the prospective growth of rental and capital values of I-O buildings will be 8% and 12% respectively over the next 12 months.

FACTORY RENTAL INDEX



Jan-2000 = 100

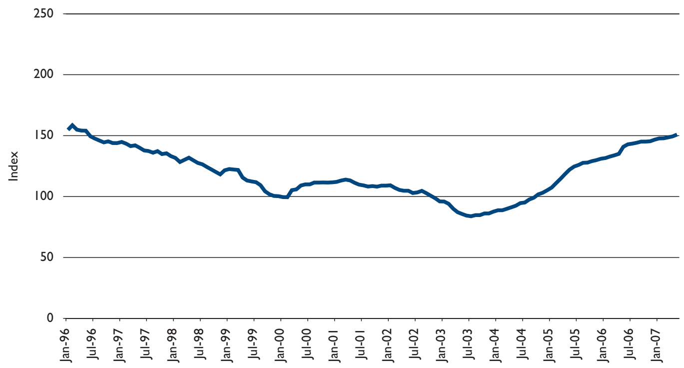
Source: Colliers International (Hong Kong) Limited

FACTORY RENTAL YIELD

Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

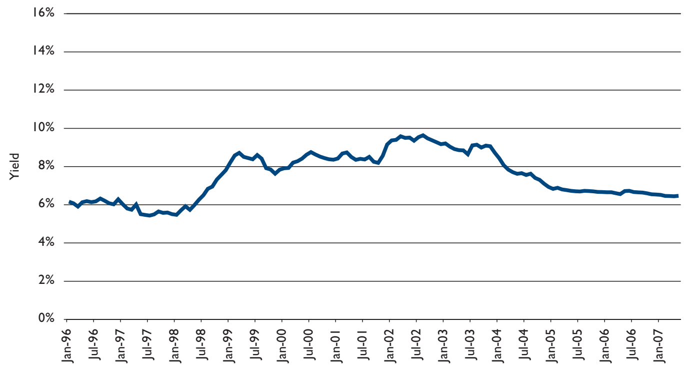
I-O BUILDING RENTAL INDEX



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

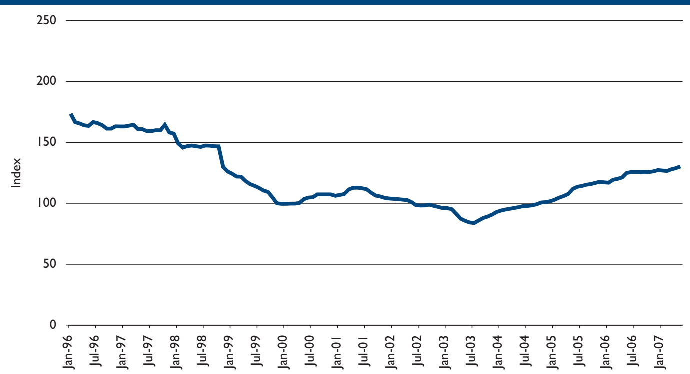
I-O BUILDING RENTAL YIELD



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

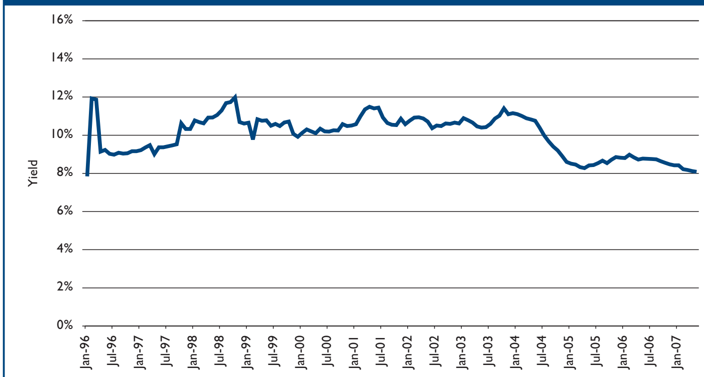
WAREHOUSE RENTAL INDEX



Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

WAREHOUSE RENTAL YIELD

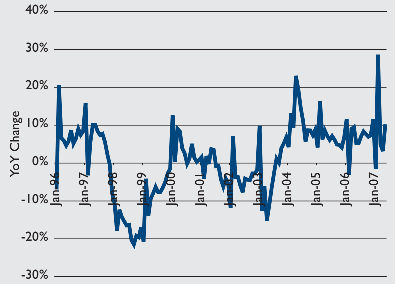


Jan-2000 = 100

Source: Colliers International (Hong Kong) Limited

RETAIL SECTOR

TOTAL RETAIL SALES



Source: Census and Statistics Department, HKSAR

Retail sales during the period from March to May 2007 saw a steady growth of 6.2% YoY to HK$58.5 billion

The soaring stock market, with the Hang Seng Index surging to a new record of over 21,000, further stimulated locals' spending sentiment

STEADY GROWTH IN FUNDAMENTALS

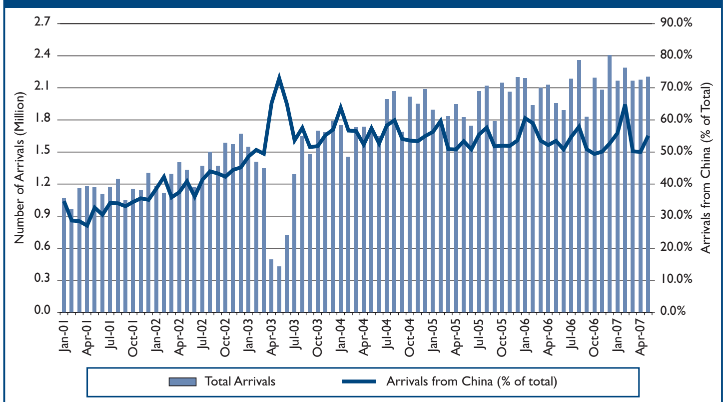
Amid the backdrop of sustained economic growth and soaring stock market prices, locals' wealth effect and spending sentiment have been keeping positive. Retail sales during the period from March to May 2007 saw a steady growth of 6.2% YoY to HK$58.5 billion. Although unemployment over the three months between March and May 2007 kept the same as the level in the preceding three months i.e. 4.3%, an increase of 13,700 to the labour force during the same period of time represented more employed people to spend. Apart from the basic fundamentals, the soaring stock market, with the Hang Seng Index surging to a new record of over 21,000, further stimulated locals' spending sentiment, especially during special days and holidays in the reviewed period such as Mothers' Day, Easter, Labour Day, etc. For the aspect of external driving forces, an increase of visitors was an important role. In the first five months of 2007, the total visitor arrivals registered a growth of 6.7%, compared to the same period last year. The visitors coming from Mainland China continued to be the majority of total arrivals, representing 55% of the total from January to May 2007.

INVESTMENT DEMAND REMAINED BUOYANT

Following the acquisition of shopping centres by international investment funds in 1Q 2007, the buoyant investment sentiment continued with active sales transactions of street-level retail shops by local investors. For example, Canton Road in Tsim Sha Tsui, one of the traditional shopping districts in Hong Kong, is well-known for its agglomeration of international brand shops. With its popular position amongst local and visitor shoppers, any retail shop available for sale in the street draws active feedback from investors. In 2Q 2007, two shops were transacted in this valuable street. A shop on ground floor, 54-66 Canton Road was transacted for HK$130 million in mid-May 2007. Based on a size of about 1,200 sq ft, the average unit price was HK$108,333 per sq ft. Although the yield generated by existing lease of a convenience store was as low as about 3% per annum, its rental has potential to have a significant reversionary growth upon the lease expiry at the end of 2008. Another benchmark investment transaction in the street was concluded at the end of May 2007. The ground-floor shop at 4 Canton Road was sold to a local investor for HK$170 million. With a shop area of about 1,000 sq ft, the average price was HK$170,000 per sq ft, setting a new record of unit price in the street. Based on its current rental income by the lease of a glasses retailer, which lasts until the end of 2008, the initial yield is 2.5% per annum – even lower than that of the transactions mentioned above.

The investor who bought the retail shop at 4 Canton Road mentioned above was so active in the market that he also acquired two other shops in Russell Street - the most sought-after street in Causeway Bay in 2Q 2007. In April 2007, the investor bought ground-level shop B at 50-52 Russell Street for HK$180 million. One month later, the same investor bought another shop next to it i.e. ground-level shop A, 1/F and 2/F at 50-52 Russell Street for HK$203.8 million or an

VISITORS ARRIVALS FROM CHINA



Source: Hong Kong Tourism Board

The visitors coming from Mainland China continued to be the majority of total arrivals, representing 55% of the total from January to May 2007 average price of HK$75,481 per sq ft, with a size of 2,700 sq ft. This transaction was a confirmor case of the seller acquiring the shop in early April 2007 for HK$164.8 million and then re-selling it for a gross profit of 24% or HK$39 million within a short period of only two months. Based on the existing lease by a Japanese cosmetics shop, the initial yield is as low as about 2.7% per annum.

INTERNATIONAL BRANDS - THE MARKET DRIVER

Despite relatively low yield levels of about 2% to 3% per annum, comparing to the current prime rate (the best lending rate in Hong Kong) at 7.75-8.00% per annum, and significant price premium marked up in an individual confirmor transaction, the benchmark transactions mentioned above show that most investors were eyeing retail shops at prime streets in traditional shopping districts. The investors' preference could be attributed to the active entering of international brands such as fashion and watch labels, which were particularly in favour of traditional shopping districts to catch the most shoppers' attraction during their brand introduction stage in the local market. Also, some of the brands, which are new to Mainland China visitors – more than 50% of the total number of visitors in Hong Kong every month, are able to build up a premium image by positioning their shops in the most popular shopping locations in the city. The strong interest of international brands in the local retail market is backed by sound sales growth in specific retail categories. In the first five months of 2007, total value of overall retail sales in Hong Kong increased 8.3% YoY to HK$100.2 billion. In terms of specific retail categories during the same reviewed period, two divisions, including 1) Clothing, Footwear and Allied Products, and 2) Jewellery, Watches and Clocks, and Valuable Gifts, registered higher-than-average retail sales growth, with a double-digit increase of 13.1% YoY and 15.6% YoY respectively. This encouraging growth proved that international brands, especially those specialising in fashion and watches, made a wise move to establish stand-alone themed shops in traditional luxury districts.

In addition to operating shops in the popular and top-tier shopping malls, many international brands have also opened stand-alone flagship stores with large shop frontage facing prime streets in traditional shopping districts. Not only do these stand-alone shops reinforce sales channels in the sub-market, the retailers also make use of large shop frontage as a physical marketing tool for their brands. With growing interest from international brands, rentals for the limited number of shops in the most prime retail streets were pushed upward at a significant degree.

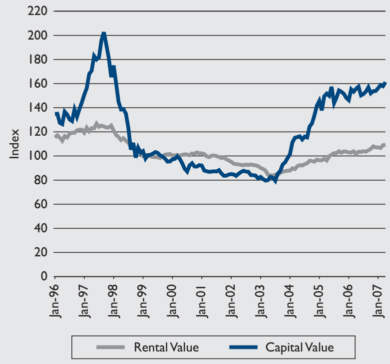
SUB-MARKET ANALYSIS

According to the Rating and Valuation Department of Hong Kong SAR Government, the general retail rental and price index increased 2.1% QoQ and 3.2% QoQ respectively as at the end of April 2007. In 2Q 2007, retail rentals in key shopping areas experienced obvious optimism, particularly in the most prime retail locations. The upward growth momentum was predominantly underpinned by the strong leasing demand of international brands. The average retail rentals in traditional shopping districts increased 10% QoQ from HK$345 per sq ft per month in February 2007 to HK$378 per sq ft per month as at the end of May 2007.

In Mong Kok, the average retail rentals in the major shopping streets increased 8% QoQ from HK$315 per sq per month in February 2007 to HK$340 per sq ft per month in May 2007. In the past, the sub-market of Mong Kok comprised principally of scattered street-level shops and shopping malls housing retail units catered for small-to-medium size local retailers. Since November 2004, the opening of Langham Place, comprising about 600,000 sq ft retail space, introduced shopping style in high-rise shopping malls in Mong Kok. Since its opening more than two years ago, the mall has been constantly reviewing its tenant mix in an attempt to increase the overall flow of shoppers. As of today, the mall has become one the most popular shopping destinations in the sub-market. Interestingly, retail shops situated close to the mall has been benefiting from the positive spilled over from the mall. Lately, an international jeans-wear brand rented a 5,000 sq ft shop at ground-level unit and a portion of the first floor in MPM, the 80,000 sq ft shopping centre facing directly the entrance of Langham Place, for a monthly rental of HK$500,000.

In Tsim Sha Tsui, the average retail rentals in the major shopping streets saw an upward growth of 9% QoQ from HK$318 per sq ft per month in February 2007 to HK$346 per sq ft per month

RETAIL PROPERTY INDEX



Source: Rating and Valuation Department, HKSAR Government

The average retail rentals in traditional shopping districts increased 10% QoQ to HK$378 per sq ft per month as at the end of May 2007

Many international brands have opened stand-alone flagship stores with large shop frontage facing prime streets in traditional shopping districts

Amongst the four traditional shopping districts, the average retail rental in Central saw the strongest growth by 11% QoQ to HK$427 per sq ft per month as at the end of May 2007

in May 2007. As usual, retail units located along Canton Road continued to be favored by both investors and retailers by virtue of being close to Harbour City – the sizeable shopping mall in Tsim Sha Tsui. It is exactly the reason why the ground-level located along Canton Road but situated on the side of Harbour City have been occupied by a number of premium international brands, thus creating a strong attraction for shoppers. Due to the strong demand for retail space, shopping units on the other side of Canton Road facing opposite to Harbour City have become the alternatives for other retailers who cannot secure the prime spots in the sub-market.

In 2Q 2007, two well-known labels decided to open their shop in Canton Road. An international sportswear brand paid about HK$2.5 million per month or an average of HK$313 per sq ft per month to rent an 8,000 sq ft shop at 30 Canton Road. Meanwhile, an international watch label rented two retail units at 2 Canton Road for HK$700,000 per month. With a shop size of approximately 404 sq ft, the average unit rental was HK$1,733 per sq ft per month, setting a new record for the street.

In addition, a number of lease transactions were concluded for the units situated on other street segments in the sub-market during 2Q 2007. For example, a Japanese cosmetics retailer rented a ground-floor shop at 35-37 Haiphong Road for a monthly rental of HK$245,000 in May 2007. Based on a shop size of about 550 sq ft, the average unit rental was HK$445 per sq ft per month.

In Causeway Bay, retail rentals also experienced upward pressure in 2Q 2007. The average retail rentals in the sub-market increased 10% QoQ from HK$372 per sq ft per month in February 2007 to HK$410 per sq ft per month as at the end of May 2007. Popular street segments such as Russell Street continued to be sought after by retailers. For example, a fashion brand paid a monthly rental of HK$510,000 for a ground-level shop at 59-61 Russell Street. Based on a shop size of 1,433 sq ft, the average unit rental was HK$356 per sq ft per month. Since the number of shops in the prime street segments is limited, strong leasing demand spilled over to adjacent areas. For example, Yun Ping Road is another favourite spot for retailers since it benefits from the high pedestrian flow at Kai Chiu Road which connects up the two landmark developments in Causeway Bay - Sogo Department Store and Times Square. In May 2007, an international crystal brand rented a ground-level shop at Henry House, 42 Yun Ping Road for a monthly rental of HK$900,000. Based on a shop size of about 2,000 sq ft, the average unit rental was HK$450 per sq ft per month.

In Central, high-end international brands continued to dominate the sub-market and drive rentals upward in 2Q 2007. Amongst the four traditional shopping districts, the average retail rental in Central saw the strongest growth by 11% QoQ from HK$383 per sq ft per month in February 2007 to HK$427 per sq ft per month as at the end of May 2007. Essentially, vendors have been aggressively marked up their asking rentals in anticipation of limited supply in the area. Retailers with their leases due to expire in 2007 have to accept a much higher rental compared to the amount they used to pay before if they want to stay in their existing shops. For example, a local chain store specialising in fashion renewed their lease of a ground-floor shop and the loft at 25-27 Des Voeus Road Central by paying a revised rental of HK$400,000 per month, representing a reversionary growth of about 33.3%.

MARKET OUTLOOK

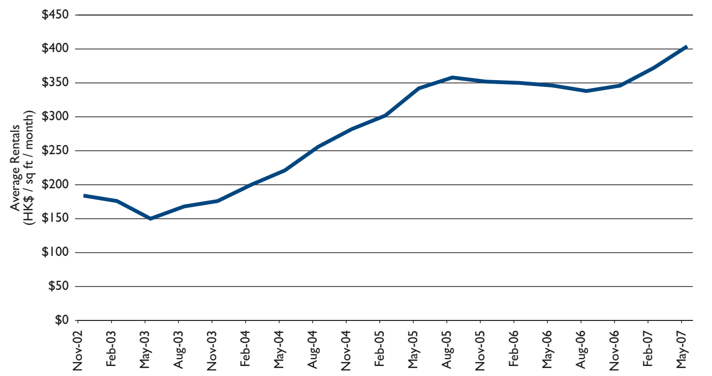
Looking ahead, retail rentals in traditional shopping districts are expected to experience further growth momentum, predominantly due to retailers' optimistic expectation on locals' and visitors' spending, and limited number of shops at prime locations. Fundamentally, steady economic growth, positive sentiment on employment and job security, and wealth effect resulting from encouraging stock market performance continue to stimulate retail spending across the board. Over the next twelve months, the retail rentals and capital values are expected to see an upward growth of 19% YoY and 25% YoY respectively.

INDICATIVE RETAIL RENTALS BY MAJOR DISTRICTS

Street Name	Average Retail Rentals (HK$ / sq ft / month) Feb-07	Average Retail Rentals (HK$ / sq ft / month) May-07
Causeway Bay	**372**	**410**
% Change (QoQ)	8%	10%
Central	**383**	**427**
% Change (QoQ)	8%	11%
Mongkok	**315**	**340**
% Change (QoQ)	7%	8%
Tsim Sha Tsui	**318**	**346**
% Change (QoQ)	8%	9%
Overall	**345**	**378**
% Change (QoQ)	**8%**	**10%**

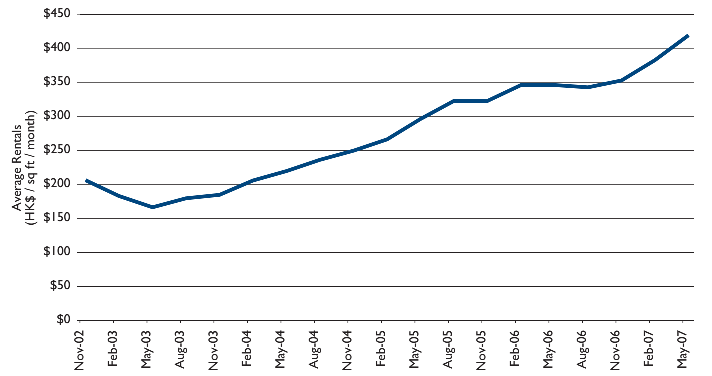
Source: Colliers International (Hong Kong) Limited

AVERAGE RETAIL RENTALS IN CAUSEWAY BAY



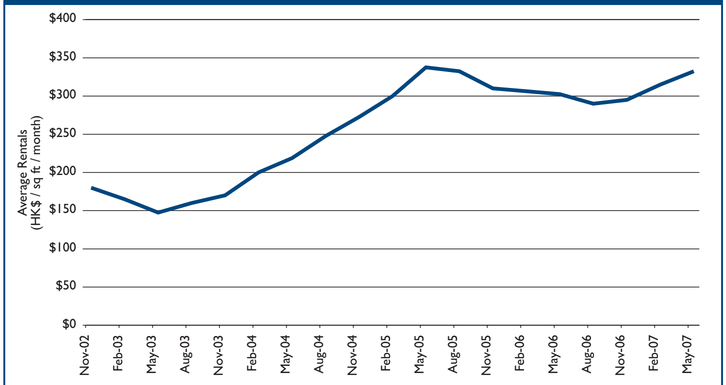
Source: Colliers International (Hong Kong) Limited

AVERAGE RETAIL RENTALS IN CENTRAL



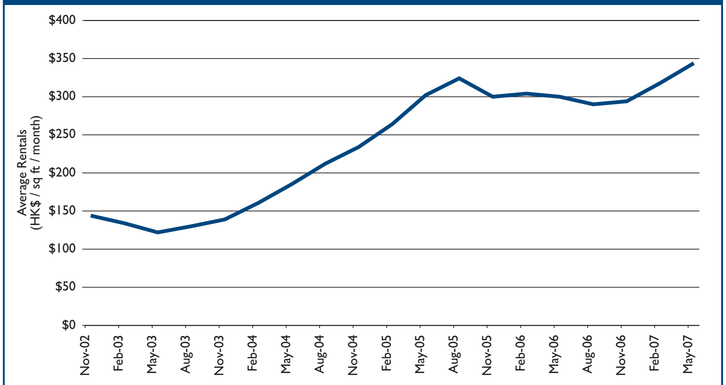
Source: Colliers International (Hong Kong) Limited

AVERAGE RETAIL RENTALS IN MONG KOK



Source: Colliers International (Hong Kong) Limited

AVERAGE RETAIL RENTALS IN TSIM SHA TSUI



Source: Colliers International (Hong Kong) Limited

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

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