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The Hongkong and Shanghai Banking Corporation Limited
UBS AG acting through its business entity UBS Investment Bank

1 September 2005

Dear Sirs,

RETAIL MARKET MACRO ANALYSIS REPORT

We have prepared a Retail and Carpark Markets Macro Analysis Report for The Link REIT for the purposes of the Global Offering, which is an overview of the retail and carpark markets in Hong Kong.

Our Retail and Carpark Markets Macro Analysis Report dated 30th June 2005 comprises 197 pages. This letter summarises the key findings from this report.

Overview of the Hong Kong Economy

Brief History

Hong Kong became a major manufacturing centre in the late 1940s. Initially dominated by textiles and clothing, its manufacturing focus switched to high technology goods during the 1970s. In the late 1970s, China began opening its economy to the outside world and the lower labour costs resulted in Hong Kong manufacturing industries being relocated to the Mainland and to other low-cost locations, coinciding with the rise in importance of Hong Kong as a global financial hub.

The Sino-British Joint Declaration signed in 1984 agreed that Hong Kong would revert to Chinese rule on 1 July 1997. This agreement resulted in the creation of the Hong Kong Special Administrative Region (HKSAR), governed under the principle of "one country, two systems". Under the terms of this

agreement, HKSAR was given a “high degree of autonomy” for 50 years, except in matters of foreign affairs and defence, now the responsibility of the Central People’s Government of China. These principles are enshrined in the Basic Law, drafted in 1990, which serves as Hong Kong’s “mini-constitution”. Today, the HKSAR remains a separate jurisdiction, and its laws continue to be founded on English common law. It retains immigration control and remains a separate customs territory. The structure of its economy has remained largely intact, and continues to be rated as one of the world’s most free economies due to its low tax base, minimalist approach to government regulation and the positive encouragement of foreign direct investment.

Economic Performance

Hong Kong’s economy in 2004 was valued at International \$210.7 billion¹ adjusted for Purchasing Power Parities (PPP), ranked 33 among all nations. However, in economic well being terms, Hong Kong ranks highly by world standards. In 2004, Hong Kong’s GDP per capita was International\$31,510 (adjusted for PPP) ranking it ahead of the UK, Belgium, the Netherlands, Canada and Japan. Broad standards of living in Hong Kong are significantly ahead of most Asian countries.

Table 1: Hong Kong and Other Selected Countries’ GDP and GDP Per Capita, 2004

| | US\$ billions | GDP | GDP per Capita |
|-------------------------------|---------------|--|-------------------------------|
| | | International dollars, PPP billions | International dollars, PPP |
| United States | 11,667.5 | 11,628.1 | 39,710 |
| Norway | 250.2 | 175.4 | 38,550 |
| Switzerland | 359.5 | 247.6 | 35,370 |
| Ireland | 183.6 | 161.0 | 33,170 |
| Austria | 290.1 | 261.1 | 31,790 |
| Denmark | 243.0 | 172.6 | 31,550 |
| Hong Kong, China | 163.0 | 210.7 | 31,510 |
| United Kingdom | 2,140.9 | 1,832.3 | 31,460 |
| Belgium | 349.8 | 322.6 | 31,360 |
| Netherlands | 577.3 | 520.9 | 31,220 |
| Canada | 979.8 | 993.1 | 30,660 |
| Japan | 4,623.4 | 3,744.1 | 30,040 |
| Sweden | 349.4 | 265.0 | 29,770 |
| Finland | 186.6 | 155.5 | 29,560 |
| France | 2,002.6 | 1,744.4 | 29,320 |
| Australia | 631.3 | 605.9 | 29,200 |
| Germany | 2,714.4 | 2,325.8 | 27,950 |
| Italy | 1,672.3 | 1,621.4 | 27,860 |
| Singapore | 106.8 | 118.2 | 26,590 |
| Korea | 679.7 | 980.7 | 20,400 |
| Malaysia | 117.8 | 246.0 | 9,630 |
| Thailand | 163.5 | 510.3 | 8,020 |
| China | 1,649.3 | 7,123.7 | 5,530 |
| Indonesia | 257.6 | 779.7 | 3,460 |
| India | 691.9 | 3,363.0 | 3,100 |

Source: World Bank Development Indicators 2005, UrbisJHD

¹ An international dollar has the same purchasing power over GDP as a US dollar has in the United States.

Over the period from 1983 to 2004, Hong Kong's economy achieved an average real GDP growth rate of 5.1 per cent per annum. This growth compared favourably with the growth of most European countries, where growth over the same period was less than 4 per cent. Growth in US GDP over the period was only 3.4 per cent.

Hong Kong's real GDP growth was very strong in the early part of this period, but weaker in later years. For example, between 1983 and 1990, growth was 6.9 per cent per annum, whereas between 2000 and 2004 annual growth was only 3.4 per cent.

Table 2: Hong Kong and Other Selected Countries' Real GDP Growth, 1983 to 2004

| Country | 1983-2004 | 1983-1990 | 1990-1995 | 1995-2000 | 2000-2004 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Australia | 3.8% | 4.5% | 2.7% | 4.2% | 3.3% |
| Canada | 3.1% | 3.6% | 1.7% | 4.1% | 2.5% |
| China | 9.7% | 9.7% | 12.0% | 8.3% | 8.6% |
| Denmark | 2.1% | 2.1% | 2.0% | 2.7% | 1.3% |
| Finland | 2.4% | 3.2% | -0.9% | 4.7% | 2.3% |
| France | 2.1% | 2.7% | 1.0% | 2.8% | 1.5% |
| Germany | 2.1% | 3.1% | 2.0% | 1.8% | 0.6% |
| Hong Kong, China | 5.1% | 6.9% | 5.6% | 3.5% | 3.4% |
| India | 5.7% | 5.9% | 5.1% | 6.0% | 6.0% |
| Indonesia | 4.7% | 5.8% | 7.3% | 0.7% | 4.6% |
| Ireland | 5.7% | 3.8% | 4.6% | 9.8% | 5.2% |
| Italy | 1.9% | 2.9% | 1.3% | 1.9% | 0.9% |
| Japan | 2.4% | 4.6% | 1.5% | 1.3% | 1.0% |
| Malaysia | 6.1% | 5.8% | 9.5% | 4.8% | 4.2% |
| Netherlands | 2.6% | 3.2% | 2.1% | 3.7% | 0.6% |
| Norway | 3.0% | 2.8% | 3.8% | 3.6% | 1.8% |
| Singapore | 6.5% | 6.9% | 9.2% | 6.4% | 2.7% |
| Switzerland | 1.6% | 3.0% | 0.1% | 2.0% | 0.7% |
| Thailand | 6.0% | 8.9% | 8.5% | 0.4% | 5.1% |
| United Kingdom | 2.7% | 3.2% | 1.7% | 3.2% | 2.3% |
| United States | 3.4% | 3.9% | 2.5% | 4.1% | 2.5% |

Source: International Monetary Fund (IMF), World Economic Outlook Database April 2005, UrbisJHD

Drivers of Future Growth

GDP Forecast²

The most recent economic data has shown a distinct improvement in the performance of the Hong Kong economy. An improving global macroeconomic environment, robust trade activity, a significant increase in the number of visitor arrivals from mainland China and rises in property and asset prices saw the Hong Kong economy post an impressive 8.1 per cent real growth in 2004, a four year high. The forecast for real GDP growth in 2005 is 4.6 per cent, before moderating to 4.5 per cent and 4.3 per cent in 2006 and 2007, respectively. The longer-term forecasts for real GDP are around 4.3 per cent per annum.

Changes in consumer prices are forecast to return to positive territory from 2005 onwards, reversing the cycle of sustained deflation experienced since 1998. In 2005, consumer prices are forecast to increase by 1.3 per cent, while in the period beyond 2006, an average increase of around 2.1 to 2.5 per cent per annum is expected. Real private consumption is also forecast to exhibit solid growth over the next ten years, averaging between 3.2 and 4.4 per cent. Hong Kong's average annual

² All forecasts in this section are sourced from Consensus Economics Inc (London), April 2005.

forecast real growth in GDP of 4.6 per cent is in line with forecasts for Korea, and ahead of forecasts for Taiwan and Singapore.

Table 3: Hong Kong and Other Selected Asia Pacific Countries' Forecast Real GDP Growth, 2005 to 2015

| Forecast | Australia | China | Hong Kong | India | Japan | Malaysia | Singapore | Korea | Taiwan | Thailand |
|-----------------|-----------|-------|-------------|-------|-------|----------|-----------|-------|--------|----------|
| 2005 | 2.6% | 8.6% | 4.6% | 6.9% | 1.0% | 5.5% | 4.2% | 4.0% | 4.2% | 5.1% |
| 2006 | 3.2% | 7.9% | 4.5% | 6.9% | 1.7% | 5.7% | 4.8% | 4.9% | 4.3% | 5.6% |
| 2007 | 3.4% | 8.3% | 4.3% | 6.7% | 1.5% | 5.6% | 4.8% | 5.1% | 4.6% | 5.6% |
| 2008 | 3.7% | 9.1% | 5.0% | 7.0% | 1.6% | 5.5% | 4.4% | 4.5% | 4.6% | 5.7% |
| 2009 | 3.4% | 8.1% | 4.8% | 6.7% | 1.7% | 5.2% | 4.1% | 4.8% | 4.6% | 5.6% |
| 2010 | 3.4% | 8.0% | 4.5% | 7.1% | 1.2% | 5.7% | 3.6% | 4.9% | 4.7% | 5.7% |
| 2011-2015 | 3.4% | 7.8% | 4.3% | 6.9% | 1.5% | 5.2% | 4.0% | 4.1% | 4.3% | 5.5% |

Source: Consensus Economics Inc (London) April 2005, UrbisJHD

Free, Open Economy

Hong Kong is one of the world's most free and open economies. The Heritage Foundation³ ranks countries based on 10 criteria on a scale of 1 to 5 (best to worst) and noted the following about Hong Kong in its latest report:

Table 4: Index of Economic Freedom of Hong Kong, 2005

| Dimension | Score | Comment |
|--|---------------------------|---------------------------------|
| Trade policy | Score 1, stable | very low level of protectionism |
| Fiscal burden of government | Score 1.9, slightly worse | low cost of Government |
| Government intervention in the economy | Score 2, stable | low level |
| Monetary policy | Score 1, stable | very low inflation |
| Capital flows and foreign investment | Score 1, stable | very low barriers |
| Banking and finance | Score 1, stable | very low level of restrictions |
| Wages and prices | Score 2, stable | low level of intervention |
| Property rights | Score 1, stable | very high level of protection |
| Regulation | Score 1, stable | very low level |
| Informal markets | Score 1.5, stable | low level of activity |
| Overall Score | 1.35 | |

Source: Heritage Foundation 2005

Competitiveness

Further, Hong Kong scores well in the World Competitiveness Scorecard⁴, compiled by the Swiss-based International Institute for Management and Development (IMD). The Scorecard provides objective benchmarking and trends which highlight the competitiveness of key economies. In constructing the World Competitiveness Scorecard, IMD considers economic performance, government efficiency, business efficiency and infrastructure.

The 32 most competitive economies in 2003, 2004 and 2005 are shown in the following table. In 2005, the most competitive economy was the US with Hong Kong ranked the second most competitive

³ 2005 Index of Economic Freedom, The Heritage Foundation.

⁴ World Competitiveness Yearbook 2005, International Institute for Management and Development.

economy. Singapore and Iceland were ranked third and fourth, respectively. Hong Kong has consistently ranked highly and the accompanying chart shows Hong Kong's competitiveness ranking against selected Asia-Pacific countries between 2000 and 2005.

Table 5: World Competitiveness Scoreboard — Top 32 Economies*, 2003 to 2005

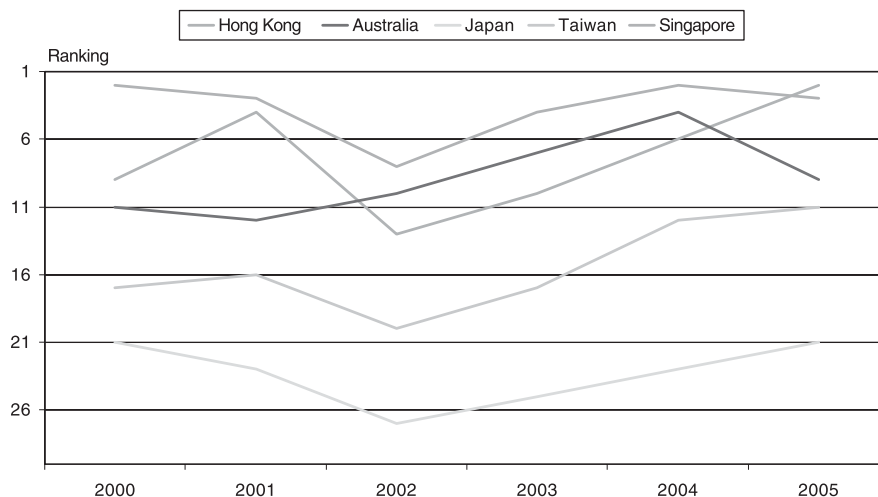
| | 2005 | | 2004 | | 2003 | |
|-------------------------------|----------|--------------|----------|--------------|-----------|--------------|
| | Rank | Score | Rank | Score | Rank | Score |
| United States | 1 | 100.00 | 1 | 100.00 | 1 | 100.00 |
| Hong Kong, China | 2 | 93.07 | 6 | 85.77 | 10 | 79.23 |
| Singapore | 3 | 89.68 | 2 | 89.01 | 4 | 86.09 |
| Iceland | 4 | 85.35 | 5 | 86.02 | 8 | 80.15 |
| Canada | 5 | 82.65 | 3 | 86.63 | 6 | 80.66 |
| Finland | 6 | 82.63 | 8 | 83.64 | 3 | 86.69 |
| Denmark | 7 | 82.55 | 7 | 84.38 | 5 | 80.86 |
| Switzerland | 8 | 82.53 | 14 | 78.81 | 9 | 79.43 |
| Australia | 9 | 81.98 | 4 | 86.05 | 7 | 80.62 |
| Luxembourg | 10 | 80.31 | 9 | 83.08 | 2 | 87.69 |
| Taiwan | 11 | 78.32 | 12 | 79.54 | 17 | 71.07 |
| Ireland | 12 | 77.85 | 10 | 80.30 | 11 | 78.03 |
| Netherlands | 13 | 77.40 | 15 | 78.61 | 13 | 76.61 |
| Sweden | 14 | 76.26 | 11 | 79.58 | 12 | 77.40 |
| Norway | 15 | 76.16 | 17 | 75.47 | 15 | 74.89 |
| New Zealand | 16 | 75.46 | 18 | 74.39 | 16 | 72.67 |
| Austria | 17 | 74.33 | 13 | 78.93 | 14 | 75.55 |
| Bavaria | 18 | 74.10 | 20 | 73.73 | 31 | 60.28 |
| Chile | 19 | 71.18 | 26 | 69.90 | 26 | 62.13 |
| Zhejiang | 20 | 69.72 | 19 | 74.27 | 38 | 53.81 |
| Japan | 21 | 68.65 | 23 | 71.91 | 25 | 63.19 |
| United Kingdom | 22 | 68.52 | 22 | 72.19 | 19 | 70.32 |
| Germany | 23 | 67.84 | 21 | 73.44 | 20 | 69.81 |
| Belgium | 24 | 67.46 | 25 | 70.32 | 18 | 70.40 |
| Israel | 25 | 67.30 | 33 | 63.46 | 33 | 55.91 |
| Estonia | 26 | 66.71 | 28 | 68.43 | 22 | 66.59 |
| Thailand | 27 | 66.10 | 29 | 68.23 | 30 | 60.86 |
| Malaysia | 28 | 65.84 | 16 | 75.92 | 21 | 68.34 |
| Korea | 29 | 64.24 | 35 | 62.20 | 37 | 54.15 |
| France | 30 | 64.20 | 30 | 67.67 | 23 | 65.77 |
| China | 31 | 63.22 | 24 | 70.72 | 29 | 60.92 |
| Catalonia | 32 | 62.16 | 27 | 69.80 | 28 | 61.31 |

Source: IMD, UrbisJHD

* Regional economies and countries/territories included in IMD analysis

It is widely viewed that a critical success factor in the future of Hong Kong's economy will be its ability to maintain its reputation as a world-class financial centre, to remain a relatively free economy and to continue to provide an internationally competitive business environment. Although there are currently no signs that these strengths are being eroded, continued international scrutiny of Hong Kong, particularly as it interacts more closely with China, will focus on how well these strengths are maintained.

World Competitiveness Scoreboard Overall Rankings, Hong Kong and Selected Asia-Pacific Countries, 2000 to 2005



Source: IMD, UrbisJHD

Strengthening of the Relationship with China

The recently agreed Closer Economic Partnership Arrangement (CEPA) liberalises trade between mainland China and Hong Kong. The CEPA initiatives have been designed to ensure that Hong Kong can be “economically interlocked” with a modernising mainland China. CEPA creates an environment for Hong Kong products and services to be able to compete effectively in China, but does not extend exclusive privileges to Hong Kong at the expense of other nations or countries. However, given the already close political and economic ties and the geographic proximity with China, CEPA is widely regarded as enabling leverage of the institutional strengths of Hong Kong into the huge market potential of mainland China to the benefit of both parties.

These initiatives, together with the fact that Hong Kong is the major entry point into China for foreign companies, either through trade or foreign direct investment, underpin the importance to, and Hong Kong’s increasing reliance on, mainland China. Hong Kong has already become the most important trading and international fundraising centre for the Mainland. The strengthening of the relationship between the two has the potential to bolster the financial services, logistics and tourism sectors.

Tourism

Hong Kong has long been a major international tourist destination, and tourism plays a vital role in the Hong Kong economy. In 2000 (the latest available estimate), the tourism industry accounted for around 5 per cent of GDP and directly and indirectly supported around 10 per cent of the workforce.

The 2000 estimates of the contribution of tourism to GDP were based on around 14 million international visitors. However, a massive increase in tourist arrivals from mainland China has been forecast over the next decade or more. As part of the HK2030 Study, the Hong Kong government predicts that arrivals from mainland China will increase from an estimated 10 million in 2004 to more than 20 million by 2010. Whether such growth can be achieved remains to be seen, but there is little doubt that the tourist industry is set to become increasingly important.

A more detailed discussion of the impact of tourism on the retail sector is set out in the section headed "Hong Kong's Population" below.

Conclusions and Implications for the Retail Market

With Hong Kong out of recession, the retail market is set to benefit. Population growth, growth in real private consumption, the return of modest increases in consumer prices and, in particular, tourism growth, suggest that the retail market is forecast to grow at between 4.7 to 6.4 per cent per annum over the next decade.

Hong Kong's Population

Residential Population

Density

In 2005, there was a total of 6,895,500 residents in Hong Kong. It is one of the most densely populated areas in the world with 6,407 people on every sq.km. of land. A table comparing the population density of Hong Kong with other selected countries is set out below.

Table 6: Hong Kong and Other Selected Countries' Population Densities, 2005

| | Population (Millions) | Population Density (People per sq.km.) | Urbanisation* (%) |
|-------------------------------|--------------------------|---|----------------------|
| Australia | 20 | 3 | 93 |
| Canada | 32 | 3 | 81 |
| China | 1,316 | 137 | 41 |
| Hong Kong, China | 7 | 6,407 | 100 |
| France | 60 | 110 | 77 |
| Germany | 83 | 232 | 89 |
| India | 1,103 | 336 | 29 |
| Indonesia | 223 | 117 | 48 |
| Italy | 58 | 193 | 68 |
| Japan | 128 | 339 | 66 |
| Malaysia | 25 | 77 | 65 |
| Philippines | 83 | 277 | 63 |
| Republic of Korea | 48 | 480 | 81 |
| Singapore | 4 | 6,333 | 100 |
| Thailand | 64 | 125 | 33 |
| United Kingdom | 60 | 246 | 89 |
| United States | 298 | 31 | 81 |

Source: UN Department of Economic and Social Affairs, UrbisJHD

* Estimated percentage of population living in urban areas in 2005.

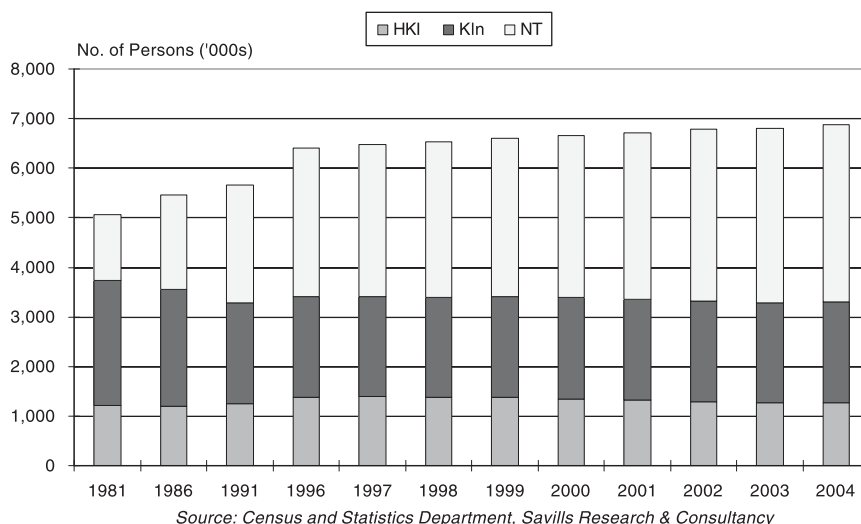
Among the selected areas above, Hong Kong is the most densely populated area with 6,407 people per sq.km. of land within its territory. Singapore is the second most densely populated country with 6,333 persons per sq.km. Most of the countries on the list have population densities of less than 300 people per sq.km., well below the densities of Hong Kong and Singapore.

Notably, Hong Kong and Singapore are also the only areas with 100 per cent urbanisation, meaning all of their population lives in urban areas. The urbanisation rates are also high for most developed countries in Europe and America, and range from 80 to 90 per cent. The two most populous countries on the list, namely China and India, have relatively low urbanisation rates of 41 and 29 per cent respectively.

Profile by District

For the period from 1981 to 1996⁵, when the CAGR⁶ of the population stood at around 1.4 per cent per annum, a marked increase in the New Territories was noted, with a CAGR of 5.4 per cent. The decrease in the population residing in Kowloon over the same period (CAGR of -1.6 per cent) reflected the fact that there was a relocation of people from urban to rural areas over the relevant timeframe. From 1996 to 2004⁷, the New Territories was the only district recording population growth with a CAGR of around 2.2 per cent per annum. Kowloon's population remained stable while that of Hong Kong Island declined by an average of 1.2 per cent per annum over the same period.

Population by District, 1981, 1986, 1991, 1996 to 2004⁸



⁵ All growth rates for the period 1981 to 1996 are measured based on Population Census figures from the Census and Statistics Department, which are as at March of the respective years.

⁶ Compounded annual growth rate.

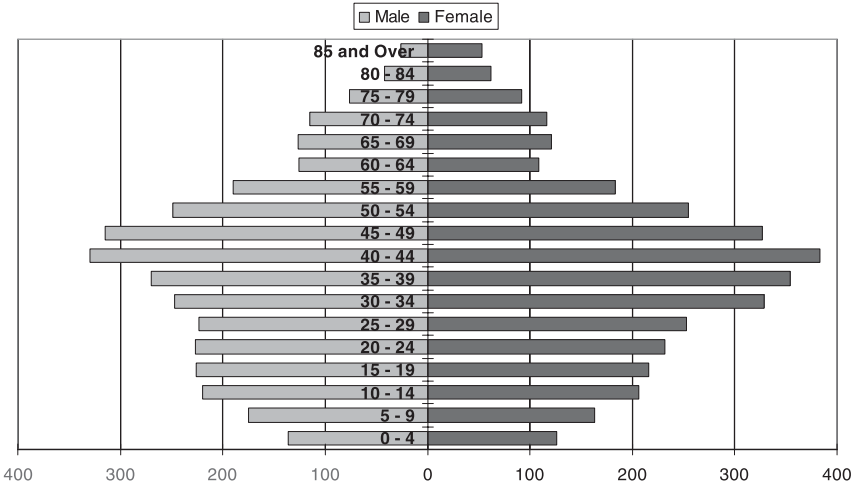
⁷ All growth rates for the period from 1996 to 2004 are measured based on figures from Population and Household Statistics Analysed by District Council District, which are mid-year figures.

⁸ 1981 to 1991 figures on the chart are from the Population Census for each of the respective years as at the survey month (March), while 1996 to 2004 figures on the chart are mid-year population figures from Population and Household Statistics Analysed by District Council District, both of which are published by the Census and Statistics Department.



Age Profile

Population by Age and Sex, End 2004



Source: Census and Statistics Department, Savills Research & Consultancy '000 Person

The Hong Kong population profile reveals a high concentration of middle-aged people — around 37 per cent of the population is aged between 30 and 49 years old. The 40 to 44 year-old age group represented the highest proportion of the Hong Kong population by age group at the end of 2004 (10.3 per cent).

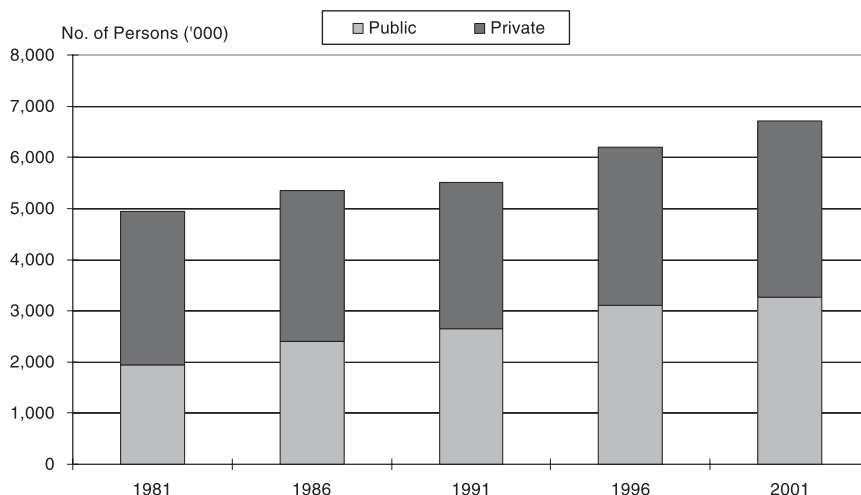
The proportion of the population aged over 70 years has also grown significantly from 3.9 per cent in 1981 to 8.4 per cent in 2004. A declining birth rate⁹, combined with longer life expectancy¹⁰, has induced this ageing trend across the territory.

⁹ Number of live births per 1,000 women declined from 1,722 babies in 1983 to 925 babies in 2003, (Hong Kong Population Projections 2004-2033) Census and Statistics Department.

¹⁰ Life expectancy at birth increased by nearly 6 years for both men and women from 1983 to 2003, (Hong Kong Population Projections 2004-2033) Census and Statistics Department.

Type of Housing

Population by Type of Housing¹¹



Source: <Population Census> Census and Statistics Department, Savills Research & Consultancy

The proportion of the population living in public housing increased from 40 per cent in 1981 to 49 per cent in 2001, but the increment was mainly due to the population residing in subsidised sale flats, which increased by a dramatic 35 times from 1981 to 2001, to stand at 1.1 million in 2001. This is in line with the government housing policy to encourage home ownership by providing subsidised units for sale until 2002, when all subsidised sale projects ceased production due to the subdued property market.

For families living in their owner-occupied quarters with mortgages, they had a median monthly income of HK\$30,200 and paid HK\$8,500 per month, or 28.1 per cent of their income, as repayments in 2001. In comparison, households living in public rental housing estates had a median monthly income of HK\$12,700 and paid HK\$1,321, or 10.4 per cent of their income, as rent in 2001. With a much lower proportion of income paid in rent, public rental housing tenants are able to spend a higher percentage of income on daily necessities and consumables, though the absolute amount is smaller than for private homeowners.

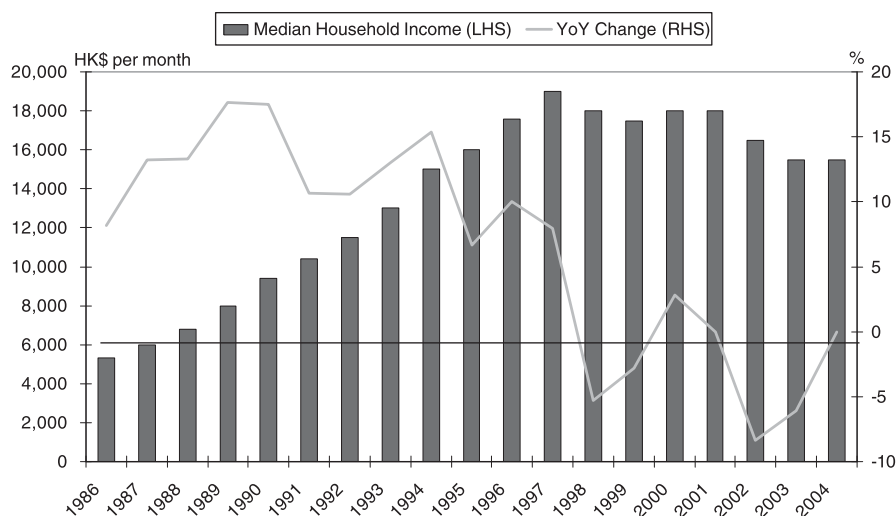
¹¹ Type of Housing Public — including public rental housing, Housing Authority subsidised sale flats and Housing Society subsidised sale flats.

Private — including private permanent housing, temporary housing and non-domestic housing.

Income and Savings

At the end of 2004, the working population of Hong Kong stood at around 3.3 million, representing 48.3 per cent of the total. A large proportion of the working population (35 per cent) earned between HK\$5,000 to HK\$9,999 per month in 2004, echoing the working population's median monthly employment earnings¹² of HK\$9,500 over the same period. The percentage of employed persons¹³ earning HK\$10,000 or more per month has increased dramatically from less than 4 per cent in 1981 to nearly 50 per cent in 2004, showing a clear trend of income increase over the past two decades.

Median Monthly Household Income¹⁴, 1986 to 2004



Source: Census and Statistics Department, Savills Research & Consultancy

Median monthly household income is the primary measure of income of the Hong Kong population. Income levels rose throughout the late 1980s and early 1990s until the Asian Financial Crisis in 1998, when median monthly household income recorded its first decrease since 1986, in the order of 5 per cent. Income rebounded briefly during the dot.com boom by 3 per cent, but continued to decline thereafter. Median monthly income stood at HK\$15,500 in 2004.

¹² Monthly employment earnings refers to earnings from all jobs during the past month. For employees, they include wage and salary, bonus, commission, housing allowance, overtime allowance and attendance allowance. However, back pay is excluded. For employers and the self-employed, they refer to amounts drawn from the relevant self-owned enterprise for personal and household use.

¹³ Employed persons can be categorised into:

Self-employed: a person who works for profit or fees in his/her own business/profession, neither employed by someone nor employing others.

Employer: a person who works for profit or fees in his/her own business/profession and employs one or more persons to work for him/her.

Employee: a person who works for an employer (private companies or government) for wage, salary, commission, tips, or payment in kind. This also includes outworker, domestic helper and paid family worker.

¹⁴ Monthly household income refers to the total cash income (including earnings from all jobs and other cash incomes) received in the last month by members of the household.

In a very broad sense, Net National Savings measures the amount by which income exceeds (or is less than) the amount of capital resources used to generate that income, and takes into account government budget surpluses/deficits, household savings (including superannuation) and the external account.

Expressed as a proportion of Gross National Income, Net National Savings are shown for selected countries below.

Table 7: Net National Savings as a Proportion of Gross National Income, 1990 to 2001

| Country | 1990 | 1995 | 2001 |
|-------------------------|------|------|------|
| Australia | 3 | 5 | N.A. |
| Hong Kong, China | N.A. | 22 | 22 |
| Japan | N.A. | 18 | 15 |
| South Korea | N.A. | 27 | 20 |
| Singapore | 32 | 41 | 33 |
| United Kingdom | 6 | 8 | 8 |
| United States | 7 | 9 | N.A. |

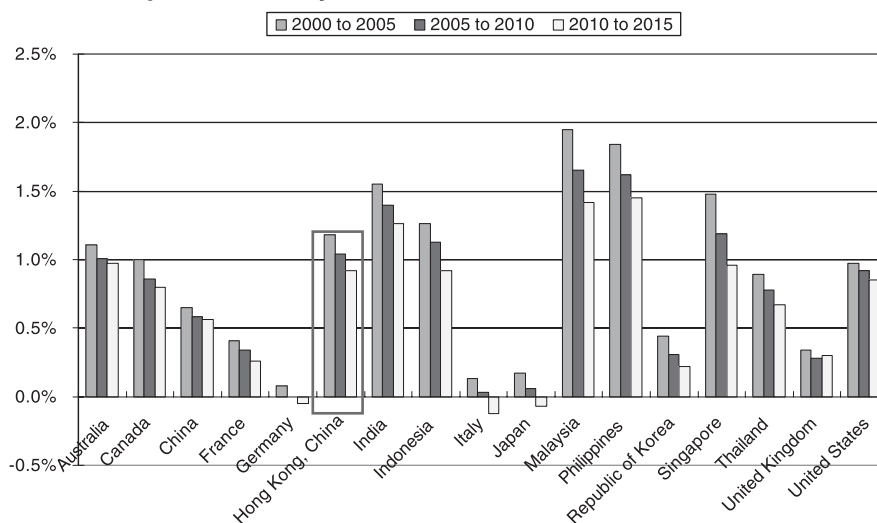
Source: Development Data Group, World Bank 2003, UrbisJHD

Hong Kong, along with Singapore and South Korea, has a very high Net National Savings Rate. Hong Kong's Net Savings, as a proportion of GDP, stood at around 22 per cent in 2001, below Singapore (33 per cent), but in line with South Korea (18 per cent). Hong Kong's net savings rate was particularly high when compared with modernised Western countries, including the US (9 per cent in 1995) and the UK (8 per cent).

Residential Population Projections

Hong Kong's forecast average population growth rate from 2000 to 2015 (1.0 per cent per annum) is among the highest of the developed countries/territories, where the average is around 0.6 per cent per annum. Nevertheless, when compared with most Asian countries, Hong Kong's projected population growth rate over the next decade is expected to be more in line with such countries, where the average growth rate is closer to 1.0 per cent per annum.

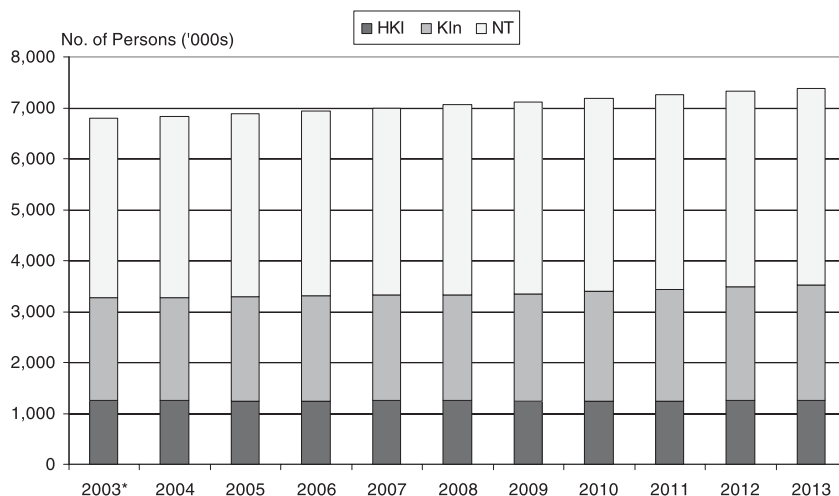
Population Growth Comparison of Major Cities/Countries



Source: UN Department of Economic and Social Affairs, UrbisJHD

The population of Hong Kong as a whole is forecast to grow by an average of 0.8 per cent per annum from 2004 to 2013¹⁵, reaching 7.4 million by 2013. Among the three main areas, Kowloon is expected to record the fastest growth rate of 1.2 per cent per annum, while Hong Kong Island's population is expected to remain stable during the period. Some rebalancing of the population from Hong Kong Island and the New Territories to Kowloon is expected, compared with the relatively high growth rate recorded for the New Territories over the last 20 years.

Population Projections by District, 2003 to 2013E



Source: Planning Department, Savills Research & Consultancy

* Base year estimate

Slowing population growth in the New Territories in the coming years (CAGR 1.0 per cent) can be explained by the gradual completion of the new town development programme. Of the nine new towns, Shatin, Tsuen Wan and Tuen Mun are now nearly fully developed, while work on the next three, Tai Po, Fanling/Sheung Shui and Yuen Long, which started in the late 1970s, has also progressed to an advanced stage. Only the three latest new towns, namely Tseung Kwan O, Tin Shui Wai and Tung Chung are still in an active development phase, but their pace of development is expected to slow in the future.

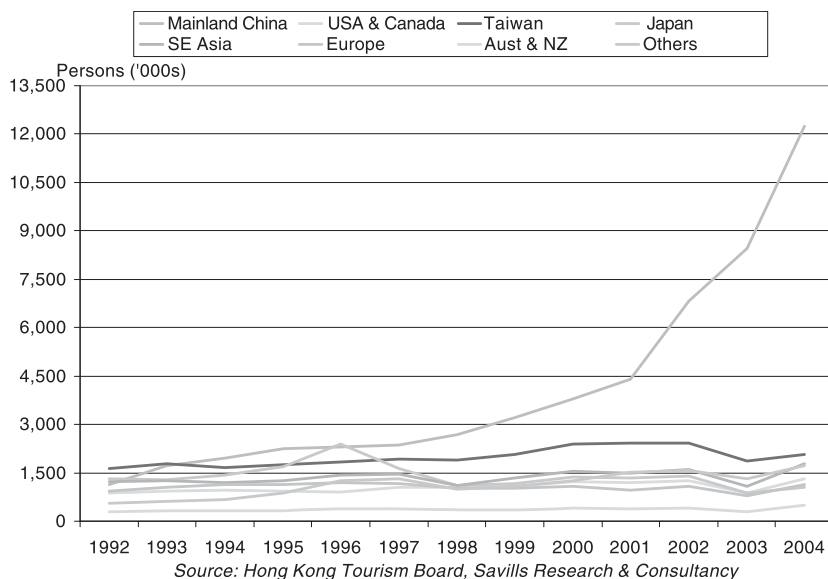
On the other hand, the above average increase in population in Kowloon is supported by development of a few key areas over the next few years, mainly the West Kowloon reclamation area. The gradual completion and occupation of residential developments within this area in the coming years (a total of 12,000 units to be completed from 2005 to 2012) will be responsible for a majority of the population growth over the period.

¹⁵ All growth rates are measured as CAGR.

Tourist Population

Country of Origin

Visitor Arrivals by Major Market, 1992 to 2004



A revival of total visitor numbers since 1999 has been notable. However, the number of Mainland Chinese visitors has increased much faster than other nationalities, at an astonishing average rate of 30.0 per cent per annum between 1999 and 2004 compared with an average rate of 6.1 per cent for visitor arrivals from all countries other than Mainland China over the same period. The robust growth in Mainland Chinese visitors has made them the single largest source of tourists to Hong Kong and in 2004, they totalled approximately 12.2 million, representing approximately 56 per cent of that year's arrivals. Over the first six months of 2005, Mainland Chinese visitors represented 54 per cent of total visitor arrivals.

The significant increase in Mainland Chinese tourists has resulted from the relaxation of travel restrictions on Mainland Chinese.

Table 8: Measures Related to Mainland Chinese Tourists

| | |
|----------------|--|
| October 2001 | Removal of tourist quota |
| January 2002 | Increase in the number of approved travel agencies permitted to organise Hong Kong tour groups |
| July 2003 | Individual traveller restrictions lifted (4 cities in Guangdong) |
| August 2003 | Individual traveller restrictions lifted (another 4 cities in Guangdong including Guangzhou) Relaxation of spending limit (from US\$2,000 to US\$5,000) |
| September 2003 | Individual traveller restrictions lifted (Shanghai and Beijing) |
| January 2004 | Use of Renminbi credit/debit card allowed |
| May 2004 | Individual traveller restrictions lifted for the entire Guangdong Province |
| July 2004 | Individual traveller restrictions lifted (9 cities in Fujian, Jiangsu and Zhejiang Provinces) |
| March 2005 | Individual traveller restrictions lifted (Tianjin and Chongqing) |

Source: Hong Kong Tourism Board, Savills Research & Consultancy

As Hong Kong has continued to integrate with the Pearl River Delta Region, Mainland Chinese are travelling to the territory in greater numbers while Hong Kong residents have been purchasing homes in Southern China. An ever increasing amount of cross-border business activity between Hong Kong and mainland China after the implementation of CEPA should increase the number of frequent business travellers. Scheduled for completion in September 2005, the Disney theme park in Hong Kong is expected to attract significant numbers of Mainland Chinese.

In addition to the improving economic conditions over the past few years, the spending potential of Mainland Chinese visitors has also been augmented by the relaxation of certain currency control restrictions. Since August 2003, Mainland Chinese have been allowed to bring up to US\$5,000 into Hong Kong (from US\$2,000 previously). In addition, Mainland debit cards have been allowed for purchases and (Renminbi) cash withdrawals in Hong Kong since January 2004.

Spending preferences are different among visitors from different countries. American and European visitors tend to spend more on hotels while Asian visitors, particularly Mainland Chinese, allocate larger portions of their spending (almost 70 per cent in 2004) to shopping. In terms of shopping preferences, "Ready-made Wear" was the most popular category, attracting 45 per cent of all visitors (by number of persons) in 2004. Other popular items included "Cosmetics/Skin Care Products", "Snack/Confectioneries" and "Shoes/Other Footwear". An ACNielsen survey in 2003 also revealed that among all shopping items, clothing ranked top for Mainland Chinese visitors of all age groups. Cosmetics was the second most popular item for young people or females while audio/video equipment and Jewellery were categories attractive to the middle-aged and above group.

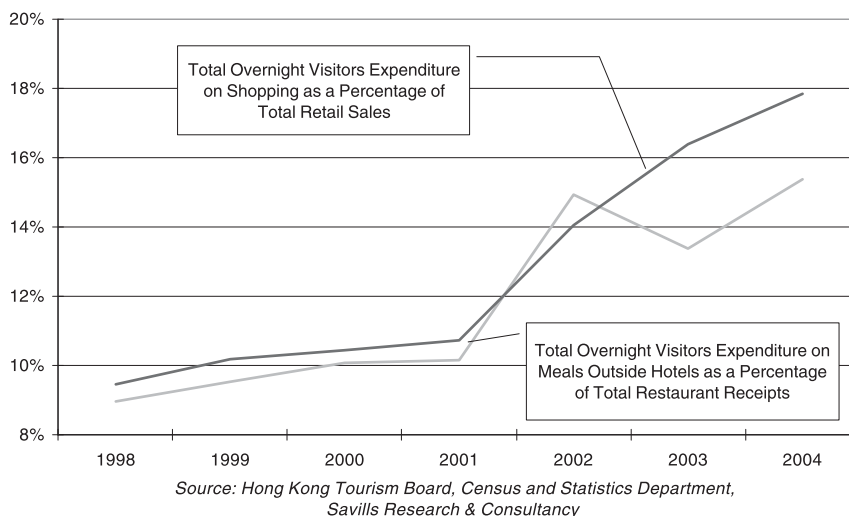
Around 39 per cent of all overseas tourists arriving in Hong Kong in 2004 visited Victoria Peak, making it the most popular attraction for visitors. Victoria Peak was also the most popular destination for Mainland Chinese visitors. There are, however, slight differences in preference between Mainland Chinese and other visitors. While Ocean Park, Hong Kong Convention and Exhibition Centre and

Wong Tai Sin Temple ranked 3rd, 4th and 8th, respectively, in the all-country visitor statistics, they were more favoured by Mainland Chinese visitors and were ranked 2nd, 3rd, and 6th, respectively, among this nationality. Meanwhile, the outlying islands were also popular among Mainland Chinese, while the new tourist attraction, Avenue of Stars in Tsimshatsui, featured in the top 10 list of attractions of mainland Chinese as well as all-country visitors.

Contribution to Retail Sales

In 2004, overnight visitor spending totalled approximately HK\$61.1 billion, an increase of 55 per cent compared with 1998. Much of the increase was attributable to 2002, the year when the number of Mainland Chinese visitors rose by approximately 55 per cent. Over the past few years, overseas visitor spending has also played an increasingly significant role in supporting the retail market. In 1998, total visitor expenditure on “Shopping Items” represented approximately 9.5 per cent of the year’s total retail sales value and this percentage had increased to approximately 17.8 per cent by 2004. Similarly, in 1998, total visitor expenditure on “Meals Outside Hotels” represented approximately 9.0 per cent of the year’s total restaurant receipts and this percentage had risen to approximately 15.4 per cent by 2004. In 2004, per capita overnight visitor spending (for all countries) stood at HK\$4,478.

Contribution of Visitor Expenditure to Retail Sales and Restaurant Receipts, 1998 to 2004



Per Capita Visitor Spending

Besides representing a significant proportion of total arrivals, visitors from mainland China also contributed approximately 56 per cent of total overnight tourist expenditure in 2004. From 2001 onwards, per capita spending on shopping of Mainland Chinese visitors was higher than all other major markets, including North America and Europe, although their overall per capita spending fell behind some of the major market areas in 2004.

Table 9: Per Capita Overnight Visitor Spending by Major Market Area, 1998 to 2004

| | The Americas | Europe, Africa & Middle East | Australia & New Zealand | North Asia | South & Southeast Asia | Taiwan | Mainland China | Macau | Total |
|------------|--------------|------------------------------|-------------------------|------------|------------------------|--------|----------------|-------|-------|
| 1998 | 5,998 | 5,547 | 4,784 | 5,442 | 4,992 | 5,924 | 5,487 | 5,565 | 5,490 |
| 1999 | 5,470 | 4,988 | 5,000 | 5,522 | 4,776 | 5,565 | 4,425 | 1,483 | 4,897 |
| 2000 | 5,076 | 4,591 | 3,983 | 4,571 | 4,268 | 4,839 | 4,868 | 1,622 | 4,612 |
| 2001 | 5,072 | 4,723 | 4,495 | 3,988 | 3,952 | 4,422 | 5,169 | 1,756 | 4,588 |
| 2002 | 4,537 | 4,950 | 4,072 | 4,355 | 4,097 | 4,508 | 5,487 | 1,412 | 4,904 |
| 2003 | 5,477 | 4,996 | 4,761 | 4,292 | 4,680 | 5,176 | 5,235 | 2,325 | 5,041 |
| 2004 | 5,250 | 5,122 | 5,072 | 4,112 | 4,350 | 4,789 | 4,355 | 2,554 | 4,478 |

Source: Hong Kong Tourism Board, Savills Research & Consultancy

Tourist Population Projections

In the HK2030 study, visitors from mainland China are expected to reach a staggering 21.4 million by 2010, compared with 12.2 million in 2004. Meanwhile, visitors from places other than mainland China are also expected to increase, although at a slower pace, to reach 13.4 million by 2010, compared with 9.6 million in 2004. The forecasts developed by the Planning Department are summarised below:

Table 10: Assumed Figures for Hong Kong 2030 Study

| | From Mainland China | From Other Places Number | Total |
|-----------------------------------|---------------------|--------------------------|------------|
| 2010..... | 21,436,000 | 13,404,000 | 34,839,000 |
| 2020..... | 37,516,000 | 17,394,000 | 54,910,000 |
| 2030..... | 52,994,000 | 21,172,000 | 74,166,000 |
| Average Annual Growth Rate | | | |
| 2002-2010 | 15.4% | 4.1% | 9.7% |
| 2010-2020 | 5.8% | 2.6% | 4.7% |
| 2020-2030 | 3.5% | 2.0% | 3.1% |

Source: Annex 1, Information Note No. 14, Hong Kong 2030, Planning Department, Savills Research & Consultancy

Conclusions and Implications for the Retail Market and the HKHA Retail Facilities

The very high population density which Hong Kong enjoys enables retailers to reach prospective buyers in the city easily. Demand for retail facilities in Hong Kong has also been underpinned by strong population growth which is among the highest of the developed countries. The positive outlook for the local economy as well as price inflation is expected to help lift Hong Kong residents' consumption expenditure in the future.

Overseas tourist spending has become an integral part of the Hong Kong retail market. The number of visitor arrivals over the next few years is expected to grow very strongly, driven mainly by the anticipated influx of Mainland Chinese visitors. As most of the HKHA centres within the portfolio serve mainly neighbourhood catchments, the impact of tourism will be limited. Nevertheless, some centres are located near some of the more popular tourist spots. For example, Lung Cheung Mall stands next to Wong Tai Sin Temple which was the 6th favourite venue for Mainland Chinese visitors while Stanley Plaza is located not far from Stanley Market which was the 10th favourite venue for all visitors in 2004.

Factors Affecting the Retail Sector in Hong Kong

Climate

Hong Kong's climate is subtropical. Mean temperatures range from 20.9 to 25.7°C. Severe weather phenomena such as tropical cyclones, monsoon winds and thunderstorms affect Hong Kong occasionally. The generally mild climate makes both indoor and outdoor shopping a year-round activity. The relatively hot and humid weather, however, particularly favours indoor shopping during the summer.

Table 11: Meteorological Observations

| | Normals (1961-1990) ¹⁶ | | |
|-------------------------------------|-----------------------------------|-------|------------|
| | January | July | Whole Year |
| Air Temperature (°C) | | | |
| Mean maximum | 18.6 | 31.5 | 25.7 |
| Mean | 15.8 | 28.8 | 23.0 |
| Mean minimum | 13.6 | 26.6 | 20.9 |
| Mean relative humidity (%) | 71 | 80 | 77 |
| Total rainfall (mm) | 23.4 | 323.5 | 2,214.3 |
| Total bright sunshine (hours) | 152.4 | 231.1 | 1,948.1 |
| Mean wind speed | 24.0 | 20.0 | 22.6 |

Source: Hong Kong Yearbook 2002, Hong Kong Observatory, Savills Research & Consultancy

Infrastructure

Rail

The development of the new towns in Hong Kong from 1973 decentralised the territory's population and by 2001, only 50 per cent were resident in core areas, compared with 81 per cent in 1971. With this population shift has come the need to provide effective public transportation, especially as many of the new towns provide insufficient local employment opportunities, forcing residents to commute.

Hong Kong has consequently developed an efficient and comprehensive public transport system. Rail development began in 1910 with the completion of East Rail linking Kowloon with the Lo Wu border crossing via the New Territories. The line was electrified and double tracked by 1983. West Rail was completed relatively recently, in December 2003, and extends 30.5 km from Nam Cheong to Tuen Mun through the Western New Territories. A Light Rail line was established in 1998 to provide transport in the Northwest New Territories. With the opening of the Tin Shui Wai extensions in December 2003, the Light Rail network was extended to a length of 36.15 km with 68 stops.

The 1 km Hung Hom to Tsimshatsui Extension (TST Extension) taking the KCR East Rail from the existing Hung Hom terminus to a new station at Tsimshatsui East was completed in October 2004, while the 11.4 km Ma On Shan to Tai Wai Rail Link (MOS Rail) connecting Ma On Shan to the existing KCR East Rail at Tai Wai Station was completed in December 2004. The latest rail link to be opened is the 3.5 km Disneyland Resort Line connecting to a new Sunny Bay Station on the existing MTR Tung Chung Line to Hong Kong Disneyland in Penny's Bay.

¹⁶ The World Meteorological Organisation (WMO) defines climatological standard normals as average of climatological data computed for the following consecutive periods of 30 years: 1 January 1901 to 31 December 1930, 1 January 1931 to 31 December 1960, 1 January 1961 to 31 December 1990, 1 January 1991 to 31 December 2020 etc.

Provision of rail services in Hong Kong is the responsibility of the Kowloon Canton Railway Corporation (KCRC) and the Mass Transit Railway Corporation (MTRC). The two companies were established in 1982 and 1975, respectively. The KCRC operates East Rail, West Rail and the Light Rail System while the MTRC has responsibility for the MTR underground system and the Airport Express Line connecting urban areas with the airport.

The rail system is complemented by a tramway servicing the northern shore of Hong Kong Island and a funicular railway between Central and the Peak. Hong Kong's extensive rail network, besides providing a vital link between communities, is also a popular choice of location for retail centres. Of Hong Kong's 10 largest shopping centres, for example, six are located directly above or beside stations. Together, the MTRC and KCRC own almost 200,000 sq.m. of retail floor area although a majority of centres are in the hands of private developers.

Table 12: Examples of Major Retail Centres Above or Beside KCR East Rail Stations

| Station | Centre | Floor Area (Sq.m. gross) |
|---------------|-------------------------------------|-----------------------------|
| Hung Hom | Metropolis | 30,900 |
| Mongkok | Grand Century Place | 67,400 |
| Kowloon Tong | Festival Walk | 91,100 |
| Tai Wai | — | — |
| Shatin | New Town Plaza | 153,300 |
| Fo Tan | Jubilee Court Shopping Centre | 15,900 |
| Racecourse | Royal Ascot | 10,000 |
| University | — | — |
| Tai Po Market | Uptown Plaza | 11,100 |
| Tai Wo | Tai Wo Shopping Centre | 13,200 (lettable) |
| Fanling | Fanling Town Centre/Fanling Centre | 6,400/13,200 |
| Sheung Shui | Landmark North/Sheung Shui Centre | 16,900/10,200 |
| Lo Wu | Border Crossing with mainland China | — |

Source: KCRC, various company reports, Savills Research & Consultancy

Roads

The 1970s witnessed substantial investment in road building, partly to support the new towns programme but also because of the growing importance of manufacturing industry and air travel on the Kowloon Peninsula.

Today, Hong Kong has an advanced road infrastructure and in December 2004, the network extends approximately 1,943 km with 435 km on Hong Kong Island, 449 km in Kowloon and 1,059 km in the New Territories. The network is complemented by 11 major road tunnels, 1,087 flyovers and bridges, 620 footbridges and 373 subways.

An ambitious programme of further road development is underway, aimed at improving intra-district linkages as well as those with the Mainland and Macau.

The Regulatory Environment

General

In Hong Kong, the retail sector is very lightly regulated and few laws apply directly. The two key pieces of legislation related to the retail sector are the Sales of Goods Ordinance (1896) and the more

recent Electronic Transactions Ordinance (2000). The former deals with sales of merchandise contracts while the latter applies to electronic contracts and the acceptance of electronic signatures in order to facilitate internet commerce. Under the provisions of the Business Registration Ordinance (Cap. 310), every person carrying on any business must register his business within one month of the commencement of the business. Registration at the Company Registry is also required for incorporation of a Limited Company. Operations of certain trades are subject to government licences and these licences have requirements related to certain aspects which operators must follow in order to stay in business. These aspects include environmental issues, fire safety, social order, public hygiene, etc. It is also noteworthy that there is no sales tax in Hong Kong and Hong Kong is well-known for its relatively uncomplicated and low corporate tax. In addition, there are no import or export licences required or tariffs payable on most general merchandise.

Town Planning

In terms of town planning, planning criteria and guidelines for determining the quantity, scale, location and site requirements of various land uses and facilities is set out in *The Hong Kong Planning Standards and Guidelines*, published by the Planning Department. The document applies to planning studies and the preparation or revision of town plans. Chapter 6 of *The Hong Kong Planning Standards and Guidelines* concerns retail facilities specifically. The purpose of developing planning guidelines for retail provision is to ensure the development of functional and attractive shopping facilities which meet the economic and social needs of the territory and the particular community which the retail facility is planned for.

The Territorial Development Strategy (TDS) is the highest tier of planning in the hierarchy of town plans in Hong Kong. It provides a broad land use, transport and environmental framework for planning and development. It also serves as a basis for preparation of sub-regional plans and more detailed district plans.

Sub-regional Development Strategies serve as a bridge between the TDS and district plans. They translate the territorial goals into more specific planning objectives for the five sub-regions of Hong Kong, namely the Metro Area, North-East New Territories (NENT), North-West New Territories (NWNT), South-East New Territories (SENT) and South-West New Territories (SWNT). Extensive public consultation has been carried out to collect views on these strategies in view of their significant implications for the long-term planning framework for the respective sub-regions.

Development projects are implemented in accordance with statutory or departmental district plans. These plans aim to regulate and provide guidance to development in terms of land use, building density and development characteristics, and to ensure that they are in line with the planning objectives of the districts.

The Town Planning Board (TPB) is set up under the Town Planning Ordinance to prepare statutory plans to show the broad land use framework of specific areas, including major roads and other transport systems, and provide statutory planning controls through land use zoning and specification of development parameters. Two types of statutory plans are prepared: outline zoning plans (OZPs) and development permission area (DPA) plans.

The OZPs show the proposed land-uses and major road systems of individual planning scheme areas. Areas covered by such plans are zoned for such uses as residential, commercial, industrial, open space, Government, institution or community uses, green belt, conservation areas, comprehensive development areas, village type development, open storage or other specified purposes. Attached to each OZP is a set of Notes setting out the uses which are always permitted

(Column 1 uses) in a particular zone and other uses for which the TPB's permission must be sought (Column 2 uses). The explanatory statement is not a part of the OZP but it is an important component of the OZP since it reflects the planning intentions and objectives of the various land-use zonings on the plan.

DPA plans are similar to OZPs but they are interim plans covering rural areas of the New Territories and are eventually replaced by OZPs. Development scheme plans (DSPs) prepared by the former Land Development Corporation and its successor, the Urban Renewal Authority, also require approval by the board.

Urban Renewal Authority (URA) Development Scheme Plans considered by the Town Planning Board under section 25(6) of the URA Ordinance as suitable for publication under the Town Planning Ordinance are deemed to be draft plans prepared by the Board. Accompanying each Development Scheme Plan is a Land-Use Diagram and a set of Notes. A Land-Use Diagram indicates broadly the types of planned uses; the Notes set out on the permitted uses and the requirements for submitting a master layout plan to the Board.

Apart from statutory plans, the Planning Department prepares departmental outline development plans (ODPs) and layout plans (LPs) for individual districts or planning areas to show the planned land uses, development restrictions and transport networks in greater detail. There are 77 ODPs and 299 LPs covering the HKSAR.

Under the Town Planning Ordinance, no person shall undertake or continue a development in a DPA unless the development was a use in existence before the gazetting of the relevant Interim DPA or DPA plans, or is permitted under the DPA plan or the replacement OZP, or has obtained permission from the board. Development not satisfying these criteria is an 'unauthorised development (UD)' subject to enforcement and prosecution action. In 2002, about 19,800 hectares of land in the rural area are covered by DPA plans or the replacement OZPs.

Land Registration

In Hong Kong, the security given by legal title to property is at present provided by a deeds registration system operated by the Land Registry under the Land Registration Ordinance. This legislation was first enacted in 1844 and is the oldest local law still in force in the region. Over HK\$1,000 billion in loans is currently extended to families and businesses in Hong Kong against the security of registered property.

The Land Registration Ordinance provides that documents affecting land have priority according to their respective dates of registration. Registration is not mandatory but the benefit that it gives through protecting interest in land creates a strong incentive for it to be undertaken.

A land document is registered by delivering it to the appropriate land registry with a memorial, which contains the essential particulars of the document, and the prescribed fee. These particulars are then entered into a computerised land register for the relevant piece of land or property. The registered land document is scanned and stored as an electronic image on an optical disc.

Each land register provides a record of transactions affecting a property, starting from the grant of the relevant government lease. The registers, memorials and related land documents are available for search by members of the public at every search office, on payment of a fee. Subscribers and customers may conduct a one-stop search for properties anywhere in the HKSAR at their own offices and at every search office in the registry through the introduction of the Direct Access Services and the Cross District Search Service, respectively.



The Land Registry is implementing major changes to improve the security of title that is provided and the efficiency of its services.

Land Disposal System

Land in Hong Kong is leased or otherwise held by the Government of the Hong Kong Special Administrative Region. New leases of land are granted for a term of 50 years from the date of grant at a premium and subject to the payment from the date of grant of an annual rent equivalent to 3.0 per cent of the rateable value of the property at that date, adjusted in step with any changes in the rateable value thereafter.

While Government land is usually sold at public auction, sale by public tender is also adopted where the user is strictly defined and the sale is unlikely to attract general interest. In certain circumstances, land may be disposed of by private treaty grant.

It is important to note that land sales moratoriums were imposed in the financial years 1998/1999 and 2002/2003. A full scale land auction programme has not yet resumed but interested parties can apply for the public auction of sites listed on an Application List. Between 1999 and 2004, there were very few commercial sites sold at public auction/tender. Developments of large-scale commercial projects (including office and retail) have therefore been limited and have generally been confined to the redevelopment of old buildings/areas.

In the first half of 2005, only one commercial site in Kowloon Bay was disposed at government auction, but three residential sites have been triggered from the application list since then and will be put up for auction in September this year.

Table 13: Disposal of Government Land — Public Auction/Tender, 1999 to 2005

| <u>Use</u> | <u>Site Area</u> (sq.m.) | <u>Realised Premium</u> (HK\$ M) |
|------------------------------|-----------------------------|-------------------------------------|
| 1999 | | |
| Commercial | — | — |
| Commercial/Residential | 12,212 | 248 |
| Industrial/Godown | — | — |
| Residential | 190,689 | 9,318 |
| Other Uses | — | — |
| Total | 202,901 | 9,566 |
| 2000 | | |
| Commercial | — | — |
| Commercial/Residential | — | — |
| Industrial/Godown | 5,480 | 128 |
| Residential | 269,049 | 15,539 |
| Other Uses | 21,710 | 146 |
| Total | 296,239 | 15,813 |
| 2001 | | |
| Commercial | 30,304 | 1,745 |
| Commercial/Residential | 390 | 41 |
| Industrial/Godown | — | — |
| Residential | 53,247 | 1,231 |
| Other Uses | 3,900 | 7 |
| Total | 87,841 | 3,024 |
| 2002 | | |
| Commercial | — | — |
| Commercial/Residential | 675 | 83 |
| Industrial/Godown | — | — |
| Residential | 63,524 | 3,983 |
| Other Uses | — | — |
| Total | 64,199 | 4,066 |
| 2003 | | |
| Commercial | 12,289 | 353 |
| Commercial/Residential | — | — |
| Industrial/Godown | — | — |
| Residential | — | — |
| Other Uses | 8,080 | 235 |
| Total | 20,369 | 588 |
| 2004 | | |
| Commercial | — | — |
| Commercial/Residential | — | — |
| Industrial/Godown | — | — |
| Residential | 58,610 | 18,085 |
| Other Uses | 13,867 | 805 |
| Total | 72,477 | 18,890 |

| <u>Use</u> | <u>Site Area</u> (sq.m.) | <u>Realised Premium</u> (HK\$ M) |
|------------------------------|-----------------------------|-------------------------------------|
| 2005 (Up to June) | | |
| Commercial | 4,715 | 1,820 |
| Commercial/Residential | — | — |
| Industrial/Godown | — | — |
| Residential | — | — |
| Other Uses | 3,422 | 359 |
| Total | 8,137 | 2,179 |

Source: Census and Statistics Department

Table 14: Disposals of Government Land — Private Treaty Grant, 1999 to 2005

| <u>Use</u> | <u>Site Area</u> (Sq.m.) |
|---|-----------------------------|
| 1999 | |
| Industrial/Godown | — |
| Residential | 574,166 |
| Public Utilities/Institutional uses | 60,565 |
| Other Uses | 1,314,794 |
| Total | 1,949,525 |
| 2000 | |
| Industrial/Godown | 80,000 |
| Residential | 508,129 |
| Public Utilities/Institutional uses | 87,185 |
| Other Uses | 185,234 |
| Total | 860,548 |
| 2001 | |
| Industrial/Godown | 83,103 |
| Residential | 508,264 |
| Public Utilities/Institutional uses | 228,750 |
| Other Uses | — |
| Total | 820,117 |
| 2002 | |
| Industrial/Godown | — |
| Residential | 828,445 |
| Public Utilities/Institutional uses | 19,695 |
| Other Uses | — |
| Total | 848,140 |
| 2003 | |
| Industrial/Godown | 83,021 |
| Residential | 728 |
| Public Utilities/Institutional uses | 72,057 |
| Other Uses | — |
| Total | 155,806 |

| <u>Use</u> | <u>Site Area</u> <u>(Sq.m.)</u> |
|---|------------------------------------|
| 2004 | |
| Industrial/Godown | — |
| Residential | 245,790 |
| Public Utilities/Institutional uses | 49,031 |
| Other Uses | 13,928 |
| Total | 308,929 |
| 2005 (Up to June) | |
| Industrial/Godown | — |
| Residential | 54,800 |
| Public Utilities/Institutional uses | 29,822 |
| Other Uses | — |
| Total | 84,622 |

Source: Census and Statistics Department

Retail Hierarchy and Formats¹⁷

Major Traders and Retail Formats

The Hong Kong retail market consists of retail formats such as department stores, supermarkets and various specialty chains. Many world leading retailers, for example, LVMH, Giorgio Armani, Marks & Spencer, Cartier, IKEA, Toys “R” US and Seibu, can be found in Hong Kong, making Hong Kong a major retail centre in Asia.

Department stores are one of the major retail formats in Hong Kong and they attract both local residents and tourists. The variety of commodity goods these stores provide is one of their major attractions. In 2003, there were a total of 26 department stores employing some 11,063 people in the SAR and total retail sales and receipts in relation to department stores amounted to HK\$17,793 million in 2003. Major operators of department stores include both international as well as local companies, namely Marks & Spencer, SOGO, Jusco, Lane Crawford, Wing On and Sincere.

Supermarkets typically provide food, beverages and daily necessities to the general public at reasonable prices in a conducive shopping environment, and thus appeal mostly to local customers. In recent years they have tried to tap the popular market stall concept by providing fresh meat, vegetables and fruit, and as a result in some instances supermarkets are preferred to market stalls. In 2003, there were a total of 99 supermarkets employing some 19,664 people across the SAR. Total retail sales and receipts in relation to supermarkets amounted to HK\$25,840 million in 2003. Two major players, namely PARKnSHOP and Wellcome, each with over 200 stores in Hong Kong, dominate the supermarket sector in the SAR.

Convenience stores, when compared with supermarkets, are smaller street shops which residents can access easily. Such outlets normally focus on sales of food and are suitable for local residents who require small quantities of products within a reasonably short time period. As in the supermarket business, the competitive landscape of the convenience store market is highly

¹⁷ Data collected in the survey referred to the calendar year 2003, or a 12 month period between 1 January 2003 and 31 March 2004 according to the accounting practices of individual establishments. For establishments which commenced or ceased operation within their respective accounting periods defined above, data collected was for the part of the period during which the establishments were in operation.

concentrated with two operators, namely 7-Eleven and Circle K, accounting for most of the convenience store business across the territory.

Watching movies is a popular pastime of Hong Kong people, especially among the young. Traditionally, cinemas were run by individual landlords and local film producers and most films screened were local ones. Nevertheless, with the increasing demand for foreign films along with higher audio-visual quality, many single-run cinemas were gradually replaced by large cinema chains. There are a few major cinema chains in Hong Kong including UA Cinema, Broadway Circuit, Multiplex Cinema Limited and Golden Harvest Cinemas.

Cosmetics, personal care items and medicines are all provided by the health and beauty sector. Many of these retailers are chain stores or individual owners. Nonetheless, these kinds of products are also available in big department stores (cosmetics) and supermarkets (medicines and personal care items). The market is segregated with no single retailer dominating, mainly due to the diversity of products on offer. The entry barrier for selling many of these types of products is relatively low, encouraging competition. For medicine and personal care items, market leaders are Watsons and Mannings, while Sa Sa is the major player selling cosmetics.

Each retailer in the fashion sector is required to keep up with the latest styles and smaller operators can consequently survive well in this environment. Competition is fierce in this sector compared with other sectors thanks to low barriers to entry. Though highly segregated, major players in the fashion sector are still chain operators, including G2000 (and U2), Giordano and Esprit.

Electrical appliances are favoured by both local residents and tourists, especially those from the Mainland. Product variety is wide, including household appliances, audio-visual equipment, cameras and camcorders, computers and mobile phones. The electrical appliance market is, again, a segmented market with numerous individual retailers selling a variety of products. The channels for many of these individual retailers to source the latest models directly from their countries of origin instead of wholesalers enable them to be more responsive to fast-moving market trends ahead of chain operators and department stores. There are two main electrical appliance chain operators in Hong Kong, namely Fortress and Broadway.

Restaurants and eateries are another important retail format in Hong Kong. Restaurant receipts amounted to HK\$53 billion in 2004, a 10 per cent increase from 2003 due to the strong economic recovery. The total number of establishments engaged in the restaurant and eatery business was over 11,000 in 2003, employing nearly 180,000 people. In this section, the Market Consultant breaks down this retail format into two subgroups, namely restaurants and fast food.

Restaurants in Hong Kong offer many different cuisines such as Chinese, American, European, Japanese, Southeast Asian, etc. The restaurant market is highly segregated by the variety of cuisines and formats restaurants can take on, but there are still some chain operators in this market such as the Maxim's Group, the King Parrot Group and the Hon Bo (Lobster King) Group.

Fast food is another format which provides people with a convenient place for eating in a relatively short time period. Because of this, most food sold is pre-made or needs only minimum processing before delivery and minimal service levels can be expected from these fast food shops. Similar to the restaurant market, the fast food market is very diversified in the variety of foods that can be provided. Nevertheless, there exist a handful of fast food chains in Hong Kong, namely Café de Coral, Maxim's, Fairwood, McDonald's and KFC.

Jewellery and gold shops are traditionally popular among local Chinese residents. The increasing number of Mainland visitors further stimulate the jewellery retail market as Mainland Chinese are



equally, if not more, enthusiastic about jewellery and gold. The retail market for jewellery and gold is consolidated with a few major players dominating, namely Chow Tai Fook, Chow Sang Sang, Hang Fung, Luk Fook and Tse Sui Luen. High capital investment in setting up security systems for individual shops and the relatively high product costs set a high entry barrier to newcomers.

Retail Hierarchy by District

The retail hierarchy¹⁸ of Hong Kong has evolved to meet the growing needs of both local residents and tourists. Major shopping districts include Central and Causeway Bay on Hong Kong Island and Tsimshatsui and Mongkok in Kowloon.

A basic hierarchy of retail centres can be defined by size, catchment, range of operators and the availability of other attractions and facilities. At the top of the hierarchy are Territorial Centres which cater to both tourists and the population of Hong Kong as a whole. Such centres usually comprise part of a larger mixed use scheme or cluster of commercial and residential uses and are never standalone. They may also offer territory-wide entertainment venues. Good examples of this type of centre include Festival Walk in Kowloon Tong and Harbour City in Tsimshatsui, both located above major public transport interchanges. Territorial Centres are generally over 90,000 sq.m. (60,000 sq.m. IFA) in area.

Serving population catchments of between 250,000 and 500,000 persons and varying between 40,000 and 90,000 sq.m. (26,000 and 60,000 sq.m. IFA) in scale are Regional Centres. These are usually located in larger new towns and major suburban areas. Examples of Regional Centres would include Kornhill Plaza in Quarry Bay and Grand Century Place in Mongkok.

District Centres provide a broader range of goods than Neighbourhood Centres, typically mixing necessities with comparison goods and community services as well as offering a wider range of food and beverage and entertainment. District Centres are typically from 9,000 to 40,000 sq.m. (5,800 to 26,000 sq.m. IFA) in size and serve predominantly individual districts. Proximity to transport is important, especially buses, taxis and private cars, as well as the Kowloon Canton Railway, Mass Transit Railway or light rail.

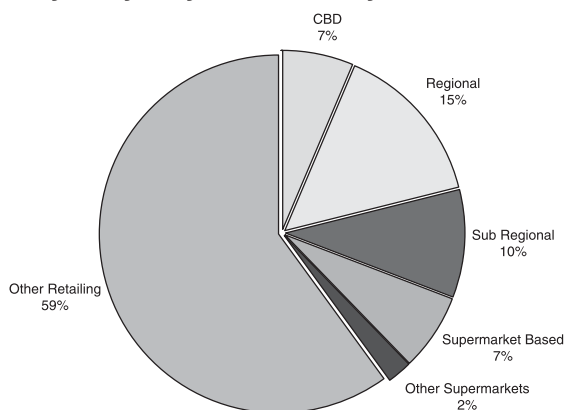
Neighbourhood catchments sustain Neighbourhood Centres and typical purchases include daily necessities often provided by supermarkets, local restaurants, convenience stores, etc. Community services also feature in the tenant mix including pre-school education, specialised tuition, or religious instruction. Tenants in this type of centre often enjoy stable revenues and tend to occupy properties for long periods, developing a loyal local customer base. Most Neighbourhood Centres are less than 9,000 sq.m. (5,800 sq.m. IFA) in area.

Of total private commercial premises of 9.4 million sq.m. IFA, Territorial Centres represent approximately 4.4 per cent while Regional Centres account for around 7.3 per cent and District Centres 15.3 per cent. The remaining 6.9 million sq.m. comprises Neighbourhood Centres as well as street shops. Specific data for these sub-groups is not currently available.

¹⁸ Floor area in describing retail hierarchy in Hong Kong is measured in IFA.

There are similar retail hierarchy definitions outside Hong Kong. Taking Australia as an example, retail facilities are divided into six categories, namely CBD, Regional, Sub Regional, Supermarket Based, Other Supermarkets and Other Retailing. The breakdowns of the retail hierarchies of Sydney/Melbourne are shown as follows.

Breakdown of Retail Hierarchy of Sydney/Melbourne by Floor Area¹⁹



Source: UrbisJHD

Comparison of the HKHA Retail Hierarchy and Retail Formats

Within the 180 estates listed by the HKHA, 151 comprise retail facilities totaling approximately 1.78 million sq.m.²⁰ By a straight definition by size²¹, 72 of the 151 centres (47.7%) are Neighbourhood Centres, 78 (51.7%) are District Centres and one (0.6%) is a Regional Centre. Neighbourhood Centres represents 16.1 per cent of the total floor area of the retail facilities while District Centres and Regional Centres account for 80.3 and 3.6 per cent, respectively.

¹⁹ CBD — Central Business District centres comprise enclosed centres and street front shops located in the CBD. Regional centres are fully enclosed and anchored by one of two full line department stores. — Regional centres generally have a GLA of more than 50,000 sq.m. Sub Regional centres are fully enclosed and anchored by one or two full line discount department stores. — Sub Regional centres generally have a GLA of around 20,000 sq.m. Supermarket Based Centres (or neighbourhood centres) are fully enclosed and anchored by one or more full line supermarkets. Supermarket centres have a GLA of around 10,000 sq.m. or less. Other Supermarkets include smaller neighbourhood centres, freestanding supermarkets and supermarkets in strip shopping centres.

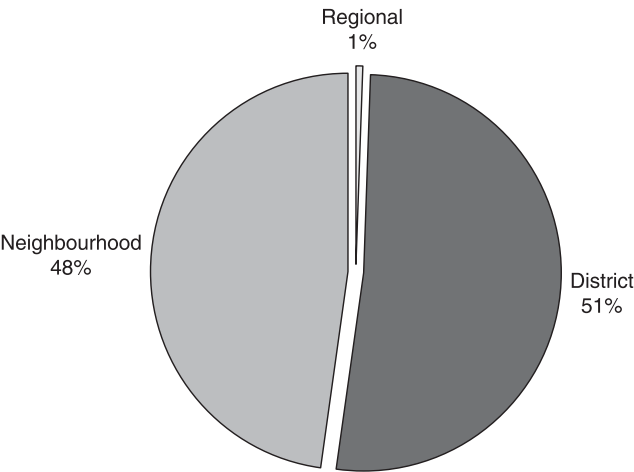
Other Retailing includes strip shopping centres, bulky goods and homemaker centres.

²⁰ Measured in GFA.

²¹ Neighbourhood centre: 9,000 sq.m.
District centre: between 9,000 and 40,000 sq.m.
Regional centre: between 40,000 and 90,000 sq.m.
Territorial centre: >90,000 sq.m.

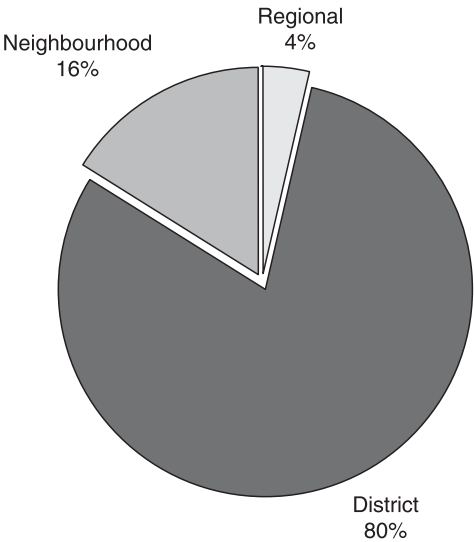


Breakdown of HKHA Retail Facilities by Number of Centres



Source: Hong Kong Housing Authority, Savills Research & Consultancy

Breakdown of HKHA Retail Facilities by Floor Area



Source: Hong Kong Housing Authority, Savills Research & Consultancy

In terms of retail formats within the HKHA retail facilities, a diversity similar to the general retail market of Hong Kong can be observed. Nevertheless, there is a concentration on necessity trades such as Food and Beverage, Supermarkets, and market stalls which together account for nearly 60 per cent of retail floor area.

Table 15: Retail Formats of the HKHA Retail Facilities

| Trade sub-sector | Leased IFA | Percentage of total leased IFA ⁽¹⁾ |
|---|------------------|---|
| | Sq.m. | (%) |
| Food and beverage | 307,195.4 | 35.2 |
| Supermarkets | 128,247.8 | 14.7 |
| Market Stalls | 74,962.6 | 8.6 |
| Health, personal care and beauty ⁽²⁾ | 69,138.4 | 7.9 |
| Education and services | 45,717.0 | 5.2 |
| Home furnishings | 43,882.2 | 5.0 |
| Fashion | 30,789.9 | 3.5 |
| Electronics and IT | 22,428.4 | 2.6 |
| Department stores | 16,319.0 | 1.9 |
| Leisure and entertainment | 11,017.7 | 1.3 |
| Government and welfare | 62,248.6 | 7.1 |
| Others ⁽³⁾ | 61,088.5 | 7.0 |
| Total | 873,035.5 | 100.0 |

Notes:

(1) Calculated on the basis of IFA in respect of which leases have been entered into as at 30 June 2005.

(2) Includes medical clinics and other health services.

(3) Includes trades not falling into the above categories, such as books, stationery and toys, goldsmiths, jewellery, watches, pens, laundromats, newspapers and magazines, travel agencies and banks.

Source: Hong Kong Housing Authority, Savills Research & Consultancy

Retail Sales and Spending

Retail Sales

Total Retail and Restaurant Sales

The value of retail sales and restaurant receipts totalled approximately HK\$192 billion and HK\$53 billion respectively in 2004. The aggregate figures over the past 20 years are shown in the table below, reflecting the changing size of the retail market over time.

Table 16: Total Retail Sales Value and Restaurant Receipts, 1984 to 2004

| Year | Retail Sales | | Restaurant Receipts | | Total | |
|------|--------------|-------|---------------------|-------|--------------|-------|
| | HK\$ million | YoY % | HK\$ million | YoY % | HK\$ million | YoY % |
| 1984 | 66,108 | 15.2 | 17,994 | 12.3 | 84,102 | 14.6 |
| 1985 | 67,901 | 2.7 | 18,792 | 4.4 | 86,693 | 3.1 |
| 1986 | 71,996.3 | 6.0 | 20,223.6 | 7.6 | 92,220 | 6.4 |
| 1987 | 84,003.1 | 16.7 | 23,850.0 | 17.9 | 107,853 | 17.0 |
| 1988 | 101,895.7 | 21.3 | 27,284.7 | 14.4 | 129,180 | 19.8 |
| 1989 | 107,523.6 | 5.5 | 31,524.4 | 15.5 | 139,048 | 7.6 |
| 1990 | 115,365.0 | 7.3 | 35,310.9 | 12.0 | 150,676 | 8.4 |
| 1991 | 135,388.6 | 17.4 | 38,539.7 | 9.1 | 173,928 | 15.4 |
| 1992 | 159,497.5 | 17.8 | 45,520.3 | 18.1 | 205,018 | 17.9 |
| 1993 | 179,782.7 | 12.7 | 48,307.5 | 6.1 | 228,090 | 11.3 |
| 1994 | 201,149.7 | 11.9 | 50,093.7 | 3.7 | 251,243 | 10.2 |
| 1995 | 210,559.7 | 4.7 | 52,446.6 | 4.7 | 263,006 | 4.7 |
| 1996 | 223,919.9 | 6.3 | 55,347.5 | 5.5 | 279,267 | 6.2 |
| 1997 | 234,856.9 | 4.9 | 58,866.7 | 6.4 | 293,724 | 5.2 |
| 1998 | 195,674.8 | -16.7 | 56,466.6 | -4.1 | 252,141 | -14.2 |
| 1999 | 179,917.1 | -8.1 | 56,677.9 | 0.4 | 236,595 | -6.2 |
| 2000 | 186,700.0 | 3.8 | 57,873.8 | 2.1 | 244,574 | 3.4 |
| 2001 | 184,387.0 | -1.2 | 56,441.3 | -2.5 | 240,828 | -1.5 |
| 2002 | 176,859.0 | -4.1 | 53,371.0 | -5.4 | 230,230 | -4.4 |
| 2003 | 172,833.0 | -2.3 | 48,138.3 | -9.8 | 220,971 | -4.0 |
| 2004 | 191,612.0 | 10.8 | 53,037.0 | 10.1 | 244,649 | 10.7 |

Source: Census and Statistics Department, Savills Research & Consultancy

Retail sales values and restaurant receipts totalled approximately HK\$192 billion and HK\$53 billion, respectively, in 2004. While aggregate retail sales value and restaurant receipts grew by more than 190 per cent from 1984 to 2004, the figures dropped from 1998 to 2003 when the Asian Financial Crisis occurred, coupled with the effects of SARS in early 2003, but rebounded strongly last year due to the local economic recovery and the gradual implementation of the Individual Visitor Scheme from mid-2003.

Retail Sales By Retail Format and Types of Goods

Retail sales values were evenly distributed among the eight major categories in 2004, except “Fuels” which represented only 3.0 per cent of the year’s total retail sales. “Other Consumer Goods” took the largest share of the year’s retail sales at approximately 16 per cent.

Table 17: Retail Sales by Major Store Types, 2001 to 2004

| Types | 2001 | 2002 | 2003 | 2004 |
|---|-------------------------------|----------------|----------------|----------------|
| | HK\$ million | | | |
| | (% change from previous year) | | | |
| Food, Alcoholic Drinks and Tobacco (Other than supermarket) | 21,995 | 21,298 | 21,178 | 21,731 |
| | (2.0)% | (-3.1)% | (-0.6)% | (2.6)% |
| Supermarket | 25,520 | 25,712 | 25,445 | 26,203 |
| | (2.8)% | (0.8)% | (-1.0)% | (3.0)% |
| Fuels | 7,189 | 6,138 | 5,666 | 5,714 |
| | (-8.9)% | (-14.6)% | (-8.7)% | (0.8)% |
| Clothing, Footwear and Allied Products | 23,448 | 22,924 | 21,268 | 24,867 |
| | (-4.6)% | (-2.2)% | (-7.2)% | (16.9)% |
| Consumer Durable Goods | 32,481 | 30,018 | 29,224 | 33,171 |
| | (-1.9)% | (-7.6)% | (-2.6)% | (13.5)% |
| Department Stores | 17,996 | 17,864 | 17,324 | 19,479 |
| | (2.6)% | (-0.8)% | (-3.0)% | (12.4)% |
| Jewellery, Watches and Clocks, and Valuable Gifts ... | 21,174 | 20,312 | 19,725 | 24,262 |
| | (-6.9)% | (-4.0)% | (-2.9)% | (23.0)% |
| Other Consumer Goods | 34,585 | 32,602 | 32,999 | 36,191 |
| | (0.1)% | (-5.2)% | (+1.2)% | (9.7)% |
| Total | 184,386 | 176,859 | 172,833 | 191,612 |
| | (-2.1)% | (-4.1)% | (-2.3)% | (10.9)% |

Source: Census and Statistics Department, Savills Research & Consultancy

Retail Sales Per Capita

Total sales per capita over the period follow a similar trend. After rising by 191 per cent from 1984 to its peak over 1997, total sales per capita declined by 23 per cent to 2003 and rebounded by 10 per cent in 2004 to stand at HK\$35,480 per person.

Table 18: Retail Sales and Restaurant Receipts Per Capita, 1984 to 2004

| Year | Retail Sales Per Capita | | | Restaurant Receipts Per Capita | | | Total Sales Per Capita | |
|------|-------------------------|-------|---|--------------------------------|-------|---|------------------------|-------|
| | HK\$/Person | YoY | % | HK\$/Person | YoY | % | HK\$/Person | YoY |
| 1984 | 12,173 | 14.1 | | 3,313 | 11.2 | | 15,486 | 13.4 |
| 1985 | 12,345 | 1.4 | | 3,416 | 3.1 | | 15,761 | 1.8 |
| 1986 | 12,936 | 4.8 | | 3,634 | 6.4 | | 16,569 | 5.1 |
| 1987 | 14,960 | 15.6 | | 4,247 | 16.9 | | 19,207 | 15.9 |
| 1988 | 17,966 | 20.1 | | 4,811 | 13.3 | | 22,777 | 18.6 |
| 1989 | 18,776 | 4.5 | | 5,505 | 14.4 | | 24,281 | 6.6 |
| 1990 | 20,057 | 6.8 | | 6,139 | 11.5 | | 26,195 | 7.9 |
| 1991 | 23,281 | 16.1 | | 6,627 | 8.0 | | 29,909 | 14.2 |
| 1992 | 27,090 | 16.4 | | 7,732 | 16.7 | | 34,822 | 16.4 |
| 1993 | 29,974 | 10.6 | | 8,054 | 4.2 | | 38,028 | 9.2 |
| 1994 | 32,871 | 9.7 | | 8,186 | 1.6 | | 41,058 | 8.0 |
| 1995 | 33,582 | 2.2 | | 8,365 | 2.2 | | 41,947 | 2.2 |
| 1996 | 34,627 | 3.1 | | 8,559 | 2.3 | | 43,186 | 3.0 |
| 1997 | 36,039 | 4.1 | | 9,033 | 5.5 | | 45,072 | 4.4 |
| 1998 | 29,722 | -17.5 | | 8,577 | -5.0 | | 38,300 | -15.0 |
| 1999 | 27,106 | -8.8 | | 8,539 | -0.4 | | 35,645 | -6.9 |
| 2000 | 27,818 | 2.6 | | 8,623 | 1.0 | | 36,441 | 2.2 |
| 2001 | 27,280 | -1.9 | | 8,351 | -3.2 | | 35,631 | -2.2 |
| 2002 | 26,062 | -4.5 | | 7,865 | -5.8 | | 33,927 | -4.8 |
| 2003 | 25,252 | -3.1 | | 7,032 | -10.6 | | 32,285 | -4.8 |
| 2004 | 27,788 | 10.0 | | 7,692 | 9.4 | | 35,480 | 9.9 |

Source: Census and Statistics Department, Savills Research & Consultancy

Retail Sales Productivity

Retail sales productivity is defined as a retail sales figure on a per square footage basis, which measures how productive retail space is at generating retail revenue. In this section, both retail sales and restaurant receipt productivities are analysed. The sales productivity of retail and restaurant floorspace stood at HK\$45,000 per sq.m. and HK\$21,000 per sq.m. respectively in 2003. Sales productivity was on the rise through the 1980s and early 1990s, and retail and restaurant productivities rose by 144 per cent and 197 per cent from 1983 to their respective peaks in 1995 and 1997. Nevertheless, as the Asian Financial Crisis hit Hong Kong hard in 1997, sales productivity of both retail and restaurant formats declined and up to 2003, retail sales and restaurant receipt productivities had dropped by around 28 per cent and 37 per cent respectively.

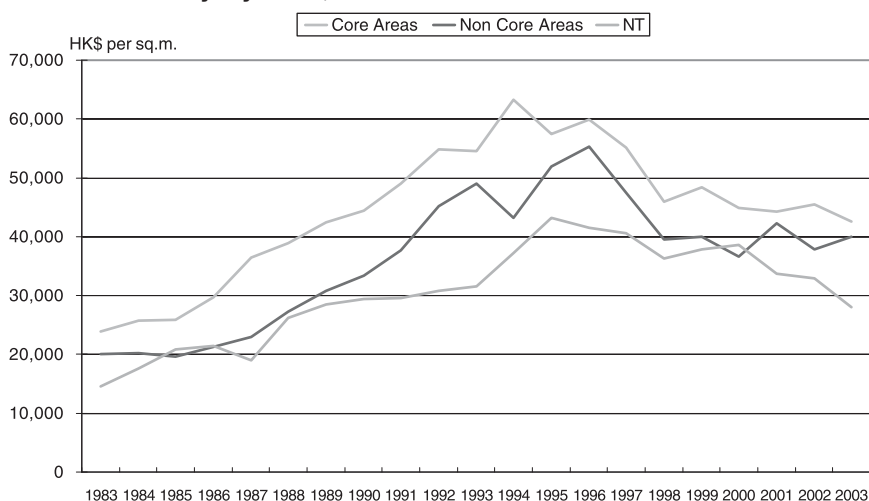
Table 19: Retail Sales and Restaurant Receipts Productivities, 1983 to 2003

| Year | HKI | | Kowloon | | New Territories | | Overall | |
|------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|--------------------------|
| | Retail (HK\$ psm) | Restaurant (HK\$ psm) | Retail (HK\$ psm) | Restaurant (HK\$ psm) | Retail (HK\$ psm) | Restaurant (HK\$ psm) | Retail (HK\$ psm) | Restaurant (HK\$ psm) |
| 1983 | 24,553 | 12,232 | 30,637 | 11,549 | 17,783 | 8,993 | 25,811 | 11,246 |
| 1984 | 25,250 | 13,986 | 31,784 | 13,927 | 21,034 | 10,853 | 27,542 | 13,375 |
| 1985 | 27,138 | 14,197 | 29,708 | 15,049 | 22,331 | 14,328 | 26,790 | 14,635 |
| 1986 | 28,172 | 16,271 | 35,221 | 14,730 | 24,754 | 13,460 | 30,278 | 14,964 |
| 1987 | 32,199 | 18,420 | 43,547 | 19,314 | 22,094 | 13,462 | 33,947 | 17,309 |
| 1988 | 35,521 | 21,181 | 46,334 | 18,679 | 31,254 | 17,227 | 39,009 | 18,890 |
| 1989 | 37,294 | 24,978 | 55,635 | 20,544 | 30,542 | 20,928 | 42,130 | 21,907 |
| 1990 | 49,128 | 24,875 | 51,100 | 20,488 | 34,402 | 19,063 | 45,279 | 21,573 |
| 1991 | 54,253 | 23,092 | 58,025 | 23,095 | 33,729 | 20,328 | 48,968 | 22,351 |
| 1992 | 55,273 | 29,131 | 72,548 | 24,747 | 38,771 | 19,338 | 54,893 | 23,571 |
| 1993 | 62,160 | 28,818 | 69,241 | 29,051 | 40,770 | 17,070 | 56,393 | 24,184 |
| 1994 | 59,703 | 31,252 | 73,461 | 37,465 | 39,696 | 26,902 | 56,111 | 32,484 |
| 1995 | 63,499 | 32,269 | 71,882 | 32,831 | 53,313 | 21,181 | 63,051 | 29,288 |
| 1996 | 66,639 | 31,148 | 76,268 | 34,228 | 46,927 | 28,553 | 62,230 | 31,588 |
| 1997 | 51,143 | 37,568 | 72,815 | 32,699 | 43,087 | 27,968 | 54,914 | 33,385 |
| 1998 | 41,670 | 35,027 | 68,001 | 23,559 | 39,852 | 27,691 | 47,932 | 27,311 |
| 1999 | 50,816 | 31,822 | 59,563 | 26,811 | 41,536 | 28,766 | 50,543 | 28,837 |
| 2000 | 51,834 | 33,309 | 44,647 | 24,453 | 42,128 | 30,508 | 46,134 | 28,770 |
| 2001 | 50,668 | 27,122 | 54,560 | 29,320 | 35,784 | 28,355 | 46,174 | 28,234 |
| 2002 | 49,536 | 27,772 | 49,663 | 27,925 | 39,519 | 18,162 | 46,096 | 25,212 |
| 2003 | 48,323 | 30,812 | 51,109 | 20,747 | 37,237 | 15,150 | 45,157 | 21,159 |

Source: (Report on Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels), Census and Statistics Department, Savills Research & Consultancy

When looking at the productivity figures on a district basis, movements similar to the overall market can be seen. A noteworthy trend is that, in general, the sales productivity figures for Hong Kong Island and Kowloon are in line with each other, but are almost consistently higher than those of the New Territories. This can be attributable to the presence of more local shopping centres and local restaurants in the New Territories selling necessities and day-to-day food items with lower values.

Total Retail Sales Productivity By Area, 1983 to 2003



Source: Census and Statistics Department, Savills Research & Consultancy

A further analysis of total retail sales²² productivity by different retail areas²³ reveals that retail premises in Core Areas have the highest sales productivity, while those in the New Territories record the lowest figures, with Core Areas commanding a 52 per cent average premium over those in the New Territories.

The retail market in Hong Kong is forecast to grow at around 6.1 per cent per annum over the period 2004 to 2010, as shown in a later section. Over the same period, retail floorspace supply is expected to grow at around 1.2 per cent per annum, although the certainty of this projection is lower because it is not possible to completely capture information about all new retail developments.

If demand grows faster than supply, then overall retail productivity levels will increase. Based on the above figures, average productivity should rise by about 4 to 5 per cent per annum. However, a potential market response to increasing productivity could be to build more floorspace than currently projected, which would in turn dampen productivity growth.

Rising retail productivity (driven largely by tourism) may not translate into better performance by particular HKHA properties if those properties are not well located to take advantage of tourism growth. On the other hand, the productivity of HKHA properties may outstrip an overall average if successful asset enhancement programmes are undertaken.

²² Includes retail sales and restaurant receipts.

²³ Core Areas — Central & Western, Wanchai, Yau Tsim Mong (Yau Ma Tei, Tsimshatsui and Mongkok);

Non Core Areas — Other areas on Hong Kong Island and Kowloon;

NT — All areas in the New Territories.

Retail Market Model

Choice of Basis

Hong Kong is similar to most other developed countries in the sense that there are three main sources of information which can be used to measure retail activity in the economy. These sources of information are:

- *Retail sales*
- *Household Expenditure Survey (HES)*
- *National Accounts, in particular, components of Private Consumption Expenditure (PCE).*

Each of these measures of retail activity have their own strengths and weaknesses, briefly described as follows:

Retail Sales

Retail sales statistics measure the level and trend of the sales of goods sold by establishments primarily engaged in retail trade. A monthly survey of around 3,000 retail outlets collects information about the total retail sales value for each type of retail outlet. Since the survey is monthly, one of the prime uses of retail sales statistics is to provide an up-to-date indicator of the level of activity and trends in the retail sector.

Retail sales statistics include spending on goods by visitors to Hong Kong but exclude spending on goods by Hong Kong residents outside Hong Kong. Further, any spending by businesses at Hong Kong retail outlets will be captured by the retail sales series, but will not be distinguished from other sources of sales.

A quarterly survey of restaurant receipts collects information about the volume of sales at restaurants. Together with the monthly retail sales series, restaurant receipts give an overall picture of retail activity.

The strengths of the retail trade and restaurant surveys are that they provide up-to-date information and can be categorised in a number of ways. For example, the primary function of a retail establishment (e.g. sales of clothing or books) can be used to break the series down into more detail. In addition, a geographical dimension, (e.g. Hong Kong Island or Kowloon) can be used to derive figures for those geographical areas.

However, the main weaknesses of the retail sales and restaurant receipt surveys are that they are surveys, and subject to statistical variation. In addition, survey coverage (for example, excluding non-employing businesses) can under-estimate the level of retail activity. Finally, there is some uncertainty about the accuracy of reporting of sales, not only in Hong Kong but in other countries in the world.

Household Expenditure Survey (HES)

HES is conducted every five years to collect up-to-date information on the expenditure patterns of households in Hong Kong. The main purpose of HES is to update the expenditure weights used in compiling the Consumer Price Index (CPI). The latest HES relates to 1999/2000, and was conducted during the period October 1999 to September 2000. There were 7,700 households sampled, of which about 6,100 participated in the survey.



The strength of the HES is that it collects information in a great deal of detail, not only about the different types of expenditure incurred by households, but also demographic statistics and household composition.

However, given that the main purpose of HES is to reweight the CPI, its value as a measure of overall retail activity is limited. Further, the five-yearly intervals between surveys means that the information becomes dated as a new survey period approaches.

National Accounts

Private Consumption Expenditure (PCE) best measures trends in overall consumer spending. PCE is a major component of the Gross Domestic Product (GDP), and part of the National Accounts framework.

Compiled from a wide variety of data sources, PCE covers consumer spending on both goods (purchased from all channels) and services by Hong Kong residents whether domestically or abroad.

The strengths of measuring retail activity through the PCE are that the information is gathered from a variety of surveys, censuses and other sources, and that the analysis is done in the strict national accounts framework used to measure economic activity.

The weakness of using PCE to derive the overall level of retail activity is that the information is not published in a great deal of detail, and is not available at different geographical levels.

Retail Market Model

UrbisJHD has developed a model of retail activity primarily based on national accounts data. The retail market, as broadly defined below, is the key driver behind forecasts for rental growth. The model of the retail market is used to calculate total retail spending in and from Hong Kong from 1980 to 2004.

Table 20: Size of Hong Kong Retail Market (Current HK\$), 1980 to 2004²⁴

| | | 1980 | 1985 | 1990 | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|----------------|---------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Resident Population | | | | | | | | | | |
| A Mid Year Population | '000 | 5,063 | 5,456 | 5,705 | 6,156 | 6,665 | 6,725 | 6,787 | 6,803 | 6,883 |
| (Citizens, Permanent & Temporary Residents) | Ann % chge | | 1.5% | 0.9% | 1.5% | 1.6% | 0.9% | 0.9% | 0.2% | 1.2% |
| Captured Retail Market in Hong Kong (HK\$ billion) | | | | | | | | | | |
| B Retail Sales from HK Households | HK\$ billion | 44.7 | 83.0 | 158.3 | 312.0 | 288.2 | 285.9 | 259.0 | 254.9 | 264.8 |
| | Ann % chge | | 13.2% | 13.8% | 14.5% | -1.6% | -0.8% | -9.1% | -1.9% | 3.9% |
| C Retail Sales from Non-Household Sector | HK\$ billion | 2.9 | 4.8 | 9.8 | 16.6 | 13.5 | 13.1 | 12.6 | 12.1 | 13.3 |
| | Ann % chge | | 10.8% | 15.0% | 11.3% | -4.1% | -2.8% | -3.6% | -4.0% | 10.0% |
| D Retail Sales from Tourists | HK\$ billion | 5.3 | 11.9 | 28.2 | 45.6 | 34.9 | 35.2 | 43.9 | 42.0 | 52.9 |
| | Ann % chge | | 17.7% | 18.9% | 10.1% | -5.2% | 0.9% | 24.7% | -4.4% | 26.0% |
| E Captured Retail Market in HK | (B+C+D) | HK\$ billion | 52.9 | 99.7 | 196.3 | 374.3 | 336.6 | 334.2 | 316.4 | 309.0 |
| | | Ann % chge | | 13.5% | 14.5% | 13.8% | -2.1% | -0.7% | -5.3% | -2.3% |
| F Tourism as a % of Total Market | (D/E*100) | % | 10.0% | 11.9% | 14.4% | 12.2% | 10.4% | 10.5% | 13.9% | 13.6% |
| Potential Retail Market (HK\$ billion) | | | | | | | | | | |
| G Resident Retail Spending Elsewhere | HK\$ billion | 2.1 | 4.4 | 10.5 | 22.2 | 26.5 | 26.5 | 25.8 | 23.2 | 26.9 |
| | Ann % chge | | 15.5% | 19.0% | 16.2% | 3.6% | -0.2% | -2.6% | -10.1% | 16.0% |
| H Potential Retail Market | (E+G) | HK\$ billion | 55.0 | 104.1 | 206.8 | 396.6 | 363.1 | 360.7 | 342.2 | 332.2 |
| | | Ann % chge | | 13.6% | 14.7% | 13.9% | -1.7% | -0.7% | -5.1% | -2.9% |
| I Spending Elsewhere as % of Potential Market | (G/H*100) | HK\$ Billion | 3.9% | 4.2% | 5.1% | 5.6% | 7.3% | 7.3% | 7.5% | 7.0% |
| Retail Sales per Capita | (B+G)/A | HK\$ | 9,251 | 16,016 | 29,598 | 54,303 | 47,224 | 46,455 | 42,080 | 40,879 |
| | | | | | | | | | | |

Source: HK Census and Statistics Department, UrbisJHD

The table above presents the results of the retail market model for Hong Kong between 1980 and 2004. The main points to emerge from the analysis are:

Line A

- The resident population in Hong Kong, sourced from official Government publications, grew from 5.1 million in 1980 to 6.9 million in 2004.

²⁴ Estimates are expressed in current dollars, ie including inflation.

Line B

- Retail sales from Hong Kong households have been derived from national accounts data, including private consumption expenditure.
- In current prices (including the effects of inflation), retail sales generated by Hong Kong households has grown from HK\$44.7 billion in 1980 to HK\$264.8 billion in 2004. In the period from 1985 to 1995, high growth in retail sales from Hong Kong households was underpinned by a high inflationary environment, rising property prices and generally good economic conditions. However, the Asian Financial Crisis, global terrorism, SARS and other factors have contributed to declining retail sales from Hong Kong households and consumer price deflation. Positive growth in retail sales from Hong Kong households occurred in 2004, the first year of growth since 2000.

Line C

- Retail sales from the non-household sector covers spending by businesses on retail goods and services.
- The trends in retail sales from the non-household sector are very similar to the trends displayed by retail sales from Hong Kong households, although the magnitude of non-household sector spending on retail is relatively small.

Line D

- Retail sales from tourists grew from HK\$5.3 billion in 1980 to HK\$52.9 billion by 2004. The trends in tourist spending in Hong Kong are primarily driven by trends in visitor arrivals, including visitors from mainland China.

Line E

- The sum of retail sales from households, the non-household sector and tourists is termed the captured retail market in Hong Kong and represents the total retail market captured by Hong Kong retail businesses.

Line F

- In 2004, the captured retail market in Hong Kong was estimated to be HK\$331.1 billion, of which tourism contributes an estimated 16.0 per cent.

Line G

- In addition to the captured retail market, Hong Kong residents spend retail dollars outside Hong Kong. This resident spending elsewhere totalled HK\$2.1 billion in 1980, and grew to HK\$26.9 billion in 2004.

Line H

- The total potential retail market is therefore the captured retail market in Hong Kong plus resident retail spending elsewhere. The total potential retail market was HK\$55 billion in 1980, and grew to HK\$358 billion by 2004.

Line I

- Spending by Hong Kong residents outside Hong Kong was estimated to be 7.5 per cent of the total potential retail market in 2004.

Retail Sales by District

The national accounts figures for Hong Kong do not break up economic activity by district. However, retail floorspace and retail sales are available by district and these series have been used to estimate the size of the retail market by district, both historically and into the future.

Table 21: Hong Kong Estimated Retail Market by District, 1980 to 2003 (Current HK\$ Billion)

| Year | District | | | Total |
|------------------------------|------------------|---------|-----------------|-------|
| | Hong Kong Island | Kowloon | New Territories | |
| 1980 | 18.9 | 26.3 | 7.7 | 52.9 |
| 1985 | 29.8 | 45.5 | 24.3 | 99.7 |
| 1990 | 59.0 | 90.2 | 47.1 | 196.3 |
| 1995 | 114.0 | 153.0 | 107.3 | 374.3 |
| 2000 | 119.5 | 121.3 | 95.7 | 336.6 |
| 2001 | 117.8 | 118.0 | 98.4 | 334.2 |
| 2002 | 114.9 | 107.2 | 94.2 | 316.4 |
| 2003 | 113.3 | 103.9 | 91.8 | 309.0 |
| Average Annual Growth | | | | |
| 1980-1990 | 12.1% | 13.1% | 19.8% | 14.0% |
| 1990-1995 | 14.1% | 11.1% | 17.9% | 13.8% |
| 1995-2003 | -0.1% | -4.7% | -1.9% | -2.4% |

Source: HK Census and Statistics Department, UrbisJHD

Analysis of Retail Provision²⁵

Retail Density

Table 22: Retail and Restaurant Establishment²⁶ Density, 1999 to 2003

| | Hong Kong Island | Kowloon | New Territories | Total |
|------|--|-----------------|-----------------|---------------|
| | Establishments per thousand people Retail / Restaurant / Combined | | | |
| 1999 | 7.3 /2.0 /9.4 | 9.6 /1.8 /11.4 | 5.7 /1.1 /6.9 | 7.2 /1.5 /8.8 |
| 2000 | 8.9 /2.3 /11.2 | 9.3 /2.0 /11.3 | 5.5 /1.1 /6.6 | 7.4 /1.6 /9.0 |
| 2001 | 8.5 /2.0 /10.5 | 10.0 /2.2 /12.1 | 5.4 /1.4 /6.8 | 7.4 /1.7 /9.1 |
| 2002 | 9.3 /2.6 /11.9 | 9.5 /2.0 /11.5 | 5.2 /1.1 /6.3 | 7.2 /1.7 /8.9 |
| 2003 | 9.1 /3.3 /12.3 | 9.1 /1.5 /10.6 | 5.0 /1.1 /6.1 | 7.0 /1.6 /8.6 |

Source: Census and Statistics Department, Savills Research & Consultancy

²⁵ All floor areas from the Rating and Valuation Department and the Census and Statistics Department are measured in IFA. All floor areas from the Buildings Department are measured on a gross floor area (GFA) basis. Gross floor area is the area contained within the external walls of a building measured at each floor level, including any floor below the level of the ground, excluding any floorspace that the Building Authority is satisfied is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service.

²⁶ An establishment is ideally an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location. Where separate figures relating to different activities or different locations under the same management are not available, a combined return is accepted and in this case, the reporting unit is treated as an establishment.

Source: (Report on 2003 Annual Survey of Wholesale, Retail and Import and Export Trades, Restaurants and Hotels), Census and Statistics Department.

Establishment density, which stood at 8.6 per thousand people in 2003, has been broadly stable over the five-year period between 1999 and 2003. Retail density in 2003 was slightly below the 1999 level while restaurant density in 2003 was slightly higher than the 1999 figure.

Retail Floorspace

Private Commercial Stock

The stock of private commercial premises doubled between 1980 and 2004, an increase of approximately 4.9 million sq.m., and totalled 9.4 million sq.m. by the end of 2004. Per capita stock²⁷ has also exhibited a rising trend along with increasing income levels. Per capita stock stood at 1.4 sq.m. per person at the end of 2004, representing an increase of 0.5 sq.m. per person, or nearly 50 per cent, from 1981.

More than 40 per cent of the private commercial stock in Hong Kong is located in Kowloon while Hong Kong Island and the New Territories record shares of around 33 and 26 per cent, respectively. Whilst the compound annual growth rate of overall private commercial stock between 1981 and 2003 was 3.0 per cent, growth was primarily driven by the rapid expansion of the New Territories sub-market. This trend is strongly related to the Hong Kong Government's urban development policy, particularly the growth of new towns from the 1970s which has transformed the physical and economic landscape of the New Territories.

Central, Causeway Bay, Tsimshatsui and Mongkok are regarded as the major retail nodes of Hong Kong. Private commercial stock in these four areas totalled approximately 2.1 million sq.m., accounting for approximately 23 per cent of the total stock of 2002. Tsimshatsui also had the largest private commercial stock among all districts in 2002, accounting for 9.4% thereof.

Private Commercial Stock Per Capita

Private commercial stock per capita on Hong Kong Island, which stood at approximately 2.4 sq.m. per person at the end of 2004, was higher than that of Kowloon (1.9 sq.m.) and the New Territories (0.7 sq.m.). Private commercial stock levels in the New Territories have been rising faster than those of Hong Kong Island and Kowloon, but so has the population in the region and in this regard per capita stock in the New Territories has been rising at the slowest rate compared with other regions.

Taking a closer look at the stock per capita in the nine new towns, Yuen Long (including Tin Shui Wai) New Town had the highest private commercial stock per capita of 0.98 sq.m. per person at the end of 2003, followed by Tung Chung (0.97 sq.m. per person) and Tsuen Wan (0.93 sq.m. per person). Notably the stock per capita figure in Tung Chung will decline rapidly to 0.58 sq.m. per person in 2006 with no new private retail supply and a rapid increase in population due to the take up of unsold units in the area. Shatin (including Ma On Shan), on the other hand, had the lowest stock per capita figure, despite the presence of several Regional Centres, namely New Town Plaza, Ma On Shan Plaza and Sunshine City.

In addition, many Territorial Centres, which serve the territory-wide population as well as overseas tourists, are located on Hong Kong Island and in Kowloon. These centres are much larger than the average (typically over 90,000 sq.m.), resulting in higher per capita stock figures for these two regions.

²⁷ Total year-end private commercial stock divided by total year-end population.

International comparisons of retail floorspace per capita can be problematic because of differences in the way information is collected and differences in definitions of retail floorspace.

As far as possible, the table below uses a standard definition of retail floorspace for the countries/territories noted.

Table 23: Hong Kong International Comparisons of Retail Floorspace Per Capita, 2004

| Countries | Retail Floorspace Per Capita | | Shopping Centre Share of Total (%) |
|------------------------------|------------------------------------|---------------------------------------|------------------------------------|
| | Total Retail (Sq.m. per person) | Shopping Centre (Sq.m. per person) | |
| United States | 3.5 | 2.0 | 56 |
| Australia..... | 2.1 | 0.7 | 35 |
| United Kingdom | 1.3 | 0.3 | 25 |
| Hong Kong, China..... | 1.2 | N.A. | N.A. |
| Korea | 1.2 | N.A. | N.A. |
| Japan | 1.0 | 0.3 | 28 |
| Singapore | 1.0 | 0.3 | 35 |

Source: UrbisJHD

The country with the highest provision of retail floorspace per capita is the US, which has around 3.5 sq.m. per person in total, of which 2.0 sq.m. per person is accommodated in planned enclosed shopping centres. Australia also has a relatively high provision of retail floorspace per capita, at 2.1 sq.m. per person.

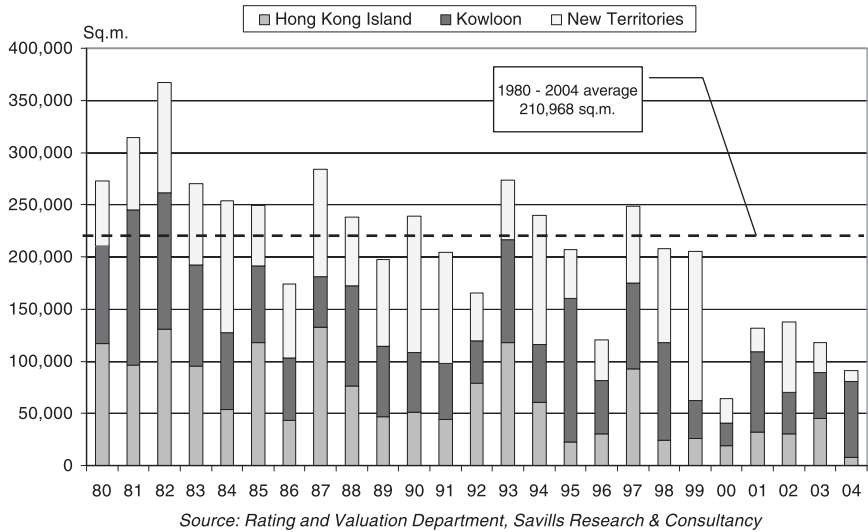
In order to bring the Hong Kong figures in line with international conventions, floorspace associated with fuel and transport equipment have been removed from retail floorspace. On this basis, it is estimated that the provision of retail floorspace per capita in Hong Kong is 1.2 sq.m. per person, well below that provided in the US and Australia, but above the provision of retail floorspace per capita in Singapore and Japan.

Higher retail floorspace per capita provision in the US and Australia compared with Hong Kong, Singapore and Japan is largely due to differences in land supply, land costs and development costs. Both the US and Australia have an abundance of cheap land, encouraging large scale, greenfield shopping centre development. On the other hand, Hong Kong, Singapore and Japan are land constrained. This land constraint results in high land prices and a shortage of suitable large sites for shopping centres. Development in Hong Kong, Singapore and Japan is also relatively expensive because of the need to construct small footprint buildings over a large number of levels. In addition, where shopping centre projects involve redevelopment of an existing site, demolition and high land preparation costs are also incurred.



Supply of Commercial Premises

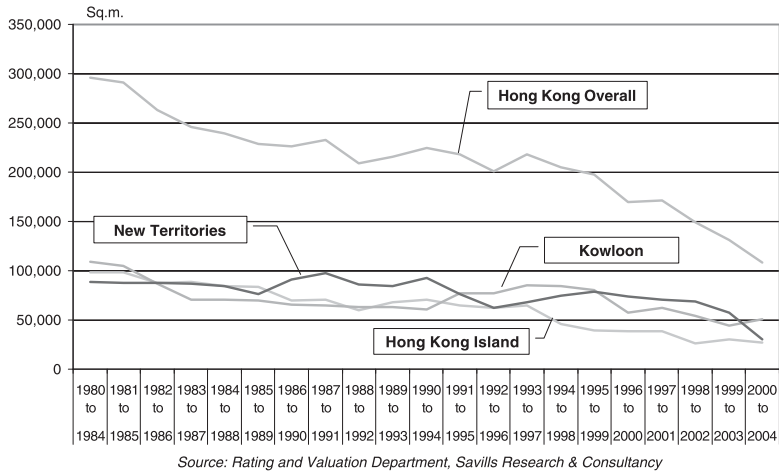
Private Commercial Supply, 1980 to 2004



Private commercial supply averaged approximately 211,000 sq.m. between 1980 and 2004. By district, supply on Hong Kong Island, Kowloon and the New Territories averaged approximately 64,000 sq.m., 74,000 sq.m. and 73,000 sq.m., respectively. Nevertheless, much of the above average supply levels were seen in the 1980s. There were eight years within the 10-year period between 1980 and 1989 when territory-wide supply levels exceeded the 211,000 sq.m. long-term average. However, there were only four years between 1990 and 1999 which saw supply levels higher than that benchmark. As shown in the chart above, supply levels have been significantly lower in the 2000s compared with the previous two decades.

The declining supply levels can be illustrated more clearly by plotting a five-year moving average.

5-year Moving Average of Private Commercial Supply

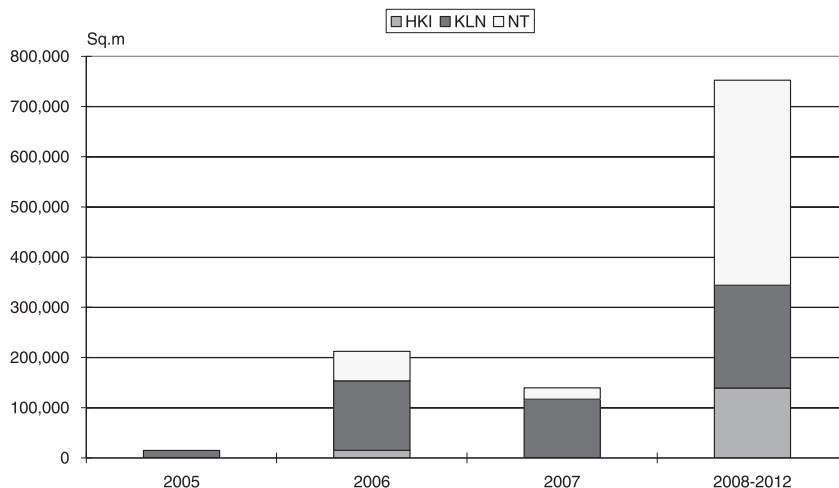


An obvious declining trend in the territory-wide supply levels is shown. By region, Hong Kong Island has also shown a clear falling trend in supply levels, while a less clear cut pattern was noted in Kowloon and the New Territories.

Major Shopping Centre Supply

Of the approximate 1.1 million sq.m.²⁸ of major new retail developments the Market Consultant has identified between 2005 and 2012, 75 per cent by floor area are located in non-core retail locations. More intensive redevelopment of traditional districts is constrained by problems of multiple-ownership of sites, infrastructure capacity, high environmental standards, limited scope for harbour reclamation and problems of overcrowdedness. Many new centres forecast for completion by 2012 will be located either on newly reclaimed land or in new towns.

Major Shopping Centre²⁹ Supply, 2005 to 2012



Source: Buildings Department, Savills Research & Consultancy

Supply of major shopping centres in Hong Kong is expected to average 122,000 sq.m. from 2005 to 2007, with most of these new centres located in Kowloon (74 per cent). A more balanced distribution of new shopping centres can be seen in the long term (2008 to 2012), with the New Territories accounting for the lion's share of new projects (54 per cent) over that period. A total of 1.1 million sq.m. of retail facilities will be completed from 2005 to 2012, and breaking down upcoming retail supply by district, West Kowloon Reclamation area and Tseung Kwan O new town stand out as the two areas with the highest concentration of future retail facilities³⁰, followed by Central, Tsimshatsui, Tsuen Wan, Kowloon Bay and Yuen Long.

West Kowloon Reclamation Area

The only retail centre completed this year is located on the West Kowloon Reclamation area, which is the retail area within The Pacifica (15,000 sq.m.). The new supply this year adds to the existing 155,000 sq.m. of retail facilities on the West Kowloon Reclamation area, serving over 25,000 public and private apartments and 110,000 sq.m. of offices.

²⁸ This figure and other floor area figures in the rest of the section are measured in GFA.

²⁹ Over 4,000 sq.m.

³⁰ Central accounts for 13 per cent of new supply but as a majority of this new supply is accounted for by the Central Reclamation project, which includes retail and office premises in an undetermined proportion, the Market Consultant assumes Tseung Kwan O and West Kowloon to have higher level of retail supply than Central.

The next retail facility to come on stream in this area will be the 84,000 sq.m. Union Square in 2006, together with the completion of the hotel/serviced apartments/residential portion of Kowloon Station Package VI in the same year. Meanwhile, the 109-storey office building in Kowloon Station (in two phases) will be completed 2008 to 2010. The completion of Union Square will also mark the completion of the entire Kowloon Station development complex, which will include residential, office, retail, hotel and serviced apartment uses.

Further down the timeline, one more retail facility will be completed in the area in around 2012, which is the retail area within West Rail Nam Cheong Station (28,000 sq.m.), with a 4,247-unit residential development to be erected above it in two phases. The total floor area of the retail facilities in the West Kowloon Reclamation area will amount to approximately 281,000 sq.m. by 2012, serving a total of 37,000 resident units and 274,000 sq.m. of office space.

The proposed West Kowloon Cultural District development, which is scheduled to comprise a 500,000 sq.m. office, retail and residential complex (around 1/3 will be retail facilities) with a single-developer approach, has been put under review after public debate regarding the master layout plan as well as the development mode, and the expected completion of the project will likely be pushed beyond 2012.

Tseung Kwan O New Town

A significant number of retail facilities are scheduled to come on stream in the Tseung Kwan O district, all of which will be retail areas attached to upcoming residential developments. Existing retail facilities within this new town amount to 390,000 sq.m., serving over 100,000 residential units.

The first two new retail facility to emerge in Tseung Kwan O will be the 12,000-sq.m. retail area within New World's residential development beside Tseung Kwan O Station, as well as the retail area within Cheung Kong's Tiu Keng Leng Station residential development amounting to 17,000 sq.m., both of which are expected to be completed in 2006.

The largest upcoming retail facility in the area will be the retail centre above Tseung Kwan O Station representing some 60,000 sq.m. to be completed in 2008/2009. The completion of this enormous shopping centre will also mark the completion of a 109,000-sq.m. retail complex within and around Tseung Kwan O Station. The next will be a 40,000-sq.m. retail facility to be built within the 21,500-unit Dreamcity near the MTR depot, which is expected to be completed towards 2012 in phases. This last shopping centre is on quite a small scale given the potential size of the population (double that of Taikoo Shing) it is going to serve.

Central / Tsimshatsui

Central and Tsimshatsui are the next two districts with a high level of future shopping centre supply. Nevertheless, as traditional core business districts, Central and Tsimshatsui feature no public or private housing estates and their shopping centre complexes serve a very different category of clients from traditional residential areas. Thus, Central and Tsimshatsui are not investigated further as there are no implications of its future retail supply for the HKHA portfolio.

Tsuen Wan

There are three shopping centres in Tsuen Wan in the development pipeline, accounting for 9 per cent of total new supply from 2005 to 2012. The first to be completed will be the retail portion of Tsuen Wan Town Centre Redevelopment (In-City) with a retail floor area of 23,000 sq.m., to be completed in 2007.

The next project to be completed will be the residential / retail complex next to In-City, TWTL 394, which will provide 18,000 sq.m. of retail area when completed in 2009/10. The largest retail development in the district by floor area will be the retail portion of West Rail Tsuen Wan West Station (site TW5), of around 70,000 sq.m. of retail facilities. The project is designed to serve the 3,250-unit residential and 450-room hotel development over the site as well as the surrounding area when completed in 2011/12.

The completion of Nina Tower Phase 2 in 2006 will mark the completion of a 120,000 sq.m. office, hotel and retail complex in the area. The retail portion of the premises was completed as Phase 1 back in 2001 together with an hotel, but both premises have remained vacant since, and the exact date of launch remains uncertain.

Kowloon Bay

New shopping centre supply in Kowloon Bay represents around 9 per cent of total new supply in the coming years (2005 to 2012). In fact, this substantial amount of new retail supply comprises a single development, Enterprise Square V, developed by Kerry Properties. When completed, this project will serve offices as well as industrial buildings within the vicinity, and may actually draw people from nearby Telford Garden and Amoy Garden.

The completion of Enterprise Square III in 2004 added another 54,500 sq.m. of office space to the area, which increased the total working population. Nevertheless, this is the last addition to retail demand in the district as no offices/housing estates are scheduled for completion afterwards. Enterprise Square V will be the single largest retail complex in the area when completed in 2006. Besides being a retail anchor, it is also strategically located within the heart of the industrial and commercial area, serving the large working population there.

The South East Kowloon Development Project will also have a tremendous impact on Kowloon Bay when completed as the scale of the project is large, including residential, retail and recreational facilities. Nevertheless, debate over the reclaimed area, the mode of development, the ratio of open area, etc. has led to a review of the whole project, and a full review will be concluded in two to three years' time. Given the current review status of the South East Kowloon Development Project, its impact on Kowloon Bay for the time being can be regarded as minimal.

Yuen Long Town Centre

New shopping centre supply in Yuen Long accounts for 9 per cent of total new supply from 2005 to 2012. All future supply within the area will be part of new residential completions. Existing shopping centre stock amounts to 76,000 sq.m. which represents only a small proportion of retail facilities within the area as there are also numerous shops on streets along Castle Peak Road and other major roads. These retail facilities combined serve near 25,000 residential units from major residential developments.

New shopping centre supply in Yuen Long Town Centre in the coming years will nearly triple existing stock to reach 180,000 sq.m. by 2012. The largest upcoming supply will be the shopping centre(s) of Yoho Town Phases II and III, which will come on stream from 2008 to 2012, with a total floor area of 93,000 sq.m. This large scale retail complex will primarily serve the residential population of Yoho Town and, with its proximity to Sun Yuen Long Centre and the West Rail Yuen Long Station, there is also potential to draw on the catchment of Yuen Long Town Centre.

Other than these five areas of upcoming supply, there are also large-scale retail facilities in the pipeline in other new areas. Five retail projects in Tsimshatsui (120,000 sq.m. in total) and Skyplaza at Chek Lap Kok International Airport (30,000 sq.m.) will also contribute.

For supply over the longer term, the largest retail complex is the 4-storey retail/commercial complex to be erected on the Central Reclamation area (140,000 sq.m.). Nevertheless, no detailed breakdown of the areas of retail and office space is yet available. Other significant supply will mostly comprise the retail components of residential developments in different districts, such as 35 Clear Water Bay Road (54,000 sq.m.) and Ma On Shan Rail Tai Wai Station (63,000 sq.m.³¹)

Conclusions and Implications for the HKHA Retail Facilities

The HKHA portfolio is expected to face more competition in Tseung Kwan O, West Kowloon, Tsuen Wan, Kowloon Bay and Yuen Long as new shopping centre supply in these five districts represents 51 per cent of the territory-wide supply between 2005 and 2012. Nevertheless, the negative impact of higher supply levels in these growth areas will be cushioned by stronger-than-average population compounded annual growth rates of 2.3 per cent for Tseung Kwan O³², 1.8 per cent³³ for West Kowloon, 1.4 per cent for Kowloon Bay³⁴ and 1.2 per cent for Yuen Long³⁵ respectively between 2004 and 2012, compared with a territory-wide growth projection of 0.8 per cent³⁶ per annum over the same period. The only exception is Tsuen Wan³⁷ which will experience a slower than average CAGR of 0.5 per cent over the period. Meanwhile, competition from new supply elsewhere in Hong Kong is expected to be much more moderate, as districts other than Central and Tsimshatsui (where the HKHA portfolio does not have a presence) and the five areas mentioned above will account for only approximately 25 per cent of territory-wide shopping centre supply between 2005 and 2012, but represent around 70 per cent of total population in 2003³⁸.

Newer, larger shopping centres could possibly draw footfall from the HKHA portfolio. However, these larger centres generally cater for a different type of consumption demand focusing on providing comparison goods³⁹ with a range of entertainment facilities, while the HKHA retail facilities focus primarily on providing necessities to the neighbourhood catchment.

Retail Market Measures

Growth in Retail Sales — Retail Market Forecast

The main drivers of the retail market forecast over the period 2004 to 2014 are:

- Population growth, estimated to range between 1.0 and 1.2 per cent per annum from 2005.
- Growth in real private consumption expenditure.

³¹ May include other non-domestic premises other than retail facilities

³² Source: 'Projections of Population Distribution 2004 — 2013', Planning Department.

³³ Estimated by the population growth forecast for the Yau Tsim Mong District Council District and Sham Shui Po District Council District. Data Source: 'Projections of Population Distribution 2004 — 2013', Planning Department.

³⁴ Estimated by the population growth forecast for the Kwun Tong District Council District. Data Source: 'Projections of Population Distribution 2004 — 2013', Planning Department.

³⁵ Source: 'Projections of Population Distribution 2004 — 2013', Planning Department.

³⁶ Source: 'Projections of Population Distribution 2004 — 2013', Planning Department.

³⁷ Estimated by the population growth forecast for the Tsuen Wan District Council District. Data Source: 'Projections of Population Distribution 2004 — 2013', Planning Department.

³⁸ The population of districts other than Central / Tsimshatsui and the five areas is estimated by deducting the populations of Central and Western District Council District, Sham Shui Po District Council District, Yau Tsim Mong District Council District, Tseung Kwan O New Town, Tsuen Wan District Council District, Kwun Tong District Council District and Yuen Long New Town from the Whole Territory population in 2003. Data Source: 'Projections of Population Distribution', Planning Department.

³⁹ Comparison Goods — Merchandise offered by department stores (apparel, furniture) and other stores in sufficient variety to permit a wide range of choice and comparison between the merchandise offered by one store and another. Comparison-shopping trips are made less often than shopping trips for convenience items.



- Real per capita retail spending growth.
- Tourism trends.
- Price inflation.

The most significant factor over the next decade or more will be the expected explosion in tourism from mainland China. Official forecasts suggest that tourist arrivals from mainland China will grow from the current level of around 10.0 million per annum to around 21.4 million by 2010. In generating the retail market forecast, the Market Consultant has been slightly more conservative, and have used a 2010 number of 19.8 million for arrivals in Hong Kong from mainland China.

Overall, the captured retail market in Hong Kong is forecast to grow from HK\$331 billion in 2004 to HK\$571 billion in 2014, including the effects of inflation. The contribution of tourism to the captured retail market is forecast to grow from HK\$52.9 billion in 2004 to HK\$141.2 billion in 2014. The tourism share of the captured retail market is projected to grow from 16.0 to 24.7 per cent, and tourism is expected to contribute around 37 per cent of the growth during that time period.

Table 24: Size of Hong Kong Retail Market (Current HK\$), 2004 to 2014⁴⁰

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Resident Population | | | | | | | | | | | |
| A Mid Year Population | 6,883 | 6,889 | 6,940 | 6,996 | 7,059 | 7,123 | 7,189 | 7,255 | 7,322 | 7,387 | 7,450 |
| (Citizens, Permanent & Temporary Residents) | | | | | | | | | | | |
| Captured Retail Market in Hong Kong (\$HK billion) | | | | | | | | | | | |
| B Retail Sales from HK Households | 264.8 | 276.4 | 289.2 | 300.7 | 313.9 | 329.2 | 345.2 | 359.8 | 375.1 | 391.0 | 407.6 |
| | 3.9% | 4.4% | 4.6% | 4.0% | 4.4% | 4.9% | 4.8% | 4.2% | 4.2% | 4.2% | 4.2% |
| C Retail Sales from Non Household Sector | 13.3 | 13.9 | 14.7 | 15.4 | 16.2 | 17.0 | 18.0 | 18.9 | 19.8 | 20.8 | 21.9 |
| | 10.0% | 4.6% | 5.1% | 4.9% | 5.1% | 5.4% | 5.5% | 5.0% | 5.1% | 5.1% | 5.0% |
| D Retail Sales from Tourists | 52.9 | 60.9 | 69.7 | 78.8 | 88.2 | 97.9 | 107.7 | 116.3 | 125.1 | 133.2 | 141.2 |
| | 26.0% | 15.0% | 14.5% | 13.0% | 12.0% | 11.0% | 10.0% | 8.0% | 7.5% | 6.5% | 6.0% |
| E Captured Retail Market in HK | 331.1 | 351.2 | 373.6 | 394.8 | 418.3 | 444.2 | 470.9 | 594.0 | 520.0 | 545.0 | 570.6 |
| | 7.2% | 6.1% | 6.4% | 5.7% | 5.9% | 6.2% | 6.0% | 5.1% | 5.0% | 4.8% | 4.7% |
| F Tourism as a % of Total Market | 16.0% | 17.3% | 18.7% | 19.9% | 21.1% | 22.0% | 22.9% | 23.5% | 24.1% | 24.4% | 24.7% |
| Potential Retail Market (\$HK billion) | | | | | | | | | | | |
| G Resident Retail Spending Elsewhere | 26.9 | 28.7 | 30.7 | 32.6 | 34.8 | 37.3 | 39.9 | 42.5 | 45.3 | 48.2 | 51.3 |
| | 16.0% | 6.7% | 7.0% | 6.4% | 6.7% | 7.1% | 7.1% | 6.5% | 6.5% | 6.4% | 6.4% |
| H Potential Retail Market | 358.0 | 379.9 | 404.2 | 427.5 | 453.1 | 481.5 | 510.8 | 537.6 | 565.2 | 593.2 | 621.9 |
| | 7.8% | 6.1% | 6.4% | 5.7% | 6.0% | 6.3% | 6.1% | 5.2% | 5.2% | 4.9% | 4.8% |
| I Spending Elsewhere as % of Potential Market | 7.5% | 7.6% | 7.6% | 7.6% | 7.7% | 7.7% | 7.8% | 7.9% | 8.0% | 8.1% | 8.2% |
| Retail Sales per Capita | HK\$ 42,380 | 44,288 | 46,095 | 47,642 | 49,398 | 51,453 | 53,568 | 55,451 | 57,416 | 59,456 | 61,597 |

Source: HK Census and Statistics Department, Urbis/JHD

⁴⁰ Estimates are expressed in current dollars, ie including inflation.

The results of forecast growth by district are shown in the table below. In summary, the retail market is expected to grow in all districts. However, the rate of growth in the New Territories is forecast to be lower than on either Hong Kong Island or Kowloon. This expectation is largely driven by the generally accepted view that most of the additional tourism spending in Hong Kong will be directed to shopping facilities on Hong Kong Island and Kowloon.

The generally higher growth in the market on Hong Kong Island and Kowloon during 2003-2010 reflects the tourism effects noted above. However, the influence of tourism growth is expected to level off after 2010.

At the same time, not all retail market growth will be driven by tourism. Population growth is also a factor, and most of the population growth will occur in Kowloon and the New Territories. This factor comes into play in the period 2010 to 2014, as the effects of tourism level off.

Table 25: Hong Kong Estimated Retail Market by District, 2004 to 2014

(Current HK\$ Billion)

| Year | District | | | |
|------------------------------|------------------|---------|-----------------|-------|
| | Hong Kong Island | Kowloon | New Territories | Total |
| 2004 | 123.5 | 119.2 | 88.4 | 331.1 |
| 2005 (forecast) | 129.6 | 127.1 | 94.5 | 351.2 |
| 2006 | 136.3 | 136.0 | 101.2 | 373.6 |
| 2007 | 144.5 | 142.5 | 107.8 | 394.8 |
| 2008 | 151.4 | 151.9 | 115.0 | 418.3 |
| 2009 | 159.0 | 162.1 | 123.0 | 444.2 |
| 2010 | 166.7 | 170.5 | 133.7 | 470.9 |
| 2011 | 173.3 | 180.2 | 141.6 | 495.0 |
| 2012 | 176.6 | 188.2 | 155.1 | 520.0 |
| 2013 | 185.7 | 198.4 | 161.0 | 545.0 |
| 2014 | 195.0 | 208.9 | 166.8 | 570.6 |
| Average Annual Growth | | | | |
| 2003-2010 | 5.7% | 7.3% | 5.5% | 6.2% |
| 2010-2014 | 4.0% | 5.2% | 5.7% | 4.9% |

Source: HK Census and Statistics Department, UrbisJHD

Growth in Retail Rents

Average retail rents across Hong Kong Island, Kowloon and New Territories, (as measured by a weighted average of private retail rents) grew by around 8 per cent in 2004 over 2003. To consider the outlook for average retail rents in the future, a regression model has been constructed taking the size of the captured market in Hong Kong as the predictor variable. This model was able to replicate historical trends with a high reliability (adjusted R² of 98 per cent). Applying the model to the forecast size of the retail market in Hong Kong resulted in forecast average retail rents, as shown in the next table.⁴¹

⁴¹ As with any statistical forecasting model, there is inherent uncertainty in predictions, particularly over longer time periods. In addition, this model uses averaged data as inputs, which smooths the variability that would be observed in individual transactions. Therefore, even though a strong correlation exists between the predictor and predicted variables, the model does not purport to predict rental growth patterns for individual properties.

Table 26: Hong Kong Retail Market and Average Retail Rents, 1990 to 2014
(Current HK\$)

| <u>Year</u> | <u>Retail Market (HK\$ Billion)</u> | <u>Average Retail Rents (HK\$ per sq.m. per month)</u> |
|------------------------------|---|--|
| 1990 | 196.3 | 497 |
| 1995 | 374.3 | 959 |
| 2000 | 336.6 | 851 |
| 2001 | 334.2 | 823 |
| 2002 | 316.4 | 770 |
| 2003 | 309.0 | 753 |
| 2004 | 331.1 | 813 |
| 2005 (forecast) | 351.2 | 843 |
| 2006 | 373.6 | 899 |
| 2007 | 394.8 | 952 |
| 2008 | 418.3 | 1,011 |
| 2009 | 444.2 | 1,076 |
| 2010 | 470.9 | 1,142 |
| 2011 | 495.0 | 1,203 |
| 2012 | 520.0 | 1,265 |
| 2013 | 545.0 | 1,328 |
| 2014 | 570.6 | 1,392 |
| Average Annual Growth | | |
| 1990-1995 | 13.8% | 14.0% |
| 1995-2003 | -2.4% | -3.0% |
| 2003-2010 | 6.2% | 6.1% |
| 2010-2014 | 4.9% | 5.1% |

Source: Rating and Valuation Department, UrbisJHD

Between the period 1990 to 1995, average retail rents grew by 14 per cent per year from HK\$497 per sq.m. per month to HK\$959 per sq.m. per month. However, in the period from 1995 to 2003, rents fell by an average 3 per cent per year.

Forecasts from 2003 to 2010 show rents predicted to grow by 6.1 per cent per year (including inflation), slightly slower than the forecast growth in the overall size of the retail market.

Over the period from 2010 to 2014, rental growth is expected to slow to around 5.1 per cent per year including inflation. The hypothesis that retail rents will grow broadly in line with retail market growth is conceptually sound providing that retail floorspace supply is not significantly out of balance with demand — that is, if the market is grossly oversupplied with retail floorspace relative to demand, retail rents would be expected to fall. Conversely, in a market where retail floorspace was grossly undersupplied relative to demand rents would be expected to rise.

An underlying implicit assumption in the rent forecasts in the table below is that supply of retail floorspace during the forecast period will not be significantly out of balance with levels of retail demand. The Market Consultant believes this is a likely outcome given planning controls and other regulatory mechanisms in the Hong Kong property market.

Using estimated captured retail sales by district as a predictor variable yielded reasonable results for the historical data, with adjusted R² values ranging between 76 and 92 per cent. The results of this analysis are shown in the table following.

Table 27: Hong Kong Average Retail Rents by District, 1990 to 2014**(Current HK\$)**

| | Hong Kong Island (HK\$ per sq.m. per month) | Kowloon (HK\$ per sq.m. per month) | New Territories (HK\$ per sq.m. per month) | Overall (HK\$ per sq.m. per month) |
|------------------------------|---|--|--|--|
| 1990 | 501 | 652 | 285 | 497 |
| 1995 | 1,030 | 1,156 | 666 | 959 |
| 2000 | 798 | 972 | 745 | 851 |
| 2001 | 860 | 939 | 684 | 823 |
| 2002 | 791 | 868 | 647 | 770 |
| 2003 | 750 | 839 | 670 | 753 |
| 2004 | 843 | 890 | 700 | 813 |
| 2005 (forecast) | 940 | 979 | 640 | 843 |
| 2010 | 1,144 | 1,326 | 904 | 1,142 |
| 2014 | 1,299 | 1,633 | 1,127 | 1,392 |
| Average Annual Growth | | | | |
| 1990-1995 | 15.5% | 12.1% | 18.5% | 14.0% |
| 1995-2003 | -3.9% | -3.9% | 0.1% | -3.0% |
| 2003-2010 | 6.2% | 6.8% | 4.4% | 6.1% |
| 2010-2014 | 3.2% | 5.4% | 5.7% | 5.1% |

Source: Rating and Valuation Department, UrbisJHD

On Hong Kong Island, average rents grew by 15.5 per cent per annum between 1990 and 1995 before declining by 3.9 per cent per annum between 1995 and 2003. Into the future, the Market Consultant projects that rental growth on Hong Kong Island will be 6.2 per cent per annum between 2003 and 2010, then fall to 3.2 per cent per annum between 2010 and 2014.

In Kowloon, similar trends are forecast, but the rate of rental growth is expected to be slightly higher than on Hong Kong Island.

Finally, average retail rents in the New Territories are also forecast to increase by 4.4 per cent per annum between 2003 and 2010, then at a faster rate of 5.7 per cent per annum between 2010 and 2014.

The generally higher rental growth on Hong Kong Island and Kowloon compared with the New Territories reflects the view that retail growth from tourism will largely be directed to those districts. Further, the growth in tourist arrivals is expected to be higher during the early part of the forecast period, which would flow into higher demand and higher rents than in the latter part of the forecast period. The opposite trend is true in the New Territories, where the Market Consultant expects the population growth to begin to drive rental growth, particularly in the period 2010 to 2014.

In all instances, average retail rental growth is forecast to be in excess of inflation, expected to average around 2.3 to 2.4 per cent per annum during the forecast period.

Online Shopping Growth

Internet usage has grown significantly over recent years in Hong Kong, and popular on-line activities include banking, education, news, shopping and travel according to Nielsen/ NetRatings.

Table 28: Online Shopping Audience Growth, At home, Hong Kong, Dec 2000 to Dec 2002

| | At home Unique Audience to Shopping Sites ⁴² | % Reach Among Internet Users | Year-on-Year Shopping Audience Growth | Year-on-Year Internet Audience Growth |
|----------------|--|---------------------------------------|--|--|
| Dec 2000 | 536,712 | 34% | — | — |
| Dec 2001 | 781,617 | 41% | 46% | 21% |
| Dec 2002 | 986,869 | 44% | 26% | 16% |

Source: ACNielsen/NetRatings Services, Savills Research & Consultancy

SARS in early/mid 2003 encouraged internet usage as a source of medical information, news, banking and on-line shopping, obviating the need to mix with the general population and risk infection. At its peak in April 2003, the number of internet users increased by 13 per cent compared with the previous month with individuals in Hong Kong spending a record 22.5 hours on-line compared with an average of 16 hours per month over the six months preceding SARS (Nielsen/NetRatings). Falls were recorded in the numbers of visitors to movie/event booking sites and some travel sites.

Table 29: Category Audience Comparison of Pre, Full and Post-SARS Months

| | Pre-SARS Feb 2003 | Full-SARS Apr 2003 | Post-SARS Jun 2003 | Apr/Feb | Change Jun/Apr | Jun/Feb |
|-----------------|----------------------|-----------------------|-----------------------|---------|-------------------|---------|
| Banking | 482,800 | 614,000 | 608,700 | 27% | -1% | 26% |
| Education | 937,300 | 1,272,300 | 1,138,900 | 36% | -10% | 22% |
| News | 1,041,400 | 1,455,200 | 1,163,700 | 40% | -20% | 12% |
| Shopping | 876,200 | 1,006,900 | 968,900 | 15% | -4% | 11% |
| Travel | 249,300 | 271,300 | 372,900 | 9% | 37% | 50% |

Source: ACNielsen/NetRatings Services, Savills Research & Consultancy

Internet retailing in Hong Kong is dominated by well-known high street retailers who provide electronic shopping services in addition to their existing retail outlets. Internet retailers without a presence elsewhere have not survived in any number. The advanced nature of Hong Kong's transport infrastructure and the general convenience of the SAR's high density retail structure both mitigate against successful internet commerce. Internet goods also take time to deliver, usually one to three days. Hong Kong residents still show a strong preference for visiting outlets and handling goods before purchasing and at weekends, shopping is a popular pastime, encouraged by the growing provision of entertainment retailing by shopping centre developers.

Conclusions and Implications for the HKHA Retail Facilities

The retail market and rental forecasts, and the historical data on which they are based, represent movements in the general market and do not track the HKHA portfolio specifically. Without an analysis of HKHA rents over time, tracking those rents against the market, it is impossible to conclude anything about an individual property. Indeed, we would expect that there could be significant variation in the rental performance of different HKHA properties, depending on the quality and size of properties, local competitive circumstances and other influencing factors.

⁴² Unique audience is a measure of the total number of individuals who visit a property. A property is defined as a consolidation of multiple domains and URLs owned by a single entity.

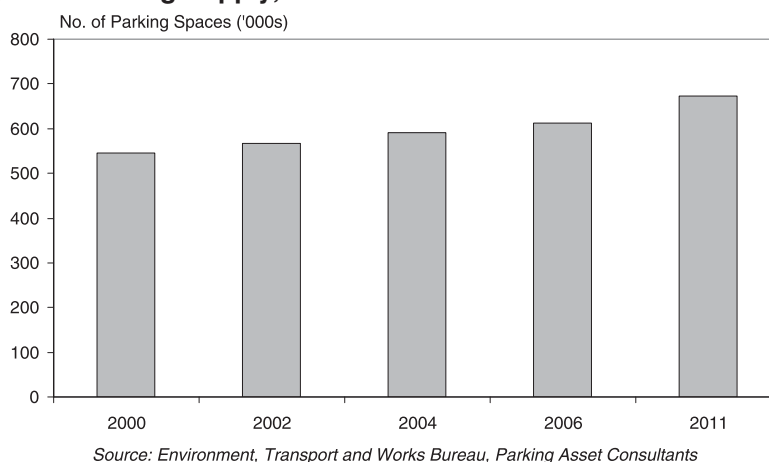
Given the substantial size of the HKHA portfolio and its wide geographical spread, it is, in our view, reasonable to expect that the trends in the rental movements of the HKHA portfolio will have historically been broadly in line with the market. However, in the future, whether the HKHA portfolio can match market growth will depend, in part, on the ability of HKHA properties to share in growth generated by the booming tourist market. Those centres in tourist areas are most likely to benefit, but other centres serving local housing estates are less likely to see increased demand from tourism. On balance, we would expect that the HKHA portfolio could grow at, or slightly less, than the forecast rental market, assuming no effects from asset enhancements and new management.

Carpark Market Analysis

Carpark Supply

At the end of 1994, parking stock stood at 458,000 bays, which had grown by 132,000 bays (28.8 per cent) to an estimated 590,000 bays by mid-2005. During the same period, the licensed vehicle fleet grew by 90,124 (20.2 per cent) from 447,000 to 537,124 vehicles.

Historic and Projected Parking Supply, 2000 to 2011

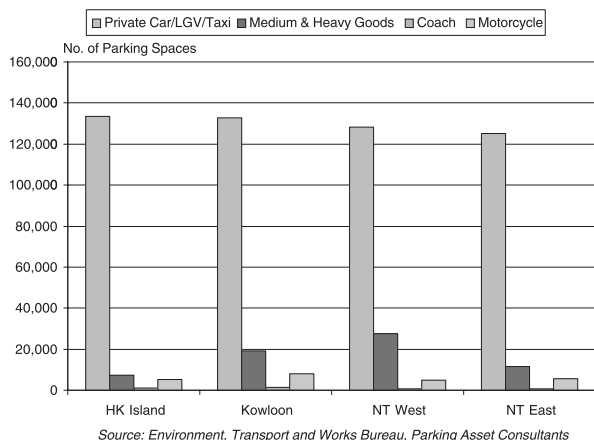


Supply is projected to increase by 23,000 bays to 613,000 by 2006 (an increase of 3.9 per cent) with the Transport Department projecting that the vehicle fleet will grow to 573,900 vehicles, an increase of 36,776 (6.8 per cent)⁴³. Of the projected 2006 supply, 146,700 bays are located on Hong Kong Island, 161,500 in Kowloon and 304,800 in the New Territories.

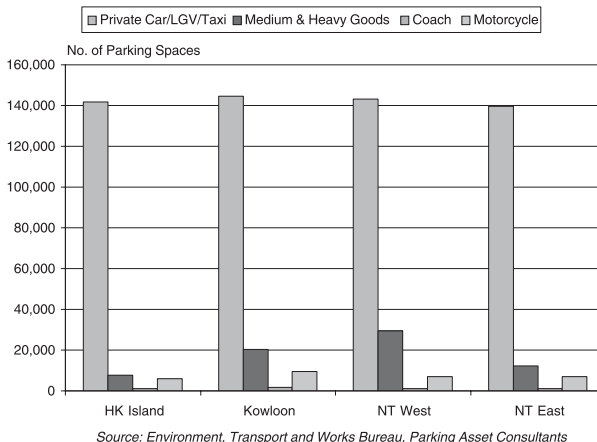
⁴³ Source: Report on Parking Demand and Supply and Progress of Improvement Measures, issued by Environment, Transport and Works Bureau to Legislative Council Panel on Transport Report dated June 2004.

Projected Parking Supply by District, 2006 and 2011

Year 2006



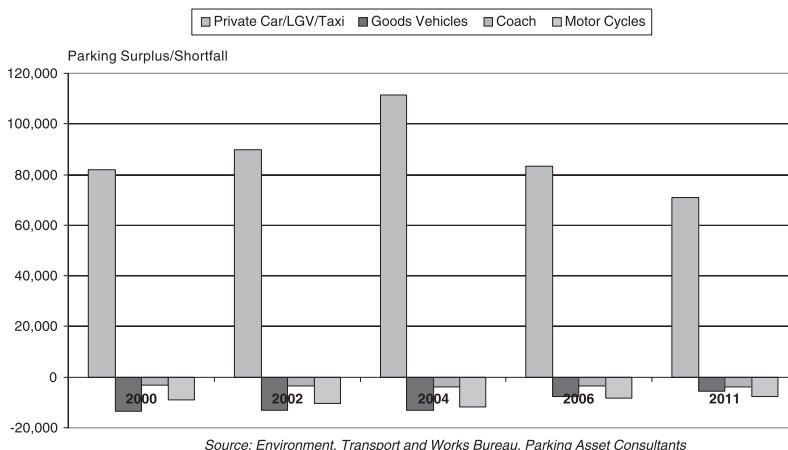
Year 2011



During the period 2006 to 2011, it is projected that an additional 59,100 bays will be added to the supply with a total of 672,100 spaces available. The biggest increase in supply will occur in the New Territories where 35,200 bays will be added.

During the corresponding period, it is projected that the fleet will again exceed supply and grow by 71,400 vehicles to 645,300 in 2011⁴⁴, an increase of 12.4 per cent from 2006 to 2011.

Historic and Projected Parking Surplus/Shortfall, 2000 to 2011⁴⁵



⁴⁴ Projected by the Environment, Transport and Works Bureau in September 2003.

⁴⁵ The Environment, Transport and Works Bureau estimates of demand take into account road traffic and the fact some goods vehicles are located in China overnight, but exclude illegal parking.

Parking Trends

The conclusions reached in the First Parking Demand Study lead to a number of remedial measures to address the forecast shortfall in supply. Changes to the planning standards have resulted in significant over provision of parking, this in conjunction with:

- the significant increase in supply from other sources such as Lands Department's Short Term Tenancies (STTs);
- declines in consumer confidence;
- lower than projected vehicle fleet growth;
- declines in fleet utilisation and parking duration; and
- improvements in availability and efficiency of public transport systems

which have resulted in significant reductions in the cost of parking for consumers.

To illustrate the impact on the industry, the rate histories of eight locations are provided. The geographic spread is wide and the Market Consultant believes that the car parks chosen characterise the trends in each area. These eight locations will differ if analysing monthly or hourly carparking.

World Trade Centre, Siu On Centre, North Point Centre, Kwan Yick Building and Southmark Centre are located on Hong Kong Island, Lai Sun Commercial Complex and Peninsula Square in Kowloon and the remainder in the New Territories.

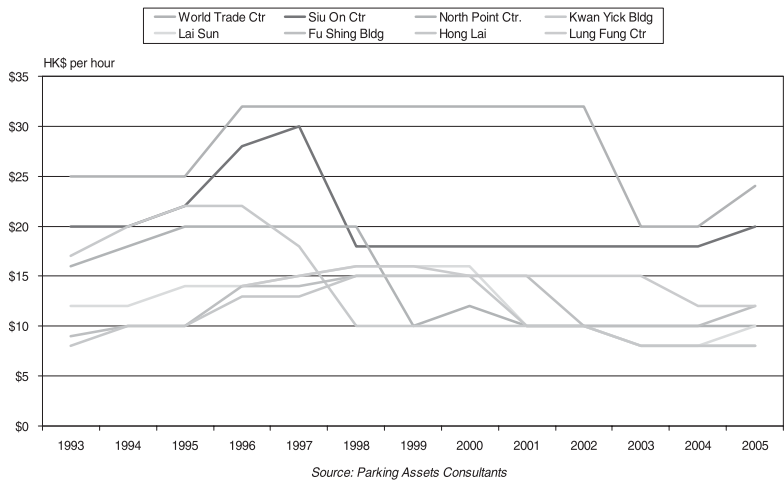
Table 30: Historic Parking Rate Per Hour, 1993 to 2005

| Year | World Trade Ctr | Siu On Ctr | North Point Ctr. | Kwan Yick Bldg | Lai Sun | Fu Shing Bldg | Hong Lai | Lung Fung Ctr |
|-----------------|-----------------|------------|------------------|----------------|---------|---------------|----------|---------------|
| | HK\$/hour | | | | | | | |
| 1993 | \$ 25 | \$ 20 | \$ 16 | \$ 17 | \$12 | \$ 9 | \$ 8 | |
| 1994 | \$ 25 | \$ 20 | \$ 18 | \$ 20 | \$12 | \$10 | \$10 | |
| 1995 | \$ 25 | \$ 22 | \$ 20 | \$ 22 | \$14 | \$10 | \$10 | |
| 1996 | \$ 32 | \$ 28 | \$ 20 | \$ 22 | \$14 | \$14 | \$13 | \$14 |
| 1997 | \$ 32 | \$ 30 | \$ 20 | \$ 18 | \$15 | \$14 | \$13 | \$15 |
| 1998 | \$ 32 | \$ 18 | \$ 20 | \$ 10 | \$16 | \$15 | \$15 | \$16 |
| 1999 | \$ 32 | \$ 18 | \$ 10 | \$ 10 | \$16 | \$15 | \$15 | \$16 |
| 2000 | \$ 32 | \$ 18 | \$ 12 | \$ 10 | \$16 | \$15 | \$15 | \$15 |
| 2001 | \$ 32 | \$ 18 | \$ 10 | \$ 10 | \$10 | \$15 | \$10 | \$15 |
| 2002 | \$ 32 | \$ 18 | \$ 10 | \$ 10 | \$10 | \$10 | \$10 | \$15 |
| 2003 | \$ 20 | \$ 18 | \$ 10 | \$ 8 | \$ 8 | \$10 | \$ 8 | \$15 |
| 2004 | \$ 20 | \$ 18 | \$ 10 | \$ 8 | \$ 8 | \$10 | \$ 8 | \$12 |
| 2005 | \$ 24 | \$ 20 | \$ 10 | \$ 8 | \$10 | \$12 | \$ 8 | \$12 |
| 1996-2000 | 0.0% | -35.7% | -40.0% | -54.5% | 14.3% | 7.1% | 15.4% | 7.1% |
| 2000-2004 | -37.5% | 0.0% | -16.7% | -20.0% | -50.0% | -33.3% | -46.7% | -20.0% |
| 2002-2004 | -37.5% | 0.0% | 0.0% | -20.0% | -20.0% | 0.0% | -20.0% | -20.0% |
| 2004-2005 | 20.0% | 11.1% | 0.0% | 0.0% | 25.0% | 10.0% | 0.0% | 0.0% |

Source: Parking Asset Consultants



Casual Parking Trends, 1993 to 2005



Prior to the economic downturn in late 1997, it was common practice for casual parking to be charged on an hourly basis with a minimum charge of 2 hours parking imposed. As market conditions deteriorated, the minimum charge of two hours was cancelled and in areas where the parking fees were high (examples include World Trade Centre and Siu On Centre) half hourly rates were introduced to increase competitiveness. The impact on revenue was significant with the cost of half an hour’s parking at World Trade Centre falling to HK\$10 in 2003 from HK\$50 in 1993.

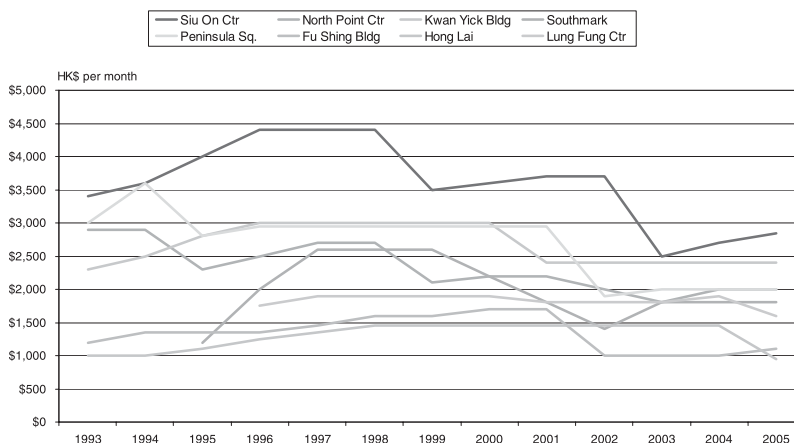
In addition to the impact of the economy on the carpark market, the impact of the Lands Department’s policy of providing unsold sites as short-term parking areas is highlighted by rate adjustments at North Point Centre (1999) and Lai Sun Commercial Complex (2001) where significant supply was added to an oversupplied market.

Table 31: Monthly Parking Trends, 1993 to 2005

| Year | Siu On Ctr | North Point Ctr | Kwan Yick Bldg | Southmark | Peninsula Sq. | Fu Shing Bldg | Hong Lai | Lung Fung Ctr |
|-----------|------------|-----------------|----------------|-----------|---------------|---------------|----------|---------------|
| | HK\$/month | | | | | | | |
| 1993 | \$3,400 | \$2,900 | \$2,300 | | \$3,000 | \$1,200 | \$1,000 | |
| 1994 | \$3,600 | \$2,900 | \$2,500 | | \$3,600 | \$1,350 | \$1,000 | |
| 1995 | \$4,000 | \$2,300 | \$2,800 | \$1,200 | \$2,800 | \$1,350 | \$1,100 | |
| 1996 | \$4,400 | \$2,500 | \$3,000 | \$2,000 | \$2,950 | \$1,350 | \$1,250 | \$1,750 |
| 1997 | \$4,400 | \$2,700 | \$3,000 | \$2,600 | \$2,950 | \$1,450 | \$1,350 | \$1,900 |
| 1998 | \$4,400 | \$2,700 | \$3,000 | \$2,600 | \$2,950 | \$1,600 | \$1,450 | \$1,900 |
| 1999 | \$3,500 | \$2,100 | \$3,000 | \$2,600 | \$2,950 | \$1,600 | \$1,450 | \$1,900 |
| 2000 | \$3,600 | \$2,200 | \$3,000 | \$2,200 | \$2,950 | \$1,700 | \$1,450 | \$1,900 |
| 2001 | \$3,700 | \$2,200 | \$2,400 | \$1,800 | \$2,950 | \$1,700 | \$1,450 | \$1,800 |
| 2002 | \$3,700 | \$2,000 | \$2,400 | \$1,400 | \$1,900 | \$1,000 | \$1,450 | \$1,800 |
| 2003 | \$2,500 | \$1,800 | \$2,400 | \$1,800 | \$2,000 | \$1,000 | \$1,450 | \$1,800 |
| 2004 | \$2,700 | \$2,000 | \$2,400 | \$1,800 | \$2,000 | \$1,000 | \$1,450 | \$1,900 |
| 2005 | \$2,850 | \$2,000 | \$2,400 | \$1,800 | \$2,000 | \$1,100 | \$ 950 | \$1,600 |
| 1996-2000 | -18.2% | -12.0% | 0.0% | 10.0% | 0.0% | 25.9% | 16.0% | 8.6% |
| 2000-2004 | -25.0% | -9.1% | -20.0% | -18.2% | -32.2% | -41.2% | 0.0% | 0.0% |
| 2002-2004 | -27.0% | 0.0% | 0.0% | 28.6% | 5.3% | 0.0% | 0.0% | 5.6% |
| 2004-2005 | 5.6% | 0.0% | 0.0% | 0.0% | 0.0% | 10.0% | -34.5% | -15.8% |

Source: Parking Asset Consultants

Monthly Parking Trends, 1993 to 2005



Source: Parking Asset Consultants

As with casual parking rates, in many cases the decline in demand combined with increased supply and aggressive price marketing has resulted in monthly parking rates declining to pre-1993 levels.

As the benefits of price marketing have diminished due to the increased speed of market reaction, major operators and owners now prefer to adopt alternative marketing methods to retain and stimulate trade, rate stability is returning and in a minority of cases minor rate increases are being implemented. Although the economy continues to improve, the parking market continues to be affected

by the historical over supply and strong competition from short term tenancies (STT's). Given there has been little impact on demand the continued oversupply is resulting in revenue declines in some locations and limiting upward rate adjustments in areas where historical growth has been strong. Although rate adjustments could be possible in some locations we believe that little if any growth will be realized in 2005 and early 2006.

A return of consumer confidence and a sustained rebound in consumer spending is required to stimulate casual rate adjustments in commercial and entertainment districts. In residential areas or estates where there are few immediate competitors and the hourly rates are viewed by drivers as inexpensive (below HK\$12 per hour), revenue growth should outperform the general market with adjustments of 7 to 12 per cent possible in late 2005 to early 2006. In general terms rate adjustments are limited by continued oversupply and revenue growth if any will be subdued.

Competitors/Major Operators

With over 20 operating companies in Hong Kong, the parking market is very competitive. Of the larger companies, On Park Parking Limited, Kai Hing Trading Company and Westcoast International (Parking) Limited confine the majority of their operations to open air sites.

A majority of the larger operators are owned by property companies with Sun Hung Kai Properties Limited controlling both Wilson Parking (HK) Limited and Mack & Co. Carpark Management Limited. The other property developers in the industry are New World Group/ Urban Parking Limited and Sino Land/Sino Parking Services Limited who now focus on managing their parent companies' properties.

Table 32: Major Operators — Key Figures

| | Established | No. of Parks Managed | % of Government Contracts | No. of Parking Bays | No. of Staff |
|--|-------------|----------------------------|---------------------------------|---------------------------|-----------------|
| Wilson Parking (HK) Limited/Mack & Company | | | | | |
| Carpark Management Limited | 1983/92 | 260 | 42 | 77,000 | 1,500 |
| Vinci Park Services Hong Kong Limited(*) | 1987 | 103 | 68 | 28,000 | 800 |
| Urban Parking Limited | 1997 | 53 | 76 | 25,000 | 700 |
| Sino Parking Services Limited | 1987 | 110 | 10 | 22,800 | 400 |
| Kwik Parking Limited | 1991 | 45 | 85 | 12,000 | 350 |
| Imperial Parking (Hong Kong) Limited | 1994 | 93 | 15 | 11,300 | 380 |
| Lica Parking Company Limited | 1991 | 19 | 100 | 5,324 | 320 |
| APT Parking Limited | 1997 | 451 | 71 | 10,473 | 220 |

Source: Parking Asset Consultants

* Formerly Adams Parking

Wilson Parking (HK) Limited/Mack & Company Carpark Management Limited: In 1991, Wilson Parking Australia sold the Hong Kong division to Sun Hung Kai Properties Limited who are one of the largest listed companies in Hong Kong. Mack & Company Carpark Management Limited was acquired in the mid 1990s.

Vinci Park Services Hong Kong Limited: Was established in 1982 and developed the Admiralty car park in Queensway and had little further involvement in the industry until acquiring Adams Parking (International) Limited in 1999. The majority of Vinci's management portfolio is made up of HKHA estates.



Urban Parking Limited: A subsidiary of Urban Property Management Limited, a publicly listed property management arm of New World Development Group. Urban's principle business is the management of HKHA estates and the open air carparks at the airport.

Sino Parking Services Limited: A division of the Sino Group's property management division which focuses the majority of its attention on managing Group properties. Until Sino secured a Transport Department contract for the management of 7 Government multi-storey car parks in April 2005, the only external properties managed were HKHA estates.

Kwik Parking Limited: Part of Guardian Property Management Limited, an Savills Group company. The company's main business activity is the management of HKHA estates.

Imperial Parking (Hong Kong) Limited: Established by Imperial Parking Limited of Canada who have now disposed all of their equity in the business. Imperial are a mid-size operator who operate numerous open air sites.

Lica Parking Company Limited: Established in 1991, by the Wang On Group. Lica is not active in the commercial market and at present the only car parks Lica manage are HKHA properties.

APT Parking Limited: Formally known as Speed Park Limited, the company was established in 1987 and operates the parking facilities in a number of HKHA estates. APT's private parking portfolio is less than 2,000 bays, some of which are open air development sites.

Drivers of Future Growth

Economic Growth

The return of growth in real private consumption in conjunction with a positive trend in the sale of new motor vehicles (in particular private vehicles) are positive signs for the industry and one would expect a combination of minor increases in fleet size, fleet utilization, parking duration and parking fees to contribute to market stability in the 4th quarter of 2005 and to modest gross revenue growth expectations.

The historical oversupply and the supply of additional parking area by the Lands Department is continuing to have a negative impact on the industry. Provided economic growth is sustained, revenue growth of 4.0 to 8.0 per cent per annum over the following 5 years could be realised.

Fleet Growth

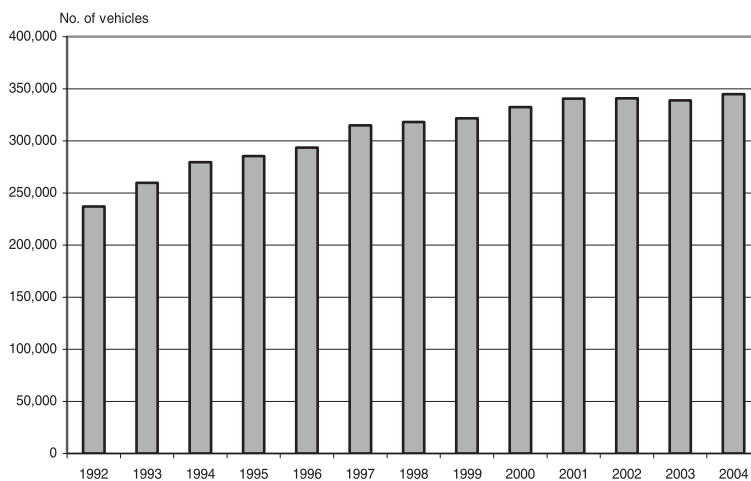
At the end of December 2004, the fleet had grown to 532,872 vehicles, an increase of 28.5 per cent over December 1992 with a majority of the growth taking place prior to the Asian Financial Crisis in late 1997. Population growth during the same period was 16.9 per cent rising from 5.9 to 6.9 million.

Table 33: Fleet Growth by Type

| | Year End Population | Growth (%) | Private Car | Growth (%) | Other Vehicles | Growth (%) | Total Fleet | Growth (%) |
|------|------------------------|---------------|----------------|---------------|-------------------|---------------|----------------|---------------|
| 1992 | 5,887,600 | | 237,035 | | 177,603 | | 414,638 | |
| 1993 | 5,998,000 | 1.9% | 259,874 | 9.6% | 179,845 | 1.3% | 439,719 | 6.0% |
| 1994 | 6,119,300 | 2.0% | 279,420 | 7.5% | 182,990 | 1.7% | 462,410 | 5.2% |
| 1995 | 6,270,000 | 2.5% | 285,467 | 2.1% | 180,601 | -1.3% | 466,068 | 0.8% |
| 1996 | 6,466,600 | 3.1% | 293,381 | 2.8% | 181,734 | 0.6% | 475,115 | 1.9% |
| 1997 | 6,516,700 | 0.8% | 314,833 | 7.3% | 185,840 | 2.3% | 500,228 | 5.3% |
| 1998 | 6,583,400 | 1.0% | 318,137 | 1.0% | 182,536 | -1.8% | 500,673 | 0.1% |
| 1999 | 6,637,600 | 0.8% | 321,617 | 1.1% | 182,357 | -0.1% | 503,974 | 0.7% |
| 2000 | 6,711,500 | 1.1% | 332,379 | 3.3% | 184,403 | 1.1% | 516,782 | 2.5% |
| 2001 | 6,759,000 | 0.7% | 340,568 | 2.5% | 184,808 | 0.2% | 525,376 | 1.7% |
| 2002 | 6,786,100 | 0.4% | 340,855 | 0.1% | 184,703 | 0.0% | 525,551 | 0.0% |
| 2003 | 6,810,100 | 0.4% | 338,930 | -0.1% | 185,323 | 0.3% | 524,253 | -0.2% |
| 2004 | 6,882,600 | 1.1% | 344,713 | 1.7% | 188,159 | 1.5% | 532,872 | 1.6% |

Source: Hong Kong Census & Statistics Department, Transport Department, Parking Asset Consultants

Licensed Private Vehicle Growth, 1992 to 2004

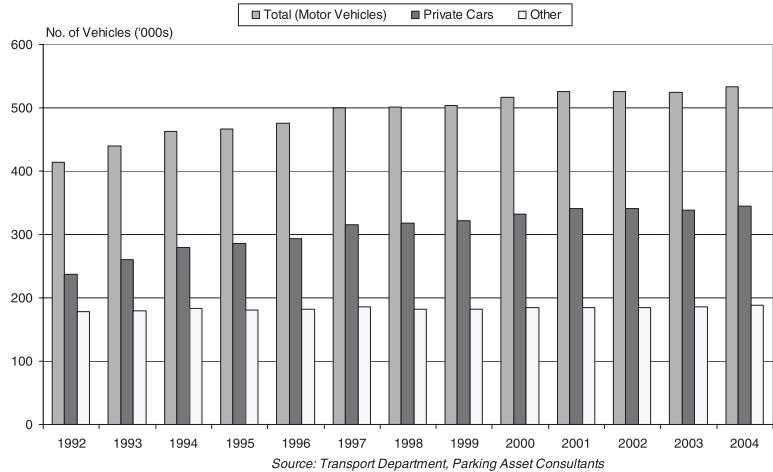


Source: Parking Asset Consultants

The primary driver of fleet growth has been private car ownership.

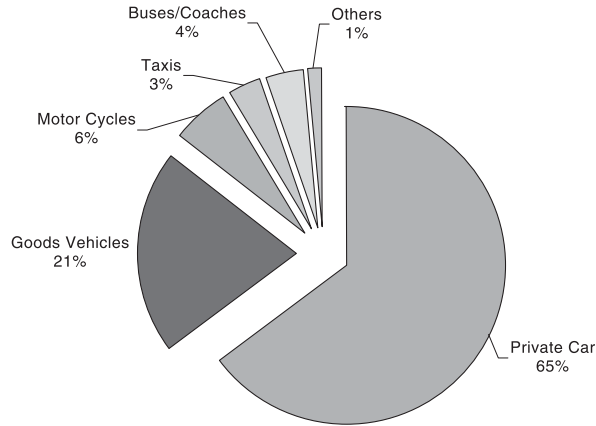


Vehicle Fleet Growth, 1992 to 2004



At the end of June 2005, the total number of licensed vehicles stood at 537,124 with almost 65 per cent of the fleet being private cars. Total parking supply was estimated to be slightly in excess of 590,000 bays.

Licensed Vehicle Fleet, June 2004



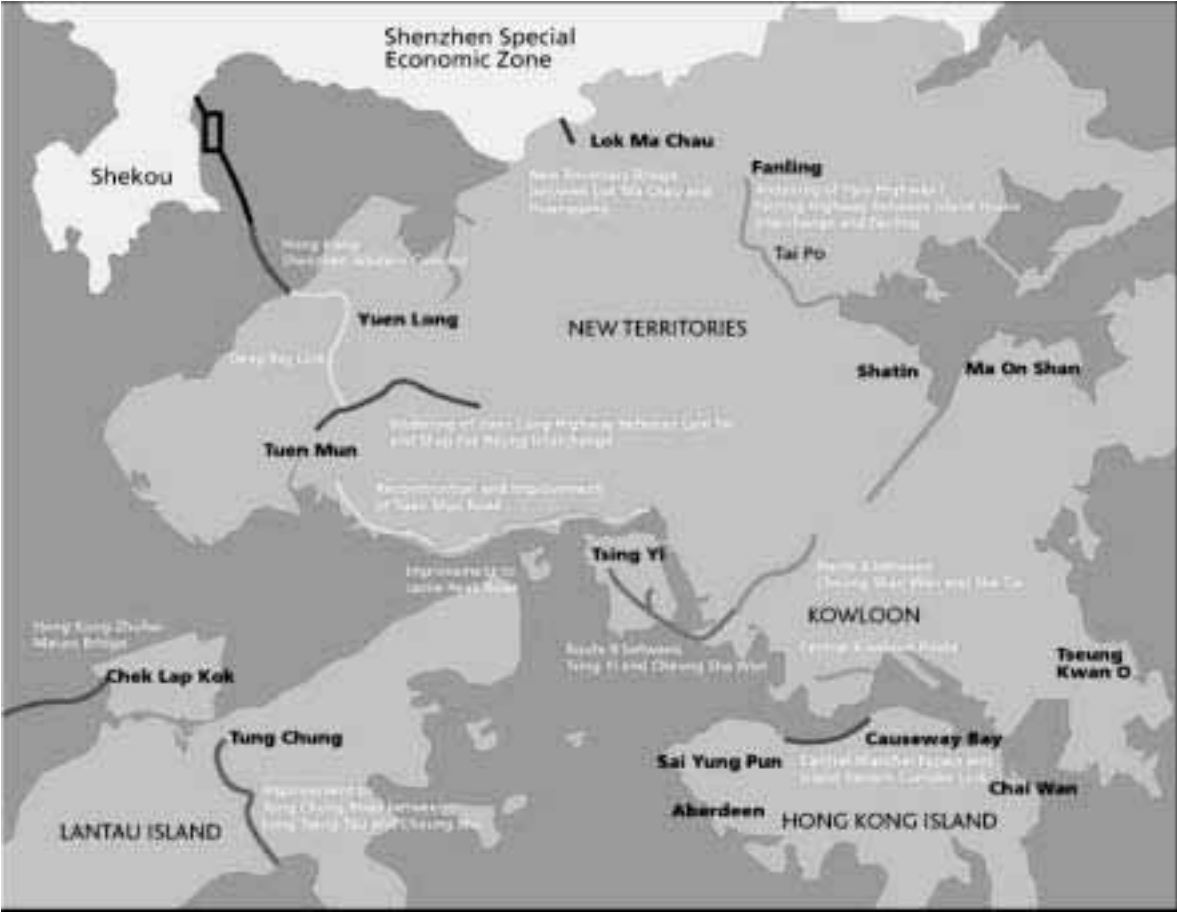
Transport Planning Policies and Projects

With a road network of approximately 1,930 km in length and a fleet of 537,124 vehicles or 278 vehicles per km, the vehicle density of Hong Kong roads is among the highest in the world.

Taking this into account, the main objective of the Government's policy is to provide a safe, efficient and reliable transport network to meet the social and recreational needs of the community in an environmentally acceptable manner. Current policy is that rail will form the backbone of public transport; the objective being that 40 per cent of all public transport journeys will be by rail by 2016 with reliance on road based transport decreasing in importance and becoming a feeder for rail services. Private passenger vehicles are the least preferred form of transport.

Whilst the focus is on the development of rail as the preferred mode of public transport there are 13 strategic highway projects either under construction or in the planning phase which will significantly reduce traveling times and in some instances make private transport more attractive.

Strategic Road Projects



Major Works

| | Completion Date |
|---|--------------------------|
| New Boundary Bridge between Lok Ma Chau and Huanggang | Dec 2004 |
| Widening of Yuen Long Highway between Lam Tei and Shap Pat Heung Interchange | Dec 2005 |
| Deep Bay Link | Dec 2005 |
| Hong Kong — Shenzhen Western Corridor | Dec 2005 |
| Improvement to Castle Peak Road | Dec 2005 to Mid-2007 |
| Improvement to Tung Chung Road between Lung Tseng Tau and Cheung Sha | Mar 2007 |
| Route 8 between Cheung Sha Wan and Shatin | Apr 2007 |
| Hong Kong — Zhuhai — Macao Bridge | 2007 to 2010 |
| Route 8 between Tsing Yi and Cheung Sha Wan | Jun 2008 |
| Reconstruction and Improvement of Tuen Mun Road | End 2011 (anticipated) |
| Central Kowloon Route | 2012 (subject to review) |
| Central — Wanchai Bypass and Island Eastern Corridor Link | Under review |
| Widening of Tolo Highway / Fanling Highway between Island House Interchange and Fanling | Under review |

Source: Highways Department, Parking Asset Consultants

At present, fiscal measures and improved public transport infrastructure have restricted growth in the private car fleet to manageable levels.

Excessive fleet growth leading to a decline in the average travelling speed to below 20 km/hr could necessitate the introduction by Government of new fiscal measures together with more drastic traffic restraints for specific areas or regions. One of the traffic management tools which have been investigated by Government is Electronic Road Pricing “ERP” with numerous studies and public consultations conducted during the last one and a half decades.

It has recently been determined that traffic conditions and vehicle growth patterns do not warrant the implementation of ERP and it is projected that traffic patterns and travelling times will not deteriorate to a point which would justify ERP until 2006 at the earliest.

Conclusions and Implications for the HKHA Retail and Carpark Facilities

Over-estimates of vehicle fleet growth and future demand by Government together with the post 1997 economic difficulties have resulted in:

- the current gross overprovision of parking; and
- significant declines in utilisation and parking rates resulting in significant declines in revenue and capital values.

Despite the fact that the current oversupply (excluding illegal or non-designated parking) is approaching 83,000 bays, the parking market, and in particular parking rates, is starting to stabilise. Provided the Government's projections of vehicle fleet growth are accurate, the oversupply is forecast to gradually decline through to 2011. The reduced oversupply, combined with improved economic performance, parking duration and increased fleet utilisation is expected to result in improved market stability in 2005 and modest growth of 4.0 to 8.0 per cent per annum during the following five years.

The majority of the HKHA retail centres have been designed to meet the daily needs of the Adjacent Housing Estate(s) with the larger centres also serving the needs of other residents in the immediate area. The development of destination retail/entertainment complexes such as Millennium City, Enterprise Square and Union Station will have some impact on the retail portfolio in each district with a negligible impact on casual parking volumes at the HKHA portfolio.

Limitations on Report

The Retail and Carpark Markets Macro Analysis Report and this letter contains forward-looking statements which state Savills (Hong Kong) Limited's, Urbis JHD's and Parking Asset Consultants' (the Consultants) beliefs, expectations, forecasts or predictions for the future. The Consultants stress that all such forecasts and statements other than statements of historical facts outlined in our Retail and Carpark Markets Macro Analysis Report and this letter should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forecasts involves assumptions about a considerable number of variables which are very sensitive to changing conditions. Variations of any one may significantly affect outcomes and the Consultants draw your attention to this.

The Consultants therefore can give no assurance that the forecasts outlined in the Retail and Carpark Markets Macro Analysis Report and this letter will be achieved or that such forecasts and forward looking statements will prove to have been correct and you are cautioned not to place undue reliance on such statements. The Consultants undertake no obligation to publicly update or revise any forward looking statements contained in this letter or the Retail and Carpark Markets Macro Analysis



Report, whether as a result of new information, future events or otherwise, except as required by law and all forward looking statements contained in this letter and the Retail and Carpark Markets Macro Analysis Report is qualified by reference to this cautionary statement.

The Retail and Carpark Markets Macro Analysis Report is prepared by the Consultants for information only. Whilst reasonable care has been exercised in preparing the report, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract, interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No representation, warranty or covenant, express or implied, is given and no undertaking as to accuracy, reasonableness or completeness of the information contained in this letter. In producing the Retail and Carpark Markets Macro Analysis Report, the Consultants have relied upon external third party information and on statistical models to generate the forward looking statements. It should be noted and it is expressly stated that there is no independent verification of any of the external third party documents or information referred to herein. This letter is limited to the matters stated in it and no opinion is implied or may be inferred beyond the matters expressly stated herein.

This report should not be regarded as a comprehensive or formal opinion or audit concerning any matter contained in it. It has been prepared solely to identify the major issues detailed in the Retail and Carpark Markets Macro Analysis Report and contains only a summarised review of the Retail Market Macro Analysis Report and should be read in conjunction with the entire Retail Market Macro Analysis Report.

Yours sincerely

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