

OUTLOOK

Mainland China and Hong Kong have been going through a period of market correction in retail supply, rental growth and high-end spending throughout 2015.

This correction is expected to continue into 2016. Such a structural rebalancing can be taken as a positive step towards achieving a softer landing, particularly against the backdrop of a series of expected interest rate rises as determined by The Federal Reserve Board of the United States beyond December 15, 2015. Its impact on retail spending is being closely watched.

While the correction has come in the form of department store closures, high-end brand consolidation, store downsizing, rental reduction and early termination in various sectors, the retail industry has in parallel been seeking new market niches and means of consumer appeal. The opportunity arises when we are able to capture retailers with a new idea or product, as well as attracting those that have a well-thought out strategy to rebrand and reposition themselves, redesign their stores and merchandise, improve their in-shop experience and communicate effectively both on and off line.

It is expected our rental growth on the Mainland in 2016 will be mainly driven by the new Dalian Olympia 66 mall and the filling of the remaining vacant office spaces in our new office towers in Wuxi and Shenyang. However, such growth will be partly offset by the adverse impact on the revenue of our two shopping malls in Shanghai due to their major upgrade programs. We started the upgrade program of the Shanghai Plaza 66 mall in September 2015 to accommodate a high-end brand refit and a livelier tenant mix. The same applies for Shanghai Grand Gateway 66 which will start its upgrade in the second half of 2016. We will continue to work with shop make-overs in Wuxi Center 66 and Shenyang Forum 66.

Against a backdrop of decreasing visitor numbers from the Mainland and weak retail spending, our Hong Kong leasing portfolio will continue to enjoy the benefits of asset enhancement initiatives. The benefits will continue to flow through during 2016, in the Causeway Bay and Mongkok portfolios in particular. The demand for office spaces in Hong Kong may remain relatively strong. Therefore, our Hong Kong leasing portfolio may continue to deliver a steady performance in 2016.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand when market conditions are favorable.