

THE CHANGING RETAIL LANDSCAPE

How to survive the slowdown in Hong Kong?

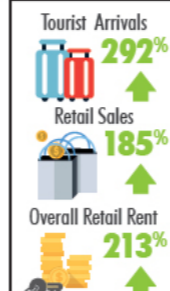
Golden Decade Since 2003
Implementation of Individual Visit Scheme (IVS)

PAST

Why Mainland Chinese like to buy luxury goods in Hong Kong?

- Tax advantage esp. for luxury goods
- Currency advantage
- Wider product offerings
- Good market reputation
- An easy-to-access market
- Language convenience

LUXURY/ TOURIST-ORIENTED GOODS (2003-2014)



MID-RANGE GOODS

Mid-range brands in the golden decade

- Enjoyed stable demand growth
- Faced strong competition from luxury brands for retail space
- Expanded mainly in shopping malls

TODAY

Mid-range brands becoming the new demand driver

- Down to earth spending pattern of tourists
- Solid local spending power
- More affordable rentals and higher space availability to facilitate growth

MID-RANGE GOODS

LUXURY/ TOURIST-ORIENTED GOODS



Factors impacting Mainland Chinese's spending on luxury goods in Hong Kong

- New anti-corruption culture
- Slower economic growth in China
- Travel & tax policy changes
- Desire to shop overseas
- Weaker foreign currencies

TODAY
2014 - 2015

FUTURE

STRATEGIES FOR RETAILERS

MID-RANGE GOODS

- Grasp the window period to expand footprints
- Secure shops in core locations as flagships
- Pay attention to decentralized areas (70% new supply in non-core locations)
- Ongoing development of e-commerce

LUXURY/ TOURIST-ORIENTED GOODS

- Consolidate
- Renovate / Fit-out
- Spin-off more affordable product lines
- Explore opportunities in non-core locations

HOW SHOULD LANDLORDS REACT?

Street Shop Landlords:

- Be Flexible on Terms
- Sign Up Non-luxury Brands
- Disassemble Flagship Stores

Shopping Mall Landlords:

- More Incentives for Local Shoppers
- Rebalance Trade-mix
- Be Flexible on Shop Size