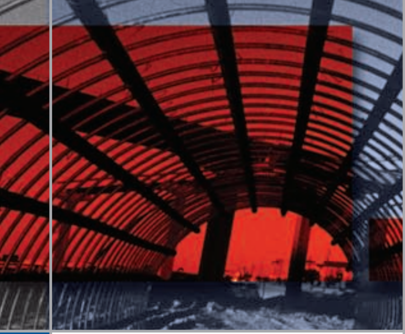

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MarketView
Hong Kong Industrial

FIRST QUARTER 2007

QUICK STATS

	Change in Q4 06	Change in Q1 07
WAREHOUSE		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Vacancy Rate	↓	↓
INDUSTRIAL/OFFICE		
Demand	↑	↑
Supply	↔	↔
Rents	↑	↑
Captial Values	↑	↑
FACTORY		
Demand	↑	↑
Supply	↓	↔
Rents	↑	↑
Capital Values	↑	↑

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Hong Kong's external trading activities have been growing steadily as expected since the commencement of 2007. Provisional figures have shown that there was a 1.5% y-o-y increase in volume in freight handled at the Hong Kong International Airport within the first two months this year. Meanwhile, seafreight volume has been growing at an even greater rate. The 2007 cumulative container throughput of Hong Kong reached 3.6 million TEUs as at the end of February, representing a y-o-y growth of 9.2%. This growth in overall freight volume was supported by the extraordinary performance in merchandise trade. For the first two months this year, the values of Hong Kong's total exports and imports increased 10.2% and 7.8% y-o-y, respectively.

Notably, the role of Hong Kong as a value-added logistics hub has been enhanced and this is being reflected by the latest figures, which showed that the performance of re-exports continued to outstrip those of domestic exports. In the first two months of 2007, the value of re-exports increased by 13.5% y-o-y, while value of domestic exports decreased by 35.3% y-o-y.

Obviously, demand of the industrial space has not diminished thanks to the robust re-export activities and investors' optimism with respect to the local economy. Landlords generally acknowledged that there is room for upward price and rental adjustment for industrial premises, considering that the freight volume in Hong Kong is still on the rise.

Demand of industrial properties has not diminished thanks to the robust re-export activities and investors' optimism with respect to the local economy.

Simultaneously, tight supply plus the lack of high quality industrial premises has seen owners more firm in quoting prices and rents.

This persisting attitude of optimism is furthermore being manifested by the actions of various major logistics players. DHL Express announced in January that they would invest US$35 million on a new facility in South Kowloon as part of their expansion plan, which could enhance their ground handling capacity by about 20%. The new facility, to be named Kowloon South Service Centre, will open by the second quarter of 2007. Apart from the end-users, investors are consequently adopting a fairly sanguine attitude with respect to prospects of the local industrial property market. The two proposed REITs, Sun Millennium REIT of Sun Hung Kai Properties and Diamond REIT of Wharf, both plan to include I/O buildings in their portfolios in order to capture investors' interests in industrial properties. However, most of the present transactions involved in this sub-sector were triggered by local investors as many overseas buyers were finding it difficult to acquire any large-scale industrial premises.

SELECTED LEASING TRANSACTIONS IN 1Q 2007

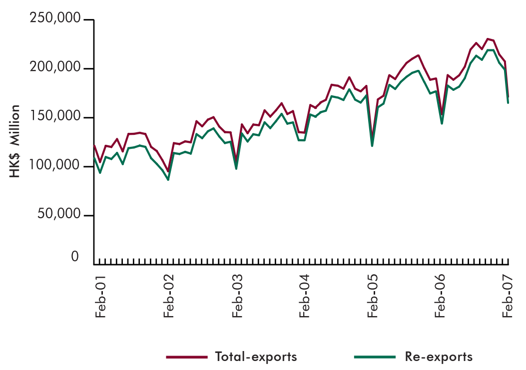
Property	Floor	Location	Type	Size (sf)	Gross Rental (HK$ psf per month)
Fo Tan Industrial Centre	Units 9-14, 7/F	Shatin	Industrial	14,520	5.8
Riley House	6/F	Kwai Chung	Industrial	48,468	5.5
Trans Asia Centre	Units 7-16, G/F	Kwai Chung	Industrial	19,517	7.6
Peninsula Tower	Units 1-3, 27/F	Cheung Sha Wan	I/O	10,435	15.0
Tai Sang Shatin Warehouse Centre	15/F, Phase II	Shatin	Warehouse	26,428	4.7
Tsuen Wan International Centre	Unit A, 3/F	Tsuen Wan	Warehouse	29,392	4.6

SELECTED SALES TRANSACTIONS IN 1Q 2007

Property	Floor	Location	Type	Size (sf)	Price (HK$ Million)	Price (HK$ psf)
Kwai Shun Industrial Centre	Units B-G, 1/F	Kwai Chung	Industrial	31,586	15.79	500
Century Centre	Units 6-8, 2/F	Kwun Tong	Industrial	22,606	19.50	863
Luk Hop Industrial Building	Units A-F, 15/F	San Po Kong	Industrial	21,681	23.50	1,084
Unison Industrial Centre	Units A-B, 2/F	Shatin	Industrial	15,272	16.20	1,061
Golden Bear Industrial Centre	Units E-H, 19/F	Tsuen Wan	Industrial	19,256	8.73	453
Po Yip Building	Unit 3, 1/F, Block A	Tsuen Wan	Industrial	15,320	11.70	764

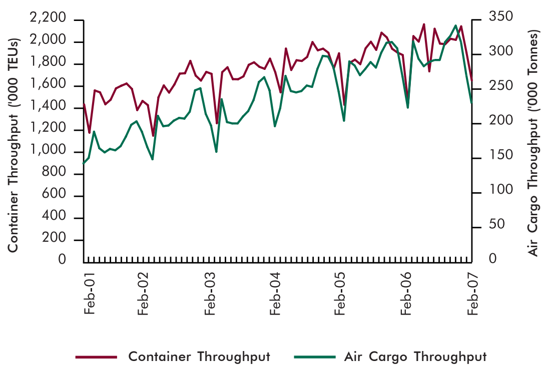
ECONOMIC INDICATORS

Merchandise Trade



Source: Census & Statistics Department

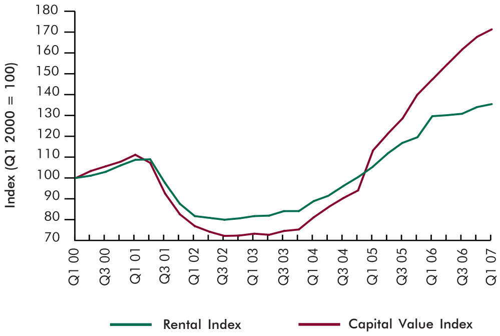
Container and Air Cargo Throughput



Source: Marine Department; Civil Aviation Department

WAREHOUSE

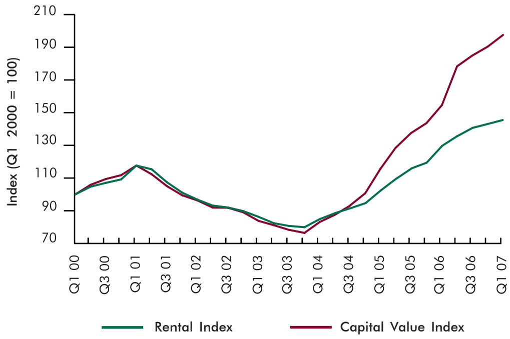
Warehouse Rental and Capital Value Indices



The warehouse vacancy rate for the first three months of this year has dropped further to 2.0% from the 2.1% recorded in the previous quarter. It is believed that the downward trend in vacancy will probably stabilise at present levels since many of the remaining premises are either outdated or otherwise inadequate in their provision of facilities. Tight supply of new space has continued to make it hard for firms which had been seeking to acquire high quality warehouses, thus driving up the capital values and rents for 2.2% and 1.1% respectively, q-o-q.

INDUSTRIAL/OFFICE (I/O)

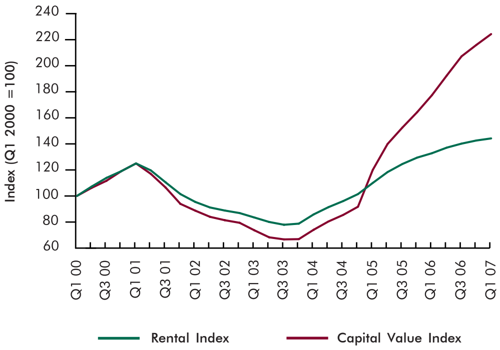
Industrial/Office Rental and Capital Value Indices



Capital value and rental indices of I/O premises have sustained a steady upward trend since 2004, registering a 3.7% and 1.7% q-o-q growth, respectively. Although there will be no new supply of I/O premises within this year, the rising trend is expected to cool down due to the increasing pressure of the new space which will be made available by the office market. Most notably, the upcoming three decentralised office projects in East Kowloon namely Enterprise Square 5, Billion Place and Millennium City Phase 6, will certainly put pressure on the prices and rents of the existing I/O premises. These three projects will combine to provide the market with a total office gross floor area of over 1.1 million sf within 2007.

FACTORY

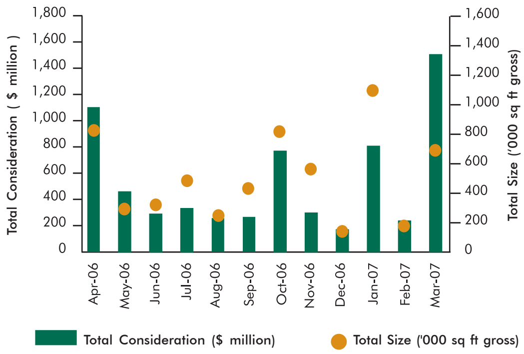
Factory Rental and Capital Value Indices



The performance of factory premises in the first quarter was basically in line with the overall industrial property market. The factory capital value rose 3.9% on a quarterly basis, while rents registered a milder 1.1% q-o-q growth within the first three months of the present year. Although the growth of rents and prices continued to slow due to the sizeable cumulative increment of growth since 2004, this has widely been recognised as a normal adjustment. Besides, as around 760,000 sf of new factory spaces will come on stream in 2007 and 2008, a further sharp rise in capital values and rents seems unlikely since this should be sufficient to accommodate most existing demand.

EN BLOC & SITE TRANSACTIONS

En bloc and Site Transactions



Investment activities of industrial properties were extremely brisk in the first three months of 2007. The total considerations involved in en bloc and site transactions amounted to $2.5 billion, four times the amount recorded over the same period last year. The total area of those transactions reached 1,950,000 sf, representing a 245% y-o-y increase. The transfer of Paul Y. Centre in Kwun Tong was the highlight of en bloc transactions in this quarter, as the 380,000 sf I/O property was purchased by the Wong's Family for $1.15 billion, or $3,026 psf. Meanwhile, an industrial site providing a site area of 25,750 sf at 181 Hoi Bun Road was acquired by Sun Hung Kai Properties for $345 million.

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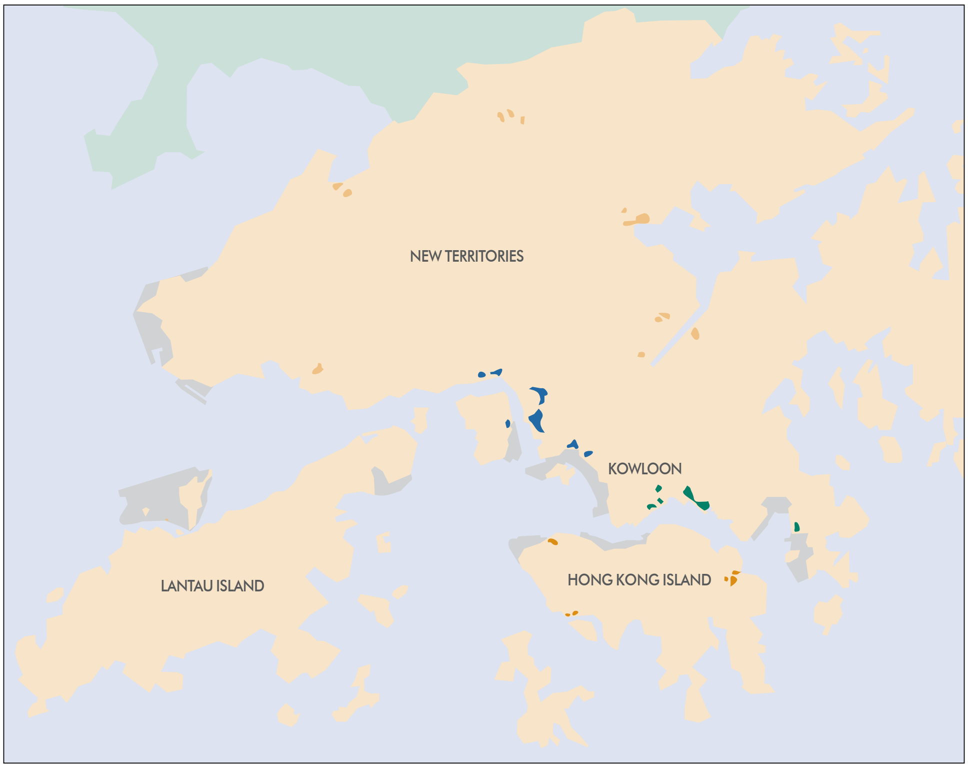

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- Western Kowloon
- The New Territories

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INDUSTRIAL PROPERTY DEFINITIONS

WAREHOUSE:

This category comprises premises designed or adapted for use as godowns or cold stores and includes ancillary offices. Also, premises located within container terminals are included. About 80 per cent of the stock is located in the New Territories, with Kwai Tsing alone accounting for 40 per cent.

INDUSTRIAL/OFFICE:

This category comprises floor space in developments with planning permission and lease modification for industrial/office use and certified for occupation as such. The stock was distributed in 11 districts throughout the territory, with Sham Shui Po, Kwun Tong and Kwai Tsing accounted for more than 70% of the total space.

FACTORY:

This category comprises flatted factories and ancillary office accommodation. This includes flatted factory space with planning permission for industrial/ office use, but for which Government lease modification has not yet been completed. Also included in this category is strata-title floor space with temporary planning permission for industrial/ office use and short-term waivers of Government lease restrictions. It should also be noted that much of the flatted factory space completed in recent years has been built to a good standard with good finishes. Although many factory buildings are occupied as offices, showrooms, or a mix of these and light industrial uses, they should be distinguished from buildings with proper industrial/ office status. A majority of the stock was distributed in 4 districts, namely Kwun Tong, Tsuen Wan, Kwai Tsing and Tuen Mun, which accounted for 60 per cent of the total supply.