

Hong Kong's retail property market displayed a more quiet performance in the second quarter of 2006 as the slowdown in rental growth which initially manifested itself in the first quarter became more entrenched. Retail rentals flattened out in the second quarter as retailers adopted a wait-and-see stance with respect to further implementing their expansion plans in light of the softening of consumer sentiment caused by the volatility in the local stock market and the softening in the residential property sector.

Some retail operators used the late screening of World Cup games as a means to promote "night retailing", which is expanding as a concept in Hong Kong.

The retail market in Central, however, broke the mould as leasing activity remained upbeat with a q-o-q rise of 3.3% in retail rents registered within the second quarter. The reinvigoration of the image of Central, fuelled by the refurbishment of a number of buildings in the area, continues to attract major international luxury brands to take shop positions along Central's prime retail arteries. Competition between retailers for the best locations fuelled upward pressure on rentals while also compelling those players who were less willing to accept the current level of rental escalation to broaden their search for suitable locations to encompass secondary locations, which also drove some relocation away from the district.

Meanwhile the retail market viewed HMV's relocation to Hong Kong Pacific Centre and Adidas's ensuing occupation of

the two-storey space formerly occupied by the music retailer as adding value to the Tsim Sha Tsui retailing landscape. With these two mega-shops now being located in such close proximity to one another, the added retailing dimension which has opened up along with the growing agglomeration of large format retailing in the district is forecast to attract greater numbers of shoppers to the area. This dynamic is expected to fuel upward pressure

on retail rents in the area. Rising interest from larger scale retailers has been witnessed in Tsim Sha Tsui. The nearby Hankow Road is one retailing area that is currently undergoing such repositioning, with small local shops being replaced by mid-range chain retailers. Nine West, for example, recently committed to lease 1,200 sf in Hankow Centre.

Towards the end of the period under review, shopping centres, as well as bar and lounge operators, aggressively launched various promotional campaigns in order to attract greater numbers of shoppers and boost spending as they endeavoured to leverage on the excitement surrounding the World Cup in Germany. The eruption of intense competition between operators underlined the extent of potential upside for retailing during the period of the tournament. Some operators used the late screening of World Cup games as a means to promote "night retailing", which is a growing concept in Hong Kong.

QUICK STATS

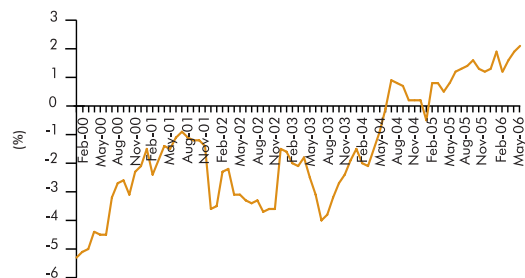
	Change in Q1 06	Change in Q2 06
New Supply	↔	↔
Demand	↑	↔
Vacancy Rate	↔	↔
Prime Rents	↑	↔

SELECTED LEASING TRANSACTIONS IN 2Q 2006

District	Property	Size (sf)	Tenant
Tsim Sha Tsui	Shop D1, G/F, whole floor of 1/F & 2/F, Sands Building	18,262 (gross)	Adidas
Tsim Sha Tsui	Shop G17 & 1/F, Parklane Shopper's Boulevard Site D	G/F: 766 (gross) 1/F: 671 (gross)	ENZO
Tsim Sha Tsui	Shop G10B, Hankow Centre	1,200 (gross)	Nine West
Mong Kok	G/F, 67-69 Argyle Street	1,940 (gross)	Crocodile
Causeway Bay	3/F, Causeway Bay Plaza 2	15,912 (gross)	Maxim's Group
Causeway Bay	Shops G8 & G9, Unit 2, B/M, Causeway Bay Plaza 1	4,098 (gross)	China Construction Bank Corporation
Causeway Bay	Shop G1, Chinachem Leighton Centre	2,696 (gross)	Sushi One Japanese Restaurant
Central	G/F, The Workstation	2,332 (gross)	Pacific Coffee
Central	Shop G1, Tak Wo House	700 (gross)	Pret A Manger
Admiralty	Shops G1-G41, Admiralty Centre	15,451 (net)	McDonald's

ECONOMIC CONDITIONS

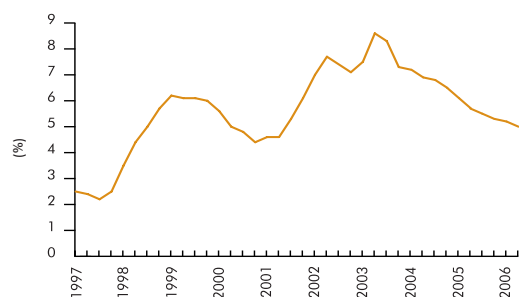
Hong Kong Inflation Rate



Source : Census & Statistics Department
 Remark : As from the reference month of October 2005 onwards, the year-on-year rates of change are derived from the new 2004/05-based Consumer Price Indices.

Inflation in Hong Kong was recorded at 2.2% in June, slightly outstripping the y-o-y growth in prices of 2.1% seen in May. The 2.2% increase in prices was the largest since September 1998, when it reached 2.5% as the SAR pulled itself out of the Asian financial crisis. The acceleration in inflation was primarily attributed to the impact of an increased feeding through of private housing rentals to the consumer price indices. It is expected that inflation will stay at a moderate level of slightly over 2.0% in 2006 on anticipation import prices of consumer goods will remain soft amidst the strong global competitive pressure.

Hong Kong Unemployment Rate

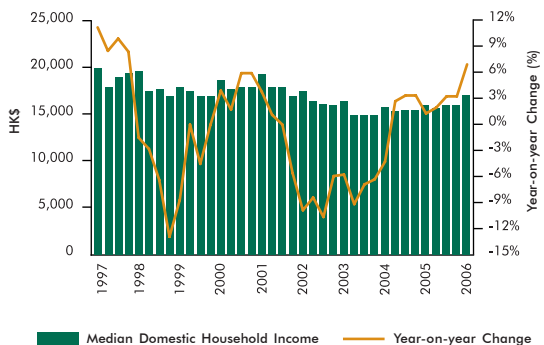


Source : Census & Statistics Department

Unemployment in Hong Kong, meanwhile, was provisionally recorded at 5.0% in the second quarter of 2006, edging downward slightly from the figure of 5.2% recorded in the first quarter. The figure recorded in the second quarter saw unemployment fall to its lowest level since August 2001. The continued upswing of the SAR's economy further fuelled job creation as the number of employed persons rose to an all-time high of approximately 3,605,000. Improvements in employment were primarily registered in the construction, real estate and manufacturing sectors.

MEDIAN MONTHLY DOMESTIC HOUSEHOLD INCOME (MMDHI) TOURIST ARRIVALS

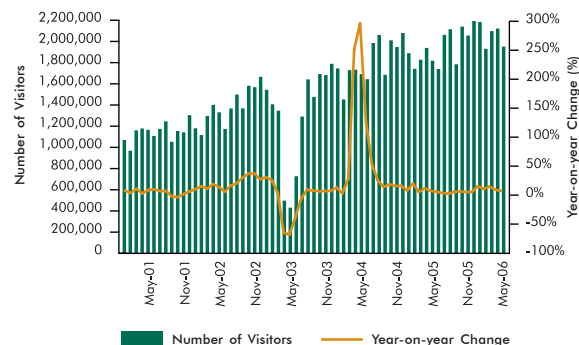
Median Household Income in Hong Kong



Source : Census & Statistics Department

The MMDHI was registered at \$17,100 in the first quarter of 2006, reflecting the continued improvement of salaries in Hong Kong, which is a function of Hong Kong's ongoing economic expansion. The increase reflected a 6.9% jump on the same period in 2005, the largest since the MMDHI recorded y-o-y growth of 8.3% in the last quarter of 1997 before salaries started to slide along with the deepening of the Asian financial crisis. The continued economic upswing of Hong Kong is expected to support the further expansion of wage growth in the SAR during the remaining months of 2006.

Visitor Arrivals in Hong Kong



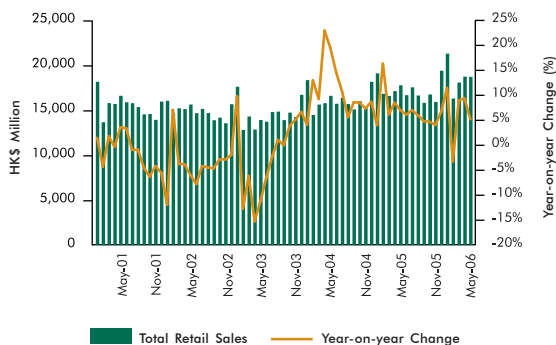
Source : Hong Kong Tourism Board

The total number of visitor arrivals to Hong Kong was registered at 1,995,695 in May 2006, representing an increase of 7.3% over the same period in 2005. The May influx contributed to the inflow for the first five months of 2006 exceeding 10.3 million, an increase of 11.6% over the first five months of the previous year. Arrivals from the Mainland continued to dominate the level of inflow, accounting for 53% of the month's total. Yet while the SAR continues to attract a growing number of Mainland visitors, the number of inbound travellers is in the midst of rising by country of origin almost across-the-board.

RETAIL SALES

RETAIL RENTAL TRENDS

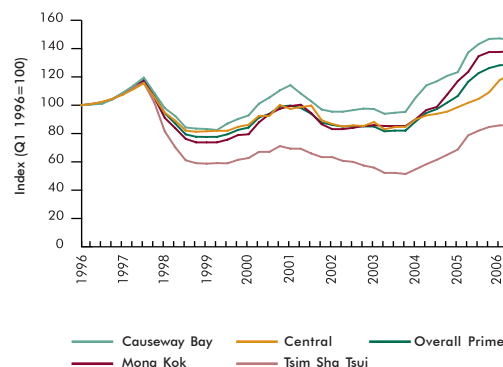
Total Retail Sales in Hong Kong



Source : Census & Statistics Department

The total value of retail sales in Hong Kong was provisionally estimated at \$18.6 billion in May 2006, equating to a 5.3% y-o-y rise. The volume of sales, meanwhile, was recorded as rising by 2.0% over the same period in 2005. Registering the highest volume increase in sales were food, alcoholic drinks and tobacco as well as miscellaneous consumer durable goods, which both grew by 9.6% y-o-y. However, the sales performance of luxury goods showed signs of wavering within the same time frame, mostly attributable to the diminishing effects of the Golden Week this year. The volume of sales of jewellery, watches and clocks and valuable gifts registered a y-o-y slide of 14.5% in May following a downturn of 3.9% in April.

Prime Retail Rental Index



The retail leasing market entered a period of consolidation within the second quarter as a number of retailers adopted a wait-and-see approach with regard to undertaking new lettings. Concern about the current high rental levels occurring in confluence with the short-term dip in consumer sentiment were critical factors in the delay of many expansion plans. Overall, retail rents remained generally stable while recording a slight rise of 0.4%. Rentals in Central out-performed the market in the second quarter achieving an average increase of 3.3%, which was followed by Mong Kok at 0.5% and Tsim Sha Tsui at 0.2%. The relatively stronger upward pressure on retail rents in Central is attributed to the eagerness of retailers to take up street-level units in this area.



PRIME SHOPPING DISTRICTS IN HONG KONG

CENTRAL

This traditional banking and financial centre of Hong Kong is also a popular shopping hub for middle to upper class shoppers. Strategically linked with the Airport Railway and MTR, and supported by a number of Grade A office buildings, 5-star hotels and prestigious shopping centres in the area, Central has a large catchment area and attracts a broad spectrum of shoppers including tourists, expatriates, office workers, singles and families.

CAUSEWAY BAY

This area attracts a broad mix of international tourists, local shoppers, including office workers from commercial buildings within the area, young shoppers and family shoppers. The area has a comprehensive mix of retailers and restaurateurs catering to young, rich, budget minded and family clientele.

TSIM SHA TSUI

This area has the largest concentration of hotels and attracts tourists, affluent young shoppers predominantly from Kowloon, and office workers from commercial buildings within the area. There is a wide array of retailers ranging from necessity to luxury goods, restaurants, tailors and entertainment venues such as discos and karaoke bars.

MONG KOK

Strategically located along both MTR and KCR lines, Mong Kok also attracts a wide spectrum of shoppers, mainly local residents. The area consists of a number of modern fashion and accessories boutique stores catering to the young and hip crowd.

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TERMINOLOGY

INFLATION RATE:

This refers to the Composite Consumer Price Index (CPI) compiled by the Census and Statistics Department to provide an indicator of overall price movements affecting households. A weighting system is used to represent the relative importance, in terms of expenditure, of individual items in the basket of goods and services consumed by households. The weight of each item represents the importance of the item in the total expenditure of households.

SALEABLE AREA:

The saleable area of a shop unit is measured up to the centre line of the wall separating adjoining units. The full thickness of the external walls and walls separating the units from the common areas, staircases, etc. are included.

GROSS FLOOR AREA:

The gross floor area of a shop unit is measured by adding the proportionate share of the common area to the saleable area of the unit.