

In the third quarter of 2006, the Hong Kong retail property market remained stable with marginal downside in rentals following the flattening-out witnessed in the preceding quarter. In the face of high capital values and rentals, which have registered significant escalation since the economic recovery in 2003 in conjunction with dampening of retailer sentiment stemming from the lower-than-expected attendance at Disneyland, a number of investors and retailers remained cautious in executing transactions. This phenomenon, which has been observed since the second quarter of 2006, drove an increasing number of landlords who did not want to leave their retail properties vacant to accept lower rents. As a result, retail vacancy levels dropped slightly in the third quarter over the preceding three-month period.

Meanwhile, steady growth in tourist arrivals and strong domestic spending, on the back of healthy economic expansion, improving employment conditions and the recent pause in the US interest rate hike cycle, supported an upbeat outlook on retailing in the SAR. This fuelled an element of activity by investors and retailers, with both parties observed as keen on securing space at discounted market rates. One example saw the new shopping mall "Timeplus" at Percival Street in Causeway Bay, witness resounding leasing response with shops being

committed swiftly when the mall rolled out comparatively low asking rentals.

At the same time, the recent trend of adjustment in the mall segment continued within the period under review with a number of malls observed as undergoing reformatting and renovations in a bid to boost leasing revenue amid intense competition. In Causeway Bay, Laforet completed its programme of

reformatting and refurbishment and was opened in August 2006. The nearby Windsor House, meanwhile, was in the midst of significant reformatting within the third quarter, with four levels undergoing major refitting works and slated for large scale tenant adjustment with a heavy positioning towards F&B provision. The World Trade Centre meanwhile continued with its plans to expand its mall portion by converting nine floors of office space in the centre into retail use while Bank Centre in Mong Kok, opted to revamp the first three storeys of the building, which had formerly been positioned for retail bank occupation into a trendy shopping arcade.

The 5% Goods and Services Tax (GST) being proposed by the government is now under the retail market spotlight. Retailers and retail property investors are concerned that their profits will be hit as the GST will impact purchasing power. It is expected that the tax would impact the retail market, however, the proposal currently remains in its infancy.

The market witnessed an element of activity by investors and retailers, with both parties observed as keen on securing space at discounted market rates.

QUICK STATS

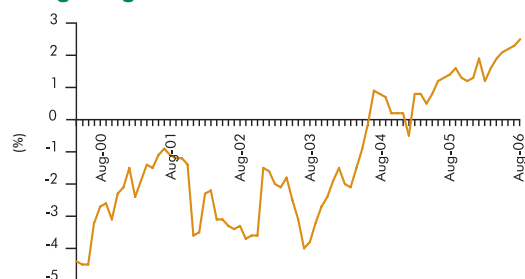
	Change in Q2 06	Change in Q3 06
New Supply	↔	↔
Demand	↔	↔
Vacancy Rate	↔	↔
Prime Rents	↔	↔

SELECTED LEASING TRANSACTIONS IN 3Q 2006

District	Property	Size (sf)	Tenant
Tsim Sha Tsui	Shops 1B1 & 1B2 on B1/F, Hotel Miramar	12,419 (gross)	M.O.D. Fashion
Tsim Sha Tsui	Shop G11 & B/F, Mirador Mansion	G/F: 1,000 B/F: 6,000 (gross)	Chinastates Chinese Products
Tsim Sha Tsui	Shop G15, Hankow Centre	800 (gross)	Body Shop
Tsim Sha Tsui	Shop G3, Tern Plaza	711 (gross)	Skin Food Skin Care
Mong Kok	Shops G1, G2 & G13, Nathan Centre	2,565 (gross)	Luk Fook Jewellery
Mong Kok	Shops G4-6, Rejoice Court	1,800 (gross)	HA-NE Sushi
Causeway Bay	B/F, Continental Diamond Plaza	2,967 (gross)	Oie Sushi
Causeway Bay	G/F & M/F, 521 Hennessy Road	G/F: 800 M/F: 400 (gross)	Kaisa Fashion
Central	G/F & 1/F, Hip Shing Hong Centre	G/F: 4,292 1/F: 2,947 (gross)	Yue Wah Chinese Products
Central	Shop G4, Man Yee Shopping Arcade	5,636 (gross)	TOYS "Я" US

ECONOMIC CONDITIONS

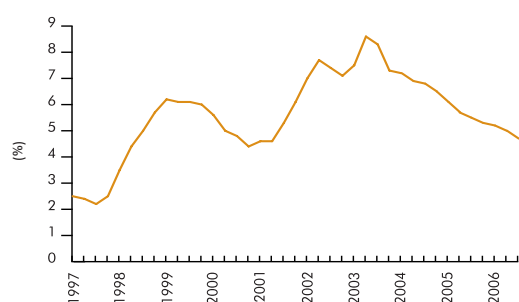
Hong Kong Inflation Rate



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.

The rate of inflation in Hong Kong continued its upward trend in August to register at 2.5%, showing a slight edging up of 0.2 of a percentage point on the level seen in the previous month. The slight increase was almost entirely attributed to the spike in fresh vegetable prices as a result of a typhoon in August. When excluding the effect of volatile food prices, underlying pricing pressures were actually rather modest. Looking forward, the rate of inflation in the SAR is expected to remain at a moderate level in the coming months in view of rising productivity and capacity expansion over the past few quarters, slower rental increases and the recent easing in oil prices.

Hong Kong Unemployment Rate

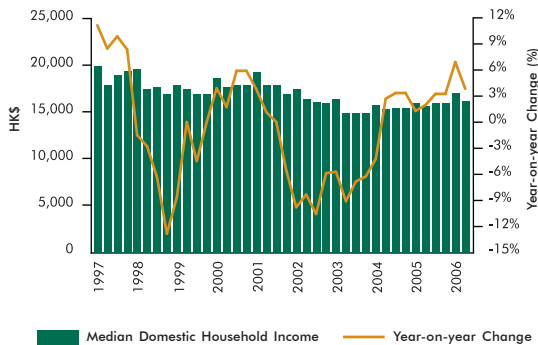


Source : Census & Statistics Department

Underpinned by the sustained strong economic expansion, meanwhile, the labour market showed a broad-based improvement in the July to September 2006 period as employers generally increased their staffing levels. The total number of employed persons in the SAR increased to a record high of over 3.50 million in the period while the provisional unemployment rate was recorded at a 62-month low of 4.7%. Although the entry of fresh graduates and school leavers increased the labour supply during the period, the market's ability to absorb these newcomers was positive.

MEDIAN MONTHLY DOMESTIC HOUSEHOLD INCOME (MMDHI) TOURIST ARRIVALS

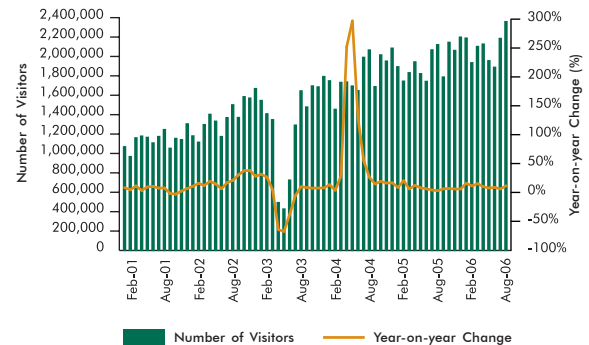
Median Household Income in Hong Kong



Source : Census & Statistics Department

The MMDHI was reported at \$16,300 in the second quarter of 2006, up on the figure of \$16,000 registered within the fourth quarter of 2005, but down on the first quarter level of \$17,100. However, one should note that payment of the Chinese New Year bonuses and double-pay boost the first quarter figure each year. The y-o-y rise of 3.82%, seen in the second quarter of 2006, represents the eighth consecutive quarter of y-o-y increment, a positive rebound following 10 consecutive quarters of y-o-y decline, which began in the last quarter of 2001. The MMDHI is expected to rise over the near- to medium-term on the back of improving economic conditions.

Visitor Arrivals in Hong Kong



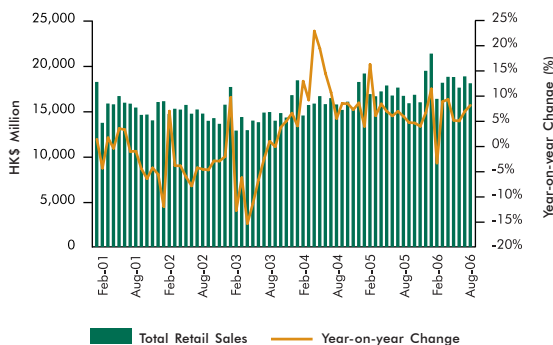
Source : Hong Kong Tourism Board

Hong Kong tourist arrivals in August reached 2.36 million, a rise of 11.2% from a year earlier. Mainland visitors accounted for 57.9% of the inflow at 1.36 million, of which 58% travelled under the Individual Visit Scheme. The cumulative total of arrivals from January to August amounted to 16,741,787, an increase of 10.4% on the same period in 2005. Fuelling the increase, a number of major regions registered double-digit growth within August 2006 including North Asia (16.7%), South and Southeast Asia (14.4%), Europe, Africa and the Middle East (12.9%) and Mainland China (11.8%).

RETAIL SALES

RETAIL RENTAL TRENDS

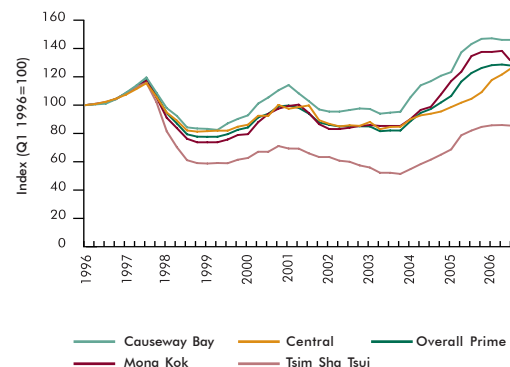
Total Retail Sales in Hong Kong



Source : Census & Statistics Department

Backed by continued improving employment conditions, the sustained rise in household income and the pause in the US interest rate hike cycle, total value of retail sales in Hong Kong was provisionally estimated at \$17.9 billion in August 2006, equating to a 8.3% y-o-y rise. After taking into account the effect of price changes over the previous 12-month period, the volume of retail sales recorded a surge of 6.4% y-o-y. The volume of sales of motor vehicles and parts increased the most, by 27.7% y-o-y, followed by sales of electrical goods and photographic equipment (12.4%). The volume of sales of jewellery, watches and clocks and valuable gifts, however, registered a y-o-y slide of 4.8% in August. This figure represented the fifth consecutive month of y-o-y decline, a trend that might be attributed to reduced spending in this area by Mainland tourists.

Prime Retail Rental Index



The retail leasing market continued to consolidate within the third quarter of 2006. Retailers remained cautious in making leasing transactions in the face of high rental levels, which drove a reduction in leasing volume within the quarter. Overall, retail rents dropped slightly by 0.5% within the period under review, with Mong Kok recording the largest downturn at 4.8%. Central, meanwhile, registered a mild increase of 3.2%, which was mainly attributed to the limited supply of retail space in the district acting in confluence with the fact that several transactions in the area involved subdivision of units into smaller space outlets, which exerted upward unitary pressure on rentals.



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.

ASIA OFFICES

HONG KONG

34/F, Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Telephone: (852) 2820 2800
Facsimile: (852) 2810 0830

Suites 2109-12, 21/F
Sun Life Tower, The Gateway
15 Canton Road, Tsimshatsui
Kowloon, Hong Kong
Telephone: (852) 2820 8100
Facsimile: (852) 2521 9517

BEIJING

PEOPLE'S REPUBLIC OF CHINA
Suite 1203-1205, 12/F
Beijing Fortune Plaza, Tower A
7 Dong San Huan Zhong Road
Chaoyang District, Beijing 100020
People's Republic of China
Telephone: (86) 10 5820 9288
Facsimile: (86) 10 5820 9088/9188

SHANGHAI

PEOPLE'S REPUBLIC OF CHINA
Suite 3201, 3203-3206
32F, K. Wah Center
1010 Huai Hai Middle Road
Shanghai, 200031
People's Republic of China
Telephone: (86) 21 2401 1200
Facsimile: (86) 21 5403 7519

GUANGZHOU

PEOPLE'S REPUBLIC OF CHINA
Suite 1401-1402, Guangzhou
International Electronics Tower
403 Huanshi Road East
Guangzhou 510095
People's Republic of China
Telephone: (86) 20 2883 9200
Facsimile: (86) 20 2883 9248

CHENGDU

PEOPLE'S REPUBLIC OF CHINA
Suite 2906, Building A, Times Plaza
No. 2, Zong Fu Road, Chengdu 610016
People's Republic of China
Telephone: (86) 28 8667 0022
Facsimile: (86) 28 8667 2121

TIANJIN

PEOPLE'S REPUBLIC OF CHINA
Unit 910, Office Tower A
The Exchange, 189 Nanjing Road
Tianjin 300051
People's Republic of China
Telephone: (86) 22 8319 2178
Facsimile: (86) 22 8319 2180

SINGAPORE

Six Battery Road, #32-01
Singapore 049909
Telephone: (65) 6224 8181
Facsimile: (65) 6225 1987

BANGKOK, THAILAND

46th Floor, CRC Tower
All Seasons Place
87/2 Wireless Road
Lumpini, Pathumwan
Bangkok 10330, Thailand
Telephone: (66) 2 654 1111
Facsimile: (66) 2 685 3300-1

PHUKET, THAILAND

12/9 Moo 4
Theprasattri Road
Koh Kaew, Amphur Muang
Phuket 83000, Thailand
Telephone: (66) 76 239 967
Facsimile: (66) 76 239 970

JAKARTA, INDONESIA

7th Floor, Permata Bank Tower I
Jalan Jenderal Sudirman Kav. 27
Jakarta 12920, Indonesia
Telephone: (62) 21 523 7337
Facsimile: (62) 21 523 7227

TAIPEI, TAIWAN

7/F Cosmos Building
134 Sec 3
Minsheng East Road
Taipei, Taiwan
Telephone: (886) 2 2713 2266
Facsimile: (886) 2 2712 3065

TOKYO, JAPAN

5/F, Shuwa Daiichi Hamamatsucho Bldg
2-2-12 Hamamatsucho, Minato-ku
Tokyo 105-0013 Japan
Telephone: (81) 3 5470 8711
Facsimile: (81) 3 5470 8705

28/F, Izumi Garden Tower
1-6-1 Roppongi, Minato-Ku
Tokyo 106-6028, Japan
Telephone: (81) 3 6230 1188
Facsimile: (81) 3 6230 1177

NEW DELHI, INDIA

Press Trust of India Building
Ground Floor, 4 Parliament Street
New Delhi 110 001, India
Telephone: (91) 11 4239 0200
Facsimile: (91) 11 2331 7670

MUMBAI, INDIA

9A, 2nd Floor, Laxmi Tower
C-25, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051, India
Telephone: (91) 22 2652 7628/7665
Facsimile: (91) 22 2652 7655

BANGALORE, INDIA

3rd Floor, The Hulkul
81/37, Lovelle Road
Bangalore 560 001, India
Telephone: (91) 80 5112 1240-49
Facsimile: (91) 80 5112 1239

CHENNAI (MADRAS), INDIA

2-C&D, Gee Gee Emerald
151 Village Road, Nungambakkam
Chennai 600 034, India
Telephone: (91) 44 2821 4599
Facsimile: (91) 44 2821 4607

HYDERABAD, INDIA

Eden Garden 8-2-595/3/5
Road No:10, Banjara Hills
Hyderabad 500 034, India
Telephone: (91) 40 2335 8887
Facsimile: (91) 40 2335 8886

PUNE, INDIA

CB Richard Ellis South Asia Pvt.
Limited
Row House No. 33
Hermes Heritage, Phase I
Nagar Road, Shashtri Nagar
Pune 411 006, India
Telephone: (91) 20 2661 6733
Facsimile: (91) 20 2661 6734
SEOUL, KOREA
12/F, Korea First Bank Building
100 Konggyong Dong
Jongro-ku
Seoul, Korea 110-702
Telephone: (822) 2170 5800
Facsimile: (822) 2170 5899

MANILA, PHILIPPINES

Suite 1003-1005
10/F Ayala Tower One &
Exchange Plaza, Ayala Avenue
1200 Makati City
Philippines
Telephone: (632) 752 2580
Facsimile: (632) 752 2571

HANOI, VIETNAM

Unit 12A, Vincum City Tower
191 Ba Trieu Street
Hanoi, Vietnam
Telephone: (844) 220 0220
Facsimile: (844) 220 0210

HO CHI MINH CITY, VIETNAM

Unit 1301, Me Linh Point Tower
2 Ngo Duc Ke Street, District 1
Ho Chi Minh City, Vietnam
Telephone: (848) 824 6125
Facsimile: (848) 823 8418

11, Thao Dien, An Phu

District 2, Ho Chi Minh City
Vietnam
Telephone: (848) 744 2621/22
Facsimile: (848) 744 2620

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.