

After the robust growth observed in the second half of 2007, early indications of market consolidation were noted in the first quarter of 2008. Although the retail sales volume and MMDHI in Hong Kong continued to grow, high inflationary pressure and negative wealth effect from volatile stock market impacted local spending sentiment.

According to the latest government figures, the total retail sales value in February 2008 increased 9.5% y-o-y to \$22.8 billion. After netting out the effect of price changes over the same period, the total retail sales volume only rose 4.5% y-o-y. This was the lowest growth observed

over the past 10 months. In particular, the sales volume of basic food items (i.e. livestock and poultry, fruits and vegetables, etc.) has recorded negative growth for five consecutive months since October last year. These figures indicated that the purchasing power of local residents could possibly be eroded by high inflation, resulting in more cautious spending.

Yet, some landlords, especially those owning properties in prime shopping districts, are still bullish on Hong Kong's retail business on the back of rising labour income, the improving job market and sustained expansion of inbound tourism. As a result, both the asking prices and rents of retail properties remained at a relatively high level. Retailers are more cautious however, especially in selecting

retail spaces, due to the uncertainties on the global economic front. In the current stalemate between landlords and retailers, vacancy in retail spaces in traditional prime shopping areas, for example Des Voeux Road Central, may begin to register a mild increase in coming quarters. This trend could be a possible suggestion that

retail rents might have already exceeded the market's reach.

In addition to the domestic market, tourist spending is another crucial pillar supporting retail sales. Despite the 16.2% y-o-y growth of visitor arrivals to approximately 2.5 million in January, the key question

yet to be answered in 2008 is whether such growth can be sustained. The 2008 Olympic Equestrian Events will be staged in Hong Kong this summer, but whether this will be a popular event with Chinese visitors is questionable. On the contrary, as the majority of the Olympic Games will take place in Beijing, Mainland Chinese may opt to stay in China in order to experience the games first hand. Similarly, with the UEFA Euro Cup 2008 to be held in Austria and Switzerland this June, and the prevailing challenges in Europe posed by the global financial turmoil, European tourists might choose to shelve or delay long-haul journeys to Asia. Whilst the extent of these effects and the anticipated strains in the global economy remain unknown, prices and rents of retail spaces may have limited, if any, room to grow.

Early indications of market consolidation may have emerged as high inflationary pressure and the negative wealth effect from the flighty stock market have dampened local spending sentiment, albeit amid considerable growth in retail sales volume and labour income.

QUICK STATS

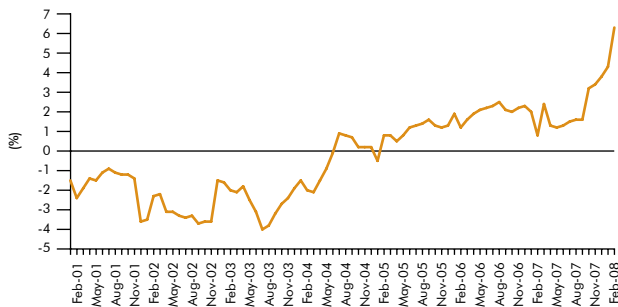
	Change in Q4 07	Change in Q1 08
New Supply	↑	↔
Demand	↑	↔
Vacancy Rate	↔	↔
Prime Rents	↑	↔

SELECTED LEASING TRANSACTIONS IN 1Q 2008

District	Property	Size (sf)	Tenant
Central	Shop C, G/F & 1/F, Yip Fung Building, 2-18 D'Aguiar Street	3,000 (gross)	Sa Sa Cosmetic
Central	G/F & M/F, Yu To Sang Building, 37 Queen's Road Central	G/F: 2,965 (net) M/F: 3,420	Chow Sang Sang
Causeway Bay	Shop B, G/F, 60 Russell Street	1,000 (gross)	Prince Watch
Causeway Bay	G/F, 23-25 Lee Garden Road	1,400 (gross)	Bonjour
Causeway Bay	Shop 4, G/F, Island Beverley, 1 Great George Street	1,075 (gross)	DHC
Causeway Bay	Shops 1-2, G/F, Shun Hei Causeway Bay Centre, 492 Lockhart Road	1,100 (gross)	The Body Shop
Causeway Bay	Portion G/F, 1 Pak Sha Road	1,300 (gross)	Safilo
Causeway Bay	Shop 1, G/F, Ying Kong Mansion, 2-6 Yee Wo Street	350 (gross)	Bee Cheng Hiang
Tsim Sha Tsui	Shops A1-A2, G/F & 1/F, Comfort Building, 86-88 Nathan Road	G/F: 1,964 (gross) 1/F: 1,550	G2000
Mong Kok	G/F, 46-50 Tung Choi Street	4,120 (gross)	Apex Sport

ECONOMIC CONDITIONS

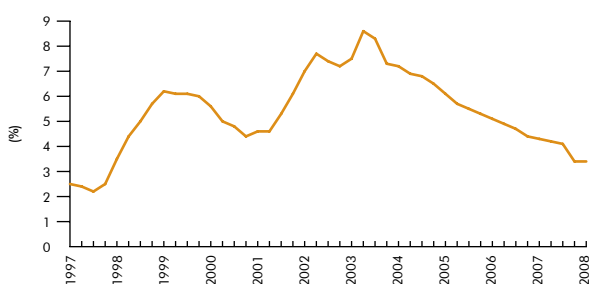
Hong Kong Inflation Rate



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.

Hong Kong's inflation rate reached 6.3% in February 2008, the highest recorded since July 1997. The increase was mainly due to the upsurge in the cost of basic foodstuffs, particularly pork, beef and fresh vegetables. The current global economic uncertainty and market turmoil, appreciation of the RMB and weakening of the US dollar are expected to continue, further increasing inflationary pressure. Although the persistent increase in labour productivity should be able to contain upward price pressure to a certain extent over the next few months, low interest rates may act to offset some of this containment effect.

Hong Kong Unemployment Rate

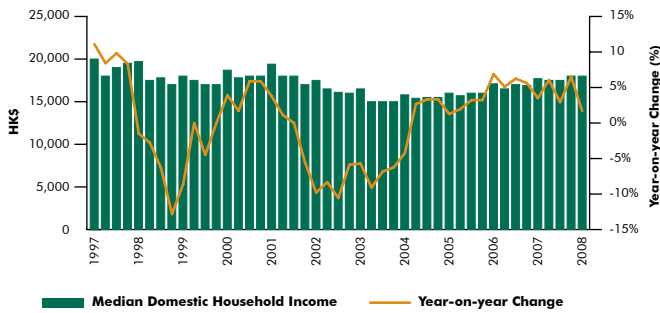


Source: Census & Statistics Department

The labour market sustained its strong performance registered in 2007 and remained generally stable during the first quarter of 2008. According to the Labour Department, job vacancy from the private sector in March 2008 rose 8.6% over the previous month, or 7.6% y-o-y. The slight expansion in the labour force led the number of unemployed persons (not seasonally adjusted) to rise by almost 7,000 after falling for six consecutive periods, and resulted in a slightly edged up seasonally adjustment unemployment rate to 3.4% (provisional figure) in January - March 2008. As the labour market continues to register fairly robust performance, considerable salary increases are expected due to both high inflation and the desire to retain high quality staff. However, the potential impact on local employment arising from increasing challenges posed by the US economic slowdown and the volatility of the global financial markets should also be noted.

MEDIAN MONTHLY DOMESTIC HOUSEHOLD INCOME (MMDHI) TOURIST ARRIVALS

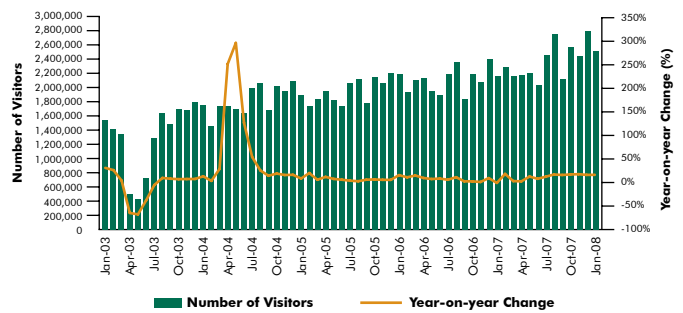
Median Household Income in Hong Kong



Source: Census & Statistics Department

The MMDHI was recorded at \$18,000 from November 2007 to January 2008, up slightly from the previous quarter's \$17,900. Growth was likely due to the continued tightening in the labour market and salary rises along with high inflation. MMDHI recorded a y-o-y increase of 1.7%, however, this growth is far lower than inflation, particularly the surges in basic food items and accommodation costs, which could have implications for the purchasing power of local residents, affecting local spending sentiment. On the up side, current demand for labour from the private sector remains very strong, and the MMDHI is expected to continue to grow in the foreseeable future.

Visitor Arrivals in Hong Kong

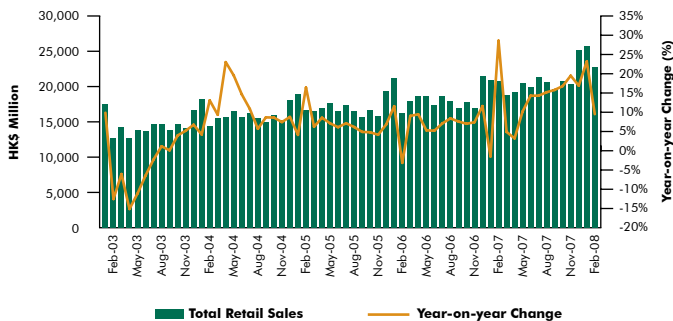


Source: Hong Kong Tourism Board

Tourist arrivals in January 2008 reached 2.52 million, representing y-o-y growth of 16.2%. Mainland Chinese tourists continued to be Hong Kong's leading tourist group with an increase of 19.1% y-o-y in arrivals, to 1.44 million, about 57.2% out of the total arrivals. It has been observed that Mainland tourists continued to take advantage of the Individual Visit Scheme to make short trips to Hong Kong. For tourists from other parts of the world, overall arrivals posted double-digit growth of 12.6% y-o-y. In particular, the number of visitors from Korea and Canada maintained buoyant growth of over 20% y-o-y for three and six months in a row, respectively. Other emerging tourist groups like Russia and the Middle East recorded impressive growth of 44.2% y-o-y and 22.9% y-o-y, respectively, in January.

RETAIL SALES

Total Retail Sales in Hong Kong

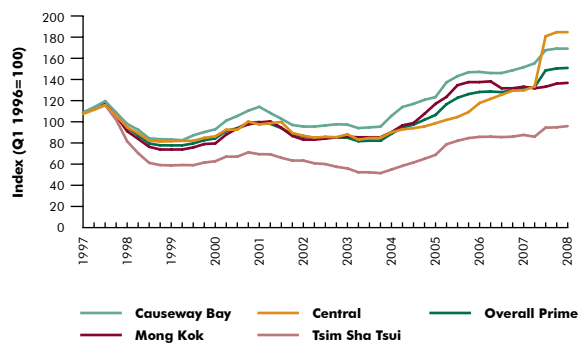


Source: Census & Statistics Department

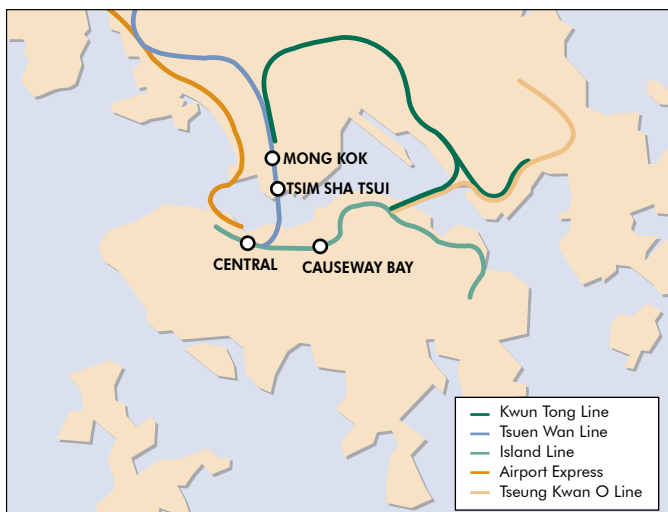
The total value of retail sales was provisionally estimated at \$22.8 billion in February 2008, representing an increase of 9.5% over a year earlier, or 4.5% y-o-y after netting out the effect of price changes over the same period. Consumer sentiment has been impacted by both high inflationary pressure and negative wealth effect due to volatility in the stock market. As an illustration, although the sales volume of motor vehicles and parts registered growth of 33.6% y-o-y, the actual sales volume dropped a cumulative 27.8% over the last five months. Furthermore, sales volume of basic food items, such as livestock and poultry, fruits and vegetables, bread and pastries, etc., recorded an alarming double-digit drop of nearly 25% in the most extreme case, possibly a result of the rapid price appreciation of such items that has contained their volume of purchases made.

RETAIL RENTAL TRENDS

Prime Retail Rental Indices



A minimal average rental growth of 0.4% q-o-q was captured in prime retail districts of Hong Kong in the first quarter of 2008. After the dramatic rental growth in Central and Causeway Bay over the second half of 2007, rents stayed firm at a very high level in these districts whilst rents in Tsim Sha Tsui and Mong Kok appreciated slightly with q-o-q growth of 1.2% and 0.5%, respectively. Retailers are currently very cautious in selecting retail spaces. Other than ranking their options by location factors, their sensitivity on rental costs has also been significantly enhanced. As retailers are likely to continue their stalemate with the landlords, and landlords appear unlikely to compromise on their asking rents in the near future, rents for retail spaces are anticipated to remain stable at the present high levels in short- to medium-term.



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.