

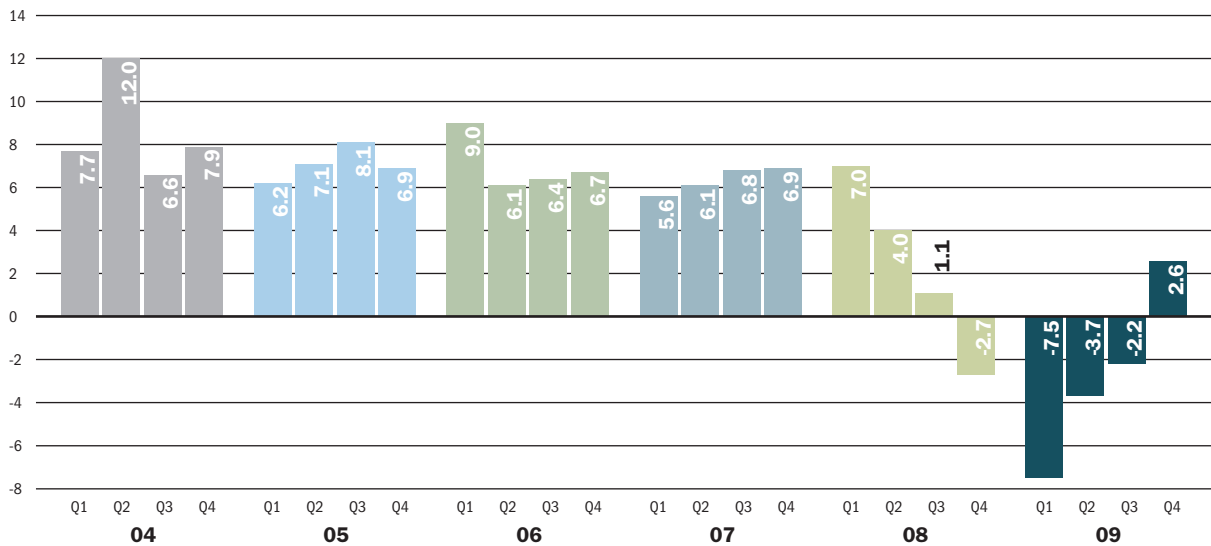
# MARKET OVERVIEW

This market report is to give a general background rather than Group-specific information. Views expressed shall not be regarded as providing any advice or recommendation for whatever purpose. For the Group's performance – see "Management's Discussion and Analysis" section.

## Hong Kong Economy

The global financial crisis negatively impacted upon Hong Kong's economy in early 2009 and led to a contraction of the GDP (-5.7%) in the first half of the year. As coordinated policy measures taken by governments around the world brought stability to the global financial markets, the local economy improved in the second half of the year. Local employment figures improved with the unemployment rate fell to below 5% in December 2009. Although there was considerable liquidity in the economy and interest rates remained at a historical low, inflation was contained and the inflation rate stood at 1.3% in December 2009.

**Gross Domestic Product Year-on-Year Growth (%)**



Source: Census and Statistics Department (data as of March 2010)

## Office

Grade "A" office in core districts faced challenges from both the supply and demand perspectives during the year. Although no new Grade "A" office project was completed in core districts, supply in decentralised areas such as Kowloon West and Kowloon East increased by more than 1.5 million square feet.

The global financial crisis led to weakened demand. Leasing activities were principally cost-driven relocations, resulting in negative net take-up of Grade "A" office in core districts. Causeway Bay/Wanchai recorded negative net take-up of around 422,000 square feet in the first three quarters. Leasing activities, however, picked up during the fourth quarter of 2009, with Causeway Bay/Wanchai recording a positive net take-up.

In regard to the rental of Grade "A" office space, the first three quarters of 2009 saw a cumulative decline of 30.9%, but rents recovered slightly in the fourth quarter, increasing by 1.8%.

	2009	2008
Grade "A" Office completion – core area*	–	164,420
Grade "A" Office completion – non-core area*	<b>1,563,650</b>	3,516,012
Change in Overall Grade "A" Office rent	<b>-29.6%</b>	+7.4%
Change in Causeway Bay/Wanchai Grade "A" Office rents	<b>-29.6%</b>	+13.5%

\* square feet net

Source: Jones Lang LaSalle (data as of March 2010)

## Retail

Overall annual retail sales for 2009 remained largely stable, with 0.6% growth as compared to the previous year. During the first three quarters of 2009, retail sales actually fell by 4.0% year-on-year in value, but reverted to positive territory for the fourth quarter, leading to overall annual growth.

In the tourism market, 2009 overall arrivals also saw a slight increase as compared to 2008. An early negative trend stemming from the global financial crisis and the outbreak of human swine influenza was reversed in the third quarter and remained positive in the fourth quarter. Visitors from Mainland China, in particular, contributed to the overall gain in arrivals in 2009. This group of visitors accounted for 60% of the total arrivals in 2009.

For the year as a whole, rents for prime street shops fell by 4.0%, while premium prime shopping centres rents remained unchanged.

	2009	2008
Retail sales by value	<b>+0.6%</b>	+10.6%
Total visitor arrivals	<b>+0.3%</b>	+4.7%
Mainland visitor arrivals	<b>+6.5%</b>	+8.9%
Change in prime street shop rents	<b>-4.0%</b>	+4.1%
Change in premium prime shopping centre rents	–	-0.3%

Source: Jones Lang LaSalle, Census and Statistics Department and Hong Kong Tourism Board (data as of March 2010)

## Luxury Residential

Demand was weak for luxury residential properties from expatriates, especially from the financial sector, in the first quarter of 2009, in a period when multinational corporations reduced their headcounts. However, many major businesses have since resumed hiring and the level of rental activities have significantly improved since the second quarter of 2009.

A buoyant sales market in recent months also contributed to less supply in the rental market, thus helping to further improve rents. After decreasing by 9.6% during the first half, overall luxury rents increased 4.3% for the rest of 2009. Overall, luxury rentals decreased by 5.6% in 2009.

	2009	2008
Change in luxury residential rents	<b>-5.6%</b>	-10.2%

Source: Jones Lang LaSalle (data as of March 2010)