

Interim Report | 中期報告

2006



SUNLIGHT REIT
陽光房地產基金

Stock Code 股份代號 : 435

Corporate Information

Manager (of Sunlight REIT)

Henderson Sunlight Asset Management Limited

Property Manager (as agent of the Manager)

Henderson Sunlight Property Management Limited

Board of Directors of the Manager

Chairman and Non-executive Director

Mr. Kan Fook Yee

Chief Executive Officer and Executive Director

Mr. Wu Shiu Kee, Keith

Non-executive Director

Mr. Kwok Ping Ho

Independent Non-executive Directors

Mr. Kwan Kai Cheong

Mr. Ma Kwong Wing

Dr. Tse Kwok Sang

Trustee

HSBC Institutional Trust Services (Asia) Limited

Company Secretary of the Manager

Ms. Cheung Kam Yee

Auditors of Sunlight REIT

KPMG

Principal Valuer

Savills Valuation and Professional Services Limited

Principal Bankers

Bank of China (Hong Kong) Limited

BNP Paribas, Hong Kong Branch

Calyon, Hong Kong Branch

DBS Bank Ltd.

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Overseas-Chinese Banking Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

Sumitomo Mitsui Banking Corporation

Hong Kong Legal Advisor/Solicitor

Woo, Kwan, Lee & Lo

Registered Office of the Manager

30th Floor, 248 Queen's Road East, Wanchai

Hong Kong

Unit Registrar and Transfer Office

Tricor Investor Services Limited

26th Tesbury Centre

28 Queen's Road East, Wanchai

Hong Kong

Investor Relations Contact

Mr. Leung Kwok Hoe, Kevin

Tel : (852) 3669 2888

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Website Address

www.sunlightreit.com

Background

Sunlight Real Estate Investment Trust (“Sunlight REIT”) is a real estate investment trust (“REIT”) constituted by a trust deed dated 26 May 2006 (as amended by supplemental deeds dated 1 June 2006 and 28 November 2006 respectively) entered into among Uplite Limited as the settlor, HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) as the trustee of Sunlight REIT and Henderson Sunlight Asset Management Limited (the “Manager”) as the manager of Sunlight REIT (the “Trust Deed”). It is a collective investment scheme in the form of a unit trust under Hong Kong law to invest primarily in income-producing real estate assets.

Sunlight REIT is regulated by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), the Code on Real Estate Investment Trusts (the “REIT Code”), Chapter 20 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the agreement dated 20 December 2006 entered into among Sunlight REIT, the Trustee, the Manager and The Stock Exchange of Hong Kong Limited (the “Listing Agreement”).

Sunlight REIT invests in a diversified property portfolio comprising 12 office and 8 retail properties in Hong Kong (the “Properties”). The office properties are primarily located in core business areas and decentralised business areas, with the retail properties mainly based in regional transportation hubs, new towns and other urban and suburban areas with high population density. The office and retail properties have aggregate gross rentable area of 880,883 sq. ft. and 413,506 sq. ft. respectively, as well as a total of 844 car park spaces.

Sunlight REIT commenced operation on 21 December 2006 (the “Listing Date”) when the Properties were acquired and its units (the “Units”) were listed on the main board of The Stock Exchange of Hong Kong Limited (the “SEHK”). This interim report covers the period from the Listing Date to 31 December 2006 (the “Reporting Period”).

Chairman's Statement

On behalf of the Board, I am pleased to present the first interim report of Sunlight REIT. The net property income and the consolidated net profit of Sunlight REIT for the Reporting Period were approximately HK\$7,943,000 and HK\$475,816,000 respectively, with the consolidated net profit being boosted by the recognition of the excess of fair value of assets acquired over cost of acquisition.

The year 2006 was an important year for Sunlight REIT — its initial public offering (“IPO”) on 21 December 2006 marked the establishment of the first diversified office and retail REIT listed on the SEHK, offering investors the opportunity to invest in a diversified portfolio of 20 office and retail properties in Hong Kong. As the Manager of Sunlight REIT, Henderson Sunlight Asset Management Limited is committed to provide unitholders of Sunlight REIT (“Unitholders”) with regular and stable cash distribution, with the potential for sustainable long term growth and enhancement in value.

Since the IPO, the Manager and the Property Manager have worked closely together to execute an active asset management and operational strategy for the portfolio, with a particular emphasis on leasing activities. As at 31 January 2007, the overall occupancy of the portfolio stood at 89.0% (as at 31 December 2006: 88.0%) compared to 89.2% as at 30 September 2006; meanwhile the portfolio achieved an average passing rental of HK\$20.7 psf (as at 31 December 2006: HK\$20.4 psf), representing an 9.5% increase (as at 31 December 2006: 7.9% increase) from HK\$18.9 psf as at 30 September 2006.

Looking ahead, further realisation of the portfolio's reversionary potential will provide support to rental income growth for the remainder of the financial year. We are also confident that the portfolio's cost to income ratio will demonstrate noticeable improvement.

I am pleased with the foundations we have laid so far, and going forward, I firmly believe that through a combination of active leasing, cost containment and asset enhancement strategies, Sunlight REIT will be able to deliver decent return to our Unitholders.

Finally, on behalf of the Board, I would like to thank all those who have contributed to the successful listing of Sunlight REIT, including our tenants and business partners. My gratitude also goes to our Unitholders for their support and I sincerely look forward to our long term and prosperous partnership.

Kan Fook Yee
Chairman

Henderson Sunlight Asset Management Limited
as Manager of Sunlight REIT

23 February 2007

Distribution

It is the Manager's policy to distribute to Unitholders an amount equivalent to 100% of annual distributable income for each financial year. Pursuant to the Trust Deed and in compliance with the REIT Code, Sunlight REIT is in any event required to ensure the total amounts distributed or distributable to Unitholders shall be no less than 90% of its annual distributable income (audited net income after tax under the REIT Code) for each financial year.

The unaudited distributable income of Sunlight REIT to Unitholders for the Reporting Period amounted to approximately HK\$5,459,000. Pursuant to the distribution policy stated in the offering circular dated 8 December 2006 in connection with the IPO of Sunlight REIT (the "Offering Circular"), the first distribution of Sunlight REIT will be declared upon the announcement of its final results for the financial period ending 30 June 2007 which is expected to take place no later than 31 October 2007. Subsequently, two distributions will be made each year in respect of the six-month periods ending 31 December and 30 June.

Management Discussion and Analysis: Operational and Financial Review

Operational Review

The Manager took over the management of the Properties in August 2006 in preparation for the IPO of Sunlight REIT. Since then, the Manager has been focusing on executing an active asset management strategy as detailed in the Offering Circular. We believe that the combination of strong demand for and limited supply of office space in Hong Kong will continue to lend support to rentals in both core business areas and, as a result of spill-over demand, in decentralized business areas. Sunlight REIT's office portfolio is well positioned to capture tenants migrating from Central and other business areas which command higher rental levels. In respect of the retail portfolio, we have implemented a dynamic leasing strategy in response to the changing demographics and circulation patterns. Looking forward, we envisage that our retail properties will benefit from planned population growth and committed infrastructure investments.

The overall occupancy of the portfolio stood at 89.0% as at 31 January 2007 (88.0% as at 31 December 2006). When compared with the overall occupancy of 89.2% as at 30 September 2006, it reflects an improvement in retail occupancy that was offset by a decrease in office occupancy. For the office portfolio, the occupancy rate decreased slightly from 89.2% as at 30 September 2006 to 87.1% as at 31 January 2007 (86.1% as at 31 December 2006). The drop was mainly attributable to a higher vacancy recorded at the 248 Queen's Road East Property. In contrast, the overall retail occupancy increased from 89.2% as at 30 September 2006 to 93.0% as at 31 January 2007 (91.8% as at 31 December 2006) on the back of strong take-up at Metro City Phase I Property and Sheung Shui Centre Shopping Arcade Property.

In terms of passing rental, the average passing rental in terms of gross rentable area for the entire portfolio was HK\$20.7 psf as at 31 January 2007 (HK\$20.4 psf as at 31 December 2006) compared to HK\$18.9 psf as at 30 September 2006. Sunlight REIT had been able to capitalise on the robust activities in the office sector as the average passing rental of the office portfolio increased from HK\$12.2 psf as at 30 September 2006 to HK\$13.7 psf as at 31 January 2007 (HK\$13.2 psf as at 31 December 2006). At the same time, the Manager's proactive leasing strategy also delivered results for the retail portfolio with the average passing rental reaching HK\$34.9 psf as at 31 January 2007 (HK\$34.8 psf as at 31 December 2006) compared with HK\$33.4 psf as at 30 September 2006.

The portfolio has a diverse tenant base with 926 tenancies as at 31 January 2007 (920 tenancies as at 31 December 2006) and the 10 largest tenants in terms of rental income contributed approximately 17.6% (approximately 16.9% as at 31 December 2006) of the total rental income. No single tenant accounted for more than 3.0% of the total rental income.

Financial Review

Total revenue and total operating expenses of Sunlight REIT for the Reporting Period were approximately HK\$10,617,000 and HK\$2,674,000 respectively, resulting in net property income of approximately HK\$7,943,000. After accounting for excess of fair value of identifiable assets and liabilities over cost of acquisition and deducting certain non-property operating expenses, the consolidated net profit of Sunlight REIT for the Reporting Period was approximately HK\$475,816,000.

On the listing of Sunlight REIT, a total of 1,487,013,000 Units were issued at HK\$2.60 per Unit. The proceeds of approximately HK\$3,866,234,000 from the IPO together with HK\$3,950,000,000 of bank financing were applied towards the acquisition of the Properties and various property companies, payment of costs and expenses associated with the listing including debt and swap related payments.

As at 31 December 2006, Sunlight REIT had in place total loan facilities of HK\$4,050,000,000, of which the HK\$3,950,000,000 term loan facility had been fully drawn on the Listing Date, while there was a further HK\$100,000,000 revolving credit facility that remained undrawn. Both the term loan and the revolving credit facilities have a term of 5 years. As at 31 December 2006, the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, was 40.5%.

In order to hedge against movement in interest rates, Sunlight REIT has entered into interest rate swap arrangements under which the interest rates of the term loan have been effectively fixed from the Listing Date until 30 June 2011 at a flat rate of 3.50% per annum, except that during the period from the Listing Date to 30 June 2007, the rate has been fixed at 3.00% per annum.

As at 31 December 2006, Sunlight REIT had cash balances and bank deposits totaling HK\$167,776,000 with maturities well diversified to satisfy its financial commitments and working capital requirements.

Property Summary

Office *(note 1)*:

Property	Location	Year of Completion	Gross	
			Rentable Area (sq.ft.)	Occupancy Rate <i>(note 2)</i>
248 Queen's Road East Property	Wanchai	1998	376,381	91.9%
Bonham Trade Centre Property	Sheung Wan	1998	117,909	87.8%
Righteous Centre Property	Mongkok	1996	51,767	89.9%
Winsome House Property	Central	1999	40,114	91.5%
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	63,915	88.4%
235 Wing Lok Street Trade Centre Property	Sheung Wan	2000	52,285	64.1%
Java Road 108 Commercial Centre Property	North Point	1998	37,923	80.7%
Yue Fai Commercial Centre Property	Aberdeen	1997	42,751	76.9%
Everglory Centre Property	Tsimshatsui	1999	29,802	87.8%
On Loong Commercial Building Property	Wanchai	1984	25,564	93.6%
Sun Fai Commercial Centre Property	Mongkok	1998	26,151	77.4%
Wai Ching Commercial Building Property	Jordan	1997	16,321	67.9%
Average				87.1%

Retail *(note 1)*:

Property	Location	Year of Completion	Gross	
			Rentable Area (sq.ft.)	Occupancy Rate <i>(note 2)</i>
Sheung Shui Centre Shopping Arcade Property	Sheung Shui	1993	122,339	95.0%
Metro City Phase I Property	Tseung Kwan O	1996	188,889	91.2%
Kwong Wah Plaza Property	Yuen Long	1998	64,842	99.3%
Royal Terrace Property	Quarry Bay	2002	9,565	100.0%
Glory Rise Property	North Point	2003	7,086	49.4%
Beverly Commercial Centre Property	Tsimshatsui	1982	7,934	77.8%
Supernova Stand Property	Fortress Hill	2001	4,226	88.4%
Palatial Stand Property	Hung Hom	2001	8,625	100.0%
Average				93.0%

Notes:

- Classified according to the nature of the majority of the income generated by the relevant property.
- The occupancy rate in respect of the relevant property means the gross rentable area in sq.ft. occupied under lease or licence by tenants or licensees as a percentage of total gross rentable area of such relevant property as at 31 January 2007.

Public Float

The Manager confirmed that as at 31 December 2006, the total number of Units outstanding was 1,487,013,000.

As at the date of this interim report, the Manager confirmed that Sunlight REIT has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to Sunlight REIT and to the best knowledge of the Manager.

New Units Issued

The Manager confirmed that, save for the 1,487,013,000 Units issued at the IPO, there were no new Units issued during the Reporting Period.

Repurchase, Sale or Redemption of Units

Under the Trust Deed, the Manager shall not repurchase or redeem any Units on behalf of Sunlight REIT until permitted to do so by the relevant codes and guidelines issued by the Securities and Future Commission (the "SFC") from time to time. On behalf of Sunlight REIT, the Manager confirmed that there was no purchase, sale or redemption of Units during the Reporting Period.

Review of Interim Results

The results of Sunlight REIT for the Reporting Period have been reviewed by the Disclosures Committee and the Audit Committee of the Manager and by the auditors in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

Performance Table

As at 31 December 2006

Net asset value (HK\$'000)	4,154,977
Net asset value per Unit (HK\$)	2.79
Highest traded price during the Reporting Period (HK\$)	2.60
Highest premium of the traded price to net asset value per Unit ^(note 1)	N/A
Lowest traded price during the Reporting Period (HK\$)	2.19
Highest discount of the traded price to net asset value per Unit	21.5%
Net yield per Unit ^(note 2)	N/A

Notes:

1. The highest traded price during the period was HK\$2.60 which is lower than the net asset value per Unit as at 31 December 2006. Accordingly, no premium of the traded price to net asset value per Unit is recorded.
2. Pursuant to the distribution policy stated in the Offering Circular, the first distribution of Sunlight REIT will be declared upon the announcement of its final results for the financial year ending 30 June 2007 which is expected to take place no later than 31 October 2007. Accordingly, the income available for distribution for the Reporting Period together with the income available for distribution for the first half of 2007 will be paid to registered Unitholders of Sunlight REIT as of the recorded date for the final distributions for the period ending 30 June 2007.

Corporate Governance

The Manager is committed to the highest level of corporate governance practices and procedures. Good corporate governance relies on an optimal mix of checks and balances and has a strong emphasis on high transparency to and alignment of interests with Unitholders. The Manager has adopted a compliance manual (the “Compliance Manual”) which sets out the key processes, systems, measures, policies and procedures governing the management and operation of Sunlight REIT. Compliance by the Manager and Sunlight REIT with the Compliance Manual ensures that the relevant regulations and legislations are duly observed.

The Manager has also adopted and set out in the Compliance Manual a code governing dealings in Units (the “Dealings Code”) by Directors. During the Reporting Period, the Manager has made specific enquiry of all Directors to ascertain whether the required standard set out in the Dealings Code has been complied with.

During the Reporting Period, the Manager and Sunlight REIT have complied with the provisions of the REIT Code, the SFO, the Listing Rules, the Trust Deed, the Listing Agreement and the requirements and procedures laid down in the Compliance Manual and all the directors confirmed that they have complied with the Dealings Code save for the disclosure herein ^{note}.

Meanwhile, the Manager has ensured that all conflicts of interest relating to Sunlight REIT be managed and avoided and has instituted a number of measures to deal with these issues, such as:

1. the Manager will not manage any REIT other than Sunlight REIT nor manage any other real estate assets other than those owned by Sunlight REIT;
2. the Manger has its own functional units and systems and function independently from its shareholders;
3. a Director with a conflict of interest shall abstain from voting on the relevant matter and not be counted in the quorum at which any resolution in relation to that item is proposed;
4. a register of other directorships and senior positions held by the Directors is maintained; and
5. the Manager has established an internal control system to ensure that connected party transactions between Sunlight REIT Group and its connected persons are monitored and undertaken on terms in compliance with the REIT Code.

Note: An independent non-executive director inadvertently effected the purchase of 10,000 Units on 21 December 2006 and subsequently unwinded the long position on 22 December 2006 without prior notification to the designated director of the Manager. The Manager shortly reported the incident to the Trustee and the SFC and, as part of the remedial measures, issued a letter to all Directors and senior executives reminding them of the obligation to observe the Dealings Code and the Compliance Manual.

Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Sunlight REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

Connected Party Transactions — Income

Save as disclosed under the section headed “Transactions with Trustee Connected Persons”, the following table sets forth information on all the connected party transactions from which Sunlight REIT derived its income during the Reporting Period:

Name of Connected Person	Relationship with Sunlight REIT ^{note 1}	Nature of the Connected Party Transactions	Income for the Reporting Period ^{note 3} HK\$	Rental and other deposits received as at 31 December 2006 HK\$
Jones Hugh Investment Limited	Associate of significant holders ^{note 2}	Leasing transactions	29,534	^{note 4}
Henderson Sunlight Asset Management Limited	The Manager	Leasing transactions	98,906	867,300
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing transactions	58,762	502,250
Henderson Real Estate Agency Limited	Associated company of the Manager	Leasing transactions	37,380	353,651
TOTAL:			224,582	1,723,201

Notes:

1. Within the meaning of the REIT Code.
2. The significant holders being Uplite Limited and Wintrade Limited.
3. Amount excluding deposits received.
4. By two bank guarantees of HK\$243,127 and HK\$32,469.

Connected Party Transactions — Expenses

Save as disclosed under the section headed “Transactions with Trustee Connected Persons”, the following table sets forth the information on all connected party transactions in which Sunlight REIT incurred its expenses during the Reporting Period:

Name of Connected Person	Relationship with Sunlight REIT ^{note}	Nature of the Connected Party Transactions	Expenses for the Reporting Period HK\$
Broad Capital Limited	Associated company of the Manager	Cleaning services	6,032
Goodwill Management Limited	Associated company of the Manager	Property management services	28,328
Hang Yick Properties Management Limited	Associated company of the Manager	Property management services	226,987
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management services and staff cost reimbursement	686,143
Jensome Technology Limited	Associated company of the Manager	Carpark system services	852
Megastrength Henderson Security Services Limited	Associated company of the Manager	Carpark management and security services	100,517
Metro City Management Limited	Associated company of the Manager	Property management and carpark management services	74,390
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and carpark management services	68,562
TOTAL:			1,191,811

Note: Within the meaning of the REIT Code.

Transactions with Trustee Connected Persons

Ordinary Banking and Financial Services

During the Reporting Period, Sunlight REIT has engaged certain companies within the HSBC Group^{note} to provide ordinary banking and financial services (namely, bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto).

In addition, Sunlight REIT has engaged HSBC Insurance Brokers (Asia-Pacific) Limited, an associated company of the Trustee, to provide insurance brokerage services.

Leasing Transactions

During the Reporting Period, Sunlight REIT has certain leasing transactions with HSBC Group^{note} for shops at various locations.

Note: HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the Trustee of Sunlight REIT).

Other Disclosures

Pursuant to note 2 to Chapter 8.10 of the REIT Code, services provided by the Manager, the Trustee and the principal valuer namely Savills Valuation and Professional Services Limited, to Sunlight REIT as contemplated under the constitutive documents shall not be deemed connected party transactions. During the Reporting Period, the aggregate amount of fees payable by Sunlight REIT to the Manager under the Trust Deed was approximately HK\$1,124,000. Save for the Manager's fees, the other services transaction has a value of not more than HK\$1 million for the Reporting Period. Thus, it is not required to disclose the particulars of such services in this interim report.

Disclosure of Interests

The REIT Code requires that connected persons (as defined in Rule 8.1 of the REIT Code) of Sunlight REIT disclose their interests in Units. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to apply to, the Manager and a Director or the chief executive of the Manager and to persons interested in or having a short position in Units.

Holdings of the Manager and Directors/Chief Executive of the Manager

The interests and short positions of the Manager and the directors/chief executive of the Manager in Units as recorded in the register maintained by the Manager under Schedule C of the Trust Deed were as follows:

Name	As at the Listing Date		As at 31 December 2006		Percentage change in interest
	Number of Units	Percentage of Unit Holding	Number of Units	Percentage of Unit Holding	
Tse Kwok Sang					
Long Position	10,000	0.0007	—	—	-0.0007

Holdings of Significant Unitholders and Others

The interests and short positions in Units of every person, other than the Manager and the Directors or chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed were as follows:

Name	As at the Listing Date		As at 31 December 2006		Percentage change in interest
	Number of Units	Percentage of Unit Holding	Number of Units	Percentage of Unit Holding	
Lee Shau Kee ^{note 1}					
Long Position	441,642,638	29.70	441,642,638	29.70	—
Lee Financial (Cayman) Limited ^{note 1}					
Long Position	374,072,708	25.16	374,072,708	25.16	—
Leesons (Cayman) Limited ^{note 1}					
Long Position	374,072,708	25.16	374,072,708	25.16	—
Leeworld (Cayman) Limited ^{note 1}					
Long Position	374,072,708	25.16	374,072,708	25.16	—
Shau Kee Financial Enterprises Limited ^{note 1}					
Long Position	374,072,708	25.16	374,072,708	25.16	—

Sunlight Real Estate Investment Trust

Name	As at the Listing Date		As at 31 December 2006		Percentage change in interest
	Number of Units	Percentage of Unit Holding	Number of Units	Percentage of Unit Holding	
Uplite Limited ^{note 1}					
Long Position	224,443,625	15.09	224,443,625	15.09	—
Wintrade Limited ^{note 1}					
Long Position	149,629,083	10.06	149,629,083	10.06	—
HSBC Holdings plc ^{note 2}					
Long Position	159,239,000	10.70	179,374,000 ^{note 3}	12.06	+1.36
Short Position	104,538,000	7.03	104,538,000	7.03	—
HSBC Asia Holdings (UK) ^{note 2}					
Long Position	159,239,000	10.70	179,374,000 ^{note 3}	12.06	+1.36
Short Position	104,538,000	7.03	104,538,000	7.03	—
HSBC Asia Holdings BV ^{note 2}					
Long Position	159,239,000	10.70	179,374,000 ^{note 3}	12.06	+1.36
Short Position	104,538,000	7.03	104,538,000	7.03	—
HSBC Finance (Netherlands) ^{note 2}					
Long Position	159,239,000	10.70	179,374,000 ^{note 3}	12.06	+1.36
Short Position	104,538,000	7.03	104,538,000	7.03	—
HSBC Holdings BV ^{note 2}					
Long Position	159,239,000	10.70	179,374,000 ^{note 3}	12.06	+1.36
Short Position	104,538,000	7.03	104,538,000	7.03	—
The Hongkong and Shanghai Banking Corporation Limited ^{note 2}					
Long Position	159,239,000	10.70	179,374,000 ^{note 3}	12.06	+1.36
Short Position	104,538,000	7.03	104,538,000	7.03	—
Macquarie Bank Limited ^{note 4}					
Long Position	104,538,000	7.03	104,538,000	7.03	—
Macquarie Securities Limited ^{note 4}					
Long Position	104,538,000	7.03	104,538,000	7.03	—
Deutsche Bank Aktiengesellschaft ^{note 5}					
Long Position	116,923,596	7.86	116,923,596	7.86	—
Short Position	104,581,384	7.03	104,581,384	7.03	—
Invesco Hong Kong Limited ^{note 6}					
Long Position	75,000,000	5.04	75,000,000	5.04	—

Notes:

As at 31 December 2006,

1. These Units were held by connected persons of Sunlight REIT. Of these Units, 224,443,625 Units were owned by Uplite Limited and 149,629,083 Units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited were wholly-owned subsidiaries of Financial Enterprise Properties Limited which in turn was wholly-owned by Shau Kee Financial Enterprises Limited. Shau Kee Financial Enterprises Limited was wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which were held by Leasons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Lee Financial (Cayman) Limited, Leasons (Cayman) Limited and Leeworld (Cayman) Limited were thus taken to be interested in the total of 374,072,708 Units owned by Uplite Limited and Wintrade Limited.

Apart from the above, 40,541,958 Units were owned by Cobase Limited and 27,027,972 Units were owned by Richful Resources Limited. Cobase Limited and Richful Resources Limited were wholly-owned subsidiaries of Brightland Enterprises Limited which in turn was wholly-owned by Henderson Land Development Company Limited. Henderson Development Limited owned more than one-third of the issued share capital of Henderson Land Development Company Limited. Henderson Development Limited was wholly-owned by Hopkins (Cayman) Limited as the trustee of a unit trust, the units of which were held by Rimmer (Cayman) Limited and Riddick (Cayman) Limited as the respective trustees of two discretionary trusts.

Under the SFO, Dr. Lee Shau Kee was taken to be interested in all the 441,642,638 Units by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts.

2. These Units were held by connected persons of Sunlight REIT. The long position of 179,374,000 Units and short position of 104,538,000 Units held by The Hongkong and Shanghai Banking Corporation Limited represented the same parcel of units in which HSBC Holdings plc, HSBC Finance (Netherlands), HSBC Holdings BV, HSBC Asia Holdings (UK) and HSBC Asia Holdings BV were deemed to be interested in. Of the aforementioned long and short positions, the long position of 74,836,000 Units was held in relation to stabilisation action under the IPO whereas each of the long and short position of 104,538,000 Units was held in relation to over-allocation under the IPO and was held jointly with Deutsche Bank AG and Macquarie Securities Limited.
3. Save as disclosed under note 2 above, an additional long position of 12,868,000 Units (representing about 0.87% of Unit holding) in relation to stabilisation action under the IPO were similarly held.
4. The long position of 104,538,000 Units was held in relation to over-allocation under the IPO. The interests held by Macquarie Securities Limited represented the same parcel of Units in which Macquarie Bank Limited was deemed to be interested in and were held jointly with Deutsche Bank AG and The Hongkong and Shanghai Banking Corporation Limited.
5. The long position of 5,040,596 Units and short position of 43,384 Units were beneficially held whereas the long position of 7,345,000 Units was held in the capacity of person(s) having security interest. Each of the long and short positions of 104,538,000 Units was held in relation to over-allocation under the IPO and was held jointly with The Hongkong and Shanghai Banking Corporation Limited and Macquarie Securities Limited respectively.
6. These interests were held in its capacity as manager/advisor of various accounts.

Holdings of other Connected Persons

So far as is known to the Manager and save as disclosed above, the holdings of Units of connected persons (as defined in the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT were as follows:

Name	As at the Listing Date		As at 31 December 2006		Percentage change in interest
	Number of Units	Percentage of Unit Holding	Number of Units	Percentage of Unit Holding	
Lee King Yue ^{note 1}	50,000	0.003	50,000	0.003	—
Lee Yip Wah, Peter ^{note 2}	11,000	0.0007	11,000	0.0007	—
Li Po Lam ^{note 3}	—	—	50,000	0.003	+0.003
HSBC Group ^{note 4}	75,453	0.005	75,453	0.005	—

Notes:

1. Mr. Lee King Yue was a connected person by virtue of being a director of Henderson Land Development Company Limited and certain of its subsidiaries.
2. Mr. Lee Yip Wah, Peter was a connected person by virtue of being a director of certain subsidiaries of Henderson Land Development Company Limited.
3. Mr. Li Po Lam was a connected person by virtue of being a director of a subsidiary of Henderson Investment Limited.
4. HSBC Group was a connected person by virtue of being controlling entities, holding companies, subsidiaries or associated companies of the Trustee.

Condensed Interim Financial Statements

Consolidated Income Statement

For the period from 21 December 2006 (date of listing) to 31 December 2006 — Unaudited
(Expressed in Hong Kong dollars)

	Note	\$'000
Turnover	4	10,617
Operating expenses	5	<u>(2,674)</u>
Net property income		7,943
Interest income		1,778
Administrative expenses		(1,630)
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination		<u>473,742</u>
Profit from operations		481,833
Finance costs	6(a)	<u>(5,412)</u>
Profit before taxation	6	476,421
Income tax	7	<u>(605)</u>
Change in net assets attributable to unitholders		<u>475,816</u>

The notes on pages 23 to 41 form part of these condensed interim financial statements.

Consolidated Balance Sheet

At 31 December 2006 — Unaudited

(Expressed in Hong Kong dollars)

	Note	\$'000
Non-current assets		
Investment properties	9	9,090,000
Deferred tax assets		2,365
Reimbursement rights	10	211,595
Derivative financial instruments	11	178,311
		<u>9,482,271</u>
Current assets		
Trade and other receivables	12	61,613
Cash and cash equivalents	13	167,776
		<u>229,389</u>
Total assets		<u>9,711,660</u>
Current liabilities		
Tenants' deposits		(77,918)
Rent receipts in advance		(2,278)
Trade and other payables	14	(112,036)
Current taxation		(12,834)
		<u>(205,066)</u>
Net current assets		<u>24,323</u>
Total assets less current liabilities		<u>9,506,594</u>

The notes on pages 23 to 41 form part of these condensed interim financial statements.

Consolidated Balance Sheet *(Continued)*

At 31 December 2006 — Unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	\$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank borrowings	15	(3,929,872)
Deferred tax liabilities		(1,421,745)
		<u>(5,351,617)</u>
Total liabilities, excluding net assets attributable to unitholders		<u>(5,556,683)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>4,154,977</u>
Number of units in issue		<u>1,487,013,000</u>
Net asset value attributable to unitholders per unit		<u>HK\$2.79</u>

The notes on pages 23 to 41 form part of these condensed interim financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

*For the period from 21 December 2006 (date of listing) to 31 December 2006 — Unaudited
(Expressed in Hong Kong dollars)*

	<i>\$'000</i>
Net proceeds from issuance of units to unitholders upon initial public offering	3,694,335
Change in net assets attributable to unitholders for the period	475,816
Changes in fair value of cash flow hedge	<u>(15,174)</u>
Balance at 31 December 2006	<u>4,154,977</u>

The notes on pages 23 to 41 form part of these condensed interim financial statements.

Distribution Statement

For the period from 21 December 2006 (date of listing) to 31 December 2006 — Unaudited
(Expressed in Hong Kong dollars)

	<u>\$'000</u>
Change in net assets attributable to unitholders for the period	<u>475,816</u>
Adjustments:	
— Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination	(473,742)
— Manager's fees paid or payable in the form of units	1,124
— Finance costs	1,836
— Deferred tax	<u>425</u>
	<u>(470,357)</u>
Total distributable income	<u>5,459</u>
Distribution per unit <i>(note (ii))</i>	<u>N/A</u>

Notes:

- (i) Pursuant to the Trust Deed (as defined hereinafter), Sunlight Real Estate Investment Trust ("Sunlight REIT") is in any event required to ensure that the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year. The policy of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT, is to distribute to unitholders as dividends an amount equal to 100% of Sunlight REIT's annual distributable income for each financial year.
- (ii) As disclosed in Sunlight REIT's offering circular dated 8 December 2006, Sunlight REIT's first distribution after the listing date will be for the period from the listing date to 30 June 2007. Accordingly, the income available for distribution for the period together with the income available for distribution for the first half of 2007 will be paid to the registered unitholders of Sunlight REIT as of the record date for the final distributions for the period ending 30 June 2007.

The notes on pages 23 to 41 form part of these condensed interim financial statements.

Condensed Consolidated Cash Flow Statement

For the period from 21 December 2006 (date of listing) to 31 December 2006 — Unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	<u>\$'000</u>
Net cash used in operating activities		(1,569)
Net cash used in investing activities		(3,614,994)
Net cash generated from financing activities		<u>3,784,339</u>
Net increase in cash and cash equivalents		
for the period and balance as at 31 December 2006	13	<u>167,776</u>

The notes on pages 23 to 41 form part of these condensed interim financial statements.

Notes on the Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

1. General

Sunlight REIT is a Hong Kong collective investment scheme constituted as a unit trust by a trust deed (the “Trust Deed”) entered into among Uplite Limited, as the settlor, Henderson Sunlight Asset Management Limited, as the manager of Sunlight REIT (the “Manager”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Sunlight REIT (the “Trustee”) on 26 May 2006 (as amended by the supplemental deeds dated 1 June 2006 and 28 November 2006 respectively) and is authorised under section 104 of the Securities and Futures Ordinance. Sunlight REIT is listed on The Stock Exchange of Hong Kong Limited (the “SEHK”).

The principal activity of Sunlight REIT and its subsidiaries (collectively referred to as the “Group”) is to own and invest in income-producing office and retail properties in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit. It has its principal place of business at 30th Floor, 248 Queen’s Road East, Wanchai, Hong Kong.

The condensed interim financial statements were authorised for issuance on 23 February 2007.

2. Significant accounting policies

(a) *Statement of compliance*

The condensed interim financial statements have been prepared in accordance with the applicable disclosure provisions of Code on Real Estate Investment Trusts (the “REIT Code”) and the Rules Governing the Listing of Securities on the SEHK, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

(b) *Basis of preparation*

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the board of directors of the Manager is included on page 42.

The measurement basis used in the preparation of the condensed interim financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- derivative financial instruments (see note 2(f)); and
- investment properties (see note 2(h)).

2. Significant accounting policies (Continued)

(b) Basis of preparation (Continued)

The preparation of condensed interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from those estimates.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the condensed interim financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the condensed interim financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

An excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in profit or loss.

(e) Unitholders' funds

In accordance with the Trust Deed, Sunlight REIT has a limited life of 80 years less 1 day from the date of commencement of Sunlight REIT, and Sunlight REIT is required to distribute to unitholders no less than 90% of its annual distributable income for each financial year. Accordingly, the units contain contractual obligations to pay cash dividends and also upon the termination of Sunlight REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Sunlight REIT less any liabilities, in accordance with their proportionate interests in Sunlight REIT at the date of its termination. The unitholders' funds are therefore classified as financial liabilities in accordance with HKAS 32, Financial instruments: disclosures and presentation.

2. Significant accounting policies (Continued)**(f) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(g)).

(g) Hedging

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in net assets attributable to unitholders. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

The associated gain or loss is removed from net assets attributable to unitholders and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in net assets attributable to unitholders and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in net assets attributable to unitholders is recognised immediately in profit or loss.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(i)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(p)(i).

2. Significant accounting policies *(Continued)*

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(h)).

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted where the effect of discounting is material.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2. Significant accounting policies (Continued)

(n) Income tax

- (i) Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss.
- (ii) Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. Significant accounting policies *(Continued)*

(n) Income tax (Continued)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Significant accounting policies *(Continued)*

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Car park income and rental related income

Car park income and rental related income are recognised as revenues on the accruals basis.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(r) Related parties

For the purposes of the condensed interim financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is a member of key management personnel of the Group, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

2. Significant accounting policies *(Continued)*

(r) Related parties (Continued)

- (v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

As all of the Group's activities are carried out in Hong Kong, no geographical segment information is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets mainly include investment properties and trade receivables, and segment liabilities mainly include operating liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, tax balances, corporate and financing expenses.

3. Segment reporting

	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover			
— rental income	3,432	4,622	8,054
— car park income	82	520	602
— rental related income	1,057	904	1,961
	4,571	6,046	10,617
Operating expenses and indirect costs	(1,181)	(1,744)	(2,925)
Segment results	3,390	4,302	7,692
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination			473,742
Finance costs			(5,412)
Income tax			(605)
Unallocated operating income and expenses			399
Change in net assets attributable to unitholders			475,816

4. Turnover

Turnover represents gross incomes generated from leasing of investment properties. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	\$'000
Rental income	8,054
Car park income	602
Rental related income	1,961
	10,617

5. Operating expenses

	\$'000
Property management fee	260
Government rent and rates	466
Car park operating costs	174
Other direct costs	1,774
	<u>2,674</u>

6. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	\$'000
(a) Finance costs:	
Interest on borrowings	5,285
Other borrowing costs	127
	<u>5,412</u>
(b) Other items:	
Interest income	(1,778)
Manager's fees	1,124
Property manager's fees	686
Bank charges	12
Trustee's remuneration	88
Auditors' remuneration	350
Legal and professional fees	22
	<u>22</u>

7. Income tax

	<i>\$'000</i>
Current tax — Hong Kong Profits Tax	180
Deferred tax	425
	<u>605</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the period ended 31 December 2006.

8. Earnings per unit before transactions with unitholders

The basic earnings per unit for the period from 21 December 2006 (date of listing) to 31 December 2006 amounted to \$0.32. The calculation of basic earnings per unit is based on the Group's change in net assets attributable to unitholders (before any distributions to unitholders) for the period of \$475,816,000 and the number of units in issue during the period.

Diluted earnings per unit for the period ended 31 December 2006 is not presented as there was no potential dilution of earnings per unit.

9. Investment properties

	<i>\$'000</i>
Additions through business combination (as referred in note 16) and balance as at 31 December 2006	<u>9,090,000</u>

- (a) For the purpose of the initial public offering of Sunlight REIT's units, the investment properties were valued by Savills Valuation and Professional Services Limited who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on an open market value basis in their existing states by means of capitalisation of the net income allowing for reversionary income potential and by reference to comparable market transactions. The Manager considers there is no material change in the fair value of these investment properties during the short intervening period up to 31 December 2006.

9. Investment properties *(Continued)*

(b) The analysis of the net book value of investment properties is as follows:

	\$'000
In Hong Kong	
— long leases	3,977,000
— medium-term leases	5,113,000
	9,090,000

(c) The Group's investment properties have been pledged to secure banking facilities granted to the Group *(note 15)*.

10. Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity provided by the vendors of entities and businesses acquired by Sunlight REIT in connection with its initial public offering, to the extent of the deferred tax liabilities recognised in the subsidiaries as at the date of acquisition *(note 16)*.

11. Derivative financial instruments

	\$'000
Interest rate swaps — cash flow hedge	178,311

The Group uses interest rate swaps to hedge the exposure to movements in interest rates in relation to its floating rate term loan by swapping from floating rate to fixed rate. The Manager considers that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
\$3,950,000,000	30 June 2011	From Hong Kong Interbank Offered Rate plus 0.45% per annum to a flat rate of 3.0% per annum for the period from 21 December 2006 to 30 June 2007 and 3.5% per annum throughout the remaining period of the interest rate swaps

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the discounted cash flow model.

12. Trade and other receivables

	<i>\$'000</i>
Rental receivables	11,327
Deposits and prepayments	4,478
Other receivables	45,808
	<u>61,613</u>

Included in rental receivables are debtors with the following ageing analysis:

	<i>\$'000</i>
Current and up to 1 month overdue	11,178
More than 1 month overdue and up to 3 months overdue	113
More than 3 months overdue and up to 6 months overdue	23
More than 6 months overdue	13
	<u>11,327</u>

Monthly rents in respect of leasing properties are received in advance and there is no specific credit terms given to the tenants. Sufficient rental deposits are held to cover potential exposure to credit risk.

13. Cash and cash equivalents

	<i>\$'000</i>
Deposits with banks	166,617
Cash at bank and in hand	1,159
	<u>167,776</u>

14. Trade and other payables

Included in trade and other payables are creditors with the following ageing analysis:

	<i>\$'000</i>
Due within 1 month or on demand	95,867

15. Bank borrowings

At 31 December 2006, the bank loan was repayable as follows:

	<u>\$'000</u>
After 2 years but within 5 years	<u>3,929,872</u>

Under the banking facility agreements, the Group has been granted two facilities in the aggregate amount of \$4,050,000,000 before transaction costs, comprising a \$3,950,000,000 term loan and a \$100,000,000 revolving credit facility, both for a five-year term from the first date of drawdown under the term loan or revolving credit facility, whichever is earlier. Of both facilities, the term loan was fully drawn down by the Group on 21 December 2006. The Group also entered into interest rate swap arrangements on 21 December 2006. Details regarding the swap facility are set out in note 11.

Bank borrowings under the term loan and revolving credit facilities are guaranteed on a joint and several basis by the Trustee and the holding company of the Group, Sunlight REIT Holding Limited, and are also secured by, among others, the followings:

- mortgages over the investment properties with a net book value of \$9,090,000,000 as at 31 December 2006 (*note 9*);
- charge over bank balances in bank accounts opened in the name of Sunlight REIT Treasury Limited (formerly Triworld Investment Limited), a subsidiary of the Group;
- assignment of rental income and all other proceeds arising from and including all rights, title and interest under all tenancy agreements relating to each of the investment properties; and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited (formerly Transmart Enterprises Limited) and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the balance sheet date was 4.44% per annum. The carrying amounts of the bank borrowings approximate their fair value.

16. Business combination

On 21 December 2006, Sunlight REIT acquired certain entities or businesses, which involve 20 investment properties, a finance company and a domain name company, through certain special purpose entities from certain related parties comprising subsidiaries of Shau Kee Financial Enterprises Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Henderson Development Limited and Jetwin International Limited (collectively referred to as the "Vendors"). The purchase consideration payable to the Vendors amounted to approximately \$3,616,739,000.

16. Business combination (Continued)

The acquired businesses contributed the entire change in net assets attributable to unitholders for the period from 21 December 2006 (date of listing) to 31 December 2006.

Details of assets acquired and liabilities assumed were as follows:

	<u>\$'000</u>
Investment properties	9,090,000
Deferred tax assets	2,633
Derivative financial instruments	195,199
Reimbursement rights	211,595
Trade and other receivables	51,707
Cash and cash equivalents	34
Tenants' deposits	(77,110)
Rent receipts in advance	(4,772)
Trade and other payables	(14,813)
Current taxation	(12,654)
Secured term loan	(3,929,750)
Deferred tax liabilities	(1,421,588)
	<u>4,090,481</u>
Assets acquired and liabilities assumed	4,090,481
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination	(473,742)
	<u>3,616,739</u>
Consideration paid, satisfied in cash	3,616,739
Cash (acquired)	(34)
	<u>3,616,705</u>
Net cash outflow	3,616,705

17. Capital commitments outstanding as at 31 December 2006 not provided for in the condensed interim financial statements

	<i>\$'000</i>
Authorised but not contracted for	<u>6,000</u>

18. Connected party transactions and material related party transactions

During the period, the Group entered into the following transactions with certain connected persons and related parties under the REIT Code and HKAS 24:

Connected person/related party	Relationship with the Group
Shau Kee Financial Enterprises Limited and other members of its group (collectively referred to as "SKFE Group")	Major unitholder of Sunlight REIT
Henderson Land Development Company Limited and other members of its group (collectively referred to as "HLD Group")	Connected persons of SKFE Group, the Manager and the Property Manager
HSBC Institutional Trust Services (Asia) Limited (the "Trustee")	The Trustee of Sunlight REIT
HSBC Holdings plc and its associates ("HSBC") and other members of its group (collectively referred to as "HSBC Group")	Connected persons of the Trustee
Henderson Sunlight Asset Management Limited (the "Manager")	The Manager of Sunlight REIT and a member of HLD Group
Henderson Sunlight Property Management Limited (the "Property Manager")	The Property Manager of Sunlight REIT and a member of HLD Group

18. Connected party transactions and material related party transactions *(Continued)**(a) Transactions with connected persons/related parties*

	<u>\$'000</u>
Rental and rental related income receivable from <i>(note (i))</i> :	
— HLD Group	225
Property management expenses payable to <i>(note (i))</i> :	
— HLD Group	(506)
— HSBC Group	(3)
Trustee's fee <i>(note (ii))</i>	(88)
Manager's fees <i>(note (iii))</i>	(1,124)
Property Manager's fees <i>(note (iv))</i>	(686)
Interest expense and agency charge on bank loans paid/payable to <i>(note (v))</i> :	
— HSBC Group	(3,583)
Interest income on bank deposits received/receivable from <i>(note (i))</i> :	
— HSBC Group	<u>1,778</u>

Notes:

- (i) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) Under the Trust Deed, the Trustee is entitled to receive a remuneration of not more than 0.03% per annum of the value of the deposited property as defined in the Trust Deed (the "Deposited Property") which may be increased to a maximum of 0.06% per annum of the value of the Deposited Property, subject to minimum fees of \$50,000 per month.
- (iii) The Manager's fees are calculated as the aggregate of a base fee of 0.4% per annum of the value of the Deposited Property and a variable fee of 3% per annum of the Net Property Income (as defined in the Trust Deed).

18. Connected party transactions and material related party transactions *(Continued)*

(a) *Transactions with connected persons/related parties (Continued)*

Notes: (Continued)

- (iv) Under the property management agreement entered into between the Manager and the Property Manager dated 29 November 2006 (the "Property Management Agreement"), the Property Manager is entitled to receive a fee of 3% per annum of the Gross Property Revenue (as defined in the Property Management Agreement).

The Property Manager is also entitled to receive a commission equivalent to:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of the duration of the renewal term; and
- 10% of the total licence fee for securing a licence for a duration of less than 12 months.

In addition to the above fees, the Property Manager is also reimbursed by relevant property companies for staff costs incurred solely and exclusively for the management of any one single property.

- (v) Interest expenses are calculated on the outstanding loan balance by reference to the interest rate as set out in note 11 on the condensed interim financial statements.

(b) *Balances with connected persons/related parties are as follows:*

	<i>\$'000</i>
Net amount due from/(to):	
— SKFE Group	39,701
— HLD Group	(43,027)
— HSBC Group	(713,760)
	(717,086)

19. Accounting estimates and judgements

The key sources of estimation and critical accounting judgements in applying the Group's accounting policies are described below.

(i) Valuation of investment properties

In arriving at the fair value of the investment properties, the Manager have considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The Manager's estimation of the fair value involves certain assumptions on, among others, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents.

(ii) Recognition of deferred tax assets

At 31 December 2006, the Group has recognised a deferred tax asset in relation to the unused tax losses amounting to approximately \$10,948,000. The realisability of the deferred tax asset mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the asset can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 30 June 2007

Up to the date of issue of these condensed interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 30 June 2007.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

**Effective for
accounting periods
beginning on or after**

HKFRS 7

Financial instruments: disclosures

1 January 2007

Independent review report to the board of directors of Henderson Sunlight Asset Management Limited (the “Manager”)

Introduction

We have been instructed by the Manager to review the condensed interim financial statements of Sunlight Real Estate Investment Trust (“Sunlight REIT”) set out on pages 17 to 41.

Respective Responsibilities of the Manager and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The condensed interim financial statements of Sunlight REIT are the responsibility of, and have been approved by, the Manager.

It is our responsibility to form an independent conclusion, based on our review, on the condensed interim financial statements of Sunlight REIT and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review Work Performed

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Manager and applying analytical procedures to the condensed interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the condensed interim financial statements of Sunlight REIT.

Review Conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the condensed interim financial statements of Sunlight REIT for the period from 21 December 2006 (date of listing) to 31 December 2006.

KPMG

Certified Public Accountants

Hong Kong, 23 February 2007



SUNLIGHT REIT
陽光房地產基金

Managed by Henderson Sunlight Asset Management Limited
由恒基陽光資產管理有限公司管理