



SHINING VALUE

Annual Report 2006/07



SUNLIGHT REIT

Stock Code: 435

MISSION STATEMENT

The Manager's key objectives are to provide Sunlight REIT's unitholders with regular and stable cash distributions and to foster growth of such distributions. The Manager seeks to achieve these objectives by conducting efficient asset and capital management as well as making accretive acquisitions that will enhance the portfolio value and provide long term benefits to the unitholders.

CORPORATE PROFILE OF THE MANAGER

Henderson Sunlight Asset Management Limited (the "**Manager**"), the manager of Sunlight Real Estate Investment Trust ("**Sunlight REIT**"), was incorporated in Hong Kong on 18 August 2005. It is an indirect wholly-owned subsidiary of Henderson Land Development Company Limited. The Manager has general power of management over the assets of Sunlight REIT. Its main responsibility is to manage Sunlight REIT and its property portfolio in the sole interest of the unitholders in accordance with the trust deed governing Sunlight REIT and the Manager's investment strategy.

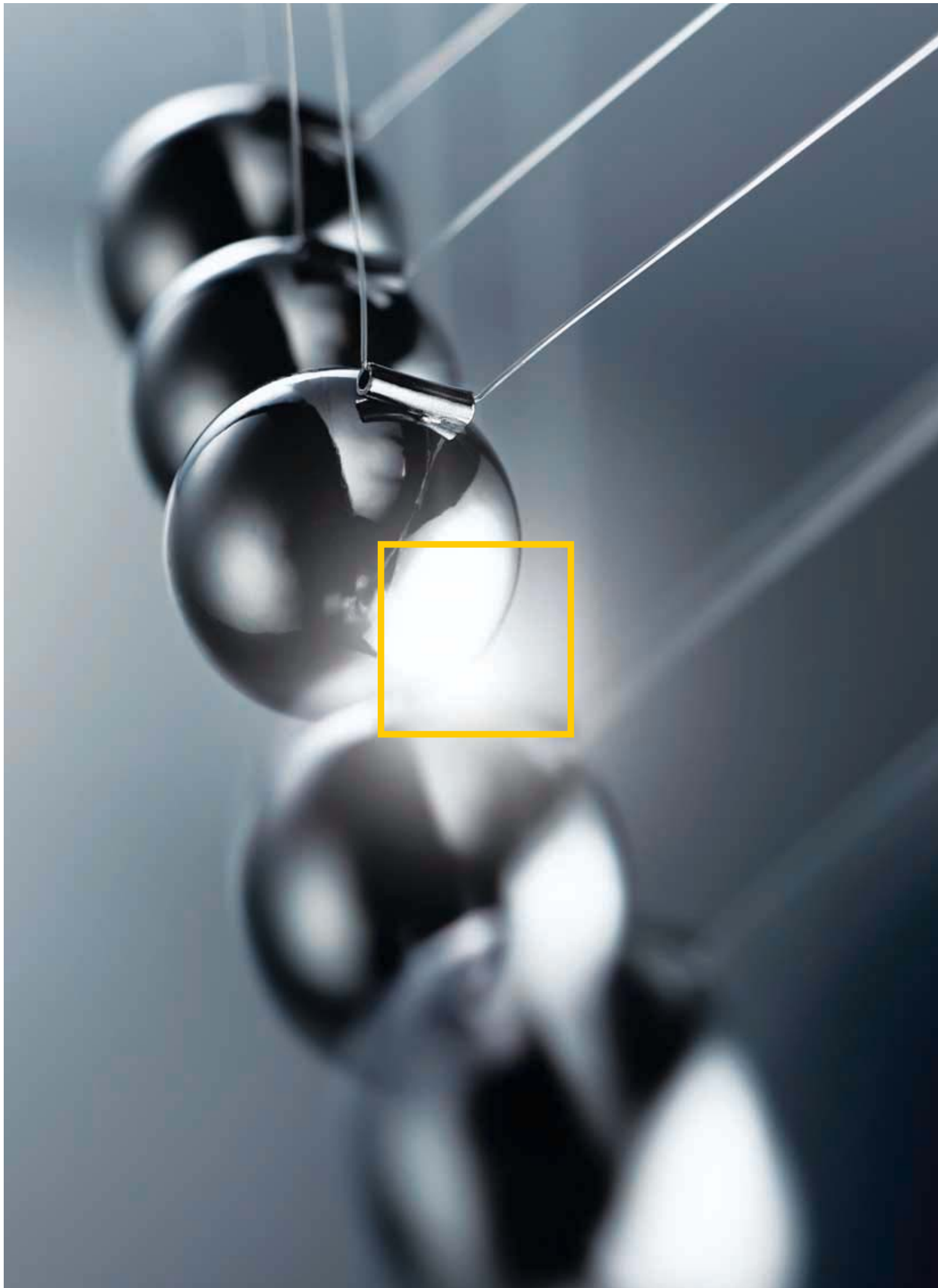
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PERFORMANCE HIGHLIGHTS

Our achievements during the Reporting Period:

- Distribution per unit **16.3%** ahead of IPO forecast
- Net asset value per unit grew **15.6%**
- Occupancy increased from **88.5%** to **93.8%**
- Passing rental improved by **8.4%**
- Property operating expenses **20.3%** less than IPO forecast



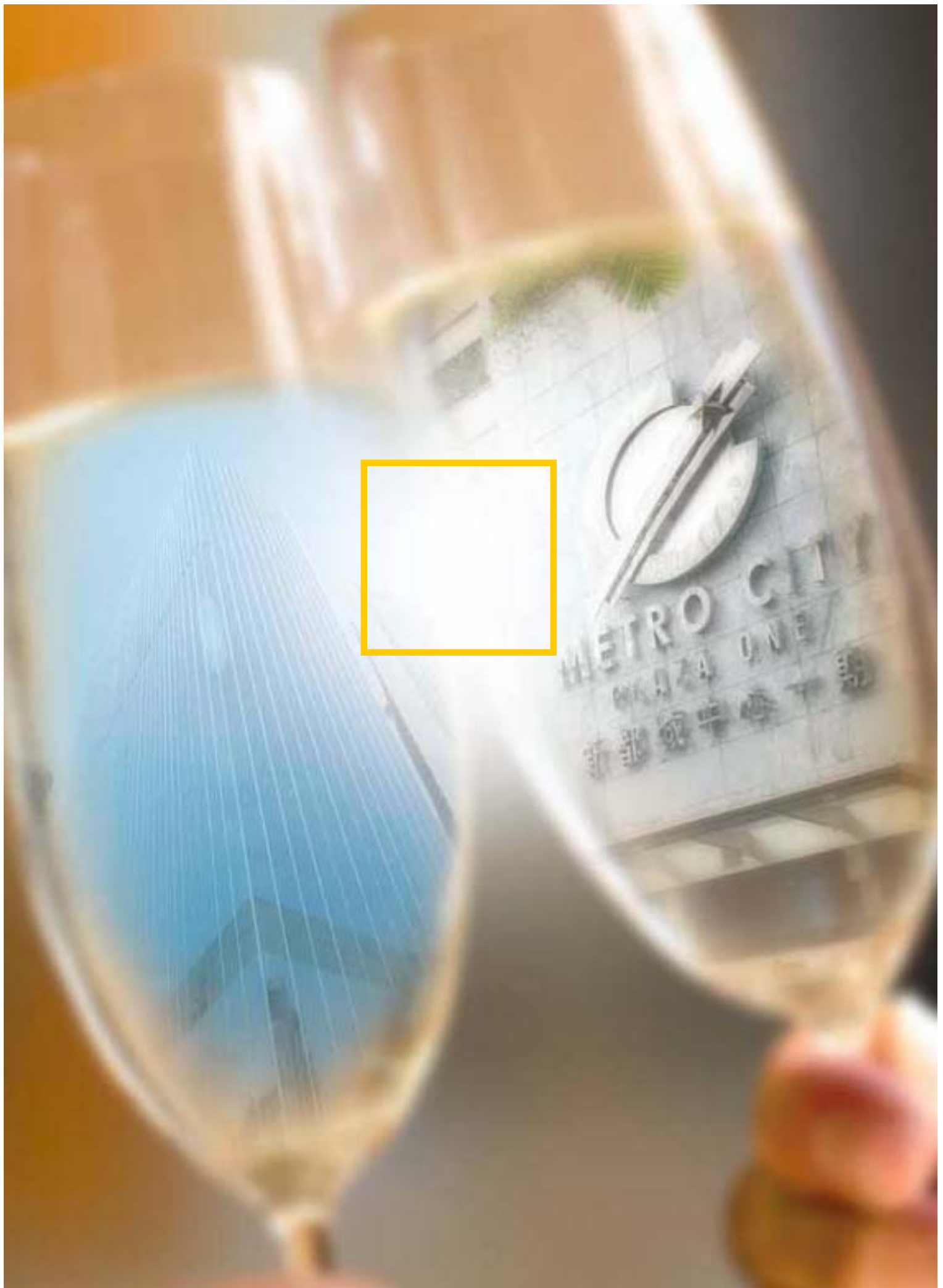


Deliverable

1

STABLE DISTRIBUTION PROFILE

A portfolio of desirable office and retail properties, coupled with strong sponsors' support, ensures stable returns to unitholders



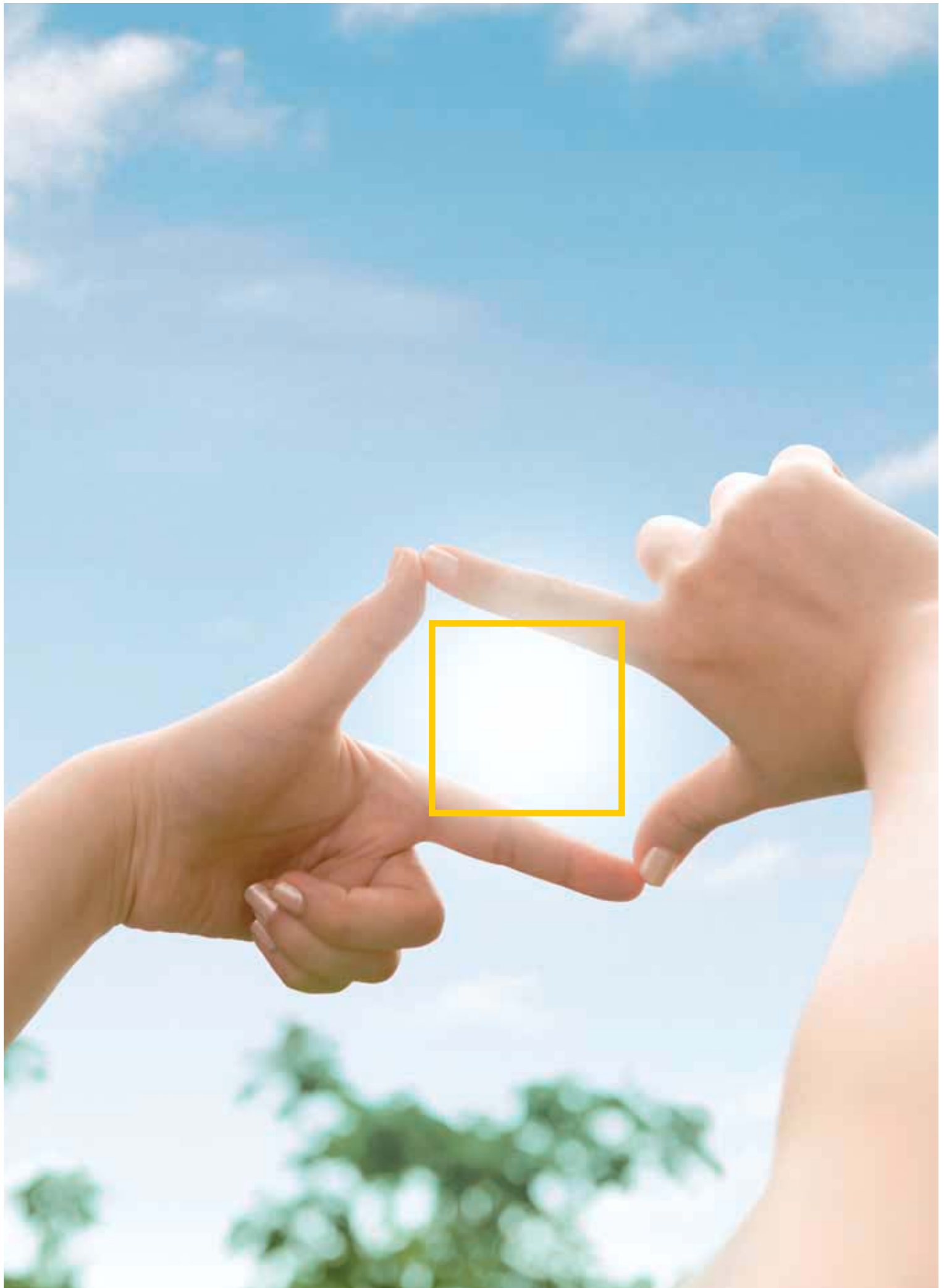


Deliverable

2

BALANCED OFFICE AND RETAIL EXPOSURE IN PROMISING LOCATIONS

Strong presence in decentralised areas provides the edge to capitalise on spillover office demand and new town expansion



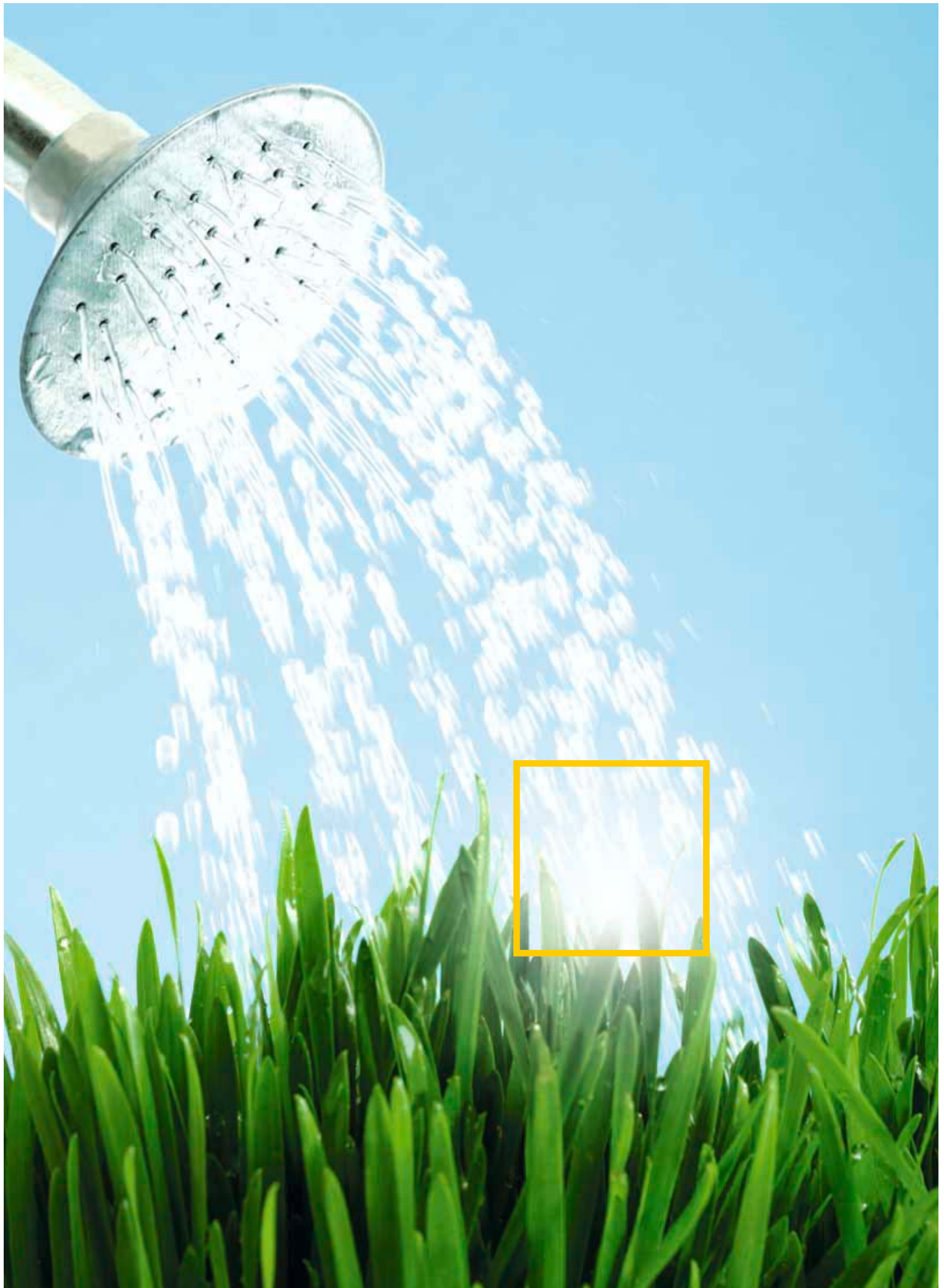


Deliverable

3

AN EXPERIENCED AND FOCUSED MANAGEMENT TEAM

Dynamic and versatile team dedicated to driving value, enhancing stability and embodying the highest corporate governance standards





Deliverable

4

VALUE CREATION THROUGH ASSET ENHANCEMENT

Committed to realising the full potential of the properties through relentless improvement





Deliverable

5

PROPELLING GROWTH THROUGH STRATEGIC ACQUISITIONS

Unrivalled access to one of Hong Kong's leading office and retail land banks provides a further dimension of growth

□ Chairman's Statement



Mr. KAN Fook Yee, Chairman of the Manager

“As manager of Sunlight REIT, our key strategy since listing in December last year has been to enhance portfolio value by improving both tenant mix and building quality.”



Listing ceremony highlights

Dear Unitholders,

On behalf of the board of Directors of Henderson Sunlight Asset Management Limited (the “**Manager**”), I am pleased to present the results of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) for the period from 21 December 2006 to 30 June 2007 (the “**Reporting Period**”).

Listed on The Stock Exchange of Hong Kong Limited (“**SEHK**”) on 21 December 2006 (“**Listing Date**”), the initial public offering of Sunlight REIT (“**IPO**”) marked the establishment of the first diversified local office and retail real estate investment trust (“**REIT**”) on the SEHK. At the time of listing, we had acquired a quality portfolio of 20 properties (the “**Portfolio**”) from the sponsors, Henderson Land Development Company Limited (“**HLD**”) and Shau Kee Financial Enterprises Limited (“**SKFE**”). Not only does Sunlight REIT have a balanced portfolio of both office and retail properties, its core properties are strategically located in areas that will potentially be improved as the Government supports urban renewal and the infrastructure of new towns. Therefore, we believe we are in a strong position to achieve our mission of providing regular and stable cash distributions, with the potential for sustainable long term growth of such distributions through enhancement and expansion of our Portfolio.

Our financial performance for the Reporting Period was satisfactory, with a distributable income of HK\$141.8 million. In accordance with our stated policy of distributing 100% of annual distributable income for each financial year to our unitholders, the board of Directors of the Manager (the “**Board**”) is recommending, after taking into account distribution waivers from the sponsors, a distribution per unit (“**DPU**”) of approximately 13.51 HK cents for the Reporting Period as compared with the IPO forecast DPU of 11.62 HK cents stated at the time of listing. Based on the closing unit price of HK\$2.25 as at 30 June 2007, the DPU represents an annualised distribution yield of 11.4%. Meanwhile, net asset value per unit also rose by 15.6% during the Reporting Period to HK\$3.19 as at year end.

Since listing we have worked to increase the value of the assets so as to ensure future growth in rental income. We have also devoted substantial efforts to cost saving, the benefits of which have been partly reflected in our results.

During the period under review, our office portfolio continued to benefit from strong demand for Grade A space, while our retail properties were buoyed by a vibrant economy and inbound tourism from Mainland China, enabling us to improve occupancy to a satisfactory level by the end of the financial year.



Listing ceremony highlights

As we have advanced our goal of enhancing our assets by increasing yield and improving the cost structure, we have continued to put due emphasis on corporate governance, to ensure that risk is well managed and that the interests of all stakeholders are respected. Since the listing, the various committees established to oversee our operations have ensured compliance with both internal guidelines and external requirements.

The outlook for Sunlight REIT is promising. Our firm foundations are buttressed by a favourable domestic economic environment that should continue to drive growth. The Portfolio is also poised to benefit from Government policies directed at revitalising the districts in which our key office properties are situated and improvement of the cross-border infrastructure near our regional shopping centres. Our competent team of highly professional managers well versed in the property business will be working hard to realise this potential.

We are also in a good position to leverage our sponsors so that we can grow beyond our current Portfolio. Both HLD and SKFE continue to provide strong support to Sunlight REIT, and HLD itself retains a substantial portfolio of properties that offer us a potential pipeline for acquisition. I am therefore confident that the positive momentum we have created will continue in the coming financial year.

I would like to thank the sponsors, my fellow directors, management and all staff for their contributions, which have seen Sunlight REIT get off to such an encouraging start.

Kan Fook Yee
Chairman

Henderson Sunlight Asset Management Limited
as manager of Sunlight REIT

17 September 2007



Open and effective communication with investors and media



□ Dialogue With CEO



Mr. WU Shiu Kee, Keith, CEO of the Manager

“We strive to provide quality and performance. Sunlight REIT is well equipped to produce sustainable returns to unitholders given our distinctive ability to add value through asset enhancement and acquisition.”

Q Can you briefly describe the structure of Sunlight REIT? What is the rationale for having a combination of office and retail properties?

A With a combined gross rentable area (“**GRA**”) of 1,294,389 sq. ft. valued at approximately HK\$9,558 million as at 30 June 2007, Sunlight REIT’s Portfolio uniquely combines thriving office assets with defensive retail properties, offering unitholders a secure yet attractive investment opportunity in the Hong Kong property market.

Careful consideration has been given to the choice of each property from the perspectives of asset enhancement and capital appreciation. Our key office properties are strategically located in areas such as Wanchai and Sheung Wan which are direct beneficiaries of the spillover office demand from Central and Admiralty. This, coupled with the dearth of office supply in core business districts over the next few years, means that our office properties offer good potential for growth in both rental and capital values. Meanwhile, our retail properties are situated in prime regional locations and fast-growing new towns that will be supported by the Government’s infrastructure developments and the consequent population growth.

Q How have you approached the Portfolio since Sunlight REIT’s listing? Does the Adjustment Payments* mechanism help?

A In this shortened financial year, our main focus as manager of Sunlight REIT has been to create a tenant mix that offers long term sustainability in terms of both income growth and tenant relationships. We have worked closely with Henderson Sunlight Property Management Limited (the “**Property Manager**”) and external consultants to develop proactive asset enhancement and operational management strategies for the Portfolio. At the same time, we have taken a disciplined cost control approach, aiming to enhance the property yield and the value of the Portfolio.

* “**Adjustment Payments**” are those payments to be made to Sunlight REIT pursuant to several Deeds of Adjustment Payments dated 2 December 2006, under which the vendors, from whom the Portfolio and related companies were purchased, agreed to pay the difference between the assured minimum rental income and the consolidated rental income of Sunlight REIT, as defined in such deeds, for each financial period/year up to 30 June 2009.

The sponsors’ rental support in the form of Adjustment Payments through June 2009 certainly helps us in terms of tenant selection and asset enhancement. It gives us unparalleled flexibility to devise leasing programmes that are designed to enhance our assets, whether by providing value-added services or by securing the most desirable tenants. More importantly, substantial asset enhancement works that are key to the long term value of Sunlight REIT can be implemented without having an adverse impact on the short term distribution profile.

Q What is your leasing strategy and how did occupancy rates and income compare with your targets?

A We employ a flexible leasing strategy that takes into account supply and demand dynamics and demographic characteristics. We work closely with the leasing teams to actively evaluate the leasing and marketing strategies for the Portfolio, as well as tenant retention programmes. Our property team regularly communicates with occupiers to build closer customer relationships, to understand more clearly how we can support their businesses and to receive feedback on our performance as a business partner.

In the period since the IPO, our strategy has begun to take root. The average occupancy rate increased from 88.5% at the time of listing to 93.8% at our financial year end. This level of occupancy was slightly lower than we had originally projected, with the disparity reflecting our priority of upgrading the image and quality of our properties through tenant mix improvement and space reconfiguration which should derive more sustainable long term benefit to our unitholders. While this strategy has resulted in a marginally lower than expected rental income, the Adjustment Payments mechanism and our efficient cost control policy have actually enabled us to declare a distribution 16.3% higher than the IPO forecast estimate. In sum, Sunlight REIT is structured in a way that provides unitholders with two-fold benefits – short term protection, long term appreciation.

Looking ahead, we envisage that our strategy will pay off in the form of higher net property income as a result of rising occupancy levels, an improved tenant base and positive rental reversion.

Dialogue With CEO

Q How have you improved the Portfolio value and enhanced the yield at your properties?

A We actively manage our assets in order to unlock their potential value. This is amply demonstrated by the transformation we have begun at Metro City Phase I Property, one of our flagship retail properties. Through the establishment of a service oriented theme with a particular emphasis on healthcare and beauty, we have re-positioned this 11-year old shopping centre by upgrading the tenant mix, supplemented with extensive advertising and promotional campaigns. The improved occupancy and rental rates reflect the success of our asset enhancement strategy – the occupancy level of 96.8% as at June 2007 represents a marked improvement from the time of listing (90.8%), while the introduction of quality brand names such as Bank of China and Fairwood are clear evidences of the improving tenant mix.

Q Have there been any changes to the tenant mix in the office properties?

A Our office properties enjoy a diverse tenant base, which provides us with a solid income foundation. On top of such diversity, one of our management goals is to identify quality tenants that would blend well with our existing tenant base and enrich the trade mix of our office portfolio.

Our key office properties continue to cater to sectors such as government agencies, shipping and service-related trades, which require locations in close proximity to Central district but are unwilling to tolerate the very high rents for Grade A office space in that district.

Q Cost control is another important focus. Has the cost-to-income ratio improved?

A Yes. Apart from seeking to improve the quality of income across the Portfolio, we have sought to raise net property income through effective cost-control programmes designed to minimise property related and operating expenses, and hence improve the cost-to-income ratio. We also worked closely with the Property Manager to streamline the property management functions across the Portfolio.

Cost-control programmes directed at the properties themselves include initiatives such as the use of energy saving devices and the implementation of a disciplined approach to repairs and maintenance. Additionally, we saved on commissions to external property agents as the Property Manager has been proactive in developing leasing initiatives and communicating with potential tenants. As importantly, we are also working to realise economies of scale in building management by developing regional structures that allow property clusters to be managed from a common centre. While seasonal factors such as savings in utilities expenses facilitated our cost control strategy during the period under review, we remain highly satisfied with the results achieved as the cost-to-income ratio improved from 30.1% forecast at the time of the listing to 25.9% for the Reporting Period.

Q Do you have any fund-raising plan for future acquisitions?

A As our policy is to pay out 100% of the distributable income, any acquisition would clearly require us to raise capital. Based on the latest independent valuation, the gearing level of Sunlight REIT stood at 38.0% as at June 2007, comfortably below the requirements under the Code on Real Estate Investment Trusts (“**REIT Code**”). We are therefore well positioned to raise additional capital via a combination of equity and debt should an acquisition opportunity arise.

That said, when we do acquire properties, we will take great care to ensure that they will enhance the trust’s net property income and have good growth prospects. We are grateful for the continuing support of HLD, which has a high quality portfolio of office and retail assets that would fit our investment criteria.

Q In your view, what value do REITs hold for investors in Hong Kong?

A The introduction of REITs was a significant milestone in the continuing development of Hong Kong’s financial market. REITs provide investors with a new investment alternative, offering them defensive exposure to the physical property market. The product aims to deliver stable and growing distributions to investors through

investing in income-generating real estate properties. The attraction of REITs for investors lies in the relatively stable income they offer and the long term capital appreciation of the underlying properties.

While Hong Kong does not possess a high-yield property market, it does offer a property market characterised by an unrivalled critical mass, good breadth and depth as well as proven liquidity in terms of rental income generation and physical property activities. These features provide a strong basis for cashflow sustainability, which is a crucial element of ensuring the long term development of REITs.

Q What are the trends for REITs in Hong Kong and Mainland China?

A The emergence of REITs greatly expands the horizons of the real estate capital market for local and Mainland developers. Institutional investors will also benefit from improved property market liquidity and wider investment options that will tap into the positive property cycle. As Hong Kong's nascent REIT market gains investors' recognition and support, we are seeing a gradual upgrading of the quality of assets in portfolios. Pipelines remain solid and diversified. I believe that we will see more property developers spinning off assets into REITs in the future. We expect to see an increasing variety of types, as well as locations of property, especially as Mainland China's economy continues to thrive and expand.

As the pool of REIT assets increases, offering more choice and liquidity, we expect investors to allocate more of their assets to the sector, which will benefit the development of the entire REIT market.

Q What is your strategy going forward?

A Adding value to our assets through the active management of their physical environment, cost structure, branding and tenant mix will continue to form the cornerstone of our strategy and should also provide a solid platform for promising results in the coming years. Looking ahead, we will continue to adopt a flexible, customer-driven trade mix strategy capitalising on the demographic patterns and infrastructure commitments in our targeted areas to support our customers' own changing business needs most effectively.

On the acquisition front, we will actively seek to identify, evaluate and selectively acquire income-producing investment properties under a disciplined and objective investment methodology. Coupled with our focused management strategies, we are optimistic about the prospects of Sunlight REIT.



DPU ahead by
16.3%

OUTLOOK STATEMENT

“We promise to maintain our management focus and continue our efforts to profitably grow Sunlight REIT.”

We expect demand for office space to continue to be strong, being undergirded by continued economic expansion in Hong Kong and Mainland China. In the retail sector, sustainable consumer confidence and growing tourism are expected to lend support to both retail rentals and occupancy.

We will devote considerable resources and efforts to capitalise on this positive environment. We aim to improve both the rental value and income of the properties under management through a range of proactive leasing and asset enhancement activities. An increasing focus on customer requirements will further enhance performance and outcomes.

Our office properties are sufficiently resilient to withstand the rise in new office supply which is mainly focused on the eastern side of Hong Kong Island and Kowloon. The gap between market rents in Central district and areas such as Wanchai and Sheung Wan has further widened over the past year but we believe that this gap will begin to narrow, to the benefit of our Portfolio. A positive rental reversion cycle, coupled with leases constituting 31.1% of office rental income due for expiry in the coming financial year, are expected to strengthen our future income base.

Our retail properties offer a unique exposure to regional growth in Hong Kong which is well supported by the Government's urban revitalisation initiatives and attendant infrastructure development. Their strategic locations result in potential not only derived from robust domestic demand, but also from rising inbound tourism from Mainland China. The opening of the KCR Lok Ma Chau Spur Line in August 2007 is poised to increase the flow of travellers to and from Mainland China via the Sheung Shui and Yuen Long areas, greatly expanding the prospects for our retail properties situated in these districts.

In addition to market rental improvement, we will continue to explore opportunities for value creation and to enhance our retail properties through upgrading the shopping environment, increasing efforts in advertising and promotion to drive higher traffic flow, and implementing plans to enrich and rejuvenate the trade mix by establishing specific themes catering to demographic needs. As leases accounting for 39.3% of our retail rental income will expire in the coming financial year, we have ample room to implement our strategy without impediments.

We anticipate, therefore, organic growth to continue in our existing Portfolio over the course of the coming financial year. Additional revenue growth may come from the acquisition of new properties, both office and retail, which we will actively seek out. Our sponsor HLD has provided us with a good acquisition platform through the pipeline agreement as we endeavour to build an even more substantial presence, particularly in those parts of Hong Kong in which we already operate.

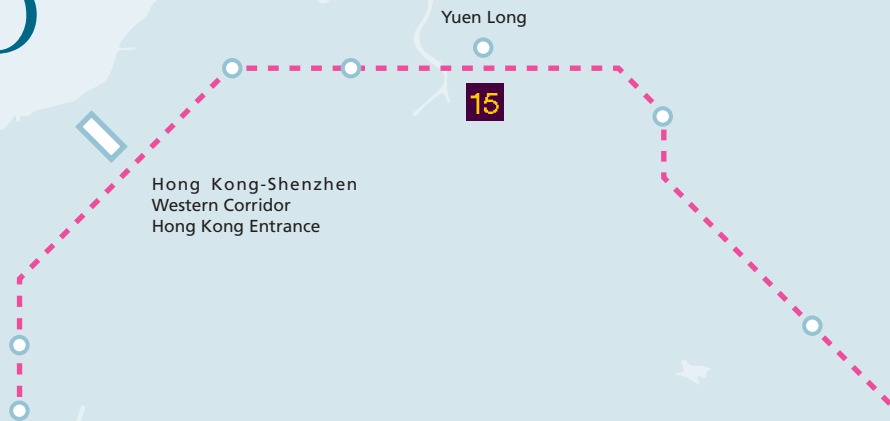
Barring any unforeseen change in the global economic picture, the outlook for Sunlight REIT in the coming financial year appears favourable to improvement in the performance of our Portfolio and an increase in value for the unitholders.



SOLID PERFORMANCE

Improvements in passing rental,
occupancy and tenant quality laid the
foundation for organic growth

PORTFOLIO OVERVIEW



OFFICE PROPERTIES



1 248 Queen's Road East Property
Wanchai, 376,381 sq.ft.



2 Bonham Trade Centre Property
Sheung Wan, 117,909 sq.ft.



3 135 Bonham Strand Trade Centre Property
Sheung Wan, 63,915 sq.ft.



4 235 Wing Lok Street Trade Centre Property
Sheung Wan, 52,285 sq.ft.



5 Winsome House Property
Central, 40,114 sq.ft.



6 Everglory Centre Property
Tsim Sha Tsui, 29,802 sq.ft.



7 Righteous Centre Property
Mongkok, 51,767 sq.ft.



8 Sun Fai Commercial Centre Property
Mongkok, 26,151 sq.ft.



9 Wai Ching Commercial Building Property
Jordan, 16,321 sq.ft.



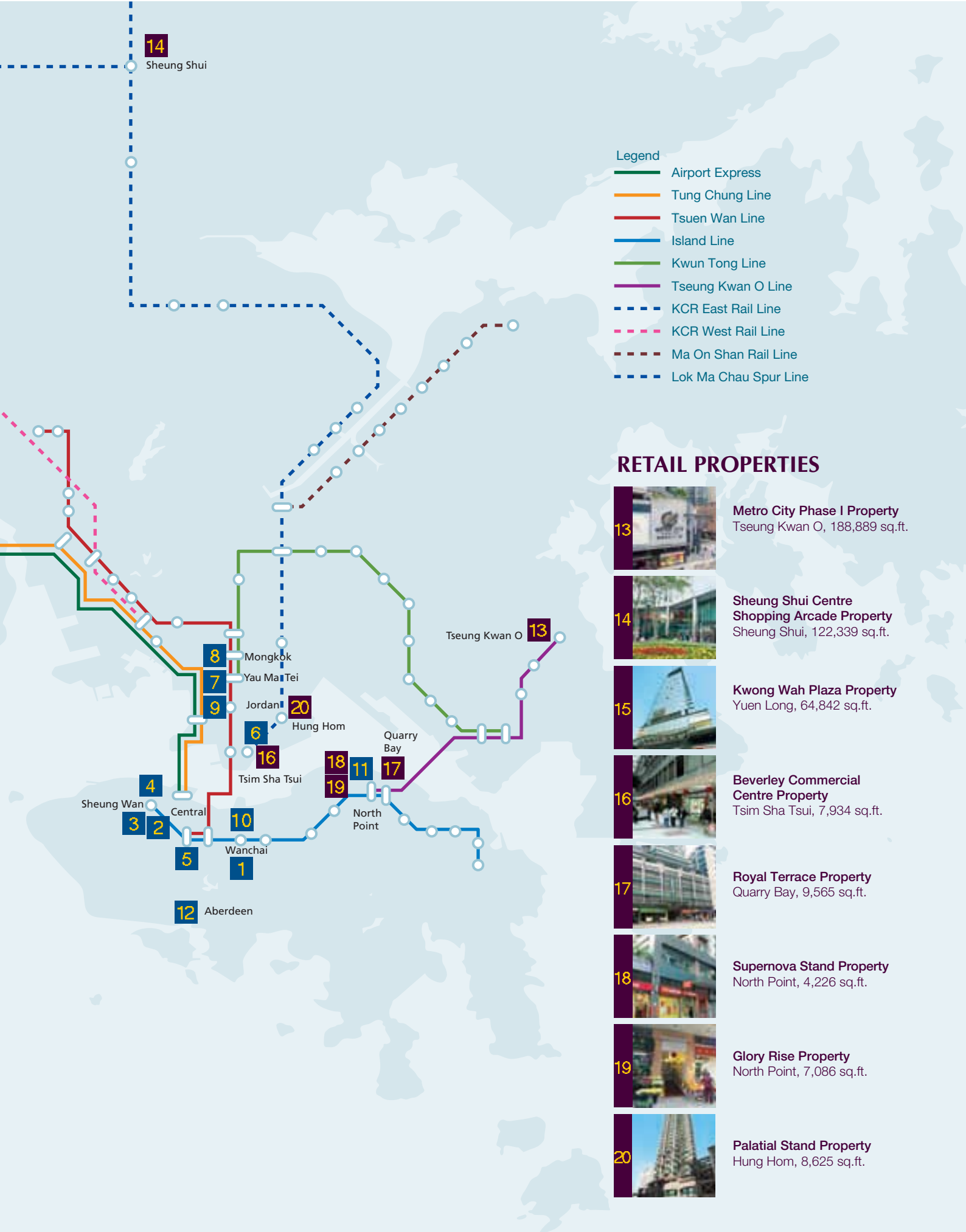
10 On Loong Commercial Building Centre Property
Wanchai, 25,564 sq.ft.



11 Java Road 108 Commercial Centre Property
North Point, 37,923 sq.ft.



12 Yue Fai Commercial Centre Property
Aberdeen, 42,751 sq.ft.



- Legend**
- Airport Express
 - Tung Chung Line
 - Tsuen Wan Line
 - Island Line
 - Kwun Tong Line
 - Tseung Kwan O Line
 - - - KCR East Rail Line
 - - - KCR West Rail Line
 - - - Ma On Shan Rail Line
 - - - Lok Ma Chau Spur Line

RETAIL PROPERTIES

- 

13 **Metro City Phase I Property**
Tseung Kwan O, 188,889 sq.ft.
- 

14 **Sheung Shui Centre Shopping Arcade Property**
Sheung Shui, 122,339 sq.ft.
- 

15 **Kwong Wah Plaza Property**
Yuen Long, 64,842 sq.ft.
- 

16 **Beverley Commercial Centre Property**
Tsim Sha Tsui, 7,934 sq.ft.
- 

17 **Royal Terrace Property**
Quarry Bay, 9,565 sq.ft.
- 

18 **Supernova Stand Property**
North Point, 4,226 sq.ft.
- 

19 **Glory Rise Property**
North Point, 7,086 sq.ft.
- 

20 **Palatial Stand Property**
Hung Hom, 8,625 sq.ft.

Portfolio Overview

PROPERTIES AT A GLANCE ^{note 1}

Office Property								
Category	Property	Location	Year of completion	No. of car park spaces	Office GRA (sq. ft.)	Retail GRA (sq. ft.)	No. of leases	Appraised value ^{note 2} (HK\$'000)
Grade A	248 Queen's Road East Property	Wanchai	1998	46	369,891	6,490	84	2,604,000
Grade B	Bonham Trade Centre Property	Sheung Wan	1998	—	108,506	9,403	118	463,000
Grade B	135 Bonham Strand Trade Centre Property	Sheung Wan	2000	—	60,844	3,071	78	245,000
Grade B	235 Wing Lok Street Trade Centre Property	Sheung Wan	2000	—	47,481	4,804	58	160,000
Grade B	Winsome House Property	Central	1999	—	37,937	2,177	26	273,000
Grade B	Everglory Centre Property	Tsim Sha Tsui	1999	—	25,896	3,906	26	128,000
Grade B	Righteous Centre Property	Mongkok	1996	—	41,004	10,763	51	322,000
Grade B	Sun Fai Commercial Centre Property	Mongkok	1998	—	23,817	2,334	36	97,000
Grade B	Wai Ching Commercial Building Property	Jordan	1997	—	14,239	2,082	24	28,000
Grade B	On Loong Commercial Building Property	Wanchai	1984	—	23,856	1,708	37	112,000
Grade B	Java Road 108 Commercial Centre Property	North Point	1998	—	35,694	2,229	33	147,000
Grade B	Yue Fai Commercial Centre Property	Aberdeen	1997	—	41,272	1,479	96	127,000
	Sub-total			46	830,437	50,446	667	4,706,000
Retail Property								
New Town	Metro City Phase I Property	Tseung Kwan O	1996	452	—	188,889	125	1,859,000
New Town	Sheung Shui Centre Shopping Arcade Property	Sheung Shui	1993	297	—	122,339	134	2,290,000
New Town	Kwong Wah Plaza Property	Yuen Long	1998	—	39,101	25,741	36	458,000
Others	Beverley Commercial Centre Property	Tsim Sha Tsui	1982	—	—	7,934	34	52,000
Others	Royal Terrace Property	Quarry Bay	2002	49	—	9,565	6	67,000
Others	Supernova Stand Property	North Point	2001	—	—	4,226	2	46,000
Others	Glory Rise Property	North Point	2003	—	—	7,086	6	60,000
Others	Palatial Stand Property	Hung Hom	2001	—	3,566	5,059	5	20,000
	Sub-total			798	42,667	370,839	348	4,852,000
	Total			844	873,104	421,285	1,015	9,558,000

Notes:

1. The table presents information and data as of 30 June 2007.
2. Valuation prepared by Savills Valuation and Professional Services Limited.

Office Portfolio Review



Grade A office space
in a revitalised district
248 Queen's Road East Property

In close proximity to the business and administrative hub, 248 Queen's Road East Property reaps the benefits of increasing Grade A office demand and urban revitalisation



Portfolio Overview

Office Portfolio Review



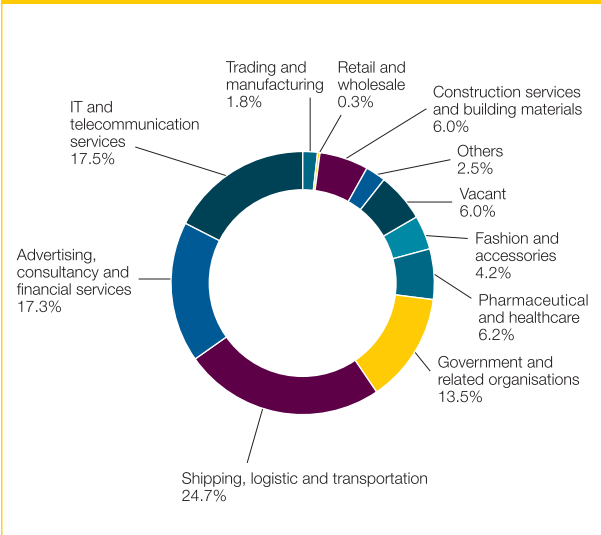
248 Queen's Road East Property

GRADE A OFFICE PROPERTY

248 Queen's Road East Property

Completed in 1998 with a GRA of 376,381 sq. ft., 248 Queen's Road East is a premium Grade A office building and is well supported by excellent public transport facilities. Situated in Wanchai South, its proximity to the Admiralty and Central business districts, together with its reasonable rental level enhances its appeal as a choice for medium-sized multinational corporations and government-related organisations. Riding on the back of brisk demand for Grade A offices, the Manager has been able to employ a flexible and selective leasing strategy to ensure it is occupied only by tenants of desirable quality. As of 30 June 2007, the occupancy of 248 Queen's Road East Property stood at 94.0%, of which 24.7% comes from the shipping, logistics and transportation sector and 13.5% from government-related leases.

Tenant mix in terms of GRA as of 30 June 2007



During the Reporting Period, the Manager completed lease agreements amounting to a total GRA of 48,505 sq. ft., achieving an average unit rental of approximately HK\$23.5 per sq. ft.. Spillover demand from more expensive core business locations and existing tenants undertaking office expansion constituted the majority of the newly committed leases. The Manager is optimistic that passing rental rates will continue to benefit from the positive reversion cycle.

In view of the impending peak in lease expiries in FY2008/09, the Manager has been more proactive in liaising with existing tenants regarding lease renewals. During the Reporting Period, the Manager has been able to renew certain tenancies expiring in FY2008/09, which constituted 6.6% of the rental income of the property.

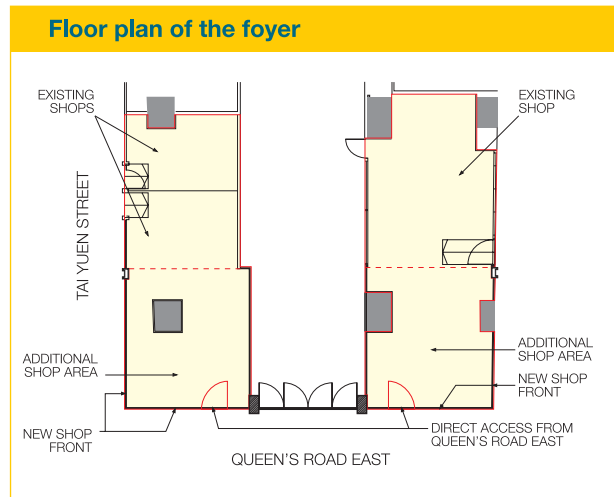
Wanchai South is undergoing a number of urban redevelopment and revitalisation projects. These are expected to enhance the townscape with renewed vitality and modern urban design. The Manager believes

that opportunities exist to capture additional rental income by establishing a stronger association with the surrounding redevelopment and introducing a tenant mix catering to the vibrant local community including both office workers and local residents.

The proposed asset enhancement plan involves repositioning the existing tenant mix by reducing the number of small shops to accommodate larger tenants that will enhance customer traffic. The building foyer will be reconfigured to provide additional rental area with improved retail frontage. Further, the Manager is also planning to improve the overall image and visibility of the building by installing modern glass panels and aluminium cladding at the front entrance. The Manager is confident that the asset enhancement plan will not only generate additional rental income from the retail space, but will

also reinforce the property as the premium Grade A property in the vicinity, thereby providing long term support to overall rental.

The red line in the floor plan below illustrates the layout of two new shops after the proposed renovation.



Artist's impression of the shop front following the proposed enhancement at 248 Queen's Road East Property

Portfolio Overview

Office Portfolio Review

GRADE B OFFICE PROPERTIES

Central-Sheung Wan

Sunlight REIT manages four Grade B office buildings in the Central-Sheung Wan district, namely Bonham Trade Centre Property, 135 Bonham Strand Trade Centre Property, 235 Wing Lok Street Trade Centre Property and Winsome House Property with a total GRA of 274,223 sq. ft. The district is benefiting from spillover demand from nearby Grade A offices, an evolving trend that is particularly beneficial to Bonham Trade Centre Property.

Strategically located at the fringe of the core business district, these properties appeal to small- and medium-sized firms in the trading and service industries. During the Reporting Period, the Manager initiated the relocation of smaller tenants from Bonham Trade Centre Property to 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre Property, a strategy that is intended to attract quality tenants demanding larger units at Bonham Trade Centre Property which offer floor plates of over 4,000 sq. ft.. This approach served the dual purpose of meeting the current spillover demand and reducing the volatility and risk generally associated with exposure to small business proprietors. Aided by the Adjustment Payments mechanism, income stream was not disrupted even though implementation of the strategy resulted in lower retention rates and longer lease up periods. Coupled with adequate landlord provisions and innovative marketing efforts, this ongoing strategy will redefine and transform the tenancy profile of this portfolio, providing long term benefit to unitholders.

The Manager is also planning to upgrade the office lift lobby and to refurbish the retail space of Bonham Trade Centre Property in the future to capture the promising opportunities arising from the district's robust retail activities.



Artist's impression of the proposed upgrade at Bonham Trade Centre Property

Kowloon

Sunlight REIT manages four Grade B office buildings in the Mongkok-Tsim Sha Tsui district, with a total GRA of 124,041 sq. ft.. They are Righteous Centre Property, Everglory Centre Property, Sun Fai Commercial Centre Property and Wai Ching Commercial Building Property.

The Kowloon office properties are mainly located in Tsim Sha Tsui and Mongkok, two of the peninsula's major shopping areas and transport interchanges, providing mainline train services and underground lines as well as bus and taxi services. Given their boutique-sized office spaces, the Manager has been more accommodating with its leasing policy, providing furnished executive offices and flexible leasing terms to attract owner-occupiers and smaller occupiers in the trading sector.

Other than traditional office leasing, the Manager also actively explored additional rental income streams from the Kowloon properties. An example would be strengthening the revenue base of Righteous Centre Property by leasing out the outdoor billboard advertising spaces targeting the younger demographics in the surrounding communities. The Manager believes similar opportunities exist for the other three properties located in the district and will continue to explore such revenue options in the future.



Outdoor billboard at Righteous Centre Property

Others (Hong Kong Island)

Apart from 248 Queen's Road East Property, Sunlight REIT manages three Grade B office buildings on Hong Kong Island, with a combined GRA of 106,238 sq. ft.. They are On Loong Commercial Building Property, Java Road 108 Commercial Centre Property and Yue Fai Commercial Centre Property.

These office properties enjoy the benefits of the value-chain clusters in their vicinity. For instance, On Loong Commercial Building Property is situated near a well-known cluster of construction materials and interior design shops along Lockhart Road, and over 40% of its rental contribution is derived from the construction service sector. During the Reporting Period, the Manager carried out drainage improvement works and minor renovations in the common area to maintain the building's competitiveness, thus ensuring occupancy and rental stability in the future.

Commanding a panoramic harbour view and within walking distance to the North Point MTR Station, Java Road 108 Commercial Centre Property appeals to many business operators located in North Point, a traditional hub for printing and media companies.

Catering to the Aberdeen community's needs, tenants of Yue Fai Commercial Centre Property mainly comprise service trades (such as beauty and educational services) and local community groups (such as churches and charitable organisations) which occupy more than half of the total GRA of the property.

Retail Portfolio Review

Enhancing quality of life
for a growing population

Metro City Phase I Property



Food and beverage, health and beauty, and educational services have been identified as the key themes to reinvigorate the shopping centre



NEW TOWN RETAIL PROPERTIES

Metro City Phase I Property

Metro City Phase I Property is an integral part of the Metro City complex. Located in Tseung Kwan O new town, it was one of the first regional shopping malls in Kowloon East, providing approximately 188,889 sq. ft. of retail space and 452 parking spaces. The property provides a comfortable environment for shoppers, with high ceilings, spacious circulation areas and a large skylight atrium. The design meets the needs of a large catchment population, which extends beyond Tseung Kwan O to Sai Kung and Clearwater Bay, offering shopping, dining, entertainment and leisure facilities under the same roof. As well as functioning as a community hub, Metro City Phase I Property is well positioned to attract middle-income consumers.

Connected to excellent public transport links, and with footbridges to the Po Lam MTR Station and to Metro City Phases II and III, Metro City Phase I Property is highly accessible for both retailers and customers from nearby residential developments. In order to offer shopping convenience and foster shopper loyalty, the Manager has adopted a customer-driven strategy by re-establishing the tenant mix of the shopping mall. Food and beverage, health and beauty, and educational services have been identified as the key themes to reinvigorate the shopping centre. At the time of writing, the Manager, in cooperation with a number of healthcare industry tenants, has established the "Metro Health Avenue". The Manager has also reinforced marketing efforts by introducing innovative marketing campaigns, particularly during festive periods.

During the Reporting Period, a total of 27,236 sq. ft. of GRA was either renewed or committed, and the Manager was able to increase average unit rent for leases committed to approximately HK\$37.1 per sq. ft.. As occupancy improved from approximately 90.8% as of the listing to 96.8% in June 2007, we expect to see sustainable growth momentum in the rental rate going forward.



A "Pocari" sponsored event on "How to prevent heart stroke"



The entrance to Metro Health Avenue

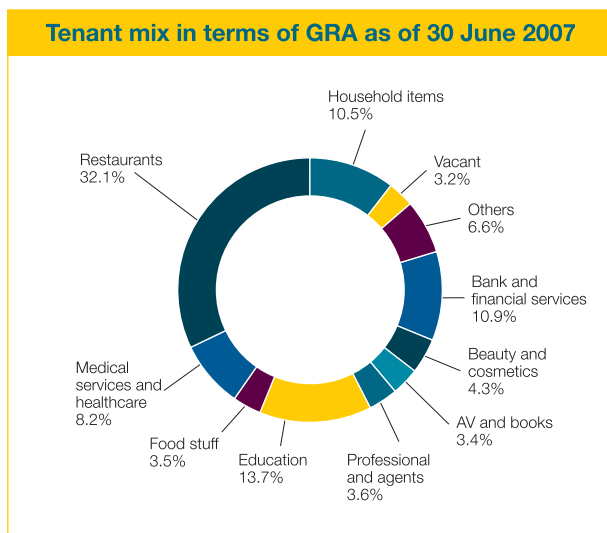


Thai-boxing demonstration

Portfolio Overview

Retail Portfolio Review

In order to improve the comfort of patrons, there are plans to enclose and air-condition the footbridge connecting Po Lam MTR Station and Metro City Phase I Property. The design has been approved by the Advisory Committee on the Appearance of Bridges and Associated Structures of Highways Department, and it is now being considered by the Safety and Security Coordinating Committee, an inter-departmental Government committee.



While overall rental and occupancy has improved, there is a clear rental difference between the two levels of the property; for leases committed during the Reporting Period, the average unit rental achieved on the ground floor was at a 30% discount to that of the second floor. A recent study commissioned by the Manager has indicated that approximately 75% of the footfall is confined to the second floor which provides the primary linkage to the closest MTR exit, which implies that the ground floor of the retail complex has yet to fully capture the benefits of the revitalised trade mix and shopping environment.

In order to rectify the situation, one of the Manager's strategies involves the introduction of larger anchor tenants on the ground floor. A strong destination retailer can generally operate successfully in quieter locations as shoppers are prepared to make a greater effort to visit their stores. Meanwhile, additional revenue can also be generated by replacing the secondary corridor(s) with rentable area. While anchor tenants in general pay lower average unit rent, this should be more than compensated by turnover rent and/or incidental rental increases in other areas of the centre as a result of improved circulation and increased lettable space.



Ground floor of Metro City Phase I Property (above)
Artist's impression of the proposed enhancement (below)



Strategically located, Sheung Shui Centre Shopping Arcade Property caters to a sizeable local population and benefits from the growing volume of cross-border travellers



Well positioned for cross-border success

Sheung Shui Centre Shopping Arcade Property



Portfolio Overview

Retail Portfolio Review

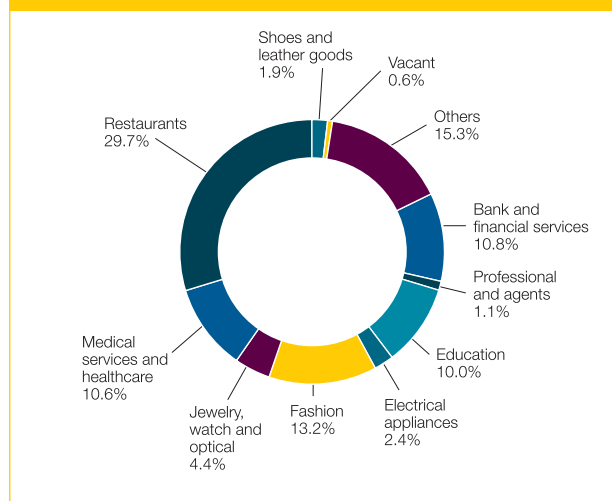
Sheung Shui Centre Shopping Arcade Property

Sheung Shui Centre Shopping Arcade Property is one of the largest shopping centres in Sheung Shui-Fanling New Town. It has a GRA of 122,339 sq. ft. and is strategically located beside the Sheung Shui KCR Station, an interchange point of the KCR East Rail and the new KCR Lok Ma Chau Spur Line which is designed to ease and stimulate the volume of cross-border passengers between Hong Kong and Shenzhen. It is connected by a covered footbridge to Sheung Shui KCR Station and is readily accessible by various forms of public transport.

The property serves a large population in Sheung Shui and Fanling new towns which constitute the core North District of the New Territories. Moreover, the Planning Department of the Hong Kong Government has estimated that the overall population of the North District will increase from 280,730 currently to 324,500 by 2012. In addition to the local catchment, a substantial number of visitors to the property are Mainland day shoppers. Commissioned by the Manager, a survey has been conducted by the City University of Hong Kong which indicated that the daily circulation through the property exceeded 40,000. Following the opening of the KCR Lok Ma Chau Spur Line in August 2007, Sheung Shui Centre Shopping Arcade Property is expected to benefit further from an increased volume of cross-border travellers and the resulting growth in consumption.

As more Mainland travellers arrive under the expanding "Individual Traveller Scheme", the Manager has restructured the tenant mix and sought more well-known retailers in cosmetics, healthcare, telecommunications and financial services. As of 30 June 2007, the property's occupancy level stood at 99.4%, while average market rental achieved for leases committed during the Reporting Period was approximately HK\$58.6 per sq. ft.. Excluding food and beverages, the average market rental achieved exceeded HK\$90.0 per sq. ft..

Tenant mix in terms of GRA as of 30 June 2007



A rock climbing event during the Easter holidays



"XBox 360" promotion event

Notwithstanding its consistently high occupancy and superior rental performance, the Manager recognises that it is essential to continuously upgrade the property in order to increase its competitiveness and strengthen rental sustainability. Completed in 1993, the property is due for refurbishment and the Manager will execute this program in phases. According to our survey, tenants and shoppers generally find that the trade mix in the property is suitably positioned among its competition in the district and adequately caters to demand from both local residents and mainland tourists transiting through the Sheung Shui KCR Station. As such, the Manager will initially focus on basic refinements and enhancements, including improving amenities and the rental value associated with secondary corridors.



A secondary corridor at Sheung Shui Centre Shopping Arcade (above)
Artist's impression of the proposed enhancement (below)

Kwong Wah Plaza Property

Kwong Wah Plaza Property is a modern, high-quality, 17-storey retail and office building measuring 64,842 sq. ft. in GRA. It is located in the town centre of Yuen Long facing Tai Tong Road, one of the busiest streets within the new town. The West Rail project and other major infrastructural developments have changed the face of Yuen Long from a traditional market town into a vibrant and dynamic satellite town. Its rapidly growing population and retail activities benefit the retail tenants located in the three-storey retail arcade at Kwong Wah Plaza Property. Limited office supply in the area also ensures that well-known names in financial and insurance services use the building to maintain a presence in Yuen Long. As of 30 June 2007, Kwong Wah Plaza Property reported an occupancy level of 98.3%, while leases committed during the Reporting Period achieved a unit rental of approximately HK\$26.0 per sq. ft..

Other Retail Properties

Situated within a few minutes' walking distance from the Tsim Sha Tsui MTR and East Tsim Sha Tsui KCR Stations, Beverley Commercial Centre Property is close to The Hong Kong Polytechnic University and provides convenient proximity to the nearby college and high-school students. The property has a GRA of 7,934 sq. ft. and is a popular shopping centre in the vicinity, accommodating smaller units of hip fashion boutiques and functioning as a meeting place for young people, where shoppers can catch a glimpse of fashion-design students and their showcases. A majority of the tenants are fashion and accessories retailers.

In addition, Sunlight REIT manages four other retail properties, namely Royal Terrace Property, Supernova Stand Property, Glory Rise Property and Palatial Stand Property in Hong Kong. These properties altogether provide 29,502 sq. ft. of neighbourhood retail facilities on the street level of housing complexes, serving the daily shopping needs of households with groceries, fast food and various other services.

Management Discussion and Analysis

Operation Review

BUOYANT OPERATING ENVIRONMENT

The Hong Kong economy continued to forge ahead in the first half of 2007, benefiting from continuing economic growth in Mainland China. This was particularly apparent in the second quarter, as gross domestic product achieved a year-on-year growth of 6.9%, up from the respectable 5.7% registered in the first quarter. Private consumption also accelerated, as inbound tourism, growing domestic demand and a buoyant stock market led to an impressive 5.3% and 6.6% year-on-year growth for the first and second quarter respectively. Against this positive economic backdrop, the property investment market in Hong Kong continued to prosper as many local and overseas companies consider business expansion as a key priority.

Both domestic and multinational companies have committed to expansion and relocation plans under this atmosphere of economic growth. Despite the imminent supply of quality office space at locations outside central business districts, an increasing spillover demand into decentralised business areas such as Sheung Wan, Wanchai and Island East continues to support growth in both occupancy and rentals. According to Debenham Tie Leung International Property Advisers (“DTZ”), Grade A office vacancy rates in Sheung Wan and Island East fell by 0.9% and 0.8% during the first six months of 2007 to 5.1% and 4.0% respectively. During the same period, improvements were also noted in Wanchai/Causeway Bay and Tsim Sha Tsui, with vacancies in both districts dropping by 0.4% to 3.9% and 3.2% respectively. DTZ also noted continued improvement in rental rates in the first six months of 2007, with rentals in Wanchai/Causeway Bay and Tsim Sha Tsui registering an average of 5.4% growth.

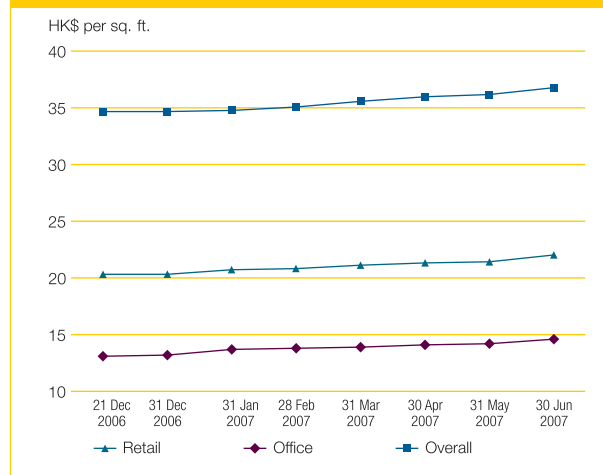
The local retail property sector saw significant rental growth across most shopping districts in the first half of 2007, driven by sustained sales and volume growth in the industry. According to government statistics, total retail sales values and volume increased by 9.3% and 7.2% on a year-on-year basis. Visitors, particularly tourists from the Mainland, have been the impetus

driving retail business as retail sales of jewellery, watches and clocks, and valuable gifts (which are most frequently purchased by Mainland shoppers) outperformed the sector with value and volume growing by 18.8% and 9.3% respectively over the same period.

SUNLIGHT REIT’S DIVERSIFIED PORTFOLIO CAPITALISING ON THE ROBUST ECONOMY

Sunlight REIT has witnessed an improvement in passing rental across its Portfolio since the IPO. Benefiting from the positive reversion cycle, the office properties achieved an average passing rental growth of 11.5% from HK\$13.1 per sq. ft. on the Listing Date to HK\$14.6 per sq. ft. as of 30 June 2007 while the retail properties’ passing rental increased by 6.1% from HK\$34.6 per sq. ft. to HK\$36.7 per sq. ft.. For the Portfolio as a whole, net property income for the Reporting Period amounted to HK\$148.4 million.

Trends in passing rental during the Reporting Period



Note: Passing rental is calculated on the basis of average rental for all leased GRA on the relevant date.

During the Reporting Period, occupancy levels across the Portfolio registered noticeable improvement. As of 30 June 2007, office and retail occupancy reached 91.9% and 97.7% respectively.

Trends in occupancy during the Reporting Period

Property	As of 21 December 06 (%)	As of 31 March 07 (%)	As of 30 June 07 (%)
Office			
248 Queen's Road East Property	90.2	89.7	94.0
Bonham Trade Centre Property	88.1	91.9	87.1
135 Bonham Strand Trade Centre Property	87.2	92.1	98.6
235 Wing Lok Street Trade Centre Property	68.4	76.1	83.1
Winsome House Property	91.5	94.3	100.0
Everglory Centre Property	92.6	95.2	95.2
Righteous Centre Property	91.1	88.4	89.2
Sun Fai Commercial Centre Property	74.5	75.4	85.0
Wai Ching Commercial Building Property	65.1	76.2	75.1
On Loong Commercial Building Property	93.6	100.0	100.0
Java Road 108 Commercial Centre Property	80.7	86.5	94.2
Yue Fai Commercial Centre Property	76.2	80.0	84.8
Office average occupancy	86.7	88.7	91.9
Retail			
Metro City Phase I Property	90.8	93.8	96.8
Sheung Shui Centre Shopping Arcade Property	95.3	95.6	99.4
Kwong Wah Plaza Property	95.5	97.9	98.3
Beverley Commercial Centre Property	76.6	79.7	89.8
Royal Terrace Property	100.0	97.3	97.3
Supernova Stand Property	88.4	100.0	100.0
Glory Rise Property	49.4	49.4	90.0
Palatial Stand Property	100.0	58.7	100.0
Retail average occupancy	92.3	93.4	97.7
Portfolio average occupancy	88.5	90.2	93.8

Note: Occupancy rates are calculated on the basis of occupied GRA as a proportion of total GRA on the relevant date.

Management Discussion and Analysis

Operation Review

STRONG TENANT BASE SUPPORTS RENTAL GROWTH

The Portfolio has a diverse tenant base, with a total of 1,015 tenancies as of 30 June 2007. The 10 largest tenants by rental income, which contributed approximately 16.0% of the total rental income for June 2007, occupied approximately 13.0% of total GRA.

Top 10 tenants in terms of rental income as of 30 June 2007

Tenant name	Trade category	% of total monthly rent	% of total GRA
Bank of Communications Co. Ltd.	Bank and financial services	2.3	0.6
Forever Sky (Asia) Limited	Restaurant	2.3	1.6
The Dairy Farm Company Limited	Supermarket	2.1	0.7
Tenant A ^{note}	Medicine, healthcare and supermarket	1.6	1.2
Anglo-Eastern Ship Management Limited	Shipping, logistics and transportation	1.5	2.6
Cosmos Inc. Limited	Restaurant	1.4	1.9
Government Property Agency	Government and related organisations	1.4	1.2
Hang Seng Bank Limited	Bank and financial services	1.3	0.6
The Hongkong and Shanghai Banking Corporation Limited	Bank and financial services	1.1	0.4
PCCW Teleservices (Hong Kong) Limited	Telecommunication	1.0	2.2
		16.0	13.0

Note: Tenant requests for anonymity.

For the Portfolio as a whole, the average monthly rental per sq. ft. achieved for all leases committed during the Reporting Period was approximately HK\$25.0 per sq. ft..

Average rental achieved for leases committed during the Reporting Period		
Property	Area committed (sq. ft.) note 1	Average monthly rental achieved per sq. ft. (HK\$) note 2
Office		
248 Queen's Road East Property	48,505	23.5
Bonham Trade Centre Property	46,881	15.3
135 Bonham Strand Trade Centre Property	29,121	14.7
235 Wing Lok Street Trade Centre Property	21,009	10.8
Winsome House Property	10,295	23.0
Everglory Centre Property	5,025	19.3
Righteous Centre Property	13,471	17.8
Sun Fai Commercial Centre Property	8,034	18.4
Wai Ching Commercial Building Property	4,792	7.3
On Loong Commercial Building Property	8,547	29.8
Java Road 108 Commercial Centre Property	14,990	16.9
Yue Fai Commercial Centre Property	10,113	11.3
Sub-total	220,783	17.6
Retail		
Metro City Phase I Property	27,236	37.1
Sheung Shui Centre Shopping Arcade Property	39,273	58.6
Kwong Wah Plaza Property	14,562	26.0
Beverly Commercial Centre Property	3,111	26.1
Royal Terrace Property	5,463	30.2
Supernova Stand Property	489	26.6
Glory Rise Property	3,693	24.0
Palatial Stand Property	3,566	8.0
Sub-total	97,393	41.8
Total	318,176	25.0

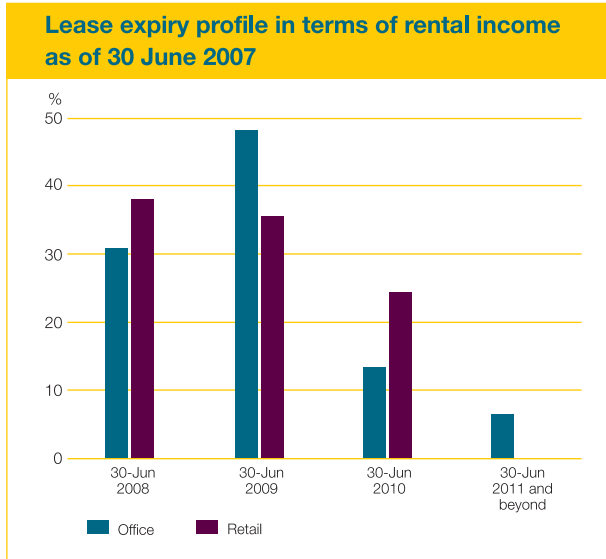
Notes:

1. Area committed included new letting and renewal during the Reporting Period.
2. Average rental achieved is calculated using face rent in terms of gross area.

Management Discussion and Analysis

Operation Review

As of 30 June 2007, the weighted average lease length per sq. ft. stood at 2.5 years for both office and retail properties.



COST-EFFECTIVE MANAGEMENT APPROACH BOOSTS SAVINGS

The Manager has been disciplined and systematic in its attempts to improve the cost-to-income ratio, which stood at 25.9% for the Reporting Period. While seasonal factors contributed to a reduction in utility expenses during this shortened financial year, the Manager has also achieved significant savings through optimising the repair and maintenance schedule, reducing reliance on external property agents through direct communication with potential tenants, and streamlining property management operations.

STABLE UTILISATION RATE IMPROVES CAR PARK INCOME

There are a total of 844 car parking spaces in the Portfolio, generating gross income of approximately HK\$10.4 million during the Reporting Period, or equivalent to approximately HK\$1,944 per parking space per month.

Financial Review

Financial highlights

Key financial figures

(in HK\$' million, unless specified)

	Actual	IPO forecast
Turnover	200.3	216.6
Property operating expenses	51.9	65.1
Net property income	148.4	151.5
Profit after tax ^{note 1}	940.1	62.8
Annual distributable income ^{note 2}	141.8	122.0
Cost-to-income ratio	25.9%	30.1%
Portfolio valuation ^{note 3}	9,558.0	9,090.0

Key unit data

	Actual	IPO forecast
DPU ^{note 4}	13.51 HK cents	11.62 HK cents
Annualised distribution yield ^{note 5}	11.4%	8.5%
Net asset value per unit ^{note 3}	HK\$ 3.19	HK\$ 2.76

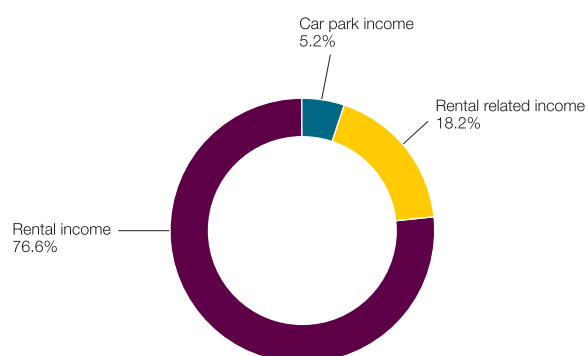
Notes:

1. The profit after tax for the Reporting Period included a net increase in fair value of investment properties of HK\$468.0 million and the excess of interest in fair values of identifiable net assets acquired over cost of combination of HK\$533.6 million (including Adjustment Payments of HK\$59.8 million as detailed below) whereas that of the IPO forecast did not assume or include such items, except for the Adjustment Payments.
2. The annual distributable income for the Reporting Period and under the IPO forecast referred to such amount for the period from the Listing Date to 30 June 2007.
3. No forecasts were made for asset values, comparison is against valuation or pro forma figures disclosed at the time of IPO.
4. A total of 441,642,638 units owned by certain unitholders (who agreed to waive their entitlements to distributions for any period up to 30 June 2011) was assumptively excluded in the calculation of DPU.
5. Calculations are based on annualised DPU and the unit price of Sunlight REIT as at the end of the Reporting Period of HK\$2.25.

TURNOVER

During the Reporting Period, turnover (being the aggregate of rental income, car park income and rental related income) amounted to HK\$200.3 million. This was less than the IPO forecast level (refer to table above) as a result of the Manager's decision to focus on improving the quality of the tenant base rather than seeking an immediate rise in occupancy levels.

Turnover breakdown



Management Discussion and Analysis

Financial Review

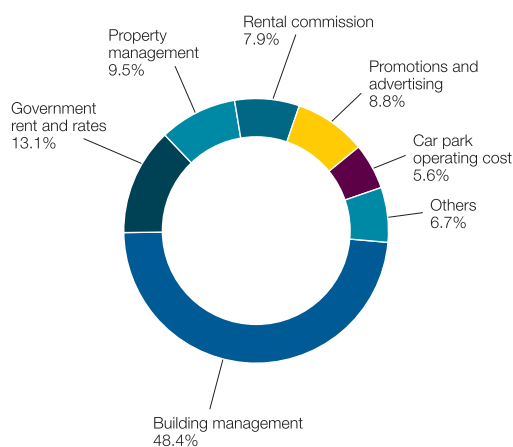
EXPENSES

Property operating expenses for the Reporting Period amounted to HK\$51.9 million, achieving a 20.3% savings as compared with the IPO forecast level of HK\$65.1 million. As discussed in the “Operation Review” section, the Manager’s cost control measures included a reduction in repair and maintenance expenses as well as savings on commissions paid to external agents.

EMPLOYEES

Sunlight REIT is managed by the Manager. Sunlight REIT does not employ any staff itself.

Breakdown of property operating expenses



Top five real estate agents and contractors in terms of expenses

Real estate agents and contractors	Nature of service	Value of contract (HK\$'000)	Relevant cost (%)
Henderson Sunlight Property Management Limited	Leasing, marketing and building management	13,941	35.2
Hang Yick Properties Management Limited	Building management	4,066	10.2
Megastrength Henderson Security Services Limited	Security services	1,846	4.7
Winston Air Conditioning & Engineering (Hong Kong) Company Limited	Repairs and maintenance	1,335	3.4
Ngai Lik Cleaning Services Company Limited	Cleaning services	1,276	3.2
Total		22,464	56.7

NET PROPERTY INCOME

After deducting direct costs (which comprised property management fees and other operating expenses), net property income for the Reporting Period amounted to HK\$148.4 million.

Turnover and net property income by property		
Property	Turnover (HK\$'000)	Net property income (HK\$'000)
Office		
248 Queen's Road East Property	40,693	31,247
Bonham Trade Centre Property	10,405	7,140
135 Bonham Strand Trade Centre Property	5,207	3,859
235 Wing Lok Street Trade Centre Property	2,905	1,969
Winsome House Property	5,389	4,493
Everglory Centre Property	3,066	2,381
Righteous Centre Property	6,694	5,400
Sun Fai Commercial Centre Property	2,210	1,390
Wai Ching Commercial Building Property	734	237
On Loong Commercial Building Property	2,904	1,992
Java Road 108 Commercial Centre Property	3,237	2,232
Yue Fai Commercial Centre Property	3,084	2,068
Sub-total	86,528	64,408
Retail		
Metro City Phase I Property	43,693	31,049
Sheung Shui Centre Shopping Arcade Property	53,039	39,581
Kwong Wah Plaza Property	10,775	8,559
Beverley Commercial Centre Property	1,305	849
Royal Terrace Property	2,058	1,599
Supernova Stand Property	1,136	1,031
Glory Rise Property	1,187	910
Palatial Stand Property	554	365
Sub-total	113,747	83,943
Total	200,275	148,351

Financial Review

ADJUSTMENT PAYMENTS

Pursuant to several Deeds of Adjustment Payments, all dated 2 December 2006, the aggregate adjustment payments to Sunlight REIT for the Reporting Period amounted to HK\$59.8 million, representing the difference between the relevant consolidated rental income and the assured minimum rental per annum, calculated on a pro rata basis in respect of the Reporting Period.

PROFIT AFTER TAX

After accounting for, among others, the excess of interest in fair value of the acquirees' identifiable net assets over cost of combination of HK\$533.6 million (including Adjustment Payments as discussed above), the net increase in fair value of investment properties of HK\$468.0 million and finance costs of HK\$94.5 million, profit after taxation of Sunlight REIT for the Reporting Period was HK\$940.1 million.

DISTRIBUTION

For the Reporting Period, the annual distributable income of Sunlight REIT was HK\$141.8 million, which exceeded the IPO forecast by 16.3%. The annual distributable income is calculated by the Manager as representing the audited consolidated net profit after tax of Sunlight REIT, adjusted to factor in the effects of certain items as set out in the "Distribution Statement" on page 99 of this annual report.

In accordance with the offering circular of Sunlight REIT dated 8 December 2006 (the "**Offering Circular**"), the Manager set a policy to distribute 100% of Sunlight

REIT's annual distributable income for each financial year to unitholders. Pursuant to the trust deed constituting Sunlight REIT dated 26 May 2006 entered into among Uplite Limited, as settlor, HSBC Institutional Trust Services (Asia) Limited (the "**Trustee**") and the Manager (as supplemented by two supplemental deeds dated 1 June 2006 and 28 November 2006) (collectively the "**Trust Deed**"), Sunlight REIT is in any event required to ensure that the total amount distributed or distributable to unitholders shall be no less than 90% of Sunlight REIT's annual distributable income for each financial year.

In addition, the subsidiaries of both SKFE and HLD have agreed to waive their entitlements, in varying extent, to receive distributions of Sunlight REIT declared until 30 June 2011 pursuant to two Deeds of Distribution Waiver as disclosed in the Offering Circular. Taking into account such distribution waivers, the DPU for the Reporting Period will amount to 13.51 HK cents.

PORTFOLIO VALUATION

Independent valuer, Savills Valuation and Professional Services Limited, valued the Portfolio at HK\$9,558 million as of 30 June 2007. This represents an increase of 5.1% from the valuation as of 30 September 2006. Of this total appraised value, office properties accounted for 49.2% and registered a 7.7% growth since 30 September 2006, while retail properties accounted for 50.8% and recorded a 2.8% increase over the same period.

NET ASSETS

As of 30 June 2007, net assets attributable to unitholders amounted to HK\$4,754.7 million, or HK\$3.19 per unit. All investment properties of Sunlight REIT and all bank balances held under the name of Sunlight REIT Treasury Limited, a subsidiary of Sunlight REIT, were mortgaged or charged to The Hongkong and Shanghai Banking Corporation Limited, in its capacity as the security trustee for the term loan and revolving credit facilities granted by the principal bankers to Sunlight REIT.

CAPITAL STRUCTURE MANAGEMENT

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\$3,866.2 million from the IPO together with HK\$3,950 million of bank financing were applied towards the acquisition of the Portfolio and various property companies, and the payment of costs and expenses associated with the listing including debt and swap-related payments.

During the Reporting Period, Sunlight REIT had in place total loan facilities of HK\$4,050 million, of which the HK\$3,950 million term loan facility had been fully drawn on the Listing Date, while there was a further HK\$100 million revolving credit facility that remained undrawn. Both the term loan and the revolving credit facilities have a term of five years. As of 30 June 2007, the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, was 38.0%. For the Reporting Period, total borrowing costs amounted to HK\$94.5 million.

NEW UNITS ISSUED

Except for an aggregate of 4,765,433 units issued to the Manager in lieu of payment of the Manager's fees, there were no new units issued during the Reporting Period.

HEDGING POLICY

The Manager employs a prudent and efficient capital management strategy by utilising an appropriate mix of debt and equity capital. In order to minimise financial market risks and maintain financial flexibility, Sunlight REIT has entered into interest rate swap arrangements, under which interest rates of the term loan have been effectively fixed at a flat rate of 3.0% per annum for the period from the Listing Date to 30 June 2007 and 3.5% per annum throughout the remaining period up to 30 June 2011.

LIQUIDITY

As of 30 June 2007, Sunlight REIT had a total bank and cash balance of HK\$210.8 million, including tenants' deposits of HK\$89.6 million. Taking into consideration the current cash position and the unutilised credit facility available, it has sufficient financial resources to satisfy its working capital, distribution payment and capital expenditure requirements.

Management Discussion and Analysis

Financial Review

CONTINGENT LIABILITIES

The contingent liabilities of Sunlight REIT amounted to HK\$4.7 million as of 30 June 2007. These represent the guarantee given by Sunlight REIT to a commercial bank to secure a banking facility granted to a subsidiary of Sunlight REIT.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Save for the initial acquisitions for the establishment of Sunlight REIT (as detailed in the Offering Circular), no acquisitions or disposals were made during the Reporting Period. At the time of writing, the Manager has not entered into any negotiation to acquire further properties on behalf of Sunlight REIT.

As the Manager will actively identify, evaluate and execute property acquisition opportunities for Sunlight REIT going forward, HLD has also committed that, as soon as practicable after the first anniversary of the IPO,

and in any event within 18 months from the IPO, it will make available at least two office and/or retail properties in Hong Kong for sale to Sunlight REIT with an aggregate value not less than 30% of total appraised value of the existing properties of Sunlight REIT as at 30 September 2006. It is the intention of the Manager to fully capitalise on this commitment in order to grow the Portfolio and enhance return to unitholders. Any acquisition will be funded by a combination of debt and equity.

FORWARD-LOOKING STATEMENTS

This annual report contains several statements that are “forward-looking” or which use certain “forward-looking” terminologies. These statements are based on the current beliefs, assumptions, expectations and projections of the Board regarding the industry and markets in which Sunlight REIT operates. These statements are subject to risks, uncertainties and other factors beyond the Manager’s control.



DRIVEN BY TEAMWORK

Skilled management, forward-thinking vision and commitment to unitholders are the hallmarks of Sunlight REIT's seasoned group of property and investment professionals

□ Directors and Senior Management

Board of Directors



MR. KAN FOOK YEE

Chairman and Non-executive Director

Mr. Kan Fook Yee, aged 71, is the Chairman and Non-executive Director of the Manager and mainly responsible for overall leadership of the Board on the corporate strategy and direction of the Manager. He has over 31 years of experience in the real estate and property field and had a legal practice as a Barrister-at-law in Hong Kong before joining the Manager.

During his long career in the property business, Mr. Kan was a highly respected member of the surveying profession. He is a fellow member of the Hong Kong Institute of Surveyors and was elected the Founding President of the Institute in 1984. He is currently a member of the National People's Congress and is also an adviser to the Heung Yee Kuk.

Mr. Kan holds a Master of Laws degree from The University of Hong Kong and a Bachelor of Laws degree from the University of London. He is also a fellow member of the Chartered Institute of Arbitrators and a fellow member of the Hong Kong Institute of Arbitrators.



MR. WU SHIU KEE, KEITH

Chief Executive Officer and Executive Director

Mr. Wu Shiu Kee, Keith, aged 43, is the Chief Executive Officer, Executive Director and a Responsible Officer of the Manager. He has 20 years of experience in the property, corporate finance, asset management and research related fields.

From 1997 to 2005, Mr. Wu was an Executive Director of Lai Sun Development Company Limited ("Lai Sun Development"), where he was responsible for overseeing corporate finance related matters of the Lai Sun Group, notably including the corporate restructuring of Lai Sun Development and the initial public offering of SUNDAY Communications Limited. He also held senior research and management positions with a variety of leading financial institutions in Hong Kong.

Mr. Wu holds a Master of Science degree in Engineering-Economic Systems (since renamed Management Science and Engineering) from Stanford University, the United States and a Bachelor of Science degree in Economics and Statistics (High Distinction) from the University of Toronto in Canada.



MR. KWOK PING HO

Non-executive Director

Mr. Kwok Ping Ho, aged 55, is a Non-executive Director of the Manager.

Mr. Kwok has also been an Executive Director of HLD since December 1993 and an Executive Director of Henderson Investment Limited since September 1988.

Mr. Kwok holds a Master of Science degree in Administrative Sciences from the City University Graduate Business School, London, a Post-Graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London. He is also an associate member of The Chartered Institute of Bankers (A.C.I.B.) of the United Kingdom and has previously been a part-time lecturer for the MBA programme of The University of Hong Kong.

Mr. Kwok has over 26 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury and project management activities of both the Henderson Land Group and the Henderson Investment Group of companies since 1987, including group re-organisation, privatisation proposals and corporate acquisitions.



MR. KWAN KAI CHEONG

Independent Non-executive Director

Mr. Kwan Kai Cheong, aged 58, is an Independent Non-executive Director of the Manager.

Mr. Kwan is presently the President of Morrison & Company Limited, which is a business consultancy firm; a Non-executive Director of China Properties Group Limited; an Independent Non-executive Director of Hutchison Telecommunications International Limited (also listed on the New York Stock Exchange), Hutchison Harbour Ring Limited, Soundwill Holdings Limited, Win Hanverky Holdings Limited and SPG Land (Holdings) Limited, shares of which are listed on the Main Board of the SEHK. He is also a Non-executive Director (formerly an Executive Director and re-designated as a Non-executive Director on 22 January 2007) of China Medical and Bio Science Limited (formerly China Medical Science Limited) and an Independent Non-executive Director of JF Household Furnishings Limited and T S Telecom Technologies Limited, shares of which are listed on the Growth Enterprise Market of the SEHK.

Mr. Kwan holds a Bachelor of Accountancy (Honours) degree from the University of Singapore (since renamed National University of Singapore). He is also a member of the Institute of Chartered Accountants in Australia, a member of the Hong Kong Institute of Certified Public Accountants and a fellow of The Hong Kong Institute of Directors. He completed the Stanford Executive Program in 1992.



MR. MA KWONG WING

Independent Non-executive Director

Mr. Ma Kwong Wing, aged 61, is an Independent Non-executive Director of the Manager.

Mr. Ma served with Hang Seng Bank Limited ("Hang Seng Bank") for over 30 years in various business areas and functions. He was appointed Company Secretary of Hang Seng Bank in 1988 and Assistant General Manager (while remaining as Company Secretary) in January 1993. He retired from Hang Seng Bank in October 2005.

Mr. Ma is a Fellow of the Association of Chartered Certified Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, an associate member of The Chartered Institute of Bankers and The Hong Kong Institute of Bankers and a member of the Hong Kong Securities Institute.



DR. TSE KWOK SANG

Independent Non-executive Director

Dr. Tse Kwok Sang, aged 51, is an Independent Non-executive Director of the Manager.

Dr. Tse is currently Associate Professor of Finance, Associate Dean (Taught Postgraduate Programs and Development), and the director of the Centre for Asian Entrepreneurship and Business Values of the Faculty of Business and Economics of The University of Hong Kong.

Dr. Tse has published widely on the subject of real estate finance and economics, financial regulations and capital markets and investments. He has been serving on the examination panel of the Estate Agents Authority of Hong Kong since 1999. He has been a member of the Citizens Advisory Committee on Community Relations of the Independent Commission Against Corruption since 2004. He has also been engaged in a consulting capacity by the Estate Agents Authority of Hong Kong, the Hong Kong Monetary Authority, Merrill Lynch (Asia Pacific) Ltd. and the State of Indiana, the United States. He is also a Co-Opted Executive Councillor of the New Territories Heung Yee Kuk.

Dr. Tse holds a Ph.D. in Finance, a Master of Business Administration degree and a Master of Science degree in Statistics, all from Michigan State University, the United States, and a Bachelor of Science degree in Chemistry from The University of Hong Kong. He has also been an associate member of the Society of Actuaries (ASA) since 1991.

□ Directors and Senior Management

Executive Officers



From left to right: Mr. LAW Cho Wa, Ms. KAN Shuk Fan, Winnie, Mr. LEUNG Kwok Hoe, Kevin, Mr. WU Shiu Kee, Keith, Ms. CHEUNG Kam Yee, Mr. LEUNG Pei Sai, Ms. CHEUNG See Wing, Dorothy

MR. WU SHIU KEE, KEITH

Chief Executive Officer, Executive Director and Responsible Officer

Mr. Wu is responsible for implementation of the strategy and objectives as set by the Board and takes charge of the day-to-day management of the business of the Manager.

Details of his experience are set out in "Board of Directors" above.

MR. LEUNG KWOK HOE, KEVIN

Investment and Investor Relations Manager and Responsible Officer

Mr. Leung is responsible for, among other matters, formulating and implementing the Manager's investment management plans for Sunlight REIT, formulating and implementing fund investment strategy and policy, identifying, researching and evaluating potential acquisitions or divestments consistent with Sunlight REIT's investment strategy, and developing a research platform. He is also responsible for all communication with unitholders and other key stakeholders of Sunlight REIT.

Mr. Leung has over 13 years of experience in finance and treasury, investment and fund management fields. Prior to joining the Manager, he was the Investment Manager and a Responsible Officer of The Link Management Limited, the manager of The Link Real Estate Investment Trust.

Mr. Leung holds a Master of Applied Science in Biopharmaceutical from The University of New South Wales, Australia, a Bachelor of Economics degree and a Bachelor of Laws degree, both from The University of Sydney, Australia. He is also a Chartered Financial Analyst.

MR. LEUNG PEI SAI

Asset Management Manager and Responsible Officer

Mr. Leung is responsible for, among other matters, driving the performance of Sunlight REIT's entire property portfolio in line with the strategy and objectives of Sunlight REIT, planning and developing strategies for recommendation to the Chief Executive Officer and to the Board to meet profit targets for Sunlight REIT and to enhance profitability, and directing the development and implementation of marketing strategies and business development plans.

Mr. Leung has over 17 years of sales and leasing experience in the property industry. Prior to joining the Manager, he was an Assistant General Manager of the Portfolio Leasing Department of HLD.

Mr. Leung holds a Diploma (Honours) in Applied Biology from the Hong Kong Baptist University and a Hong Kong Estate Agent's Licence (Individual).

MS. CHEUNG KAM YEE

Corporate Services Manager

Ms. Cheung is responsible for, among other matters, company secretarial functions, analysing and seeking external legal advice on the business and operations of the Manager, human resources management, procurement and administrative support, supporting the Manager's core asset management and investment management functions through the provision of ancillary back-office services such as legal and corporate secretarial support, and ensuring the optimal efficiency and operation of the information technology systems.

Ms. Cheung has 8 years of business management, accounting, audit and leasing experience. Prior to joining the Manager, she was a senior leasing officer of the Portfolio Leasing Department of HLD.

Ms. Cheung holds a Post-Graduate Diploma in Corporate Administration and a Bachelor of Arts (Honours) degree in Accountancy, both from The Hong Kong Polytechnic University. She is also an associate member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

MR. LAW CHO WA

Financial Controller

Mr. Law is responsible for, among other matters, effective and efficient financial management, including statutory reporting, financial and management accounting, taxation, and cash flow management, reviewing and making recommendations on any financing matters, overseeing preparation of budgets, maintaining the integrity of the accounting systems and maintaining capital expenditure controls.

Mr. Law has over 20 years of experience in finance and accounting, company secretarial practice and business management. Prior to joining

the Manager, he was a Deputy General Manager of the Company Secretarial Department of HLD.

Mr. Law holds a Master of Business Administration degree and a Master of Science in Real Estate degree, both from The University of Hong Kong and a Post-graduate Diploma in Corporate Administration and a Professional Diploma in Accountancy, both from The Hong Kong Polytechnic University. He is also a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

MS. KAN SHUK FAN, WINNIE

Internal Auditor

Ms. Kan is responsible for, among other things, reviewing whether the internal control policies and procedures described in the Compliance Manual are operating as expected and reporting to the Board through the Audit Committee on any deficiencies discovered.

Ms. Kan has over 14 years of experience in the audit and finance field. Prior to joining the Manager, she was a senior internal auditor of the Airport Authority Hong Kong.

Ms. Kan holds a Master of Business Administration degree from The University of Manchester, a Bachelor of Laws (Honours) degree from the Manchester Metropolitan University and a Bachelor of Arts (Honours) degree in Accountancy from the City University of Hong Kong. She is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Kan is a Certified Internal Auditor and a Certified Information Systems Auditor awarded by The Institute of Internal Auditors and the Information System Audit and Control Association (ISACA) respectively.

MS. CHEUNG SEE WING, DOROTHY

Compliance Manager

Ms. Cheung is responsible for, among other things, ensuring that the Manager has implemented adequate internal systems and controls to comply with the Compliance Manual, the Trust Deed, the REIT Code, the Rules Governing the Listing of Securities on SEHK, the codes of conduct published by the Securities and Futures Commission ("SFC") which are applicable to the Manager, the Securities and Futures Ordinance, the other applicable laws, rules and regulations and is kept abreast of any changes in applicable laws, rules and regulations relating to compliance matters.

Ms. Cheung has 15 years of experience in the fields of compliance, corporate finance, legal and company secretarial. Prior to joining the Manager, she was a director and responsible officer of an SFC licensed corporation engaged in the provision of corporate finance advisory services.

Ms. Cheung holds a Master of Business Administration degree from the McGill University, Canada, and a Bachelor of Arts (Honours) degree in Accountancy and a Higher Diploma in Legal Studies, both from the City University of Hong Kong. She is also an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

□ Directors and Senior Management

Property Manager

MR. LEE KIU MING

General Manager

Mr. Lee is responsible for formulating and implementing business plans and strategies and business development of the Property Manager.

Mr. Lee has 16 years of marketing, leasing and property management experience in the property field in Hong Kong. Prior to joining the Property Manager, he was a Leasing Manager in the Portfolio Leasing Department of HLD.

Mr. Lee holds a Bachelor of Social Science degree from The Chinese University of Hong Kong and a Bachelor of Science degree (Estate Management) from the University of Reading in the United Kingdom.

MR. POON HUNG TAK

Chief Property Manager

Mr. Poon works with the General Manager to oversee the building operations of the Property Manager.

Mr. Poon has 21 years of experience in property management. Prior to joining the Property Manager, he was the Estate Manager of Goodwill Management Limited, a subsidiary of HLD.

Mr. Poon holds a Master of Business Administration in Construction and Real Estate from the University of Reading in the United Kingdom, a Bachelor of Arts degree from The University of Hong Kong and a Professional Diploma in Real Estate Administration from the School of



From left to right: Mr. CHAN Chin Fung, Mr. LAI Shu Tong, Eric, Mr. POON Hung Tak, Mr. LEE Kiu Ming, Mr. WONG Chi Ming, Mr. CHAN Kai Choi, Ms. IP Wai Kei, Silvia

Professional and Continuing Education of The University of Hong Kong. He is also a professional member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Real Estate Administration.

MR. WONG CHI MING

Chief Leasing Administration Manager

Mr. Wong is responsible for supervising the leasing management functions of the Property Manager.

Mr. Wong has over 17 years of marketing, leasing and property management experience in the property industry. Prior to joining the Property Manager, he was a Leasing Manager in the Portfolio Leasing Department of HLD.

Mr. Wong holds a Master of Corporate Governance degree from The Open University of Hong Kong and a Bachelor of Engineering degree from The University of Hong Kong. He is also an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

MR. LAI SHU TONG, ERIC

Senior Area Manager

Mr. Lai is responsible for overseeing the management of Metro City Phase I Property, Sheung Shui Centre Shopping Arcade Property and Kwong Wah Plaza Property.

Mr. Lai has worked in the property management field for various types of properties for more than 19 years. Prior to joining the Property Manager, he worked for Goodwill Management Limited, a subsidiary of HLD.

Mr. Lai holds a Professional Diploma in Housing Management from the School of Professional and Continuing Education of The University of Hong Kong. He is also a member of The Hong Kong Institute of Housing and a corporate member of the Chartered Institute of Housing Asian Pacific Branch.

MS. IP WAI KEI, SILVIA

Senior Area Manager

Ms. Ip is responsible for overseeing the management of 248 Queen's Road East Property, Java Road 108 Commercial Centre Property, On Loong Commercial Building Property, Glory Rise Property, Supernova Stand Property and Royal Terrace Property.

Ms. Ip has 8 years of experience in property management. Prior to joining the Property Manager, she worked for Goodwill Management Limited, a subsidiary of HLD.

Ms. Ip holds a Master of Housing Management degree from The University of Hong Kong and a Bachelor of Real Estate degree from The Hong Kong Polytechnic University. She is also a member of the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors (General Practice Division and Property and Facility Management Division).

MR. CHAN KAI CHOI

Senior Area Manager

Mr. Chan is responsible for overseeing the management of Bonham Trade Centre Property, 235 Wing Lok Street Trade Centre Property, 135 Bonham Strand Trade Centre Property, Winsome House Property and Yue Fai Commercial Centre Property.

Mr. Chan has worked in the property management field for various types of properties for more than 21 years. Prior to joining the Property Manager, he worked for Goodwill Management Limited, a subsidiary of HLD.

Mr. Chan holds a Professional Diploma in Housing Management from the School of Professional and Continuing Education of The University of Hong Kong. He is also a corporate member of The Chartered Institute of Housing.

MR. CHAN CHIN FUNG

Area Manager

Mr. Chan is responsible for overseeing the management of Everglory Centre Property, Righteous Centre Property, Palatial Stand Property, Sun Fai Commercial Centre Property, Wai Ching Commercial Building Property and Beverley Commercial Centre Property.

Mr. Chan has over 8 years of experience in property management. Prior to joining the Property Manager, he worked for Hang Yick Properties Management Limited, a subsidiary of HLD.

Mr. Chan holds a Bachelor degree in Housing Management from The University of Hong Kong, a Diploma in Housing Management and a Certificate in Housing Practice, both from the School of Professional and Continuing Education of The University of Hong Kong. He is also a corporate member of the Chartered Institute of Housing Asian Pacific Branch.

□ Corporate Governance Report

The Manager, Henderson Sunlight Asset Management Limited, commits 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 with the Compliance Manual ensures that the relevant regulations and legislations are duly observed.

Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the Manager and Sunlight REIT.

AUTHORISATION STRUCTURE

Sunlight REIT is a collective investment scheme authorised by the SFC under section 104 of the Securities and Futures Ordinance (Cap.571) (“**SFO**”) and regulated by the provisions of the REIT Code. The Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. The Manager has three persons who are approved as responsible officers pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code, being Mr. Wu Shiu Kee, Keith, the Chief Executive Officer and Executive Director, Mr. Leung Kwok Hoe, Kevin, the Investment and Investor Relations Manager and Mr. Leung Pei Sai, Bruce, the Asset Management Manager.

The Trustee is registered as a trust company under section 77 of the Trustee Ordinance (Cap. 29). The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

ROLES OF THE TRUSTEE AND THE MANAGER

The Trustee is responsible, under the Trust Deed for, among other things, the safe custody of the assets of Sunlight REIT held by it on behalf of unitholders.

The Manager’s role under the Trust Deed is to manage Sunlight REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of Sunlight REIT’s assets are professionally managed in the sole interests of the unitholders. The Trustee and the Manager are independent of each other.

FUNCTIONS OF THE BOARD OF DIRECTORS OF THE MANAGER

The Board is responsible for overseeing the day-to-day management and corporate governance of the Manager and the conduct of its business. The Board and management functions are largely separate. Other than some specific matters reserved to the full Board, day-to-day management functions and certain supervisory functions are delegated to relevant management teams and committees of the Board.

Reporting directly to the Chief Executive Officer (except for the Internal Auditor who reports directly to the Audit Committee, and the Compliance Manager who also reports directly to the Board), the management team comprises the Investment and Investor Relations Manager, the Asset Management Manager, the Corporate Services Manager, the Financial Controller, the Internal Auditor and the Compliance Manager. Apart from normal daily interactions, the management team, together with the Chief Executive Officer, meets regularly at monthly meetings. The meetings, chaired by the Chief Executive Officer, are held to facilitate the management and operation of different delegated management and business functions.

The positions of the Chairman of the Board and Chief Executive Officer are held by separate individuals to ensure a segregation of duties in order that a balance of power and authority is achieved.

The names and biographical details of the management team members of the Manager are given on pages 48 to 51 under “Directors and Senior Management”.

Pursuant to the Trust Deed, the Manager has the right to delegate to any person the performance of any act or the exercise of any power to manage and administer the assets of Sunlight REIT. The Manager has appointed the Property Manager to operate, maintain, manage and market solely and exclusively all the properties of Sunlight REIT located in Hong Kong, subject to the overall management and supervision of the Manager.

The names and biographical details of the team members of the Property Manager are given on pages 52 and 53 under “Directors and Senior Management”.

BOARD COMPOSITION

The Board currently comprises a total of six Directors, consisting of one Executive Director who is also the Chief Executive Officer, two Non-executive Directors (including the Chairman) and three Independent Non-executive Directors (“INEDs”). The name and biographical details of the Board are given on pages 48 and 49 under “Directors and Senior Management”.

The composition of the Board is determined using the following principles:

Appointments and removals of Directors

- Right to appoint and remove all Directors

The right to appoint and remove Directors ultimately rests with the Board and the shareholder(s) of the Manager in accordance with the provisions of the Articles of Association and the Compliance Manual of the Manager. In particular, the Articles of Association provide that all Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election.

- Appointment of Non-executive Directors

Non-executive Directors are appointed for a term of three years, with the qualification that new Directors are required to submit themselves for re-election at the first annual general meeting following their appointment.

- Additional requirement on re-appointment of INEDs

If an INED serves the Board for more than nine consecutive years, any further appointment of such INED shall be subject to a separate resolution to be approved by the shareholders of the Manager with reasons showing that the retired INED continues to be independent and why he should be re-elected.

Board independence

The INEDs are responsible for ensuring that there is a strong independent element on the Board and for effectively exercising independent judgment with regard to the overall corporate strategy and direction of the Manager and specific proposed policies and transactions.

As required by the Compliance Manual, at least one-third of the Directors shall be INEDs (with a minimum of three Directors being INEDs). In assessing the independence of a Director, the Board takes into account the factors set out in the Manager’s corporate governance policy, but none of which is necessarily conclusive. The Manager has received written annual confirmation from each INED of his independence pursuant to the criteria as set out in the Compliance Manual.

The composition of the Board is reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience. The ongoing review of the Board's composition and recommendations on the appointment and re-appointment of Directors are matters within the terms of reference of the Remuneration and Nomination Committee.

BOARD MEETINGS

During the Reporting Period, two Board meetings were held and chaired by the Chairman who worked in conjunction with other Board members, including the Chief Executive Officer, to formulate strategy and supervise the business of the Manager, including review and approval of the interim/quarterly financial results of Sunlight REIT, consideration and approval of the annual budget of Sunlight REIT and the Manager.

The Directors acknowledge their responsibility for preparing the accounts of Sunlight REIT and its subsidiaries for the financial period ended 30 June 2007, which give a true and fair view of the state of affairs of Sunlight REIT and its subsidiaries at that date and of their results and cash flows for the period then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditors of Sunlight REIT about their reporting responsibilities on the financial statements of Sunlight REIT is set out in the Independent Auditor's Report on pages 93 and 94.

Directors were given written notices of Board meetings at least 10 clear days in advance of the meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings. Agendas and accompanying board papers are circulated with sufficient time to allow the Directors to get prepared before the Board meetings. Board consents are given by votes at the Board meetings or written resolutions signed by all Directors from time to time. Minutes of Board meetings and written resolutions, together with any supporting papers, are kept in safe custody by the Company Secretary, and are available to all Directors.

The attendance record of each member of the Board is set out below:

Directors	Attendances	
	Board Meeting on 23 February 2007	Board Meeting on 21 May 2007
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	√	√

Remarks: "√" represents present at the meeting.

BOARD COMMITTEES

In order to provide effective oversight and leadership, the Board has established a number of board committees with particular responsibilities. The standing board committees are the Investment Committee, Audit Committee, Disclosures Committee and Remuneration and Nomination Committee. Committee members are expected to attend each committee meeting, unless there are exceptional circumstances that prevent them from doing so.

A summary of the membership, responsibilities and major work undertaken during the Reporting Period of each board committee is set out below:

	Membership	Responsibilities	Summary of work
Investment Committee (Chaired by Mr. Kan Fook Yee)	The Committee comprises the Chairman of the Board, the Chief Executive Officer and one INED.	<ul style="list-style-type: none"> ensuring compliance with investment objectives and restriction ensuring proper internal controls in relation to investment and finance related operation of Sunlight REIT monitoring investment and finance strategies including budget, acquisition and disposal 	<ul style="list-style-type: none"> Consideration and review of the 2006 interim results of Sunlight REIT Consideration of the financial forecast and annual budget of Sunlight REIT for financial year 2007/08
Audit Committee (Chaired by Mr. Kwan Kai Cheong)	The Committee comprises three INEDs. All the members possess diversified industry experience, accounting professional qualifications and/or related financial management expertise.	<ul style="list-style-type: none"> reviewing the completeness, accuracy, clarity and fairness of Sunlight REIT's financial statements reviewing the overall risk management process reviewing and monitoring connected party transactions reviewing the appointment and recommendation of the remuneration of external auditors reviewing reports from the external/internal auditors and guiding management to take appropriate actions to remedy faults or deficiencies in any issues of internal control which may be identified reviewing Sunlight REIT's compliance with legal, ethical and regulatory requirements on a regular basis overseeing Sunlight REIT's compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Review and approval of internal audit charter and the internal audit strategic plan for the period ending 30 June 2008 Consideration and review of the 2006 interim results of Sunlight REIT and other internal controls, risk management and compliance matters

	Membership	Responsibilities	Summary of work
Disclosures Committee (Chaired by Mr. Wu Shiu Kee, Keith)	The Committee comprises the Chief Executive Officer and one INED.	<ul style="list-style-type: none"> • reviewing matters relating to the regular, urgent and forward-looking disclosure of information to unitholders and public announcements and circulars • ensuring compliance with applicable legal requirements and the continuity, accuracy, clarity and completeness of information disseminated by the Manager and Sunlight REIT to the public and applicable regulatory authorities 	<ul style="list-style-type: none"> • Review of the 2006 interim results and set up policies and procedures on corporate disclosure
Remuneration and Nomination Committee (Chaired by Mr. Kan Fook Yee)	The Committee comprises the Chairman of the Board and two INEDs.	<ul style="list-style-type: none"> • overseeing the human resources policies of the Manager • identifying and recommending to the Board candidates for appointment to the Board • evaluating the performance of the Board and its members annually • reviewing the remuneration for senior executives and Directors 	<ul style="list-style-type: none"> • Annual remuneration review • Consideration of continuing education opportunities and performance evaluation for employees and/or directors

COMMITTEE MEETINGS

The number of Committee meetings held and the attendance record are shown below:

	Investment Committee	Audit Committee	Disclosures Committee	Remuneration and Nomination Committee
Total number of meetings in this period	2	2	2	1
Number of meetings attended in this period				
Mr. Kan Fook Yee	2	N/A	N/A	1
Mr. Wu Shiu Kee, Keith	2	N/A	2	N/A
Mr. Kwan Kai Cheong	N/A	2	N/A	1
Mr. Ma Kwong Wing	N/A	2	2	1
Dr. Tse Kwok Sang	2	2	N/A	N/A

N/A : Not applicable as the Director is not a member of the Committee

AUDITORS' REMUNERATION

For the Reporting Period, fees payable to the auditors of Sunlight REIT amounted to HK\$1.5 million for audit and audit related services and HK\$0.3 million for other services.

INTERNAL CONTROLS

The Audit Committee is responsible to the Board for ensuring the existence and working of an effective system of internal control and risk management.

The Internal Audit Department, which reports directly to the Audit Committee and is independent of daily operations, is responsible for conducting regular audit on major activities. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. During the Reporting Period, the Board has reviewed the effectiveness of the internal control systems through the Internal Audit Department and the Audit Committee.

MANAGEMENT OF BUSINESS RISK

The Board meets on a regular basis and generally no less frequently than four times each financial year at approximately quarterly intervals and reviews the financial performance of the Manager and Sunlight REIT against a previously approved budget. The Board also reviews any risks to the assets of Sunlight REIT, examine liability management and acts upon any advice or comments from the auditors of Sunlight REIT.

The Manager has appointed experienced and well-qualified management to handle the day-to-day operations of the Manager and Sunlight REIT. In assessing business risk, the Board considers the economic environment and the property industry risk. In addition, the Board reviews management reports and feasibility studies on individual properties prior to approving any major transactions.

CONFLICTS OF INTEREST AND BUSINESS COMPETITION WITH HENDERSON LAND DEVELOPMENT COMPANY LIMITED AND SHAU KEE FINANCIAL ENTERPRISES LIMITED

Uplite Limited and Wintrade Limited, being the significant holders of Sunlight REIT, are indirect wholly-owned subsidiaries of SKFE and their respective associates (including HLD) and its subsidiaries (which include, among others, the Manager and the Property Manager).

SKFE, HLD and their subsidiaries and associates are engaged in, and/or may engage in, among others, the development and management of retail, office and other properties in Hong Kong and elsewhere, as well as investments in such properties.

The Manager may experience conflicts of interests as a result of the activities and interests of its affiliates in acquiring and disposing of potential investments. As a wholly-owned subsidiary of HLD, the Manager may experience conflicts of interests in connection with any potential acquisitions from HLD or its affiliates, and in agreeing on the terms of such potential acquisitions. There can be no assurance that SKFE, HLD or other potential vendors of properties will direct attractive investment opportunities to Sunlight REIT, and may direct such opportunities to other entities, including other affiliates of SKFE or HLD. Many investment opportunities would be suitable for other entities, including other affiliates of SKFE and HLD, as well as Sunlight REIT. Any potential conflicts of interest between Sunlight REIT, SKFE, or HLD may not necessarily be resolved in favour of Sunlight REIT.

As wholly-owned subsidiaries of HLD, the Manager and the Property Manager may also experience conflicts of interests in relation to the other activities of HLD and its affiliates at an operational level in connection with identifying potential tenants and procuring services.

The Manager may also experience conflicts of interest in its role in overseeing the provision of services by the Property Manager pursuant to the Property Management Agreement.

There can be no assurance that conflicts of interest will not arise between Sunlight REIT, the Manager, the Property Manager, SKFE and HLD in the future, including in relation to the acquisition of properties as well as competition for tenants within the Hong Kong property market and operational property management matters.

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 Manager 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 and its connected persons are monitored and undertaken on terms in compliance with the REIT Code.

Notwithstanding that the Manager is a subsidiary of HLD, which is also involved in the business of owning and investing in properties in Hong Kong, the Manager confirms that it is capable of performing, and shall perform, its duties to Sunlight REIT independently of HLD's related businesses and in the best interests of Sunlight REIT and the unitholders.

GENERAL MEETINGS

The Manager will in each year convene a general meeting of unitholders as the annual general meeting in addition to any other meetings in that year. In addition, the Trustee or the Manager may at any time convene a meeting of unitholders. The Manager will also convene a meeting if requested in writing by not less than two unitholders registered as together holding not less than 10% of the issued and outstanding units. At least 14 days' notice of a meeting will be given to unitholders, except that 21 days' notice will be given to unitholders for the annual general meeting or any other meeting where a special resolution is proposed for consideration at such meeting, and the notice will specify the time and place of the meeting and the resolutions to be proposed.

Two or more unitholders present in person, by corporate representative or by proxy registered as holding not less than 10% of the units for the time being in issue and outstanding will form a quorum for the transaction of all businesses, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more unitholders present in person or by corporate representative or by proxy registered as holding together not less than 25% of the units in issue and outstanding. No business shall be transacted at any meeting unless the requisite quorum is present at the commencement of business. The quorum for an adjourned meeting shall be such number of unitholders who are present in person or by proxy regardless of the number of unitholders present or number of units held by them.

INVESTOR RELATIONS

The Manager is committed to open and effective communication to ensure unitholders and the investment community at large are informed of all the developments at Sunlight REIT. Since the listing on 21 December 2006, the Manager has been operating an efficient investor relations platform which utilises a variety of interactive means to maintain dialogues with unitholders. The Manager believes feedback and comments from the investment community through regular interaction is critical to shaping the future direction of Sunlight REIT.

To the extent possible under the current regulatory framework, communication with unitholders is conducted through:

1. Day-to-day communication including meetings conducted with the senior management of the Manager;
2. Guided property tours organised by the property management team;
3. Regular communication material and investors' presentations available upon request;
4. Timely disclosures made pursuant to regulatory requirements; and
5. Sunlight REIT's website at www.sunlightreit.com providing a further source of information for unitholders. All documents that are released publicly are immediately made available on the website.

Please refer to "Holdings of Substantial Unitholders" under "Disclosure of Interests" (P.70 and 71) for a detailed disclosure of the substantial unitholders of Sunlight REIT.

REPORTING AND TRANSPARENCY

Sunlight REIT prepares its accounts in accordance with generally accepted accounting principles in Hong Kong with a financial year-end of 30 June and a financial half-year end of 31 December. In accordance with the REIT Code, the annual reports and accounts for Sunlight REIT are published and sent to unitholders no later than four months following each financial year end and the interim reports no later than two months following each financial half-year end.

As required by the REIT Code, the Manager ensures that public announcements of material information and developments with respect to Sunlight REIT are made in a timely and transparent manner in order to keep unitholders apprised of the position of Sunlight REIT. Announcements are made in accordance with the requirements under the REIT Code.

In addition to the above, the Manager intends to release Sunlight REIT's quarterly operating statistics with effect from October 2007. This will enable the unitholders to assess the performance and prospects of Sunlight REIT in a timely and transparent manner.

ISSUES OF FURTHER UNITS POST-LISTING

To minimise the possible material dilution of holdings of unitholders, any further issue of units, other than in payment of the management fees to the Manager, will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of units shall be first offered on a pro rata pre-emptive basis to existing unitholders except that units may be issued: (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of units in issue at the end of the previous financial year (or such other percentage of outstanding units as may, from time to time, be prescribed in the REIT Code or otherwise by the SFC); and (ii) free of pre-emption rights in other circumstances provided that the approval of unitholders by way of an ordinary resolution is obtained. Subject thereto, units may be issued as consideration for the acquisition of additional real estate, except that any such issue to connected persons will require unitholders' approval.

INTEREST OF, AND DEALINGS IN UNITS BY, DIRECTORS, THE MANAGER OR THE SUBSTANTIAL UNITHOLDERS

The Manager has adopted a code governing dealings in units of Sunlight REIT by Directors of the Manager (the “**Dealings Code**”). The Manager is subject to the same dealing requirements as the Directors (*mutatis mutandis*). Similar dealing requirements are also applicable to the senior executives, officers and other employees of the Manager.

Pursuant to the Dealings Code by the Manager, any Directors wishing to deal in any securities of Sunlight REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if those provisions of the SFO applied to the securities of Sunlight REIT.

Directors who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or any price-sensitive information must refrain from dealing in any securities of Sunlight REIT as soon as they become aware of them or become privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Rules Governing the Listing of Securities on SEHK. Directors who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors who are not so privy that there may be unpublished price-sensitive information and that they must not deal in the securities of Sunlight REIT for a similar period. In addition, Directors must not make any unauthorised disclosure of confidential information or make any use of such information for the advantage of themselves or others.

To provide additional guidance to the Directors, a practical guidance on the operation of Dealings Code was presented to the Board setting out additional information and procedures for seeking clearance under the Dealings Code, etc.

The Manager has also adopted procedures for monitoring of disclosure of interests by Directors and the Manager. The provisions of Part XV of the SFO are deemed to apply to the Manager, the Directors and each unitholder and all persons claiming through or under him.

Under the Trust Deed, unitholders with a holding of 5% or more of the units in issue, and the Manager and Directors with an interest in the units in issue, have a notifiable interest and are required to notify the SEHK and the Manager of their holdings in Sunlight REIT. The Manager promptly sends a copy of any notification received by it to the Trustee. The Manager keeps a register for these purposes at the place at which the register of unitholders is kept and the Manager is under a duty to inscribe in the register, against a person’s name, the particulars provided pursuant to the notification and the date of entry of such inscription. The said register is available for inspection by unitholders without charge during such hours as the register of unitholders is available for inspection. Copies of all disclosure notices received or disclosed by the Manager are posted on Sunlight REIT’s website at www.sunlightreit.com. Alternatively, investors may refer to “Disclosure of Interests” of this report.

CONFIRMATION OF COMPLIANCE WITH THE DEALINGS CODE

Sunlight REIT has made specific enquiry of all Directors, and the Directors confirmed that they have complied with the required standard as set out in the Dealings Code throughout the Reporting Period except for an INED who had 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.

MATTERS TO BE DECIDED BY UNITHOLDERS BY SPECIAL RESOLUTION

A meeting of unitholders when convened may, by special resolution and in accordance with the Trust Deed:

- (a) sanction any modification, variation, alteration or addition to the Trust Deed which shall be agreed by the Trustee and the Manager as provided in the Trust Deed;
- (b) remove the Trustee;
- (c) remove the Manager;
- (d) approve the disposal of an investment within two years from the date of its acquisition;
- (e) approve the termination of Sunlight REIT;
- (f) approve the merger of Sunlight REIT;
- (g) change the investment policies and objective of Sunlight REIT; and
- (h) approve any change to the maximum remuneration under the Trust Deed which are payable to the Trustee or the Manager (other than any additional fee as allowed under the Trust Deed), or any change to the structure of the Trustee's or Manager's remuneration.

Any decision to be made by resolution of unitholders other than the above shall be made by ordinary resolution, unless a special resolution is required by the REIT Code or the provisions of the Trust Deed.

REPURCHASE, SALE OR REDEMPTION OF UNITS

Under the Trust Deed, the Manager is not permitted to repurchase or redeem any of the units in Sunlight REIT until permitted to do so by the relevant codes and guidelines issued by the SFC from time to time. During the Reporting Period, there was no purchase, sale or redemption of the units by Sunlight REIT or its wholly owned and controlled entities.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued and outstanding units were held in public hands as of 30 June 2007.

COMPLIANCE WITH COMPLIANCE MANUAL

Save as disclosed under the section "Confirmation of Compliance with the Dealings Code", the Manager has complied with the provisions of Compliance Manual during the Reporting Period.

REVIEW OF ANNUAL REPORT

The annual report of Sunlight REIT for the Reporting Period has been reviewed by the Disclosures Committee and the Audit Committee in accordance with their respective terms of references.

□ 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 during the Reporting Period which are governed by Chapter 8 of the REIT Code, other than those excluded pursuant to waivers granted by the SFC:

CONNECTED PARTY TRANSACTIONS - INCOME

Save as disclosed under the section headed “Connected Party Transactions with the 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\$'000	Rental and other deposits received as at 30 June 2007 HK\$'000
Jones Hugh Investment Limited	Associate of significant holders ^{note 2}	Leasing transactions	580	— ^{note 4}
Henderson Sunlight Asset Management Limited	The Manager	Leasing transactions	1,901	908
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing transactions	1,119	502
Henderson Real Estate Agency Limited	Associated company of the Manager	Leasing transactions	693	376
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	180	—
TOTAL:			4,473	1,786

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 for the period from the Listing Date to 24 June 2007 and one bank guarantee of HK\$32,469 as from 25 June 2007.

Connected Party Transactions

CONNECTED PARTY TRANSACTIONS - EXPENSES

Save as disclosed under the section headed “Connected Party Transactions with the 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 1}	Nature of the Connected Party Transactions	Expenses for the Reporting Period HK\$'000
Broad Capital Limited	Associated company of the Manager	Cleaning services	128
Goodwill Management Limited	Associated company of the Manager	Property management and operations	507
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	4,066
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management services, marketing services and provision of staff	13,941
Jensome Technology Limited	Associated company of the Manager	Carpark system services	10
Megastrength Henderson Security Services Limited	Associated company of the Manager	Carpark management and security services	1,846
Metro City Management Limited	Associated company of the Manager	Property management and operations	797
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,122
Mrs. Lee Pui Ling, Angelina	Associate of significant holders ^{note 2}	Legal services	110 ^{note 3}
Mr. Yam Kam Kwong, Allen	Associate of significant holders ^{note 2}	Legal services	232 ^{note 4}

CONNECTED PARTY TRANSACTIONS - EXPENSES (continued)

Name of Connected Person	Relationship with Sunlight REIT ^{note 1}	Nature of the Connected Party Transactions	Expenses for the Reporting Period HK\$'000
Mr. Yuen Pak Yiu, Philip	Associate of significant holders ^{note 2}	Legal services	2 ^{note 5}
Savills Valuation And Professional Services Limited	Principal Valuer	Property valuation services	12
Greenscape Limited	Associated company of the Principal Valuer	Supply of festival flowers	9
TOTAL:			22,782

Notes:

1. Within the meaning of the REIT Code.
2. The significant holders being Uplite Limited and Wintrade Limited.
3. Such amount represents the amount paid or payable to Messrs. Woo, Kwan, Lee & Lo, of which Mrs. Lee Pui Ling, Angelina is a partner.
4. Such amount represents the amount paid or payable to Messrs. Yam & Co., of which Mr. Yam Kam Kwong, Allen is a partner.
5. Such amount represents the amount paid or payable to Messrs. Yung, Yu, Yuen & Co., of which Mr. Yuen Pak Yiu, Philip is a partner.

Connected Party Transactions

CONNECTED PARTY TRANSACTIONS WITH THE TRUSTEE CONNECTED PERSONS

The following tables set forth information on the connected party transactions between Sunlight REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies) and the HSBC Group ^{note 1} (collectively, the "Trustee Connected Persons") within the meaning given in the REIT Code during the Reporting Period:

Name of Connected Person	Relationship with Sunlight REIT	Nature of Connected Party Transaction	Income/Expense for the Reporting Period HK\$'000	Rental deposit received as at 30 June 2007 HK\$'000
Lease or License Transactions:				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing transaction ^{note 3}	2,243	1,087
Hang Seng Bank Limited	Trustee Connected Persons	Leasing transaction ^{note 4}	2,569	1,155
Ordinary Banking and Financial Services ^{note 2:}				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/receivable	38,802	—
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expense and agency charge on bank loan and other bank charges	21,395	—
HSBC Insurance Brokers (Asia-Pacific) Limited	Trustee Connected Persons	Insurance brokerage services	56	—
Corporate Finance Transactions:				
Both the Manager and the Trustee confirm that during the Reporting Period, there is no corporate finance transaction entered into between the Manager and the HSBC Group ^{note 1} .				

Notes:

1. 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).
2. Ordinary banking and financial services include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto.
3. For units 1024-28, 1029 and 1030-31, Sheung Shui Centre Shopping Arcade.
4. For unit 211, L2, Metro City Phase I.

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. Therefore, such services are not disclosed in the above sections. During the Reporting Period, the aggregate amount of fees payable by Sunlight REIT to the Manager and the Trustee under the Trust Deed were approximately HK\$24.6 million and HK\$1.5 million respectively. Further terms regarding the Manager's fee and the Trustee's fee are set out in notes (iii) and (ii) of Note 24(b) of the Consolidated Financial Statements. Save for the Manager's fees and the Trustee's fee as disclosed above, there is no other services which requires disclosure in this annual report.

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE MANAGER

The Independent Non-executive Directors of the Manager confirm that they have reviewed all relevant connected party transactions (including the terms of the transactions with the Trustee Connected Persons) during the Reporting Period as disclosed above and they are satisfied that those transactions have been entered into:

- (i) in the ordinary and usual course of business of Sunlight REIT;
- (ii) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to Sunlight REIT than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the unitholders of Sunlight REIT as a whole.

CONFIRMATION BY THE AUDITORS OF SUNLIGHT REIT

Pursuant to the waivers from strict compliance with the requirements under Chapter 8 of the REIT Code, the Manager has engaged the auditors of Sunlight REIT to perform certain factual finding procedures in respect of connected party transactions on the leasing and licensing arrangements, property management and operations, ordinary banking and financial services and corporate finance transactions, where applicable, for the period from 21 December 2006 to 30 June 2007 in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have performed these procedures and reported to the Board their factual findings.

□ 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 30 June 2007		% change in interest
	Number of Units	% of Unit Holding	Number of Units	% of Unit Holding	
Tse Kwok Sang Long Position	10,000	0.0007	—	—	-0.0007

On 30 January 2007 and 30 April 2007 respectively, the Manager received 467,517 and 4,297,916 new units of Sunlight REIT as payment of the Manager's fees. The Manager had disposed of the entire 4,765,433 units during the Reporting Period.

HOLDINGS OF SUBSTANTIAL UNITHOLDERS

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 30 June 2007		% change in interest
	Number of Units	% of Unit Holding ^{note 1}	Number of Units	% of Unit Holding ^{note 1}	
Lee Shau Kee ^{note 2} Long Position	441,642,638	29.70	441,642,638	29.61	- 0.09
Lee Financial (Cayman) Limited ^{note 2} Long Position	374,072,708	25.16	374,072,708	25.08	- 0.08
Leesons (Cayman) Limited ^{note 2} Long Position	374,072,708	25.16	374,072,708	25.08	- 0.08
Leeworld (Cayman) Limited ^{note 2} Long Position	374,072,708	25.16	374,072,708	25.08	- 0.08
Shau Kee Financial Enterprises Limited ^{note 2} Long Position	374,072,708	25.16	374,072,708	25.08	- 0.08
Uplite Limited ^{note 2} Long Position	224,443,625	15.09	224,443,625	15.05	- 0.04

HOLDINGS OF SUBSTANTIAL UNITHOLDERS (continued)

Name	As at the Listing Date		As at 30 June 2007		% change in interest
	Number of Units	% of Unit Holding	Number of Units	% of Unit Holding	
Wintrade Limited ^{note 2} Long Position	149,629,083	10.06	149,629,083	10.03	- 0.03
Silchester International Investors Limited ^{note 3} Long Position	—	—	119,207,150	7.99	+7.99
Silchester International Investors International Value Equity Trust ^{note 3} Long Position	—	—	74,519,922	5.00	+5.00

Notes:

- The percentages expressed are based on the total issued units of 1,487,013,000 as at the Listing Date and 1,491,778,433 as at 30 June 2007 respectively.
- As at 30 June 2007, 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 SKFE. SKFE 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 HLD. Henderson Development Limited owned more than one-third of the issued share capital of HLD. 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.
- As at 30 June 2007, the long position of 119,207,150 units were held by Silchester International Investors Limited ("Silchester") in its capacity as investment manager of which 74,519,922 units were beneficially held by Silchester International Investors International Value Equity Trust. Subsequent informal notification from Silchester regarding their exact unitholdings as at the Listing Date and 30 June 2007 is noted and such unitholdings are not required to be disclosed as their unitholdings did not trigger the reporting requirement of a substantial unitholder at the abovementioned dates.
- As at the Listing Date, The Hongkong and Shanghai Banking Corporation Limited, HSBC Holdings plc, HSBC Finance (Netherlands), HSBC Holdings BV, HSBC Asia Holdings (UK) and HSBC Asia Holdings BV (together as "HSBC Companies"), being connected persons, held/deemed to hold the same parcel of long position of 159,239,000 units and the short position of 104,538,000 units. As at 17 January 2007, the HSBC Companies ceased to have a notifiable interest in units.

HOLDING OF OTHER CONNECTED PERSONS

So far as is known to the Manager and save as disclosed above, as at 30 June 2007, the holdings of units of other connected persons (as defined in the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT were as follows:

Name of Connected Persons	Number of Units Held	% of Unit Holding
Au Siu Kee, Alexander ^{note 1}	1,229,000	0.082
Lee King Yue ^{note 2}	50,000	0.003
Lee Pui Ling, Angelina ^{note 3}	2,307	0.0002
Lee Yip Wah, Peter ^{note 4}	11,000	0.0007
Mao Kenneth Ruys ^{note 5}	500,000	0.034
HSBC Group ^{note 6}	75,453	0.005

Notes:

1. Mr. Au Siu Kee, Alexander was a connected person by virtue of being a director of HLD and certain of its subsidiaries. Mr. Au held 1,229,000 units jointly with his spouse as at the Listing Date and 30 June 2007.
2. Mr. Lee King Yue was a connected person by virtue of being a director of HLD and certain of its subsidiaries. Mr. Lee held 50,000 units as at the Listing Date and 30 June 2007.
3. Mrs. Lee Pui Ling, Angelina was a connected person by virtue of being a director of HLD. Mrs. Lee held 2,307 units as at the Listing Date and 30 June 2007.
4. Mr. Lee Yip Wah, Peter was a connected person by virtue of being a director of certain subsidiaries of HLD. Mr. Lee held 11,000 units as at the Listing Date and 30 June 2007.
5. Mr. Mao Kenneth Ruys was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Mao was interested in 1,001,000 units and 500,000 units as at the Listing Date and 30 June 2007 respectively.
6. HSBC Group was a connected person by virtue of being controlling entities, holding companies, subsidiaries or associated companies of the Trustee. HSBC Group beneficially held 75,453 units as at the Listing Date and 30 June 2007.

Other information

ANNUAL REPORT

This annual report is printed in English and Chinese and is available on Sunlight REIT's website at www.sunlightreit.com. Printed copies in either or both languages are posted to unitholders in accordance with their indicated preference. Unitholders may at any time choose to change their choice of language or means of receipt of Sunlight REIT's corporate communications free of charge by returning the completed and signed change request form to the unit registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (the "**Unit Registrar**") or by fax to (852) 2810 8185.

DISTRIBUTION ENTITLEMENT

For the purposes of ascertaining unitholders' entitlement to distribution in accordance with the Trust Deed, the record date for the Reporting Period shall be Thursday, 4 October 2007 (the "**Record Date**"). Unitholders will be entitled to 100% of the annual distributable income for the Reporting Period multiplied by the proportion of units held by the individual unitholder on the Record Date to the number of units in issue in Sunlight REIT on the Record Date.

The register of unitholders of Sunlight REIT will be closed from the Record Date to Thursday, 11 October 2007, both days inclusive, during which period no transfer of units will be registered. In order to entitle to distribution for the Reporting Period, all properly completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the Unit Registrar, no later than 4:00 p.m. on Wednesday, 3 October 2007.

Distribution for the Reporting Period will be paid to unitholders on or about 30 October 2007.

ANNUAL GENERAL MEETING

The annual general meeting of unitholders of Sunlight REIT ("**AGM**") will be held on Wednesday, 24 October 2007. Details of the AGM are set out in the notice of AGM on page 133 of this annual report. The notice of AGM and the form of proxy are also available on Sunlight REIT's website.

The register of unitholders of Sunlight REIT will be closed from Wednesday, 17 October 2007 to Wednesday, 24 October 2007, both days inclusive, during which period no transfer of units will be registered. In order to qualify for attending the AGM, all properly completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the Unit Registrar no later than 4:00 p.m. on Tuesday, 16 October 2007.

□ Valuation Report

Henderson Sunlight Asset Management Limited
30th Floor, 248 Queen's Road East
Wanchai
Hong Kong
(the Manager for Sunlight Real Estate Investment Trust "Sunlight REIT")



HSBC Institutional Trust Services (Asia) Limited
1 Queen's Road Central
Hong Kong
(the Trustee for Sunlight REIT)

Charles Chan
E: ccchan@savills.com.hk
DL: (852) 2842 4310
F: (852) 2501 5810

23/F Two Exchange Square
Central, Hong Kong

15 August 2007

EA LICENCE: C-023750
T: (852) 2801 6100
savills.com

Dear Sirs

RE:

- (1) "248 QUEEN'S ROAD EAST", 248 QUEEN'S ROAD EAST, WAN CHAI, HONG KONG ("248 QUEEN'S ROAD EAST PROPERTY")
- (2) BONHAM TRADE CENTRE, 50 BONHAM STRAND, SHEUNG WAN, HONG KONG ("BONHAM TRADE CENTRE PROPERTY")
- (3) RIGHTEOUS CENTRE, 585 NATHAN ROAD, MONG KOK, KOWLOON, HONG KONG ("RIGHTEOUS CENTRE PROPERTY")
- (4) VARIOUS PORTIONS IN 135 BONHAM STRAND TRADE CENTRE, 135 BONHAM STRAND, SHEUNG WAN, HONG KONG ("135 BONHAM STRAND TRADE CENTRE PROPERTY")
- (5) VARIOUS PORTIONS IN WINSOME HOUSE, 73 WYNDHAM STREET, CENTRAL, HONG KONG ("WINSOME HOUSE PROPERTY")
- (6) JAVA ROAD 108 COMMERCIAL CENTRE, 108 JAVA ROAD, NORTH POINT, HONG KONG ("JAVA ROAD 108 COMMERCIAL CENTRE PROPERTY")
- (7) VARIOUS PORTIONS IN SUN FAI COMMERCIAL CENTRE, 576 RECLAMATION STREET, MONG KOK, KOWLOON, HONG KONG ("SUN FAI COMMERCIAL CENTRE PROPERTY")
- (8) VARIOUS PORTIONS IN WAI CHING COMMERCIAL BUILDING, 77 WAI CHING STREET, YAU MA TEI, KOWLOON, HONG KONG ("WAI CHING COMMERCIAL BUILDING PROPERTY")
- (9) 235 WING LOK STREET TRADE CENTRE, 235 WING LOK STREET, SHEUNG WAN, HONG KONG ("235 WING LOK STREET TRADE CENTRE PROPERTY")

- (10) VARIOUS PORTIONS IN YUE FAI COMMERCIAL CENTRE, 208 ABERDEEN MAIN ROAD, ABERDEEN, HONG KONG (“YUE FAI COMMERCIAL CENTRE PROPERTY”)
- (11) EVERGLORY CENTRE, 1B KIMBERLEY STREET, TSIM SHA TSUI, KOWLOON, HONG KONG (“EVERGLORY CENTRE PROPERTY”)
- (12) ON LOONG COMMERCIAL BUILDING (EXCEPT OFFICE 1 ON 6TH FLOOR AND OFFICES 1 AND 2 ON 21ST FLOOR), 276-278 LOCKHART ROAD, WAN CHAI, HONG KONG (“ON LOONG COMMERCIAL BUILDING PROPERTY”)
- (13) COMMERCIAL DEVELOPMENT AND CAR PARKS, METRO CITY PHASE I, 1 WAN HANG ROAD, TSEUNG KWAN O, SAI KUNG, NEW TERRITORIES, HONG KONG (“METRO CITY PHASE I PROPERTY”)
- (14) COMMERCIAL DEVELOPMENT (INCLUDING ALL SHOPS, THE RESTAURANT AND THE KINDERGARTEN) AND CAR PARKS IN THE PODIUM AND BASEMENT, SHEUNG SHUI CENTRE, 3 CHI CHEONG ROAD, SHEUNG SHUI, NEW TERRITORIES, HONG KONG (“SHEUNG SHUI CENTRE SHOPPING ARCADE PROPERTY”)
- (15) VARIOUS PORTIONS IN KWONG WAH PLAZA, 11 TAI TONG ROAD, YUEN LONG, NEW TERRITORIES, HONG KONG (“KWONG WAH PLAZA PROPERTY”)
- (16) VARIOUS SHOPS UNITS ON GROUND FLOOR, BEVERLEY COMMERCIAL CENTRE, 87-105 CHATHAM ROAD SOUTH, TSIM SHA TSUI, KOWLOON, HONG KONG (“BEVERLEY COMMERCIAL CENTRE PROPERTY”)
- (17) UNITS A, B, E AND F ON GROUND FLOOR WITH REAR YARDS, UNITS C AND D ON GROUND FLOOR, UNITS 1, 2 (TOGETHER WITH A/C PLINTH ON 2ND FLOOR) AND 3 ON 1ST FLOOR AND ADVERTISING SPACES, GLORY RISE, 128 CHUN YEUNG STREET, NORTH POINT, HONG KONG (“GLORY RISE PROPERTY”)
- (18) SHOPS 1 TO 9 ON GROUND FLOOR AND COMMERCIAL COMMON AREAS AND FACILITIES, SUPERNOVA STAND, 28 MERCURY STREET, NORTH POINT, HONG KONG (“SUPERNOVA STAND PROPERTY”)
- (19) SHOPS NOS. 1 TO 7 ON GROUND FLOOR AND SHOP NO. 8 ON GROUND FLOOR AND ITS ROOF; OFFICES NOS. 1 AND 2 ON 1ST FLOOR; ADVERTISING SPACES 1-5, COMMERCIAL COMMON AREAS AND FACILITIES, PRIVATE STAIRCASE AND LANDING AND THE RESERVED PORTION, PALATIAL STAND, 118 WUHU STREET, HUNG HOM, KOWLOON, HONG KONG (“PALATIAL STAND PROPERTY”)
- (20) VARIOUS SHOPS ON GROUND FLOOR, SIGNAGE SPACE AND ISLAND, CARPARKING SPACES NOS.1-24 ON 1ST FLOOR, NOS. 1-25 ON 2ND FLOOR AND MOTORCYCLE PARKING SPACES NOS. M1-M10 ON 3RD FLOOR, ROYAL TERRACE, 933 KING’S ROAD, NORTH POINT, HONG KONG (“ROYAL TERRACE PROPERTY”)

In accordance with the recent instructions of the Manager on behalf of Sunlight REIT to value the captioned properties, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 June 2007 (referred to as the “Valuation Date”).

BASIS OF VALUATION

Our valuation is our opinion of the market values of the properties which we would define as intended to mean ‘the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion’.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a Property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

Our valuation is prepared in accordance with Chapter 6.8 of the REIT Code and The HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

VALUATION METHODOLOGIES

We have valued the properties by reference to sales evidence as available on the market and where appropriate on the basis of capitalization of the net income shown on schedules provided to us. We have made provisions for outgoings and in appropriate cases allowed for reversionary income potential.

In arriving at our opinion of values, we have considered relevant general and economic factors and in particular have investigated recent sales and leasing transactions of comparable properties. In the course of our valuation analysis, we have principally adopted the Income Capitalization Approach and counter-checked this by the Direct Comparison Approach. For the purposes of this valuation, we consider the Income Capitalization Approach is the most appropriate valuation method for assessing the market values of the property, due to the income driven nature of the properties.

Income capitalization

The Income Capitalization Approach is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, government rents and management fees) of all lettable units of each property are capitalized for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized for the unexpired term of the Government lease under which the property is held. The summation of the capitalized value of the term income for the leased portion, the capitalized value of the reversion income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of each property.

The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The capitalization rate adopted is determined by reference to the yields achieved in analyzed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.

Direct comparison

As a supporting approach to the valuation, we have also considered the Direct Comparison Approach as a reference check for the valuations arrived from Income Capitalization Approach. In this regard, comparable sales transactions around the Valuation Date are collected and analyzed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the properties and comparables in terms of time, location, accessibility, age, building quality and condition, facilities and the like.

TITLE INVESTIGATIONS

We have not been provided with extracts from title documents relating to the properties but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

VALUATION CONSIDERATION

We have relied to a very considerable extent on information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, site and floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the instructing party, and have been advised by the instructing party that no material facts have been omitted from the information provided.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the instructing party and are therefore only approximations.

We have inspected the exterior of the properties valued and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the properties are free of rot, infestation or any other structural defect. No tests were carried out to any of the services.

No allowance has been made in our report for any charge, mortgage or amount owing on the properties nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Valuation Report

A summary of our opinion of the market value of each property as at the Valuation Date is given below:

Property	Approximate Gross Rentable Area sq ft	No. of Parking Lots excluding motor and bicycle spaces	Market Value as at 30 June 2007	Capitalization Rate adopted* %
1 248 Queen's Road East Property	376,381	46	HK\$2,604,000,000	Retail: 5.0% Office: 4.2%
2 Bonham Trade Centre Property	117,909	N/A	HK\$463,000,000	Retail: 5.3% Office: 4.3%
3 Righteous Centre Property	51,767	N/A	HK\$322,000,000	Retail: 4.5% Office: 4.7%
4 135 Bonham Strand Trade Centre Property	63,915	N/A	HK\$245,000,000	Retail: 5.3% Office: 4.3%
5 Winsome House Property	40,114	N/A	HK\$273,000,000	Retail: 5.0% Office: 4.2%
6 Java Road 108 Commercial Centre Property	37,923	N/A	HK\$147,000,000	Retail: 5.3% Office: 4.7%
7 Sun Fai Commercial Centre Property	26,151	N/A	HK\$97,000,000	Retail: 5.3% Office: 4.9%
8 Wai Ching Commercial Building Property	16,321	N/A	HK\$28,000,000	Retail: 5.5% Office: 5.0%
9 235 Wing Lok Street Trade Centre Property	52,285	N/A	HK\$160,000,000	Retail: 5.3% Office: 4.3%
10 Yue Fai Commercial Centre Property	42,751	N/A	HK\$127,000,000	Retail: 5.3% Office: 5.0%
11 Everglory Centre Property	29,802	N/A	HK\$128,000,000	Retail: 5.3% Office: 4.8%
12 On Loong Commercial Building Property	25,564	N/A	HK\$112,000,000	Retail: 4.8% Office: 4.6%
13 Metro City Phase I Property	188,889	452	HK\$1,859,000,000	Retail: 4.5%
14 Sheung Shui Centre Shopping Arcade Property	122,339	297	HK\$2,290,000,000	Retail: 4.5%

A summary of our opinion of the market value of each property as at the Valuation Date is given below: (continued)

Property	Approximate Gross Rentable Area sq ft	No. of Parking Lots excluding motor and bicycle spaces	Market Value as at 30 June 2007	Capitalization Rate adopted* %
15 Kwong Wah Plaza Property	64,842	N/A	HK\$458,000,000	Retail: 5.0% Office: 5.3%
16 Beverley Commercial Centre Property	7,934	N/A	HK\$52,000,000	Retail: 5.0%
17 Glory Rise Property	7,086	N/A	HK\$60,000,000	Retail: 5.3%
18 Supernova Stand Property	4,226	N/A	HK\$46,000,000	Retail: 5.3%
19 Palatial Stand Property	8,625	N/A	HK\$20,000,000	Retail: 5.5%
20 Royal Terrace Property	9,565	49	HK\$67,000,000	Retail: 5.9%
Total	1,294,389	844	HK\$9,558,000,000	

* The capitalization rate refers to the expected yield of the respective property by reference to the market yield prevailing as at the Valuation Date for the particular type of property.

Valuation Report

The reported analyses, opinions and conclusions are subject to the assumptions and limiting conditions stated in our valuation certificate and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the properties and are not a related corporation of nor do we have a relationship with the Trustee, the Manager and Underwriters or other party/parties who, Sunlight REIT is contracting with. The valuer's compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the Vendor, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

We enclose herewith our valuation certificate.

Yours faithfully

For and on behalf of

Savills Valuation and Professional Services Limited

Charles C K Chan

MSc FRICS FHKIS MCI Arb RPS(GP)

Managing Director

Encl

SUMMARY VALUATION REPORT

248 Queen's Road East Property

248 Queen's Road East, Wan Chai, Hong Kong

Description

The property is a 40-storey (including a mechanical floor) commercial building with ancillary car parking facilities erected on an L-shaped site with a registered site area of approximately 1,455.69 sq. m. (15,669 sq. ft.). The building was completed in 1998. It comprises the entire units within the building with a total gross rentable area of approximately 34,966.65 sq. m. (376,381 sq. ft.) and a total net area of approximately 29,115.38 sq. m. (313,398 sq. ft.). It also comprises 8 lorry parking spaces and 38 car parking spaces on 1st to 4th Floors of the building.

Land Tenure

Inland Lot No. 506 is held under a Government Lease for a term of 999 years commencing from 16 November 1855. The annual Government rent payable for the subject lot is 36 pounds 10 shillings.

Inland Lot No. 387 is held under a Government Lease for a term of 999 years commencing from 16 March 1855. The annual Government rent payable for the subject lot is 20 pounds 4 shillings and ten pence.

Monthly Rental Income as at 30 June 2007

HK\$ 5,141,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2007

HK\$ 232,000 exclusive of operating expenses, rates, government rents and management fees

Monthly Licence Income as at 30 June 2007

HK\$ 24,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2007

HK\$ 2,604,000,000

Estimated Net Property Yield

2.5%

Bonham Trade Centre Property

Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong

Description

The property is a 28-storey commercial building erected on a trapezoid site with a registered site area of approximately 720.27 sq. m. (7,753 sq. ft.). The building was completed in 1998. It comprises the entire units within the building with a total gross rentable area of approximately 10,954.01 sq. m. (117,909 sq. ft.) and a total net area of approximately 9,031.12 sq. m. (97,211 sq. ft.). It also comprises a yard on Ground Floor of the building with an area of approximately 16.50 sq. m. (178 sq. ft.).

Land Tenure

Inland Lot No. 15 is held under a Government Lease for a term of 999 years commencing from 26 December 1860. The annual Government rent payable for the subject section of the lot is HK\$11.9.

Marine Lots Nos. 142 and 144 are held under their respective Government Leases each for a term of 981 years both commencing from 26 December 1860. The total annual Government rent payable for the subject lots is HK\$124.8.

Monthly Rental Income as at 30 June 2007

HK\$ 1,400,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$463,000,000

Estimated Net Property Yield

3.6%

Righteous Centre Property

Righteous Centre, 585 Nathan Road, Mong Kok, Kowloon, Hong Kong

Description

The property is a 26-storey (including a mechanical floor) commercial building erected on a rectangular site with a registered site area of approximately 300.30 sq. m. (3,232 sq. ft.). The building was completed in 1996. It comprises the entire units within the building with a total gross rentable area of approximately 4,809.27 sq. m. (51,767 sq. ft.) and a total net area of approximately 3,218.78 sq. m. (34,647 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 6827 and 7097 are held under Conditions of Regrant Nos. 5654 and 5759 respectively both for terms of 150 years commencing from 25 December 1887. The annual Government Rents payable for Section A of Kowloon Inland lot No. 6827 and Kowloon Inland Lot No. 7097 are HK\$78 and HK\$150 respectively.

Monthly Rental Income as at 30 June 2007

HK\$ 951,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$322,000,000

Estimated Net Property Yield

3.5%

135 Bonham Strand Trade Centre Property

Various Portions in 135 Bonham Strand Trade Centre, 135 Bonham Strand, Sheung Wan, Hong Kong

Description

The property is a 25-storey (including a mechanical floor) commercial building completed in 2000. It comprises the majority of the building with a total gross rentable area of approximately 5,937.85 sq. m. (63,915 sq. ft.) and a total net area of approximately 4,065.87 sq. m. (43,765 sq. ft.).

Land Tenure

Marine Lot No. 173 is held under a Government Lease for a term of 999 years commencing from 26 December 1860. The annual Government rent payable for the subject lot is HK\$79.87.

Inland Lot No. 6896 is held under a Government Lease for a term of 75 years commencing from 14 November 1952 renewable for a further term of 75 years. The annual Government rent payable for the subject lot is HK\$196.

Monthly Rental Income as at 30 June 2007

HK\$ 841,000 exclusive of rates, and management fees

Market value in existing state as at 30 June 2007

HK\$245,000,000

Estimated Net Property Yield

4.1%

Winsome House Property

Various Portions in Winsome House, 73 Wyndham Street, Central, Hong Kong

Description

The property is a 27-storey commercial building completed in 1999. It comprises the majority of the building with a total gross rentable area of approximately 3,726.68 sq. m. (40,114 sq. ft.) and a total net area of approximately 2,598.10 sq. m. (27,966 sq. ft.). It also comprises various flat roofs on the Upper and Lower Ground Floors with a total area of approximately 34.37 sq. m. (370 sq. ft.).

Land Tenure

Inland Lots Nos. 5025 and 994 are held under their respective Government leases each for a term of 999 years both commencing from 26 June 1843. The total annual Government rent payable for the subject lots are HK\$146.

Inland Lot No. 7968 is held under Conditions of Exchange No. 8224 for a term of 999 years commencing from 22 January 1844. The annual Government rent payable for the subject lot is HK\$30.

Monthly Rental Income as at 30 June 2007

HK\$ 873,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$273,000,000

Estimated Net Property Yield

3.8%

Java Road 108 Commercial Centre Property

Java Road 108 Commercial Centre, 108 Java Road, North Point, Hong Kong

Description

The property is a 25-storey commercial building erected on a rectangular site with a registered site area of approximately 228.26 sq. m. (2,457 sq. ft.). The building was completed in 1998. It comprises the entire units within the building with a total gross rentable area of approximately 3,523.13 sq. m. (37,923 sq. ft.) and a total net area of approximately 2,386.10 sq. m. (25,684 sq. ft.).

Land Tenure

Inland Lot No. 3539 is held under a Government Lease for a term of 75 years commencing from 12 June 1933 renewable for a further term of 75 years at an annual Government rent at HK\$22.7.

Monthly Rental Income as at 30 June 2007

HK\$ 533,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$147,000,000

Estimated Net Property Yield

4.4%

Sun Fai Commercial Centre Property

Various Portions in Sun Fai Commercial Centre, 576 Reclamation Street, Mong Kok, Kowloon, Hong Kong

Description

The property is a 15-storey commercial building completed in 1998. The property comprises four shop units on the Ground Floor and various office units on the upper floors of the building with a total gross rentable area of approximately 2,429.49 sq. m. (26,151 sq. ft.) and a total net area of approximately 1,667.50 sq. m. (17,949 sq. ft.). It also comprises various flat roofs on the 2nd and 3rd Floors with a total area of approximately 53.14 sq. m. (572 sq. ft.) and roof area of approximately 72.65 sq. m. (782 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 10813, 10814 and 10815 are held under Conditions of Lease Extension Nos. 12068, 12269 and 12259 respectively all for a term commencing from 28 June 1985 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of each lot.

Monthly Rental Income as at 30 June 2007

HK\$ 325,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$97,000,000

Estimated Net Property Yield

3.9%

Wai Ching Commercial Building Property

Various Portions in Wai Ching Commercial Building, 77 Wai Ching Street, Yau Ma Tei, Kowloon, Hong Kong

Description

The property is a 19-storey commercial building completed in 1997. It comprises three shop units on the Ground and 1st Floors and various office units on the upper floors of the building with a total gross rentable area of approximately 1,516.26 sq. m. (16,321 sq. ft.) and a total net area of approximately 821.63 sq. m. (8,844 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 6167 and 6168 are held under their respective Government Leases each for a term of 75 years commencing from 18 September 1974 at a total annual Government rent at HK\$57,566 for the subject sections of the lots.

Monthly Rental Income as at 30 June 2007

HK\$ 85,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$28,000,000

Estimated Net Property Yield

3.7%

235 Wing Lok Street Trade Centre Property

235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong

Description

The property is a 26-storey commercial building erected on an irregular site with a registered site area of approximately 282.42 sq. m. (3,040 sq. ft.). The building was completed in 2000. It comprises the entire units within the building with a total gross rentable area of approximately 4,857.40 sq. m. (52,285 sq. ft.) and a total net area of approximately 3,334.91 sq. m. (35,897 sq. ft.).

Land Tenure

Marine Lot No. 37A is held under a Government lease for a term of 979 years commencing from 26 December 1863. The annual Government rent payable for the lot is HK\$20.

Monthly Rental Income as at 30 June 2007

HK\$ 431,000 exclusive of rates, management fees

Market value in existing state as at 30 June 2007

HK\$160,000,000

Estimated Net Property Yield

3.2%

Yue Fai Commercial Centre Property

Various Portions in Yue Fai Commercial Centre, 208 Aberdeen Main Road, Aberdeen, Hong Kong

Description

The property is a 26-storey commercial building completed in 1997. The property comprises three shop units on the Ground Floor and various office units on the upper floors of the building with a total gross rentable area of approximately 3,971.66 sq. m. (42,751 sq. ft.) and a total net area of approximately 2,532.24 sq. m. (27,257 sq. ft.). It also comprises two flat roofs on the 1st Floor with a total area of approximately 80.73 sq. m. (869 sq. ft.) and roof area of approximately 92.72 sq. m. (998 sq. ft.).

Land Tenure

Aberdeen Inland Lot No. 62 is held under a Government lease for a term of 999 years commencing from 26 December 1860 at an annual Government rent at HK\$7.28.

Monthly Rental Income as at 30 June 2007

HK\$ 456,000 exclusive of rates, management fees

Market value in existing state as at 30 June 2007

HK\$127,000,000

Estimated Net Property Yield

4.3%

Everglory Centre Property

Everglory Centre, 1B Kimberley Street, Tsim Sha Tsui, Kowloon, Hong Kong

Description

The property is a 21-storey commercial building erected on a rectangular site with a registered site area of approximately 224.73 sq. m. (2,419 sq. ft.). The building was completed in 1999. It comprises the entire units within the building with a total gross rentable area of approximately 2,768.67 sq. m. (29,802 sq. ft.) and a total net area of approximately 1,777.31 sq. m. (19,131 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 9455 and 9639 are held under Conditions of Re-grants Nos. 9401 and 9502 respectively both for a term of 150 years commencing from 25 December 1892 at a total annual Government rent of HK\$284.

Monthly Rental Income as at 30 June 2007

HK\$ 441,000 exclusive of rates and management fees

Monthly Licence Income as at 30 June 2007

HK\$750

Market value in existing state as at 30 June 2007

HK\$128,000,000

Estimated Net Property Yield

4.1%

On Loong Commercial Building Property

On Loong Commercial Building (except Office 1 on the 6th Floor and Office 1 and 2 on the 21st Floor), 276-278 Lockhart Road, Wan Chai, Hong Kong

Description

The property is a 23-storey commercial building completed in 1984. It comprises a shop unit on the Ground Floor and various office units on the upper floors of the building with a total gross rentable area of approximately 2,374.95 sq. m. (25,564 sq. ft.) and a total net area of approximately 1,618.36 sq. m. (17,420 sq. ft.). It also comprises two flat roofs on the 4th Floor with a total area of approximately 46.92 sq. m. (505 sq. ft.) and roof area of approximately 28.80 sq. m. (310 sq. ft.).

Land Tenure

Inland Lots Nos. 7061 and 7062 are each held under a Government Lease for a term of 99 years commencing from 11 May 1928 renewable for a further term of 99 years at an annual Government rent of HK\$20.

Monthly Rental Income as at 30 June 2007

HK\$ 405,000 exclusive of rates, management fees

Market value in existing state as at 30 June 2007

HK\$112,000,000

Estimated Net Property Yield

4.3%

Metro City Phase I Property

Commercial Development and Car Parks, Metro City Phase I, 1 Wan Hang Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong

Description

The property comprises a 3-storey (Ground Floor to Level 2) commercial / car parking podium with six residential blocks erected thereon. The development was completed in 1996. It comprises all the shop units on the Ground Floor and Level 2 of the commercial / car parking podium with a total gross rentable area of approximately 17,548.22 sq. m. (188,889 sq. ft.) and a total net area of approximately 11,117.34 sq. m. (119,667 sq. ft.). It also comprises 452 car parking spaces, 20 motor cycle parking spaces and 14 bicycle parking spaces on Ground Floor to Level 2 of the building.

Land Tenure

Tseung Kwan O Town Lot No. 36 is held under New Grant No. 8275 for a term commencing from 29 November 1993 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2007

HK\$ 5,120,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2007

HK\$ 342,000 exclusive of operating expenses, rates, government rents and management fees

Monthly Licence Income as at 30 June 2007

HK\$ 26,000

Market value in existing state as at 30 June 2007

HK\$1,859,000,000

Estimated Net Property Yield

3.5%

Sheung Shui Centre Shopping Arcade Property

Commercial Development (including all Shops, The Restaurant and The Kindergarten); and Car Parks in the Podium and Basement, Sheung Shui Centre, 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong

Description

The property is a residential development comprising six residential blocks over a 3-storey commercial / car parking podium plus one level car park basement completed in 1993. It comprises all shop units within the commercial podium of the development with a total gross rentable area of approximately 11,365.57 sq. m. (122,339 sq. ft.) and a total net area of approximately 7,367.52 sq. m. (79,304 sq. ft.). It also comprises 269 car parking spaces, 28 lorry parking spaces and 226 bicycle parking spaces on Basement and Level 1 of the development. It also comprises 6 loading and unloading spaces (with one of such loading and unloading space for each residential block for parking, loading and unloading of goods vehicles) on Level 1 of the development.

Land Tenure

Fanling Sheung Shui Town Lot No. 55 is held under New Grant No. 12406 for a term commencing from 16 October 1989 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2007

HK\$ 7,370,000 exclusive of rates, management fees, air-conditioning charges and promotional charges

Monthly Car Parking Income as at 30 June 2007

HK\$ 546,000 exclusive of operating expenses, rates, government rents and management fees

Market value in existing state as at 30 June 2007

HK\$2,290,000,000

Estimated Net Property Yield

4.1%

Kwong Wah Plaza Property

Various Portions in Kwong Wah Plaza, 11 Tai Tong Road, Yuen Long, New Territories, Hong Kong

Description

The property is a 17-storey (including a basement and a mechanical floor but excluding cocklofts) commercial building completed in 1998. It comprises shops on the whole of the Basement, Ground Floor, Cocklofts and 1st Floor and various office units on various floors of the building with a total gross rentable area of approximately 6,023.97 sq. m. (64,842 sq. ft.) and a total net area of approximately 4,721.76 sq. m. (50,825 sq. ft.). It also comprises a Flat Roof on the 13th Floor with an area of approximately 16.35 sq. m. (176 sq. ft.).

Land Tenure

Lot No. 4015 in Demarcation District No. 120 is held under New Grant No. 4135 for a term commencing from 25 May 1993 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2007

HK\$ 1,539,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2007

HK\$ 5,400

Market value in existing state as at 30 June 2007

HK\$458,000,000

Estimated Net Property Yield

3.9%

Beverley Commercial Centre Property

Various Shops Units on Ground Floor, Beverley Commercial Centre, 87-105 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong

Description

The property is a 20-storey (including a basement) commercial building completed in 1982. It comprises the 60 shop units on the Ground Floor of the shopping arcade with a total gross rentable area of approximately 737.09 sq. m. (7,934 sq. ft.) and a total net area of approximately 422.71 sq. m. (4,550 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 10574, 10211, 10575, 10518, 10580, 10160, 10503, 10526, 10247 and 10616 are held under Conditions of Re-Grant Nos. 11117, 10318, 11118, 11125, 11098, 10312, 11134, 11053, 10404 and 11243 respectively each for a term of 150 years all commencing from 25 December 1902. The total annual Government rent payable for the subject lots is HK\$7,576.

Monthly Rental Income as at 30 June 2007

HK\$ 190,000 exclusive of rates, management fees, air-conditioning charges and promotional charges

Market value in existing state as at 30 June 2007

HK\$52,000,000

Estimated Net Property Yield

4.4%

Glory Rise Property

Units A, B, E and F on Ground Floor with Rear Yards, Units C and D on Ground Floor, Units 1, 2 (together with A/C Plinth on 2nd Floor) and 3 on 1st Floor, and advertising spaces, Glory Rise, 128 Chun Yeung Street, North Point, Hong Kong

Description

The property is a 26-storey composite commercial / residential building completed in 2003. It comprises all the shop units on the Ground and 1st Floors with a total gross rentable area of approximately 658.31 sq. m. (7,086 sq. ft.) and a total net area of approximately 508.45 sq. m. (5,473 sq. ft.). It also comprises four rear yards on the Ground Floor with a total area of approximately 23.60 sq. m. (254 sq. ft.).

Land Tenure

Inland Lots Nos. 6715, 6716, 6717 and 6718 are held under their respective Government Leases each for a term of 75 years commencing from 5 September 1921 renewable for a further term of 75 years at a total annual Government rent at HK\$62,868.

Monthly Rental Income as at 30 June 2007

HK\$ 215,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$60,000,000

Estimated Net Property Yield

4.3%

Supernova Stand Property

Shops 1 to 9 on the Ground Floor and Commercial Common Areas and Facilities, Supernova Stand, 28 Mercury Street, North Point, Hong Kong

Description

The property is a 27-storey composite commercial / residential building completed in 2001. It comprises all nine shop units on the Ground Floor with a total gross rentable area of approximately 392.60 sq. m. (4,226 sq. ft.) and a total net area of approximately 306.67 sq. m. (3,301 sq. ft.).

Land Tenure

Inland Lot No. 1366 is held under a Government Lease for a term of 999 years commencing from 24 February 1896 at an annual Government rent at HK\$338.

Monthly Rental Income as at 30 June 2007

HK\$ 175,750 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$46,000,000

Estimated Net Property Yield

4.6%

Palatial Stand Property

Shops Nos. 1 to 7 on Ground Floor and Shop No. 8 on Ground Floor and its Roof; Offices Nos. 1 and 2 on 1st Floor; Advertising Spaces 1-5 and Commercial Common Areas and Facilities, Private Staircase and Landing and the Reserved Portion, Palatial Stand, 118 Wuhu Street, Hung Hom, Kowloon, Hong Kong

Description

The property is a 20-storey residential tower built over a 3-storey commercial / garden podium completed in 2001. It comprises the 8 shop units occupying the whole of the Ground Floor and two office units occupying the whole of the 1st Floor of the building with a total gross rentable area of approximately 801.28 sq. m. (8,625 sq. ft.) and a total net area of approximately 559.55 sq. m. (6,023 sq. ft.). It also comprises a Flat Roof on 1st Floor of the building with an area of approximately 56.02 sq. m. (603 sq. ft.).

Land Tenure

Hung Hom Inland Lot No. 522 is held under a Government Lease for a term of 150 years commencing from 14 September 1897 at an annual Government rent of HK\$34.

Hung Hom Inland Lots Nos. 509, 517, 510, 514, 515, and 504 are held under Conditions of Regrant Nos. 10274, 10340, 10273, 10579, 10356 and 10224 respectively each for a term of 150 years all commencing from 14 September 1897. The total annual Government rent payable for the subject lots is HK\$204.

Monthly Rental Income as at 30 June 2007

HK\$ 97,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2007

HK\$20,000,000

Estimated Net Property Yield

5.8%

Royal Terrace Property

Various Shops on Ground Floor, Signage Space and Island, Carparking Spaces Nos. 1-24 on 1st Floor, Nos. 1-25 on 2nd Floor and Motorcycle Parking Spaces Nos.M1-M10 on 3rd Floor, Royal Terrace, 933 King's Road, North Point, Hong Kong

Description

The property is a 36-storey composite commercial / residential building with carparking and recreational facilities completed in 2002. It comprises eleven shop units on the Ground Floor with a total gross rentable area of approximately 888.61 sq. m. (9,565 sq. ft.) and a total net area of approximately 651.06 sq. m. (7,008 sq. ft.). It also comprises 49 carparking spaces and 10 motorcycle parking spaces on the whole of 1st to 3rd Floors of the building.

Land Tenure

Quarry Bay Marine Lot No. 4 is held under Government Lease for a term of 75 years commencing from 27 April 1931 renewable for a further term of 75 years with annual Government rent payable to the subject sections of the lot at HK\$60.

Monthly Rental Income as at 30 June 2007

HK\$ 244,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2007

HK\$ 87,000 exclusive of operating expenses, rates, government rents and management fees

Market value in existing state as at 30 June 2007

HK\$67,000,000

Estimated Net Property Yield

5.9%

□ Trustee's Report

TO THE UNITHOLDERS OF SUNLIGHT REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

We hereby confirm that, in our opinion, the Manager of Sunlight Real Estate Investment Trust has, in all material respects, managed Sunlight Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 26 May 2006, as amended by the First supplemental deed dated 1 June 2006 and the Second supplemental deed dated 28 November 2006 for the period from 21 December 2006 (date of listing) to 30 June 2007.

HSBC Institutional Trust Services (Asia) Limited

(in its capacity as the trustee of Sunlight Real Estate Investment Trust)

Hong Kong, 17 September 2007

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□ Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF SUNLIGHT REAL ESTATE INVESTMENT TRUST

*(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance
(Chapter 571 of the Laws of Hong Kong))*

We have audited the consolidated financial statements of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 95 to 131 which comprise the consolidated balance sheet as at 30 June 2007, the consolidated income statement, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the consolidated cash flow statement for the period from 21 December 2006 (date of listing) to 30 June 2007, and a summary of significant accounting policies and other explanatory notes.

MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Manager of Sunlight REIT is responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 26 May 2006, as amended by the supplemental deeds dated 1 June 2006 and 28 November 2006 respectively (the "**Trust Deed**") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "**REIT Code**"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager of Sunlight REIT, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF SUNLIGHT REAL ESTATE INVESTMENT TRUST (continued)

*(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance
(Chapter 571 of the Laws of Hong Kong))*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the disposition of the assets and liabilities of Sunlight REIT and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the period then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Charter Road, Central
Hong Kong
17 September 2007

□ Consolidated Income Statement

for the period from 21 December 2006 (date of listing) to 30 June 2007

(Expressed in Hong Kong dollars)

	Note	\$'000
Turnover	4	200,275
Property operating expenses	5	(51,924)
Net property income		148,351
Other income	6	6,106
Administrative expenses		(31,331)
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination	19	533,585
Net increase in fair value of investment properties	10	468,000
Profit from operations		1,124,711
Finance costs on interest bearing liabilities	7(a)	(94,458)
Profit before taxation and transactions with unitholders	7	1,030,253
Income tax	8(a)	(90,198)
Profit after taxation and before transactions with unitholders		940,055

The notes on pages 101 to 130 form part of these consolidated financial statements.

Consolidated Balance Sheet

at 30 June 2007

(Expressed in Hong Kong dollars)

	Note	\$'000
Non-current assets		
Investment properties	10	9,558,000
Deferred tax assets	8(d)	1,807
Reimbursement rights	11	206,612
Derivative financial instruments	12	275,112
		<u>10,041,531</u>
Current assets		
Trade and other receivables	13	86,033
Pledged deposits	17	210,612
Cash and cash equivalents	14	151
		<u>296,796</u>
Total assets		<u>10,338,327</u>
Current liabilities		
Tenants' deposits	15	(89,642)
Rent receipts in advance		(2,826)
Trade and other payables	16	(46,197)
Current taxation	8(c)	(11,615)
		<u>(150,280)</u>
Net current assets		<u>146,516</u>
Total assets less current liabilities		<u>10,188,047</u>

Consolidated Balance Sheet

at 30 June 2007 (continued)

(Expressed in Hong Kong dollars)

	Note	\$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Secured bank borrowings	17	(3,931,880)
Deferred tax liabilities	8(d)	(1,501,445)
		<u>(5,433,325)</u>
Total liabilities, excluding net assets attributable to unitholders		
		<u>(5,583,605)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
		<u>4,754,722</u>
Number of units in issue		
	18	<u>1,491,778,433</u>
Net asset value attributable to unitholders per unit		
		<u>\$3.19</u>

The consolidated financial statements on pages 95 to 131 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the Manager of Sunlight REIT on 17 September 2007 and were signed on behalf by:

Kan Fook Yee

Chairman

Wu Shiu Kee, Keith

Executive Director

The notes on pages 101 to 130 form part of these consolidated financial statements.

□ Consolidated Statement of Changes in Net Assets Attributable to Unitholders

for the period from 21 December 2006 (date of listing) to 30 June 2007

(Expressed in Hong Kong dollars)

	Note	\$'000
Net proceeds from issuance of units to unitholders upon initial public offering		3,694,335
Issuance of units to Manager during the period	18	10,505
Profit after taxation and before transactions with unitholders for the period		940,055
Change in fair value of cash flow hedge		109,827
Balance at 30 June 2007		4,754,722

The notes on pages 101 to 130 form part of these consolidated financial statements.

□ Distribution Statement

for the period from 21 December 2006 (date of listing) to 30 June 2007

(Expressed in Hong Kong dollars)

	\$'000
Profit after taxation and before transactions with unitholders	940,055
Adjustments:	
– Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination except for the amount relating to Adjustment Payments (note 19)	(473,815)
– Net increase in fair value of investment properties	(468,000)
– Manager's fees paid or payable in the form of units	24,562
– Non-cash finance costs on interest bearing liabilities	32,044
– Deferred tax	86,997
	(798,212)
Total distributable income	141,843
Distribution per unit:	
– Before adjusting for distribution waivers (notes (ii) & (iii))	9.51 cents
– After adjusting for distribution waivers (notes (ii) & (iv))	13.51 cents

Notes:

- (i) Pursuant to the REIT Code and the Trust Deed, 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) In accordance with two Deeds of Distribution Waiver both of 2 December 2006 as disclosed in Sunlight REIT's offering circular dated 8 December 2006, certain unitholders who subscribed for a total of 441,642,638 units have agreed to waive their entitlement, in varying extents, to receive distributions from Sunlight REIT in respect of any period up to 30 June 2011 and have agreed to, where applicable, make payments to Sunlight REIT in case they have disposed these original units subscribed under the initial public offering of Sunlight REIT. These unitholders have not disposed of any units during the period.
- (iii) The distribution per unit, before adjusting for distribution waivers as mentioned in (ii) above, of 9.51 cents is calculated based on the total distributable income for the period of \$141,843,000 and 1,491,778,433 units, being the number of units in issue at the end of the period as well as the anticipated number of units in issue as of the record date for the distribution for the period (the "record date").
- (iv) The distribution per unit, after adjusting for distribution waivers as mentioned in (ii) above, of 13.51 cents is calculated based on the total distributable income for the period of \$141,843,000 and 1,050,135,795 units, which is calculated as follows:-

Anticipated number of units in issue as of the record date for distribution for the period	1,491,778,433
Less : Assumed number of units held by the unitholders, who agreed to waive their entitlement to distribution for the period, on the record date	(441,642,638)
	1,050,135,795

□ Consolidated Cash Flow Statement

for the period from 21 December 2006 (date of listing) to 30 June 2007

(Expressed in Hong Kong dollars)

	Note	\$'000
Operating activities		
Profit before taxation and transactions with unitholders		1,030,253
Adjustments for:		
– Manager's fees		24,562
– Excess of interest in fair values of the acquiree's identifiable net assets over cost of business combination		(533,585)
– Net increase in fair value of investment properties		(468,000)
– Finance costs on interest bearing liabilities		94,458
– Interest income		(6,085)
Operating cash flow before changes in working capital		141,603
Decrease in trade and other receivables		25,642
Increase in tenants' deposits		12,531
Decrease in rent receipts in advance		(1,935)
Increase in trade and other payables		12,494
Cash generated from operations		190,335
Tax paid		
– Hong Kong Profits Tax paid		(2,541)
Net cash generated from operating activities		187,794
Investing activities		
Interest received		5,945
Acquisition of subsidiaries	19	(3,618,147)
Net cash used in investing activities		(3,612,202)
Financing activities		
Proceeds from issuance of units to unitholders		3,866,234
Issue costs paid		(171,899)
Increase in pledged deposits		(210,612)
Interest paid		(59,164)
Net cash generated from financing activities		3,424,559
Net increase in cash and cash equivalents for the period and balance at 30 June 2007		151

The notes on pages 101 to 130 form part of these consolidated financial statements.

□ Notes on the Consolidated 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 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 Main Board of The Stock Exchange of Hong Kong Limited (the “**SEHK**”).

The principal activity of Sunlight REIT and its subsidiaries 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, Wan Chai, Hong Kong.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the period ended 30 June 2007 incorporate the financial statements of Sunlight REIT and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities 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)).

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

(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 are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated 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 consolidated 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

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

Any 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax (continued)

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.

- (iv) Current tax balances and deferred tax balances, and movement 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 consolidated 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
- (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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

The Group comprises two business segments, namely “Office properties” segment and “Retail properties” segment.

	Office properties \$'000	Retail properties \$'000	Total \$'000
(a) Segmental results			
Turnover			
– rental income	65,713	87,768	153,481
– car park income	1,669	8,687	10,356
– rental related income	19,146	17,292	36,438
	86,528	113,747	200,275
Property operating expenses	(22,120)	(29,804)	(51,924)
Net property income	64,408	83,943	148,351
Administrative expenses	(13,074)	(13,661)	(26,735)
Segment results	51,334	70,282	121,616
Net increase in fair value of investment properties	335,000	133,000	468,000
Excess of interest in fair values of the acquirees’ identifiable net assets over cost of business combination			533,585
Finance costs on interest bearing liabilities			(94,458)
Income tax			(90,198)
Unallocated other income, net of unallocated administrative expenses			1,510
Profit after taxation and before transactions with unitholders			940,055

3 SEGMENT REPORTING (continued)

	Office properties \$'000	Retail properties \$'000	Total \$'000
(b) Segmental balance sheet			
Segment assets	4,855,304	4,936,733	9,792,037
Derivative financial instruments			275,112
Pledged deposits			210,612
Cash and cash equivalents			151
Unallocated assets			60,415
Total assets			<u>10,338,327</u>
Segment liabilities	(795,967)	(836,157)	(1,632,124)
Secured bank borrowings			(3,931,880)
Unallocated liabilities			(19,601)
Total liabilities, excluding net assets attributable to unitholders			<u>(5,583,605)</u>

4 TURNOVER

Turnover represents gross income 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 (note)	153,481
Car park income	10,356
Rental related income	36,438
	<u>200,275</u>

Note: Included contingent rental income of \$377,000.

5 PROPERTY OPERATING EXPENSES

	\$'000
Property management fee	4,915
Government rent and rates	6,786
Car park operating costs	2,894
Other direct costs	37,329
	<u>51,924</u>

6 OTHER INCOME

	\$'000
Bank interest income	6,085
Others	21
	<u>6,106</u>

7 PROFIT BEFORE TAXATION AND TRANSACTIONS WITH UNITHOLDERS

Profit before taxation and transactions with unitholders is arrived at after charging:

	\$'000
(a) Finance costs on interest bearing liabilities:	
Interest on borrowings	62,334
Other borrowing costs	32,124
	<u>94,458</u>
<p>The total amount represents finance costs on interest bearing liabilities wholly repayable after two years but within five years (note 17), whereas other borrowing costs represent the amortisation of the upfront payments for the interest rate swaps and various financing charges.</p>	
(b) Other items:	
Manager's fees	24,562
Property Manager's fees	13,941
Trustee's remuneration	1,482
Auditor's remuneration	
– Audit services	1,500
– Other services	300
Valuation fees	762
Other legal and professional fees	<u>535</u>
<p>Sunlight REIT did not appoint any director and the Group did not engage any employee during the period ended 30 June 2007. No employee benefit expense has been incurred in the period accordingly.</p>	

8 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	\$'000
Current tax - Provision for Hong Kong Profits Tax	
Provision for the period	3,201
Deferred tax	
Origination and reversal of temporary differences	86,997
	<u>90,198</u>

Provision for Hong Kong Profits Tax has been made at 17.5% on the estimated assessable profits for the period.

(b) Reconciliation between tax expense and profit before taxation and transactions with unitholders at applicable tax rates:

	\$'000
Profit before taxation and transactions with unitholders	<u>1,030,253</u>
Notional tax on profit before taxation and transactions with unitholders, calculated at the Hong Kong Profits Tax rate of 17.5%	180,294
Tax effect of non-deductible expenses	4,273
Tax effect of non-taxable income	(95,642)
Tax effect of tax losses not recognised	693
Others	580
Actual tax expense	<u>90,198</u>

8 INCOME TAX (continued)

(c) Current taxation in the consolidated balance sheet represents:

	\$'000
Provision for Hong Kong Profits Tax for the period	3,201
Balance of profits tax provision assumed on business combination (note 19)	8,414
	<u>11,615</u>

(d) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

	Depreciation allowances in excess of related depreciation \$'000	Revaluation of properties \$'000	Reclassification of assets to investment properties \$'000	Fair value adjustment on business combination \$'000	Tax losses \$'000	Total \$'000
Deferred tax arising from:						
Acquisition of properties and related operations	45,042	504,250	159,709	715,956	(12,316)	1,412,641
Charged/(credited) to profit or loss	7,722	80,850	—	—	(1,575)	86,997
At 30 June 2007	<u>52,764</u>	<u>585,100</u>	<u>159,709</u>	<u>715,956</u>	<u>(13,891)</u>	<u>1,499,638</u>
						\$'000
Represented by:						
Net deferred tax assets recognised in the consolidated balance sheet						1,807
Net deferred tax liabilities recognised in the consolidated balance sheet						(1,501,445)
						<u>(1,499,638)</u>

8 INCOME TAX (continued)

(e) Deferred tax assets not recognised:

Deferred tax assets have not been recognised in respect of the following items:

	Tax losses	Deferred
	\$'000	tax asset
	\$'000	\$'000
Future benefits of Hong Kong tax losses		
– Assessed by the Inland Revenue Department	4,828	845
– Not yet assessed by the Inland Revenue Department	111,928	19,587
	116,756	20,432

The Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible unused tax losses can be utilised. The Hong Kong tax losses do not expire under current tax legislation.

9 EARNINGS PER UNIT BEFORE TRANSACTIONS WITH UNITHOLDERS

The basic earnings per unit for the period from 21 December 2006 (date of listing) to 30 June 2007 amounted to \$0.63. The calculation of basic earnings per unit is based on the Group's profit after taxation and before transactions with unitholders of \$940,055,000 and the weighted average of 1,488,770,986 units in issue during the period.

Diluted earnings per unit for the period ended 30 June 2007 is not presented as there was no potential dilution of earnings per unit.

10 INVESTMENT PROPERTIES

	\$'000
Additions through business combination (note 19)	9,090,000
Net increase in fair value	468,000
Balance at 30 June 2007	<u>9,558,000</u>

- (a) 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.
- (b) The analysis of the fair value of investment properties is as follows:

	\$'000
In Hong Kong	
– long leases	4,304,000
– medium-term leases	5,254,000
	<u>9,558,000</u>

- (c) The Group's investment properties have been mortgaged to secure banking facilities granted to the Group (note 17).

11 REIMBURSEMENT RIGHTS

The amount represents the reimbursement rights recognised pursuant to the tax indemnity provided by the Vendors (as defined in note 19), to the extent of certain relevant deferred tax liabilities recognised in the subsidiaries as at the date of acquisition.

12 DERIVATIVE FINANCIAL INSTRUMENTS

	\$'000
Interest rate swaps - cash flow hedges	275,112

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.

13 TRADE AND OTHER RECEIVABLES

	\$'000
Rental receivables	17,577
Deposits and prepayments	6,110
Other receivables	64
Amounts due from related companies	62,282
	<u>86,033</u>

The trade and other receivables include \$6,110,000 which is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered within one year.

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

	\$'000
Current and up to 1 month overdue	17,405
More than 1 month overdue and up to 3 months overdue	161
More than 3 months overdue and up to 6 months overdue	10
More than 6 months overdue	1
	<u>17,577</u>

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2007 represent cash at bank and in hand.

15 TENANTS' DEPOSITS

The tenants' deposits include \$59,659,000 which is expected to be settled after more than one year. If tenancies are not renewed upon expiry, the remaining balances are expected to be settled within one year.

16 TRADE AND OTHER PAYABLES

	\$'000
Creditors and accrued charges	24,257
Amounts due to related companies	21,940
	<u>46,197</u>

All creditors and accrued charges are due within one month or on demand and expected to be settled within one year.

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

17 SECURED BANK BORROWINGS

At 30 June 2007, the bank loan was repayable as follows:

	\$'000
After 2 years but within 5 years	3,931,880

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, under the banking facility agreements. Of both facilities, the term loan was fully drawn down by the Group on 21 December 2006. The Group also entered into the interest rate swaps on 21 December 2006. Details regarding the swap facility are set out in note 12.

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

- mortgages over the investment properties with a fair value of \$9,558,000,000 as at 30 June 2007 (note 10);
- charge over bank balances of \$161,012,000 and \$49,600,000 in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited and another bank 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 3%. The carrying amounts of the bank borrowings approximate their fair value.

18 UNITS IN ISSUE

	Number of units
Initial public offering	1,487,013,000
Issuance of units during the period	4,765,433
At 30 June 2007	1,491,778,433

On 30 January 2007 and 30 April 2007, 467,517 units at the price of \$2.4042 per unit and 4,297,916 units at the price of \$2.1828 per unit were issued respectively, as payment of the Manager's fees for the period from 21 December 2006 to 31 March 2007.

19 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, taking into account of the Adjustment Payments (see note (c) below), amounted to \$3,558,411,000.

The acquired business contributed the profit before taxation and transactions with unitholders for the period from 21 December 2006 (date of listing) to 30 June 2007.

Details of assets acquired and liabilities assumed of the acquired entities, based on the audited financial statements of such entities for the period from 1 July 2006 to 21 December 2006 issued on 19 March 2007 and fair value of acquired investment properties as at 21 December 2006, were as follows:

	\$'000
Investment properties	9,090,000
Deferred tax assets	3,891
Derivative financial instruments	195,199
Reimbursement rights	206,612
Trade and other receivables	51,765
Cash and cash equivalents	34
Tax recoverable	1,791
Tenants' deposits	(77,111)
Rent receipts in advance	(4,761)
Trade and other payables	(16,396)
Current taxation	(12,746)
Secured bank borrowings	(3,929,750)
Deferred tax liabilities	(1,416,532)
Assets acquired and liabilities assumed	4,091,996
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination	(533,585)
Consideration (note (a))	3,558,411

19 BUSINESS COMBINATION (continued)

	\$'000
Note (a): Consideration	
Finalised consideration (note (b))	3,618,181
Adjustment Payments (note (c))	(59,770)
	<u>3,558,411</u>
<p>The finalised consideration has been adjusted to reflect the assets acquired and liabilities assumed of the acquired entities based on the audited financial statements of such entities for the period from 1 July 2006 to 21 December 2006 issued on 19 March 2007 and fair value of acquired investment properties as at 21 December 2006.</p>	
	\$'000
Note (b): Net cash outflow	
Consideration paid, satisfied in cash	3,618,181
Cash acquired	(34)
	<u>3,618,147</u>
Note (c): Pursuant to several Deeds of Adjustment Payments all dated 2 December 2006 entered into among the Manager, the Trustee and the Vendors in favour of Sunlight REIT, the Vendors have agreed to make payments to Sunlight REIT in respect of the difference between the assured minimum annual rental income (prorated for the number of days between 21 December 2006 (date of listing) and 30 June 2007) and the consolidated rental income, as defined in such deeds, of Sunlight REIT for each financial period/year between 21 December 2006 (date of listing) and 30 June 2009 and which are made effectively as adjustments to the consideration payable for the acquisition (the "Adjustment Payments").	
	\$'000
Prorated assured minimum rental income for the period	213,251
Consolidated rental income for the period	(153,481)
Adjustment Payments for the period	<u>59,770</u>

20 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and liquidity risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of rental receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Manager is of the opinion that 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.

Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings raised at variable interest rates expose the Group to cash flow interest rate risk. The Group managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

20 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

The Group maintains sufficient reserves of cash and adequate committed lines of funding from financial institutions with sound credit ratings to meet its liquidity requirements.

The Group also monitors regularly its current and expected liquidity requirements and its compliance with lending covenants and limits on total borrowings as stipulated under REIT Code.

(d) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, pledged deposits, deferred assets, rental receivables, prepayments, deposits, other receivables and amounts due from related companies and financial liabilities including receipts in advance, accruals and other payables and amounts due to related companies approximate their fair values due to their short maturities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

21 CAPITAL COMMITMENTS

Capital commitments outstanding as at 30 June 2007 not provided for in the consolidated financial statements are as follows:

	\$'000
Authorised but not contracted for	12,712

22 CONTINGENT LIABILITIES

As at the balance sheet date, the Group has provided a guarantee to a commercial bank to secure facility granted to a subsidiary to issue bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,685,000.

23 SIGNIFICANT LEASING ARRANGEMENTS

At 30 June 2007, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	\$'000
Within 1 year	336,468
After 1 year but within 5 years	302,070
After 5 years	23,740
	<u>662,278</u>

The operating leases typically run for initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated.

24 CONNECTED PARTY TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with certain connected and related parties, as defined under the REIT Code and HKAS 24 “Related Party Disclosures”:

(a) Nature of relationship with connected/related parties

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”)	Significant holders of Sunlight REIT and their associates
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
Henderson Development Limited and other members of its group (collectively referred to as “HD Group”)	Connected persons of SKFE Group and holding company of HLD Group
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
Savills Valuation and Professional Services Limited and other members of its group (collectively referred to as “Savills Group”)	The Principal Valuer of Sunlight REIT
Woo, Kwan, Lee & Lo (“WKLL”)	Connected persons of HLD Group

**24 CONNECTED PARTY TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS
(continued)**

(a) Nature of relationship with connected/related parties (continued)

Connected person/related party	Relationship with the Group
Yung, Yu, Yuen & Co (“YYY”)	Connected persons of HLD Group
Yam & Co (“YC”)	Connected persons of the Manager

WKLL, YYY and YC are considered connected persons of the Manager or HLD Group as one of their respective partners is an associate of a director or the connected persons of the Manager.

(b) Transactions with connected persons/related parties

	\$'000
Rental and rental related income received/receivable from (note (i)):	
– HLD Group	4,293
– HSBC Group	4,813
Property management expenses and bank charges paid/payable to (note (i)):	
– HLD Group	(8,478)
– HSBC Group	(47)
Trustee’s fee (note (ii))	(1,482)
Manager’s fees (note (iii))	(24,562)
Property Manager’s fees (note (iv))	(13,941)
Interest expenses and agency charge on bank loans paid/payable to (note (v)):	
– HSBC Group	(21,348)
Interest received/receivable under the interest rate swaps (note 12):	
– HSBC Group	32,730
Interest income on bank deposits received/receivable from (note (i)):	
– HSBC Group	6,072

24 CONNECTED PARTY TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with connected persons/related parties (continued)

	\$'000
Adjustment Payments receivable from:	
– HLD Group	9,145
– SKFE Group	45,670
– HD Group	4,955
Insurance expenses paid/payable to (note (i)):	
- HSBC Group	(56)
Valuation fee and other charges paid/payable to (note (i)):	
- Savills Group	(771)
Promotion income received/receivable from (note (i)):	
- HLD Group	180
Professional fee paid/payable to (note (i)):	
- WKLL	(110)
- YYY	(2)
- YC	(232)

Notes:

- (i) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) The Trustee is entitled to receive a remuneration of 0.03% per annum on the first \$5 billion on the total assets of Sunlight REIT, 0.025% per annum on the next \$5 billion on the total assets of Sunlight REIT and 0.02% per annum on the balance, 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 all the properties of Sunlight REIT and a variable fee of 3% per annum of Sunlight REIT's Net Property Income (as defined in the Trust Deed).
- (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 of Sunlight REIT.

- (v) Interest expenses are calculated on the outstanding loan balance by reference to the interest rate as set out in note 17.

24 CONNECTED PARTY TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with connected/related parties are as follows:

	\$'000
Net amount due from/(to):	
– HLD Group	(10,269)
– HSBC Group	(718,633)
– SKFE Group	45,670
– HD Group	4,955
– WKLL	(41)
– YYY	(2)
– Savills Group	(750)
– YC	(162)

25 CRITICAL 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 assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

(ii) Recognition of deferred tax assets

At 30 June 2007, the Group has recognised a deferred tax asset in relation to the unused tax losses amounting to approximately \$79,377,000. 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.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD ENDED 30 JUNE 2007

Up to the date of issue of these consolidated financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 30 June 2007 and which have not been adopted in these consolidated financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and consolidated financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) - Int 11	HKFRS 2 - group and treasury share transaction	1 March 2007
HK(IFRIC) - Int 12	Service concession arrangements	1 January 2008
HKFRS 7	Financial instruments: disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Manager does not expect the adoption of the above has material impact to the consolidated financial statements of the Group.

27 PRINCIPAL SUBSIDIARIES OF SUNLIGHT REIT

Details of the principal subsidiaries of the Group are as follows:

Name of Company	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held		Principal activities
			Sunlight REIT	Subsidiaries	
Sunlight REIT Holding Limited	Cayman Islands	1 share of US\$1 each	100	—	Investment holding
Bayman Limited	British Virgin Islands/ Hong Kong	1 share with no par value	—	100	Property investment
Bestguard Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100	Property investment
Country Max Development Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100	Property investment
Gain Fortune Development Limited	Hong Kong	3,000,000 ordinary shares of HK\$1 each	—	100	Property investment
Gallund Investment Limited	Hong Kong	20,000 ordinary shares of HK\$100 each	—	100	Property investment
Gentfair Development Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100	Property investment
Global Team Development Limited	Hong Kong	100 ordinary shares of HK\$1 each	—	100	Property investment
Glory Good Development Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	100	Property investment
Glory Hero Development Limited	Hong Kong	3,000,000 ordinary shares of HK\$1 each	—	100	Property investment
Grand Faith Development Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	—	100	Property investment

27 PRINCIPAL SUBSIDIARIES OF SUNLIGHT REIT (continued)

Name of Company	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held		Principal activities
			Sunlight REIT	Subsidiaries	
Harzone Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	—	100	Property investment
Jetwise Investment Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each	—	100	Property investment
Lucky Million Development Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100	Property investment
Multimark Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	—	100	Property investment
Newcorp Development Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100	Property investment
Nicetex Development Limited	Hong Kong	2 ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	—	100	Property investment
Pacific Joy Investment Limited	Hong Kong	52,000,000 ordinary shares of HK\$1 each	—	100	Property investment
Russum Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each and 1,000 non-voting deferred shares of HK\$1 each	—	100	Property investment
Seiren Investment Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100	Property investment
Smart Fortune Development Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100	Property investment

27 PRINCIPAL SUBSIDIARIES OF SUNLIGHT REIT (continued)

Name of Company	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held		Principal activities
			Sunlight REIT	Subsidiaries	
Smartwise Services Limited	British Virgin Islands/ Hong Kong	1 share with no par value	—	100	Holding of domain name
Strong Bright Technology Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	—	100	Property investment
Sunlight Crownwill Limited	British Virgin Islands/ Hong Kong	1 share with no par value	—	100	Property investment
Sunlight REIT Finance Limited	British Virgin Islands/ Hong Kong	1 share with no par value	—	100	Provision of finance functions
Sunlight REIT Treasury Limited	British Virgin Islands/ Hong Kong	1 share with no par value	—	100	Provision of treasury functions
Tinselle Investment Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 Each	—	100	Property investment
United Glory Development Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100	Property investment
Yu Loy Development Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$10 each and 500 non-voting deferred shares of HK\$10 each	—	100	Property investment

□ Performance Table

As at 30 June 2007

(Expressed in Hong Kong dollars)

	Note	
Net asset value		\$4,754,722,000
Net asset value per unit		\$3.19
Highest traded price during the period		\$2.60
Highest premium of the traded price to net asset value per unit	(i)	N/A
Lowest traded price during the period		\$2.11
Highest discount of the traded price to net asset value per unit		33.9%
Distribution yield per unit	(ii)	6.0%
Annualised distribution yield per unit	(ii)	<u>11.4%</u>

Notes:

- (i) The highest traded price during the period was \$2.60 which is lower than the net asset value per unit as at 30 June 2007. Accordingly, no premium of the traded price to net asset value per unit is recorded.
- (ii) Distribution yield per unit is calculated based on the distribution per unit, after adjusting for distribution waivers, of 13.51 cents for the period from 21 December 2006 (date of listing) to 30 June 2007, the only distribution made for the financial period ended 30 June 2007, over the closing market price of \$2.25 as at 29 June 2007, the last trading day for the period ended 30 June 2007. The annualised distribution yield per unit is calculated based on a factor of 365/192.

□ Corporate Information

BOARD OF DIRECTORS OF THE MANAGER

Chairman and Non-executive Director

Kan Fook Yee

Chief Executive Officer and Executive Director

Wu Shiu Kee, Keith

Non-executive Director

Kwok Ping Ho

Independent Non-executive Directors

Kwan Kai Cheong

Ma Kwong Wing

Tse Kwok Sang

AUDIT COMMITTEE

Kwan Kai Cheong

Ma Kwong Wing

Tse Kwok Sang

INVESTMENT COMMITTEE

Kan Fook Yee

Wu Shiu Kee, Keith

Tse Kwok Sang

DISCLOSURES COMMITTEE

Wu Shiu Kee, Keith

Ma Kwong Wing

REMUNERATION AND NOMINATION COMMITTEE

Kan Fook Yee

Kwan Kai Cheong

Ma Kwong Wing

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

COMPANY SECRETARY OF THE MANAGER

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

Tricor Investor Services Limited

26th Floor, Tesbury Centre, 28 Queen's Road East,

Wanchai, Hong Kong

INVESTOR RELATIONS CONTACT

Leung Kwok Hoe, Kevin

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Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

WEBSITE ADDRESS

www.sunlightreit.com

□ Notice of Annual General Meeting



SUNLIGHT REIT

Sunlight Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of
the Securities and Futures Ordinance
(Chapter 571 of the Laws of Hong Kong))
(Stock Code : 435)

Managed by
Henderson Sunlight Asset Management Limited

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of unitholders of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") will be held at Nathan Room, Lower Lobby, Conrad Hong Kong Hotel, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 24 October 2007 at 10:30 a.m. for the following purposes:

- (1) To note the audited financial statements of Sunlight REIT together with the Auditors' Report for the period from 21 December 2006 (date of listing) to 30 June 2007; and
- (2) To note the appointment of Auditors of Sunlight REIT and the fixing of their remuneration.

By order of the Board
Henderson Sunlight Asset Management Limited
CHEUNG Kam Yee
Company Secretary

Hong Kong, 28 September 2007

Notes:

- (a) A unitholder entitled to attend at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend in his/her stead. The proxy needs not be a unitholder of Sunlight REIT.
- (b) In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong ("**Unit Registrar**") not less than 48 hours before the time appointed for holding the above meeting or adjourned meeting (as the case may be).
- (c) The register of unitholder of Sunlight REIT will be closed from Wednesday, 17 October 2007 to Wednesday, 24 October 2007, both days inclusive, during which period no transfer of units will be registered. In order to qualify for attending the Annual General Meeting, all properly completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the Unit Registrar no later than 4:00 p.m. on Tuesday, 16 October 2007.

Sunlight Real Estate Investment Trust

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

www.sunlightreit.com