



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號: 435



Profile of Sunlight REIT

Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) invests in a quality property portfolio, comprising twelve office and eight retail properties in Hong Kong (the “**Portfolio**”). The office properties are located in decentralised business areas, and the retail properties are mainly based in regional transportation hubs and areas with high population density. Henderson Sunlight Asset Management Limited (the “**Manager**”), an indirect wholly-owned subsidiary of Henderson Land Development Company Limited (“**HLD**”), is the manager of Sunlight REIT. Valued at approximately HK\$9,935.0 million as of 31 December 2007, the Portfolio has a combined gross rentable area (“**GRA**”) of 1,294,389 sq. ft. and a total of 844 car park spaces.

Mission Statement

The Manager’s key objectives are to provide Sunlight REIT’s unitholders with regular and stable cash distributions and to foster the 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 unitholders.

Our Commitment to Unitholders

The following five deliverables set the strategic direction for the Portfolio, and guide the Manager in its commitment to maximising returns for unitholders:

1. **Stable distribution profile**
2. **Balanced office and retail exposure in promising locations**
3. **An experienced and focused management team**
4. **Value creation through asset enhancement**
5. **Propelling growth through strategic acquisitions**

Contents

- Distribution 2
- Management Discussion and Analysis 3
- Connected Party Transactions 8
- Disclosure of Interests 13
- Portfolio Summary 17
- Units Performance Table 18
- Corporate Governance 19
- Financial Statements 21
- Auditors' Review Report 47
- Corporate Information 48

Distribution

The Manager's policy is to distribute to unitholders an amount equivalent to 100% of annual distributable income for each financial year.

Interim Distribution

The unaudited distributable income of Sunlight REIT to unitholders for the six months ended 31 December 2007 ("**Reporting Period**") amounted to HK\$79.0 million. This amount has factored in the elimination of certain non-cash items including non-cash finance costs of HK\$21.4 million and an increase in fair value of the Portfolio of HK\$377.0 million. After taking into account the entitlement waivers involving 441,642,638 units pursuant to the Deeds of Distribution Waiver as mentioned in note (ii) of the "Distribution Statement" on page 26 of this interim report, the interim distribution per unit is 7.44 HK cents.

The record date for the interim distribution will be Monday, 17 March 2008 and the payment is scheduled to take place on Tuesday, 29 April 2008.

Closure of Register of Unitholders

The register of unitholders will be closed from Monday, 17 March 2008 to Wednesday, 19 March 2008, both dates inclusive, during which no transfer of units will be effected. In order to entitle to the interim distribution, all 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 Friday, 14 March 2008.

Management Discussion and Analysis

Portfolio Performance

	Occupancy ^{note 1}		Passing Rental ^{note 2}		Committed Rental ^{note 3}
	30Jun07 (%)	31Dec07 (%)	30Jun07 (HK\$)	31Dec07 (HK\$)	1Jul07 - 31Dec07 (HK\$)
Office					
248 Queen's Road East Property	94.0	99.7	14.5	16.8	25.8
Bonham Trade Centre Property	87.1	92.6	13.7	14.4	15.4
135 Bonham Strand Trade Centre Property	98.6	98.4	13.3	14.1	14.7
235 Wing Lok Street Trade Centre Property	83.1	93.1	9.9	11.0	12.5
Winsome House Property	100.0	94.3	22.1	23.8	48.4
Everglory Centre Property	95.2	95.2	15.6	17.4	14.6
Righteous Centre Property	89.2	95.2	20.5	23.1	30.8
Sun Fai Commercial Centre Property	85.0	96.7	14.6	15.2	16.7
Wai Ching Commercial Building Property	75.1	100.0	7.0	7.1	7.1
On Loong Commercial Building Property	100.0	97.8	15.9	16.8	10.7
Java Road 108 Commercial Centre Property	94.2	96.1	14.3	15.2	15.8
Yue Fai Commercial Centre Property	84.8	90.5	12.6	12.7	12.9
Office Average	91.9	96.9	14.7	16.2	19.9
Retail					
Metro City Phase I Property	96.8	98.7	28.0	30.3	37.8
Sheung Shui Centre Shopping Arcade Property	99.4	96.1	60.5	63.4	55.3
Kwong Wah Plaza Property	98.3	96.7	24.1	26.1	36.2
Beverly Commercial Centre Property	89.8	100.0	26.6	27.5	28.4
Royal Terrace Property	97.3	97.3	26.2	26.4	49.7
Supernova Stand Property	100.0	88.4	41.6	43.6	n.a.
Glory Rise Property	90.0	90.0	33.6	33.9	12.0
Palatial Stand Property	100.0	100.0	11.3	11.3	20.0
Retail Average	97.7	97.4	37.0	38.9	43.7
Portfolio Average	93.8	97.0	22.1	23.5	27.6

Notes:

1. Calculated on the basis of occupied GRA as a proportion of total GRA of the relevant building on the relevant date.
2. Calculated on the basis of average rental per sq.ft. for all occupied GRA on the relevant date.
3. The average rental per sq.ft. for all GRA involved in new letting and renewal during the period. The figures are subject to numerous factors, including but not limited to location and length of the relevant tenancies, tenant credibility etc.

Market Review

Benefiting from favourable domestic interest rates and strong economic growth in Mainland China, the Hong Kong economy continued to advance during the Reporting Period. The office leasing market in central business districts remained robust and continued to create spillover demand into decentralised business areas. According to DTZ Debenham Tie Leung Limited, office vacancies in Sheung Wan and Wanchai/Causeway Bay continued its downward trend, falling to 4.3% and 3.9% respectively as of 31 December 2007 as compared with 5.1% and 4.3% as of 30 June 2007. In the meantime, the retail sector was also buoyant, bolstered by both strong local consumption and growing tourist spending. According to government statistics, total retail sales values and volumes during the Reporting Period increased by 16.4% and 13.1% year-on-year respectively. Capitalising on this favourable economic environment, Sunlight REIT has managed to deliver solid performance during the Reporting Period.

Operation Review

During the Reporting Period, the Manager witnessed a further improvement in overall passing rental by 6.3% to HK\$23.5 per sq. ft.. The office portfolio registered an encouraging 10.2% average passing rental growth to HK\$16.2 per sq. ft. as of 31 December 2007, while the average committed rental during the Reporting Period was HK\$19.9 per sq. ft.. Meanwhile, the retail portfolio also performed well as average passing rental grew 5.1% to HK\$38.9 per sq. ft. on the back of average committed rental of HK\$43.7 per sq. ft..

A key highlight of the interim results was the continued improvement in Portfolio occupancy, which attained a level of 97.0% as of 31 December 2007. Office occupancy climbed from 91.9% as of 30 June 2007 to 96.9% as of 31 December 2007, more than compensating for the slight drop in retail occupancy from 97.7% to 97.4%. It was particularly gratifying to see major improvements in occupancy at our smaller office properties, notably including 235 Wing Lok Street Trade Centre Property, Sun Fai Commercial Centre Property and Wai Ching Commercial Building Property.

The Portfolio has a diverse tenant base, with a total of 1,049 tenancies as of 31 December 2007. The 10 largest tenants by rental income, which contributed approximately 17.5% of the total rental income for December 2007, occupied approximately 14.5% of the total GRA. No single tenant accounted for more than 3.7% of the total rental income.

Apart from the satisfactory progress made in raising passing rental and occupancy, the Manager's proactive leasing strategies have also contributed to an upgrade in the tenant mix across the Portfolio. At 248 Queen's Road East Property, the Manager has successfully accommodated organic expansion of existing tenants, notably including the government and government-related entities which, in terms of GRA, have collectively increased their exposure to the property to 20.9% at the end of the Reporting Period. At the smaller office properties, tenant mix enhancement was also apparent, thanks to the brisk demand from quality small to medium enterprises.

On the retail front, Metro City Phase I Property has been further repositioned to cater for the growing population of families in the Tseung Kwan O vicinity with the addition of educational and lifestyle trades that complement existing tenants within the healthcare and financial services sectors. Meanwhile, the strategically positioned Sheung Shui Centre Shopping Arcade Property has become a major consumer and banking destination for both local inhabitants and cross-border travellers. The opening of the Lok Ma Chau spur line is expected to further enhance cross-border traffic and thus shopping footfall.

In terms of capital expenditure on asset enhancement, major work commenced during the Reporting Period included the asset enhancement programme at 248 Queen's Road East Property, which involves reconfiguring external shop fronts and improving the building entrance and foyer. Among the retail properties, the Manager has already initiated the first phase of the refurbishment programme at Sheung Shui Centre Shopping Arcade Property, including amenities upgrade and enhancement of the atrium.

Financial Review

Summary

(in HK\$'million, unless otherwise specified)

	First half of FY2007/08 <i>note 1</i>
Turnover	210.7
Property operating expenses	(57.7)
Net property income	153.0
Profit after tax	343.9
Distributable income	79.0
Cost to income ratio	27.4%
Portfolio valuation	9,935.0
DPU <i>note 2</i>	7.44 HK cents
Net asset value per unit	HK\$3.20

Notes:

1. Sunlight REIT was listed on 21 December 2006. As such there are only 11 days in the first half of FY2006/07 and no comparable figures are available from the previous corresponding period.
2. A total of 441,642,638 units owned by certain unitholders (who agreed, in varying extents, to waive their entitlements to distributions for any period up to 30 June 2011) are excluded from the calculation.

Total revenue and property operating expenses of Sunlight REIT for the Reporting Period were HK\$210.7 million and HK\$57.7 million respectively, resulting in net property income of HK\$153.0 million and a cost-to-income ratio of 27.4%. After taking into account certain non-property operating expenses, finance costs and an increase in fair value of the Portfolio, the consolidated net profit of Sunlight REIT for the Reporting Period was HK\$343.9 million. As Sunlight REIT was listed on 21 December 2006 (the “Listing Date”), there are no directly comparable year-on-year figures.

Savills Valuation and Professional Services Limited, the independent valuer of Sunlight REIT, valued the Portfolio at HK\$9,935.0 million as of 31 December 2007. This represents an increase of 3.9% from the valuation as of 30 June 2007. Of this total appraised value, office properties accounted for 50.7% and registered a 7.0% growth since 30 June 2007, while retail properties accounted for 49.3% and recorded a 1.0% increase over the same period.

As of 31 December 2007, Sunlight REIT had in place total loan facilities of HK\$4,050.0 million, of which the HK\$3,950.0 million term loan facility had been fully drawn while there was a further HK\$100.0 million revolving credit facility that remained undrawn. Both the term loan and the revolving credit facilities have a term of 5 years from the date of the first drawdown. As of 31 December 2007, the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, stood at 37.6%.

In order to minimise financial market risks and maintain financial flexibility, Sunlight REIT has certain interest rate swap arrangements, under which interest rates of the term loan have been effectively fixed at a flat rate of 3.5% per annum for the Reporting Period and until 30 June 2011. The value of the swap decreased from HK\$275.1 million as of 30 June 2007 to HK\$78.8 million as of 31 December 2007 as a result of the fall in Hong Kong interbank offer rates during the Reporting Period.

As of 31 December 2007, Sunlight REIT had a total bank and cash balance of HK\$197.3 million, including tenants' deposits of HK\$98.5 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.

Outlook

Going forward, outlook for the second half of the current financial year for Sunlight REIT appears encouraging. With leases accounting for 16.9% of GRA due to expire in the next six months, positive rental reversion is poised to continue thereby supporting the growth momentum in rental revenue. In the meantime, asset enhancement works will increase although such activities are not expected to bring about a negative impact on the distributable income of Sunlight REIT as it will continue to be supported by the Adjustment Payments¹ mechanism.

With the commencement on 21 December 2007 of the period under the HLD Commitment Letter (as described in the Offering Circular dated 8 December 2006), the Manager will hold discussions with HLD, which within 18 months from the date of listing is required to make available at least two office and/or retail properties for sale to Sunlight REIT with a valuation not less than HK\$2,727.0 million (being 30% of the appraised value of Sunlight REIT's existing portfolio as of the time of listing), subject to negotiations and entering into of a legally binding agreement and compliance with applicable regulatory requirements. The Manager will take great care to ensure that any such acquisitions to be made will offer good asset enhancement potential and will provide synergistic benefits to the overall Portfolio.

In conclusion, the favourable economic environment characterised by declining interest rates and burgeoning inflation bodes well for Sunlight REIT, which owns a diversified portfolio of quality office and retail properties. The Manager will actively capitalise on this evolving trend to create additional value for unitholders.

1 "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.

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 Code on Real Estate Investment Trust ("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 Securities and Futures Commission ("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 2} (HK\$'000)	Rental and other deposits received as of 31 December 2007 (HK\$'000)
Jones Hugh Investment Limited	Associate of significant holders ^{note 3}	Leasing transactions	27 ^{note 4}	—
Henderson Sunlight Asset Management Limited	The Manager	Leasing transactions	1,862	908
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing transactions	1,272	590
Henderson Real Estate Agency Limited	Associated company of the Manager	Leasing transactions	672	383
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	215	—
TOTAL:			4,048	1,881

Notes:

1. Within the meaning of the REIT Code.
2. Amount excluding deposits received.
3. The significant holders being Uplite Limited and Wintrade Limited.
4. This leasing agreement was early surrendered on 18 August 2007.

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	74
Goodwill Management Limited	Associated company of the Manager	Property management and operations	479
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	3,856
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management services, marketing services and provision of staff	16,097
Megastrength Henderson Security Services Limited	Associated company of the Manager	Carpark management, security services and renovation	1,921
Metro City Management Limited	Associated company of the Manager	Property management and operations	798
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	989
Mrs. Lee Pui Ling, Angelina	Associate of significant holders ^{note 2}	Legal services	106 ^{note 3}
Mr. Yam Kam Kwong, Allen	Associate of significant holders ^{note 2}	Legal services	247 ^{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	1 ^{note 5}
TOTAL:			24,568

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 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 of 31 December 2007 (HK\$'000)
Lease or License Transactions:				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing transaction ^{note 3}	2,254 ^{note 5}	1,087
Hang Seng Bank Limited	Trustee Connected Persons	Leasing transaction ^{note 4}	2,446 ^{note 5}	1,155

CONNECTED PARTY TRANSACTIONS WITH THE TRUSTEE CONNECTED PERSONS (Continued)

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 of 31 December 2007 (HK\$'000)
Ordinary Banking and Financial Services <i>note 2</i> :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/receivable	32,380	—
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expense and agency charge on bank loan and other bank charges	22,317	—
HSBC Insurance Brokers (Asia-Pacific) Limited	Trustee Connected Persons	Insurance brokerage services	6	—
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 <i>note 1</i> .				

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.
5. Amount excluding deposits received.

OTHER DISCLOSURES

Pursuant to note 2 to paragraph 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\$23.7 million and HK\$1.4 million respectively. Further terms regarding the Manager's fee and the Trustee's fee are set out in notes (ii) and (iv) of Note 19 (b) of the Condensed Interim Financial Statements. Save for the Manager's fees and the Trustee's fee as disclosed above, there are no other services which requires disclosure in this interim report.

Disclosure of Interests

The REIT Code requires that connected persons (as defined in paragraph 8.1 of the REIT Code) of Sunlight REIT disclose their interests in units. As well, the provisions of Part XV of the Securities and Futures Ordinance ("SFO") are deemed by the Trust Deed to apply to, each of the Manager itself and a Director or 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

On 30 October 2007, the Manager received 11,562,789 new units of Sunlight REIT as payment of the Manager's fees. With the disposal of 7,052,789 units during the Reporting Period, the Manager beneficially held 4,510,000 units of Sunlight REIT as of 31 December 2007. Save as disclosed above, none of the Directors or chief executive of the Manager was beneficially interested (or deemed to be interested) in units or held any short position in units as of 30 June 2007 and 31 December 2007 as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed.

HOLDINGS OF SUBSTANTIAL UNITHOLDERS

The interests and short position 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 of 30 June 2007		As of 31 December 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	29.61	449,205,427	29.88	0.27
Lee Financial (Cayman) Limited ^{note 2}					
Long Position	374,072,708	25.08	374,072,708	24.88	- 0.2
Leesons (Cayman) Limited ^{note 2}					
Long Position	374,072,708	25.08	374,072,708	24.88	- 0.2
Leeworld (Cayman) Limited ^{note 2}					
Long Position	374,072,708	25.08	374,072,708	24.88	- 0.2
Shau Kee Financial Enterprises Limited ^{note 2}					
Long Position	374,072,708	25.08	374,072,708	24.88	- 0.2
Uplite Limited ^{note 2}					
Long Position	224,443,625	15.05	224,443,625	14.93	- 0.12
Wintrade Limited ^{note 2}					
Long Position	149,629,083	10.03	149,629,083	9.95	- 0.08
Silchester International Investors Limited ^{note 3}					
Long Position	119,207,150	7.99	165,875,150	11.03	3.04
Silchester International Investors International Value Equity Trust ^{note 3}					
Long Position	74,519,922	5.00	90,621,922	6.03	1.03

HOLDINGS OF SUBSTANTIAL UNITHOLDERS (Continued)

Name	As of 30 June 2007		As of 31 December 2007		% Change in Interest
	Number of Units	% of Unit Holding ^{note 1}	Number of Units	% of Unit Holding ^{note 1}	
Value Partners Group Limited ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04
Value Partners Limited ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04
Cheah Capital Management Limited ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04
Cheah Company Limited ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04
Hang Seng Bank Trustee International Limited ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04
Cheah Cheng Hye ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04
To Hau Yin ^{note 4}					
Long Position	—	—	90,786,000	6.04	6.04

Notes:

1. The percentages expressed are based on the total issued units of 1,491,778,433 as of 30 June 2007 and 1,503,341,222 as of 31 December 2007 respectively.
2. As of 31 December 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 Shau Kee Financial Enterprises Limited ("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, 27,027,972 units were owned by Richful Resources Limited and 7,562,789 units were owned by the Manager. Cobase Limited and Richful Resources Limited were wholly-owned subsidiaries of Brightland Enterprises Limited, and the Manager was a wholly-owned subsidiary of Latco Investment Limited, both of which in turn were wholly-owned by HLD. Henderson Development Limited ("HD") owned more than one-third of the issued share capital of HLD. HD 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 449,205,427 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.

3. As of 31 December 2007, the long position of 165,875,150 units were held by Silchester International Investors Limited ("Silchester") in its capacity as investment manager of which 90,621,922 units were beneficially held by Silchester International Investors International Value Equity Trust. Subsequent informal notification from Silchester regarding their exact unitholdings as of 30 June 2007 and 31 December 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.
4. As of 31 December 2007, the long position of 90,786,000 units were held by Value Partners Limited ("Value Partners") which was wholly owned by Value Partners Group Limited ("VPG"). Cheah Capital Management Limited, which owned more than one-third of the issued share capital of VPG, was in turn wholly owned by Cheah Company Limited ("CCL"). Hang Seng Bank Trustee International Limited was the trustee of a discretionary trust of CCL.

Under the SFO, Mr. Cheah Cheng Hye was taken to be interested in the 90,786,000 units by virtue of being the founder of the discretionary trust and Ms. To Hau Yin as his spouse was also treated as being interested in the said 90,786,000 units.

Subsequent informal notification from Value Partners regarding their exact unitholdings as of 31 December 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 date.

HOLDINGS OF OTHER CONNECTED PERSONS

So far as is known to the Manager and save as disclosed above, as of 31 December 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 <i>note 1</i>	1,229,000	0.082
Lee King Yue <i>note 2</i>	50,000	0.003
Lee Pui Ling, Angelina <i>note 3</i>	2,307	0.0002
Lee Yip Wah, Peter <i>note 4</i>	11,000	0.0007
Mao Kenneth Ruys <i>note 5</i>	500,000	0.033
HSBC Group <i>note 6</i>	453	0.00003

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 of 30 June 2007 and 31 December 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 of 30 June 2007 and 31 December 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 of 30 June 2007 and 31 December 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 of 30 June 2007 and 31 December 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 500,000 units as of 30 June 2007 and 31 December 2007.
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 and 453 units as of 30 June 2007 and 31 December 2007 respectively.

Portfolio Summary

Office Property ^{note 1}

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\$'million)
Grade A	248 Queen's Road East Property	Wanchai	1998	46	369,891	6,490	88	2,816.0
Grade B	Bonham Trade Centre Property	Sheung Wan	1998	—	108,506	9,403	125	496.0
Grade B	135 Bonham Strand Trade Centre Property	Sheung Wan	2000	—	60,844	3,071	78	259.0
Grade B	235 Wing Lok Street Trade Centre Property	Sheung Wan	2000	—	47,481	4,804	65	168.0
Grade B	Winsome House Property	Central	1999	—	37,937	2,177	25	298.0
Grade B	Everglory Centre Property	Tsim Sha Tsui	1999	—	25,896	3,906	27	135.0
Grade B	Righteous Centre Property	Mongkok	1996	—	41,004	10,763	54	334.0
Grade B	Sun Fai Commercial Centre Property	Mongkok	1998	—	23,817	2,334	42	99.0
Grade B	Wai Ching Commercial Building Property	Jordan	1997	—	14,239	2,082	32	29.0
Grade B	On Loong Commercial Building Property	Wanchai	1984	—	23,856	1,708	37	119.0
Grade B	Java Road 108 Commercial Centre Property	North Point	1998	—	35,694	2,229	31	152.0
Grade B	Yue Fai Commercial Centre Property	Aberdeen	1997	—	41,272	1,479	96	130.0
Sub-total				46	830,437	50,446	700	5,035.0

Retail Property ^{note 1}

New Town	Metro City Phase I Property	Tseung Kwan O	1996	452	—	188,889	135	1,859.0
New Town	Sheung Shui Centre Shopping Arcade Property	Sheung Shui	1993	297	—	122,339	121	2,329.0
New Town	Kwong Wah Plaza Property	Yuen Long	1998	—	39,101	25,741	35	463.0
Others	Beverley Commercial Centre Property	Tsim Sha Tsui	1982	—	—	7,934	40	55.0
Others	Royal Terrace Property	Quarry Bay	2002	49	—	9,565	6	68.0
Others	Supernova Stand Property	North Point	2001	—	—	4,226	1	46.0
Others	Glory Rise Property	North Point	2003	—	—	7,086	6	60.0
Others	Palatial Stand Property	Hung Hom	2001	—	3,566	5,059	5	20.0
Sub-total				798	42,667	370,839	349	4,900.0
Total				844	873,104	421,285	1,049	9,935.0

Notes:

1. The table presents information and data as of 31 December 2007.
2. Valuation prepared by Savills Valuation and Professional Services Limited.

Units Performance Table

	<i>Note</i>	21 Dec 06 - 30 Jun 07	1 Jul 07 - 31 Dec 07
Net asset value at the end of the period (HK\$ million)		4,754.7	4,805.7
Net asset value per unit at the end of the period (HK\$)		3.19	3.20
Highest traded unit price during the period (HK\$)		2.60	2.56
Highest premium of the traded unit price to net asset value per unit during the period	1	N/A	N/A
Lowest traded unit price during the period (HK\$)		2.11	1.85
Highest discount of the traded unit price to net asset value per unit during the period		(33.9%)	(42.2%)
Last traded unit price for the period (HK\$)		2.25	2.34
Distribution per unit for the period (HK\$)	2	0.1351	0.0744
Distribution yield	3	6.0%	3.2%

Notes:

1. The highest trade price during all the relevant periods were lower than the net asset value per unit reported at the end of those periods. Accordingly, no premium of the traded price to net asset value per unit had been recorded.
2. Distribution in relation to the income available for distribution for the period ended 31 December 2006 was deferred to be made with the income available for distribution for the second half of FY2006/07. As such, no distribution was declared in respect of first half of FY2006/07.
3. Distribution yield is calculated by dividing the distribution per unit for the relevant period by the last traded unit price of the corresponding period. The distribution per unit for the Reporting Period does not include any consideration adjustment payment pursuant to the Deed of Adjustment Payments; such payment will only be made at the end of the relevant financial year.

CORPORATE GOVERNANCE

The Manager 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, corporate governance policies and other 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.

During the Reporting Period, the Manager has complied with the provisions of the Compliance Manual.

COMPLIANCE WITH THE DEALINGS CODE

The Manager has also adopted a code governing dealings in units of Sunlight REIT by Directors of the Manager (the “**Dealings Code**”). The Manager 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.

REVIEW OF INTERIM REPORT

The interim report of Sunlight REIT for the Reporting Period has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of references. The interim financial statements have also been reviewed by the auditors in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

CONFLICTS OF INTERESTS

The Manager and Henderson Sunlight Property Management Limited (the “**Property Manager**”) are each indirect wholly-owned subsidiaries of HLD. SKFE, HLD and the Manager also have interest in the units of Sunlight REIT. SKFE, HLD, their subsidiaries and associates are engaged in, and/or may engage in, amongst other things, the development and management of retail, office and other properties in Hong Kong and elsewhere, as well as investments in such properties. A non-executive director of the Manager is currently an executive director of HLD.

As a wholly-owned subsidiary of HLD, the Manager may experience conflicts of interests in connection with any potential acquisitions from or other transactions with HLD or its affiliates, and in agreeing the terms of such potential acquisitions or transactions. There can be no assurance that SKFE, HLD, their subsidiaries and associates will direct attractive investment opportunities to Sunlight REIT, and may direct such opportunities to other entities, including other affiliates of SKFE or 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 and competing for potential tenants and procuring services.

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

Potential conflicts of interests may also arise in relation to tenancy related matters in the event that any director or senior officer of the Manager or Property Manager is also a shareholder or director of a tenant or potential tenant of Sunlight REIT (or the holding company of such tenant or potential tenant).

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 31 December 2007.

NEW UNITS ISSUED

Except for an aggregate of 11,562,789 units issued to the Manager as payment of the Manager’s fees, there were no other new units issued during the Reporting Period.

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.

Consolidated Income Statement

For the six months ended 31 December 2007 – unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	Period from 1 July 2007 to 31 December 2007 \$'000	Period from 21 December 2006 to 31 December 2006 \$'000
Turnover	4	210,694	10,617
Property operating expenses	5	(57,668)	(2,674)
Net property income		153,026	7,943
Other income		4,954	1,778
Administrative expenses		(27,405)	(1,630)
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination	16	—	473,742
Increase in fair value of investment properties	9	377,000	—
Profit from operations		507,575	481,833
Finance costs on interest bearing liabilities	6(a)	(91,171)	(5,412)
Profit before taxation and transactions with unitholders	6	416,404	476,421
Income tax	7	(72,502)	(605)
Profit after taxation and before transactions with unitholders		343,902	475,816

The notes on pages 28 to 46 form part of these condensed interim financial statements.

Consolidated Balance Sheet

At 31 December 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Non-current assets			
Investment properties	9	9,935,000	9,558,000
Deferred tax assets		988	1,807
Reimbursement rights	10	206,612	206,612
Derivative financial instruments	11	78,816	275,112
		10,221,416	10,041,531
Current assets			
Trade and other receivables	12	30,943	86,033
Tax recoverable		5,926	—
Pledged deposits	14	197,173	210,612
Cash at bank and in hand		95	151
		234,137	296,796
		10,455,553	10,338,327
Total assets			
Current liabilities			
Tenants' deposits		(98,505)	(89,642)
Rent receipts in advance		(2,830)	(2,826)
Trade and other payables	13	(43,303)	(46,197)
Current taxation		(3,773)	(11,615)
		(148,411)	(150,280)
		85,726	146,516
Net current assets			
Total assets less current liabilities			
		10,307,142	10,188,047

Consolidated Balance Sheet *(Continued)*

At 31 December 2007

(Expressed in Hong Kong dollars)

	<i>Note</i>	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings	14	(3,933,916)	(3,931,880)
Deferred tax liabilities		(1,567,576)	(1,501,445)
		<u>(5,501,492)</u>	<u>(5,433,325)</u>
Total liabilities, excluding net assets attributable to unitholders		<u>(5,649,903)</u>	<u>(5,583,605)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>4,805,650</u>	<u>4,754,722</u>
Number of units in issue	15	<u>1,503,341,222</u>	<u>1,491,778,433</u>
Net asset value attributable to unitholders per unit		<u>\$3.20</u>	<u>\$3.19</u>

The notes on pages 28 to 46 form part of these condensed interim financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2007 – unaudited

(Expressed in Hong Kong dollars)

	Period from 1 July 2007 to 31 December 2007 \$'000	Period from 21 December 2006 to 31 December 2006 \$'000
Balance at 1 July 2007 / 21 December 2006	4,754,722	—
Net proceeds from issuance of units to unitholders upon initial public offering	—	3,694,335
Issuance of units to Manager during the period	25,798	—
Distribution paid to unitholders	(141,843)	—
Profit after taxation and before transactions with unitholders	343,902	475,816
Change in fair value of cash flow hedge	(176,929)	(15,174)
Balance at 31 December 2007 / 2006	4,805,650	4,154,977

The notes on pages 28 to 46 form part of these condensed interim financial statements.

Distribution Statement

For the six months ended 31 December 2007 – unaudited

(Expressed in Hong Kong dollars)

	Period from 1 July 2007 to 31 December 2007 \$'000	Period from 21 December 2006 to 31 December 2006 \$'000
Profit after taxation and before transactions with unitholders	343,902	475,816
Adjustments:		
– Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination	—	(473,742)
– Increase in fair value of investment properties	(377,000)	—
– Manager's fee paid or payable in the form of units	23,707	1,124
– Non-cash finance costs on interest bearing liabilities	21,402	1,836
– Deferred tax	66,950	425
	(264,941)	(470,357)
Total distributable income	78,961	5,459
Distribution per unit:		
– Before adjusting for distribution waivers (notes (ii) and (iii))	5.25 cents	N/A
– After adjusting for distribution waivers (notes (ii) and (iv))	7.44 cents	N/A

The notes on pages 28 to 46 form part of these condensed interim financial statements.

Distribution Statement *(Continued)*

For the six months ended 31 December 2007 – unaudited

(Expressed in Hong Kong dollars)

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.

Pursuant to Sunlight REIT's offering circular dated 8 December 2006, Sunlight REIT's first distribution after the listing date would be for the period from the listing date to 30 June 2007. Accordingly, there was no distribution for the period from the listing date to 31 December 2006.

- (ii) Pursuant to 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 of 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 5.25 cents is calculated by dividing the total distributable income for the period of \$78,961,000 by 1,503,341,222 units, being the number of units in issue at the close of business on 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 7.44 cents is calculated based on the total distributable income for the period of \$78,961,000 and 1,061,698,584 units, which is calculated as follows:

Number of units in issue as of the record date	1,503,341,222
Less: Number of units held by the unitholders who agreed to waive their entitlement to distribution for the period*	<u>(441,642,638)</u>
	<u>1,061,698,584</u>

* Assuming these unitholders will not dispose of any of their unitholdings prior to the record date.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2007 – unaudited

(Expressed in Hong Kong dollars)

	Period from 1 July 2007 to 31 December 2007 \$'000	Period from 21 December 2006 to 31 December 2006 \$'000
Net cash generated from/(used in) operating activities	132,437	(1,569)
Net cash generated from/(used in) investing activities	64,759	(3,614,994)
Net cash (used in)/generated from financing activities	(197,252)	3,708,314
Net (decrease)/increase in cash at bank and in hand for the period	(56)	91,751
Cash at bank and in hand at 1 July 2007 / 21 December 2006	151	—
Cash at bank and in hand at 31 December 2007 / 2006	95	91,751

The notes on pages 28 to 46 form part of these condensed interim financial statements.

Notes on the Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

1. General

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

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

The condensed interim financial statements were authorised for issuance on 22 February 2008.

2. Basis of preparation

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

These condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the HKICPA. KPMG’s independent review report to the board of directors of the Manager is included on page 47.

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

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006/07 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

2. Basis of preparation *(Continued)*

The financial information relating to the financial period ended 30 June 2007 included in the interim financial report does not constitute the Sunlight REIT's statutory financial statements for that financial period but is derived from those financial statements. Statutory financial statements for the financial period ended 30 June 2007 are available from the Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 September 2007.

The same accounting policies adopted in the 2006/07 annual financial statements have been applied to the condensed interim financial statements.

The new and revised HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 30 June 2008 may be affected by the issue of additional interpretations or other changes announced by the HKICPA subsequent to the date of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period (see note 21).

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

3. Segment reporting

	Office properties		Retail properties		Total	
	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
Turnover						
– rental income	73,163	3,432	90,558	4,622	163,721	8,054
– car park income	1,585	82	7,969	520	9,554	602
– rental related income	19,967	1,057	17,452	904	37,419	1,961
	94,715	4,571	115,979	6,046	210,694	10,617
Property operating expenses	(25,438)	(1,071)	(32,230)	(1,603)	(57,668)	(2,674)
Net property income	69,277	3,500	83,749	4,443	153,026	7,943
Administrative expenses	(12,022)	(110)	(12,569)	(141)	(24,591)	(251)
Segment results	57,255	3,390	71,180	4,302	128,435	7,692
Increase in fair value of investment properties	329,000	—	48,000	—	377,000	—
Excess of interest in fair values of the acquirees' identifiable net assets over cost of business combination					—	473,742
Finance costs on interest bearing liabilities					(91,171)	(5,412)
Income tax					(72,502)	(605)
Unallocated other income, net of unallocated administrative expenses					2,140	399
Profit after taxation and before transactions with unitholders					343,902	475,816

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

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:

	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
Rental income	163,721	8,054
Car park income	9,554	602
Rental related income	37,419	1,961
	210,694	10,617

5. Property operating expenses

	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
Property management fee	5,198	260
Government rent and rates	7,034	466
Car park operating costs	2,995	174
Other direct costs	42,441	1,774
	57,668	2,674

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

6. Profit before taxation and transactions with unitholders

Profit before taxation and transactions with unitholders is arrived at after charging/(crediting):

	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
(a) Finance costs on interest bearing liabilities:		
Interest on borrowings	89,060	5,285
Other borrowing costs	2,111	127
	91,171	5,412

The total amount represents finance costs on interest bearing liabilities wholly repayable after two years but within five years (note 14), whereas other borrowing costs represent the amortisation of the upfront payments for the interest rate swaps and various financing charges.

(b) Other items:

Interest income	(4,954)	(1,778)
Manager's fee	23,707	1,124
Property Manager's fee	16,097	686
Trustee's remuneration	1,420	88
Auditors' remuneration		
– Audit services	750	—
– Other services	370	350
Valuation fees	150	—
Other legal and professional fees	1,127	22

Sunlight REIT did not appoint any director and the Group did not engage any employee during the period. No employee benefit expense has been incurred in the period accordingly.

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

7. Income tax

	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
Current tax – Provision for Hong Kong Profits Tax	5,552	180
Deferred tax	66,950	425
	72,502	605

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

8. Earnings per unit before transactions with unitholders

The basic earnings per unit for the six months ended 31 December 2007 amounted to \$0.23 (for the period from 21 December 2006 to 31 December 2006: \$0.32). The calculation of basic earnings per unit is based on the Group's profit after tax and before transactions with unitholders of \$343,902,000 (for the period from 21 December 2006 to 31 December 2006: \$475,816,000) and the weighted average of 1,495,737,431 (31 December 2006: 1,487,013,986) units in issue during the period.

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

9. Investment properties

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Balance as at 1 July 2007 / 21 December 2006	9,558,000	—
Additions through business combination (note 16)	—	9,090,000
Net increase in fair value	377,000	468,000
Balance as at 31 December 2007 / 30 June 2007	9,935,000	9,558,000

- (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:

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
In Hong Kong		
– long leases	4,612,000	4,304,000
– medium-term leases	5,323,000	5,254,000
	9,935,000	9,558,000

- (c) The Group's investment properties have been mortgaged to secure banking facilities granted to the Group (note 14).

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

10. Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity provided by the Vendors (as defined in note 16), to the extent of certain relevant deferred tax liabilities recognised in the subsidiaries as at the date of acquisition.

11. Derivative financial instruments

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Interest rate swaps – cash flow hedges	78,816	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.

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

12. Trade and other receivables

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Rental receivables	21,043	17,577
Deposits and prepayments	7,656	6,110
Other receivables	229	64
Amounts due from related companies	2,015	62,282
	30,943	86,033

\$7,169,000 (30 June 2007: \$5,860,000) included in deposits and prepayments is expected to be recovered after more than one year. Apart from the above, all of the trade and other receivables are expected to be recovered within one year.

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

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

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Current and up to 1 month overdue	20,210	17,405
More than 1 month overdue and up to 3 months overdue	789	161
More than 3 months overdue and up to 6 months overdue	35	10
More than 6 months overdue	9	1
	21,043	17,577

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.

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

13. Trade and other payables

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Creditors and accrued charges	22,791	24,257
Manager's fee payable (<i>note 19(b)(iii)</i>)	11,965	14,056
Amounts due to related companies	8,547	7,884
	43,303	46,197

Except for the Manager's fee payable which is due within four months, 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.

14. Secured bank borrowings

At the period end, the secured bank borrowings was repayable as follows:

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
After 2 years but within 5 years	3,933,916	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 11.

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

14. Secured bank borrowings (Continued)

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 \$9,935,000,000 as at 31 December 2007 (30 June 2007: \$9,558,000,000) (note 9);
- charge over bank balances of \$99,865,000 (30 June 2007: \$161,012,000) and \$97,308,000 (30 June 2007: \$49,600,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited and other banks in the name of Sunlight REIT Treasury 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 and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the balance sheet date was 4.47% (30 June 2007: 4.44%). The carrying amounts of the bank borrowings approximate their fair value.

15. Units in issue

	Number of units	
	31 December 2007 (Unaudited)	30 June 2007 (Audited)
At 1 July 2007 / 21 December 2006	1,491,778,433	—
Initial public offering	—	1,487,013,000
Issuance of units during the period	11,562,789	4,765,433
At 31 December 2007 / 30 June 2007	1,503,341,222	1,491,778,433

On 30 October 2007, 11,562,789 units at the average price of approximately \$2.23109 per unit were issued.

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

16. Business combination

On 21 December 2006, Sunlight REIT acquired certain entities or businesses, which involve 20 investment properties, a finance company and a domain name company, through certain special purpose entities from certain related parties comprising subsidiaries of Shau Kee Financial Enterprises Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Henderson Development Limited and Jetwin International Limited (collectively referred to as the “Vendors”).

Details of assets acquired and liabilities assumed were as follows:

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

Note: 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 and 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 acquisition (the “Adjustment Payments”). Accordingly, Adjustment Payments totalling \$59,770,000 have been made from the Vendors for the period ended 30 June 2007 and reflected in the Sunlight REIT financial statements for that period; further Adjustment Payments may be paid by the Vendors for the financial years ending 30 June 2008 and 2009.

Notes on the Condensed Interim Financial Statements (Continued)

(Expressed in Hong Kong dollars)

17. Capital commitments

Capital commitments outstanding as at 31 December 2007 not provided for in the condensed interim financial statements are as follows:

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Authorised but not contracted for	9,591	12,712

18. 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 (30 June 2007: \$4,685,000).

19. 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/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

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

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

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

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

WKLL, YC and YYY 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.

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected/related parties

	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
Rental and rental related income received/receivable from <i>(note (i))</i> :		
– HLD Group	3,833	225
– HSBC Group	4,700	—
Property management expenses and bank charges paid/payable to <i>(note (i))</i> :		
– HLD Group	(8,116)	(506)
– HSBC Group	(46)	—
Manager's fee <i>(note (ii))</i>	(23,707)	(1,124)
Property Manager's fee <i>(note (iii))</i>	(16,097)	(686)
Trustee's fee <i>(note (iv))</i>	(1,420)	(88)
Interest expenses and agency charge on bank loans paid/payable to <i>(note (v))</i> :		
– HSBC Group	(22,271)	(3,583)
Interest received/receivable under the interest rate swaps <i>(note 11)</i> :		
– HSBC Group	29,573	1,713
Interest income on bank deposits received/receivable from <i>(note (i))</i> :		
– HSBC Group	2,808	1,778

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected/related parties (Continued)

	Period from 1 July 2007 to 31 December 2007 (Unaudited) \$'000	Period from 21 December 2006 to 31 December 2006 (Unaudited) \$'000
Insurance expenses paid/payable to <i>(note (i))</i> :		
– HSBC Group	(6)	(3)
Valuation fee and other charges paid/payable to <i>(note (i))</i> :		
– Savills Group	(150)	—
Promotion income received/receivable from <i>(note (i))</i> :		
– HLD Group	215	—
Professional fee paid/payable to <i>(note (i))</i> :		
– WKLL	(106)	—
– YC	(247)	—
– YYY	(1)	—

Notes:

- (i) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) The Manager's fee 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). For the period from 21 December 2006 to 30 June 2011, the Manager's fee shall be paid to the Manager in the form of units. Accordingly, units were issued to the Manager during the period in this connection.

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected/related parties *(Continued)*

- (iii) 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 fee, 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.

- (iv) 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.
- (v) Interest expenses are calculated on the outstanding loan balance by reference to the interest rate as set out in note 14.

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

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

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

	31 December 2007 (Unaudited) \$'000	30 June 2007 (Audited) \$'000
Net amount due from/(to):		
– HLD Group	(18,622)	(10,269)
– HSBC Group	(781,105)	(718,633)
– SKFE Group	—	45,670
– HD Group	—	4,955
– Savills Group	(150)	(750)
– WKLL	(30)	(41)
– YC	(91)	(162)
– YYY	—	(2)

20. 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.

Notes on the Condensed Interim Financial Statements *(Continued)*

(Expressed in Hong Kong dollars)

20. Critical accounting estimates and judgements *(Continued)*

(ii) Recognition of deferred tax assets

At 31 December 2007, the Group has recognised a deferred tax asset in relation to the unused tax losses amounting to approximately \$84,893,000 (30 June 2007: \$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.

21. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 30 June 2008

Up to the date of issue of these condensed interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 30 June 2008.

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

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

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009

Auditors' Review Report

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

Introduction

We have reviewed the interim financial report set out on pages 21 to 46 which comprises the consolidated balance sheet of Sunlight REIT as at 31 December 2007 and the consolidated income statement, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the condensed consolidated cash flows statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 December 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 February 2008

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

Lo Yuk Fong, Phyllis

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

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SUNLIGHT REIT

陽光房地產基金

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