



SUNLIGHT REIT

Stock code: 435

A Clear Vision

Annual Report
2009/10



Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited on 21 December 2006 (the “Listing Date”), Sunlight Real Estate Investment Trust (“Sunlight REIT”) (stock code: 435) offers investors the opportunity to invest in a diversified portfolio of 12 office and 8 retail properties totaling 1,294,389 sq. ft. in gross rentable area with an appraised value of HK\$10,722.1 million as at 30 June 2010. The office properties are located in both core and decentralised business areas, while the retail properties are located in regional transportation hubs, new towns and other urban areas with high population density.



REIT Manager

Henderson Sunlight Asset Management Limited is the manager of Sunlight REIT (the “Manager”). An indirect wholly-owned subsidiary of Henderson Land Development Company Limited, the Manager’s responsibility is to manage Sunlight REIT in the sole interest of the unitholders in accordance with the terms of the trust deed constituting Sunlight REIT dated 26 May 2006 (as amended) (the “Trust Deed”).

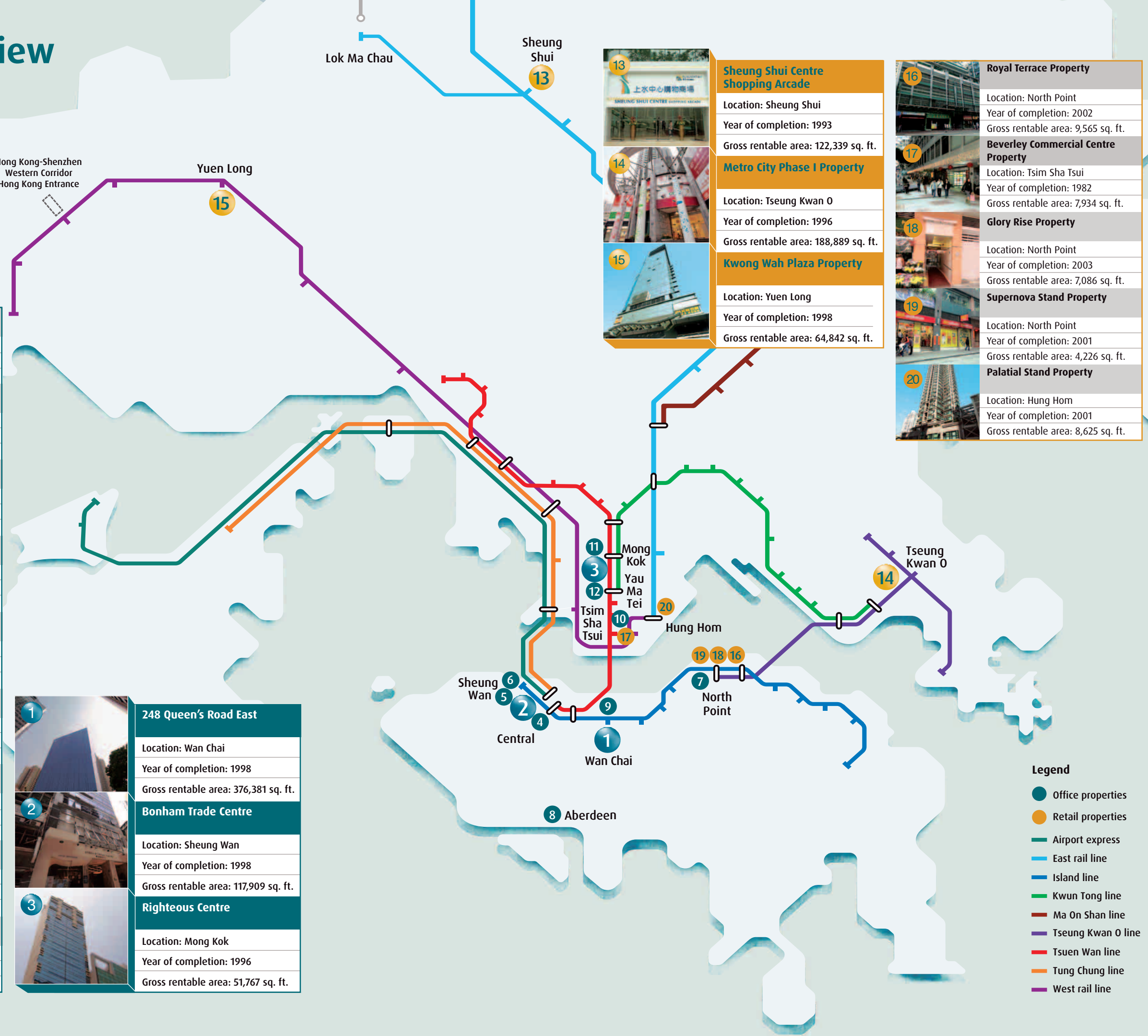
Portfolio Overview

	Winsome House Property Location: Central Year of completion: 1999 Gross rentable area: 40,114 sq. ft.
	135 Bonham Strand Trade Centre Property Location: Sheung Wan Year of completion: 2000 Gross rentable area: 63,915 sq. ft.
	235 Wing Lok Street Trade Centre Location: Sheung Wan Year of completion: 2000 Gross rentable area: 52,285 sq. ft.
	Java Road 108 Commercial Centre Location: North Point Year of completion: 1998 Gross rentable area: 37,923 sq. ft.
	Yue Fai Commercial Centre Property Location: Aberdeen Year of completion: 1997 Gross rentable area: 42,751 sq. ft.
	On Loong Commercial Building Property Location: Wan Chai Year of completion: 1984 Gross rentable area: 25,564 sq. ft.
	Everglory Centre Location: Tsim Sha Tsui Year of completion: 1999 Gross rentable area: 29,802 sq. ft.
	Sun Fai Commercial Centre Property Location: Mong Kok Year of completion: 1998 Gross rentable area: 26,151 sq. ft.
	Wai Ching Commercial Building Property Location: Yau Ma Tei Year of completion: 1997 Gross rentable area: 16,321 sq. ft.

	248 Queen's Road East Location: Wan Chai Year of completion: 1998 Gross rentable area: 376,381 sq. ft.
	Bonham Trade Centre Location: Sheung Wan Year of completion: 1998 Gross rentable area: 117,909 sq. ft.
	Righteous Centre Location: Mong Kok Year of completion: 1996 Gross rentable area: 51,767 sq. ft.

	Sheung Shui Centre Shopping Arcade Location: Sheung Shui Year of completion: 1993 Gross rentable area: 122,339 sq. ft.
	Metro City Phase I Property Location: Tseung Kwan O Year of completion: 1996 Gross rentable area: 188,889 sq. ft.
	Kwong Wah Plaza Property Location: Yuen Long Year of completion: 1998 Gross rentable area: 64,842 sq. ft.

	Royal Terrace Property Location: North Point Year of completion: 2002 Gross rentable area: 9,565 sq. ft.
	Beverley Commercial Centre Property Location: Tsim Sha Tsui Year of completion: 1982 Gross rentable area: 7,934 sq. ft.
	Glory Rise Property Location: North Point Year of completion: 2003 Gross rentable area: 7,086 sq. ft.
	Supernova Stand Property Location: North Point Year of completion: 2001 Gross rentable area: 4,226 sq. ft.
	Palatial Stand Property Location: Hung Hom Year of completion: 2001 Gross rentable area: 8,625 sq. ft.

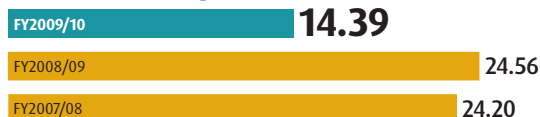


Legend

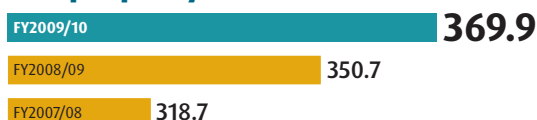
- Office properties (Blue circle)
- Retail properties (Orange circle)
- Airport express (Green line)
- East rail line (Light blue line)
- Island line (Dark blue line)
- Kwun Tong line (Green line)
- Ma On Shan line (Brown line)
- Tseung Kwan O line (Purple line)
- Tsuen Wan line (Red line)
- Tung Chung line (Orange line)
- West rail line (Purple line)

Performance Highlights

Distribution per unit (HK cents)



Net property income (HK\$' million)



Cost-to-income (%)



Appraised property value (HK\$' million)



Passing rent (HK\$/sq. ft.)



Occupancy (%)



Net asset value per unit (HK\$)



Gearing (%)



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Strategic Management

With a balanced portfolio of both office and retail properties at strategic locations, Sunlight REIT is in a good position to provide unitholders with regular distribution and to foster the growth of such distribution through asset enhancement, capital management and accretive acquisition.



CHAIRMAN'S STATEMENT

Sunlight REIT should continue to offer investors a solid distribution yield that compares very favourably with returns on conventional low-risk investment instruments.

Dear Unitholders,

I am delighted to have been appointed as Chairman of Henderson Sunlight Asset Management Limited (the "**Manager**") and I look forward to working with the dynamic and visionary management team that has inspired the performance of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") since its debut listing in December 2006. On behalf of the board of Directors of the Manager (the "**Board**"), I present below the results of Sunlight REIT for the twelve months ended 30 June 2010.

Sunlight REIT's net property income for the year ended 30 June 2010 amounted to HK\$369.9 million, representing a year-on-year growth of approximately 5.5%. However, distributable income fell 30.9% to HK\$186.5 million (FY2008/09: HK\$269.8 million), principally due to the cessation of rental support provided by the vendors of our portfolio, and the reduction of distribution waivers¹ from the previous 100% to 60% in the financial year under review. Total distribution per unit ("**DPU**") for the full year amounts to HK 14.39 cents (FY2008/09: HK 24.56 cents), which implies a final distribution per unit of HK 7.51 cents for the year.

Reflecting the solid recovery in commercial property prices in Hong Kong, the appraised value of Sunlight REIT's portfolio increased by 14.5% to reach HK\$10,722.1 million as at 30 June 2010. Consequently, the net asset value of Sunlight REIT appreciated by 24.8% to arrive at HK\$5,319.4 million as at 30 June 2010, which equates to HK\$3.40 on a per unit basis (30 June 2009: HK\$2.76). It should be emphasised that the calculation of net asset value takes into account deferred tax liabilities of HK\$1,403.6 million in respect of revaluation of properties and fair value adjustment on business combination,

excluding which the net asset value per unit as at 30 June 2010 would have been HK\$4.30.

The recovery in the local commercial property market does not make the task of sustaining and improving net property income any less challenging, and it requires nothing less than a proactive management approach in order to accomplish the mission. During the year under review, I am pleased to witness the benefits of this operational strategy which enables Sunlight REIT to capture and better realise the underlying potential of our properties in a most satisfactory manner. In the meantime, our portfolio's cost-to-income ratio of 24.3% (FY2008/09: 25.7%) is well illustrative of the Manager's continued success in cost control.

In the year ahead, we will continue to pursue a proactive strategy to further strengthen Sunlight REIT's recurring income stream from its solid well diversified portfolio. Should suitable opportunities arise, we will explore acquisition opportunities, particularly in light of our capacity to manage a bigger portfolio with minor incremental cost. The fading out of financial engineering assistance notwithstanding, Sunlight REIT should continue to offer investors a solid distribution yield that compares very favourably with returns on conventional low-risk investment instruments.

Finally, I would like to express my gratitude to former Chairman, Mr. Tse Wai Chuen, Tony for his contribution to the Board and to my fellow directors, management and staff for all their hard work throughout the year.

Au Siu Kee, Alexander
Chairman

¹ please refer to item 2 under "Distribution" on page 10 for details.



Au Siu Kee, Alexander
Chairman

CEO'S REPORT

Building on a sound and caring management strategy, we hope to continue to generate a steady recurrent income stream for the benefit of our unitholders, and to create a more conducive environment where people prefer to work and choose to shop.

Notwithstanding the volatility in global financial markets and in asset prices, the performance of Sunlight REIT has been stable as it benefited from having a diversified defensive portfolio which was carefully positioned by the Manager to capitalise on recovery from the economic downturn.

Buoyed by a low interest rate environment, a resumption of multinational demand and the continued strength of the mainland China economy, the Hong Kong commercial property market started to recover in mid-2009 and this robust growth momentum has seen few signs of subsiding throughout the period under review. Notably, the market was characterised by the following features:

- There was a strong rise in office capital values, but it was not matched by a commensurate rise in office rents which, in general, remain lower than levels immediately before the global financial crisis. The corollary was a marked yield compression for office properties.
- The trend of decentralisation has become increasingly evident as multinational corporations, notably insurance companies, relocated from traditional office locations to Kowloon East, while vacancies in Wan Chai and Causeway Bay were absorbed by migration demand from Central and Admiralty.

- Retail rents were well supported by the healthy performance of tourism, itself sustained by strong visitor arrivals from China which spurred demand for both luxury brands and necessity products. The improving domestic economy and job market lent further support to the resilient showing of the sector.

To capture the benefits of such ongoing developments and with a view to improving the income and asset quality of Sunlight REIT, the Manager devoted substantial effort in asset enhancement, tenant acquisition and capital management during the year under review. This three-pronged strategy helped strengthen the income base of Sunlight REIT and is expected to serve unitholders well in the medium term.

As stated in our previous annual report, a key priority for the year under review was to maintain a high level of occupancy. We are pleased to inform unitholders that the overall portfolio occupancy as at 30 June 2010 stood at 96.8%, up from 92.7% a year earlier. Occupancy of our office portfolio improved from 91.7% to 95.9% while our retail portfolio was close to full occupancy. In terms of achieved rents, while office rental reversion growth slowed and turned negative in certain cases, retail rents continued to trend upward, partly attributable to our successful asset enhancement programmes. As a case in



Wu Shiu Kee, Keith
Chief Executive Officer

point, Sheung Shui Centre Shopping Arcade, our largest retail property (by appraised value) which has been substantially renovated in the last eighteen months, recorded a solid 10.9% increase in committed rent to HK\$71.0 per sq. ft. per month from HK\$64.0 per sq. ft. per month in the previous year.

The Manager's emphasis on service excellence has been rewarded by the loyalty of its tenant base, as demonstrated by its overall retention rate of 69.8%. Competition to attract quality tenants has remained stiff in light of the global financial crisis and the heightened competition from Kowloon East, but the Manager's proactive leasing efforts have enabled Sunlight REIT to secure a number of high quality tenants which further strengthen income sustainability. This is particularly evident at 248 Queen's Road East, our flagship office property which has attracted the migration of several reputable corporations, the presence of which should further enhance the already solid tenant profile of the building.

In terms of capital management, we amended our interest rate swap arrangement to capitalise on the low interest rate environment, resulting in a total of HK\$1,500 million worth of borrowing now being fixed at an interest rate of 1.68% per annum (plus a relevant credit spread) until 28 June 2013. The amendments will help reduce interest expenses in the coming year and provide a more predictable cashflow profile for Sunlight REIT in the medium term.

During the year we endeavoured to dispose of two of our smaller retail properties, namely Glory Rise Property and Palatial Stand Property. While we managed to attract a very warm reception from the market, given the strong underlying value of the two properties, particularly for Palatial Stand Property which is in the vicinity of the future Ho Man Tin MTR interchange, we eventually

decided to withdraw the properties from the proposed sale. Nonetheless, the exercise demonstrated the value and quality of the portfolio as well as the Manager's commitment to constantly monitor value creation opportunities for unitholders.

The Manager has continued its pursuit of improving the environmental footprint of Sunlight REIT's properties, with an aim to providing healthier and higher quality environment for our staff, tenants and their customers. Going forward, the promotion of energy saving and recycling in the management of our properties will be at the forefront of our operational agenda.

Outlook

Notwithstanding the economic recovery, the outlook for Hong Kong remains clouded by the prevailing global uncertainties, particularly in the wake of sovereign-debt problems in Europe. The mainland China economy has been a bright spot in terms of economic growth, but there are signs that growth could be slowing due to the clampdown on credit and the economic impact of the measures taken to cool down the real estate market in China.

While Hong Kong will not be immune from the impact of a potential double-dip recession in the major economies, we are cautiously optimistic that the domestic economy, given its strong fundamentals, will withstand any possible turbulence well and will continue to exhibit positive growth in the year ahead.

There is evidence that the compression in office property yields in Hong Kong is abating as rental growth appears to be gathering further upward momentum. According to the statistics collated by property consulting firm, DTZ Debenham Tie Leung Limited, there was a net take-up of Grade A office properties of over 1.6 million sq. ft. in the first half of 2010, as compared to a negative take-up of

nearly 1.3 million sq. ft. in 2009. This positive swing reduced the overall Grade A office vacancy rate to approximately 6%. With average new office supply between 2011 to 2013 projected to be no more than 1.7 million sq. ft. per annum (which is much lower than the estimated 3.4 million sq. ft. of new office supply per annum between 2008 to 2010), there is reason to believe that positive growth in office rents would be a sustainable feature in the next twelve months.

Regarding the retail property sector, as China has taken further steps to liberalise Chinese nationals travelling to Hong Kong, the prospects for tourism spending and thus retail rents should remain sanguine. In addition, given the limited supply of regional shopping malls in the pipeline, the demand-supply balance is expected to remain highly favourable.

On the asset enhancement front, Sheung Shui Centre Shopping Arcade will enter its final phase of refurbishment in FY2010/11, the completion of which is expected to further stimulate traffic and spending. In the meantime, we have also planned to conduct certain improvement and space reconfiguration works at Metro City Phase I Property, while refurbishment works at Righteous Centre in Mong Kok is also in the pipeline.

Certain financial structures were put in place at the time of listing of Sunlight REIT, which enabled us to conduct asset enhancement works without affecting distribution to unitholders. As these structures gradually phase out, and in order to continue to fund future asset enhancement programmes in a prudent manner, we have previously announced that distribution to unitholders will be revised from 100% of its annual distributable income to an amount not less than 90% of Sunlight REIT's annual distributable income for each financial year beginning from FY2010/11. We believe that this policy change is necessary and is in the interest of our unitholders.

The restructuring of the interest rate swap arrangements was executed not only for the benefit of interest saving in the short term, but also in preparation for the refinancing of the term loan which will mature on 20 December 2011. The term loan will be refinanced not just to ensure an optimal capital mix, but also structured in such a way as to maximise financial flexibility.

As our Chairman has mentioned, should suitable opportunities arise, we will explore acquisition opportunities. In particular, we wish to invest in properties which can improve the scalability of the existing portfolio, and offer good hidden value that can be unlocked through our asset enhancement initiatives. In the meantime, we shall continue to focus on maintaining a high level of occupancy and maximising the underlying potential of our portfolio through proactive management programmes. Building on a sound and caring management strategy, we hope to continue to generate a steady recurrent income stream for the benefit of unitholders, and to create a more conducive environment where people prefer to work and choose to shop.

Wu Shiu Kee, Keith
Chief Executive Officer

DISTRIBUTION

The annual distributable income of Sunlight REIT for the year was HK\$186.5 million, representing a decline of 30.9% from HK\$269.8 million recorded in the previous year. The annual distributable income is calculated by the Manager and arrived at after adjusting for certain items as set out in the “Distribution Statement” on page 81. The DPU for the year was HK 14.39 cents, which represents a year-on-year decline of 41.4% as compared with HK 24.56 cents declared in the previous year.

In addition to property income contribution, the level of distributable income and DPU were and will be affected by certain policies and structures as briefly described below:

1. Pursuant to the Deeds of Adjustment Payments entered into at the time of listing, Sunlight REIT no longer receives adjustment payments, in respect of rental income, from the vendors of Sunlight REIT’s portfolio beginning from FY2009/10;
2. Pursuant to the Deeds of Distribution Waiver entered into at the time of listing, the extent of distribution waivers offered by certain subsidiaries of Henderson Land Development Company Limited (“**HLD**”) and certain subsidiaries of Shau Kee Financial Enterprises Limited (“**SKFE**”) (involving 441,642,638 units (“**Waiver Units**”) pursuant to the Deeds of Distribution Waiver as mentioned in note (ii) of the “Distribution

Statement” on page 82) has been reduced from the previous 100% of Waiver Units to 60% of such in FY2009/10 and will be further reduced to 50% of such in FY2010/11. Such waiver arrangement will lapse with effect from FY2011/12;

3. Pursuant to amendments to the Trust Deed which were approved by unitholders at the extraordinary general meeting held on 28 April 2009 and the subsequent announcement issued on 19 June 2009 in respect of the election by the Manager of the form of receiving its base fee and variable fee for the financial year under review, the payment structure of those Manager’s fees has been changed (from 100% in units for the previous financial year, to 50% in cash and 50% in units for the financial year under review), resulting in an additional cash outlay of HK\$27.0 million in FY2009/10. As regards the Manager’s base fee and variable fee for FY2010/11, the Manager has elected to be paid entirely in units; and
4. The Manager has announced on 1 June 2010 its decision to modify Sunlight REIT’s distribution policy, such that it will distribute an amount of not less than 90% of Sunlight REIT’s annual distributable income for each financial year to unitholders. The modification to the distribution policy will apply to FY2010/11 and to all subsequent financial years until further notice.

Please refer to the table below for a summary of various policies and structures:

Material Policies/Structures affecting distribution to unitholders

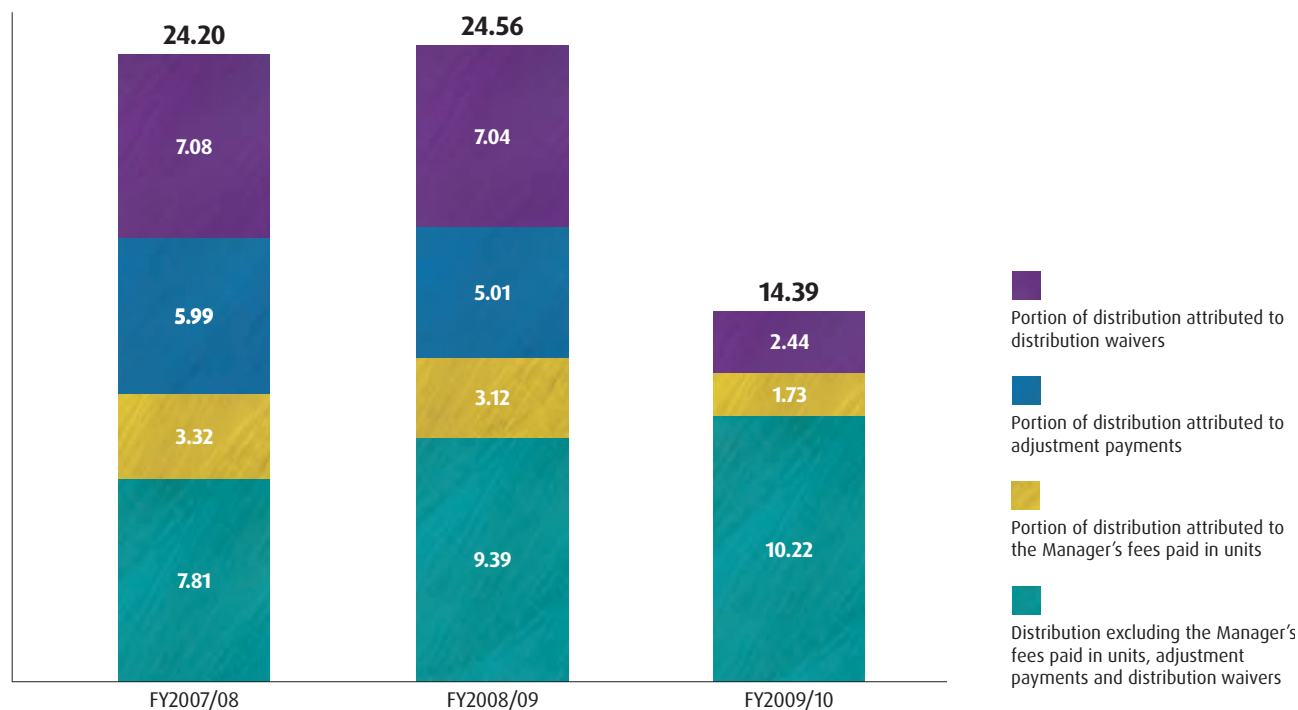
	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY2010/11	FY2011/12
Adjustment payments	✓	✓	✓	X	X	X
Distribution waivers	100%	100%	100%	60%	50%	X
Manager’s fees paid in units	100%	100%	100%	50%	100%	To be decided by the Manager
Distribution policy (as % of annual distributable income)	100%	100%	100%	100%	Not less than 90%	Not less than 90%

The chart below provides a year-on-year comparison in terms of the various components of the DPU. Notably, the distribution derived from the operations of Sunlight REIT was approximately HK 10.22 cents per unit, representing

an 8.8% growth from the previous year. The overall decline in distribution is attributed to certain factors unrelated to the operating performance of the portfolio.

Distribution at a Glance

HK cents



Distribution Entitlement and Closure of Register of Unitholders

The record date for the final distribution will be Wednesday, 29 September 2010. The register of unitholders will be closed from Monday, 27 September 2010 to Wednesday, 29 September 2010, both days inclusive, during which period no transfer of units will be registered. In order to be

entitled to the final distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the Unit Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 24 September 2010. Payment of the final distribution will be made to unitholders on Thursday, 21 October 2010.

Value Creation

Capitalising on the evolving trends of office decentralisation and robust tourism spending, the Manager has continued to unlock value of the portfolio for the benefit of unitholders.



PORTFOLIO AT A GLANCE

Property	Property Details						No. of leases as at 30 June	
	Location	Year of completion	No. of car park spaces	GRA ¹ (sq. ft.)			2010	2009
				Office	Retail	Total		
Office Property								
Grade A								
248 Queen's Road East	Wan Chai	1998	46	369,891	6,490	376,381	69	60
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	109	103
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	58	52
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	24
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	74	75
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	70	63
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	33	28
Yue Fai Commercial Centre Property	Aberdeen	1997	0	41,272	1,479	42,751	105	106
On Loong Commercial Building Property	Wan Chai	1984	0	23,856	1,708	25,564	37	36
Everglory Centre	Tsim Sha Tsui	1999	0	25,896	3,906	29,802	28	26
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	44	43
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	31	27
Sub-total/Average			46	830,437	50,446	880,883	682	643
Retail Property								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	127	116
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	112	111
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	37	34
Urban								
Royal Terrace Property	North Point	2002	49	0	9,565	9,565	6	7
Beverly Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	39	40
Glory Rise Property	North Point	2003	0	0	7,086	7,086	7	7
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Palatial Stand Property	Hung Hom	2001	0	3,566	5,059	8,625	5	4
Sub-total/Average			798	42,667	370,839	413,506	335	321
Total/Average			844	873,104	421,285	1,294,389	1,017	964

Notes: 1. Size of the properties is measured in terms of gross rentable area ("GRA").

2. Passing rent and committed rent are expressed in terms of rent per month.

3. Please refer to "Valuation Report" on pages 58 to 73 for further details.

N/A: Not applicable

Operational Statistics						Property Financials				
Occupancy as at 30 June (%)		Passing Rent ² as at 30 June (HK\$/sq. ft.)		Committed Rent ² (HK\$/sq. ft.)		Net Property Income (HK\$'000)		Capitalisation Rate as at 30 June 2010 (%)		Appraised Value as at 30 June 2010 ³ (HK\$'000)
2010	2009	2010	2009	1 Jul 09 – 30 Jun 10	1 Jul 08 – 30 Jun 09	FY2009/10	FY2008/09	Retail	Office	
94.9	92.4	24.7	24.2	23.6	25.6	92,754	90,481	4.40	4.15	2,888,000
98.2	87.5	16.4	16.1	16.2	16.5	18,944	16,910	4.50	4.25	568,000
96.7	94.4	23.0	23.7	17.2	18.9	13,423	13,106	4.00	4.50	377,000
97.1	96.3	29.7	30.0	24.8	29.5	12,372	12,634	4.40	4.00	339,000
96.0	94.1	16.2	15.9	16.1	15.3	9,560	10,096	4.50	4.35	302,000
97.9	89.8	11.7	11.8	11.3	11.1	6,004	5,733	4.65	4.45	182,000
86.4	76.2	15.6	17.4	15.0	17.0	4,077	5,365	4.75	4.50	165,500
97.6	98.8	14.0	13.4	12.8	13.5	5,909	5,051	4.60	4.75	157,000
97.9	95.7	20.8	19.4	26.7	13.8	5,085	4,912	4.50	4.50	144,000
100.0	90.4	15.0	16.8	13.9	16.6	4,205	4,760	4.50	4.30	132,500
96.3	96.7	15.9	15.8	16.5	11.6	3,995	4,096	4.75	4.65	108,000
95.6	86.2	7.0	7.6	6.8	8.0	975	712	4.75	4.65	31,100
95.9	91.7	20.4	20.3	17.9	20.3	177,303	173,856			5,394,100
99.8	95.3	70.2	65.4	71.0	64.0	89,317	81,416	4.40	N/A	2,536,000
97.7	94.6	34.0	32.5	35.5	31.5	71,836	64,768	4.50	N/A	1,928,000
100.0	96.2	29.6	29.7	25.9	23.7	20,548	19,732	4.15	4.55	566,000
95.5	100.0	26.1	26.8	19.9	33.3	3,347	3,457	4.75	N/A	90,500
100.0	100.0	33.7	30.8	35.6	31.8	2,838	2,586	4.75	N/A	70,000
100.0	100.0	28.7	28.2	10.0	53.0	2,106	1,870	4.75	N/A	60,000
100.0	100.0	42.4	42.2	28.6	27.6	2,053	2,064	4.50	N/A	50,000
100.0	75.2	10.4	9.7	10.3	N/A	559	929	4.75	N/A	27,500
98.8	95.0	43.4	41.3	42.6	40.1	192,604	176,822			5,328,000
96.8	92.7	27.9	27.2	26.0	25.5	369,907	350,678			10,722,100

PORTFOLIO REVIEW



248 Queen's Road East

Office Portfolio

The trend of tenant migration to less expensive locations became quite pronounced during the year with the high profile relocation of a number of insurance companies to Kowloon East, where there was a large supply of newly completed Grade A office premises. The aftermath of the financial tsunami and the subsequent steep recovery of the Central Grade A office market in particular also accelerated the trend of decentralisation.

Given the current economic backdrop, Sunlight REIT's office portfolio has been competitive in terms of both rent and location and was able to withstand volatility in rental movements and the threat of vacancy. Although some existing tenants opted for relocation to less expensive alternatives, the Manager's proactive management strategy has enabled Sunlight REIT to benefit from the prevailing trend of decentralisation by securing some high quality tenants which will strengthen the stability of its current tenant base.

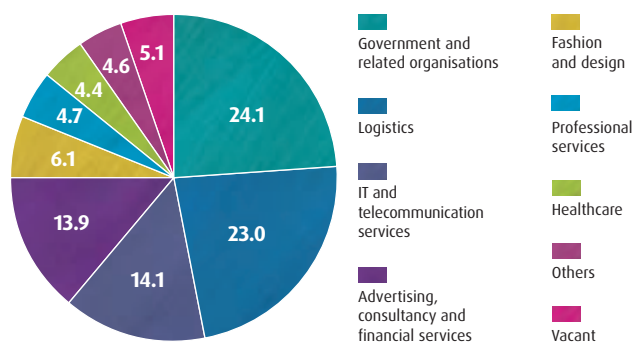
Going forward, as the office market gradually recovered from the downturn and with a curtailment in new office supply, we are positive on the outlook for Sunlight REIT's office portfolio. However, unless office rents can surpass the levels reached in the previous peak in July 2008, reversionary growth potential is expected to remain attenuated.

248 Queen's Road East

As a reflection of the impact of decentralisation and tenant acquisition, 248 Queen's Road East recorded a lower tenant retention rate (in terms of expired GRA) of 54.1% for FY2009/10 as compared to 71.3% recorded in FY2008/09. Relocation was particularly pronounced as certain tenants in the IT and shipping sectors opted to move to more affordable locations. Despite the number of outgoing tenants, we were able to replace them with tenants with reputable brand names such as Euromoney, Thales and Valentino as well as a number of tenants involved in the hospitality and travel industries such as Air France, KLM and IATA.

During the year, tenant movement involved a GRA of more than 15% of the building. Although passing rent had increased from HK\$24.2 per sq. ft. as at 30 June 2009 to HK\$24.7 per sq. ft. as at 30 June 2010, the average committed rent was HK\$23.6 per sq. ft., down 7.8% from that achieved in the previous financial year reflecting the general market environment following the global financial crisis. Occupancy stood at 94.9% as at 30 June 2010, up from 92.4% a year earlier.

Tenant mix at 248 Queen's Road East*



As shown in the chart above, the Government and governmental organisations account for 24.1% of the leased space at this property. The tenant base remains balanced and well diversified notwithstanding the higher level of tenant turnover during the year under review.

* Tenant mix pie charts on pages 17 to 19 are expressed by percentage and in terms of GRA as at 30 June 2010.

As part of Sunlight REIT's green initiatives, the Manager has applied to the Building Environmental Assessment Method (BEAM) Society for this property to be accredited. The BEAM Society is a non-profit organisation that oversees the implementation of BEAM standards which are designed to improve the environmental performance of buildings across their life cycle, provide healthier and higher quality working environment for building occupants, and contribute significantly towards sustainable and eco-efficient development in Hong Kong. BEAM certification will be an endorsement of its efficiency and good eco-conscious management and will add to the appeal of this property among multinationals for which BEAM certification is becoming an important consideration in their choice of office premises.

Central/Sheung Wan Office Properties

The four Grade B properties in Central and Sheung Wan performed satisfactorily despite the volatile market conditions, and were able to report improved occupancy as at 30 June 2010 compared to the year earlier levels. Notably, Bonham Trade Centre was close to fully let with an occupancy of 98.2%. Following its renovation and given its proximity to Central, this property presents good potential for increased rents in the year ahead.

Other Office Properties

Tenants at the remaining office properties are involved in a wide spectrum of businesses. The performance of these office properties reflects in part the defensiveness of our tenant's businesses and the tenant mix. Experience during the financial year has clearly illustrated that Grade B offices located in decentralised locations, particularly those on the Kowloon side, experienced less volatility in rent and occupancy as tenants in these properties are mostly engaged in service trades whose businesses are more correlated with retail consumption. While their contribution to Sunlight REIT's income base is relatively small, the Manager will continue to strive to improve such contribution from time to time; notably, certain refurbishment works have been scheduled for our Righteous Centre in the coming financial year.



Sheung Shui Centre Shopping Arcade

Retail Portfolio

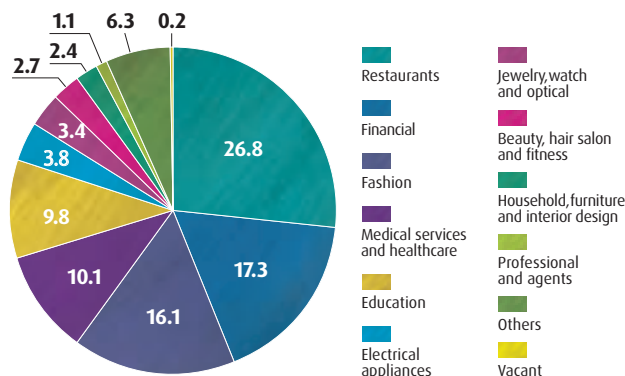
In the year under review, economic recovery and improving job market boosted consumer confidence while tourism continued to enjoy strong growth, with no signs of let up in visitor arrivals from mainland China. As a result, retail sales and by extension demand for retail space at Sunlight REIT’s retail portfolio were well supported during the year under review.

Sheung Shui Centre Shopping Arcade

The asset enhancement programme to improve the return on this property has been a gratifying success. Occupancy has improved from 95.3% as at 30 June 2009 to 99.8% as at 30 June 2010. Meanwhile, passing rent has increased from HK\$65.4 per sq. ft. to HK\$70.2 per sq. ft. on the back of an average committed rental growth of 10.9% to HK\$71.0 per sq. ft.. Tenant retention rate for this property has increased from 75.0% for FY2008/09 to 86.4% for FY2009/10, testifying the vitality and sustainability of business activities at this location.

As shopping traffic at this retail complex is well supported by mainland China shoppers, a key leasing strategy is therefore to enrich the mix of trades with a special focus

Tenant mix at Sheung Shui Centre Shopping Arcade



on both up-market trades and those catering for the spending preference of mainland tourists. The upgrading of the property to meet the needs of more up-market brands has enabled the property to secure a further improvement in tenant mix; during the year under review, notable new tenants signed at Sheung Shui Centre Shopping Arcade include the renowned Chinese medicine and health product retailer Tung Yan Tong.

Meanwhile, we are embarking on the final phase of the refurbishment programme which mainly involves ceiling renovation and lighting replacement.

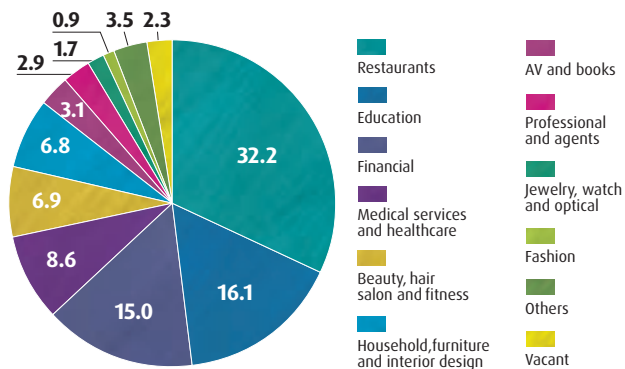


Our newly launched retail website for Sheung Shui Centre Shopping Arcade (www.metrocity1.com for Metro City Phase I Property)

Metro City Phase I Property

Unlike Sheung Shui Centre Shopping Arcade which enjoyed significant mainland China tourist traffic, this regional mall caters primarily to domestic consumers in its catchment area. During the year, occupancy has improved from 94.6% as at 30 June 2009 to 97.7% as at 30 June 2010 while passing rent increased from HK\$32.5 per sq. ft. to HK\$34.0 per sq. ft.. Committed rent rose 12.7% to HK\$35.5 per sq. ft., reflecting the buoyant domestic retail environment. In line with the general retail environment, tenant retention has increased from 73.9% for FY2008/09 to 83.1% for FY2009/10.

Tenant mix at Metro City Phase I Property



The completion of the footbridge upgrading project (which principally involves enclosure and air-conditioning works) has further benefited the upper floor of the property which is directly connected to the Po Lam MTR

station. In contrast, the lower floor continued to command a lower rent given its weaker accessibility. Strategic space reconfiguration and tenant acquisition to improve traffic and circulation on the lower floor is therefore of high priority in our operational agenda. As a case in point, the Manager has recently secured a tenancy with a popular Japanese pizza restaurant which is due to open on the lower floor in autumn 2010; together with the intention to more effectively utilise the open podium area for special events during festive and seasonal occasions, we are hopeful that footfall on the lower floor of the property will see marked improvement in the foreseeable future.

Kwong Wah Plaza Property

This property is classified as retail but the office portion of this property has attracted a number of financial and other firms in the services trades who use it as their main office in the northern New Territories. As a result, the property is fully let and the committed rent during the year rose 9.3% to HK\$25.9 per sq. ft..

Other Retail Properties

Our other retail properties, which are typical podium level retail shops in residential or office developments, serve the regular shopping requirements of the people in their immediate vicinity and have provided Sunlight REIT with a stable source of recurrent income.





Nurturing Growth

On the back of a solid recovery from the global financial crisis, all the key operating indicators including net property income, passing rent and occupancy demonstrated reasonable improvement from the preceding year.

OPERATION REVIEW

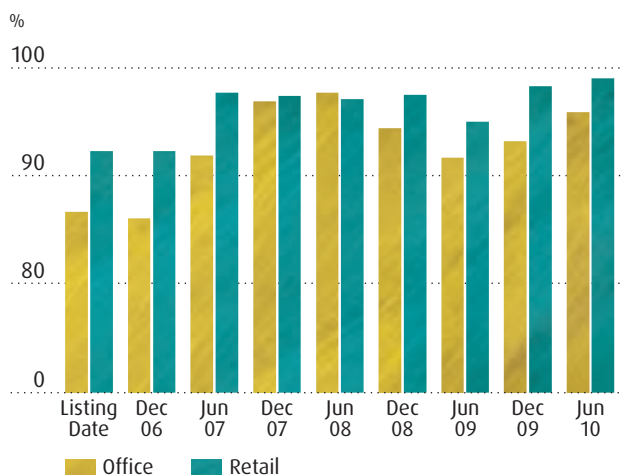


Metro City Phase I Property

Operating Performance

A key objective of the Manager for the year under review was to capitalise on the economic recovery from the global financial crisis to achieve a more satisfactory level of occupancy. In this regard, we are pleased to report that the overall occupancy of the portfolio improved to 96.8% as at 30 June 2010 (30 June 2009: 92.7%), largely driven by the recovery of the office portfolio whose occupancy increased from 91.7% to 95.9% during this year. The retail portfolio, on the other hand, was practically fully let, registering an occupancy of 98.8% as at 30 June 2010 (30 June 2009: 95.0%).

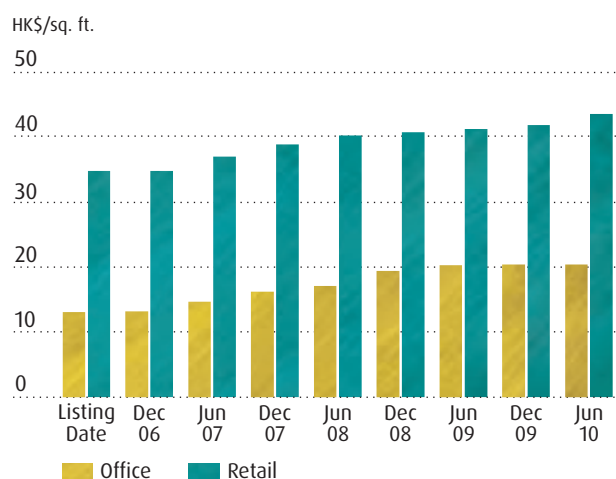
Historical Trends in Occupancy since IPO



Overall passing rent improved across the board, registering a growth of 2.6% to HK\$27.9 per sq. ft. as at 30 June 2010. The office portfolio managed to achieve an average

passing rent of HK\$20.4 per sq. ft., marginally higher than that in the previous year despite an 11.8% drop in committed rent to HK\$17.9 per sq. ft.. In contrast, the retail portfolio continued to deliver positive performance, as committed rent and passing rent increased by 6.2% to HK\$42.6 per sq. ft. and by 5.1% to HK\$43.4 per sq. ft. respectively.

Historical Trends in Passing Rent since IPO



During the year, a total of 556,505 sq. ft. were leased out. The recent trend of decentralisation for offices has intensified turnover of office tenants, resulting in a lower retention rate of 61.8% (FY2008/09: 65.5%). Meanwhile, the robust retail environment has helped improve tenant retention rate of the retail portfolio to 84.5% in the year under review (FY2008/09: 70.8%).

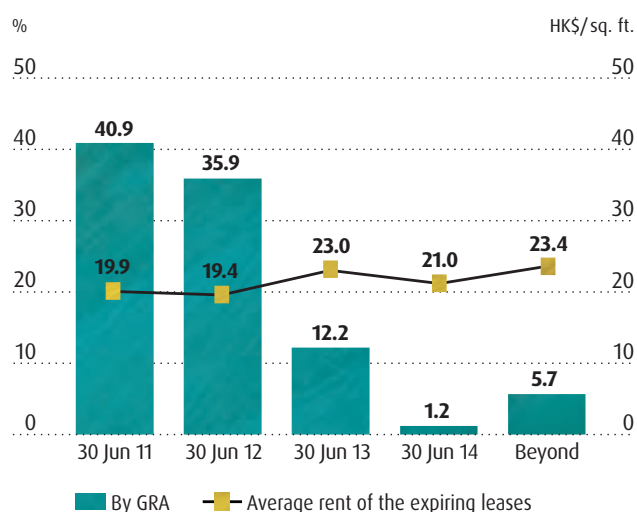
OPERATION REVIEW

As at 30 June 2010, the weighted average lease length in terms of GRA was 2.5 years for the entire portfolio. Lease expiries on or before 30 June 2011 accounts for 40.9% of office GRA and 38.1% of retail GRA. The average unit rent for the expiring office and retail leases are HK\$19.9 per sq. ft. and HK\$46.5 per sq. ft. respectively.

Diversified Tenancy Base

The portfolio had a total of 1,017 tenancies as at 30 June 2010. The largest tenant by rental income accounted for 4.5% of the total rental income and occupied 4.8% of total GRA and the corresponding numbers for the top ten tenants were 20.8% and 18.3% respectively. Details of the rental contribution of the top ten tenants as at 30 June 2010 are shown below:

Expiry Profile of Office Properties as at 30 June 2010



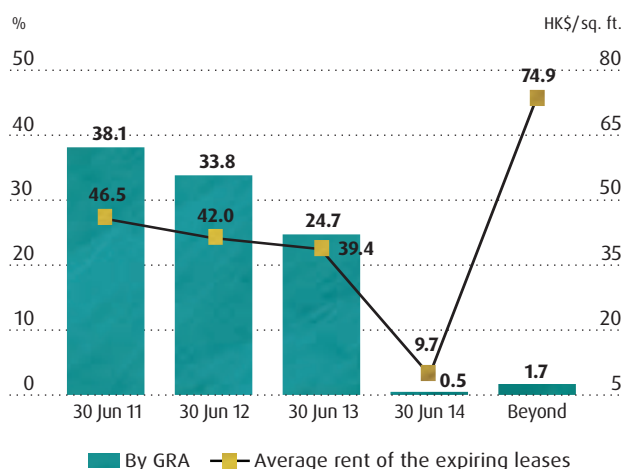
Top Ten Tenants by Rental Contribution as at 30 June 2010

Tenant Name	Trade Sector	Total Gross Area (sq. ft.)	% of Total GRA	% of Total Monthly Rent
The Financial Secretary Incorporated c/o Government Property Agency	Government and related organisations	61,772	4.8	4.5
Anglo-Eastern Ship Management Limited	Logistics	51,290	3.9	3.0
Bank of Communications Co., Ltd.	Financial	8,782	0.7	2.3
The Dairy Farm Company Limited	Supermarket and healthcare	10,054	0.8	2.0
PCCW Teleservices (Hong Kong) Limited	IT and telecommunication services	28,822	2.2	1.9
Forever Sky (Asia) Limited	Restaurants	20,261	1.6	1.8
A.S. Watson Group (HK) Limited	Healthcare and other retail	15,661	1.2	1.5
Hang Seng Bank Limited	Financial	7,628	0.6	1.3
Cosmos Inc. Limited	Restaurants	24,857	1.9	1.3
Bank of China (Hong Kong) Limited	Financial	7,849	0.6	1.2

Other Income

Sunlight REIT has a total of 844 car parking spaces which generated income of approximately HK\$18.7 million for the year. Income was also generated from outdoor advertising space and short term licenses in certain properties. Cost recovery items include management and air-conditioning fees.

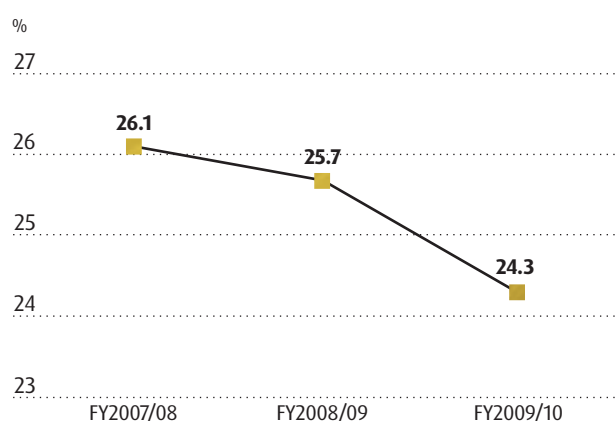
Expiry Profile of Retail Properties as at 30 June 2010



Cost Control

The cost-to-income ratio of Sunlight REIT for the year was 24.3%, representing a further improvement from 25.7% achieved in the previous year. Most notable changes from the previous year was a marked reduction in repair and maintenance expenses that was partially offset by a rise in rental commission paid to property agents as a result of increased leasing activities during the year.

Cost-to-income



Top Five Real Estate Agents and Contractors

Real estate agents and contractors	Nature of service	Value of contract (HK\$'000)	Relevant cost (%)
Henderson Sunlight Property Management Limited*	Leasing, marketing and property management	32,929	33.95
Hang Yick Properties Management Limited*	Property management	7,945	8.19
Luen Hing Engineering Co.	Repairs and maintenance	6,467	6.67
Ngai Lik Cleaning Services Company Limited	Cleaning services	4,280	4.41
Megastrength Security Services Company Limited*	Security services	4,106	4.23
Total		55,727	57.46

* Wholly owned subsidiaries of HLD which is being interested in more than 5% of the total units in issue of Sunlight REIT.

FINANCIAL REVIEW

Financial Highlights

(in HK\$' million, unless otherwise specified)	2010	2009	2008	2007 ¹
For the year/period ended 30 June:				
Turnover	488.6	471.7	431.3	200.3
Property operating expenses	118.7	121.0	112.6	51.9
Net property income	369.9	350.7	318.7	148.4
Profit/(loss) after tax	1,170.9	(491.5)	729.4	940.1
Annual distributable income	186.5	269.8	258.7	141.8
Cost-to-income ratio (%)	24.3	25.7	26.1	25.9
DPU ² (HK cents)	14.39	24.56	24.20	13.51
Distribution yield per unit ³ (%)	7.3	16.2	12.6	6.0
As at 30 June:				
Portfolio valuation	10,722.1	9,364.0	10,151.0	9,558.0
Total assets	11,221.3	9,941.4	10,795.7	10,338.3
Total liabilities	5,901.9	5,677.9	5,631.3	5,583.6
Net asset value	5,319.4	4,263.5	5,164.4	4,754.7
Net asset value per unit (HK\$)	3.40	2.76	3.41	3.19
Gearing ratio (%)	35.3	39.7	36.6	38.2

Notes:

- Sunlight REIT was listed on 21 December 2006; the income, expenditure and distribution figures for the financial period ended 30 June 2007 covered 192 days.
- Please refer to "Distribution Statement" on pages 89 and 90 for detailed information.
- Calculations are based on DPU and the last traded unit price of Sunlight REIT as at the end of the respective year/period.

Sunlight REIT recorded a 3.6% growth in turnover to HK\$488.6 million from the previous financial year. Property operating expenses for the year amounted to HK\$118.7 million, giving rise to a net property income of HK\$369.9 million, representing a 5.5% growth from HK\$350.7 million recorded in the previous year. Profit after tax amounted to HK\$1,170.9 million, representing a turnaround from the loss of HK\$491.5 million recorded in FY2008/09. This was largely attributable to the recovery in the commercial property market as reflected by an increase in fair value of investment properties of HK\$1,344.2 million.

In tandem with the recovery of the property market, the valuation of the portfolio as at 30 June 2010 was appraised at HK\$10,722.1 million, representing a 14.5% appreciation from HK\$9,364.0 million recorded as at 30 June 2009. Office properties and retail properties accounted for 50.3% and 49.7% of the total appraised

value and registered a year-on-year increase of 12.0% and 17.1% respectively.

The higher property valuation reduced the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, from 39.7% to 35.3% and expanded its net assets to HK\$5,319.4 million as compared to HK\$4,263.5 million recorded at the end of the previous financial year. Net asset value per unit rose 23.2% to HK\$3.40. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets was 52.6%, while the total borrowing costs for the year amounted to HK\$181.6 million.

As at 30 June 2010, Sunlight REIT had in place total loan facilities of HK\$3,975.0 million comprising a term loan facility of HK\$3,950.0 million which has been fully drawn and a HK\$25.0 million revolving credit facility of which HK\$15.0 million has been drawn. These facilities will

mature on 20 December 2011 and are secured by, among others, the investment properties of Sunlight REIT, a floating charge over its bank balances and assignment of proceeds from tenancies.

In order to minimise financial market risks and maintain financial flexibility, Sunlight REIT entered into interest rate swap arrangements with The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) for the period from the date of listing until 30 June 2011. Under the swap arrangements, interest rates of the term loan at the beginning of the year under review were effectively fixed at a rate of 3.36% per annum for the one-year period from 30 June 2009 through 29 June 2010, and a rate of 3.5% per annum for the remaining period up to 30 June 2011. Currently, the term loan is due for repayment on 20 December 2011.

During the year under review, the Manager capitalised on the low interest rate environment and executed certain hedging arrangements for Sunlight REIT, with a primary objective of reducing the impact of interest rate volatility on Sunlight REIT from a medium term perspective. Through the execution of three interest rate swap transactions, each with a notional amount of HK\$500.0 million, an aggregate notional amount of HK\$1,500.0 million (out of the existing interest rate swaps, in the total notional amount of HK\$3,950.0 million) was unwound for the period from 30 June 2010 to 30 June 2011, while new forward interest rate swaps of an equivalent notional amount were entered into for a period of three years starting from 30 June 2010. A summary of bank loan and interest rate swaps is set out below:

	Transaction date	Amount (HK\$' million)	Payment to HSBC for unwinding relevant portion of swap then existing (HK\$' million)	Tenure	Interest rate (per annum)
Bank loan	30 May 06	3,950	N/A	21 Dec 06–20 Dec 11	HIBOR ¹ + 0.45%
Interest rate swaps					
HSBC	28 Nov 06	2,450	N/A	30 Jun 10–30 Jun 11	3.500% ²
HSBC	20 Jan 10	500	10.950	30 Jun 10–28 Jun 13	2.615% ²
HSBC	11 May 10	500	13.300	30 Jun 10–28 Jun 13	1.925% ²
Standard Chartered Bank	10 Jun 10	500	12.627	30 Jun 10–28 Jun 13	1.840% ²

Notes:

1. Hong Kong Interbank Offered Rate
2. Include the credit spread of 0.45% per annum under the existing term loan.

With the execution of the above transactions, Sunlight REIT’s effective interest rate on borrowings for FY2010/11 will be reduced from 3.5% per annum to 2.978% per annum, which equates to an interest saving of HK\$20.6 million, or 55% of the total unwinding payment incurred. Further, the interest rate on HK\$1,500.0 million worth of indebtedness, representing 38.0% of Sunlight REIT’s total bank borrowing as at 30 June 2010, has been locked in at 1.68% (before relevant credit spread) for a two-year period until 28 June 2013. This hedging arrangement will assure Sunlight REIT with a more predictable cashflow profile which should prove beneficial to unitholders.

The Manager adopts a prudent cash management policy. Rental receipts are placed as short term bank deposits to

ensure flexibility in meeting operational requirements of Sunlight REIT. As at 30 June 2010, Sunlight REIT had total bank and cash balances of HK\$225.0 million; taking into consideration the recurrent income generated from its operations, the current cash position and the undrawn credit facility available, it has sufficient financial resources to meet its working capital, distribution payment and capital expenditure requirements.

In respect of contingent liabilities, Sunlight REIT has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of HK\$4.7 million as at 30 June 2010.

STAKEHOLDERS AND CORPORATE SOCIAL RESPONSIBILITY



1. Backdrop of the lighting ceremony commemorating the third anniversary of Sunlight REIT's listing on the Stock Exchange of Hong Kong



2. A visit to "Home of Love - Sheltered Workshop" of Chinese YMCA of Hong Kong
3. Chinese New Year charity sale of Lucullus chocolate in partnership with Oxfam Hong Kong
4. Free cupcakes in celebration of Mother's day at Metro City Phase I Property and Sheung Shui Centre Shopping Arcade
5. A visit to YOT Madam Lau Wong Fat Primary School





In December 2009, Sunlight REIT celebrated the third anniversary of its listing on the Stock Exchange of Hong Kong and marked this important milestone by hosting a number of events to share the achievement with our unitholders, tenants and shoppers. The celebration was kick started by a lighting ceremony held at Sheung Shui Centre Shopping Arcade followed by a number of initiatives which enabled all of our stakeholders to participate.

We are honored to have been selected as one of the Hong Kong Outstanding Enterprises in 2009 by Hong Kong Economic Digest. This award is a testament and recognition of our achievements as a socially responsible business enterprise.

Over the three years since our debut listing, the Manager, on behalf of Sunlight REIT, has worked closely with individual tenants to identify their needs and to devise optimal solutions in meeting their requests. Recognising the influence of economic volatility and business cycle, we focus on strategies that enabled us to cultivate deeper and more sustainable tenant relationships. Tenant relationship management at 248 Queen's Road East has been the prime focus as decentralisation and tenant migration has been a major trend subsequent to the global financial crisis; meanwhile, constant services and hardware upgrades at Sheung Shui Centre Shopping Arcade and Metro City Phase I Property have enabled our tenants to keep pace with the challenging retail environment in Hong Kong.

As our major shopping malls are located in close proximity to regional communities and neighbourhood, Sunlight REIT has been actively involved in local community events. We have organised events particularly over weekends and festive seasons in order to promote well being and leisure lifestyle. Most notably, the gadget fairs at both Metro City Phase I Property and Sheung Shui Centre Shopping Arcade were big hits among the younger patrons. We have also had events for a wide range of other audiences ranging from toddlers to seniors for the local community focusing on themes which range from raising awareness of health and safety to fund raising programmes for underprivileged groups of our community.

Besides maintaining a sound business relationship with our tenants, we believe that managing a sustainable business also means balancing economic considerations with environmental and social values. In the past year, we worked actively with Friends of the Earth in the Power Smart Contest which promotes the efficient use of energy and resources. We also supported the community effort of Oxfam Hong Kong by contributing to its "Charity Chocolate Sale Campaign". In addition, through partnerships with organisations such as St. James' Settlement, Chinese YMCA of Hong Kong and World Vision, members of both our asset management and property management teams have taken part in a number of charitable initiatives which included visits to of special schools and communities.



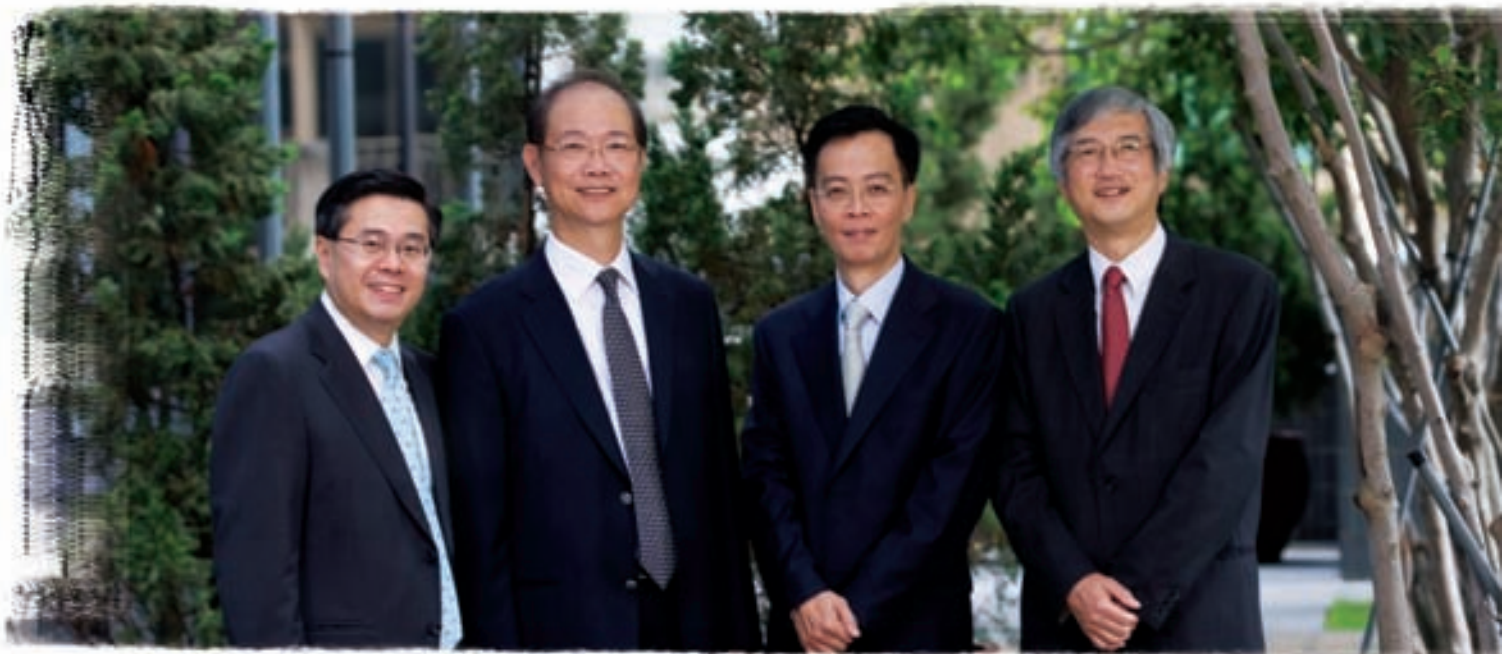
The Right Mix

The firm foundations of Sunlight REIT are buttressed by a competent team of highly professional managers well versed in the investment property business.





BOARD OF DIRECTORS



Mr. Au Siu Kee, Alexander Chairman and Non-Executive Director

Mr. AU Siu Kee, Alexander, *OBE, ACA, FCCA, FCPA, AAIA, FCIB, FHKIB*, aged 63, has been appointed the Chairman and Non-executive Director of the Manager with effect from 8 June 2010. Mr. AU has been an executive director and the chief financial officer of Henderson Land Development Company Limited (“**HLD**”) since 2005. He is also a non-executive director of each of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, both of which are companies listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and are associated companies of HLD.

A banker by profession, he was the chief executive officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. He was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited. Currently Mr. AU is an independent non-executive director of Wheelock and Company Limited, a company listed on the Stock Exchange. He is also a member of the Court of the Hong Kong University of Science and Technology.

An accountant by training, Mr. AU is a Chartered Accountant as well as a Fellow of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Wu Shiu Kee, Keith Chief Executive Officer and Executive Director

Mr. Wu Shiu Kee, Keith, aged 46, is the Chief Executive Officer, Executive Director and a Responsible Officer of the Manager. He has over 23 years of experience in the property, corporate finance, asset

management and research related fields. He joined the Manager in April 2006.

From 1997 to 2005, Mr. Wu was an Executive Director of Lai Sun Development Company Limited (“**Lai Sun Development**”), where he was primarily responsible for overseeing corporate finance related matters of the group. Prior to his appointment at Lai Sun Development, Mr. Wu worked in the investment banking field and held senior research and asset management positions with several international 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 in 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 57, 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.

From left to right, Mr. Wu Shiu Kee, Keith, Mr. Kwan Kai Cheong, Dr. Tse Kwok Sang, Mr. Ma Kwong Wing, Mr. Au Siu Kee, Alexander and Mr. Kwok Ping Ho.



Mr. Kwok has nearly 30 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 60, is an Independent Non-executive Director of the Manager.

Mr. Kwan is presently the President of Morrison & Company Limited, a business consultancy firm. He is also a Non-executive Director of China Properties Group Limited and JF Household Furnishings Limited; an Independent Non-executive Director of Hutchison Harbour Ring Limited, Soundwill Holdings Limited, Win Hanverky Holdings Limited and SPG Land (Holdings) Limited (all being companies listed on the Main Board of the Stock Exchange of Hong Kong Limited).

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 fellow of both the Hong Kong Institute of Certified Public Accountants and 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 64, 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 (including

compliance) prior to his retirement in October 2005. He was appointed as Company Secretary of Hang Seng Bank in 1988 and Assistant General Manager (while remaining as Company Secretary) in January 1993.

Mr. Ma is a Fellow of The Hong Kong Institute of Directors, 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 JP
Independent Non-executive Director

Dr. Tse Kwok Sang, aged 53, is an Independent Non-executive Director of the Manager.

Dr. Tse is currently Associate Dean and Associate Professor of Finance, 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 is a Co-Opted Executive Councillor of the New Territories Heung Yee Kuk and has also been appointed as a Justice of the Peace with effect from 1 July 2010. Currently he is an Independent Non-executive Director of Ajia Partners Asia Absolute Return Fund Limited which is listed on the Irish Stock Exchange.

Dr. Tse holds a Ph.D. in Finance from Michigan State University in the United States. He is Associate Member of the Society of Actuaries (ASA) and Member of The Hong Kong Institute of Directors (MHKIoD).

EXECUTIVE OFFICERS

From left to right, Ms. Cheung See Wing, Dorothy, Mr. Wong Chi Ming, Mr. Hah Yick Yat, Kelvin, Ms. Lo Yuk Fong, Phyllis, Mr. Wu Shiu Kee, Keith, Mr. Leung Kwok Hoe, Kevin and Ms. Kan Shuk Fan, Winnie



Mr. Wu Shiu Kee, Keith
Chief Executive Officer, Executive Director and Responsible Officer

Mr. Wu is responsible for the implementation of the strategy and objectives as set by the Board, ensuring that Sunlight REIT is operating in accordance with the stated strategies, policies and regulations. In addition, he takes charge of the day-to-day management and operations of the Manager.

Details of his experience are set out in “Board of Directors” on page 32.

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 15 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 in Australia, a Bachelor of Economics degree and a Bachelor of Laws degree, both from The University of Sydney in Australia. He is also a Chartered Financial Analyst.

Mr. Wong Chi Ming
Asset Management Manager and Responsible Officer

Mr. Wong is responsible for, amongst other matters, driving the operating performance of Sunlight REIT’s property portfolio, planning and developing asset enhancement strategies for recommendation to the Chief Executive Officer and to the Board, and directing the development and implementation of marketing strategies and business development plans for Sunlight REIT.

Mr. Wong has over 20 years of experience in the leasing and property management fields. Between 2006 and April 2010, Mr. Wong was the Chief Leasing Administration Manager of Henderson Sunlight Property Management Limited, the property manager (the “**Property Manager**”) of Sunlight REIT. Prior to joining the Property Manager, Mr. Wong was a leasing manager at the Henderson Land Group from 2005 to 2006. He has also previously worked for Hang Lung Properties Limited from 1990 to 2005 and was its Property Manager from 1994 to 2005.

Mr. Wong holds a Bachelor of Engineering degree from The University of Hong Kong and a Master of Corporate Governance degree from the Open University of Hong Kong. He is an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries, and is a holder of Hong Kong Estate Agent’s Licence (Individual).

Ms. Lo Yuk Fong, Phyllis
Financial Controller

Ms. Lo is principally responsible for supervising the overall financial management of Sunlight REIT, including but not limited to financial reporting, taxation and cash flow management, monitoring of capital expenditure, reviewing of and making recommendation on financing matters and budget preparation. As the Company Secretary of the Manager, Ms. Lo is also in charge of all company secretarial functions pertinent to Sunlight REIT.

Ms. Lo has over 20 years of experience in financial management and company secretarial functions. Prior to joining the Manager, Ms. Lo was the Chief Financial Officer of a media company previously listed in Singapore.

Ms. Lo holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. She is a member of the Institute of Chartered Accountants in England & Wales, a Certified Public Accountant (Practising) from the Hong Kong Institute of Certified Public Accountants and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Hah Yick Yat, Kelvin
Corporate Services Manager

Mr. Hah is responsible for, among other matters, human resources management, procurement and office administration, supporting the Manager’s core asset management and investment management functions through the provision of ancillary back-office services and ensuring the optimal efficiency and operation of the information technology systems.

Mr. Hah has 10 years of experience in the finance and administration areas; in particular, he was the Finance and Administration Officer of Eastar Technology Limited, a subsidiary of Henderson Cyber Limited between 2000 and 2003.

Mr. Hah holds a Bachelor of Arts degree in Economics from the University of British Columbia in Canada, a Professional Diploma in Marketing from the University of California, Berkeley, in the United States and a Master of Science degree in Financial Management from the University of London.

Ms. Kan Shuk Fan, Winnie
Internal Auditor

Ms. Kan is responsible for, among other things, reviewing the Manager’s internal control system and reporting to the Board through the Audit Committee periodically.

Ms. Kan has over 15 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

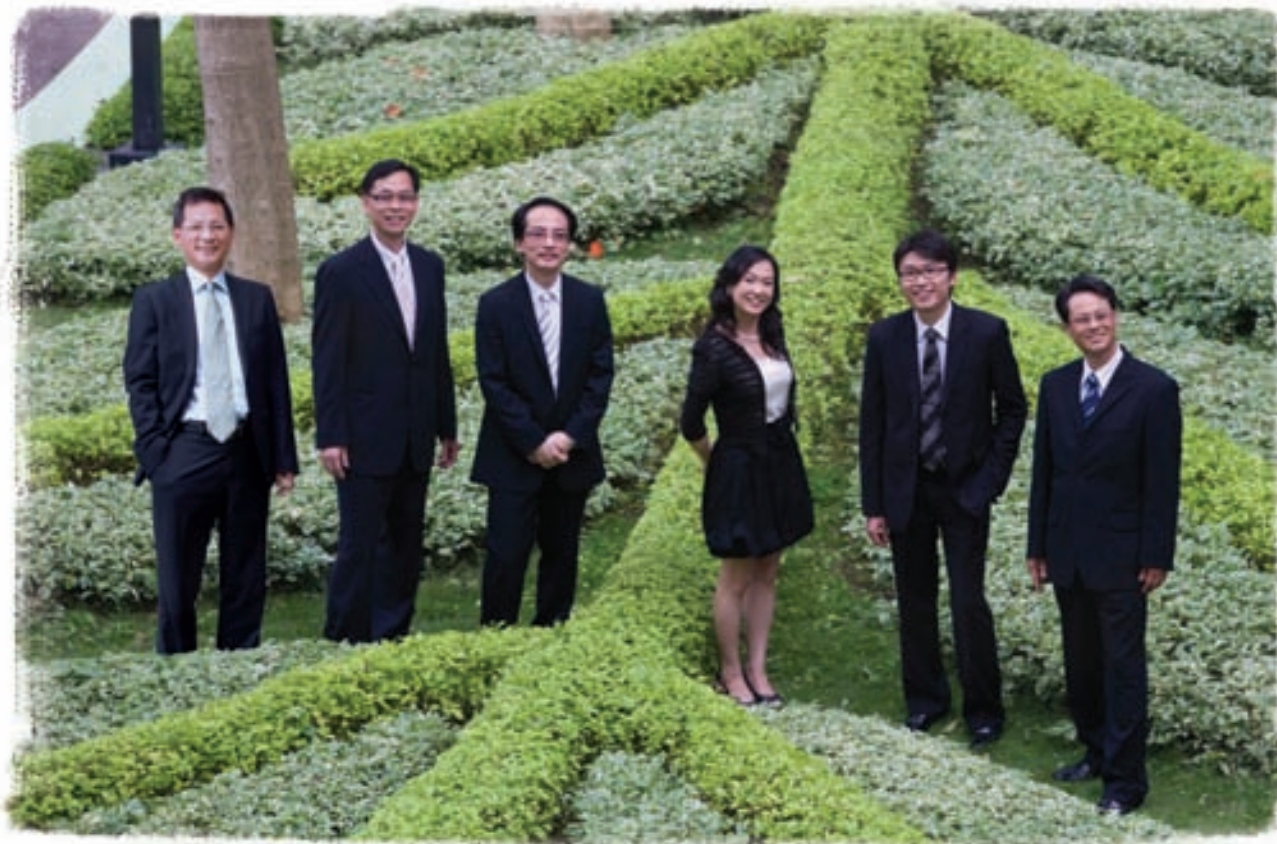
Ms. Cheung is responsible for, among other things, ensuring that the Manager has implemented adequate internal systems and controls to comply with the Compliance Manual, the Trust Deed, the Code on Real Estate Investment Trusts, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 over 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 McGill University in Canada, a Master of Laws degree from the University of Wolverhampton in the UK and a Bachelor of Arts (Honours) degree in Accountancy 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.

PROPERTY MANAGERS

From left to right, Mr. Lee Kiu Ming, Mr. Poon Hung Tak, Mr. Lai Shu Tong, Eric, Ms. Ip Wai Kei, Silvia, Mr. Chan Chin Fung and Mr. Chan Kai Choi



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 nearly 20 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 over 20 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 degree 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 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 Surveyors.

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 and Kwong Wah Plaza Property.

Mr. Lai has worked in the property management field for various types of properties for more than 20 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, Java Road 108 Commercial Centre, On Loong Commercial Building Property, Glory Rise Property, Supernova Stand Property and Royal Terrace Property.

Ms. Ip has over 10 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, 235 Wing Lok Street Trade Centre, 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 20 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 Registered Professional Housing Manager and a corporate member of The Chartered Institute of Housing Asian Pacific Branch.

Mr. Chan Chin Fung
Area Manager

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

Mr. Chan has over 10 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 Registered Professional Housing Manager and a corporate member of the Chartered Institute of Housing Asian Pacific Branch.





Steadfast on Transparency

Strong financial transparency and good corporate governance are the cornerstones for the continued development of Sunlight REIT.

CORPORATE GOVERNANCE REPORT

The Manager is committed to the highest level of corporate governance practices and procedures. Good corporate governance relies on an optimal mix of checks and balances and emphasises on high transparency to and alignment of interests with unitholders. To ensure that the relevant legislations and regulations are duly observed, the Manager has adopted a compliance manual (the “**Compliance Manual**”) which sets out the key processes, systems, measures, corporate governance policies as well as other policies and procedures governing the management and operation of Sunlight REIT. The Compliance Manual is reviewed regularly and modifications are made if necessary or if relevant legislations or regulations have been amended.

On 23 July 2010, the Compliance Manual, together with the Trust Deed, were modified, among other things, to comply with the revision of the Code on Real Estate Investment Trusts (the “**REIT Code**”) on 25 June 2010 which has extended the application of the Codes on Takeovers and Mergers and Share Repurchases (the “**Takeovers Code**”) to Real Estate Investment Trusts authorised by the Securities and Futures Commission (the “**SFC**”).

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

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



Checks and Balances

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by the SFC under section 104 of the Securities and Futures Ordinance (Cap. 571) (the “SFO”) and regulated by the provisions of the REIT Code issued by the SFC. The Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. 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. Wong Chi Ming, the Asset Management Manager, are approved as responsible officers of the Manager pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code.

The Trustee is responsible for, among other things, the safe custody of the assets of Sunlight REIT on behalf of unitholders. The Trustee is registered as a trust company under section 77 of the Trustee Ordinance (Cap. 29) and is qualified under the REIT Code to act as a trustee for collective investment schemes authorised under the SFO.

The Manager is to manage and operate Sunlight REIT and to ensure that the financial and economic aspects of Sunlight REIT’s assets are professionally managed in the sole interest of the unitholders.

The Trustee and the Manager are independent of each other.

The Board and Delegations

The Board principally oversees the day-to-day management and corporate governance of the Manager. The Board and management functions are largely separate; subject to certain matters specifically reserved to the Board itself, the day-to-day management functions and certain supervisory functions are delegated to relevant management teams and committees of the Board.

The Board

The Board takes the role to lead and guide the corporate strategy and direction of Sunlight REIT. It 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 names and biographical details of the members of the Board are set out under “Board of Directors” on pages 32 and 33. The positions of the Chairman of the Board and the Chief Executive Officer are held by separate individuals to ensure a segregation of duties and a balance of authority. 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 as well as certain specific proposed policies and transactions.

On 8 June 2010, the resignation of Mr. Tse Wai Chuen, Tony, as the Chairman and a Non-executive Director of the Manager took effect, and that position was taken up by Mr. Au Siu Kee, Alexander with effect from the same date.

Subsequent to publication of the 2009/10 Interim Report of Sunlight REIT, the Manager was informed of the following changes of Director's information:

1. Mr. Kwan Kai Cheong ceased to be a Non-executive Director of Hutchison Telecommunications International Limited, whose shares were de-listed from The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), with effect from 25 May 2010.
2. Dr. Tse Kwok Sang has been appointed as a Justice of the Peace with effect from 1 July 2010.

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.

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 of the Manager and the Compliance Manual. Further, the Articles of Association of the Manager provide that all Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election. All the Directors, including the

Non-executive Directors, are appointed for a specific term for a maximum of 3 years, with the qualification that the new Directors are required to submit themselves for re-election at the first annual general meeting of the Manager following their appointment. If an INED has served the Board for nine consecutive years, any further appointment of such INED shall be subject to a separate resolution to be approved by the shareholder(s) of the Manager, with reasons given by the Board as to why it believes the retiring INED will continue to be independent and should be re-elected.

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

The Board meets on a regular basis and generally no less than four times in each financial year at approximately quarterly intervals. Directors are given written notices of Board meetings at least 14 days in advance of the regular meetings, with suitable arrangements in place to allow Directors to raise items in the agenda. Agendas and accompanying board papers are circulated at least 3 days before the intended date of a Board meeting. Board consents are given by votes at the Board meetings, and written resolutions are signed by all Directors from time to time.

The membership and attendance to meetings, major responsibilities of and key work performed by the Board during the year are summarised in the table on pages 44 and 45.

Delegations

The Board has established the Audit Committee, the Investment Committee, the Remuneration and Nomination Committee and the Disclosures Committee to deal with specific issues which require extensive discussion.

On 8 June 2010, Mr. Tse Wai Chuen, Tony ceased to be the chairman and member of each of the Investment Committee and the Remuneration and Nomination Committee of the Manager; such positions were taken up by Mr. Au Siu Kee, Alexander with effect from the same date.

The membership and attendance to meetings, major responsibilities of and key work performed by each of the board committees during the year are also summarised in the table on pages 44 and 45.

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, all of whom report directly to the Chief Executive Officer, with the Internal Auditor and the Compliance Manager also reporting directly to the Audit Committee and the Board respectively. Apart from interactions from time to time, the management team holds management meetings on a periodical basis; the

meetings, chaired by the Chief Executive Officer, are held to coordinate and facilitate the implementation and operation of different delegated management and business functions.

The names and biographical details of the management team members of the Manager are set out under "Executive Officers" on pages 34 and 35.

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 principal team members of the Property Manager are set out under "Property Managers" on pages 36 and 37.

Membership and attendance to meetings, major responsibilities of and key work performed by the Board and board committees during the year are summarised below:

	Board of Directors	Audit Committee
Membership and attendance to meetings (No. of meetings attended/No. of meetings eligible to attend)		
Mr. Tse Wai Chuen, Tony	Chairman and Non-executive Director (10/10)	N/A
Mr. Au Siu Kee, Alexander	Chairman and Non-executive Director (0/0) ¹	N/A
Mr. Wu Shiu Kee, Keith	Chief Executive Officer and Executive Director (10/10)	N/A
Mr. Kwok Ping Ho	Non-executive Director (10/10)	N/A
Mr. Kwan Kai Cheong	Independent Non-executive Director (10/10)	Chairman ² (4/4)
Mr. Ma Kwong Wing	Independent Non-executive Director (10/10)	Member ² (4/4)
Dr. Tse Kwok Sang JP	Independent Non-executive Director (10/10)	Member ² (4/4)
Major responsibilities		
	<ul style="list-style-type: none"> leads and guides the corporate strategy and direction of Sunlight REIT oversees the day-to-day management and corporate governance of the Manager 	<ul style="list-style-type: none"> reviews the completeness, accuracy, clarity and fairness of financial statements of Sunlight REIT monitors overall risk management reviews and monitors connected party transactions appoints and recommends the remuneration of and assesses the independence of auditor reviews and assesses the effectiveness of the internal control system reviews Sunlight REIT's legal and regulatory compliance reviews the adequacy of resources, qualifications and experience of staff in relation to the accounting and financial reporting functions, and their training programmes and budget oversees internal control structure and financial reporting procedure of Sunlight REIT and conduct and performance of special purpose vehicles
Summary of key work		
During the year, the Board and its committees have considered, approved, reviewed and/or formulated the matters summarised herein:	<ul style="list-style-type: none"> financial results of Sunlight REIT and the Manager reports and recommendations from board committees announcements/reports for publication, including release of quarterly operational statistics and interim and annual reports of Sunlight REIT annual operating and capital expenditure budget of Sunlight REIT revision of the Contingency Plan revision of the authorisation policy re-appointment of Chairman and appointment of new Chairman appointment of new principal valuer potential acquisition and disposal of properties strategic direction and growth plan of Sunlight REIT restructuring of interest rate swaps 	<ul style="list-style-type: none"> internal audit reports financial results of Sunlight REIT adequacy of resources, qualification and experience of staff in relation to accounting and financial reporting functions internal control system auditor engagement and their reports revision of the Contingency Plan connected party transactions between Sunlight REIT and its connected persons guidelines on connected party transactions

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

Notes: 1. Mr. Au Siu Kee, Alexander was appointed as the Chairman and a Non-executive Director of the Manager and also the chairman of both the Investment Committee and the Remuneration and Nomination Committee of the Manager with effect from 8 June 2010 in place of Mr. Tse Wai Chuen, Tony.

2. All members of the Audit Committee possess diversified industry experience, accounting professional qualifications and/or related financial management expertise.

Investment Committee	Remuneration and Nomination Committee	Disclosures Committee
Chairman (6/6)	Chairman (3/3)	N/A
Chairman (0/0) ¹	Chairman (0/0) ¹	N/A
Member (6/6)	N/A	Chairman (4/4)
N/A	N/A	N/A
N/A	Member (3/3)	N/A
N/A	Member (3/3)	Member (4/4)
Member (6/6)	N/A	N/A
<ul style="list-style-type: none"> - oversees the investment strategy of and proposals to Sunlight REIT, including budget review, acquisition and disposal of properties, and asset enhancement proposals - ensures the establishment and functioning of internal controls for investment and financial matters - ensures the compliance with investment objectives, policies and restrictions as contained in the REIT Code and the Trust Deed 	<ul style="list-style-type: none"> - oversees the human resources strategy and policies - identifies and recommends candidates of board members to the Board - evaluates the performance of the Board and its members - reviews the terms and conditions of employment of senior executives and Board members 	<ul style="list-style-type: none"> - reviews matters relating to the disclosure of information to unitholders and in public announcements - ensures compliance with applicable legal requirements and the continuity, accuracy, clarity and completeness of information disseminated to the public and applicable regulatory authorities
<ul style="list-style-type: none"> - financial results of Sunlight REIT - annual business plan and operating and capital expenditure budget of Sunlight REIT - derivative positions and risk assessment in respect of derivative instruments - services of financial service providers - investment restrictions under the REIT Code and the Trust Deed - surplus cash and tenant deposits management policy - potential acquisition and disposal of properties - revision of distribution policy - restructuring of interest rate swaps - election for percentage of the Manager's base fee and variable fee to be paid in cash 	<ul style="list-style-type: none"> - staff performance appraisal - staff budget and policy on staff benefits - recommendation on re-appointment of Chairman and appointment of new Chairman - staff training policy 	<ul style="list-style-type: none"> - public regulatory filings and other documents filed with the applicable regulatory authorities - announcements and reports including interim and annual reports of Sunlight REIT and other corporate communication to unitholders

Reporting and Transparency

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**”) which is also applicable to the Manager (with necessary changes made). Similar dealing requirements are also applicable to the senior executives, officers and other employees of the Manager.

Pursuant to the Dealings Code, any Directors wishing to deal in any securities of Sunlight REIT must first have regard to the provisions of the SFO with respect to, among other things, insider dealing and market misconduct, as if those provisions of the SFO applied to the securities of Sunlight REIT. The Manager will keep track on the development of legal and regulatory requirements in this regard.

Directors who are aware of or privy to any price sensitive information or any negotiations or agreements related to intended acquisitions or disposals by Sunlight REIT which are significant transactions must refrain from dealing in any securities of Sunlight REIT as soon as they become aware of or privy to them until (i) proper disclosure of the information has been made either voluntarily or in accordance with the REIT Code and any applicable provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or (ii) the aforesaid negotiations or agreements related to such intended acquisitions or disposals have lapsed. Other Directors should be cautioned of the existence of unpublished price-sensitive information and they must not deal in the securities of Sunlight REIT for a similar period. In general, Directors must not make any unauthorised disclosure of confidential information or make any use of such information for the advantage of themselves or others.

A practical guidance note on the operation of the Dealings Code setting out additional information and

procedures for seeking clearance under the Dealings Code is also provided to the Directors and the Manager.

The Manager has also adopted procedures for the 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 and the Directors, and also indirectly covers unitholders and persons claiming through or under him/her.

Unitholders with a holding of 5% or more of the units in issue, or the Manager and Directors with an interest in the units in issue, have a notifiable interest and are required to notify the Stock Exchange and the Manager of their holdings in Sunlight REIT and certain changes thereof (in general, within 3 business days). The Manager is under a duty to keep a register of interests pursuant to all notifications, and the said register is available for inspection by unitholders without charge during normal business hours. Copies of all disclosure notices received or disclosed by the Manager are posted on Sunlight REIT’s website at www.sunlightreit.com. Investors may also refer to “Disclosure of Interests” on pages 55 to 57.

Conflicts of Interests and Business Competitions with HLD and SKFE and other companies

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD. Each of SKFE and HLD also has interest through subsidiaries in units of Sunlight REIT; in particular, the Manager have received and may continue to receive units of Sunlight REIT by virtue of all or part of its entitlement to the fees for asset management services rendered to Sunlight REIT. SKFE, HLD, and a number of their subsidiaries and associates are and/or may be engaged in, amongst other things, development, investment and management of retail, office and other properties in and outside Hong Kong. Two non-executive directors (including the Chairman) of the Manager are currently executive directors of HLD.

There can be no assurance that conflicts of interests will not arise between Sunlight REIT, the Manager, the Property

Manager, SKFE, HLD and other companies in the future. The Manager may experience conflicts of interests as a result of other roles of its board members and/or 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 or other transactions with HLD or its affiliates and in agreeing the terms of such potential acquisitions or transactions.

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

Potential conflicts of interests may arise in connection with or in relation to (i) any potential property-related acquisitions or disposals and/or competition with other companies for potential tenants in the event that any director, senior executive or officer of the Manager or the Property Manager is also a shareholder or director of such other companies; (ii) tenancy related matters in the event that any director, senior executive or officer of the Manager or the Property Manager is also a shareholder or director of a tenant or potential tenant (or its holding company) of Sunlight REIT; and (iii) any potential consultancy engagement in the event that any director, senior executive or officer of the Manager or Property Manager is also a shareholder or director of such consultancy practice.

To ensure that all conflicts of interests relating to Sunlight REIT can be managed and/or avoided, the Manager has instituted a number of measures to deal with these issues, including but not limited to the following:

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 functions independently from its shareholders;
3. the Manager has established internal control systems 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 and that other potential conflicts of interests situation that may arise are monitored;
4. a Director with a conflict of interests 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; and
5. a register of other directorships and senior positions held by the Directors is maintained and updated from time to time.

The Manager confirms that it is capable of performing, and shall continue to perform its duties for Sunlight REIT independent of HLD's related businesses and in the best interests of Sunlight REIT and the unitholders.

Financial Statements

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 distributed to unitholders within four months following the end of each financial year and the semi-annual reports within two months following the end of the period they cover.

The Directors acknowledge their responsibility for the preparation of the accounts of Sunlight REIT and its subsidiaries for the year ended 30 June 2010, which give a true and fair view of the state of affairs of Sunlight REIT and its subsidiaries as at 30 June 2010 and of their results and cash flows for the year then ended and are properly prepared in accordance with the statutory requirements and applicable accounting standards.

Results Announcements and Quarterly Operational Statistics

Pursuant to the requirements under the REIT Code, results announcements of Sunlight REIT are released on a semi-annual basis. The Manager also releases the operational statistics on a quarterly basis as mentioned in “Investor Relations” below.

It is customary for the Manager to conduct briefings with unitholders, investors, analysts and the press immediately following the release of results announcements. Such information, including the relevant presentation materials and announcements, are made available to the public through Sunlight REIT’s website.

Other Announcements

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 abreast of the position of Sunlight REIT. Such announcements are made in accordance with the requirements under the REIT Code. Briefings with analysts and the press may also be convened by the Manager if necessary.

Auditor

Sunlight REIT has engaged KPMG as its auditor. In order to maintain KPMG’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its terms of reference, considers all audit and non-audit services to be provided by KPMG. During the year, fees payable to the auditor of Sunlight REIT amounted to HK\$1.5 million for audit and audit related services and HK\$0.4 million for non-audit services.

The responsibilities of the auditor with respect to financial reporting are set out in the Independent Auditor’s Report on page 75.

Accountability and Communication

Investor Relations

The Manager is committed to open and effective communication to ensure that unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT. The Manager provides an efficient investor relations platform which utilises a variety of interactive means to maintain dialogues with investors and analysts. The Manager believes feedback and comments from the investment community are critical to shaping the future direction of Sunlight REIT.

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

1. Direct communication including physical meetings conducted with the senior management of the Manager, both locally and overseas;
2. Guided property tour organised by the property management team;
3. Provision of regular communication materials; and
4. Announcements and press releases posted on Sunlight REIT’s website, including disclosures made pursuant to regulatory requirements.

Other than the mandatory announcements of Sunlight REIT’s annual and interim results, the Manager also provides voluntary updates on operational statistics on a quarterly basis. As the first REIT in Hong Kong to undertake this initiative, the Manager believes that such disclosure will enhance financial transparency and provide greater confidence to investors.

A waiver was granted by the SFC on 27 April 2009 from strict compliance with paragraph 9.13 of the REIT Code in relation to certain promotional expenses (the “**Promotional Expenses**”) to be paid out of the deposited property of Sunlight REIT, in connection with related amendments to the Trust Deed as approved by the unitholders at an extraordinary general meeting on 28 April 2009. In the financial year ended 30 June 2010, the Promotional Expenses incurred amounted to HK\$282,000. Pursuant to the conditions of such waiver,

the Audit Committee has confirmed that such Promotional Expenses were incurred (i) in accordance with the internal control procedures of the Manager; and (ii) solely for the purposes as set out in the relevant provisions of the Trust Deed relating to promotional expenses.

Unitholders' Rights

Unitholders are encouraged to attend all general meetings of Sunlight REIT. In accordance with the Trust Deed, at least ten business days' notice of every meeting shall be given to the unitholders, except that at least twenty-one days' notice of the meeting shall be given to the unitholders where a special resolution is proposed for consideration at such meeting. For an annual general meeting ("AGM"), not less than twenty business days' notice shall be given to the unitholders. The notice period is exclusive of (i) the day on which the notice is served or deemed to be served; and (ii) the day for which the notice is given. For the purpose of the above notices, business days do not include Saturdays, Sundays and public holidays in Hong Kong. The notice will specify the place, day and hour of the meeting and the terms of any resolution to be proposed thereat.

As required by the Trust Deed, any resolution put to the meeting shall be decided on a poll and the results of the poll shall be published by way of an announcement.

The Trustee or the Manager may at any time convene a meeting of the unitholders. Pursuant to the Trust Deed, the Manager shall also convene a meeting if requested in writing by not less than two unitholders registered as together holding not less than 10% of the outstanding units in issue for the time being.

Annual General Meeting

The convening of an AGM by the Manager is one of the principal channels of communication with Sunlight REIT's unitholders. It provides an opportunity for unitholders to obtain a better understanding of and, if necessary, to enquire the Board about Sunlight REIT's operating performance.

During the year, the AGM was held on 28 October 2009.

Matters to be decided by Unitholders by Special Resolution

A meeting of unitholders when convened may, by way of special resolution and in accordance with the Trust Deed, approve, among others, the following matters:

- 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;
- removal of the Trustee;
- disposal of an investment within two years from the date of its acquisition;
- termination or merger of Sunlight REIT in compliance with applicable provisions of the Takeovers Code;
- any change in the investment policy and objective of Sunlight REIT;
- any increase in the maximum remuneration (other than any additional fee as allowed under the Trust Deed) or any change to the structure of the remuneration of the Trustee or Manager.

Issues of Further Units Post-Listing

Further issue of units in Sunlight REIT will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions generally require that, unless the REIT Code otherwise permits, further issues of units shall be offered on a pro rata basis to existing unitholders. If new units are not offered on a pro rata basis, the approval of unitholders by way of an ordinary resolution is required unless the aggregate number of new units issued during the financial year does not increase the total number of units in issue at the end of the previous financial year by more than 20%.

New Units Issued

Except for an aggregate of 17,135,498 units issued to the Manager in lieu of payment of the Manager's fees, there were no other new units issued during the year.

Repurchase, Sale or Redemption of Units

During the year, there was no purchase, sale or redemption of units by Sunlight REIT or its wholly owned and controlled entities.

Risk Control and Compliance

Internal Control

The Board is responsible for maintaining a sound and effective internal control system to provide reasonable assurance in protecting material assets and in identifying, monitoring and managing risks associated with the business activities. Proper measures have been established by the Board to provide effective internal controls, including (i) defined management structure with clear lines of responsibility and limits of authority; (ii) proper budgetary and management control; (iii) clear and defined company policies and procedures; and (iv) internal audit department's review on major operations.

The Board, through the Audit Committee, reviews the effectiveness of the internal control system of Sunlight REIT. The review covers all material aspects of control, including financial, operational, compliance and risk management functions, and ensures adequacy of resources, qualification and experience of staff of the accounting and financial reporting functions, including their training programmes and budget.

Based on the review for the year ended 30 June 2010, the Board believes that the system of internal control is effective and adequate, with no significant areas of concerns which may adversely affect the interest of unitholders.

Management of Business Risk

The Board, with the assistance of the Investment Committee and the Audit Committee, takes the responsibilities to review the financial performance of the Manager and Sunlight REIT against a previously approved budget, to review any risks associated with the assets of Sunlight REIT, to examine liability management and to act upon any advice or comments from the auditor 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. The Board reviews business and other risks which may affect the performance of Sunlight REIT with the recommendations from the Investment Committee and the Audit Committee on a quarterly basis. In respect of the risks identified, mitigating strategies are formulated by the management team overseen by the Chief Executive Officer and the Board on an ongoing basis. In addition, the Board will review from time to time relevant analyses and proposals prior to approving any major transactions.

Confirmation of Compliance with the Dealings Code

Specific enquiry has been made of all Directors and the Manager, and all of them have confirmed that they have complied with the required standard as set out in the Dealings Code from time to time throughout the year.

Public Float

Based on information that is publicly available to the Manager and within the knowledge of the Directors, more than 25% of the outstanding units in issue were held in public hands as at 30 June 2010.

Review of Annual Report

This Annual Report has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of references.

Employees

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

CONNECTED PARTY TRANSACTIONS

Set out below is information in respect of connected party transactions during the year involving Sunlight REIT and its connected persons as defined in paragraph 8.1 of the REIT Code which are governed by Chapter 8 of the REIT Code, other than those transactions that are 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 connected party transactions from which Sunlight REIT derived its income during the year:

Name of Connected Person	Relationship with Sunlight REIT ^{Note}	Nature of the Connected Party Transactions	Income for the year (HK\$'000)	Rental and other deposits received as at 30 June 2010 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	4,446	1,048
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	2,854	675
Henderson Real Estate Agency Limited	Associated company of the Manager	Leasing	94	-
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	890	-
Citistore (Hong Kong) Limited	Associated company of the Manager	Licensing	276	20
TOTAL:			8,560	1,743

Note: Within the meaning of the REIT Code.

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 information on connected party transactions in which Sunlight REIT incurred its expenses during the year:

Name of Connected Person	Relationship with Sunlight REIT ^{Note}	Nature of the Connected Party Transactions	Expenses for the year (HK\$'000)
Goodwill Management Limited	Associated company of the Manager	Property management and operations	988
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	7,945
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management services, marketing services and provision of staff	32,929
Megastrength Security Services Company Limited	Associated company of the Manager	Carpark management, security services, maintenance and renovation	4,106
Metro City Management Limited	Associated company of the Manager	Property management and operations	1,925
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,984
Knight Frank Hong Kong Limited	Subsidiary of the Principal Valuer	Agency fee	445
TOTAL:			50,322

Note: Within the meaning of the REIT Code.

Connected Party Transactions with the Trustee Connected Persons

The following table sets forth information on 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 Group¹ (collectively, the “**Trustee Connected Persons**”) within the meaning given in the REIT Code during the year:

Name of Connected Person	Relationship with Sunlight REIT ²	Nature of the Connected Party Transactions	Income/Expense for the year (HK\$'000)	Rental deposit received as at 30 June 2010 (HK\$'000)
Leasing Transactions:				
HSBC	Trustee Connected Persons	Leasing ³	5,241	1,398
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁴	5,456	1,470
Ordinary Banking and Financial Services⁵:				
HSBC	Trustee Connected Persons	Interest income received/receivable	22	-
HSBC	Trustee Connected Persons	Interest expense, agency charge and other charges on bank loan and interest rate swaps and other bank charges	150,884	-
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense on bank loan and other bank charges	2,397	-
HSBC Insurance Brokers (Asia-Pacific) Limited ⁶	Trustee Connected Persons	Insurance brokerage services	15	-
Amendments on the interest rate swaps were made with HSBC on 20 January 2010, 11 May 2010 and 10 June 2010 respectively. Please refer to “Financial Review” on page 27 for details.				
Corporate Finance Transactions:				
Both the Manager and the Trustee confirm that during the year, there was no corporate finance transaction entered into between the Manager on behalf of Sunlight REIT and the HSBC Group.				

Notes:

1. HSBC Group means HSBC 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. Within the meaning of the REIT Code.
3. For Shop Nos. 1024-31, Sheung Shui Centre Shopping Arcade.
4. For Shop No. 211, Metro City Phase I Property.
5. Ordinary banking and financial services include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto.
6. HSBC Insurance Brokers (Asia-Pacific) Limited was acquired by Marsh Brokers (Hong Kong) Limited (“**Marsh**”) on 1 April 2010 and therefore ceased to be a Trustee Connected Person after 1 April 2010. Marsh is not a connected person (as defined in the REIT Code) of Sunlight REIT.

Other Disclosures

Pursuant to note 2 to Chapter 8.10 of the REIT Code, services provided by the Manager, the Trustee and the principal valuer 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 year, the aggregate amount of fees payable by Sunlight REIT to the Manager (in the form of units and cash) and to the Trustee under the Trust Deed were approximately HK\$54 million and HK\$3 million respectively. Particulars of services provided by the Manager and the Trustee are set out in notes 25(b)(ii) and (iv) of the Consolidated Financial Statements. Save for the above-mentioned services transactions, there is no other services transaction which requires disclosure in this Annual Report.

Confirmation by the INEDs of the Manager

The INEDs 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 year as disclosed above and they are satisfied and confirm 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 Auditor of Sunlight REIT

Pursuant to the waiver from strict compliance with the requirement under Chapter 8 of the REIT Code, the Manager has engaged the auditor 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 year ended 30 June 2010 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 auditor has performed these procedures and reported to the Board their factual findings.

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. Further, the provisions of Part XV of SFO are deemed by the Trust Deed to apply to each of the Manager itself and a Director or the chief executive of the Manager, and also indirectly covers persons interested in or having a short position in units.

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

As at 30 June 2010 and 30 June 2009, the interests and short position in units of the Manager and the Directors or the 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 respectively as follows:

Name	As at 30 June 2010		As at 30 June 2009		Change in % interest
	Number of Units interested (long position)	% of interest in Units ¹	Number of Units interested (long position)	% of interest in Units ¹	
The Manager ²	6,580,638	0.42	28,597,527	1.85	-1.43
Au Siu Kee, Alexander ³	1,329,000	0.085	N/A	N/A	N/A

Notes:

1. The percentages expressed are based on the total units in issue of 1,564,041,268 as at 30 June 2010 and 1,546,905,770 as at 30 June 2009 respectively.
2. As at 30 June 2009, the Manager beneficially held 28,597,527 units. On 30 October 2009 and 28 April 2010, 10,554,860 and 6,580,638 new units were issued to Manager respectively as payment of part of the Manager's fees. With the disposal of a total of 39,152,387 Manager's units during the year, of which 35,991,387 units were disposed of on 16 December 2009 to Cobase Limited, an indirect wholly-owned subsidiary of HLD, the Manager beneficially held 6,580,638 units as at 30 June 2010.
3. Mr. Au Siu Kee, Alexander was appointed as the Chairman and a Non-executive Director of the Manager on 8 June 2010. As at 30 June 2010, he was interested in 1,329,000 units within the meaning of Part XV of the SFO. Of the 1,329,000 units, he was interested in 1,229,000 units jointly with his spouse, and his spouse was interested in the other 100,000 units individually.

Other than the above, none of the Manager and the Directors or the chief executive of the Manager was beneficially interested (or deemed to be interested) in units or held any short position in units as at 30 June 2010 and 30 June 2009 as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed.

Holdings of Substantial Unitholders

As at 30 June 2010 and 30 June 2009, the interests and short position in units of every person, other than the Manager and the Directors or the 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 respectively as follows:

Name	As at 30 June 2010		As at 30 June 2009		Change in % interest
	Number of Units interested (long position)	% of interest in Units ¹	Number of Units interested (long position)	% of interest in Units ¹	
Lee Shau Kee ²	517,760,663	33.10	476,895,165	30.83	2.27
Lee Financial (Cayman) Limited ²	374,072,708	23.92	374,072,708	24.18	-0.26
Leesons (Cayman) Limited ²	374,072,708	23.92	374,072,708	24.18	-0.26
Leeworld (Cayman) Limited ²	374,072,708	23.92	374,072,708	24.18	-0.26
SKFE ²	374,072,708	23.92	374,072,708	24.18	-0.26
Uplite Limited ²	224,443,625	14.35	224,443,625	14.51	-0.16
Wintrade Limited ²	149,629,083	9.57	149,629,083	9.67	-0.1
Henderson Development Limited ²	143,687,955	9.19	102,822,457	6.65	2.54
HLD ²	143,687,955	9.19	102,822,457	6.65	2.54
Hopkins (Cayman) Limited ²	143,687,955	9.19	102,822,457	6.65	2.54
Riddick (Cayman) Limited ²	143,687,955	9.19	102,822,457	6.65	2.54
Rimmer (Cayman) Limited ²	143,687,955	9.19	102,822,457	6.65	2.54
Silchester International Investors Limited ³	272,811,150	17.44	272,811,150	17.64	-0.2
Silchester International Investors International Value Equity Trust ³	136,730,922	8.74	136,730,922	8.84	-0.1
Silchester International Investors International Value Equity Group Trust ³	-	-	77,909,076	5.04	N/A

Notes:

1. The percentages expressed are based on the total units in issue of 1,564,041,268 as at 30 June 2010 and 1,546,905,770 as at 30 June 2009 respectively.

2. As at 30 June 2010, 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 Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Lee Financial (Cayman) Limited, Leesons (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, 76,533,345 units were owned by Cobase Limited, 60,573,972 units were owned by Richful Resources Limited and 6,580,638 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 therefore taken to be interested in all the 517,760,663 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 at 30 June 2010, the long position of 272,811,150 units were held by Silchester International Investors Limited in its capacity as investment manager of which 136,730,922 units were held by Silchester International Investors International Value Equity Trust. On 1 September 2009, Silchester International Investors International Value Equity Group Trust ceased to be a substantial unitholder of Sunlight REIT.

Holding of other Connected Persons

So far as is known to the Manager and save as disclosed above, 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 as at 30 June 2010 were as follows:

Name of Connected Persons	Number of Units Held	% of Unit Holding ¹
Lee King Yue ²	50,000	0.003
Lee Pui Ling, Angelina ³	2,307	0.00015
Mao Kenneth Ruys ⁴	500,000	0.032

Notes:

1. The percentage expressed is based on the total units in issue of 1,564,041,268 as at 30 June 2010.
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 30 June 2009.
3. Mrs. Lee Pui Ling, Angelina was a connected person by virtue of being a director of HLD and one of its subsidiaries. Mrs. Lee held 2,307 units as at 30 June 2009.
4. 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 at 30 June 2009.
5. HSBC Group beneficially held 453 units as at 30 June 2009 and ceased to have any interests during the year. HSBC Group was a connected person by virtue of being controlling entities, holding companies, subsidiaries or associated companies of the Trustee.
6. Mr. Lee Yip Wah, Peter was interested in 11,000 units as at 30 June 2009 and ceased to have any interests during the year. Mr. Peter Lee was a connected person by virtue of being a director of companies controlled by the family trust of Dr. Lee Shau Kee.

VALUATION REPORT

Henderson Sunlight Asset Management Limited
30th Floor
248 Queen's Road East
Wan Chai
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)

15 July 2010

Dear Sirs,

- (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")



4/F Shui On Centre, 6-8 Harbour Road
Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心4字樓
+852 2840 1177 Tel
+852 2840 0600 fax
www.knightfrank.com

- (12) On Loong Commercial Building (except Office 1 on 6th Floor and Office 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, Sal 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 Property")
- (15) Various Portions in Kwong Wah Plaza, 11 Tal Tong Road, Yuen Long, New Territories, Hong Kong ("Kwong Wah Plaza Property")
- (16) Various Shop 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) Shop Nos. 1 to 7 on Ground Floor and shop No.8 on Ground Floor and its Roof; Office 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 Space Nos. 1-24 on 1st Floor, Nos. 1-25 on 2nd Floor and Motorcycle Parking Space 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 2010 (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

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 Capitalisation Approach and counter-checked this by the Direct Comparison Approach. For the purposes of this valuation, we consider the Income Capitalisation 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 Capitalisation

The Income Capitalisation Approach is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, Government rent and management fees) of all lettable units of each property are capitalised 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 capitalised for the unexpired term of the Government Lease under which the property is held. Due consideration has been given to the expectation of the renewal of the Government Lease upon expiry. The summation of the capitalised value of the term income for the leased portion, the capitalised value of the reversionary income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalised 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 capitalisation rate adopted is determined by reference to the yields achieved in analysed 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 Capitalisation 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 report 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, title defects, restrictions and outgoing of an onerous nature which could affect their values.

Summary of Valuation

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 2010	Capitalisation Rate Adopted*	
				Retail (%)	Office (%)
1 248 Queen's Road East Property	376,381	46	2,888,000,000	4.40	4.15
2 Bonham Trade Centre Property	117,909	N/A	568,000,000	4.50	4.25
3 Righteous Centre Property	51,767	N/A	377,000,000	4.00	4.50
4 135 Bonham Strand Trade Centre Property	63,915	N/A	302,000,000	4.50	4.35
5 Winsome House Property	40,114	N/A	339,000,000	4.40	4.00
6 Java Road 108 Commercial Centre Property	37,923	N/A	165,500,000	4.75	4.50
7 Sun Fai Commercial Centre Property	26,151	N/A	108,000,000	4.75	4.65
8 Wai Ching Commercial Building Property	16,321	N/A	31,100,000	4.75	4.65
9 235 Wing Lok Street Trade Centre Property	52,285	N/A	182,000,000	4.65	4.45
10 Yue Fai Commercial Centre Property	42,751	N/A	157,000,000	4.60	4.75
11 Everglory Centre Property	29,802	N/A	132,500,000	4.50	4.30
12 On Loong Commercial Building Property	25,564	N/A	144,000,000	4.50	4.50
13 Metro City Phase I Property	188,889	452	1,928,000,000	4.50	N/A
14 Sheung Shui Centre Property	122,339	297	2,536,000,000	4.40	N/A
15 Kwong Wah Plaza Property	64,842	N/A	566,000,000	4.15	4.55
16 Beverley Commercial Centre Property	7,934	N/A	70,000,000	4.75	N/A
17 Glory Rise Property	7,086	N/A	60,000,000	4.75	N/A
18 Supernova Stand Property	4,226	N/A	50,000,000	4.50	N/A
19 Palatial Stand Property	8,625	N/A	27,500,000	4.75	N/A
20 Royal Terrace Property	9,565	49	90,500,000	4.75	N/A
Total	1,294,389	844	\$10,722,100,00		

* The capitalisation 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.

Limitation Clause

The reported analyses, opinions and conclusions are subject to the assumptions and limiting conditions stated in our valuation report and are our personal, unbiased professional analyses, opinions and conclusions.

Disclosure of Interest

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 report.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Alex S L Ng
MRICS MHKIS RPS(GP)
Executive Director

Summary Valuation Report

248 Queen's Road East Property

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

Description

The building is a 40-storey (including a mechanical floor) commercial building with ancillary car parking facilities erected on an L-shaped site having a registered site area of approximately 1,442.84 sq. m. (15,531 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 34,966.65 sq. m. (376,381 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 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 lot is 20 pounds 4 shillings and 10 pence.

Monthly Rental Income as at 30 June 2010

HK\$8,820,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2010

HK\$234,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2010

HK\$2,300 exclusive of rates and management fees

Market value in existing state as at 30 June 2010

HK\$2,888,000,000

Estimated Net Property Yield

3.8%

Bonham Trade Centre Property

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

Description

The building is a 28-storey commercial building erected on a trapezoid site having a registered site area of approximately 720.27 sq. m. (7,753 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 10,954.01 sq. m. (117,909 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 Lot Nos. 142 and 144 are held under their respective Government Leases each for a term of 981 years commencing from 26 December 1860. The total annual Government rent payable for the lots is HK\$124.8.

Monthly Rental Income as at 30 June 2010

HK\$1,893,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$568,000,000

Estimated Net Property Yield

4.0%

Righteous Centre Property

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

Description

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

Land Tenure

Kowloon Inland Lot Nos. 6827 and 7097 are held under Conditions of Regrant Nos. 5654 and 5759 respectively each for a term of 150 years commencing from 25 December 1887. The annual Government rent 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 2010

HK\$1,151,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2010

HK\$45,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2010

HK\$377,000,000

Estimated Net Property Yield

3.8%

135 Bonham Strand Trade Centre Property

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

Description

The building is a 25-storey (including a mechanical floor) commercial building completed in 2000. The property comprises the majority portion of the subject building having a total gross rentable area of approximately 5,937.85 sq. m. (63,915 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 sections of the lot is HK\$88.

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 lot is HK\$196.

Monthly Rental Income as at 30 June 2010

HK\$994,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$302,000,000

Estimated Net Property Yield

3.95%

Winsome House Property

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

Description

The building is a 27-storey commercial building completed in 1999. The property comprises the majority portion of the building having a total gross rentable area of approximately 3,726.68 sq. m. (40,114 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 Lot Nos. 5025 and 994 are held under their respective Government Leases each for a term of 999 years commencing from 26 June 1843. The total annual Government rent payable for the 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 lot is HK\$30.

Monthly Rental Income as at 30 June 2010

HK\$1,157,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$339,000,000

Estimated Net Property Yield

4.1%

Java Road 108 Commercial Centre Property

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

Description

The building is a 25-storey commercial building erected on a rectangular site having a registered site area of approximately 228.26 sq. m. (2,457 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 3,523.13 sq. m. (37,923 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 2010

HK\$512,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$165,500,000

Estimated Net Property Yield

3.7%

Sun Fai Commercial Centre Property

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

Description

The building is a 15-storey commercial building completed in 1998. The property comprises the majority portion of the building having a total gross rentable area of approximately 2,429.49 sq. m. (26,151 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 Lot Nos. 10813, 10814 and 10815 are held under Conditions of Lease Extension Nos. 12068, 12269 and 12259 respectively each 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 2010

HK\$399,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$108,000,000

Estimated Net Property Yield

4.4%

Wai Ching Commercial Building Property

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

Description

The building is a 19-storey commercial building completed in 1997. The property comprises the majority portion of the building with a total gross rentable area of approximately 1,516.26 sq. m. (16,321 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 2010

HK\$109,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$31,100,000

Estimated Net Property Yield

4.2%

235 Wing Lok Street Trade Centre Property

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

Description

The building 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. The property comprises all units within the building having a total gross rentable area of approximately 4,857.40 sq. m. (52,285 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\$316.63.

Monthly Rental Income as at 30 June 2010

HK\$593,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$182,000,000

Estimated Net Property Yield

3.9%

Yue Fai Commercial Centre Property

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

Description

The building is a 26-storey commercial building completed in 1997. The property comprises the majority portion of the building having a total gross rentable area of approximately 3,971.66 sq. m. (42,751 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 2010

HK\$585,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$157,000,000

Estimated Net Property Yield

4.5%

Everglory Centre Property

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

Description

The building is a 21-storey commercial building erected on a rectangular site having a registered site area of approximately 224.73 sq. m. (2,419 sq. ft.). The building was completed in 1999. The property comprises all units within the building having a total gross rentable area of approximately 2,768.67 sq. m. (29,802 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 9455 and 9639 are held under Conditions of Regrants Nos. 9401 and 9502 respectively each 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 2010

HK\$447,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$132,500,000

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 building is a 23-storey commercial building completed in 1984. The property comprises the majority portion of the building having a total gross rentable area of approximately 2,374.95 sq. m. (25,564 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 Lot 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 a total annual Government rent of HK\$20.

Monthly Rental Income as at 30 June 2010

HK\$522,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$144,000,000

Estimated Net Property Yield

4.4%

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 development 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. The property comprises all the shop units on the Ground Floor and Level 2 of the commercial / car parking podium having a total gross rentable area of approximately 17,548.22 sq. m. (188,889 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 development.

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 2010

HK\$6,449,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent.

Monthly Car Parking Income as at 30 June 2010

HK\$722,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2010

HK\$124,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2010

HK\$1,928,000,000

Estimated Net Property Yield

4.5%

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 development 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. The property 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.). 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 2010

HK\$8,574,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly Car Parking Income as at 30 June 2010

HK\$504,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2010

HK\$63,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2010

HK\$2,536,000,000

Estimated Net Property Yield

4.3%

Kwong Wah Plaza Property

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

Description

The building is a 17-storey (including a basement and a mechanical floor but excluding cocklofts) commercial building completed in 1998. The property comprises the majority portion of the building having a total gross rentable area of approximately 6,023.97 sq. m. (64,842 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 2010

HK\$1,921,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2010

HK\$9,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2010

HK\$566,000,000

Estimated Net Property Yield

4.1%

Beverley Commercial Centre Property

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

Description

The building is a 20-storey (including a basement) commercial building completed in 1982. The property comprises 60 shop units on the Ground Floor of the shopping arcade within the building, having a total gross rentable area of approximately 737.09 sq. m. (7,934 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 commencing from 25 December 1902. The total annual Government rent payable for the lots is HK\$7,576.

Monthly Rental Income as at 30 June 2010

HK\$268,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$70,000,000

Estimated Net Property Yield

4.6%

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 building is a 26-storey composite commercial / residential building completed in 2003. The property comprises all the shop units on the Ground and 1st Floors having a total gross rentable area of approximately 658.31 sq. m. (7,086 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 2010

HK\$203,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$60,000,000

Estimated Net Property Yield

4.1%

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 building is a 27-storey composite commercial / residential building completed in 2001. The property comprises all nine shop units on the Ground Floor having a total gross rentable area of approximately 392.60 sq. m. (4,226 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 2010

HK\$179,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$50,000,000

Estimated Net Property Yield

4.3%

Palatial Stand Property

Shop Nos. 1 to 7 on Ground Floor and Shop No. 8 on Ground Floor and its Roof; Office 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 building is a 20-storey residential tower built over a 3-storey commercial / garden podium completed in 2001. The property 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 having a total gross rentable area of approximately 801.28 sq. m. (8,625 sq. ft.). The property 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 commencing from 14 September 1897. The total annual Government rent payable for the lots is HK\$204.

Monthly Rental Income as at 30 June 2010

HK\$90,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2010

HK\$27,500,000

Estimated Net Property Yield

3.9%

Royal Terrace Property

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

Description

The building is a 36-storey composite commercial / residential building with carparking and recreational facilities completed in 2002. The property comprises eleven shop units on the Ground Floor having a total gross rentable area of approximately 888.61 sq. m. (9,565 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 2010

HK\$238,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2010

HK\$95,000 exclusive of operating expenses, rates, Government rents and management fees

Market value in existing state as at 30 June 2010

HK\$90,500,000

Estimated Net Property Yield

4.4%

The valuation report contains herein is in summary form. A full version in English language is available for public inspection at the registered office of the Manager.

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) for the year ended 30 June 2010.

HSBC Institutional Trust Services (Asia) Limited

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

Hong Kong, 9 September 2010

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 76 to 118, which comprise the consolidated balance sheet as at 30 June 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the consolidated cash flow statement for the year then ended, 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) (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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 30 June 2010 and of the Group's profit and cash flows for the year 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 Chater Road

Central, Hong Kong

9 September 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
Turnover	4 & 5	488,584	471,709
Property operating expenses	4 & 6	(118,677)	(121,031)
Net property income		369,907	350,678
Other income	7	635	4,253
Administrative expenses		(63,810)	(60,115)
Adjustment Payments	19	—	77,499
Net increase/(decrease) in fair value of investment properties	11	1,344,215	(803,026)
Profit/(loss) from operations		1,650,947	(430,711)
Finance costs on interest bearing liabilities	8(a)	(234,270)	(182,947)
Profit/(loss) before taxation and transactions with unitholders	8	1,416,677	(613,658)
Income tax	9(a)	(245,770)	122,166
Profit/(loss) after taxation and before transactions with unitholders		1,170,907	(491,492)

The notes on pages 84 to 118 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	2010 \$'000	2009 \$'000
Profit/(loss) after taxation and before transactions with unitholders	1,170,907	(491,492)
Other comprehensive income for the year		
Cash flow hedges:		
Changes in fair value recognised during the year	59,986	(179,440)
Reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	52,632	—
	112,618	(179,440)
Total comprehensive income for the year	1,283,525	(670,932)

The notes on pages 84 to 118 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2010

(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
Non-current assets			
Fixed assets	11		
– Investment properties		10,722,100	9,364,000
– Other fixed assets		33	36
		10,722,133	9,364,036
Deferred tax assets	9(c)	—	65
Reimbursement rights	12	203,932	203,932
		10,926,065	9,568,033
Current assets			
Trade and other receivables	14	23,639	109,087
Pledged deposits	17	224,876	222,864
Cash at bank and in hand		135	140
Tax recoverable		46,545	41,296
		295,195	373,387
		11,221,260	9,941,420
Current liabilities			
Tenants' deposits	15	(121,272)	(112,094)
Rent receipts in advance		(3,163)	(2,986)
Trade and other payables	16	(98,506)	(85,814)
Secured bank borrowings	17	(15,000)	—
Derivative financial instruments	13	(59,191)	—
Current taxation		(19,035)	(15,332)
		(316,167)	(216,226)
Net current (liabilities)/assets		(20,972)	157,161
Total assets less current liabilities		10,905,093	9,725,194

	Note	2010 \$'000	2009 \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings	17	(3,944,141)	(3,940,166)
Deferred tax liabilities	9(c)	(1,620,623)	(1,389,444)
Derivative financial instruments	13	(20,929)	(132,040)
		(5,585,693)	(5,461,650)
Total liabilities, excluding net assets attributable to unitholders			
		(5,901,860)	(5,677,876)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		5,319,400	4,263,544
Number of units in issue	18	1,564,041,268	1,546,905,770
Net asset value attributable to unitholders per unit		\$ 3.40	\$ 2.76

The consolidated financial statements on pages 76 to 118 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the Manager of Sunlight REIT on 9 September 2010 and were signed on behalf by:

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 84 to 118 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
At the beginning of the year		4,263,544	5,164,370
Distribution paid to unitholders		(257,671)	(280,755)
Issuance of units to Manager during the year	18	30,002	50,861
Total comprehensive income for the year		1,283,525	(670,932)
At the end of the year		5,319,400	4,263,544

The notes on pages 84 to 118 form part of these consolidated financial statements.

DISTRIBUTION STATEMENT

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 \$'000	2009 \$'000
Profit/(loss) after taxation and before transactions with unitholders		1,170,907	(491,492)
Adjustments:			
- Net (increase)/decrease in fair value of investment properties	11	(1,344,215)	803,026
- Manager's fees paid or payable in the form of units		26,993	47,976
- Cash flow hedges, reclassified from net assets attributable to unitholders		52,632	—
- Non-cash finance costs on interest bearing liabilities		48,918	44,566
- Deferred tax	9(a)	231,244	(134,261)
		(984,428)	761,307
Total distributable income (note (i))		186,479	269,815
Interim distribution, paid		88,863	101,007
Final distribution, to be paid to unitholders		97,616	168,808
Total distributions for the year (note (i))		186,479	269,815
Distribution per unit:			
- Before adjusting for distribution waivers (notes (ii) to (iv))			
Interim distribution per unit, paid		5.71 cents	6.61 cents
Final distribution per unit, to be paid to unitholders		6.24 cents	10.91 cents
		11.95 cents	17.52 cents
- After adjusting for distribution waivers (notes (ii), (v) and (vi))			
Interim distribution per unit, paid		6.88 cents	9.29 cents
Final distribution per unit, to be paid to unitholders		7.51 cents	15.27 cents
		14.39 cents	24.56 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, was to distribute to unitholders 100% of Sunlight REIT's annual distributable income for each financial year. With effect from 1 July 2010, the distribution policy was revised and an amount not less than 90% of Sunlight REIT's annual distributable income for each financial year will be distributed to unitholders.

DISTRIBUTION STATEMENT

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

Notes: (continued)

- (ii) Pursuant to two Deeds of Distribution Waiver dated 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, to 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. According to the register of unitholders maintained by the Unit Registrar, these unitholders did not dispose of such units during the year.
- (iii) The final distribution per unit, before adjusting for distribution waivers as mentioned in (ii) above, of 6.24 cents (2009: 10.91 cents), is calculated by dividing the final distribution of \$97,616,000 by 1,564,041,268 units in issue as at 30 June 2010 (2009: \$168,808,000 and 1,546,905,770 units).
- (iv) The interim distribution per unit for the six months ended 31 December 2009, before adjusting for distribution waivers as mentioned in (ii) above, of 5.71 cents, is calculated by dividing the interim distribution of \$88,863,000 by 1,557,460,630 units in issue as at 31 December 2009 (six months ended 31 December 2008: 6.61 cents, calculated based on \$101,007,000 and 1,528,453,243 units in issue as at 31 December 2008).
- (v) The final distribution per unit, after adjusting for distribution waivers as mentioned in (ii) above, of 7.51 cents (2009: 15.27 cents), is calculated by dividing the final distribution of \$97,616,000 by 1,299,055,685 units (2009: \$168,808,000 and 1,105,263,132 units), which is arrived at as follows:

	As at 30 June 2010	As at 30 June 2009
Units in issue	1,564,041,268	1,546,905,770
Less: Units held by the unitholders who agreed to waive their entitlement to distribution for the year	(264,985,583)	(441,642,638)
	1,299,055,685	1,105,263,132

- (vi) The interim distribution per unit for the six months ended 31 December 2009, after adjusting for distribution waivers as mentioned in (ii) above, of 6.88 cents, is calculated by dividing the interim distribution of \$88,863,000 by 1,292,475,047 units (six months ended 31 December 2008: 9.29 cents, calculated based on \$101,007,000 and 1,086,810,605 units), which is arrived at as follows:

	As at 31 December 2009	As at 31 December 2008
Units in issue	1,557,460,630	1,528,453,243
Less: Units held by the unitholders who agreed to waive their entitlement to distribution for the period	(264,985,583)	(441,642,638)
	1,292,475,047	1,086,810,605

- (vii) The 2010 interim distribution was paid to unitholders on 21 April 2010. The 2010 final distribution is expected to be paid on 21 October 2010 to unitholders whose names appear on the register of unitholders on 29 September 2010.

The notes on pages 84 to 118 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	2010 \$'000	2009 \$'000
Operating activities		
Profit/(loss) before taxation and transactions with unitholders	1,416,677	(613,658)
Adjustments for:		
– Manager's fees paid or payable in the form of units	26,993	47,976
– Adjustment Payments	—	(77,499)
– Net (increase)/decrease in fair value of investment properties	(1,344,215)	803,026
– Finance costs on interest bearing liabilities	234,270	182,947
– Depreciation	9	3
– Interest income	(580)	(4,251)
Operating cash flow before changes in working capital	333,154	338,544
Decrease/(increase) in trade and other receivables	7,887	(3,862)
Increase in tenants' deposits	9,178	5,138
Increase in rent receipts in advance	177	336
Increase in trade and other payables	15,738	37,618
Cash generated from operations	366,134	377,774
Tax paid		
– Hong Kong Profits Tax paid	(16,072)	(40,612)
Net cash generated from operating activities	350,062	337,162
Investing activities		
Interest received	642	4,455
Expenditure on investment properties	(13,885)	(16,026)
Payment for purchase of other fixed assets	(6)	(25)
Adjustment Payments received	77,499	90,635
Net cash generated from investing activities	64,250	79,039
Financing activities		
Distribution paid to unitholders	(257,671)	(280,755)
Proceeds from new bank borrowings	15,000	—
Payment for partial unwinding of interest rate swaps	(36,877)	—
(Increase)/decrease in pledged deposits	(2,012)	4,869
Interest paid	(132,757)	(140,291)
Net cash used in financing activities	(414,317)	(416,177)
Net (decrease)/increase in cash at bank and in hand	(5)	24
Cash at bank and in hand at the beginning of the year	140	116
Cash at bank and in hand at the end of the year	135	140

The notes on pages 84 to 118 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General

Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) is a Hong Kong collective investment scheme constituted as a unit trust by the trust deed dated 26 May 2006 (as amended) (the “**Trust Deed**”) 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 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 Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (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 the early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 28).

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2010 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(e)); and
- investment properties (see note 2(g)).

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

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 major sources of estimation uncertainty are discussed in note 26.

(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) Unitholders' funds as a financial liability

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. In addition, Sunlight REIT is required to distribute to unitholders no less than 90% of its annual distributable income for each financial year in accordance with the Trust Deed and the REIT Code. 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: Presentation*". It is shown on the balance sheet as "Net assets attributable to unitholders".

(e) 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 recognised immediately in 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(f)).

2 Significant accounting policies (continued)

(f) 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 other comprehensive income and accumulated separately 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 reclassified from net assets attributable to unitholders to 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 until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from net assets attributable to unitholders to profit or loss.

(g) 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(o)(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.

(h) Other property, plant and equipment

Other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Furniture and fixtures 3 - 5 years

2 Significant accounting policies (continued)

(h) Other property, plant and equipment (continued)

Where parts of an item of other property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Internal and external sources of information are reviewed at each balance sheet date to identify indications that other property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an item of other property, plant and equipment is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an item of other property, plant and equipment, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(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 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(g)).

(j) Trade and other receivables

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

2 Significant accounting policies (continued)

(j) Trade and other receivables (continued)

Impairment losses for doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade receivables included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(k) Interest bearing borrowings

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

(l) Trade and other payables

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

(m) Income tax

- (i) Income tax for the year 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 except to the extent that they relate to items recognised in other comprehensive income or directly in net assets attributable to unitholders, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in net assets attributable to unitholders, respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 Significant accounting policies (continued)

(m) Income tax (continued)

- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit 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 profit will be available.

2 Significant accounting policies (continued)

(m) Income tax (continued)

- (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.

(n) 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, 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.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

2 Significant accounting policies (continued)

(o) Revenue recognition (continued)

- (ii) Car park income and rental related income
Car park income and rental related income are recognised as revenues on the accrual basis.
- (iii) Interest income
Interest income is recognised as it accrues using the effective interest method.

(p) Borrowing costs

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

(q) Related parties

For the purposes of these 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.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Manager's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the settlements have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

- HKFRS 8, *"Operating segments"*
- HKAS 1 (revised 2007), *"Presentation of financial statements"*
- Amendments to HKAS 32, *"Financial instruments: Presentation"* and HKAS 1, *"Presentation of financial statements - puttable financial instruments and obligations arising on liquidation"*
- Amendments to HKFRS 7, *"Financial instruments: Disclosures - improving disclosures about financial instruments"*

The adoption of amendments to HKAS 32 and HKAS 1 has had no significant impact on the Group's consolidated financial statements. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The presentation of segment information in prior years which was based on a disaggregation of the Group's consolidated financial statements into segments based on related business lines is consistent with the requirements of HKFRS 8, and thus the adoption of HKFRS 8 has had no impact on the reported results or financial position of the Group.
- As a result of the adoption of HKAS 1 (revised 2007), all items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the year, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income has been adopted in these consolidated financial statements and corresponding amounts of the consolidated statement of changes in net assets attributable to unitholders have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets attributable to unitholders for any period presented.
- As a result of the adoption of the amendments to HKFRS 7, the consolidated financial statements include expanded disclosures in note 20(d) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

4 Segment reporting

The Manager manages the Group's business by divisions. On first-time adoption of HKFRS 8 and in a manner consistent with the way in which information is reported internally to the senior executive management of the Manager for the purposes of resource allocation and performance assessment, the Manager has identified two reportable segments, which are "Office properties" and "Retail properties".

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

Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the consolidated financial statements has been prepared in a manner consistent with the information used by the senior executive management of the Manager for the purposes of assessing segment performance and allocating resources between segments. In this regard, the senior executive management of the Manager monitors the results attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible and current assets with the exception of tax recoverable, deferred tax assets and other corporate assets. Segment liabilities include tenants' deposits, rent receipts in advance and trade and other payables managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to income generated and the expenses incurred by those segments.

The measure used for reporting segment performance is the "segment results" which exclude the net increase/(decrease) in fair value of investment properties, finance costs on interest bearing liabilities, income tax, interest income and unallocated net income/(expenses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 Segment reporting (continued)

Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the senior executive management of the Manager for the purposes of resource allocation and assessment of segment performance for the year is set out below:

	2010			2009		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover						
- rental income	188,949	201,976	390,925	183,048	194,353	377,401
- car park income	2,817	15,875	18,692	2,915	16,077	18,992
- rental related income	41,330	37,637	78,967	40,290	35,026	75,316
	233,096	255,488	488,584	226,253	245,456	471,709
Property operating expenses	(55,793)	(62,884)	(118,677)	(52,397)	(68,634)	(121,031)
Net property income	177,303	192,604	369,907	173,856	176,822	350,678
Administrative expenses	(28,531)	(28,187)	(56,718)	(26,170)	(24,658)	(50,828)
Segment results	148,772	164,417	313,189	147,686	152,164	299,850
Net increase/(decrease) in fair value of investment properties	573,479	770,736	1,344,215	(402,353)	(400,673)	(803,026)
Adjustment Payments			—			77,499
Finance costs on interest bearing liabilities			(234,270)			(182,947)
Income tax			(245,770)			122,166
Interest income			580			4,251
Unallocated net expenses			(7,037)			(9,285)
Profit/(loss) after taxation and before transactions with unitholders			<u>1,170,907</u>			<u>(491,492)</u>
Depreciation	6	3	9	3	—	3

4 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	As at 30 June 2010			As at 30 June 2009		
	Office	Retail	Total	Office	Retail	Total
	properties \$'000	properties \$'000	\$'000	properties \$'000	properties \$'000	\$'000
Segment assets	5,539,313	5,409,982	10,949,295	4,966,174	4,632,875	9,599,049
Pledged deposits			224,876			222,864
Cash at bank and in hand			135			140
Tax recoverable			46,545			41,296
Deferred tax assets			—			65
Unallocated assets			409			78,006
Total assets			<u>11,221,260</u>			<u>9,941,420</u>
Segment liabilities	(90,071)	(85,048)	(175,119)	(84,965)	(76,569)	(161,534)
Derivative financial instruments			(80,120)			(132,040)
Secured bank borrowings			(3,959,141)			(3,940,166)
Current taxation			(19,035)			(15,332)
Deferred tax liabilities			(1,620,623)			(1,389,444)
Unallocated liabilities			(47,822)			(39,360)
Total liabilities, excluding net assets attributable to unitholders			<u>(5,901,860)</u>			<u>(5,677,876)</u>
Capital expenditure incurred during the year	5,627	8,264	13,891	4,364	11,687	16,051

5 Turnover

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

	2010 \$'000	2009 \$'000
Rental income (note)	390,925	377,401
Car park income	18,692	18,992
Rental related income	78,967	75,316
	<u>488,584</u>	<u>471,709</u>

Note: Included additional rents based on business turnover of tenants amounting to \$795,000 (2009: \$1,200,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 Property operating expenses

	2010 \$'000	2009 \$'000
Building management fee	44,797	46,065
Property Manager's fees	31,239	31,196
Government rent and rates	16,174	12,396
Marketing and promotion expenses	8,593	9,865
Car park operating costs (note)	6,891	6,688
Bad debts expenses	90	1,662
Other direct costs	10,893	13,159
	118,677	121,031

Note: Included Property Manager's fees of \$1,690,000 (2009: \$1,841,000).

7 Other income

	2010 \$'000	2009 \$'000
Bank interest income	580	4,251
Others	55	2
	635	4,253

8 Profit/(loss) before taxation and transactions with unitholders

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

	2010 \$'000	2009 \$'000
(a) Finance costs on interest bearing liabilities:		
Interest on borrowings	132,684	138,235
Other borrowing costs	48,954	44,712
	181,638	182,947
Interest rate swaps: cash flow hedges, reclassified from net assets attributable to unitholders	52,632	—
	234,270	182,947

The total amount represents finance costs on secured bank borrowings (note 17), whereas other borrowing costs represent the amortisation of the upfront payments for the interest rate swaps (note 13) and various financing charges.

8 Profit/(loss) before taxation and transactions with unitholders (continued)

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

	2010 \$'000	2009 \$'000
(b) Other items:		
Manager's fees	53,986	47,976
Property Manager's fees	32,929	33,037
Trustee's remuneration	2,997	2,733
Auditors' remuneration		
- Audit services	1,520	1,600
- Other services	370	370
Valuation fees	770	750
Other legal and professional fees	2,851	4,653
Bank charges	475	471

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

9 Income tax

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

	2010 \$'000	2009 \$'000
Current tax - Provision for Hong Kong Profits Tax		
Provision for the year	14,466	13,987
Under/(over)-provision in respect of prior years	60	(1,892)
	14,526	12,095
Deferred tax		
Origination and reversal of temporary differences	231,244	(134,261)
	245,770	(122,166)

Provision for Hong Kong Profits Tax has been made at 16.5% on the estimated assessable profits for the current and prior years.

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(Expressed in Hong Kong dollars)

9 Income tax (continued)

(b) Reconciliation between tax expense/(credit) and accounting profit/(loss) before taxation and transactions with unitholders at applicable tax rate:

	2010 \$'000	2009 \$'000
Profit/(loss) before taxation and transactions with unitholders	1,416,677	(613,658)
Notional tax on profit/(loss) before taxation and transactions with unitholders, calculated at the Hong Kong Profits Tax rate of 16.5%	233,752	(101,254)
Tax effect of non-deductible expenses	3,440	3,299
Tax effect of non-taxable income	(96)	(13,295)
Tax effect of tax losses not recognised	8,796	467
Tax effect of prior years' tax losses and other temporary differences	(76)	(9,258)
Under/(over)-provision in respect of prior years	60	(1,892)
Others	(106)	(233)
Actual tax expense/(credit)	245,770	(122,166)

(c) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	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
As at 1 July 2008	60,880	647,554	159,709	675,044	(19,547)	1,523,640
Charged/(credited) to profit or loss	8,627	(137,650)	—	—	(5,238)	(134,261)
As at 30 June 2009	69,507	509,904	159,709	675,044	(24,785)	1,389,379
As at 1 July 2009	69,507	509,904	159,709	675,044	(24,785)	1,389,379
Charged/(credited) to profit or loss	14,018	218,670	—	—	(1,444)	231,244
As at 30 June 2010	83,525	728,574	159,709	675,044	(26,229)	1,620,623

9 Income tax (continued)

(c) Deferred tax assets and liabilities recognised: (continued)

	2010 \$'000	2009 \$'000
<i>Represented by:</i>		
Net deferred tax assets recognised in the consolidated balance sheet	—	(65)
Net deferred tax liabilities recognised in the consolidated balance sheet	1,620,623	1,389,444
	1,620,623	1,389,379

(d) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 2(m), the Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries of \$169,874,000 (2009: \$131,729,000) as it is probable that sufficient future taxable profits will not be available against which the deductible unused tax losses can be utilised. The Hong Kong tax losses do not expire under current tax legislation.

10 Earnings/(loss) per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2010 amounted to \$0.75 (2009: loss per unit of \$0.32). The calculation of basic earnings/(loss) per unit before transactions with unitholders is based on the Group's profit after taxation and before transactions with unitholders of \$1,170,907,000 (2009: loss of \$491,492,000) and the weighted average of 1,555,115,487 units in issue during the year (2009: 1,526,861,155 units).

Diluted earnings/(loss) per unit before transactions with unitholders for the year ended 30 June 2010 and 2009 are not presented as there was no potential dilution of earnings/(loss) per unit before transactions with unitholders.

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11 Fixed assets

	Furniture and fixtures \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:			
As at 1 July 2008	15	10,151,000	10,151,015
Additions	25	16,026	16,051
Net decrease in fair value	—	(803,026)	(803,026)
As at 30 June 2009	40	9,364,000	9,364,040
Representing:			
Cost	40	—	40
Valuation - 2009	—	9,364,000	9,364,000
	40	9,364,000	9,364,040
Cost or valuation:			
As at 1 July 2009	40	9,364,000	9,364,040
Additions	6	13,885	13,891
Net increase in fair value	—	1,344,215	1,344,215
As at 30 June 2010	46	10,722,100	10,722,146
Representing:			
Cost	46	—	46
Valuation - 2010	—	10,722,100	10,722,100
	46	10,722,100	10,722,146
Accumulated depreciation:			
As at 1 July 2008	1	—	1
Charge for the year	3	—	3
As at 30 June 2009	4	—	4
As at 1 July 2009	4	—	4
Charge for the year	9	—	9
As at 30 June 2010	13	—	13
Net book value:			
As at 30 June 2010	33	10,722,100	10,722,133
As at 30 June 2009	36	9,364,000	9,364,036

11 Fixed assets (continued)

(a) The investment properties were revalued as at 30 June 2010 by Knight Frank Petty Limited (“**Knight Frank**”) which is an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on an open market value basis in their existing states by means of capitalisation of the net income allowing for reversionary income potential and by reference to comparable market transactions. The independent valuation as at 30 June 2009 was performed by Savills Valuation and Professional Services Limited (“**Savills**”).

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

	2010 \$'000	2009 \$'000
In Hong Kong		
– long leases	4,946,000	4,410,000
– medium-term leases	5,776,100	4,954,000
	10,722,100	9,364,000

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

12 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.

13 Derivative financial instruments

	2010 \$'000	2009 \$'000
Interest rate swaps - cash flow hedges		
Current portion	59,191	—
Non-current portion	20,929	132,040
	80,120	132,040

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 interest rate swaps are highly effective hedging instruments.

Under the original arrangement entered into with The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”), the swap counterparty of the Group, HSBC was to pay the Group, on a quarterly basis, an aggregate amount equivalent to the interest payment payable in respect of the term loan. In return, the Group was to make quarterly payment to HSBC, calculated by applying fixed interest rates (3.50%* per annum for the financial year 2008/09) on the amount of the term loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 Derivative financial instruments (continued)

On 26 May 2009, the arrangement of interest rate swaps was amended. As a result of the amendment, during the one-year period from 30 June 2009 through 29 June 2010, the quarterly payments made by HSBC to the Group were made monthly. The fixed interest rate for calculating the amount paid by the Group to HSBC was also amended from 3.50%* per annum to 3.36%* per annum.

During the year, the Group has unwound an aggregate notional amount of \$1,500,000,000 in respect of the existing interest rate swaps with a notional amount of \$3,950,000,000 for the period from 30 June 2010 to 30 June 2011, while three interest rate swaps with notional amount of \$500,000,000 each were entered into for the period from 30 June 2010 to 28 June 2013. The Group has paid to HSBC a total amount of \$36,877,000 as consideration for the partial unwinding of the interest rate swaps.

As a result of the unwinding, the cumulative unrealised losses on the unwound portion of the interest rate swaps from inception of the hedge until the unwinding amounting to \$52,632,000 are reclassified from net assets attributable to unitholders to profit or loss during the year.

The interest rate swaps will mature on 30 June 2011 and 28 June 2013 and have fixed swap interest rates ranging from 1.84%* per annum to 3.50%* per annum and 1.84%* per annum to 2.615%* per annum respectively (2009: 3.36%* per annum to 3.50%* per annum).

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.

* Included the credit spread of 0.45% per annum under the existing term loan which will mature on 20 December 2011.

14 Trade and other receivables

	2010 \$'000	2009 \$'000
Rental receivables	16,726	21,133
Deposits and prepayments	5,861	9,609
Other receivables	634	522
Amounts due from related companies	418	77,823
	23,639	109,087

\$5,086,000 (2009: \$5,438,000) included in deposits and prepayments is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered or recognised as expense within one year.

The ageing analysis of rental receivables is as follows:

	2010 \$'000	2009 \$'000
Current	10,833	15,191
Less than 1 month overdue	3,679	4,102
More than 1 month and up to 3 months overdue	1,204	943
More than 3 months and up to 6 months overdue	452	436
More than 6 months overdue	558	461
	16,726	21,133

14 Trade and other receivables (continued)

Rental receivables that were neither overdue nor impaired relate to a wide range of tenants for whom there was no recent history of default.

Rental receivables that were past due but not impaired relate to a number of independent tenants that have a good track record with the Group. Based on past experience, the Manager believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. In addition, the Group has collected rental deposits from its tenants which the Manager considered adequate to cover the outstanding rental receivables. Further details on the Group's credit policy are set out in note 20(a).

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment. As at 30 June 2009, the balance primarily represented Adjustment Payments receivable (note 19).

15 Tenants' deposits

The tenants' deposits include \$75,732,000 (2009: \$69,084,000) 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

	2010 \$'000	2009 \$'000
Creditors and accrued charges	31,652	33,909
Manager's fees payable (note 25(b)(ii))	16,891	11,454
Amounts due to related companies	49,963	40,451
	98,506	85,814

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

Manager's fees payable is due within four months and payable in the form of cash and units.

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$909,000 (2009: \$675,000) which is due within 30 days.

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17 Secured bank borrowings

The bank loans were repayable as follows:

	2010 \$'000	2009 \$'000
Within 1 year	15,000	—
After 1 year but within 2 years	3,944,141	—
After 2 years but within 5 years	—	3,940,166
	3,944,141	3,940,166
	3,959,141	3,940,166

The Group has two facilities in the aggregate amount of \$3,975,000,000 (2009: \$3,975,000,000) before transaction costs, comprising a \$3,950,000,000 term loan and a \$25,000,000 (2009: \$25,000,000) 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. Both facilities are interest bearing at Hong Kong Interbank Offered Rate plus 0.45% per annum and 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 interest rate swaps are set out in note 13.

On 15 June 2010, the Group has drawn down an amount of \$15,000,000 under the revolving credit facility. The amount is interest bearing at 0.81893% per annum and will mature on 15 September 2010.

Bank borrowings under the term loan and revolving credit facility 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 \$10,722,100,000 as at 30 June 2010 (2009: \$9,364,000,000) (note 11);
- floating charge over bank balances of \$32,135,000 (2009: \$51,476,000) and \$192,741,000 (2009: \$171,388,000) in bank accounts maintained respectively with HSBC 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 rates of the bank borrowings ranged from 0.82% per annum to 4.50% per annum (2009: 4.52% per annum). The carrying amounts of the bank borrowings approximate their fair values.

18 Units in issue

	Number of units
As at 1 July 2008	1,514,195,650
Issuance of units during the year	32,710,120
As at 30 June 2009	1,546,905,770
As at 1 July 2009	1,546,905,770
Issuance of units during the year	17,135,498
As at 30 June 2010	1,564,041,268

Details of units issued during the year as payment of the Manager's fees are as follows:

Payment of the Manager's fees for the year	Average issue price per unit determined based on the Trust Deed	Aggregate amount of units issued	Number of units issued
	\$	\$'000	
2010			
1 April 2009 to 30 June 2009	1.5258	11,454	7,507,079
1 July 2009 to 30 September 2009	1.9796	6,034	3,047,781
1 October 2009 to 31 December 2009	1.8856	6,203	3,289,652
1 January 2010 to 31 March 2010	1.9177	6,311	3,290,986
		30,002	17,135,498
2009			
1 April 2008 to 30 June 2008	1.9807	11,967	6,041,879
Adjustment of Manager's fees for the financial year 2007/08	1.8141	2,372	1,307,535
1 July 2008 to 30 September 2008	1.8520	12,794	6,908,179
1 October 2008 to 31 December 2008	1.3808	11,849	8,581,272
1 January 2009 to 31 March 2009	1.2034	11,879	9,871,255
		50,861	32,710,120

19 Adjustment Payments

Pursuant to several Deeds of Adjustment Payments all dated 2 December 2006 entered into among the Manager, the Trustee and certain related parties comprising subsidiaries of Shau Kee Financial Enterprises Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Henderson Development Limited (collectively referred to as the “**Vendors**”) in favour of Sunlight REIT, the Vendors have agreed to make payments to Sunlight REIT in respect of the difference between the relevant consolidated rental income and the guaranteed rental income per annum, 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 were made effectively as adjustments to the consideration payable for the acquisition (the “**Adjustment Payments**”). The amount of Adjustment Payments for the year ended 30 June 2009 was determined as follows:

	2009 \$'000
Guaranteed rental income	454,900
Consolidated rental income	(377,401)
Adjustment Payments	77,499

As the arrangement for the Adjustment Payments lapsed on 30 June 2009, no such amount was reported for the year.

20 Financial risk management and fair values

Exposure to credit, interest rate and liquidity risks arises in the normal course of the Group’s business. The Group’s exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from the potential failure of the Group’s counterparties to meet their obligations under financial contracts. The Group is exposed to credit risk on its cash at bank and deposits with banks and financial institutions, as well as trade and other receivables.

In respect of credit exposures to tenants, credit risk exposure is minimised by undertaking transactions with a large number of counterparties and conducting credit reviews on prospective tenants. The Group also has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate provision for impairment losses is made for irrecoverable amounts.

The Group has no significant concentrations of credit risk. 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 counterparties and cash transactions are limited to high-credit-quality financial institutions.

20 Financial risk management and fair values (continued)

(b) Interest rate risk

The Group's interest rate risk arises primarily 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. Details regarding the interest rate swaps are set out in note 13.

The Group's exposures to interest rates on financial liabilities to the profit or loss are minimal as the Group entered into interest rate swaps to hedge against the risk exposure.

Sensitivity analysis

As at 30 June 2010, if interest rates had been 100 basis points (2009: 100 basis points) higher with all other variables held constant, the net assets attributable to unitholders would have been \$68.5 million (2009: \$75.2 million) higher mainly as a result of an increase in the fair values of the cash flow hedges as described above.

On the other hand, if interest rates had been 10 basis points (2009: 10 basis points) lower with all other variables held constant, the net assets attributable to unitholders would have been \$7.0 million (2009: \$7.6 million) lower mainly as a result of a decrease in the fair values of the cash flow hedges.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase and 10 basis point decrease represents management's assessment of a reasonably possible change in interest rate over the period until the next annual balance sheet date.

(c) Liquidity risk

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

As at 30 June 2010, the Group's current liabilities exceeded its current assets by \$20,972,000 as tenants' deposits of \$75,732,000, which is expected to fall due beyond the coming 12 months of the balance sheet date according to the terms of respective tenancies, were classified as current liabilities.

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 the REIT Code.

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20 Financial risk management and fair values (continued)

(c) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2010					Balance sheet carrying amount \$'000
	Contractual undiscounted cash flow					
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	More than 5 years \$'000	Total \$'000	
Secured bank borrowings	55,344	3,969,109	—	—	4,024,453	3,959,141
Derivative financial instruments (net settled)	77,332	12,790	31,725	—	121,847	80,120
Tenants' deposits	45,540	44,488	28,097	3,147	121,272	121,272
Creditors and accrued charges	31,652	—	—	—	31,652	31,652
Amounts due to related companies	49,963	—	—	—	49,963	49,963
	259,831	4,026,387	59,822	3,147	4,349,187	4,242,148

	2009					Balance sheet carrying amount \$'000
	Contractual undiscounted cash flow					
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	More than 5 years \$'000	Total \$'000	
Secured bank borrowings	21,781	31,600	3,964,978	—	4,018,359	3,940,166
Derivative financial instruments (net settled)	110,939	106,650	—	—	217,589	132,040
Tenants' deposits	43,010	42,132	22,987	3,965	112,094	112,094
Creditors and accrued charges	33,909	—	—	—	33,909	33,909
Amounts due to related companies	40,451	—	—	—	40,451	40,451
	250,090	180,382	3,987,965	3,965	4,422,402	4,258,660

20 Financial risk management and fair values (continued)

(d) Fair values

(i) Financial instruments carried at fair value

The following presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, “*Financial instruments: Disclosures*”, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

As at 30 June 2010, the Group’s only financial instruments carried at fair values are the interest rate swaps, which are calculated with reference to the present values of their estimated future cash flows, taking into account current interest rate observable in the market. The Group’s interest rate swaps fall into Level 2 of the fair value hierarchy described above.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group’s financial assets including cash at bank and in hand, pledged deposits, 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 as at 30 June 2010 and 2009 due to their short maturities.

(e) Estimation of fair values

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 management

The Group’s primary objective is to provide its unitholders risk-adjusted, long-term capital growth through investing in a diversified portfolio of office and retail properties in Hong Kong.

The Manager aims to support Sunlight REIT’s operational and acquisition growth strategies within a prudent risk management framework, by employing an efficient capital management strategy.

21 Capital management (continued)

The Manager believes that an efficient capital management strategy will improve total returns while reducing risks for unitholders by maintaining financial flexibility to meet capital expenditure requirements. The Manager will regularly review its capital management strategy to reflect Sunlight REIT's investment opportunities, its operating and the general economic environment and the REIT Code requirements.

In accordance to clause 7.9 of the REIT Code and clause 20.4 of the Trust Deed, Sunlight REIT's aggregate borrowings shall not exceed 45 per cent of the total gross asset value of the scheme. In the event that the limit is exceeded, the unitholders and the Securities and Futures Commission (the "SFC") shall be informed of the magnitude of the breach, the cause of the breach, and the proposed method of rectification. In cases where there is a breach, no further borrowing is permitted and the Manager shall use its best endeavours to reduce the excess borrowings. Furthermore, the unitholders and the SFC shall be informed on a regular basis as to the progress of the rectification. As at 30 June 2010, Sunlight REIT's aggregate borrowings represent 35.3 per cent (2009: 39.7 per cent) of its total gross asset value.

22 Capital commitments

Capital commitments outstanding as at 30 June 2010 not provided for in the consolidated financial statements are as follows:

	2010 \$'000	2009 \$'000
Contracted for	1,118	11,063
Authorised but not contracted for	28,872	11,904
	29,990	22,967

23 Contingent liabilities

As at the balance sheet date, the Group has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,685,000 (2009: \$4,685,000).

24 Significant leasing arrangements

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2010 \$'000	2009 \$'000
Within 1 year	408,037	398,255
After 1 year but within 5 years	371,970	324,049
After 5 years	13,310	2,801
	793,317	725,105

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

25 Connected party transactions and material related party transactions

During the year, 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
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 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
Knight Frank and other members of its group (collectively referred to as " Knight Frank Group ")	The Principal Valuer of Sunlight REIT

Knight Frank, which replaced Savills, has been appointed as the principal valuer of Sunlight REIT with effect from 1 September 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25 Connected party transactions and material related party transactions (continued)

(b) Transactions with connected/related parties

	2010 \$'000	2009 \$'000
Rental and rental related income received/ receivable from (note (i)):		
– HLD Group	7,669	7,110
– HSBC Group	10,696	10,033
Property management expenses and bank charges paid/payable to (note (i)):		
– HLD Group	(16,948)	(17,713)
– HSBC Group	(123)	(128)
Manager's fees (note (ii))	(53,986)	(47,976)
Property Manager's fees (note (iii))	(32,929)	(33,037)
Trustee's remuneration (note (iv))	(2,997)	(2,733)
Interest expenses and agency charge on bank loans paid/payable to (note (v)):		
– HSBC Group	(5,145)	(21,968)
Interest paid/payable under the interest rate swaps (note 13):		
– HSBC Group	(111,136)	(41,062)
Interest income on bank deposits received/ receivable from (note (i)):		
– HSBC Group	22	952
Adjustment Payments receivable from (note 19):		
– HLD Group	—	11,857
– SKFE Group	—	59,217
– HD Group	—	6,425
Insurance expenses paid/payable to (note (i)):		
– HSBC Group	(15)	(21)
Payment for partial unwinding of interest rate swaps (note 13):		
– HSBC Group	(36,877)	—
Valuation fees and other charges paid/payable to (note (i)):		
– Knight Frank Group	(1,215)	—
– Savills and other members of its group (collectively referred to as "Savills Group")	—	(752)
Promotion income received/receivable from (note (i)):		
– HLD Group	890	807

25 Connected party transactions and material related party transactions (continued)

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

Notes:

- (i) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) 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 the Group and a variable fee of 3% per annum of the Group's Net Property Income (as defined in the Trust Deed). For the period from 21 December 2006 (date of listing) to 30 June 2009, the Manager's fee shall be paid to the Manager in the form of units. Accordingly, units were issued to the Manager in prior years in this connection.

Pursuant to the Trust Deed, for the period from 1 July 2009 until 30 June 2011, the Manager is entitled to make an election for the payment of the Manager's fees, only to the extent that it is related to the Group's Properties (as defined in the Trust Deed), to be made in the form of cash and/or units, provided that the percentages of each of the base fee and the variable fee to be paid in cash shall not exceed 50% of the amount due and payable.

On 18 June 2009, the Manager has made an election for the base fee and the variable fee for the financial year ended 30 June 2010 to be paid 50% in the form of cash and 50% in the form of units. On 26 May 2010, the Manager has made an election for the base fee and variable fee for the financial year ending 30 June 2011 to be paid entirely in the form of units.

- (iii) Under the property management agreement entered into between the Manager and the Property Manager dated 29 November 2006 (as amended by the supplemental agreement dated 28 April 2009) (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;
- 10% of the total licence fee for securing a licence for a duration of less than 12 months; and
- one-fourth month's base rent for handling each rent review during the term of a tenancy provided for in the tenancy agreement.

In addition to the above fees, the Property Manager is also reimbursed by relevant property companies for staff costs incurred for the management of properties of the Group.

- (iv) The Trustee is entitled to receive a remuneration of 0.03% per annum on the first \$5 billion on the total assets of the Group, 0.025% per annum on the next \$5 billion on the total assets of the Group 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 rates as set out in notes 13 and 17.

25 Connected party transactions and material related party transactions (continued)

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

	2010 \$'000	2009 \$'000
Net amount due (to)/from:		
- HLD Group	(67,044)	(40,947)
- HSBC Group (note)	(852,935)	(830,091)
- SKFE Group	—	59,217
- HD Group	—	6,425
- Knight Frank Group	(450)	—
- Savills Group	—	(600)
Note:		
Deposits and cash placed with the HSBC Group	32,179	51,550
Secured bank borrowings and interest payable to the HSBC Group	(881,337)	(878,082)
Others	(3,777)	(3,559)
	(852,935)	(830,091)

26 Critical accounting estimates and judgements

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

(a) 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 rates.

(b) Recognition of deferred tax assets

As at 30 June 2010, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately \$158,964,000 (2009: \$150,212,000). 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.

27 Comparative figures

As a result of the application of HKAS 1 (revised 2007), "Presentation of financial statements", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in the financial year 2009/10. Further details of these developments are disclosed in note 3.

28 Possible impact of amendments, new standards and new interpretations issued but not yet effective for the year ended 30 June 2010

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the year ended 30 June 2010 and which have not been adopted in these consolidated financial statements.

The Manager 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 result in a restatement of the Group's results of operations and financial position.

29 Principal subsidiaries

Details of the principal subsidiaries of Sunlight REIT 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	—	Investing holding
Bayman Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	—	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 Principal subsidiaries (continued)

Name of Company	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held		Principal activities
			Sunlight REIT	Subsidiaries	
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
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

29 Principal subsidiaries (continued)

Name of Company	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held		Principal activities
			Sunlight REIT	Subsidiaries	
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
Smartwise Services Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	—	100	Holding of domain name

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 Principal subsidiaries (continued)

Name of Company	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held		Principal activities
			Sunlight REIT	Subsidiaries	
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 of US\$1 each	—	100	Property investment
Sunlight REIT Finance Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	—	100	Provision of finance functions
Sunlight REIT Treasury Limited	British Virgin Islands/ Hong Kong	1 share of US\$1 each	—	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

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2010	2009	2008	2007 (note 3)
As at 30 June:					
Net asset value (\$ million)		5,319	4,264	5,164	4,755
Net asset value per unit		3.40	2.76	3.41	3.19
For the year/period ended 30 June:					
Highest traded unit price		2.06	1.96	2.56	2.60
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A
Lowest traded unit price		1.49	0.91	1.85	2.11
Highest discount of the traded unit price to net asset value per unit (%)		56.2	67.0	45.7	33.9
Last traded unit price		1.98	1.52	1.92	2.25
Distribution per unit, after adjusting for distribution waivers (HK cents)		14.39	24.56	24.20	13.51
Distribution yield per unit (%)	2	7.3	16.2	12.6	6.0

Notes:

1. The highest traded unit price is lower than the net asset value per unit as at the end of the year/period. Accordingly, premium of the traded unit price to net asset value per unit had not been recorded.
2. Distribution yield per unit is calculated by dividing the distribution per unit, after adjusting for distribution waivers, by the last traded unit price of the year/period.
3. The annual report for 2006/07 covered the period from 21 December 2006 (date of listing) to 30 June 2007.

FINANCIAL CALENDAR

For FY2009/10

Interim Results Announcement	9 February 2010
Issuance of Interim Report	23 February 2010
Closure of Register for entitlement of interim distribution	1 March 2010 to 3 March 2010, both days inclusive
Interim distribution paid at approximately HK 6.88 cents per unit	21 April 2010
Final Results Announcement	9 September 2010
Issuance of Annual Report	20 September 2010
Closure of Register for entitlement of final distribution	27 September 2010 to 29 September 2010, both days inclusive
Final distribution payable at approximately HK 7.51 cents per unit	21 October 2010
Closure of Register for entitlement to vote at Annual General Meeting	25 October 2010 to 27 October 2010, both days inclusive
Annual General Meeting	27 October 2010

CORPORATE INFORMATION

Board of Directors of the Manager

Chairman and Non-executive Director

Au Siu Kee, Alexander

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 *JP*

Company Secretary of the Manager

Lo Yuk Fong, Phyllis

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Knight Frank Petty Limited

Legal Adviser

Woo, Kwan, Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

BNP Paribas, Hong Kong Branch

DBS Bank Ltd., Hong Kong Branch

Hang Seng Bank Limited

The Hongkong and Shanghai Banking
Corporation Limited

Overseas-Chinese Banking Corporation Limited

Sumitomo Mitsui Banking Corporation

Registered Office of the Manager

30th Floor,

248 Queen's Road East,

Wan Chai, Hong Kong

Unit Registrar

Tricor Investor Services Limited

26th Floor, Tesbury Centre,

28 Queen's Road East,

Wan Chai, Hong Kong

Investor Relations

Leung Kwok Hoe, Kevin

Tel : (852) 3669 2888

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Website

www.sunlightreit.com



Sunlight Real Estate Investment Trust

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

www.sunlightreit.com

Managed by Henderson Sunlight Asset Management Limited