



SUNLIGHT REIT

Stock Code : 435

Annual Report 2011/12



the
extra mile

Walking *the extra mile* strengthens the foundation of and creates new ground for Sunlight REIT.

Portfolio at a Glance

1 **248 Queen's Road East**
 Location: Wan Chai
 Year of completion: 1998
 Gross rentable area: 376,381 sq. ft.

2 **Bonham Trade Centre**
 Location: Sheung Wan
 Year of completion: 1998
 Gross rentable area: 117,909 sq. ft.

3 **Righteous Centre**
 Location: Mong Kok
 Year of completion: 1996
 Gross rentable area: 51,767 sq. ft.

4 **Winsome House Property**
 Location: Central
 Year of completion: 1999
 Gross rentable area: 40,114 sq. ft.

5 **135 Bonham Strand Trade Centre Property**
 Location: Sheung Wan
 Year of completion: 2000
 Gross rentable area: 63,915 sq. ft.

Listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 21 December 2006 ("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\$13,038.8 million at 30 June 2012. 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.

Legend

Office properties

- 6** 235 Wing Lok Street Trade Centre
- 7** Java Road 108 Commercial Centre
- 8** Yue Fai Commercial Centre Property
- 9** On Loong Commercial Building Property
- 10** Everglory Centre
- 11** Sun Fai Commercial Centre Property
- 12** Wai Ching Commercial Building Property

Retail properties

- 16** Royal Terrace Property
- 17** Beverley Commercial Centre Property
- 18** Glory Rise Property*
- 19** Supernova Stand Property
- 20** Palatial Stand Property

* On 1 August 2012, the Manager agreed to dispose of the Glory Rise Property and the completion of the sale took place on 3 September 2012.



13 **Sheung Shui Centre Shopping Arcade**
 Location: Sheung Shui
 Year of completion: 1993
 Gross rentable area: 122,339 sq. ft.

14 **Metro City Phase I Property**
 Location: Tseung Kwan O
 Year of completion: 1996
 Gross rentable area: 188,889 sq. ft.

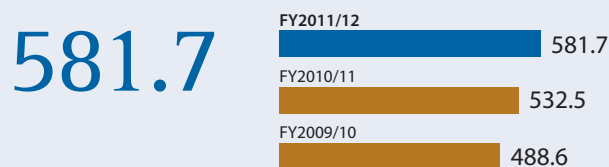
15 **Kwong Wah Plaza Property**
 Location: Yuen Long
 Year of completion: 1998
 Gross rentable area: 64,842 sq. ft.

Performance Highlights

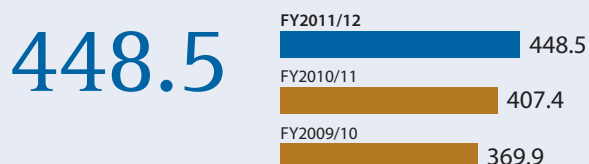
Appraised property value (HK\$' million)



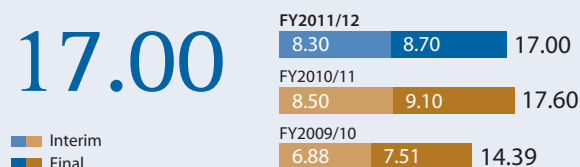
Turnover (HK\$' million)



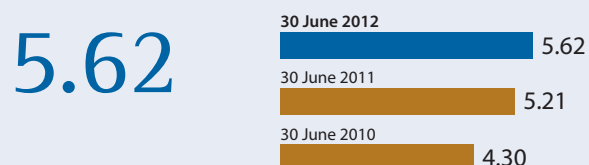
Net property income (HK\$' million)



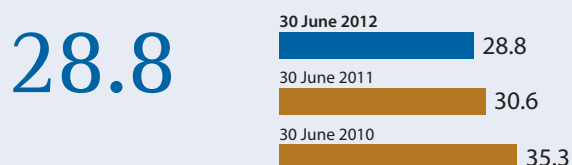
Distribution per unit (HK cents)



Net asset value per unit (HK\$)



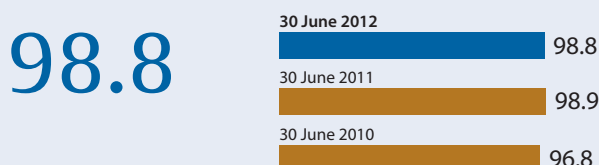
Gearing (%)



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



Occupancy (%)



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Navigating with
Passion and
Control

A balanced leadership perspective enables us to navigate and excel amidst turbulent times.

Chairman's Statement



The unfolding Euro crisis and slowdown in economic growth presented a challenge that Sunlight REIT has weathered well in FY2011/12 and it is well positioned to meet the economic uncertainties ahead.

Au Siu Kee, Alexander
Chairman

Dear Unitholders,

The unfolding Euro crisis has thrown its baleful shadow over the Hong Kong economy, notwithstanding which, I am pleased to report on behalf of the board of directors (the "Board") of Henderson Sunlight Asset Management Limited (the "Manager"), a satisfactory set of results of Sunlight REIT.

For the year ended 30 June 2012 (the "year"), Sunlight REIT's net property income amounted to HK\$448.5 million, representing a year-on-year growth of approximately 10.1%. The total distributable income for the year rose 12.8% year-on-year to HK\$298.4 million, mainly attributable to a solid improvement in income derived from operations, as well as interest savings through maintaining a minor portion of Sunlight REIT's indebtedness in floating rates particularly in the first half of the year.

The Board has recommended a final distribution of HK 8.7 cents per unit, or HK\$139,686,000. Together with the interim distribution of HK 8.3 cents per unit, the total distribution per unit ("DPU") for the year amounted to HK 17.0 cents, representing a slight decrease of 3.4% from the previous year and a payout ratio of 91.3%. It should be noted that DPU in the previous financial year was boosted by distribution waivers of 50% (in respect of the units subscribed at the time of the initial public offering of Sunlight REIT ("IPO")) extended by certain subsidiaries of Henderson Land Development Company Limited ("HLD") and of Shau Kee Financial Enterprises Limited (collectively, the "Sponsors"). Excluding the adjustment for distribution waivers, DPU for the year actually rose 12.4% year-on-year.

The appraised value of Sunlight REIT's portfolio increased 6.7% from the previous year to reach HK\$13,038.8 million at 30 June 2012. Consequently, net asset value of Sunlight REIT appreciated by 9.2% to arrive at HK\$9,022.0 million at 30 June 2012, which is equivalent to HK\$5.62 on a per unit basis (30 June 2011: HK\$5.21).

During the year under review, the Manager has undertaken certain strategies aimed at capitalising on the substantial discount at which the units are trading to net asset value. Notably, the Manager executed a spate of on-market repurchase of units on behalf of Sunlight REIT in June 2012, as a total of 3,600,000 units were repurchased (at an average price of approximately HK\$2.46 per unit) and cancelled before the end of the year. Given the positive feedback from the investment community, the unit repurchase strategy is expected to continue, subject to further granting of the general repurchase mandate by unitholders in the forthcoming annual general meeting, and as long as there is value to be created for the benefit of unitholders.

In the coming year, I anticipate a challenging operating environment as the domestic commercial property market will reflect the reduced economic buoyancy globally. Nonetheless, the dynamics of decentralisation is expected to sustain office demand in non-core areas to which Sunlight REIT has maintained a decent exposure. Meanwhile, our focused and proactive leasing strategies at Sheung Shui Centre Shopping Arcade and Metro City Phase I Property should help weather any potential rental volatility brought about by a less rosy tourist arrival picture particularly from the mainland.

While Sunlight REIT is well positioned to meet the economic uncertainties ahead, one cannot be complacent about our business outlook given the unrelenting economic threat triggered by developments in Europe. Now, more than before, management must walk the extra mile to ensure that Sunlight REIT continues to offer investors a solid and steady distribution.

I would like to take this opportunity to express my gratitude to my fellow directors, management and staff for all their hard work throughout the year.

Au Siu Kee, Alexander
Chairman

CEO's Report

Sunlight REIT has gone from strength to strength . . . supported by the superior locations of our major properties, as well as a high level of competence demonstrated in lease and marketing, asset enhancement and cost optimisation.

Wu Shiu Kee, Keith
Chief Executive Officer



The performance of Sunlight REIT has gone from strength to strength, registering further advancement in both revenue and net property income in the year under review. This achievement has unquestionably been supported by the superior locations of our major properties, as well as a high level of competence demonstrated in lease and marketing, asset enhancement and cost optimisation. In the meantime, we have continued to foster greater corporate social responsibility to strengthen the links with the communities we serve, and to enhance environmental awareness through various initiatives.

My concern last year that instability in financial markets could result in a slowdown in economic growth globally has, regrettably, proved correct. During the year under review, the commercial leasing market was adversely impacted by the aggravating economic crisis in Europe and the mild softening of the mainland economy. Gratifyingly, the incentive for decentralisation continued to propel office demand in non-core areas, resulting in a further narrowing of the rental gap between centralised and decentralised offices. According to industry estimates, Grade A office rent in Central had fallen by more than 15% during the past twelve months, while that in the Wan Chai district remained largely unchanged, with average vacancy rate staying comfortably below 5%.

The retail property market remained well supported by consumer spending from mainland visitors, as evidenced by the 22.6% growth in mainland tourism arrivals in the first seven months of 2012. Notwithstanding, the impact of a more cautious economic outlook was felt in tenants' mild resistance to higher rents. This phenomenon was mirrored by the upward momentum of retail sales, with its rate of annual growth decelerating from 23.3% recorded in the fourth quarter of 2011 to 10.3% in the second quarter of 2012.

Turning to the operational performance of Sunlight REIT, I am pleased to report that the cost-to-income ratio of the overall portfolio demonstrated a further improvement in FY2011/12 to 22.9% (FY2010/11: 23.5%). In particular, thanks to stronger rental reversion and optimal cost control, net property income grew 10.8% year-on-year in the second half of the year, outpacing the increase in the first half of 9.4%. The overall portfolio occupancy of 98.8% at 30 June 2012 was virtually unchanged from last year, while passing rents for office and retail space improved 7.4% and 8.3% from a year earlier respectively. At 66.3%, the overall tenant retention rate was slightly lower than the previous year (FY2010/11: 68.3%), principally attributable to the departure of a major tenant at 248 Queen's Road East ("**248 QRE**"). Nonetheless, the figure remains healthy and demonstrates strong tenant affinity to Sunlight REIT's properties.

CEO's Report

On the financial management front, our decision to refinance the then existing banking facilities well ahead of maturity has proved rewarding in view of the tight liquidity environment (and thus widening interest margin) in the loan syndication market throughout the year under review. Meanwhile, in anticipation of low interest rates continuing, we have maintained approximately 16.5% of Sunlight REIT's indebtedness in floating rate exposure.

Asset enhancement initiatives ("AEI") continued to be at the forefront of our operational agenda. The year under review saw the completion of ground floor renovation at Righteous Centre, resulting in a transformed image for this property attractively situated at the heart of Mong Kok. The enhancement has enabled us to procure a quality tenant in the watch-jewelry trade, with the annual rental improvement achieved exceeding the capital expenditure for this project of approximately HK\$1.6 million.

Meanwhile, considerable resources were devoted to design and planning of the upcoming refurbishment programme at Metro City Phase I Property, with phase one of the construction works expected to commence in early 2013. We are pleased with the progress so far and have received a warm reception from our key tenants on this initiative. Finally, AEI with a particular focus on utility savings and operational risk control was also a major feature of the year. In this regard, it is noteworthy that our investment in enhancing the efficiency of electricity consumption at Sunlight REIT's top four properties, namely 248 QRE, Sheung Shui Centre Shopping Arcade, Metro City Phase I Property and Bonham Trade Centre, has resulted in aggregate electricity consumption (in kilowatt hours) recording an average decline of approximately 18% as compared to pre-investment level, implying a return on investment of over 25%. Such AEI is reflective of our commitment to create a greener operating environment with the accompanying benefit of cost containment.

Subsequent to the end of the year, the Manager announced that it agreed to dispose of the Glory Rise Property to an independent third party for a total consideration of HK\$78.5 million, representing a 4.25% premium to the valuation at 30 June 2012 of HK\$75.3 million and an exit yield (on net property income of FY2011/12) of 2.6%. Completion of the sale took place on 3 September 2012.

Outlook

The headwinds in the global economy, together with a more moderate pace of expansion for the mainland economy, is likely to curtail the upside of both investment sentiment and consumer demand. Nonetheless, capital and rental values of the commercial property market should be buttressed by a dearth of new supply. As far as the Grade A office market is concerned, new supply in the next twelve months will again be in the neighbourhood of 1 million sq. ft., and there will be no significant easing of the tight supply situation until 2016. In the meantime, decentralisation will become an increasingly dominating trend from which Sunlight REIT's office properties have benefitted and will continue to do so. Further, the redevelopment and revitalisation in the immediate vicinity of 248 QRE are gathering momentum; such transformation is envisaged to provide long term benefit to our largest office property.

The absence of new supply also applies to the retail property market, the prospects of which, however, would be dependent on growth in visitors from China and their propensity to spend. While it would be reasonable to expect a more subdued growth path going forward, we consider that the impact on rental reversion would be relatively mild given the portfolio's balanced exposure to both local and overseas shoppers. At the time of writing, the Shenzhen authorities have announced that

multiple-entry permits will be granted to Shenzhen residents who do not hold local household registration documents. Upon implementation, this policy is expected to further stimulate cross-border shopping in Hong Kong, on which both our Sheung Shui Centre Shopping Arcade and Kwong Wah Plaza Property are well positioned to capitalise.

Lease expiries in FY2012/13 will constitute 41.4% and 39.0% of Sunlight REIT's total gross rentable area ("GRA") and rental income respectively. Based on our current assessment of the relevant factors and barring unforeseen circumstances, I am reasonably optimistic that positive rental reversion would be an achievable target in FY2012/13. However, it is also anticipated that the upward cycle in operating cost has yet to run its full course, notwithstanding the likelihood of a gradual tapering in domestic inflation. In this regard, the Manager would make every effort to keep cost under control.

Turning to distribution, I would like to mention that the election of a higher cash component for Manager's fees (50% in FY2012/13 versus 30% in FY2011/12) would have a mild adverse impact on the level of distributable income and DPU; such impact would hopefully be mitigated by enhancement activities to be conducted by the Manager.

FY2012/13 marks the commencement of the upgrading and refurbishment project of Metro City Phase I Property. In order to optimise cost and performance, and to harmonise with our tenancy expiry profile, this is going to be a multi-phased project spanning the next few years. We believe there is significant potential for Metro City Phase I Property to achieve a quantum leap in footfall and income on completion of the upgrade.

On capital management, HK\$1,500 million worth of interest rate swaps are due for expiry by June 2013. The management team will monitor the evolving developments in the financial market and ensure that interest rate risks of Sunlight REIT are being optimally managed. Meanwhile, the non-core asset disposal (as highlighted earlier) demonstrates the Manager's conviction to strengthen the financial war chest of Sunlight REIT for the purpose of both future acquisition (as and when appropriate) as well as further repurchase of units. We are confident that the pursuit of such activities would reap meaningful benefit for unitholders.

Since its inception in December 2006, Sunlight REIT has gone from strength to strength. In extending this impressive track record, the Manager shall endeavour to walk the extra mile to unlock the underlying potential of the portfolio, and shall continually seek to improve the corresponding facilities and services. Meanwhile, the major asset enhancement projects are designed to further improve Sunlight REIT's capability to generate a high quality recurring income stream, so as to support the growth in distribution for unitholders in the long term.

Wu Shiu Kee, Keith

Chief Executive Officer

An *Illuminating Portfolio*

A high level of innovation, collaboration and discipline underpin our operating achievements.





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Portfolio Statistics

Property	Property Details						No. of leases at 30 June	
	Location	Year of completion	No. of car park spaces	GRA ¹ (sq. ft.)			2012	2011
				Office	Retail	Total		
Office Property								
Grade A								
248 Queen's Road East	Wan Chai	1998	46	369,891	6,490	376,381	81	76
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	107	109
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	60	60
Winsome House Property	Central	1999	0	37,937	2,177	40,114	23	24
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	75	74
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	70	69
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	37	39
Yue Fai Commercial Centre Property	Aberdeen	1997	0	41,272	1,479	42,751	108	108
On Loong Commercial Building Property	Wan Chai	1984	0	23,856	1,708	25,564	37	37
Everglory Centre	Tsim Sha Tsui	1999	0	25,896	3,906	29,802	30	28
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	46
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	33	33
Sub-total/Average			46	830,437	50,446	880,883	707	703
Retail Property								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	120	123
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	114	110
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	36	37
Urban								
Royal Terrace Property	North Point	2002	49	0	9,565	9,565	7	7
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	39	39
Glory Rise Property ⁴	North Point	2003	0	0	7,086	7,086	5	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	5
Sub-total/Average			798	42,667	370,839	413,506	328	330
Total/Average			844	873,104	421,285	1,294,389	1,035	1,033

- 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 48 to 63 for further details.
4. On 1 August 2012, the Manager agreed to dispose of the Glory Rise Property and the completion of the sale took place on 3 September 2012.

N/A: Not applicable

Operational Statistics						Property Financials					
Occupancy at 30 June (%)		Passing Rent ² at 30 June (HK\$ / sq. ft.)		Committed Rent ² (HK\$ / sq. ft.)		Net Property Income (HK\$'000)		Capitalisation Rate at 30 June 2012 (%)		Appraised Value at 30 June 2012 ³ (HK\$'000)	
2012	2011	2012	2011	FY2011/12	FY2010/11	FY2011/12	FY2010/11	Retail	Office		
100.0	100.0	27.3	25.6	29.6	27.0	115,614	109,004	4.20	4.00	3,458,600	
99.7	97.9	19.3	17.8	21.1	18.9	22,322	20,522	4.20	4.00	723,000	
92.5	97.0	31.5	27.8	22.6	48.5	17,278	13,569	3.80	4.10	518,000	
97.2	100.0	33.6	32.2	35.4	34.7	13,823	12,966	4.20	4.00	432,000	
99.1	97.8	18.8	17.5	17.8	18.4	12,080	10,454	4.20	4.00	376,000	
97.8	96.3	14.5	13.1	14.7	14.1	7,254	5,998	4.25	4.00	224,000	
94.2	98.1	17.8	15.8	19.1	16.4	6,272	5,386	4.20	4.10	211,000	
99.4	99.4	16.3	15.3	14.7	17.6	7,348	6,118	4.20	4.25	210,000	
100.0	100.0	23.2	21.7	17.6	15.3	6,145	5,713	4.20	4.10	187,000	
100.0	95.2	16.9	15.5	17.3	16.9	4,256	4,256	4.15	4.00	160,100	
100.0	100.0	17.6	16.4	13.7	16.2	4,691	4,225	4.35	4.25	138,000	
100.0	97.2	8.6	7.6	8.5	8.4	1,421	901	4.35	4.00	44,600	
98.9	98.8	23.3	21.7	23.3	23.2	218,504	199,112			6,682,300	
98.8	98.6	82.4	76.1	89.4	99.4	106,763	95,689	4.40	N/A	2,981,000	
99.8	98.8	40.3	36.9	43.2	35.2	87,164	79,732	4.50	N/A	2,265,000	
97.9	100.0	34.3	33.1	25.1	37.1	23,942	21,052	4.00	4.00	724,000	
100.0	100.0	29.7	26.4	40.8	33.0	3,808	3,678	4.25	N/A	124,500	
100.0	100.0	41.6	38.0	45.4	39.8	3,518	3,072	4.30	N/A	97,000	
67.8	100.0	26.8	30.0	58.4	47.7	2,042	2,194	4.20	N/A	75,300	
100.0	100.0	39.4	39.4	N/A	40.8	1,778	1,859	4.00	N/A	53,100	
100.0	100.0	10.9	10.8	19.4	14.1	1,009	983	4.35	N/A	36,600	
98.6	99.1	50.8	46.9	54.3	52.2	230,024	208,259			6,356,500	
98.8	98.9	32.1	29.8	31.1	31.8	448,528	407,371			13,038,800	

Business Review

Office Portfolio

248 Queen's Road East ("248 QRE")

While economic uncertainties adversely impacted the general sentiment in the office property market, we have been greatly encouraged by the continuous transformation taking place in the vicinity of Wan Chai South, where our cornerstone property, 248 QRE is located. The string of redevelopment projects, together with the gradual makeover with an emphasis on heritage and high end consumption, should help sustain the area with vigour and vitality.

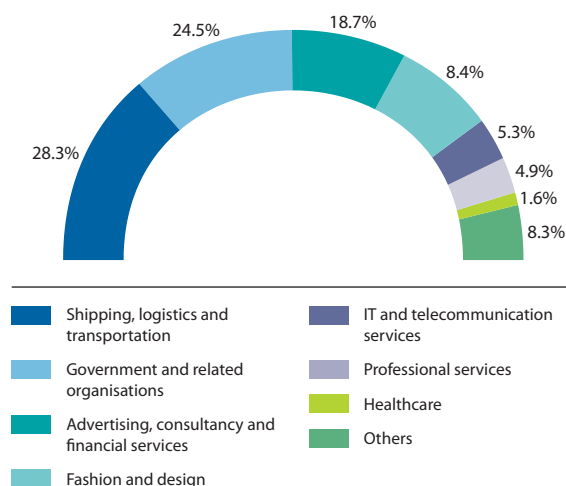


> 248 Queen's Road East

During the year under review, 248 QRE experienced a relatively higher level of tenant movement, resulting in a lower retention rate of 56.8% (FY2010/11: 74.2%). Occupancy accordingly fluctuated within a wider range,

reaching its trough of 92.2% in November 2011 before achieving full occupancy by the end of the financial year. These movements were largely attributed to reasons such as streamlining of operations and facilities consolidation. Given the prominent effect of decentralisation, our leasing team was able to capitalise on the macro trend of tenant migration and fill the vacancies promptly, accomplishing the dual objectives of minimising rent void and enhancing tenant quality. During the year, the effective rent in respect of lease renewal at 248 QRE achieved an average improvement of 19%.

Tenant Mix at 248 QRE*



* Tenant mix charts on pages 12 to 15 are expressed by percentage and in terms of GRA at 30 June 2012.

At 30 June 2012, the number of leases at 248 QRE stood at 81 as compared to 76 a year earlier. While government-related organisations account for 24.5% of the GRA of this property, the remainder of the tenant base is well balanced and diversified, with a strong emphasis on non-financial multinational companies.

We remain optimistic about the performance of 248 QRE in the coming year. In particular, we are hopeful of a stronger rental reversion as the majority of the expiring tenancies consist of leases entered into in the aftermath of the global financial market turmoil. Over the longer term, the ongoing redevelopment and revitalisation initiatives should augur well for the image of the district generally, as well as for demand for both office and retail space in this property.

Grade B Central / Sheung Wan Office Properties

The performance of Sunlight REIT's Grade B office portfolio in Central and Sheung Wan has to a certain extent been affected by the vagaries of the Grade A office market in Central during the year under review.

Winsome House Property, which inherently appeals to tenants in the finance sector and smaller proprietors in the high-end retail spectrum given its unique location in the SOHO district, saw its occupancy reaching a low of 94.3% in December 2011 before recovering to 97.2% at the end of the financial year. Rental reversion for the year was over 16%.



> Bonham Trade Centre

Similarly, the performance of Bonham Trade Centre, the second largest office property of Sunlight REIT, amply illustrated the mitigating effect of decentralisation amidst a softening economic environment; after a transient retreat in the first half of FY2011/12, its level of occupancy recovered rapidly and reached 99.7% at the end of the year.

Other Office Properties

The smaller office properties are generally defensive as their tenants are mostly involved in a wide spectrum of service-related businesses; this was especially evident for the Grade B offices on the Kowloon side. Notably, the performance at Righteous Centre was particularly impressive as the image and value of the property have been substantially upgraded following the completion of its refurbishment programme, with rental reversion surpassing 30% during the year under review.



> Righteous Centre

Retail Portfolio

Sheung Shui Centre Shopping Arcade

The occupancy at Sheung Shui Centre Shopping Arcade at 30 June 2012 was 98.8%, virtually unchanged from the previous year. Meanwhile, passing rent has increased from HK\$76.1 per sq. ft. to HK\$82.4 per sq. ft. on the back of a strong average rental reversion of approximately 30%. Together with a higher tenant retention rate of 75.9% for FY2011/12 as against 57.4% recorded in the preceding year, this set of operating results is a testament to the vitality and sustainability of business activities at this growingly popular shopping mall in the northern part of New Territories.

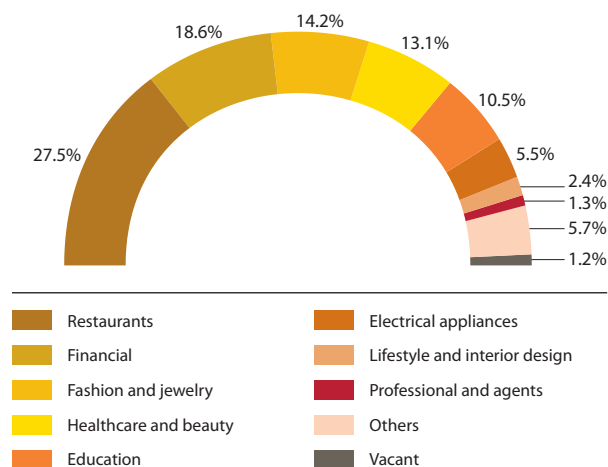
As shopping traffic at Sheung Shui Centre Shopping Arcade is well supported by both local and mainland shoppers, a key leasing strategy of the Manager is to enrich the mix of trades that encompass the diversity from local customer preference to spending behaviour of mainland tourists. This strategy has proved a gratifying success, as reflected by its annualised net property income growth of 9.5% over the past three years.



> Sheung Shui Centre Shopping Arcade

During the year under review, we have anchored certain high tech and telecom retailers within the property and successfully raised circulation. Despite the perceived risk of slower mainland tourist arrivals, thus far, the property has continued to enjoy unabated footfall. Nonetheless, we shall stay vigilant and proactive, responding swiftly to the changing economic conditions and customer spending pattern from time to time.

Tenant Mix at Sheung Shui Centre Shopping Arcade



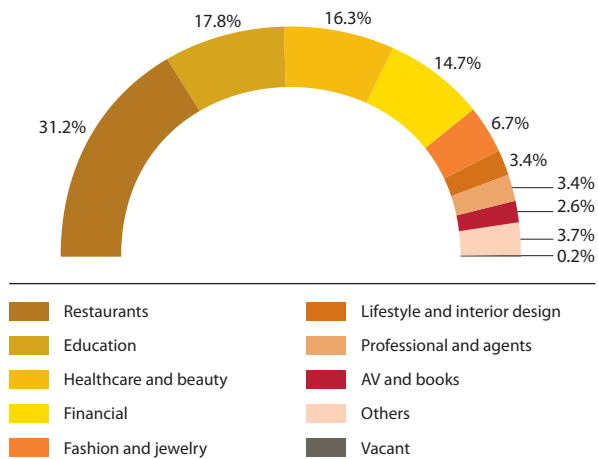
Metro City Phase I Property

The Metro City Phase I Property was virtually fully let at 30 June 2012. During the year, its occupancy has increased from 98.8% at 30 June 2011 to 99.8% at 30 June 2012, while at 78.0%, the tenant retention rate represents a noticeable improvement from 60.6% recorded in the previous year. Passing rent has increased from HK\$36.9 per sq. ft. to HK\$40.3 per sq. ft., as the average rate of rental reversion for the period was approximately 18%.



> Metro City Phase I Property

Tenant Mix at Metro City Phase I Property



Preparation works for the asset enhancement programme of Metro City Phase I Property is now at an advanced stage. In paving the way for renovation, we have already initiated certain space reconfiguration activities; in particular, migration of service trade tenants to the lower floor is expected to be a key theme : as service-oriented trades rely more on customer loyalty than on store location, such relocation is not envisaged to result in any material adverse impact on business activities. In the meantime, space vacated on the upper floor would be earmarked for fashion or other general retail trades which could enhance the coverage and dynamics of the shopping mall.

Together with its adjoining phases (owned by the HLD group), the overall Metro City shopping complex collectively offers approximately one and a half million square feet of shopping space, indubitably one of the biggest retail destinations in Hong Kong. We are therefore confident that there is significant potential for Metro City Phase I Property to achieve a quantum leap in footfall and income on completion of the upgrade.

Kwong Wah Plaza Property

The retail portion of this property continued to be well supported by brisk domestic and tourist spending in the

Yuen Long vicinity. Meanwhile, the office portion has also attracted tenants from finance related and service trades wishing to establish a presence in this strategic location. Notwithstanding a mild retreat in occupancy to 97.9% at 30 June 2012 (100% at 30 June 2011), passing rent has further increased from HK\$33.1 per sq. ft. to HK\$34.3 per sq. ft. on the back of an average rental reversion of over 24%.



> Kwong Wah Plaza Property

Other Retail Properties

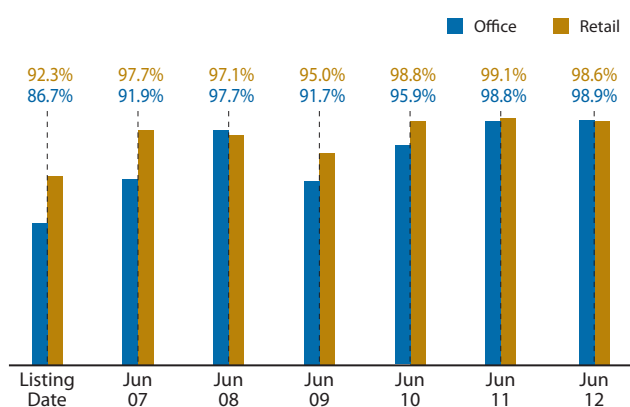
The smaller retail properties, which mainly consist of typical street/podium level shops in residential or office developments, serve the regular shopping requirements of the people in their immediate vicinity. As in the past, they have always been a stable and defensive contributor to the rental income base of Sunlight REIT.

In pursuit of opportunities that add value to the unitholders, the Manager will also embark on a strategy that may involve fine tuning the asset mix of the non-core properties of Sunlight REIT, with a view to streamlining operations and to allocating resources more efficiently. The disposal of the Glory Rise Property completed on 3 September 2012 was a good case in point.

Operational Statistics

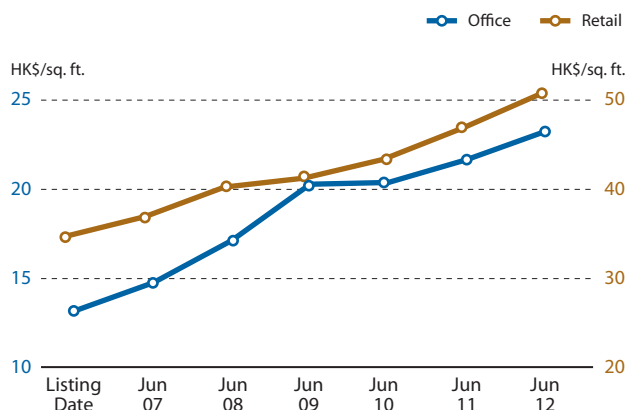
At 30 June 2012, the overall portfolio occupancy remained stable at 98.8% (30 June 2011: 98.9%), of which the occupancy rates for the office and retail portfolio stood at 98.9% and 98.6% respectively.

Historical Trends in Occupancy since IPO



The passing rent of the overall portfolio of Sunlight REIT registered a growth of 7.7% to HK\$32.1 per sq. ft.. The average passing rent of the office portfolio was HK\$23.3 per sq. ft., an increase of 7.4% from the previous year, while the corresponding figures for the retail portfolio were HK\$50.8 per sq. ft. and 8.3% respectively.

Historical Trends in Passing Rent since IPO



During the year, a total of 550,193 sq. ft. (including both new letting and renewal) were leased out. The recent trend of office decentralisation has caused an increased level of tenant movements over the past years, which helped explain a lower tenant retention rate of 62.3% for the office portfolio in FY2011/12 as compared to 68.7% in the previous financial year. In the meantime, tenant retention rate in respect of the retail portfolio rose from 67.4% to 76.6%.

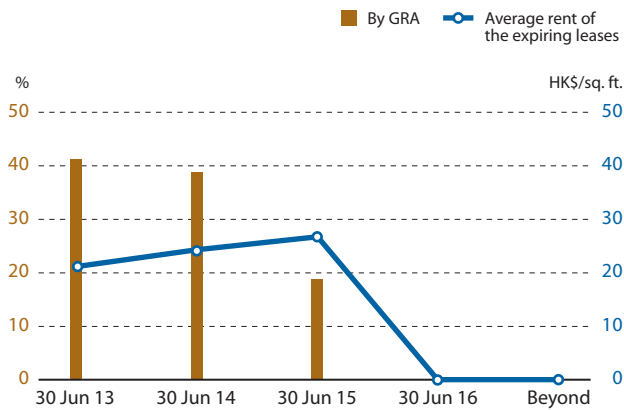
At 30 June 2012, the weighted average lease length by GRA was 2.6 years for the entire portfolio. Lease expiries on or before 30 June 2013 account for 41.3% of office GRA and 41.5% of retail GRA. The average unit rent for the expiring office and retail leases are HK\$21.0 per sq. ft. and HK\$48.8 per sq. ft. respectively.

Some of the new joining tenants in FY2011/12



The logos above are not displayed in any specific order.

Expiry Profile of Office Properties at 30 June 2012



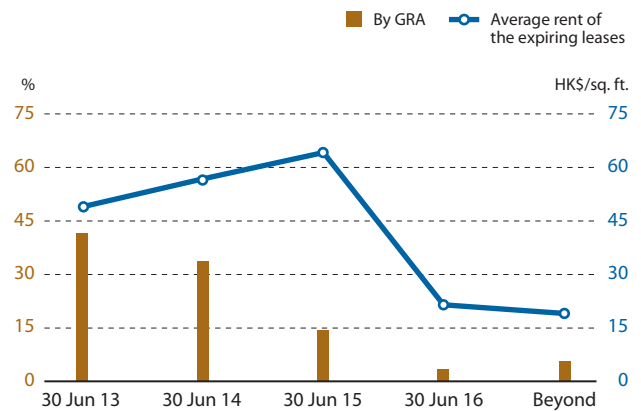
Diversified Tenancy Base

The portfolio had a total of 1,035 tenancies at 30 June 2012. The largest tenant by rental income accounted for 4.1% of the total rental income and occupied 5.0% of total GRA and the corresponding numbers for the top 10 tenants were 21.3% and 16.8% respectively. Details of the rental contribution of the top 10 tenants at 30 June 2012 are shown in the table below.

Other Income

Sunlight REIT has a total of 844 car parking spaces which produced income of approximately HK\$23.0 million for the year, representing a year-on-year growth of 12.8%. Income derived from outdoor advertising space and short term licenses on certain properties was also recorded during the year under review, although its contribution remained relatively immaterial.

Expiry Profile of Retail Properties at 30 June 2012



Top Ten Tenants by Rental Contribution at 30 June 2012

Tenant name	Trade sector	Total gross area (sq. ft.)	% of total GRA	% of total monthly rent
Anglo-Eastern Ship Management Limited	Shipping, logistic and transportation	65,497	5.0	4.1
The Financial Secretary Incorporated c/o Government Property Agency	Government and related organisations	61,772	4.8	3.9
A.S. Watson Group (HK) Limited	Healthcare and electrical appliances	23,008	1.8	2.3
The Bank of East Asia, Limited	Financial	8,997	0.7	2.1
Bank of Communications Co., Ltd.	Financial	8,782	0.7	2.1
Forever Sky (Asia) Limited	Restaurants	20,261	1.5	1.5
The Dairy Farm Company, Limited	Supermarket	8,883	0.7	1.5
Hang Seng Bank Limited	Financial	7,628	0.6	1.3
The Hongkong and Shanghai Banking Corporation Limited	Financial	5,390	0.4	1.3
Bank of China (Hong Kong) Limited	Financial	7,849	0.6	1.2

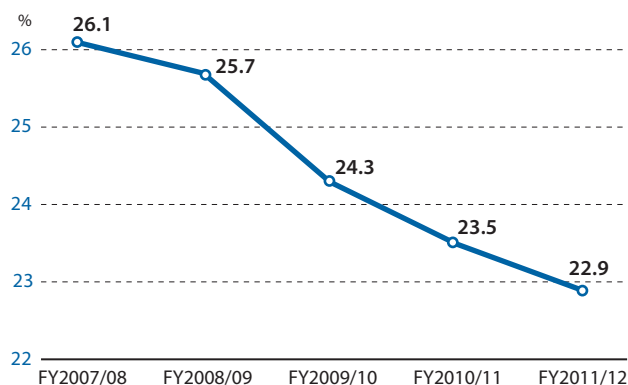
Business Review

Cost Control

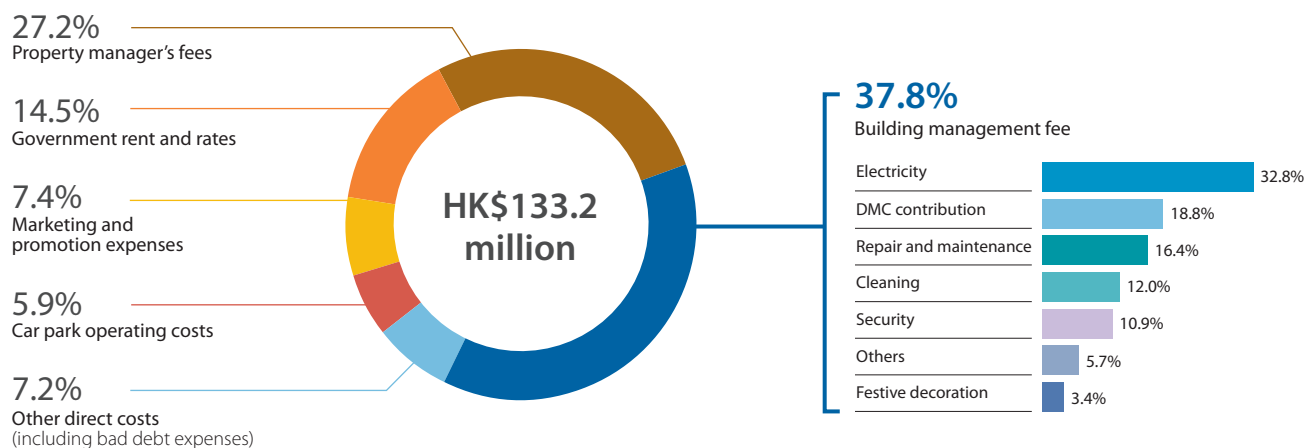
A rising cost base was a notable feature during the year as property operating expenses has increased 6.4% year-on-year. The statutory minimum wage ordinance which came into force in May 2011 has had a substantial impact on expenses relating to cleaning and security contracts. However, thanks to decent revenue growth and cost containment measures implemented on other building management fee components, the overall cost-to-income ratio in FY2011/12 was at 22.9%, which fared favourably to 23.5% recorded in the previous year.

A breakdown of the total property operating expenses, together with components constituting building management expenses for the year under review are provided in the table below.

Trend of Cost-to-income



Components of total Property Operating Expenses



Top Five Real Estate Agents and Contractors for the year

Real estate agents and contractors	Nature of service	Value of contract (HK\$'000)	Relevant cost (%)
Henderson Sunlight Property Management Limited ^{note}	Leasing, marketing and building management	38,355	37.40
Hang Yick Properties Management Limited ^{note}	Building management	7,930	7.73
Ngai Lik Cleaning Services Company Limited	Cleaning services	3,494	3.41
Winston Air Conditioning & Engineering (Hong Kong) Co., Limited	Repairs and maintenance	3,371	3.29
Kone Elevator (HK) Limited	Repairs and maintenance	2,339	2.28
TOTAL		55,489	54.11

Note : Wholly owned subsidiaries of HLD, 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)	2012	2011	2010	2009	2008
For the year ended 30 June :					
Turnover	581.7	532.5	488.6	471.7	431.3
Property operating expenses	133.2	125.1	118.7	121.0	112.6
Net property income	448.5	407.4	369.9	350.7	318.7
Cost-to-income ratio (%)	22.9	23.5	24.3	25.7	26.1
Profit/(loss) after taxation ¹	1,027.3	1,655.1	1,389.1	(629.3)	751.0
Total distributable income	298.4	264.5	186.5	269.8	258.7
DPU ² (HK cents)	17.00	17.60	14.39	24.56	24.20
Payout ratio (%)	91.3	90.5	100	100	100
At 30 June :					
Portfolio valuation	13,038.8	12,222.2	10,722.1	9,364.0	10,151.0
Total assets ¹	13,692.5	12,888.2	11,226.8	9,947.1	10,802.0
Total liabilities ¹	4,670.5	4,626.3	4,504.6	4,499.0	4,315.2
Net asset value ¹	9,022.0	8,261.9	6,722.2	5,448.1	6,486.8
Net asset value per unit ¹ (HK\$)	5.62	5.21	4.30	3.52	4.28
Gearing ratio ¹ (%)	28.8	30.6	35.3	39.7	36.6

Notes : 1. The comparative figures for the financial years prior to 2011 had been restated as a result of the adoption of the amendments to Hong Kong Accounting Standard 12, "Income Taxes". Please refer to note 3 to the consolidated financial statements on page 82 for details.

2. As disclosed in the Offering Circular, DPU of Sunlight REIT in the previous years were enhanced by arrangements offered by the Sponsors in the form of (i) adjustment payments (from the date of IPO to June 2009) and (ii) distribution waivers (from the date of IPO to June 2011).

Operating Results

Sunlight REIT recorded a 9.2% increase in turnover to HK\$581.7 million from the previous year. Property operating expenses for the year was HK\$133.2 million, giving rise to a net property income of HK\$448.5 million, up 10.1% year-on-year. Finance costs for the year reduced by 25.2% from the preceding year to HK\$110.1 million, mainly attributable to the expiry of interest rate swaps (entered into in late 2006) as well as the initiation of a floating rate exposure. Consequently, interest coverage for the year under review improved to 3.86 times which compares favourably to 2.88 times recorded in the previous financial year. Profit after taxation exhibited a year-on-year decline of 37.9% to HK\$1,027.3 million, principally reflecting a smaller gain in fair value of investment properties of HK\$808.3 million (FY2010/11: HK\$1,493.7 million).

Distribution

The total distributable income of Sunlight REIT for the year was HK\$298.4 million, representing an increase of 12.8% from HK\$264.5 million recorded in the previous year. The Board has resolved to declare a final distribution of HK 8.7 cents per unit, or HK\$139,686,000. Together with the interim distribution of HK\$132,748,000 total distributions for the year amounted to HK\$272,434,000, implying a payout ratio of 91.3%. The DPU for the year of HK 17.0 cents represents a slight decline of 3.4% as compared with HK 17.6 cents (based on a payout ratio of 90.5%) declared in the previous year. As highlighted in the Chairman's Statement, DPU in FY2010/11 was enhanced by distribution waivers of 50% (in respect of the units subscribed at the time of the IPO) extended by the Sponsors; on the basis of no distribution waivers, DPU

Financial Review

declared in FY2011/12 actually rose 12.4% year-on-year. Based on the closing unit price of HK\$2.61 (recorded on the last trading day of the year), DPU for the year represents a distribution yield of 6.5%.

FY2011/12 marks the cessation of all Sponsors' support (originated at the time of the IPO), and thus the total distributable income and DPU are fully reflecting the underlying operational performance of Sunlight REIT, subject to the payout ratio and the proportion of Manager's fees to be paid in units. For the year under review, the Manager has elected to receive 70% of its base fee and variable fee in units (FY2010/11: 100% in units), while pursuant to the announcement issued on 11 May 2012, the Manager has elected to receive its base fee and variable fee for FY2012/13 as to 50% in cash and 50% in units.

A year-on-year comparison of the DPU is illustrated in the chart "Distribution at a Glance". Contributions from operation, cash savings from change in the payment structure of Manager's fees and distribution waivers are shown separately to illustrate the effect of each component on the DPU. The effect of payout ratio is also illustrated by showing the portion of distributable income retained.

Distribution Entitlement and Closure of Register of Unitholders

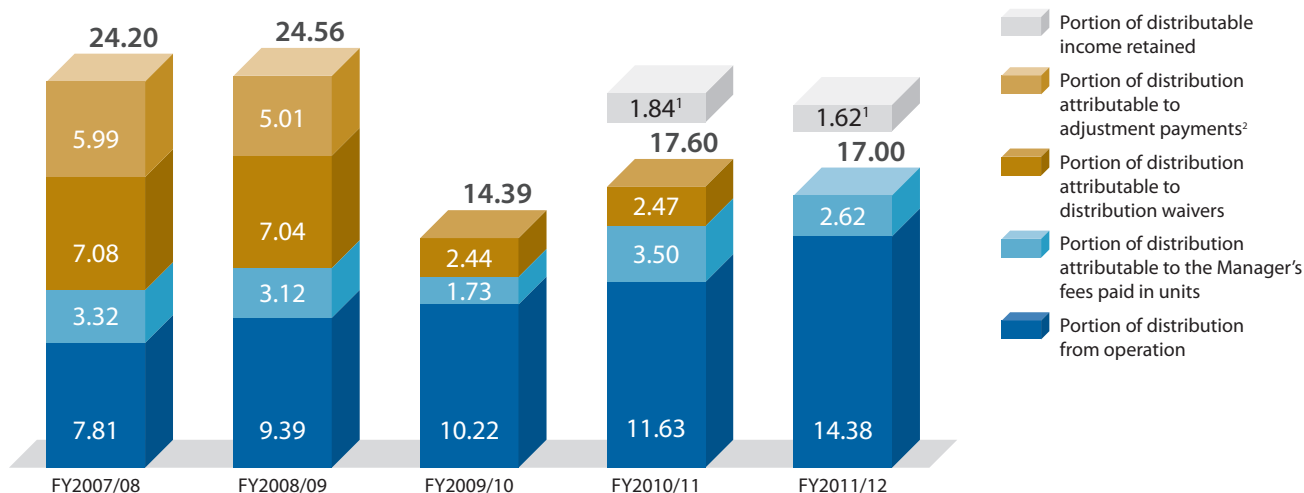
The record date for the final distribution will be Tuesday, 25 September 2012. The register of unitholders will be closed from Friday, 21 September 2012 to Tuesday, 25 September 2012, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the final 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 Thursday, 20 September 2012. Payment of the final distribution will be made to unitholders on Tuesday, 30 October 2012.

Financial Position

The valuation of the portfolio at 30 June 2012 was appraised at HK\$13,038.8 million, representing a 6.7% appreciation from HK\$12,222.2 million registered at 30 June 2011. Office properties accounted for 51.2% of the total appraised value and exhibited a year-on-year increase of 6.7%, while retail properties accounted for the remainder and recorded a 6.6% increase as compared to the valuation conducted a year ago.

Distribution at a Glance

HK cents



Notes : 1. HK\$25,997,000 or HK 1.62 cents per unit (FY2010/11: HK\$25,158,000 or approximately HK 1.84 cents per unit) have been retained.

2. The adjustment payments were calculated based on several deeds of adjustment payments, which covered the period from the date of IPO to 30 June 2009.

The higher property valuation reduced the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, from 30.6% to 28.8% and expanded net assets by 9.2% to HK\$9,022.0 million (30 June 2011: HK\$8,261.9 million). Net asset value per unit rose 7.9% to HK\$5.62 (30 June 2011: HK\$5.21), after taking into account the effect of payment of Manager's fees in units and the cancellation of repurchased units during the year.

The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets was 34.1%. 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 utility companies in the total amount of HK\$4.7 million at 30 June 2012.

Capital Management

On 23 August 2011, Sunlight REIT entered into credit facility agreements (the "**New Facility Agreements**") with a syndicate of banks (the "**Banks**"). Under the New Facility Agreements, Sunlight REIT has been granted by the Banks new facilities totaling HK\$4,050.0 million, being a HK\$3,950.0 million term loan facility (the "**New Term Loan Facility**") and a HK\$100.0 million revolving credit facility (the "**New RCF**"). The new facilities bear interest at HIBOR plus 100 basis points, and are for a term of three years from the date of the first drawdown. The New Term Loan Facility and the New RCF are secured by, among others, the investment properties of Sunlight REIT, assignment of proceeds under tenancies and a floating charge over its bank balances.

The drawdown of the entire New Term Loan Facility took place on 21 September 2011, the proceeds of which were utilised to refinance all the then prevailing term loan facility which was due for repayment on 21 December 2011. At 30 June 2012, the New RCF remained fully undrawn.

In order to minimise financial market risks, Sunlight REIT has maintained certain interest rate swap arrangements, and the effective interest rate of the term loan (including credit spread) for the year was approximately 2.44%

per annum. During the year, an additional interest rate swap with a notional amount of HK\$300.0 million was entered into for a period of seven years. The terms of all the interest rate swaps are summarised below :

Notional amount (HK\$' million)	Tenure	Average interest rate* (per annum)
1,500	30 June 2010 – 28 June 2013	1.68%
1,500	4 July 2011 – 30 June 2016	2.10%
300	7 October 2011 – 28 September 2018	1.5975%

* Excludes the credit spread of 1% per annum under the existing term loan.

It is the Manager's treasury management policy (being in compliance with relevant regulatory requirements) to place funds derived from operations in short term bank deposits or fixed income securities which must be of investment grade, with maturity profile to be compatible with the projected funding requirements. At 30 June 2012, Sunlight REIT had a total bank and cash balances of HK\$260.9 million, and had no exposure to fixed income securities. Taking into consideration the recurrent income generated from its operations, the current cash position and credit facilities available, the Manager is of the view that Sunlight REIT has sufficient financial resources to satisfy its working capital, distribution payment and capital expenditure requirements.

Forward-looking Statements

This annual report contains statements that are forward-looking and adopts certain forward-looking terminologies. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the Board and senior management of the Manager regarding the industry and markets in which Sunlight REIT operates. These statements are subject to risks, uncertainties and other factors beyond the Manager's control, which may cause actual results or performance to differ materially from those expressed or implied in such statements.

Sustainability and Corporate Social Responsibility

Sunlight REIT celebrated the fifth anniversary of its listing on the Stock Exchange in December 2011. This important milestone was not only an event in commemoration of the public flotation exercise, it provided a platform for all the stakeholders of Sunlight REIT as well as staff of the Manager to participate in celebrating the contributions it has made to the communities. Notably, Sunlight REIT has once again included provision of shopping coupons to (certain of) our stakeholders, a programme which was very well received when it was launched two years ago.

As a landlord with shopping malls located in close proximity to regional communities and neighborhoods, Sunlight REIT prides itself on its active involvement in fostering relationships and promoting welfare within the communities. For instance, in order to stimulate the reading habits of the children in the community, several initiatives along this theme were organised during the year. In conjunction with “Grant-in-aids” Brightens Children Lives Charity Project, “Happy Reading for Children” book fair was organised at its Sheung Shui Centre Shopping Arcade. On a separate occasion, Sunlight REIT invited the government registered non-government organisation, Reading Cycle, to co-host the annual event of “Bring a Book & Share” at Metro City Phase I Property.

As an outreach beyond the properties, Sunlight REIT has also invested in sponsoring and supporting the efforts across a wide spectrum of charitable organisations including St James’ Settlement, People’s Food Bank, Oxfam, Heifer Project and Sheng Kung Hui St. Christopher’s Home that looks after the needs of the underprivileged in society.

On the environmental front, the Manager believes that managing a sustainable business requires balancing economic considerations with green initiatives, particularly when an increasing number of multinational tenants require certain sustainability benchmarks in the buildings they occupy. During the year under review, our cornerstone office property, 248 QRE, has achieved the Building Environmental Assessment Method (BEAM) Platinum rating and have also been awarded the Indoor Air Quality Certificate (Excellent Class) by the Environmental Protection Department. We will continue to focus and invest heavily on energy management to make contributions to the environment while achieving business growth.





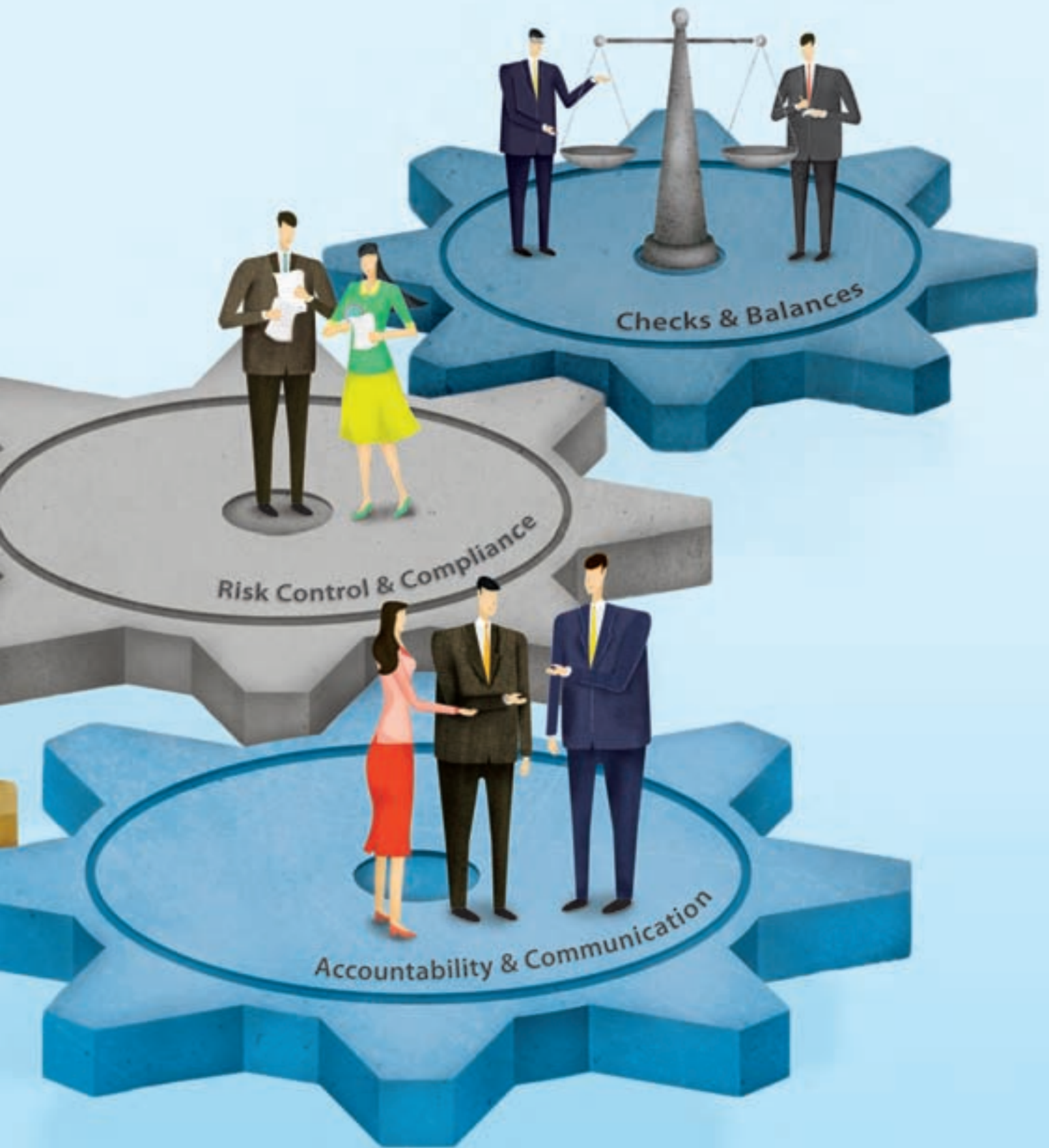
1. U Green Awards presentation organised by U Magazine
2. Chinese New Year Lion Dance at Metro City Phase I Property
3. Donation of HosannArt blankets & Sticky X'mas candies to St. Christopher's Home

4. Volunteer work at Pinehill Village organised by Hong Chi Association
5. Donation of rice dumplings and visiting elderly in an event organised by The Neighbourhood Advice-Action Council
6. Volunteer work at FHS Rehabilitation Centre with Fu Hong Society

A team of *Cohesion* and *Integrity*

A unified team working towards a common goal empowers us to forge ahead, while upholding an uncompromising standard in corporate governance.





Board of Directors



Mr. Au Siu Kee, Alexander



Mr. Wu Shiu Kee, Keith



Mr. Kwok Ping Ho



Mr. Kwan Kai Cheong



Mr. Ma Kwong Wing



Dr. Tse Kwok Sang

Mr. Au Siu Kee, Alexander

OBE, ACA, FCCA, FCPA, AAIA, FCIB, FHKIB
Chairman and Non-Executive Director

Mr. Au, aged 65, has been the Chairman and Non-executive Director of the Manager since 2010. Mr. Au was an executive director and the chief financial officer of Henderson Land Development Company Limited (“HLD”) from December 2005 to June 2011. In July 2011, he stepped down from the position of chief financial officer and has since been re-designated as a non-executive director. 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 and a member of the Court of Hong Kong University of Science and Technology. An accountant by training, Mr. Au is a Chartered Accountant.

Mr. Wu Shiu Kee, Keith

Chief Executive Officer and Executive Director

Mr. Wu, aged 48, is the Chief Executive Officer, Executive Director and a Responsible Officer of the Manager. He has over 25 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. He is also a fellow of the Hong Kong Institute of Directors.

Mr. Kwok Ping Ho

BSc, MSc, Post-Graduate Diploma in Surveying, ACIB
Non-executive Director

Mr. Kwok, aged 59, has also been an executive director of HLD since December 1993. Further, Mr. Kwok also served as an executive director of Henderson Investment Limited since September 1988 until his retirement in June 2012.

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 had previously been a part-time lecturer for the MBA programme of The University of Hong Kong.

Mr. Kwok has over 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 the Henderson Land Group of companies since 1987, including group re-organisation, privatisation proposals and corporate acquisitions.

Mr. Kwan Kai Cheong

Independent Non-executive Director

Mr. Kwan, aged 62, 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 an independent non-executive director of Goldpoly New Energy Holdings Limited, Hutchison Harbour Ring Limited, Win Hanverky Holdings Limited and SPG Land (Holdings) Limited (all being companies listed on the Main Board of the Stock Exchange). He is also an independent non-executive director of Galaxy Resources Limited, whose shares are listed on the Australian Securities Exchange.

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, aged 66, 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 the 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

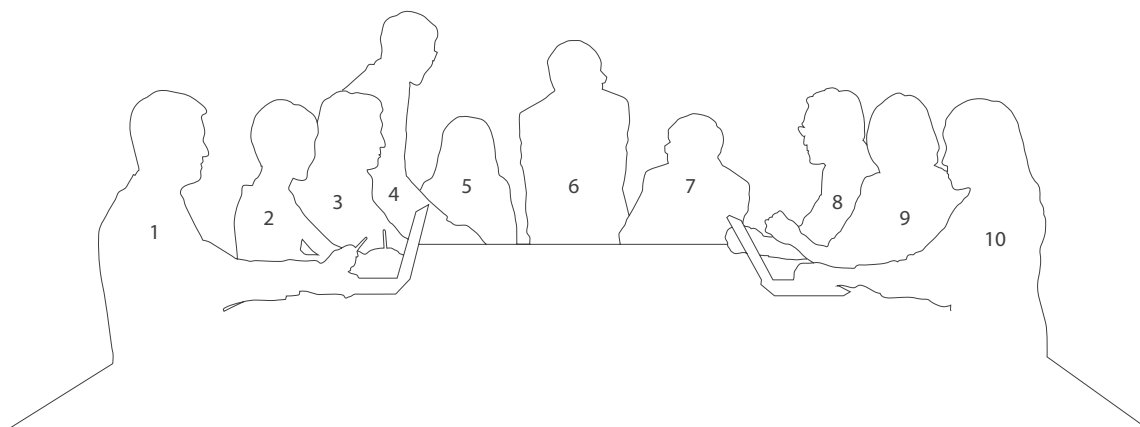
Independent Non-executive Director

Dr. Tse, aged 55, is currently Associate Dean and Associate Professor of Finance, 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 is also a member of the CFP Examination Committee. Currently Dr. Tse is a Co-Opted Executive Councillor of the New Territories Heung Yee Kuk and a Justice of the Peace. He is also 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 and Property Managers



- | | |
|-----------------------------|------------------------------|
| 1. Mr. Hah Yick Yat, Kelvin | 6. Mr. Lee Kiu Ming |
| 2. Ms. Lo Yuk Fong, Phyllis | 7. Mr. Wu Shiu Kee, Keith |
| 3. Mr. Wong Chi Ming | 8. Mr. Leung Kwok Hoe, Kevin |
| 4. Mr. Poon Hung Tak | 9. Ms. Kan Shuk Fan, Winnie |
| 5. Ms. Ho Kuk Fong | 10. Ms. Chung Siu Wah |

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 26.

Mr. Leung Kwok Hoe, Kevin

General Manager – Investment and Investor Relations 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 18 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

General Manager – Asset Management and Responsible Officer

Mr. Wong is responsible for, among 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 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).

Executive Officers and Property Managers

Ms. Lo Yuk Fong, Phyllis

Chief Financial Officer

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.

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 over 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. She is also a Certified Fraud Examiner (CFE) awarded by Association of Certified Fraud Examiners (ACFE).

Ms. Chung Siu Wah

Compliance Manager and Company Secretary

Ms. Chung is responsible for, among other things, design and implementation of adequate internal systems and controls so as to ensure that both Sunlight REIT and the Manager are in compliance with the relevant statutory requirements and all other applicable laws, rules and regulations.

In addition to her role as Compliance Manager, Ms. Chung also serves as the Company Secretary of the Manager since 1 November 2011. Ms. Chung has over 20 years of experience in the company secretarial field. Prior to joining the Manager, she was the Assistant Company Secretary of Hopewell Holdings Limited.

Ms. Chung holds a Bachelor of Arts degree in Accountancy from the City University of Hong Kong; and is also an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

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 over 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 an Estate Manager in the Portfolio Leasing Department 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.

Ms. Ho Kuk Fong

Chief Leasing Administration Manager

Ms. Ho works with the General Manager to oversee the marketing and leasing administration of the Property Manager.

Ms. Ho has 20 years of experience in property leasing. Prior to joining the Property Manager, she was the Senior Leasing Manager of Sun Hung Kai Real Estate Agency Limited.

Ms. Ho holds a Master of Science in Real Estate degree from the University of Hong Kong, a Postgraduate Diploma in Surveying (Real Estate Development) from the University of Hong Kong and a Diploma in Property Development from the School of Professional and Continuing Education of the University of Hong Kong.

Corporate Governance Report

The Manager is committed to a high 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.

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

The key components of the corporate governance policies that have been adopted by the Manager and Sunlight REIT are set out below.

Checks and Balances

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Cap. 571) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (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, Chief Executive Officer and Executive Director, Mr. Leung Kwok Hoe, Kevin, General Manager – Investment and Investor Relations, and Mr. Wong Chi Ming, General Manager – Asset Management, 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 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.

Role of the Trustee and the Manager

The Trustee is responsible for, among other things, the safe custody of the assets of Sunlight REIT on behalf of the unitholders.

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 separated; subject to certain matters specifically reserved to the Board itself, the day-to-day management duties are delegated to the management team of the Manager. Meanwhile, various board committees have been established with clear terms of reference, each of which is to assist the Board in supervising specific issues or functions of the Manager.

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 of the Board) and three Independent Non-executive Directors (“**INEDs**”). All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with the articles of association of the Manager. The positions of the Chairman of the Board and Chief Executive Officer are held by two different persons to ensure that segregation of duties and balance of authority are maintained. 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 both the overall corporate strategy and direction of the Manager as well as certain specific proposed policies and transactions.

The size, composition and structure of the Board is reviewed on a regular basis to ensure that there is an 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 appointment and removal of Directors is a matter for the Board and the shareholders of the Manager to determine in accordance with the provisions of the Compliance Manual, the articles of association of the Manager and the applicable law.

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 corporate governance policy as contained in the Compliance Manual. During the year, each INED has provided to the Manager an annual written confirmation of his independence by reference to such factors.

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. Agenda and accompanying board papers are circulated at least 3 days before the scheduled date of a board meeting. Board consents are given by votes at board meetings, and written resolutions are signed by all Directors from time to time.

The Board has **delegated** certain functions by establishing four board committees, namely the Audit Committee, the Investment Committee, the Remuneration and Nomination Committee and the Disclosures Committee to deal with specific issues which require extensive discussion.

Membership, directors' attendance to meetings and major responsibilities of and key work performed by the Board and each of the board committees during the year are summarised in the table on pages 34 and 35.

Subsequent to publication of the 2011/12 Interim Report of Sunlight REIT, the Manager was informed that Mr. Kwok Ping Ho has retired from the position as executive director of Henderson Investment Limited with effect from 11 June 2012. Save as aforesaid, the Manager has not been notified of any change of Director's information.

Management functions of the Manager are delegated to six departments, respectively headed up by the General Manager – Investment and Investor Relations, the General Manager – Asset Management, the Chief Financial Officer, the Corporate Services Manager, the Internal Auditor and the Compliance Manager (who is also the Company Secretary). All department heads 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 regular communications amongst the department heads, management meetings are held periodically to coordinate and facilitate the implementation and operation of different management and business functions.

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. In this regard, the Manager has appointed the Property Manager to operate, maintain, manage and market solely and exclusively all the properties of Sunlight REIT in Hong Kong, subject to the overall management and supervision of the Manager. A property management agreement (the "**Property Management Agreement**") was entered into between the Manager and the Property Manager on 29 November 2006, and was subsequently renewed on amended terms and conditions on 29 April 2009 and 25 June 2012 respectively.

The names and biographical details of the members of the Board and the management team members of the Manager and the principal officers of the Property Manager are set out under "Board of Directors" and "Executive Officers and Property Managers" on pages 26 to 31.

During the year, the Directors have participated in certain continuous professional development to develop and refresh their knowledge and skills. The costs of such training activities, if applicable, were borne by the Manager.

Corporate Governance Report

Membership, attendance to meetings and 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. Au Siu Kee, Alexander	Chairman and Non-executive Director	(7/7)	N/A	
Mr. Wu Shiu Kee, Keith	Chief Executive Officer and Executive Director	(6/7) ¹	N/A	
Mr. Kwok Ping Ho	Non-executive Director	(7/7)	N/A	
Mr. Kwan Kai Cheong	Independent Non-executive Director	(7/7)	Chairman ²	(5/5)
Mr. Ma Kwong Wing	Independent Non-executive Director	(7/7)	Member ²	(5/5)
Dr. Tse Kwok Sang	Independent Non-executive Director	(7/7)	Member ²	(5/5)

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 auditor of Sunlight REIT and recommends its remuneration to the Board – reviews and assesses the effectiveness of the internal control system – reviews Sunlight REIT's compliance with legal and regulatory requirements – 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 – reviews the conduct and performance of special purpose vehicles of Sunlight REIT
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Summary of key work

<p>During the year, the Board and its committees have considered, approved, reviewed and/or formulated the matters summarised herein :</p>	<ul style="list-style-type: none"> – financial results of Sunlight REIT and the Manager – reports and recommendations from board committees – announcements/reports, 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 and the Compliance Manual – refinancing of banking facilities of Sunlight REIT – election of percentage of the Manager's base fee and variable fee to be paid in cash and/or units – execution of interest rate swaps – recommendation to unitholders on amendments to the Trust Deed and extension of period of waiver in respect of certain continuing connected party transactions – re-appointment of directors and change in company secretary – unit repurchase strategy of Sunlight REIT – potential disposal of non-core properties – selection of new principal valuer 	<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 – control measures in respect of dissemination of price sensitive information
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N/A : Not applicable as the Director is not a member of the committee

Notes :

1. Mr. Wu Shiu Kee, Keith did not attend the Board meeting held on 14 January 2012 at which his remuneration package as the CEO of the Manager was considered.
2. The 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	(5/5)	Chairman	(2/2)	N/A	
Member	(5/5)	N/A		Chairman	(4/4)
N/A		N/A		N/A	
N/A		Member	(2/2)	N/A	
N/A		Member	(2/2)	Member	(4/4)
Member	(5/5)	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 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 execution of interest rate swaps 		<ul style="list-style-type: none"> staff performance appraisal staff budget and policy on staff benefits board structure, performance of board and committee members reorganisation of management structure and function performance of MPF service provider and selection of additional service provider 		<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 communications to unitholders applicability of newly adopted corporate governance rules 	

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 itself. Similar dealing requirements are also applicable to employees of the Manager. During the year, the Dealings Code was revised to extend the applicability of the restrictions and notification requirements as provided under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) to unit repurchase by the Manager on behalf of Sunlight REIT.

Pursuant to the Dealings Code, any Director 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 any securities of Sunlight REIT.

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 provided to the Directors and the Manager.

The Manager has also adopted procedures in 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 cover unitholders and persons claiming through or under him/her.

Director(s) who is(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 immediately refrain from dealing in any securities of Sunlight REIT until (i) proper disclosure of the information has been made in accordance with the REIT Code and any applicable

provisions of the Listing Rules; or (ii) the aforesaid negotiations or agreements related to such intended acquisitions or disposals have lapsed. Directors who are privy to relevant negotiations or agreements or any price sensitive information should caution those Directors who are not that there may be unpublished price sensitive information and that they must not deal in any 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.

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 the 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. Please refer to “Disclosure of Interests” on pages 45 to 47 for information relating to holdings of Directors, the Manager and the substantial unitholders at 30 June 2012.

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

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD. The two non-executive directors (including the Chairman) of the Manager are an executive director and a non-executive director of HLD. Each of SKFE and HLD has interest in units of Sunlight REIT through various subsidiaries; in particular, the Manager has 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. 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.

At the operational level, the Manager and the Property Manager may also experience conflicts of interests with HLD and its affiliates in connection with identifying and competing for potential tenants and procurement of 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 also 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 of its holding company) of Sunlight REIT; and (iii) tenancy agency services provided by the Principal Valuer and/or its affiliates.

To ensure that all conflicts of interests relating to Sunlight REIT can be managed and/or avoided, a number of measures have been taken 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 operates 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 disclose his interest to the Board and 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;
5. a register of other directorships and senior positions held by the Directors is maintained and updated from time to time; and
6. the Principal Valuer has confirmed to the Manager that it has established stringent internal controls and guidelines to its staff with respect to confidentiality and conflict of interest obligations, and has also assured to the Manager that the provision of tenancy agency services would neither affect its performance nor jeopardise its independence as principal valuer of Sunlight REIT.

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.

Corporate Governance Report

Financial Statements

Sunlight REIT prepares its financial statements in accordance with accounting principles generally accepted 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 financial statements of Sunlight REIT are published and distributed to unitholders within four months following the end of each financial year, and for semi-annual reports within two months following the end of the relevant period.

The Directors acknowledge their responsibility for the preparation of the financial statements of Sunlight REIT and its subsidiaries for the year, which give a true and fair view of the state of affairs of Sunlight REIT and its subsidiaries at 30 June 2012 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 under "Investor Relations" on this page and page 39.

It is customary for the Manager to conduct briefings with unitholders, investors and 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

In order to keep unitholders abreast of the position of Sunlight REIT, the Manager ensures that public announcements of material information and developments with respect to Sunlight REIT are made in a timely and transparent manner. 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

The Manager has engaged KPMG as the auditor for Sunlight REIT. 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\$1,660,000 for audit and audit related services and HK\$611,000 for non-audit services respectively.

The responsibilities of the auditor with respect to financial reporting are set out in the Independent Auditor's Report on page 65.

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 development of Sunlight REIT. The Manager provides an 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, communications with investors are conducted through :

1. Direct communication including physical meetings conducted with the senior management of the Manager, both locally and overseas;
2. Guided property tours 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 or on a voluntary basis.

Other than mandatory annual and interim results announcements, the Manager also voluntarily releases the operational statistics of Sunlight REIT 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.

In addition to the waiver granted by the SFC on 27 April 2009 from strict compliance with paragraph 9.13(b) of the REIT Code in relation to certain expenses of advertising or promotional activities to be paid out of the deposited property of Sunlight REIT, a further waiver was granted by the SFC on 30 April 2012 to expand the scope of such expenses to include the fees, costs and expenses incurred in relation to any fund raising exercise, any assets or otherwise in connection with Sunlight REIT; the expenses are collectively referred to as the **"Promotional Expenses"**. The related amendment to the Trust Deed was approved by the unitholders at the extraordinary general meeting held on 30 April 2012 ("**EGM**"). During the year, the Promotional Expenses incurred were HK\$283,000. Pursuant to the conditions of the said waivers and having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee has confirmed that such Promotional Expenses were incurred in accordance with the internal control procedures of the Manager; and solely for the purposes as set out in the relevant clauses of the Trust Deed relating to Promotional Expenses.

Unitholders' Rights

Unitholders are encouraged to attend 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, not less than twenty business days' notice shall be given to the unitholders. The above 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; meanwhile 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, not less than two unitholders registered as together holding not less than 10% of the outstanding units in issue for the time being are entitled to request the Manager in writing to convene a meeting of unitholders. In addition, unitholders may send their enquiries to the Board or may put forward proposals at general meeting, in both cases, to the investor relations team of the Manager by email or to the registered office of the Manager by post. Please refer to "Corporate Information" on page 109 for the contact details.

General Meeting

The convening of an annual general meeting by the Manager is one of the principal communication channels with 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 annual general meeting was held on 26 October 2011 (the "**AGM**").

At the EGM, all the resolutions to approve the proposed amendments to the Trust Deed and proposed extension of period of waiver in respect of certain continuing connected transactions were duly passed by way of poll. Details of the above were set out in the circular of Sunlight REIT dated 30 March 2012 and the announcement issued on 30 April 2012.

All the Directors attended the AGM and the EGM.

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 (save for issues that are necessary to comply with applicable regulatory requirements);
- 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; and
- 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 is subject to compliance 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 22,692,260 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the year.

Repurchase, Sale or Redemption of Units

Pursuant to the general mandate granted by unitholders at the AGM, the Manager repurchased in June 2012 on behalf of Sunlight REIT a total of 3,600,000 units on the Stock Exchange at an aggregate consideration of approximately HK\$8.9 million. The highest and the lowest price per unit paid for such repurchases were HK\$2.50 and HK\$2.41 respectively. All repurchased units were cancelled prior to the end of the year.

Save as disclosed above, there was no purchase, sale or redemption of units by Sunlight REIT or its wholly owned and controlled entities during the year.

Risk Control and Compliance

Management of Business Risks

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 management of 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 qualified management to handle the day-to-day operations of the Manager and Sunlight REIT. The Board reviews on a quarterly basis, business and other risks which may affect the performance of Sunlight REIT with recommendations from the Investment Committee and the Audit Committee.

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 such transactions.

Internal Control

The Board is responsible for establishing a sound and effective system of internal control which is designed for (i) safeguarding the interests of the unitholders; (ii) safeguarding the assets of the Sunlight REIT against misappropriation; (iii) ensuring proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensuring compliance with relevant legislation and regulations.

In particular, a formal policy on reporting of irregularities has been enacted to encourage and guide all staff of the Manager to raise matters of concern internally in good faith, with the pledge that such reports will be treated fairly, and to the extent possible be protected from reprisal.

In addition, control measures in respect of dissemination of price sensitive information, as reviewed by the Audit Committee and endorsed by the Board, were adopted during the year and would be subject to regular review.

The Internal Audit Department adopts a risk-based approach to review all major operations of Sunlight REIT on a cyclical basis in accordance with the annual audit plan as approved by the Audit Committee. Results of the audit reviews are discussed at the Audit Committee meetings. No material irregularity or deficiency in internal control has come to the attention of the Audit Committee during the year.

Through the Audit Committee and Internal Audit Department, the Board has conducted an annual review on the effectiveness of internal control systems of Sunlight REIT for the year which covered all material control areas including financial, operational and compliance and risk management functions. The review also covered the adequacy of resources, qualifications and experiences of staff carrying out Sunlight REIT's accounting and financial reporting functions and their training programmes and budget. The Board, is satisfied that Sunlight REIT has maintained a sound and effective internal control system for the year under review.

Confirmation of Compliance with the Dealings Code

Specific enquiry has been made with 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 at 30 June 2012.

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 reference.

Employees

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

Connected Party Transactions

Information in respect of the connected party transactions entered into during the year between 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 and/or exempted from the disclosure requirements, is set out in this section.

Connected Party Transactions – Income and Expenses

The following tables set out information on all the connected party transactions (other than those transactions entered into with the Trustee Connected Persons) from which Sunlight REIT derived its income and in which Sunlight REIT incurred its expenses during the year :

(a) Income

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 at 30 June 2012 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	4,725	1,062
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	3,038	722
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	1,181	–
Citistore (Hong Kong) Limited	Associated company of the Manager	Licensing	393	30
Total :			9,337	1,814

(b) Expenses

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 and licence fee	1,011
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	7,930
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	38,355
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,729
Metro City Management Limited	Associated company of the Manager	Property management and operations	1,877
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	2,222
Contender Limited	Associated company of the Manager	Facilities leasing	66
Knight Frank Hong Kong Limited	Subsidiary of the Principal Valuer	Agency fee	253
Total :			53,443

Note : Within the meaning of the REIT Code.

Connected Party Transactions with the Trustee Connected Persons

The following table sets out information on all the connected party transactions entered into 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 of 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 and other deposits received at 30 June 2012 (HK\$'000)
Leasing Transactions :				
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)	Trustee Connected Persons	Leasing ³	6,184	1,757
HSBC	Trustee Connected Persons	Licensing ⁴	13	20
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁵	7,232	1,890
Ordinary Banking and Financial Services⁶:				
HSBC	Trustee Connected Persons	Interest income received/receivable on bank deposits	21	–
HSBC	Trustee Connected Persons	Interest expense, debts establishment fees, agency and other charges on bank loans, interest expense on interest rate swaps, and other bank charges	38,593	–
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	7	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense on bank loans and debts establishment fees	12,845	–
An interest rate swap of a notional amount of HK\$300 million was entered into with HSBC on 6 October 2011. Please refer to “Financial Review” on page 21 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 Sunlight REIT and the Trustee Connected Persons.

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. A tenancy agreement was entered into for Shop Nos. 1024-31, Sheung Shui Centre Shopping Arcade whereby both parties had agreed to extend a further term of 3 years from 4 November 2011 to 3 November 2014.
4. For external wall signage Nos. 82-93, Level 1, Sheung Shui Centre Shopping Arcade.
5. A tenancy agreement was entered into for Shop No. 211, Metro City Phase I Property whereby both parties had agreed to extend a further term of 3 years from 17 February 2012 to 16 February 2015.
6. In general, “ordinary banking and financial services” include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto and other banking or financial services.

Connected Party Transactions

Other Disclosures under the REIT Code

Pursuant to note (2) to paragraph 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 and therefore are not disclosed in the above sections.

During the year, the aggregate amount of fees payable by Sunlight REIT to the Manager (including fees paid in the form of units) and to the Trustee under the Trust Deed were approximately HK\$65.6 million and HK\$3.5 million respectively. Particulars of services provided by the Principal Valuer, the Manager and the Trustee, including terms and remuneration, are set out in notes 24(b)(i), (ii) and (iv) of the Consolidated Financial Statements. Save for the Manager's fees and Trustee's fees as disclosed above, the fees payable to the Principal Valuer during the year was less than HK\$1 million and no disclosure was required 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 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 favourable 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 Auditor of Sunlight REIT

Pursuant to the waivers granted by the SFC from strict compliance with the requirement under Chapter 8 of the REIT Code, the Manager has engaged KPMG, being the auditor of Sunlight REIT, to report on the continuing connected party transactions on the leasing and licensing arrangements (including facilities leasing), property management and operations (including joint effort arrangements and security services) and ordinary banking and financial services for the year in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing the findings and unqualified conclusions in respect of the aforesaid continuing connected party transactions disclosed in this annual report in accordance with the waivers and a copy of such letter will be provided to the SFC.

Disclosure of Interests

The REIT Code requires that connected persons (as defined in paragraph 8.1 of the REIT Code) of Sunlight REIT to disclose their interests in units. Further, certain provisions of Part XV of the SFO in relation to disclosure of interest are deemed, pursuant to Schedule C of the Trust Deed, to apply to each of the Manager, its Directors or chief executive, and also indirectly to certain persons interested in or having a short position in units.

Holdings of the Manager, its Directors or Chief Executive

At 30 June 2012 and 30 June 2011, the interests and short position in units of the Manager, its Directors or chief executive as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed, were as follows :

Name	At 30 June 2012		At 30 June 2011		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	51,723,294	3.22	29,031,034	1.83	1.39
Au Siu Kee, Alexander ³	1,329,000	0.083	1,329,000	0.084	-0.001

Notes :

1. The percentages expressed are based on the total units in issue of 1,605,583,924 at 30 June 2012 and 1,586,491,664 at 30 June 2011 respectively.
2. At 30 June 2011, the Manager beneficially held 29,031,034 units. With the issue of 12,883,263 and 9,808,997 new units to the Manager on 27 October 2011 and 27 April 2012 respectively as payment of part of the Manager's fees, the Manager beneficially held 51,723,294 units at 30 June 2012.
3. At 30 June 2012, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,329,000 units (30 June 2011: 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, its Directors or chief executive was beneficially interested (or deemed to be interested) in units or held any short position in units at 30 June 2012 and 30 June 2011 as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed.

Disclosure of Interests

Holdings of Substantial Unitholders

At 30 June 2012 and 30 June 2011, the interests and short position in units of every person, other than the Manager, its Directors or chief executive, as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed, were as follows :

Name	At 30 June 2012		At 30 June 2011		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 Chau Kee ²	559,899,322	34.87	547,016,059	34.48	0.39
Lee Financial (Cayman) Limited ²	374,072,708	23.30	374,072,708	23.58	-0.28
Leesons (Cayman) Limited ²	374,072,708	23.30	374,072,708	23.58	-0.28
Leeworld (Cayman) Limited ²	374,072,708	23.30	374,072,708	23.58	-0.28
SKFE ²	374,072,708	23.30	374,072,708	23.58	-0.28
Uplite Limited ²	224,443,625	13.98	224,443,625	14.15	-0.17
Wintrade Limited ²	149,629,083	9.32	149,629,083	9.43	-0.11
Henderson Development Limited ²	195,635,611	12.18	161,008,919	10.15	2.03
HLD ²	195,635,611	12.18	161,008,919	10.15	2.03
Hopkins (Cayman) Limited ²	195,635,611	12.18	161,008,919	10.15	2.03
Riddick (Cayman) Limited ²	195,635,611	12.18	161,008,919	10.15	2.03
Rimmer (Cayman) Limited ²	195,635,611	12.18	161,008,919	10.15	2.03
Silchester International Investors LLP ³	292,519,150	18.22	292,519,150	18.44	-0.22
Silchester International Investors International Value Equity Trust ³	142,292,922	8.86	142,292,922	8.97	-0.11

Notes :

1. The percentages expressed are based on the total units in issue of 1,605,583,924 at 30 June 2012 and 1,586,491,664 at 30 June 2011 respectively.
2. At 30 June 2012, 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. Each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was thus taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 30 June 2012, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 51,723,294 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 ("Hopkins") as the trustee of a unit trust, the units of which were held by Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as the respective trustees of two discretionary trusts. Therefore, under Part XV of the SFO (as applied by Schedule C of the Trust Deed), each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in a total of 195,635,611 units at 30 June 2012.

Under Part XV of the SFO (as applied by Schedule C of the Trust Deed), Dr. Lee Shau Kee was therefore taken to be interested in a total of 569,708,319 units at 30 June 2012 (representing approximately 35.48% of the total units in issue), by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts. In the register required to be kept by the Manager under Schedule C of the Trust Deed, Dr. Lee Shau Kee was recorded as having an interest in 559,899,322 units at 30 June 2012, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 30 June 2012, the units mentioned under this note were beneficially held by connected persons of Sunlight REIT.

- At 30 June 2012, in accordance with the notice given to the Manager pursuant to Part XV of the SFO, Silchester International Investors LLP ("Silchester LLP") in its capacity as investment manager, was interested in 292,519,150 units, of which 142,292,922 units were beneficially owned by Silchester International Investors International Value Equity Trust ("Silchester Trust"). Nevertheless, the Manager has been notified informally that at 30 June 2012, (i) the beneficial interest owned by Silchester Trust had decreased to 137,830,922 units (representing approximately 8.58% of the total units in issue); and (ii) such interest in 137,830,922 units held by Silchester Trust has been included as part of the interests reported above for Silchester LLP.

Holdings 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 paragraph 8.1 of the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT at 30 June 2012 were as follows :

Name of Connected Persons	Number of Units Held	% of Unit Holding ¹
Chan Wing Cheng ²	100,000	0.0062
Lee King Yue ³	50,000	0.0031
Lee Pui Ling, Angelina ⁴	2,307	0.0001
Mao Kenneth Ruys ⁵	500,000	0.0311
Persons related to the Trustee ⁶	120,000	0.0075

Notes :

- The percentage expressed is based on the total units in issue of 1,605,583,924 at 30 June 2012.
- Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 50,000 units at 30 June 2011.
- 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 at 30 June 2011.
- 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 at 30 June 2011.
- 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 at 30 June 2011.
- The Manager has been informed that certain directors, senior executives and officers of the Trustee and their associates (as defined in the REIT Code) were beneficially interested in such units at 30 June 2012. They had beneficial interest in 120,000 units at 30 June 2011.

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)

21 August 2012

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")



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

- (11) Everglory Centre, 1B Kimberley Street, Tsim Sha Tsui, Kowloon, Hong Kong ("Everglory Centre Property")
- (12) On Loong Commercial Building (except Office 1 on 6th Floor and Offices 1 and 2 on 21st Floor), 276-278 Lockhart Road, Wan Chai, Hong Kong ("On Loong Commercial Building Property")
- (13) Commercial Development and Car Parks, Metro City Phase I, 1 Wan Hang Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong ("Metro City Phase I Property")
- (14) Commercial Development (Including all shops, The Restaurant and The Kindergarten) and Car Parks in the Podium and Basement, Sheung Shui Centre, 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong ("Sheung Shui Centre Property")
- (15) Various Portions in Kwong Wah Plaza, 11 Tai 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 2012 (referred to as the "**Valuation Date**").

Valuation Report

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 analysed 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.

Valuation Report

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 2012	Capitalisation Rate Adopted ^{Note}	
				Retail (%)	Office (%)
1. 248 Queen's Road East Property	376,381	46	\$3,458,600,000	4.20	4.00
2. Bonham Trade Centre Property	117,909	N/A	\$723,000,000	4.20	4.00
3. Righteous Centre Property	51,767	N/A	\$518,000,000	3.80	4.10
4. 135 Bonham Strand Trade Centre Property	63,915	N/A	\$376,000,000	4.20	4.00
5. Winsome House Property	40,114	N/A	\$432,000,000	4.20	4.00
6. Java Road 108 Commercial Centre Property	37,923	N/A	\$211,000,000	4.20	4.10
7. Sun Fai Commercial Centre Property	26,151	N/A	\$138,000,000	4.35	4.25
8. Wai Ching Commercial Building Property	16,321	N/A	\$44,600,000	4.35	4.00
9. 235 Wing Lok Street Trade Centre Property	52,285	N/A	\$224,000,000	4.25	4.00
10. Yue Fai Commercial Centre Property	42,751	N/A	\$210,000,000	4.20	4.25
11. Everglory Centre Property	29,802	N/A	\$160,100,000	4.15	4.00
12. On Loong Commercial Building Property	25,564	N/A	\$187,000,000	4.20	4.10
13. Metro City Phase I Property	188,889	452	\$2,265,000,000	4.50	N/A
14. Sheung Shui Centre Property	122,339	297	\$2,981,000,000	4.40	N/A
15. Kwong Wah Plaza Property	64,842	N/A	\$724,000,000	4.00	4.00
16. Beverley Commercial Centre Property	7,934	N/A	\$97,000,000	4.30	N/A
17. Glory Rise Property	7,086	N/A	\$75,300,000	4.20	N/A
18. Supernova Stand Property	4,226	N/A	\$53,100,000	4.00	N/A
19. Palatial Stand Property	8,625	N/A	\$36,600,000	4.35	N/A
20. Royal Terrace Property	9,565	49	\$124,500,000	4.25	N/A
Total	1,294,389	844	\$13,038,800,000		

Note : 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

Tony W M Wan

MRICS MHKIS RPS (GP)

Director, Head of General Valuation

Valuation Report

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 2012

HK\$10,270,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2012

HK\$250,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2012

HK\$2,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2012

HK\$3,458,600,000

Estimated Net Property Yield

3.7%

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 2012

HK\$2,270,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$723,000,000

Estimated Net Property Yield

3.8%

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 Renewal No. 5654 and Conditions of Regrant No. 5759 respectively each for a term of 150 years commencing from 25 December 1887. The annual Government rents payable for Section A of Kowloon Inland Lot No. 6827 and Kowloon Inland Lot No. 7097 are HK\$78 and HK\$150 respectively.

Monthly Rental Income as at 30 June 2012

HK\$1,506,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2012

HK\$88,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2012

HK\$518,000,000

Estimated Net Property Yield

3.7%

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 total 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 2012

HK\$1,190,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$376,000,000

Estimated Net Property Yield

3.8%

Valuation Report

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 2012

HK\$1,312,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$432,000,000

Estimated Net Property Yield

3.6%

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 a total annual Government rent payable for the subject sections of the lot of HK\$188,912.

Monthly Rental Income as at 30 June 2012

HK\$637,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$211,000,000

Estimated Net Property Yield

3.6%

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 2012

HK\$459,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$138,000,000

Estimated Net Property Yield

4.0%

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 2012

HK\$140,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$44,600,000

Estimated Net Property Yield

3.8%

Valuation Report

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 2012

HK\$741,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$224,000,000

Estimated Net Property Yield

4.0%

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 2012

HK\$691,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$210,000,000

Estimated Net Property Yield

3.9%

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 2012

HK\$505,000 exclusive of rates, management fees and air-conditioning charges but inclusive of licence fees.

Monthly Licence Income as at 30 June 2012

HK\$1,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2012

HK\$160,100,000

Estimated Net Property Yield

3.8%

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 2012

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

Market value in existing state as at 30 June 2012

HK\$187,000,000

Estimated Net Property Yield

3.8%

Valuation Report

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 2012

HK\$7,756,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent.

Monthly Car Parking Income as at 30 June 2012

HK\$904,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2012

HK\$159,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2012

HK\$2,265,000,000

Estimated Net Property Yield

4.6%

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 2012

HK\$9,967,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly Car Parking Income as at 30 June 2012

HK\$670,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2012

HK\$119,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2012

HK\$2,981,000,000

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 2012

HK\$2,179,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2012

HK\$10,500 exclusive of rates and management fees

Market value in existing state as at 30 June 2012

HK\$724,000,000

Estimated Net Property Yield

3.6%

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 2012

HK\$330,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$97,000,000

Estimated Net Property Yield

4.1%

Valuation Report

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 2012

HK\$129,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$75,300,000

Estimated Net Property Yield

2.1%

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 2012

HK\$167,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$53,100,000

Estimated Net Property Yield

3.8%

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 2012

HK\$94,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2012

HK\$36,600,000

Estimated Net Property Yield

3.1%

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 for the subject sections of the lot at HK\$60.

Monthly Rental Income as at 30 June 2012

HK\$284,000 exclusive of rates, management fees and air-conditioning charges

Monthly Car Parking Income as at 30 June 2012

HK\$105,000 exclusive of operating expenses, rates, Government rents and management fees

Market value in existing state as at 30 June 2012

HK\$124,500,000

Estimated Net Property Yield

3.8%

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 2012.

HSBC Institutional Trust Services (Asia) Limited

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

Hong Kong, 6 September 2012

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 66 to 104, which comprise the consolidated balance sheet as at 30 June 2012, 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 information.

Manager's responsibility for the consolidated financial statements

The Manager of Sunlight REIT is responsible for the preparation of consolidated financial statements that give a true and fair view 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**") and for such internal control as the Manager of Sunlight REIT determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 2012 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

6 September 2012

Consolidated Income Statement

For the year ended 30 June 2012
(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Turnover	4 & 5	581,685	532,462
Property operating expenses	4 & 6	(133,157)	(125,091)
Net property income		448,528	407,371
Other income	7	3,317	1,882
Administrative expenses		(79,753)	(70,829)
Net increase in fair value of investment properties	11	808,342	1,493,665
Profit from operations		1,180,434	1,832,089
Finance costs on interest bearing liabilities	8(a)	(110,131)	(147,281)
Profit before taxation and transactions with unitholders	8	1,070,303	1,684,808
Income tax	9(a)	(43,053)	(29,700)
Profit after taxation and before transactions with unitholders		1,027,250	1,655,108

The notes on pages 74 to 104 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012
(Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Profit after taxation and before transactions with unitholders	1,027,250	1,655,108
Other comprehensive income for the year		
Changes in fair value of cash flow hedges recognised during the year	(53,459)	46,630
Total comprehensive income for the year	973,791	1,701,738

The notes on pages 74 to 104 form part of these consolidated financial statements.

Consolidated Balance Sheet

At 30 June 2012

(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Non-current assets			
Fixed assets	11		
– Investment properties		13,038,800	12,222,200
– Other fixed assets		78	44
		13,038,878	12,222,244
Deferred tax assets	9(c)	4,743	5,649
Reimbursement rights	12	203,413	203,932
		13,247,034	12,431,825
Current assets			
Trade and other receivables	14	26,057	26,518
Pledged deposits	17	259,592	261,119
Cash at bank and in hand		1,288	177
Tax recoverable		158,506	168,563
		445,443	456,377
		13,692,477	12,888,202
Current liabilities			
Tenants' deposits	15	(144,598)	(135,324)
Rent receipts in advance		(4,360)	(5,284)
Trade and other payables	16	(211,490)	(222,699)
Secured bank borrowings	17	–	(3,948,116)
Derivative financial instruments	13	(47,410)	(45,938)
Current taxation		(25,444)	(17,879)
		(433,302)	(4,375,240)
Net current assets/(liabilities)		12,141	(3,918,863)
Total assets less current liabilities		13,259,175	8,512,962

Consolidated Balance Sheet (continued)

At 30 June 2012

(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings	17	(3,915,850)	–
Deferred tax liabilities	9(c)	(256,096)	(237,748)
Derivative financial instruments	13	(65,273)	(13,286)
		(4,237,219)	(251,034)
Total liabilities, excluding net assets attributable to unitholders			
		(4,670,521)	(4,626,274)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		9,021,956	8,261,928
Number of units in issue			
	18	1,605,583,924	1,586,491,664
Net asset value attributable to unitholders per unit			
		\$5.62	\$5.21

The consolidated financial statements on pages 66 to 104 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the Manager of Sunlight Real Estate Investment Trust, on 6 September 2012 and were signed on its behalf by:

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 74 to 104 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2012
(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
At the beginning of the year		8,261,928	6,722,211
Profit after taxation and before transactions with unitholders		1,027,250	1,655,108
Other comprehensive income		(53,459)	46,630
Total comprehensive income for the year		973,791	1,701,738
Distribution paid to unitholders		(257,024)	(212,634)
Issuance of units to Manager during the year	18	52,173	50,613
Units repurchased	18	(8,873)	–
Units repurchase expenses	18	(39)	–
At the end of the year		9,021,956	8,261,928

The notes on pages 74 to 104 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2012
(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Profit after taxation and before transactions with unitholders		1,027,250	1,655,108
Adjustments:			
– Net increase in fair value of investment properties	11	(808,342)	(1,493,665)
– Manager’s fees paid or payable in the form of units		45,928	61,110
– Non-cash finance costs on interest bearing liabilities		13,822	29,710
– Deferred tax	9(a)	19,773	12,189
		(728,819)	(1,390,656)
Total distributable income (note (i))		298,431	264,452
Interim distribution, paid		132,748	115,018
Final distribution, to be paid to unitholders (notes (ii) and (iv))		139,686	124,276
Total distributions for the year (note (i))		272,434	239,294
Payout ratio (notes (ii) and (iv))		91.3%	90.5%
Distribution per unit:			
– Before adjusting for distribution waivers (notes (ii), (iii), (v), (vi) and (vii))			
Interim distribution per unit, paid		8.30 cents	7.30 cents
Final distribution per unit, to be paid to unitholders		8.70 cents	7.83 cents
		17.00 cents	15.13 cents
– After adjusting for distribution waivers (notes (iii), (iv) and (viii))			
Interim distribution per unit, paid		N/A	8.50 cents
Final distribution per unit, to be paid to unitholders		N/A	9.10 cents
		N/A	17.60 cents

Notes:

- (i) Pursuant to the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the “REIT Code”) and the trust deed dated 26 May 2006 (as amended) (the “Trust Deed”), Sunlight Real Estate Investment Trust (“Sunlight REIT”) is in any event required to ensure that the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.
- (ii) For the year ended 30 June 2012, the total distributable income amounted to \$298,431,000. The final distribution of \$139,686,000 is calculated by multiplying the final distribution per unit of 8.70 cents by 1,605,583,924 units in issue at 30 June 2012.

The final distribution together with the interim distribution of \$132,748,000 represent a payout ratio of 91.3% of Sunlight REIT’s total distributable income for the year.

Distribution Statement (continued)

For the year ended 30 June 2012
(Expressed in Hong Kong dollars)

Notes: (continued)

- (iii) Pursuant to two Deeds of Distribution Waiver dated 2 December 2006 as disclosed in Sunlight REIT's offering circular dated 8 December 2006 (the "Distribution Waivers"), certain unitholders who subscribed for a total of 441,642,638 units agreed to waive their entitlement, in varying extents, to receive distributions from Sunlight REIT in respect of any period up to 30 June 2011 and agreed to, where applicable, make payments to Sunlight REIT in case they disposed of these original units subscribed under the initial public offering of Sunlight REIT. The Distribution Waivers expired on 30 June 2011.
- (iv) For the year ended 30 June 2011, the total distributable income amounted to \$264,452,000. The final distribution of \$124,276,000, after adjusting for distribution waivers as mentioned in (iii) above, is calculated by multiplying the final distribution per unit of 9.10 cents by 1,365,670,344 units, which is arrived at as follows:

	At 30 June 2011
Units in issue	1,586,491,664
Less: Units held by the unitholders who agreed to waive their entitlement to distribution for the year	(220,821,320)
	1,365,670,344

The final distribution together with the interim distribution of \$115,018,000 represented a payout ratio of 90.5% of Sunlight REIT's total distributable income for that year.

- (v) The final distribution per unit for the year ended 30 June 2011, before adjusting for distribution waivers as mentioned in (iii) above, of 7.83 cents, is calculated by dividing the final distribution of \$124,276,000 by 1,586,491,664 units in issue at 30 June 2011.
- (vi) The interim distribution of \$132,748,000 for the six months ended 31 December 2011 is calculated by multiplying the interim distribution per unit of 8.30 cents by 1,599,374,927 units in issue at 31 December 2011.
- (vii) The interim distribution per unit for the six months ended 31 December 2010, before adjusting for distribution waivers as mentioned in (iii) above, of 7.30 cents, is calculated by dividing the interim distribution for that period of \$115,018,000 by 1,574,557,232 units in issue at 31 December 2010.
- (viii) The interim distribution per unit for the six months ended 31 December 2010, after adjusting for distribution waivers as mentioned in (iii) above, of 8.50 cents, is calculated by dividing the interim distribution for that period of \$115,018,000 by 1,353,735,912 units, which is arrived at as follows:

	At 31 December 2010
Units in issue	1,574,557,232
Less: Units held by the unitholders who agreed to waive their entitlement to distribution for the period	(220,821,320)
	1,353,735,912

- (ix) The 2012 interim distribution was paid to unitholders on 30 March 2012. The 2012 final distribution is expected to be paid on 30 October 2012 to unitholders whose names appear on the register of unitholders on 25 September 2012.
- (x) The final distribution proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

The notes on pages 74 to 104 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2012
(Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Operating activities		
Profit before taxation and transactions with unitholders	1,070,303	1,684,808
Adjustments:		
– Manager's fees paid or payable in the form of units	45,928	61,110
– Net increase in fair value of investment properties	(808,342)	(1,493,665)
– Finance costs on interest bearing liabilities	110,131	147,281
– Depreciation	16	11
– Interest income	(3,312)	(1,878)
Operating cash flow before changes in working capital	414,724	397,667
Decrease/(increase) in trade and other receivables	405	(2,697)
Increase in tenants' deposits	9,274	14,052
(Decrease)/increase in rent receipts in advance	(924)	2,121
(Decrease)/increase in trade and other payables	(5,406)	115,992
Cash generated from operations	418,073	527,135
Tax paid		
– Hong Kong Profits Tax paid	(5,658)	(140,684)
Net cash generated from operating activities	412,415	386,451
Investing activities		
Interest received	3,369	1,696
Expenditure on investment properties	(8,258)	(6,435)
Payment for purchase of other fixed assets	(50)	(22)
Net cash used in investing activities	(4,939)	(4,761)
Financing activities		
Distribution paid to unitholders	(257,024)	(212,634)
Payment for repurchases of units	(8,912)	–
Other borrowing costs paid	(46,088)	–
Proceeds from new bank borrowings	3,950,000	–
Repayment of bank borrowings	(3,950,000)	(15,000)
Decrease/(increase) in pledged deposits	1,527	(36,243)
Interest paid	(95,868)	(117,771)
Net cash used in financing activities	(406,365)	(381,648)
Net increase in cash at bank and in hand	1,111	42
Cash at bank and in hand at the beginning of the year	177	135
Cash at bank and in hand at the end of the year	1,288	177

The notes on pages 74 to 104 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars)

1 General

Sunlight REIT is a Hong Kong collective investment scheme constituted as a unit trust by 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”) and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. 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.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2012 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 25.

(c) Subsidiaries

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

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

(d) 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 consolidated 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

Cash flow hedges

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 immediately.

(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 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 fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Gains or losses arising from the retirement or disposal of an item of other fixed assets 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.

2 Significant accounting policies (continued)

(h) Other fixed assets (continued)

Depreciation is calculated to write off the cost of items of other fixed assets, 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

Where parts of an item of other fixed assets 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 fixed assets 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 fixed assets 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 fixed assets 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)).

2 Significant accounting policies (continued)

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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.

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 receivables 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

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.

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.

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.

2 Significant accounting policies (continued)

(m) Income tax (continued)

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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sales of those assets at their carrying value at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

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.

2 Significant accounting policies (continued)

(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.

(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 the period in which they are incurred.

(q) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group.

2 Significant accounting policies (continued)

(q) Related parties (continued)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (ii) The entity is controlled or jointly controlled by a person identified in (a).
 - (iii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person 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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

3 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

The impacts of these developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the consolidated financial statements in the current and previous years.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has early adopted the amendments to the consolidated financial statements for the year ended 30 June 2011.

Under the amendments, the Group now measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying values at the balance sheet date. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

4 Segment reporting

The Manager manages the Group's business by divisions. In a manner consistent with the way in which information is reported internally to the Manager's most senior executive management 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.

4 Segment reporting (continued)

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the senior executive management of the Manager monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible and current assets with the exception of pledged deposits, cash at bank and in hand, 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 the unallocated net income/(expenses).

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

	2012			2011		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover						
– rental income	226,992	238,746	465,738	208,284	219,385	427,669
– car park income	2,966	20,049	23,015	3,020	17,375	20,395
– rental related income	48,960	43,972	92,932	44,368	40,030	84,398
	278,918	302,767	581,685	255,672	276,790	532,462
Property operating expenses	(60,414)	(72,743)	(133,157)	(56,560)	(68,531)	(125,091)
Net property income	218,504	230,024	448,528	199,112	208,259	407,371
Administrative expenses	(34,964)	(33,469)	(68,433)	(32,587)	(31,177)	(63,764)
Segment results	183,540	196,555	380,095	166,525	177,082	343,607
Net increase in fair value of investment properties	412,738	395,604	808,342	865,943	627,722	1,493,665
Finance costs on interest bearing liabilities			(110,131)			(147,281)
Income tax			(43,053)			(29,700)
Interest income			3,312			1,878
Unallocated net expenses			(11,315)			(7,061)
Profit after taxation and before transactions with unitholders			1,027,250			1,655,108
Depreciation	7	9	16	6	5	11

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

4 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2012			2011		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Segment assets	6,827,381	6,440,597	13,267,978	6,408,204	6,043,891	12,452,095
Pledged deposits			259,592			261,119
Cash at bank and in hand			1,288			177
Tax recoverable			158,506			168,563
Deferred tax assets			4,743			5,649
Unallocated assets			370			599
Total assets			13,692,477			12,888,202
Segment liabilities	(102,820)	(95,046)	(197,866)	(99,545)	(93,078)	(192,623)
Derivative financial instruments			(112,683)			(59,224)
Secured bank borrowings			(3,915,850)			(3,948,116)
Current taxation			(25,444)			(17,879)
Deferred tax liabilities			(256,096)			(237,748)
Unallocated liabilities			(162,582)			(170,684)
Total liabilities, excluding net assets attributable to unitholders			(4,670,521)			(4,626,274)
Capital expenditure incurred during the year	7,792	516	8,308	1,757	4,700	6,457

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:

	2012 \$'000	2011 \$'000
Rental income (note)	465,738	427,669
Car park income	23,015	20,395
Rental related income	92,932	84,398
	581,685	532,462

Note: Included additional rents based on business turnover of tenants amounting to \$2,086,000 (2011: \$1,246,000).

6 Property operating expenses

	2012 \$'000	2011 \$'000
Building management fee	50,296	45,536
Property Manager's fees	36,231	34,828
Government rent and rates	19,267	17,496
Marketing and promotion expenses	9,920	8,998
Car park operating costs (note)	7,896	6,926
Bad debts expenses	6	577
Other direct costs	9,541	10,730
	133,157	125,091

Note: Included Property Manager's fees of \$2,124,000 (2011: \$1,872,000).

7 Other income

	2012 \$'000	2011 \$'000
Bank interest income	3,312	1,878
Others	5	4
	3,317	1,882

8 Profit before taxation and transactions with unitholders

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

	2012 \$'000	2011 \$'000
(a) Finance costs on interest bearing liabilities		
Interest on secured bank borrowings	96,185	117,554
Other borrowing costs	13,946	29,727
	110,131	147,281

Other borrowing costs represent various financing charges and the amortisation of the debts establishment fees for the secured bank borrowings (note 17).

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

8 Profit before taxation and transactions with unitholders (continued)

	2012 \$'000	2011 \$'000
(b) Other items		
Manager's fees	65,611	61,110
Property Manager's fees (note (i))	38,355	36,700
Trustee's remuneration and charges	3,491	3,328
Auditor's remuneration		
– Audit services	1,660	1,570
– Other services	611	570
Valuation fees	675	650
Other legal and professional fees	6,109	3,362
Commission to property agents	2,257	2,652
Bank charges	641	471

Notes:

- (i) Included rental commission of \$10,215,000 (2011: \$11,195,000).
- (ii) 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:

	2012 \$'000	2011 \$'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for the year	23,450	17,523
Over-provision in respect of prior years	(170)	(12)
	23,280	17,511
Deferred tax		
Origination and reversal of temporary differences	19,773	12,189
	43,053	29,700

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

During the year ended 30 June 2012, the Group settled with the Inland Revenue Department in respect of the deductibility of certain taxation allowances claimed by certain subsidiaries of the Group in connection with the profits generated prior to the date of acquisition by Sunlight REIT. The relevant amount paid to the Inland Revenue Department was \$3,629,000 and was reimbursed by certain vendors (comprising subsidiaries of Shau Kee Financial Enterprises Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Henderson Development Limited and Jetwin International Limited) (collectively referred to as the "Vendors") pursuant to the tax indemnity.

9 Income tax (continued)

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

	2012 \$'000	2011 \$'000
Profit before taxation and transactions with unitholders	1,070,303	1,684,808
Notional tax on profit before taxation and transactions with unitholders, calculated at the Hong Kong Profits Tax rate of 16.5%	176,600	277,993
Tax effect of non-deductible expenses	4,624	3,811
Tax effect of non-taxable income	(133,921)	(246,249)
Tax effect of tax losses not recognised	16	264
Tax effect of prior years' tax losses and other temporary differences recognised/derecognised	(2,022)	29
Tax effect of prior years' tax losses utilised in the current year	(2,074)	(6,135)
Over-provision in respect of prior years	(170)	(13)
Actual tax expense	43,053	29,700

(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:

<i>Deferred tax arising from:</i>	Depreciation allowances in excess of related depreciation \$'000	Reclassification of assets to investment properties \$'000	Tax losses \$'000	Total \$'000
At 1 July 2010	83,525	159,709	(23,324)	219,910
Charged to profit or loss	11,615	–	574	12,189
At 30 June 2011	95,140	159,709	(22,750)	232,099
At 1 July 2011	95,140	159,709	(22,750)	232,099
Charged to profit or loss	9,780	–	9,993	19,773
Credited to reimbursement rights	(519)	–	–	(519)
At 30 June 2012	104,401	159,709	(12,757)	251,353

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

9 Income tax (continued)

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

	2012 \$'000	2011 \$'000
Represented by:		
Net deferred tax assets recognised in the consolidated balance sheet	(4,743)	(5,649)
Net deferred tax liabilities recognised in the consolidated balance sheet	256,096	237,748
	251,353	232,099

(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 \$139,033,000 (2011: \$152,223,000) 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 per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2012 amounted to \$0.64 (2011: \$1.05). The calculation of basic earnings per unit before transactions with unitholders is based on the Group's profit after taxation and before transactions with unitholders of \$1,027,250,000 (2011: \$1,655,108,000) and the weighted average of 1,596,874,817 units in issue during the year (2011: 1,573,221,352 units).

Diluted earnings per unit before transactions with unitholders for the year ended 30 June 2012 and 2011 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

11 Fixed assets

	Furniture and fixtures \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:			
At 1 July 2010	46	10,722,100	10,722,146
Additions	22	6,435	6,457
Net increase in fair value	–	1,493,665	1,493,665
At 30 June 2011	68	12,222,200	12,222,268
Representing:			
Cost	68	–	68
Valuation – 2011	–	12,222,200	12,222,200
	68	12,222,200	12,222,268
At 1 July 2011	68	12,222,200	12,222,268
Additions	50	8,258	8,308
Net increase in fair value	–	808,342	808,342
At 30 June 2012	118	13,038,800	13,038,918
Representing:			
Cost	118	–	118
Valuation – 2012	–	13,038,800	13,038,800
	118	13,038,800	13,038,918
Accumulated depreciation:			
At 1 July 2010	13	–	13
Charge for the year	11	–	11
At 30 June 2011	24	–	24
At 1 July 2011	24	–	24
Charge for the year	16	–	16
At 30 June 2012	40	–	40
Net book value:			
At 30 June 2012	78	13,038,800	13,038,878
At 30 June 2011	44	12,222,200	12,222,244

- (a) The investment properties were revalued at 30 June 2012 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 a market value basis in their existing states by means of capitalisation of the net income allowing for reversionary income potential and by reference to comparable market transactions.
- (b) The analysis of the fair value of investment properties is as follows:

	2012 \$'000	2011 \$'000
In Hong Kong		
– long leases	6,074,500	5,694,200
– medium-term leases	6,964,300	6,528,000
	13,038,800	12,222,200

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

11 Fixed assets (continued)

- (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 to the extent of certain relevant deferred tax liabilities recognised in the subsidiaries at the date of acquisition. As a result of the settlement with the Inland Revenue Department by certain subsidiaries of the Group during the year ended 30 June 2012 (see note 9(a)), the reimbursement rights amounted to \$519,000 was reduced accordingly.

13 Derivative financial instruments

	2012 \$'000	2011 \$'000
Interest rate swaps – cash flow hedges		
Current portion	47,410	45,938
Non-current portion	65,273	13,286
	112,683	59,224

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.

At 30 June 2012, the Group had interest rate swaps in place with an aggregate notional amount of \$3,300,000,000 (2011: \$3,000,000,000). The interest rate swaps will mature on 28 June 2013, 30 June 2016 and 28 September 2018 respectively and have fixed swap interest rates ranging from 1.598% per annum to 2.615% per annum (2011: 1.840% per annum to 2.615% 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.

14 Trade and other receivables

	2012 \$'000	2011 \$'000
Rental receivables	17,072	17,954
Deposits and prepayments	6,010	6,481
Other receivables	2,345	1,663
Amounts due from related companies	630	420
	26,057	26,518

\$4,856,000 (2011: \$5,060,000) 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.

14 Trade and other receivables (continued)

The ageing analysis of rental receivables is as follows:

	2012 \$'000	2011 \$'000
Current	12,444	14,600
Less than 1 month overdue	3,346	2,613
More than 1 month and up to 3 months overdue	1,093	381
More than 3 months and up to 6 months overdue	176	26
More than 6 months overdue	13	334
	17,072	17,954

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 19(a).

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

15 Tenants' deposits

The tenants' deposits include \$95,560,000 (2011: \$86,792,000) 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

	2012 \$'000	2011 \$'000
Creditors and accrued charges	28,029	31,614
Manager's fees payable (note 24(b)(ii))	18,139	18,943
Amounts due to related companies	165,322	172,142
	211,490	222,699

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 4 months and payable in the form of cash and units.

The amounts due to related companies primarily represent amounts received from certain Vendors for purchasing tax reserve certificates on their behalf in respect of the potential tax liabilities arising from the outstanding tax cases. The outstanding tax cases relate to the notional gains arising from reclassification of properties at the date of acquisition and the potential tax liabilities are indemnified by the Vendors. The relevant tax reserve certificates were classified as tax recoverable under current assets at the year end. The amounts are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$959,000 (2011: \$1,022,000) which is due within 30 days.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

17 Secured bank borrowings

The secured bank loans were repayable as follows:

	2012 \$'000	2011 \$'000
Within 1 year	–	3,948,116
After 2 years but within 5 years	3,915,850	–
	3,915,850	3,948,116

On 23 August 2011, the Group entered into new facility agreements with a syndicate of financial institutions to refinance its term loan matured on 20 December 2011, and to provide funding for general working capital of the Group. Under the new facility agreements, the Group has been granted two facilities in the aggregate amount of \$4,050,000,000 before transaction costs, comprising a \$3,950,000,000 term loan facility and a \$100,000,000 revolving credit facility, both for a three-year term from the first date of drawdown under the term loan facility or revolving credit facility, whichever is earlier. Both facilities are interest bearing at Hong Kong Interbank Offered Rate plus 1% per annum and repayable in full on 21 September 2014. The total facilities drawn down by the Group at 30 June 2012 is \$3,950,000,000 (2011: \$3,950,000,000). The Group also entered into the interest rate swaps and details are set out in note 13.

Bank borrowings under the term loan facility 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 \$13,038,800,000 at 30 June 2012 (2011: \$12,222,200,000) (note 11);
- floating charge over bank balances of \$24,179,000 (2011: \$28,595,000) and \$235,413,000 (2011: \$232,524,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited (“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 rate of the bank borrowings at the balance sheet date was 2.62% per annum (2011: 1.93% per annum). The carrying amounts of the bank borrowings approximate their fair values.

18 Units in issue

	Number of units	
	2012	2011
At the beginning of the year	1,586,491,664	1,564,041,268
Issuance of units during the year	22,692,260	22,450,396
Units repurchased	(3,600,000)	–
At the end of the year	1,605,583,924	1,586,491,664

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	
2012			
1 April 2011 to 30 June 2011	2.4646	15,221	6,175,740
Adjustment of Manager's fees for the financial year 2010/11	2.2705	3,722	1,639,242
1 July 2011 to 30 September 2011	2.1476	10,885	5,068,281
1 October 2011 to 31 December 2011	2.1766	11,086	5,093,214
1 January 2012 to 31 March 2012	2.3877	11,259	4,715,783
		52,173	22,692,260
2011			
1 April 2010 to 30 June 2010	1.9937	6,745	3,383,242
Adjustment of Manager's fees for the financial year 2009/10	2.2400	1,700	758,995
1 July 2010 to 30 September 2010	2.1363	13,616	6,373,727
1 October 2010 to 31 December 2010	2.3574	14,216	6,029,990
1 January 2011 to 31 March 2011	2.4280	14,336	5,904,442
		50,613	22,450,396

Pursuant to the general mandate granted to the Manager by unitholders, the Group repurchased a total of 3,600,000 units on the SEHK during the year ended 30 June 2012 at an aggregate consideration of \$8,873,000. Details of the repurchases were as follows:

Month of repurchase	Number of units repurchased	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
June 2012	3,600,000	2.50	2.41	8,873
Total	3,600,000			8,873
Total repurchase expenses				39
				8,912

All repurchased units were cancelled during the year.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

19 Financial risk management and fair values

Exposure to credit, liquidity and interest rate 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.

(b) 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 in the short and longer term.

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.

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:

	2012					Carrying amount \$'000
	Contractual undiscounted cash outflow					
	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	55,427	55,427	3,962,452	–	4,073,306	3,915,850
Derivative financial instruments (net settled)	47,940	28,995	61,582	4,456	142,973	112,683
Tenants' deposits	49,038	91,353	4,207	–	144,598	144,598
Creditors and accrued charges	28,029	–	–	–	28,029	28,029
Manager's fees payable in the form of cash	5,442	–	–	–	5,442	5,442
Amounts due to related companies	165,322	–	–	–	165,322	165,322
	351,198	175,775	4,028,241	4,456	4,559,670	4,371,924

19 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

	2011				Total \$'000	Carrying amount \$'000
	Contractual undiscounted cash outflow					
	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		
Secured bank borrowings	3,962,169	–	–	–	3,962,169	3,948,116
Derivative financial instruments (net settled)	56,205	63,185	94,380	–	213,770	59,224
Tenants' deposits	48,532	47,774	39,018	–	135,324	135,324
Creditors and accrued charges	31,614	–	–	–	31,614	31,614
Amounts due to related companies	172,142	–	–	–	172,142	172,142
	4,270,662	110,959	133,398	–	4,515,019	4,346,420

(c) 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

At 30 June 2012, if interest rates had been 100 basis points (2011: 100 basis points) higher with all other variable held constant, the net assets attributable to unitholders would have been \$84.7 million (2011: \$105.1 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 (2011: 10 basis points) lower with all other variable held constant, the net assets attributable to unitholders would have been \$8.7 million (2011: \$10.8 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 cash flow interest rate risk for derivative financial instruments in existence at that date. The 100 basis point increase and 10 basis point decrease represents the Manager's assessment of a reasonably possible change in interest rate over the period until the next annual balance sheet date.

19 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

At 30 June 2012, 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, deposits, prepayments, other receivables and amounts due from related companies and financial liabilities including rent receipts in advance, accruals, other payables and amounts due to related companies approximate their fair values at 30 June 2012 and 2011 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.

20 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.

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% 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. At 30 June 2012, Sunlight REIT's aggregate borrowings represent 28.8% (2011: 30.6%) of its total gross asset value.

21 Capital commitments

Capital commitments outstanding at 30 June 2012 not provided for in the consolidated financial statements are as follows:

	2012 \$'000	2011 \$'000
Contracted for	2,083	4,421
Authorised but not contracted for	21,901	17,086
	23,984	21,507

22 Contingent liabilities

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 (2011: \$4,685,000).

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

23 Significant leasing arrangements

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

	2012 \$'000	2011 \$'000
Within 1 year	530,610	476,781
After 1 year but within 5 years	399,481	416,248
	930,091	893,029

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.

24 Connected party transactions and material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with certain connected and related parties, as defined under the REIT Code and HKAS 24 (revised 2009), *Related party disclosures*, during the year:

(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 ("HD")	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

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

(b) Transactions with connected/related parties

	2012 \$'000	2011 \$'000
Rental and rental related income received/receivable from (note (i)):		
– HLD Group	8,155	7,618
– HSBC Group	13,430	11,732
Property management expenses, brokerage commission and bank charges paid/payable to (note (i)):		
– HLD Group	(14,768)	(16,437)
– HSBC Group	(135)	(119)
Facilities leasing expenses paid/payable to (note (i)):		
– HLD Group	(66)	–
Manager's fees (note (ii))	(65,611)	(61,110)
Property Manager's fees (note (iii))	(38,355)	(36,700)
Trustee's remuneration and charges (note (iv))	(3,491)	(3,328)
Interest expenses, debts establishment fees and agency charge on bank borrowings paid/payable to (notes (i) and (v)):		
– HSBC Group	(24,714)	(7,480)
Interest paid/payable under the interest rate swaps (note (v)):		
– HSBC Group	(26,597)	(80,338)
Interest income on bank deposits received/receivable from (note (i)):		
– HSBC Group	21	18
Valuation fees and other charges paid/payable to (note (i)):		
– Knight Frank Group	(928)	(1,235)
Promotion income received/receivable from (note (i)):		
– HLD Group	1,181	1,122

24 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).

Pursuant to the Trust Deed, 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.

On 17 May 2011, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2012 to be paid 30% in the form of cash and 70% in the form of units. While on 10 May 2012, the Manager made an election for the base fee and the variable fee for the financial year ending 30 June 2013 to be paid 50% in the form of cash and 50% 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) (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's remuneration is calculated at 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. In accordance with the Trust Deed, the Trustee's remuneration may be increased, without obtaining unitholders' approval subject to one month's written notice to unitholders, to a maximum of 0.06% per annum of the total assets of the Group.
- (v) Interest expenses are calculated on the outstanding borrowings and interest rate swaps balance by reference to the interest rates as set out in notes 13 and 17.

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

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

	2012 \$'000	2011 \$'000
Net amount due to:		
– SKFE Group	(78,379)	(83,536)
– HLD Group	(44,914)	(47,633)
– HD	(54,999)	(54,999)
– HSBC Group (note)	(1,003,530)	(853,057)
– Knight Frank Group	(425)	(400)
Note:		
Deposits and cash placed with HSBC Group	25,396	28,684
Secured bank borrowings and interest payable to HSBC Group	(1,024,297)	(877,836)
Others	(4,629)	(3,905)
	(1,003,530)	(853,057)

25 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 has 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 selling prices and the appropriate capitalisation rates.

(b) Recognition of deferred tax assets

At 30 June 2012, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately \$77,315,000 (2011: \$137,879,000). The realisability of the deferred tax assets 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 assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

26 Non-adjusting post balance sheet events

- (a) After the balance sheet date, the Board of Directors of the Manager proposed a final distribution. Further details are disclosed in the "Distribution Statement" of the consolidated financial statements.
- (b) On 1 August 2012, a sale and purchase agreement was entered into between Pacific Joy Investment Limited, a subsidiary of the Group, and an independent third party in respect of the disposal of the Group's entire interest in the investment properties, Glory Rise Property, located at No. 128 Chun Yeung Street, North Point, Hong Kong for a total consideration of \$78,500,000. The transaction was completed on 3 September 2012.

27 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Further details are set out in note 13.

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2012

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 30 June 2012 and which have not been adopted in these consolidated financial statements except the amendments to HKAS 12, *Income taxes*. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statement</i> – <i>Presentation of items of other comprehensive income</i>	1 July 2012
HKFRS 10, <i>Consolidated financial statements</i>	1 January 2013
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKFRS 9, <i>Financial instruments</i>	1 January 2015

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

29 Principal subsidiaries

Details of the principal subsidiaries of Sunlight REIT are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held by		Principal activity
			Sunlight REIT	a subsidiary	
Sunlight REIT Holding Limited	Cayman Islands	1 share of US\$1	100	–	Investment holding
Bayman Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	–	100	Property investment
Bestguard Investment Limited	Hong Kong	2 ordinary shares of \$1 each	–	100	Property investment
Country Max Development Limited	Hong Kong	10,000 ordinary shares of \$1 each	–	100	Property investment
Gain Fortune Development Limited	Hong Kong	3,000,000 ordinary shares of \$1 each	–	100	Property investment
Gallund Investment Limited	Hong Kong	20,000 ordinary shares of \$100 each	–	100	Property investment
Gentfair Development Limited	Hong Kong	10,000 ordinary shares of \$1 each	–	100	Property investment
Global Team Development Limited	Hong Kong	100 ordinary shares of \$1 each	–	100	Property investment
Glory Good Development Limited	Hong Kong	1,000 ordinary shares of \$1 each	–	100	Property investment
Glory Hero Development Limited	Hong Kong	3,000,000 ordinary shares of \$1 each	–	100	Property investment
Grand Faith Development Limited	Hong Kong	10,000,000 ordinary shares of \$1 each and 2 non-voting deferred shares of \$1 each	–	100	Property investment
Harzone Limited	Hong Kong	1,000 ordinary shares of \$1 each	–	100	Property investment
Jetwise Investment Limited	Hong Kong	10,000,000 ordinary shares of \$1 each and 10,000 non-voting deferred shares of \$1 each	–	100	Property investment
Lucky Million Development Limited	Hong Kong	2 ordinary shares of \$1 each	–	100	Property investment
Multimark Investment Limited	Hong Kong	2 ordinary shares of \$1 each and 2 non-voting deferred shares of \$1 each	–	100	Property investment

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

29 Principal subsidiaries (continued)

Details of the principal subsidiaries of Sunlight REIT are as follows: (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held by		Principal activity
			Sunlight REIT	a subsidiary	
Newcorp Development Limited	Hong Kong	2 ordinary shares of \$1 each	–	100	Property investment
Nicetex Development Limited	Hong Kong	2 ordinary shares of \$1 each and 2 non-voting deferred shares of \$1 each	–	100	Property investment
Pacific Joy Investment Limited	Hong Kong	52,000,000 ordinary shares of \$1 each	–	100	Property investment
Russum Company Limited	Hong Kong	10,000,000 ordinary shares of \$1 each and 1,000 non-voting deferred shares of \$1 each	–	100	Property investment
Seiren Investment Limited	Hong Kong	10,000 ordinary shares of \$1 each	–	100	Property investment
Smart Fortune Development Limited	Hong Kong	10,000 ordinary shares of \$1 each	–	100	Property investment
Smartwise Services Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	–	100	Holding of domain name
Strong Bright Technology Limited	Hong Kong	10,000 ordinary shares of \$1 each	–	100	Property investment
Sunlight Crownwill Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	–	100	Property investment
Sunlight REIT Finance Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	–	100	Provision of finance functions
Sunlight REIT Treasury Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	–	100	Provision of treasury functions
Tinselle Investment Limited	Hong Kong	10,000,000 ordinary shares of \$1 each and 10,000 non-voting deferred shares of \$1 each	–	100	Property investment
United Glory Development Limited	Hong Kong	2 ordinary shares of \$1 each	–	100	Property investment
Yu Loy Development Company Limited	Hong Kong	1,000,000 ordinary shares of \$10 each and 500 non-voting deferred shares of \$10 each	–	100	Property investment

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2012	2011	2010	2009	2008
At 30 June:						
Net asset value (\$ million)		9,022	8,262	6,722	5,448	6,487
Net asset value per unit		5.62	5.21	4.30	3.52	4.28
Market capitalisation (\$ million)		4,191	3,950	3,097	2,351	2,907
For the year ended 30 June:						
Highest traded unit price		2.61	2.64	2.06	1.96	2.56
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A	N/A
Lowest traded unit price		1.91	1.98	1.49	0.91	1.85
Highest discount of the traded unit price to net asset value per unit (%)		66.0	62.0	65.3	74.1	56.8
Closing unit price		2.61	2.49	1.98	1.52	1.92
Distribution per unit (cents)	2	17.00	17.60	14.39	24.56	24.20
Distribution yield per unit (%)	3	6.5	7.1	7.3	16.2	12.6

Notes:

1. The highest traded unit price is lower than the net asset value per unit at the end of the year. Accordingly, premium of the traded unit price to net asset value per unit had not been recorded.
2. As disclosed in the Offering Circular, distribution per unit of Sunlight REIT in the previous years were enhanced by arrangements offered by the Sponsors in the form of (i) adjustment payments (from the date of IPO to June 2009) and (ii) distribution waivers (from the date of IPO to June 2011).
3. Distribution yield per unit is calculated by dividing the distribution per unit by the closing unit price of the respective year.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of unitholders (the “**Unitholders**”) of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) will be held at The Ballroom, 18th Floor, The Mira Hong Kong, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 29 October 2012 at 10:00 a.m. for the following purposes :

- (1) To note the audited financial statements of Sunlight REIT together with the Auditor’s Report for the year ended 30 June 2012;
- (2) To note the appointment of Auditor of Sunlight REIT and the fixing of their remuneration; and
- (3) To consider and, if thought fit, pass with or without modification, the following resolution as an Ordinary Resolution :

“THAT :

- (a) the exercise by Henderson Sunlight Asset Management Limited (the “**Manager**”) during the Relevant Period (as defined in paragraph (c) below) of all the powers of the Manager to repurchase units of Sunlight REIT (“**Units**”) on behalf of Sunlight REIT on The Stock Exchange of Hong Kong Limited (the “**SEHK**”), subject to and in accordance with the circular dated 31 January 2008 issued by the Securities and Futures Commission of Hong Kong (the “**SFC**”) to management companies of SFC-authorized real estate investment trusts (“**REITs**”) in relation to on-market unit repurchases by SFC-authorized REITs, paragraph (b) below, the trust deed constituting Sunlight REIT (as amended, supplemented and/or modified from time to time) (the “**Trust Deed**”), the applicable laws of Hong Kong, the Code on Real Estate Investment Trusts, the applicable provisions of the Codes on Takeovers and Mergers and Share Repurchases, the guidelines issued by the SFC from time to time, and applicable rules and regulations, be and is hereby generally and unconditionally approved;
- (b) the aggregate number of Units which may be repurchased or agreed to be repurchased on the SEHK by the Manager pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate number of Units in issue as at the date of the passing of this resolution, and such approval shall be limited accordingly; and
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until the earliest of :
 - (i) the conclusion of the next annual general meeting of Unitholders of Sunlight REIT following the passing of this resolution;
 - (ii) the expiration of the period within which the meeting referred to in (i) above is required to be held under the Trust Deed; and
 - (iii) the revocation or variation of the authority conferred by this resolution by an ordinary resolution of the Unitholders in a general meeting.”

By Order of the Board
HENDERSON SUNLIGHT ASSET MANAGEMENT LIMITED
(as manager of Sunlight Real Estate Investment Trust)
CHUNG Siu Wah
Company Secretary

Hong Kong, 24 September 2012

Notes :

- (a) A Unitholder entitled to attend and vote at the meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his/her stead. The proxy need not be a Unitholder.
- (b) In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong ("**Unit Registrar**") not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof, or the poll concerned, should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
- (c) In the case of joint Unitholders, the vote of the Unitholder who is first-named on the register of Unitholders, whether tendered in person or by proxy, shall be acceptable to the exclusion of the votes of the other joint Unitholders and for this purpose seniority shall be determined by the order in which the names stand in the register of Unitholders.
- (d) For the purpose of determining entitlements to vote at the Annual General Meeting, the register of Unitholders of Sunlight REIT will be closed from Thursday, 25 October 2012 to Monday, 29 October 2012, both days inclusive, during which period no transfer of Units will be registered. For those Unitholders who are not already on the register, in order to qualify for attending the meeting (or at any adjournment thereof), all Unit certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar for registration not later than 4:30 p.m. on Wednesday, 24 October 2012.
- (e) The votes at the meeting will be taken by way of poll.

Financial Calendar

For FY2011/12

Interim Results Announcement	14 February 2012
Issuance of Interim Report	24 February 2012
Closure of Register for entitlement of interim distribution	29 February 2012 to 2 March 2012, both days inclusive
Interim distribution paid at HK 8.3 cents per unit	30 March 2012
Final Results Announcement	6 September 2012
Issuance of Annual Report	24 September 2012
Closure of Register for entitlement of final distribution	21 September 2012 to 25 September 2012, both days inclusive
for entitlement to attend and vote at Annual General Meeting	25 October 2012 to 29 October 2012, both days inclusive
Annual General Meeting	29 October 2012
Final distribution payable at HK 8.7 cents per unit	30 October 2012

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

Company Secretary of the Manager

Chung Siu Wah

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

Crédit Agricole Corporate and Investment Bank,
Hong Kong Branch

Hang Seng Bank Limited

The Hongkong and Shanghai Banking
Corporation Limited

Overseas-Chinese Banking Corporation Limited
Hong Kong Branch

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

* Pursuant to paragraph 6.10 of the REIT Code, Knight Frank Petty Limited shall retire as the principal valuer after it has conducted valuations of the real estate of the scheme for three consecutive years. Jones Lang LaSalle Limited has been appointed by the Trustee to fill the casual vacancy with effect from 1 September 2012.



Sunlight Real Estate Investment Trust
Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com