
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the “Selected Financial Information” and the Predecessor Operations’ audited combined financial statements and notes thereto included in Appendix I to this Offering Circular. The Predecessor Operations are not a legal entity but rather a combination of property assets under common ownership and management as described further below. Where appropriate, the following discussion includes analysis of the effects of the Offering and the completion of the Acquisitions.

Basis of Discussion and Presentation

Sunlight REIT will acquire the Target Companies, the Target Properties, the Finance Company and the Domain Name Company on completion of the Offering and accordingly has no operating history. The Manager has therefore set forth below a discussion of the historical combined operating results of the Predecessor Operations. The historical financial information of the Predecessor Operations reflect the Vendors’ interests in the Properties. Upon completion of the Acquisitions, Sunlight REIT will acquire ownership interests in these Properties. The Properties are discussed in greater detail in the section headed “The Properties and Business” in this Offering Circular.

The method of managing the Properties under Sunlight REIT has been designed to comply with the REIT Code and to meet general expectations in respect of a real estate investment trust’s property and financial management processes. Following the transfer of the Properties to Sunlight REIT, the management structure and the cost and capital structures of the Properties as well as the management philosophy and operational processes of the Manager are expected to differ from those previously adopted with respect to the Properties. These variations are expected to affect the future financial results of Sunlight REIT (see the sections headed “Management Discussion and analysis of Future Operations” and “Profit Forecast” in this Offering Circular).

The financial information has been compiled based on the audited financial statements, or where appropriate, unaudited management accounts of the REIT Group Companies and the assets and liabilities and the operating results from leasing the Properties for the Historical Periods.

Principal Accounting Policies

For a discussion of the principal accounting policies, please refer to the Accountants’ Reports of the Predecessor Operations set out in Appendix I to this Offering Circular.

Components of Results of Operations

Turnover

The Predecessor Operations generated turnover from Rental Income and car park income from the Properties. During the three financial years ended 30 June 2004, 2005 and 2006, most of the Predecessor Operations’ turnover was derived from Rental Income from the Properties.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth a breakdown of the Predecessor Operations' turnover for the relevant periods indicated.

	For the year ended 30 June					
	2004		2005		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Rental income	222,208	91.1	226,918	91.4	231,223	92.0
Car park income	21,608	8.9	21,442	8.6	20,196	8.0
	243,816	100.0	248,360	100.0	251,419	100.0

Rental Income. Rental Income is the total amount payable by all tenants pursuant to current lease agreements of the Properties. Rents paid under Sunlight REIT's tenancy agreements are typically fixed for a period of two to three years with rental rates generally negotiated in advance for the tenure of the lease period. Leases and options to renew are commercially negotiated at market rates and on customary commercial terms.

Factors typically taken into account in determining the rental rates for a lease include the rates charged by competing properties, assumed tenant retention rates on lease expiry, market conditions, inflation rates, tenant demand levels and level of occupancy.

Rental Income is recognised on a straight-line basis over the term of the lease (including any rent free periods and other lease incentives).

Car park income. Car park income comprises income generated from the operation of the Properties' parking facilities and the rates vary according to the individual car parks location. Car park income is generated on both an hourly and monthly basis, and income from each space generally ranges from HK\$10 to HK\$22 per hour and HK\$1,900 to HK\$3,050 per month.

Rental Related Income

Rental related income consists of payments in respect of expenses related to the operation of the Properties that are recovered from most tenants and includes building management fees, air-conditioning charges, rates charges, promotional levies, compensation for early lease termination and forfeited deposits.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The table below sets forth information on the rental related income for the Historical Periods:

	For the year ended 30 June		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Building management fees	33,387	34,702	33,952
Air-conditioning charges	20,207	20,897	20,109
Rates charges	7,963	9,506	9,723
Promotional levies	3,667	3,667	2,417
Compensation for early lease termination	85	175	114
Forfeited deposits	134	126	201
	65,443	69,073	66,516

Turnover Trends

Rental Income Trends

For the three financial years ended 30 June 2004, 2005 and 2006, Rental Income of the Properties was HK\$222.2 million, HK\$226.9 million and HK\$231.2 million, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The table below sets forth information on the Rental Income derived from each of the Properties for the Historical Periods:

	For the year ended 30 June					
	2004		2005		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Office						
248 Queen's Road East	41,395	18.6%	40,269	17.7%	37,904	16.4%
Bonham Trade Centre	9,896	4.4%	10,261	4.5%	11,762	5.1%
Righteous Centre	9,293	4.2%	8,197	3.6%	9,299	4.0%
135 Bonham Strand Trade Centre						
Property	6,136	2.8%	6,202	2.7%	6,657	2.9%
Winsome House Property	5,265	2.4%	5,245	2.3%	5,877	2.5%
Java Road 108 Commercial Centre	3,839	1.7%	4,224	1.9%	4,556	2.0%
Sun Fai Commercial Centre						
Property	3,068	1.4%	3,084	1.4%	3,616	1.6%
Wai Ching Commercial Building						
Property	799	0.3%	664	0.3%	664	0.3%
235 Wing Lok Street Trade Centre	3,446	1.5%	3,463	1.5%	3,888	1.7%
Yue Fai Commercial Centre						
Property	3,723	1.7%	4,065	1.8%	4,360	1.9%
Everglory Centre	3,244	1.5%	3,223	1.4%	3,719	1.6%
On Loong Commercial Building						
Property	3,069	1.4%	3,070	1.4%	3,432	1.5%
Sub total	93,173	41.9%	91,967	40.5%	95,734	41.5%
Retail						
Metro City Phase I Property	47,226	21.3%	46,379	20.5%	44,701	19.3%
Sheung Shui Centre Shopping						
Arcade	61,858	27.8%	66,761	29.4%	66,400	28.7%
Kwong Wah Plaza Property	13,633	6.1%	14,430	6.4%	15,491	6.7%
Beverly Commercial Centre						
Property	835	0.4%	1,755	0.8%	1,721	0.7%
Glory Rise Property	1,489	0.7%	1,671	0.7%	2,316	1.0%
Supernova Stand Property	1,757	0.8%	1,844	0.8%	1,953	0.8%
Palatial Stand Property	431	0.2%	431	0.2%	610	0.3%
Royal Terrace Property	1,806	0.8%	1,680	0.7%	2,297	1.0%
Sub total	129,035	58.1%	134,951	59.5%	135,489	58.5%
Total	222,208	100.0%	226,918	100.0%	231,223	100.0%

Car Park Income Trends

Car park income has been dropping over the Historical Periods due to intense competition. For the three financial years ended 30 June 2004, 2005 and 2006, car park income of the Properties was HK\$21.6 million, HK\$21.4 million and HK\$20.2 million, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Trends in Rental per Leased sq.ft. of Gross Rentable Area

For the three financial years ended 30 June 2004, 2005 and 2006, the average monthly rental per sq.ft. of Gross Rentable Area of the Properties was HK\$15.7, HK\$15.8 and HK\$16.5, respectively.

The following table sets forth information on the average monthly rental⁽¹⁾ per leased sq.ft. of Gross Rentable Area derived from each of the Properties for the Historical Periods:

Property	For the year ended 30 June		
	2004	2005	2006
	HK\$	HK\$	HK\$
Office			
248 Queen's Road East	10.3	10.1	9.6
Bonham Trade Centre	8.1	7.9	8.8
Righteous Centre	16.1	14.0	16.0
135 Bonham Strand Trade Centre Property	8.5	8.4	9.3
Winsome House Property	11.3	11.2	13.3
Java Road 108 Commercial Centre	9.0	10.0	10.8
Sun Fai Commercial Centre Property	10.4	10.1	11.9
Wai Ching Commercial Building Property	5.2	4.8	5.3
235 Wing Lok Street Trade Centre	6.2	6.0	7.1
Yue Fai Commercial Centre Property	7.6	8.3	9.8
Everglory Centre	9.2	9.2	10.6
On Loong Commercial Building Property	10.4	10.1	12.0
Sub average ⁽²⁾	9.7	9.5	10.1
Retail			
Metro City Phase I Property	22.3	21.4	23.2
Sheung Shui Centre Shopping Arcade	43.3	46.3	46.6
Kwong Wah Plaza Property	18.0	18.8	20.4
Beverly Commercial Centre Property	21.0	19.8	21.8
Glory Rise Property	40.2	30.4	38.3
Supernova Stand Property	39.2	41.1	43.6
Palatial Stand Property	8.1	6.8	6.5
Royal Terrace Property	21.5	17.4	21.4
Sub average ⁽²⁾	28.3	28.5	30.1
Overall average ⁽²⁾	15.7	15.8	16.5

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Notes:

- (1) The average monthly rental per leased sq.ft. of Gross Rentable Area stated for each Property over the relevant period is calculated by dividing the Rental Income for the relevant period by the number of months in that period, and then dividing by a simple average of the leased area of that Property at the end of each month. Leased area is the Gross Rentable Area, adjusted by the occupancy rate.
- (2) The sub averages and overall average are derived by dividing the sum of the monthly rental of each of the Properties shown by the total leased Gross Rentable Area of all the Properties shown.

Occupancy Trends

For the three financial years ended 30 June 2004, 2005 and 2006, the average occupancy rates of the Properties were 91.0%, 92.6% and 90.0%, respectively.

The table below sets forth information on the average occupancy rates⁽¹⁾ of each of the Properties for the periods indicated.

Property	For the year ended 30 June		
	2004	2005	2006
	%	%	%
Office			
248 Queen's Road East ⁽²⁾	89.1	88.6	87.3
Bonham Trade Centre	86.4	91.3	94.6
Righteous Centre	93.0	94.1	93.8
135 Bonham Strand Trade Centre Property	94.3	95.9	92.9
Winsome House Property	96.4	96.9	91.5
Java Road 108 Commercial Centre	94.1	93.2	92.5
Sun Fai Commercial Centre Property	94.3	97.1	96.4
Wai Ching Commercial Building Property	78.3	70.0	64.1
235 Wing Lok Street Trade Centre	87.9	92.7	86.9
Yue Fai Commercial Centre Property	95.5	95.7	86.4
Everglory Centre	98.8	97.7	97.9
On Loong Commercial Building Property	96.1	99.1	93.2
Sub average ⁽³⁾	90.6	91.5	89.8

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Property	For the year ended 30 June		
	2004	2005	2006
	%	%	%
Retail			
Metro City Phase I Property ⁽²⁾	93.2	95.6	85.0
Sheung Shui Centre Shopping Arcade ⁽²⁾	97.3	98.3	96.9
Kwong Wah Plaza Property	96.3	97.7	97.4
Beverley Commercial Centre Property	41.7	92.8	82.8
Glory Rise Property	43.5	64.6	71.1
Supernova Stand Property	88.4	88.4	88.4
Palatial Stand Property	51.1	61.5	90.1
Royal Terrace Property ⁽²⁾	73.3	84.1	93.6
Sub average ⁽³⁾	91.7	95.1	90.5
Overall average ⁽³⁾	91.0	92.6	90.0

Notes:

- (1) The average occupancy rate for each Property over the relevant period is derived by dividing the sum of the occupancy rates as at the end of each month during the relevant period for the relevant Property by the number of months in the relevant period.
- (2) The occupancy rates for car parks in these four Properties are not taken into account in considering the average occupancy rate of these four Properties.
- (3) Sub averages and overall average are calculated on a weighted average basis by leased sq.ft. of Gross Rentable Area.

248 Queen's Road East recorded a drop in occupancy rate due to relocation of a large tenant, which had occupied six and a half floors, in April 2005. In addition, vacancies at a nearby competing building, which also experienced a loss of tenants, resulted in unfavorable leasing conditions for neighbouring properties. Higher rentals were achieved after that building became close to fully occupied. Metro City Phase I Property's increased vacancy was a result of the loss of a large tenant in September 2005. The occupancy rates for Glory Rise Property and Royal Terrace Property were lower in FY2004 as leasing only commenced on these properties in 2003 and 2002 respectively. Beverley Commercial Centre Property recorded a drop in average occupancy rate for FY2006 due primarily to the existing manager of these Properties, in view of the steadily rising office and retail rentals, opting to pursue a strategy to tolerate an increase in vacancy in order to achieve higher rental income. Most of the vacated retail space has since been leased. Small properties with fewer tenants are generally subject to higher fluctuation in average occupancy rates. Bonham Trade Centre recorded strong occupancy rate recovery after the SARS epidemic and occupancy for this building has improved in each of the Historical Periods. Generally, occupancy rates for the Properties were adversely affected during the general economic downturn and the advent of the SARS epidemic in early 2003. As the Hong Kong economy improved following the recovery from SARS in May 2003, the average occupancy rates for the portfolio have steadily increased.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Related Party Income

Jones Hugh Investment Limited, a wholly owned subsidiary of HD (the controlling shareholder of HLD), leased 5,195 sq.ft. in Bonham Trade Centre and 3,662 sq.ft. in Metro City Phase I under normal commercial terms and entered into in the ordinary course of business. Rental Income and rental related income received from Jones Hugh Investment Limited were HK\$1.9 million, HK\$1.7 million and HK\$1.5 million for FY2004, FY2005 and FY2006 respectively. For FY2006, the Predecessor Operations also received HK\$2.0 million in rental income and rental related income from Henderson Real Estate Agency Limited, Henderson Sunlight Asset Management Limited and Henderson Sunlight Property Management Limited.

Direct Costs

Prior to the Acquisitions, the Predecessor Operations' direct costs consisted primarily of (i) building management fees; (ii) car park operating costs; (iii) rental commission; (iv) Government rent and rates; (v) marketing expenses; (vi) repairs and maintenance; (vii) legal and professional fees; (viii) stamp duty and registration fees; (ix) depreciation; and (x) property miscellaneous expenses. Direct costs vary across the Properties according to size, location, age and type of property.

The following table sets forth a breakdown of the Predecessor Operations' direct costs for the periods indicated.

	For the year ended 30 June		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Building management fees	48,829	50,067	51,428
Car park operating costs	7,627	7,442	6,249
Rental commission	18,433	15,924	16,993
Government rent and rates	12,234	13,382	14,392
Marketing expenses	7,574	8,616	8,211
Repairs and maintenance	3,944	4,603	7,493
Legal and professional fees	1,832	1,537	1,597
Stamp duty and registration fees	141	119	203
Depreciation	27	27	—
Property miscellaneous expenses	1,154	781	1,007
	101,795	102,498	107,573

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Building management fees. Building management fees included the management fees payable under the relevant deeds of mutual covenant and/or building management expenditure and managing agency remuneration under the relevant management agency agreement.

Car park operating costs. Car park operating costs comprised costs relating to the operation of the car parks, including car park leasing agency fees, car park management fees and car park manager fees.

Rental commission. Rental commission comprised fees paid to Henderson Real Estate Agency Limited and Henderson Property Agency Limited, each a wholly owned subsidiary of HLD, for marketing and leasing administration services and leasing commission paid to third-party real estate agencies for marketing services in respect of the Properties.

Government rent and rates. Government rent and rates refer to the amount paid in respect of (i) Government rent paid by the Predecessor Operations under Government Grants, which require payment of an annual rent to the Government and (ii) Government rates payable by the Predecessor Operations in respect of the Properties and charged at 5% of the applicable rateable value of the relevant properties.

Marketing expenses. Marketing expenses included newspaper and television advertising, production cost of leasing brochures special functions, and seasonal decorations at the Properties.

Repairs and maintenance. Repairs and maintenance expenses comprised cost for repair, maintenance, repartition, electrical installation and landlord's provision for rental units.

Legal and professional fees. Legal and professional fees included legal fees relating to preparation of tenancy agreements, arbitration fees and legal costs.

Stamp duty and registration fees. Stamp duty and registration fees comprised such fees payable to the Government in respect of tenancy agreements.

Depreciation. The cost of fixed assets, less their estimated residual value, if any, are depreciated using the straight line method over their estimated useful lives of five years.

Property miscellaneous expenses. Miscellaneous expenses comprised primarily of electricity, water and telephone, printing and stationary, insurance, and sundry expenses of the Predecessor Operations.

Other Income

Other income consisted primarily of interest income, sundry income and legal expenses reimbursements.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Increase in Fair Value of Investment Properties

According to the accounting policies of the Predecessor Operations, investment properties are required to be stated at their fair value and are revalued at each balance sheet date. A qualified property valuer was engaged on an annual basis to conduct a market valuation of the investment properties. The investment properties were valued by reference to comparable market transactions and where appropriate on the basis of capitalisation of their net property income. Increases in the fair market value of the investment properties are reflected as an income item in the income statement. The annual revaluation of the investment properties has in the past resulted, and in the future may continue to result for Sunlight REIT, in significant fluctuations in results of operations.

Write Back of Provision for Diminution in Value of Completed Properties for Sale

Write back of provision for diminution in value of completed properties for sale represents the change of the estimated net realisable value of the completed properties for sale at each period end as compared to the previous period end. Net realisable value is determined by reference to sale proceeds received less selling expenses, or by management estimates based on the prevailing market conditions.

Profit on Sale of Completed Properties for Sale

Profit on sale of completed properties for sale comprised profit realised on sale of properties held for sale, net of carrying costs, agency fees and other transaction fees. Completed properties for sale refers to units in Kwong Wah Plaza and car park spaces in Royal Terrace, which were originally developed for sale and classified as properties for sale. These properties were historically stated on the balance sheet at the lower of cost and net realisable value. Net realisable value is determined by reference to sale proceeds received after the balance sheet date less selling expenses, or by management estimates based on prevailing market conditions. As from Completion, these properties will be treated as investment properties and will be stated at their fair market values as at the balance sheet date in accordance with Hong Kong GAAP.

Administrative Expenses

The Predecessor Operations' administrative expenses consisted primarily of audit fees, bank charges, charity donations and sundry expenses.

Other Operating Expenses

Other operating expenses include professional charges, building administration fees and sundry expenses.

Interest Expenses

During the Historical Periods, the Predecessor Operations' are financed by interest bearing related-party borrowings, and the loans are charged at floating interest rates of approximately best lending rate minus 2.25% to best lending rate plus 1.5%. The related parties are group companies of the

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

shareholders of the Property Companies, including Henderson Real Estate Finance Limited, Henderson Finance Company Limited, Henderson Real Estate Agency Limited and Greatzi Limited. For further information on related-party borrowings, see Section B of the Accountants' Report in Appendix I to this Offering Circular.

Income Tax

Profits received by the Property Companies from the Properties were assessable to Hong Kong profits tax at the then prevailing tax rate (which is currently 17.5%). Profit for these purposes was arrived at after deducting from the gross Rental Income (i) all expenses necessarily incurred in earning the Rental Income; (ii) any applicable tax allowances; (iii) tax losses brought forward and (iv) other tax deductible expenses.

Deferred tax was provided for all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, and includes the effects of (i) the increase in fair value in investment properties; (ii) accelerated tax depreciation; and (iii) taxation losses.

For further information, see the section headed "Taxation" in this Offering Circular for further information on taxation.

Results of Operations

The following discussion of results of operations of the Predecessor Operations should be read in conjunction with the Predecessor Operations' combined financial information and the accompanying notes thereto set out in Appendix I to this Offering Circular.

FY2006 Compared to FY2005

Turnover

Turnover increased by HK\$3.0 million, or 1.2%, to HK\$251.4 million for FY2006 from HK\$248.4 million for FY2005. The change in turnover was due primarily to increase in Rental Income due to reasons discussed further below.

Rental Income. Rental Income increased by approximately HK\$4.3 million, or 1.9% to HK\$231.2 million for FY2006 from HK\$226.9 million for FY2005. A majority of the Properties recorded higher Rental Income in FY2006 compared to FY2005. This was partially offset by increased vacancies in 248 Queen's Road East and Metro City Phase I Property for FY2006. 248 Queen's Road East recorded a drop in average occupancy rate due to the relocation of a large tenant in April 2005 (which had occupied six and a half floors) and the related subsequent vacancies. In addition, vacancies at a nearby competing building resulted in unfavorable leasing conditions for neighbouring properties. Higher rentals were achieved after the nearby building became close to fully occupied and has remained so. Metro City Phase I Property's increased vacancy rate was a result of the loss of a large tenant in September 2005. Rental Income contributed 92.0% of turnover for FY2006 compared to 91.4% for FY2005.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Car park income. Car park income decreased by HK\$1.3 million, or 6.1% to HK\$20.2 million for FY2006 from HK\$21.5 million for FY2005. The decrease was due primarily to lower utilisation of car park spaces (with the number of monthly car park spaces under lease falling by 11.9% to an average occupancy rate (for monthly car park spaces) of 45.6% for Metro City Phase I Property and by 10.8% to an average occupancy rate (for monthly car park spaces) of 28.7% for Sheung Shui Centre Shopping Arcade for FY2006) as a result of increased competition, resulting from several new car parks having been opened near some of the Properties. Car park income contributed 8.0% of turnover for FY2006 compared to 8.6% for FY2005.

Rental Related Income

Rental related income decreased by HK\$2.6 million, or 3.8%, to HK\$66.5 million for FY2006 from HK\$69.1 million for FY2005. The decrease was due primarily to lower property management fees and air-conditioning charges received from 248 Queen's Road East and Metro City Phase I Property, each of which lost one large tenant. In the case of 248 Queen's Road East, the decrease was also due to the loss of the naming right fees previously payable by the one large tenant but no longer paid for FY2006 after its relocation in April 2005.

Direct Costs

Direct costs increased by HK\$5.1 million, or 5.0%, to HK\$107.6 million for FY2006 from HK\$102.5 million for FY2005. The increase was due primarily to increases in building management fees, rental commission, government rent and rates, repair and maintenance costs, legal and professional fees and stamp duty and registration fees, which were partially offset by decreases in car park operating costs and marketing expenses.

Building management fees. Building management fees increased by HK\$1.3 million, or 2.5%, to HK\$51.4 million for FY2006 from HK\$50.1 million for FY2005. The increase was due primarily to higher costs of routine maintenance generally across the Properties. Building management fees contributed to 47.8% of total direct costs for FY2006 compared to 48.9% for FY2005.

Car park operating costs. Car park operating costs decreased by HK\$1.2 million, or 16.2% to HK\$6.2 million for FY2006 from HK\$7.4 million for FY2005. The decrease was due primarily to a one-time waiver of building management fees relating to the Metro City Phase I Property car park for the four months from September to December 2005 due to an accumulated surplus in the building management account.

Rental commission. Rental commission increased by HK\$1.1 million, or 6.9% to HK\$17.0 million for FY2006 from HK\$15.9 million for FY2005. The increase was due primarily to higher rental commission for the leasing of a large vacant space in 248 Queen's Road East, which was partially offset by lower rental commission paid for other Properties.

Government rent and rates. Government rent and rates increased by HK\$1.0 million, or 7.5%, to HK\$14.4 million for FY2006 from HK\$13.4 million for FY2005. The increase was due to increases in rateable values of the Properties.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Marketing expenses. Marketing expenses decreased by approximately HK\$0.4 million, or 4.7%, to HK\$8.2 million for FY2006 from HK\$8.6 million for FY2005. The decrease was due primarily to higher marketing expenses to attract shoppers to Metro City Phase I Property for FY2005.

Repairs and maintenance. Repairs and maintenance costs increased by HK\$2.9 million, to HK\$7.5 million for FY2006 from HK\$4.6 million for FY2005. The increase was due primarily to costs involved in repartitioning and reinstatement of units for 248 Queen's Road East, repair of part of the air conditioning system and replacement of floor tiles for Metro City Phase I Property and reinstatement of units and repair of part of the air conditioning system for Righteous Centre.

Legal and professional fees. Legal and professional fees increased by HK\$0.1 million to HK\$1.6 million for FY2006 from HK\$1.5 million for FY2005.

Stamp duty and registration fees. Stamp duty and registration fees increased by HK\$0.1 million to HK\$0.2 million for FY2006 from HK\$0.1 million for FY2005 due to higher stamp duty and registration fees for 248 Queen's Road East.

Depreciation. Depreciation decreased by approximately HK\$27,000, to nil for FY2006 from approximately HK\$27,000 for FY2005. The decrease was due to the depreciable fixed asset being fully depreciated up to 30 June 2005.

Property miscellaneous expenses. Property miscellaneous expenses increased by HK\$0.2 million to HK\$1.0 million for FY2006 from HK\$0.8 million for FY2005.

Gross Profit

Gross profit decreased by approximately HK\$4.5 million, or 2.1%, to HK\$210.4 million for FY2006 from HK\$214.9 million for FY2005 as a result of the cumulative effect of the factors discussed above.

Other Income

Other income decreased by approximately HK\$0.3 million to HK\$0.6 million for FY2006 from HK\$0.9 million for FY2005 as a result of a decrease in accounts payable written off.

Increase in Fair Value of Investment Properties

Increase in fair value of investment properties was HK\$2.5 billion for FY2006. The increase in fair value of 248 Queen's Road East, Sheung Shui Centre Shopping Arcade, Metro City Phase I Property, 235 Wing Lok Street Trade Centre, Righteous Centre, On Loong Commercial Building Property, Yue Fai Commercial Centre Property and Everglory Centre were HK\$793.0 million, HK\$800.4 million, HK\$660.7 million, HK\$54.0 million, HK\$51.0 million, HK\$26.0 million, HK\$44.0 million and HK\$40.0 million respectively for FY2006. The increase in fair value was HK\$0.7 billion for FY2005. The increase in fair value of investment properties for FY2006 compared to FY2005 was due to, amongst other factors, the improving economic conditions in Hong Kong, resulting in rising rents and property values in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Write Back of Provision for Diminution in Value of Completed Properties for Sale

Net write back of provision for diminution in value of completed properties for sale was HK\$21.1 million for Java Road 108 Commercial Centre, Sun Fai Commercial Centre Property, Winsome House Property, Wai Ching Commercial Building Property and Palatial Stand Property for FY2005. Net write back of provision for diminution in value of completed properties for sale was HK\$18.3 million for FY2006. Provision for diminution in value of completed properties for sale was made for that year in relation to Palatial Stand Property, while write backs of provision for diminution in value of completed properties for sale were also made in relation to Java Road 108 Commercial Centre, Sun Fai Commercial Centre Property, Winsome House Property, Wai Ching Commercial Building Property and Beverley Commercial Centre Property.

Profit on Sale of Completed Properties for Sale

Profit on sale of completed properties for sale was HK\$0.8 million for FY2005 (which related to one unit in Kwong Wah Plaza) and HK\$0.2 million for FY2006 (which related to one car park at Royal Terrace).

Administrative Expenses

Administrative expenses decreased by HK\$1.2 million, or 63.2%, to HK\$0.7 million for FY2006 from HK\$1.9 million for FY2005. The higher administrative expenses for FY2005 was primarily the result of HK\$1,323,100 of donations to charity.

Other Operating Income/(Expenses)

Other operating expenses increased by HK\$2.1 million to HK\$1.3 million for FY2006 from an operating income of HK\$0.8 million for FY2005. The increase was due primarily to bad debt written off of HK\$1.1 million relating to Metro City Phase I Property for FY2006 and a bad debt recovery of HK\$1.1 million relating to 248 Queen's Road East for FY2005.

Interest Expenses

Interest expenses increased by approximately HK\$2.4 million, or 10.1%, to HK\$26.2 million for FY2006 from HK\$23.8 million for FY2005 due primarily to a higher interest rate environment in which best lending rate as quoted by HSBC increased from a range of 5.0% - 5.8% for FY2005 to a range of 5.8% - 8.0% for FY2006.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Income Tax

Income tax increased to HK\$455.2 million for FY2006 from HK\$128.7 million for FY2005 primarily as a result of taxation on revaluation gains on investment properties. The total amount of taxation of HK\$455.2 million for FY2006 comprised HK\$25.5 million of current taxation and HK\$429.7 million of deferred taxation. Deferred tax liabilities of HK\$701.2 million as at 30 June 2006 included deferred tax liabilities of HK\$420.4 million for revaluation gain of HK\$2.5 billion for FY2006. The total amount of taxation of HK\$128.7 million comprised approximately HK\$23.9 million of current taxation and approximately HK\$104.8 million of deferred taxation for FY2005.

Net Profit

Net profit increased by HK\$1.4 billion to HK\$2.2 billion for FY2006 from HK\$790.6 million for FY2005, as a result of the cumulative effect of the factors described above, primarily due to increase in fair value of investment properties.

FY2005 Compared to FY2004

Turnover

Turnover increased by HK\$4.6 million, or 1.9%, to HK\$248.4 million for FY2005 from HK\$243.8 million for FY2004. The increase was due primarily to a HK\$4.7 million increase in Rental Income as a result of increase in overall occupancy from 91.0% to 92.6%.

Rental Income. Rental Income increased by HK\$4.7 million, or 2.1% to HK\$226.9 million for FY2005 from HK\$222.2 million for FY2004. The increase was due primarily to higher overall occupancy rates which increased from 91.0% for FY2004 to 92.6% for FY2005. Rental Income contributed to 91.4% and 91.1% of turnover for FY2005 and FY2004 respectively. The increase was primarily due to increase in rental income for Sheung Shui Centre Shopping Arcade, which recorded Rental Income increase of approximately HK\$4.9 million, with average monthly rental per leased sq.ft. of Gross Rentable Area increasing from HK\$43.3 for FY2004 to HK\$46.3 for FY2005 and average occupancy rate increasing from 97.3% for FY2004 to 98.3% for FY2005.

Car park income. Car park income decreased by HK\$0.2 million, or 0.9% to HK\$21.4 million for FY2005 from HK\$21.6 million for FY2004. Car park income contributed to 8.6% of turnover for FY2005 compared to 8.9% for FY2004.

Rental Related Income

Rental related income increased by HK\$3.7 million, or 5.7%, to HK\$69.1 million for FY2005 from HK\$65.4 million for FY2004. The increase was due primarily to the increase in the overall occupancy rate from 91.0% for FY2004 to 92.6% for FY2005.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Direct Costs

Direct costs increased by HK\$0.7 million, or 0.7%, to HK\$102.5 million for FY2005 from HK\$101.8 million for FY2004. The increase was due primarily to increases in building management fees, government rent and rates, marketing expenses and repair and maintenance costs offsetting decreases in car park operating costs, rental commission, legal and professional fees, stamp duty and registration fees, and property miscellaneous expenses.

Building management fees. Building management fees increased by HK\$1.3 million, or 2.7%, to HK\$50.1 million for FY2005 from HK\$48.8 million for FY2004. The increase was due primarily to increases in building management fees paid to the property manager of 248 Queen's Road East and Sheung Shui Centre Shopping Arcade as a result of higher property management expenditure. Building management fees accounted for 48.9% of total direct costs for FY2005 compared to 47.9% for FY2004.

Car park operating costs. Car park operating costs decreased by HK\$0.2 million, or 2.6% to HK\$7.4 million for FY2005 from HK\$7.6 million for FY2004.

Rental commission. Rental commission decreased by HK\$2.5 million, or 13.6% to HK\$15.9 million for FY2005 from HK\$18.4 million for FY2004. The decrease was due primarily to a waiver of rental commission on the smaller Properties by Henderson Real Estate Agency Company Limited in FY2005, made in view of its long-term relationship with its customers.

Government rent and rates. Government rent and rates increased by HK\$1.2 million, or 9.8%, to HK\$13.4 million for FY2005 from HK\$12.2 million for FY2004. The increase was due primarily to lower government rates in FY2004 due to one-time remission of government rates of approximately HK\$1.7 million.

Marketing expenses. Marketing expenses increased by HK\$1.0 million, or 13.2%, to HK\$8.6 million for FY2005 from HK\$7.6 million for FY2004. The increases was due primarily to increases in promotional activities, including bus panel, light box, banner advertising and other outdoor marketing expenses for Metro City Phase I Property and increased utilisation of free parking by visitors for Sheung Shui Centre Shopping Arcade.

Repairs and maintenance. Repairs and maintenance costs increased by HK\$0.7 million, to HK\$4.6 million for FY2005 from HK\$3.9 million for FY2004. The increase was partly due to the repartitioning of units in Metro City Phase I Property.

Legal and professional fees. Legal and professional fees decreased by HK\$0.3 million, or 16.7%, to HK\$1.5 million for FY2005 from HK\$1.8 million for FY2004. The decrease was due primarily to non-recurring consulting fees for public relation and research in FY2004.

Stamp duty and registration fees. Stamp duty and registration fees decreased by approximately HK\$22,000, or 15.6%, to approximately HK\$119,000 for FY2005 from approximately HK\$141,000 for FY2004.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Depreciation. Depreciation remained unchanged from FY2004 to FY2005 at HK\$27,000.

Property miscellaneous expenses. Property miscellaneous expenses decreased by HK\$0.4 million, or 33.3%, to HK\$0.8 million for FY2005 from HK\$1.2 million for FY2004.

Gross Profit

Gross profit increased by HK\$7.4 million, or 3.6%, to HK\$214.9 million for FY2005 from HK\$207.5 million for FY2004 as a result of the cumulative effect of the factors discussed above.

Other Income

Other income increased by HK\$0.6 million to HK\$0.9 million for FY2005 from HK\$0.3 million for FY2004 as a result of an increase in sundry income.

Increase in Fair Value of Investment Properties

Increase in fair value of investment properties was HK\$706.4 million for FY2005 compared to HK\$519.4 million for FY2004. The increase in fair value of investment properties for FY2005 compared to the year ended 30 June 2004 was due to, amongst other factors, improving economic conditions in Hong Kong, resulting in rising rents and property values in Hong Kong. The increases in fair value of 248 Queen's Road East, Sheung Shui Centre Shopping Arcade, Metro City Phase I Property, Righteous Centre, 235 Wing Lok Street Trade Centre, Yue Fai Commercial Centre Property, Everglory Centre and On Loong Commercial Building Property were HK\$324.4 million, HK\$162.1 million, HK\$37.8 million, HK\$100.6 million, HK\$13.0 million, HK\$28.0 million, HK\$25.8 million and HK\$14.7 million respectively for FY2005.

Write Back of Provision for Diminution in Value of Completed Properties for Sale

Provision for diminution in value of completed properties for sale were made in relation to Bonham Trade Centre, Java Road 108 Commercial Centre, 135 Bonham Strand Trade Centre Property, Sun Fai Commercial Centre Property and Beverley Commercial Centre Property in FY2003. Write backs of provision for diminution in value of completed properties for sale were made to reflect the prevailing market conditions based on the buildings situated in the surrounding area. Net write back of provision for diminution in value of completed properties was HK\$59.8 million for Bonham Trade Centre, Java Road 108 Commercial Centre, 135 Bonham Strand Trade Centre Property, Sun Fai Commercial Centre Property, Winsome House Property and Wai Ching Commercial Building Property in FY2004 and HK\$21.1 million for Java Road 108 Commercial Centre, Sun Fai Commercial Centre Property, Winsome House Property, Wai Ching Commercial Building Property and Palatial Stand Property in FY2005.

Profit on Sale of Completed Properties for Sale

Profit on sale of completed properties for sale in 2005 related to profit from the sale of an office unit at Kwong Wah Plaza for HK\$0.8 million compared to profit from the sale of car parks at Royal Terrace of HK\$0.1 million in FY2004.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Administrative Expenses

Administrative expenses increased by approximately HK\$0.1 million, or 5.6%, to HK\$1.9 million for FY2005 from HK\$1.8 million for FY2004.

Other Operating (Expenses)/Income

Other operating expenses decreased by HK\$1.8 million from HK\$1.0 million for FY2004 to an income of HK\$0.8 million for FY2005. The decrease was due primarily to bad debt recovery in FY2005 of HK\$1.1 million from 248 Queen's Road East and a general decrease in bad debts incurred from HK\$0.8 million in FY2004 to HK\$73,655 in FY2005.

Interest Expenses

Interest expenses increased by HK\$8.3 million, or 53.6%, to HK\$23.8 million for FY2005 from HK\$15.5 million for FY2004 due primarily to an interest bearing related party loan borrowed at best lending rate minus 25 basis points during FY2005, which incurred interest expenses of approximately HK\$5.5 million. The loan was changed to non-interest bearing prior to the end of FY2005. The higher interest expenses were also a result of the higher interest rate environment in which the best lending rate as quoted by HSBC increased from 5.0% for FY2004 to a range of 5.0%-5.8% for FY2005.

Income Tax

Income tax increased by HK\$3.0 million to HK\$128.7 million for FY2005 from HK\$125.7 million for FY2004 primarily as a result of higher profits. The total amount of taxation of HK\$128.7 million for FY2005 comprised HK\$23.9 million of current taxation and HK\$104.8 million of deferred taxation, compared to a total taxation of HK\$125.7 million, which comprised HK\$25.5 million of current taxation and HK\$100.2 million of deferred taxation for FY2004. The increase in deferred taxation was due primarily to property revaluation gains offsetting prior year tax losses.

Net Profit

Net profit increased by HK\$147.4 million to HK\$790.6 million for FY2005 from HK\$643.2 million for FY2004, as a result of the cumulative effect of the factors described above, primarily due to increase in fair value of investment properties.

Liquidity and Capital Resources

The principal sources of funding for the original acquisition or development and any subsequent expansion and renovation of the Properties have historically been from internally generated funds, equity injections and loans from various related parties.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Indebtedness

Historically, the indebtedness of the Predecessor Operations consisted of loans from various related parties. As at 30 June 2006, these related party loans amounted to approximately HK\$1.8 billion out of which HK\$381.4 million are interest bearing at floating interest rates ranging from best lending rate minus 2.25% to best lending rate plus 1.5%. The remaining HK\$1.4 billion related party loans were not interest bearing as at 30 June 2006.

Capital Expenditure

Historically, capital expenditure in relation to the Properties has been limited as a majority of the Properties were relatively new having been completed between 1995 and 2003. Capital expenditure amounted to less than HK\$1 million for each of FY2004, FY2005 and FY2006.