
MANAGEMENT DISCUSSION AND ANALYSIS OF FUTURE RESULTS OF OPERATIONS

After the Acquisitions, there will be certain changes to Sunlight REIT's cost structure, level of indebtedness and operations as compared to the Predecessor Operations. The following discussion has been prepared to assist prospective investors' evaluation of the Acquisitions and the factors which may affect Sunlight REIT's future results of operations. The Manager considers the assumptions to be reasonable at the time of issue of this Offering Circular. These assumptions are subject to uncertainties, which may cause actual results to differ materially from those projected. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Joint Global Coordinators, the Manager, Sunlight REIT, the Trustee or any other person or that these results will be achieved or are likely to be achieved. Investors are cautioned not to place undue reliance on these forward-looking statements.

Background

The audited combined financial information of the Predecessor Operations set forth in Appendix I to this Offering Circular and the other historical financial information have been prepared by the Manager based on the historical operations of the Predecessor Operations. The cost structure of Sunlight REIT will differ in certain respects from those of the Predecessor Operations. For example, certain historical costs of the Predecessor Operations, such as management agency remuneration, will not be costs of Sunlight REIT. Similarly, certain costs, such as the fees to the Manager, the Property Manager and the Trustee, were not incurred by the Predecessor Operations in the Historical Periods but will be incurred by Sunlight REIT going forward. In addition, Sunlight REIT will have the benefit of certain arrangements which are intended to enhance the Annual Distributable Income of Sunlight REIT, such as the Adjustment Payments, that the Predecessor Operations did not benefit from as they were not in place prior to the Listing Date.

Further, the presentation format of Sunlight REIT's financial information may differ from that of the audited combined financial information set forth in Appendix I. Set forth below are details of the key income statement items and other financial statement items of the Predecessor Operations which may be affected by the Acquisitions.

Adjustment Payments

The Independent Property Valuer has estimated the prevailing average market rental for the Properties (on a weighted average basis by Gross Rentable Area) as at 30 September 2006 to be HK\$26.10 per square foot of Gross Rentable Area per month. This is equivalent to HK\$405.4 million per annum for the entire portfolio, assuming that the Properties are fully occupied (such amount being referred to below as the "Benchmark Prevailing Rental"). Based on the rent roll as at 30 September 2006, the actual average rental for the Properties (on a weighted average basis by Gross Rentable Area) was HK\$18.38 per leased square foot of Gross Rentable Area per month, equivalent to HK\$252.2 million per annum for the entire portfolio, based on the average actual occupancy rate of the Properties of 88.3% as at 30 September 2006.

Accordingly, there is currently a disparity between the current Consolidated Rental Income (as at 30 September 2006) and the Assured Minimum Rental per annum for the period from the Listing Date to 30 June 2007.

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The disparity between the Benchmark Prevailing Rental and actual Rental Income is primarily a result of the fact that the average prevailing market rentals for the Properties have generally been increasing during the last three years.

The Market Consultant considers that the growth in prevailing market rentals has been underpinned by Hong Kong's positive macroeconomic environment, positive GDP growth, robust economic recovery since the SARS period, increased employment, favourable supply and demand dynamics in the property market and rising occupancy levels. In addition, the prevailing market rental rates for the retail sector have risen due to the growth in retail sales on the back of higher visitor arrivals in Hong Kong particularly from mainland China. For further information, please see the section headed "Overview of the Hong Kong Commercial Property Markets" in this Offering Circular.

The current lease expiry profile of the portfolio is as follows:

Period	Number of leases expiring ⁽¹⁾	Gross Rentable Area of leases expiring sq.ft.	Expiring leases as a percentage of total Gross Rentable Area %	Monthly Rental Income of leases expiring ⁽²⁾ HK\$	Expiring leases as a percentage of total monthly Rental Income %
From 30 Sep 2006 to 30 Jun 2007	373	364,058	28.1	5,875,683	27.7
Year ending 30 Jun 2008	408	384,431	29.7	8,435,034	39.8
Year ending 30 Jun 2009 and beyond	153	406,113	31.4	6,905,990	32.5
Vacant space	—	139,787	10.8	—	—
Total	934	1,294,389	100.0	21,216,707	100.0

Notes:

- (1) Assuming that the options to renew are not exercised.
- (2) Monthly Rental Income in respect of leases expiring for the respective periods is the sum of monthly Rental Income of such expiring leases as at 30 September 2006.

The Market Consultant forecasts market rental growth for the Properties of an average of 19.5% for the year ending 30 June 2007, 11.7% for the year ending 30 June 2008 and 6.1% for the year ending 30 June 2009 (on a weighted average basis by Gross Rental Area), see "Appendix VI — Letter from the Market Consultant in relation to its Hong Kong Grade A and Grade B office and retail property market analysis report". However, as 32.5% (by Rental Income and on a weighted average basis by Gross Rentable Area) of the existing leases will not expire until the year ending 30 June 2009 or later, the actual Rental Income generated by the Properties may continue to lag behind the prevailing market rentals over this period.

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To a lesser extent, the disparity between the Benchmark Prevailing Rental and actual Rental Income is also a result of some leases being entered into at below the prevailing market rental at the time. This is predominately a function of property specific factors which include significant reductions in the occupancy level of a property and the leasing behaviour of competing properties. In particular, in April 2005, there was a reduction in occupancy rates at 248 Queen's Road East due to the relocation of a major tenant that had occupied six and a half floors, or approximately 20% of the total Gross Rentable Area, of the property. The reduction in occupancy coincided with vacancies at a nearby competing building, which also experienced a loss of tenants, and gave rise to temporary unfavorable leasing conditions. As a result of these factors, leases were entered into in respect of certain units in 248 Queen's Road East at rentals below the prevailing market rentals.

As a result of the above, the Vendors of the Target Company Shares have agreed to make certain Adjustment Payments pursuant to the Deeds of Adjustment Payments that have the effect of adjusting the consideration payable by Sunlight REIT and the REIT Group Companies to the Vendors. In respect of the period from the Listing Date to 30 June 2007 and each of the two financial years ending 30 June 2009, those Vendors will pay to Sunlight REIT in aggregate a sum equal to the amount by which the Consolidated Rental Income in respect of all of the Properties in the relevant period is less than the following amounts of Assured Minimum Rental per annum (pro rata in respect of the period from the Listing Date to 30 June 2007):

Period	Assured Minimum Rental per annum
	HK\$ million
Year ending 30 Jun 2007	405.4
Year ending 30 Jun 2008	429.4
Year ending 30 Jun 2009	454.9

The Assured Minimum Rental per annum for the year ending 30 June 2007 is equal to the Benchmark Prevailing Rental. The Assured Minimum Rental for the period from the anticipated Listing Date until 30 June 2007 is HK\$213.2 million. The Assured Minimum Rental for the years ending 30 June 2008 and 30 June 2009 is calculated by reference to the Benchmark Prevailing Rental plus a growth projection of 5.9% per annum which is the weighted average (by Gross Area and properties classified as Grade A office, Grade B office or retail) long-term average rental growth rates for the portfolio as determined by the Market Consultant. The long-term average growth rates of 6.2%, 6.0% and 5.6% for Hong Kong Grade A office, Grade B office and retail property respectively are based on the corresponding 20-year average annual growth of the Rating and Valuation Department HKSAR's rental indices between 1986 and 2005. — see “Appendix VI — Letter from the Market Consultant in relation to its Hong Kong Grade A and Grade B office and retail property market analysis report”. All Assured Minimum Rentals are based on an assumed occupancy rate of 100%.

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The long-term average rental growth rate forecast of 5.9% which has been used to calculate the Assured Minimum Rentals for each of the years ending 30 June 2008 and 30 June 2009 is less than the weighted average growth rate for the Properties for the same periods forecast by the Market Consultant for those years. If after 30 June 2009 the Consolidated Rental Income has not grown sufficiently in order to equal or exceed the Assured Minimum Rental, there may be a substantial drop in Annual Distributable Income.

Further details of the Deeds of Adjustment Payments are set out in the section headed “Deeds of Adjustment Payments” under “Material Agreements and Other Documents Relating to Sunlight REIT” in this Offering Circular. In the event of Force Majeure, the obligations of the Vendors of the Target Company Shares under the Deeds of Adjustment Payments (and the corresponding obligations of the guarantors) shall be subject to a cap of HK\$300 million in respect of all payments under the Deeds of Adjustment Payments and the DPU Guarantees in respect of the period between the Listing Date and 30 June 2009. However, even if a Force Majeure event occurs, the total amounts payable by those Vendors and guarantors under the DPU Guarantees and Deeds of Adjustment Payments for the period from the Listing Date to 30 June 2007 will not be subject to the cap. For the purpose of the above, “**Force Majeure**” is defined to mean any of the following events taking place: (i) the World Health Organisation alert level being formally declared a “Pandemic” (Phase 6) (or any similar phase described in any different manner replacing the same) for Hong Kong; or (ii) the “Emergency Response Level” (or any similar level described in any different manner replacing the same) being activated under the Government’s response system for Influenza Pandemic in Hong Kong; or (iii) riots leading to civil disorder taking place in Hong Kong on a widespread and ongoing or recurring basis for at least two weeks; or (iv) the occurrence of hostilities or the outbreak of war in Hong Kong; or (v) any event or events beyond the control of the Vendors of the Target Company Shares which cause(s) the destruction, damage or forced closure of one or more Properties (or any part thereof) or which cause(s) one or more Properties (or any part thereof) to become generally inaccessible to tenants, directly resulting in the loss of at least 20% of the then aggregate rental income (by comparing the monthly average aggregate rental income during a three-month period immediately after the event or the first of the events (as the case may be) against the monthly average aggregate rental income during a 12-month period immediately prior to the event or the first of the events (as the case may be)) in respect of the Properties. In the cases of (iii) and (v) above, an event of Force Majeure shall be deemed to occur on the first day of the period of two weeks or three months (as the case may be) referred to therein.

Worked examples on the operation of the cap have been included on pages (vi) and (vii) of this Offering Circular.

The Manager anticipates that Sunlight REIT will receive Adjustment Payments amounting to HK\$46.4 million for the period from the anticipated Listing Date to 30 June 2007.

It is important to note that the Adjustment Payments should under no circumstance be construed as a forecast by the Manager of Rental Income over the period from the Listing Date until 30 June 2009.

Pursuant to the Deeds of Adjustment Payments, the Adjustment Payments are made effectively as adjustments to the consideration payable by Sunlight REIT and the REIT Group Companies to the Vendors of the Target Company Shares. Under HKFRS, when a business combination agreement provides for an

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adjustment to the cost of the combination that is contingent on one or more future events and that adjustment represents a contingent liability, it should be included in the cost of the acquisition at the time of initially accounting for the acquisition if it is probable and can be measured reliably. If that adjustment represents a contingent asset, it will not be recognised in the financial statements until receipt is virtually certain. The recognition of such contingent asset will result in an adjustment to negative goodwill to be reflected in the income statement (assuming, as is the case under the profit forecast, that the acquisition of the Target Companies, the Finance Company and the Target Properties gives rise to negative goodwill).

The Adjustment Payments in respect of the period from the anticipated Listing Date to 30 June 2007 are expected to be received over the Profit Forecast Period, and the forecast Adjustment Payments are calculated based on the difference between the forecast Consolidated Rental Income receivable by the Properties and the Assured Minimum Rental for the period from the anticipated Listing Date to 30 June 2007. Accordingly, the adjustments to negative goodwill to reflect the Adjustment Payments will be recognised as income in the period in respect of which the Adjustment Payments are made.

Additional Cost Items

Sunlight REIT will incur fees and expenses associated with the REIT structure that were not previously incurred in respect of the Properties. Set out below are certain such additional cost items.

Property Management Fees

Under the Property Management Agreement, the Property Manager is entitled to receive from each property holding company, for each financial year, a fee of 3.0% per annum of the Gross Property Revenue of the relevant property for the property management services and lease management services provided by the Property Manager. Such fee will be paid by each property holding company to the Property Manager. For further information on these arrangements, see the section headed “Material Agreements and Other Documents Relating to Sunlight REIT — Property Management Agreement” in this Offering Circular.

In addition to the above fee, the Property Manager will be fully reimbursed by the relevant Property Company for the employment costs, secondment costs (if any) and remuneration relating to the employees of the Property Manager and such other persons who are engaged by or under secondment (if any) to the Property Manager solely and exclusively in the management of any one single Property (including the property management services and the lease management services), as approved in each annual budget of the Properties by the Manager.

Commissions

Under the Property Management Agreement, the Property Manager is entitled to receive from the relevant Property Company 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;

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- one-half month's base rent for securing a renewal of tenancy irrespective of the duration of the renewal term; and
- 10% of the total licence fee for securing a licence for a duration of less than 12 months.

Manager's Base Fee

Following the Acquisitions, the Manager will receive under the Trust Deed a Base Fee from Sunlight REIT, comprising up to 0.4% per annum of the Property Values. The Base Fee will accrue on a daily basis and is payable quarterly in arrears. For the period from the Listing Date until 30 June 2011, the Base Fee payable in respect of the initial Properties acquired by Sunlight REIT shall be paid to the Manager in the form of Units. The Base Fee payable in respect of the initial Properties (commencing from 1 July 2011) and of other properties (at any time after the Listing Date), shall be paid to the Manager in the form of cash and/or Units, as the Manager may elect. The Base Fee, whether paid in cash or in Units, will be treated as an expense item in the income statement. When the Base Fee is paid in the form of Units, this amount will be added back as an Adjustment when calculating the Annual Distributable Income of Sunlight REIT for distribution purposes. For further information on these arrangements and a detailed description of the Manager's fees, see the sections headed "The Manager — Management Fees payable to the Manager", "The Manager — Other Fees payable to the Manager" and "Distribution Policy" in this Offering Circular.

Manager's Variable Fee

In addition to the above fees, Sunlight REIT's non-property operating expenses will also include the Manager's Variable Fee. Under the Trust Deed, the Manager will receive a Variable Fee of 3.0% per annum of NPI (before deduction therefrom of the Variable Fee). For the Listing Date until 30 June 2011, the Variable Fee payable in respect of the initial Properties acquired by Sunlight REIT shall be paid to the Manager in the form of Units. The Variable Fee payable in respect of the initial Properties acquired by Sunlight REIT (commencing from 1 July 2011) and of other properties (at any time after the Listing Date) shall be paid to the Manager in the form of cash and/or Units, as the Manager may elect. The Variable Fee, whether paid in cash or in Units will be treated as an expense item in the income statement of the Property Companies. When the Variable Fee is paid in the form of Units, this amount will be added back as an Adjustment when calculating the Annual Distributable Income of Sunlight REIT for distribution purposes. For further information on these arrangements and a detailed description of the Manager's fees, see the sections headed "The Manager — Management Fees payable to the Manager", "The Manager — Other Fees payable to the Manager" and "Distribution Policy" in this Offering Circular.

Acquisition Fee and Divestment Fee

Under the Trust Deed, other than in respect of the acquisitions of the Properties in connection with the Offering, the Manager is also entitled to receive an acquisition fee not exceeding 1.0% of the acquisition price of any property acquired by Sunlight REIT. The acquisition fee will be paid to the Manager in the form of cash or, at the election of the Manager and with the prior approval of Unitholders by Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units. Further, the Manager is entitled to receive a divestment fee not exceeding 0.5% of the sale price of any property sold or divested by Sunlight REIT. The divestment fee will be paid to the Manager in the form

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of cash or, at the election of the Manager and with the prior approval of Unitholders by Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units. For further information on these arrangements and a detailed description of the Manager's fees, see the section headed "The Manager — Management Fees payable to the Manager" in this Offering Circular.

Trustee's Fee

Under the Trust Deed, the Trustee is entitled to receive a remuneration of not more than 0.03% per annum of the value of the Deposited Property which may be increased to a maximum of 0.06% per annum of the value of Deposited Property, subject to minimum fees of HK\$50,000 per month. In addition, Sunlight REIT will pay the Trustee a one-off inception fee of not more than HK\$200,000. Additional fees are payable for services of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary and normal course of business of Sunlight REIT, including but not limited to the acquisition of or divestment or disposal of real estate by Sunlight REIT. For further information on these arrangements, see the section headed "The Trust Deed" in this Offering Circular.

Trust-related Expenses

The recurring operating expenses in respect of Sunlight REIT and other trust expenses include annual listing fees, registrar fees, audit and tax adviser's fees, costs associated with the preparation and distribution of reports to Unitholders and other miscellaneous expenses.

Change in Nature of Existing Costs

Rental Commissions

Historically, Predecessor Operations' rental commission comprised the 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 commissions paid to third party real estate agencies for marketing services in respect of the Properties. Following the Acquisitions the fees payable to Henderson Real Estate Agency Limited and Henderson Property Agency Limited will be replaced by fees and commissions payable to the Property Manager pursuant to the Property Management Agreement. Sunlight REIT will continue to pay leasing commissions to third party real estate agencies for marketing services.

Building Management Fees

Historically, Predecessor Operations' building management fees included the management fees payable under the relevant deeds of mutual covenant (for Properties with DMCs) and managing agency remuneration (for all Properties).

Following the Listing Date, for office and retail units and car parks in Properties which have DMCs, Sunlight REIT will continue to pay management fees payable under the relevant DMC for costs related to

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the common areas. For all Properties, Sunlight REIT will no longer pay managing agency remuneration (including property management fees, government rates receivable from tenants, promotional levies and air conditioning charges, less bad debts) but will instead reimburse the Property Manager the building management expenses incurred by it in relation to the Properties.

Finance Costs and Interest Rate Swaps

Historically, finance costs of the Predecessor Operations consisted of interest payments on loans from related parties. By the Listing Date, the Finance Company is expected to have in place the Facility of HK\$4,050 million, comprising a HK\$3,950 million term loan and a HK\$100 million revolving credit facility, subject to the satisfaction of certain conditions precedent. The Manager does not intend to draw down the revolving credit facility on the Listing Date. See the section headed “Material Agreements and Other Documents Relating to Sunlight REIT” in this Offering Circular.

Each of the term loan and the revolving credit facility will bear interest at a variable rate of HIBOR plus 45 basis points. The all-in-cost of the term loan and the revolving credit facility are both HIBOR plus 55 basis points including an upfront fee of 50 basis points amortised over the five-year term of the loan. In order to hedge against fluctuations in interest rates under the term loan, the Finance Company will hold interest rate swap agreements effective from the Listing Date until 30 June 2011, with the Swap Counterparty for a total notional amount equivalent to the amount of the term loan (i.e. HK\$3,950 million). Under the interest rate swap arrangements, the interest rate of the term loan of the Facility will be effectively fixed from the Listing Date until 30 June 2011 at a flat rate of 3.50% per annum throughout the period of the interest rate swap, except that during the period from the Listing Date until 30 June 2007 the rate shall be 3.00% per annum. Consequently, the average interest rate during the period of the interest rate swap will be 3.44%. After 30 June 2011, the Manager may consider entering into further interest rate swap arrangements in respect of the remaining term of the term loan. The interest rate swaps have been entered into with the Swap Counterparty prior to the Listing Date by (i) the Finance Company, and (ii) an indirect wholly-owned subsidiary of HLD. Completion of the acquisition of the Finance Company by Sunlight REIT will take place on the Listing Date. Immediately following Completion, the interest rate swap entered into by the indirect wholly-owned subsidiary of HLD will be transferred to the Finance Company by way of the Novation. The total consideration for the purchase of the interest rate swap agreements is HK\$195.2 million (the swap upfront fee), which is payable in full by the Finance Company to the Swap Counterparty on the Listing Date.

The following table summarises the terms of the interest rate swaps, which have equivalent terms, and their fair values as at the anticipated Listing Date.

Counterparty	Notional amount	Effective date	Expiration date	Fair value
The Hongkong and Shanghai Banking Corporation Limited	HK\$3,950,000,000	Listing Date	30 June 2011	HK\$195,200,000

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Under the interest rate swap agreements, in exchange for the consideration paid to it, the Swap Counterparty will pay to the Finance Company on a regular basis an amount equal to the interest payable to the lending banks under the term loan during the period of the interest rate swap agreements (based on a floating rate of interest), which the Finance Company will use to meet the interest payments due under the term loan. In return, the Finance Company will pay to the Swap Counterparty fixed interest at rates as outlined in the table below.

	For the period from the anticipated Listing Date to 30 June 2007	For the year ending 30 June 2008	For the year ending 30 June 2009	For the year ending 30 June 2010	For the year ending 30 June 2011
Cash finance costs in relation to the term loan (HK\$ million)	62.3	138.3	138.3	138.3	138.3
Cash finance costs in relation to the term loan as a percentage of the term loan of HK\$3,950 million	3.00% ⁽¹⁾	3.50%	3.50%	3.50%	3.50%

Note:

(1) Annualised cash finance costs as a percentage of the term loan.

As well as being an effective interest rate hedging arrangement in relation to the term loan during the period from the Listing Date until 30 June 2011, the interest rate swap agreements will also have the effect of enhancing the Annual Distributable Income for a limited period in a manner which is intended to be consistent with the Manager's key objective of providing Unitholders with regular and stable cash distributions. The fixed interest rate payable by the Finance Company to the Swap Counterparty is substantially lower than the rate which the Manager believes would generally be available on prevailing market terms for a hedging arrangement which did not include a yield enhancement element.

The interest rate swaps have a "step-up structure" such that the fixed rate of interest payable under the interest rate swaps increases from 3.00% for the period from the Listing Date to 30 June 2007 to 3.50% for the remaining duration of the interest rate swap agreements. This means that the cash finance costs of Sunlight REIT will increase starting from the year ending 30 June 2008. They will remain fixed at 3.50% until the expiry of the interest rate swap agreements in 30 June 2011 (unless the parties agree to terminate or vary the arrangements), after which the yield enhancing effect of the interest rate swaps will cease.

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For the period between 1 July 2011 and the expiry of the term loan on the fifth anniversary of the Listing Date, the interest rate payable under the term loan will be at the variable rate of HIBOR for the relevant period plus 0.45% unless the Manager enters into interest rate swap agreement(s) in respect of that period. Thereafter, the Manager may agree further borrowings with lenders, the cash finance costs of which may be materially greater than the cash finance costs during the period from the Listing Date until 30 June 2011 when the interest rate swap agreements are in effect. Any such increase in cash finance costs may have a material adverse effect on the Annual Distributable Income of Sunlight REIT such that distributions to Unitholders after the expiry of the interest rate swap agreements could be substantially less than those when the interest rate swap agreements are in effect. This is particularly the case should there be a significant decrease in Rental Income or should there be a major economic or property downturn. In a worst case scenario, such a downturn could have such a significant impact on Sunlight REIT's net property income that not only affects its ability to pay distributions to Unitholders but also its ability to service such cash finance costs. See the section headed "Risk Factors" in this Offering Circular.

The interest rate swaps structure mitigates the interest rate risk to Sunlight REIT. If Sunlight REIT did not enter into the interest rate swap agreements and instead were to pay interest on the term loan as well as the revolving credit facility at a variable rate, Annual Distributable Income would fluctuate more significantly with, amongst other things, changes in interest rates. Assuming that: (i) the interest rate swap arrangements had not been entered into; (ii) Sunlight REIT were to pay interest on the revolving credit facility and the term loan at variable rates; (iii) tax was payable at the rate of 17.5% on the profits of the Property Companies; and (iv) all other factors remain the same, Annual Distributable Income would decrease by approximately HK\$3.3 million each year for every 10 basis point increase in HIBOR, based on three-month Hong Kong dollar HIBOR. Conversely, Annual Distributable Income would increase by approximately HK\$3.3 million each year for every decrease of 10 basis points in HIBOR.

The aggregate of (a) the swap upfront fee and (b) the cash finance costs payable by the Finance Company to the Swap Counterparty during the life of the swaps, will be amortised throughout the term of the interest rate swap; and the upfront fee payable in respect of the term loan will be amortised throughout the five-year term of the term loan. The above amortised amount will be charged to the income statement of Sunlight REIT using the effective interest method.

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The table below sets out the amount of accounting finance cost to be charged to the income statement in each respective financial year, such amount of accounting finance cost as a percentage of the term loan of HK\$3,950 million, the cash finance costs and the amount effectively distributed to Unitholders as a return of equity for the Profit Forecast Period and for the four years ending 30 June 2011.

	For the period from the anticipated Listing Date to 30 June 2007	For the year ending 30 June 2008	For the year ending 30 June 2009	For the year ending 30 June 2010	For the year ending 30 June 2011
Accounting finance cost in relation to the term loan charged as part of “Interest Expenses” in the income statement (HK\$ million)	94.3	180.7	182.5	184.4	186.4
Accounting finance cost in relation to the term loan as a percentage of the term loan of HK\$3,950 million	4.54% ⁽¹⁾	4.58%	4.62%	4.67%	4.72%
Cash finance costs in relation to the term loan (HK\$ million)	62.3	138.3	138.3	138.3	138.3
Amount of equity effectively returned to Unitholders ⁽²⁾⁽³⁾ (HK\$ million)	32.0	42.6	44.4	46.3	48.3

Notes:

- (1) Annualised accounting finance costs as a percentage of the term loan.
- (2) Amortisation of upfront swap payments and debt establishment fees in relation to the term loan and the revolving credit facility.
- (3) A further amount of HK\$1.9 million, representing amortisation of debt establishment fees, will be effectively distributed to Unitholders as a return of equity in respect of the period from 1 July 2011 to the fifth anniversary of the anticipated Listing Date, which is the maturity date of the term loan.

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Profits Tax

The REIT Group Companies are subject to Hong Kong Profits Tax, which is currently levied at the rate of 17.5%. For further information on taxation, see the section headed “Taxation” in this Offering Circular.

Sunlight REIT, as a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO, is exempt from Hong Kong Profits Tax. Distributions made by Sunlight REIT to Unitholders are not subject to any withholding tax in Hong Kong. However, the Property Companies are subject to Hong Kong Profits Tax in respect of the profits derived from the leasing of the Properties, although they are not subject to Hong Kong profits tax on any capital gains derived from the disposal of the Properties provided the Properties are not held for trading purposes.

Sale of Completed Properties for Sale

During the Historical Periods, the Predecessor Operations had completed certain sales of stock of properties, including sales of car park spaces in Royal Terrace during FY2004, units in Kwong Wah Plaza during FY2005 and one car park space in Royal Terrace during FY2006. However, going forward, the Properties will be held as investment properties, and accordingly Sunlight REIT’s results of operations will not include a category for sale of stock of properties.

Liquidity and Capital Resources

Upon completion of the Offering, net cash received from the operations of the Properties through the Property Companies will be Sunlight REIT’s primary source of liquidity to fund distributions to Unitholders (which the Manager intends to be 100% of Sunlight REIT’s total Annual Distributable Income for each financial year), debt servicing, repairs and maintenance and other recurring operating and capital costs. Where appropriate, Sunlight REIT may also seek to issue further Units and raise new credit facilities (under the REIT Code, Sunlight REIT is generally only allowed to borrow up to 45% of total gross asset value), particularly in relation to any proposal to acquire further properties.

The Manager will seek, wherever possible, to treat costs related to the maintenance of the Properties as deductible expenses for taxation purposes.

The Property Consultants’ building survey report prepared by DTZ Debenham Tie Leung Project Services Ltd. and Savills Project Consultancy Limited and set out in Appendix VII to this Offering Circular includes a summary of cost estimates for remedial works as detailed in the ten-year forecasts of maintenance and capital expenditure.

From time to time, the Manager expects to undertake capital expenditure on certain of the Properties to enhance the long-term value of the portfolio. This capital expenditure will deplete cash resources and some of the expenditure may not be deductible for taxation purposes. In such circumstances, the Manager will only seek to incur such capital expenditure that will improve the yield of the relevant Property, for example by either improving rental rates or occupancy rates or otherwise increasing the Gross Rentable Area of the relevant Property.

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The Manager has currently identified one potential capital expenditure item. In order to improve the comfort of patrons and shoppers to the mall, the owners of Metro City Phase I Property and the shopping arcades at Metro City Phases II and III are considering upgrading the existing four footbridges owned by MTR Corporation Limited connecting Po Lam MTR Station to Metro City Phases I, II and III into enclosed and air-conditioned footbridges, subject to approval by the Safety & Security Coordination Committee and MTR Corporation Limited. The owners of such shopping arcades may, after the Listing Date, appoint MTR Corporation Limited to carry out the works (which would in turn tender out the works and charge a project management fee), with the costs currently expected to be borne severally by such owners in specified proportions. The total construction costs and related expenses for upgrading the footbridge connecting Po Lam MTR Station to Metro City Phase I Property is currently estimated to be approximately HK\$6 million. The Manager expects this cost to be treated as capital in nature and will be financed by available cash and working capital facilities.

Aside from the above item, as at the Latest Practicable Date, the Property Companies did not have any contractual commitments or obligations to make any capital expenditures.

Working Capital Statement

The Manager is of the opinion that taking into consideration the financial resources available to Sunlight REIT, including its internally generated funds, the available banking facilities and the estimated net proceeds of the Offering, Sunlight REIT will have sufficient working capital to satisfy its operating requirements for the 12 calendar months following the anticipated Listing Date. To the extent that Sunlight REIT makes any acquisitions, it would be required to rely on external borrowings and equity or debt securities offerings to finance such acquisitions. The issue of additional equity or equity-linked securities may result in dilution to Unitholders.

Indebtedness

By the Listing Date, the REIT Group Companies are expected to have in place the Facility of HK\$4,050 million, comprising a HK\$3,950 million term loan and a HK\$100 million revolving credit facility. The all-in-cost of the term loan and the revolving credit facility are both HIBOR plus 55 basis points including an upfront fee of 50 basis points amortised over the five-year term of the loan. The term loan will be drawn down in full on Completion. The initial gearing of Sunlight REIT is approximately 41.2% (based on total assets, including investment properties using the Appraised Value of the Properties as at 30 September 2006, as determined by the Independent Property Valuer) whereas the limit currently prescribed under the REIT Code is 45.0%. (See the section headed “Material Agreements and Other Documents Relating to Sunlight REIT — Facility Agreement” in this Offering Circular for further details in relation to the Facility.)

The Facility will be secured by a mortgage over the Properties, a charge on bank accounts, an assignment of rents and leases, an assignment of insurance policies, an assignment of the Property Management Agreement and a joint and several guarantee by Sunlight REIT and Holding Company in favour of the lenders. In addition, the Property Companies and the Finance Company will enter into a

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subordination deed whereby the liabilities of the Finance Company and the Property Companies to Sunlight REIT will be subordinated to the liabilities of the Finance Company and the Property Companies to the lenders, except in certain circumstances. See the section headed “Material Agreements and other Documents Relating to Sunlight REIT — The Loan Facility” in this Offering Circular.

In order to hedge against fluctuations in interest rates under the term loan, Finance Company has entered into interest rate swap agreements effective from the Listing Date until 30 June 2011 for a total notional amount equivalent to the amount of the term loan, or HK\$3,950 million.

The Manager intends to fund its current planned capital expenditures through drawdown on the Facility and/or internally generated funds.

No Material Adverse Change

The Manager confirms that, having performed reasonable due diligence on Sunlight REIT and the Property Companies, there has been no material adverse change in Sunlight REIT’s financial or trading position or prospects since 30 June 2006, which is the end of the period covered by the Accountants’ Report included in Appendix I to this Offering Circular.