

THE PROPERTIES AND BUSINESS

THE PROPERTIES AND BUSINESS

The Properties

Overview

Sunlight REIT offers investors the opportunity to invest in a diversified portfolio comprising 20 office and retail Properties in Hong Kong. The office Properties are primarily located in core business areas⁽¹⁾ and decentralised business areas⁽²⁾, with the retail Properties mainly based in regional transportation hubs, New Towns and other urban areas and suburban areas with high population density throughout Hong Kong.

As at 30 September 2006, the Properties had an aggregate Gross Rentable Area of approximately 1,294,389 sq.ft. For the three months ended 30 September 2006, the average occupancy rates of the office and retail premises were 89.9% and 87.9% respectively.

The Properties also enjoy a diverse tenant base with 934 tenancies as at 30 September 2006 representing tenants from a wide range of business sectors. The 10 largest tenants (in terms of Rental Income) across the portfolio contributed approximately 17.3% of the total Rental Income from the Properties for the month ended 30 September 2006. In addition, during the same period, no single tenant accounted for more than 2.9% of the total Rental Income from the Properties.

The Properties are held under leases from the Government. On 10 November 2006 and 2 December 2006, the Purchaser Companies entered into the Sale and Purchase Agreements with the relevant Vendors to acquire the Target Company Shares, the Target Properties, the Finance Company Share and the Domain Name Company Share from the relevant Vendors. See the section headed “Material Agreements and Other Documents Relating to Sunlight REIT — Description of the Agreements to Acquire the Target Company Shares, the Target Properties, the Finance Company Share and the Domain Name Company Share” in this Offering Circular. It is intended that the sale and purchase of the Target Company Shares, the Target Properties, the Finance Company Share and the Domain Name Company Share, and the Novation, will be completed on the Listing Date. The aggregate Acquisition Value is HK\$7,056.1 million (based on the Minimum Offer Price of HK\$2.45), which is at a discount of 22.4% to the Appraised Value, to HK\$7,274.5 million (based on the Maximum Offer Price of HK\$2.60), which is at a discount of 20.0% to the Appraised Value.

Competitive Strengths

The Manager considers that the Properties enjoy the following competitive strengths:

Strategically located office properties in core business areas⁽¹⁾ and decentralised business areas⁽²⁾ as well as retail properties in areas of dense and rising population

- The office Properties are primarily located in core business areas and decentralised business areas. Seven of the 12 office Properties are located in core business areas, including sizeable office buildings in Wanchai and Sheung Wan. The other office Properties are primarily located in decentralised business areas, including Mongkok, Kowloon and North Point where there is the potential for significant growth in rental rates.

⁽¹⁾ Core business areas include Central, Admiralty, Wanchai, Causeway Bay, Sheung Wan and Tsimshatsui.

⁽²⁾ Decentralised business areas include North Point/Quarry Bay, Mongkok/Yau Ma Tei, Cheung Sha Wan, Kowloon Bay and Kwun Tong.

THE PROPERTIES AND BUSINESS

- The retail Properties are primarily located in high population growth areas at regional transportation hubs and New Towns including Tseung Kwan O and Sheung Shui, as well as urban areas with high population density. Many of the retail Properties benefit from a large retail customer base from nearby residential developments. The portfolio also includes a variety of shops at street level in both urban and suburban areas.

Diversified office and retail properties

- The Property portfolio is diversified across the retail and office segments in Hong Kong, including Grade A and Grade B offices in core business areas and decentralised business areas, as well as regional shopping centres and quality shops at street level.
- Sunlight REIT's portfolio of Properties is geographically diversified throughout Hong Kong Island, Kowloon and the New Territories. The office Properties are primarily located in core business areas and decentralised business areas, and the retail Properties are primarily located in regional transportation hubs and New Towns as well as urban and suburban areas with high population density.
- In addition, the Property portfolio has a highly diversified tenant base across its retail and office Properties, which span a wide range of end user business segments and exhibit low tenant concentration. For the month ended 30 September 2006, no single tenant accounted for more than 2.9% of the total Rental Income from the Properties.

High occupancy rates and reversion in rental rates

- The portfolio has exhibited high occupancy rates across its Properties. For the three months ended 30 September 2006, the average occupancy rates of office and retail Properties were approximately 89.9% and 87.9% respectively. This provides Sunlight REIT with stable cash flows as well as considerable bargaining power when negotiating leases with tenants.
- The Manager believes that with 28.1% and 29.7% of leases as at 30 September 2006 (by Gross Rentable Area) coming due for renewal during the period from 30 September 2006 to 30 June 2007 and the year ending 30 June 2008 respectively, the portfolio is well-positioned to benefit from any upward reversion in rental rates. The property market in Hong Kong has experienced a strong rebound in rental rates since the SARS-related downturn in 2003⁽¹⁾, supported by robust macro-economic conditions. The growth in rental rates is expected to be further supported by the strong demand and limited supply environment for office and retail space in Hong Kong. For further details on the office and retail property markets in Hong Kong, see the section headed "Overview of Hong Kong Commercial Property Markets" and "Appendix VI — Letter from the Market Consultant in relation to its Hong Kong Grade A and Grade B Office and Retail Property Markets Analysis Report" in this Offering Circular.

⁽¹⁾ According to the Rating and Valuation Department HKSAR, the overall Hong Kong retail, Grade A and Grade B office rental rates have increased by approximately 19%, 84% and 57% respectively between the third quarter of 2003 and third quarter of 2006.

THE PROPERTIES AND BUSINESS

Well-positioned to capitalise on opportunities to improve rental rates, tenancy mix and value of the portfolio

- The Manager believes the combination of strong demand for and limited supply of high grade office space will lead to rising rental rates for office properties in both core business areas and, as a result of “spill-over” demand, in decentralised business areas.
- The retail Properties are expected to benefit from growing demand due to their strategic locations, particularly in light of the current buoyant retail environment, the Government’s planned population growth and its committed infrastructure investments in such areas.
- Many of the office and retail Properties are located in areas identified by the Government for redevelopment, upgrade or infrastructure investments⁽¹⁾. The Manager aims to take advantage of the likely increase in demand for office and retail space in these areas, and the expected improvement in rental rates, tenancy mix and long-term property value.

⁽¹⁾ Some examples of such Government initiatives include the Sheung Shui to Lok Ma Chau Spur Line which connects the existing Kowloon-Canton Railway (KCR) East Rail Sheung Shui Station to a new boundary crossing at Lok Ma Chau/Huanggang (expected to be completed in 2007), a composite commercial/residential development situated at Tai Yuen Street in Wanchai (expected to be completed in phases from 2006), and the Government’s planned population growth in the New Towns of Tseung Kwan O, Sheung Shui and Yuen Long.

THE PROPERTIES AND BUSINESS

The Portfolio

The following table sets forth certain information as at 30 September 2006 with respect to each of the Properties and by classifying them into two categories — office and retail. The categorisation of each Property has been determined by reference to the nature of the source of the majority of the income generated by that Property.

Property	Approximate percentage attributable to total Appraised Value of all Properties		Acquisition Value ⁽³⁾ (based on the Minimum Offer Price of HK\$2.45)		Acquisition Value ⁽³⁾ (based on the Maximum Offer Price of HK\$2.60)		Gross Rentable Area		No. of car park spaces	Year of Completion of Construction	Average occupancy rate ⁽¹²⁾	Number of leases as at 30 September 2006
	Appraised Value ⁽²⁾						Office ⁽⁴⁾	Retail ⁽⁴⁾				
	HK\$ million	%	HK\$ million	Discount %	HK\$ million	Discount %	sq.ft.	sq.ft.				
Office⁽¹⁾												
248 Queen's Road East	2,341	25.75	1,817.2	22.4	1,873.4	20.0	369,891	6,490	46 ⁽⁸⁾	1998	95.6	77
Bonham Trade Centre	422	4.64	327.6	22.4	337.7	20.0	108,506	9,403	—	1998	89.9	114
Righteous Centre	329	3.62	255.4	22.4	263.3	20.0	41,004	10,763	—	1996	90.7	52
135 Bonham Strand Trade Centre Property	230	2.53	178.5	22.4	184.1	20.0	60,844	3,071	—	2000	87.3	71
Winsome House Property	254	2.79	197.2	22.4	203.3	20.0	37,937	2,177	—	1999	78.3	20
Java Road 108 Commercial Centre	147	1.62	114.1	22.4	117.6	20.0	35,694	2,229	—	1998	85.7	27
Sun Fai Commercial Centre Property	100	1.10	77.6	22.4	80.0	20.0	23,817	2,334	—	1998	90.5	37
Wai Ching Commercial Building Property	26	0.29	20.2	22.4	20.8	20.0	14,239	2,082	—	1997	60.4	21
235 Wing Lok Street Trade Centre	168	1.85	130.4	22.4	134.4	20.0	47,481	4,804	—	2000	77.7	53
Yue Fai Commercial Centre Property	124	1.36	96.3	22.4	99.2	20.0	41,272	1,479	—	1997	77.2	87
Everglory Centre	123	1.35	95.5	22.4	98.4	20.0	25,896	3,906	—	1999	95.0	30
On Loong Commercial Building Property	107	1.18	83.1	22.4	85.6	20.0	23,856	1,708	—	1984	95.0	35
Sub total/average	4,371	48.08	3,393.0	22.4	3,498.0	20.0	830,437⁽⁵⁾	50,446⁽⁵⁾	46		89.9⁽¹³⁾	624
Retail⁽¹⁾												
Metro City Phase I Property	1,811	19.92	1,405.8	22.4	1,449.3	20.0	—	188,889	452 ⁽⁹⁾	1996	81.1	100
Sheung Shui Centre Shopping Arcade	2,190	24.09	1,700.0	22.4	1,752.6	20.0	—	122,339	297 ⁽¹⁰⁾	1993	93.2	125
Kwong Wah Plaza Property	458	5.04	355.5	22.4	366.5	20.0	39,101	25,741	—	1998	99.1	36
Beverley Commercial Centre Property	56	0.62	43.5	22.4	44.8	20.0	—	7,934	—	1982	75.4	32
Glory Rise Property	65	0.72	50.5	22.4	52.0	20.0	—	7,086	—	2003	60.0	4
Supernova Stand Property	46	0.51	35.7	22.4	36.8	20.0	—	4,226	—	2001	88.4	1
Palatial Stand Property	20	0.22	15.5	22.4	16.0	20.0	3,566	5,059	—	2001	100.0	5
Royal Terrace Property	73	0.80	56.7	22.4	58.4	20.0	—	9,565	49 ⁽¹¹⁾	2002	100.0	7
Sub total/average	4,719	51.92	3,663.1	22.4	3,776.5	20.0	42,667⁽⁶⁾	370,839⁽⁶⁾	798		87.9⁽¹³⁾	310
Total	9,090	100.0	7,056.1	22.4	7,274.5	20.0	873,104⁽⁷⁾	421,285⁽⁷⁾	844		89.3⁽¹³⁾	934⁽¹⁴⁾

Notes:

- (1) The table presents information by categorising each Property as either office or retail. The categorisations were determined by the nature of the source of the majority of the income generated by the relevant Property. Consequently, for any Property that has mixed office and retail usage but which was categorised as office, a portion of its net property income and Gross Rentable Area will actually be referable to retail usage, and vice versa for any mixed use Property which was categorised as retail.

THE PROPERTIES AND BUSINESS

- (2) The Appraised Value represents the value of each Property as determined by the Independent Property Valuer as at 30 September 2006.
- (3) The Acquisition Value represents the agreed acquisition value for each Property for the purpose of computing the purchase consideration for the relevant Target Company or Target Property under the relevant Sale and Purchase Agreement.
- (4) These represent the Gross Rentable Area actually used for office and retail purposes within each Property (excluding car-parking spaces) and, where applicable, differ from the overall classification of each Property as office and retail.
- (5) The aggregate Gross Rentable Area of all the 12 Properties in the office category above (including any retail component in those Properties) is 880,883 sq.ft.
- (6) The aggregate Gross Rentable Area of all the eight Properties in the retail category above (including any office component in those Properties) is 413,506 sq.ft.
- (7) The total Gross Rentable Area for all the 20 Properties is 1,294,389 sq.ft. (excluding car-parking spaces).
- (8) Includes 38 car-parking spaces and eight lorry-parking spaces.
- (9) In addition to the 452 car-parking spaces, it has 20 motor cycle-parking spaces and 14 bicycle-parking spaces.
- (10) Includes 269 car-parking spaces (of which 160 car-parking spaces are for parking private motor vehicles belonging to the residents of Sheung Shui Centre and 109 car-parking spaces are for parking private motor vehicles belonging to members of the public) and 28 lorry-parking spaces. In addition, it has six loading and unloading spaces and 226 bicycle-parking spaces.
- (11) In addition to the 49 car-parking spaces, it has 10 motorcycle-parking spaces.
- (12) Average occupancy rate for the three months ended 30 September 2006 is derived by dividing the sum of the occupancy rates at the end of each month during the three-month period for the relevant Property by the number of months in the period. The occupancy rates in respect of the relevant Property means the Gross Rentable Area in sq.ft. occupied under lease or licence by tenants or licensees as a percentage of total Gross Rentable Area of such relevant Property as at the end of the relevant month. For this purpose, “occupied” means that, in respect of an area, a lease or licence existed under an agreement in writing entered into at any time on or before 31 October 2006, which lease or licence was in effect or deemed to be in effect as at the end of the relevant month. For the purpose of calculating the average occupancy rate for the Properties with car parks, the occupancy of the car parks is not taken into account as some of the car parks are licensed on an hourly basis.
- (13) Calculated as a weighted average by total area of the above individual property average occupancy rates.
- (14) No car-parking spaces are included in the number of leases since car-parking spaces are occupied on a licence basis.

THE PROPERTIES AND BUSINESS

Net Property Income

The Properties generated net property income HK\$207 million for the year ended 30 June 2004, HK\$215 million for the year ended 30 June 2005 and HK\$210 million for the year ended 30 June 2006. The following table sets forth the contribution of each Property to these net property income figures and the average occupancy rate for each Property in these periods:

Property	For the year ended 30 June 2004			For the year ended 30 June 2005			For the year ended 30 June 2006		
	Net property income	Percentage of total net property income	Average occupancy rate ⁽¹⁾	Net property income	Percentage of total net property income	Average occupancy rate ⁽¹⁾	Net property income	Percentage of total net property income	Average occupancy rate ⁽¹⁾
	HK\$'000	%	%	HK\$'000	%	%	HK\$'000	%	%
Office									
248 Queen's Road East	45,448	21.9	89.1	43,370	20.2	88.6	37,363	17.8	87.3
Bonham Trade Centre	7,220	3.5	86.4	9,556	4.5	91.3	11,359	5.4	94.6
Righteous Centre	8,027	3.9	93.0	6,811	3.2	94.1	7,721	3.7	93.8
135 Bonham Strand Trade Centre Property	5,174	2.5	94.3	5,653	2.6	95.9	6,269	3.0	92.9
Winsome House Property	4,797	2.3	96.4	5,177	2.4	96.9	5,514	2.6	91.5
Java Road 108 Commercial Centre	3,286	1.6	94.1	4,024	1.9	93.2	4,224	2.0	92.5
Sun Fai Commercial Centre Property	2,507	1.2	94.3	2,801	1.3	97.1	3,337	1.6	96.4
Wai Ching Commercial Building Property	342	0.1	78.3	199	0.1	70.0	287	0.1	64.1
235 Wing Lok Street Trade Centre	2,675	1.3	87.9	2,947	1.4	92.7	3,192	1.5	86.9
Yue Fai Commercial Centre Property	3,073	1.5	95.5	3,536	1.6	95.7	3,598	1.7	86.4
Everglory Centre	2,907	1.4	98.8	2,812	1.3	97.7	3,278	1.6	97.9
On Loong Commercial Building Property	2,648	1.3	96.1	2,685	1.2	99.1	2,819	1.3	93.2
Sub total	88,104	42.5	90.6⁽²⁾	89,571	41.7	91.5⁽²⁾	88,961	42.3	89.8⁽²⁾
Retail									
Metro City Phase I Property	45,415	21.9	93.2	44,089	20.5	95.6	39,506	18.8	85.0
Sheung Shui Centre Shopping Arcade	57,160	27.5	97.3	60,599	28.2	98.3	58,764	27.9	96.9
Kwong Wah Plaza Property	11,466	5.5	96.3	13,723	6.4	97.7	14,391	6.8	97.4
Beverley Commercial Centre Property	312	0.2	41.7	1,512	0.7	92.8	1,370	0.7	82.8
Glory Rise Property	1,263	0.6	43.5	1,569	0.7	64.6	2,167	1.0	71.1
Supernova Stand Property	1,602	0.8	88.4	1,623	0.8	88.4	1,883	0.9	88.4
Palatial Stand Property	237	0.1	51.1	240	0.1	61.5	508	0.3	90.1
Royal Terrace Property	1,905	0.9	73.3	2,009	0.9	84.1	2,812	1.3	93.6
Sub total	119,360	57.5	91.7⁽²⁾	125,364	58.3	95.1⁽²⁾	121,401	57.7	90.5⁽²⁾
Total	207,464	100	91.0⁽²⁾	214,935	100.0	92.6⁽²⁾	210,362	100.0	90.0⁽²⁾

Notes:

- (1) Average occupancy rate for the period is derived by dividing the sum of the occupancy rates at the end of each month during the period for the relevant Property by the number of months in the period. For the purpose of calculating the average occupancy rate for the Properties with car parks, the occupancy of the car parks is not taken into account as some of the car parks are licensed on an hourly basis.
- (2) Calculated as a weighted average by total area of the above individual property average occupancy rates.

THE PROPERTIES AND BUSINESS

Valuation

The Appraised Value of each of the Properties was determined by the Independent Property Valuer as at 30 September 2006. The Appraised Value and the Acquisition Value of each of the Properties are set out in the following table:

Property	Appraised Value	Based on the Minimum Offer Price of HK\$2.45		Based on the Maximum Offer Price of HK\$2.60	
		Acquisition Value	Discount	Acquisition Value	Discount
	HK\$ million	HK\$ million	%	HK\$ million	%
Office					
248 Queen's Road East	2,341	1,817.2	22.4	1,873.4	20.0
Bonham Trade Centre	422	327.6	22.4	337.7	20.0
Righteous Centre	329	255.4	22.4	263.3	20.0
135 Bonham Strand Trade Centre Property	230	178.5	22.4	184.1	20.0
Winsome House Property	254	197.2	22.4	203.3	20.0
Java Road 108 Commercial Centre	147	114.1	22.4	117.6	20.0
Sun Fai Commercial Centre Property	100	77.6	22.4	80.0	20.0
Wai Ching Commercial Building Property	26	20.2	22.4	20.8	20.0
235 Wing Lok Street Trade Centre	168	130.4	22.4	134.4	20.0
Yue Fai Commercial Centre Property	124	96.3	22.4	99.2	20.0
Everglory Centre	123	95.5	22.4	98.4	20.0
On Loong Commercial Building Property	107	83.1	22.4	85.6	20.0
Sub total/average	4,371	3,393.0	22.4	3,498.0	20.0
Retail					
Metro City Phase I Property	1,811	1,405.8	22.4	1,449.3	20.0
Sheung Shui Centre Shopping Arcade	2,190	1,700.0	22.4	1,752.6	20.0
Kwong Wah Plaza Property	458	355.5	22.4	366.5	20.0
Beverley Commercial Centre Property	56	43.5	22.4	44.8	20.0
Glory Rise Property	65	50.5	22.4	52.0	20.0
Supernova Stand Property	46	35.7	22.4	36.8	20.0
Palatial Stand Property	20	15.5	22.4	16.0	20.0
Royal Terrace Property	73	56.7	22.4	58.4	20.0
Sub total/average	4,719	3,663.1	22.4	3,776.5	20.0
Total/average	9,090	7,056.1	22.4	7,274.5	20.0

The aggregate Acquisition Value of the Properties is at a discount of 20.0% (based on the Maximum Offer Price of HK\$2.60) to 22.4% (based on the Minimum Offer Price of HK\$2.45) to their aggregate Appraised Value. See “Appendix V — Independent Property Valuer’s Valuation Report” to this Offering Circular.

THE PROPERTIES AND BUSINESS

Occupancy

The table below sets forth information on the average occupancy rate of each of the Properties for the three years ended 30 June 2004, 2005 and 2006 and the three months ended 30 September 2006:

Property	Average occupancy rate ⁽¹⁾			
	For the	For the	For the	For the
	year ended	year ended	year ended	three months ended
	30 June 2004	30 June 2005	30 June 2006	30 September 2006 ⁽⁸⁾
	%	%	%	%
Office				
248 Queen's Road East	89.1	88.6	87.3	95.6
Bonham Trade Centre	86.4	91.3	94.6	89.9
Righteous Centre	93.0	94.1	93.8	90.7
135 Bonham Strand Trade Centre Property	94.3	95.9	92.9	87.3
Winsome House Property	96.4	96.9	91.5	78.3 ⁽⁹⁾
Java Road 108 Commercial Centre	94.1	93.2	92.5	85.7
Sun Fai Commercial Centre Property	94.3	97.1	96.4	90.5
Wai Ching Commercial Building Property ⁽²⁾	78.3	70.0	64.1	60.4
235 Wing Lok Street Trade Centre	87.9	92.7	86.9	77.7
Yue Fai Commercial Centre Property	95.5	95.7	86.4 ⁽³⁾	77.2
Everglory Centre	98.8	97.7	97.9	95.0
On Loong Commercial Building Property	96.1	99.1	93.2	95.0
Sub average⁽¹¹⁾	90.6	91.5	89.8	89.9
Retail				
Metro City Phase I Property	93.2	95.6	85.0 ⁽⁴⁾	81.1
Sheung Shui Centre Shopping Arcade	97.3	98.3	96.9	93.2
Kwong Wah Plaza Property	96.3	97.7	97.4	99.1
Beverley Commercial Centre Property	41.7 ⁽⁵⁾	92.8	82.8 ⁽³⁾	75.4
Glory Rise Property	43.5 ⁽⁶⁾	64.6	71.1	60.0 ⁽¹⁰⁾
Supernova Stand Property	88.4	88.4	88.4	88.4
Palatial Stand Property	51.1 ⁽⁷⁾	61.5 ⁽⁷⁾	90.1	100.0
Royal Terrace Property	73.3	84.1	93.6	100.0
Sub average⁽¹¹⁾	91.7	95.1	90.5	87.9
Total average⁽¹¹⁾	91.0	92.6	90.0	89.3

Notes:

- (1) Average occupancy rate for each Property over the relevant period is derived by dividing the sum of the occupancy rates at the end of each month during the relevant period for the relevant Property by the number of months in the period. For the purpose of calculating the average occupancy rate for the Properties with car parks, the occupancy of the car parks is not taken into account as some of the car parks are licensed on an hourly basis.
- (2) On the back of the robust macroeconomic environment, Grade A offices and most Grade B offices in core business areas enjoyed a high level of occupancy and significant rental increase in 2005. As Wai Ching Commercial Building Property is a Grade B office located in a decentralised business area, there is lagging effect for the subject property to enjoy the increasing occupancy and rising rental rates, as a result of "spill-over" demand to decentralised business areas.

THE PROPERTIES AND BUSINESS

- (3) A drop in average occupancy rate was recorded at Yue Fai Commercial Centre Property and Beverley Commercial Centre Property for FY2006 as compared with FY2005 due to the reason that the existing manager of these Properties, in view of the steadily rising office and retail rentals, has opted for a strategy to tolerate an increase in vacancy in order to achieve higher rental income. The average monthly effective rentals per leased square foot of Gross Rentable Area for these Properties for FY2006 are actually higher than the corresponding figures for FY2005.
- (4) Increased vacancy at Metro City Phase I Property for FY2006 was due to removal of a large tenant in September 2005.
- (5) Due to the outbreak of SARS in first half of 2003, declining occupancy rates in Beverley Commercial Centre Property were recorded in the second half of 2003. The occupancy rate rebounded to 75.5% as at 30 June 2004.
- (6) The Occupation Permit for Glory Rise was issued in January 2003 and the first lease at Glory Rise Property commenced on 1 April 2003.
- (7) A unit which constituted 20% of the total Gross Rentable Area of Palatial Stand Property and three shops which constituted an aggregate 17% of the total Gross Rentable Area of Palatial Stand Property were vacant from 2001 and were leased out respectively in January 2005 and February 2006.
- (8) A drop in average occupancy rate was recorded for the three months ended 30 September 2006 for some Properties as compared with FY2006. However, both the average monthly effective rental per leased square foot of Gross Rentable Area and the average monthly rental receivable for the three-month period are actually higher than the corresponding figures for FY2006. This reflects the fact that the existing manager of the Properties, in view of the steadily rising office and retail rentals, has opted for a strategy to tolerate an increase in vacancy in order to achieve higher rental income.
- (9) Further to the general reason for decrease of average occupancy rate stated in note (8) above, decreased average occupancy rate recorded at Winsome House Property for the three months ended 30 September 2006 was principally related to expiry of six leases during the period from March 2006 to September 2006. Two new leases at higher rents were entered into in October 2006 and as at the Latest Practicable Date, the occupancy rate rebounded to 85.88%.
- (10) The drop of average occupancy rate for Glory Rise Property for the three months ended 30 September 2006 is because, apart from the general reason stated in note (8) above, the tenants of two units of an aggregate Gross Rentable Area of 1,628 sq. ft., which constituted approximately 22.9% of the total Gross Rentable Area, did not renew the leases and moved out from the units upon expiry of the leases. As at the Latest Practicable Date, negotiations with potential new tenants at a higher rent were in progress, although there is no certainty as to whether the new leases can ultimately be agreed upon, and if so, on what terms.
- (11) Calculated as a weighted average by total area of the above individual property average occupancy rates.

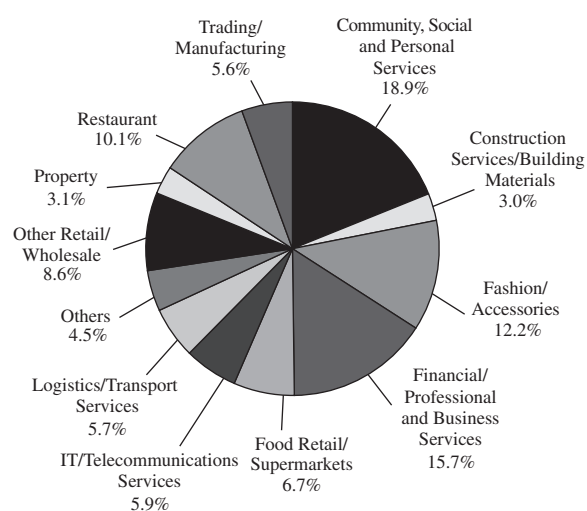
THE PROPERTIES AND BUSINESS

Tenant Profile

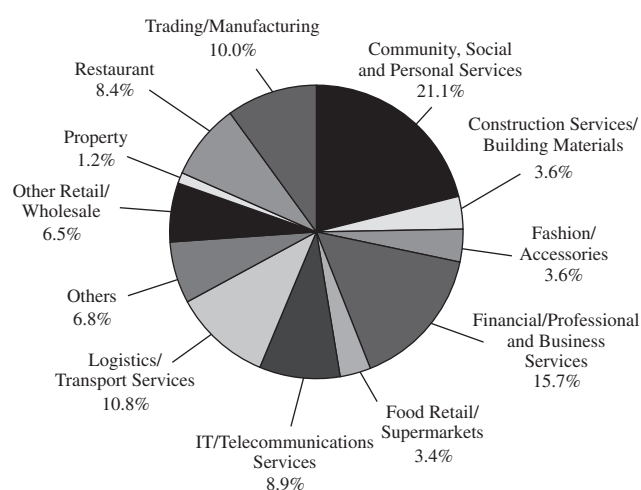
The major tenants of the Properties comprise entities in a range of community/social and personal services, trading/manufacturing, financial/professional and business services, logistics/transport services and other firms in Hong Kong, including some major entities such as Bank of Communications Co., Ltd., A.S. Watson Group (HK) Limited trading as Watsons and Fortress, The Dairy Farm Company Limited trading as Wellcome Supermarket and Mannings, Hang Seng Bank Limited, PCCW Teleservices (Hong Kong) Limited, The Bank of East Asia Limited and The Hongkong and Shanghai Banking Corporation Limited.

The charts below show the mix of the tenants of the Properties by the principal nature of their business, as a percentage of Rental Income and Gross Rentable Area for the month ended, and as at, 30 September 2006.

Rental Income by Tenants' Trades
(For the month ended 30 September 2006)



Gross Rentable Area by Tenants' Trades
(As at 30 September 2006)



THE PROPERTIES AND BUSINESS

None of the 10 largest tenants (in terms of Rental Income) are connected persons of Sunlight REIT, except Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited. The following table sets forth information on the 10 largest tenants of the Properties in terms of Rental Income as at 30 September 2006 and for the month ended 30 September 2006:

Tenant	Trade Mix	Expiry Date	Gross Rentable Area	Percentage of Total Gross Rentable Area	Percentage of Rental Income ⁽¹⁾
			sq.ft.	%	%
<i>Bank of Communications Co., Ltd.</i>	Financial/professional and business services	10 March 2008 ⁽²⁾ 21 May 2008 ⁽²⁾	3,935 3,612	} 0.6	} 2.9
<i>Forever Sky (Asia) Limited</i>	Restaurant	13 March 2010	20,261	1.6	2.3
<i>A.S. Watson Group (HK) Limited</i>	Other retail/wholesale	19 September 2009 ⁽³⁾ 9 November 2006 ⁽³⁾ 12 January 2008 ⁽³⁾	3,292 2,939 9,430	} 1.2	} 2.0
<i>The Dairy Farm Company Limited</i>	Food retail/supermarkets	30 November 2006 ⁽⁴⁾ 30 November 2006 ⁽⁴⁾ 14 October 2007 ⁽⁴⁾ 20 January 2008 ⁽⁴⁾ 6 August 2009 ⁽⁴⁾	2,619 1,130 1,171 3,737 604	} 0.7	} 1.9
<i>Cosmos Inc. Limited</i>	Restaurant	30 April 2009 ⁽⁵⁾ 6 January 2007 ⁽⁵⁾	24,857 —	} 1.9	} 1.7
<i>Hang Seng Bank Limited</i>	Financial/professional and business services	16 February 2009	7,628	0.6	1.6
<i>Anglo-Eastern Ship Management Ltd</i>	Logistics/transport services	31 August 2008 ⁽⁶⁾ 31 August 2008 ⁽⁶⁾ 31 August 2008 ⁽⁶⁾	10,589 22,490 —	} 2.5	} 1.3
<i>PCCW Teleservices (Hong Kong) Limited</i>	IT/telecommunication services	31 July 2008 ⁽⁷⁾ 31 July 2008 ⁽⁷⁾ 31 October 2008 ⁽⁷⁾ 31 July 2008 ⁽⁷⁾ 31 July 2008 ⁽⁷⁾ 31 July 2008 ⁽⁷⁾	11,146 11,245 6,431 — — —	} 2.2	} 1.3
<i>The Bank of East Asia Limited</i>	Financial/professional and business services	30 April 2009	3,863	0.3	1.2
<i>The Hongkong and Shanghai Banking Corporation Limited</i>	Financial/professional and business services	3 November 2008 ⁽⁸⁾ 3 November 2008 ⁽⁸⁾	1,360 3,266	} 0.4	} 1.1
Sub-total			155,605	12.0	17.3
Other tenants			998,997	77.2 ⁽⁹⁾	82.7
Vacant Space			139,787	10.8	—
Total			1,294,389	100.0	100.0

THE PROPERTIES AND BUSINESS

Notes:

- (1) Calculated on the basis of each tenant's percentage contribution to Rental Income of the Properties for the month ended 30 September 2006.
- (2) Tenant holds two separate leases expiring on two different dates.
- (3) Tenant holds three separate leases expiring on three different dates. As at the Latest Practicable Date, the lease which expired on 9 November 2006 was renewed for a further term of three years commencing from 10 November 2006.
- (4) Tenant holds five separate leases expiring on four different dates. As at the Latest Practicable Date, negotiations for renewal of the two leases expiring on 30 November 2006 at a higher rent were in progress, although there is no certainty as to whether renewal can ultimately be agreed upon, and if so, on what terms.
- (5) Tenant holds one lease and one licence for lightbox expiring on different dates.
- (6) Tenant holds two separate leases and one licence for installation of split type air-conditioning condenser units expiring on the same date.
- (7) Tenant holds three separate leases expiring on two different dates and three separate licenses for installation of split type air-conditioning condenser units and generators expiring on the same date.
- (8) Tenant holds two separate leases expiring on the same date.
- (9) With respect to the leases of other tenants, 27.6% of the total Gross Rentable Area is due to expire in the period from 30 September 2006 to 30 June 2007, 28.0% is due to expire in the year ending 30 June 2008 and 21.6% is due to expire in the year ending 30 June 2009 and beyond.

Expiries and Renewals

As at 30 September 2006, 92.6% of the lease agreements, in terms of leased area, were for terms of at least two years. The lease agreements do not generally give tenants the right to terminate their leases prior to their scheduled expiration dates.

The following table sets forth information on leases in respect of the Properties that have expired and those that have been renewed with the existing tenants as at 30 September 2006 during the periods indicated:

	Number of leases expired⁽¹⁾	Gross Rentable Area of expired leases sq.ft.	Number of expired leases renewed	Renewed Gross Rentable Area sq.ft.	Renewal rate by number of leases expired %	Renewal rate by expired leased area %
Year ended 30 Jun 2004	592	531,861	360	328,536	60.8	61.8
Year ended 30 Jun 2005	613	625,668	354	349,650	57.7	55.9
Year ended 30 Jun 2006	625	659,740	331	375,956	53.0	57.0
Three months ended 30 Sep 2006	149	152,188	64	84,396	43.0	55.5
Total/average/weighted average	1,979	1,969,457	1,109	1,138,538	56.0 ⁽²⁾	57.8 ⁽³⁾

Notes:

- (1) Leases which were terminated early have been included as expired leases.
- (2) Weighted average weighted by number of leases expired.
- (3) Weighted average weighted by Gross Rentable Area of expired leases.

THE PROPERTIES AND BUSINESS

The following table sets forth details of expiries in respect of leases as at 30 September 2006 which are scheduled to take place during the periods indicated:

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 PROPERTIES AND BUSINESS

Delinquency Rates

The following table sets forth a breakdown of delinquency rates at the Properties for the three years ended 30 June 2004, 2005 and 2006 and the three months ended 30 September 2006:

Property	For the year ended 30 June 2004		For the year ended 30 June 2005		For the year ended 30 June 2006		For the three months ended 30 September 2006	
	Average delinquent balance ⁽¹⁾	Average delinquency rate ⁽²⁾	Average delinquent balance ⁽¹⁾	Average delinquency rate ⁽²⁾	Average delinquent balance ⁽¹⁾	Average delinquency rate ⁽²⁾	Average delinquent balance ⁽¹⁾	Average delinquency rate ⁽²⁾
	HK\$	%	HK\$	%	HK\$	%	HK\$	%
Office								
248 Queen's Road East	211,760	0.51	256,227	0.64	144,259	0.38	16,080	0.14
Bonham Trade Centre	17,115	0.17	10,573	0.10	4,584	0.04	5,758	0.19
Righteous Centre	6,434	0.07	18,854	0.23	66,146	0.71	67,637	2.97
135 Bonham Strand Trade Centre Property	5,289	0.09	11,417	0.18	8,597	0.13	21,505	1.25
Winsome House Property	231,770	4.40 ⁽³⁾	156,803	2.99 ⁽³⁾	—	—	—	—
Java Road 108 Commercial Centre	26,057	0.68	27,137	0.64	9,203	0.20	3,428	0.29
Sun Fai Commercial Centre Property	—	—	—	—	—	—	—	—
Wai Ching Commercial Building Property	1,097	0.14	947	0.14	1,050	0.16	—	—
235 Wing Lok Street Trade Centre	4,495	0.13	21,575	0.62	3,444	0.09	—	—
Yue Fai Commercial Centre Property	396	0.01	741	0.02	1,070	0.02	—	—
Everglory Centre	4,021	0.12	9,227	0.29	487	0.01	—	—
On Loong Commercial Building Property	5,598	0.18	409	0.01	409	0.01	—	—
Sub total/average	514,032	0.55	513,910	0.56	239,249	0.25	114,408	0.42
Retail								
Metro City Phase I Property	3,180,664	6.74 ⁽⁴⁾	2,342,279	5.05 ⁽⁴⁾	2,631,481	5.89 ⁽⁴⁾⁽⁵⁾	2,290,979	20.91 ⁽⁶⁾
Sheung Shui Centre Shopping Arcade	350,392	0.57	370,341	0.55	69,165	0.10	130,434	0.71
Kwong Wah Plaza Property	40,324	0.30	62,903	0.44	47,355	0.31	—	—
Beverley Commercial Centre Property	80,320	9.62 ⁽⁷⁾	316	0.02	10,708	0.62	—	—
Glory Rise Property	—	—	—	—	—	—	—	—
Supernova Stand Property	—	—	—	—	—	—	—	—
Palatial Stand Property	—	—	—	—	—	—	—	—
Royal Terrace Property	192,038	10.63 ⁽⁸⁾	—	—	—	—	—	—
Sub total/average	3,843,738	2.98	2,775,839	2.06	2,758,709	2.04	2,421,413	6.76
Overall average	4,357,770	1.96	3,289,749	1.45	2,997,958	1.30	2,535,822	4.04

Notes:

- (1) Average of delinquent balances as at the end of each month during the relevant period.
- (2) Average delinquency rate is calculated by dividing the average delinquent balance by the expected total Rental Income (assuming no delinquency) for the number of months in the relevant period. Delinquency refers to rental receivables that remain unpaid for over 90 days after their due dates. The rates exclude the delinquency rates for the car park portion, which are usually licensed on monthly and/or hourly basis, of the relevant Properties.
- (3) The average delinquency rates for Winsome House Property throughout the period from FY2004 to FY2005 were principally related to a tenant who defaulted on payments of rent during such period. The relevant sum has subsequently been fully settled in FY2005.
- (4) The average delinquency rates for Metro City Phase I Property throughout the period from FY2004 to FY2006 were principally related to a previous tenant who defaulted on payments of rent before the beginning of FY2003 but subsequently continued to pay part of the outstanding sum by instalments. The relevant lease was terminated before FY2003. After Completion, the relevant Vendor (but not the Sunlight REIT Group) will be entitled to any further amount paid by such previous tenant in respect of the previously outstanding sums since the sale and purchase will be effected through an assignment of the Property.

THE PROPERTIES AND BUSINESS

- (5) The average delinquency rate for Metro City Phase I Property during FY2006 was partly related to the default of another large previous tenant on payments of rent. The relevant lease has already been terminated.
- (6) The average delinquency rate for Metro City Phase I Property for the three months ended 30 September 2006 was mainly due to the default in payment of rent by a previous tenant as mentioned in footnote (4) above who has continued to pay the outstanding sum by instalments during the said three-month period. In calculating the average delinquency rate, the average delinquency balance is divided by the expected total Rental Income for the said three-month period, thus resulting in a delinquency rate higher than in a full financial year where the expected total Rental Income for a 12-month period would be used as a base. Further, the average delinquency rate for Metro City Phase I Property for the three months ended 30 September 2006 was also partly related to the default of two large previous tenants on payments of rent. One of the leases has already been terminated and the other expired on 9 July 2006.
- (7) The average delinquency rate for Beverley Commercial Centre Property during FY2004, where its smaller scale retail tenants were comparatively more susceptible to sudden economic downfall, was related to the outbreak of SARS in the first half of 2003.
- (8) The average delinquency rate for Royal Terrace Property in FY2004 was related to the default of a relatively large tenant on payments of rent. The relevant sum has subsequently been fully settled.

Marketing and Leasing Activities

The Property Manager has dedicated marketing teams which identify suitable tenants in desired target groups for the Properties. The Properties are then actively marketed to such prospective tenants through advertisements in the print media, direct calls, flyers and property agents. Property agents and prospective tenants are also provided with regular updates of available office or retail units for rent.

Tenancy Agreements and Lease Management

The tenancy agreements entered into for each of the Properties are generally for terms ranging from two to three years, depending on factors such as the needs of tenants and the operating history and reputation of a particular property. Longer lease terms of up to five years are sometimes granted for larger premises or where a prospective tenant has committed to making a significant initial capital investment.

The terms of most leases are fixed with no option to renew, although some of Sunlight REIT's tenants, for example some bank tenants, do have an option to renew their leases for a further term of a duration up to that of the initial term normally at prevailing market rent while under some tenancy agreements, there is maximum limit on the increase rate of rent or minimum level of rent (as that under the initial tenancy agreement).

At the time of entering into a lease, tenants of the Properties are generally required to pay a security deposit of an amount equivalent to approximately three months' rent, management charges, air-conditioning charges (if appropriate) and rates (if appropriate) in form of cash or alternatively, by way of a bank guarantee and/or guarantee given by the controlling shareholder and/or director of the corporate tenants in lieu of cash deposit. Security deposits are unsecured and do not bear interest. Tenants generally are required to pay their monthly rent in advance. Depending on market conditions, limited rent-free periods (currently falling within the general range of one to two months) are sometimes granted under the leases, which is generally consistent with market practice. Certain tenants of retail spaces are required to pay the higher of the basic rent and the turnover rent (generally calculated as a percentage of the gross turnover of the tenant's business conducted at the leased space). Some leases provide for pre-determined increase in rent over the terms of the leases.

Under the leases, tenants are normally responsible for payment of outgoings such as utilities, management charges, air-conditioning charges (if appropriate) and Government rates. Tenants are generally also responsible for repairing, and payment of all other expenses relating to, the interior of the premises, while the landlord is generally responsible for repairing the exterior and the main structure. In

THE PROPERTIES AND BUSINESS

the event that the premises or a substantial part thereof are rendered unfit for use or totally inaccessible by force majeure or by any cause other than the direct or indirect result of the negligence or fault of the tenants, the tenants are usually entitled to rent abatement until the premises shall again be rendered fit for occupation. Tenants are generally not permitted to assign or sublet the premises.

The majority of tenancy agreements do not give tenants the right to terminate their leases prior to the scheduled expiration dates. The landlord has the right to terminate a lease upon the occurrence of certain events, such as non-payment of rent or breach of covenants by the tenants. The tenants are required under the leases to use the leased premises for the purpose allowed under the Government Grant and the occupation permits of the relevant buildings.

General

In the descriptions of each individual Properties below:

1. Risk Factors

Reference should be made to the section headed “Risk Factors” in this Offering Circular for the nature and risks of making property investments generally and in the case of the relevant property.

2. Average Occupancy Rates and Average Monthly Rental

In each table headed “Average Occupancy Rates and Average Monthly Rental”:

- a. The average occupancy rate stated 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 that Property by the number of months in the relevant period;
- b. The average monthly rental per leased square foot of Gross Rentable Area stated for each Property over the relevant year is calculated by dividing the Rental Income for the relevant year by the number of months in that year, and then dividing by a simple average of leased area of that Property at the end of each month in that year. Leased area is the Gross Rentable Area, as adjusted by the occupancy rate. In arriving at the average monthly Rental Income, income generated from licences with no Gross Rentable Area (such as light boxes) has been taken into account although in calculating the average monthly rental per leased square foot of Gross Rentable Area, the monthly Rental Income is divided by the leased area which takes no account of income generated from licences as they have no Gross Rentable Area.

3. Calculation of Rental Income in Tenant Profile and Expiries and Renewals descriptions

In the section headed “Tenant Profile” and the section headed “Expiries and Renewals”, rental payable for one full month is presented or taken into account in calculations for the purpose of consistency in comparing the Rental Income contributed by different tenants for the month ended 30 September 2006.

Tenancy agreements and licences expired within the month of September 2006 but before 30 September 2006 are disregarded in the section headed “Tenant Profile”.