

STRATEGY

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The key objectives of the Manager are to provide Unitholders with regular and stable cash distributions with the potential for sustainable long-term growth of such distributions and enhancement in value of the portfolio. The Manager intends to accomplish these objectives by optimising the performance and enhancing the overall quality of a large portfolio of primarily office and retail real estate assets in Hong Kong through various business and investment strategies:

- **Active operational management and asset enhancement strategy:** Active operational management and asset enhancement initiatives to improve the long-term value of the portfolio
- **Investment and acquisition growth strategy:** Drive acquisition growth by identifying, evaluating and acquiring income-producing investment properties which have the potential to contribute to sustainable growth in distributions by Sunlight REIT and long-term enhancement in value of the portfolio
- **Capital management strategy:** Efficient capital management framework to support the Manager's operational and acquisition growth strategies
- **Business management strategy:** Ensure a quality work force, sound corporate governance practices, systems and infrastructure to support the Manager's fund management and asset management activities

The portfolio will initially comprise properties which are used primarily for office and retail purposes in Hong Kong. The Manager intends to focus primarily on office and retail properties in Hong Kong which meet the investment criteria as outlined in the paragraph headed "Investment and acquisition growth strategy" in this section below.

STRATEGIC INITIATIVES

Active operational management and asset enhancement strategy

Proactively target existing and new tenants to maintain high occupancy rates

In order to maintain high occupancy rates across the portfolio, the Manager will work closely with the Property Manager to evaluate actively the leasing, marketing and customer relations strategies for the portfolio. These initiatives are aimed at developing strong relationships with existing tenants, pursuing leasing opportunities with new tenants, providing quality and value-added property related services and leveraging the competitive strengths of the individual properties to maximise their attractiveness to existing and new tenants.

The Manager will require the Property Manager to follow a disciplined approach towards negotiations of leases with existing and new tenants by regularly benchmarking the lease terms against comparable properties, and considering the competitive characteristics of the individual properties.

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Capitalise on the opportunities to improve rental rates, tenancy mix and value of the portfolio

Sunlight REIT's office properties are primarily located in core business areas and decentralised business areas, both of which have the potential for significant growth in rental rates. The Manager believes that 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 the core business areas and, as a result of "spill-over" demand, in decentralised business areas as well. For the retail properties, the Manager intends to leverage on the growing retail demand and the Government's planned population growth and committed infrastructure investments in regional transportation hubs and New Towns to improve retail rental rates.

Many of the office and retail properties are located in areas identified by the Government for redevelopment, area upgrade, infrastructure investments or planned population growth. These Government initiatives¹ are aimed at improving the service, transportation infrastructure and general conditions and increasing the population in the targeted areas. The Manager believes that these Government initiatives will result in (i) the creation of office clusters around some of its office properties and (ii) an increase in pedestrian traffic around some of its retail properties. It is the intention of the Manager to take advantage of the likely increase in demand for retail and office space in the targeted areas, improvement in rental rates, tenancy mix and long-term property value resulting from these Government initiatives.

Employ flexible leasing structures

The Manager aims to employ a flexible leasing strategy that takes advantage of the general economic cycle, supply and demand dynamics for the properties and the demographic characteristics around the properties.

The Manager will work closely with the Property Manager to actively evaluate the leasing and marketing strategies for the portfolio aimed at maintaining strong relationships with existing tenants and leveraging the competitive strengths of the individual properties, for example structuring leases with turnover rent or pre-determined rent escalation provisions.

Improve Rental Income and value of the portfolio through asset enhancement initiatives

The Manager will work closely with the Property Manager to continue to improve the Rental Income and value of the portfolio by undertaking asset enhancement activities such as improving building Gross Rentable Area efficiency and rental potential through space rationalisation, reconfiguration and building facilities upgrade. These initiatives are aimed at improving the tenancy mix, Rental Income and the portfolio efficiency.

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.

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Strong emphasis on cost control

The Manager will work closely with the Property Manager to minimise property related and operating expenses, without compromising the delivery of quality and value-added property related services to tenants. The Manager will work closely with the Property Manager to control property related and operating expenses through, for example, streamlining the property management functions across the portfolio, implementation of cost control management systems and periodic review of third party contracts and the use of energy-efficient practices to achieve utility cost savings for tenants.

Investment and acquisition growth strategy

The Manager will actively seek to identify, evaluate and selectively acquire income-producing investment properties under a disciplined and objective investment methodology aimed at evaluating opportunities which have the potential to provide attractive total returns to Unitholders through:

- Accretion in distribution yield;
- Sustainable growth in distributions; and/or
- Long-term enhancement in value of the portfolio.

The Manager believes that its acquisition growth strategy is well-supported by (i) its ability to source opportunities for acquisition growth by leveraging its, or Sunlight REIT's relationship with SKFE and HLD as well as its own connections and networks, (ii) the experience of the management team in identifying, evaluating and executing property acquisition opportunities and (iii) Sunlight REIT's access to capital markets.

In order to assist the Manager in its role as the manager of Sunlight REIT, HLD has undertaken under the HLD Commitment Letter that, as soon as practicable after the first anniversary of the Listing Date, but in any event within 18 months from the Listing Date, (so long as the Manager is the manager of Sunlight REIT at that time) HLD or its affiliates will enter into discussions in good faith and on an arm's length basis with the Manager (such discussions to be continued in good faith until the Manager decides whether Sunlight REIT should acquire any of the Additional Properties, even if such decision is only taken after such 18 months' period) to make the Additional Properties available for sale to Sunlight REIT. The Additional Properties (and, as applicable, companies) shall satisfy the then prevailing requirements of the REIT Code. Unless and until a legally binding agreement for sale and purchase is entered into, HLD shall be under no obligation to sell to Sunlight REIT any such Additional Properties and neither the Manager nor Sunlight REIT shall be obliged to buy any such Additional Properties. Any such sale and purchase will be subject to regulatory requirements applicable to Sunlight REIT (including Unitholders' approval if so required), HLD and any other relevant parties.

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As the Manager, a subsidiary of HLD, is the manager of Sunlight REIT, and Sunlight REIT is intended to be the flagship real estate investment trust of HLD for office and retail properties in Hong Kong, HLD has also undertaken under the HLD Commitment Letter to the Manager (so long as the Manager is the manager of Sunlight REIT at that time and Sunlight REIT remains listed on the Hong Kong Stock Exchange) that the HLD Commitment Group will not, for a period of at least five years after the Listing Date:

1. own or control more than 5% of the voting units of a Related REIT; and/or
2. act as the manager of a Related REIT.

However, the HLD Commitment Group has not committed not to act as the manager of any real estate investment trust which is not a Related REIT. The HLD Commitment Letter was issued to the Manager for its own benefit, but not in its capacity on behalf of Sunlight REIT.

In evaluating acquisition opportunities, the Manager will consider a number of factors including:

- Competitive advantages of the properties including location, occupancy and tenant characteristics, access to infrastructure including major roads, public transportation and amenities and services, demographic developments and relevant government initiatives;
- Ability to add medium to long-term value through employing its active operational management and asset enhancement strategy; and
- Quality of the building and facilities specifications.

All properties to be acquired will be subject to assessment to identify, amongst other things, repairs, maintenance and capital expenditure requirements in the short to medium-term.

The Manager has no current plans for Sunlight REIT to acquire any properties in the 12 month period from the Listing Date, but may do so if opportunities arise which meet its investment criteria.

The Manager intends to invest in office and retail properties in Hong Kong. The Manager will follow a long-term approach to its property portfolio investment but will aim to deliver value to Unitholders over the near term through the implementation of its operational management and asset enhancement strategy. It also aims to maintain financial flexibility to meet its capital expenditure requirements. The Manager will regularly review the medium to long-term attractiveness of individual properties within the portfolio as part of its active portfolio management function. The Manager may consider selling properties (either in whole or in part) through either the disposal of Sunlight REIT's interest in those properties directly, or of Sunlight REIT's interest in the relevant special purpose vehicles (subject to the restrictions under the REIT Code), and using the proceeds for other investments which meet its investment criteria.

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Investment policy and objective

Subject to the provisions of the Trust Deed and the REIT Code, the investment policy and objective of Sunlight REIT is as follows:

- (a) Sunlight REIT is established to invest primarily in office and retail properties in Hong Kong, either directly or indirectly. The Manager, on behalf of Sunlight REIT, directly or indirectly may only invest in real estate and other investments authorised under the Trust Deed and must manage the Deposited Property so that the principal investments of Sunlight REIT are Real Estate which shall be generally income-producing.
- (b) The Manager may acquire uncompleted units in a building which is unoccupied and non-incoming producing or in the course of substantial development, redevelopment or refurbishment, provided that the aggregate contract value of such real estate shall not exceed 10% (or such other percentage as provided in the REIT Code) of the total net asset value of the Deposited Property at the time of acquisition.
- (c) The investment strategy of Sunlight REIT shall be solely determined by the Manager from time to time at its absolute discretion so far as it is consistent with the investment policy and objective of Sunlight REIT.
- (d) No real estate may be acquired or disposed of until the Manager has provided to the Trustee a valuation report of an approved valuer as required under the Trust Deed.
- (e) Subject to compliance with the REIT Code, the Listing Rules and the Listing Agreement, the Manager may from time to time change the investment policy and objective provided that:
 - (i) it has notified the Unitholders of the change by way of announcement and circular in accordance with the requirements of the REIT Code; and
 - (ii) the change has been approved by Unitholders by Special Resolution at a meeting convened by the Manager in accordance with the Trust Deed.

Capital management strategy

The Manager aims to support Sunlight REIT's operational and acquisition growth strategies within a prudent risk management framework, by employing an efficient capital management strategy using an appropriate mix of debt and equity capital. The current capital management strategy is as follows:

- All borrowings will initially be denominated in Hong Kong dollars to match its revenues;
- Maintain an appropriate gearing ratio which is below the REIT Code requirements (currently 45%). The gearing ratio will initially be approximately 41.2%;

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- Maintain an appropriate debt maturity profile to match the long-term nature of its assets; and
- Prudent management of financial market risks through appropriate hedging strategies, including entry into interest rate swap arrangements in relation to its borrowings.

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

Business management strategy

The Manager believes that sound corporate governance practices, infrastructure and management information systems and a well-trained work force are essential elements to providing effective and high quality fund, asset and property management services to Sunlight REIT. Details of the Manager's corporate governance practice and its operational standards are contained in the section headed "Structure, Management and Agreements" in this Offering Circular.

The Manager will ensure these foundations are in place to support its activities. It aims to provide appropriate training to its staff to ensure a proactive and high service standard, and employ external service providers as appropriate. Their performance will be closely monitored against industry best practices to maintain high quality services to the tenants and customers of the properties of Sunlight REIT.