

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8096 Facsimile: 3608 6132

HONG KONG RESEARCH**8th December 2006****Analyst: Anita Hwang****Main Board Listing - Research**

陽光房地產投資信託基金

Sunlight Real Estate Investment Trust [Stock Code: 0435]**Joint Global Coordinators, Joint Bookrunners
and Joint Listing Agents**: The Hong Kong and Shanghai Banking Corporation
Deutsche Bank AG
Macquarie Securities**Sector** : Financials**Business** : Real estate investment trust (REIT)

Total unit offer: <u>1,045,370,362</u> units (70.3% of the enlarged share capital) Public Offer: 104,538,000 shares (10%) Placing: 940,832,362 shares (90%) Greenshoe: 104,538,000 shares (10%)	<u>Business of Sunlight REIT</u> Sunlight REIT is formed to invest in a diversified portfolio comprising 20 office and retail properties in Hong Kong. The office properties comprise Grade A and B offices mainly located in core as well as decentralized business areas. The retail properties are based in regional transportation hubs, New Towns, and other urban areas with high population density in Hong Kong. The primary investment objective of Sunlight REIT is 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 property portfolio. The portfolio of Sunlight REIT comprises 12 office properties and 8 retail properties with a total gross rentable area of over 1.29 million sq. ft. Average occupancy rates of the office and retail components of the properties are 89.9% and 87.9% respectively. The Manager's policy is to distribute to unitholders 100% of Sunlight REIT's annual distributable income as dividends for each financial year. From the listing date to June 2007, the forecasted annual distributable income is some HK\$122 million. Distributions per unit excluding the distribution waiver units are forecasted to be between HK\$0.1161 – HK\$0.1162, representing a distribution yield of 8.49% to 9.01%.
Price: HK\$2.45 – HK\$2.60 per unit Market Cap.: HK\$3.643 billion – HK\$3.866 billion FY2007E Distribution Yield: 8.49% - 9.01% Adjusted NTA per unit: HK\$3.58 Manager: Henderson Sunlight Asset Management Limited	
HK Public Offer period: 8 th December 2006 – 13 th December 2006 Receiving bank: HSBC BOC (Hong Kong) Limited The Bank of East Asia Hang Seng Bank Unit registrar: Tricor Investor Services Limited Listing date: 21 st December 2006	

Major unitholders after Listing (Assuming the over-allotment option is not exercised)

Uplite Limited, a subsidiary of Shau Kee Financial Enterprises Ltd. (SKFE)	15.1%
Wintrade Limited, a subsidiary of SKFE	10.1%
Cobase Limited, a subsidiary of Henderson Land Development Company Ltd. (HLD)	2.7%
Richful Resources Limited, a subsidiary of HLD	1.8%
Public unitholders	70.3%
	<u>100.0%</u>

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.

**Use of Proceeds**

Total proceeds from the offer, along with the subscription by SKFE and HLD, are estimated to be HK\$7,593.2 million (based on an issue price of HK\$2.45) and HK\$7,816.2 million (based on an issue price of HK\$2.60). (Assuming the over-allotment option is not exercised.)

(HK\$ million)	Based on the Minimum Offer Price of HK\$2.45	Based on the Maximum Offer Price of HK\$2.60
The acquisition of the properties and other related assets	7,251.3	7,469.7
Issue costs and debt establishment fees	187.4	192.1
Acquisition costs	154.4	154.4
Total	7,593.2	7,816.2

Financial Highlights

HK\$ '000	2004	Year ended 30 th June 2005	2006
Turnover	243,816	248,360	251,419
Rental related income	65,443	69,073	66,516
Gross profit	207,464	214,935	210,362
Increase/(decrease) in fair value of investment properties	519,360	706,429	2,469,077
Profit for the year	643,151	790,561	2,215,086

Description of the Properties

	Appraised Value (HK\$m) as at 30/09/2006	Gross Rentable Area (sq.ft.) - Office	Gross Rentable Area (sq.ft.) - Retail	Average Occupancy for 3 months ended 30/09/2006	No of Tenancies as at 30/09/2006
Office					
248 Queen's Road East	2,341	369,891	6,490	95.6%	77
Boham Trade Centre, Sheung Wan	422	108,506	9,403	89.9%	114
Righteous House, Mongkok	329	41,004	10,763	90.7%	52
135 Boham Strand Trade Centre Property, Sheung Wan	230	60,844	3,071	87.3%	71
Winsome House Property, Central	254	37,937	2,177	78.3%	20
Java Road 108 Commercial Centre, North Point	147	35,694	2,229	85.7%	27
Sun Fai Commercial Centre Property, Mongkok	100	23,817	2,334	90.5%	37
Wai Ching Commercial Building Property, Jordan	26	14,239	2,082	60.4%	21
235 Wing Lok Street Trade Centre, Sheung Wan	168	47,481	4,804	77.7%	53
Yue Fai Commercial Centre Property, Aberdeen	124	41,272	1,479	77.2%	87
Everglory Centre, TST	123	25,896	3,906	95.0%	30
On Loong Commercial Building Property, Wanchai	107	23,856	1,708	95.0%	35
Subtotal / average	4,371	830,437	50,446	89.9%	624

**Description of the Properties (...continue)**

<u>Retail</u>	Appraised Value (HK\$m) as at 30/09/2006	Gross Rentable Area (sq.ft.) - Office	Gross Rentable Area (sq.ft.) - Retail	Average Occupancy for 3 months ended 30/09/2006	No of Tenancies as at 30/09/2006
Metro City Phase I Property, Tseung Kwan O	1,811	-	188,889	81.1%	100
Sheung Shui Centre Shopping Arcade	2,190	-	122,339	93.2%	125
Kwong Wah Plaza Property, Yuen Long	458	39,101	25,741	99.1%	36
Beverley Commercial Centre Property, TST	56	-	7,934	75.4%	32
Glory Rise Property, North Point	65	-	7,086	60.0%	4
Supernova Stand Property, Fortress Hill	46	-	4,226	88.4%	1
Palatial Stand Property, Hung Him	20	3,566	5,059	100.0%	5
Royal Terrace Property, Quarry Bay	73	-	9,565	100.0%	7
Subtotal / average	4,719	42,667	370,839	87.9%	310
Total	9,090	873,104	421,285	89.3%	934

Strengths/Opportunities

- ✓ Sunlight REIT's property portfolio is diversified with the office properties mostly located in core as well as decentralized business areas and the retail properties located in high population growth areas. It is estimated that 28.1% and 29.7% of leases as of 30 Sep 2006 are coming due for renewal in FY07 and FY08, respectively. Upward revision of rental rates during renewals should help maximize rental incomes and further enhance the expected yield of Sunlight REIT.
- ✓ Sunlight REIT guaranteed paid-out of no less than HK\$0.1161 – HK\$0.1162 per unit or an annualized distribution yield of 8.49% to 9.01%, which looks attractive when compared with the distribution yield of 7.9% offered by Champion REIT (2778) and 4.1% offered by Link REIT (0823).
- ✓ Sunlight REIT has entered into an interest rate swap with HSBC to fix the finance costs, which would eliminate interest rate fluctuation from distorting income distribution during the course of the term loan. The interest rate of the Facility will be fixed at an average rate of 3.44% until 30 June 2011.



Weaknesses/Threats

- × Several yield-enhancing mechanisms are employed to enhance the distribution yield. Once these mechanisms are reversed or expired, the sustainable distribution yield could fall.

Interim Yield enhancing mechanism

- The Manager's fee for the properties will be paid in the form of units till June 2011.
 - SKFE and HLD agreed to waive 100% of their respective entitlement to distribution income in FY2007-2009 and 60% in FY2010 and 50% in FY2011. However, if the anticipated rental growth rates do not materialize, the sustainable yield of Sunlight REIT would fall once the Distribution Waivers expire.
 - Once the interest rate swap expires in June 2011, Sunlight REIT may be subject to higher finance costs and hence affects the annual distributable income.
-
- × The performance of Sunlight REIT has been reliant on the performance of three properties: 248 Queen's Road East, Metro City Phase I and Sheung Shui Centre Shopping Arcade. The rental income from these three made up about 65% of the total rental income.

Recommendation: Neutral

**Important Disclosure / Analyst Certification / Disclaimer**

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA). At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA and / its associated or affiliated companies may from time to time have interests in securities of the company or companies mentioned herein.

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.