



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號 : 435



2016/17
Interim Report
中期報告

Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006, Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code: 435) is a real estate investment trust authorised by the Securities and Futures Commission (the “**SFC**”) and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of ten office and six retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of approximately 1.2 million sq. ft. and an aggregate appraised value of HK\$16,782.6 million at 31 December 2016. The office properties are located in both core and decentralised business areas, while the retail properties are situated at regional transportation hubs, new towns and other urban areas with high population density.

Forward-looking Statements

This interim report contains certain statements and terminologies that are forward-looking. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the board of directors (the “**Board**”) and senior management of Henderson Sunlight Asset Management Limited (the “**Manager**”) regarding the industry and sectors in which Sunlight REIT operates. They are subject to risks, uncertainties and other factors beyond the Manager’s control, the emergence of which may cause actual results or performance to differ materially from those expressed or implied in such statements.

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Market and Operation Review

During the six months ended 31 December 2016 (the “**Reporting Period**”), a series of unexpected political and economic events caused dramatic swings in the global financial markets, with profound economic implications. While major developed economies continued their struggle to return to a robust and sustainable expansion path, developing nations were victims of capital flight due to growing apprehension over the likelihood of currency depreciation. The US economy, however, was an exception to both scenarios. Healthy corporate earnings, which underpinned an impressive US stock market performance, provided justification for the Federal Reserve to raise its benchmark interest rate by 25 basis points in December 2016. Closer to home, the growth story has lost its sparkles in the case of China, and was the culprit of slowing global economic momentum and sluggish export demand. Moreover, the pace of liquidity outflow was clearly escalating in light of nervousness over the depreciating Renminbi, prompting the government to adopt several measures to preclude a vicious circle.

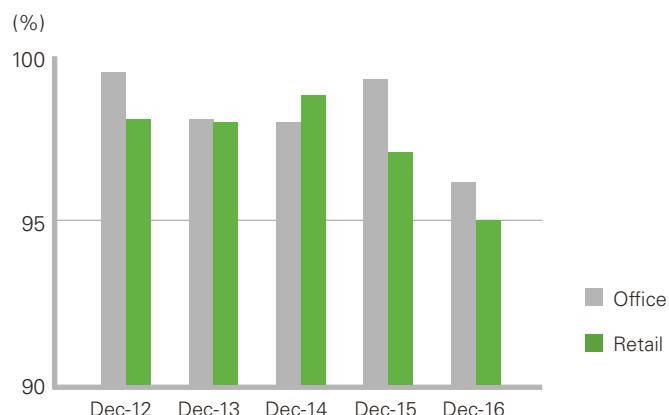
The business sentiment in Hong Kong was unavoidably affected by the volatile external conditions, with multinational corporations staying conservative and cost conscious as regards business expansion. In the meantime, tourist arrivals from the mainland and their corresponding per capita expenditure had yet to display signs of a healthy recovery.

Notwithstanding the challenging economic environment, a compression in capitalisation rates for commercial properties was evident during the Reporting Period, as a limited supply of en-bloc office properties was met with strong buying interest notably from mainland investors. Meanwhile, the local office leasing market remained stable thanks to favourable supply and demand dynamics. Decent rental performance in locations such as Sheung Wan and Wan Chai indicated that the threat of potential new office supply in Kowloon East and further out, Island East, has not dampened the demand for affordable and convenient decentralised locations. According to statistics provided by Knight Frank Petty Limited, office vacancy rates in Wan Chai, Causeway Bay and Kowloon East at 31 December 2016 were 2.4%, 2.8% and 10.0%, while their net effective rents stood at HK\$72.4 per sq. ft., HK\$77.1 per sq. ft. and HK\$34.2 per sq. ft. respectively, largely unchanged from six months ago.

During the Reporting Period, consumer spending remained uninspiring, as indicated by the fact that overall retail sales between July and December 2016 exhibited a decline of 5.5% year-on-year. In particular, the sales of jewellery, watches and clocks, and valuable gifts dropped 13.2%, while consumer durable goods suffered an even greater degree of sales downturn. Echoing this trend, vacancy rates continued to stay reasonably high for street shops in retail areas such as Mong Kok. Such cautious consumer sentiment did not exert substantial rental pressure on Sunlight REIT’s retail properties, where consumer staples continued to be the mainstay of their trade mix. Nonetheless, the slowing pace in terms of both rental reversion and re-letting was apparent.

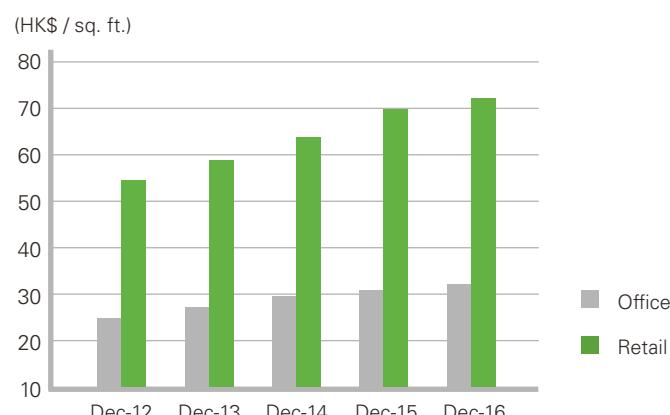
At 31 December 2016, the overall occupancy of Sunlight REIT's portfolio was 95.8% as compared to 95.9% recorded at 30 June 2016. The office portfolio achieved an occupancy rate of 96.2%, representing a slight decrease from 98.0% recorded at 30 June 2016. With the re-opening of the renovated area at Sheung Shui Centre Shopping Arcade ("SSC"), occupancy of the retail portfolio rebounded to 95.0% (30 June 2016: 91.7%).

Occupancy trend^{Note}



Reflecting a rental reversion of 10.5% during the Reporting Period, passing rent of the office portfolio continued to rise, registering a growth of 1.9% from six months ago to HK\$32.2 per sq. ft. at 31 December 2016. Meanwhile, passing rent for the retail portfolio rose 1.1% to HK\$72.4 per sq. ft. at 31 December 2016, supported by a rental reversion of 5.0%.

Passing rent trend^{Note}



Note : The occupancy and passing rent figures have been adjusted to exclude the properties disposed of in prior years.

Market and Operation Review

Despite a dwindling growth momentum, rental reversion at Sunlight Tower stayed at a decent 11.7% during the Reporting Period, with an occupancy rate of 96.0%. Meanwhile, supported by solid demand from domestic small and medium-sized enterprises, the Sheung Wan/Central portfolio continued to show decent performance, as demonstrated by double-digit rental reversions registered by Bonham Trade Centre, Winsome House Property and 235 Wing Lok Street Trade Centre.

On the retail front, the performance of SSC took a breather, reflecting a gentle decline in footfall resulting from both the slowdown in tourist arrivals and partial closure of the shopping mall for refurbishment. Meanwhile, the performance of Metro City Phase I Property continued to be satisfactory given its predominant emphasis on necessity shopping. With the introduction of certain new quality tenants, the image and dynamics of the complex have received a welcome boost. Its occupancy rate was 96.5% while rental reversion was a respectable 16.0%.

As regards asset enhancement, the HK\$25 million reconfiguration work involving approximately 20% of the GRA in SSC was completed in October 2016. At the end of the Reporting Period, almost 80% of the area was already leased, with the average achieved unit rent registering an approximately 17% premium to the level attained prior to renovation.

For the Reporting Period, the office and retail properties of Sunlight REIT constituted 49.0% and 51.0% of net property income respectively. At 31 December 2016, the overall portfolio had a total of 838 tenancies (30 June 2016: 835); the five largest tenants contributed approximately 15.1% of total revenue (30 June 2016: 14.7%) and occupied approximately 15.3% of total GRA (30 June 2016: 14.5%). No single tenant accounted for more than 4.8% of total revenue at 31 December 2016 (30 June 2016: 4.5%).

Financial Review

Financial highlights

(in HK\$' million, unless otherwise specified)

	Six months ended 31 December 2016	Six months ended 31 December 2015	Change (%)
Revenue	383.6	385.2	(0.4)
Property operating expenses	84.4	80.0	5.5
Net property income	299.2	305.2	(2.0)
Cost-to-income ratio (%)	22.0	20.8	N/A
Profit after taxation	278.9	587.2	(52.5)
Distributable income	205.1	206.4	(0.6)
Distribution per unit (HK cents)	12.2	12.0	1.7
Payout ratio (%)	97.3	95.2	N/A
<hr/>			
	At 31 December 2016	At 30 June 2016	Change (%)
Portfolio valuation	16,782.6	16,651.0	0.8
Total assets	18,016.9	17,925.0	0.5
Total liabilities	4,357.3	4,406.9	(1.1)
Net asset value	13,659.6	13,518.1	1.0
Net asset value per unit (HK\$)	8.35	8.26	1.1
Gearing ratio (%)	21.8	21.9	N/A

Operating results

Sunlight REIT reported revenue of HK\$383.6 million for the Reporting Period, a slight decrease from the same period last year. After deducting property operating expenses of HK\$84.4 million, net property income came in at HK\$299.2 million, a retreat of 2.0% year-on-year. The immaterial decline in revenue and net property income was mainly attributable to the rent void and the ad-hoc expenses associated with the renovation scheme at SSC.

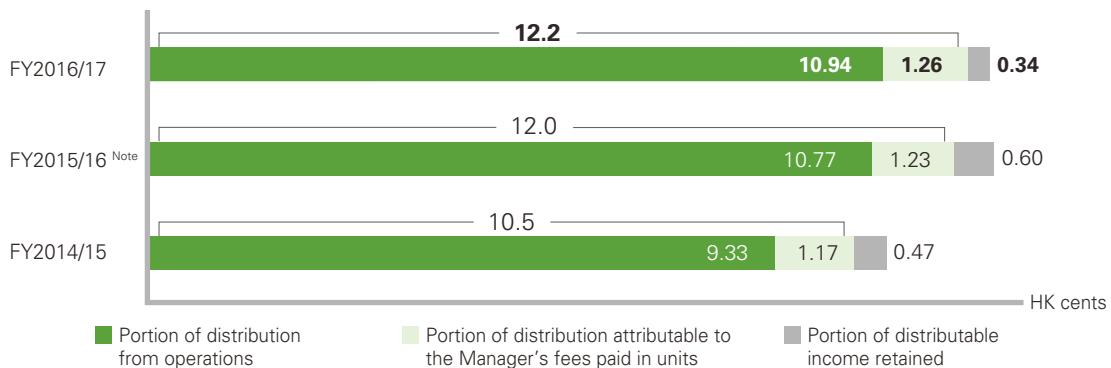
Financial Review

Finance costs decreased 35.5% year-on-year to HK\$47.4 million, mainly attributable to the absence of a substantial reserve movement resulting from the unwinding of certain interest rate swaps ("IRS") recorded in the corresponding period a year ago. Cash interest expenses dropped 5.0%, benefiting from a series of interest rate basis swaps which took effect during the Reporting Period. Profit after taxation was HK\$278.9 million (six months ended 31 December 2015: HK\$587.2 million), reflecting a smaller increase in fair value of investment properties.

Distribution

Distributable income for the Reporting Period was HK\$205.1 million, virtually unchanged as compared with the same period last year. The Board of the Manager has declared an interim distribution per unit ("DPU") of HK 12.2 cents, or HK\$199.6 million, which implies a payout ratio of 97.3%. The interim DPU was 1.7% ahead of the HK 12.0 cents paid in the same period last year, and represented an annualised distribution yield of 5.5% based on the closing unit price of HK\$4.47 on the last trading day of the Reporting Period. Please refer to the chart below for further details.

Interim DPU at a glance



Note : The interim distribution figures for FY2015/16 included the adding back of a reserve movement resulting from the unwinding of certain IRS which is capital in nature and amounted to HK 1.36 cents per unit.

Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the interim distribution are Wednesday, 22 February 2017 and Tuesday, 28 February 2017 respectively. The register of unitholders will be closed from Friday, 24 February 2017 to Tuesday, 28 February 2017, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the interim distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 23 February 2017. Payment of the interim distribution will be made to unitholders on Tuesday, 14 March 2017.

Financial position

The portfolio of Sunlight REIT was appraised by the principal valuer at HK\$16,782.6 million at 31 December 2016, representing a slight increase of 0.8% from HK\$16,651.0 million recorded at 30 June 2016. The net assets of Sunlight REIT rose by 1.0% to HK\$13,659.6 million (30 June 2016: HK\$13,518.1 million), and after taking into account the effect of payment of Manager's fees in new units and the cancellation of units bought back during the Reporting Period, net asset value per unit increased by 1.1% to HK\$8.35 (30 June 2016: HK\$8.26).

At 31 December 2016, Sunlight REIT recorded net current liabilities of HK\$543.8 million. This was due to the classification of HK\$1,350 million worth of term loan facilities (due for repayment in end-2017) as current liabilities in the consolidated financial position. In respect of contingent liabilities, Sunlight REIT has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity utility companies, the amount of which was HK\$4.6 million at 31 December 2016.

At 31 December 2016, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) marginally improved to 21.8%, while gross liabilities¹ as a percentage of gross assets dropped to 24.2%. The EBITDA² of Sunlight REIT recorded a mild decrease of 2.0% year-on-year to HK\$255.2 million; however, with decent savings in cash interest expenses as mentioned earlier, the interest coverage ratio³ for the Reporting Period further improved to 5.94 times as compared to 5.76 times recorded in the same period last year.

Notes :

1. Gross liabilities include total borrowings, tenants' deposits and other liabilities.
2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortisation. Net gain on disposal of investment properties and subsidiaries has been excluded.
3. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on total borrowings.

Financial Review

Tax matter

Further to the disclosure made in the last annual report in respect of a dispute with the Inland Revenue Department (“IRD”) over certain tax deduction disallowances^{Note}, the IRD raised additional profits tax assessment on one property holding company during the Reporting Period for the year of assessment 2015/16 by an amount of HK\$0.4 million, bringing the aggregate amount to HK\$13.7 million (“**Total Additional Amount**”). Notice of objection for the additional assessment was filed with the IRD, and tax reserve certificates of an amount equivalent to the Total Additional Amount have been purchased.

Based on the positive advice sought by the Manager from the legal and tax advisers of Sunlight REIT and in particular, the Senior Counsel, the Manager will strenuously contest the additional profits tax assessments already raised and any further additional profits tax assessments, if issued.

Capital and interest rate management

During the Reporting Period, Sunlight REIT entered into a bilateral term loan facility agreement with a bank and was granted a three-year secured term loan of HK\$300.0 million. Consequently, Sunlight REIT had in place total loan facilities of HK\$4,525.0 million at 31 December 2016, comprising term loan facilities of HK\$4,225.0 million (of which HK\$300.0 million remained undrawn) and an unsecured revolving credit facility of HK\$300.0 million which has not been drawn down. The utilised term loan facilities, with a blended interest margin of 1.24% per annum over Hong Kong Interbank Offered Rate (“HIBOR”) (before IRS arrangements) and a weighted loan maturity period of 1.8 years, are secured by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK\$14,448.6 million at 31 December 2016.

Approximately 71.3% (or HK\$2,800.0 million) of Sunlight REIT’s borrowings was hedged to fixed rates with a weighted average tenure of 2.5 years at 31 December 2016. During the Reporting Period, an additional basis swap was entered into with a notional amount of HK\$400.0 million beginning 30 September 2016. With the benefit of the basis swap arrangements, the weighted average interest rate (including loan interest margin) for the fixed rate portion of Sunlight REIT’s borrowings was 2.41% per annum. The maturity profile of loan facilities, IRS and basis swap are illustrated in the chart on page 9.

Note : The IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by certain property holding companies under Sunlight REIT. Please refer to note 9 to the interim financial report on pages 38 and 39 for details.

Maturity profile of loan facilities, IRS and basis swap



In light of the discount of Sunlight REIT's market price relative to its net asset value, the Manager spent HK\$22.8 million (excluding buy-back expenses) to buy back (and cancel) a total of 4,838,000 units during the Reporting Period at an average price of approximately HK\$4.71 per unit, representing a discount of over 43.5% to the latest net asset value per unit of Sunlight REIT.

Liquidity management

The Manager is permitted to place funds as bank deposits and Relevant Investments^{Note}, with maturity profile compatible with projected funding requirements. At 31 December 2016, Sunlight REIT had total cash and bank balances of HK\$1,063.6 million, and a portfolio of Relevant Investments with an aggregate book value of HK\$61.4 million. Taking into consideration the recurrent income generated from its operations, the current cash position and sources of funding available, the Manager is of the view that Sunlight REIT has sufficient financial resources to satisfy its working capital, distribution payment and capital expenditure requirements.

Note : Relevant Investments shall have the meaning as defined in paragraph 7.2B of the Code on Real Estate Investment Trusts.

Outlook

As already envisaged in the last annual report, the FY2016/17 interim results of Sunlight REIT recorded a slight fall in net property income due to renovation works and higher ad-hoc expenses. However, the results also demonstrated the Manager's proactive effort in cushioning an anticipated slowdown in rental reversion and the risk of higher interest rates through timely asset enhancement works and capital management initiatives respectively.

Looking ahead, Sunlight REIT will continue to face the dual challenge of rising interest rates and a continued slowdown in rental reversion. On interest rates, there is growing support to the view that any potential fiscal stimulus initiated by the new US administration may induce monetary tightening of equal weight so as to keep inflation in check. Consequently, the speed of ascent in Hong Kong interest rates is anticipated to accelerate; such an expectation has been somewhat reflected by an almost 50 basis-point rise in (3-month) HIBOR over the past few months. However, the prediction of faster US interest rate increase remains debatable in light of the still lethargic state of the global economy. Any further widening of US interest rate differential with its major trading partners would erode its trade competitiveness and precipitate a slowdown in its exports.

Against this slightly unfavourable interest rate scenario, the Manager takes pride to reiterate that over 70% of Sunlight REIT's borrowings are anchored to fixed rates with expiries ranging from 2017 through 2022. Meanwhile, the still favourable corporate lending environment should provide the Manager with a window of opportunity to enhance the capital structure of and to improve the loan interest margin for Sunlight REIT as it prepares for potential acquisition opportunities and refinancing requirements going forward. Regarding refinancing (of part or all of the existing term loan facilities), the Manager would like to report that negotiations with existing (and potential) lenders have already commenced. It is expected that a favourable arrangement for the benefit of unitholders can be secured before the end of this financial year.

On the operational front, while the pace of rental reversion is moderating, it has on balance remained positive, particularly for the core office portfolio. Together with SSC resuming full income contribution following the renovation completion, the Manager is guardedly optimistic about the rental performance of Sunlight REIT for the rest of the current financial year.

In terms of cost, thanks to the substantial investments in energy savings in recent years at Sunlight Tower and SSC, Sunlight REIT has been able to maintain a stable operating margin. Looking ahead, the Manager will continue to pursue this strategy and explore opportunities for relevant properties in the portfolio, and will closely monitor issues such as adjustments in the statutory minimum wage as well as unforeseen provisions for repair and maintenance costs.

Finally, although unit buy-back is expected to remain a priority given the cash position of Sunlight REIT and the unit price discount relative to its asset backing, the Manager would like to stress its unabated enthusiasm in conducting meaningful acquisitions to expand the footprint of the portfolio. At this juncture, the expectation of higher interest rates has seemingly been unable to ease the prevailing yield compression for commercial real estate transactions. More time and effort would have to be spent on exploring acquisition targets that can be both complementary to Sunlight REIT's portfolio and accretive to yield.

Portfolio Statistics

Property	Property details						No. of leases			
	Location	Year of completion	No. of car park spaces	GRA ¹ (sq. ft.)						
				Office	Retail	Total				
							at 31 Dec 2016	at 30 Jun 2016		
Office										
Grade A										
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	72	74		
Grade B										
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	102	101		
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	60	62		
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	24		
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	71	73		
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	69	69		
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	37	36		
On Loong Commercial Building ⁵	Wan Chai	1984	0	25,498	1,708	27,206	35	36		
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	45		
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	32	34		
Sub-total / Average			46	764,911	45,061	809,972	548	554		
Retail										
New Town										
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	111	99		
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	105	105		
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	34	36		
Urban										
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	35	36		
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2		
Palatial Stand Property	Hung Hom	2001	0	3,566	5,059	8,625	3	3		
Sub-total / Average			749	42,667	354,188	396,855	290	281		
Total / Average (excluding the disposed properties)				795	807,578	399,249	1,206,827	838	835	
Disposed properties										
Total										

Notes :

- Size of the properties is measured in terms of GRA.
- Passing rent is calculated on the basis of average rent per sq. ft. for all occupied GRA on the relevant date.
- Rental reversion is calculated on the basis of change in effective rent of the leases renewed during the relevant period.
- Valuation prepared by Knight Frank Petty Limited.
- Sunlight REIT acquired the remaining interests in On Loong Commercial Building and has become the sole owner of the building with effect from 3 August 2015. The operational statistics and property financials before and after 3 August 2015 were calculated on the basis of total GRA of 25,564 sq. ft. and 27,206 sq. ft. respectively.
- Excluding the renovated area vacated at SSC, the occupancy would have been 98.5%.
- The renovated area vacated at SSC is excluded from the calculation.

Operational statistics						Property financials				
Occupancy (%)		Passing rent ² (HK\$ / sq. ft.)		Rental reversion ³ (%)		Net property income (HK\$'000)		Capitalisation rate at 31 Dec 2016 (%)	Appraised value at 31 Dec 2016 ⁴ (HK\$'000)	
at 31 Dec 2016	at 30 Jun 2016	at 31 Dec 2016	at 30 Jun 2016	six months ended 31 Dec 2016	six months ended 30 Jun 2016	six months ended 31 Dec 2016	six months ended 31 Dec 2015	Office	Retail	
96.0	99.7	36.2	35.3	11.7	10.9	81,715	81,497	3.85	3.75	4,640,000
97.4	95.1	28.2	27.7	12.1	16.5	17,936	17,267	3.65	4.00	1,097,000
96.3	98.1	42.2	41.5	7.8	13.1	12,095	12,044	3.95	3.60	621,000
97.2	97.1	42.0	41.0	12.5	5.4	8,859	8,679	3.65	3.80	568,600
95.1	98.7	26.4	26.0	7.0	17.6	8,456	8,339	3.65	4.00	550,000
95.2	96.4	20.3	19.9	11.0	15.0	5,679	5,339	3.65	4.00	347,000
96.1	94.2	23.8	23.3	8.1	14.5	4,273	4,434	3.95	4.20	273,000
94.0	94.0	30.4	30.3	5.1	8.1	4,073	4,073	3.85	3.90	262,000
98.5	97.1	21.8	22.2	2.4	2.5	2,657	2,911	4.00	4.25	172,000
94.5	100.0	13.7	13.2	11.4	16.4	939	956	3.75	4.10	69,600
96.2	98.0	32.2	31.6	10.5	11.8	146,682	145,539			8,600,200
93.7	77.6 ⁶	120.6	131.7 ⁷	6.1	8.0	72,629	81,228	N/A	4.40	4,022,000
96.5	98.4	53.7	51.8	16.0	15.5	59,516	56,447	N/A	4.50	2,951,000
95.9	100.0	49.5	50.0	(8.4)	17.5	16,866	16,445	3.85	3.80	996,000
94.3	96.6	48.7	51.3	(14.5)	(4.5)	2,050	2,175	N/A	4.30	114,300
100.0	100.0	47.8	47.8	N/A	N/A	1,167	1,165	N/A	4.00	61,000
75.2	75.2	12.0	12.0	N/A	0.0	258	209	N/A	4.35	38,100
95.0	91.7	72.4	71.6	5.0	12.3	152,486	157,669			8,182,400
95.8	95.9	45.4	44.2	7.4	12.0	299,168	303,208			16,782,600
						N/A	1,957			
						299,168	305,165			

Corporate Governance

The Manager is committed to upholding a high level of corporate governance standard. Good corporate governance entails a sound and effective system of checks and balances, and requires practices and procedures that promote awareness and observance of stakeholder rights. To ensure that the above objectives are satisfied and the relevant legislations and regulations are duly observed, the Manager has adopted a compliance manual (the “**Compliance Manual**”) which sets out the key processes, systems, measures, corporate governance policies as well as other policies and procedures governing the management and operations of Sunlight REIT. Modifications to the Compliance Manual will be made if necessary or if relevant legislations or regulations have been enacted or amended.

During the Reporting Period, the Manager has complied with the provisions of the Compliance Manual.

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by the SFC under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Following the resignation of Mr. Leung Kwok Hoe, Kevin from the position of General Manager – Investment and Investor Relations with effect from 14 January 2017, the Manager currently has four responsible officers pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code.

The Trustee is registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) and is qualified under the REIT Code to act as a trustee for collective investment schemes authorised under the SFO.

Board of the Manager and changes in Director’s information

The Board currently has a total of seven Directors, consisting of one Executive Director (who is also the Chief Executive Officer), two Non-executive Directors (including the Chairman of the Board) and four Independent Non-executive Directors. The positions of the Chairman of the Board and Chief Executive Officer are held by two different persons to ensure that segregation of duties and balance of authority are maintained. Various board committees have been established with clear terms of reference, each of which is to assist the Board in supervising specific issues or functions of the Manager.

Since the publication of the last annual report, the Manager was informed of the following changes in Director’s information :

1. Mr. Kwok Tun Ho, Chester has been appointed as a member of the Process Review Panel for the SFC with effect from 1 November 2016 and admitted as a fellow of The Hong Kong Institute of Directors with effect from 1 December 2016; and
2. Mr. Au Siu Kee, Alexander has been appointed as a member of the Finance Committee of the Independent Schools Foundation with effect from 6 December 2016.

Confirmation of compliance with the Dealings Code

The Manager has adopted a code governing dealings in securities of Sunlight REIT by Directors (the “**Dealings Code**”) the terms of which are no less exacting than those set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The Dealings Code is also applicable to the Manager itself and similar dealing requirements are also applicable to employees of the Manager. Certain restrictions and notification requirements as provided under the Listing Rules are adopted with modifications in the Dealings Code to apply to unit buy-back by the Manager on behalf of Sunlight REIT. Specific enquiry has been made with all Directors and the Manager, and all of them confirmed that they have complied with the required standard as set out in the Dealings Code from time to time throughout the Reporting Period.

Review of interim report

This interim report has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of reference. The interim financial report has also been reviewed by the auditor of Sunlight REIT, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

Conflicts of interests and business competitions with HLD, SKFE and other companies

The Manager and Henderson Sunlight Property Management Limited (the “**Property Manager**”) are both indirect wholly-owned subsidiaries of Henderson Land Development Company Limited (“**HLD**”). One of the non-executive Directors of the Manager is an executive director of HLD. The Chairman (who is also a non-executive Director) of the Manager is an independent non-executive director of Henderson Investment Limited (“**HIL**”), a listed subsidiary of HLD. Each of Shau Kee Financial Enterprises Limited (“**SKFE**”) and HLD has interest in units of Sunlight REIT through various subsidiaries; in particular, the Manager has received and may continue to receive units of Sunlight REIT by virtue of all or part of its entitlement to the fees for asset management services rendered to Sunlight REIT.

SKFE, HLD and a number of their subsidiaries and associates are and/or may be engaged in, among other things, development, investment and management of retail, office and other properties in and outside Hong Kong. There can be no assurance that conflicts of interests will not arise between Sunlight REIT, the Manager, the Property Manager, SKFE, HLD and their affiliates in the future. The Manager may experience conflicts of interests as a result of other roles of its board members and/or the activities and interests of its affiliates in acquiring and disposing of potential investments. Moreover, as a wholly-owned subsidiary of HLD, the Manager may experience conflicts of interests in connection with any potential transactions with HLD or its affiliates and in agreeing on the terms of such potential transactions.

Corporate Governance

At the operational level, the Manager and the Property Manager may also experience conflicts of interests with HLD or its affiliates in connection with identifying and competing for potential tenants and procurement of services. The Manager may also experience conflicts of interests in its role in overseeing the provision of services by the Property Manager pursuant to the property management agreement entered into between the Manager and the Property Manager on 29 November 2006, and was subsequently renewed on amended terms and conditions by three supplemental agreements.

In addition, potential conflicts of interests may arise in connection with or in relation to (i) any potential property-related acquisitions or disposals and/or competition with other companies for potential tenants in the event that any director, senior executive or officer of the Manager or the Property Manager is also a shareholder or director of such other companies; (ii) tenancy related matters in the event that any director, senior executive or officer of the Manager or the Property Manager is also a shareholder or director of a tenant or potential tenant (or of its holding company) of Sunlight REIT; and (iii) tenancy agency services provided by the principal valuer of Sunlight REIT and/or its affiliates.

To ensure that all conflicts of interests relating to Sunlight REIT can be managed and/or avoided, various control measures have been adopted and taken to deal with such issues. The Manager assures that it is capable of performing, and shall continue to perform, its duties for Sunlight REIT independent of HLD's related businesses and in the best interests of Sunlight REIT and the unitholders.

Public float

At 31 December 2016, based on information that is publicly available and within the knowledge of the Directors, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the SFC.

New units issued

Except for an aggregate of 4,635,727 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Buy-back, sale or redemption of units

Pursuant to the relevant general mandate to buy back units granted by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 4,838,000 units on the Stock Exchange during the Reporting Period for an aggregate consideration of approximately HK\$22.8 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK\$4.97 and HK\$4.54 respectively. All bought back units were cancelled prior to the end of the Reporting Period.

Save as disclosed above, there was no purchase, sale or redemption of units by Sunlight REIT or its wholly owned and controlled entities during the Reporting Period.

Adoption of inside information policy

An inside information policy was adopted by the Board during the Reporting Period to ensure that inside information is to be handled and disseminated to the public in equal and timely manner in accordance with applicable laws and regulations.

Relevant Investments

The full investment portfolio of Relevant Investments of Sunlight REIT at 31 December 2016 is set out below :

Financial instruments and issuers	Type	Primary listing	Currency	Total cost (HK\$'000)	Mark-to-market value (HK\$'000)	% of Gross asset value of Sunlight REIT Note	Credit rating
BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited	Bond	Singapore Exchange	USD	21,623	21,126	0.12	S&P A- Moody's Baa3
ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Bond	Singapore Exchange	USD	20,911	20,594	0.12	Moody's Baa2
CHITRA 3 7/8 11/03/19 King Power Capital Ltd.	Bond	Hong Kong Exchange	USD	19,841	19,826	0.11	S&P BBB+ Moody's Baa3
Total				62,375	61,546	0.35	

Note : The percentages are arrived at by comparing the mark-to-market value of the investments at 31 December 2016 with the gross asset value of Sunlight REIT, which is calculated by reference to the interim financial report for the Reporting Period contained in this interim report as adjusted for the interim distribution declared.

At 31 December 2016: (i) the combined mark-to-market value of the Relevant Investments, together with other non-real estate assets of Sunlight REIT at that date, represented 6.66% of the gross asset value of Sunlight REIT as stated in the interim financial report for the Reporting Period contained in this interim report, which is below the Maximum Cap provided in note (1) to paragraph 7.2B of the REIT Code; and (ii) the Property Development Costs and the aggregate contract value of the uncompleted units of real estate acquired (both as referred to in note (1) to paragraph 7.2B of the REIT Code, being items also to be included for the purpose of calculating the above percentage for comparing with the Maximum Cap under that Code) were both nil.

Employees

Sunlight REIT is managed by the Manager and does not employ any staff itself.

Connected Party Transactions

Information in respect of the transactions entered into between Sunlight REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code) during the Reporting Period, other than those transactions that are excluded pursuant to waivers granted by the SFC and/or exempted from the disclosure requirements, is set out in this section.

Connected party transactions – income and expenses

The following tables set out information on all the connected party transactions (other than those disclosed under “Connected party transactions with the Trustee Connected Persons” on page 19) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Reporting Period :

(a) Income

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Income for the Reporting Period (HK\$'000)	Rental and other deposits received at 31 December 2016 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	3,042	1,386
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	2,072	955
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	1,089	–
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	230	111
Total			6,433	2,452

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Expenses for the Reporting Period (HK\$'000)
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	4,393
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	25,796
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,296
Metro City Management Limited	Associated company of the Manager	Property management and operations	600
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,151
Contender Limited	Associated company of the Manager	Facilities leasing	90
Total			33,326

Note : Within the meaning of the REIT Code.

Connected party transactions with the Trustee Connected Persons

The following table sets out information on all the connected party transactions entered into between Sunlight REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies) and the HSBC Group¹ (collectively, the “**Trustee Connected Persons**”) during the Reporting Period :

Name of connected person	Relationship with Sunlight REIT ²	Nature of the connected party transactions	Income / expenses for the Reporting Period (HK\$'000)	Rental and other deposits received at 31 December 2016 (HK\$'000)
Leasing transactions:				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing ³	4,558	2,415
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing ⁴	125	62
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁵	5,423	2,639
Ordinary banking and financial services⁶:				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received / receivable on bank deposits	4	–
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowings, net interest expenses on IRS and basis swaps and other bank charges	11,941	–
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	16	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest income received / receivable on bank deposits	12	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense on bank borrowing and other bank charges	2,469	–

A basis swap with a notional amount of HK\$400 million was entered into with the The Hongkong and Shanghai Banking Corporation Limited on 13 July 2016.

Connected Party Transactions

Notes :

1. HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the Trustee of Sunlight REIT).
2. Within the meaning of the REIT Code.
3. A lease in respect of Shop Nos. 1024-31 of SSC, with gross floor area of 5,390 sq. ft. and a term of 3 years from 4 November 2014 to 3 November 2017.
4. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 66-81, Level 1, and (iii) light box space No. F2, Level 2 respectively, of SSC.
5. A lease in respect of Shop No. 211 of Metro City Phase I Property, with gross floor area of 7,628 sq. ft. and a term of 3 years from 17 February 2015 to 16 February 2018; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., for a term of 3 years from 29 September 2014 to 28 September 2017.
6. In general, “ordinary banking and financial services” include bank deposits and interest earned therefrom, loan facilities and IRS including interest and charges paid thereto and other banking or financial services.

Other disclosures under the REIT Code

Pursuant to note (2) to paragraph 8.10 of the REIT Code, services provided by the Manager, the Trustee and the principal valuer to Sunlight REIT as contemplated under the constitutive documents shall not be deemed connected party transactions but particulars of such services (except where any services transaction has a value of not more than HK\$1 million), such as terms and remuneration, shall be disclosed in the relevant semi-annual or annual report.

During the Reporting Period, the aggregate amount of fees payable by Sunlight REIT to the Manager (including fees paid in the form of units) and to the Trustee under the Trust Deed were approximately HK\$42.4 million and HK\$2.2 million respectively. Particulars of services provided by the Trustee, the Manager and the principal valuer, including terms and remuneration, are set out in notes 23(b)(i), (ii) and (iv) to the interim financial report. The fees payable to the principal valuer during the Reporting Period was less than HK\$1 million.

Disclosure of Interests

The REIT Code requires connected persons (as defined in paragraph 8.1 of the REIT Code) of Sunlight REIT to disclose their interests in units. Further, certain provisions of Part XV of the SFO in relation to disclosure of interest are deemed, pursuant to Schedule C of the Trust Deed, to apply to each of the Manager itself and a Director or chief executive of the Manager, and also indirectly to certain persons interested in or having a short position in units.

Holdings of the Manager and the Directors or the chief executive of the Manager

At 31 December 2016 and 30 June 2016, the interests and short position in units of the Manager and the Directors or the chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed (the “**Register**”), were as follows :

Name	At 31 December 2016		At 30 June 2016		
	Number of units interested (long position)	% of interest in units ¹	Number of units interested (long position)	% of interest in units ²	Change in % interest
The Manager ³	106,921,002	6.537	100,597,275	6.149	0.388
Au Siu Kee, Alexander ⁴	1,530,000	0.094	1,530,000	0.094	-
Wu Shiu Kee, Keith ⁵	600,000	0.037	600,000	0.037	-

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,635,707,632 at 31 December 2016.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,635,909,905 at 30 June 2016.
3. After the receipt of 4,635,727 new units as payment of part of the Manager’s base fee and variable fee and the acquisition of 1,688,000 units on the Stock Exchange during the Reporting Period, the Manager beneficially owned 106,921,002 units at 31 December 2016 (30 June 2016: 100,597,275 units).
4. At 31 December 2016, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2016: 1,530,000 units) under Part XV of the SFO. Of the 1,530,000 units, 201,000 units were beneficially held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were beneficially held by his spouse individually.
5. At 31 December 2016, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 600,000 units (30 June 2016: 600,000 units).

Other than the above, none of the Manager and the Directors or the chief executive of the Manager was beneficially interested (or deemed to be interested) in units or held any short position in units at 31 December 2016 and 30 June 2016 as recorded in the Register.

Disclosure of Interests

Holdings of substantial unitholders

At 31 December 2016 and 30 June 2016, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2016 Number of units interested (long position)	% of interest in units ¹	At 30 June 2016 Number of units interested (long position)	% of interest in units ²	Change in % interest
Lee Shau Kee ³	623,218,027	38.10	607,211,175	37.12	0.98
Lee Financial (Cayman) Limited ³	374,072,708	22.87	374,072,708	22.87	-
Leesons (Cayman) Limited ³	374,072,708	22.87	374,072,708	22.87	-
Leeworld (Cayman) Limited ³	374,072,708	22.87	374,072,708	22.87	-
SKFE ³	374,072,708	22.87	374,072,708	22.87	-
Uplite Limited ³	224,443,625	13.72	224,443,625	13.72	-
Wintrade Limited ³	149,629,083	9.15	149,629,083	9.15	-
Henderson Development Limited ³	249,145,319	15.23	233,138,467	14.25	0.98
HLD ³	249,145,319	15.23	233,138,467	14.25	0.98
Hopkins (Cayman) Limited ³	249,145,319	15.23	233,138,467	14.25	0.98
Riddick (Cayman) Limited ³	249,145,319	15.23	233,138,467	14.25	0.98
Rimmer (Cayman) Limited ³	249,145,319	15.23	233,138,467	14.25	0.98
Silchester International Investors LLP ⁴	257,791,150	15.76	257,791,150	15.76	-
Silchester International Investors International Value Equity Trust ⁴	113,294,922	6.93	113,294,922	6.93	-

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,635,707,632 at 31 December 2016.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,635,909,905 at 30 June 2016.
3. At 31 December 2016, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited were wholly-owned subsidiaries of Financial Enterprise Properties Limited which in turn was wholly-owned by SKFE. SKFE was wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which were held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was thus taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2016, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 106,921,002 units were owned by the Manager. Cobase Limited and Richful Resources Limited were wholly-owned subsidiaries of Brightland Enterprises Limited, and the Manager was a wholly-owned subsidiary of Latco Investment Limited, both of which in turn were wholly-owned by HLD. Henderson Development Limited ("HD") owned more than one-third of the issued share capital of HLD. HD was wholly-owned by Hopkins (Cayman) Limited ("Hopkins") as the trustee of a unit trust, the units of which were held by Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as the respective trustees of two discretionary trusts.

Under Part XV of the SFO (as applied by the Register), each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in a total of 250,833,319 units at 31 December 2016. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 249,145,319 units at 31 December 2016, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

At 31 December 2016, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in 624,906,027 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 623,218,027 units at 31 December 2016, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2016, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

4. At 31 December 2016, in accordance with the notices given to the Manager pursuant to Part XV of the SFO, Silchester International Investors LLP ("Silchester LLP") in its capacity as investment manager, was interested in 257,791,150 units, and Silchester International Investors International Value Equity Trust ("Silchester Trust") beneficially owned 113,294,922 units. The Manager has subsequently been notified informally that at 31 December 2016, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.34% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 107,818,922 units (representing approximately 6.59% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

Holdings of other connected persons

So far as is known to the Manager and save as disclosed above, the holdings of units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT at 31 December 2016 were as follows :

Name	Number of units held	% of unit holding ¹
Chan Wing Cheng ²	130,000	0.0079
Lee King Yue ³	50,000	0.0031
Lee Pui Ling, Angelina ⁴	2,307	0.0001
Lo Yuk Fong, Phyllis ⁵	100,000	0.0061
Persons related to the Trustee ⁶	27,935,252	1.7078

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,635,707,632 at 31 December 2016.
2. Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 130,000 units at 30 June 2016.
3. Mr. Lee King Yue was a connected person by virtue of being a director of certain subsidiaries of HLD. Mr. Lee held 50,000 units at 30 June 2016.
4. Mrs. Lee Pui Ling, Angelina was a connected person by virtue of being a director of HLD and one of its subsidiaries. Mrs. Lee held 2,307 units at 30 June 2016.
5. Ms. Lo Yuk Fong, Phyllis was a connected person by virtue of being a senior executive of the Manager. Ms. Lo was interested in 100,000 units at 30 June 2016.
6. The Manager has been informed that (i) certain controlling entities, holding companies, subsidiaries or associated companies of the Trustee and (ii) certain directors, senior executives and officers of the Trustee and their associates (as defined in the REIT Code) were beneficially interested in 27,885,252 units and 50,000 units respectively at 31 December 2016. Such persons were beneficially interested in 20,904,252 units and 50,000 units respectively at 30 June 2016.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2016 – unaudited
 (Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2016 \$'000	2015 \$'000
Revenue	4 & 5	383,565	385,185
Property operating expenses	4 & 6	(84,397)	(80,020)
Net property income		299,168	305,165
Other income		4,621	4,121
Administrative expenses		(48,463)	(48,800)
Net gain on disposals of investment properties and subsidiaries	7	–	91,154
Net increase in fair value of investment properties	11(a)	105,239	343,943
Profit from operations		360,565	695,583
Finance costs on interest bearing liabilities	8(a)	(47,419)	(73,481)
Profit before taxation and transactions with unitholders	8	313,146	622,102
Income tax	9	(34,246)	(34,868)
Profit after taxation and before transactions with unitholders		278,900	587,234

The notes on pages 32 to 55 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2016 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2016 \$'000	2015 \$'000
Profit after taxation and before transactions with unitholders	278,900	587,234
Other comprehensive income for the period		
<i>Items that have been reclassified / may be reclassified subsequently to profit or loss (after tax) :</i>		
– Changes in fair value of cash flow hedges recognised during the period	66,932	(4,219)
– Net reclassification adjustments for amounts transferred (from) / to profit or loss in respect of finance costs on interest bearing liabilities	(1,626)	22,197
	65,306	17,978
Total comprehensive income for the period	344,206	605,212

The notes on pages 32 to 55 form part of this interim financial report.

Consolidated Statement of Financial Position

At 31 December 2016

(Expressed in Hong Kong dollars)

	Note	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	11	16,782,600	16,651,000
– Other fixed assets		82	79
		16,782,682	16,651,079
Deferred tax assets		213	305
Derivative financial instruments	13	31,184	816
Prepayments	15	–	4,626
Reimbursement rights	12	37,436	37,436
Other financial assets	14	61,423	61,871
		16,912,938	16,756,133
Current assets			
Trade and other receivables	15	22,281	20,517
Derivative financial instruments	13	4,113	65
Cash and bank balances	16	1,063,622	1,134,762
Tax recoverable		13,938	13,489
		1,103,954	1,168,833
Total assets		18,016,892	17,924,966
Current liabilities			
Tenants' deposits		(190,347)	(185,368)
Rent receipts in advance		(10,603)	(9,087)
Trade and other payables	17	(61,128)	(68,636)
Secured bank borrowings	18	(1,347,278)	–
Derivative financial instruments	13	(2,754)	(18,401)
Tax payable		(35,613)	(63,420)
		(1,647,723)	(344,912)
Net current (liabilities) / assets		(543,769)	823,921
Total assets less current liabilities		16,369,169	17,580,054

Consolidated Statement of Financial Position (continued)

At 31 December 2016

(Expressed in Hong Kong dollars)

	Note	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings	18	(2,554,490)	(3,895,868)
Deferred tax liabilities		(155,049)	(143,815)
Derivative financial instruments	13	(35)	(22,268)
		(2,709,574)	(4,061,951)
Total liabilities, excluding net assets attributable to unitholders		(4,357,297)	(4,406,863)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		13,659,595	13,518,103
Number of units in issue	19	1,635,707,632	1,635,909,905
Net asset value attributable to unitholders per unit		\$8.35	\$8.26

The notes on pages 32 to 55 form part of this interim financial report.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2016 – unaudited
(Expressed in Hong Kong dollars)

Note	Six months ended 31 December	
	2016 \$'000	2015 \$'000
	13,518,103	13,097,140
At the beginning of the period		
Profit after taxation and before transactions with unitholders	278,900	587,234
Other comprehensive income	65,306	17,978
Total comprehensive income for the period	344,206	605,212
Distribution paid to unitholders	(201,217)	(188,213)
Issuance of units to the Manager during the period	21,387	23,043
Units bought back	(22,804)	(25,701)
Units buy-back expenses	(80)	(95)
	(202,714)	(190,966)
At the end of the period		
	13,659,595	13,511,386

The notes on pages 32 to 55 form part of this interim financial report.

Distribution Statement

For the six months ended 31 December 2016 – unaudited
 (Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2016 \$'000	2015 \$'000
Profit after taxation and before transactions with unitholders		278,900	587,234
Adjustments (note (i)) :			
– Net gain on disposals of investment properties and subsidiaries	7	–	(91,154)
– Net increase in fair value of investment properties	11(a)	(105,239)	(343,943)
– Manager's fees paid or payable in the form of units		21,204	21,141
– Cash flow hedges reclassified (to) / from net assets attributable to unitholders	8(a)	(1,626)	22,197
– Non-cash finance costs on interest bearing liabilities		5,900	5,900
– Deferred tax	9	5,963	5,057
		(73,798)	(380,802)
Distributable income (note (i))		205,102	206,432
Interim distribution (note (ii))		199,556	196,524
Payout ratio (note (ii))		97.3%	95.2%
Distribution per unit (note (ii))		12.2 cents	12.0 cents

Distribution Statement (continued)

For the six months ended 31 December 2016 – unaudited
(Expressed in Hong Kong dollars)

Notes :

- (i) Pursuant to the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the “**REIT Code**”) and the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”), Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) is in any event required to ensure that the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the period included the adding back of non-cash finance costs on interest bearing liabilities of \$5,900,000, or 0.36 cents per unit (2015 : \$5,900,000, or 0.36 cents per unit). In 2015, the adjustment for that period also included the adding back of cash flow hedges reclassified from net assets attributable to unitholders of \$22,197,000, or 1.36 cents per unit resulting from unwinding of three existing interest rate swaps (see note 13).

- (ii) The interim distribution of \$199,556,000 for the six months ended 31 December 2016 (2015 : \$196,524,000), representing a payout ratio of 97.3% (2015 : 95.2%), is calculated by multiplying the interim distribution per unit of 12.2 cents by 1,635,707,632 units* anticipated to be in issue at 28 February 2017, the record date for FY2016/17 interim distribution (the “**Record Date**”) (2015 : 12.0 cents by 1,637,702,927 units in issue at 9 March 2016, the record date for FY2015/16 interim distribution).
- (iii) The interim distribution is expected to be paid on 14 March 2017 to unitholders whose names appear on the register of unitholders on the Record Date.
- (iv) The interim distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

* It is anticipated that no additional units will be bought back and cancelled before the Record Date.

** Certain figures in these notes to distribution statement have been rounded to the nearest thousand.

The notes on pages 32 to 55 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2016 – unaudited
 (Expressed in Hong Kong dollars)

Note	Six months ended 31 December	
	2016	2015
	\$'000	\$'000
Operating activities		
Cash generated from operations	276,089	273,759
Tax paid		
– Hong Kong Profits Tax paid	(56,539)	(32,232)
Net cash generated from operating activities	219,550	241,527
Investing activities		
Payment for expenditure incurred for investment properties	(28,195)	(6,583)
Payment for acquisition of investment properties	–	(14,854)
Proceeds from disposals of investment properties and subsidiaries	–	825,682
Payment for purchase of held-to-maturity debt securities	–	(62,375)
Payment for purchase of other fixed assets	(22)	–
Decrease / (increase) in pledged deposits with original maturity over three months	118,576	(44,029)
Decrease / (increase) in bank deposits with original maturity over three months	17,619	(78,212)
Other cash flows arising from investing activities	5,211	3,160
Net cash generated from investing activities	113,189	622,789
Financing activities		
Distribution paid to unitholders	(201,217)	(188,213)
Other borrowing costs paid	(826)	(158)
Interest paid	(42,740)	(45,264)
Repayment of bank borrowings	–	(10,000)
Payment for unwinding of interest rate swaps	–	(22,197)
Payment for buy-back of units	(22,884)	(25,796)
Net cash used in financing activities	(267,667)	(291,628)
Net increase in cash and cash equivalents	65,072	572,688
Cash and cash equivalents at the beginning of the period	16	998,567
Effect of foreign exchange rate changes		(17)
Cash and cash equivalents at the end of the period	16	1,063,622
		914,607

The notes on pages 32 to 55 form part of this interim financial report.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

1 General

Sunlight REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed and is authorised under section 104 of the Securities and Futures Ordinance. Sunlight REIT is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**SEHK**”).

The principal activity of Sunlight REIT and its subsidiaries (collectively referred to as the “**Group**”) is to own and invest in income-producing office and retail properties in Hong Kong with the objective of providing 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. It has its principal place of business at 30th Floor, Sunlight Tower, 248 Queen’s Road East, Wan Chai, Hong Kong.

2 Basis of preparation

This interim financial report has been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issuance on 7 February 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015/16 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016/17 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015/16 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

2 Basis of preparation (continued)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT (the "**Manager**"), is included on page 56.

The financial information relating to the financial year ended 30 June 2016 that is included in the interim financial report as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2016 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 5 September 2016.

3 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group :

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements : Disclosure initiative*

None of these amendments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

4 Segment reporting

The Manager manages the Group's businesses by divisions. In a manner consistent with the way in which information is reported internally to the Manager's most senior executive management for the purposes of resource allocation and performance assessment, the Manager has identified two reportable segments, which are "Office properties" and "Retail properties".

As all of the Group's activities are carried out in Hong Kong, no geographical information is presented.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the senior executive management of the Manager monitors the results attributable to each reportable segment on the following bases :

Revenue and expenses are allocated to the reportable segments with reference to income generated and the expenses incurred by those segments.

The measure used for reporting segment performance is the "segment results" which exclude the net increase in fair value of investment properties, net gain on disposals of investment properties and subsidiaries, finance costs on interest bearing liabilities, income tax, interest income and the unallocated net expenses.

4 Segment reporting (continued)

Segment results (continued)

Information regarding the Group's reportable segments as provided to the Manager's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below :

	Six months ended 31 December					
	2016 (Unaudited)			2015 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– rental income	149,416	158,638	308,054	148,146	161,628	309,774
– car park income	2,000	13,593	15,593	1,894	12,838	14,732
– rental related income	30,703	29,215	59,918	30,854	29,825	60,679
Property operating expenses	182,119	201,446	383,565	180,894	204,291	385,185
	(35,437)	(48,960)	(84,397)	(34,284)	(45,736)	(80,020)
Net property income	146,682	152,486	299,168	146,610	158,555	305,165
Administrative expenses	(22,425)	(21,465)	(43,890)	(22,158)	(22,107)	(44,265)
Segment results	124,257	131,021	255,278	124,452	136,448	260,900
Net increase in fair value of investment properties	94,576	10,663	105,239	270,320	73,623	343,943
Net gain on disposals of investment properties and subsidiaries	–	–	–	58,476	32,678	91,154
Finance costs on interest bearing liabilities			(47,419)			(73,481)
Income tax			(34,246)			(34,868)
Interest income			4,621			4,031
Unallocated net expenses			(4,573)			(4,445)
Profit after taxation and before transactions with unitholders			278,900			587,234
Depreciation	9	10	19	8	8	16

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

5 Revenue

Revenue represents gross income generated from leasing of investment properties. The amount of each significant category of revenue recognised during the period is as follows :

	Six months ended 31 December	
	2016 (Unaudited) \$'000	2015 (Unaudited) \$'000
Rental income	308,054	309,774
Car park income	15,593	14,732
Rental related income	59,918	60,679
	383,565	385,185

6 Property operating expenses

	Six months ended 31 December	
	2016 (Unaudited) \$'000	2015 (Unaudited) \$'000
Building management fee	28,974	28,664
Property Manager's fees	25,796	24,197
Government rent and rates	17,332	16,783
Marketing and promotion expenses	3,083	2,286
Car park operating costs	2,920	3,117
Other direct costs	6,292	4,973
	84,397	80,020

7 Net gain on disposals of investment properties and subsidiaries

On 8 May 2015, the Group, through a wholly-owned subsidiary, entered into an exchange agreement with an independent third party to sell the first floor of Yue Fai Commercial Centre ("1/F Yue Fai") in exchange for Unit 6A of On Loong Commercial Building ("Unit 6A of On Loong") and a sum of \$8,000,000 (the "Exchange of Properties"). The gross considerations in respect of the disposal of 1/F Yue Fai and the acquisition of Unit 6A of On Loong were \$13,800,000 and \$5,800,000 respectively.

7 Net gain on disposals of investment properties and subsidiaries (continued)

On 29 May 2015, the Group, through certain of its wholly-owned subsidiaries, entered into binding agreements with certain independent third parties in respect of the disposals of two subsidiaries, namely Strong Bright Technology Limited and Lucky Million Development Limited (the “**Two Subsidiaries**”), and one property, namely Royal Terrace Property (“**Royal Terrace**”), for an aggregate consideration of \$919,520,000 (which was subsequently adjusted to \$920,540,000 upon the completion of the disposals). Strong Bright Technology Limited was the owner of Everglory Centre and Lucky Million Development Limited was the owner of Yue Fai Commercial Centre Property, excluding the first floor.

The Exchange of Properties, the disposals of the Two Subsidiaries and the disposal of Royal Terrace were completed on 3 July 2015, 31 July 2015 and 31 August 2015 respectively. Net gain on disposals of investment properties and gain on disposals of subsidiaries of \$31,013,000 and \$60,141,000 (net of transactions costs) respectively were credited to profit or loss during the six months ended 31 December 2015.

8 Profit before taxation and transactions with unitholders

Profit before taxation and transactions with unitholders is arrived at after charging / (crediting) :

	Six months ended 31 December	
	2016 (Unaudited) \$'000	2015 (Unaudited) \$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	42,994	45,234
Other borrowing costs	6,051	6,050
	49,045	51,284
Interest rate swaps : cash flow hedges, reclassified (to) / from net assets attributable to unitholders	(1,626)	22,197
	47,419	73,481

Other borrowing costs represent various financing charges and the amortisation of the debts establishment fees for the bank borrowings (see note 18).

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

8 Profit before taxation and transactions with unitholders (continued)

Profit before taxation and transactions with unitholders is arrived at after charging / (crediting) : (continued)

(b) Other items	Six months ended 31 December	
	2016 (Unaudited) \$'000	2015 (Unaudited) \$'000
Interest income	(4,621)	(4,031)
Manager's fees	42,409	42,283
Property Manager's fees (note (i))	25,796	24,197
Trustee's remuneration	2,178	2,177
Auditor's remuneration		
– Audit services	734	664
– Other services	458	445
Valuation fees payable to principal valuers	255	270
Legal and other professional fees	1,846	2,020
Commission to property agents	1,205	429
Bank charges	166	161
Net unrealised foreign exchange loss	40	–

Notes :

- (i) Included rental commission of \$7,821,000 (2015 : \$6,492,000).
- (ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the period accordingly.

9 Income tax

Current tax – Hong Kong Profits Tax	Six months ended 31 December	
	2016 (Unaudited) \$'000	2015 (Unaudited) \$'000
Provision for the period	28,283	29,811
Deferred tax		
Origination and reversal of temporary differences	5,963	5,057
	34,246	34,868

Provision for Hong Kong Profits Tax has been made at 16.5% on the estimated assessable profits for the current and prior periods.

9 Income tax (continued)

In prior years, the Inland Revenue Department (“IRD”) raised additional profits tax assessments on certain subsidiaries of the Group, with one of the subsidiaries (the “**Particular Subsidiary**”) covering the years of assessment up to 2014/15 and 15 other subsidiaries covering the years of assessment up to 2009/10, in an aggregated amount of \$13,283,000 as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the six months ended 31 December 2016, the IRD further raised additional profits tax assessments on the Particular Subsidiary for the year of assessment 2015/16 in respect of such disallowance, bringing the aggregate amount to \$13,732,000. Notices of objection were filed with the IRD and, as required, tax reserve certificates of \$13,732,000 in total have been purchased.

The Manager has sought and obtained positive advice from the legal and tax advisers of Sunlight REIT, and, in particular, has received an unequivocal opinion from Senior Counsel to the effect that there are strong prospects of establishing the deductibility of the management fees, property management fees and rental commission. In light of such opinion, the Manager will strenuously contest the additional profits tax assessments already raised.

If the IRD were to issue additional profits tax assessments on the 15 other subsidiaries on the basis of disallowing deductions of a similar nature in respect of the years of assessment 2010/11 to 2015/16, the estimated total additional profits tax liabilities would amount to approximately \$73,619,000, which includes \$13,732,000 as mentioned above. Based on the positive advice received, such additional profits tax assessments, if issued, will likewise be vigorously contested.

10 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2016 amounted to \$0.17 (2015 : \$0.36). The calculation of basic earnings per unit before transactions with unitholders is based on the Group’s profit after taxation and before transactions with unitholders of \$278,900,000 (2015 : \$587,234,000) and the weighted average of 1,636,525,561 units in issue during the period (2015 : 1,637,071,181 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2016 and 2015 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

11 Investment properties

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
At 1 July 2016 / 2015	16,651,000	16,192,800
Additions	26,361	45,783
Net increase in fair value	105,239	412,417
At 31 December 2016 / 30 June 2016	16,782,600	16,651,000

(a) Valuation

The investment properties were appraised at 31 December 2016 by the Group's principal valuer, Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their Staff Members of The Hong Kong Institute of Surveyors with experience in the location and category of property being valued. Valuation techniques adopted by this valuer were the same as when carrying out the valuation for 30 June 2016. As a result of the valuation, a net gain of \$105,239,000 (2015 : \$343,943,000) has been recognised in profit or loss for the period in respect of investment properties.

(b) The analysis of the fair value of investment properties is as follows :

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
In Hong Kong		
– long leases	7,798,600	7,669,600
– medium-term leases	8,984,000	8,981,400
	16,782,600	16,651,000

(c) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 18).

12 Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity under the relevant deeds of tax covenant dated 21 December 2006 provided by the vendors (comprising subsidiaries of Shau Kee Financial Enterprises Limited ("SKFE"), Henderson Land Development Company Limited ("HLD"), Henderson Investment Limited, Henderson Development Limited ("HD") and Jetwin International Limited) (collectively referred to as the "**Vendors**") to the extent of the deferred tax liabilities in respect of possible clawback of depreciation allowances claimed by the Vendors prior to the date of acquisition in connection with the listing of Sunlight REIT in December 2006.

13 Derivative financial instruments

	31 December 2016 (Unaudited)			30 June 2016 (Audited)		
	Assets \$'000	Liabilities \$'000	Net amount \$'000	Assets \$'000	Liabilities \$'000	Net amount \$'000
Interest rate swaps and interest rate basis swaps – cash flow hedges						
Current portion	4,113	(2,754)	1,359	65	(18,401)	(18,336)
Non-current portion	31,184	(35)	31,149	816	(22,268)	(21,452)
	35,297	(2,789)	32,508	881	(40,669)	(39,788)

The Group uses interest rate swaps ("IRSs"), and in some cases, supplemented by interest rate basis swaps ("Basis Swaps"), to hedge the exposure to movements in interest rates in relation to its floating rate term loan by swapping from floating rates to fixed rates.

During the six months ended 31 December 2016, the Group has redesignated certain of its cash flow hedging relationships upon entering into a Basis Swap with a notional amount of \$400,000,000. As a result of the redesignation, the net cumulative unrealised losses on the selected existing IRSs amounting to \$5,410,000 were reclassified from net assets attributable to unitholders to profit or loss for the period. Meanwhile, the net unrealised gains on those IRSs redesignated upon entering into Basis Swaps in this period and prior year amounting to \$7,036,000 were reclassified from profit or loss to net assets attributable to unitholders.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

13 Derivative financial instruments (continued)

At 31 December 2016, the net cumulative unrealised gain (net of deferred tax) on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to \$29,888,000 (30 June 2016 : net cumulative unrealised losses of \$35,418,000).

During the six months ended 31 December 2015, the Group has paid \$7,504,000 and \$14,693,000 to The Hongkong and Shanghai Banking Corporation Limited and other swap counterparty respectively, totalling \$22,197,000, as consideration for unwinding of three existing IRSs with an aggregate notional amount of \$1,500,000,000, due for expiry in June 2016. As a result of the unwinding, the cumulative unrealised losses on the unwound portion of the IRSs amounting to \$22,197,000 were reclassified from net assets attributable to unitholders to profit or loss for the period.

At 31 December 2016, the Group had IRSs and Basis Swaps in place with an aggregate notional amount of \$2,800,000,000 (30 June 2016 : \$2,800,000,000) and \$1,950,000,000 (30 June 2016 : \$1,550,000,000) respectively. The IRSs and Basis Swaps will mature between September 2017 to September 2022 (30 June 2016 : September 2017 to September 2022) and September 2017 to August 2019 (30 June 2016 : September 2017 to December 2018) respectively. Combining the IRSs and Basis Swaps, the net fixed swap interest rates range from 0.525% per annum to 1.682% per annum (30 June 2016 : 0.525% per annum to 1.682% per annum).

The above derivatives are measured at fair value at the end of the reporting period. Their fair values are determined based on the discounted cash flow model.

14 Other financial assets

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Held-to-maturity debt securities		
Listed in Hong Kong	19,723	19,786
Listed outside Hong Kong	41,700	42,085
	61,423	61,871

The listed debt securities are issued by corporate entities with investment grade granted by certain credit rating agencies. All of the held-to-maturity securities are neither past due nor impaired.

15 Trade and other receivables

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Rental receivables	13,107	12,298
Deposits and prepayments	6,972	9,932
Other receivables	1,541	2,219
Amounts due from related companies	661	694
	22,281	25,143
Represented by :		
Current portion	22,281	20,517
Non-current portion	–	4,626
	22,281	25,143

At 30 June 2016, the balance under non-current portion represented progress payments for the improvement works carried out on certain investment properties of the Group which were in progress at the end of the reporting period.

\$3,994,000 (30 June 2016 : \$3,782,000) included in deposits and prepayments is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered or recognised as expense within one year.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

15 Trade and other receivables (continued)

At the end of the reporting period, the ageing analysis of rental receivables, based on the date of revenue recognition and net of allowance for doubtful debts, is as follows :

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Current	10,124	9,435
Less than 1 month overdue	150	2,115
More than 1 month and up to 3 months overdue	2,094	282
More than 3 months and up to 6 months overdue	316	172
More than 6 months overdue	423	294
	13,107	12,298

The Group has no significant concentrations of credit risk. The Manager is of the opinion that monthly rents in respect of leasing properties are received in advance and there is no specific credit terms given to the tenants. Sufficient rental deposits are held to cover potential exposure to credit risk.

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

16 Cash and bank balances

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Pledged bank balances and deposits with original maturity within three months (note 18)	666,902	512,738
Deposits with original maturity within three months	349,329	436,303
Cash at bank and in hand	47,391	49,526
Cash and cash equivalents	1,063,622	998,567
Pledged deposits with original maturity over three months (note 18)	–	118,576
Deposits with original maturity over three months	–	17,619
	1,063,622	1,134,762

17 Trade and other payables

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Creditors and accrued charges	31,224	39,216
Manager's fees payable (note 23(b)(ii))	21,330	21,696
Amounts due to related companies	8,574	7,724
	61,128	68,636

All creditors and accrued charges are due within one month or on demand and expected to be settled within one year.

Manager's fees payable is due within four months and payable in the form of cash and units.

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$1,089,000 (30 June 2016 : \$1,068,000) which is due within 30 days.

18 Secured bank borrowings

The secured bank borrowings were repayable as follows :

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Within 1 year and included in current liabilities	1,347,278	–
After 1 year but within 2 years	1,567,409	2,339,616
After 2 years but within 5 years	987,081	1,556,252
	2,554,490	3,895,868
	3,901,768	3,895,868

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate ("HIBOR") plus 1.05% per annum to HIBOR plus 1.55% per annum (30 June 2016 : HIBOR plus 1.05% per annum to HIBOR plus 1.55% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 13.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

18 Secured bank borrowings (continued)

Secured bank borrowings are guaranteed on a joint and several basis by the Trustee and Sunlight REIT Holding Limited, the holding company of all other subsidiaries of the Group, and are also secured by, among others, the followings :

- mortgages over the investment properties with a fair value of \$14,448,600,000 at 31 December 2016 (30 June 2016 : \$14,278,600,000);
- floating charge over bank balances of \$45,213,000 (30 June 2016 : \$27,934,000) and \$621,689,000 (30 June 2016 : \$603,380,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited and certain other banks in the name of Sunlight REIT Treasury Limited, a subsidiary of the Group;
- assignment of rental income and all other proceeds arising from and including all rights, title and interest under all tenancy agreements relating to each of the mortgaged investment properties; and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the end of the reporting period was 2.26% per annum (30 June 2016 : 2.17% per annum). The carrying amounts of the bank borrowings approximate their fair values.

At 31 December 2016, the Group's current liabilities exceeded its current assets by \$543,769,000 as the secured bank borrowings of \$1,347,278,000 maturing on 22 October 2017 were classified as current liabilities at the current period end. The Manager has been in discussion with certain financial institutions on the refinancing exercise, and believes that the refinancing exercise will be concluded before the maturity of the secured bank borrowings. Apart from the above, the Group also maintains sufficient cash reserve and lines of funding from financial institutions with sound credit rating to meet its liquidity requirement. The Manager considers that sufficient resources will be secured to satisfy the funding obligations in respect of the Group's operations.

19 Units in issue

	Number of units	
	31 December 2016 (Unaudited)	30 June 2016 (Audited)
At 1 July 2016 / 2015	1,635,909,905	1,638,486,780
Issuance of units during the period / year	4,635,727	11,371,125
Units bought back	(4,838,000)	(13,948,000)
At 31 December 2016 / 30 June 2016	1,635,707,632	1,635,909,905

Details of units issued during the period / year as payment of the Manager's fees are as follows :

Payment of the Manager's fees for the period / year	Average issue price per unit determined based on the Trust Deed	Aggregate amount of units issued	Number of units issued
	\$	\$'000	
For the six months ended			
31 December 2016 (Unaudited)			
1 April 2016 to 30 June 2016	4.3024	10,537	2,449,071
Adjustment of Manager's fees for the financial year 2015/16	4.9137	311	63,272
1 July 2016 to 30 September 2016	4.9634	10,539	2,123,384
		21,387	4,635,727
For the year ended 30 June 2016			
(Audited)			
1 April 2015 to 30 June 2015	3.9723	10,764	2,709,800
Adjustment of Manager's fees for the financial year 2014/15	3.7246	1,723	462,693
1 July 2015 to 30 September 2015	3.8998	10,556	2,706,654
1 October 2015 to 31 December 2015	3.7982	10,586	2,787,091
1 January 2016 to 31 March 2016	3.9262	10,620	2,704,887
		44,249	11,371,125

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

19 Units in issue (continued)

Pursuant to the general mandate granted to the Manager by unitholders, the Group bought back a total of 4,838,000 units (year ended 30 June 2016 : 13,948,000 units) on the SEHK during the six months ended 31 December 2016 at an aggregate consideration of \$22,804,000 (year ended 30 June 2016 : \$54,662,000). Details of the buy-backs were as follows :

	Number of units bought back	Price per unit	Aggregate consideration	
		Highest \$	Lowest \$	\$'000
For the six months ended 31 December 2016 (Unaudited)				
Month of buy-back				
September 2016	227,000	4.93	4.89	1,118
October 2016	714,000	4.97	4.92	3,528
November 2016	3,566,000	4.77	4.54	16,600
December 2016	331,000	4.72	4.69	1,558
	4,838,000			22,804
Total buy-back expenses				80
				22,884
For the year ended 30 June 2016 (Audited)				
Month of buy-back				
July 2015	1,850,000	3.93	3.67	6,956
September 2015	783,000	3.93	3.83	3,058
October 2015	4,030,000	3.92	3.84	15,687
February 2016	1,531,000	3.86	3.72	5,820
March 2016	2,339,000	4.00	3.84	9,100
April 2016	1,171,000	4.10	4.00	4,773
May 2016	1,494,000	4.12	4.04	6,113
June 2016	750,000	4.29	4.17	3,155
	13,948,000			54,662
Total buy-back expenses				202
				54,864

All bought back units were cancelled during the period / year.

20 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

HKFRS 13, *Fair value measurement*, requires the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis to be categorised into the three-level fair value hierarchy as defined in HKFRS 13. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows :

- Level 1 valuations : Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations : Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations : Fair value measured using significant unobservable inputs

At 31 December 2016 and 30 June 2016, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (see note 13), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2016 and the year ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occurred.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of IRSs and Basis Swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

20 Fair value measurement of financial instruments (continued)

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2016 and 30 June 2016.

21 Capital commitments

Capital commitments outstanding at 31 December 2016 not provided for in the interim financial report are as follows :

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Contracted for	1,283	20,127
Authorised but not contracted for	14,749	16,980
	16,032	37,107

22 Contingent liabilities

At the end of the reporting period, the Group has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,585,000 (30 June 2016 : \$4,585,000).

23 Connected party transactions and material related party transactions

In addition to the transactions and balances disclosed elsewhere in the interim financial report, the Group entered into the following transactions with certain connected persons and related parties, as defined under the REIT Code and HKAS 24 (Revised), *Related party disclosures*, during the period :

(a) Nature of relationship with connected persons / related parties

Connected person / related party	Relationship with the Group
SKFE and other members of its group (collectively referred to as " SKFE Group ")	Significant holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as " HLD Group ")	Connected persons of SKFE Group, the Manager and the Property Manager
HD	Connected persons of SKFE Group and holding company of HLD Group
HSBC Institutional Trust Services (Asia) Limited (the " Trustee ")	The Trustee of Sunlight REIT
The Hongkong and Shanghai Banking Corporation Limited and other members of its group (collectively referred to as " HSBC Group ")	Connected persons of the Trustee
Henderson Sunlight Asset Management Limited (the " Manager ")	The Manager of Sunlight REIT and a member of HLD Group
Henderson Sunlight Property Management Limited (the " Property Manager ")	The Property Manager of Sunlight REIT and a member of HLD Group
Knight Frank and other members of its group (collectively referred to as " Knight Frank Group ")	The Principal Valuer of Sunlight REIT

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

23 Connected party transactions and material related party transactions (continued)

(b) Transactions with connected persons / related parties

	Six months ended 31 December	
	2016 (Unaudited) \$'000	2015 (Unaudited) \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	5,344	5,282
– HSBC Group	10,106	10,008
Property management expenses paid / payable to (note (i)) :		
– HLD Group	(7,440)	(8,122)
Facilities leasing expenses paid / payable to (note (i)) :		
– HLD Group	(90)	(87)
Manager's fees (note (ii))	(42,409)	(42,283)
Property Manager's fees (note (iii))	(25,796)	(24,197)
Trustee's remuneration and charges (note (iv))	(2,184)	(2,183)
Interest expenses, security trustee and other charges on bank borrowings, brokerage commission and other bank charges paid / payable to (notes (i) and (v)) :		
– HSBC Group	(8,306)	(7,535)
Net interest expenses on IRSs and Basis Swaps paid / payable to (note (v)) :		
– HSBC Group	(6,120)	(8,072)
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	16	104
Cost for unwinding of IRSs paid to (note 13)		
– HSBC Group	–	(7,504)

23 Connected party transactions and material related party transactions
 (continued)

(b) Transactions with connected persons / related parties (continued)

	Six months ended 31 December	
	2016 (Unaudited)	2015 (Unaudited)
	\$'000	\$'000
Valuation fees and other charges paid / payable to (note (i)) : – Knight Frank Group	(255)	(250)
Promotion income received / receivable from (note (i)) : – HLD Group	1,089	1,077

Notes :

- (i) In the opinion of the Manager, these transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) The Manager's fees are calculated as the aggregate of a base fee of 0.4% per annum of the value of all the properties of the Group and a variable fee of 3% per annum of the Group's Net Property Income (as defined in the Trust Deed).

Pursuant to the Trust Deed, the Manager is entitled to make an election for the payment of the Manager's fees, only to the extent that it is related to the Group's Properties (as defined in the Trust Deed), to be made in the form of cash and / or units.

On 16 June 2015, the Manager made an election for the base fee and variable fee for the financial year ended 30 June 2016 to be paid 50% in the form of cash and 50% in the form of units. On 10 June 2016, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2017.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

23 Connected party transactions and material related party transactions (continued)

(b) Transactions with connected persons / related parties (continued)

Notes : (continued)

- (iii) Under the property management agreement entered into between the Manager and the Property Manager dated 29 November 2006 (as subsequently renewed on amended terms and conditions by three supplemental agreements) (the "**Property Management Agreement**"), the Property Manager is entitled to receive a fee of 3% per annum of the Gross Property Revenue (as defined in the Property Management Agreement).

The Property Manager is also entitled to receive a commission equivalent to :

- one month's base rent or licence fee for securing a tenancy or licence of three years or more;
- one-half month's base rent or licence fee for securing a tenancy or licence of less than three years;
- one-half month's base rent or licence fee for securing a renewal of tenancy or licence irrespective of the duration of the renewal term;
- one-half month's base rent or licence fee or 10% of the total rent or licence fee, whichever is lower, for securing a tenancy, licence or renewal of tenancy or licence for a duration of less than 12 months; and
- one-fourth month's base rent or licence fee (as reviewed), for handling each rent or licence review during the term of a tenancy or licence provided for in the tenancy or licence agreement.

In addition to the above fees, the Property Manager is also reimbursed by relevant property companies for staff costs incurred for the management of properties of the Group.

- (iv) The Trustee's remuneration is calculated at 0.03% per annum on the first \$5 billion on the total assets of the Group, 0.025% per annum on the next \$5 billion on the total assets of the Group and 0.02% per annum on the balance, subject to minimum fees of \$50,000 per month. In accordance with the Trust Deed, the Trustee's remuneration may be increased, without obtaining unitholders' approval subject to one month's written notice to unitholders, to a maximum of 0.06% per annum of the total assets of the Group.
- (v) Interest expenses are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 13 and 18.

23 Connected party transactions and material related party transactions (continued)

(c) Balances with connected persons / related parties are as follows :

	31 December 2016 (Unaudited) \$'000	30 June 2016 (Audited) \$'000
Net amount due to :		
– HLD Group	(30,449)	(29,977)
– HSBC Group (note)	(964,562)	(985,031)
– Knight Frank Group	(250)	(300)
 Note :		
Deposits and cash placed with HSBC Group	92,405	71,247
Bank borrowings and interest payable to HSBC Group	(1,050,132)	(1,050,076)
Others	(6,835)	(6,202)
	(964,562)	(985,031)

24 Non-adjusting event after the reporting period

After the end of the reporting period, the Board of Directors of the Manager declared an interim distribution. Further details are disclosed in the "Distribution statement" of the interim financial report.

Auditor's Review Report



Independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited (the "Manager")

Introduction

We have reviewed the interim financial report set out on pages 24 to 55 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 December 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

7 February 2017

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2016	2015	2014	2013	2012
At 31 December :						
Net asset value (\$ million)		13,660	13,511	12,207	10,979	9,938
Net asset value per unit		8.35	8.25	7.48	6.77	6.17
Market capitalisation (\$ million)		7,312	6,272	5,715	4,863	5,318
For the six months ended						
31 December :						
Highest traded unit price		5.04	4.09	3.68	3.22	3.59
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A	N/A
Lowest traded unit price		4.38	3.48	3.05	2.95	2.61
Highest discount of the traded unit price to net asset value per unit (%)		47.5	57.8	59.2	56.4	57.7
Closing unit price		4.47	3.83	3.50	3.00	3.30
Distribution per unit (cents)		12.2	12.0	10.5	9.6	8.5
Payout ratio (%)		97.3	95.2	95.7	92.9	91.6
Distribution yield per unit (%)	2	2.7	3.1	3.0	3.2	2.6
Annualised distribution yield per unit (%)	2	5.5	6.3	6.0	6.4	5.2

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of the period. Accordingly, premium of the traded unit price to net asset value per unit had not been recorded.
2. Interim / annualised distribution yield per unit is calculated by dividing the interim / annualised distribution per unit by the closing unit price of the period.

Corporate Information

Board of Directors of the Manager

Chairman and Non-executive Director

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-executive Director

KWOK Ping Ho

Independent Non-executive Directors

KWAN Kai Cheong

MA Kwong Wing

TSE Kwok Sang

KWOK Tun Ho, Chester

Company Secretary of the Manager

CHUNG Siu Wah

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Knight Frank Petty Limited

Legal Adviser

Woo Kwan Lee & Lo

Financial Calendar

(in respect of FY2016/17 interim results)

Interim Results Announcement

7 February 2017

Issuance of Interim Report

15 February 2017

Ex-distribution date

22 February 2017

for interim distribution

Closure of Register

24 February 2017 to 28 February 2017,

for entitlement of interim distribution

both days inclusive

Interim distribution payable

14 March 2017

HK 12.2 cents per unit

Principal Bankers

Bank of China (Hong Kong) Limited

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Oversea-Chinese Banking Corporation Limited, Hong Kong Branch

Sumitomo Mitsui Banking Corporation

Registered Office of the Manager

30th Floor, Sunlight Tower,
248 Queen's Road East, Wan Chai,
Hong Kong

Unit Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong

Investor Relations

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Email : ir@HendersonSunlight.com

Website

www.sunlightreit.com

Managed by Henderson Sunlight Asset Management Limited
由恒基阳光資產管理有限公司管理

