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SUNLIGHT REIT

Sunlight Real Estate Investment Trust

(a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

(Stock Code : 435)

Managed by
Henderson Sunlight Asset Management Limited
恒基陽光資產管理有限公司

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2017

The board of directors (the "**Board**") of Henderson Sunlight Asset Management Limited (the "**Manager**") is pleased to announce the final results of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") for the year ended 30 June 2017 (the "**Year**"). The final results and the consolidated financial statements for the Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager and were approved by the Board on 5 September 2017.

FINANCIAL HIGHLIGHTS

(in HK$' million, unless otherwise specified)

	2017	2016	Change (%)
For the year ended 30 June :			
Revenue	**788.1**	769.7	2.4
Net property income	**623.4**	608.5	2.5
Cost-to-income ratio (%)	**20.9**	20.9	N/A
Profit after taxation	**743.5**	825.3	(9.9)
Annual distributable income	**434.5**	415.0	4.7
Distribution per unit (HK cents)[1]	**33.0**	24.3	35.8
Payout ratio (%)[1 & 2]	**124.3**	95.8	N/A
At 30 June :			
Portfolio valuation	**17,062.4**	16,651.0	2.5
Net asset value	**13,899.5**	13,518.1	2.8
Net asset value per unit (HK$)	**8.49**	8.26	2.8
Gearing ratio (%)	**21.5**	21.9	N/A

Notes :
1. Including a special distribution of HK 7.5 cents in 2017.
2. Payout ratio for 2017 would have been 96.1% if the special distribution were excluded.

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy at 30 June (%)		Passing Rent [1] at 30 June (HK$/sq. ft.)		Rental Reversion [2] (%)		Net Property Income (HK$'000)		Capitalization Rate at 30 June 2017 (%)		Appraised Value at 30 June 2017 (HK$'000)
	2017	2016	2017	2016	FY2016/17	FY2015/16	FY2016/17	FY2015/16	Office	Retail	
Office											
Grade A											
Sunlight Tower	99.1	99.7	36.4	35.3	11.9	11.7	167,385	163,577	3.85	3.75	4,807,000
Grade B											
Bonham Trade Centre	96.1	95.1	28.9	27.7	11.5	18.0	36,734	35,275	3.65	4.00	1,141,000
Righteous Centre	93.4	98.1	34.7	41.5	7.7	13.2	23,007	24,555	3.95	3.60	586,000
Winsome House Property	85.9	97.1	42.9	41.0	11.2	5.7	17,204	17,378	3.65	3.80	582,100
135 Bonham Strand Trade Centre Property	100.0	98.7	26.6	26.0	5.0	16.5	17,302	17,029	3.65	4.00	557,000
235 Wing Lok Street Trade Centre	98.9	96.4	20.8	19.9	10.3	17.3	11,557	11,046	3.65	4.00	376,000
Java Road 108 Commercial Centre	96.1	94.2	24.1	23.3	8.5	13.3	8,761	8,688	3.95	4.20	278,000
On Loong Commercial Building [3]	92.0	94.0	30.9	30.3	6.3	8.7	8,401	7,780	3.85	3.90	263,000
Sun Fai Commercial Centre Property	100.0	97.1	21.7	22.2	1.6	4.2	5,607	5,633	4.00	4.25	175,000
Wai Ching Commercial Building Property	94.5	100.0	13.8	13.2	10.3	18.8	2,081	1,851	3.75	4.10	70,600
Sub-total/Average	**97.3**	**98.0**	**32.0**	**31.6**	**10.1**	**12.7**	**298,039**	**292,812**			**8,835,700**
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	91.7	77.6 [4]	118.4	131.7 [5]	3.9	17.7	163,093	155,952	N/A	4.40	4,020,000
Metro City Phase I Property	98.7	98.4	54.1	51.8	14.5	17.4	121,700	117,381	N/A	4.50	2,986,000
Kwong Wah Plaza Property	100.0	100.0	49.6	50.0	(3.7)	23.8	33,672	33,541	3.85	3.80	1,008,000
Urban											
Beverley Commercial Centre Property	96.7	96.6	45.1	51.3	(14.2)	(3.2)	3,952	4,441	N/A	4.30	110,100
Supernova Stand Property	100.0	100.0	54.0	47.8	15.0	N/A	2,342	2,329	N/A	4.00	64,300
Palatial Stand Property	75.2	75.2	12.0	12.0	N/A	0.0	648	83	N/A	4.35	38,300
Sub-total/Average	**96.2**	**91.7**	**71.3**	**71.6**	**5.3**	**18.2**	**325,407**	**313,727**			**8,226,700**
Total/Average (excluding the disposed properties)	**96.9**	**95.9**	**44.9**	**44.2**	**7.1**	**15.3**	**623,446**	**606,539**			**17,062,400**
Disposed properties							N/A	1,957			
Total							**623,446**	**608,496**			

Notes :
1. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied gross rentable area on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant year.
3. 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.
4. Excluding the renovated area of approximately 26,000 sq. ft. at Sheung Shui Centre Shopping Arcade, the occupancy would have been 98.5%.
5. The renovated area at Sheung Shui Centre Shopping Arcade is excluded from the calculation.

PERFORMANCE HIGHLIGHTS

For the Year, Sunlight REIT recorded a 2.5% year-on-year increase in net property income to HK$623.4 million. Thanks to the Manager's success in containing the rise in operating costs and interest expenses, however, annual distributable income expanded at a faster rate of 4.7% to HK$434.5 million.

The Board has resolved to declare a final distribution of HK 13.3 cents per unit. Further, in light of the strong financial position of Sunlight REIT particularly following the strategic asset disposal which took place in 2015, the Board has also declared a special distribution of HK 7.5 cents per unit. Coupled with an interim distribution of HK 12.2 cents per unit, the total distribution per unit ("**DPU**") for the Year would amount to HK 33.0 cents, up 35.8% year on year. The implied payout ratio for the Year is 124.3% (or 96.1% if excluding the special distribution), compared with 95.8% in the preceding year.

Given firmer commercial property prices and rental improvement, the value of Sunlight REIT's property portfolio at 30 June 2017 was appraised at HK$17,062.4 million, which was 2.5% higher than a year ago. Meanwhile, the net asset value of Sunlight REIT rose by 2.8% to HK$13,899.5 million at 30 June 2017, which was equivalent to HK$8.49 per unit (30 June 2016: HK$8.26 per unit).

Capitalizing on an auspicious liquidity environment, the Manager opted to refinance the existing term loan facilities of Sunlight REIT expiring between 2017 and 2020 all at once during the Year. Not only was the refinancing concluded at a favourable loan interest margin, it was also structured with a clear strategic intention of bolstering the unencumbered asset base of Sunlight REIT through initiating an exposure to unsecured lending.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The overall portfolio of Sunlight REIT recorded an average occupancy of 96.9% at 30 June 2017 (30 June 2016: 95.9%[Note]). The occupancies of the office and retail portfolios were 97.3% and 96.2% (30 June 2016: 98.0% and 91.7%[Note]) respectively, while their retention rates stood at 68% and 73% (FY2015/16: 73% and 65%).

Average passing rent of the office portfolio was HK$32.0 per sq. ft. at 30 June 2017, up 1.3% year on year, while that of the retail portfolio was HK$71.3 per sq. ft., a decrease of 0.4% from a year ago. During the Year, rental reversions of 10.1% and 5.3% were secured by the office and retail portfolios respectively.

A strictly disciplined approach has been adopted in keeping Sunlight REIT's costs under control. Amid inflationary pressure notably caused by the mandatory minimum wage requirement, the overall cost-to-income ratio was 20.9% for the Year, same as the preceding financial year. The stability in this ratio was partly attributable to savings from efficient energy consumption and budgetary measures, which offset rising labour costs as well as higher rental commissions incurred when bringing in new tenants to the revamped Sheung Shui Centre Shopping Arcade ("**SSC**").

Note : Excluding the renovated area at Sheung Shui Centre Shopping Arcade, the occupancies for the overall portfolio and retail portfolio at 30 June 2016 would have been 98.1% and 98.2% respectively.

Sunlight Tower

Despite heightened competition from Kowloon East and Wong Chuk Hang as alternative inexpensive office locations, the occupancies and rentals of office buildings in Wan Chai/Causeway Bay have remained firm, mainly because corporations by and large continue to see proximity to the traditional core business districts as another important consideration (in addition to rental savings). As such, Sunlight Tower, an appealing choice for institutional and corporate tenants, continued to perform well. For the Year, this flagship property achieved a rental reversion of 11.9% and a satisfactory retention rate of 62%. At 30 June 2017, its occupancy rate was 99.1%, while passing rent rose 3.1% to HK$36.4 per sq. ft..

More encouragingly, the Manager is pleased to report that the largest tenant of the building has renewed its leases for another three years commencing in the first quarter of FY2017/18 at an 11.9% rental reversion.

Sheung Shui Centre Shopping Arcade

The HK$25 million refurbishment programme at SSC completed in late 2016 has clearly brought freshness to shoppers, with the revamped area now hosting an attractive variety of stylish eateries as well as general retail outlets, nicely complementing the core non-discretionary trades and services of SSC such as healthcare, education and banking.

At end-June 2017, the average rent of the renovated area (which was 89% occupied) was 21% higher than the level prior to renovation; specifically, the rental improvement as compared to the previous restaurant lease (which accounted for 78% of the area) was about 73%. The return on investment of this project is estimated at approximately 16%.

On balance, the occupancy of SSC for the Year was slightly lower than expected, principally reflecting the impact of the space reconfiguration programme, an early lease termination by a bank tenant and the still cautious retail sentiment. While the rental environment is expected to steadily improve in tandem with stabilizing consumer spending, the Manager is keenly aware of the importance of introducing innovative retail concepts to maintain the competitiveness and to enhance the vitality of the shopping mall. As a case in point, the establishment of pop-up stores will be a concept actively explored, as it can help the Manager grasp prevailing consumer preferences and achieve an optimal trade mix when committing long-term leases ahead.

Metro City Phase I Property ("MCPI")

MCPI continued to benefit from a conscientious rebalancing of its tenant mix in response to changing retail trends. In particular, the effort of streamlining the trade mix composition on the ground floor of the shopping complex has scored success. This exercise involved the reconfiguration of space equivalent to approximately 7% of gross rentable area (previously occupied by a kindergarten), with a view to accommodating more dining and healthcare outlets. In addition to encouraging patronage subsequent to re-opening, it has also resulted in an almost 60% increase in rental contribution from this designated space.

Going forward, the Manager will continue to explore value adding benefits for MCPI. In particular, the upcoming chiller plant replacement programme which is targeted for completion at mid-2018, is expected to bring in long-term benefits both in terms of cost saving and environmental friendliness.

Financial Review

Operating Results and Financial Ratios

Sunlight REIT's revenue for the Year was HK$788.1 million, a 2.4% growth year on year. The reported figure included a one-off income of HK$12.8 million, representing the settlement in full of an early lease termination by a former bank tenant at SSC. After deducting operating expenses of HK$164.7 million, net property income came in at HK$623.4 million, up 2.5% year on year.

Finance costs decreased 17.0% year on year to HK$106.9 million, mainly attributable to the absence of a substantial reserve movement resulting from the unwinding of certain interest rate swaps ("**IRS**") reported in the previous financial year. Benefiting from the onset of a series of more favourable interest rate basis swaps, cash interest expenses dropped 6.4% to HK$84.3 million. Profit after taxation exhibited a slight decline to HK$743.5 million (FY2015/16: HK$825.3 million), principally reflecting the absence of gain on disposal of properties during the Year.

At 30 June 2017, the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, decreased to 21.5% (30 June 2016: 21.9%), while gross liabilities[1] as a percentage of gross assets dropped from 24.6% to 24.0%.

The EBITDA[2] of Sunlight REIT grew 2.9% year on year to HK$534.3 million. Together with savings in cash interest expenses as mentioned earlier, the interest coverage ratio[3] for the Year further improved to 6.3 times as compared with 5.8 times recorded in the previous financial year.

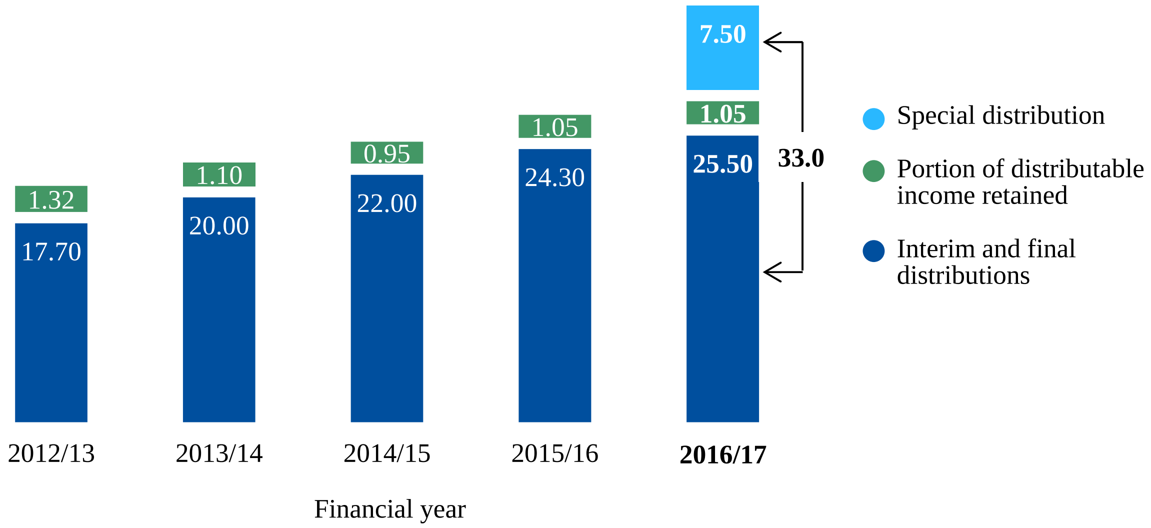
Distribution Analysis

Total distributions of Sunlight REIT for the Year, including the special distribution, was HK$540.2 million, up 35.8% year on year. The full-year DPU of HK 33.0 cents represented a distribution yield of 6.4% based on the closing unit price of HK$5.12 on the last trading day of the 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 amortization. Net gain on disposals of investment properties and subsidiaries has been excluded from the calculation.
3. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on total borrowings.

Distribution at a Glance (HK cents)



Capital and Interest Rate Management

During the Year, Sunlight REIT entered into several bilateral credit facility agreements with certain banks and was granted an aggregate amount of HK$3,925.0 million in term loan facilities ("**New Facilities**"). The New Facilities consist of secured loans of HK$2,605.0 million and unsecured loans of HK$1,320.0 million, with the secured tranche being backed 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$9,968.0 million at 30 June 2017.

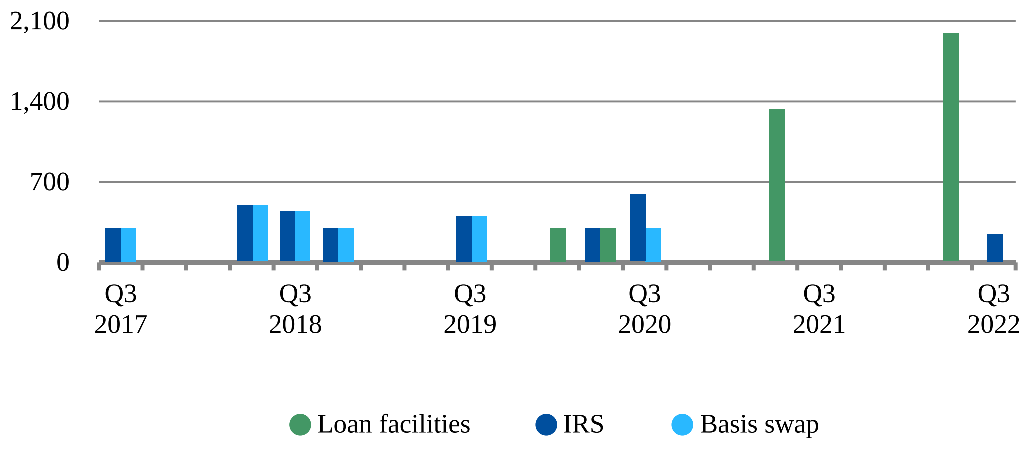
Carrying a blended interest margin of 0.70% per annum (versus 1.24% previously) over Hong Kong Interbank Offered Rate ("**HIBOR**"), the New Facilities had all been drawn[Note] and applied in full toward early refinancing of the previous term loan facilities. Consequently, the unamortized debt establishment fees in respect of the previous term loan facilities amounting to HK$17.7 million were written off but added back (as one of the adjustment items) to annual distributable income.

At 30 June 2017, Sunlight REIT had in place total loan facilities of HK$4,225.0 million, comprising the New Facilities with a weighted loan maturity period of 4.3 years, and an unsecured revolving credit facility of HK$300.0 million which has not been utilized.

During the Year, the Manager capitalized on the market opportunity of a widened gap between 1-month and 3-month HIBOR to enter into two additional interest rate basis swaps (from 3-month HIBOR to 1-month HIBOR) with an aggregate notional amount of HK$700.0 million, the tenor of which matched the expiry of selected existing IRSs. The Manager also captured a window of opportunity in May 2017 to enter into an additional IRS with a notional amount of HK$300.0 million for the purpose of replacing an existing IRS expiring in September 2017. Consequently, approximately 79% (or HK$3,100.0 million) of Sunlight REIT's borrowings was hedged to fixed rates at 30 June 2017 with a weighted average tenure of 2.1 years, with the hedging level returning to around 71% by September 2017. The weighted average interest rate (before loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 1.16% per annum.

Note : In respect of the New Facilities, a sum of HK$300.0 million was drawn in March 2017 while the balance of HK$3,625.0 million was drawn on 30 June 2017.

Maturity Profile of Loan Facilities, IRS and Basis Swap (HK$' million)



In light of the discount of Sunlight REIT's market price relative to its net asset value, the Manager spent HK$36.0 million (excluding buy-back expenses) repurchasing (and cancelling) a total of 7,547,000 units during the Year at an average price of approximately HK$4.77 per unit, representing a discount of over 43% to the latest net asset value per unit of Sunlight REIT.

OUTLOOK

Looking ahead, the growth profile among major economies is gradually rebalancing away from the US. Entangled in a series of domestic legislative and legal challenges, the Trump administration is slow to implement the pro-growth agenda involving sweeping corporate tax cuts, substantial infrastructure spending and significant deregulation of the financial industry, implying that the chances of a more rapid expansion of the US economy in the intermediate term are reduced. Meanwhile, the economic recovery of the Eurozone appears to be gathering pace and even the Japanese economy seems to be emerging from the doldrums.

Given strengthening global fundamentals, and as China's economy is navigating on a stable expansion path, the GDP growth of Hong Kong has been creeping up, supported by a more buoyant trade sector and a modest recovery in domestic demand. While there should be scant debate that the Federal Reserve Board will continue to raise interest rates and scale back its balance sheet, the likelihood of significant tightening in the absence of an overheated economy is weak. From a local perspective, in light of a widening differential with the US interest rates which has caused the Hong Kong dollar trading on the weak side of the currency link, one cannot rule out the possibility of interest rate hikes in Hong Kong in the next 6-12 months, although the pace and magnitude of which is expected to be mild.

This promising backdrop should bolster business confidence and bode well for office demand. After a few years of market consolidation, the increased new office supply anticipated between 2018 and 2021, primarily in fringe areas, is expected to serve as an enabling platform to accommodate the re-emergence of decentralization. The building up of pre-letting momentum recently is an initial piece of evidence, not to mention the sustainably strong purchasing demand for en bloc or strata-titled office properties. The Manager therefore remains guardedly sanguine about the outlook for the office sector, and are reasonably upbeat about the reversionary potential of Sunlight REIT's office portfolio.

The Manager is slightly cautious regarding the prospects for the retail sector. While the recently published retail sales figures do offer a glimmer of hope, it remains to be seen whether this represents a sustainable consumption recovery. Non-discretionary spending, particularly on food and beverage, is likely to show greater resilience, yet the growing popularity of online shopping will continue to impact adversely on selected trades such as fashion. Not foreseeing a sharp upturn in retail sales in the near term, the Manager will continue to adopt a leasing strategy that will enhance the defensiveness of Sunlight REIT's retail portfolio and improve its performance, mainly through tenant reconfiguration to adapt to changing consumer demand, trends and styles. In the meantime, the reconfiguration initiative at SSC demonstrates the Manager's proactive strategy to strengthen asset competitiveness in capturing future opportunities.

Asset enhancement initiatives will continue to rank high in the Manager's operational agenda in FY2017/18, with the majority of capital expenditure earmarked for cost savings initiatives. The overhaul of Sunlight Tower's air-conditioning system is a prime example that justifies investment in such value-added projects for achieving the twin goals of utility savings and environmental betterment through greater energy efficiency. MCPI is the next asset in the portfolio to undergo the installation of a new chiller system, which is scheduled for completion in mid-2018 at an estimated cost of about HK$16 million. Meanwhile, the trend in rising operating expenses has been more manageable. As a case in point, despite an upward revision to the mandatory minimum wage requirement, the aggregate outlay on cleaning and security services is expected to be kept under control.

Another sustainable strength of Sunlight REIT is its healthy financial position. With a gearing ratio of 21.5%, the interest coverage of Sunlight REIT should further improve in the coming financial year given the loan refinancing exercise. Together with the fact that more than 70% of total borrowings have been hedged to fixed rates, Sunlight REIT is well positioned to withstand the risk of potentially higher interest rates ahead, while the interest savings resulting from refinancing will clearly have positive implications for distributions to unitholders.

With a strong balance sheet, it is logical for Sunlight REIT to contemplate expansion of its portfolio. Nevertheless, while office properties have shown a mild compression in yields, the retail sector in general is still suffering from uninspiring rental reversion. Attractive acquisition opportunities which may help compensate for the slight decrease in rental income remain scarce, but the Manager is confident that its patience will eventually pay off, especially given our management team's experience and the flexibility of its revised mandate as approved by unitholders. In the meantime, unit buy-backs will remain a viable option to create value to unitholders.

Although the business climate in general looks more promising in the coming year than it was previously, the Manager is mindful that there are downside risks associated with unforeseeable disruptive policy shifts including, for example, the US implementing more restrictive protectionist trade policies, China adopting tougher measures to manage its pace of credit expansion, and central banks becoming more aggressive in tightening their reins. In addition, unsettling regional geopolitical tensions can cause instability in financial markets and curb investment and consumer sentiments. Nevertheless, Sunlight REIT is well prepared to weather the potential volatilities or even to capitalize on them; barring unforeseen circumstances, the Manager is hopeful that it will maintain steady progress in the year ahead.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The ex-distribution date and record date for the final and special distributions are Wednesday, 20 September 2017 and Tuesday, 26 September 2017 respectively. The register of unitholders will be closed from Friday, 22 September 2017 to Tuesday, 26 September 2017, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the distributions, 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, 21 September 2017. Payment of the final and special distributions will be made to unitholders on Thursday, 12 October 2017.

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 legislation 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 legislation or regulations have been enacted or amended.

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

Public Float

At 30 June 2017, based on information that is publicly available and within the knowledge of the directors of the Manager, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the Securities and Futures Commission.

New Units Issued

Except for an aggregate of 9,414,857 new units issued to the Manager as payment of part of the Manager’s fees, there were no other new units issued during the Year.

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 7,547,000 units on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the Year for an aggregate consideration of approximately HK$36.0 million (excluding buy-back expenses). Details of the buy-backs are as follows :

Month of Buy-back	Number of Units Bought Back	Highest Price Paid per Unit (HK$)	Lowest Price Paid per Unit (HK$)	Aggregate Consideration Paid* (HK$'000)
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
February 2017	1,480,000	4.80	4.69	7,036
May 2017	970,000	4.99	4.89	4,794
June 2017	259,000	5.16	5.13	1,334
Total	**7,547,000**			**35,968**

* Excluding buy-back expenses.

All bought back units were cancelled prior to the end of the Year.

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 Year.

Review of Final Results

The final results of Sunlight REIT for the Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager in accordance with their respective terms of reference.

The financial figures contained in the preliminary announcement of the results of Sunlight REIT for the Year have been compared by the auditor of Sunlight REIT, KPMG, Certified Public Accountants, to the amounts set out in the consolidated financial statements of Sunlight REIT for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Employees

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

ISSUANCE OF ANNUAL REPORT

The 2016/17 Annual Report of Sunlight REIT will be sent to unitholders on 21 September 2017.

FORWARD-LOOKING STATEMENTS

This announcement 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 and senior management of 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

	Note	**2017** **$'000**	2016 $'000
Revenue	3 & 4	**788,122**	769,738
Property operating expenses	3 & 5	**(164,676)**	(161,242)
Net property income		**623,446**	608,496
Other income	6	**10,893**	9,388
Administrative expenses		**(99,735)**	(98,358)
Net gain on disposals of investment properties and subsidiaries		**-**	91,154
Net increase in fair value of investment properties		**384,159**	412,417
Profit from operations		**918,763**	1,023,097
Finance costs on interest bearing liabilities	7(a)	**(106,899)**	(128,767)
Profit before taxation and transactions with unitholders	7	**811,864**	894,330
Income tax	8	**(68,364)**	(69,010)
Profit after taxation and before transactions with unitholders		**743,500**	825,320

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

	2017	2016
	$'000	$'000
Profit after taxation and before transactions with unitholders	**743,500**	825,320
Other comprehensive income for the year		
Items that have been reclassified/may be reclassified subsequently to profit or loss :		
- Changes in fair value of cash flow hedges recognised during the year	**37,274**	(35,572)
- Net reclassification adjustments for amounts transferred (from)/to profit or loss in respect of finance costs on interest bearing liabilities	**(5,564)**	26,567
	31,710	(9,005)
Total comprehensive income for the year	**775,210**	816,315

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017
(Expressed in Hong Kong dollars)

	Note	**2017**	2016
		$'000	$'000
Non-current assets			
Fixed assets			
- Investment properties		**17,062,400**	16,651,000
- Other fixed assets		**72**	79
		17,062,472	16,651,079
Deferred tax assets		**435**	305
Derivative financial instruments		**7,374**	816
Prepayments	10	**1,587**	4,626
Reimbursement rights		**37,436**	37,436
Other financial assets		**61,377**	61,871
		17,170,681	16,756,133
Current assets			
Trade and other receivables	10	**18,673**	20,517
Derivative financial instruments		**2,238**	65
Cash and bank balances		**1,085,897**	1,134,762
Tax recoverable		**20,291**	13,489
		1,127,099	1,168,833
Total assets		**18,297,780**	17,924,966
Current liabilities			
Tenants' deposits		**(193,073)**	(185,368)
Rent receipts in advance		**(10,430)**	(9,087)
Trade and other payables	11	**(63,406)**	(68,636)
Derivative financial instruments		**(10,424)**	(18,401)
Tax payable		**(65,483)**	(63,420)
		(342,816)	(344,912)
Net current assets		**784,283**	823,921
Total assets less current liabilities		**17,954,964**	17,580,054

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2017
(Expressed in Hong Kong dollars)

	2017	2016
	$'000	$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank borrowings	**(3,901,882)**	(3,895,868)
Deferred tax liabilities	**(153,351)**	(143,815)
Derivative financial instruments	**(252)**	(22,268)
	(4,055,485)	(4,061,951)
Total liabilities, excluding net assets attributable to unitholders	**(4,398,301)**	(4,406,863)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	**13,899,479**	13,518,103
Number of units in issue	**1,637,777,762**	1,635,909,905
Net asset value attributable to unitholders per unit	**$8.49**	$8.26

DISTRIBUTION STATEMENT

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

	Note	**2017** **$'000**	2016 $'000
Profit after taxation and before transactions with unitholders		**743,500**	825,320
Adjustments : (note (i))			
- Net gain on disposals of investment properties and subsidiaries		**-**	(91,154)
- Net increase in fair value of investment properties		**(384,159)**	(412,417)
- Manager's fees paid or payable in the form of units		**43,476**	42,609
- Interest rate swaps - cash flow hedges	7(a)	**(7,014)**	26,567
- Non-cash finance costs on interest bearing liabilities		**29,292**	11,800
- Deferred tax	8	**9,406**	12,243
		(308,999)	(410,352)
Annual distributable income (note (i))		**434,501**	414,968
Interim distribution, paid (notes (ii) and (iv))		**199,556**	196,524
Distributions, to be paid to unitholders : (notes (iii) and (iv))			
- Final distribution		**217,825**	201,217
- Special distribution		**122,833**	-
Total distributions for the year (note (i))		**540,214**	397,741
Payout ratio (note (iii))			
- excluding special distribution		**96.1%**	95.8%
- including special distribution		**124.3%**	N/A
Distribution per unit :			
Interim distribution per unit, paid		**12.2 cents**	12.0 cents
Distributions per unit, to be paid to unitholders :			
- Final distribution per unit		**13.3 cents**	12.3 cents
- Special distribution per unit		**7.5 cents**	-
		33.0 cents	24.3 cents

DISTRIBUTION STATEMENT (continued)

For the year ended 30 June 2017
(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 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.

Annual 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 year, 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 year. The adjustments for the current year included the adding back of non-cash finance costs on interest bearing liabilities of $29,292,000, or 1.79 cents per unit (2016: $11,800,000, or 0.72 cents per unit) resulting from amortization and write-off of debts establishment fees in respect of bank borrowings. In 2016, the adjustments 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.

(ii) The interim distribution of $199,556,000 for the six months ended 31 December 2016 (31 December 2015: $196,524,000) is calculated by multiplying the interim distribution per unit of 12.2 cents by 1,635,707,632 units in issue at 28 February 2017, the record date for FY2016/17 interim distribution (31 December 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 final distribution of $217,825,000 and special distribution of $122,833,000 for the year ended 30 June 2017 (2016 final distribution: $201,217,000) are calculated by multiplying the final distribution per unit of 13.3 cents and the special distribution per unit of 7.5 cents respectively by 1,637,777,762 units* anticipated to be in issue at 26 September 2017, the record date for FY2016/17 final and special distributions (the "**Record Date**") (2016: 12.3 cents by 1,635,909,905 units in issue at 27 September 2016, the record date for FY2015/16 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2017 represent a payout ratio of 124.3% (or 96.1% if excluding the special distribution) (2016: 95.8%) of Sunlight REIT's annual distributable income for the year.

(iv) The FY2016/17 interim distribution was paid to unitholders on 14 March 2017. The FY2016/17 final and special distributions are expected to be paid on 12 October 2017 to unitholders whose names appear on the register of unitholders on the Record Date.

(v) Distributions declared after the end of the reporting period have not been recognized 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.

NOTES

(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 authorized under section 104 of the Securities and Futures Ordinance. Sunlight REIT is listed on the Main Board of the Stock Exchange.

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

The final results set out in this announcement do not constitute the Group's statutory consolidated financial statements for the year ended 30 June 2017 but are extracted from those consolidated financial statements.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong, the relevant provisions of the Trust Deed and the relevant disclosure provisions set out in Appendix C of the REIT Code. The consolidated financial statements also comply with the relevant disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange as if those provisions were applicable to Sunlight REIT.

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.

3. Segment reporting

The Manager manages the Group's business 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, assets and liabilities

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

Segment assets include all tangible, intangible and current assets with the exception of cash and bank balances, tax recoverable, deferred tax assets, other financial assets and other corporate assets. Segment liabilities include tenants' deposits, rent receipts in advance and trade and other payables managed directly by the segments.

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.

3. Segment reporting (continued)

Segment results, assets and liabilities (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 year is set out below :

	2017			2016		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
- rental income	**300,970**	**333,117**	**634,087**	297,256	320,456	617,712
- car park income	**3,854**	**27,021**	**30,875**	3,853	25,626	29,479
- rental related income	**61,835**	**61,325**	**123,160**	63,550	58,997	122,547
	366,659	**421,463**	**788,122**	364,659	405,079	769,738
Property operating expenses	**(68,620)**	**(96,056)**	**(164,676)**	(70,777)	(90,465)	(161,242)
Net property income	**298,039**	**325,407**	**623,446**	293,882	314,614	608,496
Administrative expenses	**(46,229)**	**(43,811)**	**(90,040)**	(45,223)	(43,615)	(88,838)
Segment results	**251,810**	**281,596**	**533,406**	248,659	270,999	519,658
Net increase in fair value of investment properties	**329,196**	**54,963**	**384,159**	407,488	4,929	412,417
Net gain on disposals of investment properties and subsidiaries			**-**	58,476	32,678	91,154
Finance costs on interest bearing liabilities			**(106,899)**			(128,767)
Income tax			**(68,364)**			(69,010)
Interest income			**10,240**			8,585
Unallocated net expenses			**(9,042)**			(8,717)
Profit after taxation and before transactions with unitholders			**743,500**			825,320
Depreciation	**17**	**18**	**35**	17	16	33

3. Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2017			2016		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Segment assets	**8,882,445**	**8,236,304**	**17,118,749**	8,549,213	8,161,469	16,710,682
Derivative financial instruments			**9,612**			881
Other financial assets			**61,377**			61,871
Cash and bank balances			**1,085,897**			1,134,762
Tax recoverable			**20,291**			13,489
Deferred tax assets			**435**			305
Unallocated assets			**1,419**			2,976
Total assets			**18,297,780**			17,924,966
Segment liabilities	**(123,586)**	**(139,883)**	**(263,469)**	(125,196)	(136,113)	(261,309)
Derivative financial instruments			**(10,676)**			(40,669)
Bank borrowings			**(3,901,882)**			(3,895,868)
Tax payable			**(65,483)**			(63,420)
Deferred tax liabilities			**(153,351)**			(143,815)
Unallocated liabilities			**(3,440)**			(1,782)
Total liabilities, excluding net assets attributable to unitholders			**(4,398,301)**			(4,406,863)
Capital expenditure incurred during the year	**4,473**	**19,757**	**24,230**	38,017	12,417	50,434

4. Revenue

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

	2017 $'000	2016 $'000
Rental income (note)	**634,087**	617,712
Car park income	**30,875**	29,479
Rental related income	**123,160**	122,547
	788,122	769,738

Note : Included additional rents based on business revenue of tenants amounting to $1,445,000 (2016: $2,269,000).

5. Property operating expenses

	2017	2016
	$'000	$'000
Building management fee	**56,177**	56,567
Property manager's fees	**51,158**	47,887
Government rent and rates	**35,002**	34,770
Marketing and promotion expenses	**5,814**	5,933
Car park operating costs	**5,822**	6,289
Other direct costs	**10,703**	9,796
	164,676	161,242

6. Other income

	2017	2016
	$'000	$'000
Bank interest income	**8,158**	7,148
Interest income from debt securities	**2,082**	1,437
Others	**653**	803
	10,893	9,388

7. Profit before taxation and transactions with unitholders

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

	2017	2016
	$'000	$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	**84,322**	90,101
Other borrowing costs	**29,591**	12,099
	113,913	102,200
Interest rate swaps - cash flow hedges		
- reclassified (to)/from net assets attributable to unitholders	**(5,564)**	26,567
- net fair value gain of ineffective cash flow hedges	**(1,450)**	-
	(7,014)	26,567
	106,899	128,767

Other borrowing costs represent various financing charges and the amortization of the debts establishment fees for the bank borrowings.

7. Profit before taxation and transactions with unitholders (continued)

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

	2017	2016
	$'000	$'000
(b) Other items		
Manager's fees	**86,953**	85,218
Property manager's fees (note (i))	**51,158**	47,887
Trustee's remuneration and charges	**4,426**	4,348
Auditor's remuneration		
- Audit services	**1,875**	1,772
- Other services	**458**	475
Fees payable to principal valuers		
- Valuation fees	**505**	630
- Commission	**52**	-
Legal and other professional fees	**3,818**	6,295
Bank charges	**389**	344
Net foreign exchange gain	**(472)**	(231)

Notes :

(i) Included rental commission of $14,529,000 (2016: $12,303,000).

(ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the year accordingly.

8. Income tax

Income tax in the consolidated statement of profit or loss represents :

	2017	2016
	$'000	$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	**59,306**	57,125
Over-provision in respect of prior years	**(348)**	(358)
	58,958	56,767
Deferred tax		
Origination and reversal of temporary differences	**9,406**	12,243
	68,364	69,010

8. Income tax (continued)

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

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 certain other subsidiaries covering the years of assessment up to 2009/10, in an aggregate 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 year ended 30 June 2017, the IRD further raised additional profits tax assessments on the Particular Subsidiary for the year of assessment 2015/16 and on certain other subsidiaries for the year of assessment 2010/11 in respect of such disallowance, bringing the aggregate amount to $20,085,000. Notices of objection were filed with the IRD and, as required, tax reserve certificates of $20,085,000 in total have been purchased.

The Manager has received positive advice from the legal and tax advisers of Sunlight REIT, and, in particular, 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 other subsidiaries on the basis of disallowing deductions of a similar nature in respect of the years of assessment 2011/12 to 2015/16, the estimated total additional profits tax liabilities would amount to approximately $73,442,000, which includes $20,085,000 as mentioned above. Based on the positive advice received, such additional profits tax assessments, if issued, will likewise be vigorously contested.

9. Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2017 amounted to $0.45 (2016: $0.50). 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 $743,500,000 (2016: $825,320,000) and the weighted average of 1,636,531,197 units in issue during the year (2016: 1,636,892,942 units).

Diluted earnings per unit before transactions with unitholders for the years ended 30 June 2017 and 2016 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

10. Trade and other receivables

	2017	2016
	$'000	$'000
Rental receivables	**11,785**	12,298
Deposits and prepayments	**6,330**	9,932
Other receivables	**1,585**	2,219
Amounts due from related companies	**560**	694
	20,260	25,143
Represented by :		
Current portion	**18,673**	20,517
Non-current portion	**1,587**	4,626
	20,260	25,143

At 30 June 2017 and 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.

$3,919,000 (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 recognized as expense within one year.

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 :

	2017	2016
	$'000	$'000
Current	**9,149**	9,435
Less than 1 month overdue	**1,762**	2,115
More than 1 month and up to 3 months overdue	**449**	282
More than 3 months and up to 6 months overdue	**197**	172
More than 6 months overdue	**228**	294
	11,785	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.

11. Trade and other payables

	2017	2016
	$'000	$'000
Creditors and accrued charges	**33,451**	39,216
Manager's fees payable	**22,585**	21,696
Amounts due to related companies	**7,370**	7,724
	63,406	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 Sunlight REIT of $1,149,000 (2016: $1,068,000) which is due within 30 days.

12. Non-adjusting event after the reporting period

After the end of the reporting period, the Board declared final and special distributions. Further details are disclosed in the "Distribution Statement" of this announcement.

By order of the Board
HENDERSON SUNLIGHT ASSET MANAGEMENT LIMITED
恒基陽光資產管理有限公司
(as manager of Sunlight Real Estate Investment Trust)
CHUNG Siu Wah
Company Secretary

Hong Kong, 5 September 2017

At the date of this announcement, the Board of the Manager comprises: (1) Chairman and Non-executive Director: Mr. AU Siu Kee, Alexander; (2) Chief Executive Officer and Executive Director: Mr. WU Shiu Kee, Keith; (3) Non-executive Director: Mr. KWOK Ping Ho; and (4) Independent Non-executive Directors: Mr. KWAN Kai Cheong, Mr. MA Kwong Wing, Dr. TSE Kwok Sang and Mr. KWOK Tun Ho, Chester.