



SUNLIGHT REIT

Stock Code : 435

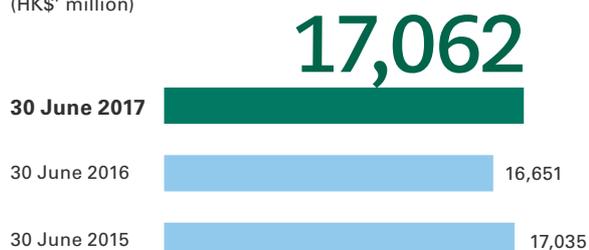
Advancing with Proactive Management

Annual Report 2016/17

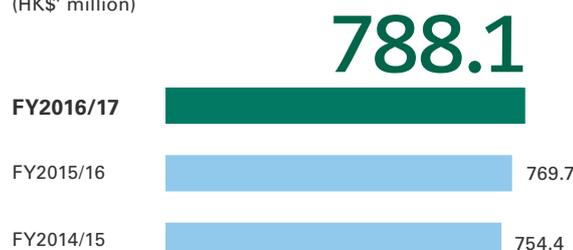


Performance Highlights

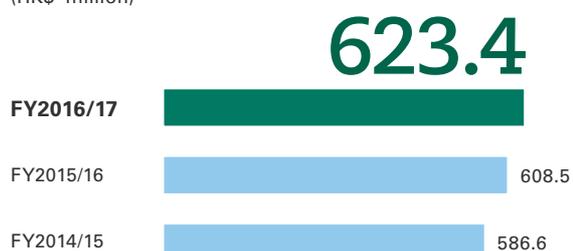
Appraised property value (HK\$' million)



Revenue (HK\$' million)



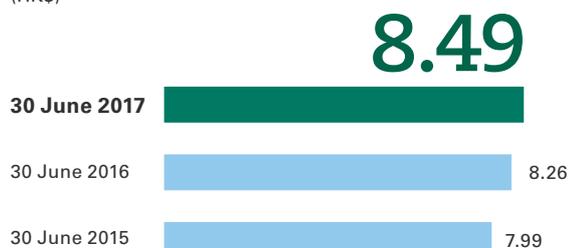
Net property income (HK\$' million)



Distribution per unit (HK cents)



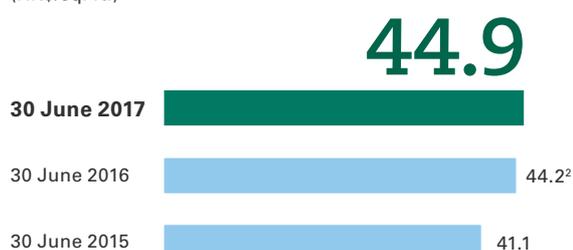
Net asset value per unit (HK\$)



Gearing (%)



Passing rent (HK\$/sq. ft.)



Occupancy (%)



Notes :

1. Special distribution.
2. The renovated area at Sheung Shui Centre Shopping Arcade is excluded from the calculation.
3. Excluding the renovated area at Sheung Shui Centre Shopping Arcade, the occupancy would have been 98.1%.

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Forward-looking Statements

This annual 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 Real Estate Investment Trust (“**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.

Who We Are : In Brief

Sunlight REIT's unit price performance (at 30 June 2017)

| | Total return ^{Note} (%) | | | |
|------------------------------|----------------------------------|--------|--------|---------------|
| | 1-year | 3-year | 5-year | Since listing |
| Sunlight REIT | 21.8 | 85.7 | 160.6 | 341.3 |
| Hang Seng Index | 27.8 | 23.6 | 58.2 | 92.1 |
| Hang Seng Index – Properties | 22.1 | 32.5 | 68.0 | 110.6 |
| Hang Seng REIT Index | 14.9 | 53.2 | 106.7 | 152.8 |

Source : Bloomberg

Our Business

Sunlight REIT is a real estate investment trust authorized 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**”). The trustee of Sunlight REIT (the “**Trustee**”) is HSBC Institutional Trust Services (Asia) Limited.

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006, the market capitalization of Sunlight REIT was approximately HK\$8,385 million at 30 June 2017.

Sunlight REIT 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.. The office properties are primarily located in core business areas, including Wan Chai and Sheung Wan/Central, as well as in decentralized business areas such as Mong Kok and North Point. The retail properties are primarily situated in regional transportation hubs and new towns including Sheung Shui, Tseung Kwan O and Yuen Long, as well as in urban areas with high population density. At 30 June 2017, Sunlight REIT's portfolio was appraised by its principal valuer, Knight Frank Petty Limited (the “**Principal Valuer**”) at HK\$17,062.4 million, with office and retail properties accounting for 51.8% and 48.2% of total valuation respectively.

Our Management

The Manager is an indirect wholly-owned subsidiary of Henderson Land Development Company Limited (“**HLD**”) and is responsible for managing Sunlight REIT in accordance with the Trust Deed in the sole interest of unitholders. The Manager formulates and implements asset management strategies for Sunlight REIT in relation to operational, investment, financial and risk management. It is also responsible for ensuring compliance with the Code on Real Estate Investment Trusts (the “**REIT Code**”), the Trust Deed, applicable provisions of the Rules Governing the Listing of Securities on the Stock Exchange and other relevant legislation and regulations.

Henderson Sunlight Property Management Limited (the “**Property Manager**”) has been delegated with the responsibilities of providing property management, lease management and marketing services solely and exclusively for the properties of Sunlight REIT located in Hong Kong, subject to the overall management and supervision of the Manager.

Note : Total return is the holding period return with dividends (or distributions in the case of Sunlight REIT) reinvested in the relevant security.

Annualized total return to investors since listing

15.1%





Our Strategy

The key objectives of the Manager are to provide unitholders with regular and stable cash distributions with the potential for sustainable long-term growth of such distributions and enhancement in value of the property portfolio. The Manager intends to accomplish these objectives through the following business and investment strategies :

Operational management and asset enhancement strategy

The Manager works closely with the Property Manager to develop proactive leasing as well as asset enhancement initiatives aimed at creating and unlocking the value of the property portfolio.

Investment and acquisition growth strategy

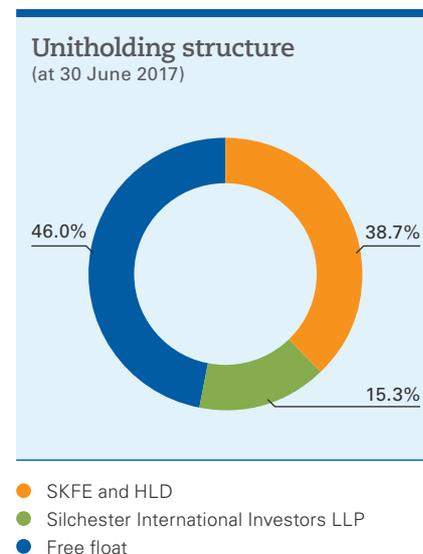
The Manager seeks to acquire income-producing investment properties which enhance returns through accretion in distribution yield, sustainable growth in distributions and/or long-term enhancement in capital value. The Manager also considers fine-tuning the portfolio through divestment of non-core assets for other more attractive investments with a view to enhancing returns to unitholders.

Capital management and business management strategy

The Manager supports Sunlight REIT's operational and acquisition growth strategies by employing an efficient capital management strategy using an appropriate mix of debt and equity capital. It has also established a solid business management framework which includes sound corporate governance practices, effective risk management and internal control systems, reliable infrastructure and management information systems as well as a well-trained work force.

Our Strength

Sunlight REIT has established a solid track record in delivering growth in net property income and portfolio valuation since inception. Its defensive qualities are further supported by a competent management team which places a strong emphasis on asset enhancement, financial management and corporate governance. Finally, Sunlight REIT has received unwavering support from its sponsors, namely, Shau Kee Financial Enterprises Limited ("**SKFE**") and HLD, which collectively owned 38.7% of the total number of units in issue at 30 June 2017.



Chairman's Statement



Right **AU Siu Kee, Alexander**
Chairman
Left **WU Shiu Kee, Keith**
Chief Executive Officer

“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 for the Year would amount to HK 33.0 cents, up 35.8% year on year.”

On behalf of the Board of the Manager, I am pleased to present a satisfactory set of results of Sunlight REIT for the year ended 30 June 2017 (the “**Year**”). Despite a slowdown in rental growth momentum in the commercial property market which constrained the reversionary gains of our portfolio, the Manager remained highly motivated, undertaking a spate of strategic initiatives to enhance the performance of Sunlight REIT and create additional value for its stakeholders.

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 by the Principal Valuer at HK\$17,062.4 million, which was 2.5% higher than a year ago. During the Year, the Manager bought back (and cancelled) a total of 7,547,000 units at an average price of approximately HK\$4.77 per unit. The net asset value of Sunlight REIT consequently 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. I am pleased to have witnessed a warm reception to the refinancing exercise, which speaks volumes for the credit quality of Sunlight REIT. Moreover, this proactive exercise should prove rewarding in light of the risk of a less supportive monetary environment.

Looking ahead, the prospects for Sunlight REIT appear challenging. On the economic front, the gradual curtailment of quantitative easing programmes across major economies would naturally lead to rising interest rates, albeit mild. Meanwhile, the outlook for the commercial property market is mixed: while the office sector should continue to display healthy supply and demand dynamics, the retail sector is not expected to stage a formidable recovery in the foreseeable future. The Manager will therefore have to contend with narrowing rental reversion, and to stay proactive in leasing, asset enhancement and cost control in a bid to sustain Sunlight REIT’s recurrent income and distribution. With the firm foundations laid, I am guardedly optimistic about the operating performance of Sunlight REIT, which shall remain a defensive and transparent alternative for the investment community.

When coping with the challenges facing Sunlight REIT, I am grateful to be working with a group of capable and committed people including my fellow directors, the management team and the staff. I shall always be indebted to them for their loyalty, encouragement and support, which is crucial to continuously promoting the interests of Sunlight REIT’s various stakeholders.

AU Siu Kee, Alexander

Chairman

5 September 2017

Compound annual growth since listing

8.3%

Net property income

9.5%

Net asset value



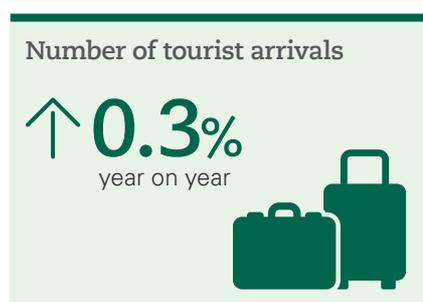
“Sunlight REIT is well positioned to withstand the risk of potentially higher interest rates ahead, while the interest savings resulting from refinancing will clearly have positive implications for distributions to unitholders.”

Sunlight REIT continued to make steady progress in a year characterized by marked political upheavals and volatilities in the macro environment. As in the case of Britain's vote to leave the European Union around the middle of last year, the outcome of the US presidential election in late 2016 confounded expectations and created short-lived turbulence in the global financial markets. However, encouraging economic indicators together with fiscal policy stimulus have led to an ensuing surge in optimism, ushering in a broad-based upswing in equity prices in the first half of 2017. Riding on a more stable economic backdrop and adhering to its recipe of success over the previous decade, Sunlight REIT again turned in a decent performance for the Year. In particular, its proactive asset and capital management strategies continued to serve it well, supporting stable growth in its income and distribution.

Satisfactory operational performance

The Grade A office leasing market in core business districts remained robust, thanks to persistently tight supply and sustained demand from PRC corporations, while there was a clear resurgence in the momentum of office decentralization in the period under review, as the cost-saving intention of multinational corporations was met with the availability of affordable new spaces at emerging locations such as Wong Chuk Hang. The office portfolio of Sunlight REIT also somewhat benefited from increased activities in the market, recording a moderate 1.3% increase in the average passing rent to HK\$32.0 per sq. ft. at 30 June 2017 on an occupancy rate of 97.3%.

During the Year, Sunlight Tower continued to exhibit a fine performance, almost fully let while achieving a respectable 11.9% rental reversion. With enhanced cost efficiency gained from a revamp of the air-conditioning system in stages, the building's cost-to-income ratio has further improved. In the meantime, the Grade B office portfolio in Central and Sheung Wan also enjoyed a decent 9.8% rental reversion as it continued to appeal to domestic small and medium-sized enterprises, especially in light of an unabated uptrend in the rentals of prime office buildings in core areas.



Source : Hong Kong Tourism Board

Meanwhile, the decline in retail sales in the past couple of years seemed to display some early signs of bottoming out, with the exception of consumer durable goods where sales remained sluggish. However, retail operators have generally stayed cautious, with some of them preferring to establish pop-up stores to test market demand before committing to long-term tenancies. Meanwhile, the unabated growth in the food and beverage sector was evident, illustrating the fact that domestic consumers might have taken a slightly more prominent role in driving retail spending. Finally, a dichotomy arose in terms of retail occupancy and rental reversion: while the level of occupancy for community shopping malls was generally satisfactory, anecdotally the vacancy rates for street shops in areas such as Mong Kok and Causeway Bay remained stubbornly high, with notable rental decline in many instances.

Inevitably, the performance of Sheung Shui Centre Shopping Arcade (“SSC”) during the Year was somewhat affected by slower tourist traffic from the Mainland and a temporary rent void resulting from the shopping mall’s refurbishment programme. Extra time and effort was required to replace outgoing and attract incoming tenants. Another major shopping mall in the portfolio of Sunlight REIT, namely Metro City Phase I Property (“MCPI”), fared better, as its emphasis on consumer staples and service trades with the introduction of certain quality new tenants was well received. Its occupancy rate was higher at 98.7%, with a healthy rental reversion of 14.5%.

Fruitful asset enhancement

We are gratified by the HK\$25 million refurbishment works at SSC which were completed in late 2016 (details of which will be covered under “Asset enhancement initiative” on page 22). With an innovative adjustment to the tenant mix of this shopping mall by introducing more novel and popular eateries, this reconfiguration should help boost the footfall of the property and enhance its income prospects.

Forward-looking capital management

As mentioned in the Chairman’s Statement, the Manager took the initiative in refinancing the entire HK\$3,925 million term loan facilities of Sunlight REIT at an average interest margin of 0.70% above Hong Kong Interbank Offered Rate (“HIBOR”), compared with 1.24% previously. Such favourable terms reflected the banking community’s firm support to Sunlight REIT in view of its healthy credit profile and respectable portfolio performance.

Outlook

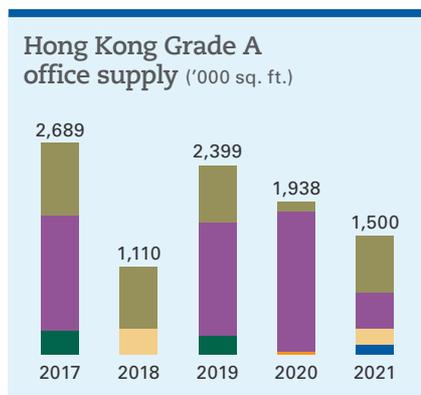
Looking ahead, the growth profile among major economies is gradually rebalancing away from the US. Entangled in a series of domestic legislative and legal challenges, the Trump administration is slow to implement the pro-growth agenda involving sweeping corporate tax cuts, substantial infrastructure 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.



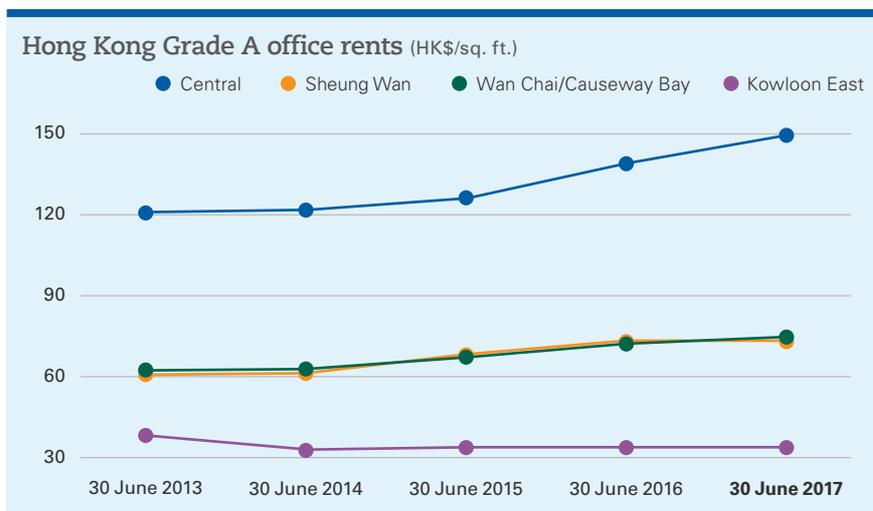
Source : Census and Statistics Department

CEO's Report



- Central
- Sheung Wan
- Wan Chai/Causeway Bay
- Kowloon East
- Island South
- Others

Source : Knight Frank Petty Limited



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. We therefore remain guardedly sanguine about the outlook for the office sector, and are reasonably upbeat about the reversionary potential of Sunlight REIT's office portfolio.

We are 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, we 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 our proactive strategy to strengthen asset competitiveness in capturing future opportunities.

Asset enhancement initiatives will continue to rank high in our operational agenda in FY2017/18, with the majority of capital expenditure ("CAPEX") 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.

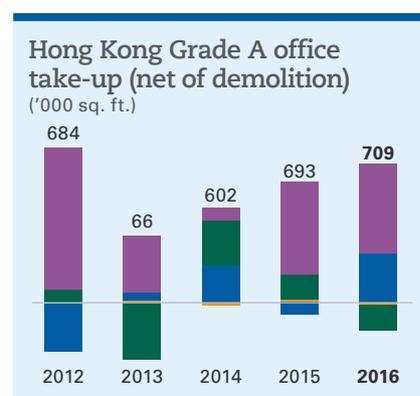
With a strong balance sheet, it is logical for Sunlight REIT to contemplate expansion of its portfolio. Nevertheless, while office properties have shown a mild compression in yields, the retail sector in general is still suffering from uninspiring rental reversion. Attractive acquisition opportunities which may help compensate for the slight decrease in rental income remain scarce, but we are confident that our patience will eventually pay off, especially given our management team's experience and the flexibility of our 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, we are 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, we are hopeful that it will maintain steady progress in the year ahead.

WU Shiu Kee, Keith

Chief Executive Officer

5 September 2017



- Central
- Sheung Wan
- Wan Chai/Causeway Bay
- Kowloon East

Source : Knight Frank Petty Limited

Portfolio at a Glance

Top three properties

Sunlight Tower, Sheung Shui Centre Shopping Arcade and Metro City Phase I Property

Sheung Wan/Central office properties

Bonham Trade Centre, Winsome House Property, 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre

Other office properties

Righteous Centre, Java Road 108 Commercial Centre, On Loong Commercial Building, Sun Fai Commercial Centre Property and Wai Ching Commercial Building Property

Other retail properties

Kwong Wah Plaza Property, Beverley Commercial Centre Property, Supernova Stand Property and Palatial Stand Property

Office

10

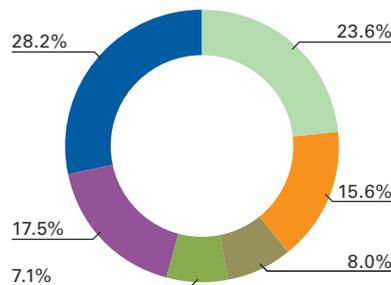


Retail

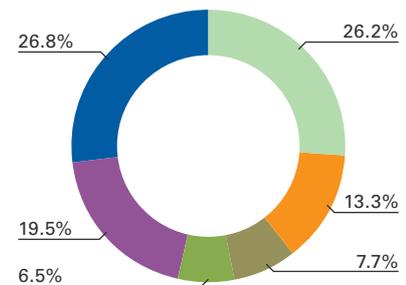
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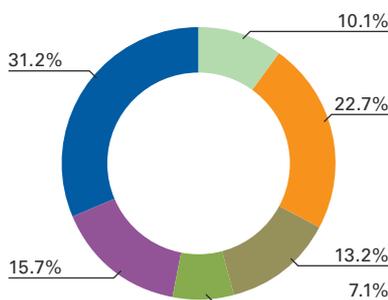
Valuation



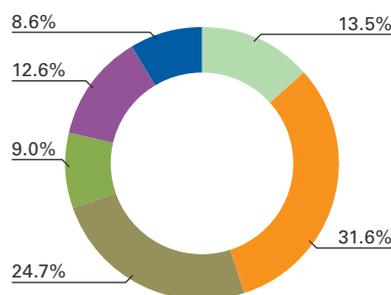
Net property income



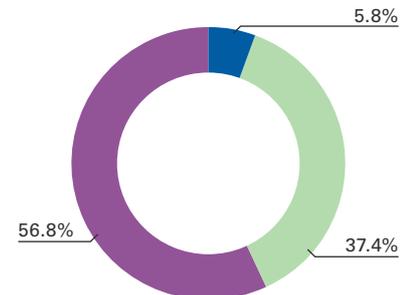
Gross rentable area



No. of leases



No. of car park spaces



- Sunlight Tower
- Sheung Wan/Central office properties
- Sheung Shui Centre Shopping Arcade
- Other office properties
- Metro City Phase I Property
- Other retail properties



✳ Sheung Shui



✳ Yuen Long

Our Properties



Sunlight Tower
陽光中心

Sunlight Tower



Sheung Wan/
Central office
properties



Other office
properties



Sheung Shui
Centre Shopping
Arcade



Metro City
Phase I
Property



Other retail
properties

Mong Kok ✳

Yau Ma Tei ✳

Tsim Sha Tsui ✳

Sheung Wan ✳

Central ✳

Wan Chai ✳

North Point ✳

Po Lam ✳

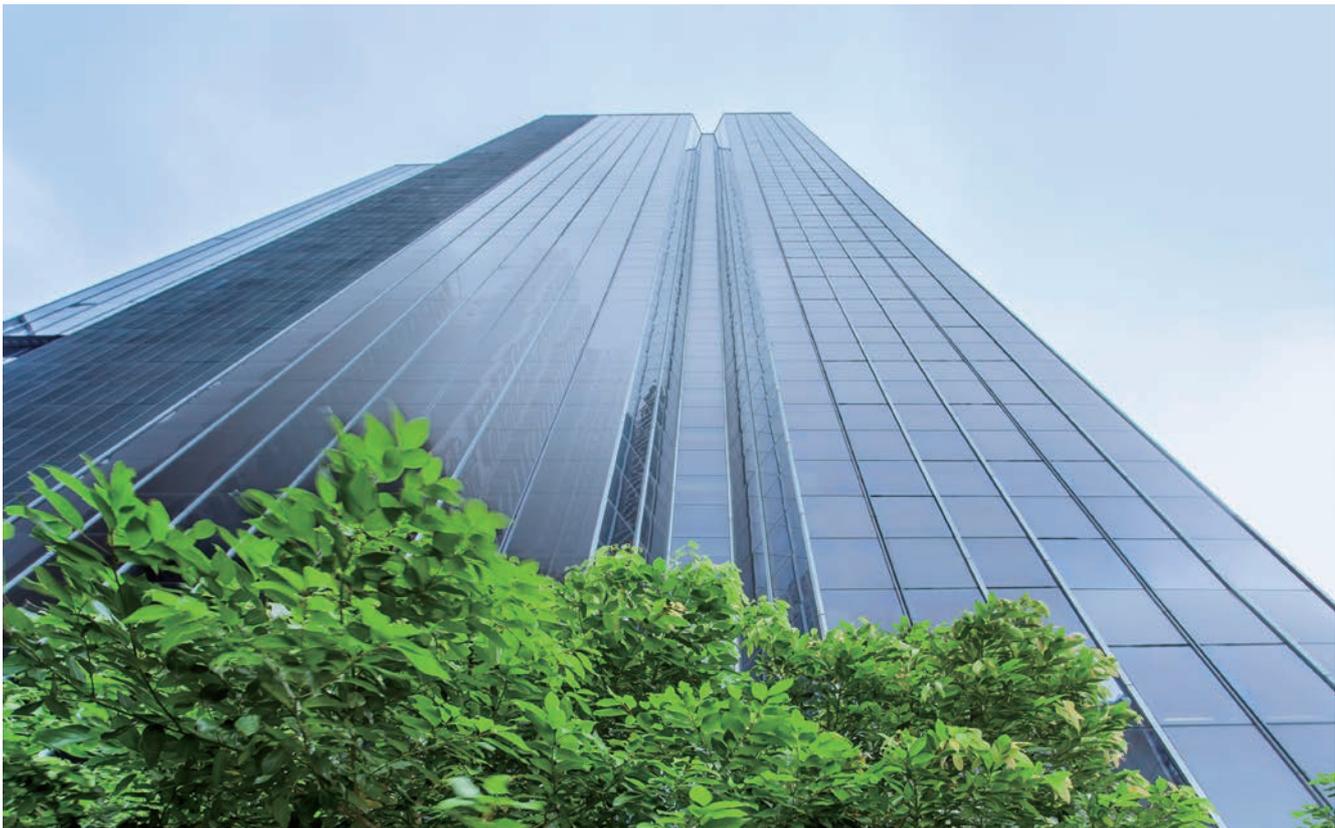
Portfolio Statistics

| Property | Property details | | | | | | No. of leases at 30 June | |
|--|------------------|--------------------|------------------------|----------------------------|----------------|------------------|--------------------------|------------|
| | Location | Year of completion | No. of car park spaces | GRA ¹ (sq. ft.) | | | | |
| | | | | Office | Retail | Total | 2017 | 2016 |
| Office | | | | | | | | |
| Grade A | | | | | | | | |
| Sunlight Tower | Wan Chai | 1998 | 46 | 369,891 | 6,490 | 376,381 | 73 | 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 | 59 | 62 |
| Winsome House Property | Central | 1999 | 0 | 37,937 | 2,177 | 40,114 | 22 | 24 |
| 135 Bonham Strand Trade Centre Property | Sheung Wan | 2000 | 0 | 60,844 | 3,071 | 63,915 | 74 | 73 |
| 235 Wing Lok Street Trade Centre | Sheung Wan | 2000 | 0 | 47,481 | 4,804 | 52,285 | 71 | 69 |
| Java Road 108 Commercial Centre | North Point | 1998 | 0 | 35,694 | 2,229 | 37,923 | 38 | 36 |
| On Loong Commercial Building ⁵ | Wan Chai | 1984 | 0 | 25,498 | 1,708 | 27,206 | 34 | 36 |
| Sun Fai Commercial Centre Property | Mong Kok | 1998 | 0 | 23,817 | 2,334 | 26,151 | 47 | 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 | 552 | 554 |
| Retail | | | | | | | | |
| New Town | | | | | | | | |
| Sheung Shui Centre Shopping Arcade | Sheung Shui | 1993 | 297 | 0 | 122,339 | 122,339 | 115 | 99 |
| Metro City Phase I Property | Tseung Kwan O | 1996 | 452 | 0 | 188,889 | 188,889 | 107 | 105 |
| Kwong Wah Plaza Property | Yuen Long | 1998 | 0 | 39,101 | 25,741 | 64,842 | 37 | 36 |
| Urban | | | | | | | | |
| Beverly 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 | 299 | 281 |
| Total/Average (excluding the disposed properties) | | | 795 | 807,578 | 399,249 | 1,206,827 | 851 | 835 |
| Disposed properties | | | | | | | | |
| Total | | | | | | | | |

Notes :

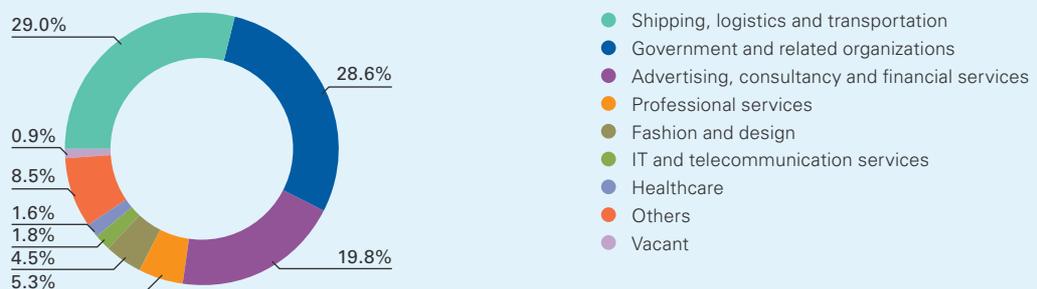
1. Size of the properties is measured in terms of GRA.
2. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied GRA on the relevant date.
3. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant year.
4. Please refer to "Valuation Report" on pages 72 to 87 for further details.
5. 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.
6. Excluding the renovated area of approximately 26,000 sq. ft. at SSC, the occupancy would have been 98.5%.
7. The renovated area at SSC is excluded from the calculation.

| Operational statistics | | | | | | Property financials | | | | |
|--------------------------|-------------------|---|--------------------|-----------------------------------|-------------|--------------------------------|----------------|---|--------|---|
| Occupancy at 30 June (%) | | Passing rent ² at 30 June (HK\$/sq. ft.) | | Rental reversion ³ (%) | | Net property income (HK\$'000) | | Capitalization rate at 30 June 2017 (%) | | Appraised value at 30 June 2017 ⁴ (HK\$'000) |
| 2017 | 2016 | 2017 | 2016 | FY2016/17 | FY2015/16 | FY2016/17 | FY2015/16 | Office | Retail | |
| 99.1 | 99.7 | 36.4 | 35.3 | 11.9 | 11.7 | 167,385 | 163,577 | 3.85 | 3.75 | 4,807,000 |
| 96.1 | 95.1 | 28.9 | 27.7 | 11.5 | 18.0 | 36,734 | 35,275 | 3.65 | 4.00 | 1,141,000 |
| 93.4 | 98.1 | 34.7 | 41.5 | 7.7 | 13.2 | 23,007 | 24,555 | 3.95 | 3.60 | 586,000 |
| 85.9 | 97.1 | 42.9 | 41.0 | 11.2 | 5.7 | 17,204 | 17,378 | 3.65 | 3.80 | 582,100 |
| 100.0 | 98.7 | 26.6 | 26.0 | 5.0 | 16.5 | 17,302 | 17,029 | 3.65 | 4.00 | 557,000 |
| 98.9 | 96.4 | 20.8 | 19.9 | 10.3 | 17.3 | 11,557 | 11,046 | 3.65 | 4.00 | 376,000 |
| 96.1 | 94.2 | 24.1 | 23.3 | 8.5 | 13.3 | 8,761 | 8,688 | 3.95 | 4.20 | 278,000 |
| 92.0 | 94.0 | 30.9 | 30.3 | 6.3 | 8.7 | 8,401 | 7,780 | 3.85 | 3.90 | 263,000 |
| 100.0 | 97.1 | 21.7 | 22.2 | 1.6 | 4.2 | 5,607 | 5,633 | 4.00 | 4.25 | 175,000 |
| 94.5 | 100.0 | 13.8 | 13.2 | 10.3 | 18.8 | 2,081 | 1,851 | 3.75 | 4.10 | 70,600 |
| 97.3 | 98.0 | 32.0 | 31.6 | 10.1 | 12.7 | 298,039 | 292,812 | | | 8,835,700 |
| 91.7 | 77.6 ⁶ | 118.4 | 131.7 ⁷ | 3.9 | 17.7 | 163,093 | 155,952 | N/A | 4.40 | 4,020,000 |
| 98.7 | 98.4 | 54.1 | 51.8 | 14.5 | 17.4 | 121,700 | 117,381 | N/A | 4.50 | 2,986,000 |
| 100.0 | 100.0 | 49.6 | 50.0 | (3.7) | 23.8 | 33,672 | 33,541 | 3.85 | 3.80 | 1,008,000 |
| 96.7 | 96.6 | 45.1 | 51.3 | (14.2) | (3.2) | 3,952 | 4,441 | N/A | 4.30 | 110,100 |
| 100.0 | 100.0 | 54.0 | 47.8 | 15.0 | N/A | 2,342 | 2,329 | N/A | 4.00 | 64,300 |
| 75.2 | 75.2 | 12.0 | 12.0 | N/A | 0.0 | 648 | 83 | N/A | 4.35 | 38,300 |
| 96.2 | 91.7 | 71.3 | 71.6 | 5.3 | 18.2 | 325,407 | 313,727 | | | 8,226,700 |
| 96.9 | 95.9 | 44.9 | 44.2 | 7.1 | 15.3 | 623,446 | 606,539 | | | 17,062,400 |
| | | | | | | N/A | 1,957 | | | |
| | | | | | | 623,446 | 608,496 | | | |



Sunlight Tower

Tenant mix*



Net property income

↑ **2.3%**
year on year



Rental reversion

11.9%



Retention rate

62%



* Tenant mix charts on pages 14 to 18 are expressed as a percentage of total GRA of the relevant property at 30 June 2017.



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, we are 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.

Sunlight Tower maintains a well-balanced and diversified tenant base, including government-related organizations and non-financial multinational enterprises from various industries. At 30 June 2017, the total number of leases at Sunlight Tower was 73.

Occupancy (%)



Passing rent (HK\$/sq. ft.)



| Expiry profile | FY2017/18 | FY2018/19 |
|---|-----------|-----------|
| By GRA ^{1,2} (%) | 59.3 | 16.4 |
| By average rent ¹ (HK\$/sq. ft.) | 34.8 | 38.8 |

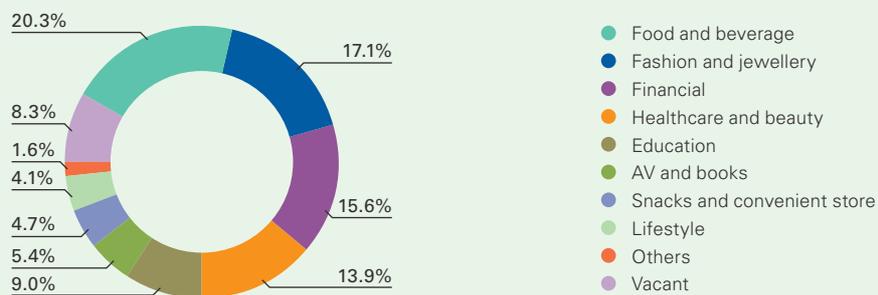
Notes (applicable to pages 15 to 19):

1. At 30 June 2017.
2. Expiring GRA as a percentage of total GRA.



Sheung Shui Centre Shopping Arcade

Tenant mix



Net property income

↑ **4.6%**
year on year



Rental reversion

3.9%



Retention rate

74%





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.

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, we are 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 us grasp prevailing consumer preferences and achieve an optimal trade mix when committing long-term leases ahead.



| Expiry profile | FY2017/18 | FY2018/19 |
|--------------------------------|-----------|-----------|
| By GRA (%) | 39.6 | 16.1 |
| By average rent (HK\$/sq. ft.) | 122.7 | 144.2 |

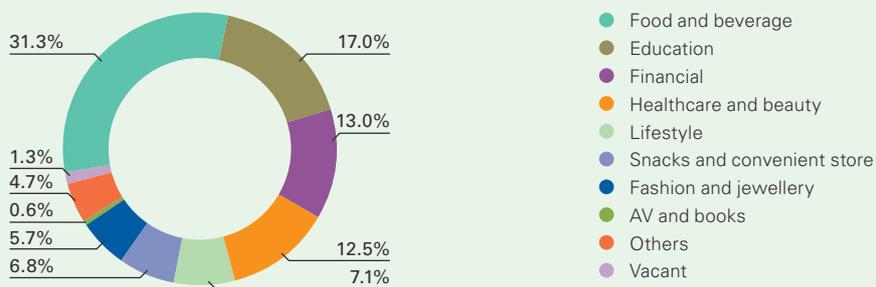
Notes :

1. Excluding the renovated area at SSC, the occupancy would have been 98.5%.
2. The renovated area at SSC is excluded from the calculation.



Metro City Phase I Property

Tenant mix



Net property income

↑ **3.7%**
year on year



Rental reversion

14.5%



Retention rate

66%





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 GRA (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, we 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.



| Expiry profile | FY2017/18 | FY2018/19 |
|--------------------------------|-----------|-----------|
| By GRA (%) | 26.6 | 26.9 |
| By average rent (HK\$/sq. ft.) | 62.7 | 58.1 |

Sheung Wan/ Central office properties



The Sheung Wan/Central portfolio of Sunlight REIT, comprising four properties offering a combined GRA of over 250,000 sq. ft., has remained well sought after by small and medium-sized enterprises due to its proximity to Central and affordable rentals. For example, the passing rent of Bonham Trade Centre, the fourth largest property of Sunlight REIT which is within walking distance to the Sheung Wan MTR station, rose to HK\$28.9 per sq. ft. at 30 June 2017. This property recorded a satisfactory rental reversion of 11.5% with a high occupancy rate of 96.1% at 30 June 2017.

However, reflecting the more intense competition for service-trade tenants in the Lan Kwai Fong vicinity, performance of the Winsome House Property was slightly below expectation, as demonstrated by a lower occupancy rate of 85.9% at 30 June 2017. On the other hand, both 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre made further headway in their performances during the Year, supported by satisfactory occupancies and passing rent improvement.

Net property income

↑ **2.6%**
year on year



Rental reversion

9.8%



Retention rate

74%





The remaining five smaller office properties contributed approximately 8% of portfolio valuation. Tenants of these properties are typically location driven and engaged in a diverse mix of service-related industries, such as healthcare and beauty, education and professional services. Resilient domestic consumption together with a generally defensive business nature of these tenants ensures stable occupancies and thus a steady recurrent income stream to Sunlight REIT. This portfolio showed an overall occupancy of 95.0% at end-June 2017 and a 6.3% rental reversion for the Year.

Elsewhere, a ground floor retail shop previously occupied by a multinational jewellery/watch tenant at Righteous Centre was vacated towards the end of FY2016/17. The space has been taken up by a new eatery with effect from late July 2017 at a lower unit rent. This is in line with the general leasing trend of street shops in Mong Kok, but the overall impact on Sunlight REIT is expected to be small.



The other retail properties of Sunlight REIT, which contributed approximately 7% of its portfolio valuation, comprise a number of street or podium level shops in various office and residential buildings. Overall occupancy of these properties stood at 97.2% at the end of the Year, and their passing rents remained stable.

The 17-storey Kwong Wah Plaza Property continued to benefit from the growing population in Yuen Long and was fully let at the end of the Year. While its retail component was slightly affected by weaker consumer sentiment in general, the performance of its office portion was satisfactory as finance and service trades have sought to establish a presence in this populous district of Hong Kong.

Other office properties

Net property income

↓ **1.3%**
year on year

Rental reversion

6.3%

Retention rate

65%

Other retail properties

Net property income

↑ **0.5%**
year on year

Rental reversion

(3.4)%

Retention rate

86%

Asset enhancement initiative

The Manager has been devoting considerable effort to planning and executing asset enhancement initiatives to drive the growth of Sunlight REIT over the years, which has proven fruitful in unlocking the values of its properties. Apart from continuous energy efficiency enhancement through retrofitting and system upgrades to make various buildings more environmental friendly and to save costs, we are pleased to highlight two initiatives below.

Shopping mall reconfiguration

During the Year, we created a more attractive retail environment at SSC by revamping the space previously occupied by a traditional Chinese restaurant. 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%.

Improvement to indoor air quality

The Manager has also given high priority to providing tenants and shoppers with a comfortable, pleasant and safe environment. Various improvement works were undertaken in the past several years to achieve this objective. In particular, we have adopted up-to-date technologies to maintain a satisfactory level of indoor air and water quality. During the Year, Sunlight Tower was awarded the “Excellent Class” Indoor Air Quality Certificate by the Environmental Protection Department for the fifth consecutive year, while both SSC and MCPI were presented the “Good Class” Indoor Air Quality Certificates for the third consecutive year. At Sunlight Tower, apart from public areas, the air quality in tenants’ offices is also measured to ensure a good standard is maintained.



Selected new tenants in FY2016/17



Operational statistics

The overall portfolio of Sunlight REIT recorded an average occupancy of 96.9% at 30 June 2017 (30 June 2016: 95.9%¹). The occupancies of the office and retail portfolios were 97.3% and 96.2% (30 June 2016: 98.0% and 91.7%¹) 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.

At 30 June 2017, the weighted average lease length in terms of GRA was 2.7 years for the entire portfolio. Leases expiring on or before 30 June 2018 account for 54.2% of office GRA and 31.5% of retail GRA. The average unit rents for the expiring office and retail leases are HK\$31.5 per sq. ft. and HK\$81.8 per sq. ft. respectively.

Tenancy base

Sunlight REIT's property portfolio had a total of 851 tenancies at 30 June 2017. The largest tenant accounted for 4.9% of total revenue for the Year and occupied 7.1% of total GRA at 30 June 2017, while the corresponding figures for the top five tenants were 15.1% and 15.3% respectively.

Other income

Sunlight REIT held a total of 795 car park spaces at three properties, namely Sunlight Tower, MCPI and SSC. For the Year, car park income amounted to HK\$30.9 million, representing 3.9% of total revenue.

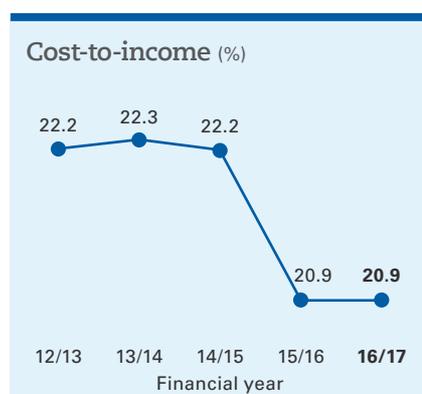
Top five tenants for the Year²

| Tenant | Trade sector | Occupied GRA ³ (sq. ft.) | % of total GRA ³ | % of total revenue |
|---|---------------------------------------|--|-----------------------------|--------------------|
| Anglo-Eastern Ship Management Limited | Shipping, logistic and transportation | 85,969 | 7.1 | 4.9 |
| The Financial Secretary Incorporated c/o Government Property Agency | Government and related organizations | 64,180 | 5.3 | 4.2 |
| Tenant A | Healthcare and electrical appliances | 20,127 | 1.7 | 2.5 |
| Tenant B | Financial | 7,338 | 0.6 | 1.8 |
| Bank of Communications Co., Ltd. | Financial | 6,891 | 0.6 | 1.7 |
| Total | | 184,505 | 15.3 | 15.1 |

Notes :

1. Excluding the renovated area at SSC, the occupancies for the overall portfolio and retail portfolio at 30 June 2016 would have been 98.1% and 98.2% respectively.
2. This summary excluded a one-off payment by a tenant which early terminated its tenancy (and settled its obligations in full) during the Year. Contribution from this tenant as of total revenue for the Year was 2.0%.
3. At 30 June 2017.

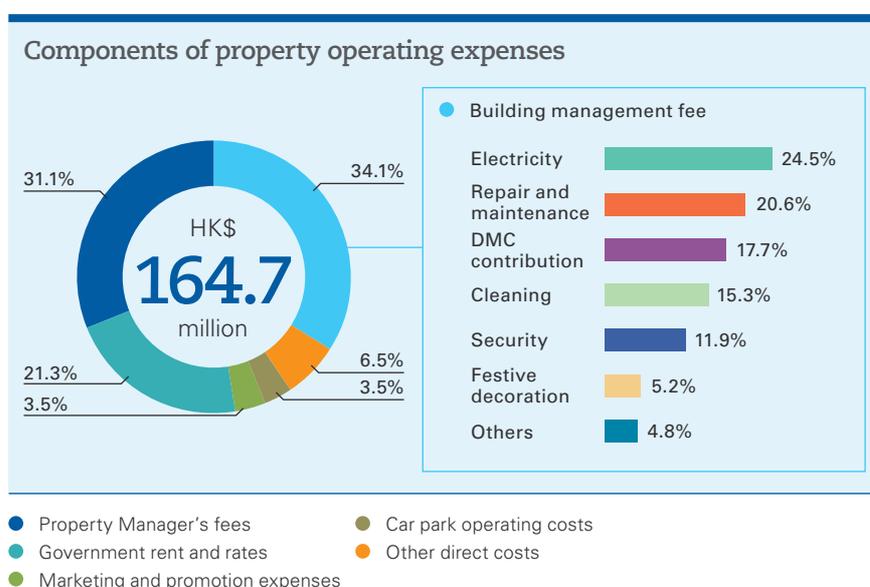
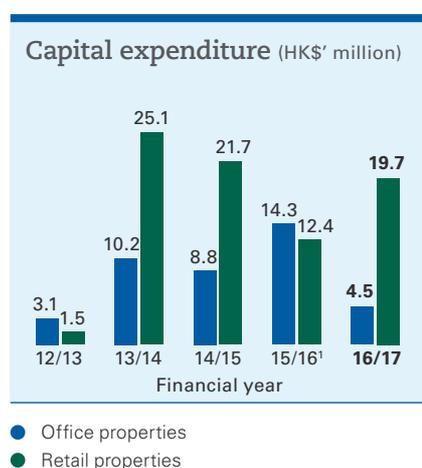
Business Review



Cost control and capital expenditure

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 SSC.

CAPEX for the Year amounted to HK\$24.2 million (FY2015/16: HK\$26.7 million, excluding the costs for property acquisition), of which 81.5% was spent on retail properties while the rest was on office properties. The contracted capital commitments at 30 June 2017 totalled HK\$18.6 million.



Top five real estate agents and contractors for the Year

| Real estate agents and contractors ² | Nature of service | Commission and value of contract ³ (HK\$'000) | % of total commission and value of contracts |
|--|--|--|--|
| Henderson Sunlight Property Management Limited ⁴ | Leasing, marketing and building management | 51,158 | 37.1 |
| Po Tak Construction Co. Limited | Renovation works | 19,027 | 13.8 |
| Hang Yick Properties Management Limited ⁴ | Building management | 8,788 | 6.4 |
| Winston Air Conditioning & Engineering (Hong Kong) Company Limited | Repairs and maintenance | 5,225 | 3.8 |
| Ngai Lik Cleaning Services Co., Ltd. | Cleaning services | 5,172 | 3.8 |
| Total | | 89,370 | 64.9 |

Notes :

1. Excluding the costs for property acquisition amounting to HK\$23.7 million.
2. Commission and value of contracts paid to all real estate agents and contractors for the Year amounted to HK\$16.6 million and HK\$121.1 million respectively, of which HK\$15.7 million and HK\$74.8 million were attributable to the top five real estate agents and the top five contractors.
3. Included value of contracts for the supply of items or services which are of a capital nature.
4. Wholly-owned subsidiaries of HLD; the latter is interested in more than 5% of the total number of units in issue of Sunlight REIT.

Financial Review

Financial highlights

| (in HK\$' million, unless otherwise specified) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-----------------|----------|----------|----------|----------|
| For the year ended 30 June : | | | | | |
| Revenue | 788.1 | 769.7 | 754.4 | 688.9 | 630.2 |
| Property operating expenses | 164.7 | 161.2 | 167.8 | 153.8 | 139.6 |
| Net property income | 623.4 | 608.5 | 586.6 | 535.1 | 490.6 |
| Cost-to-income ratio (%) | 20.9 | 20.9 | 22.2 | 22.3 | 22.2 |
| Profit after taxation | 743.5 | 825.3 | 1,902.7 | 1,230.0 | 1,674.6 |
| Annual distributable income | 434.5 | 415.0 | 375.2 | 342.8 | 307.0 |
| DPU (HK cents) ¹ | 33.0 | 24.3 | 22.0 | 20.0 | 17.7 |
| Payout ratio (%) ^{1,2} | 124.3 | 95.8 | 95.9 | 94.8 | 93.1 |
| At 30 June : | | | | | |
| Portfolio valuation | 17,062.4 | 16,651.0 | 17,035.3 | 15,390.6 | 14,408.8 |
| Total assets | 18,297.8 | 17,925.0 | 17,897.7 | 16,151.9 | 15,156.4 |
| Total liabilities | 4,398.3 | 4,406.9 | 4,800.6 | 4,657.0 | 4,624.7 |
| Net asset value | 13,899.5 | 13,518.1 | 13,097.1 | 11,494.9 | 10,531.7 |
| Net asset value per unit (HK\$) | 8.49 | 8.26 | 7.99 | 7.06 | 6.52 |
| Gearing ratio (%) | 21.5 | 21.9 | 22.0 | 24.3 | 25.9 |

Operating results

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.

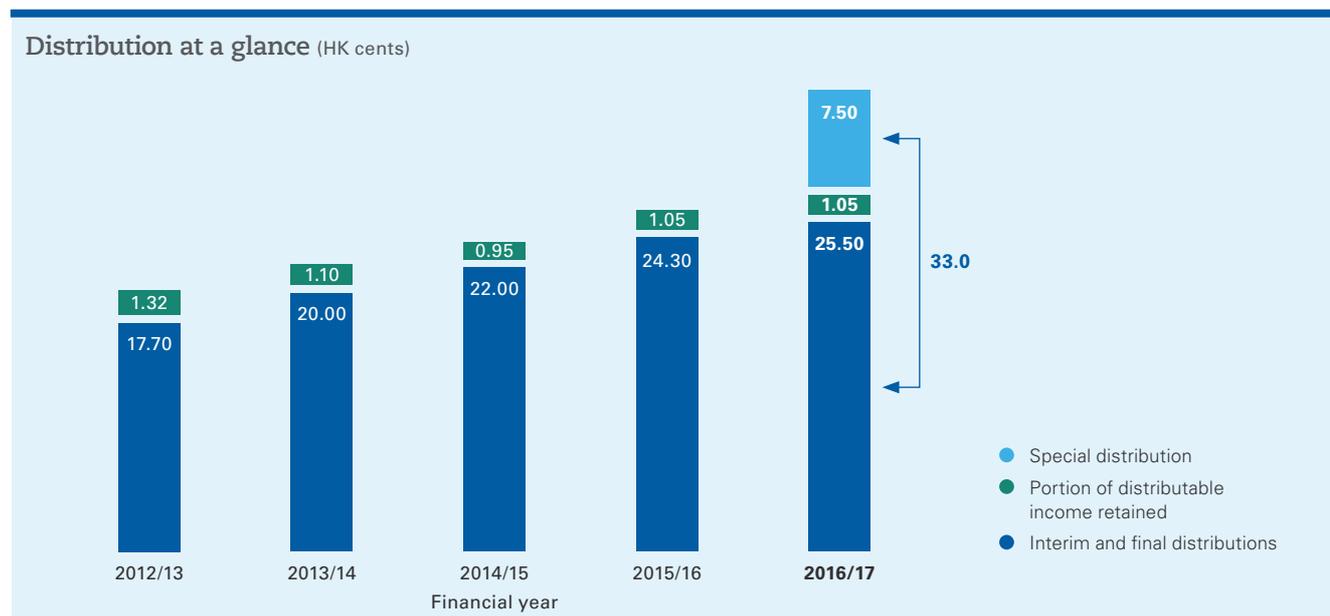
Finance costs decreased 17.0% year on year to HK\$106.9 million, mainly attributable to the absence of a substantial reserve movement resulting from the unwinding of certain interest rate swaps ("IRS") reported in the previous financial year. Benefiting from the onset of a series of more favourable interest 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.

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.

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.



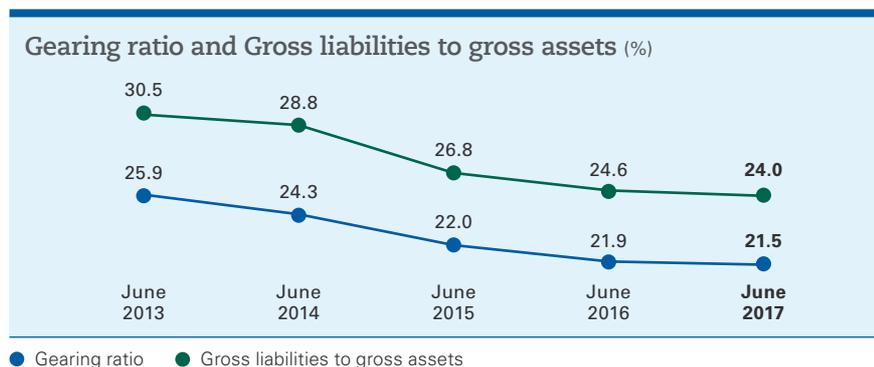
Distribution entitlement and closure of register of unitholders

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.

Financial position

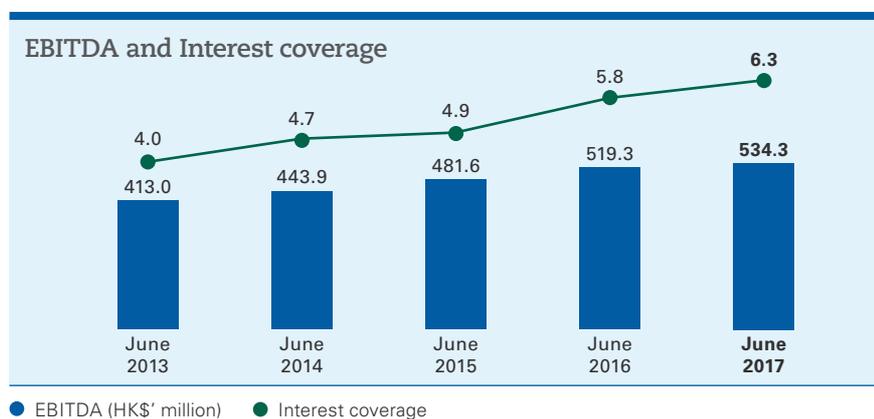
Reflecting an increase in the appraised value of its portfolio, the gross assets of Sunlight REIT expanded 2.1% to HK\$18,297.8 million at 30 June 2017 (30 June 2016: HK\$17,925.0 million). Its net assets grew 2.8% to HK\$13,899.5 million (30 June 2016: HK\$13,518.1 million), which implies a net asset value per unit of HK\$8.49 (30 June 2016: HK\$8.26).

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 liabilities¹ as a percentage of gross assets dropped from 24.6% to 24.0%.



On 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 30 June 2017.

The EBITDA² 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 ratio³ for the Year further improved to 6.3 times as compared with 5.8 times recorded in the previous financial year.



Notes :

- Gross liabilities include total borrowings, tenants' deposits and other liabilities.
- 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.
- Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on total borrowings.

Interest margin of borrowings

0.70%

per annum (over HIBOR)

Fixed rate portion of borrowings

79%

Weighted average interest rate (fixed rate portion)

1.16%

per annum (before interest margin)

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 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.

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.

Liquidity management

The Manager is permitted to place funds as bank deposits and Relevant Investments¹, with maturity profile compatible with projected funding requirements. At 30 June 2017, Sunlight REIT had total cash and bank balances of HK\$1,085.9 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 CAPEX requirements.

Tax matters

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 disallowances², during the Year, the IRD raised additional profits tax assessments on certain property holding companies under Sunlight REIT by a total amount of HK\$6.8 million, bringing the aggregate additional profits tax amount to HK\$20.1 million ("**Total Additional Amount**"). While notices of objection were filed with the IRD, tax reserve certificates of an amount equivalent to the Total Additional Amount have been purchased.

It should be noted, however, that the Total Additional Amount represents the cumulative additional profits tax assessed and demanded (i) up to the year of assessment 2015/16 for one property holding company, and (ii) up to the year of assessment 2010/11 for certain other property holding companies. If the IRD were to issue additional profits tax assessments on those other property holding companies 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 HK\$73.4 million, which includes the Total Additional Amount as mentioned above. Based on the positive advice received from the legal and tax advisers of Sunlight REIT, and in particular, from Senior Counsel, the Manager will strenuously contest the additional profits tax assessments already raised and any further additional profits tax assessments, if issued.

Subsequent to the financial year end, the Manager received a letter together with a draft statement of facts from the Appeals Section of the IRD in respect of one property holding company mentioned above, advising that it would be necessary for the Commissioner (or his deputy) to determine the objections. The Manager is in the process of preparing a reply to the IRD, incorporating comments on the draft statement of facts.

Notes :

1. Relevant investments shall have the meaning as defined in paragraph 7.2B of the REIT Code.
2. The IRD disallowed the deductions of the management fees, property management fees and rental commission incurred by certain property holding companies under Sunlight REIT. Please refer to note 9 to the consolidated financial statements on page 116.

Environmental, Social and Governance Report



Message from CEO

I am pleased that Sunlight REIT has embarked on the second decade as a transparent and accountable enterprise that aims to balance the economic, social and environmental benefits of its business activities. This Environmental, Social and Governance (“**ESG**”) Report is a testament to the Manager’s commitment to incorporate sustainability considerations into the daily management of Sunlight REIT’s property portfolio.

The Manager’s operational strategy is long-term and forward thinking in the pursuit of sustained and stable value creation. ESG is an essential component of this strategy as the world is contending with increasingly perceptible environmental challenges. The Government of the Hong Kong Special Administrative Region has clearly stated its intention to institute measures to reduce waste and ease the rapidly intensifying burden on the city’s landfills. Moreover, to mitigate the impacts of climate change, the Government has introduced a carbon emission reduction target as part of the Hong Kong’s Climate Action Plan 2030+, and stressed the role of the property sector in achieving this objective. The rising interest in ESG-related information is evident and is viewed as an opportunity to examine the sustainability performance of Sunlight REIT, which will serve as a guidance to the Manager in formulating effective strategies to enhance the resilience and value of the property portfolio.

Echoing this approach to ESG, the asset enhancement initiatives launched by the Manager have incorporated sustainability factors which help to improve the performance of Sunlight REIT, with the emphasis on energy conservation continuing to be a notable priority. As a testament to the effectiveness of this strategy, it is gratifying to report that Sunlight Tower, a template for asset enhancement, has been awarded the Platinum rating under Building Environmental Assessment Method (BEAM) Plus for Existing Buildings. Our strategic pursuit of asset enhancement through a commitment to excellence and sustainability reaffirms the Manager's objective to continually identify opportunities to reduce energy consumption at our commercial properties.

Our ESG initiatives demonstrate the commitment of Sunlight REIT to sustainability and stability, being the core principles which underpin our engagement with staff. This report showcases their unrelenting efforts in improving and upgrading Sunlight REIT's properties, fostering a harmonious and sustainable working environment, and contributing to and connecting with our communities. It is a delight to witness our staff's enthusiastic participation in a number of activities that contribute to social well-being and thereby strengthen Sunlight REIT's continual existence. Meanwhile, the Manager has policies in place to enable a safe, supportive and engaging workplace that nurtures our staff and encourages their personal and professional development. I can therefore confidently assure our unitholders and stakeholders that Sunlight REIT is being well taken care of by a focused team of professionals working intently to balance economic, social and environmental factors, with strong aspirations to deliver long-term success.

Looking ahead, sustainability and stability shall remain as core guiding principles of the Manager. Staying true to these principles, the Manager will endeavour to overcome emerging universal ESG challenges, with a dedication to operating ethically whilst enhancing value for our unitholders, people, communities and the environment.

WU Shiu Kee, Keith

Chief Executive Officer

5 September 2017

“Sunlight REIT has embarked on the second decade as a transparent and accountable enterprise that aims to balance the economic, social and environmental benefits of its business activities.”

Environmental, Social and Governance Report

About the ESG Report

Reporting standard

This is the second ESG Report of Sunlight REIT prepared in accordance with the requirements of the ESG Reporting Guide (2015) issued by the Stock Exchange. It provides an overview of the management approach and the ESG performance of Sunlight REIT, and offers a transparent channel enabling Sunlight REIT to clearly and accurately communicate its ESG-related policies and initiatives to various stakeholders.

Corporate governance and comprehensive financial metrics can be found in the relevant sections of this annual report. A detailed content index is included on page 45 for easy reference.

Stakeholder engagement

For the preparation of the ESG Report, the Manager has appointed an independent consultant to conduct a stakeholder engagement exercise. In FY2016/17, suppliers, tenants and non-governmental organizations were invited to provide insights on the materiality of various ESG issues, and to share their thoughts on the current sustainability performance and future direction of Sunlight REIT. We also welcome your feedback. Please contact our investor relations by email (ir@HendersonSunlight.com).

Materiality assessment

According to the Stock Exchange, the materiality assessment is essential for identifying the topics that have significant impacts on Sunlight REIT's business operations. The assessment also ensures only material and important issues are included in the report. For this report, the Manager undertook an organized materiality assessment to identify material ESG issues as outlined below :

Stage 1 : Identification

- ▶ Peer benchmarking : the ESG disclosures of five peer companies were reviewed to identify the material issues faced by the industry and the commonalities for sustainability disclosure. The greater the disclosure of an issue by peer companies, the higher its level of materiality.
- ▶ Stakeholder engagement : internal stakeholders (employees) and external stakeholders (suppliers, tenants and non-governmental organizations) were invited in FY2015/16 and FY2016/17 respectively to rank the materiality of various ESG issues and share their thoughts on the report. As the results of the surveys took both the views of internal and external stakeholders into consideration, highly ranked ESG issues are very likely to be considered material.

Stage 2 : Prioritization

- ▶ The results of the peer benchmarking exercise and the outcomes of the stakeholder engagement were combined and analyzed. A list of ESG-related issues of high and medium-level materiality was developed for validation.

Stage 3 : Validation

- ▶ The list of material ESG issues was considered by the Manager's senior management to finalize a list of relevant Stock Exchange's aspects and key performance indicators ("KPIs")^{Note} for disclosure in this report.

Note : Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Rules Governing the Listing of Securities on the Stock Exchange is organized into two ESG subject areas – Environmental and Social. There are various aspects under the two subject areas and each aspect sets out KPIs for issuers to report on so as to demonstrate their performance.

Awards and certificates in FY2016/17

| Awards/Certificates | Participating entities/Properties | Awarding bodies |
|---|--|--|
| BEAM Plus V1.2 for Existing Buildings (Platinum) | The Property Manager : Sunlight Tower | Hong Kong Green Building Council |
| Better World Company Logo – Certificate of Achievement | The Property Manager : 1. Sheung Shui Centre Shopping Arcade 2. Metro City Phase I Property 3. Bonham Trade Centre 4. Righteous Centre | Junior Chamber International Hong Kong |
| Caring Company | 1. The Manager 2. The Property Manager | The Hong Kong Council of Social Service |
| Commendation Scheme on Source Separation of Commercial and Industrial Waste | The Property Manager : 1. Sunlight Tower 2. Sheung Shui Centre Shopping Arcade 3. Metro City Phase I Property | Environmental Protection Department, HKSAR Government |
| Computer and Communication Products Recycling Programme | The Property Manager : Sunlight Tower | Environmental Protection Department, HKSAR Government |
| Corporate Environmental Leadership Awards 2016 | The Property Manager : 1. Sunlight Tower 2. Sheung Shui Centre Shopping Arcade | Bank of China (Hong Kong) |
| Energy Saving Championship Scheme 2016 (Hanson Merit Award) | The Property Manager : Sunlight Tower | Electrical and Mechanical Services Department, HKSAR Government |
| Good MPF Employer | 1. The Manager 2. The Property Manager | Mandatory Provident Fund Schemes Authority |
| Happy Company | 1. The Manager 2. The Property Manager | Promoting Happiness Index Foundation |
| Hong Kong Green Organization | The Property Manager : Sunlight Tower | Environmental Campaign Committee |
| Indoor Air Quality Certification Scheme (Excellent Class) | Sunlight Tower | Indoor Air Quality Information Centre, Environmental Protection Department, HKSAR Government |
| Indoor Air Quality Certification Scheme (Good Class) | 1. Sheung Shui Centre Shopping Arcade 2. Metro City Phase I Property | Indoor Air Quality Information Centre, Environmental Protection Department, HKSAR Government |
| The HKIFM Excellence in Facility Management Award 2016 (Retail) (Merit Award) | The Manager : Sheung Shui Centre Shopping Arcade | Hong Kong Institute of Facility Management |
| Quality Water Supply Scheme for Buildings – Flushing Water | 1. Sunlight Tower 2. Bonham Trade Centre 3. Righteous Centre 4. 235 Wing Lok Street Trade Centre 5. Java Road 108 Commercial Centre 6. On Loong Commercial Building | Water Supplies Department, HKSAR Government |
| Quality Water Supply Scheme for Buildings – Fresh Water (Plus) (Basic Plan) | 1. Sunlight Tower 2. Bonham Trade Centre 3. Righteous Centre 4. 235 Wing Lok Street Trade Centre 5. Java Road 108 Commercial Centre 6. On Loong Commercial Building | Water Supplies Department, HKSAR Government |

Sustainability governance

Addressing sustainability issues and managing ESG-related risks requires an effective governance structure. The Corporate Social Responsibility Committee (“CSRC”) was established in 2012 to plan and coordinate different ESG initiatives. Headed by the CEO, the CSRC is comprised of representatives from the Manager and the Property Manager. The CSRC is responsible for spearheading our sustainability initiatives and ensuring that business practices align with our sustainability and social responsibility principles. Various sustainability issues, including energy efficiency, waste management and community contribution, were discussed in regular meetings during the Year. The risks associated with such issues were reviewed, evaluated and monitored by senior management of the Manager in accordance with the risk management framework and internal control systems and were reported to the Board. Please refer to the “Corporate Governance Report” on pages 61 to 65 for details.

Our People

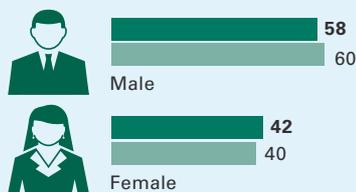
Our employees are crucial to our success, therefore, we strive to provide a supportive, safe and caring working environment to enable them to reach their full potential.

Caring company

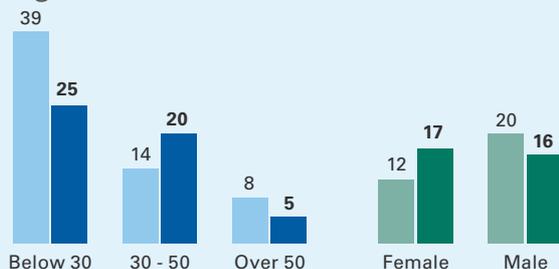
We believe that a harmonious workplace is essential for our employees to excel in their work. Our staff handbook includes policies on anti-discrimination and anti-harassment and provides guidance on professional business conduct. Equal opportunity is also a core principle in our recruitment practice. We constantly remind interviewers to assess job applicants solely based on their merits, regardless of characteristics such as age, disability, gender, marital status, family status and ethnicity.

Attracting new talent and retaining our employees are key to driving business success. We make every effort to ensure that our employees are compensated with competitive salaries and benefits commensurate with their work experience and job requirements. We also recognize the importance of career progression and employee engagement in retaining talent. Accordingly, an annual performance appraisal is conducted for employees to discuss their work performance and opportunities for career development.

Total workforce by gender (%)



Employee turnover rate by age group and gender (%)



Total workforce by age group and employment type (no. of people)



By age group and employment type
 ● FY2016/17
 ● FY2015/16

By gender
 ● FY2016/17
 ● FY2015/16

We are committed to cultivating a caring culture in the company. We offer flexible working hour arrangements to cater for the different needs of our employees. A wide range of staff activities such as annual dinners and Christmas parties are organized to reinforce employees' sense of belonging. To celebrate Sunlight REIT's 10th anniversary and show our appreciation to loyal employees, we organized a second staff trip to Okinawa in November 2016. Our employees are also encouraged to participate in different social activities as part of our responsibility to the community.

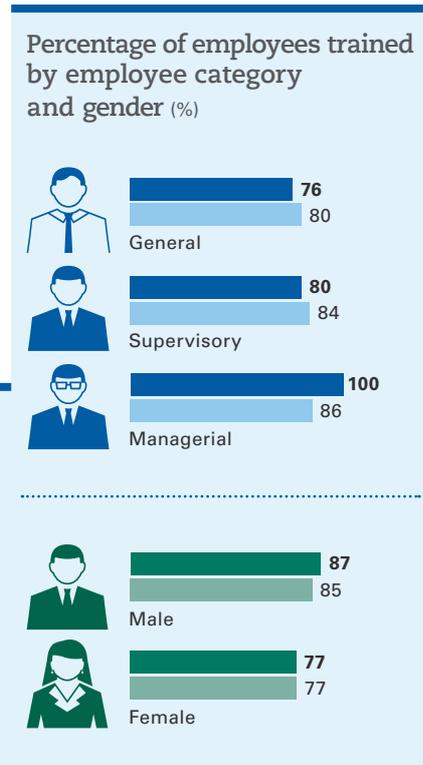
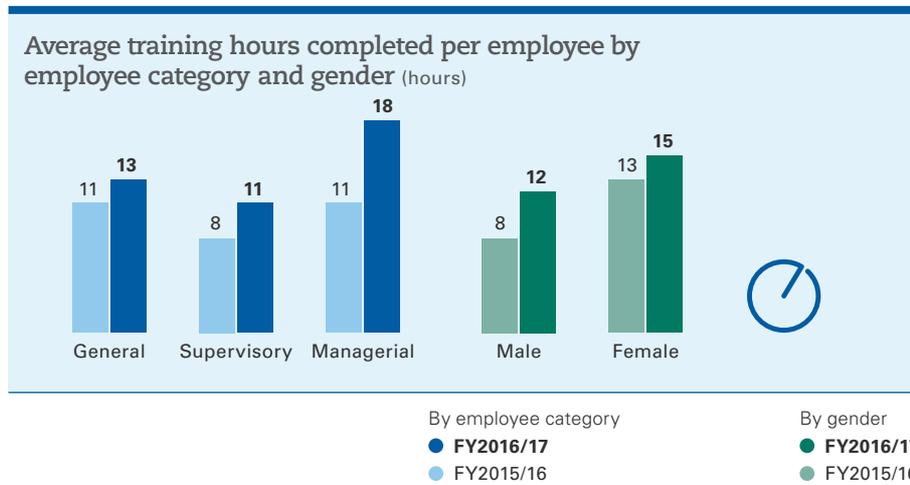
Our 10th annual dinner was held in February 2017 and over 85% of staff was able to join. This celebratory activity not only provided an opportunity for employees to socialize with their colleagues, it also served as a casual platform for them to meet and interact with senior management, fostering a stronger sense of belonging.



“We had great fun at the annual dinner this year and our table attempted to build the tallest “Sunlight Tower” from straws and tape! All participants were actively engaged and it was an evening full of laughter.”

Staff development

We believe in continued education and professional development for our employees – not only can it add value to their career and professional skills, it also helps Sunlight REIT to grow. In the face of different internal and external challenges every day, it is important to equip our staff with suitable knowledge and competitive skill sets to address these challenges in a timely and appropriate manner.





“The interactive workshop on Managing Emotion was inspiring. Teammates not only learned relevant techniques with fun, but also got acquainted with colleagues from different departments.”

Apart from on-the-job training, our training policy ensures that our employees receive support for staff development. Educational and staff development allowances have been budgeted for to provide financial support for staff members who pursue further studies and training that would enhance their work performance. To promote professionalism, eligible employees are encouraged to apply for membership in relevant professional bodies or charters through the provision of a professional body allowance.

To cater for the various skills needed for our operations staff, tailor-made training sessions on topics such as customer service and stress management skills are organized. Off-site staff retreats and immersion programmes are arranged to provide more in-depth training for our staff from time to time.

Number and rate of work-related fatalities and lost days due to work injury

| | FY2016/17 | FY2015/16 |
|-------------------------------------|-----------|-----------|
| Number of work-related fatalities | Nil | Nil |
| Rate of work-related fatalities (%) | N/A | N/A |
| Lost days due to work injury | 2 | 57 |

Health and safety

We take occupational health and safety seriously and have well-established internal guidelines and systems in place to minimize risks. Our employees are required to report any work-related injuries and are sponsored for annual medical examinations. They are also encouraged to attend safety-training courses conducted by the Occupational Safety and Health (OSH) Training Centre.

Labour standards

During the Year, we complied with local regulations and standards related to employment and labour practices, including those related to occupational health and safety, anti-discrimination, child labour and forced labour.

Anti-corruption and whistle-blowing policy

The Manager upholds the highest standard of business ethics. We adhere to stringent anti-corruption policies and measures in day-to-day operations. Our code of conduct provides guidelines and requirements on the prevention of bribery, fraud and conflict of interest. Along with regular anti-corruption seminars provided by the Independent Commission Against Corruption, our Anti-Money Laundering Policy and Policy of Reporting of Irregularity ensure that our employees are equipped with comprehensive knowledge and provided with clear guidance on anti-corruption practices.

In assessing the risk exposure of Sunlight REIT’s operations in relation to money laundering, an Anti-Money Laundering Policy has been established with reference to the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) and Guideline on Anti-Money Laundering and Counter Terrorist Financing issued by the SFC.

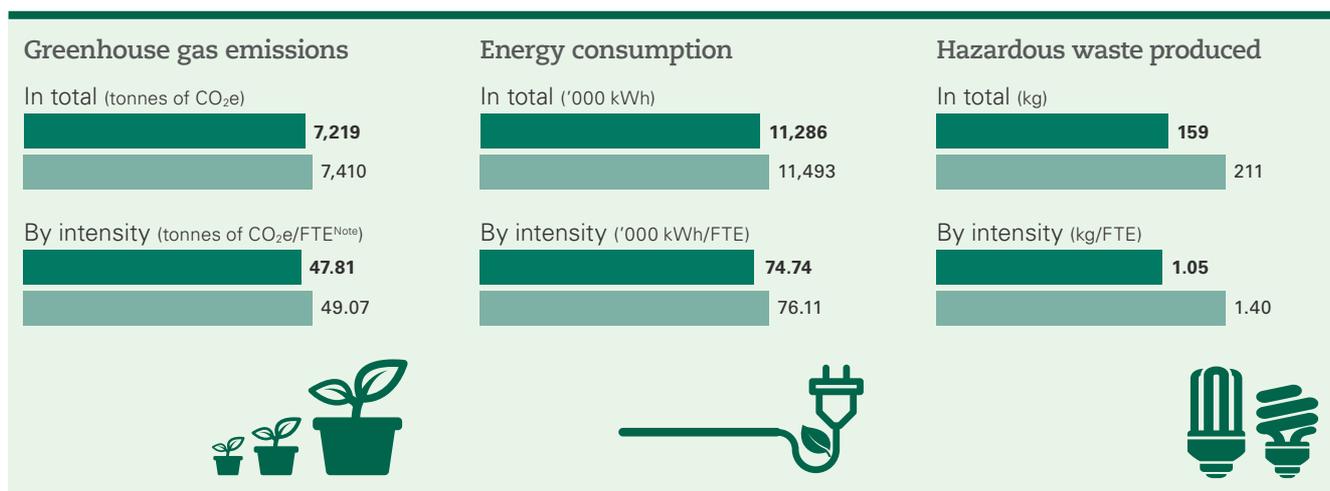
Our Policy of Reporting of Irregularity encourages staff to report misconduct, malpractice and irregularities without fear of reprisals. Employees can lodge complaints directly to the Internal Audit Department. Confidentiality is well respected in all circumstances. For further details, please refer to page 65 of the “Corporate Governance Report” in this annual report.

Number of concluded legal cases regarding corrupt practices brought against the company or its employees

| | FY2016/17 | FY2015/16 |
|-----------------|-----------|-----------|
| Number of cases | Nil | Nil |

Our Environment

The Manager adopts high environmental standards in property management for the long-term interest of our property portfolio and tenants. To achieve efficient allocation of resources while minimizing adverse environmental impact, we incorporate our environmental strategy in operations management and asset enhancement. Through a number of environmental initiatives spearheaded by the CSRC, progress has been made in energy efficiency, waste reduction, water conservation and the creation of green surroundings.



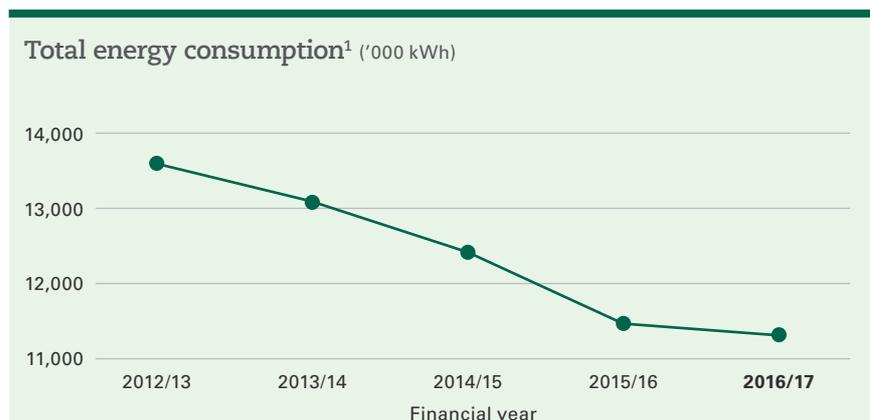
● FY2016/17
● FY2015/16

Note : FTE : Full-Time Equivalent employees.

Environmental, Social and Governance Report

Energy and emissions

The adoption of sustainable practice in our buildings is essential to the management of our property portfolio. In FY2016/17, we continued to enhance energy efficiency in our commercial properties through retrofitting and system upgrades. We have rolled out a scheme to gradually replace ordinary energy-saving lights with LED lighting at appropriate locations of our properties.



In addition to improving our system efficiencies, we have also actively promoted energy awareness among our staff and tenants. Compared to FY2015/16, the total carbon footprint and energy consumption of our properties were successfully reduced by 2.6% and 1.8%, respectively.

| | FY2016/17 | FY2015/16 |
|--|------------|-----------------------|
| Greenhouse gas emissions | | |
| Scope 1 emission (tonnes of CO ₂ e) | N/A | N/A |
| Scope 2 emission (tonnes of CO ₂ e) | 7,215.17 | 7,409.50 |
| Scope 3 emission (tonnes of CO ₂ e) | 3.41 | N/A |
| In total (tonnes of CO ₂ e) | 7,218.58 | 7,409.50 ² |
| By intensity (tonnes of CO ₂ e/FTE) | 47.81 | 49.07 ² |
| Energy consumption | | |
| In total (kWh) | 11,286,239 | 11,492,950 |
| By intensity (kWh/FTE) | 74,743 | 76,112 |

Notes :

1. Cumulative measurements taken at Sunlight REIT's wholly-owned properties.
2. Data for FY2015/16 are restated to align with the updated calculation methodology used in FY2016/17, which adopts emission factors with respect to the locations of Sunlight REIT's properties in Hong Kong.

Case Study : Sunlight Tower has been awarded BEAM Plus Existing Buildings Platinum rating

Sunlight Tower, the flagship property of Sunlight REIT, achieved a Platinum rating under BEAM for Existing Buildings (5/04 Version) in 2011. Since then, we have continued to undertake various energy efficiency enhancement measures, such as upgrading the central air-conditioning system with water-cooled chiller plants and installing a Building Management System to monitor energy performance. As a continual enhancement, we have installed LED lighting in the carpark and washrooms, and canopy lighting systems on the ground floor, staircase, corridors and lift lobbies. Our continual improvement measures have further reduced carbon emissions by 11.9%^{Note}.

On 18 November 2016, Sunlight Tower was awarded the Platinum rating under BEAM Plus V1.2 for Existing Buildings. Sunlight Tower has achieved 93% for the “Energy Use” category under BEAM Plus assessment, and overall, a total score of 86.6. This achievement has affirmed our incessant effort in the pursuit of excellence and sustainability.

Waste management

For Hong Kong to be recognized as a sustainable city, we need to overcome the challenges posed by waste disposal. To fulfil our role as a good corporate citizen, we have a responsibility to alleviate landfill pressure through active waste reduction and management.

Being a participant in the Commendation Scheme on Source Separation of Commercial and Industrial Waste, we have set up and implemented mechanisms to separate and recover waste at Sunlight Tower, SSC and MCPI. We provide resources collection facilities in these premises to facilitate staff and tenants’ practice of waste separation and recycling. Collected materials include waste paper, plastic bottles, aluminium cans, glass bottles, fluorescent tubes, used clothes and obsolete computers.

At Sunlight Tower, organic waste collected from our tenants is upcycled into fertilizer, which is then used in “Sunlight Nursery” at the podium garden. At SSC, we collect used coffee grounds from a food and beverage tenant for gardening purposes. Through concerted efforts by our staff and tenants, we strive to close the loop on food waste and create a thriving nursery ground.

We also leverage the scale and traffic of our shopping arcades to promote waste reduction and recycling to the wider public. Over the past years, we have co-hosted our signature event, “Read Cycling”, during which, we have (i) encouraged our tenants/communities to participate in the used book collection event at Sunlight Tower, SSC and MCPI, and (ii) organized “Bring a Book and Share” at MCPI to impart the benefits of resource circulation to the local community.



Sunlight Tower – BEAM Plus Existing Buildings Platinum rating award



Read Cycling collection box at SSC

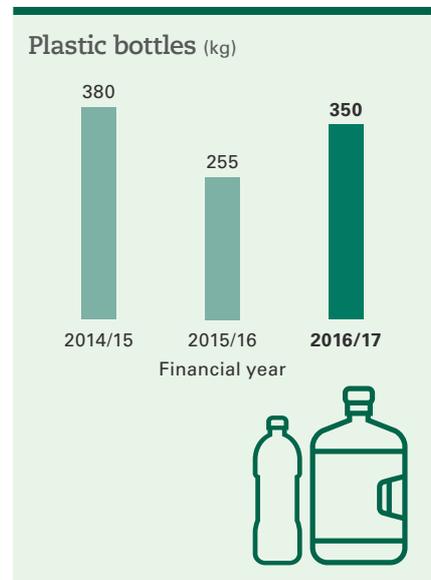
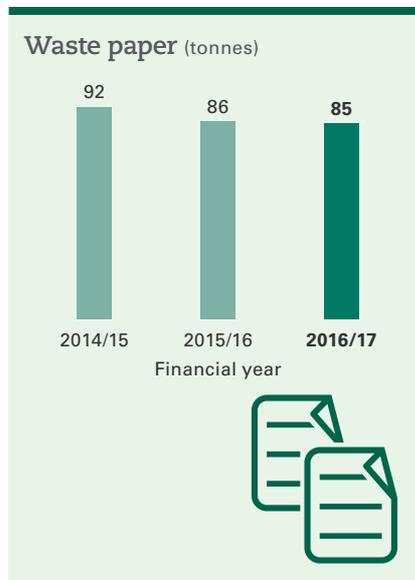
Note : Total emissions during the period of 1 May 2015 to 30 April 2016, compared with data from 1 May 2014 to 30 April 2015. An independent verification party assessed the reliability and accuracy of the carbon emissions data during the period.

Total solid waste recycled at Sunlight Tower, Sheung Shui Centre Shopping Arcade and Metro City Phase I Property

(a) FY2016/17

| | Sheung Shui Centre | | |
|------------------------|--------------------|-----------------|-----------------------------|
| | Sunlight Tower | Shopping Arcade | Metro City Phase I Property |
| Waste paper (tonnes) | 0.3 | 22.9 | 62.1 |
| Plastic bottles (kg) | 190 | 78 | 82 |
| Aluminium cans (kg) | 130 | 84 | 129 |
| Fluorescent tubes (kg) | 159 | N/A | N/A |

(b) Three-year comparison



Note : At Sunlight Tower only.

Water resources

Fresh water is a precious natural resource and we aspire to take an active part in preserving and ensuring its efficient use.

To reduce the load and energy consumption of water treatment facilities, we have installed water conservation devices such as water-saving faucets and dual-flush fittings at all washrooms at Sunlight Tower. We also fully utilize existing resources by pumping the bleed-off drainage water from the new water-cooled chiller into the flushing water tank.

Cultivating environmental awareness

We nurture environmental stewardship at Sunlight REIT. With a view to arousing awareness of green living and to enhancing the work environment, more than 200 indoor potted plants were distributed to tenants of Sunlight Tower during the Year, together with a newsletter introducing practical green tips. We constantly identify opportunities for emission reduction activities in our workplace. For example, we encourage tenants and staff to switch off unnecessary lights, and employ occupancy sensors in certain areas. There are also internal notices to encourage the efficient use of resources and recycling. Not only do we widely promote sustainable practices at the workplace, but we also share their benefits with the general public through a series of green events.

Environmental compliance

During the Year, we complied with local regulations and standards related to environmental practices, including those related to energy efficiency and waste disposal.

Our Customers and Suppliers

Customer privacy policy

We are committed to safeguarding the data privacy of our tenants and customers. Our Privacy Policy Statement is formulated in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) to ensure all personal data are handled in strict confidence by designated personnel as required by law, including collection, disclosure, retention, access and correction. The Privacy Policy Statement is publicly available and can be viewed on the corporate website^{Note}.

Supply chain management

Due to the nature of the operations of Sunlight REIT, the impact of supply chain management is relatively low. Regardless, we collaborate with our suppliers to deliver quality products and services. Procedures and guidelines are in place, while the performance of the approved suppliers is regularly reviewed and evaluated to ensure that such suppliers possess appropriate qualifications and experience.

Water consumption

In total (m³)

8,479

By intensity (m³/FTE)

56.15



Note : <http://www.sunlightreit.com/en-us/privacy-policy-statement>

Community event highlights

September



Sunlight Little Ironman Triathlon 2016

November



Sunlight Elderly Visit



Green Walk Hong Kong

December

Food Friend Action – collection and sharing of unsold food

2016



Food Friend Action

Resources contributed to the focus area (no. of service hours)



- FY2016/17
- FY2015/16

Our Community

The Manager strongly supports community services and development. As such, our outreach and charitable initiatives are all planned and implemented by the CSRC with a view to making a positive impact on our society. During the Year, we participated in various community initiatives and activities. A total of 198 engagement hours across all our events were recorded. In addition, we collaborated with diverse groups from the local community by providing venues for community and charity events.

Caring for the community

We strive to promote a culture of volunteering and constantly encourage our colleagues to participate in community events to provide support to the underprivileged. In November 2016, the volunteers of Sunlight REIT (composed

February

New Territories Walk for Millions

April



Bring a Book and Share

May

Organic rice dumpling workshop

Volunteer service – home visit to the elderly

Mother's Day singing contest

June



Go Green! Sunlight @ Love 2017



Dream in Action – Innovative Stalls

Distribution of potted plants and green office tips to tenants

2017

of both staff and Sunlight Musical Ambassador 2016) paid a visit to the elderly at Tin Ping Elderly Neighbourhood Centre at Sheung Shui. In December 2016, the volunteers of Sunlight Tower (composed of both staff and tenants) participated in the "Food Friend Action" event organized by "People Service Centre" to collect unsold vegetables, fruits and bread for distribution to those in need. Unsold products of around 182 kg were collected and packed in 40 baskets for distribution.

Finally, we collected excessive festive food from our tenants during the Chinese New Year in 2017, and handed the food to those in need.

Caring for the youth

We partnered with The Evangelical Lutheran Church of Hong Kong ("ELCHK") to organize a programme on micro movie production, targeting teenagers from the North District. The programme was well received with the participation of over 50 teenagers, culminating in a premiere ceremony held at SSC where the participants shared their movie work and personal experience gained in the course of producing the movie.



Micro movie production

Environmental, Social and Governance Report

In addition, we endeavour to promote a healthy lifestyle for the youth in Hong Kong. Since 2014, we have collaborated with the Chinese YMCA of Hong Kong in sponsoring the “Sunlight Little Ironman Triathlon” initiative. This programme provides physical training primarily for the children of underprivileged families, with the aim of raising the awareness of a healthy lifestyle and reinforcing family ties.

Caring for the environment

During the Year, we collaborated with the Tseung Kwan O Integrated Social Service Centre of Hong Kong Young Women’s Christian Association to launch the “Go Green! Sunlight @ Love 2017” Community Service Plan. This collaboration involved, among others, outdoor green activities, booth games and programmes to promote green living and spread green messages in the local community.

Case Study : Dream in Action – Innovative Stalls



Participants demonstrated the spirit of “Dare to dream, Dare to live”

From April to June 2017, we collaborated with ELCHK North District Integrated Youth Service Centre to launch the “Dream in Action – Innovative Stalls” programme in the North District, which aimed at guiding and assisting young people and middle-aged women to create their dream businesses.

The programme, which attracted 27 participants, comprised a sharing session on business model and management of the guided tours operated by the elderly in Kwu Tung (such as sale of self-made steamed buns and mosquito repellents), practical tips in designing and selling innovative products, as well as lectures on advertising, marketing and essential business skills.

The participants were then requested to submit and present their business proposals for designing and marketing innovative products. Rated against the cost, customer profile and market needs, five business proposals were selected for sponsorship by Sunlight REIT in setting up innovative stalls at SSC. The products included eco-friendly reusable bags, hand-made flowers and potted plants and key chains. Themed as “Dare to dream, Dare to live”, an opening ceremony was held on 25 June 2017 at SSC, and funds received from the sales event were donated to ELCHK Communion Lutheran Elderly Health Centre.

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Board of Directors and Senior Management

Board of Directors



Mr. AU Siu Kee, Alexander

OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB

**Chairman and
Non-executive Director**

Mr. Au, aged 70, has been the Chairman and Non-executive Director of the Manager since 2010. Mr. Au was an executive director and the Chief Financial Officer of HLD from December 2005 to June 2011. In July 2011, he stepped down from the position of Chief Financial Officer and was re-designated as a non-executive director of HLD. Further, he was re-designated in December 2012 as an independent non-executive director of HLD until his retirement in June 2015. With effect from 1 July 2015, Mr. Au was appointed as an independent non-executive director of Henderson Investment Limited ("**HIL**") (a subsidiary of HLD). Mr. Au is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited ("**HK Ferry**") and Miramar Hotel and Investment Company, Limited ("**Miramar Hotel**") (both associated companies of HLD) and an independent non-executive director of The Wharf (Holdings) Limited ("**Wharf**"). Shares in HLD, HIL, HK Ferry, Miramar Hotel and Wharf are listed on the Main Board of the Stock Exchange. Mr. Au is also a member of the Finance Committee of The Independent Schools Foundation Limited.

A banker by profession, Mr. Au was the Chief Executive Officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. He was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited; and an independent non-executive director of Wheelock and Company Limited, the listed holding company of Wharf. An accountant by training, Mr. Au is a fellow of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.



Mr. WU Shiu Kee, Keith

BS, MS, FHKIoD

**Chief Executive Officer and
Executive Director**

Mr. Wu, aged 53, is the Chief Executive Officer, Executive Director and a responsible officer of the Manager. He has almost 30 years of experience in the property, corporate finance, asset management and research related fields. He joined the Manager in April 2006.

From 1997 to 2005, Mr. Wu was an executive director of Lai Sun Development Company Limited, where he was primarily responsible for overseeing corporate finance related matters of the group. Prior to this appointment, Mr. Wu worked in the investment banking field and held senior research and asset management positions with several international financial institutions in Hong Kong.

Mr. Wu holds a Master of Science degree in Engineering-Economic Systems (since renamed Management Science and Engineering) from Stanford University in the United States and a Bachelor of Science degree in Economics and Statistics (High Distinction) from the University of Toronto in Canada. He is a fellow of The Hong Kong Institute of Directors.



Mr. KWOK Ping Ho

BSc, MSc, Post-Graduate Diploma in Surveying, ACIB

Non-executive Director

Mr. Kwok, aged 64, has been an executive director of HLD since December 1993.

Mr. Kwok, holds a Master of Science degree in Administrative Sciences from the City University Graduate Business School, London, a Post-Graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London. He is also an associate of The Chartered Institute of Bankers of the United Kingdom and had previously been a part-time lecturer for the MBA programme of The University of Hong Kong. In 2012, Mr. Kwok was appointed as an Honorary Professor of the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong.

Mr. Kwok, has over 30 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury and project management activities of the HLD group of companies since 1987, including group re-organization, privatization proposals and corporate acquisitions.



Mr. KWAN Kai Cheong

BAcc, FCA (Aust.), FCPA, FHKIoD

Independent Non-executive Director

Mr. Kwan, aged 67, is presently the President of Morrison & Company Limited, a business consultancy firm. He is also the Chairman of the board of Utopa Limited, a commercial property operating company in the People's Republic of China. He is a non-executive director of China Properties Group Limited and an independent non-executive director of Panda Green Energy Group Limited (formerly known as United Photovoltaics Group Limited), Win Hanverky Holdings Limited, Greenland Hong Kong Holdings Limited, Dynagreen Environmental Protection Group Co., Limited and CK Life Sciences Int'l., (Holdings) Inc. (all being companies listed on the Main Board of the Stock Exchange). He is also an independent non-executive director of both HK Electric Investments Manager Limited and HK Electric Investments Limited. HK Electric Investments Manager Limited is the trustee-manager of HK Electric Investments, which is a trust the units of which together with the shares of HK Electric Investments Limited are listed on the Stock Exchange as share stapled units.

Mr. Kwan holds a Bachelor of Accountancy (Honours) degree from the University of Singapore (since renamed National University of Singapore). He is also a fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. He completed the Stanford Executive Program in 1992.

Board of Directors and Senior Management



Mr. MA Kwong Wing

FHKIoD, FHKSI, FCCA, FCIS, FCS, CPA, ACIB, AHKIB

Independent Non-executive Director

Mr. Ma, aged 71, served with Hang Seng Bank Limited for over 30 years in various business areas and functions (including compliance) prior to his retirement in October 2005. He was appointed as the Company Secretary of Hang Seng Bank Limited in 1988 and Assistant General Manager (while remaining as Company Secretary) in January 1993. In September 2013, Mr. Ma was appointed as an independent non-executive director of Panda Green Energy Group Limited (formerly known as United Photovoltaics Group Limited), a company listed on the Main Board of the Stock Exchange.

Mr. Ma is a fellow of The Hong Kong Institute of Directors, the Hong Kong Securities and Investment Institute, the Association of Chartered Certified Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate of The Chartered Institute of Bankers and The Hong Kong Institute of Bankers.



Dr. TSE Kwok Sang

BSc, MBA, MSc, PhD, ASA, MHKIoD, JP
Independent Non-executive Director

Dr. Tse, aged 60, is currently Associate Professor of Finance, School of Economics and Finance of The University of Hong Kong.

Dr. Tse has published widely on the subject of real estate finance and economics, financial regulations and capital markets and investments. He is also a member of the CFP Examination Committee. Currently Dr. Tse is a Co-opted Councillor of the New Territories Heung Yee Kuk and a Justice of the Peace. He is also an independent non-executive director of Wing Lee Property Investments Limited and Addchance Holdings Limited, both are companies listed on the Main Board of the Stock Exchange.

Dr. Tse holds a Ph.D. in Finance from Michigan State University in the United States. He is an associate of the Society of Actuaries and a member of The Hong Kong Institute of Directors.



Mr. KWOK Tun Ho, Chester

BA, FHKIoD

Independent Non-executive Director

Mr. Kwok, aged 53, holds a Bachelor of Arts degree from the University of Cambridge. He joined the banking industry in 1989 and has over 25 years of experience in corporate finance and investment and commercial banking in Hong Kong and in Asia. Prior to his retirement from the banking business in October 2015, he had held senior positions in a number of international financial institutions, including Credit Suisse and Standard Chartered Bank. Mr. Kwok is currently a member of the Process Review Panel for the SFC and a fellow of The Hong Kong Institute of Directors.

Senior Management



From left to right

Mr. HAH Yick Yat, Kelvin, Ms. CHUNG Siu Wah, Ms. HO Kuk Fong, Mr. WONG Chi Ming, Mr. WU Shiu Kee, Keith, Ms. LO Yuk Fong, Phyllis, Mr. LEE Kiu Ming, Mr. HONG Kam Kit, Eddie, Ms. KAN Shuk Fan, Winnie, Mr. POON Hung Tak

Mr. WU Shiu Kee, Keith

Chief Executive Officer, Executive Director and Responsible Officer

Mr. Wu is responsible for the implementation of the strategy and objectives as set by the Board, ensuring that Sunlight REIT is operating in accordance with the stated strategies, policies and regulations. In addition, he takes charge of the day-to-day management and operations of the Manager.

Details of his experience are set out in “Board of Directors” on page 46.

Mr. WONG Chi Ming

General Manager – Asset Management and Responsible Officer

Mr. Wong is responsible for, among other matters, driving the operating performance of Sunlight REIT’s property portfolio, planning and developing asset enhancement strategies for recommendation to the Chief Executive Officer and to the Board, and directing the development and implementation of marketing strategies and business development plans for Sunlight REIT.

Mr. Wong has over 25 years of experience in the leasing and property management fields. Between 2006 and April 2010, Mr. Wong was the Chief Leasing Administration Manager of the Property Manager. Prior to joining the Property Manager, Mr. Wong was a leasing manager of HLD from 2005 to 2006. He also previously worked for Hang Lung Properties Limited from 1990 to 2005 and was its property manager from 1994 to 2005.

Mr. Wong holds a Bachelor of Engineering degree from The University of Hong Kong and a Master of Corporate Governance degree from the Open University of Hong Kong. He is a holder of Hong Kong Estate Agent’s Licence (Individual).

Board of Directors and Senior Management

Ms. LO Yuk Fong, Phyllis

Chief Financial Officer and Responsible Officer

Ms. Lo is principally responsible for supervising the overall financial management of Sunlight REIT, including but not limited to financial reporting, taxation and cash flow management, monitoring of capital expenditure, reviewing of and making recommendation on financing matters and budget preparation. In March 2017, she was appointed as a director of certain special purpose vehicles of Sunlight REIT which are principally engaged in property investment, finance and treasury functions.

Ms. Lo has over 25 years of experience in financial management and company secretarial functions. Prior to joining the Manager, Ms. Lo was the Chief Financial Officer of a media company previously listed in Singapore.

Ms. Lo holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. She is an associate of the Institute of Chartered Accountants in England & Wales and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. HONG Kam Kit, Eddie

General Manager – Investment and Investor Relations and Responsible Officer

Mr. Hong joined the Manager in February 2017. He is responsible for communication with unitholders, investors and other key stakeholders of Sunlight REIT, as well as for identifying and evaluating potential acquisition or divestment opportunities consistent with the investment strategy of Sunlight REIT.

Mr. Hong has over 20 years of experience in real estate investment, fund management and accounting. Prior to joining the Manager, he held senior positions with various real estate investment funds including Bridgeway Prime Shop Fund Management Limited and New Century Asset Management Limited, the manager of New Century Real Estate Investment Trust.

Mr. Hong holds a Master of Business Law degree from Monash University and a Bachelor of Economics degree from Macquarie University. He is a Chartered Financial Analyst and a Certified Practising Accountant of CPA Australia.

Mr. HAH Yick Yat, Kelvin

Corporate Services Manager

Mr. Hah is responsible for, among other matters, human resources management, procurement and office administration, supporting the Manager's core asset management and investment management functions through the provision of ancillary back-office services and ensuring the optimal efficiency and operation of the information technology systems.

Mr. Hah has over 15 years of experience in the finance and administration areas; in particular, he was the Finance and Administration Officer of Eastar Technology Limited, a subsidiary of Henderson Cyber Limited between 2000 and 2003.

Mr. Hah holds a Master of Science degree in Financial Management from the University of London, a Professional Diploma in Marketing from the University of California, Berkeley, in the United States and a Bachelor of Arts degree in Economics from the University of British Columbia in Canada.

Ms. CHUNG Siu Wah

Compliance Manager and Company Secretary

Ms. Chung is responsible for, among other things, design and implementation of adequate internal systems and controls so as to ensure that both Sunlight REIT and the Manager are in compliance with the relevant statutory requirements and all other applicable laws, rules and regulations.

In addition to her role as Compliance Manager, Ms. Chung has also served as the Company Secretary of the Manager since November 2011. Ms. Chung has nearly 25 years of experience in the company secretarial field. Prior to joining the Manager, she was the Assistant Company Secretary of Hopewell Holdings Limited.

Ms. Chung holds a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. She is an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Ms. KAN Shuk Fan, Winnie

Internal Auditor

Ms. Kan is responsible for, among other things, reviewing the Manager's internal control system and reporting to the Board through the Audit Committee periodically.

Ms. Kan has over 20 years of experience in the audit and finance field. Prior to joining the Manager, she was a senior internal auditor of the Airport Authority Hong Kong.

Ms. Kan holds a Master of Business Administration degree from The University of Manchester, a Bachelor of Laws (Honours) degree from the Manchester Metropolitan University and a Bachelor of Arts (Honours) degree in Accountancy from the City University of Hong Kong. She is also a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Kan is a Certified Internal Auditor and a Certified Information Systems Auditor awarded by The Institute of Internal Auditors and the Information Systems Audit and Control Association (ISACA) respectively. She is also a Certified Fraud Examiner awarded by Association of Certified Fraud Examiners.

Mr. LEE Kiu Ming

General Manager

Mr. Lee is responsible for formulating and implementing business plans and strategies and business development of the Property Manager. Mr. Lee has over 25 years of marketing, leasing and property management experience in the property field in Hong Kong. Prior to joining the Property Manager, he was a leasing manager in the Portfolio Leasing Department of HLD.

Mr. Lee holds a Bachelor of Social Science degree from The Chinese University of Hong Kong and a Bachelor of Science degree (Estate Management) from the University of Reading in the United Kingdom. He is a holder of Hong Kong Estate Agent's Licence (Individual).

Mr. POON Hung Tak

Deputy General Manager – Property Management

Mr. Poon works with the General Manager to oversee the building operations of the Property Manager.

Mr. Poon has nearly 30 years of experience in property management. Prior to joining the Property Manager, he was employed as Estate Manager in the Portfolio Leasing Department of HLD.

Mr. Poon holds a Master of Business Administration in Construction and Real Estate degree from the University of Reading in the United Kingdom, a Bachelor of Arts degree from The University of Hong Kong and a Professional Diploma in Real Estate Administration from the School of Professional and Continuing Education of The University of Hong Kong. He is also a professional member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors.

Ms. HO Kuk Fong

Assistant General Manager – Leasing

Ms. Ho works with the General Manager to oversee the marketing and leasing administration of the Property Manager.

Ms. Ho has over 20 years of experience in property leasing. Prior to joining the Property Manager, she was the Senior Leasing Manager of Sun Hung Kai Real Estate Agency Limited.

Ms. Ho holds a Master of Science in Real Estate degree from the University of Hong Kong, a Postgraduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Diploma in Property Development from the School of Professional and Continuing Education of the University of Hong Kong. She is a holder of Hong Kong Estate Agent's Licence (Individual).

Corporate Governance Report

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.

The key components of the corporate governance policies are set out below.

Checks and Balances

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorized 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 REIT Code. The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management, and it satisfies the compliance requirements under section 125 of the SFO and paragraph 5.4 of the REIT Code by currently having five responsible officers in place. They are namely Mr. Wu Shiu Kee, Keith, Mr. Wong Chi Ming, Ms. Lo Yuk Fong, Phyllis, Mr. Hong Kam Kit, Eddie and Ms. Shum Chung Wah, Yulanda.

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 authorized under the SFO.

Role of the Trustee and the Manager

The Trustee is responsible for, among other things, the safe custody of the assets of Sunlight REIT on behalf of the unitholders as well as overseeing the activities of the Manager to ensure compliance with the Trust Deed and regulatory requirements applicable to Sunlight REIT.

The Manager is to manage and operate Sunlight REIT and to ensure that the financial and economic aspects of Sunlight REIT’s assets are professionally managed in the sole interest of unitholders. The Trustee and the Manager are independent of each other.

The Board and delegations

The Board principally oversees the day-to-day management and corporate governance of the Manager. The Board and management functions are largely separated; subject to certain matters specifically reserved to the Board itself, the day-to-day management duties are delegated to the management team of the Manager. Meanwhile, 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.

The Board takes the role to lead and map out the corporate strategy and direction of Sunlight REIT. It 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 (“**INED**”).

All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with its articles of association. The positions of 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.

As required by the Compliance Manual, at least one-third (and with a minimum of three) of the Board shall be INEDs, and at least one of the INEDs possesses appropriate professional qualifications or accounting or related financial management expertise. The INEDs are responsible for ensuring that there is a strong independent element on the Board, and for effectively exercising independent judgment with regards to implementation of the overall corporate strategy and direction of Sunlight REIT, as well as certain specific proposed policies and transactions. In assessing the independence of a Director, the Board takes into account the factors set out in the corporate governance policy as contained in the Compliance Manual, and each INED is required to provide to the Manager an annual

written confirmation of his independence by reference to such factors. Further re-appointment of an INED who has served the Board for more than nine years shall be subject to a separate resolution to be approved by the unitholders. Such approval should be sought as soon as possible and no later than the annual general meeting immediately following the ninth anniversary of the INED's appointment. The Board shall provide the unitholders in the relevant circular with the reasons as to why it believes such INED continues to be independent and should be re-appointed.

The Board has adopted a board diversity policy with a view to achieving diversity of the Board and promoting the effectiveness of the Board as a whole. The size, composition and structure of the Board are reviewed on a regular basis with due consideration on different aspects of diversity including but not limited to age, cultural and educational background, gender, knowledge, length of service, professional experience and skills. The ongoing review of the Board's composition and recommendations on the appointment and re-appointment of Directors are matters within the terms of reference of the Remuneration and Nomination Committee. No measurable objectives have been set on board diversity.

Except for the re-appointment of INEDs as elaborated above, the appointment and removal of Directors is a matter for the Board and the shareholders of the Manager to determine in accordance with the provisions of the Compliance Manual, the articles of association of the Manager and the applicable law.

The Board meets on a regular basis and generally no less than four times in each financial year at approximately quarterly intervals. Directors are given written notices in advance of the regular board meetings, with arrangements in place to allow Directors to raise items in the agenda. Agenda and accompanying board papers are circulated before the scheduled date of a Board meeting. Board consents are given by votes at Board meetings, and written resolutions are signed by all Directors. Board process is further facilitated by the use of telephone conferences in cases where urgent decisions are required before the next regular Board meeting or where certain Director(s) is/are out of town.

The Board has delegated certain functions to four board committees, namely the Audit Committee, the Investment Committee, the Remuneration and Nomination Committee and the Disclosures Committee to deal with specific issues which require extensive discussion.

Membership, Directors' attendance to meetings and major responsibilities of and key work performed by the Board and each of the board committees during the Year are summarized on pages 54 and 55.

Since the publication of the last interim report, the Manager was informed by Mr. Kwan Kai Cheong that he has been appointed as the Chairman of the board of Utopa Limited, a commercial property operating company in the People's Republic of China.

Save as aforesaid, the Manager has not been notified of any change in Director's information.

Management functions of the Manager are delegated to six departments. Apart from regular communications among various departments, management meetings are held periodically to coordinate and facilitate the implementation and operation of different management and business functions. The management structure of the Manager is illustrated in the chart on page 56.

Pursuant to the Trust Deed, the Manager has the right to delegate to any person the performance of any act or the exercise of any power to manage and administer the assets of Sunlight REIT. In this regard, the Manager has appointed the Property Manager to provide property management, lease management and marketing services solely and exclusively for all the properties of Sunlight REIT located in Hong Kong, subject to the overall management and supervision of the Manager. A property management agreement (the "**Property Management Agreement**") was 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. The current term of appointment of the Property Manager is for a period of three years up to and including 30 June 2018.

The biographical details of the members of the Board and the senior management of the Manager and the Property Manager are set out under "Board of Directors and Senior Management" on pages 46 to 51.

During the Year, the Directors participated in various continuous professional training seminars and/or programmes to develop and refresh their knowledge and skills. The Directors have provided their training records to the Compliance Department on a yearly basis. The costs of such training activities, if applicable, were borne by the Manager.

Corporate Governance Report

Membership, attendance to meetings and major responsibilities of and key work performed by the Board and board committees during the Year are summarized below :

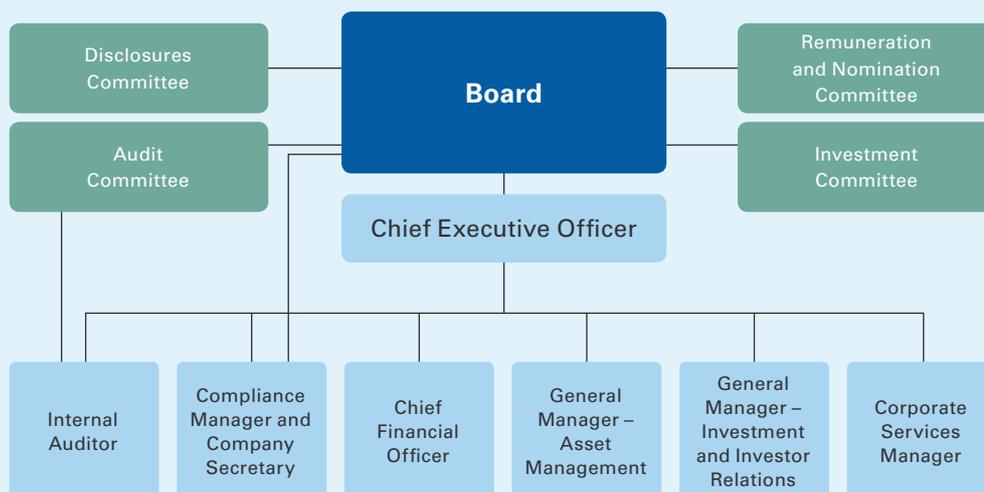
| | Board of Directors | Audit Committee |
|--|---|---|
| Membership and attendance to meetings (No. of meetings attended/No. of meetings eligible to attend) | | |
| Mr. Au Siu Kee, Alexander | Chairman and Non-executive Director (6/6) | N/A |
| Mr. Wu Shiu Kee, Keith | Chief Executive Officer and Executive Director (6/6) ^{Note} | N/A |
| Mr. Kwok Ping Ho | Non-executive Director (6/6) | N/A |
| Mr. Kwan Kai Cheong | Independent Non-executive Director (6/6) | Chairman (4/4) |
| Mr. Ma Kwong Wing | Independent Non-executive Director (6/6) | Member (4/4) |
| Dr. Tse Kwok Sang | Independent Non-executive Director (6/6) | Member (4/4) |
| Mr. Kwok Tun Ho, Chester | Independent Non-executive Director (6/6) | Member (4/4) |
| Major responsibilities | | |
| | <ul style="list-style-type: none"> – leads and guides the corporate strategy and direction of Sunlight REIT – oversees the day-to-day management and corporate governance of the Manager | <ul style="list-style-type: none"> – reviews the completeness, accuracy, clarity and fairness of financial statements of Sunlight REIT – monitors and appraises the risk management and internal control systems and assesses their effectiveness – reviews and monitors connected party transactions and related party transactions – appoints auditor of Sunlight REIT and recommends its remuneration to the Board – reviews Sunlight REIT's compliance with legal and regulatory requirements – reviews the adequacy of resources, qualifications and experience of staff in relation to the accounting, internal audit and financial reporting functions, and their training programmes and budgets – oversees internal control structure and financial reporting procedure of Sunlight REIT – reviews the conduct and performance of special purpose vehicles of Sunlight REIT – reviews the disclosure of Property Development and Related Activities (as defined in the REIT Code) and Relevant Investments in annual and interim reports of Sunlight REIT |
| Summary of key work | | |
| During the Year, the Board and its committees considered, approved, reviewed and/or formulated the matters summarized herein : | <ul style="list-style-type: none"> – financial results of Sunlight REIT and the Manager – reports and recommendations from board committees – announcements/reports, including release of quarterly operational statistics and interim and annual reports of Sunlight REIT – annual operating and CAPEX budget of Sunlight REIT – update of the contingency plan – election of percentage of the Manager's base fee and variable fee to be paid in cash and/or units – execution of IRS and basis swaps – consolidated risk parameters and risk appetite statement of Sunlight REIT – revision of the authorization policy – refinancing of banking facilities of Sunlight REIT – engagement of consulting firm on risk assessment of cyber security of Sunlight REIT – appointment of an additional director to special purpose vehicles of Sunlight REIT – adoption of inside information policy | <ul style="list-style-type: none"> – internal audit reports – financial results of Sunlight REIT – adequacy of resources, qualifications and experience of staff in relation to accounting, internal audit and financial reporting functions, and their training programmes and budgets – risk management and internal control systems – re-appointment of auditor and auditor's reports – update of the contingency plan – connected party transactions of Sunlight REIT and the relevant guidelines – risk factors affecting Sunlight REIT – disclosure of Relevant Investments in annual and interim reports of Sunlight REIT |

N/A : Not applicable as the Director is not a member of the committee

Note : Mr. Wu Shiu Kee, Keith was excused from participating in the discussion of a Board meeting relating to his remuneration.

| Investment Committee | | Remuneration and Nomination Committee | | Disclosures Committee | |
|---|-------|--|-------|---|-------|
| Chairman | (4/4) | Chairman | (2/2) | N/A | |
| Member | (4/4) | N/A | | Chairman | (2/2) |
| N/A | | N/A | | N/A | |
| N/A | | Member | (2/2) | N/A | |
| N/A | | Member | (2/2) | Member | (2/2) |
| Member | (4/4) | N/A | | N/A | |
| Member | (4/4) | N/A | | N/A | |
| <ul style="list-style-type: none"> – oversees the investment strategy of and proposals to Sunlight REIT, including budget review, acquisition and disposal of properties, and asset enhancement proposals – ensures the establishment and functioning of internal controls for investment and financial matters – ensures compliance with investment objectives, policies and restrictions as contained in the REIT Code and the Trust Deed | | <ul style="list-style-type: none"> – oversees the human resources strategy and policies – identifies and recommends candidates of board members to the Board – evaluates the performance of the Board and its members – reviews the terms and conditions of employment of senior executives and the members of the Board | | <ul style="list-style-type: none"> – reviews matters relating to the disclosure of information to unitholders and in public announcements – ensures compliance with applicable legal requirements and the continuity, accuracy, clarity and completeness of information disseminated to the public and applicable regulatory authorities | |
| <ul style="list-style-type: none"> – financial results of Sunlight REIT – annual business plan and CAPEX budget of Sunlight REIT – derivative positions and risk assessment in respect of derivative instruments – services of financial service providers – investment restrictions under the REIT Code and the Trust Deed – potential disposal/acquisition of properties – update on loan market and possibility of issuing bond – risk factors affecting Sunlight REIT – execution of IRS and basis swaps – revision of cash management policy | | <ul style="list-style-type: none"> – staff performance appraisal – staff budget and policy on staff benefits – Board structure and diversity, performance of the Board and committee members | | <ul style="list-style-type: none"> – public regulatory filings and other documents filed with the applicable regulatory authorities – announcements and reports including interim and annual reports of Sunlight REIT and other corporate communications to unitholders – applicability of amendments to applicable ordinance – inside information policy | |

Management structure of the Manager



Reporting and Transparency

Interest of, and dealings in units by, Directors, the Manager or the substantial unitholders

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.

Pursuant to the Dealings Code, any Director who wishes to deal in any securities of Sunlight REIT must first have regard to the provisions of the SFO with respect to, among other things, insider dealing and market misconduct, as if those provisions of the SFO applied to any securities of Sunlight REIT.

A practical guidance note on the operation of the Dealings Code, setting out additional information and procedures for seeking clearance under the Dealings Code, is in place and it applies to the Directors and staff of the Manager and the Manager itself.

The Manager has also adopted procedures in monitoring disclosure of interests by the Directors and by the Manager itself. The provisions of Part XV of the SFO are deemed to apply to the Manager and the Directors, and also indirectly cover unitholders and persons claiming through or under him/her.

Any Director who is aware of or privy to any inside information or any negotiations or agreements relating to intended acquisitions or disposals by Sunlight REIT which are either notifiable transactions under Chapter 14 of the Listing Rules (as if such rules were applicable to Sunlight REIT) or connected party transactions under the REIT Code or is in possession of any inside information must immediately refrain from dealing in any securities of Sunlight REIT until (i) proper disclosure of the information has been made in accordance with the REIT Code and any applicable provisions of the Listing Rules; or (ii) the aforesaid negotiations or agreements related to such intended acquisitions or disposals have lapsed. Any Director who is privy to relevant negotiations or agreements or any inside information should caution those Directors who are not that there may be unpublished inside information and that they must not deal in any securities of Sunlight REIT for a similar period.

In general, Directors must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of themselves or others.

Under the Trust Deed and the deemed application of Part XV of the SFO to Sunlight REIT, unitholders with a holding of 5% or more of the units in issue, or the Manager and Directors with an interest in the units in issue, have a notifiable interest and are required to notify the Stock Exchange and the Manager of their holdings in Sunlight REIT. The Manager is under a duty to keep a register of interests pursuant to the notifications, and the said register is available for inspection by unitholders without charge during normal business hours. Please refer to “Disclosure of Interests” on pages 69 to 71 for information relating to holdings of Directors, the Manager and the substantial unitholders at 30 June 2017.

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

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD. One of the Non-executive Directors of the Manager is an executive director of HLD. The Chairman of the Manager is an independent non-executive director of HIL, a listed subsidiary of HLD. Each of 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.

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.

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) leasing agency services provided by the Principal Valuer 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, including but not limited to the following :

1. the Manager will not manage any REIT other than Sunlight REIT nor manage any other real estate assets other than those owned by Sunlight REIT;
2. the Manager has its own functional units and systems and operates independently from its shareholders;
3. the Manager has established internal control systems to ensure that connected party transactions between Sunlight REIT and its connected persons are monitored and undertaken on terms in compliance with the REIT Code and that other situations of potential conflicts of interests that may arise are monitored;
4. a Director with a conflict of interests shall disclose his interest to the Board and abstain from voting on the relevant matter and not be counted in the quorum at which any resolution in relation to that item is proposed;
5. a register of other directorships, and senior positions (which may give rise to conflict of interests), held by the Directors is maintained and updated from time to time; and
6. confirmation from the Principal Valuer that (i) it has established stringent internal controls and guidelines to its staff with respect to confidentiality and conflict of interest obligations, and (ii) the provision of leasing agency services would neither affect its performance nor jeopardize its independence as the Principal Valuer.

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 its unitholders.

Financial statements

Financial statements of Sunlight REIT are prepared in accordance with accounting principles generally accepted in Hong Kong with a financial year end of 30 June and a financial half-year end of 31 December. In accordance with the REIT Code, the annual reports and financial statements of Sunlight REIT are published and distributed to unitholders within four months following the end of each financial year, and for semi-annual reports within two months following the end of the relevant period.

Corporate Governance Report

The Directors acknowledge their responsibility for the preparation of financial statements of Sunlight REIT and its subsidiaries for the Year, which give a true and fair view of the state of affairs of Sunlight REIT and its subsidiaries at 30 June 2017 and of their results and cash flows for the year then ended and are properly prepared in accordance with the statutory requirements and applicable accounting standards.

Results announcements

Pursuant to the requirements under the REIT Code, results announcements of Sunlight REIT are released on a semi-annual basis.

It is customary for the Manager to conduct briefings with unitholders, investors, analysts and the press immediately following the release of results announcements. Such information, including the relevant presentation materials and announcements, is made available to the public through Sunlight REIT's website.

Other announcements

To keep unitholders abreast of the position of Sunlight REIT, public announcements of material information and developments with respect to Sunlight REIT are made by the Manager in a timely and transparent manner in accordance with the applicable regulatory requirements. Subsequent briefings with analysts and the press may also be convened by the Manager if necessary.

Auditor

The Manager has engaged KPMG as the auditor for Sunlight REIT. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its terms of reference, considers all audit and non-audit services to be provided by KPMG. Fees payable to the auditor of Sunlight REIT during the Year amounted to HK\$1,875,000 for audit and audit related services and HK\$458,000 for non-audit services respectively.

The responsibilities of the auditor with respect to financial reporting are set out in "Independent Auditor's Report" on page 89.

Accountability and Communication

Investor relations

The Manager is committed to providing an open and effective communication platform, ensuring that unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT; it also believes that feedback and comments from the investment community are necessary in assisting the Board to map out the strategic direction of Sunlight REIT.

The Manager has set up an investor relations team which utilizes a variety of interactive means to engage and maintain dialogues with investors and analysts.

To the extent possible under the current regulatory framework, communications with investors are conducted through :

1. direct communication including physical meetings conducted with senior management of the Manager, both locally and overseas;
2. guided property tours organized by the Manager and the Property Manager;
3. provision of communication materials; and
4. announcements and press releases posted on Sunlight REIT's website, including disclosures made pursuant to regulatory requirements or on a voluntary basis.

Other than annual and interim results announcements, the Manager also voluntarily releases the operational statistics of Sunlight REIT twice every year.

Promotional expenses

Pursuant to the waiver granted by the SFC on 27 April 2009 from strict compliance with paragraph 9.13(b) of the REIT Code, certain expenses of advertising or promotional activities are allowed to be paid out of the deposited property of Sunlight REIT. A further waiver was granted by the SFC on 30 April 2012 to expand the scope of such expenses to include the fees, costs and expenses incurred in relation to any fund raising exercise, any assets or otherwise in connection with Sunlight REIT, and the expenses are collectively referred to as the "**Promotional Expenses**".

During the Year, the Promotional Expenses incurred were HK\$464,000. Pursuant to the conditions of the said waivers and having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee has confirmed that such Promotional Expenses were incurred in accordance with the internal control procedures of the Manager, and solely for the purposes as set out in the relevant clauses of the Trust Deed relating to Promotional Expenses.

Unitholders' rights

Unitholders are encouraged to attend general meetings of Sunlight REIT. In accordance with the Trust Deed, at least ten business days' notice of every meeting shall be given to the unitholders, except that at least twenty-one days' notice of the meeting shall be given to the unitholders where a special resolution is proposed for consideration at such meeting; and not less than twenty business days' notice shall be given to the unitholders for an annual general meeting. The notice will specify the place, date and hour of the meeting and the terms of any resolution to be proposed thereat.

As required by the Trust Deed, any resolution put to the meeting shall be decided on a poll, except where the chairman of the meeting may, in good faith, exercise his/her discretion to allow a resolution which relates purely to a procedural or administrative matter to be decided on a show of hands. The voting results at the meeting shall be published by way of an announcement.

The Trustee or the Manager may at any time convene a meeting of unitholders. Pursuant to the Trust Deed, not less than two unitholders registered as together holding not less than 10% of the outstanding units in issue for the time being are entitled to request the Manager in writing to convene a meeting of unitholders. In addition, unitholders may direct their enquiries to the Board to the investor relations team of the Manager by email or to the registered office of the Manager by post. Please refer to "Corporate Information" on page 143 for contact details.

Annual general meeting

The convening of an annual general meeting is one of the principal communication channels with unitholders. It provides an opportunity for unitholders to obtain a better understanding of and, if necessary, to enquire the Board about Sunlight REIT's operating performance. Details of the resolutions put for voting at annual general meeting are set out in the notice and the announcement on the poll vote results is posted on the websites of Sunlight REIT and the Stock Exchange accordingly.

The 2016 annual general meeting of Sunlight REIT was held on 24 October 2016 and attended by all Directors and the auditor. An ordinary resolution in relation to the granting of a general mandate to the Manager to buy back units (on-market) on behalf of Sunlight REIT was passed at the annual general meeting.

Matters to be decided by unitholders by special resolution

A meeting of unitholders when convened may, by way of a special resolution and in accordance with the Trust Deed, approve, among others, the following matters :

- any modification, variation, alteration or addition to the Trust Deed which shall be agreed by the Trustee and the Manager as provided in the Trust Deed (save for issues that are necessary to comply with applicable regulatory requirements);
- removal of the Trustee;
- disposal of an investment within two years from the date of its acquisition;
- termination or merger of Sunlight REIT in compliance with applicable provisions of the Codes on Takeovers and Mergers and Share Buy-backs;
- any changes in the investment policy and objective of Sunlight REIT; and
- any increase in the maximum remuneration (other than any additional fee as allowed under the Trust Deed) or any change to the structure of the remuneration of the Trustee or the Manager.

Issues of further units post-listing

Further issue of units in Sunlight REIT is subject to compliance with the pre-emption provisions contained in the REIT Code. Such provisions generally require that, unless the REIT Code otherwise permits, further issues of units shall be offered on a pro rata basis to existing unitholders. If new units are not offered on a pro rata basis, the approval of unitholders by way of an ordinary resolution is required unless the aggregate number of new units issued during the financial year does not increase the total number of units in issue at the end of the previous financial year by more than 20%.

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.

Corporate Governance Report

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 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.

Relevant Investments

The full investment portfolio of Relevant Investments of Sunlight REIT at 30 June 2017 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 ² | Credit rating |
|---|------|--------------------|----------|-----------------------|---------------------------------|--|-------------------------------------|
| BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited | Bond | Singapore Exchange | USD | 21,623 | 21,284 | 0.12 | S&P A- ¹ Moody's Baa3 |
| ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited | Bond | Singapore Exchange | USD | 20,911 | 20,844 | 0.12 | S&P A- Moody's Baa2 |
| CHITRA 3 7/8 11/03/19 King Power Capital Ltd. | Bond | Hong Kong Exchange | USD | 19,841 | 19,982 | 0.11 | S&P BBB+ Moody's Baa3 |
| Total | | | | 62,375 | 62,110 | 0.35 | |

Notes :

- Standard & Poor's has lowered the rating of this financial instrument from A- to BBB with effect from 10 July 2017.
- The percentages are arrived at by comparing the mark-to-market value of the investments at 30 June 2017 with the gross asset value of Sunlight REIT (as defined below).

At 30 June 2017: (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 6.8% of the gross asset value of Sunlight REIT as stated in the audited consolidated financial statements for the Year contained in this annual report (as adjusted for the final and special distributions declared), 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 the REIT Code) were both nil.

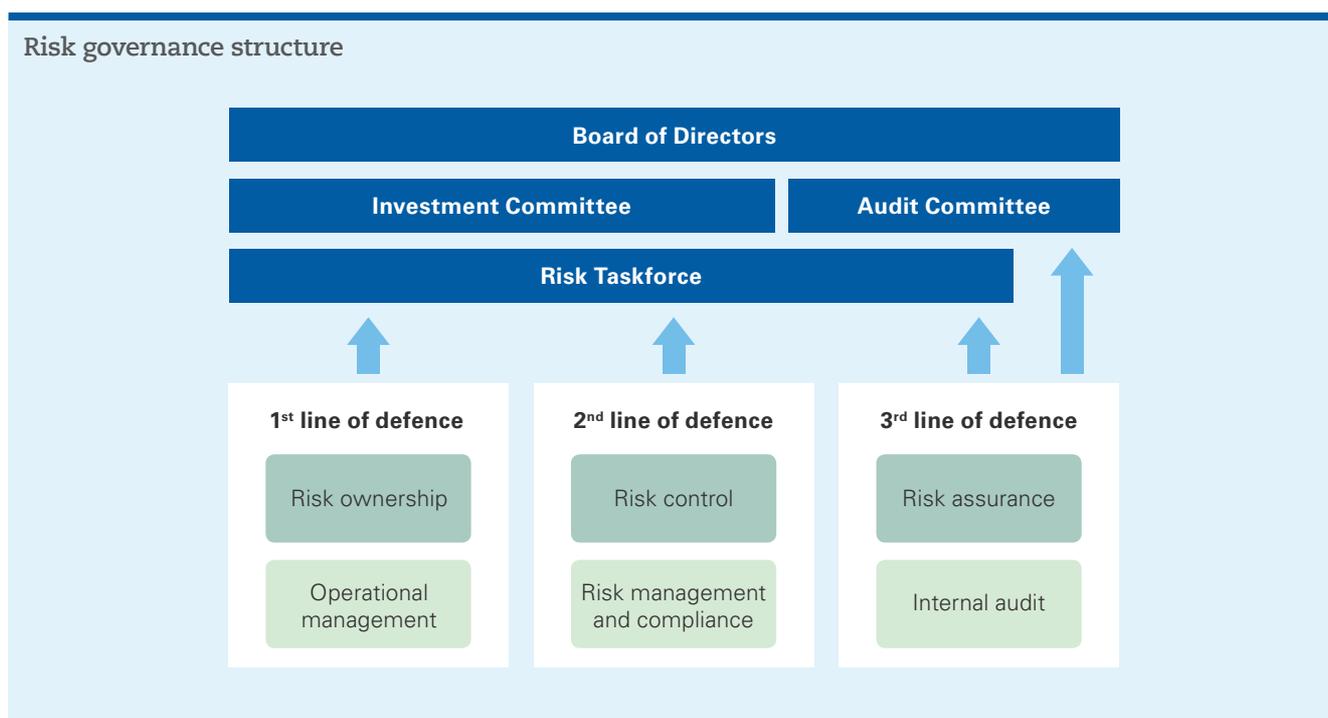
Risk Management and Internal Control

The Board has the overall responsibility for overseeing the risk management and internal control systems of Sunlight REIT on an ongoing basis and for ensuring that these systems are effectively maintained. Our risk management and internal control systems are designed to manage rather than eliminate the risk of failure in the process of attaining business objectives; they are expected to provide reasonable but not absolute assurance against material misstatement or loss.

Risk management

The Manager is keenly aware of the importance of risk management, and is fully committed to building and maintaining a solid risk management framework to ensure business viability and sustainability.

Since the listing of Sunlight REIT, the Board, assisted by the Audit Committee and the Investment Committee, has been responsible for reviewing any risks associated with the management and performance of Sunlight REIT on an ongoing basis. In 2015, an external consultant was commissioned to review and evaluate the effectiveness of the risk management framework (and the internal control function) of Sunlight REIT, after which a revised risk management policy was adopted by the Board. Notably, a risk taskforce (the “**Risk Taskforce**”), comprising the Chief Executive Officer, Chief Financial Officer, Risk Manager (whose role is assumed by the Compliance Manager) and two rotational members nominated by different departments and operating units, has been formally established. Moreover, the Board is required to endorse the risk appetite (or tolerance level) of Sunlight REIT (the “**Risk Appetite**”), being the acceptable level of risk (as categorized by functional units) that Sunlight REIT can take in pursuit of its strategic objectives. The Risk Appetite is reviewed annually after taking into account Sunlight REIT’s strategic business plan and its corporate objectives of delivering sustainable and controlled business growth, and appropriate remedial measures will be introduced if the approved Risk Appetite is breached. The Manager believes that the risk review exercise has further improved the robustness of the risk management framework of Sunlight REIT, while enhancing the risk awareness culture at different levels of its operations.

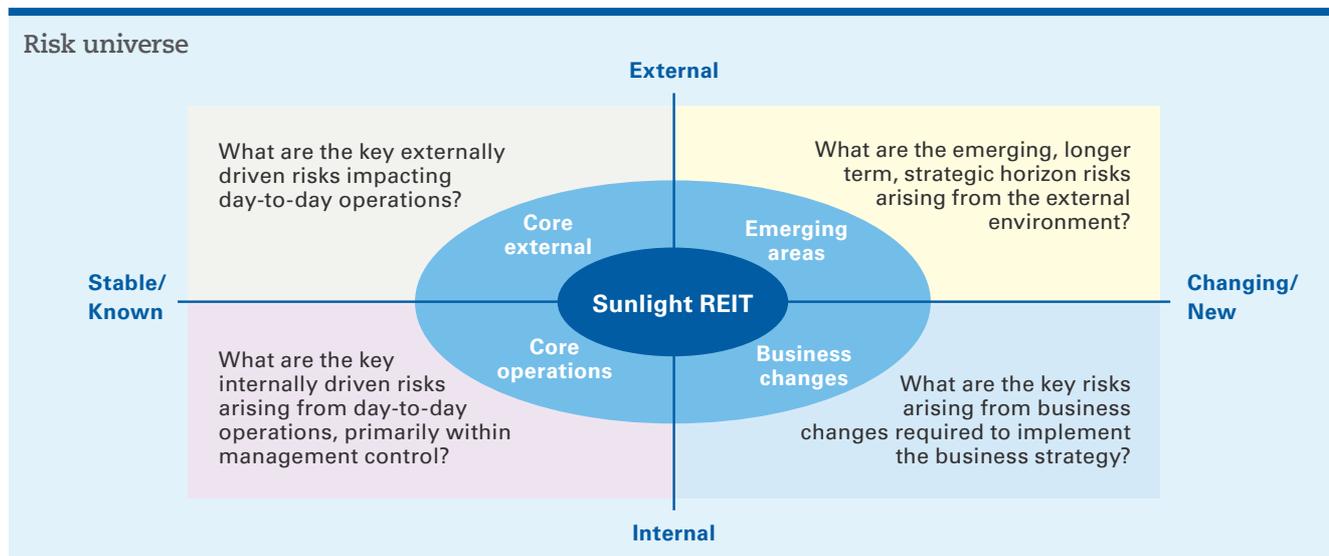


The risk governance structure of Sunlight REIT, as refined in 2015, is primarily based on a ‘Three Lines of Defence’ model illustrated in the diagram above. Each line of defence functions independently, thus establishing a cascaded accountability framework for managing risks across Sunlight REIT.

The first line of defence refers to the identification and management of day-to-day operational risks by various departments and operating units (as risk owners). The second line of defence, performed by the risk management and compliance

Corporate Governance Report

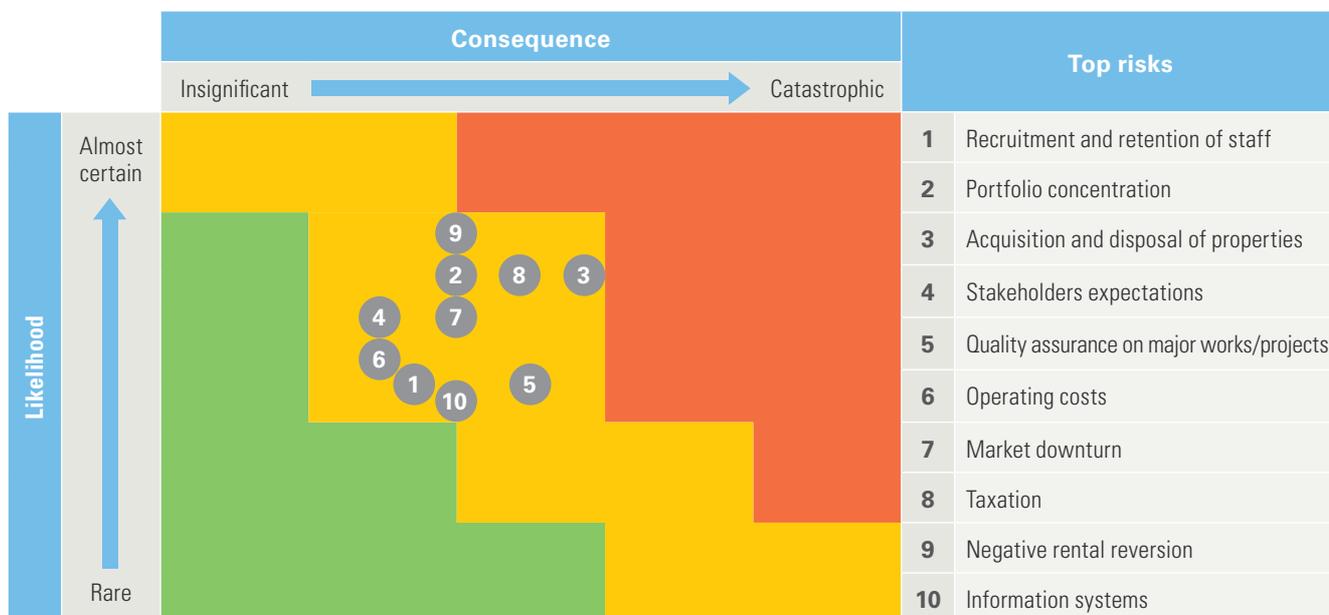
functions, oversees the risk control process and monitors the effectiveness of risk management practices. The Risk Taskforce plays a key role in reviewing, evaluating and prioritizing the various risks relating to the operations of Sunlight REIT provided by the risk owners, and in determining a consolidated list of top risks for Sunlight REIT. A summary of the review and findings will then be presented to the Audit Committee and the Investment Committee, and will be further communicated to the Board for consideration. Lastly, the Internal Audit Department is responsible for the third line of defence by providing assurance to the Board about the effectiveness of (i) the overall compliance with the risk management framework; and (ii) the controls in place in monitoring and mitigating the risk factors being identified by the risk owners.



As illustrated in the diagram above, a risk universe has been created to ensure that the entire spectrum of internal, external, stable and emerging risks are captured. The identified risks are rated in terms of their consequences and likelihood of occurrence.

The top risks of Sunlight REIT (as determined by the Risk Taskforce) are assessed to see whether they are within the Risk Appetite and are plotted in the risk heat map below. During the Year, the Board has reviewed the Risk Appetite statement and is satisfied that Sunlight REIT continued to operate within the risk tolerance level.

Risk heat map



The table below summarizes the top risks of Sunlight REIT.

| Risk description | Nature of risk | Risk controls |
|---|--------------------------|--|
| Recruitment and retention of staff and the disruption to work resulting from vacancies of key management or prolonged leaves of absence | People | <ul style="list-style-type: none"> Benchmarking of remuneration package Proper documentation and update of work flow Establishment of clear career development and training for staff |
| Reliance on major properties of the portfolio for a substantial proportion of income | Financial & investment | <ul style="list-style-type: none"> Maintain a diversified or balanced portfolio of retail and office properties Close monitoring of market conditions Exploration of suitable acquisition opportunities |
| Uncertainties arising during the course of acquisition and disposal of properties | Investment & operational | <ul style="list-style-type: none"> Conduct of due diligence with caution Consideration of feedback from unitholders Review of asset performance when considering disposal and exploring acquisition opportunities |
| Discrepancy between stakeholders expectations and the actual performance or direction of Sunlight REIT | Reputation | <ul style="list-style-type: none"> Enhanced disclosure of information to enable evaluation of the performance of Sunlight REIT Proactive interaction with stakeholders and exchange of views Management of stakeholders expectations by providing more guidance of performance and outlook |
| Quality assurance on major works/projects | Operational | <ul style="list-style-type: none"> Strengthen supervision in works/project management by setting up a project team, with external consultant, if necessary, select reliable and well-established contractors with proven qualifications and relevant experience Identify critical steps and key milestones for work monitoring and verification Arrange mock-up model to assess feasibility & quality Quality check on work completion to ensure satisfaction of project requirements Monitor work quality of completed work during defect liability period |
| Higher costs incurred resulted from more energy consumption due to global climate change | Operational | <ul style="list-style-type: none"> Upgrade or replacement of building service systems with a view to enhancing energy efficiency; replacement of chiller systems in various properties Exploration and implementation of energy-saving initiatives |
| Downturn in the global and local economy which may negatively affect the income of the tenants in the properties of Sunlight REIT | Financial & operational | <ul style="list-style-type: none"> Maintain a balanced portfolio of retail and office properties, with a diversified tenant mix and a variety of trades in the properties Introduction of tenants engaging in more resilient types of trade such as daily necessities Close monitoring of rental performance and its implication on financial covenants |
| Tax implications of a dispute with the Inland Revenue Department over expenditure deductibility | Financial | <ul style="list-style-type: none"> Seek advice from tax consultants and legal counsel and make provision for potential tax liability Keep investors informed of any new development of the issue and any implication on distribution |
| Negative rental reversion due to uncertain economic conditions or an increase in office supply | Financial | <ul style="list-style-type: none"> Early negotiation with existing tenants to secure lease renewal More proactive marketing strategy to attract new tenants Selection of tenants in more promising trades to ensure sustainability |
| Cyber security and information systems | Operational | <ul style="list-style-type: none"> Install anti-virus software and implement protection measures Set up system backup mechanism for data recovery Engage consultants to advise on system security Alert users of suspicious messages and closely monitor newly implemented systems |

Corporate Governance Report

Going forward, the Risk Taskforce has particularly identified two risk groups which will be more closely monitored.

1) Cyber security

With the continuous evolution and advancement of information systems and technology, Sunlight REIT is aware of the ever increasing cyber security threats that may disrupt its day-to-day operations. Having already identified as a top risk of Sunlight REIT, the Manager has in place a set of controls, ranging from basic frequent anti-virus update to comprehensive backing up of data, to ensure the risk is properly managed.

In addition, an information technology consultant has been engaged to conduct a risk assessment on the cyber security environment of Sunlight REIT. The preliminary consultancy report has been issued and its recommendations will be considered and prioritized for execution while the overall result of the cyber security risk assessment will be presented to the Board by the end of 2017.

2) Fraud

Fraud is clearly emerging as a major business risk which requires more attention at the level of the Board and senior management. The Board is committed to maintaining an honest, open and ethical culture within Sunlight REIT and is responsible for ensuring that an effective fraud risk management framework is in place. Meanwhile, heads of departments and operating units are expected to review and, if necessary, tighten the risk identification and control mechanism associated with corruption, asset misappropriation, improper use of information and fraudulent financial reporting, and monitor such risks with relevant controls.

Internal control

With the assistance of the Internal Audit Department, the Board and the Audit Committee oversee the internal control process. The Internal Audit Department conducts independent review of business processes and controls in accordance with its three-year strategic audit plan approved by the Audit Committee. Occasionally, ad-hoc review will also be conducted on areas of concern identified by the Audit Committee and senior management.

Adequate measures have been established by the Board to provide effective internal controls, including a well-defined organizational structure with clear lines of responsibility and limits of authority, a reliable management reporting system and proper budgetary and management accounting control policies.

Through the Audit Committee and the Internal Audit Department, the Board conducted an annual review on the effectiveness of risk management and internal control systems for the Year, covering all material controls such as financial, operational and compliance controls. The review process consisted of (i) independent appraisal of the risk management system by the Internal Audit Department and (ii) operational management's assurance on the effectiveness of the risk management and internal control systems. Department heads are requested to provide annual confirmations to the Board that they have conducted self-assessment on internal controls of their respective departments during the Year and that they were satisfied with the controls in place. The review also encompassed the adequacy of resources, qualifications and experience of staff of Sunlight REIT's accounting, internal audit and financial reporting functions, and their training programmes and budgets.

Based on the findings of the annual review, the Board is satisfied with the risk management and internal control systems currently put in place for Sunlight REIT in terms of effectiveness and adequacy with no significant areas of concerns identified.

Staff of the Manager and the Property Manager are required to strictly adhere to Sunlight REIT's code of conduct, with a view of avoiding conflict of interest, bribery and corruption and reporting any of such incidents to management. In particular, a policy of reporting of irregularities is in place to encourage and guide all staff of the Manager and the Property Manager to raise matters of concern internally in good faith, with the pledge that such reporting will be treated fairly, and to the extent possible be protected from reprisal.

An inside information policy was adopted 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. Procedures have also been set up in respect of preservation and handling of inside information.

Other compliance matters

Confirmation of compliance with the Dealings Code

Specific enquiry has been made with all Directors and the Manager, and all of them confirmed that they had complied with the required standard as set out in the Dealings Code from time to time throughout the Year.

Public float

At 30 June 2017, 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.

Review of annual report

This annual report has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of reference.

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 Year, 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 67) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Year :

(a) Income

| Name of connected person | Relationship with Sunlight REIT ^{Note} | Nature of the connected party transactions | Income for the Year (HK\$'000) | Rental and other deposits received at 30 June 2017 (HK\$'000) |
|--|---|--|--------------------------------|---|
| Henderson Sunlight Asset Management Limited | The Manager | Leasing | 6,061 | 1,397 |
| Henderson Sunlight Property Management Limited | Associated company of the Manager | Leasing | 4,130 | 955 |
| Henderson Real Estate Agency Limited | Associated company of the Manager | Joint effort arrangements | 1,967 | N/A |
| Galaxy Hotel Management Company Limited | Associated company of the Manager | Leasing and licensing | 467 | 118 |
| Total | | | 12,625 | 2,470 |

(b) Expenses

| Name of connected person | Relationship with Sunlight REIT ^{Note} | Nature of the connected party transactions | Expenses for the Year (HK\$'000) |
|--|---|---|----------------------------------|
| Hang Yick Properties Management Limited | Associated company of the Manager | Property management and operations and licence fee | 8,795 |
| Henderson Sunlight Property Management Limited | Associated company of the Manager | Property management and related services and marketing services | 51,158 |
| Megastrength Security Services Company Limited | Associated company of the Manager | Security services | 2,615 |
| Metro City Management Limited | Associated company of the Manager | Property management and operations | 1,247 |
| Sheung Shui Centre Management Limited | Associated company of the Manager | Property management and operations | 2,264 |
| Contender Limited | Associated company of the Manager | Facilities leasing | 90 |
| Knight Frank Hong Kong Limited | Subsidiary of the Principal Valuer | Leasing agency fee | 52 |
| Total | | | 66,221 |

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 Year :

| Name of connected person | Relationship with Sunlight REIT ² | Nature of the connected party transactions | Income/expenses for the Year (HK\$'000) | Rental and other deposits received at 30 June 2017 (HK\$'000) |
|--|--|---|---|---|
| Leasing transactions : | | | | |
| The Hongkong and Shanghai Banking Corporation Limited | Trustee Connected Persons | Leasing ³ | 9,115 | 2,415 |
| The Hongkong and Shanghai Banking Corporation Limited | Trustee Connected Persons | Licensing ⁴ | 250 | 62 |
| Hang Seng Bank Limited | Trustee Connected Persons | Leasing ⁵ | 10,848 | 2,639 |
| Ordinary banking and financial services⁶ : | | | | |
| The Hongkong and Shanghai Banking Corporation Limited | Trustee Connected Persons | Interest income received/receivable on bank deposits | 51 | N/A |
| The Hongkong and Shanghai Banking Corporation Limited | Trustee Connected Persons | Interest expenses, debt establishment fees, security trustee and other charges on bank borrowing, net interest expenses on IRS and basis swaps and other bank charges | 26,470 | N/A |
| HSBC Broking Securities (Asia) Limited | Trustee Connected Persons | Brokerage commission | 17 | N/A |
| Hang Seng Bank Limited | Trustee Connected Persons | Interest income received/receivable on bank deposits | 11 | N/A |
| Hang Seng Bank Limited | Trustee Connected Persons | Interest expenses and debt establishment fees on bank borrowing and other bank charges | 7,099 | N/A |

During the Year, two basis swaps with respective notional amount of HK\$400 million and HK\$300 million were entered into with The Hongkong and Shanghai Banking Corporation Limited.

During the Year, several bilateral facility agreements were entered into with certain banks in relation to refinancing the term loan facilities in the aggregate amount of HK\$3,925 million. The lenders of the new term loan facilities include The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited and the fees paid to them relating to the new facilities are included in the table above.

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. After the end of the Year, an additional lease was entered in respect of Shop Nos. 1032-33 of SSC with gross floor area of 1,171 sq. ft. for a term of 3 years from 15 August 2017 to 14 August 2020.
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. After the end of the Year, an additional licence was entered in respect of external wall signage Nos. 82-93, Level 1 of SSC.
5. A lease in respect of Shop No. 211 of MCPI, 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.

Connected Party Transactions

Other disclosures under the REIT Code

Pursuant to note (2) to paragraph 8.10 of the REIT Code, services provided to Sunlight REIT by the Manager, the Trustee and the Principal Valuer 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 Year, 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\$87.0 million and HK\$4.4 million respectively. Particulars of services provided by the Trustee, the Manager and the Principal Valuer, including terms and remuneration, are set out in notes 26(b)(i), (ii) and (iv) to the consolidated financial statements. The fees payable to the Principal Valuer during the Year was less than HK\$1 million.

On 30 March 2017, certain deeds of novation were entered into pursuant to which the rights and obligations of Enhance Invest Inc., a wholly-owned subsidiary of HLD, under the sale and purchase agreement dated 2 December 2006, the deed of tax covenant dated 21 December 2006 and the deed of adjustment payments dated 2 December 2006 to which Enhance Invest Inc. was a party, each as described in the offering circular of Sunlight REIT dated 8 December 2006 (together, the “**Transaction Documents**”), have been assigned and novated to Profit Best Development Limited, another wholly-owned subsidiary of HLD (the “**Transferee**”)

The indemnities, undertakings, warranties, obligations, liabilities, claims and demands of Enhance Invest Inc. under the Transaction Documents have been released and have been assumed by the Transferee. The obligations so novated to the Transferee will continue to be guaranteed by HLD. The limitation period for any claims under the deed of adjustment payments has expired in June 2017.

Confirmation by the INEDs of the Manager

The INEDs of the Manager confirm that they have reviewed all relevant connected party transactions during the Year as disclosed in the paragraphs headed “Connected party transactions – income and expenses” and “Connected party transactions with the Trustee Connected Persons” above and are satisfied that those transactions have been entered into :

- (i) in the ordinary and usual course of business of Sunlight REIT;
- (ii) on normal commercial terms (to the extent that there are sufficient comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Sunlight REIT than terms readily available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements and the Manager’s internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the unitholders of Sunlight REIT as a whole.

Confirmation by the Auditor of Sunlight REIT

Pursuant to the waivers granted by the SFC from strict compliance with the requirement under Chapter 8 of the REIT Code, the Manager has engaged KPMG, being the auditor of Sunlight REIT, to report on the continuing connected party transactions on the leasing and licensing arrangements (including facilities leasing), property management and operations (including joint effort arrangements and security services), and ordinary banking and financial services transactions for the Year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor’s findings and conclusions in respect of the aforesaid continuing connected party transactions disclosed in this annual report in accordance with the waivers and a copy of such letter will be provided to the SFC.

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 30 June 2017 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 30 June 2017 | | At 30 June 2016 | | Change in % interest |
|------------------------------------|--|-------------------------------------|--|-------------------------------------|----------------------|
| | Number of units interested (long position) | % of interest in units ¹ | Number of units interested (long position) | % of interest in units ² | |
| The Manager ³ | 115,881,132 | 7.076 | 100,597,275 | 6.149 | 0.927 |
| Au Siu Kee, Alexander ⁴ | 1,530,000 | 0.093 | 1,530,000 | 0.094 | -0.001 |
| Wu Shiu Kee, Keith ⁵ | 600,000 | 0.037 | 600,000 | 0.037 | – |

Notes :

- The percentages expressed are based on the total number of units in issue of 1,637,777,762 at 30 June 2017.
- 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.
- After the receipt of 9,414,857 new units as payment of part of the Manager’s base fee and variable fee and the acquisition of 5,869,000 units on the Stock Exchange during the Year, the Manager beneficially owned 115,881,132 units at 30 June 2017 (30 June 2016: 100,597,275 units).
- At 30 June 2017, 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.
- At 30 June 2017, 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 30 June 2017 and 30 June 2016 as recorded in the Register.

Disclosure of Interests

Holdings of substantial unitholders

At 30 June 2017 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 30 June 2017 | | At 30 June 2016 | | Change in % interest |
|--|--|-------------------------------------|--|-------------------------------------|----------------------|
| | Number of units interested (long position) | % of interest in units ¹ | Number of units interested (long position) | % of interest in units ² | |
| Lee Shau Kee ³ | 623,218,027 | 38.05 | 607,211,175 | 37.12 | 0.93 |
| Lee Financial (Cayman) Limited ³ | 374,072,708 | 22.84 | 374,072,708 | 22.87 | -0.03 |
| Leesons (Cayman) Limited ³ | 374,072,708 | 22.84 | 374,072,708 | 22.87 | -0.03 |
| Leeworld (Cayman) Limited ³ | 374,072,708 | 22.84 | 374,072,708 | 22.87 | -0.03 |
| SKFE ³ | 374,072,708 | 22.84 | 374,072,708 | 22.87 | -0.03 |
| Uplite Limited ³ | 224,443,625 | 13.70 | 224,443,625 | 13.72 | -0.02 |
| Wintrade Limited ³ | 149,629,083 | 9.14 | 149,629,083 | 9.15 | -0.01 |
| Henderson Development Limited ³ | 249,145,319 | 15.21 | 233,138,467 | 14.25 | 0.96 |
| HLD ³ | 249,145,319 | 15.21 | 233,138,467 | 14.25 | 0.96 |
| Hopkins (Cayman) Limited ³ | 249,145,319 | 15.21 | 233,138,467 | 14.25 | 0.96 |
| Riddick (Cayman) Limited ³ | 249,145,319 | 15.21 | 233,138,467 | 14.25 | 0.96 |
| Rimmer (Cayman) Limited ³ | 249,145,319 | 15.21 | 233,138,467 | 14.25 | 0.96 |
| Silchester International Investors LLP ⁴ | 257,791,150 | 15.74 | 257,791,150 | 15.76 | -0.02 |
| Silchester International Investors International Value Equity Trust ⁴ | 113,294,922 | 6.92 | 113,294,922 | 6.93 | -0.01 |

Notes :

- The percentages expressed are based on the total number of units in issue of 1,637,777,762 at 30 June 2017.
- 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.
- At 30 June 2017, 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 30 June 2017, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 115,881,132 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 259,793,449 units at 30 June 2017. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 249,145,319 units at 30 June 2017, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

Notes : (cont'd)

At 30 June 2017, 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 633,866,157 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 623,218,027 units at 30 June 2017, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 30 June 2017, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

4. At 30 June 2017, 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 30 June 2017, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.32% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 108,513,922 units (representing approximately 6.63% 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 30 June 2017 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 | 22,948,000 | 1.4012 |

Notes :

- The percentages expressed are based on the total number of units in issue of 1,637,777,762 at 30 June 2017.
- 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.
- 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.
- 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.
- 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.
- The Manager has been informed that certain controlling entities, holding companies, subsidiaries or associated companies of the Trustee (as defined in the REIT Code) were beneficially interested in 22,948,000 units at 30 June 2017. At 30 June 2016, such persons were beneficially interested in 20,904,252 units, further, certain directors, senior executives and officers of the Trustee and their associates (as defined in the REIT Code) were beneficially interested in 50,000 units.

Valuation Report

1 August 2017

HSBC Institutional Trust Services (Asia) Limited
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Dear Sirs

- (1) **Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong ("Sunlight Tower Property")**
- (2) **Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong ("Bonham Trade Centre Property")**
- (3) **Righteous Centre, 585 Nathan Road, Mong Kok, Kowloon, Hong Kong ("Righteous Centre Property")**
- (4) **Various Portions in Winsome House, 73 Wyndham Street, Central, Hong Kong ("Winsome House Property")**
- (5) **Various Portions in 135 Bonham Strand Trade Centre, 135 Bonham Strand, Sheung Wan, Hong Kong ("135 Bonham Strand Trade Centre Property")**
- (6) **235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong ("235 Wing Lok Street Trade Centre Property")**
- (7) **Java Road 108 Commercial Centre, 108 Java Road, North Point, Hong Kong ("Java Road 108 Commercial Centre Property")**
- (8) **On Loong Commercial Building, 276-278 Lockhart Road, Wan Chai, Hong Kong ("On Loong Commercial Building Property")**
- (9) **Various Portions in Sun Fai Commercial Centre, 576 Reclamation Street, Mong Kok, Kowloon, Hong Kong ("Sun Fai Commercial Centre Property")**
- (10) **Various Portions in Wai Ching Commercial Building, 77 Wai Ching Street, Yau Ma Tei, Kowloon, Hong Kong ("Wai Ching Commercial Building Property")**
- (11) **Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in The Podium and Basement, Sheung Shui Centre, 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong ("Sheung Shui Centre Property")**
- (12) **Commercial Development and Car Parks, Metro City Phase I, 1 Wan Hang Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong ("Metro City Phase I Property")**
- (13) **Various Portions in Kwong Wah Plaza, 11 Tai Tong Road, Yuen Long, New Territories, Hong Kong ("Kwong Wah Plaza Property")**
- (14) **Various Shops Units on Ground Floor, Beverley Commercial Centre, 87-105 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong ("Beverley Commercial Centre Property")**

(15) Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand, 28 Mercury Street, North Point, Hong Kong (“Supernova Stand Property”)

(16) Shops Nos 1 to 7 on Ground Floor and Shop No. 8 on Ground Floor and its Roof; Offices Nos 1 and 2 on 1st Floor; Advertising Spaces 1-5, Commercial Common Areas and Facilities, Private Staircase and Landing and The Reserved Portion, Palatial Stand, 118 Wuhu Street, Hung Hom, Kowloon, Hong Kong (“Palatial Stand Property”)

We refer to the instruction from Henderson Sunlight Asset Management Limited (“**the Manager**”), acting as the manager of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”), and HSBC Institutional Trust Services (Asia) Limited (“**Trustee**”) to conduct property valuations (“**Valuation**”) for the Sunlight REIT’s property portfolio (“**the Portfolio**”) as at 30 June 2017 for the Annual Report in compliance with the relevant requirements set out in the Code on Real Estate Investment Trusts (“**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong (“**SFC**”), the trust deed of Sunlight REIT and, where applicable, the Listing Rules of The Stock Exchange of Hong Kong.

We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing the Manager with our opinion of the market values of the properties in existing state as at 30 June 2017 (referred to as the “**Valuation Date**”) for accounting purpose.

Valuer’s Interest

We hereby certify Knight Frank Petty Limited is unaware of any of our business, relationship or interest is in real, potential or apparent conflict with the performance required for the above-mentioned assignment. We also confirm we are independent of Sunlight REIT, the Trustee, and the Manager.

Basis of Valuation

All work is carried out in accordance with 6.8 of the REIT Code. In arriving at our opinion of market value, we followed the HKIS Valuation Standards (2012 Edition) issued by the Hong Kong Institute of Surveyors (HKIS) and “The RICS Valuation – Professional Standards” issued by the Royal Institution of Chartered Surveyors (RICS). Under the said standards, Market Value is defined as:-

“the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

The market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

The market value is also the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation complies with the requirements set out in The HKIS Valuation Standards (2012 Edition) published by HKIS and “The RICS Valuation – Professional Standards” issued by RICS.

Valuation Methodologies

In arriving at our opinion of values, we have considered relevant general and economic factors and in particular have investigated recent sales and leasing transactions of comparable properties. In the course of our valuation analysis, we have principally adopted the Income Capitalization Approach – term and reversion method and counter-checked this by Direct Comparison Approach. For the purposes of this valuation, we consider the Income Capitalization Approach is the most appropriate valuation method for assessing the market values of the property, due to the income driven nature of the properties.

Valuation Report

Income Capitalization

The Income Capitalization Approach - term and reversion method is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates and management fees) of all lettable units of each property are capitalized for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized for the unexpired term of the Government Lease under which the property is held. Due consideration has been given to the expectation of the renewal of the Government Lease upon expiry. The summation of the capitalized value of the term income for the leased portion, the capitalized value of the reversionary income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of each property.

The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The capitalization rate adopted is determined by reference to the yields achieved in analyzed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.

Direct Comparison

As a supporting approach to the valuation, we have also considered the Direct Comparison Approach as a reference check for the valuations arrived from Income Capitalization Approach. In this regard, comparable sales transactions around the Valuation Date are collected and analyzed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the properties and comparables in terms of time, location, accessibility, age, building quality and condition, facilities and the like.

Valuation Assumptions and Conditions

Our valuation is subject to the following assumptions and conditions:-

Title Documents and Encumbrances

We have taken reasonable care to investigate the title of the Properties by obtaining land search record from the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We however do not accept a liability for any interpretation which we have placed on such information that is more properly the sphere of the Manager's legal advisers. We have also assumed in our valuation that the Properties were free from encumbrances, restrictions, title defects and outgoings of an onerous nature that could affect their values, unless stated otherwise as at the Valuation Date.

Disposal Costs and Liabilities

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale.

Source of Information

We have relied to a very considerable extent on information given by the Manager and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, floor plans, floor and site areas, occupancies, incomes and all other relevant matters. We have not verified the correctness of any information, including their translation supplied to us concerning these Properties, whether in writing or verbally by the Manager, the Manager's representatives or by the Manager's legal or professional advisers or by any (or any apparent) occupier of the Properties or contained on the register of title. We assume that this information is complete and correct. We were also advised by the Manager that no material facts have been omitted from the information provided. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

Inspection

We inspected the exterior of the Properties in June 2017. No internal inspection of the Properties was made available and we have assumed in our valuation that the Properties were in satisfactory exterior and interior decorative order without any unauthorized extensions or structural alterations as at the Valuation Date, unless otherwise stated.

Identity of Property to be valued

We have exercised reasonable care and skill (but will not have an absolute obligation to the Manager) to ensure that the Properties, identified by the property addresses in the Manager's instructions, are the properties inspected by us and contained within our valuation report. If there is ambiguity as to the property addresses, or the extent of the properties to be valued, this should be drawn to our attention in the Manager's instructions or immediately upon receipt of our report.

Property Insurance

We have valued the Properties on the assumption that, in all respects, it is insurable against all usual risks including terrorism, flooding and rising water table at normal, commercially acceptable premiums.

Areas and Age

As instructed, we have relied upon areas as available from a quoted source. Otherwise, dimensions and areas would be measured on-site or from plans and calculated in accordance with, where appropriate, the current HKIS Code of Measuring Practice and are quoted to a reasonable approximation, with reference to their source.

We have also assumed that the site areas, floor areas, measurements and dimensions shown on the documents handed to us are correct and in approximations only. Where the age of the building is estimated, this is for guidance only.

Structural and Services Condition

We were not instructed to undertake any structural surveys, test the services or arrange for any investigations to be carried out to determine whether any deleterious materials have been used in the construction of the Properties. Our valuation has therefore been undertaken on the basis that the Properties were in satisfactory repair and condition and contains no deleterious materials and that services function satisfactorily.

Ground Condition

We have assumed there to be no unidentified adverse ground or soil conditions and that the load bearing qualities of the site of the Properties are sufficient to support the building constructed or to be constructed thereon; and that the services are suitable for any existing or future development. Our valuation is therefore prepared on the basis that no extraordinary expenses or delays will be incurred in this respect.

Environmental Issues

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the Properties are unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

Compliance with Relevant Ordinances and Regulations

We have assumed that the property valued had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the property upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorization have been obtained, except only where otherwise stated.

Limitation Clause

In accordance with our standard practice, we must state that this report and valuation is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents. We do not accept liability to any third party or for any direct or indirect consequential losses or loss of profits as a result of this report.

Valuation Report

Summary of Valuation

A summary of our opinion of the market value of each property as at the Valuation Date is given below :

| Property | Approximate Gross Rentable Area (sq. ft.) | No. of Parking Lots (excluding motor and bicycle spaces) | Market Value as at 30 June 2017 (HK\$) | Capitalization Rate Adopted ^{Note} | | | Estimate Net Property Yield (%) |
|---|---|--|--|---|------------|--------------|---------------------------------|
| | | | | Retail (%) | Office (%) | Car Park (%) | |
| 1 Sunlight Tower Property | 376,381 | 46 | \$4,807,000,000 | 3.75 | 3.85 | 5.50 | 3.48 |
| 2 Bonham Trade Centre Property | 117,909 | N/A | \$1,141,000,000 | 4.00 | 3.65 | N/A | 3.44 |
| 3 Righteous Centre Property | 51,767 | N/A | \$586,000,000 | 3.60 | 3.95 | N/A | 3.63 |
| 4 Winsome House Property | 40,114 | N/A | \$582,100,000 | 3.80 | 3.65 | N/A | 3.05 |
| 5 135 Bonham Strand Trade Centre Property | 63,915 | N/A | \$557,000,000 | 4.00 | 3.65 | N/A | 3.66 |
| 6 235 Wing Lok Street Trade Centre Property | 52,285 | N/A | \$376,000,000 | 4.00 | 3.65 | N/A | 3.43 |
| 7 Java Road 108 Commercial Centre Property | 37,923 | N/A | \$278,000,000 | 4.20 | 3.95 | N/A | 3.79 |
| 8 On Loong Commercial Building Property | 27,206 | N/A | \$263,000,000 | 3.90 | 3.85 | N/A | 3.53 |
| 9 Sun Fai Commercial Centre Property | 26,151 | N/A | \$175,000,000 | 4.25 | 4.00 | N/A | 3.89 |
| 10 Wai Ching Commercial Building Property | 16,321 | N/A | \$70,600,000 | 4.10 | 3.75 | N/A | 3.62 |
| 11 Sheung Shui Centre Property | 122,339 | 297 | \$4,020,000,000 | 4.40 | N/A | 5.80 | 4.31 |
| 12 Metro City Phase I Property | 188,889 | 452 | \$2,986,000,000 | 4.50 | N/A | 5.00 | 4.68 |
| 13 Kwong Wah Plaza Property | 64,842 | N/A | \$1,008,000,000 | 3.80 | 3.85 | N/A | 3.83 |
| 14 Beverley Commercial Centre Property | 7,934 | N/A | \$110,100,000 | 4.30 | N/A | N/A | 3.77 |
| 15 Supernova Stand Property | 4,226 | N/A | \$64,300,000 | 4.00 | N/A | N/A | 4.26 |
| 16 Palatial Stand Property | 8,625 | N/A | \$38,300,000 | 4.35 | N/A | N/A | 2.45 |
| Total | 1,206,827 | 795 | \$17,062,400,000 | | | | |

Note : The capitalization rate refers to the expected yield of the respective property by reference to the market yield prevailing as at the Valuation Date for the particular type of property.

We enclose herewith our summary valuation report.

Yours faithfully

For and on behalf of

Knight Frank Petty Limited

Thomas Lam

FRICS FHKIS MHKSI RPS(GP) RICS Registered Valuer
Senior Director, Head of Valuation & Consultancy

Catherine Cheung

MRICS MHKIS RPS(GP) RICS Registered Valuer
Director, General Valuation

Notes : Thomas Lam is a Chartered Surveyor who has extensive experiences in market research, valuation and consultancy in China, Hong Kong, Macau and Asia Pacific region.

Catherine Cheung, MRICS MHKIS RPS(GP), has been a qualified valuer with Knight Frank since 1992 and has over 20 years' experience in the valuation of properties in Hong Kong.

The valuation report contains herein is in summary form. A full version is available for public inspection at the registered office of the Manager.

Office Market Overview

Overview

As one of the major global financial centres, Hong Kong is the preferred location for many international corporations setting up regional offices in Asia. The Central Business District (“**CBD**”) in Hong Kong includes Central and Admiralty on the Hong Kong Island. Other major business districts include Sheung Wan, Wan Chai and Causeway Bay on Hong Kong Island, Tsim Sha Tsui in Kowloon, as well as decentralized areas namely Quarry Bay and North Point on Hong Kong Island. With limited availability in the CBD and the expansion of transport infrastructure, recent years have seen a rapid decentralization of office space and the growth of new alternative office hubs such as Kowloon East and Yau Ma Tei/Mong Kok in Kowloon, Kwai Tsing and Tsuen Wan in the New Territories as well as Wong Chuk Hang on the Hong Kong Island.

Rental trends

Hong Kong’s Grade A office rent have generally been on an uptrend in the last five years (2012 to 2016), shrugging off the negative effects from the global financial crisis in late 2008 to 2009. According to the Rating and Valuation Department, the average Grade A office rent rose by around 21% from 2012 to 2016, representing a 5% compound annual growth rate (CAGR) in the period.

Grade A office rent continued to trend up in the first five months of 2017, with average Grade A office rent rising a further 2% from the end of 2016.

Price trends

Office price was also on an uptrend in the last few years, increasing 24.4% during 2012 to 2016. According to the Rating and Valuation Department, the average Grade A office price in Hong Kong rose 18% from 2012 to 2013. In 2014, on the back of slower Grade A office sales due to a series of cooling measures including the Double Stamp Duty (DSD) and the lowering of the maximum mortgage loan-to-value ratio for commercial properties, the average Grade A office price dropped 1% in the year.

As Mainland Chinese financial institutions accelerated plans to establish their physical footprint in Hong Kong’s CBD, while Grade A office rental resumed positive growth, which in turn supported capital appreciation and increased investors’ focus on the office sales market. The average Grade A office price grew a total 7% in 2015 and 2016, and surged another 10% in the first five months of 2017.

Commercial land sale market in Hong Kong has been robust so far in 2017, with land price consistently breaking market records. For instance, the Murray Road Carpark site was sold for HK\$23.28 billion, representing an accommodation value of HK\$50,065 per sq. ft.. This sets a new record high in Hong Kong in terms of commercial land price and also highlights the prevailing bullish market sentiment.

Take-up and vacancy

Take-up for grade A office in Hong Kong as a whole averaged at around 1,430,500 sq. ft. per annum during the last ten years from 2007 to 2016. Meanwhile, the vacancy rate averaged approximately 8.1% over the same period. Average take-up dropped from an average 2,032,200 sq. ft. per annum in the period of 2007 to 2011 to an average 828,800 sq. ft. in the period of 2012 to 2016, due to lower supply in grade A office during 2012-2016.

Demand for office space in Hong Kong has remained resilient in the past decade despite a number of economic downturns. Net office take-up continued to remain positive in 2016. Meanwhile, average Grade A office vacancy rate in Hong Kong remained stable in 2016 and in the first five months of 2017, showing no major signs of downturn in office space absorption.

In the CBD and other major business districts, the average Grade A office vacancy rate dropped to about 2.4% in 2015 from 3.4% in 2014, and remained at about 2.3% in 2016. In the first five months of 2017, Grade A office vacancy rate was roughly unchanged at 2.3%.

Valuation Report

Driven by the decentralization trend, Grade A office vacancy rate remained at relatively low levels in decentralized areas. In the first five months of 2017, Grade A office vacancy rates in North Point/Quarry Bay remained stable at about 1.8%. Despite a surge in new supply in recent years, Kowloon East maintained a respectable 9.1% average vacancy rate over the same period, compared with the average 10% vacancy rate in the last 10 years (2007 to 2016).

Outlook

In general, Grade A office demand in Hong Kong is likely to remain firm, notwithstanding global economic uncertainties. Demand from Chinese firms is set to remain strong as they continue to seek quality office space in Hong Kong. The lack of available office space and the high rental level in the CBD and other major business districts are expected to support the decentralization trend in the next few years.

Meanwhile, the growth in China's trade will serve to lift external demand, bolstering exports and supporting Hong Kong's economy. Despite its slowing rate of economic expansion, China's rising imports of services will provide support to the territory's economic growth. Coupled with signs that growth in the Eurozone and the US may pick up this year, the demand for office space from the trading sector is expected to remain steady.

In view of the limited future office supply particularly in the CBD and other major business districts, an expected decentralization trend and an improving trading sector, both rent and capital value should be well supported.

Retail Market Overview

Overview

Attracting some 50 million visitors a year, Hong Kong is one of the world's top shopping destinations, housing a high representation of luxury and mid-end retailers. As of the end of 2016, Hong Kong had a total of approximately 120 million sq. ft. of private retail stock. Approximately 41% of private retail stock is located in Kowloon while Hong Kong Island and the New Territories each represented around 29% and 30% of the total commercial stock in the city respectively.

Rental trends

On the back of an 11% growth in retail sales, Hong Kong's average retail rent recorded a 9% growth between 2012 and 2013.

Retail rental growth slowed in 2014 amid a softened retail sales growth. Retail sales witnessed a 0.2% decline in the year, dragged by a fall of 13.7% in sales of jewellery, watches, clocks and valuable gift. The growth in average retail rent slowed to 4.6% in 2014, reflecting the softened retail demand from luxury retailers for prime street shop locations.

Despite the continued slowdown in retail sales in 2015 and 2016, the average retail rent in Hong Kong remained relatively firm and registered an approximately 2% CAGR from 2014. In the first five months of 2017, while retail sales remained stable on a year-on-year basis, rental rates edged up 1% from the end of 2016.

Price trends

The average retail property price in Hong Kong saw a surge after the global financial crisis amid a positive retail market sentiment and an influx of mainland visitors. Retail property prices rose 21% from 2012 to 2013, a rate much faster than the growth in average retail rent over the same period.

Investment sentiment in private retail properties was cooled since 2014 in light of the softened retail market. The retail property price growth slowed to 5% in both 2014 and 2015, and saw a dip of 6% in 2016. Average retail property price stabilized in the first five months of 2017, rising about 2% from the end of 2016.

Supply

Hong Kong's supply of private retail stock has increased in the last five years (2012 to 2016). Completion averaged about 811,606 sq. ft. per annum, compared with 619,576 sq. ft. in the period of 2007 to 2011.

Looking forward, supply is expected to increase in the coming five years (2017 to 2021). About 1,120,000 sq. ft. of private retail supply is expected per year between 2017 and 2021, with the highest proportion of new shopping centres located in the New Territories, representing approximately 52% of total future supply.

Major private retail properties that are to be completed in 2017 are located in the New Territories and are generally not large in scale.

Notable private retail projects beyond 2017 include the New World Centre redevelopment and 15 Middle Road development in Tsim Sha Tsui, which are expected to be completed by 2018 and 2019 respectively, totalling over 1 million sq. ft. of space.

Take-up and vacancy

Take-up was largely positive over the last ten years (2007 to 2016), averaging 513,400 sq. ft. per annum. Meanwhile, the vacancy rate of private retail premises (including street shops) averaged approximately 8% over the same period. Average take-up showed a downward trend in recent years, retreating from an average 736,300 sq. ft. per annum in the period of 2007 to 2011 to an average 290,600 sq. ft. per annum in the period of 2012 to 2016. This could be attributed to a softened retail market in recent years.

Meanwhile, amid a steady retail demand, average vacancy rate of private retail premises generally remained stable over the last ten years (2007 to 2016), dropping from an average 8.3% in the period of 2007 to 2011 to an average 7.6% in the period of 2012 to 2016. A softened retail market sentiment had slightly pushed up vacancy rate to 9% in 2016 from 8% in 2015.

Outlook

The retail market in Hong Kong appears to be shrugging off the negative sentiment over the past two years, with retail sales, overall retail property price and rent stabilizing in the first quarter of 2017. Given the continued recovery in visitor arrivals, albeit mild, the overall operating environment is expected to turn less challenging in the short term, which in turn will support retail price and rent. Meanwhile, retail properties positioned at mid-end of the retail spectrum are expected to be resilient, while prime shops in areas such as Mong Kok and Causeway Bay may remain under pressure in the short term despite a mild recovery in the general retail market.

In the longer term, further improvements in the city's infrastructure, coupled with steady economic growth for both Hong Kong and China, should continue to support the overall retail sales environment in Hong Kong. Meanwhile, the increasing trend of middle-class Mainland tourists and stable consumption of the local population will result in higher retail sales of mid-range products and F&B consumption, which in turn is expected to buoy overall retail property demand.

Valuation Report

Summary Valuation Report

Sunlight Tower Property

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

Description

The building is a 40-storey (including a mechanical floor) commercial building with ancillary car parking facilities erected on an L-shaped site having a registered site area of approximately 1,442.84 sq. m. (15,531 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 34,966.65 sq. m. (376,381 sq. ft.). It also comprises 8 lorry parking spaces and 38 car parking spaces on 1st to 4th Floors of the building.

Land Tenure

Inland Lot No. 506 is held under a Government Lease for a term of 999 years commencing from 16 November 1855. The annual Government rent payable for the lot is 36 pounds 10 shillings.

Inland Lot No. 387 is held under a Government Lease for a term of 999 years commencing from 16 March 1855. The annual Government rent payable for the lot is 20 pounds 4 shillings and 10 pence.

Monthly Rental Income as at 30 June 2017

HK\$13,605,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly Car Parking Income as at 30 June 2017

HK\$321,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2017

HK\$9,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2017

HK\$4,807,000,000

Estimated Net Property Yield

3.48%

Bonham Trade Centre Property

Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong

Description

The building is a 28-storey commercial building erected on a trapezoid site having a registered site area of approximately 720.27 sq. m. (7,753 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 10,954.01 sq. m. (117,909 sq. ft.). It also comprises a yard on Ground Floor of the building with an area of approximately 16.50 sq. m. (178 sq. ft.).

Land Tenure

Inland Lot No. 15 is held under a Government Lease for a term of 999 years commencing from 26 December 1860. The annual Government rent payable for the subject section of the lot is HK\$11.9.

Marine Lot Nos. 142 and 144 are held under their respective Government Leases each for a term of 981 years commencing from 26 December 1860. The total annual Government rent payable for the lots is HK\$124.8.

Monthly Rental Income as at 30 June 2017

HK\$3,273,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2017

HK\$1,141,000,000

Estimated Net Property Yield

3.44%

Righteous Centre Property

Righteous Centre, 585 Nathan Road, Mong Kok, Kowloon, Hong Kong

Description

The building is a 26-storey (including a mechanical floor) commercial building erected on a rectangular site having a registered site area of approximately 300.30 sq. m. (3,232 sq. ft.). The building was completed in 1996. The property comprises all units within the building having a total gross rentable area of approximately 4,809.27 sq. m. (51,767 sq. ft.).

Land Tenure

Kowloon Inland Lot Nos. 6827 and 7097 are held under Conditions of Renewal No. 5654 and Conditions of Regrant No. 5759 respectively each for a term of 150 years commencing from 25 December 1887. The annual Government rents payable for Section A of Kowloon Inland lot No. 6827 and Kowloon Inland Lot No. 7097 are HK\$78 and HK\$150 respectively.

Monthly Rental Income as at 30 June 2017

HK\$1,676,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2017

HK\$98,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2017

HK\$586,000,000

Estimated Net Property Yield

3.63%

Winsome House Property

Various Portions in Winsome House, 73 Wyndham Street, Central, Hong Kong

Description

The building is a 27-storey commercial building completed in 1999. The property comprises the majority portion of the building having a total gross rentable area of approximately 3,726.68 sq. m. (40,114 sq. ft.). It also comprises various flat roofs on the Upper and Lower Ground Floors with a total area of approximately 34.37 sq. m. (370 sq. ft.).

Land Tenure

Inland Lot Nos. 5025 and 994 are held under their respective Government Leases each for a term of 999 years commencing from 26 June 1843. The total annual Government rent payable for the lots are HK\$146.

Inland Lot No. 7968 is held under Conditions of Exchange No. 8224 for a term of 999 years commencing from 22 January 1844. The annual Government rent payable for the lot is HK\$30.

Monthly Rental Income as at 30 June 2017

HK\$1,478,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2017

HK\$582,100,000

Estimated Net Property Yield

3.05%

Valuation Report

135 Bonham Strand Trade Centre Property

Various Portions in 135 Bonham Strand Trade Centre, 135 Bonham Strand, Sheung Wan, Hong Kong

Description

The building is a 25-storey (including a mechanical floor) commercial building completed in 2000. The property comprises the majority portion of the subject building having a total gross rentable area of approximately 5,937.85 sq. m. (63,915 sq. ft.).

Land Tenure

Marine Lot No. 173 is held under a Government Lease for a term of 999 years commencing from 26 December 1860. The total annual Government rent payable for the subject sections of the lot is HK\$88.

Inland Lot No. 6896 is held under a Government Lease for a term of 75 years commencing from 14 November 1952 renewable for a further term of 75 years. The annual Government rent payable for the lot is HK\$196.

Monthly Rental Income as at 30 June 2017

HK\$1,699,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$557,000,000

Estimated Net Property Yield

3.66%

235 Wing Lok Street Trade Centre Property

235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong

Description

The building is a 26-storey commercial building erected on an irregular site with a registered site area of approximately 282.42 sq. m. (3,040 sq. ft.). The building was completed in 2000. The property comprises all units within the building having a total gross rentable area of approximately 4,857.40 sq. m. (52,285 sq. ft.).

Land Tenure

Marine Lot No. 37A is held under a Government Lease for a term of 979 years commencing from 26 December 1863. The annual Government rent payable for the lot is HK\$316.63.

Monthly Rental Income as at 30 June 2017

HK\$1,074,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$376,000,000

Estimated Net Property Yield

3.43%

Java Road 108 Commercial Centre Property

Java Road 108 Commercial Centre, 108 Java Road, North Point, Hong Kong

Description

The building is a 25-storey commercial building erected on a rectangular site having a registered site area of approximately 228.26 sq. m. (2,457 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 3,523.13 sq. m. (37,923 sq. ft.).

Land Tenure

Inland Lot No. 3539 is held under a Government Lease for a term of 75 years commencing from 12 June 1933 renewable for a further term of 75 years at a total annual Government rent payable for the subject sections of the lot of HK\$188,912.

Monthly Rental Income as at 30 June 2017

HK\$879,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$278,000,000

Estimated Net Property Yield

3.79%

On Loong Commercial Building Property

On Loong Commercial Building, 276-278 Lockhart Road, Wan Chai, Hong Kong

Description

The building is a 23-storey commercial building completed in 1984. The property comprises the whole of the building having a total gross rentable area of approximately 2,527.50 sq. m. (27,206 sq. ft.). It also comprises two flat roofs on the 4th Floor with a total area of approximately 46.92 sq. m. (505 sq. ft.) and roof area of approximately 28.80 sq. m. (310 sq. ft.).

Land Tenure

Inland Lot Nos. 7061 and 7062 are each held under a Government Lease for a term of 99 years commencing from 11 May 1928 renewable for a further term of 99 years at a total annual Government rent of HK\$20.

Monthly Rental Income as at 30 June 2017

HK\$773,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$263,000,000

Estimated Net Property Yield

3.53%

Valuation Report

Sun Fai Commercial Centre Property

Various Portions in Sun Fai Commercial Centre,
576 Reclamation Street, Mong Kok, Kowloon, Hong Kong

Description

The building is a 15-storey commercial building completed in 1998. The property comprises the majority portion of the building having a total gross rentable area of approximately 2,429.49 sq. m. (26,151 sq. ft.). It also comprises various flat roofs on the 2nd and 3rd Floors with a total area of approximately 53.14 sq. m. (572 sq. ft.) and roof area of approximately 72.65 sq. m. (782 sq. ft.).

Land Tenure

Kowloon Inland Lot Nos. 10813, 10814 and 10815 are held under Conditions of Lease Extension Nos. 12068, 12269 and 12259 respectively each for a term commencing from 28 June 1985 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of each lot.

Monthly Rental Income as at 30 June 2017

HK\$567,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$175,000,000

Estimated Net Property Yield

3.89%

Wai Ching Commercial Building Property

Various Portions in Wai Ching Commercial Building,
77 Wai Ching Street, Yau Ma Tei, Kowloon, Hong Kong

Description

The building is a 19-storey commercial building completed in 1997. The property comprises the majority portion of the building with a total gross rentable area of approximately 1,516.26 sq. m. (16,321 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 6167 and 6168 are held under their respective Government Leases each for a term of 75 years commencing from 18 September 1974 at a total annual Government rent at HK\$57,566 for the subject sections of the lots.

Monthly Rental Income as at 30 June 2017

HK\$213,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$70,600,000

Estimated Net Property Yield

3.62%

Sheung Shui Centre Shopping Arcade Property

Commercial Development (including all Shops, The Restaurant and The Kindergarten); and Car Parks in the Podium and Basement, Sheung Shui Centre, 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong

Description

The development is a residential development comprising six residential blocks over a 3-storey commercial/car parking podium plus one level car park basement completed in 1993. The property comprises all shop units within the commercial podium of the development with a total gross rentable area of approximately 11,365.57 sq. m. (122,339 sq. ft.). It also comprises 269 car parking spaces, 28 lorry parking spaces and 226 bicycle parking spaces on Basement and Level 1 of the development. It also comprises 6 loading and unloading spaces (with one of such loading and unloading space for each residential block for parking, loading and unloading of goods vehicles) on Level 1 of the development.

Land Tenure

Fanling Sheung Shui Town Lot No. 55 is held under New Grant No. 12406 for a term commencing from 16 October 1989 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2017

HK\$13,308,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly Car Parking Income as at 30 June 2017

HK\$939,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2017

HK\$199,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2017

HK\$4,020,000,000

Estimated Net Property Yield

4.31%

Metro City Phase I Property

Commercial Development and Car Parks, Metro City Phase I, 1 Wan Hang Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong

Description

The development comprises a 3-storey (Ground Floor to Level 2) commercial/car parking podium with six residential blocks erected thereon. The development was completed in 1996. The property comprises all the shop units on the Ground Floor and Level 2 of the commercial/car parking podium having a total gross rentable area of approximately 17,548.22 sq. m. (188,889 sq. ft.). It also comprises 452 car parking spaces, 20 motor cycle parking spaces and 14 bicycle parking spaces on Ground Floor to Level 2 of the development.

Land Tenure

Tseung Kwan O Town Lot No. 36 is held under New Grant No. 8275 for a term commencing from 29 November 1993 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2017

HK\$10,173,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent.

Monthly Car Parking Income as at 30 June 2017

HK\$1,306,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2017

HK\$156,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2017

HK\$2,986,000,000

Estimated Net Property Yield

4.68%

Valuation Report

Kwong Wah Plaza Property

Various Portions in Kwong Wah Plaza, 11 Tai Tong Road, Yuen Long, New Territories, Hong Kong

Description

The building is a 17-storey (including a basement and a mechanical floor but excluding cocklofts) commercial building completed in 1998. The property comprises the majority portion of the building having a total gross rentable area of approximately 6,023.97 sq. m. (64,842 sq. ft.). It also comprises a Flat Roof on the 13th Floor with an area of approximately 16.35 sq. m. (176 sq. ft.).

Land Tenure

Lot No. 4015 in Demarcation District No. 120 is held under New Grant No. 4135 for a term commencing from 25 May 1993 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2017

HK\$3,218,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2017

HK\$3,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2017

HK\$1,008,000,000

Estimated Net Property Yield

3.83%

Beverley Commercial Centre Property

Various Shop Units on Ground Floor, Beverley Commercial Centre, 87-105 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong

Description

The building is a 20-storey (including a basement) commercial building completed in 1982. The property comprises 60 shop units on the Ground Floor of the shopping arcade within the building, having a total gross rentable area of approximately 737.09 sq. m. (7,934 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 10574, 10211, 10575, 10518, 10580, 10160, 10503, 10526, 10247 and 10616 are held under Conditions of Re-Grant Nos. 11117, 10318, 11118, 11125, 11098, 10312, 11134, 11053, 10404 and 11243 respectively each for a term of 150 years commencing from 25 December 1902. The total annual Government rent payable for the lots is HK\$7,576.

Monthly Rental Income as at 30 June 2017

HK\$346,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$110,100,000

Estimated Net Property Yield

3.77%

Supernova Stand Property

Shops 1 to 9 on the Ground Floor and Commercial Common Areas and Facilities, Supernova Stand, 28 Mercury Street, North Point, Hong Kong

Description

The building is a 27-storey composite commercial/residential building completed in 2001. The property comprises all nine shop units on the Ground Floor having a total gross rentable area of approximately 392.60 sq. m. (4,226 sq. ft.).

Land Tenure

Inland Lot No. 1366 is held under a Government Lease for a term of 999 years commencing from 24 February 1896 at an annual Government rent at HK\$338.

Monthly Rental Income as at 30 June 2017

HK\$228,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$64,300,000

Estimated Net Property Yield

4.26%

Palatial Stand Property

Shop Nos. 1 to 7 on Ground Floor and Shop No. 8 on Ground Floor and its Roof; Office Nos. 1 and 2 on 1st Floor; Advertising Spaces 1-5 and Commercial Common Areas and Facilities, Private Staircase and Landing and the Reserved Portion, Palatial Stand, 118 Wuhu Street, Hung Hom, Kowloon, Hong Kong

Description

The building is a 20-storey residential tower built over a 3-storey commercial/garden podium completed in 2001. The property comprises the 8 shop units occupying the whole of the Ground Floor and two office units occupying the whole of the 1st Floor of the building having a total gross rentable area of approximately 801.28 sq. m. (8,625 sq. ft.). The property also comprises a Flat Roof on 1st Floor of the building with an area of approximately 56.02 sq. m. (603 sq. ft.).

Land Tenure

Hung Hom Inland Lot No. 522 is held under a Government Lease for a term of 150 years commencing from 14 September 1897 at an annual Government rent of HK\$34.

Hung Hom Inland Lots Nos. 509, 517, 510, 514, 515 and 504 are held under Conditions of Regrant Nos. 10274, 10340, 10273, 10579, 10356 and 10224 respectively each for a term of 150 years commencing from 14 September 1897. The total annual Government rent payable for the lots is HK\$204.

Monthly Rental Income as at 30 June 2017

HK\$78,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2017

HK\$38,300,000

Estimated Net Property Yield

2.45%

Trustee's Report

To the Unitholders of 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))

We hereby confirm that, in our opinion, the Manager of Sunlight Real Estate Investment Trust has, in all material respects, managed Sunlight Real Estate Investment Trust in accordance with the provisions of the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) for the year ended 30 June 2017.

HSBC Institutional Trust Services (Asia) Limited

(in its capacity as the trustee of Sunlight Real Estate Investment Trust)

Hong Kong, 5 September 2017

Independent Auditor's Report



Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") and its subsidiaries (together the "**Group**") set out on pages 94 to 138, which comprise the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 30 June 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Key audit matters (continued)

Valuation of investment properties

Refer to note 11 to the consolidated financial statements and the accounting policy 2(h)

The key audit matter

The Group holds a portfolio of investment properties located in Hong Kong, which had an aggregate fair value of HK\$17,062 million and accounted for 93% of the Group's total assets as at 30 June 2017.

The fair values of the investment properties as at 30 June 2017 were assessed by Henderson Sunlight Asset Management Limited, as the manager of Sunlight REIT (the "Manager"), based on independent valuations prepared by a firm of qualified external property valuers.

The net changes in fair value of investment properties recorded in the consolidated statement of profit or loss represented 47% of the Group's profit before taxation for the year ended 30 June 2017.

The Group's property portfolio comprises office and retail properties in Hong Kong. The recent deterioration of the performance of the domestic retail market caused by the slowdown in tourist arrivals, the increasing new office supply and uncertainties about the global economic environment may lead to downward pressure on market rents, which in turn may also impact the valuation of the Group's office and retail investment properties.

We identified the valuation of the Group's investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of the changes in fair value of the investment properties to the profit before taxation of the Group and because the valuation of investment properties is complex and involves a significant degree of judgement and estimation in determining capitalisation rates and market rents.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following :

- obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the Manager's assessment of the valuation of investment properties was based;
- meeting the external property valuers, discussing the key estimates and assumptions adopted in their valuations, including the capitalisation rates, prevailing market rents and comparable market transactions, and assessing their qualifications and expertise in the properties being valued and their independence and objectivity;
- with the assistance of our internal property valuation specialists, assessing the valuation methodology applied by the external property valuers and comparing the key estimates and assumptions used by the valuers in their valuation of each investment property, including capitalisation rates and market rents, with available market data and government produced market statistics; and
- evaluating the tenancy information, including committed rents and occupancy rates, provided by the Manager to the external property valuers by inspecting the underlying contracts and relevant underlying documentation, on a sample basis.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Information other than the consolidated financial statements and auditor's report thereon

The Manager is responsible for the other information. The other information comprises all information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the consolidated financial statements

The Manager is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition, the Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**") and the relevant disclosure provisions set out in Appendix C of the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong.

The Manager is assisted by the Audit Committee in discharging its responsibility for overseeing the Group's financial reporting process.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also :

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code

In our opinion, the consolidated financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions set out in Appendix C of the REIT Code.

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

5 September 2017

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 | 7(c) | – | 91,154 |
| Net increase in fair value of investment properties | 11 | 384,159 | 412,417 |
| Profit from operations | | 918,763 | 1,023,097 |
| Finance costs on interest bearing liabilities | 8(a) | (106,899) | (128,767) |
| Profit before taxation and transactions with unitholders | 8 | 811,864 | 894,330 |
| Income tax | 9(a) | (68,364) | (69,010) |
| Profit after taxation and before transactions with unitholders | | 743,500 | 825,320 |

The notes on pages 102 to 138 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Profit after taxation and before transactions with unitholders | 743,500 | 825,320 |
| Other comprehensive income for the year | | |
| <i>Items that have been reclassified / may be reclassified subsequently to profit or loss :</i> | | |
| – 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 |

The notes on pages 102 to 138 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2017

(Expressed in Hong Kong dollars)

| | Note | 2017 \$'000 | 2016 \$'000 |
|--|------|-------------------|----------------|
| Non-current assets | | | |
| Fixed assets | 11 | | |
| – Investment properties | | 17,062,400 | 16,651,000 |
| – Other fixed assets | | 72 | 79 |
| | | 17,062,472 | 16,651,079 |
| Deferred tax assets | 9(c) | 435 | 305 |
| Derivative financial instruments | 13 | 7,374 | 816 |
| Prepayments | 15 | 1,587 | 4,626 |
| Reimbursement rights | 12 | 37,436 | 37,436 |
| Other financial assets | 14 | 61,377 | 61,871 |
| | | 17,170,681 | 16,756,133 |
| Current assets | | | |
| Trade and other receivables | 15 | 18,673 | 20,517 |
| Derivative financial instruments | 13 | 2,238 | 65 |
| Cash and bank balances | 16 | 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 | 17 | (193,073) | (185,368) |
| Rent receipts in advance | | (10,430) | (9,087) |
| Trade and other payables | 18 | (63,406) | (68,636) |
| Derivative financial instruments | 13 | (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)

| | Note | 2017 \$'000 | 2016 \$'000 |
|--|------|----------------------|----------------|
| Non-current liabilities, excluding net assets attributable to unitholders | | | |
| Bank borrowings | 19 | (3,901,882) | (3,895,868) |
| Deferred tax liabilities | 9(c) | (153,351) | (143,815) |
| Derivative financial instruments | 13 | (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 | | | |
| | 20 | 1,637,777,762 | 1,635,909,905 |
| Net asset value attributable to unitholders per unit | | | |
| | | \$8.49 | \$8.26 |

The consolidated financial statements on pages 94 to 138 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the "Manager"), on 5 September 2017 and were signed on its behalf by :

AU Siu Kee, Alexander

Chairman

WU Shiu Kee, Keith

Executive Director

The notes on pages 102 to 138 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

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

| | Note | 2017 \$'000 | 2016 \$'000 |
|--|------|-------------------|----------------|
| At the beginning of the year | | 13,518,103 | 13,097,140 |
| Profit after taxation and before transactions with unitholders | | 743,500 | 825,320 |
| Other comprehensive income | | 31,710 | (9,005) |
| Total comprehensive income for the year | | 775,210 | 816,315 |
| Distribution paid to unitholders | | (400,773) | (384,737) |
| Issuance of units to the Manager during the year | 20 | 43,031 | 44,249 |
| Units bought back | 20 | (35,968) | (54,662) |
| Units buy-back expenses | 20 | (124) | (202) |
| | | (393,834) | (395,352) |
| At the end of the year | | 13,899,479 | 13,518,103 |

The notes on pages 102 to 138 form part of these consolidated financial statements.

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 | 7(c) | – | (91,154) |
| – Net increase in fair value of investment properties | 11 | (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 | 8(a) | (7,014) | 26,567 |
| – Non-cash finance costs on interest bearing liabilities | | 29,292 | 11,800 |
| – Deferred tax | 9(a) | 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 |

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.

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 amortisation and write-off of debt 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 (see note 13).

Distribution Statement (continued)

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

Notes : (continued)

- (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 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 102 to 138 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

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

| | Note | 2017 \$'000 | 2016 \$'000 |
|--|------|------------------|----------------|
| Operating activities | | | |
| Profit before taxation and transactions with unitholders | | 811,864 | 894,330 |
| Adjustments : | | | |
| – Manager's fees paid or payable in the form of units | | 43,476 | 42,609 |
| – Net gain on disposals of investment properties and subsidiaries | 7(c) | – | (91,154) |
| – Net increase in fair value of investment properties | 11 | (384,159) | (412,417) |
| – Finance costs on interest bearing liabilities | 8(a) | 106,899 | 128,767 |
| – Depreciation | 11 | 35 | 33 |
| – Interest income | | (10,240) | (8,585) |
| – Unrealised foreign exchange gain | | (370) | (63) |
| Operating cash flow before changes in working capital | | 567,505 | 553,520 |
| Decrease in trade and other receivables | | 1,426 | 5,313 |
| Increase/(decrease) in tenants' deposits | | 7,705 | (1,831) |
| Increase/(decrease) in rent receipts in advance | | 1,343 | (1,375) |
| Increase/(decrease) in trade and other payables | | 2,353 | (141,125) |
| Cash generated from operations | | 580,332 | 414,502 |
| – Hong Kong Profits Tax refunded | | – | 137,623 |
| – Hong Kong Profits Tax paid | | (63,697) | (56,374) |
| Net cash generated from operating activities | | 516,635 | 495,751 |
| Investing activities | | | |
| Interest received | | 11,263 | 8,005 |
| Payment for acquisition of investment properties | | – | (15,052) |
| Net proceeds from disposals of investment properties and subsidiaries | 7(d) | – | 825,801 |
| Payment for expenditure incurred for investment properties | | (33,570) | (19,428) |
| Payment for purchase of other fixed assets | | (28) | (25) |
| Payment for purchase of held-to-maturity debt securities | | – | (62,375) |
| Decrease/(increase) in pledged deposits with original maturity over three months | | 118,576 | (31,990) |
| Decrease in bank deposits with original maturity over three months | | 17,619 | 18,210 |
| Net cash generated from investing activities | | 113,860 | 723,146 |
| Financing activities | | | |
| Distribution paid to unitholders | | (400,773) | (384,737) |
| Payment for buy-back of units | | (36,092) | (54,864) |
| Proceeds from new bank borrowings | | 3,925,000 | – |
| Repayment of bank borrowings | | (3,925,000) | (10,000) |
| Payment for unwinding of interest rate swaps | 13 | – | (22,197) |
| Interest paid | | (84,372) | (90,152) |
| Other borrowing costs paid | | (21,935) | (299) |
| Net cash used in financing activities | | (543,172) | (562,249) |
| Net increase in cash and cash equivalents | | 87,323 | 656,648 |
| Effect of foreign exchange rate changes | | 7 | – |
| Cash and cash equivalents at the beginning of the year | 16 | 998,567 | 341,919 |
| Cash and cash equivalents at the end of the year | 16 | 1,085,897 | 998,567 |

The notes on pages 102 to 138 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(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 Significant accounting policies

(a) Statement of compliance

These 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. These consolidated financial statements also comply with the relevant disclosure provisions of the Rules Governing the Listing of Securities on the SEHK as if those provisions were applicable to Sunlight REIT. Significant accounting policies adopted by the Group are disclosed below.

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.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2017 incorporate the financial statements of Sunlight REIT and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below :

- derivative financial instruments (see note 2(f)); and
- investment properties (see note 2(h)).

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 27.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

(d) Held-to-maturity debt securities

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire. Investments in debt securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses.

Impairment losses for held-to-maturity securities are recognised when there is objective evidence of impairment and are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate originally computed at initial recognition of the asset), where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as :

- significant financial difficulty of the debtor; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

(Expressed in Hong Kong dollars)

2 Significant accounting policies (continued)

(e) Unitholders' funds as a financial liability

In accordance with the Trust Deed, Sunlight REIT has a limited life of 80 years less 1 day from the date of commencement of Sunlight REIT. In addition, Sunlight REIT is required to distribute to unitholders no less than 90% of its annual distributable income for each financial year in accordance with the Trust Deed and the REIT Code. Accordingly, the units contain contractual obligations to pay cash dividends and also upon the termination of Sunlight REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Sunlight REIT less any liabilities, in accordance with their proportionate interests in Sunlight REIT at the date of its termination. The unitholders' funds are therefore classified as financial liabilities in accordance with HKAS 32, *Financial instruments : Presentation*. It is shown on the consolidated statement of financial position as "Net assets attributable to unitholders".

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(g)).

(g) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in other comprehensive income and accumulated separately in net assets attributable to unitholders. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

The associated gain or loss is reclassified from net assets attributable to unitholders to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in net assets attributable to unitholders until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from net assets attributable to unitholders to profit or loss immediately.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(q)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

2 Significant accounting policies (continued)

(i) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Gains or losses arising from the retirement or disposal of an item of other fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows :

| | |
|--------------------------|-------------|
| – Furniture and fixtures | 3 – 5 years |
|--------------------------|-------------|

Where parts of an item of other fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that other fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an item of other fixed assets is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an item of other fixed assets exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(h)).

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment losses of doubtful debts, except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses of doubtful debts.

Impairment losses for doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for rental receivables included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against rental receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(l) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2 Significant accounting policies (continued)

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in net assets attributable to unitholders, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in net assets attributable to unitholders, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(Expressed in Hong Kong dollars)

2 Significant accounting policies (continued)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movement therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met :

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either :
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows :

- (i) Rental income from operating leases
Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (ii) Car park income and rental related income
Car park income and rental related income are recognised as revenues on the accrual basis.
- (iii) Interest income
Interest income is recognised as it accrues using the effective interest method.

2 Significant accounting policies *(continued)*

(r) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(s) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person :
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies :
 - (i) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (ii) The entity is controlled or jointly controlled by a person identified in (a).
 - (iii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.
 - (iv) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Manager's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the settlements have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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 |

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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* |

* Included acquisition of investment properties amounting to \$23,713,000.

4 Revenue

Revenue represents gross income generated from leasing of investment properties. The amount of each significant category of revenue recognised 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 \$'000 | 2016 \$'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 \$'000 | 2016 \$'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 Disposals of investment properties and subsidiaries

During the year ended 30 June 2016, the Group completed the disposals of certain investment properties and subsidiaries, including (i) exchange of properties at gross considerations of \$13,800,000 and \$5,800,000 respectively for each of the property disposed of and the property acquired; and (ii) disposals of two subsidiaries and one investment property at an adjusted aggregate consideration of \$920,540,000.

(a) The assets and liabilities attributed to the subsidiaries which were disposed of at 31 July 2015 are as follows :

| | 31 July 2015 \$'000 |
|--|------------------------|
| Investment properties | 580,800 |
| Reimbursement rights | 6,115 |
| Deferred tax assets | 6 |
| Trade and other receivables | 550 |
| Tax recoverable | 2 |
| Total assets of disposal groups | 587,473 |
| Tenants' deposits | 5,311 |
| Rent receipts in advance | 3 |
| Trade and other payables | 6,406 |
| Deferred tax liabilities | 4,254 |
| Total liabilities directly associated with the assets of disposal groups | 15,974 |
| Net assets disposed of | 571,499 |

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

7 Disposals of investment properties and subsidiaries (continued)

(b) The completion of disposals of investment properties with a carrying amount of \$261,700,000 were taken place on 3 July 2015 and 31 August 2015 respectively.

(c) The net gain on disposals of investment properties and subsidiaries for the year ended 30 June 2016 is as follows :

| | \$'000 |
|---|---------------|
| Total consideration | |
| – Cash consideration | 928,540 |
| – Exchange of properties | 5,800 |
| | 934,340 |
| Less : Transaction costs | (9,987) |
| Less : Net assets of the subsidiaries disposed of (note 7(a)) | (571,499) |
| Less : Investment properties (note 7(b)) | (261,700) |
| | 91,154 |
| Net gain on disposals of investment properties and subsidiaries | 91,154 |
| Represented by : | |
| Net gain on disposals of investment properties | 31,013 |
| Net gain on disposals of subsidiaries | 60,141 |
| | 91,154 |

(d) The net cash inflow of cash and cash equivalents in respect of the disposals of investment properties and subsidiaries for the year ended 30 June 2016 is as follows :

| | Disposals of investment properties \$'000 | Disposals of subsidiaries \$'000 | Total \$'000 |
|--------------------------|--|---|-------------------------|
| Total cash consideration | 290,000 | 638,540 | 928,540 |
| Less : Deposits received | (29,000) | (63,752) | (92,752) |
| Less : Transaction costs | (3,087) | (6,900) | (9,987) |
| Net proceeds | 257,913 | 567,888 | 825,801 |

8 Profit before taxation and transactions with unitholders

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

| | 2017 \$'000 | 2016 \$'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 amortisation of the debt establishment fees for the bank borrowings (note 19).

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| (b) Other items | | |
| Manager's fees | 86,953 | 85,218 |
| Property Manager's fees (notes (i) and (iii)) | 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.
- (iii) For the year ended 30 June 2017, 65.8% (2016 : 62.4%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounting for 45.1% (2016 : 40.1%). The largest supplier, being the Property Manager, is a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"); the latter is interested in more than 5% of the total number of units in issue of Sunlight REIT.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

9 Income tax

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

| | 2017 \$'000 | 2016 \$'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 |

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 Income tax (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rate :

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Profit before taxation and transactions with unitholders | 811,864 | 894,330 |
| Notional tax on profit before taxation and transactions with unitholders, calculated at the Hong Kong Profits Tax rate of 16.5% | 133,958 | 147,564 |
| Tax effect of non-deductible expenses | 19,594 | 17,573 |
| Tax effect of non-taxable income | (79,686) | (97,080) |
| Tax effect of current year's tax losses not recognised | 23 | 1,355 |
| Tax effect of prior years' tax losses and other temporary differences recognised/derecognised | (3,519) | (10) |
| Tax effect of prior years' tax losses utilised in the current year | (1,658) | (34) |
| Over-provision in respect of prior years | (348) | (358) |
| Actual tax expense | 68,364 | 69,010 |

(c) Deferred tax assets and liabilities recognised :

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows :

| Deferred tax arising from : | Depreciation allowances in excess of related depreciation \$'000 | Reclassification of assets to investment properties \$'000 | Tax losses \$'000 | Total \$'000 |
|--|---|---|----------------------|-----------------|
| At 1 July 2015 | 132,822 | 159,709 | (1,479) | 291,052 |
| Charged to profit or loss | 11,952 | – | 291 | 12,243 |
| Credited to reimbursement rights (note 12) | – | (159,709) | – | (159,709) |
| Transfer to assets held for sale | (48) | – | (28) | (76) |
| At 30 June 2016 | 144,726 | – | (1,216) | 143,510 |
| At 1 July 2016 | 144,726 | – | (1,216) | 143,510 |
| Charged/(credited) to profit or loss | 12,300 | – | (2,894) | 9,406 |
| At 30 June 2017 | 157,026 | – | (4,110) | 152,916 |

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

9 Income tax (continued)

(c) Deferred tax assets and liabilities recognised : (continued)

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Represented by : | | |
| Net deferred tax assets recognised in the consolidated statement of financial position | (435) | (305) |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | 153,351 | 143,815 |
| | 152,916 | 143,510 |

(d) Deferred tax assets not recognised :

In accordance with the accounting policy set out in note 2(o), the Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries of \$60,918,000 (2016 : \$92,231,000) as it is probable that sufficient future taxable profits will not be available against which the deductible unused tax losses can be utilised. The Hong Kong tax losses do not expire under current tax legislation.

10 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.

11 Fixed assets

| | Furniture and fixtures \$'000 | Investment properties \$'000 | Total \$'000 |
|-----------------------------------|-------------------------------------|------------------------------------|-----------------|
| Cost or valuation : | | | |
| At 1 July 2015 | 212 | 16,192,800 | 16,193,012 |
| Additions | 25 | 45,783 | 45,808 |
| Net increase in fair value | – | 412,417 | 412,417 |
| At 30 June 2016 | 237 | 16,651,000 | 16,651,237 |
| Representing : | | | |
| Cost | 237 | – | 237 |
| Valuation – 2016 | – | 16,651,000 | 16,651,000 |
| | 237 | 16,651,000 | 16,651,237 |
| At 1 July 2016 | 237 | 16,651,000 | 16,651,237 |
| Additions | 28 | 27,241 | 27,269 |
| Net increase in fair value | – | 384,159 | 384,159 |
| At 30 June 2017 | 265 | 17,062,400 | 17,062,665 |
| Representing : | | | |
| Cost | 265 | – | 265 |
| Valuation – 2017 | – | 17,062,400 | 17,062,400 |
| | 265 | 17,062,400 | 17,062,665 |
| Accumulated depreciation : | | | |
| At 1 July 2015 | 125 | – | 125 |
| Charge for the year | 33 | – | 33 |
| At 30 June 2016 | 158 | – | 158 |
| At 1 July 2016 | 158 | – | 158 |
| Charge for the year | 35 | – | 35 |
| At 30 June 2017 | 193 | – | 193 |
| Net book value : | | | |
| At 30 June 2017 | 72 | 17,062,400 | 17,062,472 |
| At 30 June 2016 | 79 | 16,651,000 | 16,651,079 |

(Expressed in Hong Kong dollars)

11 Fixed assets (continued)

(a) Fair value measurement of investment properties

Fair value hierarchy

HKFRS 13, *Fair value measurement*, requires the fair value of investment properties 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

The Group's investment properties measured at fair value are not categorised as Level 1 and Level 2 valuations.

During the years ended 30 June 2017 and 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 occur.

Valuation process

The investment properties were appraised at 30 June 2017 and 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.

The Manager has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation was performed at each interim and annual reporting date and was reviewed and approved by senior management.

Valuation methodologies

The fair values of the Group's investment properties at 30 June 2017 and 2016 were arrived at using the income capitalisation approach cross-referenced to the direct comparison approach. The income capitalisation approach is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The direct comparison approach is based on comparing the properties to be valued directly with other comparable properties which recently changed hands.

11 Fixed assets (continued)

(a) Fair value measurement of investment properties (continued)

Level 3 valuation methodologies

The following table presents the significant unobservable inputs :

| | 30 June 2017 | | |
|--------------|-------------------|---------------------|----------------|
| | Market unit rent | Capitalisation rate | Occupancy rate |
| In Hong Kong | | | |
| – Office | \$13.3 to \$40.0 | 3.65% to 4.00% | 85.0% to 100% |
| – Retail | \$16.4 to \$150.0 | 3.60% to 4.50% | 75.2% to 100% |

| | 30 June 2016 | | |
|--------------|-------------------|---------------------|----------------|
| | Market unit rent | Capitalisation rate | Occupancy rate |
| In Hong Kong | | | |
| – Office | \$13.0 to \$38.3 | 3.65% to 4.00% | 93.6% to 100% |
| – Retail | \$15.8 to \$158.0 | 3.60% to 4.50% | 58.0% to 100% |

The fair value measurement of investment property is positively correlated to the market unit rent and the occupancy rate and negatively correlated to the capitalisation rate.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

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

| | 2017 \$'000 | 2016 \$'000 |
|----------------------|-------------------|----------------|
| In Hong Kong | | |
| – long leases | 8,068,400 | 7,669,600 |
| – medium-term leases | 8,994,000 | 8,981,400 |
| | 17,062,400 | 16,651,000 |

(c) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 19).

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 certain subsidiaries of Shau Kee Financial Enterprises Limited (“SKFE”), 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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

13 Derivative financial instruments

| | 2017 | | | 2016 | | |
|---|------------------|-----------------------|----------------------|------------------|-----------------------|----------------------|
| | 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 | 2,238 | (10,424) | (8,186) | 65 | (18,401) | (18,336) |
| Non-current portion | 7,374 | (252) | 7,122 | 816 | (22,268) | (21,452) |
| | 9,612 | (10,676) | (1,064) | 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 year ended 30 June 2017, the Group has redesignated certain of its cash flow hedging relationships upon entering into certain Basis Swaps with an aggregate notional amount of \$700,000,000 (2016 : \$1,550,000,000). As a result of the redesignation, the net cumulative unrealised losses on the selected existing IRSs amounting to \$4,531,000 (2016 : \$4,370,000) were reclassified from net assets attributable to unitholders to profit or loss for the year.

Meanwhile, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps in the current and prior years amounting to \$9,436,000 were reclassified from profit or loss to net assets attributable to unitholders. As at 30 June 2017, the Group assessed the effectiveness of its cash flow hedges and identified an ineffective cash flow hedging relationship and certain ineffectiveness. As a result, net cumulative unrealised gains and fair value gain of ineffective hedges amounting to \$659,000 and \$1,450,000 respectively were reclassified from net assets attributable to unitholders and charged to profit or loss for the year.

At 30 June 2017, the net cumulative unrealised losses on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to \$3,708,000 (2016 : \$35,418,000).

During the year ended 30 June 2016, the Group 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 that year.

At 30 June 2017, the Group had IRSs and Basis Swaps in place with an aggregate notional amount of \$3,100,000,000 (2016 : \$2,800,000,000) and \$2,250,000,000 (2016 : \$1,550,000,000) respectively. The IRSs and Basis Swaps will mature between September 2017 to September 2022 (2016 : September 2017 to September 2022) and September 2017 to August 2020 (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 1.670% per annum (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

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Held-to-maturity debt securities | | |
| Listed in Hong Kong | 19,795 | 19,786 |
| Listed outside Hong Kong | 41,582 | 42,085 |
| | 61,377 | 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

| | 2017 \$'000 | 2016 \$'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 recognised 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 \$'000 | 2016 \$'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 |

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

15 Trade and other receivables (continued)

Rental receivables that were neither overdue nor impaired relate to a wide range of tenants for whom there was no recent history of default.

Rental receivables that were past due but not impaired relate to a number of independent tenants that have a good track record with the Group. Based on past experience, the Manager believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. In addition, the Group has collected rental deposits from its tenants which the Manager considered adequate to cover the outstanding rental receivables. Further details on the Group's credit policy are set out in note 21(a).

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

16 Cash and bank balances

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Pledged bank balances and deposits with original maturity within three months (note 19) | – | 512,738 |
| Deposits with original maturity within three months | 1,038,463 | 436,303 |
| Cash at bank and in hand | 47,434 | 49,526 |
| Cash and cash equivalents | 1,085,897 | 998,567 |
| Pledged deposits with original maturity over three months (note 19) | – | 118,576 |
| Deposits with original maturity over three months | – | 17,619 |
| | 1,085,897 | 1,134,762 |

17 Tenants' deposits

The tenants' deposits include \$118,131,000 (2016 : \$113,804,000) which is expected to be settled after more than one year. If tenancies are not renewed upon expiry, the remaining balances are expected to be settled within one year.

18 Trade and other payables

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Creditors and accrued charges | 33,451 | 39,216 |
| Manager's fees payable (note 26(b)(ii)) | 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 \$1,149,000 (2016 : \$1,068,000) which is due within 30 days.

19 Bank borrowings

| | 2017 \$'000 | 2016 \$'000 |
|-----------------|------------------|----------------|
| Bank borrowings | | |
| – Secured | 2,590,831 | 3,895,868 |
| – Unsecured | 1,311,051 | – |
| | 3,901,882 | 3,895,868 |

The bank borrowings were repayable as follows :

| | 2017 \$'000 | 2016 \$'000 |
|----------------------------------|------------------|----------------|
| After 1 year but within 2 years | – | 2,339,616 |
| After 2 years but within 5 years | 3,901,882 | 1,556,252 |
| | 3,901,882 | 3,895,868 |

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 0.52% per annum to HIBOR plus 0.79% per annum (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.

Secured bank borrowings are guaranteed on a joint and several basis by the Trustee (in its capacity as trustee of Sunlight REIT) and Sunlight REIT Holding Limited, the holding company of all other subsidiaries of the Group, and are also secured by, among others, the following :

- mortgages over the investment properties with a fair value of \$9,968,000,000 at 30 June 2017 (2016 : \$14,278,600,000) (note 11); 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.

At 30 June 2016, in addition to the above securities, the secured bank borrowings were also secured by, among others, the following :

- floating charge over bank balances of \$27,934,000 and \$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; and
- 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.

The effective interest rate of the bank borrowings at the end of the reporting period was 1.72% per annum (2016 : 2.17% per annum). The carrying amounts of the bank borrowings approximate their fair values.

20 Units in issue

| | Number of units | |
|-----------------------------------|----------------------|---------------|
| | 2017 | 2016 |
| At the beginning of the year | 1,635,909,905 | 1,638,486,780 |
| Issuance of units during the year | 9,414,857 | 11,371,125 |
| Units bought back | (7,547,000) | (13,948,000) |
| At the end of the year | 1,637,777,762 | 1,635,909,905 |

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

20 Units in issue (continued)

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

| Payment of the Manager's fees for the year | Average issue price per unit determined based on the Trust Deed \$ | Aggregate amount of units issued \$'000 | Number of units issued |
|---|--|---|------------------------|
| 2017 | | | |
| 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 |
| 1 October 2016 to 31 December 2016 | 4.4660 | 10,665 | 2,388,068 |
| 1 January 2017 to 31 March 2017 | 4.5920 | 10,979 | 2,391,062 |
| | | 43,031 | 9,414,857 |
| 2016 | | | |
| 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 |

Pursuant to the general mandate granted to the Manager by unitholders, the Group bought back a total of 7,547,000 units (2016 : 13,948,000 units) on the SEHK during the year ended 30 June 2017 at an aggregate consideration of \$35,968,000 (2016 : \$54,662,000).

Details of the buy-backs were as follows :

| | Number of units bought back | Price per unit | | Aggregate consideration \$'000 |
|--------------------------|-----------------------------|----------------|-----------|--------------------------------|
| | | Highest \$ | Lowest \$ | |
| 2017 | | | | |
| 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 |
| 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 |
| | 7,547,000 | | | 35,968 |
| Total buy-back expenses | | | | 124 |
| | | | | 36,092 |

20 Units in issue (continued)

Details of the buy-backs were as follows : (continued)

| | Number of units bought back | Price per unit | | Aggregate consideration \$'000 |
|--------------------------|--------------------------------|----------------|--------------|--------------------------------------|
| | | Highest \$ | Lowest \$ | |
| 2016 | | | | |
| 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 year.

21 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from the potential failure of the Group's counterparties to meet their obligations under financial contracts. The Group is exposed to credit risk on its cash at bank and deposits with banks and financial institutions, listed debt investments as well as trade and other receivables.

The credit risk on listed debt investments is limited as all the instruments have investment grade granted by certain credit rating agencies.

In respect of credit exposures to tenants, credit risk exposure is minimised by undertaking transactions with a large number of counterparties and conducting credit reviews on prospective tenants. The Group also has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate provision for impairment losses is made for irrecoverable amounts.

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.

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

21 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

The Group maintains sufficient cash reserve and committed lines of funding from financial institutions with sound credit ratings to meet its liquidity requirements in the short and longer term.

The Group also monitors regularly its current and expected liquidity requirements and its compliance with lending covenants and limits on total borrowings as stipulated under the REIT Code.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay :

| | 2017 | | | | | Carrying amount \$'000 |
|---|--|---|--|--------------------------------|------------------|---------------------------|
| | Contractual undiscounted cash outflow | | | | | |
| | Within 1 year or on demand \$'000 | More than 1 year but less than 2 years \$'000 | More than 2 years but less than 5 years \$'000 | More than 5 years \$'000 | Total \$'000 | |
| Bank borrowings | 47,504 | 47,504 | 4,033,923 | – | 4,128,931 | 3,901,882 |
| Derivative financial instruments (net settled) | 18,635 | 14,614 | 15,185 | 555 | 48,989 | 1,064 |
| Tenants' deposits | 74,942 | 57,801 | 54,932 | 5,398 | 193,073 | 193,073 |
| Creditors and accrued charges | 33,451 | – | – | – | 33,451 | 33,451 |
| Manager's fees payable in the form of cash | 11,293 | – | – | – | 11,293 | 11,293 |
| Amounts due to related companies | 7,370 | – | – | – | 7,370 | 7,370 |
| | 193,195 | 119,919 | 4,104,040 | 5,953 | 4,423,107 | 4,148,133 |

| | 2016 | | | | | Carrying amount \$'000 |
|---|--|---|--|--------------------------------|------------------|---------------------------|
| | Contractual undiscounted cash outflow | | | | | |
| | Within 1 year or on demand \$'000 | More than 1 year but less than 2 years \$'000 | More than 2 years but less than 5 years \$'000 | More than 5 years \$'000 | Total \$'000 | |
| Bank borrowings | 62,510 | 2,398,765 | 1,614,153 | – | 4,075,428 | 3,895,868 |
| Derivative financial instruments (net settled) | 22,843 | 21,156 | 27,892 | 3,440 | 75,331 | 39,788 |
| Tenants' deposits | 71,564 | 71,934 | 34,605 | 7,265 | 185,368 | 185,368 |
| Creditors and accrued charges | 39,216 | – | – | – | 39,216 | 39,216 |
| Manager's fees payable in the form of cash | 10,848 | – | – | – | 10,848 | 10,848 |
| Amounts due to related companies | 7,724 | – | – | – | 7,724 | 7,724 |
| | 214,705 | 2,491,855 | 1,676,650 | 10,705 | 4,393,915 | 4,178,812 |

21 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings raised at variable interest rates expose the Group to cash flow interest rate risk. The Group managed its cash flow interest rate risk by using floating-to-fixed IRSs (and in some cases, supplemented by Basis Swaps). Such interest rate swap arrangements have the economic effect of converting borrowings from floating rates to fixed rates. Under the IRSs, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Under the Basis Swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between agreed floating rates interest amounts calculated by reference to the agreed notional principal amounts. Details regarding the IRSs and Basis Swaps are set out in note 13.

Sensitivity analysis

At 30 June 2017, if interest rates had been 100 basis points (2016 : 100 basis points) higher with all other variable held constant, the net assets attributable to unitholders would have been approximately \$60.1 million (2016 : \$80.4 million) higher as a result of an increase in the fair values of the cash flow hedges as described above. On the other hand, if interest rates had been 10 basis points (2016 : 10 basis points) lower with all other variable held constant, the net assets attributable to unitholders would have been approximately \$6.0 million (2016 : \$8.2 million) lower as a result of a decrease in the fair values of the cash flow hedges.

At 30 June 2017, if interest rates had been 100 basis points (2016 : 100 basis points) higher with all other variable held constant, the Group's profit after taxation and before transactions with unitholders and net assets attributable to unitholders would have been approximately \$6.9 million (2016 : \$9.4 million) lower as a result of higher interest expenses on floating rate borrowings. On the other hand, if interest rates had been 10 basis points (2016 : 10 basis points) lower with all other variable held constant, the Group's profit after taxation and before transactions with unitholders and net assets attributable to unitholders would have been approximately \$0.7 million (2016 : \$0.9 million) higher as a result of lower interest expenses on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. The 100 basis point increase and 10 basis point decrease in interest rates represent the Manager's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

(d) Fair values

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

HKFRS 13, *Fair value measurement*, requires the fair value of 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

(Expressed in Hong Kong dollars)

21 Financial risk management and fair values of financial instruments (continued)

(d) Fair values (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

At 30 June 2017 and 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 years ended 30 June 2017 and 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.

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.

(ii) 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 30 June 2017 and 2016.

(e) Estimation of fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of IRSs and Basis Swaps is calculated as the present value of the estimated future cash flows.

22 Capital management

The Group's primary objective is to provide its unitholders risk-adjusted, long-term capital growth through investing in a diversified portfolio of office and retail properties in Hong Kong.

The Manager aims to support Sunlight REIT's operational and acquisition growth strategies within a prudent risk management framework, by employing an efficient capital management strategy.

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

In accordance to clause 7.9 of the REIT Code and clause 20.4 of the Trust Deed, Sunlight REIT's aggregate borrowings shall not exceed 45 per cent of the total gross asset value of the scheme. In the event that the limit is exceeded, the unitholders and the Securities and Futures Commission (the "SFC") shall be informed of the magnitude of the breach, the cause of the breach, and the proposed method of rectification. In cases where there is a breach, no further borrowing is permitted and the Manager shall use its best endeavours to reduce the excess borrowings. Furthermore, the unitholders and the SFC shall be informed on a regular basis as to the progress of the rectification. At 30 June 2017, Sunlight REIT's aggregate borrowings represent 21.5% (2016 : 21.9%) of its total gross asset value.

23 Capital commitments

Capital commitments outstanding at 30 June 2017 not provided for in the consolidated financial statements are as follows :

| | 2017 \$'000 | 2016 \$'000 |
|-----------------------------------|----------------|----------------|
| Contracted for | 18,622 | 20,127 |
| Authorised but not contracted for | 16,570 | 16,980 |
| | 35,192 | 37,107 |

24 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 (2016 : \$4,585,000).

25 Significant leasing arrangements

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows :

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------|------------------|----------------|
| Within 1 year | 611,730 | 626,681 |
| After 1 year but within 5 years | 583,630 | 494,050 |
| After 5 years | 12,743 | 29,238 |
| | 1,208,103 | 1,149,969 |

The operating leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

26 Connected party transactions and material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, 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 year :

(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 |

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

(b) Transactions with connected persons/related parties

| | 2017 | 2016 |
|--|-----------------|---------------|
| | \$'000 | \$'000 |
| Rental and rental related income received/receivable from (note (i)) : | | |
| – HLD Group | 10,658 | 10,556 |
| – HSBC Group | 20,213 | 20,066 |
| Property management expenses paid/payable to (note (i)) : | | |
| – HLD Group | (14,921) | (15,888) |
| Facilities leasing expenses paid/payable to (note (i)) : | | |
| – HLD Group | (90) | (89) |
| Manager's fees (note (iii)) | (86,953) | (85,218) |
| Property Manager's fees (note (iii)) | (51,158) | (47,887) |
| Trustee's remuneration and charges (note (iv)) | (4,429) | (4,355) |
| Interest expenses, debt establishment fees, security trustee and other charges on bank borrowings, brokerage commission and other bank charges paid/payable to (notes (i) and (v)) : | | |
| – HSBC Group | (23,393) | (15,293) |
| Net interest expenses on IRSs and Basis Swaps paid/payable to (note (v)) : | | |
| – HSBC Group | (10,193) | (15,174) |
| Interest income on bank deposits received/receivable from (note (i)) : | | |
| – HSBC Group | 62 | 114 |
| Cost for unwinding of IRSs paid to (note 13) : | | |
| – HSBC Group | – | (7,504) |
| Valuation fees and other charges paid/payable to (note (i)) : | | |
| – Knight Frank Group | (557) | (500) |
| Promotional income received/receivable from (note (i)) : | | |
| – HLD Group | 1,967 | 2,105 |
| Promotional expenses paid/payable to (note (i)) : | | |
| – HLD Group | (6) | – |
| Additional consideration paid to (note (vi)) : | | |
| – HLD Group and SKFE Group | – | (1,479) |
| Tax indemnity received from (note (vii)) : | | |
| – HLD Group | – | 152 |

(Expressed in Hong Kong dollars)

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

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

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 10 June 2016, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2017 to be paid 50% in the form of cash and 50% in the form of units. On 20 June 2017, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2018.

- (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 19.
- (vi) On 2 December 2006, the Group acquired certain companies from the Vendors by entering into several sale and purchase agreements, which included clauses providing for additional consideration to be payable for the purchase of shares in companies having tax loss benefits, in an amount equivalent to the tax loss benefits of those companies that are utilised by the Group to offset tax liabilities which would otherwise arise. Those clauses were clarified by way of letter agreements in the financial year ended 30 June 2016. Pursuant to those agreements as clarified, the Group agreed to pay additional consideration in respect of the tax loss benefits so utilised.
- (vii) Pursuant to the tax indemnity provided by the Vendors as set out in note 12, the Vendors agreed to pay tax indemnity in respect of clawback of depreciation allowance that are realised.

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

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

| | 2017 \$'000 | 2016 \$'000 |
|--|--------------------|------------------|
| Net amount due to : | | |
| – HLD Group | (30,632) | (29,977) |
| – HSBC Group (note) | (1,176,716) | (985,031) |
| – Knight Frank Group | (352) | (300) |
| Note : | | |
| Deposits and cash placed with HSBC Group | 80,241 | 71,247 |
| Bank borrowings and interest payable to HSBC Group | (1,250,067) | (1,050,076) |
| Others | (6,890) | (6,202) |
| | (1,176,716) | (985,031) |

27 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Valuation of investment properties

In arriving at the fair value of the investment properties, the Manager has considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rates.

(b) Recognition of deferred tax assets

At 30 June 2017, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately \$24,910,000 (2016 : \$7,374,000). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the asset can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

28 Non-adjusting event after the reporting period

After the end of the reporting period, the Board of Directors of the Manager declared final and special distributions. Further details are disclosed in the "Distribution Statement" of the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2017

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 30 June 2017 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|--|
| Amendments to HKAS 7, <i>Statement of cash flows : Disclosure initiative</i> | 1 January 2017 |
| Amendments to HKAS 12, <i>Income taxes : Recognition of deferred tax assets for unrealised losses</i> | 1 January 2017 |
| <i>Annual improvements to HKFRSs 2014–2016 Cycle</i> | 1 January 2018 |
| Amendments to HKAS 40, <i>Transfers of investment property</i> | 1 January 2018 |
| HKFRS 9, <i>Financial instruments</i> | 1 January 2018 |
| HKFRS 15, <i>Revenue from contracts with customers</i> | 1 January 2018 |
| HKFRS 16, <i>Leases</i> | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements. However, certain aspects of HKFRS 9 may have an impact on the consolidated financial statements; further details of the expected impacts are discussed below.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments : Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's consolidated financial statements are as follows :

(a) *Classification and measurement*

HKFRS 9 contains three principal classification categories for financial assets : measured at (1) amortised cost, (2) fair value through profit or loss ("**FVTPL**") and (3) fair value through other comprehensive income ("**FVTOCI**").

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2017 (continued)

HKFRS 9, *Financial instruments* (continued)

(b) *Impairment*

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group’s trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) *Hedge accounting*

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

30 Principal subsidiaries

Details of the principal subsidiaries of Sunlight REIT which, in the opinion of the Manager, materially contribute to the results of the Group or hold a material portion of the assets or liabilities of the Group are as follows :

| Name of subsidiary | Place of incorporation/operation | Particulars of issued share capital | % of shares held by | | |
|---------------------------------|--------------------------------------|--|---------------------|--------------|---------------------|
| | | | Sunlight REIT | a subsidiary | Principal activity |
| Sunlight REIT Holding Limited | Cayman Islands | 1 share of US\$1 | 100 | – | Investment holding |
| Bayman Limited | British Virgin Islands/ Hong Kong | 1 share | – | 100 | Property investment |
| Bestguard Investment Limited | Hong Kong | 2 ordinary shares | – | 100 | Property investment |
| Glory Good Development Limited | Hong Kong | 1,000 ordinary shares | – | 100 | Property investment |
| Glory Hero Development Limited | Hong Kong | 3,000,000 ordinary shares | – | 100 | Property investment |
| Grand Faith Development Limited | Hong Kong | 10,000,000 ordinary shares and 2 non-voting deferred shares | – | 100 | Property investment |
| Harzone Limited | Hong Kong | 1,000 ordinary shares | – | 100 | Property investment |
| Jetwise Investment Limited | Hong Kong | 10,000,000 ordinary shares and 10,000 non-voting deferred shares | – | 100 | Property investment |

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

30 Principal subsidiaries (continued)

Details of the principal subsidiaries of Sunlight REIT which, in the opinion of the Manager, materially contribute to the results of the Group or hold a material portion of the assets or liabilities of the Group are as follows : (continued)

| Name of subsidiary | Place of incorporation/ operation | Particulars of issued share capital | % of shares held by | | Principal activity |
|--------------------------------|--------------------------------------|--|---------------------|--------------|---------------------------------|
| | | | Sunlight REIT | a subsidiary | |
| Nicetex Development Limited | Hong Kong | 2 ordinary shares and 2 non-voting deferred shares | – | 100 | Property investment |
| Russum Company Limited | Hong Kong | 10,000,000 ordinary shares and 1,000 non-voting deferred shares | – | 100 | Property investment |
| Seiren Investment Limited | Hong Kong | 10,000 ordinary shares | – | 100 | Property investment |
| Sunlight Crownwill Limited | British Virgin Islands/ Hong Kong | 1 share | – | 100 | Property investment |
| Sunlight REIT Finance Limited | British Virgin Islands/ Hong Kong | 1 share | – | 100 | Provision of finance functions |
| Sunlight REIT Treasury Limited | British Virgin Islands/ Hong Kong | 1 share | – | 100 | Provision of treasury functions |
| Sunlight REIT ULF Limited | British Virgin Islands/ Hong Kong | 1 share | – | 100 | Provision of finance functions |
| Tinselle Investment Limited | Hong Kong | 10,000,000 ordinary shares and 10,000 non-voting deferred shares | – | 100 | Property investment |

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

| | Note | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|------|---------------|--------|--------|--------|--------|
| At 30 June : | | | | | | |
| Net asset value (\$ million) | | 13,899 | 13,518 | 13,097 | 11,495 | 10,532 |
| Net asset value per unit | | 8.49 | 8.26 | 7.99 | 7.06 | 6.52 |
| Market capitalisation (\$ million) | | 8,385 | 7,231 | 6,472 | 5,322 | 5,124 |
| For the year ended 30 June : | | | | | | |
| Highest traded unit price | | 5.25 | 4.44 | 4.09 | 3.37 | 3.92 |
| 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 | 2.71 | 2.61 |
| Highest discount of the traded unit price to net asset value per unit (%) | | 48.4 | 57.9 | 61.8 | 61.6 | 60.0 |
| Closing unit price | | 5.12 | 4.42 | 3.95 | 3.27 | 3.17 |
| Distribution per unit (cents) | 2 | 33.0 | 24.3 | 22.0 | 20.0 | 17.7 |
| Payout ratio (%) | 2 | 124.3 | 95.8 | 95.9 | 94.8 | 93.1 |
| Distribution yield per unit (%) | 3 | 6.4 | 5.5 | 5.6 | 6.1 | 5.6 |

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of each financial year.
2. Including a special distribution of 7.5 cents in 2017.
3. Distribution yield per unit is calculated by dividing the distribution per unit by the closing unit price of the year.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of unitholders ("**Unitholders**") of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") will be held at The Ballroom, 18th Floor, The Mira Hong Kong, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Friday, 27 October 2017 at 10:00 a.m. for the following purposes :

- (1) To note the audited financial statements of Sunlight REIT together with the Auditor's Report for the year ended 30 June 2017;
- (2) To note the appointment of Auditor of Sunlight REIT and the fixing of their remuneration; and
- (3) To consider and, if thought fit, pass with or without modification, the following resolution as an Ordinary Resolution :

"THAT :

- (a) the exercise by Henderson Sunlight Asset Management Limited (the "**Manager**") during the Relevant Period (as defined in paragraph (c) below) of all the powers of the Manager to buy back units of Sunlight REIT ("**Units**") on behalf of Sunlight REIT on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), subject to and in accordance with the circular dated 31 January 2008 issued by the Securities and Futures Commission (the "**SFC**") to management companies of SFC-authorized real estate investment trusts ("**REITs**") in relation to on-market unit repurchases by SFC-authorized REITs, paragraph (b) below, the trust deed constituting Sunlight REIT dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**"), the applicable laws of Hong Kong, the Code on Real Estate Investment Trusts, the applicable provisions of the Codes on Takeovers and Mergers and Share Buy-backs, the guidelines issued by the SFC from time to time, and applicable rules and regulations, be and is hereby generally and unconditionally approved;
- (b) the aggregate number of Units which may be bought back or agreed to be bought back on the Stock Exchange by the Manager on behalf of Sunlight REIT pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate number of Units in issue at the date of the passing of this resolution, and such approval shall be limited accordingly; and
- (c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until the earliest of :
 - (i) the conclusion of the next annual general meeting of Unitholders following the passing of this resolution;
 - (ii) the expiration of the period within which the meeting referred to in (i) above is required to be held under the Trust Deed; and
 - (iii) the revocation or variation of the authority conferred by this resolution by an ordinary resolution of Unitholders at a general meeting."

By order of the Board

HENDERSON SUNLIGHT ASSET MANAGEMENT LIMITED

(as manager of Sunlight Real Estate Investment Trust)

CHUNG Siu Wah

Company Secretary

Hong Kong, 21 September 2017

Notes :

- (a) Pursuant to the Trust Deed, every Unitholder is entitled to appoint no more than two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder.
- (b) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "**Unit Registrar**") no later than 10:00 a.m. on Wednesday, 25 October 2017, or not less than 48 hours before the time appointed for holding of any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjournment thereof, or the poll concerned, should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
- (c) In the case of joint Unitholders, the vote of Unitholder who is first-named on the register of Unitholders, whether tendered in person or by proxy, shall be acceptable to the exclusion of the votes of other joint Unitholders. For this purpose, seniority shall be determined by the order in which the names stand in the register of Unitholders.
- (d) For the purpose of determining entitlements to attend and vote at the annual general meeting, the register of Unitholders will be closed from Tuesday, 24 October 2017 to Friday, 27 October 2017, both days inclusive, during which period no transfer of Units will be effected. In order to qualify to attend and vote at the meeting (or at any adjournment thereof), all unit certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar no later than 4:30 p.m. on Monday, 23 October 2017.
- (e) The votes at the meeting will be taken by way of a poll.
- (f) If a Typhoon Signal No. 8 (or above) is in force at or at any time after 7:00 a.m. on the date of the meeting, the meeting will be rescheduled. The Manager will publish an announcement on the websites of Sunlight REIT at www.sunlightreit.com and the Stock Exchange at www.hkexnews.hk to notify Unitholders of the arrangement on the rescheduled meeting.

Financial Calendar

For FY2016/17

| | |
|---|--|
| Interim Results Announcement | 7 February 2017 |
| Issuance of Interim Report | 15 February 2017 |
| Ex-distribution date for interim distribution | 22 February 2017 |
| Closure of Register for entitlement of interim distribution | 24 February 2017 to 28 February 2017, both days inclusive |
| Interim distribution paid HK12.2 cents per unit | 14 March 2017 |
| Final Results Announcement | 5 September 2017 |
| Ex-distribution date for final and special distributions | 20 September 2017 |
| Issuance of Annual Report | 21 September 2017 |
| Closure of Register for entitlement of final and special distributions | 22 September 2017 to 26 September 2017, both days inclusive |
| Final and special distributions payable HK20.8 cents per unit | 12 October 2017 |
| Closure of Register for entitlement to attend and vote at Annual General Meeting | 24 October 2017 to 27 October 2017, both days inclusive |
| Annual General Meeting | 27 October 2017 |

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

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

Tel : (852) 3669 2880
Fax : (852) 2285 9980
Email : ir@HendersonSunlight.com

Website

www.sunlightreit.com

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com

