



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號 : 435

2015/16

Interim Report

中期報告



Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006, Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code : 435) is a real estate investment trust authorised by the Securities and Futures Commission (the “**SFC**”) and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of 10 office and 6 retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of approximately 1,206,827 sq. ft. and an aggregate appraised value of HK\$16,562.7 million at 31 December 2015. The office properties are located in both core and decentralised business areas, while the retail properties are situated at regional transportation hubs, new towns and other urban areas with high population density.

Forward-looking Statements

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

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Market and Operation Review

During the six months ended 31 December 2015 (the “**Reporting Period**”), the global economy was still struggling to return to a robust and sustainable expansion path. The US economy, however, was an exception to this trend, as evidenced by the Federal Reserve Board’s decision to raise the Fed Funds Rate by 25 basis points before the turn of the year, signalling the end of a seven-year extraordinary monetary accommodation. Notwithstanding, the rate hike has brought little concern to the financial markets, as it is apparent that any further rise in US interest rates will remain gradual given the still brittle global economic environment and the continued plummet in energy prices which put a lid on inflation. Closer to home, the high growth economic story has lost its sparkles in the case of China. Moreover, the once ebullient investment sentiment has dramatically faded, as nervousness over the depreciating Renminbi has become the dominant investment theme and a perfect excuse for liquidity outflow.

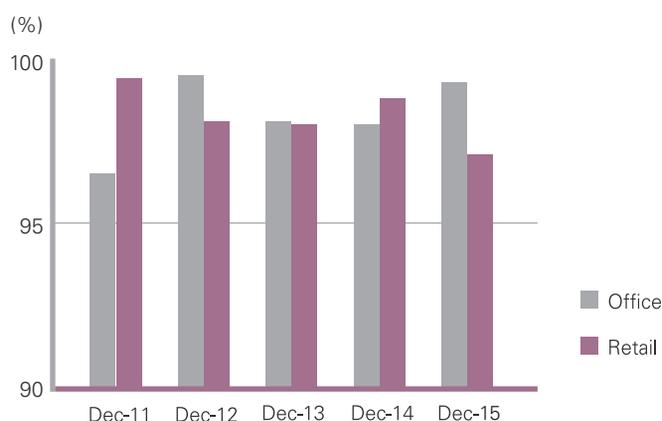
Given the uncertain external economic environment, the business sentiment in Hong Kong was unavoidably affected during the Reporting Period, as multinational and mainland corporations alike have become more conservative and cost conscious. Meanwhile, the notable decline in tourist arrivals from the mainland accompanied by a decrease in per capita tourist expenditure was hardly conducive for retail operators, particularly for those engaging at the luxury end of the spectrum.

Notwithstanding the challenging economic situation, the local office leasing market remained resilient thanks to the favourable supply and demand dynamics. The rental performance in decentralised locations has remained well supported, indicating that the potential new office supply in Kowloon East and more further out, Island East, has not deterred the pace of organic expansion and demand for inexpensive locations. According to statistics provided by Knight Frank Petty Limited, office occupancy rates in Central, Wan Chai and Causeway Bay at 31 December 2015 were 98.7%, 98.1% and 99.0% respectively, while net effective rents edged up by 8.7%, 5.8% and 7.0% to HK\$135.6 per sq. ft., HK\$71.3 per sq. ft. and HK\$76.7 per sq. ft. respectively, compared to those registered at 30 June 2015. Meanwhile, the vacancy rate at Kowloon East, a proxy to decentralised office market, was recorded at 3.3%, with net effective rent exhibited a mild increase of 0.9% at HK\$34.2 per sq. ft. at 31 December 2015, from that of 30 June 2015.

During the Reporting Period, overall retail sales declined by 5.8% year-on-year. In particular, the sales of jewellery, watches and clocks, and valuable gifts dropped 15.2%, while the sales growth of consumer durable goods was flat. This lethargic spending pattern did not exert substantial rental pressure on Sunlight REIT’s retail properties, where consumer staples continued to be the mainstay in terms of trade mix. Nonetheless, the decelerating pace of rental reversion was evident during the Reporting Period.

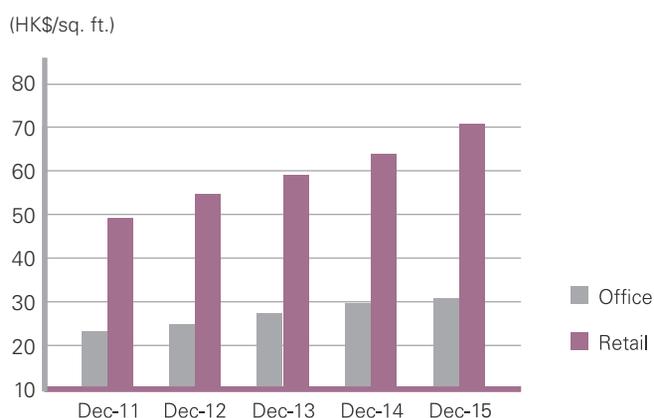
At 31 December 2015, the overall portfolio occupancy of Sunlight REIT was 98.6% as compared to 98.7% recorded at 30 June 2015^{Note}. The office portfolio achieved an occupancy rate of 99.3%, representing a slight increase from 98.9% recorded at 30 June 2015. Occupancy of the retail portfolio experienced a mild decline to 97.1% as against 98.4% at 30 June 2015.

Occupancy^{Note}: Five-Year Trend



Reflecting the solid rental reversion of 13.9% during the Reporting Period, passing rent of the office portfolio continued to rise, registering a growth of 2.0% to HK\$30.8 per sq. ft. at 31 December 2015^{Note}. Meanwhile, passing rent for the retail portfolio rose 4.3% to HK\$70.1 per sq. ft. at 31 December 2015, supported by an encouraging rental reversion of 22.0%.

Passing Rent^{Note}: Five-Year Trend



Note : The number of tenancies, occupancy and passing rent figures at and prior to 30 June 2015 have been adjusted to reflect the disposal of Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property.

Market and Operation Review

Despite an apparent slowdown in momentum, rental reversion at Sunlight Tower stayed at a decent 13.0% during the Reporting Period, with a high retention rate of 73.2%. Meanwhile, the Sheung Wan portfolio continued to show positive progress as rents have been well supported by leasing demand from domestic small and medium-sized enterprises. Both Bonham Trade Centre and 135 Bonham Strand Trade Centre Property registered reasonable improvement in passing rents at 31 December 2015, which stood at HK\$26.8 per sq. ft. and HK\$25.3 per sq. ft., representing increases of 2.7% and 2.8% from 30 June 2015 respectively.

On the retail front, despite a mild decline in footfall at Sheung Shui Centre Shopping Arcade resulting from the slowdown in visitor arrivals from the mainland, the performance of this property continued to be satisfactory given its predominant emphasis on necessity shopping. Thanks to a strong rental reversion of 24.9%, passing rent rose 2.9% to HK\$114.5 per sq. ft. at 31 December 2015 complemented by a high level of occupancy of 98.3%. Meanwhile, the ongoing tenant reconfiguration exercise contributed to the rewarding performance of Metro City Phase I Property. With the introduction of certain new quality tenants, the image and dynamics of the complex have been further revitalised. Achieving a respectable rental reversion of 18.7%, passing rent increased by 6.0% to HK\$51.0 per sq. ft., while occupancy rate remained stable at 98.2%.

As regards asset enhancement, the Manager's emphasis on energy savings investment continued to bear fruits. Riding on the success of the installation of a water-cooled chiller at Sunlight Tower in May 2014, the Manager extended the chiller replacement initiative to Sheung Shui Centre Shopping Arcade by replacing all its air-cooled chillers in the second quarter of 2015. Consequently, total electricity usage (as measured by kilowatt hours) of the property during the Reporting Period was reduced by approximately 30% as compared to the same period last year.

For the Reporting Period, the office and retail properties of Sunlight REIT constituted 48.0% and 52.0% of net property income respectively, with the retail portfolio exhibiting slightly faster growth of 7.5% versus 6.1% for the office portfolio. At 31 December 2015, the overall portfolio had a total of 860 tenancies (30 June 2015 : 868*); the ten largest tenants contributed approximately 22.3% of total rental income (30 June 2015 : 21.7%), and occupied approximately 20.0% of total GRA (30 June 2015 : 17.5%). No single tenant accounted for more than 4.3% of total rental income at 31 December 2015 (30 June 2015 : 4.2%).

* Please refer to the explanatory note on page 3.

Financial Review

Financial Highlights

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

	Six months ended 31 December 2015	Six months ended 31 December 2014	Change (%)
Revenue	385.2	370.8	3.9
Property operating expenses	80.0	85.2	(6.1)
Net property income	305.2	285.6	6.8
Cost-to-income ratio (%)	20.8	23.0	N/A
Profit after taxation	587.2	854.7	(31.3)
Distributable income	206.4	179.2	15.2
Distribution per unit ^{Note} (HK cents)	12.0	10.5	14.3
Payout ratio (%)	95.2	95.7	N/A

	At 31 December 2015	At 30 June 2015	Change (%)
Portfolio valuation	16,562.7	17,035.3	(2.8)
Total assets	18,146.3	17,897.7	1.4
Total liabilities	4,634.9	4,800.6	(3.5)
Net asset value	13,511.4	13,097.1	3.2
Net asset value per unit (HK\$)	8.25	7.99	3.3
Gearing ratio (%)	21.6	22.0	N/A

Operating Results

Sunlight REIT reported a 3.9% growth in revenue to HK\$385.2 million for the Reporting Period. After deducting property operating expenses of HK\$80.0 million, net property income increased by 6.8% to HK\$305.2 million. The reported growth figures were actually distorted by the completion of the disposals of three non-core properties (the “Disposals”) during the Reporting Period, namely Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property. Stripping out the contributions from the Disposals, the growth in revenue and net property income would have been 7.0% and 10.0% respectively.

Note : Please refer to “Distribution Statement” on page 29 for details.

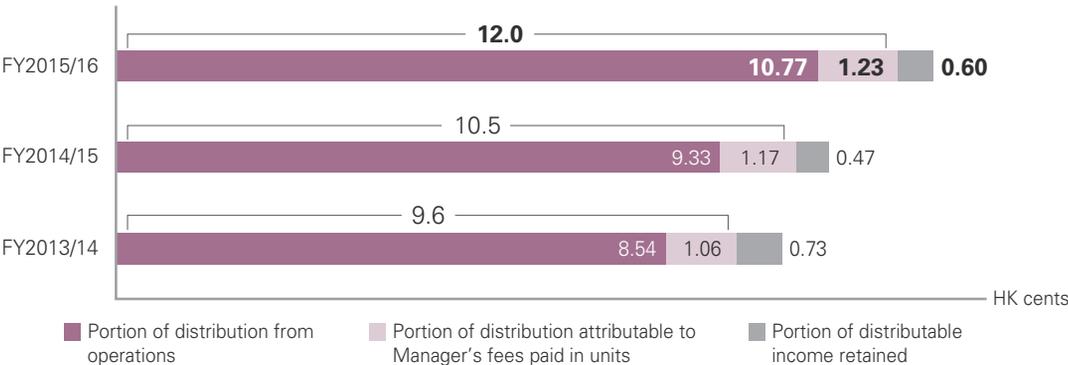
Financial Review

Finance costs increased 34.4% year-on-year to HK\$73.5 million, mainly attributable to a reserve movement resulting from the unwinding of certain interest rate swaps (“**IRS**”) for a total cost of HK\$22.2 million (the “**Unwinding Cost**”). Cash interest expenses, on the contrary, dropped 7.0%, thanks to the more favourable rates locked in for the new IRSs during the Reporting Period. Meanwhile, due to the absence of substantial incurrence and/or write-off of professional fees, administrative expenses recorded a year-on-year decrease of 11.4% to HK\$48.8 million. Profit after taxation dwindled 31.3% from the same period last year to HK\$587.2 million, mainly due to a smaller gain in fair value of investment properties.

Distribution

Total distributable income for the Reporting Period came in at HK\$206.4 million, representing an increase of 15.2% from HK\$179.2 million recorded in the previous corresponding period. The reported figure has, among other adjustments, included the adding back of the Unwinding Cost which is capital in nature and is equivalent to HK 1.36 cents per unit. Having taken into consideration the financial position of Sunlight REIT particularly following the Disposals, the Board of the Manager has resolved to declare an interim distribution per unit (“**DPU**”) of HK 12.0 cents, or HK\$196.5 million, which implies a payout ratio of 95.2%. The interim DPU was 14.3% ahead of the HK 10.5 cents paid in the same period last year, and represented an annualised distribution yield of 6.3% based on the closing unit price of HK\$3.83 on the last trading day of the Reporting Period. Please refer to the chart below for further details.

Interim DPU at a Glance



Distribution Entitlement and Closure of Register of Unitholders

The ex-distribution date and record date for the interim distribution are Thursday, 3 March 2016 and Wednesday, 9 March 2016 respectively. The register of unitholders will be closed from Monday, 7 March 2016 to Wednesday, 9 March 2016, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the interim distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 4 March 2016. Payment of the interim distribution will be made to unitholders on Tuesday, 22 March 2016.

Financial Position

The portfolio of Sunlight REIT was appraised by the principal valuer at HK\$16,562.7 million at 31 December 2015, representing a decrease of 2.8% from HK\$17,035.3 million recorded at 30 June 2015. Excluding the three non-core properties which were disposed of during the Reporting Period, the valuation of the current portfolio actually increased by 2.3%. The net assets of Sunlight REIT rose by 3.2% to HK\$13,511.4 million (30 June 2015 : HK\$13,097.1 million), and after taking into account the effect of payment of Manager's fees in new units and the cancellation of units bought back during the Reporting Period, net asset value per unit increased by 3.3% to HK\$8.25 (30 June 2015 : HK\$7.99).

The gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, decreased from 22.0% at 30 June 2015 to 21.6% at 31 December 2015; gross liabilities¹ as a percentage of gross assets also dropped to 25.5%. As the EBITDA² of Sunlight REIT grew 12.0% year-on-year to HK\$260.4 million while cash interest expenses were reduced following the change in the IRS profile, the interest coverage ratio³ for the Reporting Period was further improved to 5.76 times as compared to 4.77 times recorded in the same period last year. In respect of contingent liabilities, Sunlight REIT has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity utility companies, the amount of which was HK\$4.6 million at 31 December 2015.

Notes :

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

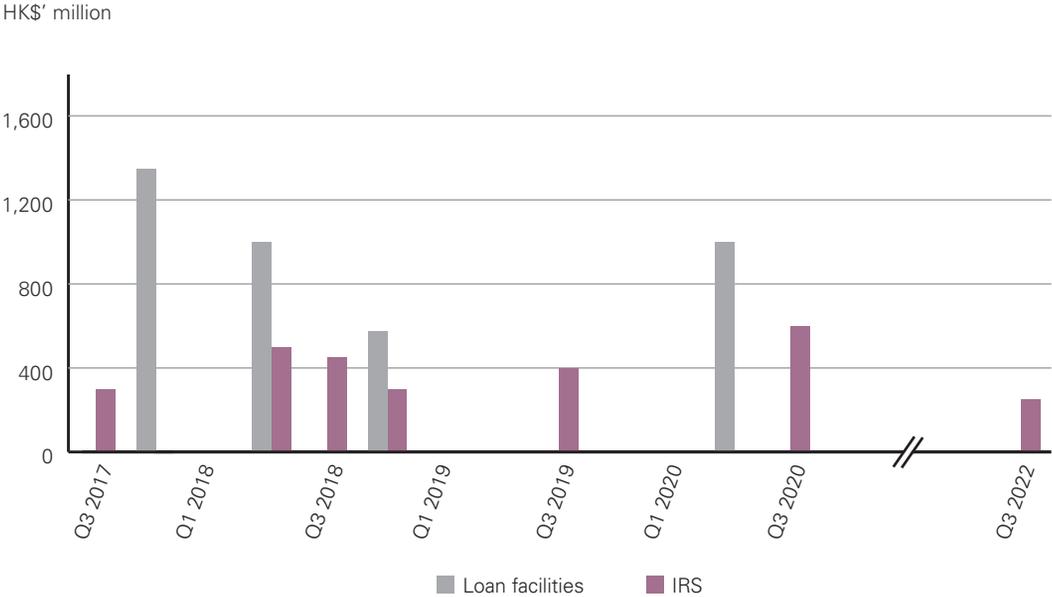
Financial Review

Capital Management

At 31 December 2015, Sunlight REIT had in place total loan facilities of HK\$4,225.0 million, comprising term loan facilities of HK\$3,925.0 million which were fully drawn down and an unsecured revolving credit facility of HK\$300.0 million which has yet been utilised. The term loan facilities, with a blended interest margin of 1.24% per annum over HIBOR (before IRS arrangements) and a weighted loan maturity period of 2.8 years, are secured by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT (with an appraised value of HK\$14,165.4 million at 31 December 2015), assignment of proceeds under tenancies and a floating charge over the bank balances relating to these properties.

During the Reporting Period, the Manager capitalised on the favourable interest rate environment and restructured the IRS profile of Sunlight REIT. In July 2015, the Manager executed an early unwinding of IRS with an aggregate notional amount of HK\$1,500.0 million, due for expiry in June 2016 with a weighted average interest rate of 2.10% per annum. Subsequently, a series of new IRSs with an aggregate notional amount of HK\$1,250.0 million and a weighted average interest rate of 1.59% per annum have been put in place, with maturity spanning 4 to 7 years. As a result, approximately 71.3% (or HK\$2,800.0 million) of Sunlight REIT’s borrowings have been hedged to fixed rates with a weighted average interest rate of 1.37% per annum (before loan interest margin) and a weighted average tenure of 3.5 years at 31 December 2015. The maturity profile of the term loan facilities and IRS are illustrated in the chart below.

Maturity Profile of Loan Facilities and IRS



With the amendments to the Code on Real Estate Investment Trusts (the “**REIT Code**”) and the consequential changes to the Trust Deed in early 2015, the Manager is currently permitted to place funds as bank deposits and Relevant Investments¹, with maturity profile compatible with projected funding requirements. Following the completion of the Disposals which has led to a significant rise in cash and bank balances, the Manager has allocated a portion of the sales proceeds to investment grade bonds, with a view to enhancing the return on surplus cash. At 31 December 2015, Sunlight REIT had total cash and bank balances of HK\$1,159.3 million, and a portfolio of Relevant Investments with an aggregate book value of HK\$62.2 million². Taking into consideration the recurrent income generated from its operations, the current cash position and sources of funding available, the Manager is of the view that Sunlight REIT has sufficient financial resources to satisfy its working capital, distribution payment and capital expenditure requirements.

Notes :

1. As defined in paragraph 7.2B of the REIT Code.
2. Please refer to Relevant Investments under “Corporate Governance” section on page 17 for details.

Outlook

The unexpectedly sharp correction in equity and commodity prices at the onset of 2016 clearly demonstrates the intensifying gloom over the global economic prospects and more particularly, the bill of economic health for China. Such heightened nervousness is likely to amplify the negative wealth effect and cause a further curtailment in (domestic and external) demand for goods and services. Consequently, the regime of monetary easing is poised to stay for a longer period of time.

Sunlight REIT unveiled a set of interim results that reflects the Manager's ability to deliver satisfactory growth notwithstanding an increasingly difficult economic environment. Despite the clear slowdown in rental reversion and the fragile market sentiment, the Manager, barring unforeseen circumstances, remains guardedly optimistic over the rental performance of Sunlight REIT's portfolio for the rest of this financial year.

On office leasing, the lack of material new Grade A office supply (notably on the Hong Kong Island side) until 2018, together with the stubbornly high cost of office relocation, should combine to provide good support to the retention rate and the market rent of decentralised office properties. Turning to retail, while the slowdown in consumer spending will remain in the short-to-medium term, the Manager is hopeful that the defensive qualities of Sunlight REIT's retail portfolio, with an emphasis on trades focusing on necessities and consumer staples, will help cushion the adverse impact arising from the prevailing market developments.

In terms of cost, the upward pressure on operating costs that the Manager endured over the last few years has somewhat alleviated, thus relieving the pressure on operating margin. The Manager will nonetheless remain vigilant and continue to explore opportunities with a view to keeping operating costs under control. In light of perennial issues such as adjustment in minimum wage as well as unforeseen provisions for repair and maintenance costs, constant awareness of improving property management efficiency will stay at the forefront of the Manager's operational agenda.

On asset enhancement, the reconfiguration works involving approximately 20% of the GRA at Sheung Shui Centre Shopping Arcade is expected to commence in April 2016. The purpose of this revitalisation initiative is to bring in a greater variety of quality trades and brands that would improve rental return, create a more diversified trade profile and enhance the overall ambience of the shopping mall. The estimated cost of the project is approximately HK\$25 million, and there will be a rental loss of about HK\$1.3 million per month for the affected area of up to nine months. Based on current projections, the Manager is confident that the benefits to be reaped should more than outweigh the costs incurred. Despite the weakened retail leasing sentiment, the level of enthusiasm received from potential tenants has been strong thus far, and certain pre-letting commitments have already been secured. Barring unforeseen circumstances, the Manager anticipates to re-open the revamped area in October 2016. Elsewhere, the Manager has invested approximately HK\$9 million to install the second water-cooled chiller at Sunlight Tower. Upon completion which is targeted at the second quarter of 2016, the project is expected to further enhance the reliability and cost efficiency of the air-conditioning system of this flagship building.

Under the renewed IRS profile, Sunlight REIT's borrowings are substantially anchored to fixed rates whose expiries range from September 2017 to September 2022. However, the recent uptick in Hong Kong interbank offered rates, if sustainable, would unavoidably increase cash interest expenses on the floating-rate portion. Gratifyingly, the still favourable corporate lending environment, as witnessed by the further narrowing in loan interest margin recently, should provide the Manager a window of opportunity to refine and bolster the capital structure of Sunlight REIT particularly in the light of potential acquisition and the need for refinancing in 2017.

During the Reporting Period, the Manager has successfully completed the Disposals, which enhances Sunlight REIT's ability to pursue various value-added strategies to uphold the long term benefit of unitholders. More importantly, the exercise was conducted with a view to realising non-core asset values and paving way for expansion, as the Manager will make incessant effort to explore acquisition opportunities that are complementary to and would enhance the scalability of Sunlight REIT's current portfolio. Indeed, the prevailing economic upheavals may well be a good opportunity for Sunlight REIT to expand its footprint in a prudent and measurable manner. In the meantime, the Manager shall assign a portion of the cash surplus for unit buy-back and for investing into fixed income instruments, a dual strategy to ensure that the rental loss resulting from the Disposals will be partially compensated before any accretive acquisition materialises.

Portfolio Statistics

Property	Property Details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA ¹ (sq. ft.)			at 31 Dec 2015	at 30 Jun 2015
				Office	Retail	Total		
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	74	74
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	106	104
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	62	61
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	24
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	75	74
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	70	72
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	36	38
On Loong Commercial Building Property ⁵	Wan Chai	1984	0	25,498	1,708	27,206	39	37
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	46
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	34	34
Sub-total/Average			46	764,911	45,061	809,972	566	564
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	113	118
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	104	106
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	36	36
Urban								
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	37	38
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	2	4
Sub-total/Average			749	42,667	354,188	396,855	294	304
Total/Average (excluding the disposed properties)			795	807,578	399,249	1,206,827	860	868
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 during the relevant period.
4. Valuation prepared by Knight Frank Petty Limited.
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. The operational statistics and property financials before and after 3 August 2015 were calculated on the basis of total GRA of 25,564 sq. ft. and 27,206 sq. ft. respectively.
6. These figures have been adjusted to reflect the Disposals completed in July and August 2015 respectively.

Management Discussion and Analysis

Operational Statistics						Property Financials					
Occupancy (%)		Passing Rent ² (HK\$/sq. ft.)		Rental Reversion ³ (%)		Net Property Income (HK\$'000)		Capitalisation Rate at 31 Dec 2015 (%)		Appraised Value at 31 Dec 2015 ⁴ (HK\$'000)	
at 31 Dec 2015	at 30 Jun 2015	at 31 Dec 2015	at 30 Jun 2015	six months ended 31 Dec 2015	six months ended 30 Jun 2015	six months ended 31 Dec 2015	six months ended 31 Dec 2014	Office	Retail		
99.7	99.6	34.6	34.1	13.0	16.3	81,497	72,382	3.85	3.75	4,420,000	
99.7	98.1	26.8	26.1	20.1	14.8	17,267	15,887	3.65	4.00	1,058,000	
98.9	98.2	41.2	40.1	13.2	19.5	12,044	10,897	3.95	3.60	673,000	
100.0	100.0	40.1	39.3	5.8	7.8	8,679	8,366	3.65	3.80	559,400	
100.0	95.2	25.3	24.6	15.5	16.7	8,339	7,630	3.65	4.00	536,000	
97.9	98.9	19.3	18.4	18.8	20.6	5,339	4,771	3.65	4.00	332,000	
94.2	98.1	22.5	22.0	11.5	11.4	4,434	3,909	3.95	4.20	269,000	
100.0	100.0	28.6	28.6	9.5	11.4	4,073	3,635	3.85	3.90	262,000	
98.5	100.0	21.9	21.6	10.5	12.7	2,911	2,801	4.00	4.25	178,000	
100.0	100.0	12.5	11.8	20.3	17.5	956	817	3.75	4.10	66,600	
99.3	98.9⁶	30.8	30.2⁶	13.9	15.2⁶	145,539	131,095			8,354,000	
98.3	99.8	114.5	111.3	24.9	22.1	81,228	71,895	N/A	4.40	4,082,000	
98.2	98.8	51.0	48.1	18.7	16.3	56,447	53,263	N/A	4.50	2,909,000	
99.3	99.3	48.8	46.0	27.0	19.7	16,445	15,390	3.85	3.80	994,000	
98.2	100.0	51.8	52.1	(1.9)	(3.9)	2,175	2,202	N/A	4.30	124,500	
100.0	100.0	47.6	47.6	N/A	N/A	1,165	1,164	N/A	4.00	60,900	
38.0	58.7	13.1	13.5	N/A	N/A	209	630	N/A	4.35	38,300	
97.1	98.4⁶	70.1	67.2⁶	22.0	17.7⁶	157,669	144,544			8,208,700	
98.6	98.7	43.6	42.4	18.5	16.6	303,208	275,639			16,562,700	
						1,957	9,969				
						305,165	285,608				

Corporate Governance

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

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

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by the SFC under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the REIT Code issued by the SFC. The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. The Manager currently has five responsible officers who are approved pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code.

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

Board of the Manager and Changes in Director’s Information

At 31 December 2015, the Board had a total of six Directors, consisting of one Executive Director (who is also the Chief Executive Officer), two Non-executive Directors (including the Chairman of the Board) and three Independent Non-executive Directors. The positions of the Chairman of the Board and Chief Executive Officer are held by two different persons to ensure that segregation of duties and balance of authority are maintained. Various board committees have been established with clear terms of reference, each of which is to assist the Board in supervising specific issues or functions of the Manager.

On 29 December 2015, the Manager announced the appointment of Mr. Kwok Tun Ho, Chester as an additional Independent Non-executive Director and member of each of the Audit Committee and Investment Committee of the Manager with effect from 4 January 2016; as such the Board currently has a total of seven Directors.

Prior to the publication of this interim report, the Manager was informed by Mr. Ma Kwong Wing that he has ceased to act as the Honorary Secretary of The Hong Kong Heart Foundation Limited and Institute for Heart Health Promotion Limited (both being charitable institutions exempted from tax under Section 88 of the Inland Revenue Ordinance) with effect from 20 January 2016.

Save as aforesaid, the Manager has not been notified of any change in Director's information since the publication of the 2014/15 Annual Report of Sunlight REIT.

Confirmation of Compliance with the Dealings Code

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

Review of Interim Report

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

Conflicts of Interests and Business Competitions with HLD, SKFE and other companies

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

Corporate Governance

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. Meanwhile, HIL is engaged in the operation of department stores including licensing of portions of shop spaces to its concessionaires for setting up their own concession counters for sale of their products. 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. As a wholly-owned subsidiary of HLD, the Manager may experience conflicts of interests in connection with any potential acquisitions from or other transactions with HLD or its affiliates and in agreeing on the terms of such potential acquisitions or 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 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.

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

To ensure that all conflicts of interests relating to Sunlight REIT can be managed and/or avoided, various control measures have been adopted and taken to deal with such issues.

Public Float

At 31 December 2015, based on information that is publicly available and within the knowledge of the Directors, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the SFC.

New Units Issued

Except for an aggregate of 5,879,147 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Buy-back, Sale or Redemption of Units

Pursuant to the general mandate granted by unitholders at the annual general meeting held on 3 November 2014, the Manager bought back on behalf of Sunlight REIT a total of 6,663,000 units on the Stock Exchange during the Reporting Period, for an aggregate consideration of approximately HK\$25.7 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK\$3.93 and HK\$3.67 respectively. All bought back units were cancelled prior to the end of the Reporting Period.

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

Relevant Investments

The full investment portfolio of Relevant Investments of Sunlight REIT at 31 December 2015 is set out below :

Financial Instruments and Issuers	Type	Primary Listing	Currency	Total Cost (HK\$'000)	Mark-to-market Value (HK\$'000)	Weighting of Gross Asset Value ^{Note} (%)	Credit Rating
BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited	Bond	Singapore Exchange	USD	21,623	21,360	0.1190	S&P A- Moody's Baa3
ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Bond	Singapore Exchange	USD	20,911	20,828	0.1160	Moody's Baa2
CHITRA 3 7/8 11/03/19 King Power Capital Ltd.	Bond	Hong Kong Exchange	USD	19,841	19,729	0.1099	S&P BBB Moody's Baa3
Total				62,375	61,917	0.3449	

Note : Gross asset value is calculated by reference to the latest published accounts for the six months ended 31 December 2015 as adjusted for interim distribution declared.

Employees

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

Connected Party Transactions

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

Connected Party Transactions – Income and Expenses

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

(a) Income

Name of Connected Person	Relationship with Sunlight REIT ^{Note}	Nature of the Connected Party Transactions	Income for the Reporting Period (HK\$'000)	Rental and Other Deposits Received at 31 December 2015 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	3,006	1,386
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	2,048	955
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	1,077	–
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing	228	111
Total			6,359	2,452

(b) Expenses

Name of Connected Person	Relationship with Sunlight REIT ^{Note}	Nature of the Connected Party Transactions	Expenses for the Reporting Period (HK\$'000)
Goodwill Management Limited	Associated company of the Manager	Property management and operations and licence fee	277
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	4,451
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	24,197
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,273
Metro City Management Limited	Associated company of the Manager	Property management and operations	1,001
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,120
Contender Limited	Associated company of the Manager	Facilities leasing	87
Total			32,406

Note : Within the meaning of the REIT Code.

Connected Party Transactions with the Trustee Connected Persons

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

Name of Connected Person	Relationship with Sunlight REIT ²	Nature of the Connected Party Transactions	Income/ Expenses for the Reporting Period (HK\$'000)	Rental and Other Deposits Received at 31 December 2015 (HK\$'000)
Leasing Transactions :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing ³	4,531	2,415
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing ⁴	100	86
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁵	5,376	2,639
Ordinary Banking and Financial Services⁶ :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/ receivable on bank deposits	8	–
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowings, interest expenses and cost for unwinding of IRSs and other bank charges	21,156	–
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	16	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest income received/ receivable on bank deposits	96	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense on bank borrowing and other bank charges	1,939	–

An IRS of notional amount of HK\$500 million was unwound on 27 July 2015 at a consideration of HK\$7.5 million (included in the table above) which was paid to The Hongkong and Shanghai Banking Corporation Limited. Two IRSs with notional amount of HK\$200 million and HK\$300 million were entered into with The Hongkong and Shanghai Banking Corporation Limited on 29 July 2015 and 31 July 2015 respectively.

During the Reporting Period, certain fixed income instruments were invested through The Hongkong and Shanghai Banking Corporation Limited as a broker. The total costs in respect of these investments were approximately HK\$62.4 million. Please refer to Relevant Investments under “Corporate Governance” section on page 17 for details.

Please refer to page 20 for explanatory notes.

Connected Party Transactions

Notes :

1. HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the Trustee of Sunlight REIT).
2. Within the meaning of the REIT Code.
3. A lease in respect of Shop Nos. 1024-31 of Sheung Shui Centre Shopping Arcade, with gross floor area of 5,390 sq. ft. and a term of 3 years from 4 November 2014 to 3 November 2017.
4. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 82-93 (up to 29 December 2015) and Nos. 66-81 (from 30 December 2015), Level 1, and (iii) light box space No. F2, Level 2, of Sheung Shui Centre Shopping Arcade.
5. A lease in respect of Shop No. 211 of Metro City Phase I Property, with gross floor area of 7,628 sq. ft. and a term of 3 years from 17 February 2015 to 16 February 2018; and a lease in respect of Shop Nos. 1040-42 of Sheung Shui Centre Shopping Arcade, 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 IRSs including interest and charges paid thereto and other banking or financial services.

Other Disclosures under the REIT Code

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

During the Reporting Period, the aggregate amount of fees payable by Sunlight REIT to the Manager (including fees paid in the form of units) and to the Trustee under the Trust Deed were approximately HK\$42.3 million and HK\$2.2 million respectively. Particulars of services provided by the Trustee, the Manager and the Principal Valuer, including terms and remuneration, are set out in notes 23(b)(i), (ii) and (iv) to the interim financial report. The fees payable to the Principal Valuer during the Reporting Period was less than HK\$1 million.

Disclosure of Interests

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

Holdings of the Manager and the Directors or the Chief Executive of the Manager

At 31 December 2015 and 30 June 2015, the interests and short position in units of the Manager and the Directors or the chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed (the “**Register**”), were as follows :

Name	At 31 December 2015		At 30 June 2015		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	95,105,297	5.807	89,226,150	5.446	0.361
Au Siu Kee, Alexander ⁴	1,530,000	0.093	1,530,000	0.093	-
Wu Shiu Kee, Keith ⁵	600,000	0.037	600,000	0.037	-

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,637,702,927 at 31 December 2015.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,638,486,780 at 30 June 2015.
3. After the issuance of an aggregate of 5,879,147 new units to the Manager during the Reporting Period as payment of part of the Manager’s base fee and variable fee, the Manager beneficially owned 95,105,297 units at 31 December 2015 (30 June 2015 : 89,226,150 units).
4. At 31 December 2015, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2015 : 1,530,000 units) under Part XV of the SFO. Of the 1,530,000 units, 201,000 units were beneficially held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were beneficially held by his spouse individually.
5. At 31 December 2015, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 600,000 units (30 June 2015 : 600,000 units).

Other than the above, none of the Manager and the Directors or the chief executive of the Manager was beneficially interested (or deemed to be interested) in units or held any short position in units at 31 December 2015 and 30 June 2015 as recorded in the Register.

Disclosure of Interests

Holdings of Substantial Unitholders

At 31 December 2015 and 30 June 2015, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2015		At 30 June 2015		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	607,211,175	37.08	607,211,175	37.06	0.02
Lee Financial (Cayman) Limited ³	374,072,708	22.84	374,072,708	22.83	0.01
Leesons (Cayman) Limited ³	374,072,708	22.84	374,072,708	22.83	0.01
Leeworld (Cayman) Limited ³	374,072,708	22.84	374,072,708	22.83	0.01
SKFE ³	374,072,708	22.84	374,072,708	22.83	0.01
Uplite Limited ³	224,443,625	13.70	224,443,625	13.70	-
Wintrade Limited ³	149,629,083	9.14	149,629,083	9.13	0.01
Henderson Development Limited ³	233,138,467	14.24	233,138,467	14.23	0.01
HLD ³	233,138,467	14.24	233,138,467	14.23	0.01
Hopkins (Cayman) Limited ³	233,138,467	14.24	233,138,467	14.23	0.01
Riddick (Cayman) Limited ³	233,138,467	14.24	233,138,467	14.23	0.01
Rimmer (Cayman) Limited ³	233,138,467	14.24	233,138,467	14.23	0.01
Silchester International Investors LLP ⁴	257,791,150	15.74	257,791,150	15.73	0.01
Silchester International Investors International Value Equity Trust ⁴	113,294,922	6.92	113,294,922	6.91	0.01

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,637,702,927 at 31 December 2015.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,638,486,780 at 30 June 2015.
3. At 31 December 2015, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited were wholly-owned subsidiaries of Financial Enterprise Properties Limited which in turn was wholly-owned by SKFE. SKFE was wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which were held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was thus taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2015, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 95,105,297 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 239,017,614 units at 31 December 2015. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 233,138,467 units at 31 December 2015, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

At 31 December 2015, 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 613,090,322 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 607,211,175 units at 31 December 2015, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2015, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

4. At 31 December 2015, in accordance with the notices given to the Manager pursuant to Part XV of the SFO, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 257,791,150 units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 113,294,922 units. The Manager has subsequently been notified informally that at 31 December 2015, (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 109,996,922 units (representing approximately 6.72% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

Holdings of other Connected Persons

So far as is known to the Manager and save as disclosed above, the holdings of units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT at 31 December 2015 were as follows :

Name of Connected Persons	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	18,338,252	1.1198

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,637,702,927 at 31 December 2015.
2. Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 130,000 units at 30 June 2015.
3. Mr. Lee King Yue was a connected person by virtue of being a director of HLD and certain of its subsidiaries. Mr. Lee held 50,000 units at 30 June 2015.
4. Mrs. Lee Pui Ling, Angelina was a connected person by virtue of being a director of HLD and one of its subsidiaries. Mrs. Lee held 2,307 units at 30 June 2015.
5. Ms. Lo Yuk Fong, Phyllis was a connected person by virtue of being a senior executive of the Manager. Ms. Lo was interested in 100,000 units at 30 June 2015.
6. The Manager has been informed that (i) certain controlling entities, holding companies, subsidiaries or associated companies of the Trustee and (ii) certain directors, senior executives and officers of the Trustee and their associates (as defined in the REIT Code) were beneficially interested in 18,288,252 units and 50,000 units respectively at 31 December 2015. Such persons were beneficially interested in 24,860,252 units and 50,000 units respectively at 30 June 2015.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2015 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2015 \$'000	2014 \$'000
Revenue	5	385,185	370,845
Property operating expenses	6	(80,020)	(85,237)
Net property income		305,165	285,608
Other income		4,121	2,006
Administrative expenses		(48,800)	(55,057)
Net gain on disposals of investment properties and subsidiaries	7	91,154	–
Net increase in fair value of investment properties		343,943	708,420
Profit from operations		695,583	940,977
Finance costs on interest bearing liabilities	8(a)	(73,481)	(54,683)
Profit before taxation and transactions with unitholders	8	622,102	886,294
Income tax	9	(34,868)	(31,631)
Profit after taxation and before transactions with unitholders		587,234	854,663

The notes on pages 32 to 53 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2015 \$'000	2014 \$'000
Profit after taxation and before transactions with unitholders	587,234	854,663
Other comprehensive income for the period		
<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 period	(4,219)	9,111
– Reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	22,197	–
	17,978	9,111
Total comprehensive income for the period	605,212	863,774

The notes on pages 32 to 53 form part of this interim financial report.

Consolidated Statement of Financial Position

At 31 December 2015

(Expressed in Hong Kong dollars)

	Note	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	11	16,562,700	16,192,800
– Other fixed assets		71	87
		16,562,771	16,192,887
Derivative financial instruments	13	11,330	8,841
Prepayments		1,267	–
Reimbursement rights	12	179,507	197,145
Other financial assets	15	62,225	–
		16,817,100	16,398,873
Current assets			
Trade and other receivables	14	24,893	27,356
Cash and bank balances	16	1,159,263	464,334
Tax recoverable		145,031	157,569
		1,329,187	649,259
Investment properties and assets of disposal groups held for sale	7	–	849,564
		1,329,187	1,498,823
		18,146,287	17,897,696
Current liabilities			
Tenants' deposits		(188,821)	(186,975)
Rent receipts in advance		(11,830)	(10,161)
Trade and other payables	17	(191,748)	(309,563)
Bank borrowings	18	–	(10,000)
Derivative financial instruments	13	(18,818)	(34,122)
Tax payable		(54,526)	(55,072)
		(465,743)	(605,893)
Liabilities directly associated with the assets of disposal groups held for sale	7	–	(18,411)
		(465,743)	(624,304)
		863,444	874,519
Net current assets		863,444	874,519
Total assets less current liabilities		17,680,544	17,273,392

Consolidated Statement of Financial Position (continued)

At 31 December 2015

(Expressed in Hong Kong dollars)

		31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
	Note		
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	18	(3,889,968)	(3,884,068)
Deferred tax liabilities		(278,243)	(291,052)
Derivative financial instruments	13	(947)	(1,132)
		(4,169,158)	(4,176,252)
Total liabilities, excluding net assets attributable to unitholders		(4,634,901)	(4,800,556)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		13,511,386	13,097,140
Number of units in issue	19	1,637,702,927	1,638,486,780
Net asset value attributable to unitholders per unit		\$8.25	\$7.99

The notes on pages 32 to 53 form part of this interim financial report.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2015 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2015	2014
		\$'000	\$'000
	Note		
At the beginning of the period		13,097,140	11,494,880
Profit after taxation and before transactions with unitholders		587,234	854,663
Other comprehensive income		17,978	9,111
Total comprehensive income for the period		605,212	863,774
Distribution paid to unitholders		(188,213)	(169,268)
Issuance of units to the Manager during the period	19	23,043	20,542
Units bought back	19	(25,701)	(3,397)
Units buy-back expenses	19	(95)	(14)
		(190,966)	(152,137)
At the end of the period		13,511,386	12,206,517

The notes on pages 32 to 53 form part of this interim financial report.

Distribution Statement

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2015	2014
		\$'000	\$'000
Note			
	Profit after taxation and before transactions with unitholders	587,234	854,663
	Adjustments: (note (i))		
	– Net gain on disposals of investment properties and subsidiaries	7 (91,154)	–
	– Net increase in fair value of investment properties	(343,943)	(708,420)
	– Manager's fees paid or payable in the form of units	21,141	20,046
	– Cash flow hedges reclassified from net assets attributable to unitholders	8(a) 22,197	–
	– Non-cash finance costs on interest bearing liabilities	5,900	5,900
	– Deferred tax	9 5,057	6,992
		(380,802)	(675,482)
	Distributable income (note (i))	206,432	179,181
	Interim distribution (note (ii))	196,524	171,448
	Payout ratio (note (ii))	95.2%	95.7%
	Distribution per unit (note (ii))	12.0 cents	10.5 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.

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the period included the adding back of : (a) cash flow hedges reclassified from net assets attributable to unitholders of \$22,197,000, or 1.36 cents per unit (2014 : nil), and (b) non-cash finance costs on interest bearing liabilities of \$5,900,000, or 0.36 cents per unit (2014 : \$5,900,000, or 0.36 cents per unit).

- (ii) The interim distribution of \$196,524,000 for the six months ended 31 December 2015 (2014 : \$171,448,000), representing a payout ratio of 95.2% (2014 : 95.7%), is calculated by multiplying the interim distribution per unit of 12.0 cents by 1,637,702,927 units anticipated to be in issue at 9 March 2016, the record date for interim distribution (the "Record Date") (2014 : 10.5 cents by 1,632,836,625 units in issue at 27 February 2015, the record date for FY2014/15 interim distribution).

Distribution Statement (continued)

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

Notes : (continued)

- (iii) The interim distribution is expected to be paid on 22 March 2016 to unitholders whose names appear on the register of unitholders on the Record Date.
- (iv) The interim distribution proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- * Certain figures in these notes to distribution statement have been rounded to the nearest thousand.

The notes on pages 32 to 53 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2015 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2015 \$'000	2014 \$'000
Operating activities			
Cash generated from operations		273,759	258,823
Tax paid			
– Hong Kong Profits Tax paid		(32,232)	(46,316)
Net cash generated from operating activities		241,527	212,507
Investing activities			
Payment for expenditure incurred for investment properties		(6,583)	(17,865)
Payment for acquisition of investment properties		(14,854)	–
Proceeds from disposals of investment properties and subsidiaries		825,682	–
Payment for purchase of held-to-maturity debt securities		(62,375)	–
(Increase)/decrease in pledged deposits with original maturity over three months		(44,029)	184,568
(Increase)/decrease in bank deposits with original maturity over three months		(78,212)	16,024
Other cash flows arising from investing activities		3,160	2,190
Net cash generated from investing activities		622,789	184,917
Financing activities			
Distribution paid to unitholders		(188,213)	(169,268)
Other borrowing costs paid		(158)	(151)
Interest paid		(45,264)	(48,627)
Repayment of bank borrowings		(10,000)	–
Payment for unwinding of interest rate swaps		(22,197)	–
Payment for buy-back of units		(25,796)	(3,411)
Net cash used in financing activities		(291,628)	(221,457)
Net increase in cash and cash equivalents		572,688	175,967
Cash and cash equivalents at the beginning of the period	16	341,919	123,266
Cash and cash equivalents at the end of the period	16	914,607	299,233

The notes on pages 32 to 53 form part of this interim financial report.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

1 General

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

The principal activity of Sunlight REIT and its subsidiaries (collectively referred to as the “Group”) is to own and invest in income-producing office and retail properties in Hong Kong with the objective of providing unitholders with regular and stable cash distributions with the potential for sustainable long term growth of such distributions and enhancement in value of the property portfolio. It has its principal place of business at 30th Floor, Sunlight Tower, 248 Queen’s Road East, Wan Chai, Hong Kong.

2 Basis of preparation

This interim financial report has been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 17 February 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014/15 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014/15 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT (the “Manager”), is included on page 54.

2 **Basis of preparation** (continued)

The financial information relating to the financial year ended 30 June 2015 that is included in the interim financial report as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2015 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 September 2015.

3 **Changes in accounting policies**

There are no new standard or interpretation issued by the HKICPA that are first effective for the current accounting period of the Group.

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

4 **Segment reporting**

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

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

Segment results

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

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

The measure used for reporting segment performance is the "segment results" which exclude the net increase/(decrease) 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 income/(expenses).

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

4 Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2015 (Unaudited)			2014 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– rental income	148,146	161,628	309,774	144,528	151,412	295,940
– car park income	1,894	12,838	14,732	1,814	14,569	16,383
– rental related income	30,854	29,825	60,679	30,143	28,379	58,522
	180,894	204,291	385,185	176,485	194,360	370,845
Property operating expenses	(34,284)	(45,736)	(80,020)	(38,314)	(46,923)	(85,237)
Net property income	146,610	158,555	305,165	138,171	147,437	285,608
Administrative expenses	(22,158)	(22,107)	(44,265)	(21,146)	(20,663)	(41,809)
Segment results	124,452	136,448	260,900	117,025	126,774	243,799
Net increase in fair value of investment properties	270,320	73,623	343,943	358,883	349,537	708,420
Net gain on disposals of investment properties and subsidiaries	58,476	32,678	91,154			–
Finance costs on interest bearing liabilities			(73,481)			(54,683)
Income tax			(34,868)			(31,631)
Interest income			4,031			2,006
Unallocated net expenses			(4,445)			(13,248)
Profit after taxation and before transactions with unitholders			587,234			854,663
Depreciation	8	8	16	6	7	13

5 Revenue

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

	Six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Rental income	309,774	295,940
Car park income	14,732	16,383
Rental related income	60,679	58,522
	385,185	370,845

6 Property operating expenses

	Six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Building management fee	28,664	29,046
Property Manager's fees	24,197	24,995
Government rent and rates	16,783	16,243
Marketing and promotion expenses	2,286	5,627
Car park operating costs	3,117	3,088
Bad debts expenses	–	46
Other direct costs	4,973	6,192
	80,020	85,237

7 Net gain on disposals of investment properties and subsidiaries

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

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

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

The Exchange of Properties, the disposals of the Two Subsidiaries and the disposal of Royal Terrace were completed on 3 July 2015, 31 July 2015 and 31 August 2015 respectively. Net gain on disposals of investment properties and gain on disposals of subsidiaries of \$31,013,000 and \$60,141,000 (net of transactions costs) respectively were credited to profit or loss during the six months ended 31 December 2015. The relevant investment properties and assets and liabilities of disposal groups classified as held for sale at 30 June 2015 were derecognised accordingly upon the completion of the above disposals.

8 Profit before taxation and transactions with unitholders

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

	Six months ended 31 December	
	2015 (Unaudited) \$'000	2014 (Unaudited) \$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	45,234	48,632
Other borrowing costs	6,050	6,051
	51,284	54,683
Interest rate swaps : cash flow hedges, reclassified from net assets attributable to unitholders	22,197	–
	73,481	54,683

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

8 Profit before taxation and transactions with unitholders (continued)

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

	Six months ended 31 December	
	2015 (Unaudited) \$'000	2014 (Unaudited) \$'000
(b) Other items		
Interest income	(4,031)	(2,006)
Manager's fees	42,283	40,093
Property Manager's fees (note (i))	24,197	24,995
Trustee's remuneration	2,177	2,050
Auditor's remuneration		
– Audit services	664	715
– Other services	445	830
Valuation fees	270	484
Other legal and professional fees	2,020	9,280
Commission to property agents	429	1,069
Bank charges	161	157

Notes :

- (i) Included rental commission of \$6,492,000 (2014 : \$7,552,000).
- (ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the period accordingly.

9 Income tax

	Six months ended 31 December	
	2015 (Unaudited) \$'000	2014 (Unaudited) \$'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for the period	29,811	24,639
Deferred tax		
Origination and reversal of temporary differences	5,057	6,992
	34,868	31,631

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

9 Income tax (continued)

In prior years, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group for the years of assessment 2007/08 and 2008/09, with one of the subsidiaries (the “**Subsidiary**”) covering the years of assessment up to 2013/14, in an aggregate amount of \$8,195,000 as the IRD disallowed the deductions of the management and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the six months ended 31 December 2015, the IRD further raised profits tax assessments on the Subsidiary for the year of assessment 2014/15 in respect of such disallowance in the amount of \$402,000. Notices of objection were filed with the IRD and tax reserve certificates of \$8,195,000 in total have been purchased. Based on the opinion of the Group’s legal and tax advisers, the Manager is of the view that there are strong grounds to object the additional profits tax assessments raised.

10 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2015 amounted to \$0.36 (2014 : \$0.52). 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 \$587,234,000 (2014 : \$854,663,000) and the weighted average of 1,637,071,181 units in issue during the period (2014 : 1,629,600,322 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2015 and 2014 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

11 Investment properties

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
At 1 July 2015 / 2014	16,192,800	15,390,600
Additions	25,957	48,175
Net increase in fair value	343,943	1,596,525
At 31 December 2015 / 30 June 2015	16,562,700	17,035,300
Transfer to assets held for sale	–	(842,500)
	16,562,700	16,192,800

(a) Valuation

The investment properties were appraised at 31 December 2015 by the Group's principal valuer, Knight Frank Petty Limited ("**Knight Frank**"), an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with experience in the location and category of property being valued. Valuation techniques adopted by Knight Frank were the same as those adopted by Jones Lang LaSalle Limited ("**JLL**"), the Group's previous principal valuer which was retired on 31 August 2015, when carrying out the valuation for 30 June 2015. As a result of the valuation, a net gain of \$343,943,000 (2014 : \$708,420,000) has been recognised in profit or loss for the period in respect of investment properties.

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

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
In Hong Kong		
– long leases	7,497,300	7,219,700
– medium-term leases	9,065,400	8,973,100
	16,562,700	16,192,800

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

12 Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity provided by the vendors (comprising subsidiaries of Shau Kee Financial Enterprises Limited (“SKFE”), Henderson Land Development Company Limited (“HLD”), Henderson Investment Limited, Henderson Development Limited (“HD”) and Jetwin International Limited) (collectively referred to as the “Vendors”) to the extent of certain relevant deferred tax liabilities recognised by the subsidiaries of the Group at the date of acquisition (“Date of Acquisition”) in connection with the initial public offering of Sunlight REIT in December 2006.

During the six months ended 31 December 2015, certain subsidiaries of the Group had withdrawn their appeals against the potential tax liabilities on the notional gains arising from the reclassification of properties at the Date of Acquisition. The deferred tax liabilities and reimbursement rights were reduced accordingly.

13 Derivative financial instruments

Interest rate swaps – cash flow hedges

Current portion
Non-current portion

31 December 2015 (Unaudited)		30 June 2015 (Audited)	
Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
–	(18,818)	–	(34,122)
11,330	(947)	8,841	(1,132)
11,330	(19,765)	8,841	(35,254)

The Group uses interest rate swaps to hedge the exposure to movements in interest rates in relation to its floating rate term loans by swapping from floating rates to fixed rates.

During the six months ended 31 December 2015, the Group has paid to the swap counterparties a total amount of \$22,197,000 as consideration for unwinding of three existing interest rate swaps 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 interest rate swaps amounting to \$22,197,000 are reclassified from net assets attributable to unitholders to profit or loss for the period.

At 31 December 2015, the Group had interest rate swaps in place with an aggregate notional amount of \$2,800,000,000 (30 June 2015 : \$3,050,000,000). The interest rate swaps will mature between September 2017 to September 2022 (30 June 2015 : June 2016 to December 2018) and have fixed swap interest rates ranging from 0.815% per annum to 1.682% per annum (30 June 2015 : 0.815% per annum to 2.17% 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 Trade and other receivables

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Rental receivables	14,140	13,340
Deposits and prepayments	6,245	10,029
Other receivables	3,535	1,689
Amounts due from related companies	973	2,298
	24,893	27,356

\$3,852,000 (30 June 2015 : \$4,147,000) 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 :

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Current	10,794	10,476
Less than 1 month overdue	142	1,835
More than 1 month and up to 3 months overdue	2,704	393
More than 3 months and up to 6 months overdue	190	360
More than 6 months overdue	310	276
	14,140	13,340

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

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

15 Other financial assets

Held-to-maturity debt securities

Listed in Hong Kong
Listed outside Hong Kong

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
	19,820	–
	42,405	–
	62,225	–

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.

16 Cash and bank balances

Pledged bank balances and deposits with original maturity within three months (note 18)
Deposits with original maturity within three months
Cash at bank and in hand
Cash and cash equivalents
Pledged deposits with original maturity over three months (note 18)
Deposits with original maturity over three months

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
	501,711	312,834
	407,927	25,804
	4,969	3,281
	914,607	341,919
	130,615	86,586
	114,041	35,829
	1,159,263	464,334

17 Trade and other payables

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Creditors and accrued charges	25,274	33,716
Deposits received from disposals of investment properties and subsidiaries	–	92,752
Manager's fees payable (note 23(b)(ii))	21,172	24,975
Amounts due to related companies	145,302	158,120
	191,748	309,563

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 primarily represent amounts received from certain Vendors for purchasing tax reserve certificates on their behalf in respect of the potential tax liabilities arising from the outstanding tax cases. The outstanding tax cases relate to the notional gains arising from reclassification of properties at the Date of Acquisition and the potential tax liabilities are indemnified by the Vendors. The relevant balances of tax reserve certificates were classified as tax recoverable under current assets at the period end. The amounts are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$1,285,000 (30 June 2015 : \$1,272,000) which is due within 30 days.

18 Bank borrowings

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Bank borrowings		
– Secured	3,889,968	3,884,068
– Unsecured	–	10,000
	3,889,968	3,894,068

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

18 Bank borrowings (continued)

The bank borrowings were repayable as follows :

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Within 1 year and included in current liabilities	–	10,000
After 2 years but within 5 years	3,889,968	3,884,068
	3,889,968	3,894,068

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 1.05% per annum to HIBOR plus 1.55% per annum (30 June 2015 : HIBOR plus 1% per annum to HIBOR plus 1.55% per annum). The Group also entered into the interest rate swaps and details are set out in note 13.

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

- mortgages over the investment properties with a fair value of \$14,165,400,000 at 31 December 2015 (30 June 2015 : \$14,112,500,000);
- floating charge over bank balances of \$17,283,000 (30 June 2015 : \$22,498,000) and \$615,043,000 (30 June 2015 : \$376,922,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited and certain other banks in the name of Sunlight REIT Treasury Limited, a subsidiary of the Group;
- assignment of rental income and all other proceeds arising from and including all rights, title and interest under all tenancy agreements relating to each of the mortgaged investment properties; and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the end of the reporting period was 2.28% per annum (30 June 2015 : 2.56% per annum). The carrying amounts of the bank borrowings approximate their fair values.

19 Units in issue

	Number of units	
	31 December 2015 (Unaudited)	30 June 2015 (Audited)
At 1 July 2015 / 2014	1,638,486,780	1,627,580,493
Issuance of units during the period/year	5,879,147	11,906,287
Units bought back	(6,663,000)	(1,000,000)
At 31 December 2015 / 30 June 2015	1,637,702,927	1,638,486,780

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

Payment of the Manager's fees for the period/year	Average issue price per unit determined based on the Trust Deed \$	Aggregate amount of units issued \$'000	Number of units issued
For the six months ended 31 December 2015 (Unaudited)			
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
		23,043	5,879,147
For the year ended 30 June 2015 (Audited)			
1 April 2014 to 30 June 2014	3.2935	9,737	2,956,370
Adjustment of Manager's fees for the financial year 2013/14	3.2967	1,007	305,638
1 July 2014 to 30 September 2014	3.2724	9,798	2,994,124
1 October 2014 to 31 December 2014	3.4944	10,249	2,932,863
1 January 2015 to 31 March 2015	3.8035	10,335	2,717,292
		41,126	11,906,287

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

19 Units in issue (continued)

Pursuant to the general mandate granted to the Manager by unitholders, the Group bought back a total of 6,663,000 units (year ended 30 June 2015 : 1,000,000 units) on the SEHK during the six months ended 31 December 2015 at an aggregate consideration of \$25,701,000 (year ended 30 June 2015 : \$3,397,000). Details of the buy-backs were as follows :

	Number of units bought back	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
For the six months ended 31 December 2015 (Unaudited)				
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
	6,663,000			25,701
Total buy-back expenses				95
				25,796
For the year ended 30 June 2015 (Audited)				
Month of buy-back				
November 2014	1,000,000	3.46	3.36	3,397
Total buy-back expenses				14
				3,411

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

20 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

At 31 December 2015 and 30 June 2015, the Group's only financial instruments carried at fair value are the interest rate swaps (see note 13), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occurred.

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

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

20 Fair value measurement of financial instruments (continued)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2015 and 30 June 2015.

21 Capital commitments

Capital commitments outstanding at 31 December 2015 not provided for in the interim financial report are as follows :

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Contracted for	14,408	27,626
Authorised but not contracted for	15,905	12,283
	30,313	39,909

22 Contingent liabilities

At the end of the reporting period, the Group has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,585,000 (30 June 2015 : \$4,685,000).

23 Connected party transactions and material related party transactions

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

(a) Nature of relationship with connected/related parties

Connected/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

Knight Frank has replaced JLL and been appointed as the Principal Valuer of Sunlight REIT with effect from 1 September 2015.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected/related parties

	Six months ended 31 December	
	2015	2014
	(Unaudited) \$'000	(Unaudited) \$'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	5,282	4,609
– HSBC Group	10,008	8,134
Property management expenses paid/payable to (note (i)) :		
– HLD Group	(8,122)	(8,776)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	(87)	(161)
Manager's fees (note (ii))	(42,283)	(40,093)
Property Manager's fees (note (iii))	(24,197)	(24,995)
Trustee's remuneration and charges (note (iv))	(2,183)	(2,051)
Interest expenses, security trustee and other charges on bank borrowings, advisory fee, brokerage commission and other bank charges paid/payable to (notes (i) and (v)) :		
– HSBC Group	(7,535)	(8,931)
Interest expenses on interest rate swaps paid/payable to (note (v)) :		
– HSBC Group	(8,072)	(7,631)
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	104	6
Cost for unwinding of interest rate swaps paid to – HSBC Group	(7,504)	–

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

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

	Six months ended 31 December	
	2015 (Unaudited) \$'000	2014 (Unaudited) \$'000
Valuation fees and other charges paid/payable to (note (i)) :		
– Knight Frank Group	(250)	–
– JLL and other members of its group (collectively referred to as “JLL Group”)	–	(484)
Promotion income received/receivable from (note (i)) :		
– HLD Group	1,077	931
Additional consideration paid to (note (vi)) :		
– HLD Group and SKFE Group	–	(1,244)

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 24 June 2014 and 9 July 2014, the Manager made an election for the base fee and variable fee for the financial year ended 30 June 2015 to be paid 50% in the form of cash and 50% in the form of units. On 16 June 2015, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2016.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

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

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

Notes : (continued)

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

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

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

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

- (iv) The Trustee's remuneration is calculated at 0.03% per annum on the first \$5 billion on the total assets of the Group, 0.025% per annum on the next \$5 billion on the total assets of the Group and 0.02% per annum on the balance, subject to minimum fees of \$50,000 per month. In accordance with the Trust Deed, the Trustee's remuneration may be increased, without obtaining unitholders' approval subject to one month's written notice to unitholders, to a maximum of 0.06% per annum of the total assets of the Group.
- (v) Interest expenses are calculated on the outstanding borrowings and interest rate swaps balance by reference to the interest rates as set out in notes 13 and 18.
- (vi) On 2 December 2006, the Group acquired certain companies from the Vendors by entering into several sale and purchase agreements. Pursuant to these agreements, the Group agreed to pay additional consideration for the purchase of shares in the relevant companies, in an amount equivalent to the tax loss benefits of such companies that are utilised by the Group to offset tax liabilities which would otherwise arise.

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

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

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Net amount due to :		
– SKFE Group	(78,379)	(78,379)
– HLD Group	(33,197)	(44,662)
– HD	(54,999)	(54,999)
– HSBC Group (note)	(1,016,783)	(1,043,737)
– Knight Frank Group	(250)	–
– JLL Group	–	(400)
Note :		
Deposits and cash placed with HSBC Group	39,762	22,754
Bank borrowings and interest payable to HSBC Group	(1,050,082)	(1,060,100)
Others	(6,463)	(6,391)
	(1,016,783)	(1,043,737)

24 Non-adjusting event after the reporting period

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

Auditor's Review Report



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

Introduction

We have reviewed the interim financial report set out on pages 24 to 53 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2015 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 December 2015 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 February 2016

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2015	2014	2013	2012	2011
At 31 December :						
Net asset value (\$ million)		13,511	12,207	10,979	9,938	8,623
Net asset value per unit		8.25	7.48	6.77	6.17	5.39
Market capitalisation (\$ million)		6,272	5,715	4,863	5,318	3,551
For the six months ended 31 December :						
Highest traded unit price		4.09	3.68	3.22	3.59	2.57
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		3.48	3.05	2.95	2.61	1.91
Highest discount of the traded unit price to net asset value per unit (%)		57.8	59.2	56.4	57.7	64.6
Closing unit price		3.83	3.50	3.00	3.30	2.22
Distribution per unit (cents)		12.0	10.5	9.6	8.5	8.3
Payout ratio (%)		95.2	95.7	92.9	91.6	90.5
Distribution yield per unit (%)	2	3.1	3.0	3.2	2.6	3.7
Annualised distribution yield per unit (%)	2	6.3	6.0	6.4	5.2	7.5

Notes :

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

Corporate Information

Board of Directors of the Manager

Chairman and Non-executive Director

Au Siu Kee, Alexander

Chief Executive Officer and Executive Director

Wu Shiu Kee, Keith

Non-executive Director

Kwok Ping Ho

Independent Non-executive Directors

Kwan Kai Cheong

Ma Kwong Wing

Tse Kwok Sang

Kwok Tun Ho, Chester*

Company Secretary of the Manager

Chung Siu Wah

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Knight Frank Petty Limited

Legal Adviser

Woo Kwan Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

Bank of Communications Co., Ltd.

Hong Kong Branch

The Bank of East Asia, Limited

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

Leung Kwok Hoe, Kevin

Tel : (852) 3669 2888

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Website

www.sunlightreit.com

* Mr. Kwok Tun Ho, Chester has been appointed as an Independent Non-executive Director of the Manager with effect from 4 January 2016.

Financial Calendar

(in respect of FY2015/16 interim results)

Interim Results Announcement

17 February 2016

Issuance of Interim Report

24 February 2016

Ex-distribution date

3 March 2016

for interim distribution

Closure of Register

7 March 2016 to 9 March 2016,

for entitlement of interim distribution

both days inclusive

Interim distribution payable

22 March 2016

at HK 12.0 cents per unit

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

