



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號：435

2017/18

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 authorized by the Securities and Futures Commission (the “**SFC**”) and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of eleven office and six retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of approximately 1.2 million sq. ft. and an aggregate appraised value of HK\$18,535.1 million at 31 December 2017. The office properties are located in both core and decentralized business areas, while the retail properties are situated in regional transportation hubs, new towns and 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 2017 (the “**Reporting Period**”), the global economy continued to grow steadily on the back of ample liquidity and brisk domestic demand, despite the clear intention of further monetary tightening in the US. While uncertain economic developments such as Brexit negotiations and pro-growth legislation in the US might have cast shadows on the financial markets, they did little to undermine the improving economic sentiment. In Asia, the political and economic atmosphere had been largely stable notwithstanding intermittent tensions relating to the Korean peninsula. For China, the pace of economic expansion stayed unabated, despite the government’s apparent efforts to control debt levels and curb speculations on the real estate market. Locally, Hong Kong’s economy stayed firm with private consumption holding up well due to a thriving job market and the wealth effect fuelled by rising asset prices.

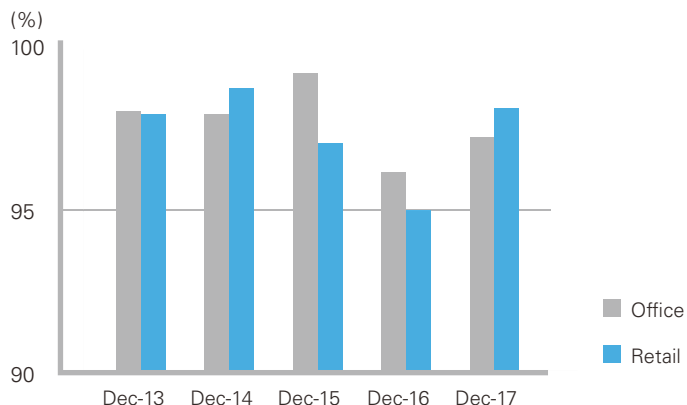
Strong investment and leasing demand (particularly from China) combined with the abundance of low-cost capital has continued to underpin the Hong Kong office market, as evidenced by a further compression in capitalization rates. Meanwhile, the gradual recovery in both consumer sentiment and tourist spending have given a nice boost to both rental and capital values of retail properties.

Despite increased supply in emerging locations such as Wong Chuk Hang and Kowloon East, demand for affordable office spaces in convenient locations such as Sheung Wan and Wan Chai remained strong. According to statistics provided by Knight Frank Petty Limited, Grade A office vacancy rates in Central, Sheung Wan, Wan Chai/Causeway Bay and Kowloon East at 31 December 2017 were 3.6%, 4.1%, 4.5% and 10.2%, while their net effective rents edged up 1.6%, 8.1%, 1.8% and 1.2% to HK\$152.2 per sq. ft., HK\$80.4 per sq. ft., HK\$77.2 per sq. ft. and HK\$34.3 per sq. ft. respectively, compared to those registered at 30 June 2017.

During the Reporting Period, Hong Kong retail sales grew 5.0% year on year after declining for several quarters since early 2015. In particular, the reversal in fortunes for higher end retail goods was more obvious. Meanwhile, restaurant receipts maintained its momentum and registered an increase of 5.8%. Such recovering retail trends, alongside inbound tourists’ rebound, has provided a reasonable support to Sunlight REIT’s retail leasing activities.

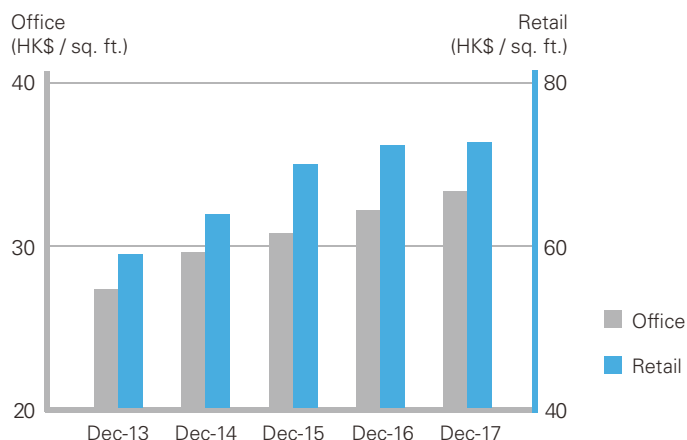
At 31 December 2017, the overall occupancy of Sunlight REIT’s portfolio was 97.6% as compared to 96.9% recorded at 30 June 2017. The office portfolio was largely stable with occupancy rate unchanged (from six months ago) at 97.3%. On the retail front, as the renovated area at Sheung Shui Centre Shopping Arcade (“**SSC**”) was mostly leased out, coupled with sustained low vacancies at Metro City Phase I Property (“**MCPI**”), occupancy of the retail portfolio exhibited a nice rebound to 98.2% (30 June 2017: 96.2%).

Occupancy trend^{Note}



Reflecting a rental reversion of 6.5% during the Reporting Period, passing rent of the office portfolio continued to rise with a growth of 4.4% from six months ago to HK\$33.4 per sq. ft. at 31 December 2017. Excluding the negative rental reversion recorded for a ground floor shop at Righteous Centre, the office portfolio actually achieved a higher rental reversion of 9.9%. Meanwhile, passing rent for the retail portfolio rose 2.1% to HK\$72.8 per sq. ft. at 31 December 2017, supported by a rental reversion of 9.8%.

Passing rent trend^{Note}



Note : The occupancy and passing rent figures have been adjusted to exclude the properties disposed of in prior years. Fung Shun Commercial Building has been included in Sunlight REIT's portfolio with effect from 15 December 2017.

Market and Operation Review

During the Reporting Period, Sunlight Tower enjoyed a rental reversion of 12.0% with a passing rent increase of 3.6% as office leasing in core business areas including Wan Chai continued to be strong. Despite a slight decline in occupancy to 96.3% (30 June 2017: 99.1%), its tenant retention rate of 87.2% was more than satisfactory. Meanwhile, the level of occupancy for the Sheung Wan/Central portfolio increased slightly to 96.6% (30 June 2017: 96.0%), reflecting the invariably solid demand for inexpensive office spaces at prime and convenient locations. In particular, we are delighted to witness the rebound in occupancy for Winsome House Property from a low of 85.9% (recorded in end-September) to the latest 94.3%. On the Kowloon side, Righteous Centre's occupancy rebounded following the leasing out of a ground floor shop to a food and beverage tenant. However, its rental performance was adversely affected by the still cautious sentiment for prime street shops in the vicinity during the Reporting Period.

The overall occupancy, passing rent and rental reversion in respect of the retail portfolio have all improved. SSC made reasonable headway as its shopping ambience has obviously been lifted by the renovation and the recent establishment of pop-up stores. For MCPI, its balanced trade-mix with a particular focus on necessity shopping has also benefitted from a more buoyant retail sentiment. Moreover, Kwong Wah Plaza Property turned in a sterling performance with a rental reversion of over 23%.

For the Reporting Period, the office and retail properties of Sunlight REIT constituted 47.4% and 52.6% of net property income respectively. At 31 December 2017, the overall portfolio had a total of 871 tenancies (30 June 2017: 851); the five largest tenants contributed approximately 15.3% of total revenue (30 June 2017: 15.1%) and occupied approximately 14.8% of total GRA (30 June 2017: 15.3%). No single tenant accounted for more than 5.6% of total revenue at 31 December 2017 (30 June 2017: 5.0%).

Acquisition and disposal

The Manager's determination to create value for unitholders has been amply illustrated by proactive acquisition and disposal activities during the Reporting Period. On 26 September 2017, Sunlight REIT entered into a binding agreement to acquire Fung Shun Commercial Building at a consideration of HK\$658.0 million (the "**Fung Shun Acquisition**"). The property is located on Nathan Road in Mong Kok, a renowned popular shopping destination and competitive office hub particularly for service trades. Further, its close proximity to Righteous Centre should improve Sunlight REIT's economies of scale by virtue of enhanced operating synergies. The Fung Shun Acquisition was completed on 15 December 2017.

Separately, the Manager announced on 24 November 2017 that Sunlight REIT has agreed to dispose of the Palatial Stand Property at HK\$101.0 million, representing a premium of 133% over its appraised value and an exit net property income yield of 0.6% (on an annualized basis). The disposal (which was completed on 25 January 2018) would help unlock the intrinsic value of Sunlight REIT on the one hand and streamline its operations by allocating resources more efficiently on the other.

Financial Review

Financial highlights

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

	Six months ended 31 December 2017	Six months ended 31 December 2016	Change (%)
Revenue	399.3	383.6	4.1
Property operating expenses	89.1	84.4	5.6
Net property income	310.2	299.2	3.7
Cost-to-income ratio (%)	22.3	22.0	N/A
Profit after taxation	935.1	278.9	235.3
Distributable income	214.1	205.1	4.4
Distribution per unit (HK cents)	12.6	12.2	3.3
Payout ratio (%)	96.6	97.3	N/A

	At 31 December 2017	At 30 June 2017	Change (%)
Portfolio valuation	18,535.1	17,062.4	8.6
Total assets	19,244.8	18,297.8	5.2
Total liabilities	4,718.4	4,398.3	7.3
Net asset value	14,526.4	13,899.5	4.5
Net asset value per unit (HK\$)	8.85	8.49	4.2
Gearing ratio (%)	22.1	21.5	N/A

Operating results

Sunlight REIT reported revenue of HK\$399.3 million for the Reporting Period, a 4.1% year-on-year growth, mainly attributable to higher contribution from its retail properties as the refurbishment programme at SSC has started to bear fruit. After deducting property operating expenses of HK\$89.1 million, net property income came in at HK\$310.2 million, up 3.7% year on year.

Finance costs dropped 27.4% year on year to HK\$34.4 million, thanks to a saving of HK\$8.4 million in cash interest expenses, which reflected the benefit of lower interest margin upon refinancing of the term loan facilities. Given the substantial increase in fair value gain on investment properties to HK\$749.1 million, profit after taxation was HK\$935.1 million versus HK\$278.9 million for the same period last year.

Distribution

Distributable income for the Reporting Period rose 4.4% year on year to HK\$214.1 million. The growth rate would have been 6.3% if the (one-time) costs of approximately HK\$4.0 million relating to the Fung Shun Acquisition had been excluded.

The Board of the Manager has resolved to declare an interim distribution per unit (“**DPU**”) of HK 12.6 cents, or HK\$206.9 million, which implies a payout ratio of 96.6%. The interim DPU was 3.3% ahead of the HK 12.2 cents paid in the same period last year, and represented an annualized distribution yield of 4.7% based on the closing unit price of HK\$5.36 on the last trading day of the Reporting Period.

Interim DPU at a glance



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

Financial Review

Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the interim distribution are Thursday, 1 March 2018 and Wednesday, 7 March 2018 respectively. The register of unitholders will be closed from Monday, 5 March 2018 to Wednesday, 7 March 2018, both days inclusive, during which period no transfer of units will be effected. In order to qualify for 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, 2 March 2018. Payment of the interim distribution will be made to unitholders on Tuesday, 20 March 2018.

Financial position

Sunlight REIT's portfolio was appraised by the principal valuer, Knight Frank Petty Limited, at HK\$18,535.1 million at 31 December 2017, representing an increase of 8.6% from HK\$17,062.4 million recorded at 30 June 2017. Stripping out Fung Shun Commercial Building which was acquired in December 2017, the increase in appraised value of the portfolio would have been 4.8%. The rise was mainly attributable to the portfolio's favourable rental performance and a mild compression in capitalization rates.

The gross assets of Sunlight REIT expanded 5.2% to HK\$19,244.8 million (30 June 2017: HK\$18,297.8 million) while its net assets grew 4.5% to HK\$14,526.4 million (30 June 2017: HK\$13,899.5 million), which implies a net asset value per unit of HK\$8.85 (30 June 2017: HK\$8.49).

At 31 December 2017, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) slightly increased to 22.1%, while gross liabilities¹ as a percentage of gross assets slightly increased to 24.5%. 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 2017.

The EBITDA² of Sunlight REIT grew 1.8% year on year to HK\$259.7 million. Together with savings in cash interest expenses as mentioned earlier, the interest coverage ratio³ for the Reporting Period further improved to 7.5 times as compared to 5.9 times recorded in the same period last year.

Notes :

1. Gross liabilities include total borrowings, tenants' deposits and other liabilities.
2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Any gain on disposals of investment properties and subsidiaries would be excluded from the calculation.
3. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on total borrowings.

Capital and interest rate management

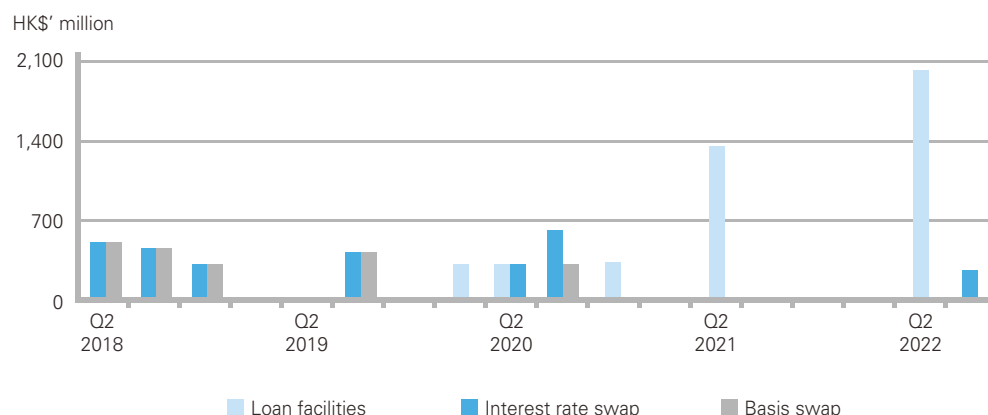
During the Reporting Period, Sunlight REIT entered into a bilateral term loan facility agreement with a bank and was granted a three-year secured term loan of HK\$325.0 million which was fully drawn at 31 December 2017. Consequently, Sunlight REIT had in place total loan facilities of HK\$4,550.0 million at 31 December 2017, comprising term loan facilities of HK\$4,250.0 million (“**Term Loan Facilities**”) which had all been drawn and an unsecured revolving credit facility of HK\$300.0 million that remained undrawn.

The Term Loan Facilities consist of secured loans of HK\$2,930.0 million and unsecured loans of HK\$1,320.0 million, with the secured tranche being backed by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK\$10,405.0 million.

At 31 December 2017, the Term Loan Facilities had a weighted loan maturity period of 3.8 years with a blended interest margin of 0.69% per annum over Hong Kong Interbank Offered Rate. Approximately 66% (or HK\$2,800.0 million) of Sunlight REIT’s borrowings was hedged to fixed rates with a weighted average tenure of 1.8 years. The weighted average interest rate (before loan interest margin) for the fixed rate portion of Sunlight REIT’s borrowings was 1.18% per annum. Subsequent to the Reporting Period, a three-year interest rate swap was entered into with a notional amount of HK\$300.0 million beginning 8 February 2018.

Maturity profile of loan facilities, interest rate swap and basis swap

(at 31 December 2017)



Financial Review

In light of the special distribution made in FY2016/17 and the Fung Shun Acquisition, cash resources allocated to unit buy-back had been reduced accordingly. During the Reporting Period, the Manager spent approximately HK\$1.3 million (excluding buy-back expenses) repurchasing (and cancelling) a total of 250,000 units during the Reporting Period at an average price of approximately HK\$5.24 per unit, representing a discount of over 40% to the net asset value per unit of Sunlight REIT.

Liquidity management

The Manager is permitted to place funds as bank deposits and Relevant Investments¹, with maturity profile compatible with projected funding requirements. At 31 December 2017, Sunlight REIT had total cash and bank balances of HK\$546.4 million, and a portfolio of Relevant Investments with an aggregate book value of HK\$61.0 million. Taking into consideration the recurrent income generated from its operations, the current cash position and sources of funding available, the Manager is of the view that Sunlight REIT has sufficient financial resources to satisfy its working capital, distribution payment and capital expenditure requirements.

Tax matter

Further to the disclosure made in the last annual report concerning a dispute with the Inland Revenue Department (“**IRD**”) over certain tax deduction disallowances², during the Reporting Period, the Manager received a draft statement of facts prepared by the IRD in respect of one property holding company, and submitted a reply with comments thereon. The IRD has yet to respond as at the date of this report.

In addition, the IRD raised profits tax assessment on the property holding company mentioned above for the year of assessment 2016/17 with certain tax deductions disallowed. This has resulted in an additional tax assessment of HK\$0.5 million, bringing the aggregate additional profits tax assessment to HK\$20.6 million (“**Aggregate Amount**”) in respect of the relevant property holding companies. Notice of objection to the profits tax assessment raised was filed with the IRD, while tax reserve certificates of an amount equivalent to the Aggregate Amount have been purchased.

Notes :

1. Relevant Investments shall have the meaning as defined in paragraph 7.2B of the Code on Real Estate Investment Trusts.
2. The IRD disallowed the deductions of the management fees, property management fees and rental commission incurred by certain property holding companies under Sunlight REIT. For details, please refer to note 8 to the interim financial report on pages 38 and 39.

Outlook

While it is a consensus view that the US Federal Reserve will continue to raise interest rates and tighten the reins on liquidity supply, this has not deterred investment sentiment in view of the continued ascent in asset prices, despite the latest stock market correction. Rather, it remains to be seen whether the relatively flat US yield curve, as illustrated by a narrow differential between 10-year and 2-year US treasuries, represents a harbinger of economic recession or a scenario of tempered inflation in the long run.

As the global economy appears to embark on a stable expansionary path, this should bode well for Hong Kong's business and consumer confidence which in turn would lend support to the commercial real estate market. With a diversified and expanded portfolio, Sunlight REIT is well positioned to capitalize on the evolving trend. Despite the moderation in rental reversions for selected office properties, the overall office portfolio is expected to stay competitive given the healthy supply of and resilient demand for affordable decentralized office spaces. The retail portfolio, in the meantime, is expected to benefit from the gradual recovery in retail spending. While SSC is poised to capture the full benefit from its recent renovation, MCPI's focus on consumer staples supplemented by proactive tenant mix reconfiguration will buttress its income prospects. Barring unforeseen circumstances, the Manager is guardedly optimistic about the rental performance of Sunlight REIT for the rest of the current financial year.

On capital management, through its refinancing arrangement near the end of FY2016/17, Sunlight REIT is equipped with a more flexible funding structure while enjoying a lower loan interest margin. Furthermore, with approximately 66% of debt being hedged to fixed rates, Sunlight REIT is reasonably cushioned from interest rate fluctuations in the short-to-medium term. However, in light of the additional loan facility and the expiry of HK\$1,250.0 million worth of interest rate swap before the end of 2018, the Manager shall endeavor to optimize the interest rate profile of Sunlight REIT over the course of the year.

The Fung Shun Acquisition and the disposal of the Palatial Stand Property have demonstrated the Manager's capability and resolve to swiftly conduct accretive transactions. Going forward, the Manager will continue to place a high priority on asset recycling, with a view to further augmenting the investment footprint while enhancing the value of Sunlight REIT.

Portfolio Statistics

Property	Property details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)			at 31 Dec 2017	at 30 Jun 2017
				Office	Retail	Total		
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	70	73
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	101	102
Fung Shun Commercial Building ⁴	Mong Kok	1981	0	23,024	11,627	34,651	2	N/A
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	22
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	75	74
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	63	59
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	71	71
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	39	38
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	38	34
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	47	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	34	32
Sub-total/Average			46	787,935	56,688	844,623	564	552
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	122	115
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	110	107
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	37	37
Urban								
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	33	35
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Palatial Stand Property ⁵	Hung Hom	2001	0	3,566	5,059	8,625	3	3
Sub-total/Average			749	42,667	354,188	396,855	307	299
Total/Average			795	830,602	410,876	1,241,478	871	851

Notes :

1. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied GRA on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant period.
3. Valuation prepared by Knight Frank Petty Limited.
4. Completion of the acquisition took place on 15 December 2017.
5. The Palatial Stand Property was disposed of in November 2017 and completion took place on 25 January 2018.

Operational statistics							Property financials				
Occupancy (%)		Passing rent ¹ (HK\$ / sq. ft.)		Rental reversion ² (%)		Net property income (HK\$ '000)		Capitalization rate at 31 Dec 2017 (%)		Appraised value at 31 Dec 2017 ³ (HK\$ '000)	
at 31 Dec 2017	at 30 Jun 2017	at 31 Dec 2017	at 30 Jun 2017	six months ended 31 Dec 2017	six months ended 30 Jun 2017	six months ended 31 Dec 2017	six months ended 31 Dec 2016	Office	Retail		
96.3	99.1	37.7	36.4	12.0	13.4	83,890	81,715	3.75	3.65	4,924,000	
95.6	96.1	29.5	28.9	9.9	11.0	17,434	17,936	3.45	3.80	1,214,000	
100.0	N/A	47.3	N/A	N/A	N/A	826	N/A	3.00	2.75	660,000	
94.3	85.9	42.9	42.9	3.7	9.7	7,987	8,859	3.45	3.60	623,800	
100.0	100.0	27.2	26.6	7.7	3.8	9,076	8,456	3.45	3.80	603,000	
100.0	93.4	34.2	34.7	(21.3)	7.1	9,173	12,095	3.75	3.40	585,000	
96.3	98.9	21.3	20.8	7.9	9.7	5,749	5,679	3.45	3.80	405,000	
100.0	96.1	24.2	24.1	8.8	9.2	4,502	4,273	3.75	4.00	294,000	
100.0	92.0	30.4	30.9	5.0	7.5	4,168	4,073	3.65	3.70	277,000	
100.0	100.0	21.7	21.7	0.5	(1.1)	3,049	2,657	3.80	4.05	182,000	
100.0	94.5	14.2	13.8	7.8	7.2	1,084	939	3.55	3.90	77,900	
97.3	97.3	33.4	32.0	6.5	9.3	146,938	146,682			9,845,700	
97.4	91.7	117.5	118.4	5.4	1.0	77,073	72,629	N/A	4.30	4,267,000	
99.6	98.7	54.9	54.1	12.5	13.5	65,279	59,516	N/A	4.40	3,101,000	
100.0	100.0	52.6	49.6	23.8	2.4	17,442	16,866	3.65	3.60	1,101,000	
85.4	96.7	44.4	45.1	(5.7)	(14.0)	1,841	2,050	N/A	4.10	108,400	
100.0	100.0	54.0	54.0	N/A	15.0	1,323	1,167	N/A	3.80	68,600	
75.2	75.2	12.0	12.0	N/A	N/A	310	258	N/A	3.85	43,400	
98.2	96.2	72.8	71.3	9.8	5.6	163,268	152,486			8,689,400	
97.6	96.9	46.0	44.9	7.9	6.7	310,206	299,168			18,535,100	

Corporate Governance

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

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

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorized by the SFC under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management, and it has satisfied the compliance requirements under section 125 of the SFO and paragraph 5.4 of the REIT Code by having five responsible officers.

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

Board of the Manager and changes in Directors’ information

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

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

1. Mr. KWOK Tun Ho, Chester has been appointed as an independent non-executive director of Yixin Group Limited on 16 November 2017, the date on which its shares were initially listed on the Main Board of the Stock Exchange; and
2. Mr. AU Siu Kee, Alexander resigned as an independent non-executive director of The Wharf (Holdings) Limited and accepted the appointment as an independent non-executive director of Wharf Real Estate Investment Company Limited on 23 November 2017, the date on which shares of the latter were initially listed on the Main Board of the Stock Exchange.

Save as aforesaid, the Manager has not been notified of any change in Directors’ information.

Confirmation of compliance with the Dealings Code

The Manager has adopted a code governing dealings in securities of Sunlight REIT by Directors (the “**Dealings Code**”) the terms of which are no less exacting than those set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The Dealings Code is also applicable to the Manager itself and similar dealing requirements are also applicable to employees of the Manager. Certain restrictions and notification requirements as provided under the Listing Rules are adopted with modifications in the Dealings Code to apply to unit buy-back by the Manager on behalf of Sunlight REIT. Specific enquiry has been made with all Directors and the Manager, and all of them confirmed that they had 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 of the Manager 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 of the Manager is an independent non-executive director of Henderson Investment Limited, a listed subsidiary of HLD. Each of Shau Kee Financial Enterprises Limited (“**SKFE**”) and HLD has interest in units of Sunlight REIT through various subsidiaries; in particular, the Manager has received and may continue to receive units of Sunlight REIT by virtue of all or part of its entitlement to the fees for asset management services rendered to Sunlight REIT.

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

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

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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, as subsequently renewed on amended terms and conditions by three supplemental agreements.

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

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

Public float

At 31 December 2017, based on information that is publicly available and within the knowledge of the Directors, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the SFC.

New units issued

Except for an aggregate of 4,296,052 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 to buy back units granted by unitholders at the annual general meeting held on 27 October 2017, the Manager bought back on behalf of Sunlight REIT a total of 250,000 units on the Stock Exchange during the Reporting Period for an aggregate consideration of approximately HK\$1.3 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK\$5.30 and HK\$5.22 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.

Acquisition and disposal of properties

During the Reporting Period, Sunlight REIT acquired Fung Shun Commercial Building and disposed of the Palatial Stand Property. Completion of the transactions took place in December 2017 and

January 2018 respectively. Announcements relating to the Fung Shun Acquisition and the disposal of the Palatial Stand Property were published on 26 September 2017, 24 November 2017, 15 December 2017 and 25 January 2018 respectively.

Save as disclosed above, there was no acquisition and disposal of properties by Sunlight REIT or its wholly-owned and controlled entities during the Reporting Period.

Adoption of Anti-fraud Policy

An Anti-fraud Policy was adopted by the Board during the Reporting Period to establish the procedures for detection, prevention, reporting and investigation of fraudulent activities and behaviour.

Relevant Investments

The full investment portfolio of Relevant Investments of Sunlight REIT at 31 December 2017 is set out below :

Financial instruments and issuers	Type	Primary listing	Currency	Total cost (HK\$'000)	Mark-to-market value (HK\$'000)	% of Gross asset value of Sunlight REIT ^{Note}	Credit rating
BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited	Bond	Singapore Exchange	USD	21,623	20,896	0.11	S&P BBB Moody's Baa3
ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Bond	Singapore Exchange	USD	20,911	20,581	0.11	S&P A- Moody's Baa2
CHITRA 3 7/8 11/03/19 King Power Capital Ltd.	Bond	Hong Kong Exchange	USD	19,841	19,791	0.10	S&P BBB+ Moody's Baa1
Total				62,375	61,268	0.32	

Note : The percentages are arrived at by comparing the mark-to-market value of the investments at 31 December 2017 with the gross asset value of Sunlight REIT (as defined below).

At 31 December 2017, the combined mark-to-market value of Relevant Investments, together with other non-real estate assets of Sunlight REIT, represented 3.6% of the gross asset value of Sunlight REIT (as stated on page 26 of this interim report after adjusted for the interim distribution declared), which is below the Maximum Cap provided in note (1) to paragraph 7.2B of the REIT Code.

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 2017 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	3,046	1,397
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	2,009	932
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	1,233	N/A
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	245	118
Total			6,533	2,447

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Expenses for the Reporting Period (HK\$'000)
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations and licence fee	4,512
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	27,528
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,355
Metro City Management Limited	Associated company of the Manager	Property management and operations	594
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,167
Contender Limited	Associated company of the Manager	Facilities leasing	93
Total			35,249

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 2017 (HK\$'000)
Leasing transactions :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing ³	5,386	3,088
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing ⁴	192	107
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁵	5,512	2,692
Ordinary banking and financial services⁶ :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/receivable on bank deposits	15	N/A
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowing, net interest expenses on interest rate swaps and basis swaps and other bank charges	9,315	N/A
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	2	N/A
Hang Seng Bank Limited	Trustee Connected Persons	Interest expenses on bank borrowing and other bank charges	2,702	N/A
Subsequent to the Reporting Period, an interest rate swap with a notional amount of HK\$300 million was entered into with The Hongkong and Shanghai Banking Corporation Limited.				
Corporate Finance Transaction :				
Hang Seng Bank Limited	Trustee Connected Persons	Interest expenses and debt establishment fee on bank borrowing ⁷	954	N/A

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. 1032-33 of SSC, with gross floor area of 1,171 sq. ft., for a term of 3 years from 15 August 2017 to 14 August 2020; and a lease in respect of Shop Nos. 1024-31 of SSC, with gross floor area of 5,390 sq. ft. for a term of 3 years from 4 November 2017 to 3 November 2020.
4. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 66-81, Level 1, (iii) external wall signage Nos. 82-93, Level 1, and (iv) light box space No. F2, Level 2 respectively, of SSC.
5. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft. for a term of 3 years from 17 February 2015 to 16 February 2018; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., for a term of 3 years from 29 September 2017 to 28 September 2020.
6. In general, "ordinary banking and financial services" include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto and other banking or financial services.
7. The interest expenses and fee were paid in relation to a HK\$325 million term loan facility granted by Hang Seng Bank Limited for financing the acquisition of Fung Shun Commercial Building.

Other disclosures under the REIT Code

Pursuant to note (2) to paragraph 8.10 of the REIT Code, services provided to Sunlight REIT by the Manager, the Trustee and the principal valuer 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\$47.6 million and HK\$2.5 million respectively. Particulars of services provided by the Manager, the Trustee 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 the Manager itself and the Directors 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 chief executive of the Manager

At 31 December 2017 and 30 June 2017, the interests and short position in units of the Manager and the Directors or 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 2017		At 30 June 2017		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	121,906,184	7.425	115,881,132	7.076	0.349
Au Siu Kee, Alexander ⁴	1,530,000	0.093	1,530,000	0.093	–
Wu Shiu Kee, Keith ⁵	700,000	0.043	600,000	0.037	0.006

Notes :

- The percentages expressed are based on the total number of units in issue of 1,641,823,814 at 31 December 2017.
- The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,637,777,762 at 30 June 2017.
- During the Reporting Period, the Manager (i) received 4,296,052 units as payment of part of the Manager’s fees; and (ii) acquired 1,729,000 units on the open market. The Manager beneficially owned 121,906,184 units at 31 December 2017 (30 June 2017: 115,881,132 units).
- At 31 December 2017, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2017: 1,530,000 units) under Part XV of the SFO. Of the 1,530,000 units, 201,000 units were beneficially held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were beneficially held by his spouse individually.
- At 31 December 2017, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 700,000 units (30 June 2017: 600,000 units).

Other than the above, none of the Manager and the Directors or 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 2017 and 30 June 2017 as recorded in the Register.

Disclosure of Interests

Holdings of substantial unitholders

At 31 December 2017 and 30 June 2017, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2017		At 30 June 2017		Change in % interest
	Number of units interested (long position)	% of interest in units ¹	Number of units interested (long position)	% of interest in units ²	
Lee Shau Kee ³	623,218,027	37.96	623,218,027	38.05	-0.09
Lee Financial (Cayman) Limited ³	374,072,708	22.78	374,072,708	22.84	-0.06
Leesons (Cayman) Limited ³	374,072,708	22.78	374,072,708	22.84	-0.06
Leeworld (Cayman) Limited ³	374,072,708	22.78	374,072,708	22.84	-0.06
SKFE ³	374,072,708	22.78	374,072,708	22.84	-0.06
Uplite Limited ³	224,443,625	13.67	224,443,625	13.70	-0.03
Wintrade Limited ³	149,629,083	9.11	149,629,083	9.14	-0.03
Henderson Development Limited ³	264,280,501	16.10	249,145,319	15.21	0.89
HLD ³	264,280,501	16.10	249,145,319	15.21	0.89
Hopkins (Cayman) Limited ³	264,280,501	16.10	249,145,319	15.21	0.89
Riddick (Cayman) Limited ³	264,280,501	16.10	249,145,319	15.21	0.89
Rimmer (Cayman) Limited ³	264,280,501	16.10	249,145,319	15.21	0.89
Silchester International Investors LLP ⁴	257,791,150	15.70	257,791,150	15.74	-0.04
Silchester International Investors International Value Equity Trust ⁴	113,294,922	6.90	113,294,922	6.92	-0.02

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,641,823,814 at 31 December 2017.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,637,777,762 at 30 June 2017.
3. At 31 December 2017, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited were wholly-owned subsidiaries of Financial Enterprise Properties Limited which in turn was wholly-owned by SKFE. SKFE was wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which were held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was thus taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2017, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 121,906,184 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 265,818,501 units at 31 December 2017. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 264,280,501 units at 31 December 2017, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

At 31 December 2017, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in 639,891,209 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 623,218,027 units at 31 December 2017, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2017, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

- At 31 December 2017, in accordance with the notices given to the Manager pursuant to Part XV of the SFO, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 257,791,150 units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 113,294,922 units. The Manager has subsequently been notified informally that at 31 December 2017, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.28% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 108,146,922 units (representing approximately 6.59% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

Holdings of other connected persons

So far as is known to the Manager and save as disclosed above, the holdings of units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT at 31 December 2017 were as follows :

Name	Number of units held	% of unit holding ¹
Chan Wing Cheng ²	130,000	0.0079
Lee King Yue ³	50,000	0.0030
Lee Pui Ling, Angelina ⁴	2,307	0.0001
Lo Yuk Fong, Phyllis ⁵	100,000	0.0061
Persons related to the Trustee ⁶	6,006,000	0.3658

Notes :

- The percentages expressed are based on the total number of units in issue of 1,641,823,814 at 31 December 2017.
- Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 130,000 units at 30 June 2017.
- Mr. Lee King Yue was a connected person by virtue of being a director of certain subsidiaries of HLD. Mr. Lee held 50,000 units at 30 June 2017.
- 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 2017.
- 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 2017.
- The Manager has been informed that certain controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the Trustee were beneficially interested in 6,006,000 units at 31 December 2017. Their beneficial interest was 22,948,000 units at 30 June 2017.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2017 \$'000	2016 \$'000
Revenue	4 & 5	399,332	383,565
Property operating expenses	4 & 6	(89,126)	(84,397)
Net property income		310,206	299,168
Other income		4,868	4,621
Administrative expenses		(55,400)	(48,463)
Net increase in fair value of investment properties	10(a)	749,115	105,239
Profit from operations		1,008,789	360,565
Finance costs on interest bearing liabilities	7(a)	(34,419)	(47,419)
Profit before taxation and transactions with unitholders	7	974,370	313,146
Income tax	8	(39,316)	(34,246)
Profit after taxation and before transactions with unitholders		935,054	278,900

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2017	2016
	\$'000	\$'000
Profit after taxation and before transactions with unitholders	935,054	278,900
Other comprehensive income for the period		
<i>Items that have been reclassified / may be reclassified subsequently to profit or loss (after tax) :</i>		
– Changes in fair value of cash flow hedges recognised during the period	12,628	66,932
– Net reclassification adjustments for amounts transferred from profit or loss in respect of finance costs on interest bearing liabilities	(895)	(1,626)
	11,733	65,306
Total comprehensive income for the period	946,787	344,206

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

Consolidated Statement of Financial Position

At 31 December 2017

(Expressed in Hong Kong dollars)

	Note	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	10	18,491,700	17,062,400
– Other fixed assets		57	72
		18,491,757	17,062,472
Deferred tax assets		316	435
Derivative financial instruments	12	13,379	7,374
Prepayments	14	2,553	1,587
Reimbursement rights	11	37,436	37,436
Other financial assets	13	60,989	61,377
		18,606,430	17,170,681
Current assets			
Trade and other receivables	14	24,224	18,673
Derivative financial instruments	12	4,049	2,238
Cash and bank balances	15	546,430	1,085,897
Tax recoverable		20,291	20,291
		594,994	1,127,099
Investment properties held for sale	16	43,400	–
		638,394	1,127,099
		19,244,824	18,297,780
Current liabilities			
Tenants' deposits		(199,831)	(193,073)
Rent receipts in advance		(7,791)	(10,430)
Trade and other payables	17	(73,060)	(63,406)
Derivative financial instruments	12	(1,373)	(10,424)
Tax payable		(45,647)	(65,483)
		(327,702)	(342,816)
		310,692	784,283
Net current assets			
Total assets less current liabilities		18,917,122	17,954,964

Consolidated Statement of Financial Position (continued)

At 31 December 2017

(Expressed in Hong Kong dollars)

	Note	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	18	(4,228,602)	(3,901,882)
Deferred tax liabilities		(162,117)	(153,351)
Derivative financial instruments	12	–	(252)
		(4,390,719)	(4,055,485)
Total liabilities, excluding net assets attributable to unitholders			
		(4,718,421)	(4,398,301)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		14,526,403	13,899,479
Number of units in issue			
	19	1,641,823,814	1,637,777,762
Net asset value attributable to unitholders per unit			
		\$ 8.85	\$ 8.49

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

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2017 \$'000	2016 \$'000
At the beginning of the period		13,899,479	13,518,103
Profit after taxation and before transactions with unitholders		935,054	278,900
Other comprehensive income		11,733	65,306
Total comprehensive income for the period		946,787	344,206
Distribution paid to unitholders		(340,658)	(201,217)
Issuance of units to the Manager during the period	19	22,110	21,387
Units bought back	19	(1,310)	(22,804)
Units buy-back expenses	19	(5)	(80)
		(319,863)	(202,714)
At the end of the period		14,526,403	13,659,595

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

Distribution Statement

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2017 \$'000	2016 \$'000
Profit after taxation and before transactions with unitholders		935,054	278,900
Adjustments (note (i)) :			
– Net increase in fair value of investment properties	10(a)	(749,115)	(105,239)
– Manager’s fees paid or payable in the form of units		22,179	21,204
– Interest rate swaps – cash flow hedges	7(a)	(2,738)	(1,626)
– Non-cash finance costs on interest bearing liabilities		2,530	5,900
– Deferred tax	8	6,237	5,963
		(720,907)	(73,798)
Distributable income (note (i))		214,147	205,102
Interim distribution (note (ii))		206,870	199,556
Payout ratio (note (ii))		96.6%	97.3%
Distribution per unit (note (ii))		12.6 cents	12.2 cents

Distribution Statement (continued)

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

Notes :

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

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the current period included the adding back of non-cash finance costs on interest bearing liabilities of \$2,530,000, or 0.15 cents per unit (2016 : \$5,900,000, or 0.36 cents per unit) resulting from amortisation of debt establishment fees in respect of bank borrowings.

- (ii) The interim distribution of \$206,870,000 for the six months ended 31 December 2017 (2016 : \$199,556,000), representing a payout ratio of 96.6% (2016 : 97.3%), is calculated by multiplying the interim distribution per unit of 12.6 cents by 1,641,823,814 units* anticipated to be in issue at 7 March 2018, the record date for FY2017/18 interim distribution (the “**Record Date**”) (2016 : 12.2 cents by 1,635,707,632 units in issue at 28 February 2017, the record date for FY2016/17 interim distribution).
- (iii) The interim distribution is expected to be paid on 20 March 2018 to unitholders whose names appear on the register of unitholders on the Record Date.
- (iv) The interim distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

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

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2017 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2017 \$'000	2016 \$'000
Operating activities			
Cash generated from operations		274,157	276,089
Tax paid			
– Hong Kong Profits Tax paid		(52,914)	(56,539)
Net cash generated from operating activities		221,243	219,550
Investing activities			
Payment for expenditure incurred for investment properties		(6,215)	(28,195)
Payment for acquisition of investment properties		(717,918)	–
Deposits received from disposal of investment properties		10,100	–
Payment for purchase of other fixed assets		–	(22)
Decrease in pledged deposits with original maturity over three months		–	118,576
Decrease in bank deposits with original maturity over three months		–	17,619
Other cash flows arising from investing activities		5,253	5,211
Net cash (used in)/generated from investing activities		(708,780)	113,189
Financing activities			
Distribution paid to unitholders		(340,658)	(201,217)
Other borrowing costs paid		(804)	(826)
Interest paid		(34,158)	(42,740)
Proceeds from new bank borrowings		325,000	–
Payment for buy-back of units		(1,315)	(22,884)
Net cash used in financing activities		(51,935)	(267,667)
Net (decrease)/increase in cash and cash equivalents		(539,472)	65,072
Cash and cash equivalents at the beginning of the period	15	1,085,897	998,567
Effect of foreign exchange rate changes		5	(17)
Cash and cash equivalents at the end of the period	15	546,430	1,063,622

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

1 General

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

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

2 Basis of preparation

This interim financial report has been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 12 February 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016/17 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017/18 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016/17 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 Basis of preparation (continued)

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

The financial information relating to the financial year ended 30 June 2017 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 2017 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 5 September 2017.

3 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these amendments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

4 Segment reporting

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

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

Segment results

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

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

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

4 Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2017 (Unaudited)			2016 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– rental income	152,203	166,895	319,098	149,416	158,638	308,054
– car park income	1,893	14,407	16,300	2,000	13,593	15,593
– rental related income	31,545	32,389	63,934	30,703	29,215	59,918
	185,641	213,691	399,332	182,119	201,446	383,565
Property operating expenses	(38,703)	(50,423)	(89,126)	(35,437)	(48,960)	(84,397)
Net property income	146,938	163,268	310,206	146,682	152,486	299,168
Administrative expenses (note)	(27,473)	(22,433)	(49,906)	(22,425)	(21,465)	(43,890)
Segment results	119,465	140,835	260,300	124,257	131,021	255,278
Net increase in fair value of investment properties	287,584	461,531	749,115	94,576	10,663	105,239
Finance costs on interest bearing liabilities			(34,419)			(47,419)
Income tax			(39,316)			(34,246)
Interest income			4,814			4,621
Unallocated net expenses			(5,440)			(4,573)
Profit after taxation and before transactions with unitholders			935,054			278,900
Depreciation	6	9	15	9	10	19

Note : The costs relating to the acquisition of Fung Shun Commercial Building amounting to \$3,970,000 was included under administrative expenses.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

5 Revenue

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

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Rental income	319,098	308,054
Car park income	16,300	15,593
Rental related income	63,934	59,918
	399,332	383,565

6 Property operating expenses

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Building management fee	30,405	28,974
Property Manager's fees	27,528	25,796
Government rent and rates	17,708	17,332
Marketing and promotion expenses	3,035	3,083
Car park operating costs	3,057	2,920
Other direct costs	7,393	6,292
	89,126	84,397

7 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	
	2017	2016
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	34,627	42,994
Other borrowing costs	2,530	6,051
	37,157	49,045
Interest rate swaps – cash flow hedges		
– reclassified to net assets		
attributable to unitholders	(895)	(1,626)
– net fair value gain of ineffective		
cash flow hedges	(1,843)	–
	(2,738)	(1,626)
	34,419	47,419

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

7 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	
	2017 (Unaudited) \$'000	2016 (Unaudited) \$'000
(b) Other items		
Interest income	(4,814)	(4,621)
Manager's fees	47,648	42,409
Property Manager's fees (note (i))	27,528	25,796
Trustee's remuneration and charges	2,454	2,178
Auditor's remuneration		
– Audit services	740	734
– Other services	475	458
Valuation fees payable to principal valuer	256	255
Legal and other professional fees	3,405	1,846
Commission to property agents	1,447	1,205
Bank charges	122	166
Net unrealised foreign exchange (gain)/loss	(54)	40

Notes :

- (i) Included rental commission of \$8,719,000 (2016 : \$7,821,000).
- (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.

8 Income tax

	Six months ended 31 December	
	2017 (Unaudited) \$'000	2016 (Unaudited) \$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	33,079	28,283
Deferred tax		
Origination and reversal of temporary differences	6,237	5,963
	39,316	34,246

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

8 Income tax (continued)

In prior years, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group, with one of the subsidiaries (the “**Particular Subsidiary**”) covering the years of assessment up to 2015/16, and certain other subsidiaries covering the years of assessment up to 2010/11, in an aggregate amount of \$20,085,000 as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the six months ended 31 December 2017, the IRD further raised profits tax assessments on the Particular Subsidiary for the year of assessment 2016/17 in respect of such disallowance, bringing the aggregate amount to \$20,564,000. Notices of objection were filed with the IRD against all the additional profits tax assessments raised to date. At 31 December 2017, tax reserve certificates (“**TRC**”) of \$20,085,000 in total have been purchased while a TRC of \$479,000 was purchased in January 2018.

The Manager has received positive advice from the legal and tax advisers of Sunlight REIT, and, in particular, an unequivocal opinion from Senior Counsel to the effect that there are strong prospects of establishing the deductibility of the management fees, property management fees and rental commission. In light of such opinion and in the event that any of the objections mentioned above is determined by the Commissioner of Inland Revenue against the Group, the Manager will appeal against the determination to the Board of Review.

If the IRD were to issue additional profits tax assessments on the other subsidiaries on the basis of disallowing deductions of a similar nature in respect of the years of assessment 2011/12 to 2016/17, the estimated total additional profits tax liabilities would amount to approximately \$84,990,000, which includes \$20,564,000 as mentioned above. Based on the positive advice received, such additional profits tax assessments, if issued, will likewise be vigorously contested.

9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2017 amounted to \$0.57 (2016 : \$0.17). 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 \$935,054,000 (2016 : \$278,900,000) and the weighted average of 1,639,349,129 units in issue during the period (2016 : 1,636,525,561 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2017 and 2016 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

10 Investment properties

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
At 1 July 2017 / 2016	17,062,400	16,651,000
Additions through acquisition of an investment property (note (c))	718,420	–
Other additions	5,165	27,241
Net increase in fair value	749,115	384,159
	18,535,100	17,062,400
Transfer to assets held for sale (note 16)	(43,400)	–
At 31 December 2017 / 30 June 2017	18,491,700	17,062,400

(a) Valuation

The investment properties were appraised at 31 December 2017 by the Group's principal valuer, Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their Staff Members of The Hong Kong Institute of Surveyors with experience in the location and category of property being valued. Valuation techniques adopted by this valuer were the same as when carrying out the valuation for 30 June 2017. As a result of the valuation, a net gain of \$749,115,000 (2016 : \$105,239,000) 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 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
In Hong Kong		
– long leases	8,409,400	8,068,400
– medium-term leases	10,082,300	8,994,000
	18,491,700	17,062,400

(c) On 15 December 2017, the Group completed the acquisition of Fung Shun Commercial Building at a consideration together with related transaction costs totalling \$718,420,000.

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

11 Reimbursement rights

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

12 Derivative financial instruments

	31 December 2017 (Unaudited)			30 June 2017 (Audited)		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$'000	\$'000	amount \$'000	\$'000	\$'000	amount \$'000
Interest rate swaps and interest rate basis swaps – cash flow hedges						
Current portion	4,049	(1,373)	2,676	2,238	(10,424)	(8,186)
Non-current portion	13,379	–	13,379	7,374	(252)	7,122
	17,428	(1,373)	16,055	9,612	(10,676)	(1,064)

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

During the six months ended 31 December 2017, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to \$895,000 were reclassified from profit or loss to net assets attributable to unitholders. As at 31 December 2017, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, fair value gain of ineffective hedges amounting to \$1,404,000 was charged to profit or loss for the period.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

12 Derivative financial instruments (continued)

At 31 December 2017, the net cumulative unrealised gain (net of deferred tax) on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to \$8,024,000 (30 June 2017 : net cumulative unrealised losses of \$3,708,000).

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

At 31 December 2017, the Group had IRSs and Basis Swaps in place with an aggregate notional amount of \$2,800,000,000 (30 June 2017 : \$3,100,000,000) and \$1,950,000,000 (30 June 2017 : \$2,250,000,000) respectively. The IRSs and Basis Swaps will mature between June 2018 to September 2022 (30 June 2017 : September 2017 to September 2022) and June 2018 to August 2020 (30 June 2017 : September 2017 to August 2020) respectively. Combining the IRSs and Basis Swaps, the net fixed swap interest rates range from 0.525% per annum to 1.670% per annum (30 June 2017 : 0.525% per annum to 1.670% 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.

13 Other financial assets

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Held-to-maturity debt securities		
Listed in Hong Kong	19,754	19,795
Listed outside Hong Kong	41,235	41,582
	60,989	61,377

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.

14 Trade and other receivables

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Rental receivables	15,018	11,785
Deposits and prepayments	9,355	6,330
Other receivables	1,738	1,585
Amounts due from related companies	666	560
	26,777	20,260
Represented by :		
Current portion	24,224	18,673
Non-current portion	2,553	1,587
	26,777	20,260

At 31 December 2017 and 30 June 2017, the balance under non-current portion represented progress payments for the improvement works carried out on certain investment properties of the Group which were in progress at the end of the reporting period.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

14 Trade and other receivables (continued)

\$3,782,000 (30 June 2017 : \$3,919,000) 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 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Current	11,748	9,149
Less than 1 month overdue	2,472	1,762
More than 1 month and up to 3 months overdue	529	449
More than 3 months and up to 6 months overdue	66	197
More than 6 months overdue	203	228
	15,018	11,785

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.

15 Cash and bank balances

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Deposits with original maturity within three months	521,473	1,038,463
Cash at bank and in hand	24,957	47,434
Cash and cash equivalents	546,430	1,085,897

16 Investment properties held for sale

On 24 November 2017, the Group, through certain of its wholly-owned subsidiaries, entered into a sale and purchase agreement with an independent third party purchaser in relation to the sale of the Palatial Stand Property at a consideration of \$101,000,000. Accordingly, the carrying amount of the Palatial Stand Property has been reclassified as investment properties held for sale at 31 December 2017.

17 Trade and other payables

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Creditors and accrued charges	31,853	33,451
Deposits received from disposal of investment properties	10,100	–
Manager's fees payable (note 23(b)(ii))	22,724	22,585
Amounts due to related companies	8,383	7,370
	73,060	63,406

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

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

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$1,192,000 (30 June 2017 : \$1,149,000) which is due within 30 days.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

18 Bank borrowings

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Bank borrowings		
– Secured	2,916,439	2,590,831
– Unsecured	1,312,163	1,311,051
	4,228,602	3,901,882

The bank borrowings were repayable as follows :

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
After 2 years but within 5 years	4,228,602	3,901,882

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“HIBOR”) plus 0.52% per annum to HIBOR plus 0.79% per annum (30 June 2017 : HIBOR plus 0.52% per annum to HIBOR plus 0.79% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 12.

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

- mortgages over the investment properties with a fair value of \$10,405,000,000 at 31 December 2017 (30 June 2017 : \$9,968,000,000) (note 10); 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 1.87% per annum (30 June 2017 : 1.72% per annum).

19 Units in issue

	Number of units	
	31 December 2017 (Unaudited)	30 June 2017 (Audited)
At 1 July 2017 / 2016	1,637,777,762	1,635,909,905
Issuance of units during the period / year	4,296,052	9,414,857
Units bought back	(250,000)	(7,547,000)
At 31 December 2017 / 30 June 2017	1,641,823,814	1,637,777,762

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 2017 (Unaudited)			
1 April 2017 to 30 June 2017	5.0640	10,807	2,134,064
Adjustment of Manager's fees for the financial year 2016/17	5.1820	486	93,689
1 July 2017 to 30 September 2017	5.2300	10,817	2,068,299
		22,110	4,296,052
For the year ended 30 June 2017 (Audited)			
1 April 2016 to 30 June 2016	4.3024	10,537	2,449,071
Adjustment of Manager's fees for the financial year 2015/16	4.9137	311	63,272
1 July 2016 to 30 September 2016	4.9634	10,539	2,123,384
1 October 2016 to 31 December 2016	4.4660	10,665	2,388,068
1 January 2017 to 31 March 2017	4.5920	10,979	2,391,062
		43,031	9,414,857

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 250,000 units (year ended 30 June 2017 : 7,547,000 units) on the SEHK during the six months ended 31 December 2017 at an aggregate consideration of \$1,310,000 (year ended 30 June 2017 : \$35,968,000). 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 2017 (Unaudited)				
Month of buy-back				
December 2017	250,000	5.30	5.22	1,310
Total buy-back expenses				5
				1,315
For the year ended 30 June 2017 (Audited)				
Month of buy-back				
September 2016	227,000	4.93	4.89	1,118
October 2016	714,000	4.97	4.92	3,528
November 2016	3,566,000	4.77	4.54	16,600
December 2016	331,000	4.72	4.69	1,558
February 2017	1,480,000	4.80	4.69	7,036
May 2017	970,000	4.99	4.89	4,794
June 2017	259,000	5.16	5.13	1,334
	7,547,000			35,968
Total buy-back expenses				124
				36,092

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

20 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

At 31 December 2017 and 30 June 2017, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (see note 12), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2017 and the year ended 30 June 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occurred.

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

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

20 Fair value measurement of financial instruments (continued)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2017 and 30 June 2017.

21 Capital commitments

Capital commitments outstanding at 31 December 2017 not provided for in the interim financial report are as follows :

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Contracted for	15,087	18,622
Authorised but not contracted for	17,606	16,570
	32,693	35,192

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 2017 : \$4,585,000).

23 Connected party transactions and material related party transactions

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

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

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

23 Connected party transactions and material related party transactions

(continued)

(b) Transactions with connected persons / related parties

	Six months ended 31 December	
	2017 (Unaudited) \$'000	2016 (Unaudited) \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	5,300	5,344
– HSBC Group	11,090	10,106
Property management expenses paid / payable to (note (i)) :		
– HLD Group	(7,628)	(7,440)
Facilities leasing expenses paid / payable to (note (i)) :		
– HLD Group	(93)	(90)
Manager's fees (note (ii))	(47,648)	(42,409)
Property Manager's fees (note (iii))	(27,528)	(25,796)
Trustee's remuneration and charges (note (iv))	(2,454)	(2,184)
Interest expenses, debt establishment fees, security trustee and other charges on bank borrowings, brokerage commission and other bank charges paid / payable to (notes (i) and (v)) :		
– HSBC Group	(9,447)	(8,306)
Net interest expenses on IRSs and Basis Swaps paid / payable to (note (v)) :		
– HSBC Group	(3,526)	(6,120)
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	15	16
Valuation fees and other charges paid / payable to (note (i)) :		
– Knight Frank Group	(309)	(255)

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

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

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Promotional income received / receivable from (note (i)) :		
– HLD Group	1,233	1,089
Additional consideration paid to (note (vi)) :		
– HLD Group	(112)	–

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). The Manager is also entitled to receive an acquisition fee not exceeding 1% of the appraised value of acquired property. During the six months ended 31 December 2017, the Manager has received an acquisition fee of \$3,290,000 in cash for the Group's acquisition of Fung Shun Commercial Building (see note 10(c)).

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

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

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

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

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

Notes : (continued)

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

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

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

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

- (iv) The Trustee’s remuneration is calculated at 0.03% per annum on the first \$5 billion on the total assets of the Group, 0.025% per annum on the next \$5 billion on the total assets of the Group and 0.02% per annum on the balance, subject to minimum fees of \$50,000 per month. In accordance with the Trust Deed, the Trustee’s remuneration may be increased, without obtaining unitholders’ approval subject to one month’s written notice to unitholders, to a maximum of 0.06% per annum of the total assets of the Group.

The Trustee is also entitled to charge additional fees for duties undertaken by the Trustee which are of an exceptional nature or otherwise outside the scope of the Trustee’s normal duties in the ordinary and normal course of business of Sunlight REIT, including but not limited to any services in relation to the acquisition of real estate by Sunlight REIT. During the six months ended 31 December 2017, the Trustee has received an additional fee of \$150,000 for the Group’s acquisition of Fung Shun Commercial Building (see note 10(c)).

- (v) Interest expenses are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 12 and 18.

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

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

Notes : (continued)

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

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

	31 December 2017 (Unaudited) \$'000	30 June 2017 (Audited) \$'000
Net amount due to :		
– HLD Group	(31,596)	(30,632)
– HSBC Group (note)	(1,542,186)	(1,176,716)
– Knight Frank Group	(256)	(352)
Note :		
Deposits and cash placed with HSBC Group	40,002	80,241
Bank borrowings and interest payable to HSBC Group	(1,575,217)	(1,250,067)
Others	(6,971)	(6,890)
	(1,542,186)	(1,176,716)

24 Non-adjusting events after the reporting period

- (a) After the end of the reporting period, the Board of Directors of the Manager declared an interim distribution. Further details are disclosed in the "Distribution statement" of the interim financial report.
- (b) On 25 January 2018, the sale of the Palatial Stand Property was completed, resulting in a gain of approximately \$56.4 million being recognised in profit or loss.

Auditor's Review Report



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

Introduction

We have reviewed the interim financial report set out on pages 24 to 55 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2017 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 2017 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

12 February 2018

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2017	2016	2015	2014	2013
At 31 December :						
Net asset value (\$ million)		14,526	13,660	13,511	12,207	10,979
Net asset value per unit		8.85	8.35	8.25	7.48	6.77
Market capitalisation (\$ million)		8,800	7,312	6,272	5,715	4,863
For the six months ended 31 December :						
Highest traded unit price		5.57	5.04	4.09	3.68	3.22
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A	N/A
Lowest traded unit price		4.98	4.38	3.48	3.05	2.95
Highest discount of the traded unit price to net asset value per unit (%)		43.7	47.5	57.8	59.2	56.4
Closing unit price		5.36	4.47	3.83	3.50	3.00
Distribution per unit (cents)		12.6	12.2	12.0	10.5	9.6
Payout ratio (%)		96.6	97.3	95.2	95.7	92.9
Distribution yield per unit (%)	2	2.4	2.7	3.1	3.0	3.2
Annualised distribution yield per unit (%)	2	4.7	5.5	6.3	6.0	6.4

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of each period.
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

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Oversea-Chinese Banking Corporation Limited, Hong Kong Branch

Sumitomo Mitsui Banking Corporation

Registered Office of the Manager

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

Unit Registrar

Tricor Investor Services Limited

Level 22, Hopewell Centre,

183 Queen's Road East, Hong Kong

Investor Relations

Tel : (852) 3669 2880

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Website

www.sunlightreit.com

Financial Calendar

(in respect of FY2017/18 interim results)

Interim Results Announcement

12 February 2018

Issuance of Interim Report

26 February 2018

Ex-distribution date

1 March 2018

for interim distribution

Closure of Register

5 March 2018 to 7 March 2018,
both days inclusive

for entitlement of interim distribution

Interim distribution payable

20 March 2018

HK 12.6 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

