Sunlight Real Estate Investment Trust

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

(Stock Code : 435)

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

The board of directors (the "**Board**") of Henderson Sunlight Asset Management Limited (the "**Manager**") is pleased to announce the unaudited interim results of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") for the six months ended 31 December 2016 (the "**Reporting Period**"). The interim results and the interim financial report for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager and were approved by the Board on 7 February 2017.

FINANCIAL HIGHLIGHTS

(in HK$' million, unless otherwise specified)

	Six months ended 31 December 2016	Six months ended 31 December 2015	Change (%)
Revenue	**383.6**	385.2	(0.4)
Net property income	**299.2**	305.2	(2.0)
Cost-to-income ratio (%)	**22.0**	20.8	N/A
Profit after taxation	**278.9**	587.2	(52.5)
Distributable income	**205.1**	206.4	(0.6)
Distribution per unit (HK cents)	**12.2**	12.0	1.7
Payout ratio (%)	**97.3**	95.2	N/A
	At 31 December 2016	At 30 June 2016	Change (%)
Portfolio valuation	**16,782.6**	16,651.0	0.8
Net asset value	**13,659.6**	13,518.1	1.0
Net asset value per unit (HK$)	**8.35**	8.26	1.1
Gearing ratio (%)	**21.8**	21.9	N/A

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy (%)		Passing Rent [1] (HK$/sq. ft.)		Rental Reversion [2] (%)		Net Property Income (HK$'000)		Capitalisation Rate at 31 Dec 2016 (%)		Appraised Value at 31 Dec 2016 [3] (HK$'000)
	at 31 Dec 2016	at 30 Jun 2016	at 31 Dec 2016	at 30 Jun 2016	six months ended 31 Dec 2016	six months ended 30 Jun 2016	six months ended 31 Dec 2016	six months ended 31 Dec 2015	Office	Retail	
Office											
Grade A											
Sunlight Tower	96.0	99.7	36.2	35.3	11.7	10.9	81,715	81,497	3.85	3.75	4,640,000
Grade B											
Bonham Trade Centre	97.4	95.1	28.2	27.7	12.1	16.5	17,936	17,267	3.65	4.00	1,097,000
Righteous Centre	96.3	98.1	42.2	41.5	7.8	13.1	12,095	12,044	3.95	3.60	621,000
Winsome House Property	97.2	97.1	42.0	41.0	12.5	5.4	8,859	8,679	3.65	3.80	568,600
135 Bonham Strand Trade Centre Property	95.1	98.7	26.4	26.0	7.0	17.6	8,456	8,339	3.65	4.00	550,000
235 Wing Lok Street Trade Centre	95.2	96.4	20.3	19.9	11.0	15.0	5,679	5,339	3.65	4.00	347,000
Java Road 108 Commercial Centre	96.1	94.2	23.8	23.3	8.1	14.5	4,273	4,434	3.95	4.20	273,000
On Loong Commercial Building [4]	94.0	94.0	30.4	30.3	5.1	8.1	4,073	4,073	3.85	3.90	262,000
Sun Fai Commercial Centre Property	98.5	97.1	21.8	22.2	2.4	2.5	2,657	2,911	4.00	4.25	172,000
Wai Ching Commercial Building Property	94.5	100.0	13.7	13.2	11.4	16.4	939	956	3.75	4.10	69,600
Sub-total/Average	**96.2**	**98.0**	**32.2**	**31.6**	**10.5**	**11.8**	**146,682**	**145,539**			**8,600,200**
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	93.7	77.6 [5]	120.6	131.7 [6]	6.1	8.0	72,629	81,228	N/A	4.40	4,022,000
Metro City Phase I Property	96.5	98.4	53.7	51.8	16.0	15.5	59,516	56,447	N/A	4.50	2,951,000
Kwong Wah Plaza Property	95.9	100.0	49.5	50.0	(8.4)	17.5	16,866	16,445	3.85	3.80	996,000
Urban											
Beverley Commercial Centre Property	94.3	96.6	48.7	51.3	(14.5)	(4.5)	2,050	2,175	N/A	4.30	114,300
Supernova Stand Property	100.0	100.0	47.8	47.8	N/A	N/A	1,167	1,165	N/A	4.00	61,000
Palatial Stand Property	75.2	75.2	12.0	12.0	N/A	0.0	258	209	N/A	4.35	38,100
Sub-total/Average	**95.0**	**91.7**	**72.4**	**71.6**	**5.0**	**12.3**	**152,486**	**157,669**			**8,182,400**
Total/Average (excluding the disposed properties)	**95.8**	**95.9**	**45.4**	**44.2**	**7.4**	**12.0**	**299,168**	**303,208**			**16,782,600**
Disposed properties							N/A	1,957			
Total							**299,168**	**305,165**			

Notes : 1. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied gross rentable area on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed during the relevant period.
3. Valuation prepared by Knight Frank Petty Limited.
4. Sunlight REIT acquired the remaining interests in On Loong Commercial Building and has become the sole owner of the building with effect from 3 August 2015. The operational statistics and property financials before and after 3 August 2015 were calculated on the basis of total GRA of 25,564 sq. ft. and 27,206 sq. ft. respectively.
5. Excluding the renovated area vacated at Sheung Shui Centre Shopping Arcade, the occupancy would have been 98.5%.
6. The renovated area vacated at Sheung Shui Centre Shopping Arcade is excluded from the calculation.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

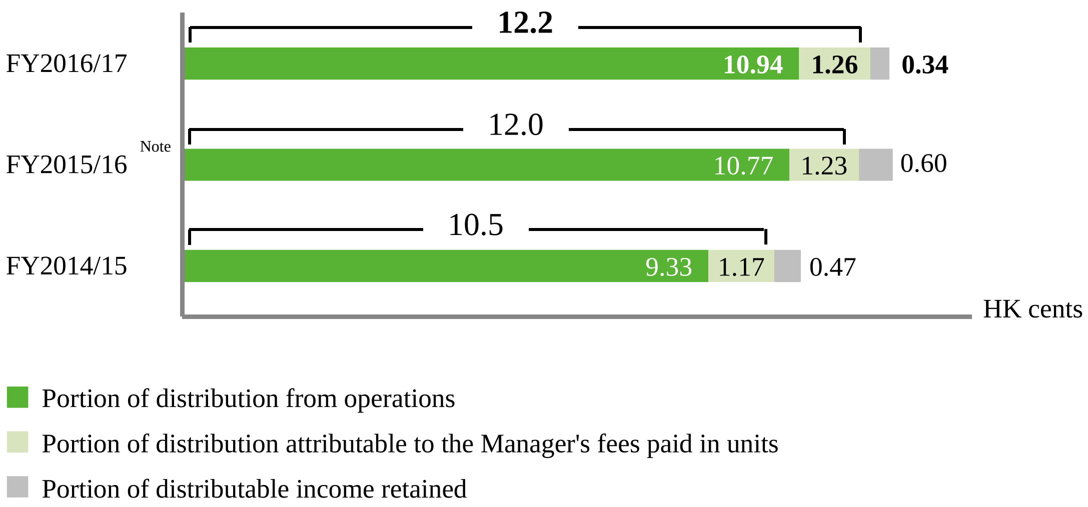
Sunlight REIT reported revenue of HK$383.6 million for the Reporting Period, a slight decrease from the same period last year. After deducting property operating expenses of HK$84.4 million, net property income came in at HK$299.2 million, a retreat of 2.0% year-on-year. The immaterial decline in revenue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

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

Distribution

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

Interim DPU at a Glance



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

Distribution Entitlement and Closure of Register of Unitholders

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

Operation Review

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

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

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

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

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

Financial Position

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

At 31 December 2016, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) marginally improved to 21.8%, while gross liabilities[1] as a percentage of gross assets dropped to 24.2%. The EBITDA[2] of Sunlight REIT recorded a mild decrease of 2.0% year-on-year to HK$255.2 million; however, with decent savings in cash interest expenses as mentioned earlier, the interest coverage ratio[3] for the Reporting Period further improved to 5.94 times as compared to 5.76 times recorded in the same period last year.

Capital and Interest Rate Management

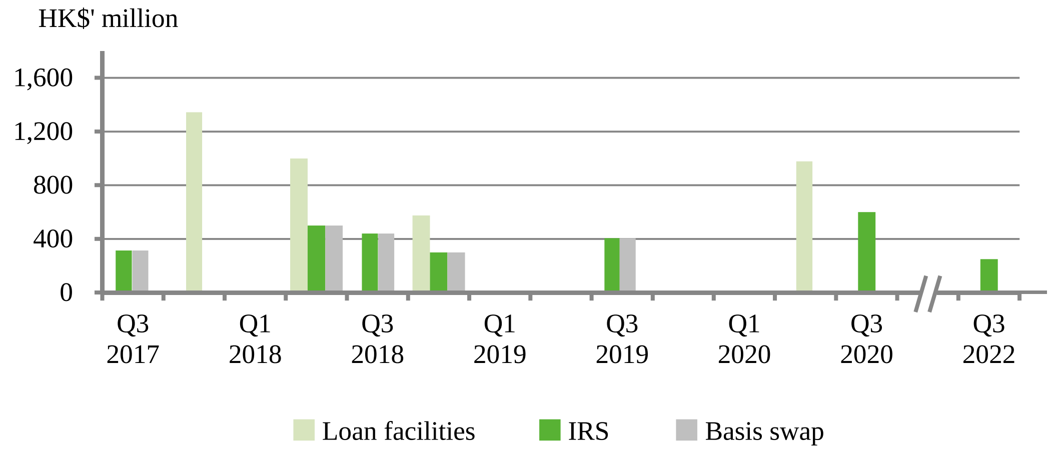
During the Reporting Period, Sunlight REIT entered into a bilateral term loan facility agreement with a bank and was granted a three-year secured term loan of HK$300.0 million. Consequently, Sunlight REIT had in place total loan facilities of HK$4,525.0 million at 31 December 2016, comprising term loan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

Approximately 71.3% (or HK$2,800.0 million) of Sunlight REIT's borrowings was hedged to fixed rates with a weighted average tenure of 2.5 years at 31 December 2016. During the Reporting Period, an additional basis swap was entered into with a notional amount of HK$400.0 million beginning 30 September 2016. With the benefit of the basis swap arrangements, the weighted average interest rate (including loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 2.41% per annum. The maturity profile of loan facilities, IRS and basis swap are illustrated in the chart on page 6.

Notes :

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

Maturity Profile of Loan Facilities, IRS and Basis Swap



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

OUTLOOK

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

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

Public Float

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

New Units Issued

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

Buy-back, Sale or Redemption of Units

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

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

Review of Interim Results

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

Employees

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

ISSUANCE OF INTERIM REPORT

The 2016/17 Interim Report of Sunlight REIT will be sent to unitholders on 15 February 2017.

FORWARD-LOOKING STATEMENTS

This announcement contains certain statements and terminologies that are forward-looking. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the Board and senior management of the Manager regarding the industry and sectors in which Sunlight REIT operates. They are subject to risks, uncertainties and other factors beyond the Manager's control, the emergence of which may cause actual results or performance to differ materially from those expressed or implied in such statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		Six months ended 31 December	
		2016	2015
	Note	**$'000**	$'000
Revenue	3 & 4	**383,565**	385,185
Property operating expenses	3 & 5	**(84,397)**	(80,020)
Net property income		**299,168**	305,165
Other income		**4,621**	4,121
Administrative expenses		**(48,463)**	(48,800)
Net gain on disposals of investment properties and subsidiaries	6	**-**	91,154
Net increase in fair value of investment properties		**105,239**	343,943
Profit from operations		**360,565**	695,583
Finance costs on interest bearing liabilities	7(a)	**(47,419)**	(73,481)
Profit before taxation and transactions with unitholders	7	**313,146**	622,102
Income tax	8	**(34,246)**	(34,868)
Profit after taxation and before transactions with unitholders		**278,900**	587,234

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Hong Kong dollars)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2016
(Expressed in Hong Kong dollars)

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

DISTRIBUTION STATEMENT

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

		Six months ended 31 December	
		2016	2015
	Note	**$'000**	$'000
Profit after taxation and before transactions with unitholders		**278,900**	587,234
Adjustments (note (i)) :			
- Net gain on disposals of investment properties and subsidiaries	6	**-**	(91,154)
- Net increase in fair value of investment properties		**(105,239)**	(343,943)
- Manager's fees paid or payable in the form of units		**21,204**	21,141
- Cash flow hedges reclassified (to)/from net assets attributable to unitholders	7(a)	**(1,626)**	22,197
- Non-cash finance costs on interest bearing liabilities		**5,900**	5,900
- Deferred tax	8	**5,963**	5,057
		(73,798)	(380,802)
Distributable income (note (i))		**205,102**	206,432
Interim distribution (note (ii))		**199,556**	196,524
Payout ratio (note (ii))		**97.3%**	95.2%
Distribution per unit (note (ii))		**12.2 cents**	12.0 cents

Notes :

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

DISTRIBUTION STATEMENT (continued)

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

Notes : (continued)

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

(ii) The interim distribution of $199,556,000 for the six months ended 31 December 2016 (2015: $196,524,000), representing a payout ratio of 97.3% (2015: 95.2%), is calculated by multiplying the interim distribution per unit of 12.2 cents by 1,635,707,632 units* anticipated to be in issue at 28 February 2017, the record date for FY2016/17 interim distribution (the "**Record Date**") (2015: 12.0 cents by 1,637,702,927 units in issue at 9 March 2016, the record date for FY2015/16 interim distribution).

(iii) The interim distribution is expected to be paid on 14 March 2017 to unitholders whose names appear on the register of unitholders on the Record Date.

(iv) The interim distribution declared after the end of the Reporting Period has not been recognised as a liability at the end of the Reporting Period.

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

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

NOTES
(Expressed in Hong Kong dollars)

1. General

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

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

2. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group :

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to Hong Kong Accounting Standard 1, *Presentation of financial statements : Disclosure initiative*

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

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

3. Segment reporting

The Manager manages the Group's 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 :

3. Segment reporting (continued)

Segment results (continued)

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

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

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

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

4. Revenue

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

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

5. Property operating expenses

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

6. Net gain on disposals of investment properties and subsidiaries

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

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

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

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

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

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

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

Notes :

(i) Included rental commission of $7,821,000 (2015: $6,492,000).

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

8. Income tax

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

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

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

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

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

9. Earnings per unit before transactions with unitholders

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

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

10. Trade and other receivables

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

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

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

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

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

10. Trade and other receivables (continued)

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

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

11. Trade and other payables

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

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

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

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

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

Hong Kong, 7 February 2017

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