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SUNLIGHT REIT

Sunlight Real Estate Investment Trust

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

(Stock Code : 435)

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

DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF FUNG SHUN COMMERCIAL BUILDING

This announcement is made pursuant to paragraphs 10.3 and 10.4 of the REIT Code.

The Manager is pleased to announce that on 26 September 2017, Sunlight REIT (through King Firm, a special purpose vehicle wholly-owned and controlled by Sunlight REIT) entered into the Sale and Purchase Agreement with the Vendor (which is an Independent Third Party), pursuant to which the Vendor agreed to sell, and King Firm agreed to purchase, Fung Shun Commercial Building at the Consideration of HK\$658,000,000. The subject property consists of the whole building currently known as “Fung Shun Commercial Building” situated at No. 591 Nathan Road and No. 13 Changsha Street, Mong Kok, Kowloon, Hong Kong.

The Appraised Value of Fung Shun Commercial Building at 12 September 2017 was HK\$660,000,000. The Consideration represents a discount of approximately 0.3% to the Appraised Value.

Upon Completion, the Vendor shall lease back the entire subject property, which comprises the Office Portion and the Retail Portion, for fixed terms of 1 year and 4 years respectively, and an option shall be granted to the Vendor to renew the lease for the Office Portion for a further term of 1 year.

The Consideration represents (i) approximately 7.7% of the total market capitalization of Sunlight REIT (based on the average closing price of the Units on the Stock Exchange for the five business days immediately preceding the date of the Sale and Purchase Agreement); and (ii) approximately 3.7% (which is less than 15%) of the gross asset value of Sunlight REIT at 30 June 2017 (i.e. its total assets adjusted for distributions declared).

The Board (including the independent non-executive Directors) is satisfied that the Acquisition and the Lease Back Arrangement pursuant to the terms of the Sale and Purchase Agreement are at arm’s length, on normal commercial terms, and are fair and reasonable and in the interests of Sunlight REIT and the Unitholders as a whole.

The Manager is satisfied that no Unitholders' approval is required under the REIT Code and the Trust Deed for the Acquisition and the Lease Back Arrangement. Based on, and in sole reliance on, the information and confirmations given by the Manager to the Trustee, the Trustee is also satisfied that no Unitholders' approval is required for the Acquisition.

The Manager is pleased to announce that on 26 September 2017, Sunlight REIT (through King Firm, a special purpose vehicle wholly-owned and controlled by Sunlight REIT) entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Vendor agreed to sell, and King Firm agreed to purchase, Fung Shun Commercial Building at HK\$658,000,000 (i.e. the Consideration). The subject property consists of the whole building currently known as "Fung Shun Commercial Building" situated at No. 591 Nathan Road and No. 13 Changsha Street, Mong Kok, Kowloon, Hong Kong.

SUMMARY OF KEY TERMS OF THE SALE AND PURCHASE AGREEMENT

Set out below is a summary of the key terms of the Sale and Purchase Agreement.

Date: 26 September 2017

Parties involved: (i) the Vendor, as vendor; and
(ii) King Firm, as purchaser

To the best knowledge, information and belief of the Manager, having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owner is an Independent Third Party.

Subject matter: The Vendor shall sell, and King Firm shall purchase, Fung Shun Commercial Building pursuant to the terms of the Sale and Purchase Agreement.

Consideration: The Consideration for Fung Shun Commercial Building shall be paid by King Firm to the Vendor in the following manner:

- (i) a deposit in the sum of HK\$65,800,000 has been paid on signing of the Sale and Purchase Agreement; and
- (ii) the balance of the Consideration in the sum of HK\$592,200,000 shall be paid on the date of Completion.

The Appraised Value of Fung Shun Commercial Building at 12 September 2017 was HK\$660,000,000. The Consideration represents a discount of approximately 0.3% to the Appraised Value.

Title and condition of the subject property: Fung Shun Commercial Building shall be sold to King Firm on "as is" basis, and the Vendor shall prove and give good and marketable title to the subject property in accordance with sections 13 and 13A of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) respectively.

Condition: Completion is conditional upon the compliance by the Vendor with all further requirements if required by the Stock Exchange in respect of the transactions under the Sale and Purchase Agreement before Completion (the “**Condition**”). If the Condition cannot be satisfied before the third business day prior to the date of Completion, the Sale and Purchase Agreement shall automatically lapse and of no further effect and the deposit paid shall be returned to King Firm without costs or compensation.

Date of Completion: Subject to the satisfaction of the Condition, Completion shall take place on or before 15 December 2017.

Lease back of the entire subject property: The subject property, which comprises the Retail Portion and the Office Portion, shall be leased back to the Vendor upon Completion on the following basic terms:

(a) In respect of the Retail Portion:

- (i) for a fixed term of 4 years;
- (ii) the rent for each of the first, second and third year of the term shall be HK\$920,000 per month (exclusive of Government rent, rates and management fees); the Vendor shall be entitled to a rent free period of one month which shall be (1) the 13th month of the term if the Vendor does not exercise the option to renew the lease in respect of the Office Portion; or (2) the 25th month of the term if the Vendor exercises such option to renew ;
- (iii) the rent for the fourth year of the term shall be HK\$996,500 per month (exclusive of Government rent, rates and management fees);
- (iv) the Vendor shall deliver vacant possession of the Retail Portion to King Firm on “as is” basis upon expiration of the lease term; and
- (v) the management fee shall be paid by the Vendor to King Firm in accordance with the prevailing practice or in such other manner as may be agreed between the Vendor and King Firm.

(b) In respect of the Office Portion:

- (i) for a fixed term of 1 year with an option to renew for a further term of 1 year by the Vendor giving King Firm a written notice not less than 6 months but not more than 7 months prior to the expiration of the fixed term;

- (ii) the rent for the fixed term shall be HK\$720,000 per month (exclusive of Government rent, rates and management fees);
- (iii) the rent for the further term shall remain unchanged at HK\$720,000 per month (exclusive of Government rent, rates and management fees);
- (iv) the Vendor shall deliver vacant possession of the Office Portion to King Firm on “as is” basis upon expiration of the lease term; and
- (v) the management fee shall be paid by the Vendor to King Firm in accordance with the prevailing practice or in such other manner as may be agreed between the Vendor and King Firm.

Stamp duty: All stamp duty payable in relation to the Acquisition shall be borne by King Firm.

Representations, warranties and undertakings: The Vendor has given representations, warranties and undertakings under the Sale and Purchase Agreement in customary terms for transactions of similar nature and scale.

Failure to complete: If King Firm fails to complete the acquisition of Fung Shun Commercial Building in accordance with the Sale and Purchase Agreement (other than owing to the default of the Vendor), the Vendor may terminate the Sale and Purchase Agreement, in which case the Vendor shall be entitled to forfeit the deposit paid by King Firm and to resell the subject property. Any increase in price on such resale shall belong to the Vendor and any deficiency in price on the resale shall be made good by King Firm, without prejudice to the Vendor’s right to recover loss.

If the Vendor fails to complete the disposal of Fung Shun Commercial Building in accordance with the Sale and Purchase Agreement (other than owing to the default of King Firm), the deposit paid shall be returned to King Firm which shall also be entitled to recover from the Vendor such damages as it may sustain by reason of such failure.

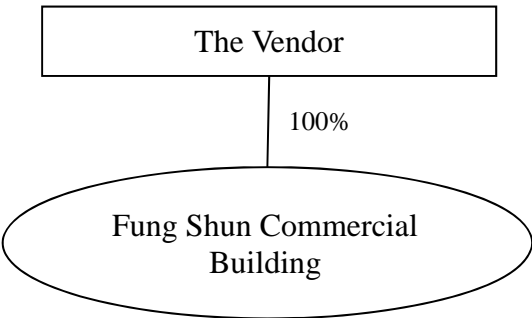
Right of way in respect of areas at the adjacent property: Fung Shun Commercial Building is sold subject to an existing deed of grants of right of way and mutual covenants, which provides that, among others, owners and occupiers of the subject property will have the right of way in respect of certain areas including entrance and staircase located at the adjacent building at No. 589 Nathan Road. The costs of management and maintenance of such areas shall be shared between the owner of the subject building and the owner of the adjacent building.

INFORMATION RELATING TO FUNG SHUN COMMERCIAL BUILDING

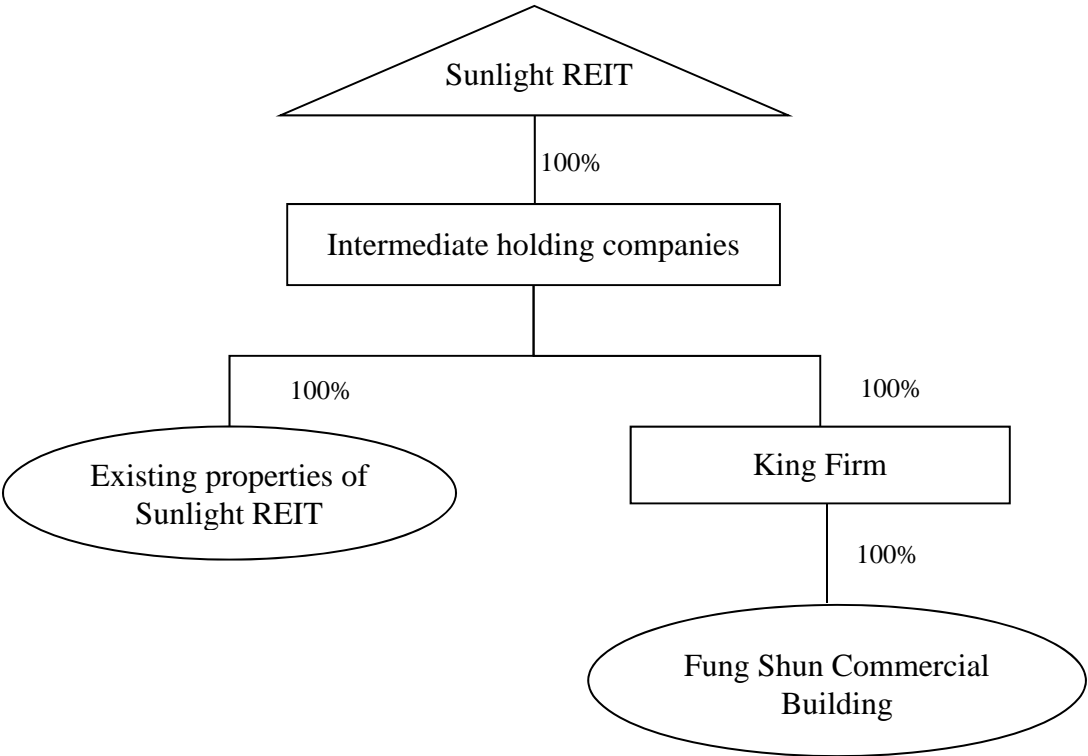
Fung Shun Commercial Building was completed in 1981 and is a 22-storey commercial building (including basement) located at No. 591 Nathan Road and No. 13 Changsha Street, Mong Kok, Kowloon, Hong Kong. It has a total gross rentable area of approximately 34,651 sq. ft., comprising the Retail Portion from the basement to the 4th floor of approximately 11,627 sq. ft. and the Office Portion from the 5th to 20th floors of approximately 23,024 sq. ft.. At the date of this announcement, Fung Shun Commercial Building is used entirely as a retail banking branch and office premises of the Vendor.

SIMPLIFIED HOLDING STRUCTURE AT THE DATE OF THIS ANNOUNCEMENT AND IMMEDIATELY FOLLOWING COMPLETION

The diagram below illustrates the holding structure of Fung Shun Commercial Building at the date of this announcement:



The diagram below illustrates the simplified holding structure of Fung Shun Commercial Building immediately following Completion:



REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition is in line with the current investment strategy of Sunlight REIT to invest in income-producing investment properties which can enhance returns through accretion in distribution yield, sustainable growth in distributions and long-term enhancement in capital value. After Completion, the subject property is expected to help diversify Sunlight REIT's portfolio by increasing its presence in one of the most strategic, decentralized business areas of Hong Kong.

The Manager considers that the Acquisition is a good investment opportunity for the following reasons:

1. Strategic location with enhanced economies of scale

The subject property is located on Nathan Road in Mong Kok, an area which offers unparalleled pedestrian and vehicular traffic with convenient access to other districts of Hong Kong. Apart from being renowned as a popular shopping destination, Mong Kok is also a competitive office hub particularly for service trades.

Further, the subject property sits on a corner site at the junction of Nathan Road and Changsha Street, which is in close proximity to Righteous Centre, a commercial property situated at No. 585 Nathan Road and wholly-owned by Sunlight REIT. Upon Completion, Sunlight REIT can achieve better economies of scale on enhanced operating synergies, both in terms of satisfying tenant requirements as well as sharing of property management resources.

2. Scarce en-bloc building opportunity in Mong Kok

The Manager opines that the subject property provides a good opportunity for Sunlight REIT to invest on a scarce en-bloc building in Mong Kok. The Lease Back Arrangement should provide the Manager with sufficient time to plan and implement appropriate asset enhancement strategies.

3. Enhanced portfolio diversification

The Acquisition is expected to improve the diversification of Sunlight REIT's portfolio geographically and strengthen its presence in the decentralized office market. It will also reduce Sunlight REIT's income reliance on any single property.

4. Improving retail market sentiment

The recently published Hong Kong retail sales figures appears to indicate signs of improvement, particularly in terms of consumer sentiment. On the tourist front, visitor arrival statistics have also seemingly bottomed out since the last quarter of 2016. Such anecdotal evidence, together with a healthy local employment market, should bode well for the rental and capital values of retail properties situated at prime locations.

RISK FACTORS

Upon Completion, Fung Shun Commercial Building will be leased back to the Vendor subject to the Lease Back Arrangement mentioned above. The Manager cannot assure that the Vendor would exercise its option to renew the lease in respect of the Office Portion, failing which it may temporarily expose the Office Portion to a high level of vacancy, and may potentially result in significant rental concessions granted for new leases to be entered into. Such fluctuations in occupancy and rental rates may in turn have an adverse impact on the value of, and the income derived from, the subject property. Given the prevailing market conditions and its leasing experience in the vicinity (particularly through Righteous Centre), however, the Manager considers that the benefits from this Lease Back Arrangement should outweigh the potential risks involved, and should be in the best interests of the Unitholders.

Notwithstanding the above, the Manager confirms that it does not expect the Acquisition to result in a material change to the overall risk profile of Sunlight REIT.

FINANCIAL IMPACT AND FUNDING OF, AND FEES IN RESPECT OF THE ACQUISITION

No current plan for substantial renovation or improvement of the subject property

The Manager has no current plan for substantial renovation or improvement of the subject property and accordingly it does not expect any material capital expenditure outlay in the near term.

Source of funding for the Acquisition

The Consideration for the Acquisition together with expenses and acquisition fee payable to the Manager totalling approximately HK\$723.4 million will partly be funded by Sunlight REIT's own cash resources and partly be financed by bank borrowings on prevailing commercial terms. The Acquisition is not expected to have any material adverse impact on the financial position of Sunlight REIT as compared to that at 30 June 2017 (as disclosed in the 2016/17 annual report).

Pro forma financial effects of the Acquisition

It is estimated that the Gearing Ratio of Sunlight REIT at 30 June 2017 would have increased from approximately 21.5% to approximately 22.8%, on the assumptions that (i) the Acquisition was financed by a loan facility of HK\$325 million and by cash as to the balance, and (ii) adjustments to include the Consideration and estimated expenses in relation to the Acquisition as if Completion took place on 30 June 2017.

Had the Acquisition been completed on 1 July 2016 and been financed in a similar manner as mentioned above, it is estimated that the transaction would have been DPU accretive for Sunlight REIT for the year ended 30 June 2017. Based on the Consideration of HK\$658,000,000, the pro forma DPU of Sunlight REIT for the year ended 30 June 2017 would have been HK 26.0 cents versus the actual DPU of HK 25.5 cents, assuming a similar distribution payout ratio of 96.1%. The pro forma DPU, the actual DPU and the distribution payout ratio referred to in the above are calculated on the basis that the special distribution of HK 7.5 cents per Unit for the financial year 2016/17 is excluded.

The pro forma financial effects of the Acquisition presented above are strictly for illustrative purposes only and do not reflect the actual financial position of Sunlight REIT following Completion, and do not constitute a profit forecast. They have been prepared based on the audited consolidated financial statements of Sunlight REIT for the year ended 30 June 2017, assuming that Sunlight REIT had acquired Fung Shun Commercial Building on the dates as indicated and that it was valued at the Appraised Value on these dates.

Fees in respect of the Acquisition and ongoing remuneration payable to the Manager and the Trustee

Pursuant to the Trust Deed, the Manager is entitled to receive an acquisition fee not exceeding 1% of the Appraised Value of Fung Shun Commercial Building, and such fee will be payable within 14 days after Completion. The Board has resolved to charge a rate of 0.5% in respect of the Acquisition, which implies that the acquisition fee payable to the Manager would amount to HK\$3,290,000, which would be paid in cash. The Manager's ongoing remuneration (namely, the base fee and the variable fee) shall be calculated based on the prescribed percentages per annum of the value and the net property income, respectively, of the real estate property of Sunlight REIT, which shall include, upon Completion, Fung Shun Commercial Building on a *pro rata* basis by reference to the number of days that the subject property is held by Sunlight REIT during the period.

Pursuant to the Trust Deed, the Trustee is 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. The Trustee has agreed with the Manager that it will charge a one-time additional fee of up to HK\$150,000 for duties undertaken in connection with the Acquisition. The Trustee's ongoing remuneration shall be calculated based on a prescribed percentage per annum of the value of the Deposited Property (as defined in the Trust Deed), which shall include, upon Completion, the assets attributable to Fung Shun Commercial Building on a *pro rata* basis by reference to the number of days that the subject property is held by Sunlight REIT during the period.

IMPLICATIONS UNDER THE REIT CODE

This announcement is made pursuant to paragraphs 10.3 and 10.4 of the REIT Code.

The Consideration represents (i) approximately 7.7% of the total market capitalization of Sunlight REIT (based on the average closing price of the Units on the Stock Exchange for the five business days immediately preceding the date of the Sale and Purchase Agreement); and (ii) approximately 3.7% (which is less than 15%) of the gross asset value of Sunlight REIT at 30 June 2017 (i.e. its total assets adjusted for distributions declared).

To the best knowledge, information and belief of the Manager, having made all reasonable enquiries, each of the Vendor (which is a listed company) and its ultimate beneficial owner is an Independent Third Party. Hence, the Acquisition does not constitute a connected party transaction of Sunlight REIT under the REIT Code.

The Manager is satisfied that no Unitholders' approval is required under the REIT Code and the Trust Deed for the Acquisition and the Lease Back Arrangement.

The Manager has made a submission to the SFC in respect of paragraph 7.5(d) of the REIT Code for the use of three layers of special purpose vehicles by Sunlight REIT to hold Fung Shun Commercial Building, subject to Completion and the condition that there will be no change to the maximum number of layers of special purpose vehicles used by Sunlight REIT without further approval of the SFC.

DUE DILIGENCE IN RESPECT OF THE SUBJECT PROPERTY

The Manager confirms that due diligence has been carried out in respect of Fung Shun Commercial Building in accordance with the relevant provisions under the REIT Code and the Manager's compliance manual. Based on the advice of its legal adviser, the Manager is of the view that Sunlight REIT (through its wholly-owned and controlled special purpose vehicles) shall hold good marketable legal and beneficial title to Fung Shun Commercial Building upon Completion. No material non-compliance issues were identified during the due diligence process and the Manager is satisfied with the due diligence results. In addition, the Manager has engaged Vigers Building Consultancy Limited ("Vigers") to conduct a building condition survey on Fung Shun Commercial Building, and based on the report issued by Vigers, the current conditions of the building are generally acceptable and no material defects relating to the building have been identified.

OPINION OF THE BOARD

The Board (including the independent non-executive Directors) is satisfied that the Acquisition and the Lease Back Arrangement pursuant to the terms of the Sale and Purchase Agreement are at arm's length, on normal commercial terms, and are fair and reasonable and in the interests of Sunlight REIT and the Unitholders as a whole.

OPINION OF THE TRUSTEE

Based on, and in sole reliance on, the opinion of the Board and the information and confirmations given by the Manager to the Trustee (and having taken into account its duties as set out in the REIT Code and the Trust Deed), the Trustee has no objection to the Acquisition. Further, on such basis, the Trustee is satisfied that:

- (i) the Acquisition is consistent with Sunlight REIT's investment policy and in compliance with the REIT Code and the Trust Deed; and
- (ii) no Unitholders' approval is required under the REIT Code and the Trust Deed for King Firm to enter into the Sale and Purchase Agreement and the transactions thereunder.

FURTHER ANNOUNCEMENT

A further announcement will be made by the Manager on the date of Completion, or if applicable, when Completion is cancelled or postponed.

INFORMATION ON THE VENDOR

The Vendor (namely Chong Hing Bank Limited) and its subsidiaries are principally engaged in the provision of banking and related financial services. The shares of the Vendor are listed on the Main Board of the Stock Exchange (stock code: 1111).

DEFINITIONS

In this announcement, unless otherwise stated, the following definitions have the following meanings:

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| “Acquisition” | the purchase of Fung Shun Commercial Building by King Firm from the Vendor in accordance with the terms of the Sale and Purchase Agreement |
| “Appraised Value” | the value of Fung Shun Commercial Building at 12 September 2017 as appraised by the Principal Valuer |
| “Board” | the board of Directors |
| “Completion” | completion of the Acquisition |
| “Consideration” | HK\$658,000,000, being the purchase price for Fung Shun Commercial Building |
| “Director(s)” | the director(s) of the Manager |
| “DPU” | distribution per Unit |
| “Fung Shun Commercial Building” | the whole building currently known as “Fung Shun Commercial Building” situated at No. 591 Nathan Road and No. 13 Changsha Street, Mong Kok, Kowloon, Hong Kong |
| “Gearing Ratio” | the aggregate borrowings of Sunlight REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of the Deposited Property (as defined and calculated under the Trust Deed) |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Independent Third Party” | an independent third party who is not a connected person (within the meaning of Chapter 8 of the REIT Code) of Sunlight REIT |
| “King Firm” | King Firm Enterprises Limited 奇芬企業有限公司, a special purpose vehicle wholly-owned and controlled by Sunlight REIT |
| “Lease Back Arrangement” | the lease back of the entire Fung Shun Commercial Building (comprising the Retail Portion and the Office Portion) to the Vendor upon Completion pursuant to the terms of the Sale and Purchase Agreement |

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| “Manager” | Henderson Sunlight Asset Management Limited 恒基陽光資產管理有限公司, as the manager of Sunlight REIT |
| “Office Portion” | the 5 th to 20 th floors of Fung Shun Commercial Building |
| “Principal Valuer” | Knight Frank Petty Limited, the principal valuer of Sunlight REIT |
| “REIT Code” | Code on Real Estate Investment Trusts issued by the SFC, as amended, supplemented and/or otherwise modified from time to time |
| “Retail Portion” | the basement to the 4 th floor of Fung Shun Commercial Building |
| “Sale and Purchase Agreement” | the conditional agreement for sale and purchase dated 26 September 2017 and entered into between King Firm and the Vendor in respect of the Acquisition, further details of which are set out in section headed “ <i>Summary of Key Terms of the Sale and Purchase Agreement</i> ” of this announcement |
| “SFC” | Securities and Futures Commission of Hong Kong |
| “sq. ft.” | square feet |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Sunlight REIT” | Sunlight Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorized under section 104 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time |
| “Trust Deed” | the trust deed constituting Sunlight REIT dated 26 May 2006, as amended and supplemented by six supplemental deeds |
| “Trustee” | HSBC Institutional Trust Services (Asia) Limited 滙豐機構信託服務(亞洲)有限公司, in its capacity as the trustee of Sunlight REIT |
| “Unit” | one unit in Sunlight REIT |
| “Unitholder” | any person registered as holder of a Unit |

“Vendor” Chong Hing Bank Limited 創興銀行有限公司, a limited liability company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1111)

“%” per cent.

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, 26 September 2017

At the date of this announcement, the Board 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.