



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號: 435



2012/13
Interim Report
中期報告

Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006 (“**Listing Date**”), Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code: 435) offers investors the opportunity to invest in a diversified portfolio of 12 office and 7 retail properties totaling 1,287,303 sq. ft. in gross rentable area (“**GRA**”) with an appraised value of HK\$13,879.4 million at 31 December 2012. The office properties are located in both core and decentralised business areas, while the retail properties are located in regional transportation hubs, new towns and other urban areas with high population density.

Forward-looking Statements

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

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Market and Operation Review

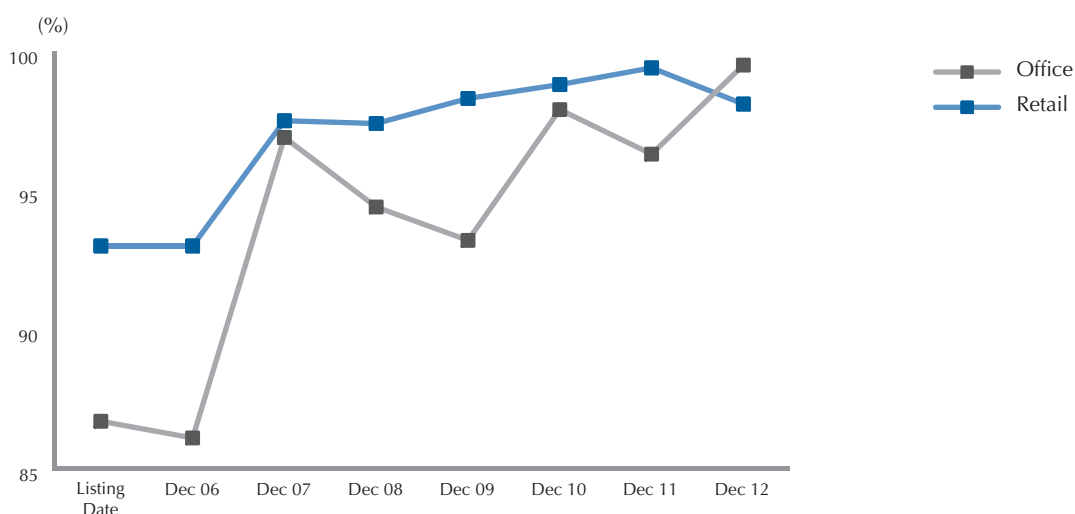
Notwithstanding the lingering global economic uncertainty, overall business activities in Hong Kong have been resilient during the six months ended 31 December 2012 (the “**Reporting Period**”). As it became apparent that the persistently low interest rate environment will be further sweetened by the stabilising economic outlook in China, Hong Kong has once again become the safe haven for foreign liquidity seeking stable and solid return. A dichotomy in terms of economic activities has emerged where economic sectors principally exposed to domestic business activities have been relatively insulated from the global economic upheavals, while multinational businesses (particularly those in the financial services sectors) continued to encounter a challenging operating environment.

During the Reporting Period, sentiment on the office property market has been stable. The sustainable momentum of office decentralisation coupled with a favourable supply-demand profile was able to uphold office demand in non-core areas, resulting in the continued narrowing of rental gap between centralised and decentralised offices. According to statistics provided by Jones Lang LaSalle Limited, net effective rent of Grade A office in Central fell from HK\$92.8 per sq. ft. at 30 June 2012 to HK\$89.0 per sq. ft. at 31 December 2012, while net effective rent for Grade A office in Wan Chai/Causeway Bay exhibited an opposite trend, rising from HK\$53.9 per sq. ft. to HK\$54.8 per sq. ft. during the same period.

Meanwhile, the domestic retail property market remained well supported by the healthy expansion in retail sales and the unabated growth in tourism arrival particularly from the mainland. According to government statistics, the value of total retail sales for the full year of 2012 increased by 9.8% over the previous year, while visitors to Hong Kong in 2012 recorded a 16.0% year-on-year increase to reach 48.6 million. Notably, mainland visitor arrivals were up 24.2% year-on-year, with visitors under the Individual Visit Scheme constituting almost two-thirds of total, and registering a 26.2% increase over the preceding year. More importantly, for those Shenzhen residents who are granted with multiple-entry visas into the territory, the corresponding arrival figure exhibited a sharp 59.3% year-on-year increase to about 9.8 million. Such pattern of tourism arrival, together with the scarcity of new retail space supply in locations with strategic access to mainland shoppers, continued to bode well for Sunlight REIT’s properties such as Sheung Shui Centre Shopping Arcade and the retail portion of Kwong Wah Plaza Property which achieved satisfactory rental reversion over the Reporting Period.

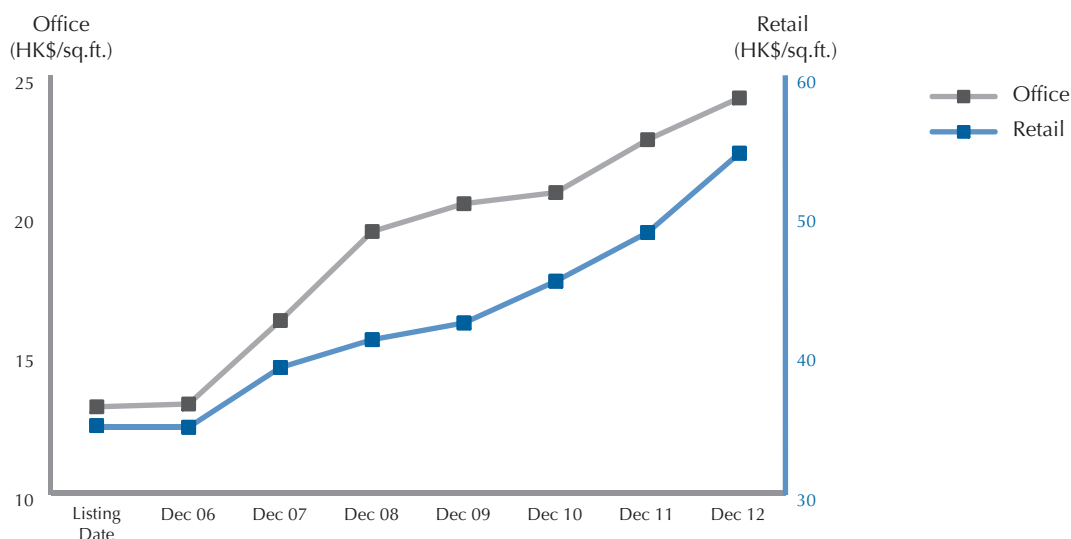
The overall portfolio occupancy of Sunlight REIT stood at 99.1% at 31 December 2012 (30 June 2012: 99.0%), being supported by a practically fully let office portfolio where occupancy improved from 98.9% to 99.5% during the Reporting Period. A slight retreat notwithstanding, occupancy for the retail portfolio remained highly satisfactory, achieving a level of 98.1% at 31 December 2012 (30 June 2012: 99.2%).

Historical Trends in Occupancy since Listing



In tandem with the rise in commercial market rents over the past six months, passing rent of the office portfolio continued its ascent, registering a growth of 3.9% from 30 June 2012 to HK\$24.2 per sq. ft.. The average unit rent committed during the Reporting Period was HK\$24.4 per sq. ft. as rental reversion was a solid 23.7%. Meanwhile, passing rent for the retail portfolio rose 6.5% from 30 June 2012 to HK\$54.4 per sq. ft., with the average unit rent committed for the Reporting Period reaching HK\$60.5 per sq. ft., thanks to an even more impressive rental reversion of 35.6%.

Historical Trends in Passing Rent since Listing



Market and Operation Review

Full occupancy had been a notable feature of 248 Queen's Road East during the Reporting Period as this flagship property achieved a rental reversion of 23.3%. In terms of the entire office portfolio, the mild occupancy improvement was principally led by a recovery in occupancy at Righteous Centre and Java Road 108 Commercial Centre, both being beneficiaries of the prevailing demand for decentralised office space.

On the retail front, the unabated influx of mainland shoppers has further buoyed the already fine performance of Sheung Shui Centre Shopping Arcade which attained a rental reversion of 33.7% during the Reporting Period. Meanwhile, benefitted from the ongoing tenant repositioning strategy in conjunction with the proposed enhancement programme, the performance of Metro City Phase I Property has been particularly impressive, as demonstrated by its strong rental reversion of 40.8%.

The overall portfolio had a total of 1,024 tenancies at 31 December 2012 (30 June 2012: 1,030). The 10 largest tenants by rental income, which contributed approximately 21.0% of the total rental income in December 2012 (June 2012: 21.3%), occupied approximately 16.8% of the total GRA (June 2012: 16.8%). No single tenant accounted for more than 3.9% of the total rental income for December 2012 (June 2012: 4.1%).

On 1 August 2012, a sale and purchase agreement was entered into in respect of the disposal of the Glory Rise Property for a total consideration of HK\$78.5 million, which represents a premium of approximately 4.25% to its appraised value at 30 June 2012. The disposal, which was completed on 3 September 2012, will enable the Manager to streamline its operations and allocate resources more efficiently.

Meanwhile, the Manager continued to execute on-market purchase of Sunlight REIT units on the Stock Exchange. During the Reporting Period, a total of 1,500,000 units was repurchased (at an average price of approximately HK\$3.16 per unit) and cancelled. Together with the previous round of repurchases which took place in June 2012, a total of 5,100,000 units has been cancelled thus far, representing 0.32% of the total units outstanding at 31 December 2012.

Financial Review

Financial Highlights

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

	Six months ended 31 December 2012	Six months ended 31 December 2011	Change (%)
Turnover	308.6	285.9	7.9
Property operating expenses	68.9	67.1	2.7
Net property income	239.7	218.8	9.6
Cost-to-income ratio (%)	22.3	23.5	N/A
Profit after taxation	1,032.6	484.5	113.1
Total distributable income	149.6	146.7	2.0
Distribution per unit ^{Note} (HK cents)	8.50	8.30	2.4
Payout ratio (%)	91.6	90.5	N/A
	At 31 December 2012	At 30 June 2012	Change (%)
Portfolio valuation	13,879.4	13,038.8	6.4
Total assets	14,601.6	13,692.5	6.6
Total liabilities	4,663.6	4,670.5	(0.1)
Net asset value	9,938.0	9,022.0	10.2
Net asset value per unit (HK\$)	6.17	5.62	9.8
Gearing ratio (%)	26.9	28.8	N/A

Note : Please refer to "Distribution Statement" on page 27 for details.

Operating Results

Sunlight REIT reported a 7.9% growth in turnover to HK\$308.6 million for the Reporting Period. Property operating expenses amounted to HK\$68.9 million, resulting in a 9.6% growth in net property income to reach HK\$239.7 million, while the overall cost-to-income ratio showed a further improvement to 22.3% as compared to 23.5% recorded in the previous interim period. Meanwhile, total finance costs for the Reporting Period was HK\$59.8 million, representing an increase of HK\$9.0 million as compared with the same period last year. This was mainly attributable to a higher credit spread upon refinancing of the term loan in September 2011. After taking into account the gain on disposal of the Glory Rise Property (HK\$2.1 million), other non-property operating expenses and the change in fair value of the investment properties for the period, Sunlight REIT reported a profit after taxation of HK\$1,032.6 million for the Reporting Period (first half of FY2011/12: HK\$484.5 million).

Financial Review

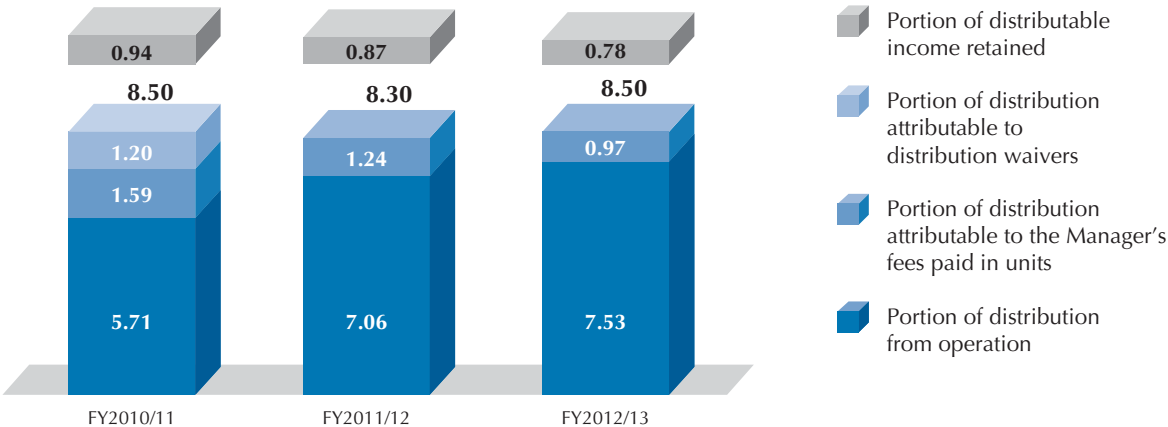
Distribution

Notwithstanding the encouraging operational performance of Sunlight REIT for the first half of FY2012/13, the level of distributable income had been mildly impacted by the onset of a higher effective tax rate primarily due to past tax losses having been fully utilised for certain properties, and the election of a larger cash component for the Manager’s fees (50% in FY2012/13 versus 30% in FY2011/12). For the Reporting Period, total distributable income of Sunlight REIT was HK\$149,578,000, representing an increase of 2.0% from HK\$146,687,000 recorded in the previous corresponding period. The Board of the Manager has resolved to declare an interim distribution of HK 8.50 cents per unit, or HK\$136,991,000, which implies a payout ratio of 91.6%. The interim distribution declared represents a year-on-year increase of 2.4% as compared with HK 8.30 cents (based on a payout ratio of 90.5%) distributed in the previous corresponding period. Based on the closing unit price of the Reporting Period of HK\$3.30, the interim distribution represents an annualised yield of 5.15%.

The chart below provides a year-on-year comparison of distribution per unit (“DPU”). Contributions from operations, cash savings from change in the payment structure of Manager’s fees and distribution waivers are shown separately to illustrate the effect of each component on the DPU. The effect of payout ratio is also illustrated by showing the portion of distributable income retained.

Interim DPU at a Glance

HK cents



Distribution Entitlement and Closure of Register of Unitholders

The record date for the interim distribution will be Thursday, 7 March 2013. The register of unitholders will be closed from Tuesday, 5 March 2013 to Thursday, 7 March 2013, 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, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 4 March 2013. Payment of the interim distribution will be made to unitholders on Thursday, 28 March 2013.

Financial Position

Sunlight REIT's portfolio was appraised by Jones Lang LaSalle Limited at HK\$13,879.4 million at 31 December 2012, representing an increase of 7.1% from the valuation of HK\$12,963.5 million appraised at 30 June 2012 (after adjusting for the effect on disposal of the Glory Rise Property in September 2012). Office and retail properties accounted for 51.2% and 48.8% of the valuation respectively, which implies an appreciation of 6.4% and 7.7% in comparison with their respective valuation at 30 June 2012.

The higher property valuation reduced the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, from 28.8% at 30 June 2012 to 26.9% and expanded net assets by 10.2% to HK\$9,938.0 million at 31 December 2012 (30 June 2012: HK\$9,022.0 million). Net asset value per unit rose 9.8% to HK\$6.17 per unit (30 June 2012: HK\$5.62 per unit). Gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets was 31.9% at 31 December 2012. 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 in the total amount of HK\$4.7 million at 31 December 2012.

Capital Management

At 31 December 2012, Sunlight REIT has in place total loan facilities of HK\$4,025.0 million, comprising a term loan facility of HK\$3,925.0 million which has been fully drawn and a HK\$100.0 million revolving credit facility that was undrawn. These facilities, which will mature on 21 September 2014, are secured by, among others, the investment properties of Sunlight REIT, assignment of proceeds under tenancies and a floating charge over its bank balances.

Financial Review

In order to minimise financial market risks and maintain financial flexibility, Sunlight REIT has maintained certain interest rate swap arrangements and kept approximately 15.9% of Sunlight REIT's indebtedness in floating rate exposure. The effective interest rate of the term loan (including credit spread) for the Reporting Period was approximately 2.63% per annum (first half of FY2011/12: 2.24%). Based on an EBITDA¹ of HK\$203.4 million, the interest coverage ratio² of Sunlight REIT for the Reporting Period was 3.90 times versus 4.03 times recorded in the previous interim period. In light of the fact that HK\$1,500.0 million worth of interest rate swaps are due for expiry in June 2013, a forward start interest rate swap with a notional amount of HK\$500.0 million had been entered into for a tenure of five years effective 2 July 2013. The terms of all the interest rate swaps are summarised below :

Notional amount (HK\$' million)	Tenure	Average interest rate³ (per annum)
1,500	30 June 2010 – 28 June 2013	1.68%
1,500	4 July 2011 – 30 June 2016	2.10%
300	7 October 2011 – 28 September 2018	1.5975%
500	2 July 2013 – 29 June 2018	0.815%

- Notes :
1. EBITDA represents net earnings before interest, taxation, depreciation and amortisation.
 2. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on gross borrowings.
 3. Excludes the credit spread of 1% per annum under the existing term loan.

It is the Manager's treasury management policy (being in compliance with relevant regulatory requirements) to place funds derived from operations as short term bank deposits or fixed income securities which must be of investment grade, with maturity profile to be compatible with the projected funding requirements. At 31 December 2012, Sunlight REIT had a total bank and cash balances of HK\$330.2 million, and had no exposure to fixed income securities. Taking into consideration the recurrent income generated from its operations, the current cash position and credit facilities 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.

Outlook

Sunlight REIT delivered a set of interim results that reflect an encouraging performance of its property portfolio, supported by both strong rental reversion and adequate cost containment. Looking ahead, tenancy expiries in the second half of FY2012/13 would account for 22.6% of the office GRA and 21.5% of the retail GRA, while the average unit rent for the expiring office and retail leases are HK\$22.3 per sq. ft. and HK\$48.4 per sq. ft. respectively. Barring unforeseen circumstances, the Manager anticipates that positive rental reversion would remain a key driver for growth for the rest of this financial year. In addition, it is envisaged that the level of overall occupancy would remain satisfactory in light of the still brisk demand for decentralised office space and organic expansion of certain existing tenants.

While Sunlight REIT is well positioned to capitalise on the favourable rental cycle, the enormous liquidity supply which aims to redress the global economic situation is likely to fuel inflation, not to mention the impact from fiscal initiatives such as, in the case of Hong Kong, the introduction (and upcoming revision) of minimum wage. In this regard, the Manager envisages that the upward cycle in operating cost for Sunlight REIT has yet to run its full course.

In respect of asset enhancement, with the completion of the lobby upgrading work at Winsome House Property, the Manager will be turning its attention to executing the asset enhancement plan for Metro City Phase I Property. The process is already spearheaded by strategic leasing initiatives, notably including tenant mix reconfiguration on the lower level of the complex. Meanwhile, ceiling and lighting improvement works at Sheung Shui Centre Shopping Arcade is expected to commence in the first half of 2013, which upon completion should further enhance the shopping environment as well as achieve additional energy and cost savings. On the office property front, improvement works notably including the upgrading of ancillary and supporting facilities at 248 Queen's Road East and Bonham Trade Centre, would continuously be implemented.

On capital management, the Manager will continue to optimise the capital structure of Sunlight REIT as and when opportunity arises. The entering into of a forward start interest rate swap transaction during the Reporting Period signifies the Manager's intention to mitigate interest rate risk through capitalising on the prevailing flat yield curve. In addition, the Manager will also actively explore alternative financing channels with a view to diversifying the funding sources and the debt maturity profile of Sunlight REIT.

As unit repurchase will remain a strategic initiative as long as value can be created for unitholders, the Manager will, in the meantime, continue to embark on a strategy that may involve fine tuning the asset composition of Sunlight REIT. The previous disposal of the Glory Rise Property not only demonstrates the Manager's commitment to realise the intrinsic value of Sunlight REIT, it also serves to strengthen the financial war chest of Sunlight REIT for the purpose of both future acquisitions (as and when appropriate) as well as further repurchase of units. We are confident that the pursuit of these activities would reap meaningful benefits for unitholders.

Portfolio Statistics

Property	Property Details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA ¹ (sq. ft.)			at 31 Dec 2012	at 30 Jun 2012
				Office	Retail	Total		
Office Property								
Grade A								
248 Queen's Road East	Wan Chai	1998	46	369,891	6,490	376,381	82	81
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	106	107
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	59	60
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	23
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	75	75
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	71	70
Yue Fai Commercial Centre Property	Aberdeen	1997	0	41,272	1,479	42,751	108	108
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	40	37
On Loong Commercial Building Property	Wan Chai	1984	0	23,856	1,708	25,564	36	37
Everglory Centre	Tsim Sha Tsui	1999	0	25,896	3,906	29,802	30	30
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	46
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	34	33
Sub-total/Average			46	830,437	50,446	880,883	711	707
Retail Property								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	115	120
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	110	114
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	37	36
Urban								
Royal Terrace Property	North Point	2002	49	0	9,565	9,565	7	7
Beverly Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	38	39
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Palatial Stand Property	Hung Hom	2001	0	3,566	5,059	8,625	4	5
Sub-total/Average			798	42,667	363,753	406,420	313	323⁵
Total/Average			844	873,104	414,199	1,287,303	1,024	1,030⁵

- Notes : 1. Size of the properties is measured in terms of GRA.
2. Passing rent is expressed in terms of rent per month.
3. Calculated on the basis of change in effective rent of the leases that have been renewed during the relevant period.
4. Valuation prepared by Jones Lang LaSalle Limited.
5. These figures have been adjusted to eliminate the effect of the Glory Rise Property, the disposal of which was completed on 3 September 2012.

N/A : Not applicable

Operational Statistics						Property Financials					
Occupancy (%)		Passing Rent ² (HK\$ / sq. ft.)		Rental Reversion ³ (%)		Net Property Income (HK\$'000)		Capitalisation Rate at 31 Dec 2012 (%)		Appraised Value at 31 Dec 2012 ⁴ (HK\$'000)	
at 31 Dec 2012	at 30 Jun 2012	at 31 Dec 2012	at 30 Jun 2012	Six months ended 31 Dec 2012	Six months ended 30 Jun 2012	Six months ended 31 Dec 2012	Six months ended 31 Dec 2011	Retail	Office		
100.0	100.0	27.9	27.3	23.3	13.6	63,031	55,979	3.75	3.85	3,682,700	
99.7	99.7	20.7	19.3	26.3	28.7	12,812	10,845	4.20	3.85	760,100	
96.5	92.5	33.0	31.5	30.4	20.6	8,869	8,436	3.60	3.95	567,700	
100.0	97.2	35.0	33.6	40.3	32.5	7,511	6,593	4.00	3.85	462,400	
100.0	99.1	19.4	18.8	13.3	17.8	6,009	6,059	4.20	3.85	393,300	
97.5	97.8	14.9	14.5	13.2	17.9	3,751	3,657	4.25	3.85	237,100	
99.4	99.4	16.8	16.3	12.1	15.5	3,559	3,558	4.10	4.10	223,600	
100.0	94.2	19.0	17.8	25.2	19.6	3,241	3,070	4.20	3.95	221,500	
97.8	100.0	24.1	23.2	20.5	12.7	3,296	3,170	4.00	3.95	199,425	
100.0	100.0	17.6	16.9	23.7	18.8	2,739	1,953	4.15	3.85	170,500	
100.0	100.0	18.0	17.6	13.3	18.0	2,439	2,274	4.35	4.10	146,500	
100.0	100.0	9.1	8.6	23.0	23.3	695	599	4.20	3.85	47,100	
99.5	98.9	24.2	23.3	23.7	18.6	117,952	106,193			7,111,925	
97.4	98.8	87.9	82.4	33.7	33.1	58,162	52,113	4.40	N/A	3,170,800	
98.8	99.8	42.0	40.3	40.8	19.1	46,262	42,433	4.50	N/A	2,446,900	
100.0	97.9	36.2	34.3	29.4	32.6	12,065	11,901	3.80	3.85	790,000	
100.0	100.0	44.8	29.7	N/A	19.5	1,891	1,877	4.25	N/A	149,400	
100.0	100.0	44.9	41.6	32.0	25.6	1,891	1,724	4.30	N/A	118,600	
100.0	100.0	40.6	39.4	N/A	N/A	907	882	4.00	N/A	54,700	
75.2	100.0	11.7	10.9	27.1	N/A	410	517	4.35	N/A	37,100	
98.1	99.2⁵	54.4	51.1⁵	35.6	23.9⁵	121,588⁵	111,447⁵			6,767,500	
99.1	99.0⁵	33.6	32.1⁵	29.7	21.9⁵	239,540⁵	217,640⁵			13,879,425	

Corporate Governance

The Manager is committed to a high level of corporate governance practices and procedures. Good corporate governance relies on an optimal mix of checks and balances and emphasises on high transparency to and alignment of interests with unitholders. To ensure that 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 operation of Sunlight REIT. The Compliance Manual is reviewed regularly and modifications are made if necessary or if relevant legislations or regulations have been amended.

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

Board of the Manager and Changes in Director’s Information

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

Subsequent to publication of the 2011/12 Annual Report of Sunlight REIT, the Manager was informed that Mr. Au Siu Kee, Alexander ceased to be an Independent Non-executive Director of Wheelock and Company Limited and has been appointed as an Independent Non-executive Director of The Wharf (Holdings) Limited with effect from 22 October 2012. In addition, Mr. Au has been re-designated as an Independent Non-executive Director of Henderson Land Development Company Limited (“**HLD**”) with effect from 18 December 2012.

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

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Cap. 571) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the SFC. The Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. The Manager has three senior executives who are approved as responsible officers of the Manager pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code.

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

Confirmation of Compliance with the Dealings Code

The Manager has adopted a code governing dealings in units of Sunlight REIT by Directors of the Manager (the “**Dealings Code**”) which is also applicable to the Manager itself. Similar dealing requirements are also applicable to employees of the Manager. Specific enquiry has been made with all Directors and the Manager, and all of them confirmed that they have complied with the required standard as set out in the Dealings Code from time to time throughout the Reporting Period.

Review of Interim Report

The interim report of Sunlight REIT for the Reporting Period has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of reference. The interim financial report has also been reviewed by the auditor 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 HLD. The two non-executive directors (including the Chairman) of the Manager are an executive director and an independent non-executive director of HLD respectively. 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, amongst 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 other companies in the future. The Manager may experience conflicts of interests as a result of other roles of its board members and/or the activities and interests of its affiliates in acquiring and disposing of potential investments. As a wholly-owned subsidiary of HLD, the Manager may experience conflicts of interests in connection with any potential acquisitions from or other transactions with HLD or its affiliates and in agreeing the terms of such potential acquisitions or transactions.

Corporate Governance

At the operational level, the Manager and the Property Manager may experience conflicts of interests with HLD and its affiliates in connection with identifying and competing for potential tenants and procurement of services. The Manager may also experience conflicts of interests in its role in overseeing the provision of services by the Property Manager pursuant to the property management agreement entered into between the Manager and the Property Manager on 29 November 2006 (as amended).

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 of 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 of the Property Manager is also a shareholder or director of a tenant or potential tenant (or of its holding company) of Sunlight REIT; and (iii) tenancy agency services provided by the Principal Valuer and/or its affiliates.

Public Float

Based on information that is publicly available to the Manager and within the knowledge of the Directors, more than 25% of the outstanding units in issue were held in public hands at 31 December 2012.

New Units Issued

Except for an aggregate of 7,580,383 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.

Repurchase, Sale or Redemption of Units

Pursuant to the general mandate granted by unitholders at the annual general meeting held on 26 October 2011, the Manager repurchased on behalf of Sunlight REIT a total of 1,500,000 units on the Stock Exchange in October 2012 at an aggregate consideration of approximately HK\$4.7 million. The highest and the lowest price per unit paid for such repurchases were HK\$3.17 and HK\$3.14 respectively. All repurchased 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.

Employees

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

Connected Party Transactions

Information in respect of the connected party transactions entered into during the Reporting Period between Sunlight REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code), which are governed by Chapter 8 of the REIT Code, 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 transactions entered into with the Trustee Connected Persons) from which Sunlight REIT derived its income and 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 2012 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	2,562	1,179
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	1,699	792
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	724	–
Henderson Property Agency Limited	Associated company of the Manager	Licensing	30	30
Citistore (Hong Kong) Limited	Associated company of the Manager	Licensing	68	2
Total :			5,083	2,003

(b) Expenses

Name of Connected Person	Relationship with Sunlight REIT ^{note}	Nature of the Connected Party Transactions	Expenses for the Reporting Period (HK\$'000)
Goodwill Management Limited	Associated company of the Manager	Property management and operations and licence fee	543
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	4,398
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	20,789
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	740
Metro City Management Limited	Associated company of the Manager	Property management and operations	948
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,120
Contender Limited	Associated company of the Manager	Facilities leasing	66
Total :			28,604

Note : Within the meaning of the REIT Code.

Connected Party Transactions

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**”) within the meaning of the REIT Code during the Reporting Period :

Name of Connected Person	Relationship with Sunlight REIT ²	Nature of the Connected Party Transactions	Income/Expense for the Reporting Period (HK\$'000)	Rental and Other Deposits Received at 31 December 2012 (HK\$'000)
Leasing Transactions :				
The Hongkong and Shanghai Banking Corporation Limited (“ HSBC ”)	Trustee Connected Persons	Leasing ³	3,342	1,758
HSBC	Trustee Connected Persons	Licensing ⁴	76	41
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁵	3,830	1,890
Ordinary Banking and Financial Services⁶ :				
HSBC	Trustee Connected Persons	Interest income received/receivable on bank deposits	15	–
HSBC	Trustee Connected Persons	Interest expense, agency and other charges on bank loans, interest expense on interest rate swaps and other bank charges	16,965	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense on bank loans and bank charges	3,785	–

An interest rate swap of a notional amount of HK\$500 million was entered into with HSBC on 13 November 2012. Please refer to “Financial Review” on page 8 for details.

Corporate Finance Transactions :

Both the Manager and the Trustee confirm that during the Reporting Period, there was no corporate finance transaction entered into between Sunlight REIT and the Trustee Connected Persons.

Notes :

1. HSBC Group means HSBC 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 tenancy agreement was entered into for Shop Nos. 1024-31, Sheung Shui Centre Shopping Arcade whereby both parties had agreed to extend a further term of three years from 4 November 2011 to 3 November 2014.
4. For external wall signage Nos. 1 & 82-93, Level 1, and light box F2, Level 2, Sheung Shui Centre Shopping Arcade.
5. A tenancy agreement was entered into for Shop No. 211, Metro City Phase I Property whereby both parties had agreed to extend a further term of three years from 17 February 2012 to 16 February 2015.
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.

Other Disclosures under the REIT Code

Pursuant to note (2) to paragraph 8.10 of the REIT Code, services provided by the Manager, the Trustee and the Principal Valuer to Sunlight REIT as contemplated under the constitutive documents shall not be deemed connected party transactions and therefore are not disclosed in the above sections.

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\$34.5 million and HK\$1.8 million respectively. Particulars of services provided by the Principal Valuer, the Manager and the Trustee, including terms and remuneration, are set out in notes 19(b)(i), (ii) and (iv) to the interim financial report. Save for the Manager's fees and Trustee's fees as disclosed above, the fees payable to the Principal Valuer during the Reporting Period was less than HK\$1 million and no disclosure was required in this section of the interim report.

Disclosure of Interests

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

Holdings of the Manager, its Directors or Chief Executive

At 31 December 2012 and 30 June 2012, the interests and short position in units of the Manager, its Directors or chief executive as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed, were as follows :

Name	At 31 December 2012		At 30 June 2012		Change in % Interest
	Number of Units Interested (long position)	% of Interest in Units ¹	Number of Units Interested (long position)	% of Interest in Units ¹	
The Manager ²	59,303,677	3.68	51,723,294	3.22	0.46
Au Siu Kee, Alexander ³	1,329,000	0.082	1,329,000	0.083	-0.001

Notes :

1. The percentages expressed are based on the total units in issue of 1,611,664,307 at 31 December 2012 and 1,605,583,924 at 30 June 2012 respectively.
2. At 30 June 2012, the Manager beneficially held 51,723,294 units. With the issue of 7,580,383 new units to the Manager on 30 October 2012 as payment of part of the Manager's fees, the Manager beneficially held 59,303,677 units at 31 December 2012.
3. At 31 December 2012, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,329,000 units (30 June 2012: 1,329,000 units) within the meaning of Part XV of the SFO. Of the 1,329,000 units, he was interested in 1,229,000 units jointly with his spouse, and his spouse was interested in the remaining 100,000 units individually.

Other than the above, none of the Manager, its Directors or chief executive was beneficially interested (or deemed to be interested) in units or held any short position in units at 31 December 2012 and 30 June 2012 as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed.

Holdings of Substantial Unitholders

At 31 December 2012 and 30 June 2012, the interests and short position in units of every person, other than the Manager, its Directors or chief executive, as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed, were as follows :

Name	At 31 December 2012		At 30 June 2012		Change in % Interest
	Number of Units Interested (long position)	% of Interest in Units ¹	Number of Units Interested (long position)	% of Interest in Units ¹	
Lee Shau Kee ²	559,899,322	34.74	559,899,322	34.87	-0.13
Lee Financial (Cayman) Limited ²	374,072,708	23.21	374,072,708	23.30	-0.09
Leesons (Cayman) Limited ²	374,072,708	23.21	374,072,708	23.30	-0.09
Leeworld (Cayman) Limited ²	374,072,708	23.21	374,072,708	23.30	-0.09
SKFE ²	374,072,708	23.21	374,072,708	23.30	-0.09
Uplite Limited ²	224,443,625	13.93	224,443,625	13.98	-0.05
Wintrade Limited ²	149,629,083	9.28	149,629,083	9.32	-0.04
Henderson Development Limited ²	195,635,611	12.14	195,635,611	12.18	-0.04
HLD ²	195,635,611	12.14	195,635,611	12.18	-0.04
Hopkins (Cayman) Limited ²	195,635,611	12.14	195,635,611	12.18	-0.04
Riddick (Cayman) Limited ²	195,635,611	12.14	195,635,611	12.18	-0.04
Rimmer (Cayman) Limited ²	195,635,611	12.14	195,635,611	12.18	-0.04
Silchester International Investors LLP ³	257,791,150	15.99	292,519,150	18.22	-2.23
Silchester International Investors International Value Equity Trust ³	128,314,922	7.96	142,292,922	8.86	-0.90

Notes :

1. The percentages expressed are based on the total units in issue of 1,611,664,307 at 31 December 2012 and 1,605,583,924 at 30 June 2012 respectively.
2. At 31 December 2012, 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.

Disclosure of Interests

Apart from the above, at 31 December 2012, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 59,303,677 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 Schedule C of the Trust Deed), each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in a total of 203,215,994 units at 31 December 2012 (representing approximately 12.61% of the total units in issue). In the register required to be kept by the Manager under Schedule C of the Trust Deed, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 195,635,611 units at 31 December 2012, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

Under Part XV of the SFO (as so applied), Dr. Lee Shau Kee was therefore taken to be interested in a total of 577,288,702 units at 31 December 2012 (representing approximately 35.82% of the total units in issue), by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts. In the register required to be kept by the Manager under Schedule C of the Trust Deed, Dr. Lee Shau Kee was recorded as having an interest in 559,899,322 units at 31 December 2012, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2012, the units mentioned under this note were beneficially held by connected persons of Sunlight REIT.

3. At 31 December 2012, in accordance with the notice 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, of which 128,314,922 units were beneficially owned by Silchester International Investors International Value Equity Trust ("**Silchester Trust**"). The Manager has subsequently been notified that at 31 December 2012, (i) Silchester LLP was interested in 255,926,150 units (representing approximately 15.88% of the total units in issue); and (ii) the beneficial interest owned by Silchester Trust had decreased to 120,067,922 units (representing approximately 7.45% of the total units in issue); and such interest in 120,067,922 units held by Silchester Trust has been included as part of the interests reported above for 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 2012 were as follows :

Name of Connected Persons	Number of Units Held	% of Unit Holding¹
Chan Wing Cheng ²	100,000	0.0062
Lee King Yue ³	50,000	0.0031
Lee Pui Ling, Angelina ⁴	2,307	0.0001
Mao Kenneth Ruys ⁵	500,000	0.0310
Persons related to the Trustee ⁶	120,000	0.0074

Notes :

1. The percentage expressed is based on the total units in issue of 1,611,664,307 at 31 December 2012.
2. Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 100,000 units at 30 June 2012.
3. Mr. Lee King Yue was a connected person by virtue of being a director of HLD and certain of its subsidiaries. Mr. Lee held 50,000 units at 30 June 2012.
4. Mrs. Lee Pui Ling, Angelina was a connected person by virtue of being a director of HLD and one of its subsidiaries. Mrs. Lee held 2,307 units at 30 June 2012.
5. Mr. Mao Kenneth Ruys was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Mao was interested in 500,000 units at 30 June 2012.
6. The Manager has been informed that certain directors, senior executives and officers of the Trustee and their associates (as defined in the REIT Code) were beneficially interested in such units at 31 December 2012. They had beneficial interest in 120,000 units at 30 June 2012.

Consolidated Income Statement

For the six months ended 31 December 2012 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2012	2011
		\$'000	\$'000
Turnover	5	308,650	285,848
Property operating expenses	6	(68,904)	(67,072)
Net property income		239,746	218,776
Other income		1,681	1,741
Gain on disposal of investment properties	10(b)	2,088	–
Administrative expenses		(40,100)	(40,564)
Net increase in fair value of investment properties		913,719	374,825
Profit from operations		1,117,134	554,778
Finance costs on interest bearing liabilities	7(a)	(59,827)	(50,792)
Profit before taxation and transactions with unitholders	7	1,057,307	503,986
Income tax	8	(24,673)	(19,532)
Profit after taxation and before transactions with unitholders		1,032,634	484,454

The notes on pages 29 to 45 form part of this interim financial report.

Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2012 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2012 \$'000	2011 \$'000
Profit after taxation and before transactions with unitholders	1,032,634	484,454
Other comprehensive income for the period		
Changes in fair value of cash flow hedges recognised during the period	6,868	(29,167)
Total comprehensive income for the period	1,039,502	455,287

The notes on pages 29 to 45 form part of this interim financial report.

Consolidated Balance Sheet

At 31 December 2012

(Expressed in Hong Kong dollars)

		31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
	Note		
Non-current assets			
Fixed assets			
– Investment properties	10	13,879,425	13,038,800
– Other fixed assets		66	78
		13,879,491	13,038,878
Deferred tax assets		4,321	4,743
Derivative financial instruments	12	1,057	–
Reimbursement rights	11	203,413	203,413
		14,088,282	13,247,034
Current assets			
Trade and other receivables	13	24,420	26,057
Pledged deposits	15	324,718	259,592
Cash at bank and in hand		5,468	1,288
Tax recoverable		158,749	158,506
		513,355	445,443
		14,601,637	13,692,477
Current liabilities			
Tenants' deposits		(152,703)	(144,598)
Rent receipts in advance		(4,826)	(4,360)
Trade and other payables	14	(214,748)	(211,490)
Derivative financial instruments	12	(39,650)	(47,410)
Tax payable		(22,250)	(25,444)
		(434,177)	(433,302)
		79,178	12,141
Net current assets			
Total assets less current liabilities		14,167,460	13,259,175

		31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
	Note		
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings	15	(3,898,534)	(3,915,850)
Deferred tax liabilities		(263,698)	(256,096)
Derivative financial instruments	12	(67,221)	(65,273)
		(4,229,453)	(4,237,219)
Total liabilities, excluding net assets attributable to unitholders			
		(4,663,630)	(4,670,521)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		9,938,007	9,021,956
Number of units in issue			
	16	1,611,664,307	1,605,583,924
Net asset value attributable to unitholders per unit			
		\$6.17	\$5.62

The notes on pages 29 to 45 form part of this interim financial report.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2012 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2012	2011
		\$'000	\$'000
	Note		
At the beginning of the period		9,021,956	8,261,928
Profit after taxation and before transactions with unitholders		1,032,634	484,454
Other comprehensive income		6,868	(29,167)
Total comprehensive income for the period		1,039,502	455,287
Distribution paid to unitholders		(139,686)	(124,276)
Issuance of units to Manager during the period	16	20,986	29,828
Units repurchased	16	(4,732)	–
Units repurchase expenses	16	(19)	–
		(123,451)	(94,448)
At the end of the period		9,938,007	8,622,767

The notes on pages 29 to 45 form part of this interim financial report.

Distribution Statement

For the six months ended 31 December 2012 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2012	2011
		\$'000	\$'000
	Note		
Profit after taxation and before transactions with unitholders		1,032,634	484,454
Adjustments:			
– Gain on disposal of investment properties	10(b)	(2,088)	–
– Net increase in fair value of investment properties		(913,719)	(374,825)
– Manager’s fees paid or payable in the form of units		17,044	21,970
– Non-cash finance costs on interest bearing liabilities		7,683	6,139
– Deferred tax	8	8,024	8,949
		(883,056)	(337,767)
Total distributable income (note (i))		149,578	146,687
Payout ratio (note (ii))		91.6%	90.5%
Interim distribution (note (ii))		136,991	132,748
Distribution per unit (note (ii))		8.50 cents	8.30 cents

Notes:

- (i) Pursuant to the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the “REIT Code”) and the trust deed dated 26 May 2006 (as amended) (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.
- (ii) The interim distribution of \$136,991,000 for the six months ended 31 December 2012 (2011: \$132,748,000), representing a payout ratio of 91.6% (2011: 90.5%), is calculated by multiplying the interim distribution per unit of 8.50 cents by 1,611,664,307 units in issue at 31 December 2012 (2011: 8.30 cents by 1,599,374,927 units in issue at 31 December 2011).
- (iii) The interim distribution is expected to be paid on 28 March 2013 to unitholders whose names appear on the register of unitholders on 7 March 2013.
- (iv) The interim distribution proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

The notes on pages 29 to 45 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2012 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2012 \$'000	2011 \$'000
Net cash generated from operating activities	214,309	190,143
Net cash generated from/(used in) investing activities	76,862	(2,274)
Net cash used in financing activities	(286,991)	(187,891)
Net increase/(decrease) in cash at bank and in hand for the period	4,180	(22)
Cash at bank and in hand at the beginning of the period	1,288	177
Cash at bank and in hand at the end of the period	5,468	155

The notes on pages 29 to 45 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 with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit. It has its principal place of business at 30th Floor, 248 Queen’s Road East, Wan Chai, Hong Kong.

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK, 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 18 February 2013.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011/12 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012/13 annual financial statements. Details of these 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 2011/12 annual financial statements. The condensed consolidated 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 (“HKFRS”).

This 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 Assets Management Limited, the manager of Sunlight REIT (the “Manager”) is included on page 46.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

2 Basis of preparation (*continued*)

The financial information relating to the financial year ended 30 June 2012 that is included in the interim financial report as being previously reported information does not constitute the 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 2012 are available from the Sunlight REIT's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 6 September 2012.

3 Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. These include the amendments to HKAS 12, *Income taxes – Deferred tax: recovery of underlying assets*, which the Group has already adopted in the prior period. None of the other developments are relevant to the Group's interim financial report and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Segment reporting

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

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

Segment results

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

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

The measure used for reporting segment performance is the "segment results" which exclude the net increase/(decrease) in fair value of investment properties, gain/(loss) on disposal of investment properties, finance costs on interest bearing liabilities, income tax, interest income and the unallocated net income/(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					
	2012 (Unaudited)			2011 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover						
– rental income	121,504	126,080	247,584	111,252	117,091	228,343
– car park income	1,575	11,088	12,663	1,541	9,652	11,193
– rental related income	25,476	22,927	48,403	24,484	21,828	46,312
	148,555	160,095	308,650	137,277	148,571	285,848
Property operating expenses	(30,603)	(38,301)	(68,904)	(31,084)	(35,988)	(67,072)
Net property income	117,952	121,794	239,746	106,193	112,583	218,776
Administrative expenses	(18,418)	(17,182)	(35,600)	(16,807)	(16,037)	(32,844)
Segment results	99,534	104,612	204,146	89,386	96,546	185,932
Net increase in fair value of investment properties	428,118	485,601	913,719	209,721	165,104	374,825
Gain on disposal of investment properties	–	2,088	2,088	–	–	–
Finance costs on interest bearing liabilities			(59,827)			(50,792)
Income tax			(24,673)			(19,532)
Interest income			1,681			1,741
Unallocated net expenses			(4,500)			(7,720)
Profit after taxation and before transactions with unitholders			1,032,634			484,454
Depreciation	6	6	12	3	4	7

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

5 Turnover

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

	Six months ended 31 December	
	2012 (Unaudited) \$'000	2011 (Unaudited) \$'000
Rental income	247,584	228,343
Car park income	12,663	11,193
Rental related income	48,403	46,312
	308,650	285,848

6 Property operating expenses

	Six months ended 31 December	
	2012 (Unaudited) \$'000	2011 (Unaudited) \$'000
Building management fee	25,992	25,877
Property Manager's fees	19,637	18,049
Government rent and rates	10,098	9,465
Marketing and promotion expenses	4,343	4,964
Car park operating costs (note)	3,963	3,796
Other direct costs	4,871	4,921
	68,904	67,072

Note : Included Property Manager's fees of \$1,152,000 (2011: \$1,043,000).

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	
	2012 (Unaudited) \$'000	2011 (Unaudited) \$'000
(a) Finance costs on interest bearing liabilities		
Interest on secured bank borrowings	52,068	44,603
Other borrowing costs	7,759	6,189
	59,827	50,792

Other borrowing costs represent various financing charges and the amortisation of the debts establishment fees for the secured bank borrowings (note 15).

	Six months ended 31 December	
	2012 (Unaudited) \$'000	2011 (Unaudited) \$'000
(b) Other items		
Interest income	(1,681)	(1,741)
Manager's fees	34,465	31,386
Property Manager's fees (note (i))	20,789	19,092
Trustee's remuneration and charges	1,837	1,698
Auditor's remuneration		
– Audit services	790	685
– Other services	560	490
Valuation fees	310	325
Other legal and professional fees	1,580	4,844
Commission to property agents	1,341	1,217
Bank charges	218	364

Notes :

- (i) Included rental commission of \$5,942,000 (2011: \$5,191,000).
- (ii) Sunlight REIT did not appoint any director and the Group did not engage any employee during the period. No employee benefit expense has been incurred in the period accordingly.

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

8 Income tax

	Six months ended 31 December	
	2012 (Unaudited) \$'000	2011 (Unaudited) \$'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for the period	16,649	10,546
Under-provision in respect of prior periods	–	37
	16,649	10,583
Deferred tax		
Origination and reversal of temporary differences	8,024	8,949
	24,673	19,532

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

During the six months ended 31 December 2011, the Group settled with the Inland Revenue Department in respect of the deductibility of certain taxation allowances claimed by certain subsidiaries of the Group in connection with the profits generated prior to the date of acquisition by Sunlight REIT. The relevant amount paid to the Inland Revenue Department was \$3,629,000 and was reimbursed by certain vendors (comprising subsidiaries of Shau Kee Financial Enterprises Limited (“SKFE”), Henderson Land Development Company Limited (“HLD”), Henderson Investment Limited, Henderson Development Limited (“HD”) and Jetwin International Limited) (collectively referred to as the “Vendors”) pursuant to the relevant deeds of tax covenant dated 21 December 2006.

9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2012 amounted to \$0.64 (2011: \$0.30). 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 \$1,032,634,000 (2011: \$484,454,000) and the weighted average of 1,607,665,794 units in issue during the period (2011: 1,591,112,834 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2012 and 2011 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

10 Investment properties

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
At 1 July 2012 / 2011	13,038,800	12,222,200
Additions	2,206	8,258
Disposals (note (b))	(75,300)	–
Net increase in fair value	913,719	808,342
At 31 December 2012 / 30 June 2012	13,879,425	13,038,800

- (a) The investment properties were revalued at 31 December 2012 by Jones Lang LaSalle Limited (“JLL”), which is an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis in their existing states by means of capitalisation of the net income allowing for reversionary income potential and by reference to comparable market transactions. The independent valuation at 30 June 2012 was performed by Knight Frank Petty Limited (“Knight Frank”).
- (b) On 3 September 2012, the Group completed the disposal of its entire interest in the investment properties, Glory Rise Property, located at No. 128 Chun Yeung Street, North Point, Hong Kong for a total consideration of \$78,500,000, resulting in a gain on disposal of \$2,088,000 (net of related transactions costs) credited to the consolidated income statement for the six months ended 31 December 2012.
- (c) The analysis of the fair value of investment properties is as follows:

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
In Hong Kong		
– long leases	6,384,225	6,074,500
– medium-term leases	7,495,200	6,964,300
	13,879,425	13,038,800

- (d) The Group’s investment properties have been mortgaged to secure banking facilities granted to the Group (note 15).

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

11 Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity provided by the Vendors to the extent of certain relevant deferred tax liabilities recognised in the subsidiaries at the date of acquisition.

12 Derivative financial instruments

	31 December 2012 (Unaudited)		30 June 2012 (Audited)	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Interest rate swaps – cash flow hedges				
Current portion	–	(39,650)	–	(47,410)
Non-current portion	1,057	(67,221)	–	(65,273)
	1,057	(106,871)	–	(112,683)

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

At 31 December 2012, the Group had interest rate swaps in place with an aggregate notional amount of \$3,800,000,000 (30 June 2012: \$3,300,000,000). The interest rate swaps will mature on 28 June 2013, 30 June 2016, 29 June 2018 and 28 September 2018 (30 June 2012: 28 June 2013, 30 June 2016 and 28 September 2018) respectively and have fixed interest rates ranging from 0.815% per annum to 2.615% per annum (30 June 2012: 1.598% per annum to 2.615% per annum).

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the discounted cash flow model.

13 Trade and other receivables

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
Rental receivables	13,332	17,072
Deposits and prepayments	6,855	6,010
Other receivables	3,309	2,345
Amounts due from related companies	924	630
	24,420	26,057

13 Trade and other receivables (continued)

\$4,810,000 (30 June 2012: \$4,856,000) 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 balance sheet date, the ageing analysis of rental receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
Current	10,289	12,444
Less than 1 month overdue	2,523	3,346
More than 1 month and up to 3 months overdue	284	1,093
More than 3 months and up to 6 months overdue	106	176
More than 6 months overdue	130	13
	13,332	17,072

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.

14 Trade and other payables

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
Creditors and accrued charges	30,415	28,029
Manager's fees payable (note 19(b)(ii))	17,512	18,139
Amounts due to related companies	166,821	165,322
	214,748	211,490

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

14 Trade and other payables (continued)

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 4 months and payable in the form of cash and units.

The amounts due to related companies primarily represent amounts received from certain Vendors for purchasing tax reserve certificates on their behalf in respect of the potential tax liabilities arising from the outstanding tax cases. The outstanding tax cases relate to the notional gains arising from reclassification of properties at the date of acquisition and the potential tax liabilities are indemnified by the Vendors. The relevant tax reserve certificates were classified as tax recoverable under current assets at the period end. The amounts are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$957,000 (30 June 2012: \$959,000) which is due within 30 days.

15 Secured bank borrowings

The secured bank borrowings were repayable as follows:

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
After 2 years but within 5 years	3,898,534	3,915,850

The Group has two facilities in the aggregate amount of \$4,050,000,000 (30 June 2012: \$4,050,000,000) before transaction costs, comprising a \$3,950,000,000 (30 June 2012: \$3,950,000,000) term loan facility and a \$100,000,000 (30 June 2012: \$100,000,000) revolving credit facility, both for a three-year term from the first date of drawdown under the term loan facility or revolving credit facility, whichever is earlier. Both facilities are interest bearing at Hong Kong Interbank Offered Rate plus 1% per annum and repayable in full on 21 September 2014. After the partial repayment of the term loan facility of \$25,000,000 upon the disposal of the Glory Rise Property (see note 10 (b)), the total facilities drawn down by the Group at 31 December 2012 was \$3,925,000,000 (30 June 2012: \$3,950,000,000). The Group also entered into the interest rate swaps and details are set out in note 12.

15 Secured bank borrowings (continued)

Bank borrowings under the term loan facility and revolving credit facility are guaranteed on a joint and several basis by the Trustee and Sunlight REIT Holding Limited, the holding company of all other subsidiaries of the Group, and are also secured by, among others, the followings:

- mortgages over the investment properties with a fair value of \$13,879,425,000 at 31 December 2012 (30 June 2012: \$13,038,800,000) (note 10);
- floating charge over bank balances of \$55,254,000 (30 June 2012: \$24,179,000) and \$269,464,000 (30 June 2012: \$235,413,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) and other banks in the name of Sunlight REIT Treasury Limited, a subsidiary of the Group;
- assignment of rental income and all other proceeds arising from and including all rights, title and interest under all tenancy agreements relating to each of the investment properties; and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the balance sheet date was 2.63% per annum (30 June 2012: 2.62% per annum). The carrying amounts of the bank borrowings approximate their fair values.

16 Units in issue

	Number of units	
	31 December 2012 (Unaudited)	30 June 2012 (Audited)
At 1 July 2012 / 2011	1,605,583,924	1,586,491,664
Issuance of units during the period / year	7,580,383	22,692,260
Units repurchased	(1,500,000)	(3,600,000)
At 31 December 2012 / 30 June 2012	1,611,664,307	1,605,583,924

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

16 Units in issue (continued)

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
Six months ended			
31 December 2012 (Unaudited)			
1 April 2012 to 30 June 2012	2.5391	11,513	4,534,191
Adjustment of Manager's fees for the financial year 2011 / 12	3.0842	1,185	384,067
1 July 2012 to 30 September 2012	3.1134	8,288	2,662,125
		20,986	7,580,383
Year ended 30 June 2012 (Audited)			
1 April 2011 to 30 June 2011	2.4646	15,221	6,175,740
Adjustment of Manager's fees for the financial year 2010 / 11	2.2705	3,722	1,639,242
1 July 2011 to 30 September 2011	2.1476	10,885	5,068,281
1 October 2011 to 31 December 2011	2.1766	11,086	5,093,214
1 January 2012 to 31 March 2012	2.3877	11,259	4,715,783
		52,173	22,692,260

16 Units in issue (continued)

Pursuant to the general mandate granted to the Manager by unitholders, the Group repurchased a total of 1,500,000 units (year ended 30 June 2012: 3,600,000 units) on the SEHK during the six months ended 31 December 2012 at an aggregate consideration of \$4,732,000 (year ended 30 June 2012: \$8,873,000). Details of the repurchases were as follows:

	Number of units repurchased	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
For the six months ended 31 December 2012 (Unaudited)				
Month of repurchase				
October 2012	1,500,000	3.17	3.14	4,732
Total	1,500,000			4,732
Total repurchase expenses				19
				4,751
For the year ended 30 June 2012 (Audited)				
Month of repurchase				
June 2012	3,600,000	2.50	2.41	8,873
Total	3,600,000			8,873
Total repurchase expenses				39
				8,912

All repurchased units were cancelled during the period / year.

17 Capital commitments

Capital commitments outstanding at 31 December 2012 not provided for in the interim financial report are as follows:

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
Contracted for	6,771	2,083
Authorised but not contracted for	16,640	21,901
	23,411	23,984

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

18 Contingent liabilities

At the balance sheet date, 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 \$4,685,000 (30 June 2012: \$4,685,000).

19 Connected party transactions and material related party transactions

In addition to the transactions and balances disclosed elsewhere in the interim financial report, the Group entered into the following transactions with certain connected and related parties, as defined under the REIT Code and HKAS 24 (revised 2009), *Related party disclosures*, during the period:

(a) Nature of relationship with connected/related parties

Connected/related party	Relationship with the Group
SKFE and other members of its group (collectively referred to as “ SKFE Group ”)	Significant holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as “ HLD Group ”)	Connected persons of SKFE Group, the Manager and the Property Manager
HD	Connected persons of SKFE Group and holding company of HLD Group
HSBC Institutional Trust Services (Asia) Limited (the “ Trustee ”)	The Trustee of Sunlight REIT
HSBC 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
JLL and other members of its group (collectively referred to as “ JLL Group ”)	The Principal Valuer of Sunlight REIT

JLL, which replaced Knight Frank, has been appointed as the Principal Valuer of Sunlight REIT with effect from 1 September 2012.

19 Connected party transactions and material related party transactions *(continued)*

(b) Transactions with connected/related parties

	Six months ended 31 December	
	2012 (Unaudited) \$'000	2011 (Unaudited) \$'000
Rental and rental related income received/ receivable from (note (i)):		
– HLD Group	4,359	4,086
– HSBC Group	7,248	6,364
Property management expenses paid/payable to (note (i)):		
– HLD Group	(7,749)	(7,646)
Facilities leasing expenses paid/payable to (note (i)):		
– HLD Group	(66)	–
Manager's fees (note (ii))	(34,465)	(31,386)
Property Manager's fees (note (iii))	(20,789)	(19,092)
Trustee's remuneration and charges (note (iv))	(1,837)	(1,698)
Interest expenses, agency charge on bank borrowings and bank charges paid/payable to (notes (i) and (v)):		
– HSBC Group	(7,442)	(5,216)
Interest paid/payable under the interest rate swaps (note (v)):		
– HSBC Group	(13,308)	(13,341)
Interest income on bank deposits received/ receivable from (note (i)):		
– HSBC Group	15	9
Valuation fees and other charges paid/payable to (note (i)):		
– JLL Group	(285)	–
– Knight Frank and other members of its group (collectively referred to as "Knight Frank Group")	(25)	(325)
Promotion income received/receivable from (note (i)):		
– HLD Group	724	525
Additional consideration paid to (note (vi)):		
– HLD Group and SKFE Group	(178)	–

Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

19 Connected party transactions and material related party transactions (*continued*)

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

Notes:

- (i) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) The Manager's fees are calculated as the aggregate of a base fee of 0.4% per annum of the value of all the properties of the Group and a variable fee of 3% per annum of the Group's Net Property Income (as defined in the Trust Deed).

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

On 17 May 2011, the Manager made an election for the base fee and variable fee for the financial year ended 30 June 2012 to be paid 30% in the form of cash and 70% in the form of units. While on 10 May 2012, the Manager made an election for the base fee and the variable fee for the financial year ending 30 June 2013 to be paid 50% in the form of cash and 50% in the form of units.

During the six months ended 31 December 2012, a divestment fee of 0.5% of the valuation (for the purpose of such sale) of the Glory Rise Property was paid to the Manager in cash upon the disposal of the property.

- (iii) Under the property management agreement entered into between the Manager and the Property Manager dated 29 November 2006 (as amended) (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 for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of the duration of the renewal term;
- 10% of the total licence fee for securing a licence for a duration of less than 12 months; and
- one-fourth month's base rent for handling each rent review during the term of a tenancy provided for in the tenancy 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.

19 Connected party transactions and material related party transactions *(continued)*

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

Notes: *(continued)*

- (iv) The Trustee's remuneration is calculated at 0.03% per annum on the first \$5 billion on the total assets of the Group, 0.025% per annum on the next \$5 billion on the total assets of the Group and 0.02% per annum on the balance, subject to minimum fees of \$50,000 per month. In accordance with the Trust Deed, the Trustee's remuneration may be increased, without obtaining unitholders' approval subject to one month's written notice to unitholders, to a maximum of 0.06% per annum of the total assets of the Group.
- (v) Interest expenses are calculated on the outstanding borrowings and interest rate swaps balance by reference to the interest rates as set out in notes 12 and 15.
- (vi) On 2 December 2006, the Group acquired certain companies from the Vendors by entering into several sale and purchase agreements. Pursuant to these agreements, the Group agreed to pay additional consideration for the purchase of shares in the relevant companies, in an amount equivalent to the tax loss benefits of such companies that are utilised by the Group to offset tax liabilities which would otherwise arise.

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

	31 December 2012 (Unaudited) \$'000	30 June 2012 (Audited) \$'000
Net amount due to:		
– SKFE Group	(78,379)	(78,379)
– HLD Group	(45,791)	(44,914)
– HD	(54,999)	(54,999)
– HSBC Group (note)	(960,761)	(1,003,530)
– JLL Group	(285)	–
– Knight Frank Group	–	(425)
Note:		
Deposits and cash placed with HSBC Group	60,631	25,396
Secured bank borrowings and interest payable to HSBC Group	(1,017,704)	(1,024,297)
Others	(3,688)	(4,629)
	(960,761)	(1,003,530)

20 Non-adjusting post balance sheet event

After the balance sheet date the Board of Directors of the Manager proposed an interim distribution. Further details are disclosed in the "Distribution statement" of the interim financial report.

Auditor's Review Report



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

Introduction

We have reviewed the interim financial report set out on pages 22 to 45 which comprises the consolidated balance sheet of Sunlight REIT as of 31 December 2012 and the related consolidated income statement, consolidated statement of 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 2012 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

18 February 2013

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2012	2011	2010	2009	2008
At 31 December:						
Net asset value (\$ million)		9,938.0	8,622.8	7,149.4	5,702.9	5,159.2
Net asset value per unit		6.17	5.39	4.54	3.66	3.38
Market capitalisation (\$ million)		5,318.5	3,550.6	3,763.2	2,990.3	2,139.8
For the six months ended 31 December:						
Highest traded unit price		3.59	2.57	2.40	2.06	1.96
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		2.61	1.91	1.98	1.49	0.91
Highest discount of the traded unit price to net asset value per unit (%)		57.7	64.6	56.4	59.3	73.1
Closing unit price		3.30	2.22	2.39	1.92	1.40
Distribution per unit (cents)	2	8.50	8.30	8.50	6.88	9.29
Annualised distribution yield per unit (%)	3	5.15	7.48	7.11	7.16	13.28

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of the period. Accordingly, premium of the traded unit price to net asset value per unit had not been recorded.
2. As disclosed in the Offering Circular, distribution per unit of Sunlight REIT for prior periods were enhanced by arrangements offered by certain subsidiaries of HLD and of SKFE in the form of (i) adjustment payments (from the Listing Date to June 2009) and (ii) distribution waivers (from the Listing Date to June 2011).
3. Annualised distribution yield per unit is calculated by dividing the annualised distribution per unit by the closing unit price of that 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

Company Secretary of the Manager

Chung Siu Wah

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Jones Lang LaSalle Limited

Legal Adviser

Woo, Kwan, Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

Crédit Agricole Corporate and Investment

Bank, Hong Kong Branch

Hang Seng Bank Limited

The Hongkong and Shanghai Banking

Corporation Limited

Overseas-Chinese Banking Corporation

Limited, Hong Kong Branch

Standard Chartered Bank (Hong Kong) Limited

Sumitomo Mitsui Banking Corporation

Registered Office of the Manager

30th Floor, 248 Queen's Road East,

Wan Chai, Hong Kong

Unit Registrar

Tricor Investor Services Limited

26th Floor, Tesbury Centre,

28 Queen's Road East,

Wan Chai, Hong Kong

Investor Relations

Leung Kwok Hoe, Kevin

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Email : ir@HendersonSunlight.com

Website

www.sunlightreit.com

Financial Calendar

(in respect of FY2012/13 interim results)

Interim Results Announcement

18 February 2013

Issuance of Interim Report

27 February 2013

Closure of Register

for entitlement of interim distribution

5 March 2013 to 7 March 2013,

both days inclusive

Interim distribution payable

at HK 8.50 cents per unit

28 March 2013



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

