



SUNLIGHT REIT

陽光 房地產基金

Stock Code 股份代號 : 435



2013/14  
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 in Hong Kong with an aggregate gross rentable area (“**GRA**”) of approximately 1,287,303 sq. ft. with an appraised value of HK\$14,873.9 million at 31 December 2013. The office properties are primarily located in both core and decentralised business areas, while the retail properties are primarily situated at regional transportation hubs, new towns and other urban areas with high population density.

## Forward-looking Statements

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

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## Market and Operation Review

During the six months ended 31 December 2013 (the “**Reporting Period**”), the global financial markets experienced heightened nervousness as the investment community reappraised the prospect and consequence of a tighter US monetary policy, underlined by a clear improvement in both the job and housing markets. Meanwhile, the growingly cautious sentiment toward the economic performance of mainland China (as well as the rest of Asia) also prevailed during the Reporting Period, which caused noticeable capital outflow from the region, including Hong Kong.

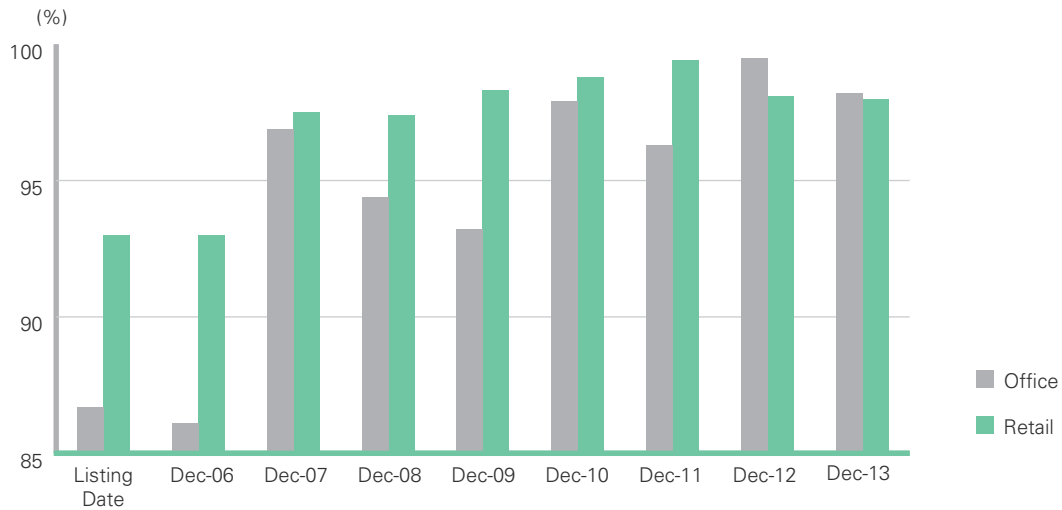
In tandem with the global economic backdrop, the pace of economic growth in Hong Kong had also moderated, as a more conservative and cost conscious attitude was apparent at both the corporate and the consumer levels. Meanwhile, the labour market remained tight, translating into sustained pressure on costs and thus operating profit margins.

Notwithstanding the uncertain economic environment, the local office leasing market remained well supported by a favourable supply and demand picture. Rental differential between centralised and decentralised offices continued to narrow in the light of rising office rent at key decentralised locations. Given this backdrop, the momentum of relocation demand had clearly decelerated. According to statistics provided by Jones Lang LaSalle Limited, net effective rent of Grade A offices in the Central district at end-December 2013 was HK\$88.0 per sq. ft., versus HK\$55.7 per sq. ft. in Wan Chai/Causeway Bay. Meanwhile, net effective rent of Grade A offices in the Kowloon East vicinity was HK\$31.5 per sq. ft.. At the end of 2013, vacancy rates in the Central district, Wan Chai/Causeway Bay and Kowloon East were 4.6%, 3.0% and 7.8% respectively.

The domestic retail property market was buoyed by further growth in tourism arrivals particularly from the mainland, albeit at a slower pace. According to the Hong Kong Tourism Board, total mainland visitors arrival in 2013 was 40.7 million, up 16.7% year-on-year, evidently slower than the 24.2% growth recorded in the preceding year. However, total spending by same-day mainland visitors in the first half of 2013 remained impressive with a 37.9% year-on-year growth to HK\$30.2 billion. Despite the possibility of slower growth in the second half of the year, this statistic stands testament to the resilient spending power of same-day visitors, likely with a strong focus on necessity items. Such tourism pattern, together with limited new retail space supply in locations with strategic access to same-day mainland shoppers, continued to bode well for Sunlight REIT’s properties, notably including Sheung Shui Centre Shopping Arcade and the retail portion of Kwong Wah Plaza Property.

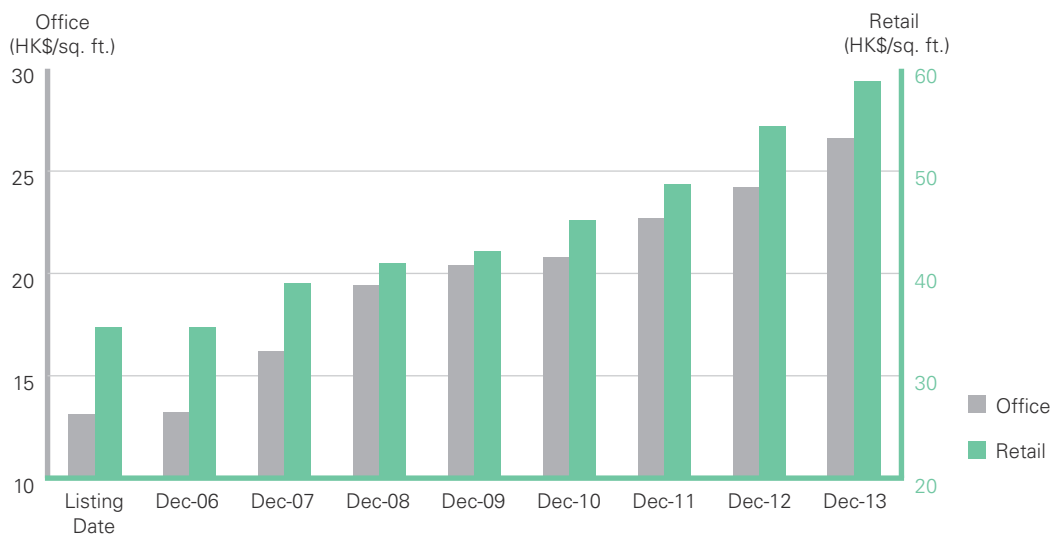
At 31 December 2013, the overall portfolio occupancy of Sunlight REIT was 98.2% as compared to 98.8% recorded at 30 June 2013. The office portfolio registered an occupancy rate of 98.2%, representing a mild decline from 99.0% recorded at 30 June 2013. Occupancy of the retail portfolio experienced a slight drop to 98.0% as against 98.4% at 30 June 2013.

### Historical Trends in Occupancy since Listing



In tandem with a solid rental reversion of 24.9% achieved during the Reporting Period, passing rent of the office portfolio continued its ascent, registering a growth of 5.6% to HK\$26.6 per sq. ft. at 31 December 2013. Meanwhile, passing rent for the retail portfolio rose 4.6% to HK\$58.8 per sq. ft. at 31 December 2013, supported by an encouraging rental reversion of 28.8%.

### Historical Trends in Passing Rent since Listing



## Market and Operation Review

During the Reporting Period, rental reversion at 248 Queen's Road East, the flagship property of Sunlight REIT, was a strong 32.7%. However, such encouraging performance was somewhat offset by a one-time rise in agency commission outlay incidental to increased new letting activities, thus resulting in a milder 1.1% year-on-year growth in net income contribution by the property. In terms of the entire office portfolio, the slightly lower occupancy was principally due to a small rise in vacancy rates at 248 Queen's Road East, Bonham Trade Centre and Java Road 108 Commercial Centre.

On the retail front, influx of mainland shoppers continued to sustain the performance of Sheung Shui Centre Shopping Arcade which exhibited an impressive rental reversion of 38.5% during the Reporting Period. Occupancy retreated marginally to 96.1%, mainly reflecting the Manager's strategy in reconfiguring certain key lettable areas of the property. Meanwhile, despite the commencement of the first phase of the renovation programme, rental reversion at Metro City Phase I Property was still a respectable 17.5%, while achieving a high occupancy rate of 98.6%.

The overall portfolio had a total of 1,017 tenancies at 31 December 2013 (30 June 2013: 1,024). The 10 largest tenants by rental income, which contributed approximately 21.3% of total rental income in December 2013 (June 2013: 20.8%), occupied approximately 17.8% of total GRA (June 2013: 16.5%). No single tenant accounted for more than 4.5% of total rental income for December 2013 (June 2013: 4.0%).

## Financial Review

### Financial Highlights

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

	<b>Six months ended 31 December 2013</b>	Six months ended 31 December 2012	Change (%)
Turnover	<b>336.5</b>	308.6	9.0
Property operating expenses	<b>77.3</b>	68.9	12.2
Net property income	<b>259.2</b>	239.7	8.1
Cost-to-income ratio (%)	<b>23.0</b>	22.3	N/A
Profit after taxation	<b>577.2</b>	1,032.6	(44.1)
Total distributable income	<b>167.5</b>	149.6	12.0
Distribution per unit <sup>1</sup> (HK cents)	<b>9.60</b>	8.50	12.9
Payout ratio (%)	<b>92.9</b>	91.6	N/A
	<b>At 31 December 2013</b>	At 30 June 2013	Change (%)
Portfolio valuation	<b>14,873.9</b>	14,408.8	3.2
Total assets	<b>15,587.4</b>	15,156.4	2.8
Total liabilities	<b>4,607.9</b>	4,624.7	(0.4)
Net asset value	<b>10,979.5</b>	10,531.7	4.3
Net asset value per unit (HK\$)	<b>6.77</b>	6.52	3.8
Gearing ratio (%)	<b>25.2</b>	25.9	N/A

### Operating Results

Sunlight REIT achieved a 9.0% growth in turnover to HK\$336.5 million for the Reporting Period. Property operating expenses amounted to HK\$77.3 million, resulting in an 8.1% increase in net property income to HK\$259.2 million. Meanwhile, total finance costs rose a mild 2.0% year-on-year to HK\$61.0 million, aided by interest savings from reduced fixed rate hedging relating to the term loan facilities. As EBITDA<sup>2</sup> of Sunlight REIT grew 7.1% year-on-year to HK\$217.9 million, the interest coverage ratio<sup>3</sup> for the Reporting Period consequently improved to 4.60 times as compared to 3.90 times recorded in the previous corresponding period. After taking into account 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\$577.2 million for the Reporting Period (first half of FY2012/13: HK\$1,032.6 million).

- Notes :
1. Please refer to "Distribution Statement" on page 27 for details.
  2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortisation.
  3. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on gross borrowings.

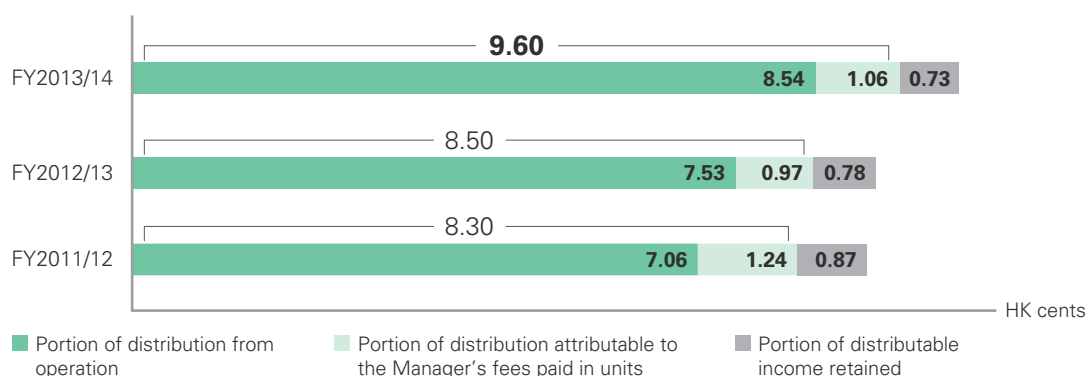
# Financial Review

## Distribution

For the Reporting Period, total distributable income of Sunlight REIT was HK\$167.5 million, representing an increase of 12.0% from HK\$149.6 million recorded in the previous corresponding period. The Board of the Manager has resolved to declare an interim distribution of HK 9.60 cents per unit, or HK\$155,616,000, which implies a payout ratio of 92.9%. The interim distribution was 12.9% ahead of the HK 8.50 cents (based on a payout ratio of 91.6%) paid in the previous corresponding period, and represented an annualised distribution yield of 6.40% based on the closing unit price of HK\$3.00 on the last trading day of the Reporting Period.

The chart below provides a year-on-year comparison of interim distribution per unit (“DPU”). The effect on interim DPU attributable to contributions from operations and cash savings from Manager’s fees paid in units are shown separately. The effect of payout ratio is also exhibited by the portion of distributable income retained.

### Interim DPU at a Glance



## Distribution Entitlement and Closure of Register of Unitholders

The record date for the interim distribution will be Thursday, 6 March 2014. The register of unitholders will be closed from Tuesday, 4 March 2014 to Thursday, 6 March 2014, 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, 3 March 2014. The ex-distribution date for the interim distribution will be Friday, 28 February 2014, and payment of the interim distribution will be made to unitholders on Thursday, 27 March 2014.

## Financial Position

The valuation of Sunlight REIT’s portfolio at 31 December 2013 was appraised at HK\$14,873.9 million, representing an increase of 3.2% from HK\$14,408.8 million recorded at 30 June 2013. Office and retail properties accounted for 50.7% and 49.3% of the valuation respectively, which implies an appreciation of 2.8% and 3.6% in comparison with their respective valuation at 30 June 2013.



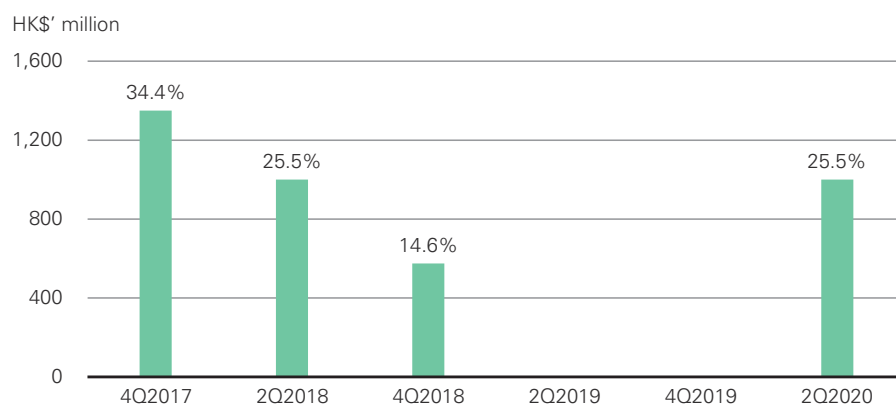
The higher property valuation consequently reduced the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, from 25.9% at 30 June 2013 to 25.2% and expanded net assets by 4.3% to HK\$10,979.5 million at 31 December 2013 (30 June 2013: HK\$10,531.7 million). After taking into account the effect of payment of Manager's fees in units and the cancellation of repurchased units during the period, net asset value per unit rose 3.8% to HK\$6.77 per unit (30 June 2013: HK\$6.52 per unit). Gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets was 29.6% at 31 December 2013. 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 2013.

## Capital Management

In September 2013, Sunlight REIT entered into several bilateral credit facility agreements with certain banks and was granted an aggregate amount of HK\$1,925.0 million in term loan facilities (the "**Facilities**"). The drawdown of the Facilities took place in October 2013 and had been applied toward refinancing the remaining part of the term loan facility due in 2014.

In December 2013, Sunlight REIT was also granted an unsecured revolving credit facility of HK\$300.0 million. Consequently, Sunlight REIT had in place total loan facilities of HK\$4,225.0 million at 31 December 2013, comprising term loan facilities of HK\$3,925.0 million which were fully drawn and the above mentioned revolving credit facility that remained undrawn. The term loan facilities, carrying a blended interest margin of 1.24% per annum over HIBOR (before interest rate swap arrangements) and a weighted loan maturity period of 4.8 years, are secured by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK\$12,657.6 million at 31 December 2013, assignment of proceeds under tenancies and a floating charge over the bank balances relating to these properties.

## Debt Maturity Profile



## Financial Review

In order to mitigate financial market risks, Sunlight REIT has maintained certain interest rate swap arrangements. At 31 December 2013, approximately 66.2% (or HK\$2,600.0 million) of Sunlight REIT's indebtedness was hedged to fixed rates, having incorporated the commencement of two interest rate swaps with an aggregate notional amount of HK\$800.0 million and a weighted tenure of 4.6 years. The terms of all the current interest rate swaps are summarised below :

<b>Tenure</b>	<b>Notional amount</b> (HK\$' million)	<b>Weighted average interest rate</b> <sup>Note</sup> (per annum)
4 July 2011 – 30 June 2016	1,500	2.0973%
7 October 2011 – 28 September 2018	300	1.5975%
2 July 2013 – 29 June 2018	500	0.8150%
2 October 2013 – 29 September 2017	300	1.3100%
<b>Total</b>	<b>2,600</b>	<b>1.7022%</b>

Note : This represents the weighted average interest rate currently payable on the interest rate swap contracts, excluding the relevant interest margin under the respective term loan agreements. The tenure of these contracts may or may not exactly match with that of Sunlight REIT's indebtedness.

The medium term note programme has not been utilised since its establishment in March 2013, while the Manager continued to execute on-market unit repurchase on behalf of Sunlight REIT. During the Reporting Period, a total of 1,500,000 units was repurchased (at an average price of approximately HK\$3.06 per unit) and cancelled.

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 2013, Sunlight REIT had total cash and bank balances of HK\$301.0 million, and had no exposure to fixed income securities. Taking into consideration the recurrent income generated from its operations, the current cash position and sources of funding available, the Manager is of the view that Sunlight REIT has sufficient financial resources to satisfy its working capital, distribution payment and capital expenditure requirements.

## Outlook

Sunlight REIT delivered a set of interim results that reflects satisfactory growth in DPU driven by underlying rental reversion and cash interest savings. Looking ahead, tenancy expiries in the second half of FY2013/14 would account for 19.3% of the office GRA and 17.4% of the retail GRA respectively. Barring unforeseen circumstances and in spite of the moderating growth momentum in commercial market rents, the Manager anticipates that rental reversion would stay as a positive feature for the rest of this financial year. In addition, it is also envisaged that the level of overall occupancy would remain satisfactory, supported by organic expansion of certain existing tenants and solid demand for retail space at strategic locations.

Despite a still favourable leasing cycle, the adverse impact on Sunlight REIT as a result of strong domestic wage growth is not to be ignored, as reflected by the 12.2% increase in operating expenses during the Reporting Period. Structural issues such as the adjustment in minimum wage and the chronic shortage of labour in the property sector means that more efficient allocation of property management resources is essential and would stand at the forefront of the Manager's operational agenda. In sum, the Manager considers that the upward pressure on operating cost has yet to run its full course.

In respect of asset enhancement, the Manager is currently focusing its attention on the asset enhancement programme for Metro City Phase I Property. Phase 1 of the project involving the façade and atrium upgrade has already begun. Incentivised by a promising outlook upon completion of the project, the Manager is committed to mitigating disruption to tenants and shoppers to ensure an efficient execution of the project. Meanwhile, ceiling and lighting improvement works at Sheung Shui Centre Shopping Arcade were completed and should enhance the shopping environment with corresponding energy and cost savings. On the office property front, improvement works, notably including the lobby facelift and the upgrading of air-conditioning facilities at 248 Queen's Road East, will also be implemented.

On capital management, the Manager has always committed to optimising the capital structure as demonstrated by its effort in restructuring the borrowing profile of Sunlight REIT, resulting in a more flexible capital structure, a reasonable base of unencumbered assets and a diversified maturity profile spanning 2017 to 2020. Notwithstanding a steepening US yield curve, the prospect of a near term surge in local interest rates is of low likelihood. With two-thirds of debt being hedged to fixed rates, Sunlight REIT is adequately insulated from interest rate fluctuations, while the Manager would endeavour to monitor developments on the monetary front from time to time.

During the Reporting Period, the Manager continued to explore potential acquisition opportunities in supplementing the organic growth prospects of Sunlight REIT. However, volume of commercial property transactions dropped significantly as overall investment sentiment was hampered by anti-speculative fiscal measures, notably including the imposition of heavier stamp duties levied on property transactions. Looking ahead, while the Manager is fully committed to expanding the footprint of Sunlight REIT in light of the conducive operating and funding environment, such pursuit would only be conducted with clear benefits to unitholders. Meanwhile, in light of the steep discount of Sunlight REIT's unit price relative to its asset backing, both unit repurchase and the disposal of certain non-core and/or fully valued properties represent viable options that the Manager would actively contemplate in the foreseeable future.

## Portfolio Statistics

Property	Property Details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA <sup>1</sup> (sq. ft.)				
				Office	Retail	Total	at 31 Dec 2013	at 30 Jun 2013
<b>Office</b>								
<b>Grade A</b>								
248 Queen's Road East	Wan Chai	1998	46	369,891	6,490	376,381	76	79
<b>Grade B</b>								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	105	106
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	62	62
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	24
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	75	74
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	72	72
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	36	40
Yue Fai Commercial Centre Property	Aberdeen	1997	0	41,272	1,479	42,751	108	106
On Loong Commercial Building Property	Wan Chai	1984	0	23,856	1,708	25,564	36	36
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
<b>Sub-total/Average</b>			<b>46</b>	<b>830,437</b>	<b>50,446</b>	<b>880,883</b>	<b>704</b>	<b>708</b>
<b>Retail</b>								
<b>New Town</b>								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	114	116
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	111	112
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	36	37
<b>Urban</b>								
Royal Terrace Property	North Point	2002	49	0	9,565	9,565	7	7
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	38	38
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Palatial Stand Property	Hung Hom	2001	0	3,566	5,059	8,625	5	4
<b>Sub-total/Average</b>			<b>798</b>	<b>42,667</b>	<b>363,753</b>	<b>406,420</b>	<b>313</b>	<b>316</b>
<b>Total/Average</b>			<b>844</b>	<b>873,104</b>	<b>414,199</b>	<b>1,287,303</b>	<b>1,017</b>	<b>1,024</b>

- Notes :
1. Size of the properties is measured in terms of gross rentable area.
  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 <sup>2</sup> (HK\$/sq. ft.)		Rental Reversion <sup>3</sup> (%)		Net Property Income (HK\$'000)		Capitalisation Rate at 31 Dec 2013 (%)		Appraised Value at 31 Dec 2013 <sup>4</sup> (HK\$'000)
at 31 Dec 2013	at 30 Jun 2013	at 31 Dec 2013	at 30 Jun 2013	Six months ended 31 Dec 2013	Six months ended 30 Jun 2013	Six months ended 31 Dec 2013	Six months ended 31 Dec 2012	Retail	Office	
97.8	98.5	31.3	29.2	32.7	39.7	63,735	63,031	3.75	3.85	3,888,000
97.1	99.7	22.7	21.9	22.8	25.1	14,281	12,812	4.20	3.85	825,200
100.0	100.0	34.5	33.1	15.9	18.2	9,853	8,869	3.60	3.95	594,900
100.0	100.0	36.9	36.2	13.4	14.9	8,222	7,511	4.00	3.85	481,100
100.0	99.0	21.7	20.8	17.2	21.1	7,134	6,009	4.20	3.85	426,100
98.9	98.9	16.3	15.4	16.2	13.7	4,285	3,751	4.25	3.85	259,300
94.2	100.0	20.0	19.4	17.9	17.5	3,805	3,241	4.20	3.95	234,400
99.4	98.8	18.2	17.6	15.5	18.2	3,812	3,559	4.10	4.10	231,800
97.8	96.7	26.5	26.0	14.7	13.6	3,603	3,296	4.00	3.95	209,100
100.0	100.0	19.3	18.3	19.5	26.1	3,113	2,739	4.15	3.85	181,000
100.0	100.0	20.0	19.1	19.6	20.9	2,722	2,439	4.35	4.10	150,500
100.0	97.2	10.1	9.5	21.9	23.8	773	695	4.20	3.85	56,000
<b>98.2</b>	<b>99.0</b>	<b>26.6</b>	<b>25.2</b>	<b>24.9</b>	<b>24.9</b>	<b>125,338</b>	<b>117,952</b>			<b>7,537,400</b>
96.1	98.5	96.7	89.6	38.5	24.9	63,142	58,162	4.40	N/A	3,498,800
98.6	99.5	44.5	43.2	17.5	21.5	50,567	46,262	4.50	N/A	2,603,800
99.3	100.0	40.7	38.3	37.0	32.8	13,718	12,065	3.80	3.85	862,600
100.0	100.0	47.6	46.4	N/A	46.9	3,006	1,891	4.25	N/A	154,600
100.0	100.0	49.9	48.6	22.3	27.0	2,208	1,891	4.30	N/A	124,300
100.0	100.0	40.8	40.8	N/A	N/A	935	907	4.00	N/A	55,000
100.0	58.7	13.2	13.2	26.4	15.0	248	410	4.35	N/A	37,400
<b>98.0</b>	<b>98.4</b>	<b>58.8</b>	<b>56.2</b>	<b>28.8</b>	<b>25.1</b>	<b>133,824</b>	<b>121,588<sup>5</sup></b>			<b>7,336,500</b>
<b>98.2</b>	<b>98.8</b>	<b>36.7</b>	<b>35.0</b>	<b>26.7</b>	<b>25.0</b>	<b>259,162</b>	<b>239,540<sup>5</sup></b>			<b>14,873,900</b>

## Corporate Governance

The Manager is committed to a high level of corporate governance practices and procedures. Good corporate governance requires a good system 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.

### 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.

### Board of the Manager and Changes in Director’s Information

The Board currently has 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 2012/13 Annual Report of Sunlight REIT, the Manager was informed of the following changes in Director’s information :

1. the company name of SPG Land (Holdings) Limited, in which Mr. Kwan Kai Cheong holds directorship, has changed to Greenland Hong Kong Holdings Limited with effect from 27 August 2013; and
2. the company name of Goldpoly New Energy Holdings Limited, in which Mr. Kwan Kai Cheong and Mr. Ma Kwong Wing hold directorships, has changed to United Photovoltaics Group Limited with effect from 10 January 2014.

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

## 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 have confirmed that they complied with the required standard as set out in the Dealings Code from time to time throughout the Reporting Period.

## Review of Interim Report

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 Henderson Land Development Company Limited (“**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, among other things, development, investment and management of retail, office and other properties in and outside Hong Kong. There can be no assurance that conflicts of interests will not arise between Sunlight REIT, the Manager, the Property Manager, SKFE, HLD and 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 also 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 also arise in connection with or in relation to (i) any potential property-related acquisitions or disposals and/or competition with other companies for potential tenants in the event that any director, senior executive or officer of the Manager or the Property Manager is also a shareholder or director of such other companies; (ii) tenancy related matters in the event that any director, senior executive or officer of the Manager or the Property Manager is also a shareholder or director of a tenant or potential tenant (or of its holding company) of Sunlight REIT; and (iii) tenancy agency services provided by the Principal Valuer and/or its affiliates.

### Public Float

At 31 December 2013, based on information that is publicly available and within the knowledge of the Directors, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the SFC.

### New Units Issued

Except for an aggregate of 6,167,279 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 28 October 2013, the Manager repurchased on behalf of Sunlight REIT a total of 1,500,000 units on the Stock Exchange in November 2013, for an aggregate consideration of approximately HK\$4.6 million (excluding repurchase expenses). The highest and the lowest price paid per unit for such repurchases were HK\$3.08 and HK\$3.03 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 disclosed under the section headed “Connected Party Transactions with the Trustee Connected Persons” below) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Reporting Period :

#### (a) Income

Name of Connected Person	Relationship with Sunlight REIT <sup>Note</sup>	Nature of the Connected Party Transactions	Income for the Reporting Period (HK\$'000)	Rental and Other Deposits Received at 31 December 2013 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	2,586	1,187
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	1,735	799
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	762	–
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing	210	103
Citistore (Hong Kong) Limited	Associated company of the Manager	Licensing	24	30
<b>Total</b>			<b>5,317</b>	<b>2,119</b>

#### (b) Expenses

Name of Connected Person	Relationship with Sunlight REIT <sup>Note</sup>	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	586
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	4,655
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	23,091
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,096
Metro City Management Limited	Associated company of the Manager	Property management and operations	934
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,119
Contender Limited	Associated company of the Manager	Facilities leasing	70
Jones Lang LaSalle Limited	Principal Valuer	Agency fee	41
<b>Total</b>			<b>31,592</b>

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 Group<sup>1</sup> (collectively, the “**Trustee Connected Persons**”) within the meaning of the REIT Code during the Reporting Period :

Name of Connected Person	Relationship with Sunlight REIT <sup>2</sup>	Nature of the Connected Party Transactions	Income/ Expenses for the Reporting Period (HK\$'000)	Rental and Other Deposits Received at 31 December 2013 (HK\$'000)
<b>Leasing Transactions :</b>				
The Hongkong and Shanghai Banking Corporation Limited (“ <b>HSBC</b> ”)	Trustee Connected Persons	Leasing <sup>3</sup>	3,392	1,758
HSBC	Trustee Connected Persons	Licensing <sup>4</sup>	83	41
Hang Seng Bank Limited	Trustee Connected Persons	Leasing <sup>5</sup>	3,893	1,890
<b>Ordinary Banking and Financial Services<sup>6</sup> :</b>				
HSBC	Trustee Connected Persons	Interest income received/ receivable on bank deposits	9	–
HSBC	Trustee Connected Persons	Interest expense, debts establishment fees, agency, security trustee and other charges on bank loans, interest expense on interest rate swaps and other bank charges	17,923	–
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	5	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense and debts establishment fees on bank loan and other bank charges	4,880	–

### 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 3 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 3 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\$37.1 million and HK\$1.9 million respectively. Particulars of services provided by the Principal Valuer, the Manager and the Trustee, including terms and remuneration, are set out in notes 21(b)(i), (ii) and (iv) to the interim financial report. The fees payable to the Principal Valuer during the Reporting Period was less than HK\$1 million and no disclosure was required in this section of the interim report.

## Disclosure of Interests

The REIT Code requires connected persons (as defined in paragraph 8.1 of the REIT Code) of Sunlight REIT to disclose their interests in units. Further, certain provisions of Part XV of the SFO in relation to disclosure of interest are deemed, pursuant to Schedule C of the Trust Deed, to apply to each of the Manager, 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 2013 and 30 June 2013, 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 2013		At 30 June 2013		Change in % Interest
	Number of Units Interested (long position)	% of Interest in Units <sup>1</sup>	Number of Units Interested (long position)	% of Interest in Units <sup>1</sup>	
The Manager <sup>2</sup>	<b>70,737,415</b>	<b>4.364</b>	64,570,136	3.995	<b>0.369</b>
Au Siu Kee, Alexander <sup>3</sup>	<b>1,530,000</b>	<b>0.094</b>	1,329,000	0.082	<b>0.012</b>
Wu Shiu Kee, Keith <sup>4</sup>	<b>600,000</b>	<b>0.037</b>	250,000	0.015	<b>0.022</b>

Notes :

1. The percentages expressed are based on the total units in issue of 1,620,998,045 at 31 December 2013 and 1,616,330,766 at 30 June 2013 respectively.
2. At 30 June 2013, the Manager beneficially held 64,570,136 units. With the issue of 6,167,279 new units to the Manager on 30 October 2013 as payment of part of the Manager's fees, the Manager beneficially held 70,737,415 units at 31 December 2013.
3. At 31 December 2013, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2013: 1,329,000 units) within the meaning of Part XV of the SFO. Of the 1,530,000 units, 201,000 units were beneficially held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were owned by his spouse individually.
4. At 31 December 2013, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, was interested in 600,000 units (30 June 2013: 250,000 units) within the meaning of Part XV of the SFO.

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 2013 and 30 June 2013 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 2013 and 30 June 2013, 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 2013		At 30 June 2013		Change in % Interest
	Number of Units Interested (long position)	% of Interest in Units <sup>1</sup>	Number of Units Interested (long position)	% of Interest in Units <sup>1</sup>	
Lee Chau Kee <sup>2</sup>	582,555,161	35.94	582,555,161	36.04	-0.10
Lee Financial (Cayman) Limited <sup>2</sup>	374,072,708	23.08	374,072,708	23.14	-0.06
Leesons (Cayman) Limited <sup>2</sup>	374,072,708	23.08	374,072,708	23.14	-0.06
Leeworld (Cayman) Limited <sup>2</sup>	374,072,708	23.08	374,072,708	23.14	-0.06
SKFE <sup>2</sup>	374,072,708	23.08	374,072,708	23.14	-0.06
Uplite Limited <sup>2</sup>	224,443,625	13.85	224,443,625	13.89	-0.04
Wintrade Limited <sup>2</sup>	149,629,083	9.23	149,629,083	9.26	-0.03
Henderson Development Limited <sup>2</sup>	214,649,732	13.24	195,635,611	12.10	1.14
HLD <sup>2</sup>	214,649,732	13.24	195,635,611	12.10	1.14
Hopkins (Cayman) Limited <sup>2</sup>	214,649,732	13.24	195,635,611	12.10	1.14
Riddick (Cayman) Limited <sup>2</sup>	214,649,732	13.24	195,635,611	12.10	1.14
Rimmer (Cayman) Limited <sup>2</sup>	214,649,732	13.24	195,635,611	12.10	1.14
Silchester International Investors LLP <sup>3</sup>	257,791,150	15.90	257,791,150	15.95	-0.05
Silchester International Investors International Value Equity Trust <sup>3</sup>	113,294,922	6.99	128,314,922	7.94	-0.95

Notes :

1. The percentages expressed are based on the total units in issue of 1,620,998,045 at 31 December 2013 and 1,616,330,766 at 30 June 2013 respectively.
2. At 31 December 2013, 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 2013, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 70,737,415 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 214,649,732 units at 31 December 2013 (representing approximately 13.24% of the total units in issue).

Under Part XV of the SFO (as so applied), Dr. Lee Shau Kee was therefore taken to be interested in a total of 588,722,440 units at 31 December 2013 (representing approximately 36.32% 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 582,555,161 units at 31 December 2013, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2013, the units mentioned under this note were beneficially held by connected persons of Sunlight REIT.

3. At 31 December 2013, in accordance with the notices given to the Manager pursuant to Part XV of the SFO, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 257,791,150 units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 113,294,922 units. The Manager has subsequently been notified informally that at 31 December 2013, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.48% of the total units in issue); and (ii) the beneficial interest owned by Silchester Trust, being included as part of the interests of Silchester LLP reported above, remained unchanged.

## 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 2013 were as follows :

<b>Name of Connected Persons</b>	<b>Number of Units Held</b>	<b>% of Unit Holding<sup>1</sup></b>
Chan Wing Cheng <sup>2</sup>	130,000	0.0080
Lee King Yue <sup>3</sup>	50,000	0.0031
Lee Pui Ling, Angelina <sup>4</sup>	2,307	0.0001
Mao Kenneth Ruys <sup>5</sup>	500,000	0.0308
Lo Yuk Fong, Phyllis <sup>6</sup>	100,000	0.0062

Notes :

1. The percentage expressed is based on the total units in issue of 1,620,998,045 at 31 December 2013.
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 2013.
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 2013.
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 2013.
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 2013.
6. Ms. Lo Yuk Fong, Phyllis was a connected person by virtue of being a senior executive of the Manager. Ms. Lo was interested in 10,000 units at 30 June 2013.

## Consolidated Income Statement

For the six months ended 31 December 2013 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2013 \$'000	2012 \$'000
<b>Turnover</b>	5	<b>336,474</b>	308,650
<b>Property operating expenses</b>	6	<b>(77,312)</b>	(68,904)
<b>Net property income</b>		<b>259,162</b>	239,746
Other income		<b>1,606</b>	1,681
Gain on disposal of investment properties	10(b)	–	2,088
Administrative expenses		<b>(42,913)</b>	(40,100)
Net increase in fair value of investment properties		<b>450,874</b>	913,719
<b>Profit from operations</b>		<b>668,729</b>	1,117,134
Finance costs on interest bearing liabilities	7(a)	<b>(61,046)</b>	(59,827)
<b>Profit before taxation and transactions with unitholders</b>	7	<b>607,683</b>	1,057,307
Income tax	8	<b>(30,517)</b>	(24,673)
<b>Profit after taxation and before transactions with unitholders</b>		<b>577,166</b>	1,032,634

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 2013 – unaudited  
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2013	2012
	\$'000	\$'000
<b>Profit after taxation and before transactions with unitholders</b>	<b>577,166</b>	1,032,634
<b>Other comprehensive income for the period</b>		
Item that may be reclassified subsequently to profit or loss :		
– Changes in fair value of cash flow hedges recognised during the period	<b>4,440</b>	6,868
<b>Total comprehensive income for the period</b>	<b>581,606</b>	1,039,502

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

## Consolidated Balance Sheet

At 31 December 2013

(Expressed in Hong Kong dollars)

	Note	31 December 2013 (Unaudited) \$'000	30 June 2013 (Audited) \$'000
<b>Non-current assets</b>			
Fixed assets			
– Investment properties	10	14,873,900	14,408,800
– Other fixed assets		87	102
		<b>14,873,987</b>	14,408,902
Deferred tax assets		1,028	3,875
Derivative financial instruments	12	27,325	25,471
Prepayments		2,133	3,159
Reimbursement rights	11	203,413	203,413
		<b>15,107,886</b>	14,644,820
<b>Current assets</b>			
Trade and other receivables	13	28,637	24,342
Cash and bank balances	14	301,005	329,126
Tax recoverable		149,866	158,096
		<b>479,508</b>	511,564
		<b>15,587,394</b>	15,156,384
<b>Current liabilities</b>			
Tenants' deposits		(167,340)	(159,982)
Rent receipts in advance		(6,886)	(5,183)
Trade and other payables	15	(208,674)	(215,441)
Derivative financial instruments	12	(32,474)	(27,912)
Tax payable		(27,617)	(41,774)
		<b>(442,991)</b>	(450,292)
		<b>36,517</b>	61,272
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>		<b>15,144,403</b>	14,706,092

## Consolidated Balance Sheet (continued)

At 31 December 2013

(Expressed in Hong Kong dollars)

		<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
	Note		
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Secured bank borrowings	16	<b>(3,866,368)</b>	(3,874,760)
Deferred tax liabilities		<b>(275,535)</b>	(269,409)
Derivative financial instruments	12	<b>(23,040)</b>	(30,188)
		<b>(4,164,943)</b>	(4,174,357)
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>(4,607,934)</b>	(4,624,649)
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>10,979,460</b>	10,531,735
<b>Number of units in issue</b>	17	<b>1,620,998,045</b>	1,616,330,766
<b>Net asset value attributable to unitholders per unit</b>		<b>\$6.77</b>	\$6.52

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 2013 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2013 \$'000	2012 \$'000
<b>At the beginning of the period</b>		<b>10,531,735</b>	9,021,956
Profit after taxation and before transactions with unitholders		<b>577,166</b>	1,032,634
Other comprehensive income		<b>4,440</b>	6,868
<b>Total comprehensive income for the period</b>		<b>581,606</b>	1,039,502
Distribution paid to unitholders		<b>(148,703)</b>	(139,686)
Issuance of units to the Manager during the period	17	<b>19,427</b>	20,986
Units repurchased	17	<b>(4,585)</b>	(4,732)
Units repurchase expenses	17	<b>(20)</b>	(19)
		<b>(133,881)</b>	(123,451)
<b>At the end of the period</b>		<b>10,979,460</b>	9,938,007

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

## Distribution Statement

For the six months ended 31 December 2013 – unaudited  
(Expressed in Hong Kong dollars)

		<b>Six months ended 31 December</b>	
		<b>2013</b>	2012
		<b>\$'000</b>	\$'000
	Note		
<b>Profit after taxation and before transactions with unitholders</b>		<b>577,166</b>	1,032,634
Adjustments :			
– Gain on disposal of investment properties	10(b)	–	(2,088)
– Net increase in fair value of investment properties		<b>(450,874)</b>	(913,719)
– Manager’s fees paid or payable in the form of units		<b>18,529</b>	17,044
– Non-cash finance costs on interest bearing liabilities		<b>13,732</b>	7,683
– Deferred tax	8	<b>8,973</b>	8,024
		<b>(409,640)</b>	(883,056)
<b>Total distributable income (note (i))</b>		<b>167,526</b>	149,578
Payout ratio (note (ii))		<b>92.9%</b>	91.6%
Interim distribution (note (ii))		<b>155,616</b>	136,991
<b>Distribution per unit (note (ii))</b>		<b>9.60 cents</b>	8.50 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 \$155,616,000 for the six months ended 31 December 2013 (2012 : \$136,991,000), representing a payout ratio of 92.9% (2012 : 91.6%), is calculated by multiplying the interim distribution per unit of 9.60 cents by 1,620,998,045 units in issue at 31 December 2013 (2012 : 8.50 cents by 1,611,664,307 units in issue at 31 December 2012).
- (iii) The interim distribution is expected to be paid on 27 March 2014 to unitholders whose names appear on the register of unitholders on 6 March 2014.
- (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 2013 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2013 \$'000	2012 \$'000
<b>Net cash generated from operating activities</b>		<b>206,667</b>	214,769
<b>Net cash (used in)/generated from investing activities</b>		<b>(35,669)</b>	118,761
<b>Net cash used in financing activities</b>		<b>(223,223)</b>	(221,865)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(52,225)</b>	111,665
<b>Cash and cash equivalents at the beginning of the period</b>	14	<b>202,863</b>	99,366
<b>Cash and cash equivalents at the end of the period</b>	14	<b>150,638</b>	211,031

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 in Hong Kong 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 13 February 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012/13 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013/14 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 2012/13 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT (the “Manager”) is included on page 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 2013 that is included in the interim financial report as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2013 are available from Sunlight REIT's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 5 September 2013.

## 3 Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group's financial statements :

– HKFRS 13, *Fair value measurement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impact of the adoption of HKFRS 13 is discussed below :

### **HKFRS 13, *Fair value measurement***

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 18. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

## 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.



#### 4 Segment reporting (continued)

##### Segment results (continued)

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).

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					
	2013 (Unaudited)			2012 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover						
– rental income	130,967	138,047	269,014	121,504	126,080	247,584
– car park income	1,791	12,570	14,361	1,575	11,088	12,663
– rental related income	27,505	25,594	53,099	25,476	22,927	48,403
	<b>160,263</b>	<b>176,211</b>	<b>336,474</b>	148,555	160,095	308,650
Property operating expenses	(34,925)	(42,387)	(77,312)	(30,603)	(38,301)	(68,904)
Net property income	<b>125,338</b>	<b>133,824</b>	<b>259,162</b>	117,952	121,794	239,746
Administrative expenses	(19,499)	(18,990)	(38,489)	(18,418)	(17,182)	(35,600)
Segment results	<b>105,839</b>	<b>114,834</b>	<b>220,673</b>	99,534	104,612	204,146
Net increase in fair value of investment properties	<b>204,276</b>	<b>246,598</b>	<b>450,874</b>	428,118	485,601	913,719
Gain on disposal of investment properties	–	–	–	–	2,088	2,088
Finance costs on interest bearing liabilities			(61,046)			(59,827)
Income tax			(30,517)			(24,673)
Interest income			1,604			1,681
Unallocated net expenses			(4,422)			(4,500)
Profit after taxation and before transactions with unitholders			<b>577,166</b>			1,032,634
Depreciation	7	8	15	6	6	12

# 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	
	2013 (Unaudited) \$'000	2012 (Unaudited) \$'000
Rental income	269,014	247,584
Car park income	14,361	12,663
Rental related income	53,099	48,403
	<b>336,474</b>	308,650

## 6 Property operating expenses

	Six months ended 31 December	
	2013 (Unaudited) \$'000	2012 (Unaudited) \$'000
Building management fee	27,930	25,992
Property Manager's fees	21,785	19,637
Government rent and rates	12,833	10,098
Marketing and promotion expenses	4,840	4,343
Car park operating costs (note)	4,395	3,963
Bad debts expenses	43	1
Other direct costs	5,486	4,870
	<b>77,312</b>	68,904

Note : Included Property Manager's fees of \$1,306,000 (2012 : \$1,152,000).

## 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	
	2013 (Unaudited) \$'000	2012 (Unaudited) \$'000
<b>(a) Finance costs on interest bearing liabilities</b>		
Interest on secured bank borrowings	47,254	52,068
Other borrowing costs	13,792	7,759
	<b>61,046</b>	59,827

Other borrowing costs represent various financing charges and the amortisation of the debts establishment fees for the secured bank borrowings (see note 16).

## 7 Profit before taxation and transactions with unitholders (continued)

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

	Six months ended 31 December	
	2013 (Unaudited) \$'000	2012 (Unaudited) \$'000
<b>(b) Other items</b>		
Interest income	(1,604)	(1,681)
Manager's fees	37,058	34,465
Property Manager's fees (note (i))	23,091	20,789
Trustee's remuneration and charges	1,936	1,837
Auditor's remuneration		
– Audit services	694	790
– Other services	413	560
Valuation fees	274	310
Other legal and professional fees	1,086	1,580
Commission to property agents	1,990	1,341
Bank charges	275	218

Notes :

- (i) Included rental commission of \$6,604,000 (2012 : \$5,942,000).
- (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.

## 8 Income tax

	Six months ended 31 December	
	2013 (Unaudited) \$'000	2012 (Unaudited) \$'000
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Provision for the period	21,544	16,649
<b>Deferred tax</b>		
Origination and reversal of temporary differences	8,973	8,024
	<b>30,517</b>	<b>24,673</b>

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

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2013 amounted to \$0.36 (2012 : \$0.64). 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 \$577,166,000 (2012 : \$1,032,634,000) and the weighted average of 1,617,945,106 units in issue during the period (2012 : 1,607,665,794 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2013 and 2012 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

## 10 Investment properties

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
At 1 July 2013 / 2012	<b>14,408,800</b>	13,038,800
Additions	<b>14,226</b>	4,596
Disposals (note (b))	–	(75,300)
Net increase in fair value	<b>450,874</b>	1,440,704
At 31 December 2013 / 30 June 2013	<b>14,873,900</b>	14,408,800

- (a) The investment properties were revalued at 31 December 2013 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.
- (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 during the six months ended 31 December 2012.
- (c) The analysis of the fair value of investment properties is as follows :

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
In Hong Kong		
– long leases	<b>6,764,600</b>	6,576,000
– medium-term leases	<b>8,109,300</b>	7,832,800
	<b>14,873,900</b>	14,408,800

- (d) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 16).

## 11 Reimbursement rights

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

## 12 Derivative financial instruments

	31 December 2013 (Unaudited)		30 June 2013 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
<b>Interest rate swaps – cash flow hedges</b>				
Current portion	–	<b>(32,474)</b>	–	(27,912)
Non-current portion	<b>27,325</b>	<b>(23,040)</b>	25,471	(30,188)
	<b>27,325</b>	<b>(55,514)</b>	25,471	(58,100)

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

At 31 December 2013, the Group had interest rate swaps in place with an aggregate notional amount of \$2,600,000,000 (30 June 2013 : \$2,300,000,000). The interest rate swaps will mature on 30 June 2016, 29 September 2017, 29 June 2018 and 28 September 2018 (30 June 2013 : 30 June 2016, 29 June 2018 and 28 September 2018) respectively and have fixed swap interest rates ranging from 0.815% per annum to 2.17% per annum (30 June 2013 : 0.815% per annum to 2.17% 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.

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 13 Trade and other receivables

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
Rental receivables	<b>12,821</b>	11,991
Deposits and prepayments	<b>12,798</b>	9,517
Other receivables	<b>2,402</b>	2,383
Amounts due from related companies	<b>616</b>	451
	<b>28,637</b>	24,342

\$4,763,000 (30 June 2013 : \$4,769,000) 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 date of revenue recognition and net of allowance for doubtful debts, is as follows :

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
Current	<b>9,937</b>	8,410
Less than 1 month overdue	<b>2,033</b>	2,858
More than 1 month and up to 3 months overdue	<b>293</b>	385
More than 3 months and up to 6 months overdue	<b>95</b>	192
More than 6 months overdue	<b>463</b>	146
	<b>12,821</b>	11,991

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 Cash and bank balances

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
Pledged bank balances and deposits with original maturity within three months	<b>126,360</b>	199,798
Deposits with original maturity within three months	<b>21,669</b>	–
Cash at bank and in hand	<b>2,609</b>	3,065
Cash and cash equivalents	<b>150,638</b>	202,863
Pledged deposits with original maturity over three months	<b>150,367</b>	126,263
	<b>301,005</b>	329,126

Certain bank balances and deposits of the Group have been pledged to secure banking facilities granted to the Group (see note 16).

## 15 Trade and other payables

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
Creditors and accrued charges	<b>30,928</b>	26,879
Manager's fees payable (note 21(b)(ii))	<b>18,807</b>	20,603
Amounts due to related companies	<b>158,939</b>	167,959
	<b>208,674</b>	215,441

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

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

The amounts due to related companies primarily represent amounts received from certain Vendors for purchasing tax reserve certificates on their behalf in respect of the potential tax liabilities arising from the outstanding tax cases. The outstanding tax cases relate to the notional gains arising from reclassification of properties at the date of acquisition and the potential tax liabilities are indemnified by the Vendors. The relevant balances of tax reserve certificates were classified as tax recoverable under current assets at the period end. The amounts are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$1,934,000 (30 June 2013 : \$1,070,000) which is due within 30 days.

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 16 Secured bank borrowings

The secured bank borrowings were repayable as follows :

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
After 1 year but within 2 years	–	1,915,604
After 2 years but within 5 years	<b>2,890,387</b>	985,025
After 5 years	<b>975,981</b>	974,131
	<b>3,866,368</b>	3,874,760

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 1.05% per annum to HIBOR plus 1.55% per annum (30 June 2013 : HIBOR plus 1% per annum to HIBOR plus 1.55%). The Group also entered into the interest rate swaps and details are set out in note 12.

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

- mortgages over investment properties with a fair value of \$12,657,600,000 at 31 December 2013 (30 June 2013 : \$14,408,800,000);
- floating charge over bank balances of \$25,894,000 (30 June 2013 : \$28,446,000) and \$250,833,000 (30 June 2013 : \$297,615,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) and certain other banks in the name of Sunlight REIT Treasury Limited, a subsidiary of the Group;
- assignment of rental income and all other proceeds arising from and including all rights, title and interest under all tenancy agreements relating to each of the mortgaged investment properties; and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the balance sheet date was 2.44% per annum (30 June 2013 : 2.32% per annum). The carrying amounts of the bank borrowings approximate their fair values.



## 17 Units in issue

	Number of units	
	31 December 2013 (Unaudited)	30 June 2013 (Audited)
At 1 July 2013 / 2012	<b>1,616,330,766</b>	1,605,583,924
Issuance of units during the period / year	<b>6,167,279</b>	12,846,842
Units repurchased	<b>(1,500,000)</b>	(2,100,000)
At 31 December 2013 / 30 June 2013	<b>1,620,998,045</b>	1,616,330,766

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
<b>For the six months ended 31 December 2013 (Unaudited)</b>			
1 April 2013 to 30 June 2013	<b>3.1849</b>	<b>9,050</b>	<b>2,841,331</b>
Adjustment of Manager's fees for the financial year 2012/13	<b>3.0185</b>	<b>1,252</b>	<b>414,783</b>
1 July 2013 to 30 September 2013	<b>3.1346</b>	<b>9,125</b>	<b>2,911,165</b>
		<b>19,427</b>	<b>6,167,279</b>
<b>For the year ended 30 June 2013 (Audited)</b>			
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
1 October 2012 to 31 December 2012	3.2940	8,756	2,658,162
1 January 2013 to 31 March 2013	3.3959	8,857	2,608,297
		38,599	12,846,842

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 17 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 2013 : 2,100,000 units) on the SEHK during the six months ended 31 December 2013 at an aggregate consideration of \$4,585,000 (year ended 30 June 2013 : \$6,789,000). Details of the repurchases were as follows :

	Number of units repurchased	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
<b>For the six months ended 31 December 2013 (Unaudited)</b>				
<b>Month of repurchase</b>				
November 2013	1,500,000	3.08	3.03	4,585
Total	1,500,000			4,585
Total repurchase expenses				20
				4,605
<b>For the year ended 30 June 2013 (Audited)</b>				
<b>Month of repurchase</b>				
October 2012	1,500,000	3.17	3.14	4,732
March 2013	82,000	3.38	3.38	277
June 2013	518,000	3.45	3.40	1,780
Total	2,100,000			6,789
Total repurchase expenses				29
				6,818

All repurchased units were cancelled during the period / year.

## 18 Fair value measurement of financial instruments

### (a) Financial assets and liabilities measured at fair value

#### (i) Fair value hierarchy

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

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

At 31 December 2013 and 30 June 2013, the Group's only financial instruments carried at fair value are the interest rate swaps (see note 12), which fall under Level 2 of the fair value hierarchy described above.

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2013 and 30 June 2013.

## 19 Capital commitments

Capital commitments outstanding at 31 December 2013 not provided for in the interim financial report are as follows :

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
Contracted for	<b>33,191</b>	6,987
Authorised but not contracted for	<b>11,262</b>	49,799
	<b>44,453</b>	56,786

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 20 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 2013 : \$4,685,000).

## 21 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 " <b>SKFE Group</b> ")	Significant holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as " <b>HLD Group</b> ")	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 " <b>Trustee</b> ")	The Trustee of Sunlight REIT
HSBC and other members of its group (collectively referred to as " <b>HSBC Group</b> ")	Connected persons of the Trustee
Henderson Sunlight Asset Management Limited (the " <b>Manager</b> ")	The Manager of Sunlight REIT and a member of HLD Group
Henderson Sunlight Property Management Limited (the " <b>Property Manager</b> ")	The Property Manager of Sunlight REIT and a member of HLD Group
JLL and other members of its group (collectively referred to as " <b>JLL Group</b> ")	The Principal Valuer of Sunlight REIT

JLL, which replaced Knight Frank Petty Limited ("**Knight Frank**"), has been appointed as the Principal Valuer of Sunlight REIT with effect from 1 September 2012.

## 21 Connected party transactions and material related party transactions *(continued)*

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

	Six months ended 31 December	
	2013 (Unaudited) \$'000	2012 (Unaudited) \$'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	4,555	4,359
– HSBC Group	7,368	7,248
Property management expenses paid/payable to (note (ii)) :		
– HLD Group	(8,390)	(7,749)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	(70)	(66)
Manager's fees (note (ii))	(37,058)	(34,465)
Property Manager's fees (note (iii))	(23,091)	(20,789)
Trustee's remuneration and charges (note (iv))	(1,940)	(1,837)
Interest expense, debts establishment fees, agency, security trustee and other charges on bank borrowings, brokerage commission and other bank charges paid/payable to (notes (i) and (v)) :		
– HSBC Group	(15,490)	(7,442)
Interest paid/payable under the interest rate swaps (note (v)) :		
– HSBC Group	(7,317)	(13,308)
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	9	15
Valuation fees and other charges paid/payable to (note (i)) :		
– JLL Group	(315)	(285)
– Knight Frank and other members of its group	–	(25)
Promotion income received/receivable from (note (i)) :		
– HLD Group	762	724
Additional consideration paid to (note (vi)) :		
– HLD Group and SKFE Group	(174)	(178)

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 21 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 10 May 2012, the Manager made an election for the base fee and variable fee for the financial year ended 30 June 2013 to be paid 50% in the form of cash and 50% in the form of units. While on 14 May 2013, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2014.

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.

- (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.

## 21 Connected party transactions and material related party transactions *(continued)*

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

Notes : *(continued)*

- (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 16.
- (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 :

	<b>31 December 2013 (Unaudited) \$'000</b>	30 June 2013 (Audited) \$'000
Net amount due to :		
– SKFE Group	<b>(78,379)</b>	(78,379)
– HLD Group	<b>(38,672)</b>	(50,447)
– HD	<b>(54,999)</b>	(54,999)
– HSBC Group (note)	<b>(1,029,656)</b>	(472,565)
– JLL Group	<b>(274)</b>	(365)
Note :		
Deposits and cash placed with HSBC Group	<b>26,058</b>	31,420
Secured bank borrowings and interest payable to HSBC Group	<b>(1,050,078)</b>	(499,232)
Others	<b>(5,636)</b>	(4,753)
	<b>(1,029,656)</b>	(472,565)

## 22 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.

## 23 Comparative figures

Certain comparative figures have been reclassified to conform to the current period’s presentation.

# 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 Real Estate Investment Trust as of 31 December 2013 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 2013 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

13 February 2014



## Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2013	2012	2011	2010	2009
<b>At 31 December :</b>						
Net asset value (\$ million)		<b>10,979.5</b>	9,938.0	8,622.8	7,149.4	5,702.9
Net asset value per unit		<b>6.77</b>	6.17	5.39	4.54	3.66
Market capitalisation (\$ million)		<b>4,863.0</b>	5,318.5	3,550.6	3,763.2	2,990.3
<b>For the six months ended 31 December :</b>						
Highest traded unit price		<b>3.22</b>	3.59	2.57	2.40	2.06
Highest premium of the traded unit price to net asset value per unit	1	<b>N/A</b>	N/A	N/A	N/A	N/A
Lowest traded unit price		<b>2.95</b>	2.61	1.91	1.98	1.49
Highest discount of the traded unit price to net asset value per unit (%)		<b>56.4</b>	57.7	64.6	56.4	59.3
Closing unit price		<b>3.00</b>	3.30	2.22	2.39	1.92
Distribution per unit (cents)	2	<b>9.60</b>	8.50	8.30	8.50	6.88
Payout ratio (%)		<b>92.9</b>	91.6	90.5	90.0	100.0
Distribution yield per unit (%)	3	<b>3.20</b>	2.58	3.74	3.56	3.58
Annualised distribution yield per unit (%)	3	<b>6.40</b>	5.15	7.48	7.11	7.16

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. The distribution per unit of Sunlight REIT for prior periods were enhanced by arrangements offered by certain subsidiaries of HLD and SKFE in the form of (i) adjustment payments (from the date of Initial Public Offering (“IPO”) to June 2009) and (ii) distribution waivers (from the date of IPO to June 2011). Please refer to the Offering Circular for more details.
3. Interim/annualised distribution yield per unit is calculated by dividing the interim/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

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Overseas-Chinese Banking Corporation Limited, Hong Kong Branch

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

Tel : (852) 3669 2888

Fax : (852) 2285 9980

Email : [ir@HendersonSunlight.com](mailto:ir@HendersonSunlight.com)

### Website

[www.sunlightreit.com](http://www.sunlightreit.com)

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## Financial Calendar

(in respect of FY2013/14 interim results)

### Interim Results Announcement

13 February 2014

### Issuance of Interim Report

25 February 2014

### Ex-distribution date

28 February 2014

for interim distribution

### Closure of Register

4 March 2014 to 6 March 2014,  
both days inclusive

for entitlement of interim distribution

### Interim distribution payable

27 March 2014

at HK 9.60 cents per unit



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

