



SUNLIGHT REIT

陽光 房地產基金

Stock Code 股份代號 : 435

2014/15

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\$16,134.3 million at 31 December 2014. 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.

## Contents

Management Discussion and Analysis	2
Market and Operation Review	2
Financial Review	5
Outlook	9
Portfolio Statistics	10
Corporate Governance	12
Connected Party Transactions	15
Disclosure of Interests	18
Interim Financial Report	22
Auditor’s Review Report	48
Performance Table	49
Corporate Information and Financial Calendar	50

## Market and Operation Review

During the six months ended 31 December 2014 (the “**Reporting Period**”), global economic conditions experienced a clear divergence between the US and the rest of the world. The lethargic situation in most of Europe, Japan and to a certain extent China, as indicated by the accommodative monetary policies pursued by their respective central banks, was in stark contrast to the improving macro-economic environment in the US where a gentle rise in interest rates appears to be on the cards. Meanwhile, the unanticipated collapse in crude oil prices during the Reporting Period has heightened the concern that weak oil and commodity prices may lead to increased deflationary pressure, which may impede the pace of global economic recovery.

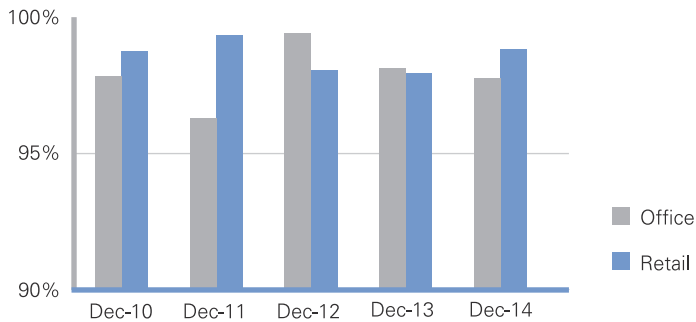
In addition to the global economic backdrop, business sentiment in Hong Kong was also somewhat affected by the “Occupy Central” incident which ended in December 2014. As such, a more conservative and cost conscious attitude was apparent at both the corporate and the consumer levels. Meanwhile, the labour market remained tight, translating into sustained pressure on costs and thus operating profit margins. The bright spot during the Reporting Period was the introduction of Shanghai — Hong Kong Stock Connect in November 2014. This investment mechanism is expected to attract investors and further enhance the liquidity flows between Hong Kong and China.

Notwithstanding the mixed economic signals and environment, the local office leasing market continued to benefit from a favourable supply and demand picture. Further, the influx and expansion of mainland finance companies aiming to capitalise on the launch of the Shanghai — Hong Kong Stock Connect has more than compensated for the relatively subdued office demand from multinational companies. According to statistics provided by Jones Lang LaSalle Limited, office occupancy rates in Central and Wan Chai/Causeway Bay at 31 December 2014 were 96.3% and 97.3% respectively, while net effective rents edged up by the same 0.9% to HK\$90.4 per sq. ft. and HK\$56.5 per sq. ft. respectively. Meanwhile, the vacancy rate at Kowloon East, a proxy to decentralised office market, was estimated at around 6.4%, as net effective rent exhibited a mild drop of 0.6% at HK\$31.3 per sq. ft. at 31 December 2014. In light of the prevailing rental differential between centralised and decentralised offices, as well as the escalating cost of office relocation, the momentum of office decentralisation had evidently decelerated, resulting in a corresponding increase in the rate of tenant retention.

The official retail sales figures between July and December 2014 offer good guidance to the prevailing spending pattern, as well as a glimpse of the impact from the “Occupy Central” incident. While retail sales during this period rose marginally by 0.9% year-on-year, the performance divergence among different goods and segments was evident. In particular, sales of jewellery, watches and valuable gifts dropped a marked 10.2% as compared to the same period last year. Bucking the trend encompassed the sales of consumer durable goods which increased 8.7% year-on-year, as well as necessity items such as medicine and cosmetics, up 10.2%. This spending pattern continued to bode well for Sunlight REIT’s retail properties, where consumer staples continued to be the mainstay in terms of trade mix.

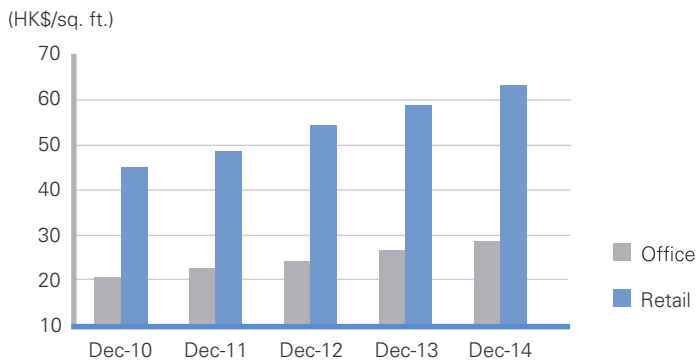
At 31 December 2014, the overall portfolio occupancy of Sunlight REIT was 98.1% as compared to 98.6% recorded at 30 June 2014. The office portfolio achieved an occupancy rate of 97.8%, representing a mild decline from 98.7% recorded at 30 June 2014. Occupancy of the retail portfolio experienced a slight increase to 98.9% as against 98.2% at 30 June 2014.

**Occupancy: Five-Year Trend**



Reflecting the solid rental reversion of 20.1% during the Reporting Period, passing rent of the office portfolio continued to rise, registering a growth of 4.7% to HK\$28.8 per sq. ft. at 31 December 2014. Meanwhile, passing rent for the retail portfolio rose 2.9% to HK\$63.4 per sq. ft. at 31 December 2014, supported by an encouraging rental reversion of 23.7%.

**Passing Rent: Five-Year Trend**



## Market and Operation Review

During the Reporting Period, rental reversion at 248 Queen's Road East stayed at a strong 20.4%. The property also achieved a high retention rate of 92.6% compared to 70.7% in the same period last year, thanks to the tenancy renewal with a major tenant which constitutes 16.4% of the GRA of the property. In terms of the entire office portfolio, the slightly lower occupancy was principally due to a small rise in vacancy rates at Righteous Centre, Winsome House Property and Java Road 108 Commercial Centre.

On the retail front, necessity shopping continued to sustain the performance of Sheung Shui Centre Shopping Arcade which exhibited an impressive rental reversion of 31.7% during the Reporting Period. Its occupancy has increased to 99.3% at 31 December 2014 from 97.4% at 30 June 2014, mainly reflecting the successful reconfiguration of certain key areas of the property. Meanwhile, despite the ongoing renovation programme, rental reversion at Metro City Phase I Property was maintained at a respectable 13.5% with an occupancy rate of 98.8%.

In tandem with revamping the office lobby and the associated retail space of 248 Queen's Road East, the Manager has renamed this flagship property of Sunlight REIT as Sunlight Tower with effect from 1 January 2015. A key hallmark of Sunlight Tower is its emphasis on energy savings, and in this regard the Manager is pleased to report that total electricity usage (measured by kilowatt hours) at this property during the Reporting Period exhibited a noteworthy decline of 10.3% year-on-year, largely attributable to the debut installation of a water-cooled chiller since May 2014.

On the retail front, the completion of the first phase of the Metro City Phase I Property renovation has given the shopping mall a refreshed and enlivened image, which should appeal to shoppers and attract quality tenants to join. Meanwhile, notwithstanding a satisfactory rate of tenant retention and rental reversion, the Manager remains committed to creating further value for the benefit of its stakeholders. This is illustrated by its effort in revitalising the composition and format of the food and beverage trades at both Sheung Shui Centre Shopping Arcade and Metro City Phase I Property, a leasing strategy which has proved highly rewarding in terms of both customer footfall and rental contribution.

The overall portfolio had a total of 1,002 tenancies at 31 December 2014 (30 June 2014: 1,015). The 10 largest tenants by rental income, which contributed approximately 22.3% of total rental income in December 2014 (June 2014: 21.1%), occupied approximately 17.2% of total GRA (June 2014: 18.6%). No single tenant accounted for more than 4.4% of total rental income for December 2014 (June 2014: 4.3%).

## Financial Review

### Financial Highlights

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

	<b>Six months ended 31 December 2014</b>	Six months ended 31 December 2013	Change (%)
Turnover	<b>370.8</b>	336.5	10.2
Property operating expenses	<b>85.2</b>	77.3	10.3
Net property income	<b>285.6</b>	259.2	10.2
Cost-to-income ratio (%)	<b>23.0</b>	23.0	N/A
Profit after taxation	<b>854.7</b>	577.2	48.1
Distributable income	<b>179.2</b>	167.5	7.0
Distribution per unit <sup>1</sup> (HK cents)	<b>10.5</b>	9.6	9.4
Payout ratio (%)	<b>95.7</b>	92.9	N/A
	<b>At 31 December 2014</b>	At 30 June 2014	Change (%)
Portfolio valuation	<b>16,134.3</b>	15,390.6	4.8
Total assets	<b>16,854.2</b>	16,151.9	4.3
Total liabilities	<b>4,647.7</b>	4,657.0	(0.2)
Net asset value	<b>12,206.5</b>	11,494.9	6.2
Net asset value per unit (HK\$)	<b>7.48</b>	7.06	5.9
Gearing ratio (%)	<b>23.3</b>	24.3	N/A

### Operating Results

Sunlight REIT reported a 10.2% growth in turnover to HK\$370.8 million for the Reporting Period. Property operating expenses amounted to HK\$85.2 million, resulting in a 10.2% increase in net property income to HK\$285.6 million. Meanwhile, finance costs decreased 10.4% year-on-year to HK\$54.7 million, mainly attributable to a relatively smaller fee amortisation relating to loan refinancing activities. Administrative expenses recorded an increase of 28.3% to HK\$55.1 million due to a write-off of professional fees incurred for the proposed property acquisition in mid-2014. As EBITDA<sup>2</sup> of Sunlight REIT grew 6.7% year-on-year to HK\$232.6 million, the interest coverage ratio<sup>3</sup> for the Reporting Period consequently improved to 4.77 times as compared to 4.60 times recorded in the same period last year. 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\$854.7 million for the Reporting Period (first half of FY2013/14: HK\$577.2 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 expense incurred on gross borrowings.

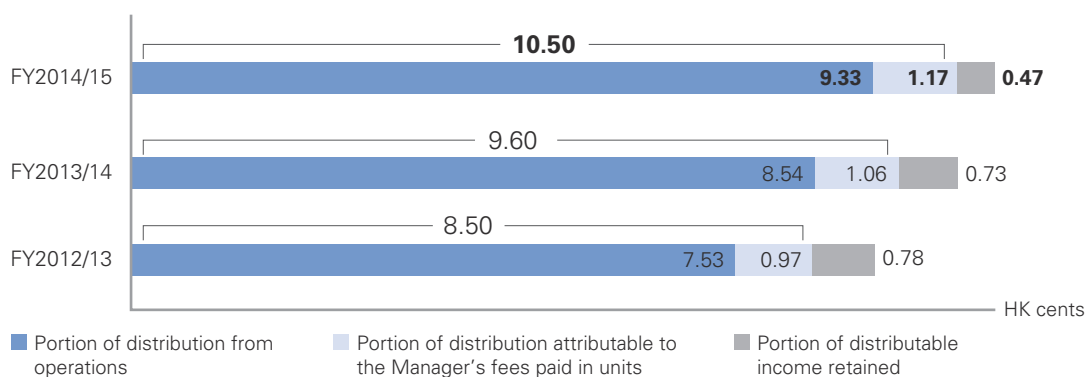
# Financial Review

## Distribution

For the Reporting Period, distributable income of Sunlight REIT came in at HK\$179.2 million, representing an increase of 7.0% from HK\$167.5 million recorded in the previous corresponding period. The Board of the Manager has resolved to declare an interim distribution per unit (“DPU”) of HK 10.5 cents, or HK\$171.4 million, which implies a payout ratio of 95.7%. The higher payout ratio was determined by the Board after principally taking into account the transaction costs of HK\$8.3 million incurred for the proposed property acquisition (which did not proceed) during the period. The interim DPU was 9.4% ahead of the HK 9.6 cents paid in the same period last year, and represented an annualised distribution yield of 6.0% based on the closing unit price of HK\$3.50 on the last trading day of the Reporting Period.

The chart below provides a comparison of the interim DPU of Sunlight REIT for the last three years. The portion of distribution attributable to operations and cash savings from Manager’s fees paid in units are shown separately. As the distributable income is not distributed in its entirety, the effect of payout ratio on interim DPU is also exhibited by way of the portion of distributable income retained.

### Interim DPU at a Glance



## Distribution Entitlement and Closure of Register of Unitholders

The ex-distribution date and record date for the interim distribution are Monday, 23 February 2015 and Friday, 27 February 2015 respectively. The register of unitholders will be closed from Wednesday, 25 February 2015 to Friday, 27 February 2015, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the interim distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 24 February 2015. Payment of the interim distribution will be made to unitholders on Thursday, 12 March 2015.



## Financial Position

The portfolio of Sunlight REIT was appraised by the independent valuer at HK\$16,134.3 million at 31 December 2014, representing an increase of 4.8% from HK\$15,390.6 million recorded at 30 June 2014. As a result, the net assets of Sunlight REIT expanded by 6.2% to HK\$12,206.5 million at 31 December 2014 (30 June 2014: HK\$11,494.9 million). After taking into account the effect of payment of Manager's fees in units and the cancellation of units bought back during the Reporting Period, net asset value per unit rose 5.9% to HK\$7.48 per unit (30 June 2014: HK\$7.06 per unit).

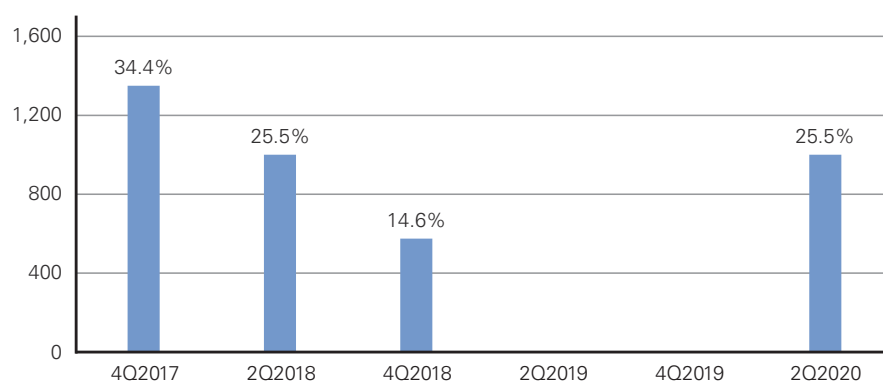
As a result of the higher property valuation, the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, has reduced from 24.3% at 30 June 2014 to 23.3% at 31 December 2014. Gross liabilities as a percentage of gross assets was 27.6% at 31 December 2014. In respect of contingent liabilities, Sunlight REIT has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity utility companies, the amount of which was HK\$4.7 million at 31 December 2014.

## Capital Management

At 31 December 2014, Sunlight REIT had in place total loan facilities of HK\$4,225.0 million, comprising term loan facilities of HK\$3,925.0 million which were fully drawn and an unsecured revolving credit facility of HK\$300.0 million that remained undrawn. The term loan facilities, carrying interest costs of a blended interest margin of 1.24% per annum over HIBOR (before interest rate swap arrangements) and a weighted loan maturity period of 3.8 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\$13,760.6 million at 31 December 2014, assignment of proceeds under tenancies and a floating charge over the bank balances relating to these properties.

## Debt Maturity Profile

HK\$' million



## Financial Review

To mitigate financial market risks, Sunlight REIT has maintained certain interest rate swap arrangements. At 31 December 2014, approximately 70.1% (or HK\$2,750.0 million) of Sunlight REIT's indebtedness was hedged to fixed rates with a weighted tenure of 2.4 years, having incorporated an additional interest rate swap with a notional amount of HK\$150.0 million entered into during the Reporting Period. On 15 January 2015, the Manager capitalised on the favourable interest rate environment and further entered into an interest rate swap for Sunlight REIT with a notional amount of HK\$300.0 million. The terms of all the interest rate swaps are summarised below :

<b>Tenure</b>	<b>Notional amount</b> (HK\$' million)	<b>Weighted average interest rate<sup>1</sup></b> (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%
23 October 2014 – 28 September 2018	150	1.3180%
16 January 2015 – 31 December 2018 <sup>2</sup>	300	1.2700%
<b>Total</b>	<b>3,050</b>	<b>1.6408%</b>

Notes :

1. 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.
2. The transaction took place after the close of the Reporting Period and is included in the summary for completeness.

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 2014, Sunlight REIT had total cash and bank balances of HK\$320.6 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 rental growth driven by solid rental reversion and disciplined cost control. Barring unforeseen circumstances, the Manager remains guardedly optimistic over the rental prospects of Sunlight REIT's portfolio for the rest of this financial year on the back of healthy employment, mild inflation and robust consumption. In respect of office leasing, the lack of abundant new supply until 2016 and the high cost of relocation should combine to provide good support to office rent, occupancy and the rate of tenant retention. On the retail leasing front, consumer spending by mainland visitors on mid-priced products and necessities should remain resilient, which in turn should bode well for the retail properties of Sunlight REIT which primarily focus on consumer staples.

In terms of cost, given the upcoming revision in minimum wage, it is envisaged that upward pressure on operating cost has yet to run its full course. As such, more efficient allocation of property management resources will remain at the forefront of the Manager's operational strategy.

In planning the asset enhancement activities of Sunlight REIT, the Manager shall continue to give high priority to capital expenditure on energy saving initiatives, which offer double benefits in terms of cost savings while helping to create a greener environment. As a case in point, the Manager has budgeted approximately HK\$11 million for chiller replacement at Sheung Shui Centre Shopping Arcade, which upon completion (in the second quarter of 2015) should benefit the cost side of the property nicely. In the meantime, the installation of a second water-cooled chiller at Sunlight Tower is currently in the planning stage, and the Manager is hopeful that project work will commence in late 2015. Meanwhile, the completion of the Metro City Phase I Property renovation will be closely followed by a spate of trade mix and space reconfiguration works aimed at further enhancing the appeal of the shopping mall. As mentioned earlier, special focus will be placed on providing more attractive food and beverage alternatives, while introducing more "lifestyle" trades to improve the overall dynamics of the complex.

On capital management, through restructuring its borrowing arrangement, the Manager has equipped Sunlight REIT with a more flexible funding structure, a solid base of unencumbered assets and a diversified maturity profile spanning 2017 to 2020. Meanwhile, with 77.7% of debt being hedged to fixed rates (including the swap being entered into in January 2015), Sunlight REIT is well insulated from interest rate fluctuations in the short-to-medium term.

The Manager remains fully committed to expanding the footprint of Sunlight REIT, particularly in light of the still conducive operating and funding environment. However, 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 buy-back and the disposal of properties represent viable options that the Manager would explore 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.)			at 31 Dec 2014	at 30 Jun 2014
				Office	Retail	Total		
<b>Office</b>								
<b>Grade A</b>								
248 Queen's Road East <sup>5</sup>	Wan Chai	1998	46	369,891	6,490	376,381	72	75
<b>Grade B</b>								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	104	103
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	60	62
Winsome House Property	Central	1999	0	37,937	2,177	40,114	22	23
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	74	75
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	39
Yue Fai Commercial Centre Property	Aberdeen	1997	0	41,272	1,479	42,751	106	108
On Loong Commercial Building Property	Wan Chai	1984	0	23,856	1,708	25,564	37	37
Everglory Centre	Tsim Sha Tsui	1999	0	25,896	3,906	29,802	28	30
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	45
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	33	34
<b>Sub-total/Average</b>			<b>46</b>	<b>830,437</b>	<b>50,446</b>	<b>880,883</b>	<b>690</b>	<b>703</b>
<b>Retail</b>								
<b>New Town</b>								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	116	115
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	109	110
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	36	36
<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	37	37
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	5
<b>Sub-total/Average</b>			<b>798</b>	<b>42,667</b>	<b>363,753</b>	<b>406,420</b>	<b>312</b>	<b>312</b>
<b>Total/Average</b>			<b>844</b>	<b>873,104</b>	<b>414,199</b>	<b>1,287,303</b>	<b>1,002</b>	<b>1,015</b>

- Notes : 1. Size of the properties is measured in terms of GRA.  
2. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied GRA on the relevant date.  
3. Rental reversion is calculated on the basis of change in effective rent of the leases renewed during the relevant period.  
4. Valuation prepared by Jones Lang LaSalle Limited.  
5. The property has been renamed as Sunlight Tower with effect from 1 January 2015.

N/A : Not applicable

## Management Discussion and Analysis

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 2014 (%)		Appraised Value at 31 Dec 2014 <sup>4</sup> (HK\$'000)	
								Office	Retail		
at 31 Dec 2014	at 30 Jun 2014	at 31 Dec 2014	at 30 Jun 2014	six months ended 31 Dec 2014	six months ended 30 Jun 2014	six months ended 31 Dec 2014	six months ended 31 Dec 2013				
98.2	98.5	33.6	32.1	20.4	23.8	72,382	63,735	3.85	3.75	4,191,500	
98.9	97.4	25.3	24.1	22.2	27.1	15,887	14,281	3.85	4.20	909,200	
97.5	100.0	39.6	36.2	22.2	21.9	10,897	9,853	3.95	3.60	638,400	
94.3	97.2	38.8	38.0	18.1	13.2	8,366	8,222	3.85	4.00	497,400	
98.5	100.0	22.9	22.3	15.4	18.7	7,630	7,134	3.85	4.20	460,700	
98.9	98.9	17.5	16.9	21.3	19.3	4,771	4,285	3.85	4.25	287,200	
92.3	100.0	21.8	20.5	20.9	15.9	3,909	3,805	3.95	4.20	248,800	
95.8	99.4	19.4	18.8	14.7	17.9	3,953	3,812	4.10	4.10	246,800	
100.0	100.0	28.1	27.3	19.3	18.1	3,635	3,603	3.95	4.00	231,700	
95.2	100.0	20.7	19.7	22.1	23.8	3,123	3,113	3.85	4.15	193,000	
100.0	98.1	21.2	20.6	12.5	18.3	2,801	2,722	4.10	4.35	161,400	
97.2	100.0	11.3	10.7	25.2	25.0	817	773	3.85	4.20	61,000	
<b>97.8</b>	<b>98.7</b>	<b>28.8</b>	<b>27.5</b>	<b>20.1</b>	<b>21.7</b>	<b>138,171</b>	<b>125,338</b>			<b>8,127,100</b>	
99.3	97.4	107.3	102.9	31.7	34.5	71,895	63,142	N/A	4.40	3,904,200	
98.8	98.3	45.6	44.9	13.5	18.6	53,263	50,567	N/A	4.50	2,783,100	
97.9	99.3	43.9	43.8	28.8	28.1	15,390	13,718	3.85	3.80	938,700	
100.0	100.0	45.3	47.6	N/A	N/A	2,893	3,006	N/A	4.25	159,400	
98.7	94.5	52.3	51.8	10.5	15.5	2,202	2,208	N/A	4.30	125,800	
100.0	100.0	47.6	47.6	N/A	23.8	1,164	935	N/A	4.00	58,200	
100.0	100.0	13.2	13.2	N/A	N/A	630	248	N/A	4.35	37,800	
<b>98.9</b>	<b>98.2</b>	<b>63.4</b>	<b>61.6</b>	<b>23.7</b>	<b>28.8</b>	<b>147,437</b>	<b>133,824</b>			<b>8,007,200</b>	
<b>98.1</b>	<b>98.6</b>	<b>39.8</b>	<b>38.2</b>	<b>21.4</b>	<b>25.2</b>	<b>285,608</b>	<b>259,162</b>			<b>16,134,300</b>	

## Corporate Governance

The Manager is committed to a high level of corporate governance practices and procedures. Good corporate governance requires a sound and effective system of checks and balances, and places a strong emphasis 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 enacted or amended.

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

### Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”) 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 (Chapter 29 of the Laws of Hong Kong) 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 2013/14 Annual Report of Sunlight REIT, the Manager was informed of the following changes in Director’s information :

1. Mr. Kwan Kai Cheong (“**Mr. Kwan**”) resigned as an independent non-executive director, and alternate director to Mr. Ronald Joseph Arculli, of Hutchison Harbour Ring Limited with effect from 19 December 2014;
2. Mr. Kwan has been appointed as an independent non-executive director of both HK Electric Investments Manager Limited and HK Electric Investments Limited with effect from 6 January 2015. HK Electric Investments Manager Limited is the trustee-manager of HK Electric Investments, which is a trust the units of which together with the shares of HK Electric Investments Limited are listed on the Stock Exchange as share stapled units; and

3. Mr. Ma Kwong Wing was admitted as a fellow of the Hong Kong Securities and Investment Institute in November 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 securities of Sunlight REIT (the "**Dealings Code**") by directors of the Manager (the "**Directors**") 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.

### Registration under the US Foreign Account Tax Compliance Act (FATCA)

Further to the announcement relating to implications of FATCA on Sunlight REIT published on 30 June 2014, an announcement was issued on 5 December 2014 to inform the unitholders of Sunlight REIT about the implications under the inter-governmental agreement ("**IGA**") signed between the Hong Kong Special Administrative Region and the United States of America ("**US**") for the implementation of FATCA on 13 November 2014 on Sunlight REIT. Whilst Sunlight REIT remains unlikely to be subject to FATCA withholding tax, it is nonetheless required to register itself as a foreign financial institution with the US Internal Revenue Service ("**IRS**") and enter into an agreement with the IRS to identify and disclose details regarding Sunlight REIT's account holders who are US Persons (as defined in the IGA).

### 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

## Corporate Governance

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.

At the operational level, the Manager and the Property Manager may also experience conflicts of interests with HLD or its affiliates in connection with identifying and competing for potential 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, and was subsequently renewed or amended terms and conditions on 28 April 2009 and 25 June 2012 respectively.

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 of Sunlight REIT and/or its affiliates.

### Public Float

At 31 December 2014, 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 6,256,132 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

### Buy-back, Sale or Redemption of Units

Pursuant to the general mandate granted by unitholders at the annual general meeting held on 3 November 2014, the Manager bought back on behalf of Sunlight REIT a total of 1,000,000 units on the Stock Exchange in November 2014, for an aggregate consideration of approximately HK\$3.4 million (excluding buy-back expenses). The highest and the lowest price paid per unit for such buy-backs were HK\$3.46 and HK\$3.36 respectively. All bought back units were cancelled prior to the end of the Reporting Period.

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

### 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 2014 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	2,636	1,187
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	1,759	799
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	931	—
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing	214	103
<b>Total</b>			<b>5,540</b>	<b>2,089</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	612
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	4,872
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	24,995
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,215
Metro City Management Limited	Associated company of the Manager	Property management and operations	971
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	1,105
Contender Limited	Associated company of the Manager	Facilities leasing	161
<b>Total</b>			<b>33,931</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**”) 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 2014 (HK\$'000)
<b>Leasing Transactions :</b>				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing <sup>3</sup>	3,727	2,415
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing <sup>4</sup>	88	50
Hang Seng Bank Limited (“ <b>Hang Seng</b> ”)	Trustee Connected Persons	Leasing <sup>5</sup>	4,319	2,415
<b>Ordinary Banking and Financial Services<sup>6</sup> :</b>				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/receivable on bank deposits	6	—
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowings, interest expenses on interest rate swaps and other bank charges	12,793	—
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	6	—
Hang Seng	Trustee Connected Persons	Interest expense on bank borrowing and other bank charges	2,162	—

An interest rate swap with a notional amount of HK\$150 million was entered into with The Hongkong and Shanghai Banking Corporation Limited on 21 October 2014. After the close of the Reporting Period, a further interest rate swap with a notional amount of HK\$300 million was entered into with The Hongkong and Shanghai Banking Corporation Limited on 15 January 2015. Please refer to “Financial Review” on page 8 for details.

### Corporate Finance Transactions<sup>7</sup> :

On 19 June 2014, the Manager engaged The Hongkong and Shanghai Banking Corporation Limited as the financial adviser on a proposed acquisition of a Grade A office building in East Kowloon (please refer to “Proposed Property Acquisition and Proposed Unit Subscription” below for details). During the Reporting Period, an advisory fee of HK\$1.6 million was paid to The Hongkong and Shanghai Banking Corporation Limited relating to the aforesaid service.

Notes :

1. HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the Trustee of Sunlight REIT).
2. Within the meaning of the REIT Code.

3. A lease in respect of Shop Nos. 1024–31, Sheung Shui Centre Shopping Arcade renewed for a term of 3 years from 4 November 2014 to 3 November 2017.
4. A licence in respect of external wall signage Nos. 1 & 82–93, Level 1, and light box F2, Level 2, Sheung Shui Centre Shopping Arcade.
5. A lease in respect of Shop No. 211, Metro City Phase I Property renewed for a term of 3 years from 17 February 2012 to 16 February 2015; and a new lease in respect of Shop Nos. 1040–42, Sheung Shui Centre Shopping Arcade for a term of 3 years from 29 September 2014 to 28 September 2017.
6. In general, “ordinary banking and financial services” include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto and other banking or financial services.
7. The engagement of The Hongkong and Shanghai Banking Corporation Limited for its provision of corporate finance advice, which falls within the category of “corporate finance transactions” between Sunlight REIT and HSBC Group, is covered by a waiver granted by the SFC to Sunlight REIT on 30 November 2006 from strict compliance with the requirement under paragraphs 8.9 and 8.11 of the REIT Code to seek unitholders’ prior approval and to make announcements and circulars.

## Proposed Property Acquisition and Proposed Unit Subscription

On 22 June 2014, Sunlight REIT announced that it entered into (i) a conditional sale and purchase agreement with HLD and certain of its subsidiaries for the proposed acquisition of a property holding company which holds the entire interest in a Grade A office building situated at No. 712 Prince Edward Road East, Kowloon (the “**Proposed Property Acquisition**”); and (ii) a conditional unit subscription agreement with a subsidiary of HLD, Richful Resources Limited (“**Richful**”), for the proposed issuance of 201,025,641 new units in Sunlight REIT (the “**Proposed Subscription Units**”) to Richful (collectively the “**Proposed Transactions**”). The Proposed Transactions, which were conditional upon the approval by the independent unitholders, constituted connected party transactions of Sunlight REIT under the REIT Code.

The Proposed Transactions were not approved by the independent unitholders at the extraordinary general meeting held on 15 August 2014 (the “**EGM**”) and did not proceed.

## 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\$40.1 million and HK\$2.1 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 accordingly no disclosure is 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.

As mentioned under “Connected Party Transactions” on page 17, 201,025,641 Proposed Subscription Units were proposed to be issued to Richful. In addition, 5,128,205 new units (the “**Proposed Acquisition Fee Units**”) were proposed to be issued to the Manager as payment of acquisition fee in relation to the Proposed Property Acquisition. Interests of relevant parties at 30 June 2014 pursuant to Part XV of the SFO included deemed interests in such units proposed to be issued. As the Proposed Transactions were not approved by the independent unitholders at the EGM, the relevant parties ceased to have deemed interests in those units with effect from 15 August 2014.

### Holdings of the Manager, its Directors or Chief Executive

At 31 December 2014 and 30 June 2014, 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 (the “**Register**”), were as follows :

Name	At 31 December 2014		At 30 June 2014		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>2</sup>	
The Manager <sup>3</sup>	83,575,995	5.118	82,448,068	5.066	0.052
Au Siu Kee, Alexander <sup>4</sup>	1,530,000	0.094	1,530,000	0.094	—
Wu Shiu Kee, Keith <sup>5</sup>	600,000	0.037	600,000	0.037	—

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,632,836,625 at 31 December 2014.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,627,580,493 at 30 June 2014 (which did not include the Proposed Subscription Units and the Proposed Acquisition Fee Units).
3. After the issuance of an aggregate of 6,256,132 new units to the Manager during the Reporting Period as payment of part of the Manager’s base fee and variable fee, the Manager beneficially owned 83,575,995 units at 31 December 2014 (30 June 2014: 82,448,068 units after taking into account the 5,128,205 Proposed Acquisition Fee Units in which the Manager had a deemed interest at 30 June 2014 under Part XV of the SFO). Subsequent to 15 August 2014, a disclosure of interest notice was submitted to the Stock Exchange to reflect the fact that the Manager ceased to have deemed interest in the Proposed Acquisition Fee Units.
4. At 31 December 2014, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2014: 1,530,000 units) under Part XV of the SFO. Of the 1,530,000 units, 201,000 units were beneficially held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were beneficially held by his spouse individually.
5. At 31 December 2014, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 600,000 units (30 June 2014: 600,000 units).

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 2014 and 30 June 2014 as recorded in the Register.

## Holdings of Substantial Unitholders

At 31 December 2014 and 30 June 2014, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2014		At 30 June 2014		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>2</sup>	
Lee Shau Kee <sup>3</sup>	595,304,888	36.46	801,458,734	49.24	-12.78
Lee Financial (Cayman) Limited <sup>3</sup>	374,072,708	22.91	374,072,708	22.98	-0.07
Leesons (Cayman) Limited <sup>3</sup>	374,072,708	22.91	374,072,708	22.98	-0.07
Leeworld (Cayman) Limited <sup>3</sup>	374,072,708	22.91	374,072,708	22.98	-0.07
SKFE <sup>3</sup>	374,072,708	22.91	374,072,708	22.98	-0.07
Uplite Limited <sup>3</sup>	224,443,625	13.75	224,443,625	13.79	-0.04
Wintrade Limited <sup>3</sup>	149,629,083	9.16	149,629,083	9.19	-0.03
Henderson Development Limited <sup>3</sup>	221,232,180	13.55	427,386,026	26.26	-12.71
HLD <sup>3</sup>	221,232,180	13.55	427,386,026	26.26	-12.71
Hopkins (Cayman) Limited <sup>3</sup>	221,232,180	13.55	427,386,026	26.26	-12.71
Riddick (Cayman) Limited <sup>3</sup>	221,232,180	13.55	427,386,026	26.26	-12.71
Rimmer (Cayman) Limited <sup>3</sup>	221,232,180	13.55	427,386,026	26.26	-12.71
Richful <sup>3</sup>	67,378,972	4.13	268,404,613	16.49	-12.36
Silchester International Investors LLP <sup>4</sup>	257,791,150	15.79	257,791,150	15.84	-0.05
Silchester International Investors International Value Equity Trust <sup>4</sup>	113,294,922	6.94	113,294,922	6.96	-0.02

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,632,836,625 at 31 December 2014.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,627,580,493 at 30 June 2014 (which did not include the Proposed Subscription Units and the Proposed Acquisition Fee Units).
3. At 31 December 2014, 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 2014, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful and 83,575,995 units were owned by the Manager. Cobase Limited and Richful were wholly-owned subsidiaries of Brightland Enterprises Limited, and the Manager was a wholly-owned subsidiary of Latco Investment Limited, both of which in turn were wholly-owned by HLD. Henderson Development Limited ("**HD**") owned more than one-third of the issued share capital of HLD. HD was wholly-owned by Hopkins (Cayman) Limited ("**Hopkins**") as the trustee of a unit trust, the units of which were held by Rimmer (Cayman) Limited ("**Rimmer**") and Riddick (Cayman) Limited ("**Riddick**") as the respective trustees of two discretionary trusts. Under Part XV of the SFO (as applied by the Register), each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in a total of 227,488,312 units at 31 December 2014. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 221,232,180 units at 31 December 2014, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

At 31 December 2014, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in 601,561,020 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 595,304,888 units at 31 December 2014, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2014, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

The interests in units of Dr. Lee Shau Kee, HD, HLD, Hopkins, Riddick, Rimmer and Richful at 30 June 2014 set out in the above table have taken into account the Proposed Subscription Units and/or the Proposed Acquisition Fee Units in which they had deemed interests at 30 June 2014 under Part XV of the SFO. Subsequent to 15 August 2014, disclosure of interest notices for Dr. Lee Shau Kee, HD, HLD, Hopkins, Riddick, Rimmer and Richful were submitted to the Stock Exchange to reflect the fact that they ceased to have deemed interests in the Proposed Subscription Units and/or the Proposed Acquisition Fee Units.

- At 31 December 2014, 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 2014, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.37% of the total number of units in issue); and (ii) the beneficial interest owned by Silchester Trust had decreased to 111,902,922 units (representing approximately 6.85% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

## Holdings of other Connected Persons

So far as is known to the Manager and save as disclosed above, the holdings of units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT at 31 December 2014 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	0.0306
Lo Yuk Fong, Phyllis <sup>6</sup>	100,000	0.0061
Persons related to the Trustee <sup>7</sup>	38,274,000	2.3440

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,632,836,625 at 31 December 2014.
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 Chau Kee. Mr. Chan held 130,000 units at 30 June 2014.
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 2014.
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 2014.
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 Chau Kee. Mr. Mao was interested in 500,000 units at 30 June 2014.
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 100,000 units at 30 June 2014.
7. The Manager has been informed that certain controlling entities, holding companies, subsidiaries or associated companies of the Trustee (as defined in the REIT Code) were beneficially interested in such units at 31 December 2014. Such persons were beneficially interested in 18,704,000 units at 30 June 2014.

## Consolidated Income Statement

For the six months ended 31 December 2014 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2014 \$'000	2013 \$'000
<b>Turnover</b>	5	<b>370,845</b>	336,474
<b>Property operating expenses</b>	6	<b>(85,237)</b>	(77,312)
<b>Net property income</b>		<b>285,608</b>	259,162
Other income		<b>2,006</b>	1,606
Administrative expenses		<b>(55,057)</b>	(42,913)
Net increase in fair value of investment properties		<b>708,420</b>	450,874
<b>Profit from operations</b>		<b>940,977</b>	668,729
Finance costs on interest bearing liabilities	7(a)	<b>(54,683)</b>	(61,046)
<b>Profit before taxation and transactions with unitholders</b>	7	<b>886,294</b>	607,683
Income tax	8	<b>(31,631)</b>	(30,517)
<b>Profit after taxation and before transactions with unitholders</b>		<b>854,663</b>	577,166

The notes on pages 30 to 47 form part of this interim financial report.



## Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2014 – unaudited  
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2014	2013
	\$'000	\$'000
<b>Profit after taxation and before transactions with unitholders</b>	<b>854,663</b>	577,166
<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>9,111</b>	4,440
<b>Total comprehensive income for the period</b>	<b>863,774</b>	581,606

The notes on pages 30 to 47 form part of this interim financial report.

# Consolidated Balance Sheet

At 31 December 2014

(Expressed in Hong Kong dollars)

	Note	31 December 2014 (Unaudited) \$'000	30 June 2014 (Audited) \$'000
<b>Non-current assets</b>			
Fixed assets			
– Investment properties	10	16,134,300	15,390,600
– Other fixed assets		76	79
		<b>16,134,376</b>	15,390,679
Deferred tax assets		148	566
Derivative financial instruments	12	19,609	19,989
Prepayments	13	320	17,735
Reimbursement rights	11	203,413	203,413
		<b>16,357,866</b>	15,632,382
<b>Current assets</b>			
Trade and other receivables	13	22,949	24,031
Cash and bank balances	14	320,629	345,254
Tax recoverable		152,781	150,198
		<b>496,359</b>	519,483
		<b>16,854,225</b>	16,151,865
<b>Current liabilities</b>			
Tenants' deposits		(184,933)	(178,638)
Rent receipts in advance		(10,285)	(9,459)
Trade and other payables	15	(215,497)	(215,784)
Derivative financial instruments	12	(32,401)	(33,188)
Tax payable		(31,312)	(50,406)
		<b>(474,428)</b>	(487,475)
		<b>21,931</b>	32,008
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>		<b>16,379,797</b>	15,664,390

## Consolidated Balance Sheet (continued)

At 31 December 2014

(Expressed in Hong Kong dollars)

		<b>31 December 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
	Note		
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Secured bank borrowings	16	<b>(3,878,168)</b>	(3,872,268)
Deferred tax liabilities		<b>(288,044)</b>	(281,470)
Derivative financial instruments	12	<b>(7,068)</b>	(15,772)
		<b>(4,173,280)</b>	(4,169,510)
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>(4,647,708)</b>	(4,656,985)
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>12,206,517</b>	11,494,880
<b>Number of units in issue</b>	17	<b>1,632,836,625</b>	1,627,580,493
<b>Net asset value attributable to unitholders per unit</b>		<b>\$7.48</b>	\$7.06

The notes on pages 30 to 47 form part of this interim financial report.

## Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2014 – unaudited  
(Expressed in Hong Kong dollars)

		<b>Six months ended 31 December</b>	
		<b>2014</b>	<b>2013</b>
		<b>\$'000</b>	<b>\$'000</b>
	Note		
<b>At the beginning of the period</b>		<b>11,494,880</b>	10,531,735
Profit after taxation and before transactions with unitholders		<b>854,663</b>	577,166
Other comprehensive income		<b>9,111</b>	4,440
Total comprehensive income for the period		<b>863,774</b>	581,606
Distribution paid to unitholders		<b>(169,268)</b>	(148,703)
Issuance of units to the Manager during the period	17	<b>20,542</b>	19,427
Units bought back	17	<b>(3,397)</b>	(4,585)
Units buy-back expenses	17	<b>(14)</b>	(20)
		<b>(152,137)</b>	(133,881)
<b>At the end of the period</b>		<b>12,206,517</b>	10,979,460

The notes on pages 30 to 47 form part of this interim financial report.

## Distribution Statement

For the six months ended 31 December 2014 – unaudited  
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2014	2013
		\$'000	\$'000
	Note		
<b>Profit after taxation and before transactions with unitholders</b>		<b>854,663</b>	577,166
Adjustments : (note(i))			
– Net increase in fair value of investment properties		<b>(708,420)</b>	(450,874)
– Manager’s fees paid or payable in the form of units		<b>20,046</b>	18,529
– Non-cash finance costs on interest bearing liabilities		<b>5,900</b>	13,732
– Deferred tax	8	<b>6,992</b>	8,973
		<b>(675,482)</b>	(409,640)
<b>Distributable income</b> (note (i))		<b>179,181</b>	167,526
Interim distribution (note (ii))		<b>171,448</b>	155,616
Payout ratio (note (ii))		<b>95.7%</b>	92.9%
<b>Distribution per unit</b> (note (ii))		<b>10.5 cents</b>	9.6 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.

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated income statement for the relevant financial period. The adjustments for the period included an adjustment to eliminate non-cash finance costs on interest bearing liabilities of \$5,900,000, or 0.36 cents per unit (2013 : \$13,732,000 or 0.85 cents per unit).

- (ii) The interim distribution of \$171,448,000 for the six months ended 31 December 2014 (2013 : \$155,616,000), representing a payout ratio of 95.7% (2013 : 92.9%), is calculated by multiplying the interim distribution per unit of 10.5 cents by 1,632,836,625 units in issue at 31 December 2014 (2013 : 9.6 cents by 1,620,998,045 units in issue at 31 December 2013).

## Distribution Statement (continued)

For the six months ended 31 December 2014 – unaudited  
(Expressed in Hong Kong dollars)

Notes : *(continued)*

- (iii) The interim distribution is expected to be paid on 12 March 2015 to unitholders whose names appear on the register of unitholders on 27 February 2015.
- (iv) The interim distribution proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.
- \* Certain figures in these notes to distribution statement have been rounded to the nearest thousand.

The notes on pages 30 to 47 form part of this interim financial report.

## Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2014 – unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2014 \$'000	2013 \$'000
<b>Operating activities</b>			
Cash generated from operations		258,823	234,138
Tax paid			
– Hong Kong Profits Tax paid		(46,316)	(27,471)
<b>Net cash generated from operating activities</b>		<b>212,507</b>	<b>206,667</b>
<b>Investing activities</b>			
Expenditure on investment properties		(17,865)	(13,200)
Decrease/(increase) in pledged deposits with original maturity over three months		184,568	(24,104)
Decrease in bank deposits with original maturity over three months		16,024	–
Other cash flows arising from investing activities		2,190	1,635
<b>Net cash generated from/(used in) investing activities</b>		<b>184,917</b>	<b>(35,669)</b>
<b>Financing activities</b>			
Distribution paid to unitholders		(169,268)	(148,703)
Other borrowing costs paid		(151)	(22,185)
Interest paid		(48,627)	(47,730)
Other cash flows arising from financing activities		(3,411)	(4,605)
<b>Net cash used in financing activities</b>		<b>(221,457)</b>	<b>(223,223)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>175,967</b>	<b>(52,225)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	14	<b>123,266</b>	<b>202,863</b>
<b>Cash and cash equivalents at the end of the period</b>	14	<b>299,233</b>	<b>150,638</b>

The notes on pages 30 to 47 form part of this interim financial report.

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 1 General

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

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

## 2 Basis of preparation

This interim financial report has been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issuance on 5 February 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013/14 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014/15 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 2013/14 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 48.



## 2 Basis of preparation *(continued)*

The financial information relating to the financial year ended 30 June 2014 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 2014 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 September 2014.

## 3 Changes in accounting policies

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

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- Annual Improvements to HKFRSs 2010–2012 cycle
- Annual Improvements to HKFRSs 2011–2013 cycle

These developments have had no material impact on the Group's financial statements.

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

## 4 Segment reporting

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

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

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 4 Segment reporting (continued)

### Segment results

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

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

The measure used for reporting segment performance is the “segment results” which exclude the net increase/(decrease) in fair value of investment properties, 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					
	2014 (Unaudited)			2013 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover						
– rental income	144,528	151,412	295,940	130,967	138,047	269,014
– car park income	1,814	14,569	16,383	1,791	12,570	14,361
– rental related income	30,143	28,379	58,522	27,505	25,594	53,099
	<b>176,485</b>	<b>194,360</b>	<b>370,845</b>	160,263	176,211	336,474
Property operating expenses	(38,314)	(46,923)	(85,237)	(34,925)	(42,387)	(77,312)
Net property income	138,171	147,437	285,608	125,338	133,824	259,162
Administrative expenses	(21,146)	(20,663)	(41,809)	(19,499)	(18,990)	(38,489)
Segment results	117,025	126,774	243,799	105,839	114,834	220,673
Net increase in fair value of investment properties	358,883	349,537	708,420	204,276	246,598	450,874
Finance costs on interest bearing liabilities			(54,683)			(61,046)
Income tax			(31,631)			(30,517)
Interest income			2,006			1,604
Unallocated net expenses			(13,248)			(4,422)
Profit after taxation and before transactions with unitholders			<b>854,663</b>			<b>577,166</b>
Depreciation	6	7	13	7	8	15

## 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	
	2014 (Unaudited) \$'000	2013 (Unaudited) \$'000
Rental income	295,940	269,014
Car park income	16,383	14,361
Rental related income	58,522	53,099
	<b>370,845</b>	<b>336,474</b>

## 6 Property operating expenses

	Six months ended 31 December	
	2014 (Unaudited) \$'000	2013 (Unaudited) \$'000
Building management fee	29,046	27,930
Property Manager's fees	24,995	23,091
Government rent and rates	16,243	12,833
Marketing and promotion expenses	5,627	4,840
Car park operating costs	3,088	3,089
Bad debts expenses	46	43
Other direct costs	6,192	5,486
	<b>85,237</b>	<b>77,312</b>

## 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	
	2014 (Unaudited) \$'000	2013 (Unaudited) \$'000
<b>(a) Finance costs on interest bearing liabilities</b>		
Interest on secured bank borrowings	48,632	47,254
Other borrowing costs	6,051	13,792
	<b>54,683</b>	<b>61,046</b>

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

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

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

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

	Six months ended 31 December	
	2014 (Unaudited) \$'000	2013 (Unaudited) \$'000
<b>(b) Other items</b>		
Interest income	(2,006)	(1,604)
Manager's fees	40,093	37,058
Property Manager's fees (note (i))	24,995	23,091
Trustee's remuneration	2,050	1,936
Auditor's remuneration		
– Audit services	715	694
– Other services	830	413
Valuation fees	484	274
Other legal and professional fees	9,280	1,086
Commission to property agents	1,069	1,990
Bank charges	157	275

Notes :

- (i) Included rental commission of \$7,552,000 (2013 : \$6,604,000).
- (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	
	2014 (Unaudited) \$'000	2013 (Unaudited) \$'000
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Provision for the period	24,639	21,544
<b>Deferred tax</b>		
Origination and reversal of temporary differences	6,992	8,973
	<b>31,631</b>	<b>30,517</b>

## 8 Income tax (continued)

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

In the financial year ended 30 June 2014, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group for the year of assessment 2007/08 in an aggregate amount of \$1,021,000 as the IRD disallowed the deductions of the management and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the six months ended 31 December 2014, the IRD further raised additional profits tax assessments on a subsidiary of the Group in respect of such disallowance for the years of assessment 2008/09 to 2013/14 in an aggregate amount of \$1,910,000. Notices of objection were filed with the IRD and tax reserve certificates of \$2,931,000 have been purchased. Based on the opinion of the Group’s legal and tax advisers, the Manager is of the view that there are strong grounds to object the additional profits tax assessments raised.

## 9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2014 amounted to \$0.52 (2013 : \$0.36). The calculation of basic earnings per unit before transactions with unitholders is based on the Group’s profit after taxation and before transactions with unitholders of \$854,663,000 (2013 : \$577,166,000) and the weighted average of 1,629,600,322 units in issue during the period (2013 : 1,617,945,106 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2014 and 2013 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

## 10 Investment properties

	<b>31 December 2014 (Unaudited) \$’000</b>	30 June 2014 (Audited) \$’000
At 1 July 2014 / 2013	<b>15,390,600</b>	14,408,800
Additions	<b>35,280</b>	20,759
Net increase in fair value	<b>708,420</b>	961,041
At 31 December 2014 / 30 June 2014	<b>16,134,300</b>	15,390,600

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 10 Investment properties (continued)

### (a) Valuation

The investment properties were appraised at 31 December 2014 by the Group's principal valuer, Jones Lang LaSalle Limited ("**JLL**"), an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with experience in the location and category of property being valued. Valuation techniques adopted by this valuer were the same as when carrying out the June 2014 valuation. As a result of the valuation, a net gain of \$708,420,000 (2013: \$450,874,000) has been recognised in profit or loss for the period in respect of investment properties.

### (b) The analysis of the fair value of investment properties is as follows :

	<b>31 December 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
In Hong Kong		
– long leases	<b>7,290,900</b>	6,960,900
– medium-term leases	<b>8,843,400</b>	8,429,700
	<b>16,134,300</b>	15,390,600

### (c) 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 by the subsidiaries at the date of acquisition.

## 12 Derivative financial instruments

	31 December 2014 (Unaudited)		30 June 2014 (Audited)	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
<b>Interest rate swaps – cash flow hedges</b>				
Current portion	–	(32,401)	–	(33,188)
Non-current portion	19,609	(7,068)	19,989	(15,772)
	<b>19,609</b>	<b>(39,469)</b>	19,989	(48,960)

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 2014, the Group had interest rate swaps in place with an aggregate notional amount of \$2,750,000,000 (30 June 2014 : \$2,600,000,000). The interest rate swaps will mature on 30 June 2016, 29 September 2017, 29 June 2018 and 28 September 2018 (30 June 2014 : 30 June 2016, 29 September 2017, 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 2014 : 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.

## 13 Trade and other receivables

	31 December 2014 (Unaudited) \$'000	30 June 2014 (Audited) \$'000
Rental receivables	12,823	12,812
Deposits and prepayments	8,278	25,974
Other receivables	1,364	2,345
Amounts due from related companies	804	635
	<b>23,269</b>	41,766
<b>Represented by :</b>		
Current portion	22,949	24,031
Non-current portion	320	17,735
	<b>23,269</b>	41,766

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 13 Trade and other receivables (continued)

The balance under non-current portion represents progress payments for the improvement works carried out on certain investment properties of the Group which were in progress at the balance sheet dates.

\$4,768,000 (30 June 2014 : \$4,757,000) 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 2014 (Unaudited) \$'000</b>	<b>30 June 2014 (Audited) \$'000</b>
Current	<b>9,594</b>	9,386
Less than 1 month overdue	<b>2,489</b>	2,632
More than 1 month and up to 3 months overdue	<b>414</b>	341
More than 3 months and up to 6 months overdue	<b>124</b>	199
More than 6 months overdue	<b>202</b>	254
	<b>12,823</b>	12,812

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 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
Pledged bank balances and deposits with original maturity within three months (note 16)	<b>241,718</b>	88,172
Deposits with original maturity within three months	<b>47,927</b>	30,033
Cash at bank and in hand	<b>9,588</b>	5,061
Cash and cash equivalents	<b>299,233</b>	123,266
Pledged deposits with original maturity over three months (note 16)	<b>15,003</b>	199,571
Deposits with original maturity over three months	<b>6,393</b>	22,417
	<b>320,629</b>	345,254

## 15 Trade and other payables

	<b>31 December 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
Creditors and accrued charges	<b>35,740</b>	36,287
Manager's fees payable (note 21(b)(ii))	<b>20,497</b>	21,489
Amounts due to related companies	<b>159,260</b>	158,008
	<b>215,497</b>	215,784

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 \$1,030,000 (30 June 2014 : \$1,079,000) 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 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
After 2 years but within 5 years	<b>2,898,487</b>	2,894,437
After 5 years	<b>979,681</b>	977,831
	<b>3,878,168</b>	3,872,268

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 2014 : HIBOR plus 1.05% per annum to HIBOR plus 1.55% per annum). 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 the investment properties with a fair value of \$13,760,600,000 at 31 December 2014 (30 June 2014 : \$13,096,800,000);
- floating charge over bank balances of \$21,155,000 (30 June 2014 : \$16,996,000) and \$235,566,000 (30 June 2014 : \$270,747,000) in bank accounts maintained respectively with The Hongkong and Shanghai Banking Corporation Limited 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 secured bank borrowings at the balance sheet date was 2.49% per annum (30 June 2014 : 2.44% per annum). The carrying amounts of the secured bank borrowings approximate their fair values.

## 17 Units in issue

	Number of units	
	31 December 2014 (Unaudited)	30 June 2014 (Audited)
At 1 July 2014 / 2013	1,627,580,493	1,616,330,766
Issuance of units during the period / year	6,256,132	12,749,727
Units bought back	(1,000,000)	(1,500,000)
At 31 December 2014 / 30 June 2014	1,632,836,625	1,627,580,493

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 2014 (Unaudited)</b>			
1 April 2014 to 30 June 2014	3.2935	9,737	2,956,370
Adjustment of Manager's fees for the financial year 2013/14	3.2967	1,007	305,638
1 July 2014 to 30 September 2014	3.2724	9,798	2,994,124
		20,542	6,256,132
<b>For the year ended 30 June 2014 (Audited)</b>			
1 April 2013 to 30 June 2013	3.1849	9,050	2,841,331
Adjustment of Manager's fees for the financial year 2012/13	3.0185	1,252	414,783
1 July 2013 to 30 September 2013	3.1346	9,125	2,911,165
1 October 2013 to 31 December 2013	2.9816	9,403	3,153,825
1 January 2014 to 31 March 2014	2.7807	9,534	3,428,623
		38,364	12,749,727

# 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 bought back a total of 1,000,000 units (year ended 30 June 2014 : 1,500,000 units) on the SEHK during the six months ended 31 December 2014 at an aggregate consideration of \$3,397,000 (year ended 30 June 2014 : \$4,585,000). Details of the buy-backs were as follows :

	Number of units bought back	Price per unit Highest \$	Lowest \$	Aggregate consideration \$'000
<b>For the six months ended 31 December 2014 (Unaudited)</b>				
<b>Month of buy-back</b>				
November 2014	1,000,000	3.46	3.36	3,397
Total buy-back expenses				14
				<b>3,411</b>
<b>For the year ended 30 June 2014 (Audited)</b>				
<b>Month of buy-back</b>				
November 2013	1,500,000	3.08	3.03	4,585
Total buy-back expenses				20
				<b>4,605</b>

All bought back 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

## 18 Fair value measurement of financial instruments *(continued)*

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

#### (i) Fair value hierarchy *(continued)*

At 31 December 2014 and 30 June 2014, 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.

During the six months ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the balance sheet date in which they occurred.

#### (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 2014 and 30 June 2014.

## 19 Capital commitments

Capital commitments outstanding at 31 December 2014 not provided for in the interim financial report are as follows :

	<b>31 December 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
Contracted for	<b>12,471</b>	28,338
Authorised but not contracted for	<b>10,322</b>	12,560
	<b>22,793</b>	40,898

## 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 2014 : \$4,685,000).

# Notes to the Interim Financial Report

(Expressed in Hong Kong dollars)

## 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), *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
The Hongkong and Shanghai Banking Corporation Limited 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

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

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

	Six months ended 31 December	
	2014 (Unaudited) \$'000	2013 (Unaudited) \$'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	<b>4,609</b>	4,555
– HSBC Group	<b>8,134</b>	7,368
Property management expenses paid/payable to (note (i)) :		
– HLD Group	<b>(8,776)</b>	(8,390)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	<b>(161)</b>	(70)
Manager's fees (note (ii))	<b>(40,093)</b>	(37,058)
Property Manager's fees (note (iii))	<b>(24,995)</b>	(23,091)
Trustee's remuneration and charges (note (iv))	<b>(2,051)</b>	(1,940)
Interest expenses, security trustee and other charges on bank borrowings, advisory fee, brokerage commission and other bank charges paid/payable to (notes (i) and (v)) :		
– HSBC Group	<b>(8,931)</b>	(15,490)
Interest paid/payable under the interest rate swaps (note (v)) :		
– HSBC Group	<b>(7,631)</b>	(7,317)
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	<b>6</b>	9
Valuation fees and other charges paid/payable to (note (i)) :		
– JLL Group	<b>(484)</b>	(315)
Promotion income received/receivable from (note (i)) :		
– HLD Group	<b>931</b>	762
Additional consideration paid to (note (vi)) :		
– HLD Group and SKFE Group	<b>(1,244)</b>	(174)

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

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 14 May 2013, the Manager made an election for the base fee and variable fee for the financial year ended 30 June 2014 to be paid 50% in the form of cash and 50% in the form of units. While on 24 June 2014 and 9 July 2014, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2015.

- (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 (as reviewed) 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 2014 (Unaudited) \$'000</b>	30 June 2014 (Audited) \$'000
Net amount due to :		
– SKFE Group	<b>(78,379)</b>	(78,379)
– HLD Group	<b>(41,351)</b>	(41,220)
– HD	<b>(54,999)</b>	(54,999)
– HSBC Group (note)	<b>(1,027,058)</b>	(1,037,647)
– JLL Group	<b>(274)</b>	(393)
Note :		
Deposits and cash placed with HSBC Group	<b>28,960</b>	17,221
Secured bank borrowings and interest payable to HSBC Group	<b>(1,050,082)</b>	(1,050,078)
Others	<b>(5,936)</b>	(4,790)
	<b>(1,027,058)</b>	(1,037,647)

## 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 47 which comprises the consolidated balance sheet of Sunlight Real Estate Investment Trust as of 31 December 2014 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 2014 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

5 February 2015

## Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2014	2013	2012	2011	2010
<b>At 31 December :</b>						
Net asset value (\$ million)		<b>12,206.5</b>	10,979.5	9,938.0	8,622.8	7,149.4
Net asset value per unit		<b>7.48</b>	6.77	6.17	5.39	4.54
Market capitalisation (\$ million)		<b>5,714.9</b>	4,863.0	5,318.5	3,550.6	3,763.2
<b>For the six months ended 31 December :</b>						
Highest traded unit price		<b>3.68</b>	3.22	3.59	2.57	2.40
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>3.05</b>	2.95	2.61	1.91	1.98
Highest discount of the traded unit price to net asset value per unit (%)		<b>59.2</b>	56.4	57.7	64.6	56.4
Closing unit price		<b>3.50</b>	3.00	3.30	2.22	2.39
Distribution per unit (cents)	2	<b>10.5</b>	9.6	8.5	8.3	8.5
Payout ratio (%)		<b>95.7</b>	92.9	91.6	90.5	90.0
Distribution yield per unit (%)	3	<b>3.00</b>	3.20	2.58	3.74	3.56
Annualised distribution yield per unit (%)	3	<b>6.00</b>	6.40	5.15	7.48	7.11

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 was enhanced by arrangement offered by certain subsidiaries of HLD and SKFE in the form of distribution waivers (from the date of initial public offering 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 the period.

## Corporate Information

### Board of Directors of the Manager

#### Chairman and Non-executive Director

Au Siu Kee, Alexander

#### Chief Executive Officer and Executive Director

Wu Shiu Kee, Keith

#### Non-executive Director

Kwok Ping Ho

#### Independent Non-executive Directors

Kwan Kai Cheong

Ma Kwong Wing

Tse Kwok Sang

#### 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, Sunlight Tower,

248 Queen's Road East, Wan Chai,

Hong Kong

### Unit Registrar

Tricor Investor Services Limited

Level 22, Hopewell Centre,

183 Queen's Road East,

Hong Kong

### Investor Relations

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### Website

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

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## Financial Calendar

(in respect of FY2014/15 interim results)

### Interim Results Announcement

5 February 2015

### Issuance of Interim Report

13 February 2015

### Ex-distribution date

23 February 2015

for interim distribution

### Closure of Register

25 February 2015 to 27 February 2015,  
both days inclusive

for entitlement of interim distribution

### Interim distribution payable

12 March 2015

at HK 10.5 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

