SUNLIGHT REIT

Stock Code : 435

A Decade of Excellence

Annual Report 2015/16

Performance Highlights

Appraised property value
(HK$' million)

16,651

30 June 2016	
30 June 2015	17,035
30 June 2014	15,391

Revenue
(HK$' million)

769.7

FY2015/16	
FY2014/15	754.4
FY2013/14	688.9

Net property income
(HK$' million)

608.5

FY2015/16	
FY2014/15	586.6
FY2013/14	535.1

Distribution per unit
(HK cents)

24.3

FY2015/16	12.0	12.3	
FY2014/15	10.5	11.5	22.0
FY2013/14	9.6	10.4	20.0

Net asset value per unit
(HK$)

8.26

30 June 2016	
30 June 2015	7.99
30 June 2014	7.06

Gearing
(%)

21.9

30 June 2016	
30 June 2015	22.0
30 June 2014	24.3

Passing rent
(HK$/sq. ft.)

44.2[1]

30 June 2016	
30 June 2015	41.1
30 June 2014	38.2

Occupancy
(%)

95.9[2]

30 June 2016	
30 June 2015	98.5
30 June 2014	98.6

Notes：

1. The renovated area vacated at Sheung Shui Centre Shopping Arcade is excluded from the calculation.
2. Excluding the renovated area vacated at Sheung Shui Centre Shopping Arcade, the overall occupancy would have been 98.1%.

Contents

Forward-looking Statements

This annual 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 Real Estate Investment Trust ("**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.

Sunlight REIT's unit price performance (at 30 June 2016)

	Total return[Note] (%)			
	1-year	3-year	5-year	Since listing
Sunlight REIT	18.9	67.2	141.9	262.2
Hang Seng Index	(17.5)	11.7	11.7	50.3
Hang Seng Index - Properties	(12.8)	15.8	24.8	72.5
Hang Seng REIT Index	11.4	36.0	72.9	120.1

Source : Bloomberg

Annualised total return to investors since listing

14.5%

Our Business

Sunlight REIT is a real estate investment trust authorised by the Securities and Futures Commission ("**SFC**"), and was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 21 December 2006. At 30 June 2016, its market capitalisation was approximately HK$7,230.7 million.

A constituent of Hang Seng REIT Index since October 2008, Sunlight REIT has also been selected as a constituent of the following Hang Seng Indices with effect from 9 March 2015 :

- Hang Seng Global Composite Index
- Hang Seng Composite Index Series :
  - Hang Seng Composite Index
  - Hang Seng Composite Industry Index – Properties & Construction
  - Hang Seng Composite SmallCap Index

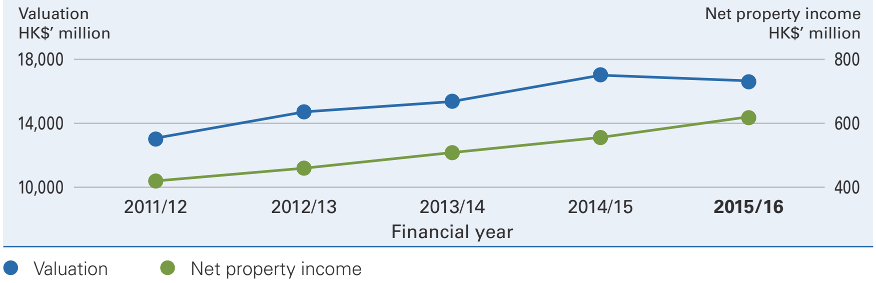
Sunlight REIT offers investors the opportunity to invest in a diversified portfolio of ten office and six retail properties in Hong Kong with a total gross rentable area ("**GRA**") of approximately 1,206,827 sq. ft.. The office properties are primarily located in core business areas, including Central, Wan Chai and Sheung Wan and in decentralised business areas such as Mong Kok/Yau Ma Tei and North Point. The retail properties are primarily situated at regional transportation hubs and new towns including Sheung Shui, Tseung Kwan O and Yuen Long, as well as in urban areas with high population density. At 30 June 2016, Sunlight REIT's portfolio was appraised at HK$16,651.0 million, with office and retail properties accounting for 51.1% and 48.9% of total valuation respectively.

Our Management

The Manager is an indirect wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**") and is responsible for managing Sunlight REIT in accordance with the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**") in the sole interest of unitholders. The Manager formulates and implements asset management strategies for Sunlight REIT in relation to operational, investment, financial and risk management. It is also responsible for ensuring compliance with the Code on Real Estate Investment Trusts (the "**REIT Code**"), the Trust Deed, applicable provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and other relevant legislations and regulations.

Note : Total return is the holding period return with dividends (or distributions in the case of Sunlight REIT) reinvested in the relevant security.

Valuation* and Net property income : Five-year trend



* Valuation for FY2015/16 excluded three disposed properties.

Henderson Sunlight Property Management Limited (the "**Property Manager**") has been delegated the responsibilities of providing property management, lease management and marketing services solely and exclusively for the properties of Sunlight REIT located in Hong Kong, subject to the overall management and supervision of the Manager.

Our Strategy

The key objectives of the Manager are to provide 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. The Manager intends to accomplish these objectives through the following business and investment strategies :

Operational management and asset enhancement strategy

The Manager works closely with the Property Manager to develop proactive leasing as well as asset enhancement initiatives principally aimed at creating and unlocking the value of the property portfolio.

Investment and acquisition growth strategy

The Manager seeks to acquire income-producing investment properties which enhance returns through accretion in distribution yield, sustainable growth in distributions and/or long-term enhancement in capital value. The Manager also considers fine-tuning the portfolio through divestment of non-core assets for other more attractive investments with a view to enhancing returns to the unitholders.

Capital management and business management strategy

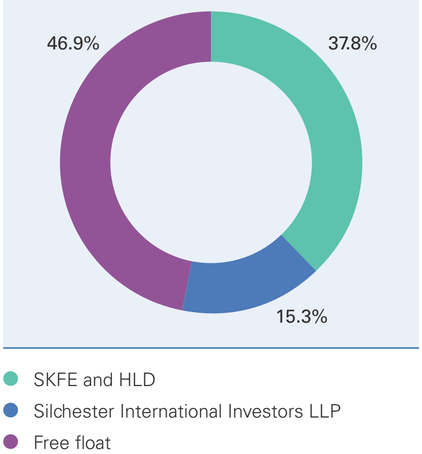
The Manager supports Sunlight REIT's operational and acquisition growth strategies by employing an efficient capital management strategy using an appropriate mix of debt and equity capital. It has also established a solid business management framework which includes sound corporate governance practices, effective risk management and internal control systems, reliable infrastructure and management information systems as well as a well-trained work force.

Our Strength

With a diversified and balanced portfolio of office and retail properties, Sunlight REIT has established a solid track record in delivering growth in net property income and portfolio valuation since inception. Its defensive qualities are further supported by a stable management team which places a strong emphasis on asset enhancement, financial management and corporate governance. Finally, Sunlight REIT has received unwavering support from its sponsors, namely, Shau Kee Financial Enterprises Limited ("**SKFE**") and HLD, which collectively own 37.8% of the total number of units in issue at 30 June 2016.

Unitholding structure

(at 30 June 2016)



Chairman's Statement

Left **AU Siu Kee, Alexander**
Chairman

Right **WU Shiu Kee, Keith**
Chief Executive Officer

"Sunlight REIT has braved trying times in the course of accomplishing a decade of excellence. As it has become more established, I remain guardedly optimistic that it can weather the challenges ahead to emerge even stronger."

On behalf of the Board, it gives me great pleasure to present the final results of Sunlight REIT for the year ended 30 June 2016 (the "**Year**") as we proudly commemorate the tenth anniversary of the trust. Despite unabated headwinds especially in the retail scene, the performance of Sunlight REIT during the Year remained satisfactory, reflecting the fruits of proactive asset management as well as effective cost control.

The net property income of Sunlight REIT for the Year increased by 3.7% year-on-year to HK$608.5 million, as its portfolio continued to enjoy high occupancies, while healthy rental reversion and adequate cost control more than offset the income loss due to the disposal of three non-core properties completed during the Year. Further, the capital management initiative implemented by the Manager proved rewarding in reducing cash interest outlay. As a result, total distributable income recorded a year-on-year growth of 10.6% to HK$415.0 million.

The Board has declared a final distribution of HK 12.3 cents per unit, or HK$201.2 million. Together with an interim distribution of HK 12.0 cents per unit, the total distribution per unit ("**DPU**") for the Year would amount to HK 24.3 cents, up 10.5% year-on-year. The implied payout ratio is 95.8%, compared with 95.9% in the preceding year.

The value of Sunlight REIT's portfolio was appraised at HK$16,651.0 million at 30 June 2016, which was 2.8% higher than a year earlier (after excluding the disposed properties). Meanwhile, its net asset value rose by 3.2% to HK$13,518.1 million at 30 June 2016, or HK$8.26 per unit (30 June 2015: HK$7.99 per unit).

Compound annual growth since listing

8.9%
Net property income

10.2%
Net asset value

Looking back on the decade since its listing in December 2006, Sunlight REIT's achievements have been impressive. Although the number of properties under management was strategically trimmed from 20 to 16, resulting in a 6.8% reduction in GRA, net property income expanded by a compound annual growth rate of 8.9%. Likewise, net asset value also increased by 10.2%. Such a remarkable track record has been delivered despite cyclical swings in the office and retail leasing markets, and is a testament to the excellent asset management performance of the Manager.

I am also delighted to report that Sunlight REIT's unit price closed at HK$4.42 on 30 June 2016, which compares favourably to the initial public offering price of HK$2.60 per unit. The annualised total return to investors over the past decade (assuming reinvestment of distributions) is approximately 14.5%*, yet another enviable achievement.

Looking ahead, the supply-demand dynamics of the Grade A office market and the sentiment of retail spending are clearly less favourable for landlords. In addition, the predictability of the business climate further out has been blurred by at least three major variables that are inextricably intertwined, namely the monetary policy of the US, the state of China's economy and the repercussions of Britain's exit from the European Union following the unexpected referendum results in June 2016. Despite the unclear economic outlook, the Manager has always been braced for growing uncertainties and will continue to make every effort to strengthen the tenant base, improve the tenant mix and optimise the capital structure of Sunlight REIT.

More importantly, with cash on hand of over HK$1,100 million, largely attributable to proceeds received from the disposal exercise mentioned earlier, Sunlight REIT is well-positioned to capture accretive acquisition opportunities as and when available. In addition, the trust has been afforded greater flexibility in creating value for unitholders given its expanded scope of investment (as approved by unitholders in 2015) as well as the recent amendments to the REIT Code in respect of property development and investment in non-real estate assets.

Sunlight REIT has braved trying times in the course of accomplishing a decade of excellence. As it has become more established, I remain guardedly optimistic that it can weather the challenges ahead to emerge even stronger. The key to success is its people. I would therefore like to take this opportunity to express my sincere thanks to my fellow directors, management and staff for their dedication, diligence and professionalism, and I look forward to their continued support and contribution.

AU Siu Kee, Alexander
Chairman
5 September 2016

* Source : Bloomberg

CEO's Report

"In sum, the rental growth momentum of Sunlight REIT's property portfolio is envisaged to take a breather in FY2016/17, with SSC's ongoing renovation likely to post an adverse, though transitory impact on net property income. However, the situation should be somewhat moderated by our proactive capital management and cost control initiatives, not to mention the potential upside brought about by future acquisitions."

When Sunlight REIT was founded and listed on the Stock Exchange ten years ago, it was greeted with a cool reception, as investors were generally doubtful about REIT as an investment instrument, and the prospects of the REIT sector as a whole. Gratifyingly, a decade of sustained growth in income and distribution delivered by a team of professionals focusing intently on value creation has helped alter market perception, as witnessed by the respectable unit price performance of Sunlight REIT to date. It is a vindication of the Manager's proactive operational strategy which involves perceptive forward thinking to embrace anticipated changes in market conditions and to prepare for unpleasant surprises. During the Year, continued implementation of this strategy was amply demonstrated as follows.

Accretive disposal

2.2%
Exit NPI yield

50.6%
Premium to appraised value at 30 April 2015

Well-planned disposal of non-core assets

The sale of Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property in the early part of the Year was brilliantly executed in terms of timing and pricing. While the impact of the disposals on Sunlight REIT's distributable income was relatively small, its balance sheet received a welcome boost with net proceeds of over HK$900 million generated from the transactions.

Prudent application of surplus funds

At year-end, about 17.1% of the surplus proceeds has been reinvested in value-enhancing initiatives. Approximately HK$54.9 million was spent on the buy-back (and cancellation) of units in the open market, while a slightly larger sum was allocated for investing into fixed income instruments. In addition, HK$22.2 million was utilised on early unwinding certain interest rate swaps ("**IRS**") to accommodate the entering into of new IRS. Finally, HK$17.9 million was used to unify the ownership of On Loong Commercial Building, providing the Manager with more flexibility in enhancing the rental and capital values of this property in Wan Chai.

Decent operational performance

A persistent setback in consumer spending and tourist arrivals during the Year exerted pressure on rent negotiations with selected retail tenants when their leases were up for renewal. However, the retail portfolio of Sunlight REIT remained defensive given its substantial exposure to consumer staples. Meanwhile, the office portfolio continued to stage a steady performance on the back of still firm demand for Grade A offices in decentralised locations. In light of mixed market conditions, the Manager has devoted considerable effort in upholding tenant retention, refining the trade mix and organising creative promotional campaigns. As a result, tenant retention remained at a high level, while the occupancy rates of Sunlight REIT's office and retail portfolios were maintained at 98.0% and 91.7%[1] respectively at 30 June 2016. Passing rent of the office portfolio at the end of the Year was up 4.6% from 30 June 2015 to HK$31.6 per sq. ft. whereas that of the retail portfolio showed a 6.5% increase to HK$71.6 per sq. ft.[2] for the same period, primarily supported by positive albeit moderating pace of rental reversion.

Further improvement in cost-to-income ratio

A corollary to a quality tenant base and a high retention rate was meaningful cost savings on tenant acquisitions. Meanwhile, the 3.9% decrease in operating expenses was underpinned by stringent cost control as well as energy savings resulting from the chiller replacement initiatives conducted at Sunlight Tower and Sheung Shui Centre Shopping Arcade ("**SSC**"). Currently at 20.9%, the trend of continued improvement in cost-to-income ratio over the past decade was particularly encouraging.

Rewarding return on asset enhancement

The asset enhancement initiatives launched by the Manager are principally aimed at achieving a desirable return on investment through improving the operating cost structure or enhancing the rental and capital values of the assets involved. As a case in point, the energy saving solution adopted for Sunlight REIT's flagship office building, namely Sunlight Tower, has been used as a template for asset enhancement as it clearly demonstrates the dual benefits of reducing utility expenses and contributing to a greener environment. (A more in-depth analysis of this strategic pursuit can be found on page 22 of this annual report).

Outlook

While the world has been wrestling with the muted momentum of an ongoing economic recovery, Britain's unexpected decision to leave the European Union will inevitably prolong the period of global economic uncertainty. In particular, this may render the US Federal Reserve Board to further postpone raising interest rates as against its previously stated intention. Given a spate of unknown factors, it is difficult to arrive at a consensual conclusion on the trajectory of the global economy ahead. As such, the Manager will closely monitor the evolving trends and developments locally and globally, assess their impact on the operating environment of Sunlight REIT and map out appropriate responses accordingly.

In any event, the prevailing weakness in domestic retail sales caused primarily by a slowdown in tourist arrivals and changing consumer preferences is expected to linger. While we are hopeful that the impact on Sunlight REIT can be cushioned by the preponderance of trades focusing on necessities and consumer staples, the prospect of slowing rental reversion, and negative in selected cases, is clearly an emerging scenario. Meanwhile, the rental outlook for Grade A offices in decentralised business districts appears less certain given that the new supply in Kowloon East will gradually come on stream from 2017 onwards. However, Grade A office rents in Hong Kong Island should be more stable given the limited supply

Hong Kong retail sales

↓ **8.1%**
year-on-year

Source : Census and Statistics Department

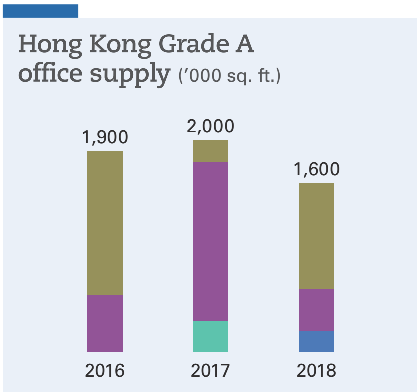
Number of tourist arrivals

↓ **7.3%**
year-on-year

Source : Hong Kong Tourism Board

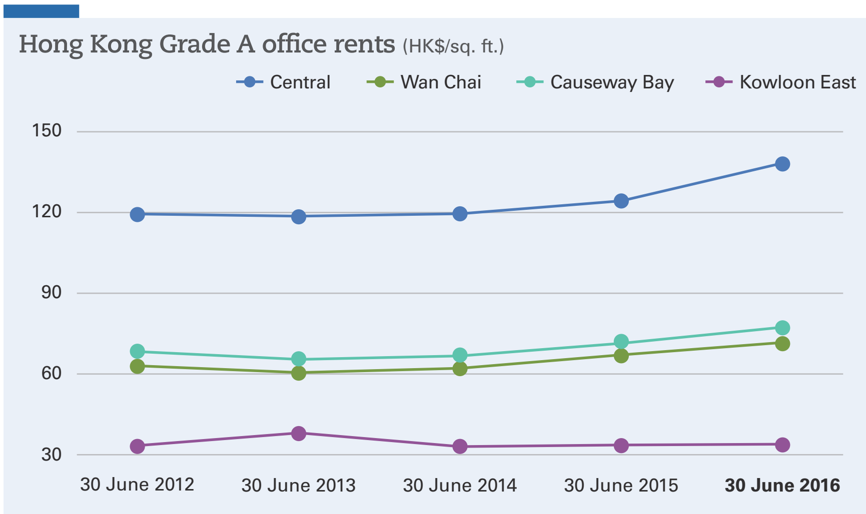
Notes :

1. Excluding the renovated area vacated at Sheung Shui Centre Shopping Arcade, the occupancy of the retail portfolio would have been 98.2%.
2. The renovated area vacated at Sheung Shui Centre Shopping Arcade is excluded from the calculation.



- Wan Chai
- Causeway Bay
- Kowloon East
- Others

Source : Knight Frank Petty Limited

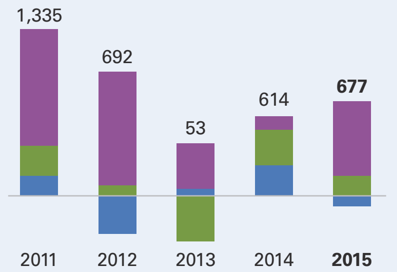


and location superiority. On office take-up, tenant retention rate is expected to remain satisfactory in view of the prohibitively high relocation costs as well as the cautious stance adopted by multinational corporations in light of the global economic climate. On balance, barring a dramatic change in market conditions, the pace of rental reversion for Sunlight REIT's portfolio will naturally decelerate in the short-to-medium term.

Regarding the revitalisation initiative at SSC, I am pleased to report that the project works have been completed substantially, with the revamped area (which provides GRA of close to 26,000 sq. ft.) earmarked for soft opening in November this year. While the leasing progress has admittedly been slower than expected in tandem with the overall retail sentiment, we are gratified to have already secured pre-commitments representing almost 70% of the new rentable space. It should, however, be noted that the rent void relating to the ongoing reconfiguration will largely remain until end-2016, while the substantial rental commission expenses attributable to the new letting activities are expected to push up the operating expenses of SSC transiently in the first half of FY2016/17. Similarly, increased new letting commitments at Sunlight Tower, as well as the space reconfiguration of approximately 8% of GRA at the ground floor of Metro City Phase I Property ("**MCPI**") will also incur additional operating outlays. Taking into consideration the rent void impact on SSC and the various ad-hoc expenses as mentioned above, the Manager is currently projecting that the net property income of Sunlight REIT may fall in the first half of FY2016/17 (as compared with the same period last year), before exhibiting a nice rebound in the second half of the financial year.

With the proceeds made available from asset disposals, the Manager can pursue the acquisition growth strategy more vigorously. However, while caution is prevailing in the leasing market for commercial properties in light of an uncertain economic outlook, intense competition from aggressive investors as well as end users such as multinational and mainland corporations has helped to hold up capital values. More time and effort will therefore have to be spent on exploring acquisition targets that can be both complementary to Sunlight REIT's portfolio and accretive to yield.

Hong Kong Grade A office take-up (net of demolition)
('000 sq. ft.)



- Central
- Wan Chai/Causeway Bay
- Kowloon East

Source : Knight Frank Petty Limited

Despite all the challenges described above, there are reasonable grounds for cautious optimism. The Manager is confident that the asset enhancement programmes customised for SSC and MCPI can facilitate the introduction of a wider array of quality brands, products and services as well as food and beverage options that can lift the shopping experience of customers and hence boost the footfall in these shopping malls. Based on current projections, the benefits should start to surface in 2017 and the rental improvement derived from the revamped areas is expected to mitigate the slowdown in rental reversion which might persist for some time.

On the cost side, the escalation in contractual expenses relating to cleaning and security services over the past few years seems relenting to a certain extent, thus easing the pressure on the operating margin of Sunlight REIT. Besides making continued investments to economise on electricity consumption, the Manager is dedicated to streamlining various property management functions such as repairs and maintenance to promote greater operational efficiency and yet without compromising the quality of services provided.

As it appears unlikely for the US Federal Reserve Board to tighten its monetary reins as previously envisaged, funding costs should be kept in check accordingly. Meanwhile, the continued compression in interest margin on loan and debt instruments will provide the Manager with a valuable opportunity to refine and bolster the capital structure of Sunlight REIT, especially in view of the need for refinancing a reasonable portion of its loan facilities maturing in 2017. In addition, a conducive corporate lending environment would aid Sunlight REIT in expanding its portfolio when suitable acquisition targets are identified.

In sum, the rental growth momentum of Sunlight REIT's property portfolio is envisaged to take a breather in FY2016/17, with SSC's ongoing renovation likely to post an adverse, though transitory impact on net property income. However, the situation should be somewhat moderated by our proactive capital management and cost control initiatives, not to mention the potential upside brought about by future acquisitions. A review of the history of Sunlight REIT shows that it survived well amidst the 2008 global financial crisis even though it was still in its infancy. As the past decade has seen the trust strengthen in terms of its income base and financial health, together with a well-timed boost to cash resources and a more flexible investment mandate, Sunlight REIT is well-positioned to endure the adversity looming on the horizon. Going forward, the global economy may falter if undesirable consequences arise while Britain and the European Union are reshaping their relationship. Nonetheless, in the face of an increasingly challenging operating environment, the Manager will employ effective value-added strategies to temper the woes, ensuring that the income and distribution of Sunlight REIT can remain substantially intact, and the long-term benefits of unitholders can continue to grow.

WU Shiu Kee, Keith
Chief Executive Officer
5 September 2016

Portfolio at a Glance

Top three properties

Sunlight Tower, Sheung Shui Centre Shopping Arcade and Metro City Phase I Property

Sheung Wan/Central office properties

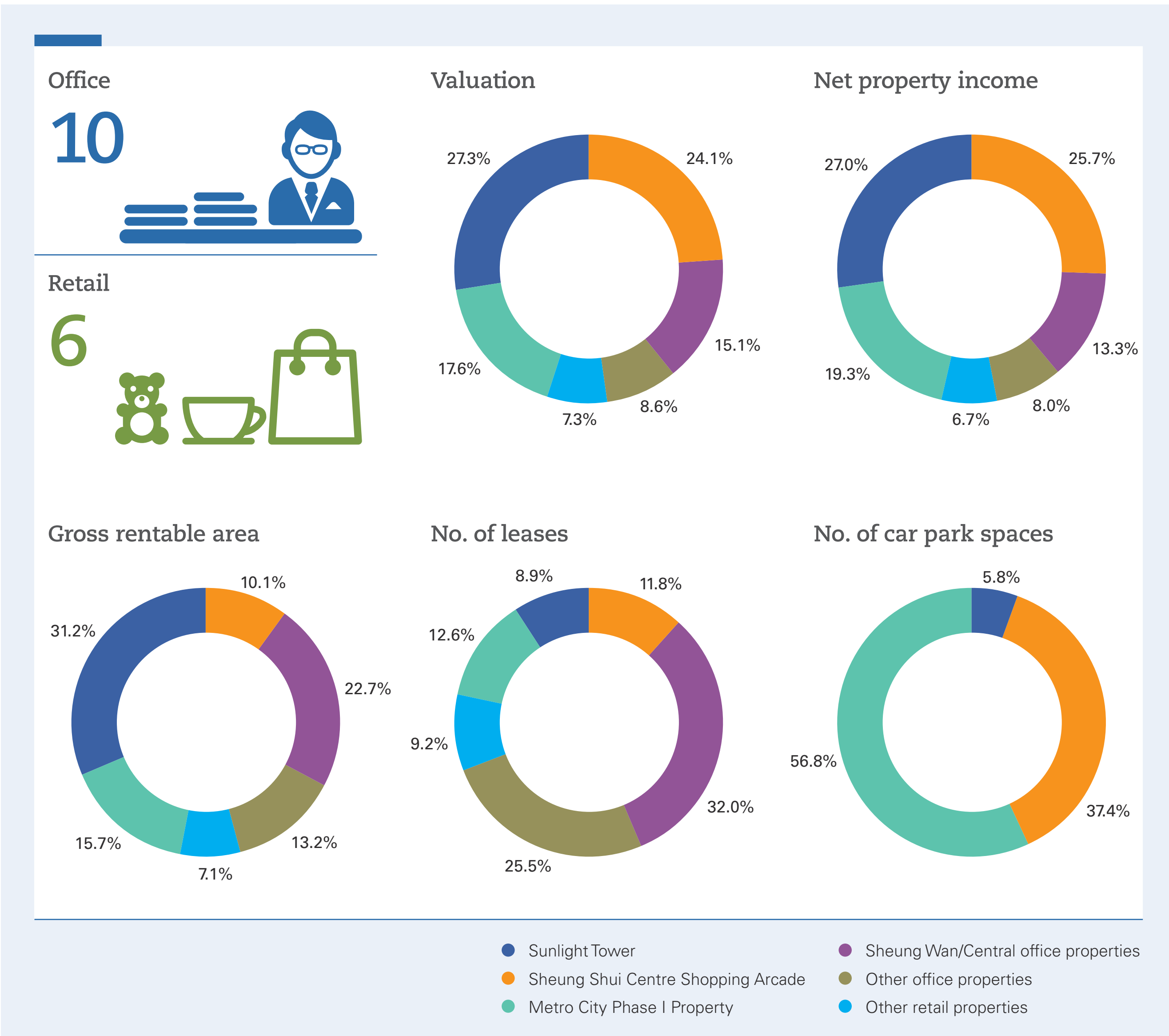
Bonham Trade Centre, Winsome House Property, 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre

Other office properties

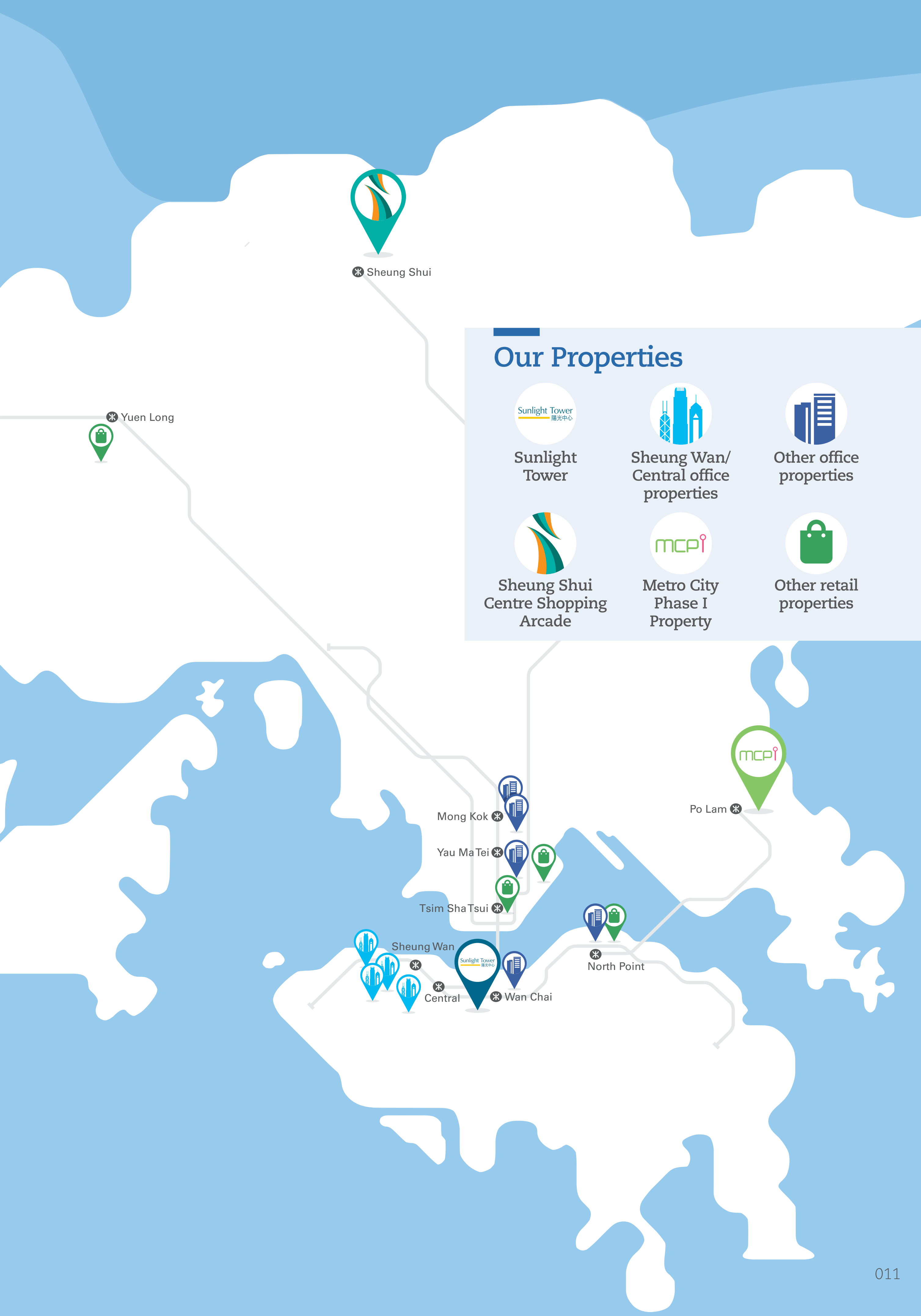
Righteous Centre, Java Road 108 Commercial Centre, On Loong Commercial Building, Sun Fai Commercial Centre Property and Wai Ching Commercial Building Property

Other retail properties

Kwong Wah Plaza Property, Beverley Commercial Centre Property, Supernova Stand Property and Palatial Stand Property



Our Properties



Portfolio Statistics

Property	Property details							
	Location	Year of completion	No. of car park spaces	GRA[1] (sq. ft.)			No. of leases at 30 June	
				Office	Retail	Total	2016	2015
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	74	74
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	101	104
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	62	61
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	24
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	73	74
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	69	72
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	36	38
On Loong Commercial Building[5]	Wan Chai	1984	0	25,498	1,708	27,206	36	37
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	45	46
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	34	34
Sub-total/Average			**46**	**764,911**	**45,061**	**809,972**	**554**	**564**
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	99	118
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	105	106
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	36	36
Urban								
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	36	38
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Palatial Stand Property	Hung Hom	2001	0	3,566	5,059	8,625	3	4
Sub-total/Average			**749**	**42,667**	**354,188**	**396,855**	**281**	**304**
Total/Average (excluding the disposed properties)			**795**	**807,578**	**399,249**	**1,206,827**	**835**	**868**
Disposed properties								
Total								

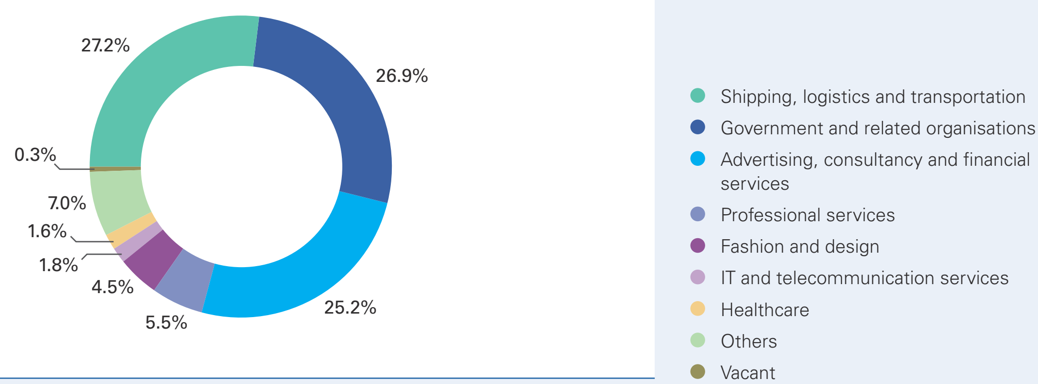
Notes :

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 year.
4. Please refer to "Valuation Report" on pages 72 to 85 for further details.
5. Sunlight REIT acquired the remaining interests in On Loong Commercial Building and has become the sole owner of the building with effect from 3 August 2015. The operational statistics and property financials before and after 3 August 2015 were calculated on the basis of total GRA of 25,564 sq. ft. and 27,206 sq. ft. respectively.
6. These figures have been adjusted to reflect the disposals of three properties completed in July and August 2015 respectively.
7. Excluding the renovated area vacated at SSC, the occupancy of SSC would have been 98.5%.
8. The renovated area vacated at SSC is excluded from the calculation.

Operational statistics						Property financials				
Occupancy at 30 June (%)		Passing rent[2] at 30 June (HK$/sq. ft.)		Rental reversion[3] (%)		Net property income (HK$'000)		Capitalisation rate at 30 June 2016 (%)		Appraised value at 30 June 2016[4] (HK$'000)
2016	2015	2016	2015	FY2015/16	FY2014/15	FY2015/16	FY2014/15	Office	Retail	
99.7	99.6	35.3	34.1	11.7	19.2	163,577	150,280	3.85	3.75	4,553,000
95.1	98.1	27.7	26.1	18.0	18.6	35,275	32,492	3.65	4.00	1,076,000
98.1	98.2	41.5	40.1	13.2	21.7	24,555	22,659	3.95	3.60	650,000
97.1	100.0	41.0	39.3	5.7	12.1	17,378	16,604	3.65	3.80	562,600
98.7	95.2	26.0	24.6	16.5	16.2	17,029	15,240	3.65	4.00	546,000
96.4	98.9	19.9	18.4	17.3	21.0	11,046	9,674	3.65	4.00	337,000
94.2	98.1	23.3	22.0	13.3	17.0	8,688	7,879	3.95	4.20	272,000
94.0	100.0	30.3	28.6	8.7	14.8	7,780	7,630	3.85	3.90	262,000
97.1	100.0	22.2	21.6	4.2	12.5	5,633	5,753	4.00	4.25	176,000
100.0	100.0	13.2	11.8	18.8	22.9	1,851	1,649	3.75	4.10	68,900
98.0	**98.9[6]**	**31.6**	**30.2[6]**	**12.7**	**18.4[6]**	**292,812**	**269,860**			**8,503,500**
77.6[7]	99.8	131.7[8]	111.3	17.7	27.3	155,952	150,088	N/A	4.40	4,009,000
98.4	98.8	51.8	48.1	17.4	15.3	117,381	107,575	N/A	4.50	2,923,000
100.0	99.3	50.0	46.0	23.8	24.9	33,541	31,067	3.85	3.80	996,000
96.6	100.0	51.3	52.1	(3.2)	2.7	4,441	4,527	N/A	4.30	120,400
100.0	100.0	47.8	47.6	N/A	N/A	2,329	2,325	N/A	4.00	61,000
75.2	58.7	12.0	13.5	0.0	N/A	83	1,030	N/A	4.35	38,100
91.7	**98.4[6]**	**71.6**	**67.2[6]**	**18.2**	**20.4[6]**	**313,727**	**296,612**			**8,147,500**
95.9	**98.7**	**44.2**	**42.4**	**15.3**	**19.3**	**606,539**	**566,472**			**16,651,000**
						1,957	20,108			
						608,496	**586,580**			

Sunlight Tower

Tenant mix*



Net property income

↑8.8% year-on-year

Rental reversion

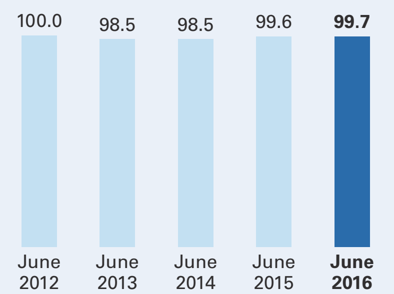
11.7%

Retention rate

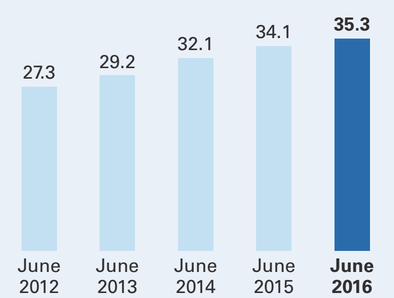
79.7%

* Tenant mix charts on pages 14 to 18 are expressed as a percentage of total GRA of the relevant property at 30 June 2016.

Occupancy (%)



Passing rent (HK$/sq. ft.)



Mirroring the stable Grade A office leasing market, Sunlight Tower achieved a high retention rate of 79.7% during the Year. Supported by a rental reversion of 11.7%, passing rent rose 3.5% to HK$35.3 per sq. ft. at 30 June 2016, leading to a year-on-year growth of 8.8% in net property income.

Sunlight Tower continues to maintain a well-balanced and diversified tenant base, including government-related organisations and non-financial multinational enterprises from various industries. At 30 June 2016, the total number of leases at Sunlight Tower was 74, unchanged from the previous year-end.

Various asset enhancement initiatives were carried out at Sunlight Tower during the Year. In particular, the chiller conversion and replacement project was completed in April 2016, which should further enhance the reliability and cost efficiency of the building's air-conditioning system. Meanwhile, the installation of light sensors and the adoption of LED lighting in common areas have further promoted the green image of this flagship property.

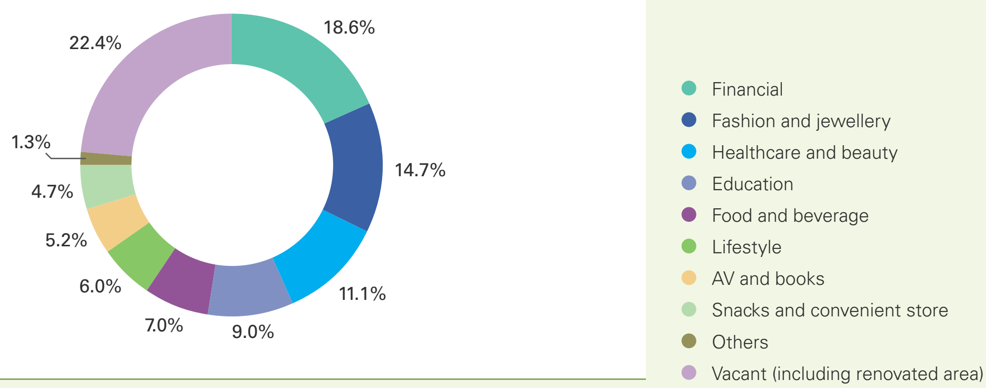
Expiry profile	FY2016/17	FY2017/18
By GRA[1,2] (%)	28.0	58.0
By average rent[1] (HK$/sq. ft.)	35.6	34.7

Notes (applicable to pages 15 to 19) :

1. At 30 June 2016.
2. Expiring GRA as a percentage of total GRA.

Sheung Shui Centre Shopping Arcade

Tenant mix



Net property income

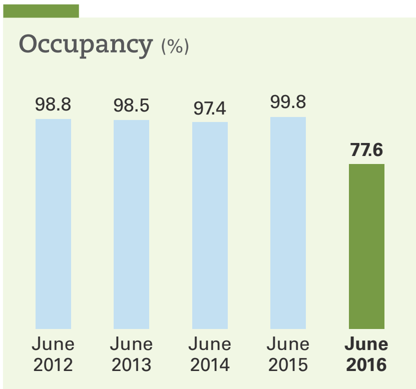
↑3.9%
year-on-year

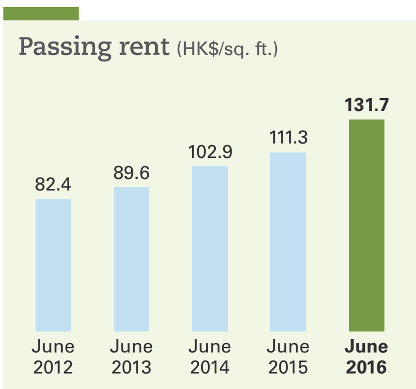
Rental reversion

17.7%

Retention rate

33.6%





Although weaker inbound tourism has adversely affected the retail sector, shopping malls such as SSC that cater to the mass market remained resilient, being well-supported by stable domestic spending. With a clear focus on necessity shopping, SSC enjoyed a rental reversion of 17.7%, while its passing rent reached HK$131.7 per sq. ft.[Note] at 30 June 2016. Its occupancy stood at 77.6%, or 98.5% if the area vacated for renovation is excluded.

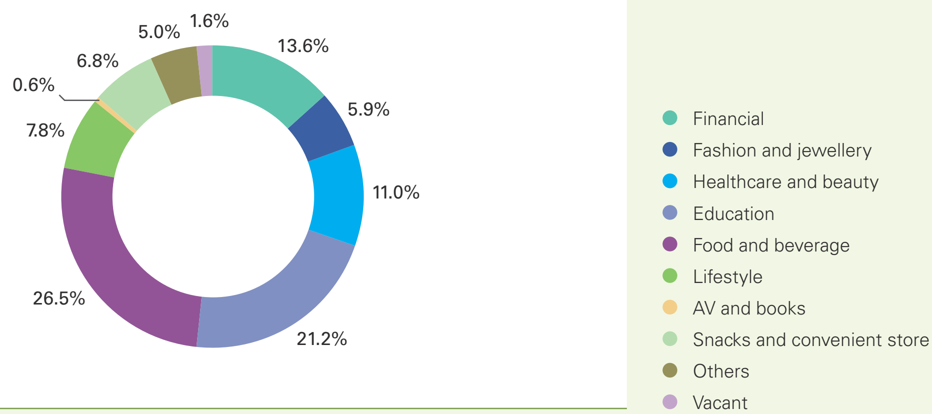
On renovation, the reconfiguration plan in respect of a key section of SSC was launched in April 2016. The revamped area is expected to re-open in November 2016, by which time a cluster of new trade types and brands will be introduced to enhance the vitality and dynamics of this property.

Expiry profile	FY2016/17	FY2017/18
By GRA (%)	35.5	33.0
By average rent (HK$/sq. ft.)	143.0	118.5

Note : The renovated area vacated at SSC is excluded from the calculation.

Metro City Phase I Property

Tenant mix



Net property income

↑9.1%
year-on-year

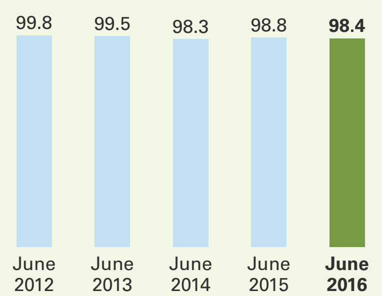
Rental reversion

17.4%

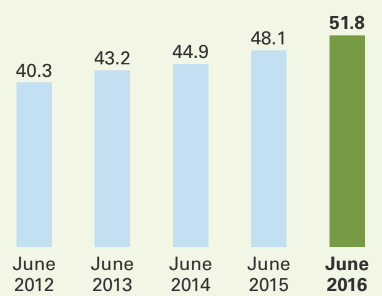
Retention rate

84.5%

Occupancy (%)



Passing rent (HK$/sq. ft.)



Our effort in continuously reconfiguring the tenant mix of MCPI with a special focus on consumer staples, has proved rewarding. Its decent operating performance was demonstrated by an encouraging rental reversion of 17.4% and passing rent increase of 7.7% to HK$51.8 per sq. ft. at 30 June 2016. Occupancy stood at 98.4%, largely unchanged from the previous year.

During the Year, we tactically increased the diversity of food and beverages at the mall and, at the same time, began the process of streamlining the composition of educational tenants on the lower floor. These planned initiatives are expected to help sustain the performance of MCPI, which is well-regarded by shoppers as a service-oriented retail destination.

Expiry profile	FY2016/17	FY2017/18
By GRA (%)	52.0	21.6
By average rent (HK$/sq. ft.)	43.7	64.0

Sheung Wan/ Central office properties

Given the sustainable demand from small and medium-sized enterprises and the spillover benefit from a buoyant office market in Central, our Grade B office properties in Sheung Wan and Central posted a highly satisfactory performance in terms of growth in income and passing rent. In particular, our three Sheung Wan office properties, namely Bonham Trade Centre, 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre exhibited decent growth of 6.1%, 5.7% and 8.2% in passing rents, supported by rental reversions of 18.0%, 16.5% and 17.3% respectively.

Net property income

↑9.1%
year-on-year

Rental reversion

15.5%

Retention rate

69.3%

Other office properties

Net property income*

↑6.4%
year-on-year

Rental reversion*

11.1%

Retention rate*

67.2%

Sunlight REIT's smaller office properties are well-received by various service-related businesses, including healthcare and beauty, education as well as professional services. Such businesses are more driven by domestic consumption and are defensive in nature, providing steady income and cash flow to Sunlight REIT.

Other retail properties

Net property income*

↑3.7%
year-on-year

Rental reversion*

20.8%

Retention rate*

72.6%

The smaller retail properties of Sunlight REIT, which consist of street or podium level shops in residential or office buildings, aim to offer daily necessities to the residents, workers and shoppers in the local catchment area. It is worth highlighting the impressive performance of Kwong Wah Plaza Property – a beneficiary of the thriving Yuen Long district, the property attained a decent rental reversion of 23.8% and a 8.7% year-on-year growth in passing rent to HK$50.0 per sq. ft..

* Excluding the contributions from three properties disposed of during the Year.

Asset enhancement initiative – energy saving

Energy usage in Sheung Shui Centre Shopping Arcade (kWh)

↓22.2%
year-on-year

The Manager has been managing the property portfolio in a way that can minimise any adverse impact on the environment, while being proactive in exploring different ways to promote resource conservation and improve energy efficiency within the properties.

Two phases of the chiller upgrading project at Sunlight Tower were completed in May 2014 and April 2016 respectively, which have enhanced the reliability and cost efficiency of the building's air-conditioning system. A total of HK$15.4 million was spent with a return on investment exceeding 15%. Meanwhile, the chiller replacement project at SSC completed in April 2015 has resulted in a remarkable 22.2% drop in energy usage for the Year. Together with renewed thermal insulation of chilled water pipes for the air-conditioning system at MCPI, all the improvement works will translate into noticeable cost and "green" benefits going forward.

In addition to chiller replacement projects, the Manager has also adopted LED lighting in various properties, such as Sunlight Tower, SSC, Bonham Trade Centre and Righteous Centre. The Manager is planning to install LED lighting more extensively to create a greener environment for the properties of Sunlight REIT.

Asset enhancement initiative – facilities upgrade

LED and energy saving lighting : common area coverage

100%
for Sunlight REIT's wholly-owned properties

The Manager is committed to providing a healthy and safe environment for tenants and other users of the properties. During the Year, we continued to invest in a number of asset enhancement projects to improve the working environment of Sunlight REIT's office buildings. The upgrading of amenities at Sunlight Tower and Bonham Trade Centre was a good case in point.

Following the unification of the ownership of On Loong Commercial Building in August 2015, a number of enhancement works have been carried out to bolster the capital value of the property, including initiatives to overhaul its property management services. Facilities including elevators and utilities provision have been upgraded. Security and customer services have also been reorganised to cater more closely to the need of the tenants.

Asset enhancement initiative – shopping mall reconfiguration

Artist's impression of the reconfigured area

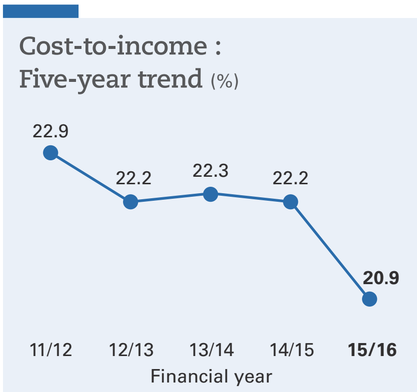
Capital expenditure for the project (HK$)

25 million

Located within a densely populated catchment, SSC is erected in close proximity to the Sheung Shui MTR station, currently the pivotal station offering direct connection to Shenzhen via the Lo Wu main line and the Lok Ma Chau spur line. Such supreme location gives SSC the unparalleled advantage of serving a diversity of shoppers that live both locally and across the border, and it helps explain the exceptional rental performance of the property over the past decade. Recognising the importance of strengthening this unique attribute, the Manager has decided to undertake the ongoing asset enhancement project.

The reconfiguration plan involving approximately 20% of the GRA was commenced in April 2016. The purpose of this renewal initiative is to bring in a greater variety of quality trades and brands that would improve rental return, create a more diversified trade profile and enhance the overall ambience of the shopping mall. In particular, the space used to be substantially occupied by the traditional Chinese restaurant will be repartitioned into smaller units, with a view to introducing trades that are contemporary and stylish. The new corridor together with upgraded facilities in the area is also expected to improve the overall footfall circulation of SSC.

The estimated cost of the project is approximately HK$25 million. Based on current projections, the Manager is optimistic on the benefits to be reaped.



Operational statistics

The overall portfolio of Sunlight REIT recorded an average occupancy of 95.9%[1] at 30 June 2016 (30 June 2015: 98.7%). The occupancies of the office and retail portfolios were 98.0% and 91.7%[1] (30 June 2015: 98.9% and 98.4%) respectively. During the Year, a total of 471,248 sq. ft. were leased out, 25.1% of which was attributable to new lettings while the remainder was renewal. The tight supply in the office market and the moderating pace of office decentralisation continued to contribute to a high retention rate of 72.5% (FY2014/15: 80.4%) for the office portfolio, while the retention rate for the retail portfolio remained stable at 64.9% (FY2014/15: 65.0%).

Average passing rent of the office portfolio was HK$31.6 per sq. ft. at 30 June 2016, up 4.6% year-on-year, while that of the retail portfolio was HK$71.6 per sq. ft.[2], an increase of 6.5% from a year ago. During the Year, rental reversions of 12.7% and 18.2% were secured by the office and retail portfolios respectively.

At 30 June 2016, the weighted average lease length in terms of GRA was 2.5 years for the entire portfolio. Leases expiring on or before 30 June 2017 account for 39.1% of office GRA and 48.3% of retail GRA. The average unit rents for the expiring office and retail leases are HK$30.2 per sq. ft. and HK$67.8 per sq. ft. respectively.

Tenancy base

Sunlight REIT's property portfolio had a total of 835 tenancies at 30 June 2016. The largest tenant accounted for 4.5% of total revenue for the Year and occupied 6.2% of total GRA at 30 June 2016, while the corresponding figures for the top five tenants were 14.7% and 14.5% respectively. Details of the rental contribution of the top five tenants are set out in the table below.

Other income

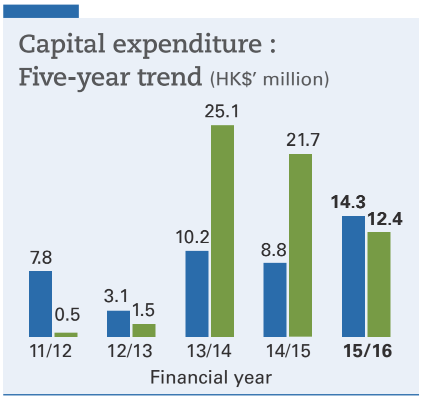
Following the disposal of three properties during the Year, the number of car park spaces held by Sunlight REIT were reduced to 795 at three properties, namely, Sunlight Tower, MCPI and SSC. For the Year, car park income amounted to HK$29.5 million, representing 3.8% of total revenue.

Top five tenants for the Year

Tenant	Trade sector	Total gross area[3] (sq. ft.)	% of total GRA[3]	% of total revenue
Anglo-Eastern Ship Management Limited	Shipping, logistic and transportation	75,380	6.2	4.5
The Financial Secretary Incorporated c/o Government Property Agency	Government and related organisations	64,180	5.3	4.0
Tenant A	Healthcare and electrical appliances	20,127	1.7	2.5
The Bank of East Asia, Limited	Financial	8,997	0.7	2.0
Bank of Communications Co., Ltd.	Financial	6,891	0.6	1.7
Total			**14.5**	**14.7**

Notes :

1. Excluding the renovated area vacated at SSC, the occupancies for the overall portfolio and retail portfolio would have been 98.1% and 98.2% respectively.
2. The renovated area vacated at SSC is excluded from the calculation.
3. At 30 June 2016.



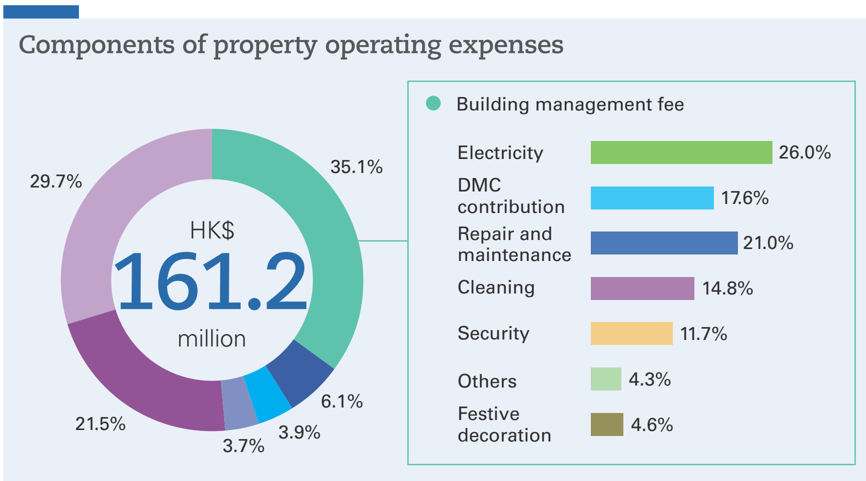
- Office properties
- Retail properties

Cost control and capital expenditure

The Manager remained prudent in cost control despite lessened inflationary pressure. Key property related expenses such as security, cleaning and utilities as well as repair and maintenance costs were kept under strict control. Substantial savings were also achieved by more efficient energy consumption. In all, the cost-to-income ratio was improved to a satisfactory level of 20.9% for the Year, compared with 22.2% recorded in the preceding financial year.

Excluding the costs for property acquisition, capital expenditure ("**CAPEX**") for the Year amounted to HK$26.7 million (FY2014/15: HK$30.5 million), of which 53.5% was spent on office properties while retail properties accounted for the rest. The contracted capital commitments at 30 June 2016 totalled HK$20.1 million.

Breakdowns of total property operating expenses (together with components constituting building management fee) and the five-year trend in CAPEX are provided in the charts on this page.



- Property Manager's fees
- Government rent and rates
- Marketing and promotion expenses
- Car park operating costs
- Other direct costs

Top five real estate agents and contractors for the Year

Real estate agents and contractors[1]	Nature of service	Commission and value of contract[2] (HK$'000)	% of total commission and value of contracts
Henderson Sunlight Property Management Limited[3]	Leasing, marketing and building management	47,887	32.8
Trane Service Hong Kong	Repairs, maintenance and chiller plant installation	9,546	6.5
Hang Yick Properties Management Limited[3]	Building management	8,734	6.0
Savills (Hong Kong) Limited	Real estate agency services	7,981	5.5
Winston Air Conditioning & Engineering (Hong Kong) Company Limited	Repairs and maintenance	5,355	3.7
Total		**79,503**	**54.5**

Notes :

1. Commission paid to all real estate agents for the Year amounted to HK$21.9 million, of which HK$21.5 million was attributable to the top five real estate agents. In addition, HK$64.3 million of the total value of contracts were attributable to the top five contractors.
2. Included value of contracts for the supply of items or services which are of a capital nature.
3. Wholly-owned subsidiaries of HLD, which is interested in more than 5% of the total number of units in issue of Sunlight REIT.

Financial Review

Financial highlights

(in HK$' million, unless otherwise specified)	2016	2015	2014	2013	2012
For the year ended 30 June :					
Revenue	**769.7**	754.4	688.9	630.2	581.7
Property operating expenses	**161.2**	167.8	153.8	139.6	133.2
Net property income	**608.5**	586.6	535.1	490.6	448.5
Cost-to-income ratio (%)	**20.9**	22.2	22.3	22.2	22.9
Profit after taxation	**825.3**	1,902.7	1,230.0	1,674.6	1,027.3
Total distributable income	**415.0**	375.2	342.8	307.0	298.4
DPU (HK cents)	**24.3**	22.0	20.0	17.7	17.0
Payout ratio (%)	**95.8**	95.9	94.8	93.1	91.3
At 30 June :					
Portfolio valuation	**16,651.0**	17,035.3	15,390.6	14,408.8	13,038.8
Total assets	**17,925.0**	17,897.7	16,151.9	15,156.4	13,692.5
Total liabilities	**4,406.9**	4,800.6	4,657.0	4,624.7	4,670.5
Net asset value	**13,518.1**	13,097.1	11,494.9	10,531.7	9,022.0
Net asset value per unit (HK$)	**8.26**	7.99	7.06	6.52	5.62
Gearing ratio (%)	**21.9**	22.0	24.3	25.9	28.8

Operating results

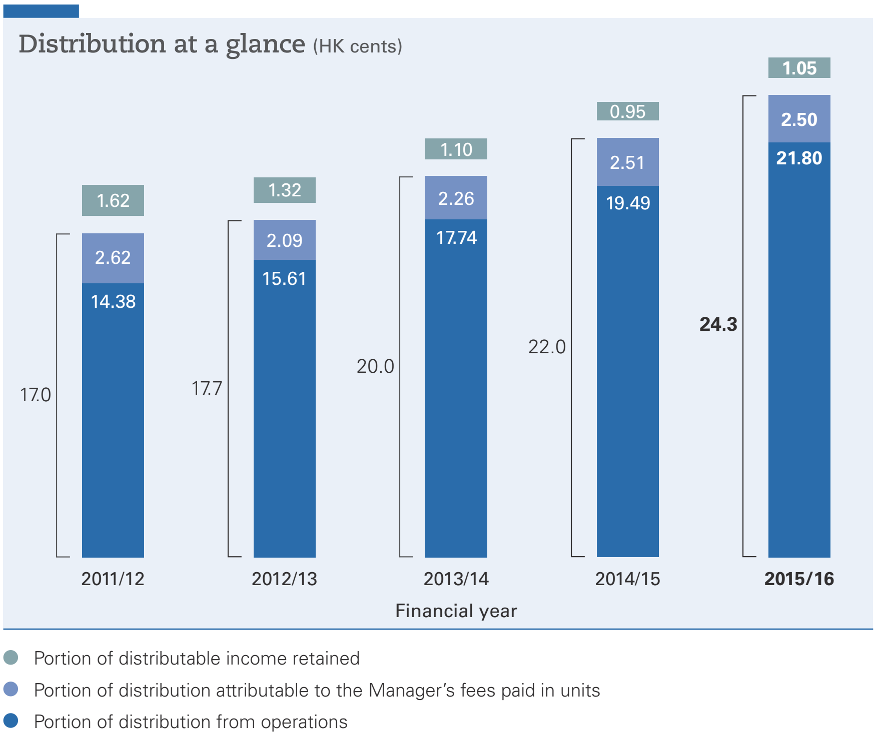
For the Year, Sunlight REIT reported a 2.0% growth in revenue to HK$769.7 million. After deducting operating expenses of HK$161.2 million, net property income came in at HK$608.5 million, up 3.7% year-on-year. The reported growth figures were affected by the completion of the disposal of three non-core properties during the Year; stripping out their contributions, the growth in revenue and net property income would have been 5.4% and 7.1% respectively.

Finance costs increased 16.5% year-on-year to HK$128.8 million, mainly attributable to the unwinding of certain IRSs for a total cost of HK$22.2 million (the "**Unwinding Cost**"), which was recorded in the first half of the Year. Cash interest expenses, on the contrary, dropped 8.5%, thanks to more favourable rates locked in for the new IRSs entered during the Year. Meanwhile, due to the absence of substantial professional fees, administrative expenses recorded a year-on-year decrease of 9.5% to HK$98.4 million.

Profit after taxation for the Year was HK$825.3 million (FY2014/15: HK$1,902.7 million), principally reflecting a smaller increase in fair value of investment properties as compared to the previous financial year.

Distribution analysis

Total distributable income of Sunlight REIT for the Year was HK$415.0 million, representing an increase of 10.6% from the previous year. The reported figure has, among other adjustments, included the adding back of the Unwinding Cost which is capital in nature and amounted to HK 1.36 cents per unit. The DPU for the full year of HK 24.3 cents is 10.5% ahead of the preceding year, and represents a distribution yield of 5.5% based on the closing unit price of HK$4.42 on 30 June 2016. A comparison of annual DPU with composition breakdown is illustrated in the chart titled "Distribution at a glance".



Distribution entitlement and closure of register of unitholders

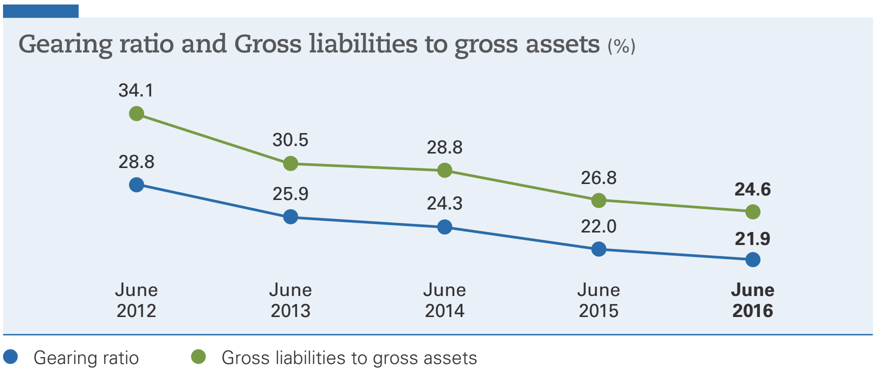
The ex-distribution date and record date for the final distribution are Wednesday, 21 September 2016 and Tuesday, 27 September 2016 respectively. The register of unitholders will be closed from Friday, 23 September 2016 to Tuesday, 27 September 2016, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the final distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 22 September 2016. Payment of the final distribution will be made to unitholders on Wednesday, 12 October 2016.

Financial position

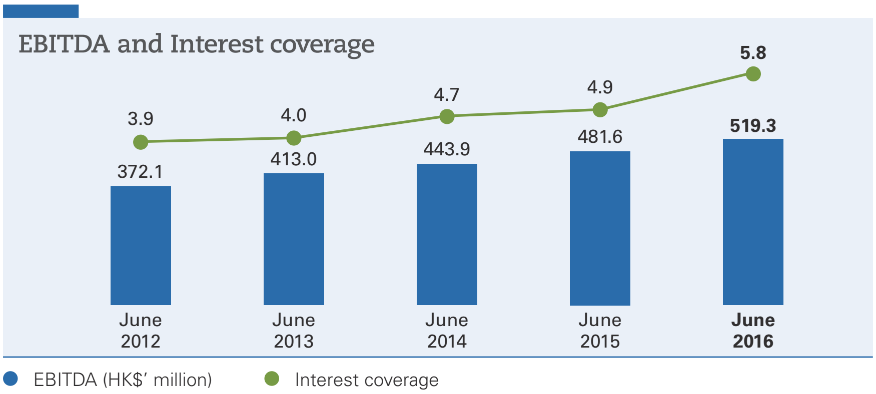
The portfolio of Sunlight REIT was appraised by the Principal Valuer at HK$16,651.0 million at 30 June 2016, representing a decrease of 2.3% from a year ago. Excluding the disposed properties, the valuation of the current portfolio actually increased by 2.8%. The net assets of Sunlight REIT rose by 3.2% to HK$13,518.1 million (30 June 2015: HK$13,097.1 million). After taking into account the effect of payment of Manager's fees in units and the cancellation of units bought back during the Year, net asset value per unit rose 3.4% to HK$8.26 (30 June 2015: HK$7.99).

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$4.6 million at 30 June 2016.

At 30 June 2016, the gross assets of Sunlight REIT was HK$17,925.0 million (30 June 2015: HK$17,897.7 million). Its gearing ratio, defined as total borrowings as a percentage of gross assets, stayed at 21.9%, virtually unchanged from the previous year; while gross liabilities[1] as a percentage of gross assets dropped to 24.6%.



The EBITDA[2] of Sunlight REIT grew 7.8% year-on-year to HK$519.3 million while cash interest expenses were reduced as a result of the change in the IRS profile (as elaborated in the "Capital and interest rate management" on page 30). Consequently, the interest coverage ratio[3] for the Year further improved to 5.8 times as compared with 4.9 times recorded in the previous financial year.



Notes :

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

Tax matters

Notional gains

During the Year, the Inland Revenue Board of Review delivered a decision in favour of certain property holding companies under Sunlight REIT on their tax appeals in relation to the notional gains arising from reclassification of properties at the date of acquisition of these companies, which decision was not appealed against by the Inland Revenue Department ("**IRD**"). At the same time, certain other property holding companies under Sunlight REIT had withdrawn their tax appeals on the same issue. While the conclusion of these tax appeals gave rise to movements in certain items in the consolidated statement of financial position, there was no impact on the operating results of Sunlight REIT as the tax liabilities concerning those appeals had been fully indemnified by the vendors[Note]. For further details, please refer to notes 11 and 18 to the consolidated financial statements on page 114 and page 119 respectively.

Deductibility of certain expenditures

As disclosed in the consolidated financial statements issued in respect of the two previous financial years, additional profits tax assessments on certain property holding companies under Sunlight REIT were raised by the IRD in an aggregate amount of HK$8.2 million as it disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by these companies. During the Year, the IRD further raised additional profits tax assessments on these companies, bringing the aggregate amount to HK$13.3 million ("**Total Additional Amount**"). While notices of objection were filed with the IRD, tax reserve certificates ("**TRCs**") of an amount equivalent to the Total Additional Amount have been purchased.

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

It should be noted, however, that the Total Additional Amount represents the cumulative additional tax assessed and demanded (i) up to the year of assessment 2014/15 for one property holding company, and (ii) up to the year of assessment 2009/10 for 15 other property holding companies. If the IRD were to issue additional profits tax assessments on the 15 other property holding companies on the basis of disallowing deductions of a similar nature in respect of the years of assessment 2010/11 to 2014/15, the estimated total additional profits tax liabilities would amount to approximately HK$61.8 million, which includes the Total Additional Amount of HK$13.3 million as mentioned above. Based on the positive advice received, such additional profits tax assessments, if issued, will likewise be vigorously contested. The Manager will closely monitor the situation and make appropriate disclosure on the development as and when necessary.

Note : The vendors refer to a number of companies from which the property holding companies were acquired by Sunlight REIT, including certain subsidiaries of SKFE, HLD, Henderson Investment Limited ("**HIL**"), Henderson Development Limited ("**HD**") and Jetwin International Limited.

Interest margin of borrowings

1.24%

per annum (over HIBOR)

Fixed rate portion of borrowings

71.3%

Weighted average interest rate (fixed rate portion)

1.17%

per annum (before interest margin)

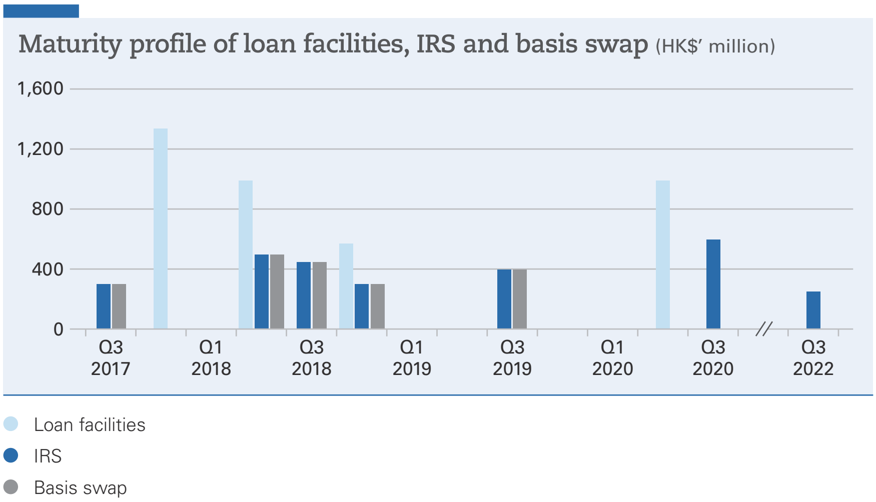
Capital and interest rate management

At 30 June 2016, 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 which was not utilised. The term loan facilities, with a blended interest margin of 1.24% per annum over Hong Kong Interbank Offered Rate ("**HIBOR**") (before IRS arrangements) and a weighted loan maturity period of 2.3 years, are secured by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK$14,278.6 million at 30 June 2016.

During the Year, the Manager capitalised on the favourable interest rate environment and restructured the IRS profile of Sunlight REIT. In July 2015, the Manager executed an early unwinding of IRSs with an aggregate notional amount of HK$1,500.0 million, due for expiry in June 2016 with a weighted average interest rate of 2.10% per annum. Subsequently, a series of new IRSs with an aggregate notional amount of HK$1,250.0 million and a weighted average interest rate of 1.59% per annum have been put in place, with maturity spanning 4 to 7 years. At 30 June 2016, approximately 71.3% (or HK$2,800.0 million) of Sunlight REIT's borrowings was hedged to fixed rates with a weighted average tenure of 3.0 years.

During the last quarter of the Year, the Manager captured the market opportunity of a widened gap between 1-month HIBOR and 3-month HIBOR and entered into a series of interest rate basis swaps with an aggregate notional amount of HK$1,550.0 million beginning 30 June 2016, the maturity of which match the expiry of selected existing IRSs. Subsequent to the financial year-end, an additional basis swap was entered into with a notional amount of HK$400.0 million beginning 30 September 2016. With the benefit of these basis swap arrangements, the weighted average interest rate (before loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings will be reduced from 1.37% to 1.17% per annum.

A summary of the maturity profile of loan facilities, IRS and basis swap (at the date of this annual report) are provided in the chart below.



Finally, in light of the steep discount of Sunlight REIT's market price relative to its net asset value, the Manager utilised HK$54.9 million to buy back (and cancel) a total of 13,948,000 units during the Year at an average price of approximately HK$3.92 per unit, representing a discount of over 52.5% to the net asset value per unit of Sunlight REIT.

Liquidity management

The Manager is currently permitted to place funds as bank deposits and Relevant Investments[1], with maturity profile compatible with projected funding requirements. At 30 June 2016, Sunlight REIT had total cash and bank balances of HK$1,134.8 million and a portfolio of Relevant Investments with an aggregate book value of HK$61.9 million[2]. 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 CAPEX requirements.

Notes :

1. Relevant Investments shall have the meaning as defined in paragraph 7.2B of the REIT Code.
2. Please refer to Relevant Investments under "Corporate Governance Report" on page 60 for details.

Environmental, Social and Governance Report

With growing demand for ESG-related information, we are committed to managing Sunlight REIT as a transparent and accountable enterprise, communicating our ESG policies, initiatives and performance to various stakeholders on a regular basis.

Message from CEO

I am pleased to present the first Environmental, Social and Governance ("**ESG**") Report of Sunlight REIT. As the Manager, we consider this new disclosure requirement as an opportunity to record our energy use, measure our carbon footprint and examine other key aspects of ESG performance. We believe that this information shall help us to make informed decisions and formulate effective strategies to balance the economic, environmental and social benefits of our business activities ahead.

As a responsible corporate citizen, Sunlight REIT is committed to mitigating the carbon footprint arising from its operations. We focus on energy conservation, waste treatment and increasing the amount of greenery in our urban landscape. Such considerations are incorporated in the daily management of our property portfolio.

Pivotal to the success and growth of Sunlight REIT are our staff. They have been active participants in our ESG initiatives and in the preparation of this ESG report. Through active engagement with them, we endeavour to foster a harmonious work environment conducive to their development and hence the long-term success of Sunlight REIT. Looking ahead, I assure unitholders and other stakeholders that the team as a whole shall devote incessant efforts to refining our ESG policies and initiatives.

Recognising that the long-term viability of Sunlight REIT's business model is inextricably linked with the well-being of society, the Manager also seeks to connect with the communities in which we operate and make positive contributions to them. Our efforts are demonstrated by our initiation and participation in a variety of community activities for a diverse range of beneficiaries.

With growing demand for ESG-related information, we are committed to managing Sunlight REIT as a transparent and accountable enterprise, communicating our ESG policies, initiatives and performance to various stakeholders on a regular basis. In addition to providing unitholders with stable financial returns, we also strive to fulfil different stakeholders' expectations and requirements relating to sustainability. Going forward, we shall continue to embrace the principle of sustainability in our business strategies to ensure that the growth of Sunlight REIT is achieved without compromising environmental protection, staff development and community welfare.

WU Shiu Kee, Keith
Chief Executive Officer
5 September 2016

About the ESG Report

Reporting standard

This debut ESG Report of Sunlight REIT is prepared by the Manager in accordance with the requirements of the ESG Reporting Guide (2015) issued by the Stock Exchange. It offers an overview of the management approach of Sunlight REIT and its performance relating to ESG issues, and provides a platform enabling the Manager to communicate its ESG-related policies and initiatives to various stakeholders in a clear and transparent manner.

Information pertaining to sustainability-related performance criteria such as corporate governance and comprehensive financial metrics can be found in the relevant sections of this annual report. A detailed content index is included on page 45 for easy reference.

Stakeholder engagement

To assist in the preparation of this report, the Manager has commissioned an independent consultant to conduct an internal stakeholder engagement survey. Employees were invited to rank the importance of ESG issues to Sunlight REIT through an online survey, and to express their views on the current sustainability performance and future direction of Sunlight REIT.

Materiality assessment

The principle of "materiality" is cited by the Stock Exchange as essential in determining the content of an ESG Report. A sound materiality assessment provides enterprises with a threshold, at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported. To identify material ESG/sustainability issues, the Manager undertook a structured materiality assessment as outlined below :

Stage 1 : Identification

- Peer benchmarking : the ESG disclosures of five local peer companies were studied to identify the material issues facing by these companies and the industry in general. The greater the disclosure by peer companies, the higher the level of materiality.
- Internal stakeholder engagement : employees were invited to complete an online survey to rank ESG issues faced by Sunlight REIT in terms of importance. As employees possess in-depth operational knowledge, highly ranked ESG issues are likely to be considered material.

Stage 2 : Prioritisation

- The results of the peer benchmarking exercise were analysed in conjunction with the outcomes of the stakeholder engagement. A list of ESG-related issues of high and medium-level materiality were compiled for validation.

Stage 3 : Validation

- The findings from stages 1 and 2 were consolidated and discussed with the senior management team of the Manager, who considered the relevance of the Stock Exchange's aspects and Key Performance Indicators (KPIs)[Note] in relation to Sunlight REIT's business operations. A set of aspects and KPIs was then confirmed for disclosure.

Note : The Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules issued by the Stock Exchange is organised into two ESG subject areas – Environmental and Social. There are various aspects under the two subject areas and each aspect sets out KPIs for issuers to report on so as to demonstrate their performance.

Awards and certificates in FY2015/16

Awards/Certificates	Participating entities/Properties	Awarding bodies
Better World Company Logo – Certificate of Achievement	1. The Manager 2. The Property Manager : (i) Sheung Shui Centre Shopping Arcade (ii) Metro City Phase I Property (iii) Sunlight Tower	Junior Chamber International Hong Kong
Caring Company	1. The Manager 2. The Property Manager	The Hong Kong Council of Social Service
Certificate of Merit – Community Engagement Award	Sunlight REIT – The Manager	HSBC Commercial Banking
Dementia Concern Company – Dementia Concern Campaign	The Property Manager	Jockey Club Centre for Positive Ageing
Good MPF Employer	1. The Manager 2. The Property Manager	Mandatory Provident Fund Schemes Authority
Happy Company	1. The Manager 2. The Property Manager	Promoting Happiness Index Foundation
Hong Kong Green Organisation	The Property Manager : Sunlight Tower	Environmental Campaign Committee
Indoor Air Quality Certification Scheme (Excellent Class)	Sunlight Tower	Indoor Air Quality Information Centre, Environmental Protection Department, HKSAR Government
Indoor Air Quality Certification Scheme (Good Class)	1. Sheung Shui Centre Shopping Arcade 2. Metro City Phase I Property	Indoor Air Quality Information Centre, Environmental Protection Department, HKSAR Government
Quality Water Recognition Scheme For Buildings	1. Bonham Trade Centre 2. Righteous Centre 3. 235 Wing Lok Street Trade Centre 4. Java Road 108 Commercial Centre	Water Supplies Department, HKSAR Government
Flushing Water Plumbing Quality Maintenance Recognition Scheme	1. Sunlight Tower 2. Bonham Trade Centre 3. Righteous Centre 4. 235 Wing Lok Street Trade Centre 5. Java Road 108 Commercial Centre	Water Supplies Department, HKSAR Government
Quality Water Supply Scheme for Buildings – Fresh Water (Plus) (Basic Plan)	Sunlight Tower	Water Supplies Department, HKSAR Government

Sustainability governance

In recognition of the growing importance of addressing ESG-related issues, the Manager established the Corporate Social Responsibility Committee ("**CSRC**") in 2012 to coordinate the efforts in rolling out ESG initiatives. The CSRC is headed by the CEO and convenes meetings on a regular basis. Its primary responsibility is to plan, execute and track the progress of the ESG programmes in alignment with the principles of sustainability and social responsibility.

Our People

Working conditions

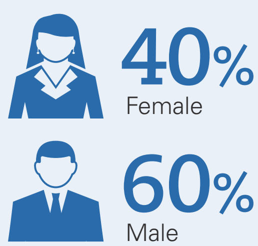
As the Manager of Sunlight REIT, we recognise the importance of cultivating a collaborative and rewarding environment in which our employees are able to realise their full potential. We have outlined expected professional conduct in our staff handbook to ensure a workplace free from discrimination and harassment. Our ideals on equal opportunity are also upheld in recruitment, with interviewers being provided with clear guidelines that the assessment of job applicants is to be based solely on their merits, regardless of age, disability, gender and ethnicity.

Our employees have helped to drive us to new heights as an organisation. We therefore take great care to ensure that they are compensated competitively by industry standards and their remunerations are commensurate with experience and job requirements. An annual performance appraisal is conducted to collect feedback from employees, and to discuss their work performance and opportunities for career progression.

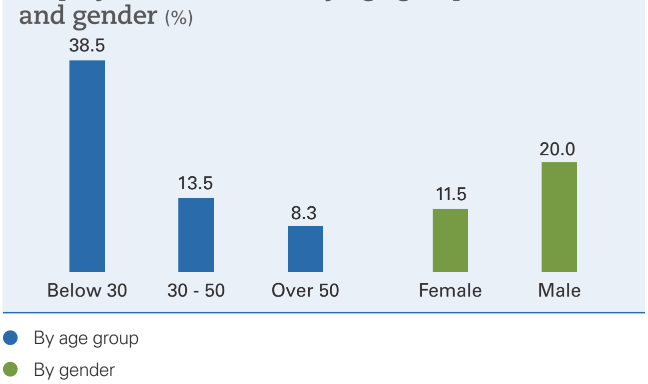
As a caring employer, we cater to the needs and schedules of our employees, offering flexible work-hour arrangements for head office staff. Complementing these are social activities such as annual dinners, Christmas parties, staff trips and a wide array of sustainability-related activities which can help foster a sense of belonging and loyalty.

During the Year, there were no cases of non-compliance with laws and regulations regarding employment and labour practice.

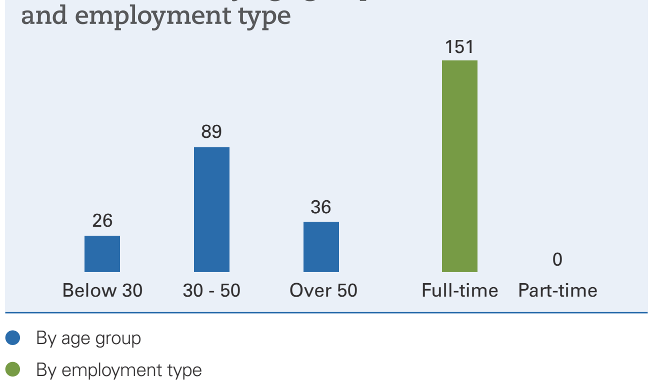
Total workforce by gender



Employee turnover rate by age group and gender (%)



Total workforce by age group and employment type



ESG case 1 : Staff trip

In celebration of Sunlight REIT's 10th anniversary, and in appreciation of the staff who have loyally served Sunlight REIT over the past decade, a trip to Okinawa in Japan was organised for them in June 2016. This activity has not only provided a platform for employees to mingle with one another, but also helped foster their sense of belonging and team spirit.

Training percentage by employee category

79.5% General

84.2% Supervisory

85.7% Managerial

Training percentage by gender

85.4% Male

77.0% Female

Staff development

We are strongly supportive of the continued education and professional development of our staff. We believe that investing in our people will allow both our employees and Sunlight REIT to continue to grow, and to successfully address challenges and seize opportunities that we encounter in the performance of our duties.

A comprehensive staff training policy ensures that we have in place an educational allowance and a staff development fund to provide financial support to employees who wish to undertake further studies or training that may enhance their job-related knowledge and skills. Moreover, a professional body allowance is available for eligible employees to apply for the membership of relevant professional bodies or charters.

Given the diversity of skills that our operations require, we also organise custom made training sessions covering topics such as customer service and management skills. Furthermore, to encourage in-depth and immersive training experiences, we regularly arrange off-site staff retreats as well as courses and training programmes that can meet the vocational needs of our employees.

Average training hours per employee by employee category and gender

General
10.5Hr.

Supervisory
8.2Hr.

Managerial
10.7Hr.

Male
7.7Hr.

Female
13.1Hr.

- By employee category
- By gender

Health and safety

The Manager has established a set of internal guidelines and systems to safeguard our employees from occupational hazards. They are required to report any work-related injuries. We also encourage members of staff to attend safety-training courses conducted by the Occupational Safety and Health (OSH) Training Centre. Staff are encouraged and sponsored to undertake annual medical examinations.

Number and rate of work-related fatalities and lost days due to work injury

Number of work-related fatalities	0
Work-related fatality rate	0%
Lost days due to work injury	57

Anti-corruption and anti-money laundering

The Manager maintains a high standard of business ethics and adheres to stringent anti-corruption policies and control measures. A code of conduct and related policies have been established to elucidate our ethical requirements, with particular emphasis on the prevention of bribery, fraud and conflicts of interests. After taking into account the risk exposure of Sunlight REIT's operations relating to anti-money laundering, and with reference to the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) and Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC, an anti-money laundering policy has been formulated for strict implementation by staff.

As stated in the "Corporate Governance Report" on page 65 of this annual report, we have also put in place channels to encourage all staff to report any misconduct, malpractices and irregularities, while such reports are treated with confidentiality. During the Year, there were no reported cases regarding corrupt practices brought against Sunlight REIT.

Our Environment

Environmental protection and resources conservation are of particular concern to the Manager. Our environmental initiatives are spearheaded by the CSRC, which strives to embody environmental considerations in our business decisions.

The Manager takes pride in maintaining an eco-friendly property portfolio. The crowning achievement is Sunlight Tower, which was awarded the Building Environmental Assessment Method (BEAM) Eco Building Platinum rating in 2011. We also continuously invest in building retrofits and system upgrades, such as adopting LED lighting and/or replacing aged chiller systems in various locations at Sunlight Tower, SSC, Bonham Trade Centre and Righteous Centre.

Greenhouse gas emissions

In total

8,965

tonnes of CO_2e

By intensity

59

tonnes of CO_2e/FTE[2]

Energy consumption

In total

11,492,950

kWh

By intensity

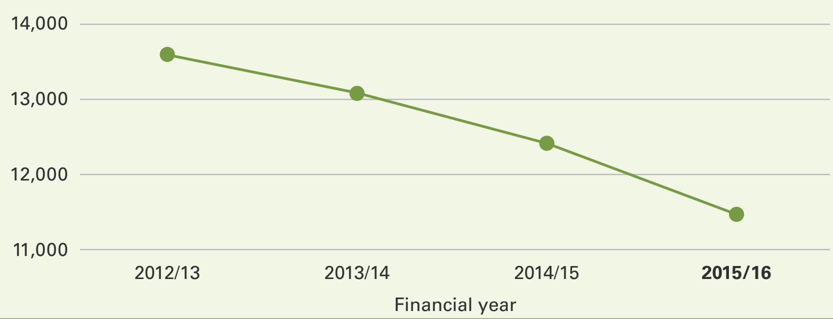
76,112

kWh/FTE[2]

In addition, we have put up signs and notices to remind users to conserve energy by switching off the lights after use. Unnecessary lighting along the corridors in our office buildings is also switched off during non-business hours of our tenants, and occupancy sensors have been installed in Sunlight Tower to further save energy. Through these efforts, we have not only reduced energy consumption and carbon emissions, but also instilled a sense of environmental awareness among our stakeholders.

As Hong Kong faces a shortage of landfill space, the business sector is obliged to lead an initiative for efficient resources consumption and waste reduction. As the Manager, we aim to both reduce the waste produced and ensure its proper disposal. As a case in point, we encourage our staff and tenants in Sunlight Tower to recycle a wide variety of waste, including waste paper, plastic bottles, aluminium cans, glass, fluorescent lamps and obsolete computers. To further our initiative in respect of waste sorting and recycling, Sunlight Tower, SSC and MCPI have participated in the Commendation Scheme on Source Separation of Commercial and Industrial Waste. Organic waste collected from our tenants is treated and upcycled into fertiliser for use in the "Sunlight Nursery" at the podium garden of Sunlight Tower, where our staff and tenants can enjoy organic planting activities. In the case of SSC and MCPI, given the large volume of waste paper generated by retail shops, we have been using a door-to-door approach in waste papers collection from each of our tenants to ensure complete coverage. We are also taking full advantage of the scale of the shopping arcade by leveraging it as a platform to promote waste reduction including public events such as exhibitions and recycling of used books and clothes.

Total energy consumption[1] (kWh, in '000s)



Notes :

1. Cumulative measurements taken at Sunlight REIT's wholly-owned properties.
2. FTE : Full-Time Equivalent employees.

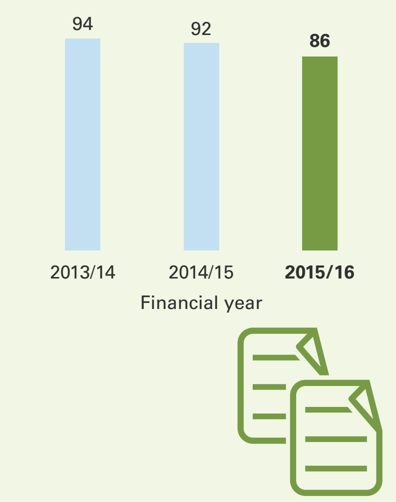
Total solid waste recycled at Sunlight Tower, Sheung Shui Centre Shopping Arcade and Metro City Phase I Property

(a) FY2015/16

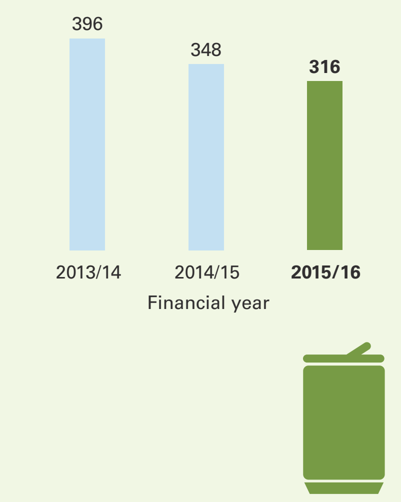
	Sunlight Tower	Sheung Shui Centre Shopping Arcade	Metro City Phase I Property
Waste paper (ton)	0.3	22.3	63.4
Plastic bottles (kg)	197	50	8
Aluminium cans (kg)	152	79	85
Fluorescent tubes (kg)	211	N/A	N/A

(b) Three-year comparison

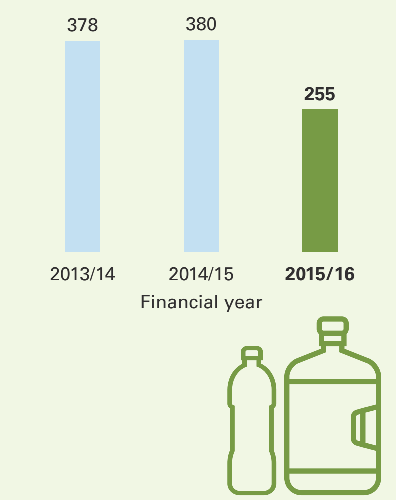
Waste paper (ton)



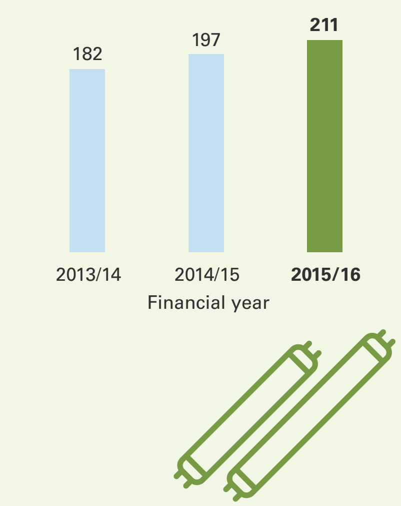
Aluminium cans (kg)



Plastic bottles (kg)

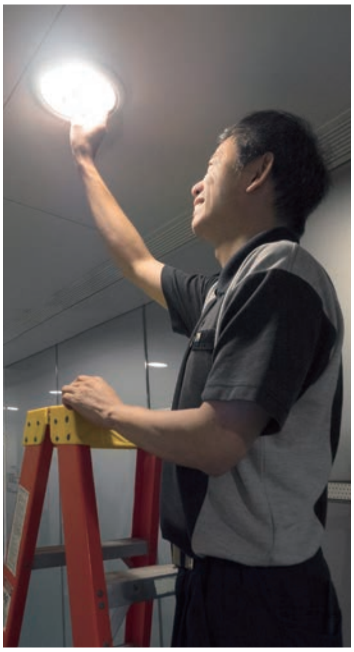


Fluorescent tubes[Note] (kg)



Note : At Sunlight Tower only.

ESG case 2 : Sunlight Tower achieving BEAM certification



Located at 248 Queen's Road East, Sunlight Tower achieved the BEAM Eco Building Platinum rating in 2011. Since then, the Manager has continued to undertake various measures to gauge its energy efficiency, such as conducting carbon audits, installing a building management system, and monitoring the operation of the central air-conditioning system.

In view of the chiller system upgrade in 2014 which proved to be rewarding in terms of energy savings and cost efficiency, the second air-cooled chiller in Sunlight Tower was also converted to a water-cooled system in April 2016. This conversion program is expected to contribute to an annual energy savings of 635,728 kWh, or 19% of total energy consumption at Sunlight Tower for the Year. Our commitment to energy efficiency is further demonstrated by our adoption of LED lighting in the car park, washrooms and the canopy on the ground floor.

Our Customers

To safeguard the data privacy of our tenants and customers, we have in place a Privacy Policy Statement, which can be viewed on the corporate website[Note] of Sunlight REIT. The Privacy Policy Statement is developed in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) to ensure that all personal data is handled in strict confidence by designated personnel as required by law, including collection, disclosure, retention, access and correction.

Note : http://www.sunlightreit.com/en-us/privacy-policy-statement

Our Community

The Manager's outreach and philanthropic initiatives are planned and implemented by the CSRC with the goal of adding value to the communities in close proximity of Sunlight REIT's properties. During the Year, we held and took part in many community engagement activities, with 104 engagement hours across all our events.

In addition, we bring local communities together by providing venues for community and charity events. During the Year, we organised/participated in nine community events.

Caring for the community

To fulfil our role as a responsible corporate citizen, we encourage our staff to actively participate in actvities that empower and support those in need. During the 2015 Mid-autumn Festival, our volunteers visited a retirement home, bringing fun and laughter to its elderly residents. In December 2015, we took part in the 12th Charity Walkathon organised by Fu Hong Society to raise funds for persons with intellectual disabilities, psychiatric disabilities and autism.

Caring for the youth

In collaboration with the Chinese YMCA of Hong Kong, we continued our sponsorship of the "Sunlight Little Ironman Triathlon" initiative and provided sports training for low-income families and their children. Through this event, we aimed to instill an awareness of healthy living among the participants and forge closer ties between parents and children.

We also extended our partnership with Hong Kong Children & Youth Services in organising the "Sunlight Musical Ambassador" programme for children from underprivileged families. Our Musical Ambassadors received training in playing different musical instruments and were offered the opportunity to perform at various community events. This initiative was well-received by the community and involved over 20 teenagers.

Caring for the environment

We also collaborated with the Tseung Kwan O Integrated Social Service Centre of Hong Kong Young Women's Christian Association to launch the "Go Green! Sunlight @ Love" Community Service Plan. This collaboration involved, among other activities, holding talks to promote green living and spreading green messages in our shopping malls.

Community event highlights

2015

July

Sunlight Little Ironman Triathlon

September


Visiting elderly people at Mid-autumn Festival

December

The 12th Fu Hong Society Charity Walkathon

2016

January

Organic peanut brittle making workshop

February


Go Green! Sunlight @ Love

March


New Territories Walk of Hong Kong Community Chest

April


Sunlight Musical Ambassador

Read-Cycling

May


Mother's Day singing contest

ESG case 3 : Read-Cycling

For the fifth consecutive year, we sponsored "Read-Cycling", a meaningful project aimed at collecting and sharing used books among our communities. This initiative introduced new literature to participants and underscored the re-use and waste reduction concepts. Points of collection for the used books were set up in selected properties and we sought not only to mobilise our staff to take part in this worthwhile cause, but also to involve the broader public in order to create a bigger impact. During the Year, approximately 8,000 books were collected, testifying to the success of this event.

ESG case 4 : Connecting our tenants with the community

A workshop on making organic peanut brittle was held to engage our staff and the tenants of Sunlight Tower to support local organic farming. The raw materials used in the workshop were supplied by a social enterprise specialising in organic farming.

ESG reporting guide content index

Aspect	KPI	Description	Page number
A. Environmental			
A1 Emissions	A1	General disclosure	33, 38 & 39
	A1.2	Greenhouse gas emissions in total and intensity	39
	A1.3	Total hazardous waste produced	40
	A1.4	Total non-hazardous waste produced	40
	A1.5	Description of measures to mitigate emissions and results achieved	39
A2 Use of resources	A2	General disclosure	38-40
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	39
	A2.3	Description of energy use efficiency initiatives and results achieved	39 & 41
A3 The environment and natural resources	A3	General disclosure	38
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	41
B. Social			
B1 Employment	B1	General disclosure	36
	B1.1	Total workforce by gender, employment type and age group	36
	B1.2	Employee turnover rate by gender and age group	36
B2 Health and safety	B2	General disclosure	38
	B2.1	Number and rate of work-related fatalities	38
	B2.2	Lost days due to work injury	38
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	38
B3 Development and training	B3	General disclosure	37
	B3.1	The percentage of employees trained by gender and employee category	37
	B3.2	The average training hours completed per employee by gender and employee category	37
B6 Product responsibility	B6	General disclosure	41
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	41
B7 Anti-corruption	B7	General disclosure	38
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	38
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	38 & 65
B8 Community investment	B8	General disclosure	42 & 43
	B8.1	Focus areas of contribution	42-44
	B8.2	Resources contributed to the focus areas	42

Board of Directors and Senior Management

Board of Directors

Mr. AU Siu Kee, Alexander
OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB
Chairman and Non-Executive Director

Mr. Au, aged 69, has been the Chairman and Non-executive Director of the Manager since 2010. Mr. Au was an executive director and the Chief Financial Officer of HLD from December 2005 to June 2011. In July 2011, he stepped down from the position of Chief Financial Officer and was re-designated as a non-executive director of HLD. Further, he was re-designated in December 2012 as an independent non-executive director of HLD until his retirement in June 2015. With effect from 1 July 2015, Mr. Au was appointed as an independent non-executive director of HIL (a subsidiary of HLD). Mr. Au is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited ("**HK Ferry**") and Miramar Hotel and Investment Company, Limited ("**Miramar Hotel**") (both associated companies of HLD) and an independent non-executive director of The Wharf (Holdings) Limited ("**Wharf**"). Shares in HLD, HIL, HK Ferry, Miramar Hotel and Wharf are listed on the Main Board of the Stock Exchange.

A banker by profession,Mr. Au was the Chief Executive Officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. He was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited; and an independent non-executive director of Wheelock and Company Limited, the listed holding company of Wharf. An accountant by training, Mr. Au is a fellow of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. WU Shiu Kee, Keith
BS, MS, FHKIoD
Chief Executive Officer and Executive Director

Mr. Wu, aged 52, is the Chief Executive Officer, Executive Director and a responsible officer of the Manager. He has almost 30 years of experience in the property, corporate finance, asset management and research related fields. He joined the Manager in April 2006.

From 1997 to 2005, Mr. Wu was an executive director of Lai Sun Development Company Limited ("**Lai Sun Development**"), where he was primarily responsible for overseeing corporate finance related matters of the group. Prior to his appointment at Lai Sun Development, Mr. Wu worked in the investment banking field and held senior research and asset management positions with several international financial institutions in Hong Kong.

Mr. Wu holds a Master of Science degree in Engineering-Economic Systems (since renamed Management Science and Engineering) from Stanford University in the United States and a Bachelor of Science degree in Economics and Statistics (High Distinction) from the University of Toronto in Canada. He is a fellow of The Hong Kong Institute of Directors.

Mr. KWOK Ping Ho
BSc, MSc, Post-Graduate Diploma in Surveying, ACIB
Non-executive Director

Mr. Kwok, aged 63, has been an executive director of HLD since December 1993.

Mr. Kwok, holds a Master of Science degree in Administrative Sciences from the City University Graduate Business School, London, a Post-Graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London. He is also an associate member of The Chartered Institute of Bankers (A.C.I.B.) of the United Kingdom and had previously been a part-time lecturer for the MBA programme of The University of Hong Kong. In 2012, Mr. Kwok, was appointed as an Honorary Professor of the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong.

Mr. Kwok, has over 30 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury and project management activities of the HLD group of companies since 1987, including group re-organisation, privatisation proposals and corporate acquisitions.

Mr. KWAN Kai Cheong
BAcc, FCA (Aust.), FHKICPA, FHKIoD
Independent Non-executive Director

Mr. Kwan, aged 66, is presently the President of Morrison & Company Limited, a business consultancy firm. He is a non-executive director of China Properties Group Limited and an independent non-executive director of United Photovoltaics Group Limited, Win Hanverky Holdings Limited, Greenland Hong Kong Holdings Limited, Dynagreen Environmental Protection Group Co., Limited and CK Life Sciences Int'l., (Holdings) Inc. (all being companies listed on the Main Board of the Stock Exchange). He is also an independent non-executive director of both HK Electric Investments Manager Limited and HK Electric Investments Limited. 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.

Mr. Kwan holds a Bachelor of Accountancy (Honours) degree from the University of Singapore (since renamed National University of Singapore). He is also a fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. He completed the Stanford Executive Program in 1992.

Mr. MA Kwong Wing
FHKIoD, FHKSI, FCCA, FCIS, FCS, CPA, ACIB, AHKIB
Independent Non-executive Director

Mr. Ma, aged 70, served with Hang Seng Bank Limited for over 30 years in various business areas and functions (including compliance) prior to his retirement in October 2005. He was appointed as the Company Secretary of Hang Seng Bank Limited in 1988 and Assistant General Manager (while remaining as Company Secretary) in January 1993. In September 2013, Mr. Ma was appointed as an independent non-executive director of United Photovoltaics Group Limited, a company listed on the Main Board of the Stock Exchange. Mr. Ma has also ceased to act as the Honorary Secretary of The Hong Kong Heart Foundation Limited and Institute for Heart Health Promotion Limited (both being charitable institutions exempted from tax under Section 88 of the Inland Revenue Ordinance) with effect from 20 January 2016.

Mr. Ma is a fellow of The Hong Kong Institute of Directors, the Hong Kong Securities and Investment Institute, the Association of Chartered Certified Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of The Chartered Institute of Bankers and The Hong Kong Institute of Bankers.

Dr. TSE Kwok Sang
BSc, MBA, MSc, PhD, ASA, MHKIoD, JP
Independent Non-executive Director

Dr. Tse, aged 59, is currently Associate Professor of Finance, School of Economics and Finance of The University of Hong Kong.

Dr. Tse has published widely on the subject of real estate finance and economics, financial regulations and capital markets and investments. He is also a member of the CFP Examination Committee. Currently Dr. Tse is a Co-opted Councillor of the New Territories Heung Yee Kuk and a Justice of the Peace. He is also an independent non-executive director of Wing Lee Property Investments Limited and Addchance Holdings Limited, both are companies listed on the Main Board of the Stock Exchange.

Dr. Tse holds a Ph.D. in Finance from Michigan State University in the United States. He is an associate member of the Society of Actuaries (ASA) and a member of The Hong Kong Institute of Directors.

Mr. KWOK Tun Ho, Chester
BA
Independent Non-executive Director

Mr. Kwok, aged 52, holds a Bachelor of Arts degree from the University of Cambridge. He joined the banking industry in 1989 and has over 25 years of experience in corporate finance and investment and commercial banking in Hong Kong and in Asia. Prior to his retirement from the banking business in October 2015, he had held senior positions in a number of international financial institutions, including Credit Suisse and Standard Chartered Bank. Mr. Kwok was previously a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the SFC.

Senior Management

From left to right
Mr. HAH Yick Yat, Ms. CHUNG Siu Wah, Mr. WONG Chi Ming, Ms. HO Kuk Fong, Mr. WU Shiu Kee, Keith, Mr. LEUNG Kwok Hoe, Kevin, Ms. LO Yuk Fong, Phyllis, Mr. LEE Kiu Ming, Ms. KAN Shuk Fan, Winnie, Mr. POON Hung Tak

Mr. WU Shiu Kee, Keith

Chief Executive Officer, Executive Director and Responsible Officer

Mr. Wu is responsible for the implementation of the strategy and objectives as set by the Board, ensuring that Sunlight REIT is operating in accordance with the stated strategies, policies and regulations. In addition, he takes charge of the day-to-day management and operations of the Manager.

Details of his experience are set out in "Board of Directors" on page 46.

Mr. LEUNG Kwok Hoe, Kevin

General Manager – Investment and Investor Relations and Responsible Officer

Mr. Leung is responsible for, among other matters, formulating and implementing the Manager's investment management plans for Sunlight REIT, formulating and implementing fund investment strategy and policy, identifying, researching and evaluating potential acquisitions or divestments consistent with Sunlight REIT's investment strategy, and developing a research platform. He is also responsible for all communication with unitholders and other key stakeholders of Sunlight REIT.

Mr. Leung has over 20 years of experience in finance and treasury, investment and fund management fields. Prior to joining the Manager, he was the Investment Manager and a responsible officer of The Link Management Limited (now known as Link Asset Management Limited), the manager of The Link Real Estate Investment Trust (now known as Link Real Estate Investment Trust).

Mr. Leung holds a Master of Applied Science in Biopharmaceutical from The University of New South Wales in Australia, a Bachelor of Economics degree and a Bachelor of Laws degree, both from The University of Sydney in Australia. He is a Chartered Financial Analyst.

Mr. WONG Chi Ming

General Manager – Asset Management and Responsible Officer

Mr. Wong is responsible for, among other matters, driving the operating performance of Sunlight REIT's property portfolio, planning and developing asset enhancement strategies for recommendation to the Chief Executive Officer and to the Board, and directing the development and implementation of marketing strategies and business development plans for Sunlight REIT.

Mr. Wong has over 25 years of experience in the leasing and property management fields. Between 2006 and April 2010, Mr. Wong was the Chief Leasing Administration Manager of the Property Manager. Prior to joining the Property Manager, Mr. Wong was a leasing manager of HLD from 2005 to 2006. He also previously worked for Hang Lung Properties Limited from 1990 to 2005 and was its property manager from 1994 to 2005.

Mr. Wong holds a Bachelor of Engineering degree from The University of Hong Kong and a Master of Corporate Governance degree from the Open University of Hong Kong. He is a holder of Hong Kong Estate Agent's Licence (Individual).

Ms. LO Yuk Fong, Phyllis

Chief Financial Officer and Responsible Officer

Ms. Lo is principally responsible for supervising the overall financial management of Sunlight REIT, including but not limited to financial reporting, taxation and cash flow management, monitoring of capital expenditure, reviewing of and making recommendation on financing matters and budget preparation.

Ms. Lo has over 25 years of experience in financial management and company secretarial functions. Prior to joining the Manager, Ms. Lo was the Chief Financial Officer of a media company previously listed in Singapore.

Ms. Lo holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. She is a member of the Institute of Chartered Accountants in England & Wales and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. HAH Yick Yat, Kelvin

Corporate Services Manager

Mr. Hah is responsible for, among other matters, human resources management, procurement and office administration, supporting the Manager's core asset management and investment management functions through the provision of ancillary back-office services and ensuring the optimal efficiency and operation of the information technology systems.

Mr. Hah has over 15 years of experience in the finance and administration areas; in particular, he was the Finance and Administration Officer of Eastar Technology Limited, a subsidiary of Henderson Cyber Limited between 2000 and 2003.

Mr. Hah holds a Master of Science degree in Financial Management from the University of London, a Professional Diploma in Marketing from the University of California, Berkeley, in the United States and a Bachelor of Arts degree in Economics from the University of British Columbia in Canada.

Ms. KAN Shuk Fan, Winnie

Internal Auditor

Ms. Kan is responsible for, among other things, reviewing the Manager's internal control system and reporting to the Board through the Audit Committee periodically.

Ms. Kan has over 20 years of experience in the audit and finance field. Prior to joining the Manager, she was a senior internal auditor of the Airport Authority Hong Kong.

Ms. Kan holds a Master of Business Administration degree from The University of Manchester, a Bachelor of Laws (Honours) degree from the Manchester Metropolitan University and a Bachelor of Arts (Honours) degree in Accountancy from the City University of Hong Kong. She is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Kan is a Certified Internal Auditor and a Certified Information Systems Auditor awarded by The Institute of Internal Auditors and the Information Systems Audit and Control Association (ISACA) respectively. She is also a Certified Fraud Examiner awarded by Association of Certified Fraud Examiners.

Ms. CHUNG Siu Wah

Compliance Manager and Company Secretary

Ms. Chung is responsible for, among other things, design and implementation of adequate internal systems and controls so as to ensure that both Sunlight REIT and the Manager are in compliance with the relevant statutory requirements and all other applicable laws, rules and regulations.

In addition to her role as Compliance Manager, Ms. Chung has also served as the Company Secretary of the Manager since November 2011. Ms. Chung has over 20 years of experience in the company secretarial field. Prior to joining the Manager, she was the Assistant Company Secretary of Hopewell Holdings Limited.

Ms. Chung holds a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. She is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. LEE Kiu Ming

General Manager

Mr. Lee is responsible for formulating and implementing business plans and strategies and business development of the Property Manager. Mr. Lee has 25 years of marketing, leasing and property management experience in the property field in Hong Kong. Prior to joining the Property Manager, he was a leasing manager in the Portfolio Leasing Department of HLD.

Mr. Lee holds a Bachelor of Social Science degree from The Chinese University of Hong Kong and a Bachelor of Science degree (Estate Management) from the University of Reading in the United Kingdom. He is a holder of Hong Kong Estate Agent's Licence (Individual).

Mr. POON Hung Tak

Deputy General Manager – Property Management

Mr. Poon works with the General Manager to oversee the building operations of the Property Manager.

Mr. Poon has over 25 years of experience in property management. Prior to joining the Property Manager, he was employed as Estate Manager in the Portfolio Leasing Department of HLD.

Mr. Poon holds a Master of Business Administration in Construction and Real Estate degree from the University of Reading in the United Kingdom, a Bachelor of Arts degree from The University of Hong Kong and a Professional Diploma in Real Estate Administration from the School of Professional and Continuing Education of The University of Hong Kong. He is also a professional member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors.

Ms. HO Kuk Fong

Assistant General Manager – Leasing

Ms. Ho works with the General Manager to oversee the marketing and leasing administration of the Property Manager.

Ms. Ho has over 20 years of experience in property leasing. Prior to joining the Property Manager, she was the Senior Leasing Manager of Sun Hung Kai Real Estate Agency Limited.

Ms. Ho holds a Master of Science in Real Estate degree from the University of Hong Kong, a Postgraduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Diploma in Property Development from the School of Professional and Continuing Education of the University of Hong Kong. She is a holder of Hong Kong Estate Agent's Licence (Individual).

Corporate Governance Report

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

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

The key components of the corporate governance policies are set out below.

Checks and Balances

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorised by 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 REIT Code. The Manager is licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director, Mr. Leung Kwok Hoe, Kevin, General Manager – Investment and Investor Relations, Mr. Wong Chi Ming, General Manager – Asset Management, Ms. Lo Yuk Fong, Phyllis, Chief Financial Officer, and Ms. Shum Chung Wah, Yulanda, Manager – Asset Management 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.

Role of the Trustee and the Manager

The Trustee is responsible for, among other things, the safe custody of the assets of Sunlight REIT on behalf of the unitholders.

The Manager is to manage and operate Sunlight REIT and to ensure that the financial and economic aspects of Sunlight REIT's assets are professionally managed in the sole interest of the unitholders. The Trustee and the Manager are independent of each other.

The Board and delegations

The Board principally oversees the day-to-day management and corporate governance of the Manager. The Board and management functions are largely separated; subject to certain matters specifically reserved to the Board itself, the day-to-day management duties are delegated to the management team of the Manager. Meanwhile, 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.

The Board takes the role to lead and map out the corporate strategy and direction of Sunlight REIT. During the Year, Mr. Kwok Tun Ho, Chester was appointed as an Independent Non-executive Director ("**INED**"). The Board currently has a total of seven Directors, consisting of one Executive Director (who is also the Chief Executive Officer), two Non-executive Directors (including the Chairman of the Board) and four INEDs. In compliance with the Compliance Manual, at least one of the INEDs possesses appropriate professional qualifications or accounting or related financial management expertise.

All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with the articles of association of the Manager. The positions of 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.

As required by the Compliance Manual, at least one-third (and with a minimum of three) of the Board shall be INEDs. The INEDs are responsible for ensuring that there is a strong independent element on the Board, and for effectively exercising independent judgment with regards to implementation of the overall corporate strategy and direction of Sunlight REIT as well as certain specific proposed policies and transactions. In assessing the independence of a Director, the Board takes into account the factors set out in the corporate governance policy as contained in the Compliance Manual, and each INED is required to provide to the Manager an annual written confirmation of his independence by reference to such factors. Further re-appointment of an INED who has served the Board for more than nine years shall be subject to a separate resolution to be approved by the unitholders. Such approval should be sought as soon as possible and no later than the annual general meeting immediately following the ninth anniversary of the INED's appointment. The Board shall provide the unitholders in the relevant circular with the reasons as to why it believes such INED continues to be independent and should be re-appointed. At the annual general meeting held on 29 October 2015 ("**2015 AGM**"), the resolutions approving the re-appointment of Mr. Kwan Kai Cheong, Mr. Ma Kwong Wing and Dr. Tse Kwok Sang (being the INEDs serving the Board for more than nine years) for a further term of three years, were duly approved by the unitholders.

The Board has adopted a board diversity policy with a view to achieving diversity of expertise and experience at the Board level and promoting the effectiveness of the Board as a whole. The size, composition and structure of the Board are reviewed on a regular basis with due consideration on different aspects of diversity including but not limited to age, cultural and educational background, gender, knowledge, length of service, professional experience and skills. The ongoing review of the Board's composition and recommendations on the appointment and re-appointment of Directors are matters within the terms of reference of the Remuneration and Nomination Committee. No measurable objectives have been set on board diversity.

Except for the re-appointment of INEDs as elaborated above, the appointment and removal of Directors is a matter for the Board and the shareholders of the Manager to determine in accordance with the provisions of the Compliance Manual, the articles of association of the Manager and the applicable law.

The Board meets on a regular basis and generally no less than four times in each financial year at approximately quarterly intervals. Directors are given written notices of Board meetings in advance of the regular meetings, with suitable arrangements in place to allow Directors to raise items in the agenda. Agenda and accompanying board papers are circulated before the scheduled date of a Board meeting. Board consents are given by votes at Board meetings, and written resolutions are signed by all Directors. Board process is further facilitated by the use of telephone conferences in cases where urgent decisions are required before the next regular Board meeting or where certain Director(s) is/are out of town.

The Board has delegated certain functions to four board committees, namely the Audit Committee, the Investment Committee, the Remuneration and Nomination Committee and the Disclosures Committee to deal with specific issues which require extensive discussion.

Membership, Directors' attendance to meetings and major responsibilities of and key work performed by the Board and each of the board committees during the Year are summarised on pages 54 and 55 of this report.

Management functions of the Manager are delegated to six departments. Apart from regular communications among the department heads, management meetings are held periodically to coordinate and facilitate the implementation and operation of different management and business functions. The management structure of the Manager is illustrated in the chart on page 56.

Pursuant to the Trust Deed, the Manager has the right to delegate to any person the performance of any act or the exercise of any power to manage and administer the assets of Sunlight REIT. In this regard, the Manager has appointed the Property Manager to provide property management, lease management and marketing services solely and exclusively for all the properties of Sunlight REIT located in Hong Kong, subject to the overall management and supervision of the Manager. A property management agreement (the "**Property Management Agreement**") was entered into between the Manager and the Property Manager on 29 November 2006, and was subsequently renewed on amended terms and conditions by three supplemental agreements. The current term of appointment of the Property Manager is for a period of three years up to and including 30 June 2018.

The biographical details of the members of the Board and the senior management of the Manager and the Property Manager are set out under "Board of Directors and Senior Management" on pages 46 to 51.

During the Year, the Directors participated in various continuous professional training seminars and/or programmes to develop and refresh their knowledge and skills. The Directors have provided their training records to the Compliance Department on a yearly basis. The costs of such training activities, if applicable, were borne by the Manager.

Membership, attendance to meetings and major responsibilities of and key work performed by the Board and board committees during the Year are summarised below :

	Board of Directors		Audit Committee	
Membership and attendance to meetings (No. of meetings attended/No. of meetings eligible to attend)				
Mr. Au Siu Kee, Alexander	Chairman and Non-executive Director	(5/5)	N/A	
Mr. Wu Shiu Kee, Keith	Chief Executive Officer and Executive Director	(5/5)[1]	N/A	
Mr. Kwok Ping Ho	Non-executive Director	(5/5)	N/A	
Mr. Kwan Kai Cheong	Independent Non-executive Director	(5/5)	Chairman	(4/4)
Mr. Ma Kwong Wing	Independent Non-executive Director	(5/5)	Member	(4/4)
Dr. Tse Kwok Sang	Independent Non-executive Director	(5/5)	Member	(4/4)
Mr. Kwok Tun Ho, Chester	Independent Non-executive Director	(3/3)[3]	Member	(2/2)[3]
Major responsibilities				
	– leads and guides the corporate strategy and direction of Sunlight REIT – oversees the day-to-day management and corporate governance of the Manager		– reviews the completeness, accuracy, clarity and fairness of financial statements of Sunlight REIT – monitors and appraises the risk management and internal control systems and assesses their effectiveness – reviews and monitors connected party transactions – appoints auditor of Sunlight REIT and recommends its remuneration to the Board – reviews Sunlight REIT's compliance with legal and regulatory requirements – reviews the adequacy of resources, qualifications and experience of staff in relation to the accounting, internal audit and financial reporting functions, and their training programmes and budget – oversees internal control structure and financial reporting procedure of Sunlight REIT – reviews the conduct and performance of special purpose vehicles of Sunlight REIT – reviews the disclosure of Property Development and Related Activities (as defined in the REIT Code) and Relevant Investments in annual and interim reports of Sunlight REIT	
Summary of key work				
During the Year, the Board and its committees considered, approved, reviewed and/or formulated the matters summarised herein :	– financial results of Sunlight REIT and the Manager – reports and recommendations from board committees – announcements/reports, including release of quarterly operational statistics and interim and annual reports of Sunlight REIT – annual operating and CAPEX budget of Sunlight REIT – update of the contingency plan – election of percentage of the Manager's base fee and variable fee to be paid in cash and/or units – restructuring IRS profile, including execution of IRSs and basis swaps – re-appointment of three INEDs and Chairman – acquisition of the remaining interest in a property – adoption of revised risk management policy and endorsement of risk appetite statement – appointment of an additional INED – revision of the authorisation policy – engagement of consulting firm on ESG reporting		– internal audit reports – financial results of Sunlight REIT – adequacy of resources, qualification and experience of staff in relation to accounting and financial reporting functions, and their training programmes and budget – internal control system – auditor re-appointment and their reports – update of the contingency plan – connected party transactions of Sunlight REIT and the relevant guidelines – revision of the internal audit charter – risk factors affecting Sunlight REIT – disclosure of Relevant Investments in annual and interim reports of Sunlight REIT	

N/A : Not applicable as the Director is not a member of the committee

Notes :

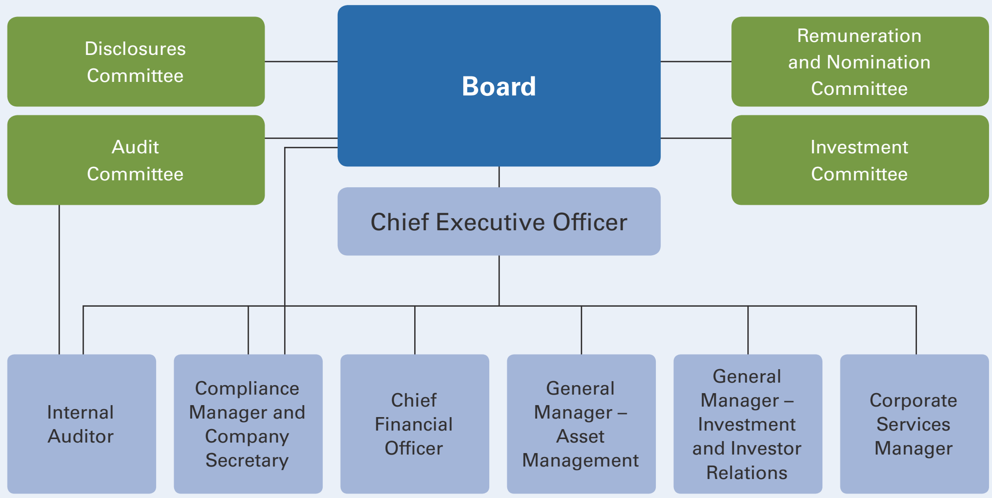
1. Mr. Wu Shiu Kee, Keith was excused from participating in the discussion of a Board meeting relating to his remuneration as the Chief Executive Officer of the Manager.

Investment Committee		Remuneration and Nomination Committee		Disclosures Committee	
Chairman	(5/5)	Chairman	(2/3)[2]	N/A	
Member	(5/5)	N/A		Chairman	(2/2)
N/A		N/A		N/A	
N/A		Member	(3/3)	N/A	
N/A		Member	(3/3)	Member	(2/2)
Member	(5/5)	N/A		N/A	
Member	(2/2)[3]	N/A		N/A	
– oversees the investment strategy of and proposals to Sunlight REIT, including budget review, acquisition and disposal of properties, and asset enhancement proposals – ensures the establishment and functioning of internal controls for investment and financial matters – ensures compliance with investment objectives, policies and restrictions as contained in the REIT Code and the Trust Deed		– oversees the human resources strategy and policies – identifies and recommends candidates of board members to the Board – evaluates the performance of the Board and its members – reviews the terms and conditions of employment of senior executives and the members of the Board		– reviews matters relating to the disclosure of information to unitholders and in public announcements – ensures compliance with applicable legal requirements and the continuity, accuracy, clarity and completeness of information disseminated to the public and applicable regulatory authorities	
– financial results of Sunlight REIT – annual business plan and CAPEX budget of Sunlight REIT – derivative positions and risk assessment in respect of derivative instruments – services of financial service providers – investment restrictions under the REIT Code and the Trust Deed – potential disposal/acquisition of properties – allocation of funds from the disposals of properties – investment guidelines on Relevant Investments – terms of proposed banking facilities – risk factors affecting Sunlight REIT – restructuring IRS profile, including execution of IRSs and basis swaps		– staff performance appraisal – staff budget and policy on staff benefits – Board structure, performance of the Board and committee members – re-appointment of three INEDs and Chairman – appointment of an additional INED		– public regulatory filings and other documents filed with the applicable regulatory authorities – announcements and reports including interim and annual reports of Sunlight REIT and other corporate communications to unitholders – applicability of newly adopted ESG reporting guide – applicability of amendments to BVI Business Companies Legislation	

Notes : (cont'd)

2. Mr. Au Siu Kee, Alexander did not attend a Remuneration and Nomination Committee meeting at which renewal of his service contract as the Chairman of the Manager was considered.
3. Mr. Kwok Tun Ho, Chester was appointed as an INED and member of both the Audit Committee and the Investment Committee with effect from 4 January 2016.

Management structure of the Manager



Reporting and Transparency

Interest of, and dealings in units by, Directors, the Manager or the substantial unitholders

The Manager has adopted a code governing dealings in securities of Sunlight REIT by Directors (the "**Dealings Code**") the terms of which are no less exacting than those set out in Appendix 10 of the Listing Rules. The Dealings Code is also applicable to the Manager itself and similar dealing requirements are also applicable to employees of the Manager. Certain restrictions and notification requirements as provided under the Listing Rules are adopted with modifications in the Dealings Code to apply to unit buy-back by the Manager on behalf of Sunlight REIT.

Pursuant to the Dealings Code, any Director who wishes to deal in any securities of Sunlight REIT must first have regard to the provisions of the SFO with respect to, among other things, insider dealing and market misconduct, as if those provisions of the SFO applied to any securities of Sunlight REIT.

A practical guidance note on the operation of the Dealings Code, setting out additional information and procedures for seeking clearance under the Dealings Code, is in place and it applies to the Directors and staff of the Manager and the Manager itself.

The Manager has also adopted procedures in monitoring disclosure of interests by the Directors and by the Manager itself. The provisions of Part XV of the SFO are deemed to apply to the Manager and the Directors, and also indirectly cover unitholders and persons claiming through or under him/her.

Any Director who is aware of or privy to any inside information or any negotiations or agreements related to intended acquisitions or disposals by Sunlight REIT which are either notifiable transactions under Chapter 14 of the Listing Rules (as if such rules were applicable to Sunlight REIT) or connected party transactions under the REIT Code or is in possession of any inside information must immediately refrain from dealing in any securities of Sunlight REIT until (i) proper disclosure of the information has been made in accordance with the REIT Code and any applicable provisions of the Listing Rules; or (ii) the aforesaid negotiations or agreements related to such intended acquisitions or disposals have lapsed. Any Director who is privy to relevant negotiations or agreements or any inside information should caution those Directors who are not that there may be unpublished inside information and that they must not deal in any securities of Sunlight REIT for a similar period.

In general, Directors must not make any unauthorised disclosure of confidential information or make any use of such information for the advantage of themselves or others.

Unitholders with a holding of 5% or more of the units in issue, or the Manager and Directors with an interest in the units in issue, have a notifiable interest and are required to notify the Stock Exchange and the Manager of their holdings in Sunlight REIT and certain changes thereof in accordance with necessary procedures. The Manager is under a duty to keep a register of interests pursuant to the notifications, and the said register is available for inspection by unitholders without charge during normal business hours. Please refer to "Disclosure of Interests" on pages 69 to 71 for information relating to holdings of Directors, the Manager and the substantial unitholders at 30 June 2016.

Conflicts of interests and business competitions with HLD, SKFE and other companies

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD. One of the non-executive Directors of the Manager is an executive director of HLD. The Chairman (who is also a non-executive Director) of the Manager is an independent non-executive director of HIL, a listed subsidiary of HLD. Each of 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 their affiliates in the future. The Manager may experience conflicts of interests as a result of other roles of its board members and/or the activities and interests of its affiliates in acquiring and disposing of potential investments. Moreover, as a wholly-owned subsidiary of HLD, the Manager may experience conflicts of interests in connection with any potential transactions with HLD or its affiliates and in agreeing on the terms of such potential 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.

In addition, potential conflicts of interests may arise in connection with or in relation to (i) any potential property-related acquisitions or disposals and/or competition with other companies for potential tenants in the event that any director, senior executive or officer of the Manager or 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.

To ensure that all conflicts of interests relating to Sunlight REIT can be managed and/or avoided, various control measures have been adopted and taken to deal with such issues, including but not limited to the following :

1. the Manager will not manage any REIT other than Sunlight REIT nor manage any other real estate assets other than those owned by Sunlight REIT;
2. the Manager has its own functional units and systems and operates independently from its shareholders;
3. the Manager has established internal control systems to ensure that connected party transactions between Sunlight REIT and its connected persons are monitored and undertaken on terms in compliance with the REIT Code and that other situations of potential conflicts of interests that may arise are monitored;
4. a Director with a conflict of interests shall disclose his interest to the Board and abstain from voting on the relevant matter and not be counted in the quorum at which any resolution in relation to that item is proposed;
5. a register of other directorships, and senior positions (which may give rise to conflict of interests), held by the Directors is maintained and updated from time to time; and
6. confirmation from the principal valuer of Sunlight REIT that it has established stringent internal controls and guidelines to its staff with respect to confidentiality and conflict of interest obligations, and has also assured the Manager that the provision of tenancy agency services would neither affect its performance nor jeopardise its independence as principal valuer of Sunlight REIT.

The Manager assures that it is capable of performing, and shall continue to perform, its duties for Sunlight REIT independent of HLD's related businesses and in the best interests of Sunlight REIT and the unitholders.

Financial statements

Financial statements of Sunlight REIT are prepared in accordance with accounting principles generally accepted in Hong Kong with a financial year end of 30 June and a financial half-year end of 31 December. In accordance with the REIT Code, the annual reports and financial statements of Sunlight REIT are published and distributed to unitholders within four months following the end of each financial year, and for semi-annual reports within two months following the end of the relevant period.

The Directors acknowledge their responsibility for the preparation of financial statements of Sunlight REIT and its subsidiaries for the Year, which give a true and fair view of the state of affairs of Sunlight REIT and its subsidiaries at 30 June 2016 and of their results and cash flows for the year then ended and are properly prepared in accordance with the statutory requirements and applicable accounting standards.

Results announcements

Pursuant to the requirements under the REIT Code, results announcements of Sunlight REIT are released on a semi-annual basis.

It is customary for the Manager to conduct briefings with unitholders, investors, analysts and the press immediately following the release of results announcements. Such information, including the relevant presentation materials and announcements, is made available to the public through Sunlight REIT's website.

Other announcements

To keep unitholders abreast of the position of Sunlight REIT, public announcements of material information and developments with respect to Sunlight REIT are made by the Manager in a timely and transparent manner in accordance with the applicable regulatory requirements. Subsequent briefings with analysts and the press may also be convened by the Manager if necessary.

Auditor

The Manager has engaged KPMG as the auditor for Sunlight REIT. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its terms of reference, considers all audit and non-audit services to be provided by KPMG. Fees payable to the auditor of Sunlight REIT during the Year amounted to HK$1,772,000 for audit and audit related services and HK$475,000 for non-audit services respectively.

The responsibilities of the auditor with respect to financial reporting are set out in "Independent Auditor's Report" on page 87.

Accountability and Communication

Investor relations

The Manager is committed to providing an open and effective communication platform, ensuring that unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT. The Manager reinforces this platform by setting up an investor relations team which utilises a variety of interactive means to engage and maintain dialogues with investors and analysts. The Manager believes feedback and comments from the investment community are crucial in mapping out the future direction of Sunlight REIT.

To the extent possible under the current regulatory framework, communications with investors are conducted through :

1. direct communication including physical meetings conducted with the senior management of the Manager, both locally and overseas;
2. guided property tours organised by the Manager and the Property Manager;
3. provision of communication materials; and
4. announcements and press releases posted on Sunlight REIT's website, including disclosures made pursuant to regulatory requirements or on a voluntary basis.

Other than annual and interim results announcements, the Manager also voluntarily releases the operational statistics of Sunlight REIT twice every year. As the first listed REIT in Hong Kong to undertake this initiative, the Manager believes that voluntary disclosure, which enhances financial transparency and provides greater confidence to investors, is a core principle of corporate governance.

Promotional expenses

Pursuant to the waiver granted by the SFC on 27 April 2009 from strict compliance with paragraph 9.13(b) of the REIT Code, certain expenses of advertising or promotional activities are allowed to be paid out of the deposited property of Sunlight REIT. A further waiver was granted by the SFC on 30 April 2012 to expand the scope of such expenses to include the fees, costs and expenses incurred in relation to any fund raising exercise, any assets or otherwise in connection with Sunlight REIT, and the expenses are collectively referred to as the "**Promotional Expenses**".

During the Year, the Promotional Expenses incurred were HK$912,000. Pursuant to the conditions of the said waivers and having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee has confirmed that such Promotional Expenses were incurred in accordance with the internal control procedures of the Manager, and solely for the purposes as set out in the relevant clauses of the Trust Deed relating to Promotional Expenses.

Unitholders' rights

Unitholders are encouraged to attend general meetings of Sunlight REIT. In accordance with the Trust Deed, at least ten business days' notice of every meeting shall be given to the unitholders, except that at least twenty-one days' notice of the meeting shall be given to the unitholders where a special resolution is proposed for consideration at such meeting; and not less than twenty business days' notice shall be given to the unitholders for an annual general meeting. The notice will specify the place, date and hour of the meeting and the terms of any resolution to be proposed thereat.

As required by the Trust Deed, any resolution put to the meeting shall be decided on a poll, except where the chairman of the meeting may, in good faith, exercise his/her discretion to allow a resolution which relates purely to a procedural or administrative matter to be decided on a show of hands. The voting results at the meeting shall be published by way of an announcement.

The Trustee or the Manager may at any time convene a meeting of unitholders. Pursuant to the Trust Deed, not less than two unitholders registered as together holding not less than 10% of the outstanding units in issue for the time being are entitled to request the Manager in writing to convene a meeting of unitholders. In addition, unitholders may direct their enquiries to the Board to the investor relations team of the Manager by email or to the registered office of the Manager by post. Please refer to "Corporate Information" on page 137 for contact details.

Annual general meeting

The convening of an annual general meeting by the Manager is one of the principal communication channels with unitholders. It provides an opportunity for unitholders to obtain a better understanding of and, if necessary, to enquire the Board about Sunlight REIT's operating performance.

The 2015 AGM was attended by all Directors (except Mr. Kwok Tun Ho, Chester who was appointed as an INED effective from 4 January 2016). Details of the resolutions passed were set out in the 2015 AGM notice and the poll results announcement was published on 29 October 2015.

Matters to be decided by unitholders by special resolution

A meeting of unitholders when convened may, by way of a special resolution and in accordance with the Trust Deed, approve, among others, the following matters :

– any modification, variation, alteration or addition to the Trust Deed which shall be agreed by the Trustee and the Manager as provided in the Trust Deed (save for issues that are necessary to comply with applicable regulatory requirements);
– removal of the Trustee;
– disposal of an investment within two years from the date of its acquisition;
– termination or merger of Sunlight REIT in compliance with applicable provisions of the Codes on Takeovers and Mergers and Share Buy-backs;
– any changes in the investment policy and objective of Sunlight REIT; and
– any increase in the maximum remuneration (other than any additional fee as allowed under the Trust Deed) or any change to the structure of the remuneration of the Trustee or the Manager.

Issues of further units post-listing

Further issue of units in Sunlight REIT is subject to compliance with the pre-emption provisions contained in the REIT Code. Such provisions generally require that, unless the REIT Code otherwise permits, further issues of units shall be offered on a pro rata basis to existing unitholders. If new units are not offered on a pro rata basis, the approval of unitholders by way of an ordinary resolution is required unless the aggregate number of new units issued during the financial year does not increase the total number of units in issue at the end of the previous financial year by more than 20%.

New units issued

Except for an aggregate of 11,371,125 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Year.

Buy-back, sale or redemption of units

Pursuant to the general mandate granted by unitholders at the 2015 AGM, the Manager bought back on behalf of Sunlight REIT a total of 13,948,000 units on the Stock Exchange during the Year, for an aggregate consideration of approximately HK$54.7 million (excluding buy-back expenses). Details of the buy-backs are as follows :

Month of buy-back	Number of units bought back	Highest price paid per unit (HK$)	Lowest price paid per unit (HK$)	Aggregate consideration paid* (HK$'000)
July 2015	1,850,000	3.93	3.67	6,956
September 2015	783,000	3.93	3.83	3,058
October 2015	4,030,000	3.92	3.84	15,687
February 2016	1,531,000	3.86	3.72	5,820
March 2016	2,339,000	4.00	3.84	9,100
April 2016	1,171,000	4.10	4.00	4,773
May 2016	1,494,000	4.12	4.04	6,113
June 2016	750,000	4.29	4.17	3,155
Total	**13,948,000**			**54,662**

* Excluding buy-back expenses.

All bought back units were cancelled prior to the end of the Year.

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 Year.

Relevant Investments

The full investment portfolio of Relevant Investments of Sunlight REIT at 30 June 2016 is set out below :

Financial instruments and issuers	Type	Primary listing	Currency	Total cost (HK$'000)	Mark-to-market value (HK$'000)	% of Gross asset value of Sunlight REIT[Note]	Credit rating
BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited	Bond	Singapore Exchange	USD	21,623	21,844	0.12	S&P A- Moody's Baa3
ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Bond	Singapore Exchange	USD	20,911	21,334	0.12	Moody's Baa2
CHITRA 3 7/8 11/03/19 King Power Capital Ltd.	Bond	Hong Kong Exchange	USD	19,841	20,145	0.12	S&P BBB Moody's Baa3
Total				**62,375**	**63,323**	**0.36**	

Note : The percentages are arrived at by comparing the mark-to-market value of the investments at 30 June 2016 with the gross asset value of Sunlight REIT, which is calculated by reference to the audited consolidated financial statements for the Year contained in this annual report as adjusted for the final distribution declared.

At 30 June 2016 : (i) the combined mark-to-market value of the Relevant Investments, together with other non-real estate assets of Sunlight REIT at that date, represented 7.11% of the gross asset value of Sunlight REIT as stated in the audited consolidated financial statements for the Year contained in this annual report, which is below the Maximum Cap provided in note (1) to paragraph 7.2B of the REIT Code; and (ii) the Property Development Costs and the aggregate contract value of the uncompleted units of real estate acquired (both as referred to in note (1) to paragraph 7.2B of the REIT Code, being items also to be included for the purpose of calculating the above percentage for comparing with the Maximum Cap under that Code) were both nil.

Acquisition and disposal of properties

During the Year, three non-core properties, namely Everglory Centre, Yue Fai Commercial Centre Property (excluding the 1st Floor) and Royal Terrace Property, were disposed of by way of a public tender. Completion of the transactions took place in July and August 2015.

In July 2015, Sunlight REIT disposed of the 1st Floor of Yue Fai Commercial Centre in exchange for Unit 6A of On Loong Commercial Building and an equality money. In August 2015, Sunlight REIT acquired the remaining units (namely the 21st Floor) of On Loong Commercial Building, upon completion of which the ownership of the building has been unified.

Announcements relating to the above transactions were published on 14 April 2015, 29 May 2015, 31 July 2015, 3 August 2015 and 31 August 2015 respectively.

Save as disclosed above, there was no acquisition and disposal of properties by Sunlight REIT or its wholly owned and controlled entities during the Year.

Risk Management and Internal Control

Risk management

Risk is an inherent element of all business activities. In managing Sunlight REIT, the Manager is keenly aware of the importance of risk management, and thus it is fully committed to building and maintaining a solid risk management framework to ensure business viability and sustainability at all times. To manage and monitor the various risk factors to which Sunlight REIT may be exposed, the Board is responsible for establishing and overseeing Sunlight REIT's risk management and internal control systems on an ongoing basis, and reviewing their effectiveness from time to time.

A sound and effective risk management and internal control system is dependent on, among other things, a dedicated corporate culture, consistent board guidance, high management competence and adequate provision of resources (in support of the systems). Adequate risk management and internal control measures have been established by the Board, including a well-defined organisational structure with clear lines of responsibility and limits of authority, a reliable management reporting system, and proper budgetary and management accounting control policies.

Since the listing of Sunlight REIT, mitigating strategies have been formulated by the management team to combat with all identified risks. Such strategies are being reviewed by the Board on an ongoing basis, ensuring that the interests of the unitholders and the assets of Sunlight REIT are being safeguarded.

In 2015, the Board engaged KPMG as consultant to review and evaluate the effectiveness of the risk management and internal control functions of the Manager and the Property Manager. Taking into consideration KPMG's findings and recommendation, a revised risk management policy was adopted by the Board during the Year. The Manager is confident that this revamping exercise will strengthen the robustness of Sunlight REIT's risk management and internal control framework, and will enhance the risk awareness culture as well as the effectiveness in handling risks at all operational levels.

(a) Risk management philosophy

– Culture

Risk management forms an integral part of Sunlight REIT's strategic planning process. Effective management of risks is fundamental to the achievement of Sunlight REIT's vision, mission and core values. By embedding risk management into the day-to-day operational processes, the Manager believes that strategic and operational decisions can be consciously determined and weighted against the associated risks in the achievement of business objectives.

– Appetite

Risk appetite refers to the level of risk that Sunlight REIT can take (and tolerate) in pursuit of its strategic objectives. Determination and evaluation of the risk appetite of Sunlight REIT stands at the forefront of the Board's agenda and represents a core management value.

The risk profile of Sunlight REIT is collectively discussed and defined by the senior management of the Manager and the Property Manager. In order to maintain its independence, the Internal Auditor is excluded in the process. The risk appetite statement of Sunlight REIT identifies major risks and defines acceptable level for each risk type. It is then reviewed and endorsed by the Board annually, taking into account Sunlight REIT's strategic plan and its corporate objective of delivering sustainable and controlled business growth. Risks that exceed the approved risk appetite of Sunlight REIT shall be adjusted by transferring, sharing or eliminating them, or by implementing other risk mitigation measures, with the aim of reducing the quantum and frequency of loss.

During the Year, the risk appetite of Sunlight REIT was reviewed and endorsed by the Board.

Risk governance structure

– Governance

The risk governance structure of Sunlight REIT employs the model of "Three Lines of Defence". Through the integrated communication and effective monitoring in a collaborative framework, the distinctive roles and responsibilities of each level are clearly defined and thus clarity and accountability of risk management can be assured and enhanced.

1st line of defence – operational management

As risk owners, various departments and operating units are responsible for daily risk management activities, such as identifying, assessing, monitoring and reporting operational risks. They are also involved in the risk management processes by establishing effective risk management and internal controls to mitigate risks associated with the daily operations of Sunlight REIT, and by implementing corrective actions to address process and control deficiencies.

2nd line of defence – risk management and compliance

Risk management and compliance plays oversight functions which are taken up by the departments of the Manager with control roles. They are responsible for maintaining the risk management framework adopted by the Board, setting the scope by drafting and implementing risk management policies, providing guidance and training on risk management processes and monitoring the effectiveness of risk management practices.

3rd line of defence – internal audit

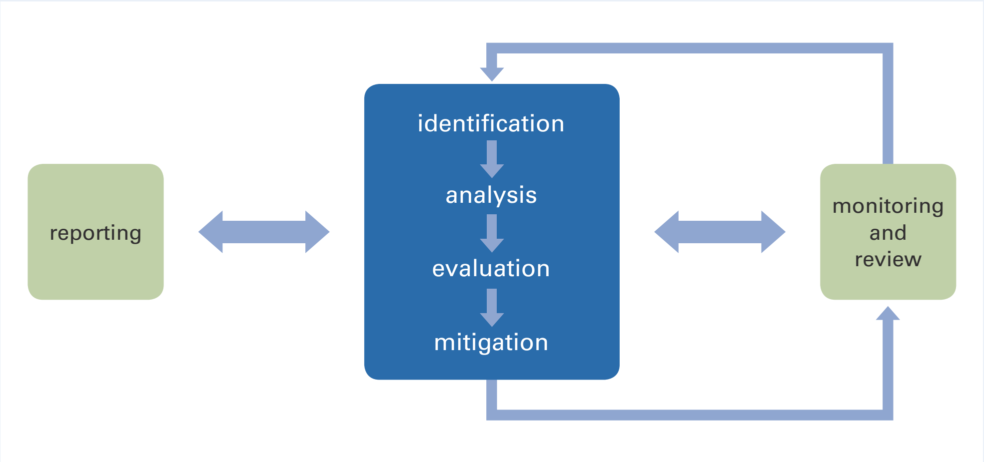
The Internal Audit Department ("**IAD**") plays a major role in supporting the Board to monitor the internal governance of Sunlight REIT and provides assurance on the overall compliance of the risk management framework and the effectiveness of controls in place in monitoring the risks identified for Sunlight REIT.

Each of the three lines of defence functions independently from each other, setting out a cascaded accountability framework for managing risks across Sunlight REIT. The Board is of the view that the adoption of a "Three Lines of Defence" model is effective and appropriate in formulating the roles and responsibilities for the risk management system of Sunlight REIT.

(b) Risk management process

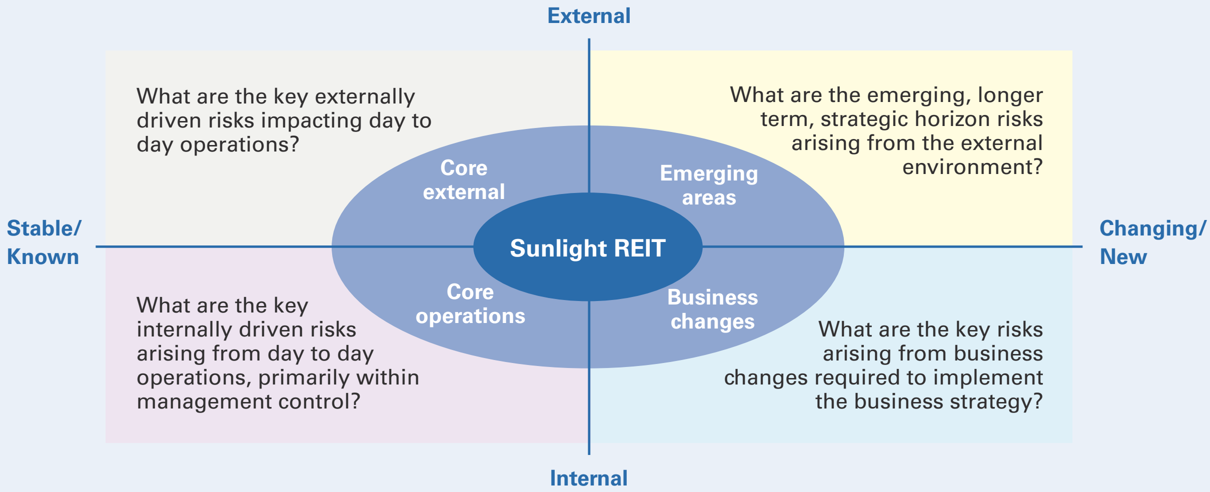
The risk management process of Sunlight REIT involves the identification, analysis, evaluation, mitigation, reporting and monitoring of risks.

Risk management process



To identify risks, Sunlight REIT has adopted a risk management framework with a blended methodology, which consists of bottom-up and top-down approaches, and is being complemented by dynamic interactions among staff at all levels of operation. The bottom-up approach involves the identification of risks at all functional areas, while the top-down approach involves the identification of strategic risks that prevent Sunlight REIT from achieving its strategic objectives. On a quarterly basis, the risk taskforce, comprising the Chief Executive Officer, Chief Financial Officer, Compliance Manager (who also assumes the role of Risk Manager) and two rotational members, shall review, evaluate and prioritise the risks that are escalated to the risk taskforce from the bottom-up perspective and the strategic risks as assessed by the Board from the top-down perspective.

Risk universe

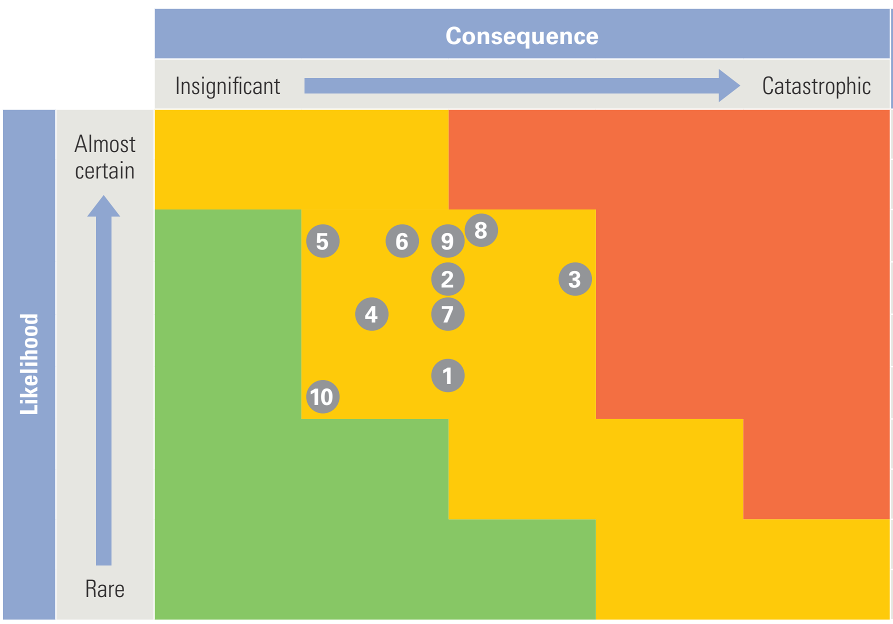


A risk universe has been created to ensure the entire spectrum of internal, external, stable and emerging risks are captured. The identified risks are categorised into different risk categories and are rated in terms of their consequence and likelihood of occurrence. The risk appetite statement is prepared with a view to providing a boundary and tolerance level for each category of risks. Each proposed risk mitigation measure has a designated owner and an expected completion date is assigned to ensure accountability for risk mitigation.

The risk heat map, as shown below, is plotted to illustrate the risk assessment results in terms of likelihood of occurrence and consequence. It is then presented to the Audit Committee and/or the Investment Committee (which serve the role of risk governance), on a regular basis. When necessary, the top risks will be communicated to the Board for consideration.

The Board is satisfied that Sunlight REIT continued to operate within the approved risk appetite during the Year.

Risk heat map



Top risks	
1	Recruitment and retention of staff
2	Portfolio concentration
3	Acquisition and disposal of properties
4	Stakeholders expectations
5	Competition
6	Operating costs
7	Market downturn
8	Taxation
9	Negative rental reversion
10	Information systems

Internal control

In addition to its role as the third line of defence in Sunlight REIT's risk governance structure, the IAD adopts a risk-based approach to review all major operations of Sunlight REIT on a regular basis, and conducts special reviews of areas of concern identified by the senior management and/or the Board committees. Internal audit reports incorporating control weaknesses and remedial actions are issued to the relevant department heads upon completion of audits and summary of reports issued are presented to the Audit Committee on a quarterly basis. The IAD will also prepare a 3-year audit plan which will be reviewed and approved by the Audit Committee.

In 2015, the Board commissioned KPMG to conduct an independent review of Sunlight REIT's internal audit function. This external review concluded that the function was properly operated and supervised, while the observations and recommendations raised by KPMG were noted by the Audit Committee and adopted by the IAD.

Through the Audit Committee and the IAD, the Board conducted an annual review on the effectiveness of risk management and internal control systems for the Year, covering all material controls such as financial, operational and compliance controls. The review process consisted of (i) independent appraisal of the risk management system by the IAD and (ii) operational management's assurance on the effectiveness of the risk management and control systems. It also encompassed the adequacy of resources, qualifications and experience of staff of Sunlight REIT's accounting, internal audit and financial reporting functions, and their training programmes and budget.

The risk management and internal control systems can provide reasonable but not absolute assurance against material misstatement or loss, and are designed to manage rather than eliminate the risk of failure in the process of attaining business objectives. Based on the findings of the annual review, the Board is satisfied with the risk management and internal control systems currently put in place for Sunlight REIT in terms of effectiveness and adequacy.

The Manager has also maintained a policy of reporting of irregularities to encourage and guide all staff of the Manager and Property Manager to raise matters of concern internally in good faith, with the pledge that such reporting will be treated fairly and to the extent possible be protected from reprisal.

Other compliance matters

Adoption of inside information policy

An inside information policy was adopted by the Board on 5 September 2016 to ensure that inside information is to be handled and disseminated to the public in equal and timely manner in accordance with applicable laws and regulations.

Confirmation of compliance with the Dealings Code

Specific enquiry has been made with all Directors and the Manager, and all of them confirmed that they have complied with the required standard as set out in the Dealings Code from time to time throughout the Year.

Public float

At 30 June 2016, 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.

Review of annual report

This annual report has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of reference.

Employees

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

Connected Party Transactions

Information in respect of the transactions entered into between Sunlight REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code) during the Year, 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 "Connected party transactions with the Trustee Connected Persons" on page 67) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Year :

(a) Income

Name of connected person	Relationship with Sunlight REIT[Note]	Nature of the connected party transactions	Income for the Year (HK$'000)	Rental and other deposits received at 30 June 2016 (HK$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	5,999	1,386
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	4,099	955
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	2,105	–
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing	458	111
Total			**12,661**	**2,452**

(b) Expenses

Name of connected person	Relationship with Sunlight REIT[Note]	Nature of the connected party transactions	Expenses for the Year (HK$'000)
Goodwill Management Limited	Associated company of the Manager	Property management and operations and licence fee	277
Hang Yick Properties Management Limited	Associated company of the Manager	Property management and operations	8,734
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management and related services and marketing services	47,887
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	2,569
Metro City Management Limited	Associated company of the Manager	Property management and operations	2,061
Sheung Shui Centre Management Limited	Associated company of the Manager	Property management and operations	2,247
Contender Limited	Associated company of the Manager	Facilities leasing	87
Miramar Hotel & Investment (Express) Limited	Associated company of the Manager	Vehicle hiring	2
Total			**63,864**

Note : Within the meaning of the REIT Code.

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[1] (collectively, the "**Trustee Connected Persons**") during the Year :

Name of connected person	Relationship with Sunlight REIT[2]	Nature of the connected party transactions	Income/ expenses for the Year (HK$'000)	Rental and other deposits received at 30 June 2016 (HK$'000)
Leasing transactions :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing[3]	9,076	2,415
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing[4]	225	62
Hang Seng Bank Limited	Trustee Connected Persons	Leasing[5]	10,765	2,639
Ordinary banking and financial services[6] :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/ receivable on bank deposits	18	–
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowings, interest expenses and cost for unwinding of IRSs and other bank charges	33,711	–
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	36	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest income received/ receivable on bank deposits	96	–
Hang Seng Bank Limited	Trustee Connected Persons	Interest expense on bank borrowing and other bank charges	4,224	–

An IRS with notional amount of HK$500 million was unwound on 27 July 2015 at a consideration of HK$7.5 million (included in the table above) which was paid to The Hongkong and Shanghai Banking Corporation Limited. In addition, two IRSs with notional amount of HK$200 million and HK$300 million were entered into with The Hongkong and Shanghai Banking Corporation Limited on 29 July 2015 and 31 July 2015 respectively; and two basis swaps with notional amount of HK$300 million and HK$500 million were entered into with The Hongkong and Shanghai Banking Corporation Limited on 18 May 2016.

During the Year, certain fixed income instruments were purchased through The Hongkong and Shanghai Banking Corporation Limited as a broker. For details, please refer to Relevant Investments under "Corporate Governance Report" on page 60.

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 of SSC, with gross floor area of 5,390 sq. ft. and a term of 3 years from 4 November 2014 to 3 November 2017.
4. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 82-93 (with a term expiring on 29 December 2015) and Nos. 66-81 (with a term commencing from 30 December 2015), Level 1, and (iii) light box space No. F2, Level 2 respectively, of SSC.

Notes : (cont'd)

5. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft. and a term of 3 years from 17 February 2015 to 16 February 2018; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., 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 IRSs including interest and charges paid thereto and other banking or financial services.

Other disclosures under the REIT Code

Pursuant to note (2) to paragraph 8.10 of the REIT Code, services provided by the Manager, the Trustee and the Principal Valuer to Sunlight REIT as contemplated under the constitutive documents shall not be deemed connected party transactions but particulars of such services (except where any services transaction has a value of not more than HK$1 million), such as terms and remuneration, shall be disclosed in the relevant semi-annual or annual report.

During the Year, 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$85.2 million and HK$4.4 million respectively. Particulars of services provided by the Trustee, the Manager and the Principal Valuer, including terms and remuneration, are set out in notes 26(b)(i), (ii) and (iv) to the Consolidated Financial Statements. The fees payable to the Principal Valuer during the Year was less than HK$1 million.

Confirmation by the INEDs of the Manager

The INEDs of the Manager confirm that they have reviewed all relevant connected party transactions during the Year as disclosed in the paragraphs headed "Connected party transactions – income and expenses" and "Connected party transactions with the Trustee Connected Persons" above and are satisfied that those transactions have been entered into :

(i) in the ordinary and usual course of business of Sunlight REIT;

(ii) on normal commercial terms (to the extent that there are sufficient comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Sunlight REIT than terms readily available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the unitholders of Sunlight REIT as a whole.

Confirmation by the Auditor of Sunlight REIT

Pursuant to the waivers granted by the SFC from strict compliance with the requirement under Chapter 8 of the REIT Code, the Manager has engaged KPMG, being the auditor of Sunlight REIT, to report on the continuing connected party transactions on the leasing and licensing arrangements (including facilities leasing), property management and operations (including joint effort arrangements and security services), and ordinary banking and financial services transactions for the Year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the aforesaid continuing connected party transactions disclosed in this annual report in accordance with the waivers and a copy of such letter will be provided to the SFC.

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 itself and a Director or chief executive of the Manager, and also indirectly to certain persons interested in or having a short position in units.

Holdings of the Manager and the Directors or the chief executive of the Manager

At 30 June 2016 and 30 June 2015, the interests and short position in units of the Manager and the Directors or the chief executive of the Manager 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 30 June 2016		At 30 June 2015		Change in % interest
	Number of units interested (long position)	% of interest in units[1]	Number of units interested (long position)	% of interest in units[2]	
The Manager[3]	100,597,275	6.149	89,226,150	5.446	0.703
Au Siu Kee, Alexander[4]	1,530,000	0.094	1,530,000	0.093	0.001
Wu Shiu Kee, Keith[5]	600,000	0.037	600,000	0.037	–

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,635,909,905 at 30 June 2016.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,638,486,780 at 30 June 2015.
3. After the issuance of an aggregate of 11,371,125 new units to the Manager during the Year as payment of part of the Manager's base fee and variable fee, the Manager beneficially owned 100,597,275 units at 30 June 2016 (30 June 2015: 89,226,150 units).
4. At 30 June 2016, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2015: 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 30 June 2016, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 600,000 units (30 June 2015: 600,000 units).

Other than the above, none of the Manager and the Directors or the chief executive of the Manager was beneficially interested (or deemed to be interested) in units or held any short position in units at 30 June 2016 and 30 June 2015 as recorded in the Register.

Disclosure of Interests

Holdings of substantial unitholders

At 30 June 2016 and 30 June 2015, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

	At 30 June 2016		At 30 June 2015		
Name	Number of units interested (long position)	% of interest in units[1]	Number of units interested (long position)	% of interest in units[2]	Change in % interest
Lee Shau Kee[3]	607,211,175	37.12	607,211,175	37.06	0.06
Lee Financial (Cayman) Limited[3]	374,072,708	22.87	374,072,708	22.83	0.04
Leesons (Cayman) Limited[3]	374,072,708	22.87	374,072,708	22.83	0.04
Leeworld (Cayman) Limited[3]	374,072,708	22.87	374,072,708	22.83	0.04
SKFE[3]	374,072,708	22.87	374,072,708	22.83	0.04
Uplite Limited[3]	224,443,625	13.72	224,443,625	13.70	0.02
Wintrade Limited[3]	149,629,083	9.15	149,629,083	9.13	0.02
HD[3]	233,138,467	14.25	233,138,467	14.23	0.02
HLD[3]	233,138,467	14.25	233,138,467	14.23	0.02
Hopkins (Cayman) Limited[3]	233,138,467	14.25	233,138,467	14.23	0.02
Riddick (Cayman) Limited[3]	233,138,467	14.25	233,138,467	14.23	0.02
Rimmer (Cayman) Limited[3]	233,138,467	14.25	233,138,467	14.23	0.02
Silchester International Investors LLP[4]	257,791,150	15.76	257,791,150	15.73	0.03
Silchester International Investors International Value Equity Trust[4]	113,294,922	6.93	113,294,922	6.91	0.02

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,635,909,905 at 30 June 2016.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,638,486,780 at 30 June 2015.
3. At 30 June 2016, 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.

   Apart from the above, at 30 June 2016, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 100,597,275 units were owned by the Manager. Cobase Limited and Richful Resources Limited were wholly-owned subsidiaries of Brightland Enterprises Limited, and the Manager was a wholly-owned subsidiary of Latco Investment Limited, both of which in turn were wholly-owned by HLD. 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 244,509,592 units at 30 June 2016. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 233,138,467 units at 30 June 2016, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

   At 30 June 2016, 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 618,582,300 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 607,211,175 units at 30 June 2016, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

   At 30 June 2016, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

Notes : (cont'd)

4. At 30 June 2016, 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 30 June 2016, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.34% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 109,189,922 units (representing approximately 6.67% 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 30 June 2016 were as follows :

Name	Number of units held	% of unit holding[1]
Chan Wing Cheng[2]	130,000	0.0080
Lee King Yue[3]	50,000	0.0031
Lee Pui Ling, Angelina[4]	2,307	0.0001
Lo Yuk Fong, Phyllis[5]	100,000	0.0061
Persons related to the Trustee[6]	20,954,252	1.2809

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,635,909,905 at 30 June 2016.
2. Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 130,000 units at 30 June 2015.
3. Mr. Lee King Yue was a connected person by virtue of being a director of certain subsidiaries of HLD. Mr. Lee held 50,000 units at 30 June 2015.
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 2015.
5. 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 2015.
6. The Manager has been informed that (i) certain controlling entities, holding companies, subsidiaries or associated companies of the Trustee and (ii) certain directors, senior executives and officers of the Trustee and their associates (as defined in the REIT Code) were beneficially interested in 20,904,252 units and 50,000 units respectively at 30 June 2016. Such persons were beneficially interested in 24,860,252 units and 50,000 units respectively at 30 June 2015.

Valuation Report

9 August 2016

HSBC Institutional Trust Services (Asia) Limited
17/F, Tower 2 & 3, HSBC Centre
1 Sham Mong Road
Kowloon

Henderson Sunlight Asset Management Limited
30th Floor
Sunlight Tower
248 Queen's Road East
Wan Chai
Hong Kong

Knight Frank 萊坊

4/F Shui On Centre, 6-8 Harbour Road
Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心4字樓
+852 2840 1177 Tel
+852 2840 0600 Fax
www.knightfrank.com

Dear Sirs

(1) Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong ("Sunlight Tower Property")

(2) Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong ("Bonham Trade Centre Property")

(3) Righteous Centre, 585 Nathan Road, Mong Kok, Kowloon, Hong Kong ("Righteous Centre Property")

(4) Various Portions in Winsome House, 73 Wyndham Street, Central, Hong Kong ("Winsome House Property")

(5) Various Portions in 135 Bonham Strand Trade Centre, 135 Bonham Strand, Sheung Wan, Hong Kong ("135 Bonham Strand Trade Centre Property")

(6) 235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong ("235 Wing Lok Street Trade Centre Property")

(7) Java Road 108 Commercial Centre, 108 Java Road, North Point, Hong Kong ("Java Road 108 Commercial Centre Property")

(8) On Loong Commercial Building, 276-278 Lockhart Road, Wan Chai, Hong Kong ("On Loong Commercial Building Property")

(9) Various Portions in Sun Fai Commercial Centre, 576 Reclamation Street, Mong Kok, Kowloon, Hong Kong ("Sun Fai Commercial Centre Property")

(10) Various Portions in Wai Ching Commercial Building, 77 Wai Ching Street, Yau Ma Tei, Kowloon, Hong Kong ("Wai Ching Commercial Building Property")

(11) Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in The Podium and Basement, Sheung Shui Centre, 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong ("Sheung Shui Centre Property")

(12) Commercial Development and Car Parks, Metro City Phase I, 1 Wan Hang Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong ("Metro City Phase I Property")

(13) Various Portions in Kwong Wah Plaza, 11 Tai Tong Road, Yuen Long, New Territories, Hong Kong ("Kwong Wah Plaza Property")

(14) Various Shops Units on Ground Floor, Beverley Commercial Centre, 87-105 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong ("Beverley Commercial Centre Property")

(15) Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand, 28 Mercury Street, North Point, Hong Kong ("Supernova Stand Property")

(16) Shops Nos 1 to 7 on Ground Floor and Shop No. 8 on Ground Floor and its Roof; Offices Nos 1 and 2 on 1st Floor; Advertising Spaces 1-5, Commercial Common Areas and Facilities, Private Staircase and Landing and The Reserved Portion, Palatial Stand, 118 Wuhu Street, Hung Hom, Kowloon, Hong Kong ("Palatial Stand Property")

We refer to the instruction from Henderson Sunlight Asset Management Limited ("the **Manager**"), acting as the manager of Sunlight Real Estate Investment Trust ("**Sunlight REIT**"), and HSBC Institutional Trust Services (Asia) Limited ("**Trustee**") to conduct property valuations ("**Valuation**") for the Sunlight REIT's property portfolio ("the **Portfolio**") as at 30 June 2016 for the Annual Report in compliance with the relevant requirements set out in the Code on Real Estate Investment Trusts ("**REIT Code**") issued by the Securities and Futures Commission of Hong Kong ("**SFC**"), the trust deed of Sunlight REIT and, where applicable, the Listing Rules of The Stock Exchange of Hong Kong.

We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing the Manager with our opinion of the market values of the properties in existing state as at 30 June 2016 (referred to as the "**Valuation Date**") for accounting purpose.

Valuer's Interest

We hereby certify Knight Frank Petty Limited is unaware of any of our business, relationship or interest is in real, potential or apparent conflict with the performance required for the above-mentioned assignment. We also confirm we are independent of Sunlight REIT, the Trustee, and the Manager.

Basis of Valuation

All work is carried out in accordance with Chapter 6.8 of the REIT Code. In arriving at our opinion of market value, we followed the HKIS Valuation Standards (2012 Edition) issued by the Hong Kong Institute of Surveyors (HKIS). Under the said standards, Market Value is defined as :-

"the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

The market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

The market value is also the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation complies with the requirements set out in The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Valuation Methodologies

In arriving at our opinion of values, we have considered relevant general and economic factors and in particular have investigated recent sales and leasing transactions of comparable properties. In the course of our valuation analysis, we have principally adopted the Income Capitalisation Approach - term and reversion method and counter-checked this by Direct Comparison Approach. For the purposes of this valuation, we consider the Income Capitalisation Approach is the most appropriate valuation method for assessing the market values of the property, due to the income driven nature of the properties.

Income Capitalisation

The Income Capitalisation Approach - term and reversion method is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates and management fees) of all lettable units of each property are capitalised for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalised for the unexpired term of the Government Lease under which the property is held. Due consideration has been given to the expectation of the renewal of the Government Lease upon expiry. The summation of the capitalised value of the term income for the leased portion, the capitalised value of the reversionary income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalised value for the vacant portion provides the market value of each property.

The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The capitalisation rate adopted is determined by reference to the yields achieved in analysed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.

Direct Comparison

As a supporting approach to the valuation, we have also considered the Direct Comparison Approach as a reference check for the valuations arrived from Income Capitalisation Approach. In this regard, comparable sales transactions around the Valuation Date are collected and analysed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the properties and comparables in terms of time, location, accessibility, age, building quality and condition, facilities and the like.

Valuation Assumptions and Conditions

Our valuation is subject to the following assumptions and conditions :-

Title Documents and Encumbrances

We have taken reasonable care to investigate the title of the Properties by obtaining land search record from the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We however do not accept a liability for any interpretation which we have placed on such information that is more properly the sphere of the Manager's legal advisers. We have also assumed in our valuation that the Properties were free from encumbrances, restrictions, title defects and outgoings of an onerous nature that could affect their values, unless stated otherwise as at the Valuation Date.

Disposal Costs and Liabilities

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale.

Source of Information

We have relied to a very considerable extent on information given by the Manager and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, floor plans, floor and site areas, occupancies, incomes and all other relevant matters. We have not verified the correctness of any information, including their translation supplied to us concerning these Properties, whether in writing or verbally by the Manager, the Manager's representatives or by the Manager's legal or professional advisers or by any (or any apparent) occupier of the Properties or contained on the register of title. We assume that this information is complete and correct. We were also advised by the Manager that no material facts have been omitted from the information provided. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

Inspection

We inspected the exterior of the Properties in May 2016. Nevertheless we have assumed in our valuation that the Properties were in satisfactory exterior and interior decorative order without any unauthorised extensions or structural alterations as at the Valuation Date, unless otherwise stated.

Identity of Property to be valued

We have exercised reasonable care and skill (but will not have an absolute obligation to the Manager) to ensure that the Properties, identified by the property addresses in the Manager's instructions, are the properties inspected by us and contained within our valuation report. If there is ambiguity as to the property addresses, or the extent of the properties to be valued, this should be drawn to our attention in the Manager's instructions or immediately upon receipt of our report.

Property Insurance
We have valued the Properties on the assumption that, in all respects, it is insurable against all usual risks including terrorism, flooding and rising water table at normal, commercially acceptable premiums.

Areas and Age
As instructed, we have relied upon areas as available from a quoted source. Otherwise, dimensions and areas would be measured on-site or from plans and calculated in accordance with, where appropriate, the current HKIS Code of Measuring Practice and are quoted to a reasonable approximation, with reference to their source.

We have also assumed that the site areas, floor areas, measurements and dimensions shown on the documents handed to us are correct and in approximations only. Where the age of the building is estimated, this is for guidance only.

Structural and Services Condition
We were not instructed to undertake any structural surveys, test the services or arrange for any investigations to be carried out to determine whether any deleterious materials have been used in the construction of the Properties. Our valuation has therefore been undertaken on the basis that the Properties were in satisfactory repair and condition and contains no deleterious materials and that services function satisfactorily.

Ground Condition
We have assumed there to be no unidentified adverse ground or soil conditions and that the load bearing qualities of the site of the Properties are sufficient to support the building constructed or to be constructed thereon; and that the services are suitable for any existing or future development. Our valuation is therefore prepared on the basis that no extraordinary expenses or delays will be incurred in this respect.

Environmental Issues
We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the Properties are unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

Compliance with Relevant Ordinances and Regulations
We have assumed that the property valued had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the property upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorization have been obtained, except only where otherwise stated.

Limitation Clause
In accordance with our standard practice, we must state that this report and valuation is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents. We do not accept liability to any third party or for any direct or indirect consequential losses or loss of profits as a result of this report.

Summary of Valuation

A summary of our opinion of the market value of each property as at the Valuation Date is given below :

	Property	Approximate Gross Rentable Area (sq. ft.)	No. of Parking Lots (excluding motor and bicycle spaces)	Market Value as at 30 June 2016 (HK$)	Capitalisation Rate Adopted[Note] Retail (%)	Office (%)	Car Park (%)	Estimate Net Property Yield (%)
1	Sunlight Tower Property	376,381	46	$4,553,000,000	3.75	3.85	5.50	3.59
2	Bonham Trade Centre Property	117,909	N/A	$1,076,000,000	4.00	3.65	N/A	3.47
3	Righteous Centre Property	51,767	N/A	$650,000,000	3.60	3.95	N/A	4.10
4	Winsome House Property	40,114	N/A	$562,600,000	3.80	3.65	N/A	3.43
5	135 Bonham Strand Trade Centre Property	63,915	N/A	$546,000,000	4.00	3.65	N/A	3.61
6	235 Wing Lok Street Trade Centre Property	52,285	N/A	$337,000,000	4.00	3.65	N/A	3.57
7	Java Road 108 Commercial Centre Property	37,923	N/A	$272,000,000	4.20	3.95	N/A	3.67
8	On Loong Commercial Building Property	27,206	N/A	$262,000,000	3.90	3.85	N/A	3.55
9	Sun Fai Commercial Centre Property	26,151	N/A	$176,000,000	4.25	4.00	N/A	3.84
10	Wai Ching Commercial Building Property	16,321	N/A	$68,900,000	4.10	3.75	N/A	3.76
11	Sheung Shui Centre Property	122,339	297	$4,009,000,000	4.40	N/A	5.80	4.09
12	Metro City Phase I Property	188,889	452	$2,923,000,000	4.50	N/A	5.00	4.54
13	Kwong Wah Plaza Property	64,842	N/A	$996,000,000	3.80	3.85	N/A	3.92
14	Beverley Commercial Centre Property	7,934	N/A	$120,400,000	4.30	N/A	N/A	3.92
15	Supernova Stand Property	4,226	N/A	$61,000,000	4.00	N/A	N/A	3.97
16	Palatial Stand Property	8,625	N/A	$38,100,000	4.35	N/A	N/A	2.46
	Total	**1,206,827**	**795**	**$16,651,000,000**				

Note : The capitalisation rate refers to the expected yield of the respective property by reference to the market yield prevailing as at the Valuation Date for the particular type of property.

We enclose herewith our summary valuation report.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Thomas H M Lam FRICS MHKIS MCIREA MHKSI RPS(GP)
Senior Director, Head of Valuation & Consultancy

Catherine Cheung MRICS MHKIS RPS(GP)
Director, General Valuation

Notes : Thomas H M Lam is a Chartered Surveyor who has extensive experiences in market research, valuation and consultancy in China, Hong Kong, Macau and Asia Pacific region (ex-Japan).

Catherine Cheung, MRICS MHKIS RPS(GP), has been a qualified valuer with Knight Frank since 1992 and has over 20 years' experience in the valuation of properties in Hong Kong.

The valuation report contains herein is in summary form. A full version in English language is available for public inspection at the registered office of the Manager.

Summary Valuation Report

Sunlight Tower Property

Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong

Description

The building is a 40-storey (including a mechanical floor) commercial building with ancillary car parking facilities erected on an L-shaped site having a registered site area of approximately 1,442.84 sq. m. (15,531 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 34,966.65 sq. m. (376,381 sq. ft.). It also comprises 8 lorry parking spaces and 38 car parking spaces on 1st to 4th Floors of the building.

Land Tenure

Inland Lot No. 506 is held under a Government Lease for a term of 999 years commencing from 16 November 1855. The annual Government rent payable for the lot is 36 pounds 10 shillings.

Inland Lot No. 387 is held under a Government Lease for a term of 999 years commencing from 16 March 1855. The annual Government rent payable for the lot is 20 pounds 4 shillings and 10 pence.

Monthly Rental Income as at 30 June 2016

HK$13,306,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly Car Parking Income as at 30 June 2016

HK$322,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2016

HK$10,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2016

HK$4,553,000,000

Estimated Net Property Yield

3.59%

Bonham Trade Centre Property

Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong

Description

The building is a 28-storey commercial building erected on a trapezoid site having a registered site area of approximately 720.27 sq. m. (7,753 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 10,954.01 sq. m. (117,909 sq. ft.). It also comprises a yard on Ground Floor of the building with an area of approximately 16.50 sq. m. (178 sq. ft.).

Land Tenure

Inland Lot No. 15 is held under a Government Lease for a term of 999 years commencing from 26 December 1860. The annual Government rent payable for the subject section of the lot is HK$11.9.

Marine Lot Nos. 142 and 144 are held under their respective Government Leases each for a term of 981 years commencing from 26 December 1860. The total annual Government rent payable for the lots is HK$124.8.

Monthly Rental Income as at 30 June 2016

HK$3,113,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2016

HK$1,076,000,000

Estimated Net Property Yield

3.47%

Righteous Centre Property

Righteous Centre, 585 Nathan Road, Mong Kok, Kowloon, Hong Kong

Description

The building is a 26-storey (including a mechanical floor) commercial building erected on a rectangular site having a registered site area of approximately 300.30 sq. m. (3,232 sq. ft.). The building was completed in 1996. The property comprises all units within the building having a total gross rentable area of approximately 4,809.27 sq. m. (51,767 sq. ft.).

Land Tenure

Kowloon Inland Lot Nos. 6827 and 7097 are held under Conditions of Renewal No. 5654 and Conditions of Regrant No. 5759 respectively each for a term of 150 years commencing from 25 December 1887. The annual Government rents payable for Section A of Kowloon Inland lot No. 6827 and Kowloon Inland Lot No. 7097 are HK$78 and HK$150 respectively.

Monthly Rental Income as at 30 June 2016

HK$2,107,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2016

HK$112,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2016

HK$650,000,000

Estimated Net Property Yield

4.10%

Winsome House Property

Various Portions in Winsome House, 73 Wyndham Street, Central, Hong Kong

Description

The building is a 27-storey commercial building completed in 1999. The property comprises the majority portion of the building having a total gross rentable area of approximately 3,726.68 sq. m. (40,114 sq. ft.). It also comprises various flat roofs on the Upper and Lower Ground Floors with a total area of approximately 34.37 sq. m. (370 sq. ft.).

Land Tenure

Inland Lot Nos. 5025 and 994 are held under their respective Government Leases each for a term of 999 years commencing from 26 June 1843. The total annual Government rent payable for the lots are HK$146.

Inland Lot No. 7968 is held under Conditions of Exchange No. 8224 for a term of 999 years commencing from 22 January 1844. The annual Government rent payable for the lot is HK$30.

Monthly Rental Income as at 30 June 2016

HK$1,606,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2016

HK$562,600,000

Estimated Net Property Yield

3.43%

135 Bonham Strand Trade Centre Property

Various Portions in 135 Bonham Strand Trade Centre, 135 Bonham Strand, Sheung Wan, Hong Kong

Description

The building is a 25-storey (including a mechanical floor) commercial building completed in 2000. The property comprises the majority portion of the subject building having a total gross rentable area of approximately 5,937.85 sq. m. (63,915 sq. ft.).

Land Tenure

Marine Lot No. 173 is held under a Government Lease for a term of 999 years commencing from 26 December 1860. The total annual Government rent payable for the subject sections of the lot is HK$88.

Inland Lot No. 6896 is held under a Government Lease for a term of 75 years commencing from 14 November 1952 renewable for a further term of 75 years. The annual Government rent payable for the lot is HK$196.

Monthly Rental Income as at 30 June 2016

HK$1,641,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$546,000,000

Estimated Net Property Yield

3.61%

235 Wing Lok Street Trade Centre Property

235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong

Description

The building is a 26-storey commercial building erected on an irregular site with a registered site area of approximately 282.42 sq. m. (3,040 sq. ft.). The building was completed in 2000. The property comprises all units within the building having a total gross rentable area of approximately 4,857.40 sq. m. (52,285 sq. ft.).

Land Tenure

Marine Lot No. 37A is held under a Government Lease for a term of 979 years commencing from 26 December 1863. The annual Government rent payable for the lot is HK$316.63.

Monthly Rental Income as at 30 June 2016

HK$1,004,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$337,000,000

Estimated Net Property Yield

3.57%

Java Road 108 Commercial Centre Property

Java Road 108 Commercial Centre, 108 Java Road, North Point, Hong Kong

Description

The building is a 25-storey commercial building erected on a rectangular site having a registered site area of approximately 228.26 sq. m. (2,457 sq. ft.). The building was completed in 1998. The property comprises all units within the building having a total gross rentable area of approximately 3,523.13 sq. m. (37,923 sq. ft.).

Land Tenure

Inland Lot No. 3539 is held under a Government Lease for a term of 75 years commencing from 12 June 1933 renewable for a further term of 75 years at a total an annual Government rent payable for the subject sections of the lot of HK$188,912.

Monthly Rental Income as at 30 June 2016

HK$832,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$272,000,000

Estimated Net Property Yield

3.67%

On Loong Commercial Building Property

On Loong Commercial Building, 276-278 Lockhart Road, Wan Chai, Hong Kong

Description

The building is a 23-storey commercial building completed in 1984. The property comprises the whole of the building having a total gross rentable area of approximately 2,527.50 sq. m. (27,206 sq. ft.). It also comprises two flat roofs on the 4th Floor with a total area of approximately 46.92 sq. m. (505 sq. ft.) and roof area of approximately 28.80 sq. m. (310 sq. ft.).

Land Tenure

Inland Lot Nos. 7061 and 7062 are each held under a Government Lease for a term of 99 years commencing from 11 May 1928 renewable for a further term of 99 years at a total annual Government rent of HK$20.

Monthly Rental Income as at 30 June 2016

HK$774,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$262,000,000

Estimated Net Property Yield

3.55%

Sun Fai Commercial Centre Property

Various Portions in Sun Fai Commercial Centre, 576 Reclamation Street, Mong Kok, Kowloon, Hong Kong

Description

The building is a 15-storey commercial building completed in 1998. The property comprises the majority portion of the building having a total gross rentable area of approximately 2,429.49 sq. m. (26,151 sq. ft.). It also comprises various flat roofs on the 2nd and 3rd Floors with a total area of approximately 53.14 sq. m. (572 sq. ft.) and roof area of approximately 72.65 sq. m. (782 sq. ft.).

Land Tenure

Kowloon Inland Lot Nos. 10813, 10814 and 10815 are held under Conditions of Lease Extension Nos. 12068, 12269 and 12259 respectively each for a term commencing from 28 June 1985 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of each lot.

Monthly Rental Income as at 30 June 2016

HK$564,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$176,000,000

Estimated Net Property Yield

3.84%

Wai Ching Commercial Building Property

Various Portions in Wai Ching Commercial Building, 77 Wai Ching Street, Yau Ma Tei, Kowloon, Hong Kong

Description

The building is a 19-storey commercial building completed in 1997. The property comprises the majority portion of the building with a total gross rentable area of approximately 1,516.26 sq. m. (16,321 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 6167 and 6168 are held under their respective Government Leases each for a term of 75 years commencing from 18 September 1974 at a total annual Government rent at HK$57,566 for the subject sections of the lots.

Monthly Rental Income as at 30 June 2016

HK$216,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$68,900,000

Estimated Net Property Yield

3.76%

Sheung Shui Centre Property

Commercial Development (including all Shops, The Restaurant and The Kindergarten); and Car Parks in the Podium and Basement, Sheung Shui Centre, 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong

Description

The development is a residential development comprising six residential blocks over a 3-storey commercial/car parking podium plus one level car park basement completed in 1993. The property comprises all shop units within the commercial podium of the development with a total gross rentable area of approximately 11,365.57 sq. m. (122,339 sq. ft.). It also comprises 269 car parking spaces, 28 lorry parking spaces and 226 bicycle parking spaces on Basement and Level 1 of the development. It also comprises 6 loading and unloading spaces (with one of such loading and unloading space for each residential block for parking, loading and unloading of goods vehicles) on Level 1 of the development.

Land Tenure

Fanling Sheung Shui Town Lot No. 55 is held under New Grant No. 12406 for a term commencing from 16 October 1989 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2016

HK$12,531,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly Car Parking Income as at 30 June 2016

HK$930,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2016

HK$212,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2016

HK$4,009,000,000

Estimated Net Property Yield

4.09%

Metro City Phase I Property

Commercial Development and Car Parks, Metro City Phase I, 1 Wan Hang Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong

Description

The development comprises a 3-storey (Ground Floor to Level 2) commercial/car parking podium with six residential blocks erected thereon. The development was completed in 1996. The property comprises all the shop units on the Ground Floor and Level 2 of the commercial/car parking podium having a total gross rentable area of approximately 17,548.22 sq. m. (188,889 sq. ft.). It also comprises 452 car parking spaces, 20 motor cycle parking spaces and 14 bicycle parking spaces on Ground Floor to Level 2 of the development.

Land Tenure

Tseung Kwan O Town Lot No. 36 is held under New Grant No. 8275 for a term commencing from 29 November 1993 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2016

HK$9,746,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent.

Monthly Car Parking Income as at 30 June 2016

HK$1,178,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly Licence Income as at 30 June 2016

HK$139,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2016

HK$2,923,000,000

Estimated Net Property Yield

4.54%

Kwong Wah Plaza Property

Various Portions in Kwong Wah Plaza, 11 Tai Tong Road, Yuen Long, New Territories, Hong Kong

Description

The building is a 17-storey (including a basement and a mechanical floor but excluding cocklofts) commercial building completed in 1998. The property comprises the majority portion of the building having a total gross rentable area of approximately 6,023.97 sq. m. (64,842 sq. ft.). It also comprises a Flat Roof on the 13th Floor with an area of approximately 16.35 sq. m. (176 sq. ft.).

Land Tenure

Lot No. 4015 in Demarcation District No. 120 is held under New Grant No. 4135 for a term commencing from 25 May 1993 and expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.

Monthly Rental Income as at 30 June 2016

HK$3,241,000 exclusive of rates, management fees and air-conditioning charges

Monthly Licence Income as at 30 June 2016

HK$12,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2016

HK$996,000,000

Estimated Net Property Yield

3.92%

Beverley Commercial Centre Property

Various Shop Units on Ground Floor, Beverley Commercial Centre, 87-105 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong

Description

The building is a 20-storey (including a basement) commercial building completed in 1982. The property comprises 60 shop units on the Ground Floor of the shopping arcade within the building, having a total gross rentable area of approximately 737.09 sq. m. (7,934 sq. ft.).

Land Tenure

Kowloon Inland Lots Nos. 10574, 10211, 10575, 10518, 10580, 10160, 10503, 10526, 10247 and 10616 are held under Conditions of Re-Grant Nos. 11117, 10318, 11118, 11125, 11098, 10312, 11134, 11053, 10404 and 11243 respectively each for a term of 150 years commencing from 25 December 1902. The total annual Government rent payable for the lots is HK$7,576.

Monthly Rental Income as at 30 June 2016

HK$394,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$120,400,000

Estimated Net Property Yield

3.92%

Supernova Stand Property

Shops 1 to 9 on the Ground Floor and Commercial Common Areas and Facilities, Supernova Stand, 28 Mercury Street, North Point, Hong Kong

Description

The building is a 27-storey composite commercial/residential building completed in 2001. The property comprises all nine shop units on the Ground Floor having a total gross rentable area of approximately 392.60 sq. m. (4,226 sq. ft.).

Land Tenure

Inland Lot No. 1366 is held under a Government Lease for a term of 999 years commencing from 24 February 1896 at an annual Government rent at HK$338.

Monthly Rental Income as at 30 June 2016

HK$202,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$61,000,000

Estimated Net Property Yield

3.97%

Palatial Stand Property

Shop Nos. 1 to 7 on Ground Floor and Shop No. 8 on Ground Floor and its Roof; Office Nos. 1 and 2 on 1st Floor; Advertising Spaces 1-5 and Commercial Common Areas and Facilities, Private Staircase and Landing and the Reserved Portion, Palatial Stand, 118 Wuhu Street, Hung Hom, Kowloon, Hong Kong

Description

The building is a 20-storey residential tower built over a 3-storey commercial/garden podium completed in 2001. The property comprises the 8 shop units occupying the whole of the Ground Floor and two office units occupying the whole of the 1st Floor of the building having a total gross rentable area of approximately 801.28 sq. m. (8,625 sq. ft.). The property also comprises a Flat Roof on 1st Floor of the building with an area of approximately 56.02 sq. m. (603 sq. ft.).

Land Tenure

Hung Hom Inland Lot No. 522 is held under a Government Lease for a term of 150 years commencing from 14 September 1897 at an annual Government rent of HK$34.

Hung Hom Inland Lots Nos. 509, 517, 510, 514, 515 and 504 are held under Conditions of Regrant Nos. 10274, 10340, 10273, 10579, 10356 and 10224 respectively each for a term of 150 years commencing from 14 September 1897. The total annual Government rent payable for the lots is HK$204.

Monthly Rental Income as at 30 June 2016

HK$78,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2016

HK$38,100,000

Estimated Net Property Yield

2.46%

Trustee's Report

To the Unitholders of Sunlight Real Estate Investment Trust

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

We hereby confirm that, in our opinion, the Manager of Sunlight Real Estate Investment Trust has, in all material respects, managed Sunlight Real Estate Investment Trust in accordance with the provisions of the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) for the year ended 30 June 2016.

HSBC Institutional Trust Services (Asia) Limited
(in its capacity as the trustee of Sunlight Real Estate Investment Trust)

Hong Kong, 5 September 2016

KPMG

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust

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

We have audited the consolidated financial statements of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 88 to 132, which comprise the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the consolidated financial statements

The Manager of Sunlight REIT is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "**REIT Code**") and for such internal control as the Manager of Sunlight REIT determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager of Sunlight REIT, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 30 June 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

5 September 2016

Consolidated Statement of Profit or Loss

For the year ended 30 June 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
Revenue	3 & 4	**769,738**	754,354
Property operating expenses	3 & 5	**(161,242)**	(167,774)
Net property income		**608,496**	586,580
Other income	6	**9,388**	3,603
Administrative expenses		**(98,358)**	(108,660)
Net gain on disposals of investment properties and subsidiaries	16(c)	**91,154**	–
Net increase in fair value of investment properties	10	**412,417**	1,596,525
Profit from operations		**1,023,097**	2,078,048
Finance costs on interest bearing liabilities	7(a)	**(128,767)**	(110,528)
Profit before taxation and transactions with unitholders	7	**894,330**	1,967,520
Income tax	8(a)	**(69,010)**	(64,817)
Profit after taxation and before transactions with unitholders		**825,320**	1,902,703

The notes on pages 96 to 132 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016
(Expressed in Hong Kong dollars)

	2016 $'000	2015 $'000
Profit after taxation and before transactions with unitholders	**825,320**	1,902,703
Other comprehensive income for the year		
Items that have been reclassified / may be reclassified subsequently to profit or loss :		
– Changes in fair value of cash flow hedges recognised during the year	**(35,572)**	2,558
– Reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	**26,567**	–
	(9,005)	2,558
Total comprehensive income for the year	**816,315**	1,905,261

The notes on pages 96 to 132 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
Non-current assets			
Fixed assets	10		
– Investment properties		**16,651,000**	16,192,800
– Other fixed assets		**79**	87
		16,651,079	16,192,887
Deferred tax assets	8(c)	**305**	–
Derivative financial instruments	12	**816**	8,841
Prepayments	14	**4,626**	–
Reimbursement rights	11	**37,436**	197,145
Other financial assets	13	**61,871**	–
		16,756,133	16,398,873
Current assets			
Trade and other receivables	14	**20,517**	27,356
Derivative financial instruments	12	**65**	–
Cash and bank balances	15	**1,134,762**	464,334
Tax recoverable		**13,489**	157,569
		1,168,833	649,259
Investment properties and assets of disposal groups held for sale	16	**–**	849,564
		1,168,833	1,498,823
Total assets		**17,924,966**	17,897,696
Current liabilities			
Tenants' deposits	17	**(185,368)**	(186,975)
Rent receipts in advance		**(9,087)**	(10,161)
Trade and other payables	18	**(68,636)**	(309,563)
Bank borrowings	19	**–**	(10,000)
Derivative financial instruments	12	**(18,401)**	(34,122)
Tax payable		**(63,420)**	(55,072)
		(344,912)	(605,893)
Liabilities directly associated with the assets of disposal groups held for sale	16	**–**	(18,411)
		(344,912)	(624,304)
Net current assets		**823,921**	874,519
Total assets less current liabilities		**17,580,054**	17,273,392

At 30 June 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	19	**(3,895,868)**	(3,884,068)
Deferred tax liabilities	8(c)	**(143,815)**	(291,052)
Derivative financial instruments	12	**(22,268)**	(1,132)
		(4,061,951)	(4,176,252)
Total liabilities, excluding net assets attributable to unitholders		**(4,406,863)**	(4,800,556)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		**13,518,103**	13,097,140
Number of units in issue	20	**1,635,909,905**	1,638,486,780
Net asset value attributable to unitholders per unit		**$8.26**	$7.99

The consolidated financial statements on pages 88 to 132 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the "**Manager**"), on 5 September 2016 and were signed on its behalf by :

AU Siu Kee, Alexander
Chairman

WU Shiu Kee, Keith
Executive Director

The notes on pages 96 to 132 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
At the beginning of the year		**13,097,140**	11,494,880
Profit after taxation and before transactions with unitholders		**825,320**	1,902,703
Other comprehensive income		**(9,005)**	2,558
Total comprehensive income for the year		**816,315**	1,905,261
Distribution paid to unitholders		**(384,737)**	(340,716)
Issuance of units to the Manager during the year	20	**44,249**	41,126
Units bought back	20	**(54,662)**	(3,397)
Units buy-back expenses	20	**(202)**	(14)
		(395,352)	(303,001)
At the end of the year		**13,518,103**	13,097,140

The notes on pages 96 to 132 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2016
(Expressed in Hong Kong dollars)

	Note	**2016 $'000**	2015 $'000
Profit after taxation and before transactions with unitholders		**825,320**	1,902,703
Adjustments : (note (i))			
– Net gain on disposals of investment properties and subsidiaries	16(c)	**(91,154)**	–
– Net increase in fair value of investment properties	10	**(412,417)**	(1,596,525)
– Manager's fees paid or payable in the form of units		**42,609**	42,869
– Cash flow hedges reclassified from net assets attributable to unitholders	7(a)	**26,567**	–
– Non-cash finance costs on interest bearing liabilities		**11,800**	11,800
– Deferred tax	8(a)	**12,243**	14,320
		(410,352)	(1,527,536)
Total distributable income (note (i))		**414,968**	375,167
Interim distribution, paid (notes (ii) and (iv))		**196,524**	171,448
Final distribution, to be paid to unitholders (notes (iii) and (iv))		**201,217**	188,213
Total distributions for the year (note (i))		**397,741**	359,661
Payout ratio (note (iii))		**95.8%**	95.9%
Distribution per unit :			
Interim distribution per unit, paid		**12.0 cents**	10.5 cents
Final distribution per unit, to be paid to unitholders		**12.3 cents**	11.5 cents
		24.3 cents	22.0 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 and supplemented by six supplemental deeds) (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 statement of profit or loss for the relevant financial period. The adjustments for the year included the adding back of : (a) cash flow hedges reclassified from net assets attributable to unitholders of $22,197,000, or 1.36 cents per unit resulting from unwinding of three existing interest rate swaps (see note 12) (2015 : nil), and (b) non-cash finance costs on interest bearing liabilities of $11,800,000, or 0.72 cents per unit (2015 : $11,800,000, or 0.72 cents per unit).

(ii) The interim distribution of $196,524,000 for the six months ended 31 December 2015 (31 December 2014 : $171,448,000) is calculated by multiplying the interim distribution per unit of 12.0 cents by 1,637,702,927 units in issue at 9 March 2016, the record date for FY2015/16 interim distribution (31 December 2014 : 10.5 cents by 1,632,836,625 units in issue at 27 February 2015, the record date for FY2014/15 interim distribution).

(iii) The final distribution of $201,217,000 for the year ended 30 June 2016 (2015 : $188,213,000) is calculated by multiplying the final distribution per unit of 12.3 cents by 1,635,909,905 units* anticipated to be in issue at 27 September 2016, the record date for FY2015/16 final distribution (the "**Record Date**") (2015 : 11.5 cents by 1,636,636,780 units in issue at 5 October 2015, the record date for FY2014/15 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2016 represent a payout ratio of 95.8% (2015 : 95.9%) of Sunlight REIT's total distributable income for the year.

Notes : (continued)

(iv) The FY2015/16 interim distribution was paid to unitholders on 22 March 2016. The FY2015/16 final distribution is expected to be paid on 12 October 2016 to unitholders whose names appear on the register of unitholders on the Record Date.

(v) The final distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

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

The notes on pages 96 to 132 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2016
(Expressed in Hong Kong dollars)

	Note	2016 $'000	2015 $'000
Operating activities			
Profit before taxation and transactions with unitholders		**894,330**	1,967,520
Adjustments :			
– Manager's fees paid or payable in the form of units		**42,609**	42,869
– Net gain on disposals of investment properties and subsidiaries	16(c)	**(91,154)**	–
– Net increase in fair value of investment properties	10	**(412,417)**	(1,596,525)
– Finance costs on interest bearing liabilities	7(a)	**128,767**	110,528
– Depreciation	10	**33**	28
– Interest income		**(8,585)**	(3,456)
– Unrealised foreign exchange gain	6	**(63)**	–
Operating cash flow before changes in working capital		**553,520**	520,964
Decrease/(increase) in trade and other receivables		**5,313**	(1,259)
(Decrease)/increase in tenants' deposits		**(1,831)**	13,872
(Decrease)/increase in rent receipts in advance		**(1,375)**	1,006
(Decrease)/increase in trade and other payables		**(141,125)**	607
Cash generated from operations		**414,502**	535,190
– Hong Kong Profits Tax refunded		**137,623**	–
– Hong Kong Profits Tax paid		**(56,374)**	(53,204)
Net cash generated from operating activities		**495,751**	481,986
Investing activities			
Interest received		**8,005**	3,515
Payment for acquisition of investment properties		**(15,052)**	(2,861)
Deposits received from disposals of investment properties and subsidiaries	16(d)	**–**	92,752
Net proceeds from disposals of investment properties and subsidiaries	16(d)	**825,801**	–
Payment for expenditure incurred for investment properties		**(19,428)**	(23,442)
Payment for purchase of other fixed assets		**(25)**	(36)
Payment for purchase of held-to-maturity debt securities		**(62,375)**	–
(Increase)/decrease in pledged deposits with original maturity over three months		**(31,990)**	112,985
Decrease/(increase) in bank deposits with original maturity over three months		**18,210**	(13,412)
Net cash generated from investing activities		**723,146**	169,501
Financing activities			
Distribution paid to unitholders		**(384,737)**	(340,716)
Payment for buy-back of units		**(54,864)**	(3,411)
Proceeds from new bank borrowings		**–**	10,000
Repayment of bank borrowings		**(10,000)**	–
Payment for unwinding of interest rate swaps	12	**(22,197)**	–
Interest and other borrowing costs paid		**(90,451)**	(98,707)
Net cash used in financing activities		**(562,249)**	(432,834)
Net increase in cash and cash equivalents		**656,648**	218,653
Cash and cash equivalents at the beginning of the year	15	**341,919**	123,266
Cash and cash equivalents at the end of the year	15	**998,567**	341,919

The notes on pages 96 to 132 form part of these consolidated financial statements.

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 Significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code. These consolidated financial statements also comply with the relevant disclosure requirements of the Rules Governing the Listing of Securities on the SEHK as if those requirements were applicable to Sunlight REIT. A summary of the significant accounting policies adopted by the Group is set out below.

There are no new and revised HKFRSs that are first effective for the current accounting period of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2016 incorporate the financial statements of Sunlight REIT and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below :

– derivative financial instruments (see note 2(f)); and

– investment properties (see note 2(h)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(s)).

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 27.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

(d) Held-to-maturity debt securities

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire. Investments in debt securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses.

Impairment losses for held-to-maturity securities are recognised when there is objective evidence of impairment and are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate originally computed at initial recognition of the asset), where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as :

– significant financial difficulty of the debtor; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 Significant accounting policies (continued)

(e) Unitholders' funds as a financial liability

In accordance with the Trust Deed, Sunlight REIT has a limited life of 80 years less 1 day from the date of commencement of Sunlight REIT. In addition, Sunlight REIT is required to distribute to unitholders no less than 90% of its annual distributable income for each financial year in accordance with the Trust Deed and the REIT Code. Accordingly, the units contain contractual obligations to pay cash dividends and also upon the termination of Sunlight REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Sunlight REIT less any liabilities, in accordance with their proportionate interests in Sunlight REIT at the date of its termination. The unitholders' funds are therefore classified as financial liabilities in accordance with HKAS 32, *Financial instruments : Presentation*. It is shown on the consolidated statement of financial position as "Net assets attributable to unitholders".

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(g)).

(g) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in other comprehensive income and accumulated separately in net assets attributable to unitholders. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

The associated gain or loss is reclassified from net assets attributable to unitholders to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in net assets attributable to unitholders until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from net assets attributable to unitholders to profit or loss immediately.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(q)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

2 Significant accounting policies (continued)

(i) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Gains or losses arising from the retirement or disposal of an item of other fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows :

– Furniture and fixtures 3 – 5 years

Where parts of an item of other fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that other fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an item of other fixed assets is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an item of other fixed assets exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(h)).

2 Significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment losses of doubtful debts, except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses of doubtful debts.

Impairment losses for doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for rental receivables included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against rental receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(l) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2 Significant accounting policies (continued)

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in net assets attributable to unitholders, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in net assets attributable to unitholders, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2 Significant accounting policies (continued)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movement therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met :

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either :

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows :

(i) Rental income from operating leases
Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Car park income and rental related income
Car park income and rental related income are recognised as revenues on the accrual basis.

(iii) Interest income
Interest income is recognised as it accrues using the effective interest method.

2 Significant accounting policies (continued)

(r) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(s) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs of disposal. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, financial assets and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person :

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies :

- (i) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (ii) The entity is controlled or jointly controlled by a person identified in (a).
- (iii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.
- (iv) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies (continued)

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Manager's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the settlements have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Segment reporting

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

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

Segment results, assets and liabilities

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

Segment assets include all tangible, intangible and current assets with the exception of cash and bank balances, tax recoverable, deferred tax assets, other financial assets and other corporate assets. Segment liabilities include tenants' deposits, rent receipts in advance and trade and other payables managed directly by the segments.

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

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

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

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

	2016			2015		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
– rental income	**297,256**	**320,456**	**617,712**	294,590	309,083	603,673
– car park income	**3,853**	**25,626**	**29,479**	3,627	29,969	33,596
– rental related income	**63,550**	**58,997**	**122,547**	60,368	56,717	117,085
	364,659	**405,079**	**769,738**	358,585	395,769	754,354
Property operating expenses	**(70,777)**	**(90,465)**	**(161,242)**	(74,471)	(93,303)	(167,774)
Net property income	**293,882**	**314,614**	**608,496**	284,114	302,466	586,580
Administrative expenses	**(45,223)**	**(43,615)**	**(88,838)**	(44,995)	(43,968)	(88,963)
Segment results	**248,659**	**270,999**	**519,658**	239,119	258,498	497,617
Net increase in fair value of investment properties	**407,488**	**4,929**	**412,417**	883,872	712,653	1,596,525
Net gain on disposals of investment properties and subsidiaries	**58,476**	**32,678**	**91,154**	–	–	–
Finance costs on interest bearing liabilities			**(128,767)**			(110,528)
Income tax			**(69,010)**			(64,817)
Interest income			**8,585**			3,456
Unallocated net expenses			**(8,717)**			(19,550)
Profit after taxation and before transactions with unitholders			**825,320**			1,902,703
Depreciation	**17**	**16**	**33**	12	16	28

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2016			2015		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Segment assets	**8,549,213**	**8,161,469**	**16,710,682**	8,798,021	8,464,987	17,263,008
Derivative financial instruments			**881**			8,841
Other financial assets			**61,871**			–
Cash and bank balances			**1,134,762**			464,334
Tax recoverable			**13,489**			157,571
Deferred tax assets			**305**			57
Unallocated assets			**2,976**			3,885
Total assets			**17,924,966**			17,897,696
Segment liabilities	**(125,196)**	**(136,113)**	**(261,309)**	(169,186)	(132,113)	(301,299)
Derivative financial instruments			**(40,669)**			(35,254)
Bank borrowings			**(3,895,868)**			(3,894,068)
Tax payable			**(63,420)**			(55,072)
Deferred tax liabilities			**(143,815)**			(295,281)
Unallocated liabilities			**(1,782)**			(219,582)
Total liabilities, excluding net assets attributable to unitholders			**(4,406,863)**			(4,800,556)
Capital expenditure incurred during the year	**38,017**	**12,417**	**50,434**	8,818	21,658	30,476

4 Revenue

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

	2016 $'000	2015 $'000
Rental income (note)	**617,712**	603,673
Car park income	**29,479**	33,596
Rental related income	**122,547**	117,085
	769,738	754,354

Note : Included additional rents based on business revenue of tenants amounting to $2,269,000 (2015 : $2,185,000).

5 Property operating expenses

	2016 $'000	2015 $'000
Building management fee	**56,567**	56,609
Property Manager's fees	**47,887**	49,462
Government rent and rates	**34,770**	32,380
Marketing and promotion expenses	**5,933**	11,348
Car park operating costs	**6,289**	6,286
Other direct costs	**9,796**	11,689
	161,242	167,774

6 Other income

	2016 $'000	2015 $'000
Bank interest income	**7,148**	3,456
Interest income from debt securities	**1,437**	–
Others	**803**	147
	9,388	3,603

7 Profit before taxation and transactions with unitholders

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

	2016 $'000	2015 $'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	**90,101**	98,429
Other borrowing costs	**12,099**	12,099
	102,200	110,528
Interest rate swaps : cash flow hedges, reclassified from net assets attributable to unitholders	**26,567**	–
	128,767	110,528

Other borrowing costs represent various financing charges and the amortisation of the debts establishment fees for the bank borrowings (note 19).

	2016 $'000	2015 $'000
(b) Other items		
Manager's fees	**85,218**	85,739
Property Manager's fees (note (i))	**47,887**	49,462
Trustee's remuneration and charges	**4,348**	4,349
Auditor's remuneration		
– Audit services	**1,772**	1,860
– Other services	**475**	1,280
Fees payable to principal valuers		
– Valuation fees	**630**	770
– Commission	**–**	344
Legal and other professional fees	**6,295**	11,703
Bank charges	**344**	343
Net foreign exchange gain	**(231)**	–

Notes :

(i) Included rental commission of $12,303,000 (2015 : $14,014,000).

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

(iii) For the year ended 30 June 2016, 62.4% (2015 : 59.8%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounted for 40.1% (2015 : 42.1%). The largest supplier is a wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**"), which is interested in more than 5% of the total number of units in issue of Sunlight REIT.

8 Income tax

(a) Income tax in the consolidated statement of profit or loss represents :

	2016 $'000	2015 $'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for the year	**57,125**	50,827
Over-provision in respect of prior years	**(358)**	(330)
	56,767	50,497
Deferred tax		
Origination and reversal of temporary differences	**12,243**	14,320
	69,010	64,817

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

In prior years, the Inland Revenue Department ("**IRD**") raised additional profits tax assessments on certain subsidiaries of the Group, with one of the subsidiaries (the "**Particular Subsidiary**") covering the years of assessment up to 2013/14 and 15 other subsidiaries covering the years of assessment 2007/08 and 2008/09, in an aggregate amount of $8,195,000 as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the year ended 30 June 2016, the IRD further raised additional profits tax assessments on the Particular Subsidiary for the year of assessment 2014/15 and on the 15 other subsidiaries for the year of assessment 2009/10 in respect of such disallowance, bringing the aggregate amount to $13,283,000. Notices of objection were filed with the IRD and, as required, tax reserve certificates ("**TRCs**") of $13,283,000 in total have been purchased.

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

If the IRD were to issue additional profits tax assessments on the 15 other subsidiaries on the basis of disallowing deductions of a similar nature in respect of the years of assessment 2010/11 to 2014/15, the estimated total additional profits tax liabilities would amount to approximately $61,813,000, which includes $13,283,000 as mentioned above. Based on the positive advice received, such additional profits tax assessments, if issued, will likewise be vigorously contested.

8 Income tax (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rate :

	2016 $'000	2015 $'000
Profit before taxation and transactions with unitholders	**894,330**	1,967,520
Notional tax on profit before taxation and transactions with unitholders, calculated at the Hong Kong Profits Tax rate of 16.5%	**147,564**	324,641
Tax effect of non-deductible expenses	**17,573**	6,822
Tax effect of non-taxable income	**(97,080)**	(264,008)
Tax effect of current year's tax losses not recognised	**1,355**	–
Tax effect of prior years' tax losses and other temporary differences recognised/derecognised	**(10)**	(279)
Tax effect of prior years' tax losses utilised in the current year	**(34)**	(2,029)
Over-provision in respect of prior years	**(358)**	(330)
Actual tax expense	**69,010**	64,817

(c) Deferred tax assets and liabilities recognised :

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows :

Deferred tax arising from :	Depreciation allowances in excess of related depreciation $'000	Reclassification of assets to investment properties $'000	Tax losses $'000	Total $'000
At 1 July 2014	130,616	159,709	(9,421)	280,904
Charged to profit or loss	13,563	–	757	14,320
Transfer to assets held for sale (note 16(a))	(11,357)	–	7,185	(4,172)
At 30 June 2015	132,822	159,709	(1,479)	291,052
At 1 July 2015	**132,822**	**159,709**	**(1,479)**	**291,052**
Charged to profit or loss	**11,952**	–	**291**	**12,243**
Credited to reimbursement rights (note 11)	–	**(159,709)**	–	**(159,709)**
Transfer to assets held for sale (note 16(a))	**(48)**	–	**(28)**	**(76)**
At 30 June 2016	**144,726**	–	**(1,216)**	**143,510**

8 Income tax (continued)

(c) Deferred tax assets and liabilities recognised : (continued)

	2016 $'000	2015 $'000
Represented by :		
Net deferred tax assets recognised in the consolidated statement of financial position	**(305)**	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	**143,815**	291,052
	143,510	291,052

(d) Deferred tax assets not recognised :

In accordance with the accounting policy set out in note 2(o), the Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries of $92,231,000 (2015 : $121,030,000) as it is probable that sufficient future taxable profits will not be available against which the deductible unused tax losses can be utilised. The Hong Kong tax losses do not expire under current tax legislation.

9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2016 amounted to $0.50 (2015 : $1.17). 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 $825,320,000 (2015 : $1,902,703,000) and the weighted average of 1,636,892,942 units in issue during the year (2015 : 1,632,195,886 units).

Diluted earnings per unit before transactions with unitholders for the years ended 30 June 2016 and 2015 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

10 Fixed assets

	Furniture and fixtures $'000	Investment properties $'000	Total $'000
Cost or valuation :			
At 1 July 2014	176	15,390,600	15,390,776
Additions	36	48,175	48,211
Net increase in fair value	–	1,596,525	1,596,525
	212	17,035,300	17,035,512
Transfer to assets held for sale (note 16(a))	–	(842,500)	(842,500)
At 30 June 2015	212	16,192,800	16,193,012
Representing :			
Cost	212	–	212
Valuation – 2015	–	16,192,800	16,192,800
	212	16,192,800	16,193,012
At 1 July 2015	212	16,192,800	16,193,012
Additions (note (a))	25	45,783	45,808
Net increase in fair value	–	412,417	412,417
At 30 June 2016	237	16,651,000	16,651,237
Representing :			
Cost	237	–	237
Valuation – 2016	–	16,651,000	16,651,000
	237	16,651,000	16,651,237
Accumulated depreciation :			
At 1 July 2014	97	–	97
Charge for the year	28	–	28
At 30 June 2015	125	–	125
At 1 July 2015	125	–	125
Charge for the year	33	–	33
At 30 June 2016	158	–	158
Net book value :			
At 30 June 2016	79	16,651,000	16,651,079
At 30 June 2015	87	16,192,800	16,192,887

10 Fixed assets (continued)

(a) During the year ended 30 June 2016, the Group, though certain of its wholly-owned subsidiaries, acquired the remaining interests in On Loong Commercial Building from certain independent third parties. The total considerations together with the transaction costs were $23,713,000.

(b) Fair value measurement of investment properties

Fair value hierarchy

HKFRS 13, *Fair value measurement*, requires the fair value of investment properties measured at the end of the reporting period on a recurring basis to be 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

The Group's investment properties measured at fair value are not categorised as Level 1 and Level 2 valuations.

During the years ended 30 June 2016 and 2015, 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 end of the reporting period in which they occur.

Valuation process

The investment properties were appraised at 30 June 2016 by the Group's principal valuer, Knight Frank Petty Limited ("**Knight Frank**"), 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. The independent valuation of investment properties at 30 June 2015 was performed by Jones Lang LaSalle Limited ("**JLL**").

The Manager has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation was performed at each interim and annual reporting date and was reviewed and approved by senior management.

Valuation methodologies

The fair values of the Group's investment properties at 30 June 2016 and 2015 were arrived at using the income capitalisation approach cross-referenced to the direct comparison approach. The income capitalisation approach is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The direct comparison approach is based on comparing the properties to be valued directly with other comparable properties which recently changed hands.

10 Fixed assets (continued)

(b) Fair value measurement of investment properties (continued)

Level 3 valuation methodologies

The following table presents the significant unobservable inputs :

	30 June 2016		
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	**$13.0 to $38.3**	**3.65% to 4.00%**	**93.6% to 100%**
– Retail	**$15.8 to $158.0**	**3.60% to 4.50%**	**58.0% to 100%**

	30 June 2015		
	Market unit rent	Capitalisation rate	Occupancy rate
In Hong Kong			
– Office	$11.7 to $37.8	3.10% to 4.00%	94.8% to 100%
– Retail	$16.8 to $152.0	2.80% to 4.50%	58.7% to 100%

The fair value measurement of investment property is positively correlated to the market unit rent and the occupancy rate and negatively correlated to the capitalisation rate.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

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

	2016 $'000	2015 $'000
In Hong Kong		
– long leases	**7,669,600**	7,219,700
– medium-term leases	**8,981,400**	8,973,100
	16,651,000	16,192,800

(d) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 19).

11 Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity under the relevant deeds of tax covenant dated 21 December 2006 provided by the vendors (comprising certain subsidiaries of Shau Kee Financial Enterprises Limited ("**SKFE**"), 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 provided by the subsidiaries of the Group at the date of acquisition ("**Date of Acquisition**") in connection with the listing of Sunlight REIT in December 2006.

11 Reimbursement rights (continued)

During the year ended 30 June 2016, the Inland Revenue Board of Review delivered a decision in favour of certain subsidiaries of the Group on their tax appeals in relation to the notional gains arising from reclassification of properties at the Date of Acquisition of these companies, which decision was not appealed against by the IRD. At the same time, certain other subsidiaries of the Group had withdrawn their tax appeals on the same issue. Accordingly, part of the reimbursement rights in the amount of $159,709,000 relating to tax liabilities which might result from the reclassification of properties, were reduced together with the corresponding deferred tax liabilities. The remaining part of the reimbursement rights relates to the deferred tax liabilities in respect of possible clawback of depreciation allowances claimed by the Vendors prior to the Date of Acquisition.

12 Derivative financial instruments

	2016			2015		
	Assets $'000	Liabilities $'000	Net amount $'000	Assets $'000	Liabilities $'000	Net amount $'000
Interest rate swaps and interest rate basis swaps – cash flow hedges						
Current portion	65	(18,401)	(18,336)	–	(34,122)	(34,122)
Non-current portion	816	(22,268)	(21,452)	8,841	(1,132)	7,709
	881	(40,669)	(39,788)	8,841	(35,254)	(26,413)

The Group uses interest rate swaps ("**IRSs**"), and in some cases, supplemented by interest rate basis swaps ("**Basis Swaps**"), to hedge the exposure to movements in interest rates in relation to its floating rate term loan by swapping from floating rates to fixed rates.

During the year ended 30 June 2016, the Group has paid $7,504,000 and $14,693,000 to The Hongkong and Shanghai Banking Corporation Limited and other swap counterparty respectively, totalling $22,197,000, as consideration for unwinding of three existing IRSs with an aggregate notional amount of $1,500,000,000, due for expiry in June 2016. As a result of the unwinding, the cumulative unrealised losses on the unwound portion of the IRSs amounting to $22,197,000 are reclassified from net assets attributable to unitholders to profit or loss for the year.

During the year ended 30 June 2016, the Group has redesignated certain of its cash flow hedging relationships upon entering into certain Basis Swaps with an aggregate notional amount of $1,550,000,000. At a result of the redesignation, the net cumulative unrealised losses of the selected existing IRSs amounting to $4,370,000 are reclassified from net assets attributable to unitholders to profit or loss for the year. As such, at 30 June 2016, the net cumulative unrealised losses on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to $35,418,000 (2015 : $26,413,000).

At 30 June 2016, the Group had IRSs and Basis Swaps in place with an aggregate notional amount of $2,800,000,000 (2015 : $3,050,000,000) and $1,550,000,000 (2015 : nil) respectively. The IRSs and Basis Swaps will mature between September 2017 to September 2022 (2015 : June 2016 to December 2018) and September 2017 to December 2018 (2015 : nil) respectively. Combining the IRSs and Basis Swaps, the net fixed swap interest rates range from 0.525% per annum to 1.682% per annum (2015 : 0.815% per annum to 2.17% per annum).

The above derivatives are measured at fair value at the end of the reporting period. Their fair values are determined based on the discounted cash flow model.

13 Other financial assets

	2016 $'000	2015 $'000
Held-to-maturity debt securities		
Listed in Hong Kong	**19,786**	–
Listed outside Hong Kong	**42,085**	–
	61,871	–

The listed debt securities are issued by corporate entities with investment grade granted by certain credit rating agencies. All of the held-to-maturity securities are neither past due nor impaired.

14 Trade and other receivables

	2016 $'000	2015 $'000
Rental receivables	**12,298**	13,340
Deposits and prepayments	**9,932**	10,029
Other receivables	**2,219**	1,689
Amounts due from related companies	**694**	2,298
	25,143	27,356
Represented by :		
Current portion	**20,517**	27,356
Non-current portion	**4,626**	–
	25,143	27,356

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

$3,782,000 (2015 : $4,147,000) included in deposits and prepayments is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered or recognised as expense within one year.

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

	2016 $'000	2015 $'000
Current	**9,435**	10,476
Less than 1 month overdue	**2,115**	1,835
More than 1 month and up to 3 months overdue	**282**	393
More than 3 months and up to 6 months overdue	**172**	360
More than 6 months overdue	**294**	276
	12,298	13,340

14 Trade and other receivables (continued)

Rental receivables that were neither overdue nor impaired relate to a wide range of tenants for whom there was no recent history of default.

Rental receivables that were past due but not impaired relate to a number of independent tenants that have a good track record with the Group. Based on past experience, the Manager believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. In addition, the Group has collected rental deposits from its tenants which the Manager considered adequate to cover the outstanding rental receivables. Further details on the Group's credit policy are set out in note 21(a).

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

15 Cash and bank balances

	2016 $'000	2015 $'000
Pledged bank balances and deposits with original maturity within three months (note 19)	**512,738**	312,834
Deposits with original maturity within three months	**436,303**	25,804
Cash at bank and in hand	**49,526**	3,281
Cash and cash equivalents	**998,567**	341,919
Pledged deposits with original maturity over three months (note 19)	**118,576**	86,586
Deposits with original maturity over three months	**17,619**	35,829
	1,134,762	464,334

16 Investment properties and disposal groups held for sale

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

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

16 Investment properties and disposal groups held for sale (continued)

(a) The assets and liabilities attributed to the Two Subsidiaries, which have been reclassified as disposal groups held for sale at 30 June 2015 and disposed of at 31 July 2015, are as follows :

	31 July 2015 $'000	30 June 2015 $'000
Investment properties	**580,800**	580,800
Reimbursement rights	**6,115**	6,268
Deferred tax assets	**6**	57
Trade and other receivables	**550**	737
Tax recoverable	**2**	2
Total assets of disposal groups held for sale	**587,473**	587,864
Tenants' deposits	**5,311**	5,535
Rent receipts in advance	**3**	304
Trade and other payables	**6,406**	8,343
Deferred tax liabilities	**4,254**	4,229
Total liabilities directly associated with the assets of disposal groups held for sale	**15,974**	18,411
Net assets disposed of	**571,499**	

(b) The carrying amounts of 1/F Yue Fai and Royal Terrace in a total amount of $261,700,000 have been reclassified as investment properties held for sale at 30 June 2015. The completion of disposals of these properties took place on 3 July 2015 and 31 August 2015 respectively.

(c) The net gain on disposals of investment properties and subsidiaries is as follows :

	$'000
Total consideration	
– Cash consideration	**928,540**
– Exchange of Properties – Unit 6A of On Loong	**5,800**
	934,340
Less : Transaction costs	**(9,987)**
Less : Net assets of the Two Subsidiaries (note 16(a))	**(571,499)**
Less : Investment properties held for sale (note 16(b))	**(261,700)**
Net gain on disposals of investment properties and subsidiaries	**91,154**
Represented by :	
Net gain on disposals of investment properties	**31,013**
Net gain on disposals of subsidiaries	**60,141**
	91,154

16 Investment properties and disposal groups held for sale (continued)

(d) The net cash inflow of cash and cash equivalents in respect of the disposals of investment properties and subsidiaries is as follows :

	Disposals of investment properties $'000	Disposals of subsidiaries $'000	Total $'000
Total cash consideration	**290,000**	**638,540**	**928,540**
Less : Deposits received	**(29,000)**	**(63,752)**	**(92,752)**
Less : Transaction costs	**(3,087)**	**(6,900)**	**(9,987)**
Net proceeds	**257,913**	**567,888**	**825,801**

17 Tenants' deposits

The tenants' deposits include $113,804,000 (2015 : $125,769,000) which is expected to be settled after more than one year. If tenancies are not renewed upon expiry, the remaining balances are expected to be settled within one year.

18 Trade and other payables

	2016 $'000	2015 $'000
Creditors and accrued charges	**39,216**	33,716
Deposits received from disposals of investment properties and subsidiaries	**–**	92,752
Manager's fees payable (note 26(b)(ii))	**21,696**	24,975
Amounts due to related companies	**7,724**	158,120
	68,636	309,563

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

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

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of $1,068,000 (2015 : $1,272,000) which is due within 30 days. At 30 June 2015, those amounts primarily represented amounts received from certain Vendors for payment of tax demanded or purchasing TRCs in respect of the potential tax liabilities arising from the tax cases of certain subsidiaries of the Group. These tax cases related to the notional gains arising from reclassification of properties at the Date of Acquisition and the potential tax liabilities were indemnified by the Vendors. During the year ended 30 June 2016, these tax cases were concluded (see note 11 for further details), and the relevant sums previously received from the Vendors amounting to $151,060,000 had been either refunded to the Vendors upon receipt of repayment from the IRD or applied for settlement of tax liabilities. The corresponding tax recoverable was also adjusted accordingly.

19 Bank borrowings

	2016 $'000	2015 $'000
Bank borrowings		
– Secured	**3,895,868**	3,884,068
– Unsecured	**–**	10,000
	3,895,868	3,894,068

19 Bank borrowings (continued)

The bank borrowings were repayable as follows :

	2016 $'000	2015 $'000
Within 1 year and included in current liabilities	–	10,000
After 1 year but within 2 years	**2,339,616**	–
After 2 years but within 5 years	**1,556,252**	3,884,068
	3,895,868	3,884,068
	3,895,868	3,894,068

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 (2015 : HIBOR plus 1% per annum to HIBOR plus 1.55% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 12.

Secured 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 $14,278,600,000 at 30 June 2016 (2015 : $14,112,500,000) (note 10);

– floating charge over bank balances of $27,934,000 (2015 : $22,498,000) and $603,380,000 (2015 : $376,922,000) 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 bank borrowings at the end of the reporting period was 2.17% per annum (2015 : 2.56% per annum). The carrying amounts of the bank borrowings approximate their fair values.

20 Units in issue

	Number of units 2016	2015
At the beginning of the year	**1,638,486,780**	1,627,580,493
Issuance of units during the year	**11,371,125**	11,906,287
Units bought back	**(13,948,000)**	(1,000,000)
At the end of the year	**1,635,909,905**	1,638,486,780

20 Units in issue (continued)

Details of units issued during the year as payment of the Manager's fees are as follows :

Payment of the Manager's fees for the year	Average issue price per unit determined based on the Trust Deed $	Aggregate amount of units issued $'000	Number of units issued
2016			
1 April 2015 to 30 June 2015	**3.9723**	**10,764**	**2,709,800**
Adjustment of Manager's fees for the financial year 2014/15	**3.7246**	**1,723**	**462,693**
1 July 2015 to 30 September 2015	**3.8998**	**10,556**	**2,706,654**
1 October 2015 to 31 December 2015	**3.7982**	**10,586**	**2,787,091**
1 January 2016 to 31 March 2016	**3.9262**	**10,620**	**2,704,887**
		44,249	**11,371,125**
2015			
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
1 October 2014 to 31 December 2014	3.4944	10,249	2,932,863
1 January 2015 to 31 March 2015	3.8035	10,335	2,717,292
		41,126	11,906,287

Pursuant to the general mandate granted to the Manager by unitholders, the Group bought back a total of 13,948,000 units (2015 : 1,000,000 units) on the SEHK during the year ended 30 June 2016 at an aggregate consideration of $54,662,000 (2015 : $3,397,000). Details of the buy-backs were as follows :

	Number of units bought back	Price per unit Highest $	Lowest $	Aggregate consideration $'000
2016				
Month of buy-back				
July 2015	**1,850,000**	**3.93**	**3.67**	**6,956**
September 2015	**783,000**	**3.93**	**3.83**	**3,058**
October 2015	**4,030,000**	**3.92**	**3.84**	**15,687**
February 2016	**1,531,000**	**3.86**	**3.72**	**5,820**
March 2016	**2,339,000**	**4.00**	**3.84**	**9,100**
April 2016	**1,171,000**	**4.10**	**4.00**	**4,773**
May 2016	**1,494,000**	**4.12**	**4.04**	**6,113**
June 2016	**750,000**	**4.29**	**4.17**	**3,155**
	13,948,000			**54,662**
Total buy-back expenses				**202**
				54,864
2015				
Month of buy-back				
November 2014	1,000,000	3.46	3.36	3,397
Total buy-back expenses				14
				3,411

All bought back units were cancelled during the year.

21 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from the potential failure of the Group's counterparties to meet their obligations under financial contracts. The Group is exposed to credit risk on its cash at bank and deposits with banks and financial institutions, as well as trade and other receivables.

In respect of credit exposures to tenants, credit risk exposure is minimised by undertaking transactions with a large number of counterparties and conducting credit reviews on prospective tenants. The Group also has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate provision for impairment losses is made for irrecoverable amounts.

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.

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

(b) Liquidity risk

The Group maintains sufficient cash reserve and committed lines of funding from financial institutions with sound credit ratings to meet its liquidity requirements in the short and longer term.

The Group also monitors regularly its current and expected liquidity requirements and its compliance with lending covenants and limits on total borrowings as stipulated under the REIT Code.

21 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay :

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	**Carrying amount $'000**
Bank borrowings	**62,510**	**2,398,765**	**1,614,153**	**–**	**4,075,428**	**3,895,868**
Derivative financial instruments (net settled)	**22,843**	**21,156**	**27,892**	**3,440**	**75,331**	**39,788**
Tenants' deposits	**71,564**	**71,934**	**34,605**	**7,265**	**185,368**	**185,368**
Creditors and accrued charges	**39,216**	**–**	**–**	**–**	**39,216**	**39,216**
Manager's fees payable in the form of cash	**10,848**	**–**	**–**	**–**	**10,848**	**10,848**
Amounts due to related companies	**7,724**	**–**	**–**	**–**	**7,724**	**7,724**
	214,705	**2,491,855**	**1,676,650**	**10,705**	**4,393,915**	**4,178,812**

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
Bank borrowings	72,686	62,514	4,015,506	–	4,150,706	3,894,068
Derivative financial instruments (net settled)	38,241	12,568	13,024	–	63,833	26,413
Tenants' deposits	61,206	77,427	44,342	4,000	186,975	186,975
Creditors and accrued charges	33,716	–	–	–	33,716	33,716
Manager's fees payable in the form of cash	12,488	–	–	–	12,488	12,488
Amounts due to related companies	158,120	–	–	–	158,120	158,120
	376,457	152,509	4,072,872	4,000	4,605,838	4,311,780

21 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings raised at variable interest rates expose the Group to cash flow interest rate risk. The Group managed its cash flow interest rate risk by using floating-to-fixed IRSs (and in some cases, supplemented by Basis Swaps). Such interest rate swap arrangements have the economic effect of converting borrowings from floating rates to fixed rates. Under the IRSs, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Under the Basis Swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between agreed floating rates interest amounts calculated by reference to the agreed notional principal amounts. Details regarding the IRSs and Basis Swaps are set out in note 12.

Sensitivity analysis

At 30 June 2016, if interest rates had been 100 basis points (2015 : 100 basis points) higher with all other variable held constant, the net assets attributable to unitholders would have been approximately $80.4 million (2015 : $60.6 million) higher as a result of an increase in the fair values of the cash flow hedges as described above. On the other hand, if interest rates had been 10 basis points (2015 : 10 basis points) lower with all other variable held constant, the net assets attributable to unitholders would have been approximately $8.2 million (2015 : $6.1 million) lower as a result of a decrease in the fair values of the cash flow hedges.

At 30 June 2016, if interest rates had been 100 basis points (2015 : 100 basis points) higher with all other variable held constant, the Group's profit after taxation and before transactions with unitholders and net assets attributable to unitholders would have been approximately $9.4 million (2015 : $7.3 million) lower as a result of higher interest expenses on floating rate borrowings. On the other hand, if interest rates had been 10 basis points (2015 : 10 basis points) lower with all other variable held constant, the Group's profit after taxation and before transactions with unitholders and net assets attributable to unitholders would have been approximately $0.9 million (2015 : $0.7 million) higher as a result of lower interest expenses on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. The 100 basis point increase and 10 basis point decrease in interest rates represent the Manager's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

21 Financial risk management and fair values of financial instruments (continued)

(d) Fair values

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

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

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

At 30 June 2016, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (2015 : IRSs only) (see note 12), which fall under Level 2 of the fair value hierarchy described above.

During the years ended 30 June 2016 and 2015, 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 end of the reporting period in which they occurred.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of IRSs and Basis Swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(ii) *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 30 June 2016 and 2015.

(e) Estimation of fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of IRSs and Basis Swaps is calculated as the present value of the estimated future cash flows.

22 Capital management

The Group's primary objective is to provide its unitholders risk-adjusted, long-term capital growth through investing in a diversified portfolio of office and retail properties in Hong Kong.

The Manager aims to support Sunlight REIT's operational and acquisition growth strategies within a prudent risk management framework, by employing an efficient capital management strategy.

The Manager believes that an efficient capital management strategy will improve total returns while reducing risks for unitholders by maintaining financial flexibility to meet capital expenditure requirements. The Manager will regularly review its capital management strategy to reflect Sunlight REIT's investment opportunities, its operating and the general economic environment and the REIT Code requirements.

In accordance to clause 7.9 of the REIT Code and clause 20.4 of the Trust Deed, Sunlight REIT's aggregate borrowings shall not exceed 45 per cent of the total gross asset value of the scheme. In the event that the limit is exceeded, the unitholders and the Securities and Futures Commission (the "**SFC**") shall be informed of the magnitude of the breach, the cause of the breach, and the proposed method of rectification. In cases where there is a breach, no further borrowing is permitted and the Manager shall use its best endeavours to reduce the excess borrowings. Furthermore, the unitholders and the SFC shall be informed on a regular basis as to the progress of the rectification. At 30 June 2016, Sunlight REIT's aggregate borrowings represent 21.9% (2015 : 22.0%) of its total gross asset value.

23 Capital commitments

Capital commitments outstanding at 30 June 2016 not provided for in the consolidated financial statements are as follows :

	2016 $'000	2015 $'000
Contracted for	**20,127**	27,626
Authorised but not contracted for	**16,980**	12,283
	37,107	39,909

24 Contingent liabilities

At the end of the reporting period, 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 $4,585,000 (2015 : $4,685,000).

25 Significant leasing arrangements

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows :

	2016 $'000	2015 $'000
Within 1 year	**626,681**	644,233
After 1 year but within 5 years	**494,050**	476,130
After 5 years	**29,238**	34,346
	1,149,969	1,154,709

The operating leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated.

26 Connected party transactions and material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with certain connected persons and related parties, as defined under the REIT Code and HKAS 24 (Revised), *Related party disclosures*, during the year :

(a) Nature of relationship with connected persons/related parties

Connected person/related party	Relationship with the Group
SKFE and other members of its group (collectively referred to as "**SKFE Group**")	Significant holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as "**HLD Group**")	Connected persons of SKFE Group, the Manager and the Property Manager
HD	Connected persons of SKFE Group and holding company of HLD Group
HSBC Institutional Trust Services (Asia) Limited (the "**Trustee**")	The Trustee of Sunlight REIT
The Hongkong and Shanghai Banking Corporation Limited and other members of its group (collectively referred to as "**HSBC Group**")	Connected persons of the Trustee
Henderson Sunlight Asset Management Limited (the "**Manager**")	The Manager of Sunlight REIT and a member of HLD Group
Henderson Sunlight Property Management Limited (the "**Property Manager**")	The Property Manager of Sunlight REIT and a member of HLD Group
Knight Frank and other members of its group (collectively referred to as "**Knight Frank Group**")	The Principal Valuer of Sunlight REIT

Knight Frank has replaced JLL and been appointed as the principal valuer of Sunlight REIT with effect from 1 September 2015.

26 Connected party transactions and material related party transactions (continued)

(b) Transactions with connected persons/related parties

	2016 $'000	2015 $'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	**10,556**	9,289
– HSBC Group	**20,066**	18,135
Property management expenses paid/payable to (note (i)) :		
– HLD Group	**(15,888)**	(17,517)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	**(89)**	(163)
Manager's fees (note (ii))	**(85,218)**	(85,739)
Property Manager's fees (note (iii))	**(47,887)**	(49,462)
Trustee's remuneration and charges (note (iv))	**(4,355)**	(4,350)
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	**(15,293)**	(16,462)
Interest expenses on IRSs and Basis Swaps paid/payable to (note (v)) :		
– HSBC Group	**(15,174)**	(16,758)
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	**114**	11
Cost for unwinding of IRSs paid to (note 12) :		
– HSBC Group	**(7,504)**	–
Valuation fees and other charges paid/payable to (note (i)) :		
– Knight Frank Group	**(500)**	–
– JLL and other members of its group (collectively referred to as "**JLL Group**")	**–**	(1,292)
Promotion income received/receivable from (note (i)) :		
– HLD Group	**2,105**	1,964
Additional consideration paid to (note (vi)) :		
– HLD Group and SKFE Group	**(1,479)**	(46)
Tax indemnity received from (note (vii)) :		
– HLD Group	**152**	–

26 Connected party transactions and material related party transactions (continued)

(b) Transactions with connected persons/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 16 June 2015, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2016 to be paid 50% in the form of cash and 50% in the form of units. On 10 June 2016, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2017.

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

(v) Interest expenses are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 12 and 19.

(vi) On 2 December 2006, the Group acquired certain companies from the Vendors by entering into several sale and purchase agreements, which included clauses providing for additional consideration to be payable for the purchase of shares in companies having tax loss benefits, in an amount equivalent to the tax loss benefits of those companies that are utilised by the Group to offset tax liabilities which would otherwise arise. Those clauses were clarified by way of letter agreements in the financial year ended 30 June 2016. Pursuant to those agreements as clarified, the Group agreed to pay additional consideration in respect of the tax loss benefits so utilised.

(vii) Pursuant to the tax indemnity provided by the Vendors as set out in note 11, the Vendors agreed to pay tax indemnity in respect of clawback of depreciation allowance that are realised.

26 Connected party transactions and material related party transactions (continued)

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

	2016 $'000	2015 $'000
Net amount due to :		
– SKFE Group	–	(78,379)
– HLD Group	**(29,977)**	(44,662)
– HD	–	(54,999)
– HSBC Group (note)	**(985,031)**	(1,043,737)
– Knight Frank Group	**(300)**	–
– JLL Group	–	(400)

Note :		
Deposits and cash placed with HSBC Group	**71,247**	22,754
Bank borrowings and interest payable to HSBC Group	**(1,050,076)**	(1,060,100)
Others	**(6,202)**	(6,391)
	(985,031)	(1,043,737)

27 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Valuation of investment properties

In arriving at the fair value of the investment properties, the Manager has considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rates.

(b) Recognition of deferred tax assets

At 30 June 2016, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately $7,374,000 (2015 : $52,511,000). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the asset can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

28 Non-adjusting event after the reporting period

After the end of the reporting period, the Board of Directors of the Manager declared a final distribution. Further details are disclosed in the "Distribution Statement" of the consolidated financial statements.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2016

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 30 June 2016 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012-2014 cycle	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Manager is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

(Expressed in Hong Kong dollars)

30 Principal subsidiaries

Details of the principal subsidiaries of Sunlight REIT which, in the opinion of the Manager, materially contribute to the results of the Group or hold a material portion of the assets or liabilities of the Group are as follows :

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	% of shares held by Sunlight REIT	% of shares held by a subsidiary	Principal activity
Sunlight REIT Holding Limited	Cayman Islands	1 share of US$1	100	–	Investment holding
Bayman Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Property investment
Bestguard Investment Limited	Hong Kong	2 ordinary shares	–	100	Property investment
Glory Good Development Limited	Hong Kong	1,000 ordinary shares	–	100	Property investment
Glory Hero Development Limited	Hong Kong	3,000,000 ordinary shares	–	100	Property investment
Grand Faith Development Limited	Hong Kong	10,000,000 ordinary shares and 2 non-voting deferred shares	–	100	Property investment
Harzone Limited	Hong Kong	1,000 ordinary shares	–	100	Property investment
Jetwise Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment
Nicetex Development Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100	Property investment
Russum Company Limited	Hong Kong	10,000,000 ordinary shares and 1,000 non-voting deferred shares	–	100	Property investment
Seiren Investment Limited	Hong Kong	10,000 ordinary shares	–	100	Property investment
Sunlight Crownwill Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Property investment
Sunlight REIT Finance Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT Treasury Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of treasury functions
Tinselle Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2016	2015	2014	2013	2012
At 30 June :						
Net asset value ($ million)		**13,518**	13,097	11,495	10,532	9,022
Net asset value per unit		**8.26**	7.99	7.06	6.52	5.62
Market capitalisation ($ million)		**7,231**	6,472	5,322	5,124	4,191
For the year ended 30 June :						
Highest traded unit price		**4.44**	4.09	3.37	3.92	2.61
Highest premium of the traded unit price to net asset value per unit	1	**N/A**	N/A	N/A	N/A	N/A
Lowest traded unit price		**3.48**	3.05	2.71	2.61	1.91
Highest discount of the traded unit price to net asset value per unit (%)		**57.9**	61.8	61.6	60.0	66.0
Closing unit price		**4.42**	3.95	3.27	3.17	2.61
Distribution per unit (cents)		**24.3**	22.0	20.0	17.7	17.0
Payout ratio (%)		**95.8**	95.9	94.8	93.1	91.3
Distribution yield per unit (%)	2	**5.5**	5.6	6.1	5.6	6.5

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of the year. Accordingly, premium of the traded unit price to net asset value per unit had not been recorded.
2. Distribution yield per unit is calculated by dividing the distribution per unit by the closing unit price of the year.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of unitholders (the "**Unitholders**") of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") will be held at The Ballroom, 18th Floor, The Mira Hong Kong, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Friday, 21 October 2016 at 10 :00 a.m. for the following purposes :

(1) To note the audited financial statements of Sunlight REIT together with the Auditor's Report for the year ended 30 June 2016;

(2) To note the appointment of Auditor of Sunlight REIT and the fixing of their remuneration; and

(3) To consider and, if thought fit, pass with or without modification, the following resolution as an Ordinary Resolution :

"**THAT** :

(a) the exercise by Henderson Sunlight Asset Management Limited (the "**Manager**") during the Relevant Period (as defined in paragraph (c) below) of all the powers of the Manager to buy back units of Sunlight REIT ("**Units**") on behalf of Sunlight REIT on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), subject to and in accordance with the circular dated 31 January 2008 issued by the Securities and Futures Commission (the "**SFC**") to management companies of SFC-authorised real estate investment trusts ("**REITs**") in relation to on-market unit repurchases by SFC-authorised REITs, paragraph (b) below, the trust deed constituting Sunlight REIT dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**"), the applicable laws of Hong Kong, the Code on Real Estate Investment Trusts, the applicable provisions of the Codes on Takeovers and Mergers and Share Buy-backs, the guidelines issued by the SFC from time to time, and applicable rules and regulations, be and is hereby generally and unconditionally approved;

(b) the aggregate number of Units which may be bought back or agreed to be bought back on the Stock Exchange by the Manager on behalf of Sunlight REIT pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate number of Units in issue at the date of the passing of this resolution, and such approval shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until the earliest of :

(i) the conclusion of the next annual general meeting of Unitholders following the passing of this resolution;

(ii) the expiration of the period within which the meeting referred to in (i) above is required to be held under the Trust Deed; and

(iii) the revocation or variation of the authority conferred by this resolution by an ordinary resolution of the Unitholders at a general meeting."

By order of the Board
HENDERSON SUNLIGHT ASSET MANAGEMENT LIMITED
(as manager of Sunlight Real Estate Investment Trust)
CHUNG Siu Wah
Company Secretary

Hong Kong, 20 September 2016

Notes :

(a) Pursuant to the Trust Deed, every Unitholder is entitled to appoint no more than two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder.

(b) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "**Unit Registrar**") not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjournment thereof, or the poll concerned, should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.

(c) In the case of joint Unitholders, the vote of the Unitholder who is first-named on the register of Unitholders, whether tendered in person or by proxy, shall be acceptable to the exclusion of the votes of other joint Unitholders. For this purpose, seniority shall be determined by the order in which the names stand in the register of Unitholders.

(d) For the purpose of determining entitlements to attend and vote at the Annual General Meeting, the register of Unitholders will be closed from Wednesday, 19 October 2016 to Friday, 21 October 2016, both days inclusive, during which period no transfer of Units will be effected. In order to qualify to attend and vote at the meeting (or at any adjournment thereof), all unit certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar no later than 4 :30 p.m. on Tuesday, 18 October 2016.

(e) The votes at the meeting will be taken by way of a poll.

Financial Calendar

For FY2015/16

Interim Results Announcement	17 February 2016
Issuance of Interim Report	24 February 2016
Ex-distribution date for interim distribution	3 March 2016
Closure of Register for entitlement of interim distribution	7 March 2016 to 9 March 2016, both days inclusive
Interim distribution paid at HK 12.0 cents per unit	22 March 2016
Final Results Announcement	5 September 2016
Issuance of Annual Report	20 September 2016
Ex-distribution date for final distribution	21 September 2016
Closure of Register for entitlement of final distribution	23 September 2016 to 27 September 2016, both days inclusive
Final distribution payable at HK 12.3 cents per unit	12 October 2016
Closure of Register for entitlement to attend and vote at Annual General Meeting	19 October 2016 to 21 October 2016, both days inclusive
Annual General Meeting	21 October 2016

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
KWOK Tun Ho, Chester

Company Secretary of the Manager

CHUNG Siu Wah

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Knight Frank Petty Limited

Legal Adviser

Woo Kwan Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd. Hong Kong Branch
The Bank of East Asia, Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Oversea-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

LEUNG Kwok Hoe, Kevin
Tel : (852) 3669 2888
Fax : (852) 2285 9980
Email: ir@HendersonSunlight.com

Website

www.sunlightreit.com

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com