SUNLIGHT REIT

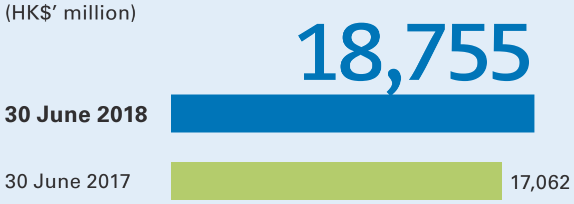
Stock Code : 435

Annual Report 2017/18

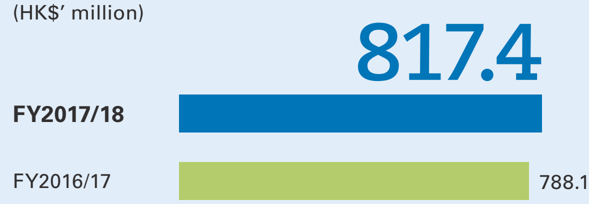
Embedding Agility

Performance Highlights

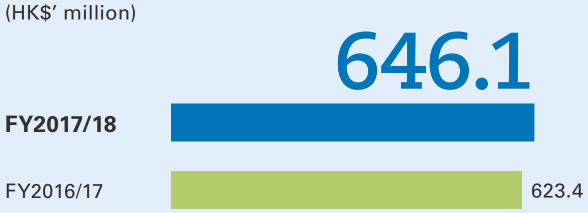
Appraised property value
(HK$' million)



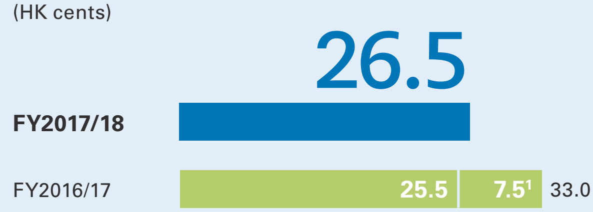
Revenue
(HK$' million)



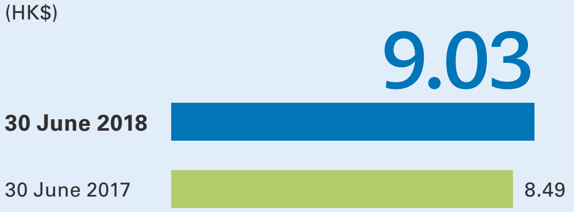
Net property income
(HK$' million)



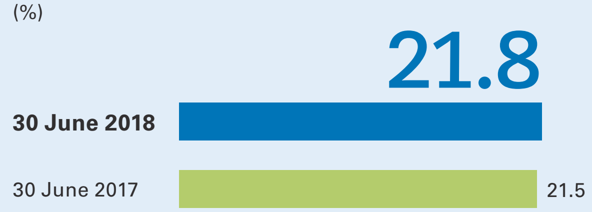
Distribution per unit
(HK cents)



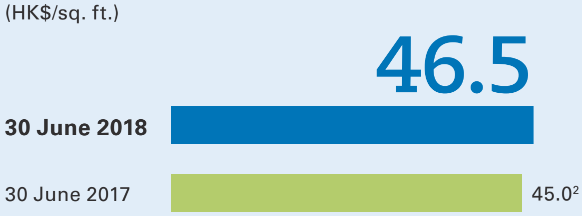
Net asset value per unit
(HK$)



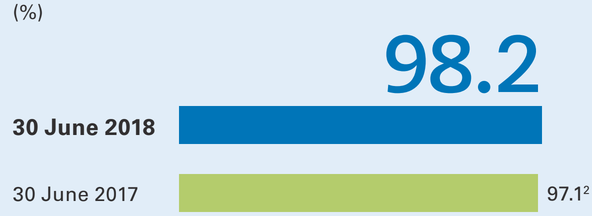
Gearing
(%)



Passing rent
(HK$/sq. ft.)



Occupancy
(%)



Notes :

1. Special distribution.
2. Adjusted to reflect the disposal of Palatial Stand Property.

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.

Who We Are : In Brief

Sunlight REIT's unit price performance (at 30 June 2018)

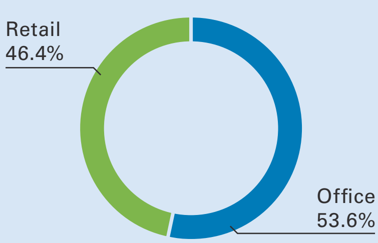
	Total return[Note] (%)			
	1-year	3-year	5-year	Since listing
Sunlight REIT	12.7	63.3	129.7	397.3
Hang Seng Index	16.3	22.5	65.9	123.3
Hang Seng Index - Properties	15.1	22.5	62.8	142.5
Hang Seng REIT Index	11.6	42.8	74.3	182.1

Source : Bloomberg

Annualized total return to investors since listing

14.9%

Portfolio composition by appraised value



Our Business

Sunlight REIT is a real estate investment trust authorized by the Securities and Futures Commission (the "**SFC**"), and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**"). The trustee of Sunlight REIT (the "**Trustee**") is HSBC Institutional Trust Services (Asia) Limited.

Listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 21 December 2006, the market capitalization of Sunlight REIT was approximately HK$8,917 million at 30 June 2018.

Sunlight REIT offers investors the opportunity to invest in a diversified portfolio of 11 office and five retail properties in Hong Kong with a total gross rentable area ("**GRA**") of approximately 1.2 million sq. ft.. The office properties are primarily located in core business areas, including Wan Chai and Sheung Wan/ Central, as well as in decentralized business areas such as Mong Kok and North Point. The retail properties are primarily situated in 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 2018, Sunlight REIT's portfolio was appraised by its principal valuer, Knight Frank Petty Limited (the "**Principal Valuer**") at HK$18,754.8 million, with office and retail properties accounting for 53.6% and 46.4% of total valuation respectively.

Our Management

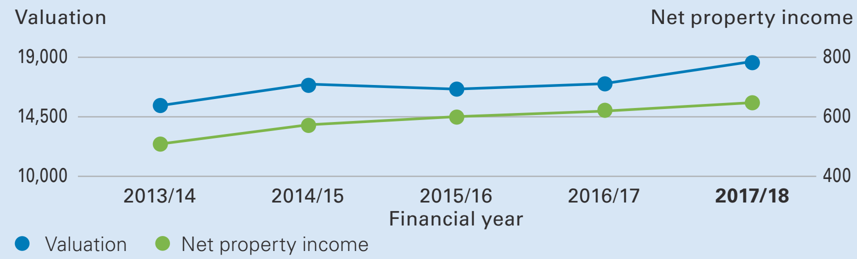
The Manager is an indirect wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**") and is responsible for managing Sunlight REIT in accordance with the Trust Deed in the sole interest of unitholders. The Manager formulates and implements asset management strategies for Sunlight 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 and other relevant legislation and regulations.

Henderson Sunlight Property Management Limited (the "**Property Manager**") has been delegated with 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.

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

(HK$' million)



Our Strategy

The key objectives of the Manager are to provide unitholders with regular and stable cash distributions, and the potential for sustainable growth of such distributions and long-term enhancement in capital value of the property portfolio. The Manager has identified the following business areas for which proactive strategies have been implemented to ensure the accomplishment of these objectives :

Operational management and asset enhancement

The Manager works closely with the Property Manager to develop proactive leasing strategies, cost saving solutions and asset enhancement initiatives aimed at improving the rental income and unlocking the value of the property portfolio.

Investment and acquisition growth

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

Capital and business management

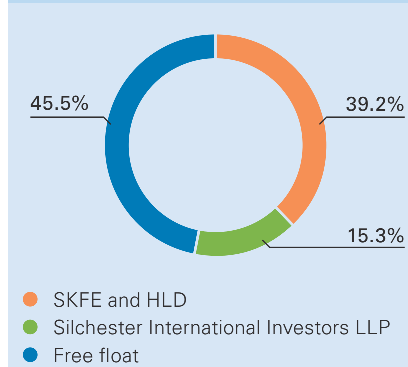
In support of the operational and acquisition growth strategies of Sunlight REIT, the Manager has in place an efficient capital management strategy, characterized by the appropriate use of equity and leverage. It has also established a solid business management framework which includes sound corporate governance practices, effective risk management and internal control systems, reliable management information systems as well as an experienced work force.

Our Strength

Sunlight REIT has established a solid track record in delivering growth in rental income and portfolio value since inception. Its defensive qualities are supported by a competent management team which places a strong emphasis on asset enhancement, financial management and corporate governance. Further, Sunlight REIT has received unwavering support from its sponsors, namely, Shau Kee Financial Enterprises Limited ("**SKFE**") and HLD, which collectively owned 39.2% of the total number of units in issue at 30 June 2018.

Unitholding structure

(30 June 2018)



Chairman's Statement

AU Siu Kee, Alexander
Chairman

"...unitholders can be assured that we will be fully committed to maintaining a pragmatic yet highly agile operation to keep pace with changing market dimensions, while staying motivated in identifying acquisition and asset enhancement opportunities."

On behalf of the Board, I have the pleasure of presenting the results of Sunlight REIT for the financial year ended 30 June 2018 (the "**Year**").

Bolstered by an upswing in Hong Kong's retail sector and a robust trend toward office decentralization, Sunlight REIT recorded a 3.6% year-on-year increase in net property income ("**NPI**") to HK$646.1 million for the Year, while annual distributable income rose 3.7% to HK$450.5 million.

The Board has resolved to declare a final distribution of HK 13.9 cents per unit. Coupled with an interim distribution of HK 12.6 cents per unit, the total distribution per unit ("**DPU**") for the Year amounts to HK 26.5 cents, representing a payout ratio of 96.7%. Excluding the special distribution of HK 7.5 cents per unit paid in the previous financial year, DPU for the Year would imply a growth of 3.9%.

Reflecting the positive dynamics of the commercial property sector and the acquisition of Fung Shun Commercial Building ("**FSCB**"), the value of Sunlight REIT's property portfolio at 30 June 2018 was appraised by the Principal Valuer at HK$18,754.8 million, 9.9% higher than a year ago. The net asset value of Sunlight REIT consequently rose 6.9% to HK$14,857.0 million at 30 June 2018, which was equivalent to HK$9.03 per unit (30 June 2017: HK$8.49 per unit).

Looking forward, I remain optimistic about the prospects of Sunlight REIT. The sustainable recovery of the retail market and unabated demand for quality office space will continue to provide strong support to the rental performance of its portfolio. Despite the many challenges ahead, notably rising US interest rates and ongoing tension in global trade, I am confident that our management strategy is sufficient to withstand the prevailing uncertainties and will continue to deliver healthy results to unitholders.

Meanwhile, I would also like to emphasize that the proactive efforts devoted to capital management will not subside in light of the uncertainty entangling the financial markets. In addition to interest rate swap ("**IRS**") arrangements, we will continue to capitalize on the more favourable bond market conditions and expand the size of Sunlight REIT's portfolio of Relevant Investments[Note] as a further interest rate hedging mechanism.

In sum, unitholders can be assured that we will be fully committed to maintaining a pragmatic yet highly agile operation to keep pace with changing market dimensions, while staying motivated in identifying acquisition and asset enhancement opportunities.

As the year comes to a close, I take this opportunity to express my sincere gratitude to a group of highly capable and committed people that comprise my fellow directors, the management team and the staff. In particular, I would like to extend my special vote of thanks to Mr. Ma Kwong Wing, who has decided not to seek re-election as an Independent Non-executive Director at the forthcoming annual general meeting. As a founding member of the Board, his contribution is deeply appreciated.

AU Siu Kee, Alexander
Chairman
4 September 2018

Compound annual growth since listing

7.8%
Net property income

9.2%
Net asset value

Note : Relevant Investments shall have the meaning as defined in paragraph 7.2B of the REIT Code.

CEO's Report

WU Shiu Kee, Keith
Chief Executive Officer

"...Sunlight REIT displayed another year of steady organic growth, supplemented by a timely property acquisition completed in late 2017."

In contrast to a year characterized by heightened political upheavals and stock market volatilities on the global stage, Sunlight REIT displayed another year of steady organic growth, supplemented by a timely property acquisition completed in late 2017.

We are encouraged by promising developments which have positively impacted the portfolio and bottom line of Sunlight REIT. Foremost among these is a recovery in the retail sector which has exhibited a nice rebound after almost two years of stagnation. Meanwhile, the ongoing trend for office decentralization in Grade A office space has bolstered the office segment of our business. Further, our astute asset and capital management initiatives have proved rewarding and delivered positive contribution to income and distribution.

Hong Kong retail sales (January - June 2018)

↑ 13.4%
year on year

Source : Census and Statistics Department

Tourist arrivals into Hong Kong (January - June 2018)

↑ 10.1%
year on year

Source : Hong Kong Tourism Board

The Year under review witnessed the continued and steady growth of Hong Kong's economy on the back of controlled inflation. Retail sales in particular recorded a 13.4% year-on-year rise between January and June 2018, reflecting a boost in consumer sentiment and stronger influx of PRC tourists. However, the turnaround in spending on luxury products failed to stimulate rental performance of street-level shops in key commercial areas as the corresponding vacancy rates remained generally high.

The aforementioned retail recovery has translated into satisfactory performance for our key retail assets, of which our flagship mall, Sheung Shui Centre Shopping Arcade ("**SSC**"), staged a decent recovery with notable occupancy improvement. Excluding the one-off income received in settlement of an early lease termination in the previous financial year, NPI of SSC grew by more than 7% year on year. Meanwhile, Metro City Phase I Property ("**MCPI**"), a proxy to non-discretionary spending, continued to report steady progress, as reflected by its occupancy rate of 99.8% and rental reversion of 10.5%.

In parallel, the momentum of office decentralization has accelerated with new supply coming on stream in such areas as Island East and Kowloon East. Multinationals have grasped the opportunity to relocate and/or expand their operations given the availability of quality floor space at affordable prices. Technology catering to decentralization is also playing a role as tenants become increasingly attuned to establishing auxiliary offices outside traditional core business districts.

With office rents in prime Central/Admiralty holding firm thanks to brisk demand from Mainland Chinese corporations, the overall Grade A office leasing market has had a good year, registering reasonable advances in all key business districts. A beneficiary of this positive trend, Sunlight Tower also turned in a fine performance, recording a near full occupancy rate and a satisfactory 10.4% rental reversion.

During the Year, capitalization rates for commercial properties continued to edge lower, notwithstanding rising interest rates, indicating a still favourable liquidity environment in which investors continued to actively seek acquisition opportunities. We are, therefore, delighted to have fended off formidable competition and concluded the purchase of FSCB for HK$658.0 million. Situated a stone's throw from Righteous Centre, the rationale for this well-timed acquisition needs no further elaboration.

On capital management, we have executed a combination of spot and forward-start IRSs with a total notional amount of HK$850.0 million during the Year, a strategy proposed to keep Sunlight REIT's fixed rate protection at a reasonable level, while mindful of the steep yield curve on the short-end. In addition, as highlighted in the Chairman's Statement, the size of Sunlight REIT's portfolio of Relevant Investments has increased, reflecting the more attractive bond market return, which, in turn, provides an alternative for interest rate hedging.

Astute asset management of our property portfolio was one of the highlights of the Year. Besides the acquisition of FSCB, the Manager also successfully disposed of Palatial Stand Property at a consideration of HK$101.0 million, representing a premium of 133% over its appraised value at 31 December 2017. On asset enhancement, while we have spent considerable effort on enhancing the image of our shopping malls in an effort to deliver a more satisfying experience to customers, substantial capital has also been committed to the back-end of our assets in order to save costs and provide environmental benefits over the long term. In this regard, we are pleased to report that the HK$16 million chiller plant replacement works at MCPI was successfully completed in the second quarter of 2018.

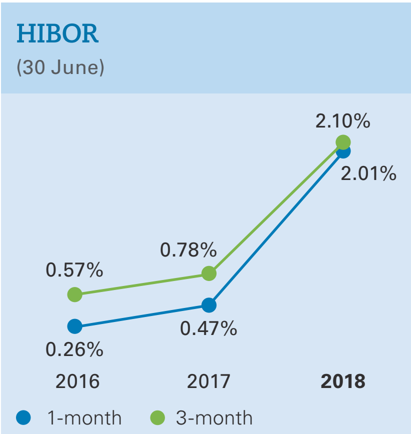
Hong Kong overall Grade A office rent
(HK$/sq. ft. net effective)

Source : Knight Frank Petty Limited

Timely asset recycling

IN : Accretive acquisition with synergy

OUT : Non-core disposal at low exit yield



Source : Bloomberg

> "Proactive capital and treasury management will, therefore, be at the forefront of our policy to mitigate this cost pressure."

Outlook

The prospect of higher interest rates, jittery stock market sentiment and growing concerns regarding international trade all portend to an escalating risk premium for investment. We are, therefore, well aware of the importance of remaining vigilant, yet proactive, in charting the roadmap of Sunlight REIT. The theme of our annual report, *Embedding Agility*, illustrates our aspiration to respond more swiftly to changing market conditions, and to gather our pace of asset and capital recycling in order to create more value for unitholders. Agility, however, also embraces prudence and patience.

Echoing the continued monetary tightening of the US Federal Reserve, the recent uptick in Hong Kong Interbank Offered Rates ("**HIBOR**") appears sustainable and will no doubt result in an increase in interest outlay for Sunlight REIT, particularly when considering the expiry of a total of HK$1,250 million worth of IRSs between June and December this year. Proactive capital and treasury management will, therefore, be at the forefront of our policy to mitigate this cost pressure.

The Manager will continue to place a high priority on conducting acquisitions, as Sunlight REIT is well positioned to capture buying opportunities given its strong financial position. In view of the persistently low capitalization rates for commercial properties and rising funding costs, however, we will remain prudent and only execute acquisitions that benefit unitholders from the prospects of distribution and asset enhancement.

For FY2018/19, the expiring GRA for the office and retail properties of Sunlight REIT will constitute approximately 33.9% and 28.2% of total GRA respectively. Given the prevailing market environment, the Manager is hopeful that positive rental reversion for the overall portfolio would be an achievable target in the forthcoming financial year.

Despite our guarded optimism, we are mindful of the risks and challenges facing Sunlight REIT in the year ahead. For example, while we consider that the upward recovery in retail spending is sustainable, we shall monitor the overall impact that e-commerce is having on individual retail categories and make adjustments to our trade mix as necessary. Meanwhile, the concept of pop-up stores, which has worked well to enhance trade diversity while giving vendors an opportunity to test performance, will be further promoted in relevant properties.

Reflecting our strategy to invest in asset enhancement, we shall dedicate substantial resources in transforming Bonham Trade Centre ("**BTC**"), the fourth largest property of Sunlight REIT. In particular, we are finalizing a plan that would involve the upgrading and rebranding of the property to satisfy the needs of both co-working and institutional tenants. Given this initiative, the vacancy of BTC may rise in FY2018/19 to accommodate necessary construction works, currently targeted to take place in the middle of 2019. We are excited about this project and believe it will greatly enhance the competitiveness, as well as the income and capital value of the property.

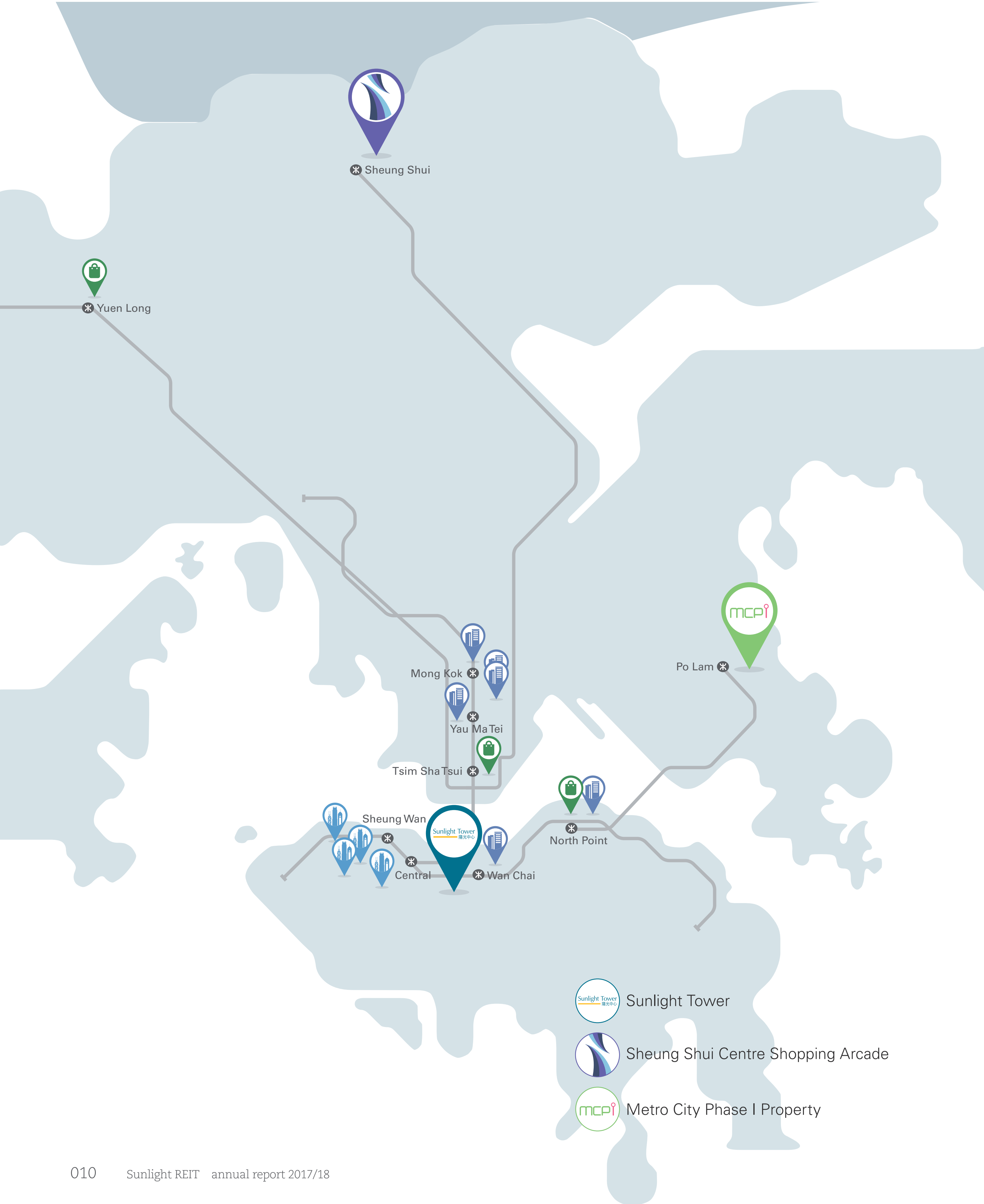
In addition, minor facility enhancements have also been earmarked for FSCB. The fact that the (sole) office tenant of the property did not exercise the option to renew their lease (pursuant to a sale and leaseback arrangement signed at the time of acquisition) actually presents an opportunity for the Manager to execute the intended enhancement works and diversify the trade profile of the property. In light of its prime location and the Manager's wealth of leasing experience in the vicinity, the prospects of FSCB should remain sanguine.

By adhering to our commitment to agility, Sunlight REIT is well positioned to withstand potential turbulence in the marketplace and even capitalize on investment opportunities that may arise. Barring unforeseen circumstances, I am reasonably confident that it is on the right track to maintain steady progress in the coming year.

WU Shiu Kee, Keith
Chief Executive Officer
4 September 2018

> "Reflecting our strategy to invest in asset enhancement, we shall dedicate substantial resources in transforming Bonham Trade Centre, the fourth largest property of Sunlight REIT."

Portfolio at a Glance



Top three properties
Sunlight Tower
Sheung Shui Centre Shopping Arcade
Metro City Phase I Property

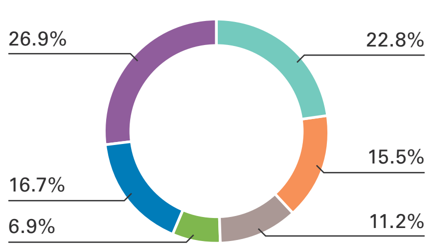
Sheung Wan/Central office properties
Bonham Trade Centre
Winsome House Property
135 Bonham Strand Trade Centre Property
235 Wing Lok Street Trade Centre

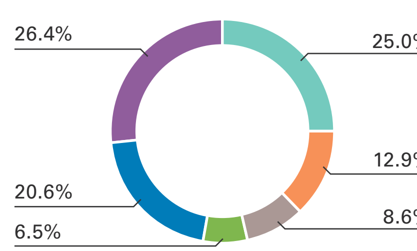
Other office properties
Fung Shun Commercial Building
Righteous Centre
On Loong Commercial Building
Java Road 108 Commercial Centre
Sun Fai Commercial Centre Property
Wai Ching Commercial Building Property

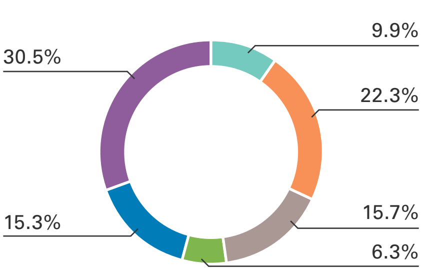
Other retail properties
Kwong Wah Plaza Property
Beverley Commercial Centre Property
Supernova Stand Property

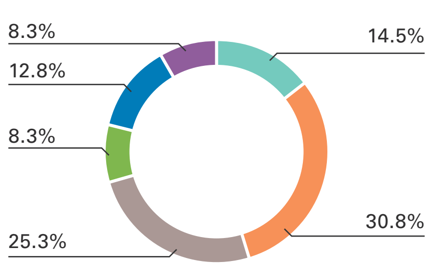
11
Office

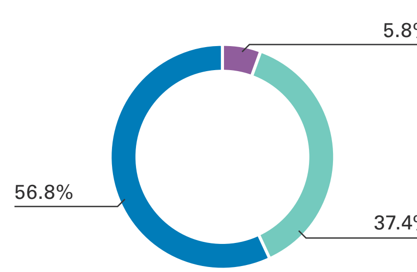
5
Retail

Valuation


Net property income


Gross rentable area


No. of leases


No. of car park spaces


- Sunlight Tower
- Sheung Shui Centre Shopping Arcade
- Metro City Phase I Property
- Sheung Wan/Central office properties
- Other office properties
- Other retail properties

Portfolio Statistics

Property	Property details						No. of leases at 30 June	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)				
				Office	Retail	Total	2018	2017
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	72	73
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	96	102
Fung Shun Commercial Building[4]	Mong Kok	1981	0	23,024	11,627	34,651	2	N/A
Winsome House Property	Central	1999	0	37,937	2,177	40,114	26	22
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	75	74
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	63	59
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	70	71
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	36	38
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	38	34
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	47	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	34	32
Sub-total/Average			**46**	**787,935**	**56,688**	**844,623**	**559**	**552**
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	126	115
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	111	107
Kwong Wah Plaza Property	Yuen Long	1998	0	39,101	25,741	64,842	37	37
Urban								
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	33	35
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Sub-total/Average			**749**	**39,101**	**349,129**	**388,230**	**309**	**296**
Total/Average			**795**	**827,036**	**405,817**	**1,232,853**	**868**	**848**
Palatial Stand Property								
Total								

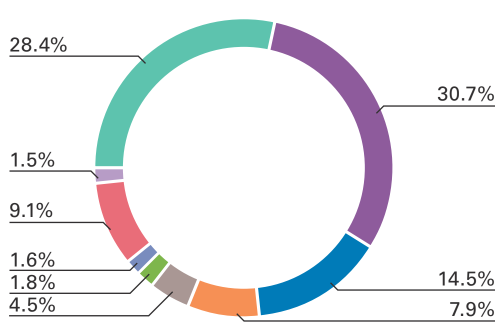
Notes :

1. Passing rent is calculated on the basis of average rent per sq. ft. for occupied GRA on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant year.
3. Please refer to "Valuation Report" on pages 70 to 87 for further details.
4. The property was acquired on 15 December 2017 for a consideration of HK$658.0 million.
5. Adjusted for Palatial Stand Property which was disposed of on 25 January 2018 at HK$101.0 million.

Operational statistics						Property financials				
Occupancy at 30 June (%)		Passing rent[1] at 30 June (HK$/sq. ft.)		Rental reversion[2] (%)		NPI (HK$'000)		Capitalization rate at 30 June 2018 (%)		Appraised value at 30 June 2018[3] (HK$'000)
2018	2017	2018	2017	FY2017/18	FY2016/17	FY2017/18	FY2016/17	Office	Retail	
98.5	99.1	38.2	36.4	10.4	11.9	170,628	167,385	3.75	3.65	5,046,000
93.0	96.1	29.8	28.9	9.1	11.5	36,065	36,734	3.45	3.80	1,251,000
100.0	N/A	47.3	N/A	N/A	N/A	10,284	N/A	3.00	2.75	664,000
100.0	85.9	42.8	42.9	4.0	11.2	17,321	17,204	3.45	3.60	630,100
100.0	100.0	27.6	26.6	8.6	5.0	18,648	17,302	3.45	3.80	624,000
98.8	93.4	34.5	34.7	(15.1)	7.7	19,368	23,007	3.75	3.40	587,000
96.0	98.9	21.7	20.8	8.1	10.3	11,509	11,557	3.45	3.80	414,000
94.2	96.1	24.7	24.1	8.0	8.5	8,965	8,761	3.75	4.00	300,000
100.0	92.0	30.4	30.9	5.5	6.3	8,742	8,401	3.65	3.70	280,000
100.0	100.0	21.6	21.7	(2.3)	1.6	5,613	5,607	3.80	4.05	184,000
100.0	94.5	14.5	13.8	8.8	10.3	2,195	2,081	3.55	3.90	80,700
97.8	**97.3**	**33.8**	**32.0**	**6.9**	**10.1**	**309,338**	**298,039**			**10,060,800**
98.9	91.7	115.9	118.4	3.8	3.9	161,204	163,093	N/A	4.30	4,277,000
99.8	98.7	55.8	54.1	10.5	14.5	133,062	121,700	N/A	4.40	3,127,000
100.0	100.0	52.1	49.6	21.8	(3.7)	35,958	33,672	3.65	3.60	1,114,000
82.9	96.7	44.5	45.1	(6.2)	(14.2)	3,485	3,952	N/A	4.10	106,300
100.0	100.0	54.0	54.0	N/A	15.0	2,637	2,342	N/A	3.80	69,700
99.2	**96.7**[5]	**73.9**	**72.4**[5]	**8.0**	**5.3**[5]	**336,346**	**324,759**			**8,694,000**
98.2	**97.1**[5]	**46.5**	**45.0**[5]	**7.4**	**7.1**[5]	**645,684**	**622,798**			**18,754,800**
						377	648			
						646,061	**623,446**			

Sunlight Tower

Tenant mix*



- Shipping, logistics and transportation
- Government and related organizations
- Advertising, consultancy and financial services
- Professional services
- Fashion and design
- IT and telecommunication services
- Healthcare
- Others
- Vacant

Net property income

↑ 1.9% year on year

Rental reversion

10.4%

Retention rate

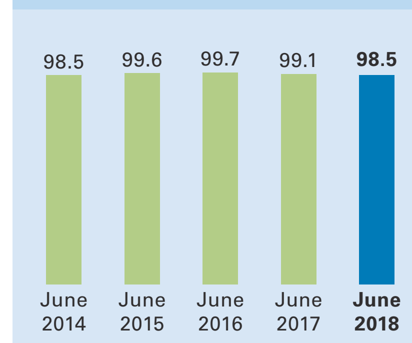
85%

* Tenant mix charts on pages 14 to 18 are expressed as a percentage of total GRA of the relevant property at 30 June 2018.

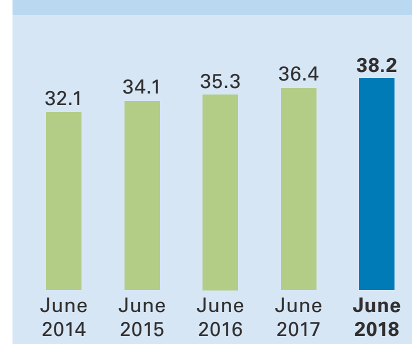
A beneficiary of the favourable Grade A office leasing market, this flagship property of Sunlight REIT continued to exhibit a fine performance during the Year, enjoying a rental reversion of 10.4%, a high retention rate of 85%, and an occupancy rate of 98.5% at 30 June 2018. Despite a faster growth in tenancy related expenses (largely due to increased rental commission), NPI of the property still managed to grow by 1.9% to HK$170.6 million.

Sunlight Tower has a balanced and diversified tenant base. At 30 June 2018, there were a total of 72 leases, of which 17.2% and 17.8% by GRA will expire in each of the next two financial years respectively. This desirable positioning will continue to provide stability to the overall income of Sunlight REIT.

Occupancy
(%)



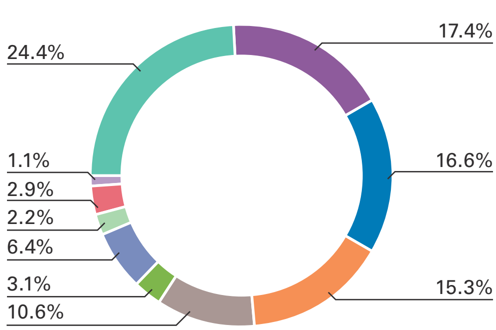
Passing rent
(HK$/sq. ft.)



Expiry profile (at 30 June 2018)	FY2018/19	FY2019/20
By GRA (%)	17.2	17.8
By average rent (HK$/sq. ft.)	39.0	40.0

Sheung Shui Centre Shopping Arcade

Tenant mix



- Food and beverage
- Fashion and jewellery
- Financial
- Healthcare and beauty
- Education
- AV and books
- Snacks and convenient store
- Lifestyle
- Others
- Vacant

Net property income

↓1.2%
year on year

Rental reversion

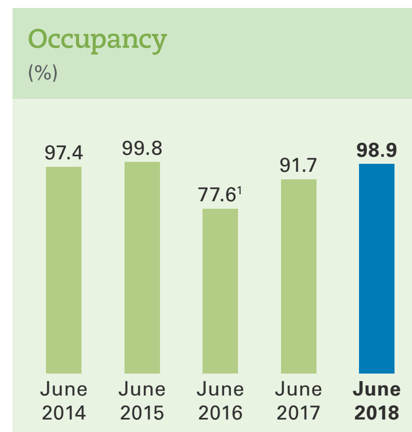
3.8%

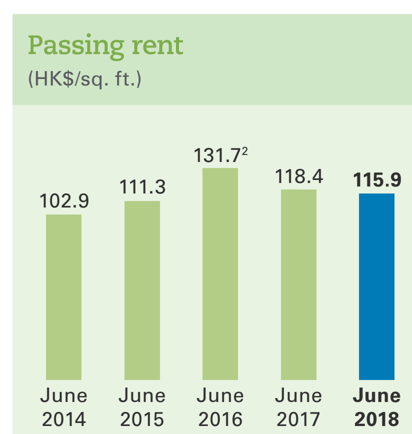
Retention rate

73%

Underpinned by a recovery in retail spending and a full-year contribution from the space reconfiguration exercise, SSC displayed a solid performance in both income and occupancy. Excluding the one-off income received in FY2016/17 (in respect of an early lease termination), NPI grew by more than 7% year on year, while occupancy rate rose to 98.9% at 30 June 2018 (30 June 2017: 91.7%). In addition, a satisfactory retention rate of 73% was recorded for the Year.

The almost HK$40.0 million capital expenditure ("**CAPEX**") spent over the past few years has clearly improved the cost efficiency and invigorated the ambience of SSC, which now offers customers a more attractive trade mix. The pop-up stores concept introduced in late 2017 has also proven to be rewarding in terms of footfall, which helps to sustain the competitiveness of this property.





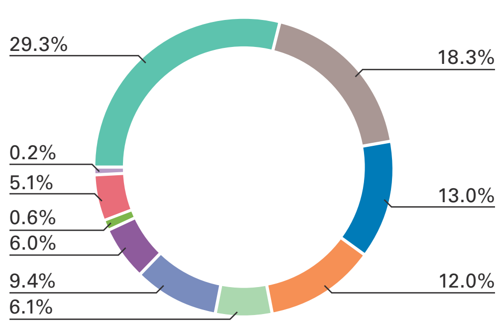
Expiry profile (at 30 June 2018)	FY2018/19	FY2019/20
By GRA (%)	17.6	47.1
By average rent (HK$/sq. ft.)	145.7	122.1

Notes :

1. Excluding the renovated area at SSC, the occupancy would have been 98.5%.
2. The renovated area at SSC is excluded from the calculation.

Metro City Phase I Property

Tenant mix



- Food and beverage
- Education
- Financial
- Healthcare and beauty
- Lifestyle
- Snacks and convenient store
- Fashion and jewellery
- AV and books
- Others
- Vacant

Net property income

↑ 9.3%
year on year

Rental reversion

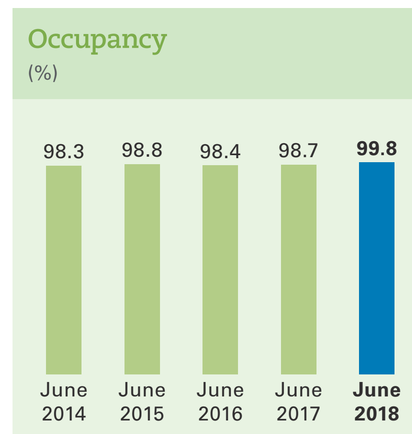
10.5%

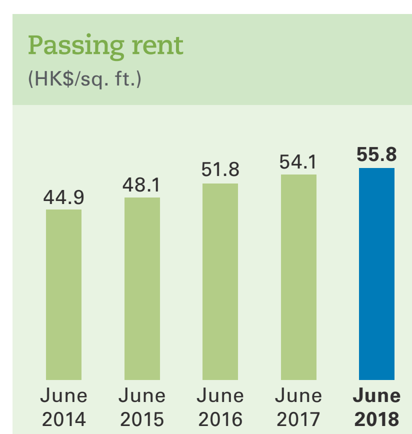
Retention rate

84%

A retail complex well positioned for non-discretionary shopping, dining and services, MCPI has once again turned in a reassuring performance. With almost full occupancy and a high retention rate of 84%, NPI of the property rose by 9.3% year on year on the back of a satisfactory rental reversion of 10.5%.

During the Year, the Manager devoted considerable effort into improving the cost-to-income efficiency of MCPI, while diligently addressing its environmental footprint. In addition to the introduction of more attractive eateries, the period under review also saw the replacement of the existing chiller plants. The new system has been operational since late April 2018 and is expected to provide both cost and environmental benefits to MCPI.





Expiry profile (at 30 June 2018)	FY2018/19	FY2019/20
By GRA (%)	28.3	35.0
By average rent (HK$/sq. ft.)	59.2	56.6

Sheung Wan/ Central office properties

Net property income

↑ 0.9% year on year

Rental reversion

7.5%

Retention rate

59%

The four office properties of Sunlight REIT located in the Sheung Wan and Central districts exhibited stable performance amidst resilient demand for affordable office space in core business areas. As such, the overall occupancy rate and rental reversion of this portfolio remained satisfactory at 96.2% and 7.5% respectively.

In particular, the occupancy rate of Winsome House Property rebounded to 100.0% from 85.9% a year ago. Meanwhile, a fall in occupancy at BTC was partly a reflection of the Manager's intention to co-terminate certain leases in preparation for a major refurbishment planned for the middle of 2019.

Other office properties

Following the acquisition of FSCB (which provided a maiden income contribution), the "other office" portfolio now consists of six properties, accounting for approximately 11% (30 June 2017: 8%) of Sunlight REIT by valuation, with an overall occupancy of 98.6% at 30 June 2018.

Given the sale and lease back arrangement entered into with the vendor, the performance of FSCB was in line with expectations; its cost efficiency for the Year was particularly satisfying given the absence of rent-related expenses. Meanwhile, the NPI of Righteous Centre was adversely affected by the lower unit rent realized for its ground floor shops. Otherwise, the office portion of the property actually turned in a satisfactory performance and recorded a rental reversion of 5.5%.

Net property income

↑ 15.3%
year on year

Rental reversion

(6.6)%

Retention rate

67%

Other retail properties

The other three retail properties had an overall occupancy rate of 98.2% at 30 June 2018 (30 June 2017: 99.7%[Note]) and constituted approximately 7% of Sunlight REIT's portfolio valuation. They were mainly led by the Yuen Long based Kwong Wah Plaza Property, which continued to benefit from the vibrancy of the district and the growing population in the Northwest New Territories. The recovery of the retail market together with the steady office demand from finance and service trades have underpinned the performance of this property, as illustrated by its full occupancy and commendable rental reversion of 21.8%. In contrast, the lacklustre showing of Beverley Commercial Centre Property was a consequence of changing consumption patterns for service trades such as wedding planners. While this property's income contribution is immaterial, the Manager is committed to taking necessary steps to redress and ameliorate the situation.

Net property income

↑ 5.3%
year on year

Rental reversion

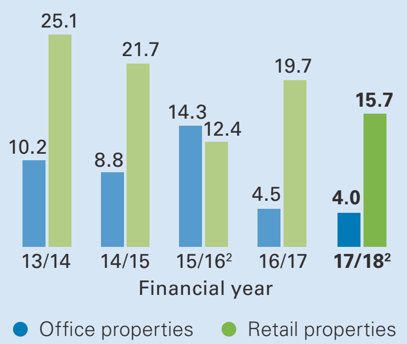
19.6%

Retention rate

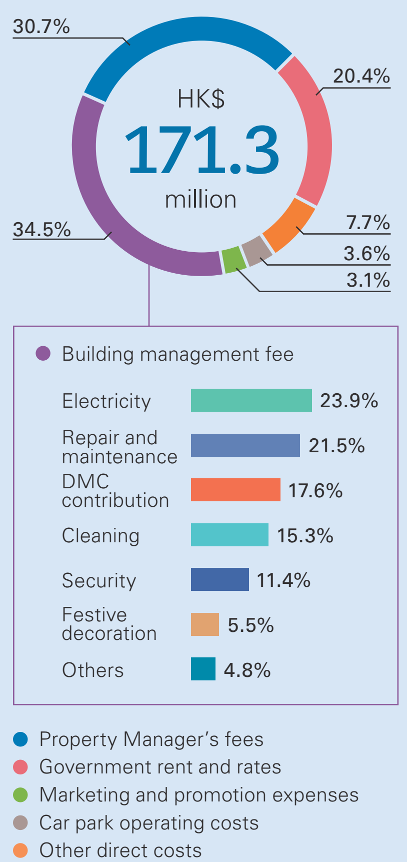
87%

Note : Adjusted to reflect the disposal of Palatial Stand Property.

Capital expenditure
(HK$' million)



Components of property operating expenses



Operational statistics

The overall portfolio of Sunlight REIT recorded an average occupancy rate of 98.2% at 30 June 2018 (30 June 2017: 97.1%[1]). The occupancies of the office and retail portfolios were 97.8% and 99.2% (30 June 2017: 97.3% and 96.7%[1]) respectively, while their corresponding retention rates stood at 74% and 80% (FY2016/17: 68% and 73%[1]).

Average passing rent of the office portfolio was HK$33.8 per sq. ft. at 30 June 2018, up 5.6% year on year, while that of the retail portfolio was HK$73.9 per sq. ft., 2.1% higher than a year ago. During the Year, rental reversions of 6.9% and 8.0% were secured by the office and retail portfolios respectively. Stripping out the renewal of a ground floor shop at Righteous Centre, the rate of rental reversion for the office portfolio would have been 9.0%.

At 30 June 2018, the weighted average lease length in terms of GRA was 2.7 years for the entire portfolio. Leases expiring in FY2018/19 account for 33.9% of office GRA and 28.2% of retail GRA. The average unit rents for the expiring office and retail leases are HK$31.0 per sq. ft. and HK$75.0 per sq. ft. respectively.

Tenancy base

Sunlight REIT's property portfolio had a total of 868 tenancies at 30 June 2018. The largest tenant accounted for 5.4% of total revenue for the Year and occupied 7.0% of total GRA at 30 June 2018, while the corresponding figures for the top five tenants were 15.3% and 15.6%. (Please refer to page 63 for further details).

Other income

Sunlight REIT held a total of 795 car park spaces at three properties, namely Sunlight Tower, SSC and MCPI, which collectively contributed income of HK$32.8 million, or 4.0% of total revenue.

Cost control and capital expenditure

The Manager maintained a high level of discipline in cost control. While higher expenses were incurred for repairs and maintenance as well as rental commission attributable to more leasing activities, the overall cost-to-income ratio of 21.0% was in line with the previous financial year's 20.9%.

Excluding the costs for property acquisition, CAPEX for the Year amounted to HK$19.7 million (FY2016/17: HK$24.2 million). The contracted capital commitments at 30 June 2018 totalled HK$3.6 million.

Notes :
1. Adjusted to reflect the disposal of Palatial Stand Property.
2. Excluding the costs for property acquisition.

Financial Review

Financial highlights

(in HK$' million, unless otherwise specified)	2018	2017	2016	2015	2014
For the year ended 30 June :					
Revenue	**817.4**	788.1	769.7	754.4	688.9
Property operating expenses	**171.3**	164.7	161.2	167.8	153.8
NPI	**646.1**	623.4	608.5	586.6	535.1
Cost-to-income ratio (%)	**21.0**	20.9	20.9	22.2	22.3
Profit after taxation	**1,442.3**	743.5	825.3	1,902.7	1,230.0
Annual distributable income	**450.5**	434.5	415.0	375.2	342.8
DPU (HK cents)[Note]	**26.5**	33.0	24.3	22.0	20.0
Payout ratio (%)[Note]	**96.7**	124.3	95.8	95.9	94.8
At 30 June :					
Portfolio valuation	**18,754.8**	17,062.4	16,651.0	17,035.3	15,390.6
Total assets	**19,631.3**	18,297.8	17,925.0	17,897.7	16,151.9
Total liabilities	**4,774.3**	4,398.3	4,406.9	4,800.6	4,657.0
Net asset value	**14,857.0**	13,899.5	13,518.1	13,097.1	11,494.9
Net asset value per unit (HK$)	**9.03**	8.49	8.26	7.99	7.06
Gearing ratio (%)	**21.8**	21.5	21.9	22.0	24.3

Operating results

Sunlight REIT recorded a 3.7% growth in revenue for the Year to HK$817.4 million. After deducting property operating expenses of HK$171.3 million, NPI came in at HK$646.1 million, up 3.6% year on year. Finance costs were down 30.2% year on year to HK$74.6 million, mainly attributable to the absence of a write-off in debt establishment fees and lower interest expenses, reflecting the full year benefit of the loan refinancing exercise. In tandem with rising interest rates, however, the magnitude of interest savings declined to HK$1.9 million in the second half of the Year (versus HK$8.4 million reported in the first six months of the year). Taking into account the fair value gain on investment properties of HK$996.1 million, profit after taxation for the Year was HK$1,442.3 million (FY2016/17: HK$743.5 million).

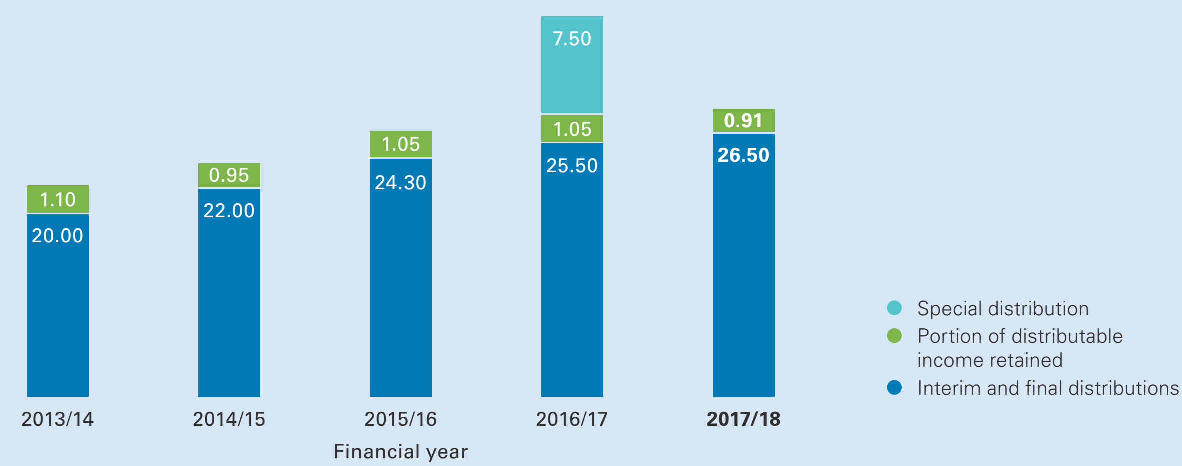
Note : A special distribution of HK 7.5 cents was included in 2017. Excluding the special distribution, the payout ratio for 2017 would have been 96.1%.

Distribution analysis

Total distributions for the Year was HK$435.5 million, down 19.4% year on year given the absence of special distribution. Excluding the special distribution, total distributions would have posted an increase of 4.4%. The full-year DPU of HK 26.5 cents represented a distribution yield of 4.9% based on the closing unit price of HK$5.42 on the last trading day of the Year.

Distribution at a glance

(HK cents)



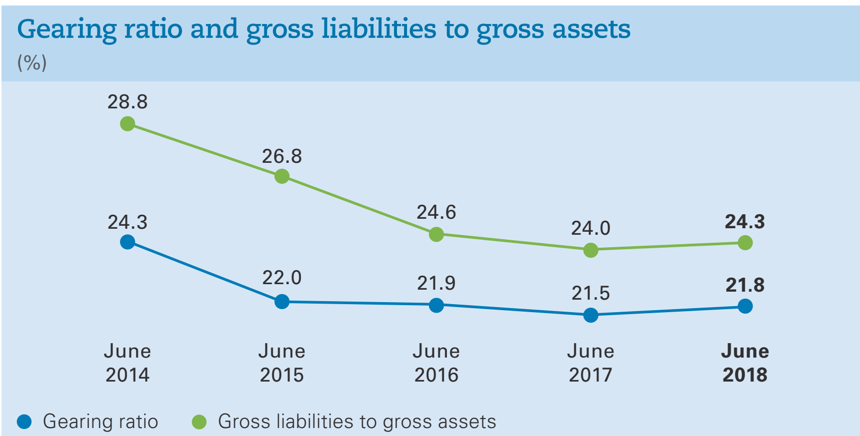
Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the final distribution are Wednesday, 19 September 2018 and Wednesday, 26 September 2018 respectively. The register of unitholders will be closed from Friday, 21 September 2018 to Wednesday, 26 September 2018, both days inclusive, during which period no transfer of units will be effected. In order to qualify for 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, 20 September 2018. Payment of the final distribution will be made to unitholders on Thursday, 11 October 2018.

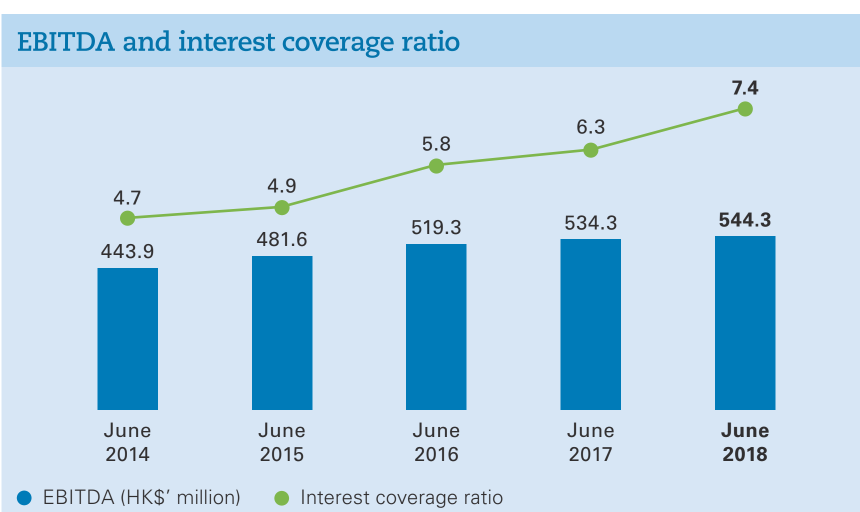
Financial position

The appraised value of Sunlight REIT's portfolio grew 9.9% to HK$18,754.8 million. Consequently, the gross assets of Sunlight REIT recorded an increase of 7.3% to HK$19,631.3 million at 30 June 2018 (30 June 2017: HK$18,297.8 million), while its net assets expanded 6.9% to HK$14,857.0 million (30 June 2017: HK$13,899.5 million). This translates to a net asset value per unit of HK$9.03 (30 June 2017: HK$8.49).

Reflecting the additional borrowing incurred in respect of the acquisition of FSCB, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) rose slightly to 21.8% at 30 June 2018 (30 June 2017: 21.5%), while gross liabilities[1] as a percentage of gross assets also showed mild advances to 24.3% (30 June 2017: 24.0%). 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 2018.



The EBITDA[2] of Sunlight REIT grew 1.9% year on year to HK$544.3 million. Together with lower interest expenses as mentioned earlier, the interest coverage ratio[3] for the Year improved to 7.4 times as compared with 6.3 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 amortization. Any gain on disposals of investment properties and subsidiaries would be excluded from the calculation.
3. Interest coverage ratio is calculated by dividing EBITDA by interest expenses incurred on total borrowings.

Interest margin of Term Loan Facilities

0.69%
per annum (over HIBOR)

Fixed rate portion of Term Loan Facilities

61%
(30 June 2017 : 79%)

Weighted average interest rate (fixed rate portion)

1.38%
per annum
(before interest margin)
(30 June 2017 : 1.16%)

Capital and interest rate management

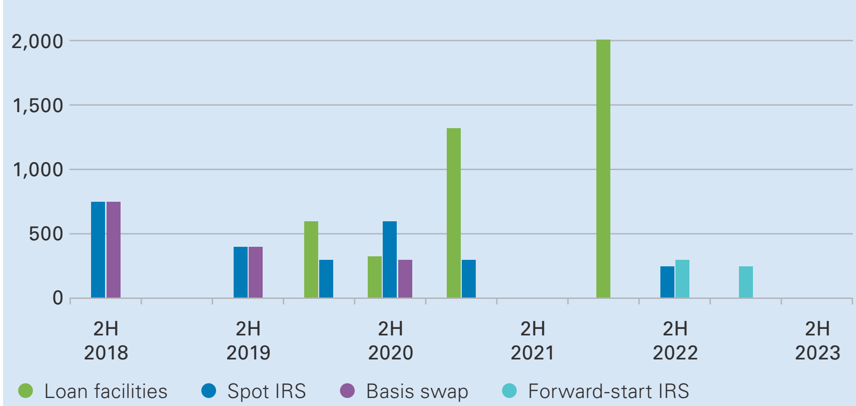
Following the drawdown of a new three-year secured term loan facility of HK$325.0 million during the Year, Sunlight REIT had total loan facilities of HK$4,550.0 million in place at 30 June 2018, comprising term loan facilities of HK$4,250.0 million ("**Term Loan Facilities**") which had all been drawn, and an unsecured revolving credit facility of HK$300.0 million, HK$280.0 million of which remains undrawn.

Carrying a blended interest margin of 0.69% per annum over HIBOR and a weighted loan maturity period of 3.3 years, the Term Loan Facilities consist of secured loans of HK$2,930.0 million and unsecured loans of HK$1,320.0 million. The secured tranche is backed 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$10,574.0 million at 30 June 2018.

At 30 June 2018, approximately 61% (30 June 2017: 79%) of the Term Loan Facilities were hedged to fixed rates with a weighted average tenure of 1.7 years. The weighted average interest rate (before loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 1.38% per annum (30 June 2017: 1.16% per annum).

Given the expiry of HK$500.0 million worth of IRSs in June 2018 and another HK$750.0 million due to expire before the end of 2018, the Manager executed a combination of spot and forward-start IRSs with an aggregate notional amount of HK$850.0 million during the Year.

Maturity profile at a glance
(HK$' million)

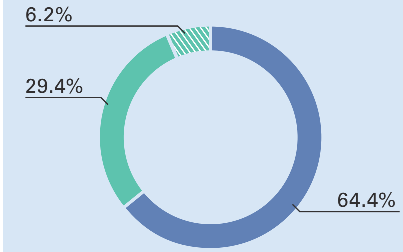


In light of the special distribution made in FY2016/17 and the acquisition of FSCB, cash resources allocated to unit buy-back has been reduced. During the Year, the Manager repurchased (and subsequently cancelled) a total of 1,300,000 units at an average price of approximately HK$5.29 per unit, representing a discount of over 41% to the net asset value per unit of Sunlight REIT at 30 June 2018.

Liquidity management

The Manager is permitted to place funds as bank deposits and Relevant Investments, with the overall maturity profile compatible with projected funding requirements. In light of the more attractive return from fixed income securities, the Manager has increased the size of the investment portfolio with a view to enhancing return from surplus cash of Sunlight REIT, while providing an alternative to interest rate hedging. At 30 June 2018, Sunlight REIT had total cash and bank balances of HK$641.9 million, and maintained a bond portfolio with an aggregate book value of HK$108.8 million. 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.

Borrowing profile
(30 June 2018)



Tax matters

Further to the disclosure made in the last annual report concerning a dispute with the Inland Revenue Department ("**IRD**") over certain tax deduction disallowances[Note], the determination from the Deputy Commissioner of the IRD in respect of the objections to the assessments on one property holding company ("**Determination**") was received in April 2018. While the Determination allowed the deduction of property management fees and rental commission, the management fees remained non-deductible. Based on the professional and positive advice of Sunlight REIT's legal and tax advisers, the Manager will strenuously contest the assessments raised, and a notice of appeal against the Determination has been filed with the Board of Review.

In addition, the IRD raised profits tax assessments in respect of the tax deduction disallowances as mentioned above on certain property holding companies under Sunlight REIT by a total amount of HK$8.3 million during the Year, bringing the aggregate profits tax assessment to HK$28.4 million ("**Aggregate Amount**"). Notices of objection to these profits tax assessments were filed with the IRD, while tax reserve certificates of an amount equivalent to the Aggregate Amount have been purchased.

It should be noted that if the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2017/18 would amount to approximately HK$86 million. The Manager will closely monitor the situation and make appropriate disclosure on the development as and when necessary.

Note : The IRD disallowed the deductions of the management fees, property management fees and rental commission incurred by certain property holding companies under Sunlight REIT. Please refer to note 9 to the consolidated financial statements on page 115.

Environmental, Social and Governance Report

An Engaging Mission

The Manager is committed to sustainable value creation for our stakeholders, which involves the incorporation of economic, social and environmental factors into the day-to-day management of Sunlight REIT. This Environmental, Social and Governance ("**ESG**") Report presents the initiatives undertaken and the performance of our business activities (relating to this subject) over the past financial year.

The Manager is well aware of our responsibilities in helping to redress the imbalances and risks affecting the global environment. Our ESG strategies are, therefore, specifically aimed at mitigating the environmental risks associated with our operations, while optimizing stakeholder value through continuous enhancement of the overall portfolio. Recognizing that financial return is just one of the measurable objectives of asset enhancement initiatives, our management is committed to continuously realizing a threefold mission of energy conservation, waste treatment and 'green creation'.

During the Year, we have adopted a spate of enhancements at our managed properties, notably the installation of more energy efficient chillers. The message of environmental responsibility is continuously shared with our stakeholders as we pursue more opportunities to introduce sustainable behaviour through the provision of recycling facilities and participation in community programmes.

In achieving our ESG objectives, I am indebted to our staff who have been instrumental in designing and implementing appropriate strategies to reduce our environmental footprint and enhance our sustainable business practices. As an employer, the Manager is fully committed to providing a positive, inclusive and supportive workplace which inspires continuous improvement and staff development. We also endeavour to create a 'volunteer culture' aimed at helping the less fortunate and contributing to the well-being of society. In this regard I am delighted to have witnessed the passion of our staff in the participation of various community activities, particularly on caring for the youth and the elderly.

Through this annual disclosure exercise, we communicate to our stakeholders the approach taken by the Manager in respect of mitigating risks that arise from our operating environment, while fostering the sustainable development of caring our community. This report also presents us with an opportunity to reflect on our performance over the past year, and to gather feedback which would prove useful in steering the development of a more robust ESG framework going forward.

On behalf of the Board, I assure you of our unwavering passion and determination in creating sustainable value and benefits for our stakeholders.

WU Shiu Kee, Keith
Chief Executive Officer
4 September 2018

About the ESG Report

Reporting standard

This third ESG Report has been prepared in accordance with the requirements of the ESG Reporting Guide (2015) issued by the Stock Exchange. It provides details of the management approach and the ESG performance of Sunlight REIT, and offers a transparent channel for Sunlight REIT to clearly and accurately communicate its ESG-related policies and initiatives to various stakeholders. The scope of the environmental key performance indicators ("**KPIs**") covers a selected portfolio of properties managed[1].

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 41 for easy reference.

Stakeholder engagement

The Manager has appointed an independent consultant to conduct a stakeholder engagement exercise for the preparation of our ESG Report. In FY2017/18, internal stakeholders, including directors and employees, were invited to provide insight into the materiality of various ESG issues, and to share their thoughts on the current sustainability performance and future direction of Sunlight REIT. We also welcome your feedback. Please contact our Investor Relations Department to share your opinion at ir@HendersonSunlight.com.

Materiality assessment

To ensure that the report includes topics which are relevant and material to Sunlight REIT's operations, the Manager conducted a materiality assessment following a three-step process.

Stage 1 : Identification

- Peer benchmarking : ESG disclosures of the five peer companies were reviewed to identify the material issues that the industry considers and the commonalities for sustainability disclosure. The greater the disclosure of an issue by the peer companies, the higher its level of materiality.
- Stakeholder engagement : internal stakeholders (directors and employees) and external stakeholders (suppliers, tenants and non-governmental organizations) were invited to rate the materiality of various ESG issues and share their thoughts on previous reports. As the surveys included the views of both internal and external stakeholders, ESG issues with higher ranking were very likely to be considered material.

Stage 2 : Prioritization

- The results of peer benchmarking and the outcomes of the stakeholder engagement were then combined and analyzed. A list of ESG-related issues of high and medium-level materiality was generated for further validation.

Stage 3 : Validation

- The list of potential material ESG issues was presented to senior management for consideration. A list of relevant aspects and KPIs[2] was finalized for disclosure in this report.

Notes :

1. Greenhouse gas emissions, energy consumption and water consumption data cover Sunlight Tower, SSC, MCPI, BTC, 235 Wing Lok Street Trade Centre, Righteous Centre, Java Road 108 Commercial Centre and On Loong Commercial Building. Waste data covers Sunlight Tower, SSC and MCPI.
2. Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Rules Governing the Listing of Securities on the Stock Exchange is organized 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 FY2017/18

Awards/Certificates	Participating entities/Properties	Awarding bodies
Caring Company	1. The Manager 2. The Property Manager	The Hong Kong Council of Social Service
Certificate of Appreciation for Donation – Christmas Sack Campaign	The Property Manager	The Salvation Army
Computer & Communication Products Recycling Programme (Certificate of Appreciation)	The Property Manager : Sunlight Tower	Environmental Protection Department, HKSAR Government
Corporate Environmental Leadership Awards 2017	The Property Manager : 1. Righteous Centre 2. Sheung Shui Centre Shopping Arcade 3. Metro City Phase I Property	Bank of China (Hong Kong)
FOOD-CO Save & Share Mooncakes Collection 2017	The Property Manager	St. James' Settlement
Good MPF Employer	1. The Manager 2. The Property Manager	Mandatory Provident Fund Schemes Authority
Green Office Award Labelling Scheme (GOALS)	The Manager The Property Manager : 1. Bonham Trade Centre 2. Righteous Centre 3. Sheung Shui Centre Shopping Arcade 4. Metro City Phase I Property	World Green Organisation
Happy Company	1. The Manager 2. The Property Manager	Promoting Happiness Index Foundation
Picture Theatre x Green Handicrafts Workshop (Certificate of Appreciation)	The Property Manager	Heifer Hong Kong
Hong Kong Awards for Environmental Excellence – Property Management (Commercial & Industrial)	The Property Manager : Sunlight Tower	Environmental Campaign Committee
Hong Kong Green Organisation Certification	The Property Manager : Sunlight Tower	Environmental Campaign Committee
Hong Kong Green Organisation Certification – Carbon Reduction Certificate	The Manager : Sunlight Tower	Environmental Campaign Committee
Hong Kong Green Organisation Certification – Wastewi$e Certificate (Basic Level)	The Property Manager : Sunlight Tower	Environmental Campaign Committee
HSBC Living Business Award – Green Achievement Award 2017 (Bronze)	The Property Manager : Sunlight Tower	The Hongkong and Shanghai Banking Corporation Limited
Indoor Air Quality Certificate (Excellent Class)	The Property Manager : Sunlight Tower	Indoor Air Quality Information Centre, Environmental Protection Department, HKSAR Government
Indoor Air Quality Certificate (Good Class)	The Property Manager : 1. Sheung Shui Centre Shopping Arcade 2. Metro City Phase I Property	Indoor Air Quality Information Centre, Environmental Protection Department, HKSAR Government
Paper Towel Saving Campaign	The Property Manager : Sheung Shui Centre Shopping Arcade	World Green Organisation and JCI (Junior Chamber International Hong Kong) Lion Rock
The HKIFM Excellence in Facility Management Award 2017 – Office Building (Excellence Award)	The Property Manager : Sunlight Tower	The Hong Kong Institute of Facility Management

Sustainability governance

An effective governance structure is essential to address sustainability issues and manage ESG-related risks. Existing and emerging risks pertinent to ESG have been strategically addressed and monitored in our risk management framework and internal control systems, for which the Board has an overall supervisory responsibility. The Corporate Social Responsibility Committee ("**CSRC**") was established by the Manager in 2012 to plan and coordinate various ESG initiatives. Headed by the CEO, the CSRC consists of representatives from the Manager and the Property Manager. A number of sustainability issues, including energy efficiency, waste management and community contributions, were discussed at regular meetings during the Year. The CSRC is responsible for spearheading Sunlight REIT's sustainability initiatives and ensuring that business practices align with our sustainability and social responsibility principles.

Our People

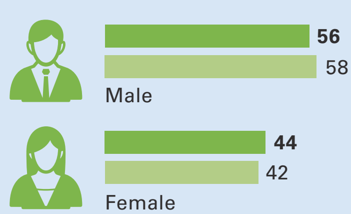
Our employees are crucial to the Manager's long-term success. To ensure they achieve their full potential, we are committed to providing a supportive, inclusive, safe and caring work environment.

Caring company

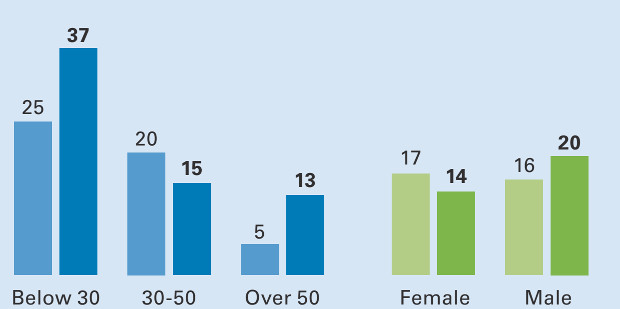
A harmonious and caring workplace allows our employees to excel in their work. Our staff handbook includes policies on anti-discrimination and anti-harassment, and provides guidance on professional business conduct. With equal opportunity as a core principle in our recruitment practice, job applicants are assessed based on their merits, regardless of age, disability, gender, marital status, family status or ethnicity.

Attracting new talent and retaining professional employees are key to sustaining business success. We ensure that our employees are compensated with competitive salaries and benefits commensurate with their work experience and job requirements. We also recognize the importance of career progression and employee engagement in retaining talent. Accordingly, an annual performance

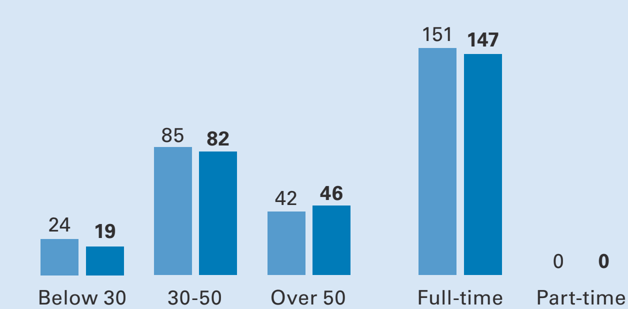
Total workforce by gender
(%)



Employee turnover rate by age group and gender
(%)



Total workforce by age group and employment type
(no. of people)



By age group and employment type
- **FY2017/18**
- FY2016/17

By gender
- **FY2017/18**
- FY2016/17

appraisal is conducted for employees to discuss their work performance and opportunities for career development.

Staff trip

Committed to cultivating a caring culture, we offer flexible working hours to cater for different employees' needs. During the Year, we organized a wide variety of staff activities such as annual dinners, staff trips and seasonal holiday celebrations to enhance employees' sense of belonging.

To strengthen the bonds between colleagues and their sense of belonging to the company, a trip to Okinawa in Japan was organized in December 2017. This activity provided our employees an opportunity to mingle with each other and foster team spirit.

Staff development

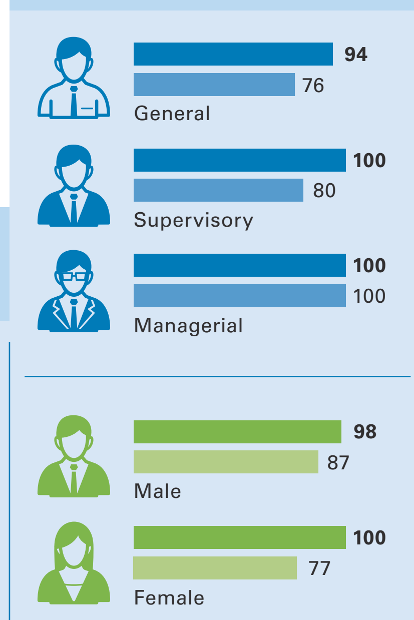
We believe continued education and professional development not only adds value to employees' career and professional skills, but also enhances the development of the company itself. We feel it is of significant importance to equip our staff with the necessary knowledge and competitive skills to address daily internal and external challenges in a timely and appropriate manner.

In addition to on-the-job training, our training policy ensures employees receive sufficient support for personal development. Budgeted educational and staff development allowances provide financial assistance for staff members who wish to pursue further studies and programmes that would enhance their work performance. To promote professionalism, we provide eligible employees with a professional body allowance and encourage them to apply for membership in relevant professional bodies or charters.

Tailor-made training sessions on topics such as customer service and supervisory skills are routinely organized to strengthen the various skills required by our operations staff. These are augmented by in-depth, offsite staff retreats and immersion programmes from time to time.

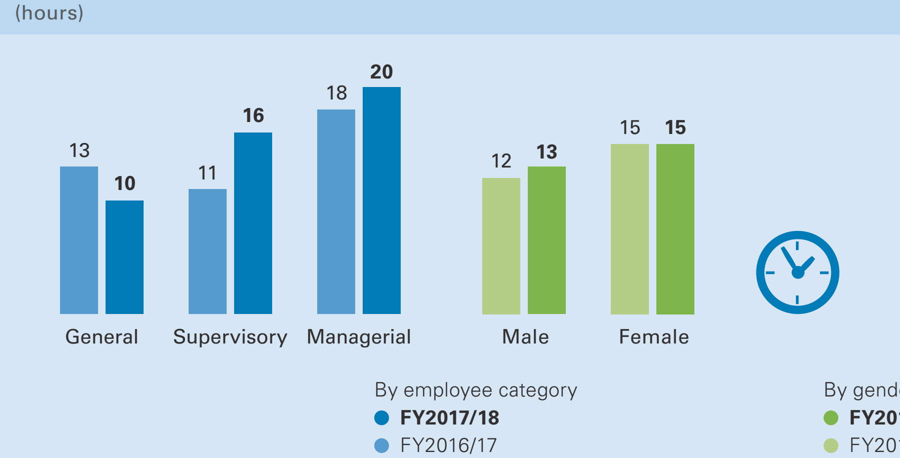
Percentage of employees trained by employee category and gender

(%)



Average training hours completed per employee by employee category and gender

(hours)



Offsite retreat

Offsite retreat

In May 2018, a two-day offsite retreat to Shenzhen was organized for managerial staff to visit co-working spaces as well as participate in workshops and corporate sharing. During the retreat, participants discussed high-level business strategies and gained a deeper understanding of business management. This retreat provided opportunities for participants to collaborate and develop new business ideas that could be applied to their daily work.

Health and safety

Occupational health and safety is a top priority at Sunlight REIT. In compliance with the Employees' Compensation Ordinance regarding work injury cases and requirements under the Occupational Safety and Health Ordinance, we have established internal guidelines and systems in place to minimize risks to our employees' health. All staff are required to report any work-related injuries experienced by themselves or others, and are encouraged to attend safety-training courses conducted by the Occupational Safety and Health Training Centre. We also sponsored for annual medical examinations for employees.

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

	FY2017/18	FY2016/17
Number of work-related fatalities	Nil	Nil
Rate of work-related fatalities (%)	N/A	N/A
Lost days due to work injury	9.5	2

Anti-corruption and whistle-blowing policy

The Manager upholds a high standard of business ethics. We adhere to stringent anti-corruption policies and measures in all day-to-day operations. Our code of conduct specifies guidelines and requirements regarding the prevention of bribery, fraud and conflict of interest. Together with regular anti-corruption seminars provided by the Independent Commission Against Corruption, our Anti-Money Laundering Policy, Policy of Reporting of Irregularity, and Anti-fraud Policy ensure our employees are equipped with comprehensive knowledge and are provided with clear guidance on anti-corruption and anti-fraud practices.

To assess the risk exposure of Sunlight REIT's operations to money laundering, an Anti-Money Laundering Policy has been established in accordance with the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) and the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC.

Our Policy of Reporting of Irregularity provides channels and guidance on reporting possible improprieties, which encourages employees and business partners to report any misconduct, malpractice and irregularity without fear of reprisal. Complaints are sent to the Internal Audit Department directly, and confidentiality is fully respected under all circumstances. The Internal Audit Department will examine each case and assess possible follow-up actions, such as an internal enquiry or more formal investigation. The result of any probe will be submitted to the CEO or the Audit Committee to determine appropriate corrective actions.

The Anti-fraud Policy sets out the management's commitment to upholding high ethical and moral standards in conducting business, and the responsibility in maintaining an effective fraud risk management framework. Heads of departments and operating units are required to identify types of fraud that may occur within their area of responsibility and conduct systematic fraud risk assessments, while also imposing effective control measures for identified fraud risks.

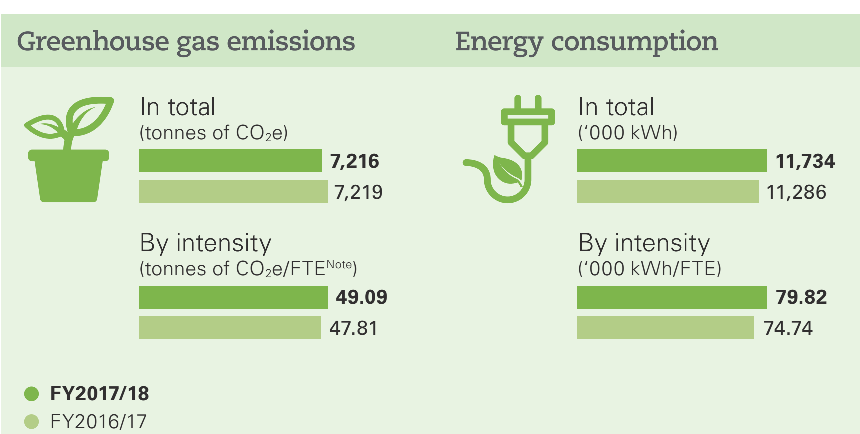
During the Year, there were no concluded legal cases regarding corrupt practices brought against the Manager or its employees.

Compliance with employment and labour standards

Our recruitment procedures comply with all laws and regulations related to labour standards in Hong Kong. Throughout the Year, we strictly complied with local laws and regulations in relation to employment and labour practices, including those related to occupational health and safety, anti-discrimination, child labour and forced labour.

Our Environment

The Manager adopts high environmental standards in managing our property portfolio for the sustainable interests of various stakeholders. While we strive to expand the existing business, we are devoted to achieving efficient allocation of resources and minimizing adverse environmental impacts. As such, we incorporate environmental strategies in operations management and asset enhancement. Throughout the Year, we have made substantive achievements in energy efficiency, waste reduction, water conservation and stakeholder engagement through various environmental initiatives spearheaded by the CSRC.



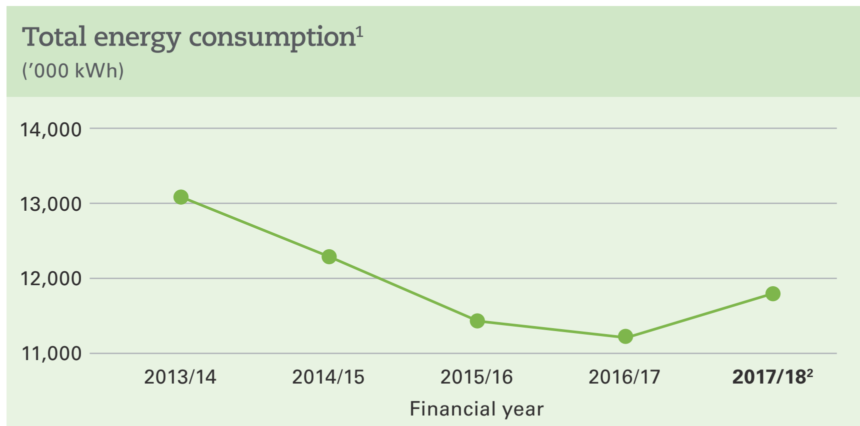
Note : FTE: Full-Time Equivalent employees.

Number of concluded legal cases regarding corrupt practices brought against the company or its employees

	FY2017/18	FY2016/17
Number of cases	Nil	Nil

Energy and emissions

The adoption of sustainable initiatives in our buildings is crucial to the responsible management of our property portfolio. During the Year, we actively enhanced energy efficiency and reduced greenhouse gas ("**GHG**") emissions at appropriate locations. At MCPI, we upgraded the central chiller plant system with four sets of air-cooled chillers of higher energy efficiency and intelligent building management system. At Sunlight Tower, we upgraded our lighting system with LED lights.



In addition to improving our energy efficiency, we have also actively promoted energy awareness among our staff and tenants. We do not identify any activities from our business which are associated with air emissions.

	FY2017/18	FY2016/17
Greenhouse gas emissions		
Scope 1 emissions (tonnes of CO_2e)	N/A	N/A
Scope 2 emissions (tonnes of CO_2e)	7,212.73	7,215.17
Scope 3 emissions (tonnes of CO_2e)	3.18	3.41
In total (tonnes of CO_2e)	7,215.91	7,218.58
By intensity (tonnes of CO_2e/FTE)	49.09	47.81
Energy consumption		
In total (kWh)	11,733,810	11,286,239
By intensity (kWh/FTE)	79,822	74,743

Waste management

To fulfill our role as a responsible corporate citizen, we spare no effort in waste reduction and management in our office and retail properties. We have devoted particular attention on improving the social hygiene environment of toilets while promoting the reduction in the use of paper towels and plastic utensils. In addition, we have set up and implemented mechanisms to separate and recycle waste at Sunlight Tower, SSC and MCPI.

Notes :

1. Cumulative measurements taken at Sunlight REIT's wholly-owned properties.
2. The increase in energy consumption in FY2017/18 was due to the higher average occupancy and an increase in areas served by the new air-conditioning systems in SSC and MCPI.

To facilitate staff and tenants' practice of waste separation and recycling, we provide resource collection facilities as well as door-to-door collection services. Compared to FY2016/17, the recycling of waste paper, plastic bottles and aluminium cans rose by 14.1%, 3.4% and 7.9% respectively.

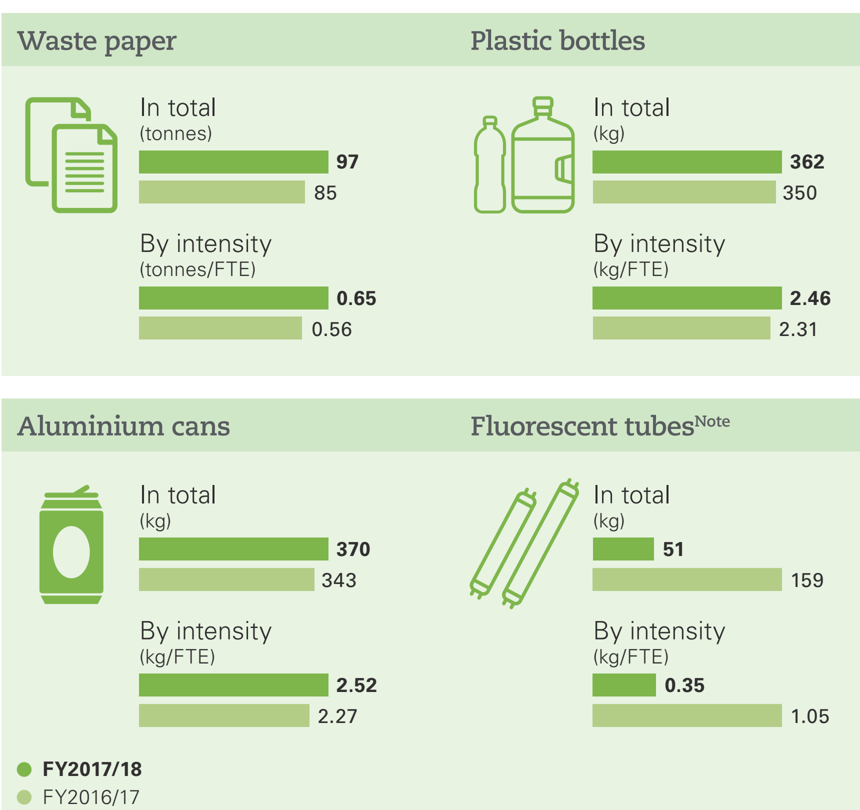
We also leverage the scale and traffic of our shopping arcades to further promote the concept of waste reduction and recycling among the public. This year we continued to support the signature event of "Read Cycling" by (i) encouraging our tenants and communities to take part in the used book collection event at Sunlight Tower, SSC and MCPI, and (ii) organizing "Bring a Book and Share" at MCPI to drive more resource circulation among the local community.

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

(a) FY2017/18

	Sunlight Tower	Sheung Shui Centre Shopping Arcade	Metro City Phase I Property
Waste paper (tonnes)	0.2	22.6	73.7
Plastic bottles (kg)	93	78	191
Aluminium cans (kg)	91	82	197
Fluorescent tubes (kg)	51	N/A	N/A

(b) Two-year comparison



Note : At Sunlight Tower only.

Water consumption

In total
(m³)
7,925

By intensity
(m³/FTE)
53.91

Water resources

Sunlight REIT recognizes the precious nature of fresh water and is constantly on the search for new water-saving and efficient water usage methods.

To reduce the load and energy consumption of water treatment facilities, we have installed water conservation devices, such as water-saving faucets and dual-flush fittings, in all washrooms at Sunlight Tower. Bleed-off drainage water from the new water-cooled chillers is pumped into water retention tanks to fully utilize existing resources for flushing. We also provided tenants with guidelines on how to consume water resources wisely. Compared to FY2016/17, water consumption in our property portfolio has been reduced by 6.5%.

Cultivating environmental awareness

Aiming to arouse awareness of green living and improve the work environment, we nurture environmental stewardship at Sunlight REIT through a wide range of initiatives. New tenants are provided with practical green tips concerning fitting-out works and subsequent operations. We also encourage tenants and employees to switch off unnecessary lights and employ occupancy sensors in suitable areas to save electricity, and internal notices are posted to encourage efficient use of resources and recycling. Not only do we widely promote sustainable practices at the workplace, but also actively participate in different green initiatives such as Earth Hour, Energy Saving Charter and Commendation Scheme on Source Separation of Commercial and Industrial Waste.

Environmental compliance

Throughout the Year, we strictly complied with local regulations and standards related to air and GHG emissions, discharges into water and land, and generation and safe handling of hazardous and non-hazardous waste.

Our Customers and Suppliers

Product responsibility is one of the prime considerations of Sunlight REIT. To meet this dedication, we have implemented policies to protect customer privacy and manage our supply chain responsibly.

Customer privacy protection

Sunlight REIT is committed to protecting the data privacy of our property owners and tenants. We strictly comply with the Privacy Policy Statement formulated in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong). As required by law, all personal data are handled by designated personnel in strict confidence, including the collection, disclosure, retention, and rights to access and correct personal data. Our Privacy Policy Statement is publicly available and is posted on the corporate website at http://www.sunlightreit.com/en-us/privacy-policy-statement.

During the Year, we complied with relevant laws and regulations relating to customer health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Supply chain management

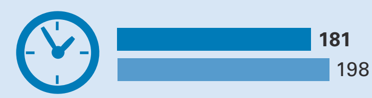
In light of the nature of our operations, the use of packaging materials is not relevant to our business and the impact of supply chain management is fairly low. However, we work closely with our suppliers to deliver quality products and services. Whilst guidelines and regulations are in place, we implement a mechanism to regularly review and evaluate the performance of approved suppliers so as to ensure they possess appropriate qualifications, experience and, where necessary, certification.

Our Community

As the Manager is committed to supporting community services and development, Sunlight REIT's outreach and charitable initiatives are all planned and implemented by the CSRC in order to create a more positive impact on our society. Throughout the Year, we participated in different community initiatives, recording a total of 181 engagement hours. In addition, we collaborated with diverse local groups by providing venues for community and charity events.

Resources contributed to the focus area

(no. of service hours)



- **FY2017/18**
- FY2016/17

Caring for the community

We endeavour to promote a culture of volunteering and constantly encourage our staff to support the underprivileged through participation in community events. In collaboration with St. James' Settlement, we organized activities to collect surplus moon cakes and make an onward contribution to "People's Food Bank", an organization dedicated to providing free food to the poor. Collected moon cakes were distributed to people living in poverty during Mid-Autumn Festival 2017. At Christmas 2017, we collected spare toys from our tenants to give to the Salvation Army for distribution to needy families.

Caring for the youth

Recognizing the importance of the youth to our society, we engaged in various initiatives and activities. In May 2018, we partnered with The Evangelical Lutheran Church of Hong Kong to organize a Cycling Tour, which was organized by target teenagers from the North District. Since 2014, we have also cooperated with the Chinese YMCA of Hong Kong to sponsor the "Sunlight Little Ironman Triathlon". This programme aims not only at providing underprivileged children with physical training, but also raising their awareness of a healthy lifestyle and strengthening of family ties.

Caring for the environment

In January 2018, we partnered with Heifer International Hong Kong Limited to organize a programme called "Picture Theatre x Green Handicrafts Workshop" where volunteers sewed and sold dolls made from children's old clothing to promote recycling, reuse and waste reduction. In April 2018, 21 members from underprivileged families and 13 volunteers from Sunlight Tower, including our staff and tenants, participated in the "Experiencing Low Carbon Living" organized by Sunlight REIT and St. James' Settlement, learn and practise Low Carbon Living and improve parent-child relationships. The workshop helped all of our participants and volunteers to discover how colourful, delicious, affordable and joyful low carbon living can be.

Community event highlights

2017

Sep


Sunlight Little Ironman Triathlon

Mooncake transfer programme

Dec


Christmas sack campaign

2018

Jan


Picture Theatre x Green Handicrafts Workshop

Apr


Experience Low Carbon Living

Bring a Book and Share

May


Cycling Tour in the North District

ESG reporting guide content index

Board of Directors and Senior Management

Board of Directors

From left to right
Mr. MA Kwong Wing, Mr. KWAN Kai Cheong, Mr. AU Siu Kee, Alexander, Mr. WU Shiu Kee, Keith, Dr. TSE Kwok Sang, Mr. KWOK Ping Ho, Mr. KWOK Tun Ho, Chester

Mr. AU Siu Kee, Alexander

OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB
Chairman and Non-executive Director

Mr. Au, aged 71, 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. Mr. Au previously served as an independent non-executive director of The Wharf (Holdings) Limited until 23 November 2017. Currently, Mr. Au is an independent non-executive director of Henderson Investment Limited and Wharf Real Estate Investment Company Limited, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Au is also the Chairman of the Audit Committee and a member of the Finance Committee of The Independent Schools Foundation Limited.

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. 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 54, has been the Chief Executive Officer, Executive Director and a responsible officer of the Manager since 2006. He has over 30 years of experience encompassing the fields of property investment, corporate finance, asset management and investment research.

From 1997 to 2005, Mr. Wu was an executive director of a listed company engaged in property development and investment. Prior to this appointment, he worked in the banking industry 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 65, has been an executive director of HLD, a company listed on the Main Board of the Stock Exchange, 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 of The Chartered Institute of Bankers 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 35 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-organization, privatization proposals and corporate acquisitions.

Mr. KWAN Kai Cheong

BAcc, FCA (Aust.), FCPA, FHKIoD

Independent Non-executive Director

Mr. Kwan, aged 68, is presently the President of Morrison & Company Limited, a business consultancy firm. He is also the Chairman of the board of Utopa Limited, a commercial property operating company in the People's Republic of China. He is a non-executive director of China Properties Group Limited and an independent non-executive director of Panda Green Energy Group Limited, Win Hanverky Holdings Limited, Greenland Hong Kong Holdings 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.

Board of Directors and Senior Management

Mr. MA Kwong Wing

FHKIoD, FHKSI, FCCA, FCIS, FCS, CPA, ACIB, AHKIB

Independent Non-executive Director

Mr. Ma, aged 72, 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 Panda Green Energy Group Limited, a company listed on the Main Board of the Stock Exchange.

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 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 61, 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 GTI Holdings Limited (formerly known as 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 of the Society of Actuaries and a member of The Hong Kong Institute of Directors.

Mr. KWOK Tun Ho, Chester

BA, FHKIoD

Independent Non-executive Director

Mr. Kwok, aged 54, holds a Bachelor of Arts degree from the University of Cambridge. Before joining the Manager in January 2016, he had been working in the banking industry since 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 is an independent non-executive director of Yixin Group Limited, a company listed on the Main Board of the Stock Exchange. He is a fellow of The Hong Kong Institute of Directors and is currently a member of the Process Review Panel and the deputy chairman of the Share Registrars' Disciplinary Committee of the SFC.

Senior Management

From left to right
Mr. POON Hung Tak, Ms. HO Kuk Fong, Mr. WONG Chi Ming, Ms. LO Yuk Fong, Phyllis, Mr. WU Shiu Kee, Keith, Mr. LEE Kiu Ming, Ms. CHUNG Siu Wah, Mr. HONG Kam Kit, Eddie, Mr. HAH Yick Yat, Kelvin

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 43.

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. In 2018, he was appointed as a director of certain special purpose vehicles of Sunlight REIT which are principally engaged in property investment.

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. She is also a director of certain special purpose vehicles of Sunlight REIT which are principally engaged in property investment, finance and treasury functions.

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 fellow of the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. HONG Kam Kit, Eddie
General Manager – Investment and Investor Relations and Responsible Officer

Mr. Hong is responsible for communication with unitholders, investors and other key stakeholders of Sunlight REIT, as well as for identifying and evaluating potential acquisition or divestment opportunities consistent with the investment strategy of Sunlight REIT.

Mr. Hong has over 20 years of experience in real estate investment, fund management and accounting. Prior to joining the Manager, he held senior positions with various real estate investment funds including Bridgeway Prime Shop Fund Management Limited and New Century Asset Management Limited, the manager of New Century Real Estate Investment Trust.

Mr. Hong holds a Master of Business Law degree from Monash University and a Bachelor of Economics degree from Macquarie University. He is a Chartered Financial Analyst and a Certified Practising Accountant of CPA Australia.

Mr. HAH Yick Yat, Kelvin
Senior Manager – Operations and Administration

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. 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 25 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 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 over 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 30 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).

In Memoriam

Ms. KAN Shuk Fan, Winnie

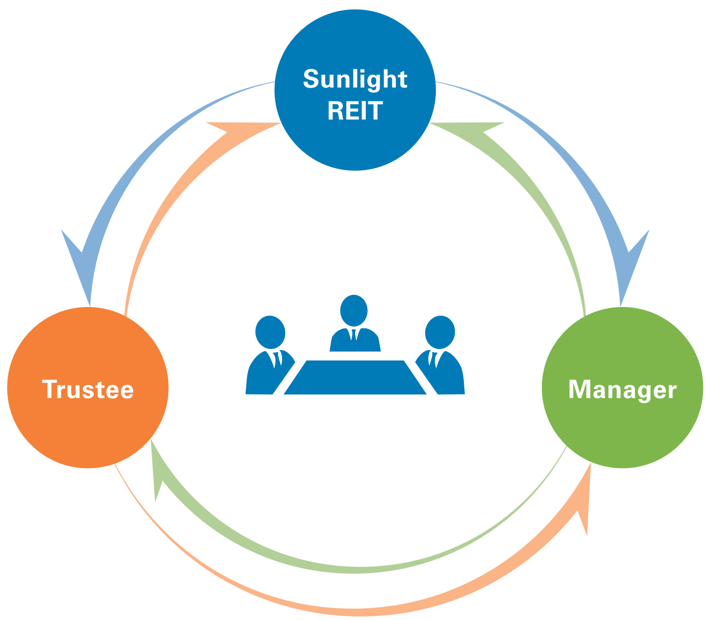
The Board expressed its deep regret and sadness for the loss of Ms. Kan who passed away on 7 April 2018. As the Internal Auditor of the Manager, Ms. Kan had played a major role in overseeing the internal control and risk management environment of Sunlight REIT since listing. She will be remembered, always.

Corporate Governance Report

The Manager is committed to upholding a high standard of corporate governance. It has established, and continuously refined, a robust corporate governance framework to ensure sustainable long-term growth and enhance the overall value of Sunlight REIT. The framework is supported by five key elements: **checks and balances, risk management, internal control, communication and transparency**.

Checks and Balances

The Trustee and the Manager



Trustee	Manager
The Trustee is responsible for, among other things, the safe custody of the assets of Sunlight REIT on behalf of unitholders as well as overseeing the activities of the Manager to ensure compliance with the Trust Deed and regulatory requirements applicable to Sunlight REIT. The Trustee is a trust company registered under 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 authorized under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**").	The Manager is responsible for the management and operation of Sunlight REIT and to ensure that the financial and economic aspects of Sunlight REIT's assets are professionally managed in the sole interest of unitholders. The Manager is licensed by the SFC under the SFO to conduct the regulated activity of asset management, and currently has five responsible officers in place.

The Board of the Manager

The Board is responsible for the overall management and corporate governance of the Manager. Adequate measures have been implemented to ensure that segregation of power, delegation of authority and duties, and independence and effectiveness of the Board are fully realized. It currently has a total of seven Directors, consisting of one Executive Director (who is also the Chief Executive Officer ("**CEO**")), two Non-executive Directors (including the Chairman of the Board) and four Independent Non-executive Directors ("**INED**"). All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with its articles of association.

Segregation of power

Independence

Role of the Board

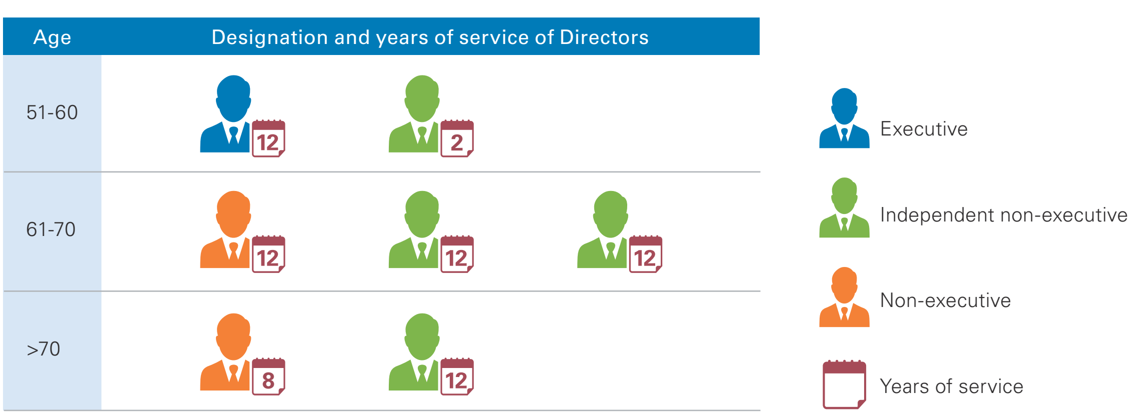
- Plays a leading role in setting out the corporate strategies and direction of Sunlight REIT.
- Oversees the day-to-day management functions and corporate governance of the Manager, as well as the risk management environment and internal control systems of Sunlight REIT.
- Ensures balance of skills, experience and diversity of the Board of Directors and senior management in order to satisfy the business requirements of Sunlight REIT.

Delegation of authority and duties

Effectiveness

Segregation of power

- The Board is not substantially involved in the day-to-day management duties of the Manager, except for certain reserved matters contained in the Compliance Manual which must first be specifically considered by the full Board.
- The roles of the Chairman and the CEO are separate and performed by two different individuals.
- There is(are) no financial, business, family or other material/relevant relationship(s) between the Directors and in particular, between the Chairman and the CEO.



The Board has adopted a board diversity policy with a view to achieving diversity of the Board and promoting its overall effectiveness. The policy provides that selection of candidates for the Board is based on a number of factors, including, but not limited to age, cultural and educational background, gender, knowledge, length of service, professional experience or skills. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Remuneration and Nomination Committee monitors the implementation of the policy and reviews the policy from time to time. Currently, no measurable objectives have been set to define board diversity.

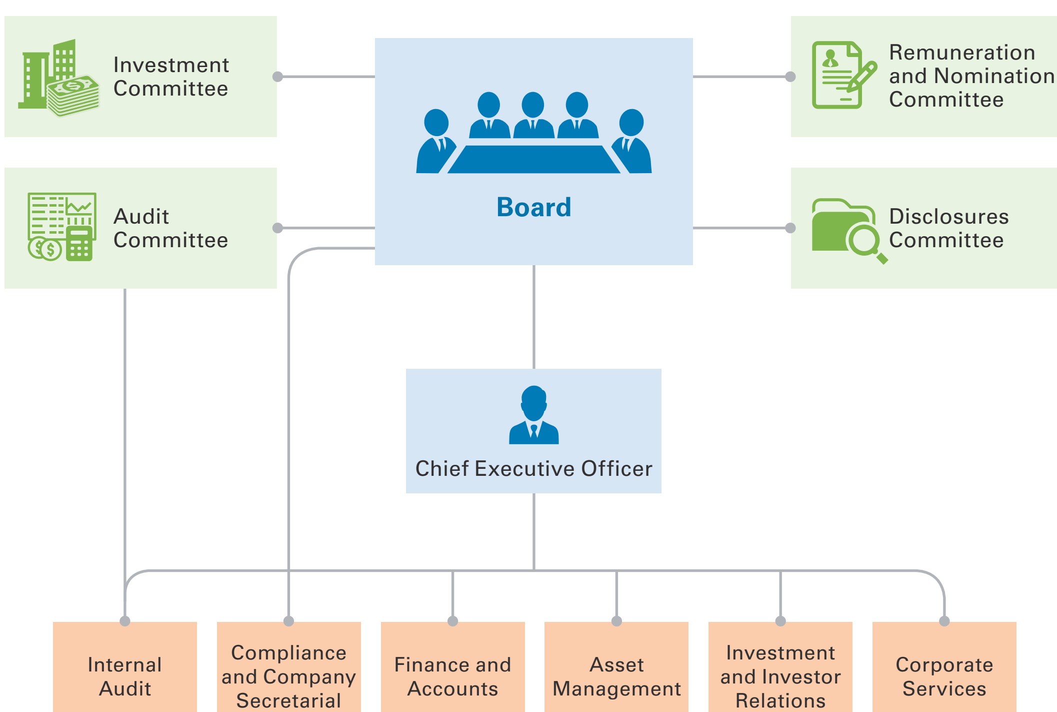
Delegation of authority and duties

- A clear organizational structure has been developed for delegation of key duties and functions.
- The Board ensures that board committees are established with clear terms of reference, each of which is to assist the Board in supervising specific issues and functions of the Manager.
- The strategies and objectives set by the Board are implemented by the management team under the leadership of the CEO.
- The property management, lease management and marketing services are delegated to the Property Manager pursuant to the property management agreement entered into between the Manager and the Property Manager (as amended and supplemented).

Management structure of the Manager

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

Moreover, management functions of the Manager are delegated to six departments. Apart from regular communications among departments, management meetings are held periodically to co-ordinate and facilitate implementation and operation of management and business functions.



Independence

- Implants a strong independent element to the Board, as exemplified by the fact that currently more than half of the Board are INEDs.
- Encourages the effective exercise of independent judgment and decision making by each Board member.
- Re-appointment of each INED who serves more than nine years with the Manager is subject to a separate ordinary resolution to be approved at a general meeting of unitholders. A circular shall be provided to confirm that such INED continues to be independent and should be re-appointed.

Membership and attendances to meetings of the Board and board committees

Director \ Type of meeting	Board of Directors	Investment Committee	Audit Committee	Remuneration and Nomination Committee	Disclosures Committee	General Meetings[2]
Mr. Au Siu Kee, Alexander	7/7	4/4		2/2		2/2
Mr. Wu Shiu Kee, Keith	7/7[1]	4/4			2/2	2/2
Mr. Kwok Ping Ho	7/7					2/2
Mr. Kwan Kai Cheong	7/7		4/4	2/2		2/2
Mr. Ma Kwong Wing	7/7		4/4	2/2	2/2	1/2
Dr. Tse Kwok Sang	7/7	4/4	4/4			2/2
Mr. Kwok Tun Ho, Chester	7/7	4/4	4/4			2/2

Chairman of the Board/board committee   N/A

Notes :

1. Mr. Wu Shiu Kee, Keith was excused from participating in the Board's discussion relating to his remuneration.
2. These refer to the annual general meeting and extraordinary general meeting held on 27 October 2017 and 2 May 2018 respectively.

Effectiveness

Various board processes are in place to ensure board effectiveness and facilitate directors' participation:-

- regular meetings are held, generally no less than four times in each financial year at approximately quarterly intervals.
- reasonable notice in writing is provided to Directors regarding regular board meetings, with mechanisms to allow them to raise items in the agenda; board consents are adopted by way of majority votes at Board meetings, or by written resolutions signed by all Directors.
- communications by tele-conference or other electronic means will be adopted when urgent decisions are required, or where certain Director(s) is(are) unavailable for meetings.
- external or in-house continuous professional training is provided to all Directors to develop and refresh their knowledge and skills, ensuring that their contribution to the Board remains informed and relevant.

Major responsibilities and key work performed during the Year

Investment Committee

Responsibilities :

- overseeing investment and financial matters of Sunlight REIT
- reviewing investment strategies and proposals, internal controls and responsible for mitigation of investment and financial related risks
- formulating treasury management and capital management policies

Work performed :

- reviewed and considered financial results, business plans and CAPEX budget of Sunlight REIT
- reviewed and formulated capital and treasury management strategies
- evaluated potential acquisition/disposal opportunities and recommended to the Board as appropriate
- assessed investment and financial risks affecting Sunlight REIT and considered mitigating measures

Audit Committee

Responsibilities :

- ensuring the quality and integrity of risk management and internal controls
- recommending appointment of external auditors and reviewing their performance
- reviewing the completeness, accuracy, clarity and fairness of financial statements

Work performed :

- reviewed internal audit reports
- reviewed financial statements of Sunlight REIT
- considered and recommended to the Board on re-appointment of external auditor and audit fees
- assessed risk exposures of Sunlight REIT and considered corresponding mitigation measures
- reviewed and considered the effectiveness of risk management and internal control systems
- reviewed the connected party transactions entered into by Sunlight REIT to ensure compliance with REIT Code requirements and waiver conditions of the SFC

Remuneration and Nomination Committee

Responsibilities :

- overseeing human resources strategy and policies of the Manager, including succession plan of Directors and management team
- reviewing the structure, size and composition of the Board and its committees
- evaluating performance of the Board, board committees and their members, including ensuring independence of INEDs

Work performed :

- reviewed overall appraisals of staff performance
- approved staff budget and revised employee benefits policies
- reviewed structure of the Board and evaluated performance of the Board, board committees and their members

Disclosures Committee

Responsibilities :

- reviewing matters relating to disclosure of information of Sunlight REIT in corporate communications to unitholders
- ensuring compliance with applicable legal requirements

Work performed :

- reviewed public regulatory filings with the relevant regulatory authorities
- reviewed announcements, press releases, interim and annual reports of Sunlight REIT and other corporate communications to unitholders to ensure regulatory compliance
- reviewed applicability of new rules and regulations to Sunlight REIT and its special purpose vehicles

Risk Management

The Board has the overall responsibility for overseeing the risk management and internal control systems of Sunlight REIT on an ongoing basis and ensuring that these systems are effectively maintained.

The Manager is keenly aware of the importance of risk management and is fully committed to building and maintaining a solid risk management framework based on risk management policies adopted by the Board to ensure long term business viability and sustainability.

The risk governance structure of Sunlight REIT is primarily based on a 'Three Lines of Defence' model illustrated in the diagram below. Each line of defence functions independently, thus establishing a cascading accountability framework for managing risk across Sunlight REIT.

The first line of defence refers to the identification and management of day-to-day operational risks by various departments and operating units (as risk owners). The second line of defence, performed by the risk management and compliance functions, oversees the risk control process and monitors the effectiveness of risk management practices. Lastly, the Internal Audit Department is responsible for the third line of defence by providing assurance to the Board regarding the effectiveness of (i) the overall compliance with the risk management framework; and (ii) the controls in place in monitoring and mitigating the risk factors identified by the risk owners.

Risk governance structure and process

Board of Directors

Investment Committee | **Audit Committee**

A summary of the review and findings will be presented to the Investment Committee and the Audit Committee, and further communicated to the Board for consideration

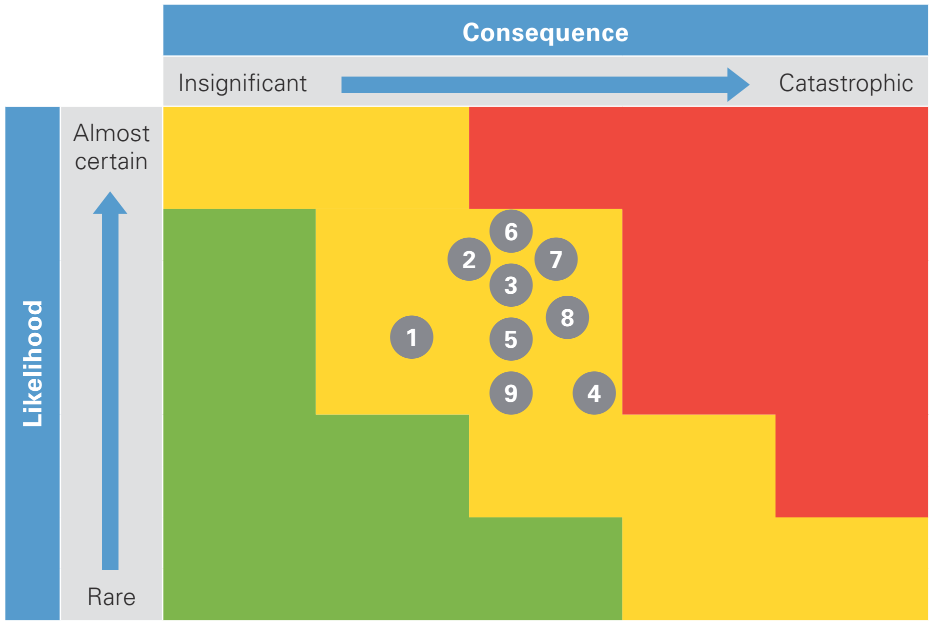
Risk Taskforce*

The top risks of Sunlight REIT are quarterly determined by Risk Taskforce after (i) reviewing, evaluating and prioritizing various risks relating to the operations of Sunlight REIT consolidated by the Risk Manager; and (ii) assessing the risks to see whether they are within the risk tolerance level of Sunlight REIT

1st line of defence	2nd line of defence	3rd line of defence
Risk ownership	Risk control	Risk assurance
Operational management	Risk management and compliance	Internal audit
Each department and/or operating unit will identify and submit top five risks quarterly to Risk Manager	Risk Manager will prepare a consolidated risk register of Sunlight REIT quarterly to Risk Taskforce for review	Internal Audit Department will appraise the risk management system of Sunlight REIT and report the results to the Audit Committee annually

* Risk Taskforce comprises the Chief Executive Officer, Chief Financial Officer, Risk Manager (the role of which is assumed by the Compliance Manager) and two rotational members from different departments and operating units.

Risk heat map



The risk heat map above provides an illustration of the top risks of Sunlight REIT in terms of likelihood of occurrence and consequence. During the Year, the revised risk tolerance level and the risk appetite statement were reviewed and endorsed by the Board.

During the Year, an information technology consultant was engaged to conduct a risk assessment on the cyber security environment of Sunlight REIT. Recommendations to strengthen the systems have been substantially adopted by the Manager, while all relevant staff members have participated an online training programme during the Year to enhance their awareness and knowledge of cyber threats.

An anti-fraud policy was adopted in December 2017 with an objective of establishing formal procedures for detection, prevention, reporting and investigation of fraudulent activities and behavior. Risks pertinent to this area will be regularly assessed by the Risk Taskforce and reviewed by the Internal Audit Department.

The Manager has maintained a robust framework to keep the risks relating to acquisition and disposal of properties under control. Measures have also been taken to enhance disclosure of information to stakeholders in respect of the conducted transactions and the performance of Sunlight REIT. In dealing with the costs associated with global climate change, energy saving initiatives such as upgrading and replacing building service systems have been implemented. Accordingly, the above risks were not considered as top risks of Sunlight REIT for the Year.

Summary of the top risks of Sunlight REIT

Risk no.	Description	Nature	Major controls
1	Recruitment and retention of staff; disruption to work due to high vacancies or prolonged leave of absence by key personnel	People	• Benchmarking of remuneration package • Provide clear career development plans and training programmes for staff
2	Reliance on major properties of the portfolio for a substantial proportion of income	Financial & investment	• Maintain a diversified or balanced portfolio of retail and office properties • Exploration of suitable acquisition opportunities
3 NEW	Interest rate fluctuations	Financial	• Hedge certain portion of bank borrowings by way of interest rate swaps • Closely monitors interest rate movements and floating rate exposure
4 NEW	Incidents triggered by defective building facilities/conditions	Operational	• Conduct periodic scanning and inspection of external walls, air conditioner drain pipes and water pipes • Ensure adequate insurance is in place
5	Quality assurance on major works/projects	Operational	• Strengthen supervision of project management, with external consultant if necessary • Select reliable and well-established contractors with proven qualifications and relevant experience • Identify critical steps and establish key milestones for work monitoring and verification
6	Global & Hong Kong economic risks (uncertainties stemming from global trade disputes)	Financial & operational	• Maintain a balanced portfolio of retail and office properties, with a diversified tenant and trade mix • Identify tenants engaged in non-discretionary trades
7	Tax implications of a dispute with the Inland Revenue Department over expenditure deductibility	Financial	• Seek advice from tax consultants and legal counsel and make provision for potential tax liability • Keep investors informed of any new development and any implication on distribution
8	High level of vacancies due to stiff competition and co-termination of tenancies resulting from asset enhancement works for selective properties	Financial & operational	• Early negotiation with tenants for renewal • Maintain a well distributed lease expiry profile across the entire property portfolio
9	Cyber security	Operational	• Install anti-virus software and implement protection measures • Set up system backup mechanism for data recovery

Internal control

Internal control framework

The Audit Committee assists the Board in maintaining and monitoring the effectiveness of Sunlight REIT's risk management and internal control systems. The Internal Audit Department conducts independent reviews to ensure the existence and effectiveness of operational processes and controls. Based on the three-year strategic audit plan approved by the Audit Committee, the Internal Audit Department conducts financial, operations and compliance reviews, recurring and ad-hoc audits, fraud investigation and process efficiency reviews. A summary report with key findings, improvement recommendations and implementation status is provided to the Audit Committee on a quarterly basis.

Internal control system

The risk management and internal control systems of Sunlight REIT are designed to manage rather than eliminate the risk of failure in achieving business objectives, and thus can only provide reasonable but not absolute assurance against material misstatements or losses. The key control components of the systems include :

Control environment	• A clear organizational structure is established with defined lines of responsibility and limits of delegated authority to facilitate segregation of duties and controls. • Code of Conduct, Anti-Fraud Policy and Policy of Reporting of Irregularities are adopted to emphasize directors and employees' ethical standards and integrity in all aspects of operations, and provide mechanisms to report unethical conduct.
Risk assessment	• Risk management system is in place to identify, assess and manage various types of risks that may have an impact on the achievement of business objectives. Details are described in the Risk Management section on pages 53 to 55. • Fraud risk register is established to identify specific fraud schemes and risks, and assess their significance with relevant controls for ongoing monitoring.
Control activities	• A series of key policies and procedures are established to ensure that relevant management directives are carried out and actions, including verifications and approvals, reviews and safeguarding of assets, are taken to address risks.
Information and communication	• Processes and systems are in place to capture and report operational, financial and compliance-related information to enable effective communication within the organization and with external stakeholders. • Inside Information Policy is adopted for the handling and dissemination of inside information. Policies are set out to prohibit directors and employees from making any unauthorized disclosure of confidential information or making any use of such information for their own advantage, or in conflict of interest with the public and/or the company.
Monitoring activities	• Regular reviews of key risk areas are performed by the Internal Audit Department to ascertain whether the controls are present and functioning, and to ensure compliance with the internal policies and regulatory requirements. Internal control deficiencies are timely communicated to responsible parties to take corrective actions.

Results of annual review of risk management and internal control systems

As delegated by the Board, the Audit Committee reviewed the continued effectiveness of Sunlight REIT's risk management and internal control systems, covering all material controls including financial, operational and compliance. The Internal Audit Department assisted the Audit Committee in the review process by conducting regular reviews and providing annual appraisal of the risk management system, as well as reviewing the annual self-assessment of internal control and assurance on systems effectiveness submitted by different operational functions. Based on the recommendation of the Audit Committee, the Board confirmed that Sunlight REIT's risk management and internal control systems were effective and adequate with no significant areas of concern identified for the Year.

The Board, through the Audit Committee, also reviewed the resources, qualifications and experience, training and budgets of the Manager's staff, particularly for accounting, financial reporting and internal audit functions, and considered that they were adequate.

Conflict of interest and business competition

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD, with a Non-executive Director and the Chairman of the Manager also sitting on the boards of HLD and HIL (a listed subsidiary of HLD) respectively. SKFE and HLD (each being significant holders of Sunlight REIT) and certain of their subsidiaries and associates are engaged in, among other things, development, investment and management of retail, office and other properties in and outside Hong Kong.

The Manager may experience conflicts of interest with HLD in acquiring and disposing of investments, or in connection with transactions with HLD. The Manager and the Property Manager may also experience conflicts of interest with HLD in connection with identifying and competing for potential tenants.

In addition, the Principal Valuer may provide services to Sunlight REIT other than its property valuation services, and potential conflict of interest may arise.

To ensure that all conflicts of interest relating to Sunlight REIT can be avoided or managed, various control measures have been adopted, 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 functional units and systems which operate independently of its shareholders;
3. the Manager has established internal control systems to ensure that Sunlight REIT's connected party transactions are monitored and undertaken in compliance with the REIT Code and that other situations of potential conflicts of interests are reported and monitored;
4. a Director with a potential conflict of interest shall disclose his interest to the Board and abstain from voting on the relevant matter and not be counted among 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 conflicts of interest, held by the Directors, is maintained and updated from time to time; and
6. confirmation from the Principal Valuer that (i) it has established stringent internal controls and guidelines to its staff with respect to confidentiality and conflict of interest obligations, and (ii) the provision of leasing agency services would neither affect its performance nor jeopardize its independence as the Principal Valuer.

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

Communication

Investor relations

The Manager is committed to providing open and effective communications, ensuring that unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT. It also believes that feedback and comments from the investment community are necessary in assisting the Board to map out the strategic direction of Sunlight REIT.

The Manager has set up an investor relations team which utilizes a range of interactive means to engage and maintain dialogues with investors and analysts.

To the extent possible under the current regulatory framework, communications with investors are conducted through various means as illustrated below :

General meetings

General meetings provide communication channels with unitholders of Sunlight REIT. They also afford opportunities for unitholders to obtain a better understanding of the business and, if necessary, to discuss with and/or query the Board regarding Sunlight REIT's operating performance. Unitholders are encouraged to attend general meetings of Sunlight REIT.

In addition, investors and unitholders may direct their enquiries to the Board through the Manager's investor relations team by email or by post. Please refer to "Corporate Information" on page 143 for contact details.

The annual general meeting of Sunlight REIT for 2017 was held on 27 October 2017 at which an ordinary resolution in relation to the granting of a general mandate to the Manager to buy back units (on-market) on behalf of Sunlight REIT was passed.

In addition, an extraordinary general meeting of Sunlight REIT was held on 2 May 2018 at which an ordinary resolution in relation to extension of waiver period in respect of certain continuing connected party transactions was passed.

Transparency

Annual and interim reports

Financial statements of Sunlight REIT are prepared in accordance with accounting principles generally accepted in Hong Kong. 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.

Results announcements and other information

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.

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.

The Manager also voluntarily releases the operational statistics of Sunlight REIT twice a year, in April and October respectively.

Other compliance and disclosure matters

Compliance with the Compliance Manual

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 legislation or regulations have been enacted or amended.

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

Compliance with the Dealings Code

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 Rules Governing the Listing of Securities on the Stock Exchange (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 applies to the Directors and staff of the Manager as well as the Manager itself.

Any Director who is aware of or privy to any inside information or any negotiations or agreements relating 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 unauthorized disclosure of confidential information or make any use of such information for the advantage of themselves or others.

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

Changes in directors' information

Since the publication of the last interim report, the Manager was informed that Mr. Kwan Kai Cheong has resigned as an independent non-executive director of Dynagreen Environmental Protection Group Co., Limited with effect from 26 February 2018.

Save as aforesaid, the Manager has not been notified of any change in Directors' information.

Confirmation on independence

Each INED of the Manager has provided an annual written confirmation of his independence by reference to the factors set out in the corporate governance policy as contained in the Compliance Manual and the INEDs were considered to be independent.

Unitholders' rights

In accordance with the Trust Deed, at least 10 business days' notice of every meeting shall be given to unitholders, except that at least twenty-one days' notice of the meeting shall be given to unitholders where a special resolution is proposed for consideration at such meeting; and not less than twenty business days' notice shall be given to unitholders for an annual general meeting. Place, date and hour of the meeting and details of any resolution to be proposed thereat are specified in the notice.

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 and will be posted on the websites of Sunlight REIT and HKExnews of the Stock Exchange.

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. The Trustee or the Manager may at any time convene a meeting of unitholders.

Matters decided by unitholders by special resolutions

In accordance with the Trust Deed, each of the following matters requires specific approval of unitholders by way of a special resolution :

- 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 a real estate 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.

Buy-back, sale or redemption of units

Pursuant to the relevant general mandate to buy back units granted by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 1,300,000 units on the Stock Exchange during the Year at an aggregate consideration of approximately HK$6.9 million (excluding buy-back expenses). All bought back units were cancelled prior to the end of the Year. Details of the buy-backs are as follows :

Month of buy-back	Number of units bought back	Price paid per unit		Aggregate consideration paid* (HK$'000)
		Highest (HK$)	Lowest (HK$)	
December 2017	250,000	5.30	5.22	1,310
March 2018	1,050,000	5.33	5.23	5,564
Total	**1,300,000**			**6,874**

* Excluding buy-back expenses

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, as defined in paragraph 7.2B of the REIT Code, of Sunlight REIT at 30 June 2018 is set out below :

Financial instruments & issuers[1]	Primary listing	Currency	Total cost (HK$'000)	Mark-to-market value (HK$'000)	% of Gross asset value of Sunlight REIT[2]	Credit rating
BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited	Singapore Exchange	USD	21,623	20,516	0.11	S&P BBB Moody's Baa3
COGO 4 7/8 06/01/21 China Overseas Grand Oceans Finance IV (Cayman) Limited	Hong Kong Exchange	USD	15,739	15,689	0.08	S&P BBB- Moody's Baa2
ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Singapore Exchange	USD	20,911	20,212	0.11	S&P A- Moody's Baa2
CHITRA 3 7/8 11/03/19 King Power Capital Ltd.	Hong Kong Exchange	USD	19,841	19,629	0.10	S&P BBB+ Moody's Baa1
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,414	0.05	N/A
YUEXIU 4 7/8 04/19/21[3] Westwood Group Holdings Limited	Hong Kong Exchange	USD	11,797	11,759	0.06	Moody's Baa3
YXREIT 4 3/4 04/27/21 Yuexiu REIT MTN Company Limited	Hong Kong Exchange	USD	10,152	10,138	0.05	S&P BBB- Moody's Baa3
Total			**110,463**	**108,357**	**0.56**	

Notes :

1. All financial instruments are bonds.
2. The percentages are arrived at by comparing the mark-to-market value of the investments at 30 June 2018 with the gross asset value of Sunlight REIT (as defined below).
3. Subsequent to 30 June 2018, the Manager made further investment into this bond for an additional cost of HK$10.2 million.

At 30 June 2018, the combined mark-to-market value of the Relevant Investments, together with other non-real estate assets of Sunlight REIT, represented 4.3% of the gross asset value of Sunlight REIT (as stated on page 96 of this annual report after adjusted for the final distribution declared), which is below the Maximum Cap provided in Note (1) to paragraph 7.2B of the REIT Code (being 25% of the gross asset value).

For an update of Relevant Investments at 31 August 2018, please refer to the website of Sunlight REIT.

Issue of further units

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%.

During the Year, an aggregate of 8,662,015 new units were issued to the Manager in October 2017 and April 2018 respectively, as payment of part of the Manager's fees.

Save as aforesaid, there were no other new units issued during the Year.

Public float

At 30 June 2018, 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.

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 2018 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.

Auditor's remuneration

During the Year, consulting services of the auditor of Sunlight REIT were engaged to supplement the internal audit function of the Manager. Fees payable to the auditor during the Year amounted to HK$1,905,000 for audit and audit related services and HK$475,000 for non-audit services respectively.

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 for 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 by, any assets of 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$520,000. Having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee, pursuant to the conditions of the said waivers, 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.

Employees

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

Top five tenants for the Year

Tenant	Trade sector	Occupied GRA at 30 June 2018 (sq. ft.)	% of total GRA at 30 June 2018	% of total revenue
Anglo-Eastern Ship Management Limited	Shipping, logistic and transportation	85,969	7.0	5.4
The Financial Secretary Incorporated c/o Government Property Agency	Government and related organizations	72,196	5.8	4.4
Tenant A	Healthcare and electrical appliances	19,886	1.6	2.2
Bank of Communications Co., Ltd.	Financial	6,891	0.6	1.7
Tenant B	Financial	7,338	0.6	1.6
Total		**192,280**	**15.6**	**15.3**

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]	Property management, lease management and marketing services	52,601	36.3
Cyber Fortune M & E Limited	Chiller plant installation, repairs and maintenance	15,984	11.0
Hang Yick Properties Management Limited[3]	Building management and licence fee	9,025	6.2
Ngai Lik Cleaning Services Company Limited	Cleaning services	5,701	3.9
Winston Air Conditioning & Engineering (Hong Kong) Co., Limited	Repairs and maintenance	5,568	3.9
Total		**88,879**	**61.3**

Notes :

1. Commission and value of contracts paid to all real estate agents and contractors for the Year amounted to HK$22.4 million and HK$122.4 million respectively, of which HK$21.3 million and HK$74.4 million were attributable to the top five real estate agents and 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.

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 65) 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$'000)	Rental and other deposits received at 30 June 2018 (HK$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	6,081	1,604
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	4,014	1,060
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	2,611	N/A
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	488	118
Total			**13,194**	**2,782**

(b) Expenses

Name of connected person	Relationship with Sunlight REIT[Note]	Nature of the connected party transactions	Expenses for the Year (HK$'000)
Hang Yick Properties Management Limited	Associated company of the Manager	Building management and licence fee	9,025
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management, lease management and marketing services	52,601
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	2,720
Metro City Management Limited	Associated company of the Manager	Building management	1,182
Sheung Shui Centre Management Limited	Associated company of the Manager	Building management	2,334
Contender Limited	Associated company of the Manager	Facilities leasing	189
Total			**68,051**

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$'000)	Rental and other deposits received at 30 June 2018 (HK$'000)
Leasing transactions :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing[3]	11,175	3,088
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing[4]	407	107
Hang Seng Bank Limited	Trustee Connected Persons	Leasing[5]	11,293	2,853
Ordinary banking and financial services[6] :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/ receivable on bank deposits	28	N/A
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowing, net interest expenses on IRSs and basis swaps and other bank charges	17,393	N/A
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	2	N/A
Hang Seng Bank Limited	Trustee Connected Persons	Interest expenses on bank borrowing and other bank charges	6,463	N/A

During the Year, a combination of spot and forward-start IRSs with an aggregate notional amount of HK$550 million were entered into with The Hongkong and Shanghai Banking Corporation Limited.

Name of connected person	Relationship with Sunlight REIT	Nature of the connected party transactions	Income/ expenses for the Year (HK$'000)	Rental and other deposits received at 30 June 2018 (HK$'000)
Corporate finance transaction :				
Hang Seng Bank Limited	Trustee Connected Persons	Interest expenses and debt establishment fee on bank borrowing[7]	3,473	N/A

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., for a term from 4 November 2014 to 3 November 2017 which was renewed upon its expiry for a further term of 3 years until 3 November 2020; and a lease in respect of Shop Nos. 1032-33 of SSC, with gross floor area of 1,171 sq. ft., for a term of 3 years from 15 August 2017 to 14 August 2020.
4. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 66-81, Level 1, (iii) external wall signage Nos. 82-93, Level 1, and (iv) light box space No. F2, Level 2 respectively, of SSC.
5. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft., for a term from 17 February 2015 to 16 February 2018 which was renewed upon its expiry for a further term of 3 years until 16 February 2021; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., for a term from 29 November 2014 to 28 November 2017 which was renewed upon its expiry for a further term of 3 years until 28 September 2020.
6. In general, "ordinary banking and financial services" include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto and other banking or financial services.
7. The interest expenses and fee were paid in relation to a term loan facility of HK$325 million granted by Hang Seng Bank Limited on 23 November 2017 for financing the acquisition of an investment property.

Connected Party Transactions

Other disclosures under the REIT Code

Pursuant to Note (2) to paragraph 8.10 of the REIT Code, services provided to Sunlight REIT 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$96.6 million and HK$4.8 million respectively. Particulars of services provided by the Manager, the Trustee 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 (except for Mr. Ma Kwong Wing who is unable to attend to the matter due to health reason) 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 that they 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 unitholders of Sunlight REIT as a whole.

Confirmation by the Manager and the Trustee in respect of the corporate finance transaction with the HSBC Group

Each of the Manager and the Trustee confirms that the abovementioned corporate finance transaction entered into with the HSBC Group during the Year has complied with the general conditions of the relevant waiver granted by the SFC and that the Trustee has not been involved in the making of any decision to enter into such corporate finance transaction on behalf of Sunlight REIT (subject to the Trustee's duties of oversight under the REIT Code and the Trust Deed).

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), ordinary banking and financial services and corporate finance 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 the Manager itself and the Directors 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 chief executive of the Manager

At 30 June 2018 and 30 June 2017, the interests and short position in units of the Manager and the Directors or 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 :

	At 30 June 2018		At 30 June 2017		
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
The Manager[3]	126,272,147	7.675	115,881,132	7.076	0.599
Au Siu Kee, Alexander[4]	1,530,000	0.093	1,530,000	0.093	–
Wu Shiu Kee, Keith[5]	700,000	0.043	600,000	0.037	0.006

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,645,139,777 at 30 June 2018.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,637,777,762 at 30 June 2017.
3. During the Year, the Manager (i) received 8,662,015 units as payment of part of the Manager's fees; and (ii) acquired 1,729,000 units on the open market. The Manager beneficially owned 126,272,147 units at 30 June 2018 (30 June 2017: 115,881,132 units).
4. At 30 June 2018, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2017: 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 2018, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 700,000 units (30 June 2017: 600,000 units).

Other than the above, none of the Manager and the Directors or 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 2018 and 30 June 2017 as recorded in the Register.

Disclosure of Interests

Holdings of substantial unitholders

At 30 June 2018 and 30 June 2017, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

Name	At 30 June 2018		At 30 June 2017		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]	
Lee Shau Kee[3]	639,891,209	38.90	623,218,027	38.05	0.85
Lee Financial (Cayman) Limited[3]	374,072,708	22.74	374,072,708	22.84	-0.10
Leesons (Cayman) Limited[3]	374,072,708	22.74	374,072,708	22.84	-0.10
Leeworld (Cayman) Limited[3]	374,072,708	22.74	374,072,708	22.84	-0.10
SKFE[3]	374,072,708	22.74	374,072,708	22.84	-0.10
Uplite Limited[3]	224,443,625	13.64	224,443,625	13.70	-0.06
Wintrade Limited[3]	149,629,083	9.10	149,629,083	9.14	-0.04
Henderson Development Limited[3]	264,280,501	16.06	249,145,319	15.21	0.85
HLD[3]	264,280,501	16.06	249,145,319	15.21	0.85
Hopkins (Cayman) Limited[3]	264,280,501	16.06	249,145,319	15.21	0.85
Riddick (Cayman) Limited[3]	264,280,501	16.06	249,145,319	15.21	0.85
Rimmer (Cayman) Limited[3]	264,280,501	16.06	249,145,319	15.21	0.85
Silchester International Investors LLP[4]	257,791,150	15.67	257,791,150	15.74	-0.07
Silchester International Investors International Value Equity Trust[4]	113,294,922	6.89	113,294,922	6.92	-0.03

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,645,139,777 at 30 June 2018.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,637,777,762 at 30 June 2017.
3. At 30 June 2018, 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 2018, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 126,272,147 units were owned by the Manager. Cobase Limited and Richful Resources Limited were wholly-owned subsidiaries of Brightland Enterprises Limited, and the Manager was a wholly-owned subsidiary of Latco Investment Limited, both of which in turn were wholly-owned by HLD. Henderson Development Limited ("**HD**") owned more than one-third of the issued share capital of HLD. HD was wholly-owned by Hopkins (Cayman) Limited ("**Hopkins**") as the trustee of a unit trust, the units of which were held by Rimmer (Cayman) Limited ("**Rimmer**") and Riddick (Cayman) Limited ("**Riddick**") as the respective trustees of two discretionary trusts. Under Part XV of the SFO (as applied by the Register), each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in a total of 270,184,464 units at 30 June 2018. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 264,280,501 units at 30 June 2018, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

Notes : (cont'd)

At 30 June 2018, 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 644,257,172 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 639,891,209 units at 30 June 2018, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 30 June 2018, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

4. At 30 June 2018, 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 2018, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.25% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 109,475,922 units (representing approximately 6.65% 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 2018 were as follows :

Name	Number of units held	% of unit holding[1]
Chan Wing Cheng[2]	130,000	0.0079
Lee King Yue[3]	50,000	0.0030
Lee Pui Ling, Angelina[4]	2,307	0.0001
Lo Yuk Fong, Phyllis[5]	100,000	0.0061
Employee of the Manager[6]	5,000	0.0003
Persons related to the Trustee[7]	2,992,000	0.1819

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,645,139,777 at 30 June 2018.
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 2017.
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 2017.
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 2017.
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 2017.
6. These represent units held by an employee of the Manager (who joined the Manager during the Year), a connected person by virtue of being an associate of Sunlight REIT's significant holder.
7. The Manager has been informed that certain controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the Trustee were beneficially interested in 2,992,000 units at 30 June 2018. Their beneficial interest was 22,948,000 units at 30 June 2017.

Valuation Report

HSBC Institutional Trust Services (Asia) Limited
(the Trustee for Sunlight Real Estate Investment Trust
("**Sunlight REIT**"))
17/F, Tower 2 & 3, HSBC Centre
1 Sham Mong Road
Kowloon

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

Henderson Sunlight Asset Management Limited
(the Manager for Sunlight REIT)
30/F, Sunlight Tower
248 Queen's Road East
Wan Chai, Hong Kong

31 July 2018

Dear Sirs

Valuation in respect of 16 Properties for Sunlight Real Estate Investment Trust ("Sunlight REIT")

1.0 Instructions

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 Sunlight REIT's property portfolio (the "**Portfolio**") as at 30 June 2018 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 Rules Governing the Listing of Securities on 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 2018 (referred to as the "**Valuation Date**") for accounting purpose.

2.0 The properties

(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) Fung Shun Commercial Building, 591 Nathan Road, Mongkok, Kowloon, Hong Kong ("Fung Shun Commercial Building Property")

(4) 235 Wing Lok Street Trade Centre, 235 Wing Lok Street, Sheung Wan, Hong Kong ("235 Wing Lok Street Trade Centre Property")

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

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

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

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

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

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

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

(12) 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")

(13) 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")

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

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

(16) 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")

3.0 Basis of valuation

Our valuation is our opinion of the market values of the Properties which we would define as intended to mean "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".

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.

Market value is also the best price reasonably obtainable in the market on the valuation date by the seller and the most advantageous price reasonably obtainable in the market on the valuation date by the buyer. This estimate specially 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 value available only to a specific owner or purchaser.

We have prepared this valuation report pursuant to Chapter 6.8 of the REIT Code issued by the SFC and "The HKIS Valuation Standards 2017" published by The Hong Kong Institute of Surveyors ("**HKIS**").

4.0 Valuation methodologies

We have valued the Properties subject to their respective tenancies. In undertaking our valuation of the Properties, Income Approach and Market Approach are adopted. Income Approach is considered to be the most appropriate method to assess market value of leased properties, particularly taking into consideration of the property's type of use and condition. Apart from Income Approach, Market Approach is also adopted for cross referencing purposes.

4.1 Income approach – term and reversion method

By this approach, the existing net rental income, i.e. rent exclusive of rates, government rents, management fees, air-conditioning charges and other tenants' outgoings, of all lettable units of a property are capitalized for its unexpired term of contractual tenancies. Upon reversion, i.e. at the expiry of the existing tenancy, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized at market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government leases upon their expiries. Any vacant units are assumed to be let at their respective market rents at the Valuation Date.

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 capitalization rate adopted is determined by reference to the yields achieved in analyzed 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.

The market value of each of the Properties is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred.

4.2 Market approach

As a cross-reference, sales evidences of shopping arcade and carpark transaction records have been collected and analyzed in terms of unit price per square foot and unit rate per space respectively. The collected comparables are then adjusted to take into account of the discrepancies between the Properties and comparables in terms of time, location, accessibility, age, building quality and condition, facilities and the like.

5.0 Valuation assumptions and conditions

Our valuation is subject to the following assumptions and conditions.

5.1 Title documents and encumbrances

We have not been provided with any title documents of the Properties or extracts thereof but we have caused sample searches to be made at 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.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the Properties. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, premiums, restrictions, title defects and outgoings of an onerous nature which could affect their values.

Whilst we have taken reasonable care to investigate the titles of the Properties valued, we do not accept liability for any interpretation which we have placed on such information, which is more properly within the sphere of your legal advisers.

5.2 Disposal costs and liabilities

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

5.3 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, occupancies, lettings, incomes, expenditures, site and floor areas and all other relevant matters. We have not verified the information provided to us and have assumed that they are correct. We do not undertake to certify the authenticity of the information provided to us and we have no reason to doubt the truth and accuracy of this information which is material to the valuation. 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.

5.4 Inspection and measurement

We have inspected the exterior and where possible, the interior of the Properties. However, we have not carried out on-site measurement to verify the correctness of the site areas and/or floor areas of the Properties valued and have assumed that the site areas and floor areas shown on the documents handed to us are correct.

5.5 Tenancy and rental information

Our valuation is carried out subject to the existing tenancy arrangements and tenancy renewal agreements. In accordance with the tenancy schedule provided by the Manager, majority of the tenancies are exclusive of rates, Government rent, management fees, promotional levy and air-conditioning charges.

In accordance with the standard tenancy agreement, the landlord is responsible for structural repairs and the landlord's fixtures and fittings and to keep the conduits in tenantable repair whilst the tenants are responsible for internal repairs to the Properties.

We have not examined the lease documentation for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedule provided to us.

The estimated net property yield is based on the monthly net rental incomes, licence fees and miscellaneous incomes of the Properties as at the Valuation Date and the average monthly net income receivable from parking lots, turnover rents, etc during the period from May 2017 to June 2018, unless otherwise stated.

5.6 Structural condition

We have not undertaken any structural survey or tested the services of the Properties. Our valuation has therefore been undertaken on the basis that the Properties were all in satisfactory repair and condition with services functioning satisfactorily and are free from rot, infestation or any other structural defect.

5.7 Contamination

We have not arranged for any investigation to be carried out to determine whether any deleterious or hazardous material has been used in the construction of the Properties and have therefore assumed in our valuation that none of the said material was contained in the Properties.

5.8 Compliance with relevant ordinances and regulations

We have assumed that the Properties had been developed, constructed, occupied and used in full compliance with, and without contravention of any Ordinances, except only where otherwise stated. We further assume that, for any use of the Properties upon which this report is based, any and all required licences, permits, certificates, and authorization have been obtained, except only where otherwise stated.

6.0 Valuer's interest

We hereby confirm that our valuers undertaking this valuation are authorized to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the properties and are not a related corporation of nor do we have a relationship with the Trustee and the Manager or other party/parties who, Sunlight REIT is contracting with. The valuer's compensation is not contingent upon the reporting of predetermined value or direction in value that favours the cause of the Vendor, the amount of the value estimated, the attainment of a stipulated result, or the occurrence of a subsequent event.

7.0 Summary of valuation

We are of the opinion that the market values of the Properties subject to their respective tenancies as at the Valuation Date are as follows :

	Property	Approximate gross rentable area (sq. ft.)	No. of parking lots (excluding motor and bicycle spaces)	Market value as at 30 June 2018 (HK$)	Capitalization rate adopted[Note]			Estimate net property yield (%)
					Retail (%)	Office (%)	Car park (%)	
1	Sunlight Tower Property	376,381	46	5,046,000,000	3.65	3.75	4.90	3.44
2	Bonham Trade Centre Property	117,909	N/A	1,251,000,000	3.80	3.45	N/A	3.13
3	Fung Shun Commercial Building Property	34,651	N/A	664,000,000	2.75	3.00	N/A	2.96
4	Winsome House Property	40,114	N/A	630,100,000	3.60	3.45	N/A	3.27
5	135 Bonham Strand Trade Centre Property	63,915	N/A	624,000,000	3.80	3.45	N/A	3.40
6	Righteous Centre Property	51,767	N/A	587,000,000	3.40	3.75	N/A	3.77
7	235 Wing Lok Street Trade Centre Property	52,285	N/A	414,000,000	3.80	3.45	N/A	3.15
8	Java Road 108 Commercial Centre Property	37,923	N/A	300,000,000	4.00	3.75	N/A	3.53
9	On Loong Commercial Building Property	27,206	N/A	280,000,000	3.70	3.65	N/A	3.55
10	Sun Fai Commercial Centre Property	26,151	N/A	184,000,000	4.05	3.80	N/A	3.69
11	Wai Ching Commercial Building Property	16,321	N/A	80,700,000	3.90	3.55	N/A	3.52
12	Sheung Shui Centre Property	122,339	297	4,277,000,000	4.30	N/A	5.80	4.30
13	Metro City Phase I Property	188,889	452	3,127,000,000	4.40	N/A	5.00	4.65
14	Kwong Wah Plaza Property	64,842	N/A	1,114,000,000	3.60	3.65	N/A	3.64
15	Beverley Commercial Centre Property	7,934	N/A	106,300,000	4.10	N/A	N/A	3.30
16	Supernova Stand Property	4,226	N/A	69,700,000	3.80	N/A	N/A	3.93
	Total	**1,232,853**	**795**	**18,754,800,000**				

Note : The capitalization 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.

The summary valuation report is in section 8 below.

Valuation Report

8.0 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 2018

HK$14,161,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2018

HK$308,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly licence income as at 30 June 2018

HK$10,500 exclusive of rates and management fees

Market value in existing state as at 30 June 2018

HK$5,046,000,000

Estimated net property yield

3.44%

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 2018

HK$3,263,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2018

HK$1,251,000,000

Estimated net property yield

3.13%

Fung Shun Commercial Building Property

Fung Shun Commercial Building, 591 Nathan Road, Mongkok, Kowloon, Hong Kong

Description

The building is a 22-storey commercial building completed in 1981. The property comprises all the units within the building having a total gross rentable area of approximately 3,219.16 sq. m. (34,651 sq. ft.).

Land tenure

Kowloon Inland Lot No. 7891 is held under Conditions of Renewal No. 6372 for a term of 150 years commencing from 25 December 1887 at an annual Government rent of HK$152.

Monthly rental income as at 30 June 2018

HK$1,640,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$664,000,000

Estimated net property yield

2.96%

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 2018

HK$1,719,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2018

HK$630,100,000

Estimated net property yield

3.27%

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 2018

HK$1,766,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$624,000,000

Estimated net property yield

3.40%

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 2018

HK$1,766,000 exclusive of rates, management fees and air-conditioning charges

Monthly licence income as at 30 June 2018

HK$77,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2018

HK$587,000,000

Estimated net property yield

3.77%

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 2018

HK$1,087,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$414,000,000

Estimated net property yield

3.15%

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 2018

HK$882,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$300,000,000

Estimated net property yield

3.53%

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 2018
HK$828,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018
HK$280,000,000

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 2018
HK$566,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018
HK$184,000,000

Estimated net property yield
3.69%

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 2018

HK$236,500 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$80,700,000

Estimated net property yield

3.52%

Sheung Shui Centre Shopping Arcade 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 2018

HK$14,073,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2018

HK$997,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly licence income as at 30 June 2018

HK$251,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2018

HK$4,277,000,000

Estimated net property Yield

4.30%

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 2018

HK$10,562,000 exclusive of rates, management fees and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2018

HK$1,412,000 exclusive of operating expenses, rates, Government rents and management fees

Monthly licence income as at 30 June 2018

HK$153,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2018

HK$3,127,000,000

Estimated net property yield

4.65%

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 2018

HK$3,379,000 exclusive of rates, management fees and air-conditioning charges

Monthly licence income as at 30 June 2018

HK$3,800 exclusive of rates and management fees

Market value in existing state as at 30 June 2018

HK$1,114,000,000

Estimated net property yield

3.64%

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 2018

HK$293,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$106,300,000

Estimated net property yield

3.30%

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 2018

HK$228,000 exclusive of rates, management fees and air-conditioning charges

Market value in existing state as at 30 June 2018

HK$69,700,000

Estimated net property yield

3.93%

9.0 Retail market overview

Overview

Attracting some 50 million visitors a year, Hong Kong is one of the world's top shopping destinations, housing a high representation of luxury and mid-end retailers. As of the end of 2017, Hong Kong had a total of approximately 121 million sq. ft. of private retail stock. Approximately 41% of private retail stock is located in Kowloon while Hong Kong Island and the New Territories each represented around 29% and 30% of the total commercial stock in the city respectively.

Rental trends

Retail rental growth slowed in 2014 amid a softened retail sales growth. Retail sales witnessed a 0.2% decline in the year, dragged by a fall of 13.7% in sales of jewellery, watches, clocks and valuable gift. The growth in average retail rent slowed to 4.6% in 2014, reflecting the softened retail demand from luxury retailers for prime street shop locations.

Despite the continued slowdown in retail sales in 2015 and 2016, the average retail rent remained relatively firm and registered an approximately 2% CAGR from 2014. Retail sales saw the first positive growth of 2.2% increase in value after three years of negative growth. Correspondingly, average retail rent climbed by 2% in 2017.

Average retail rents remained stable in the first five months of 2018, while retail sales strengthened further with a 14% growth year on year.

Price trends

The average retail property price in Hong Kong saw a surge after the global financial crisis amid a positive retail market sentiment and an influx of mainland visitors. Retail property prices rose 21% from 2012 to 2013, over twice as rapid as the growth in average retail rents.

Investment sentiment in private retail properties began cooling in 2014 in light of the softened retail market. The retail property price growth slowed down to a cumulative average of 5% between 2013 and 2015. Eventually in 2016, average retail property price dipped by 6%. Following the recovery in retail sales in 2017, average retail property price grew by 6% and further strengthen by 4% in the first five months of 2018.

Supply

Hong Kong's supply of private retail stock has increased in the last five years (2013 to 2017). Completion averaged about 843,700 sq. ft. per annum, compared with 710,200 sq. ft. in the period of 2008 to 2012.

Looking forward, private retail supply is expected to increase in the coming five years (2018 to 2022), representing about 1,100,000 sq. ft. of supply is expected per year, with the highest proportion of new shopping centres located in the New Territories, representing approximately 53% of total future supply.

Notable private retail projects beyond 2018 includes the New World Centre redevelopment in Tsim Sha Tsui which is expected to be completed by 2019, totalling over 1 million sq. ft. of retail space.

Take-up and vacancy

Take-up was largely positive over the last ten years (2008 to 2017), averaging 368,700 sq. ft. per annum. Meanwhile, the vacancy rate of private retail premises (including street shops) averaged approximately 8% over the same period. Average take-up showed a downward trend in recent years, retreating from an average 637,700 sq. ft. per annum in the period of 2008 to 2012 to an average 99,700 sq. ft. per annum in the period of 2013 to 2017. This could be attributed to a softened retail market in recent years.

Meanwhile, amid a steady retail demand, average vacancy rate of private retail premises generally remained stable over the last ten years (2008 to 2017) at 8%. A softened retail market sentiment had slightly pushed up vacancy rate to 9% in 2016 and remained stable in 2017 following a bottomed retail sales market.

Outlook

The retail market in Hong Kong appears to be shrugging off the negative sentiment over the past few years, with retail sales, overall retail property price and rent stabilizing in the first quarter of 2018. Given the continued recovery in visitor arrivals, albeit mild, the overall operating environment is expected to turn less challenging in the short term, which in turn will support retail price and rent. Prime shops in areas such as Mong Kok and Causeway Bay may remain under pressure in the short term despite a mild recovery in the general retail market. Meanwhile, retail properties positioned at mid-end of the retail spectrum are expected to be resilient.

In the longer term, further improvements in the city's infrastructure, coupled with steady economic growth for both Hong Kong and China, should continue to support the overall retail sales environment in Hong Kong. Meanwhile, the increasing trend of middle-class Mainland tourists and stable consumption of the local population will result in higher retail sales of mid-range products and F&B consumption, which in turn is expected to buoy overall retail property demand.

10.0 Office market overview

Overview

As one of the major global financial centres, Hong Kong is the preferred location for many international corporations setting up regional offices in Asia. The Central Business District ("**CBD**") in Hong Kong includes Central and Admiralty on the Hong Kong Island. Other major business districts include Sheung Wan, Wan Chai and Causeway Bay on Hong Kong Island, Tsim Sha Tsui in Kowloon, as well as decentralized areas namely Quarry Bay and North Point on Hong Kong Island. With limited availability in the CBD and the expansion of transport infrastructure, recent years have seen a rapid decentralization of office space and the growth of new alternative office hubs such as Kowloon East and Yau Ma Tei/Mong Kok in Kowloon, Kwai Tsing and Tsuen Wan in the New Territories as well as Wong Chuk Hang on the Hong Kong Island.

Rental trends

Hong Kong's Grade A office rent have generally been on an uptrend in the last five years (2013 to 2017), shrugging off the negative effects from the global financial crisis in late 2008 to 2009. According to the Rating and Valuation Department, the average Grade A office rent rose by around 18% from 2013 to 2017, representing a 4% compound annual growth rate (CAGR) in the period.

Grade A office rent continued to trend up in the first five months of 2018, with average Grade A office rent rising a further 3.8% from the end of 2017.

Price trends

According to the Rating and Valuation Department, the average Grade A office price in Hong Kong rose 19% in the last five years (2013 to 2017). In 2014, on the back of slower Grade A office sales due to a series of cooling measures including the Double Stamp Duty (DSD) and the lowering of the maximum mortgage loan-to-value ratio for commercial properties, the average Grade A office price dropped 1% in the year.

Following that, Mainland Chinese financial institutions accelerated plans to establish their physical footprint in Hong Kong's CBD. Positive growth in Grade A office rental supported capital appreciation and increased investors' focus on the office sales market. The average Grade A office price grew 20% between 2014 and 2017, and saw a growth of 10% in just the first five months of 2018 according to government figures.

Commercial land sale market in Hong Kong has been robust especially in 2017, with land price consistently breaking market records. For instance, a commercial site at Kai Tak, was sold for a record-high HK$24.6 billion, yielding an accommodation value of about HK$12,863 per sq. ft..

Take-up and vacancy

Take-up for Grade A office in Hong Kong as a whole averaged at around 1.2 million sq. ft. per annum during the last ten years from 2008 to 2017. Meanwhile, the vacancy rate averaged approximately 8.1% over the same period. Average take-up dropped from an average 2 million sq. ft. per annum in the period of 2008 to 2012 to an average 646,300 sq. ft. in the period of 2013 to 2017, due to lower supply in Grade A office during 2013 to 2017.

Demand for office space in Hong Kong has remained resilient in the past decade despite a number of economic downturns. While average Grade A office vacancy rate in Hong Kong edged up to 9.6% in 2017 from 8.0% in 2016, net office take-up continued to remain positive in 2017, showing no major signs of downturn in office space absorption.

In the CBD, the average Grade A office vacancy rate remained at low level of 1.8% in 2017 and the first six months in 2018, significantly lower than the 10-year average from 2008 – 2017 at 3.1%. Other major business districts such as Wan Chai and Sheung Wan also recorded very low vacancy level in the first six months of 2018 at about 1.1%.

Driven by the decentralization trend, Grade A office vacancy rate remained at relatively low levels in decentralized areas. Despite a surge in new supply in recent years, Kowloon East performed well in the first six months of 2018 with a recorded average vacancy rate of 6.7%, representing a notable drop from 8.7% in 2017.

Outlook

In general, Grade A office demand in Hong Kong is likely to remain firm, notwithstanding global economic uncertainties. Demand from Chinese firms is set to remain strong as they continue to seek quality office space in Hong Kong. The lack of available office space and the high rental level in the CBD and other major business districts are expected to support the decentralization trend in the next few years.

Meanwhile, the growth in China's trade will serve to lift external demand, bolstering exports and supporting Hong Kong's economy. Despite its slowing rate of economic expansion, China's rising imports of services will provide support to the territory's economic growth. Coupled with signs that growth in the Eurozone and the US may pick up further this year, the demand for office space from the trading sector is expected to remain steady.

In view of the limited future office supply particularly in the CBD and other major business districts, an expected decentralization trend and an improving trading sector, both rent and capital value should be well supported.

11.0 Expertise

The valuer on behalf of Knight Frank, with the responsibility for this report is Catherine Cheung, MRICS MHKIS RPS(GP) RICS Registered Valuer. We confirm that the valuer meets the requirements of The HKIS Valuation Standards and The RICS Valuation – Global Standards, having sufficient current knowledge of the particular market and the skills under understanding to undertake the valuation competently.

Our valuation is undertaken by the qualified valuer with relevant experiences as an independent valuer. Our valuation is prepared in unbiased and professional manner.

12.0 Limiting conditions

This report is for the use of the Manager, the Board of Directors of the Manager and the Trustee in connection with the annual valuation of the Properties, as required under the REIT Code. No responsibility is accepted to any other party for the whole or any part of its contents.

This report and valuation have been prepared on the basis of information available as at 30 June 2018. Knight Frank Petty Limited accepts no responsibility for subsequent changes in information as to income, expenditures or market conditions.

Use by, or reliance upon this document by anyone other than the Manager and the Trustee are not authorized by Knight Frank Petty Limited, and Knight Frank Petty Limited together with the valuers are not liable for any loss arising from such unauthorized use or reliance. This document should not be reproduced without our prior written authority.

Reviewed (but not undertaken) by :

Catherine Cheung
MRICS MHKIS RPS(GP) RICS Registered Valuer
Director, Valuation & Advisory
For and on behalf of Knight Frank Petty Limited

Thomas Lam
FRICS FHKIS RPS(GP) RICS Registered Valuer
Senior Director, Head of Valuation & Advisory
For and on behalf of Knight Frank Petty Limited

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

Trustee's Report

To the Unitholders of Sunlight Real Estate Investment Trust

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

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 2018.

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

Hong Kong, 4 September 2018

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))

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") and its subsidiaries (together the "**Group**") set out on pages 94 to 138, which comprise the consolidated statement of financial position as at 30 June 2018, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Key audit matters (continued)

Valuation of investment properties

Refer to note 11 to the consolidated financial statements and the accounting policy 2(h)

The Key Audit Matter	How the matter was addressed in our audit
The Group holds a portfolio of investment properties located in Hong Kong, which had an aggregate fair value of HK$18,755 million and accounted for 96% of the Group's total assets as at 30 June 2018. The fair values of the investment properties as at 30 June 2018 were assessed by Henderson Sunlight Asset Management Limited, as the manager of Sunlight REIT (the "**Manager**"), based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties recorded in the consolidated statement of profit or loss represented 65% of the Group's profit before taxation for the year ended 30 June 2018. We identified the valuation of the Group's investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of the changes in fair value of the investment properties to the profit before taxation of the Group and because the valuation of investment properties is complex and involves a significant degree of judgement and estimation in determining capitalisation rates and market rents.	Our audit procedures to assess the valuation of investment properties included the following : • obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the Manager's assessment of the valuation of investment properties was based; • meeting the external property valuers, discussing with them the key estimates and assumptions adopted in their valuations, including the capitalisation rates, prevailing market rents and comparable market transactions, and assessing their qualifications and expertise in the properties being valued and their independence and objectivity; • with the assistance of our internal property valuation specialists, assessing the valuation methodology applied by the external property valuers and comparing the key estimates and assumptions used by the valuer in the valuation of each investment property, including capitalisation rates and market rents, with available market data and government produced market statistics; and • evaluating the tenancy information, including committed rents and occupancy rates provided by the Manager to the external property valuers, by inspecting the underlying contracts and relevant underlying documentation, on a sample basis.

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

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

Information other than the consolidated financial statements and auditor's report thereon

The Manager is responsible for the other information. The other information comprises all information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the consolidated financial statements

The Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition, the Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with 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 provisions set out in Appendix C of the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong.

The Manager is assisted by the Audit Committee in discharging its responsibility for overseeing the Group's financial reporting process.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also :

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

– Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code

In our opinion, the consolidated financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions set out in Appendix C of the REIT Code.

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

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

4 September 2018

Consolidated Statement of Profit or Loss

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Revenue	3 & 4	**817,389**	788,122
Property operating expenses	3 & 5	**(171,328)**	(164,676)
Net property income		**646,061**	623,446
Other income	6	**10,745**	10,893
Administrative expenses		**(112,518)**	(99,735)
Gain on disposal of investment properties	7(a)	**56,358**	–
Net increase in fair value of investment properties	11	**996,130**	384,159
Profit from operations		**1,596,776**	918,763
Finance costs on interest bearing liabilities	8(a)	**(74,631)**	(106,899)
Profit before taxation and transactions with unitholders	8	**1,522,145**	811,864
Income tax	9(a)	**(79,866)**	(68,364)
Profit after taxation and before transactions with unitholders		**1,442,279**	743,500

The notes on pages 102 to 138 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Profit after taxation and before transactions with unitholders		**1,442,279**	743,500
Other comprehensive income for the year			
Items that have been reclassified / may be reclassified subsequently to profit or loss (after tax) :			
– Effective portion of changes in fair value of cash flow hedges recognised during the year		**29,939**	37,274
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities		**(36)**	(5,564)
– Deferred tax charged to other comprehensive income	9(c)	**(5,509)**	–
		24,394	31,710
Total comprehensive income for the year		**1,466,673**	775,210

The notes on pages 102 to 138 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Non-current assets			
Fixed assets	11		
– Investment properties		**18,754,800**	17,062,400
– Other fixed assets		**51**	72
		18,754,851	17,062,472
Deferred tax assets	9(c)	**186**	435
Derivative financial instruments	13	**21,874**	7,374
Prepayments	15	**–**	1,587
Reimbursement rights	12	**37,436**	37,436
Other financial assets	14	**108,815**	61,377
		18,923,162	17,170,681
Current assets			
Trade and other receivables	15	**24,086**	18,673
Derivative financial instruments	13	**13,122**	2,238
Cash and bank balances	16(a)	**641,919**	1,085,897
Tax recoverable		**29,023**	20,291
		708,150	1,127,099
Total assets		**19,631,312**	18,297,780
Current liabilities			
Tenants' deposits	17	**(202,201)**	(193,073)
Rent receipts in advance		**(13,419)**	(10,430)
Trade and other payables	18	**(63,644)**	(63,406)
Bank borrowings	19	**(20,000)**	–
Derivative financial instruments	13	**(6)**	(10,424)
Tax payable		**(69,879)**	(65,483)
		(369,149)	(342,816)
Net current assets		**339,001**	784,283
Total assets less current liabilities		**19,262,163**	17,954,964

At 30 June 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	19	**(4,231,497)**	(3,901,882)
Deferred tax liabilities	9(c)	**(172,076)**	(153,351)
Derivative financial instruments	13	**(1,599)**	(252)
		(4,405,172)	(4,055,485)
Total liabilities, excluding net assets attributable to unitholders		**(4,774,321)**	(4,398,301)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		**14,856,991**	13,899,479
Number of units in issue	20	**1,645,139,777**	1,637,777,762
Net asset value attributable to unitholders per unit		**$9.03**	$8.49

The consolidated financial statements on pages 94 to 138 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the "**Manager**"), on 4 September 2018 and were signed on its behalf by :

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 102 to 138 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
At the beginning of the year		**13,899,479**	13,518,103
Profit after taxation and before transactions with unitholders		**1,442,279**	743,500
Other comprehensive income		**24,394**	31,710
Total comprehensive income for the year		**1,466,673**	775,210
Distribution paid to unitholders		**(547,528)**	(400,773)
Issuance of units to the Manager during the year	20	**45,263**	43,031
Units bought back	20	**(6,874)**	(35,968)
Units buy-back expenses	20	**(22)**	(124)
		(509,161)	(393,834)
At the end of the year		**14,856,991**	13,899,479

The notes on pages 102 to 138 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2018

(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Profit after taxation and before transactions with unitholders		**1,442,279**	743,500
Adjustments (note (i)) :			
– Gain on disposal of investment properties	7(a)	**(56,358)**	–
– Net increase in fair value of investment properties	11	**(996,130)**	(384,159)
– Manager's fees paid or payable in the form of units		**46,639**	43,476
– Interest rate swaps – cash flow hedges	8(a)	**(4,552)**	(7,014)
– Non-cash finance costs on interest bearing liabilities		**5,179**	29,292
– Deferred tax	9(a)	**13,465**	9,406
		(991,757)	(308,999)
Annual distributable income (note (i))		**450,522**	434,501
Interim distribution, paid (notes (ii) and (iv))		**206,870**	199,556
Distributions, to be paid to unitholders (notes (iii) and (iv)) :			
– Final distribution		**228,674**	217,825
– Special distribution		**–**	122,833
Total distributions for the year (note (i))		**435,544**	540,214
Payout ratio (note (iii))			
– Excluding special distribution		**96.7%**	96.1%
– Including special distribution		**N/A**	124.3%
Distribution per unit :			
Interim distribution per unit, paid		**12.6 cents**	12.2 cents
Distributions per unit, to be paid to unitholders :			
– Final distribution per unit		**13.9 cents**	13.3 cents
– Special distribution per unit		**–**	7.5 cents
		26.5 cents	33.0 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.

Annual 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 year, 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 year. The adjustments for the current year included the adding back of non-cash finance costs on interest bearing liabilities of $5,179,000, or 0.31 cents per unit (which is regarded as an effective return of capital) resulting from amortisation of debt establishment fees in respect of bank borrowings (2017 : $29,292,000, or 1.79 cents per unit resulting from amortisation and write-off of debt establishment fees in respect of bank borrowings).

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

Notes : (continued)

(ii) The interim distribution of $206,870,000 for the six months ended 31 December 2017 (31 December 2016 : $199,556,000) is calculated by multiplying the interim distribution per unit of 12.6 cents by 1,641,823,814 units in issue at 7 March 2018, the record date for FY2017/18 interim distribution (31 December 2016 : 12.2 cents by 1,635,707,632 units in issue at 28 February 2017, the record date for FY2016/17 interim distribution).

(iii) The final distribution of $228,674,000 for the year ended 30 June 2018 (2017 : the final distribution of $217,825,000 and special distribution of $122,833,000) is calculated by multiplying the final distribution per unit of 13.9 cents by 1,645,139,777 units* anticipated to be in issue at 26 September 2018, the record date for FY2017/18 final distribution (the "**Record Date**") (2017 : the final distribution per unit of 13.3 cents and the special distribution per unit of 7.5 cents respectively by 1,637,777,762 units in issue at 26 September 2017, the record date for FY2016/17 final and special distributions).

Together with the interim distribution, the total distributions for the year ended 30 June 2018 represent a payout ratio of 96.7% (2017 : 124.3% (or 96.1% if excluding the special distribution)) of Sunlight REIT's annual distributable income for the year.

(iv) The FY2017/18 interim distribution was paid to unitholders on 20 March 2018. The FY2017/18 final distribution is expected to be paid on 11 October 2018 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 102 to 138 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Operating activities			
Profit before taxation and transactions with unitholders		**1,522,145**	811,864
Adjustments :			
– Manager's fees paid or payable in the form of units		**46,639**	43,476
– Gain on disposal of investment properties	7(a)	**(56,358)**	–
– Net increase in fair value of investment properties	11	**(996,130)**	(384,159)
– Finance costs on interest bearing liabilities	8(a)	**74,631**	106,899
– Depreciation	11	**27**	35
– Interest income		**(9,930)**	(10,240)
– Net unrealised foreign exchange gain		**(222)**	(370)
Operating cash flow before changes in working capital		**580,802**	567,505
(Increase)/decrease in trade and other receivables		**(4,541)**	1,426
Increase in tenants' deposits		**9,128**	7,705
Increase in rent receipts in advance		**2,989**	1,343
(Decrease)/increase in trade and other payables		**(597)**	2,353
Cash generated from operations		**587,781**	580,332
– Hong Kong Profits Tax paid		**(70,737)**	(63,697)
Net cash generated from operating activities		**517,044**	516,635
Investing activities			
Interest received		**10,161**	11,263
Payment for acquisition of investment properties		**(718,423)**	–
Net proceeds from disposal of investment properties	7(b)	**99,758**	–
Payment for expenditure incurred for investment properties		**(20,552)**	(33,570)
Payment for purchase of other fixed assets		**(6)**	(28)
Payment for purchase of held-to-maturity debt securities		**(48,088)**	–
Decrease in pledged deposits with original maturity over three months		**–**	118,576
(Increase)/decrease in bank deposits with original maturity over three months		**(57,370)**	17,619
Net cash (used in) / generated from investing activities		**(734,520)**	113,860
Financing activities			
Distribution paid to unitholders		**(547,528)**	(400,773)
Payment for buy-back of units		**(6,896)**	(36,092)
Proceeds from new bank borrowings	16(b)	**345,000**	3,925,000
Repayment of bank borrowings		**–**	(3,925,000)
Interest paid	16(b)	**(73,630)**	(84,372)
Other borrowing costs paid	16(b)	**(804)**	(21,935)
Net cash used in financing activities		**(283,858)**	(543,172)
Net (decrease) / increase in cash and cash equivalents		**(501,334)**	87,323
Effect of foreign exchange rate changes		**(14)**	7
Cash and cash equivalents at the beginning of the year	16(a)	**1,085,897**	998,567
Cash and cash equivalents at the end of the year	16(a)	**584,549**	1,085,897

The notes on pages 102 to 138 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 provisions set out in Appendix C of the REIT Code. These consolidated financial statements also comply with the relevant disclosure provisions of the Rules Governing the Listing of Securities on the SEHK as if those provisions were applicable to Sunlight REIT. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group, which are relevant to the Group's consolidated financial statements for the current accounting period :

– Amendments to HKAS 7, *Statement of cash flows : Disclosure initiative*

– Amendments to HKAS 12, *Income taxes : Recognition of deferred tax assets for unrealised losses*

Under the amendments to HKAS 7, an entity is required to provide disclosures that enable users of financial statements to evaluate movements in the carrying amounts of items relating to financing activities during the financial year. Except for the aforementioned, none of these developments has had a material effect on the preparation or presentation of the Group's results and financial position for the current or prior periods.

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

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2018 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)).

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.

2 Significant accounting policies (continued)

(d) Held-to-maturity debt securities (continued)

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.

(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.

2 Significant accounting policies (continued)

(g) Hedging (continued)

Cash flow hedges (continued)

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.

(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.

2 Significant accounting policies (continued)

(i) Other fixed assets (continued)

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)).

(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.

2 Significant accounting policies (continued)

(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.

(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.

2 Significant accounting policies (continued)

(o) Income tax (continued)

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.

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.

2 Significant accounting policies (continued)

(p) Provisions and contingent liabilities (continued)

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.

(r) Borrowing costs

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

(s) 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)

(t) 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, gain on disposal of investment properties, 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 :

	2018			2017		
	Office properties $'000	Retail properties $'000	Total $'000	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
– Rental income	**317,459**	**338,012**	**655,471**	300,970	333,117	634,087
– Car park income	**3,678**	**29,144**	**32,822**	3,854	27,021	30,875
– Rental related income	**63,696**	**65,400**	**129,096**	61,835	61,325	123,160
	384,833	**432,556**	**817,389**	366,659	421,463	788,122
Property operating expenses	**(75,495)**	**(95,833)**	**(171,328)**	(68,620)	(96,056)	(164,676)
Net property income	**309,338**	**336,723**	**646,061**	298,039	325,407	623,446
Administrative expenses	**(55,143)***	**(45,664)**	**(100,807)***	(46,229)	(43,811)	(90,040)
Segment results	**254,195**	**291,059**	**545,254**	251,810	281,596	533,406
Net increase in fair value of investment properties	**501,260**	**494,870**	**996,130**	329,196	54,963	384,159
Gain on disposal of investment properties	**–**	**56,358**	**56,358**	–	–	–
Finance costs on interest bearing liabilities			**(74,631)**			(106,899)
Income tax			**(79,866)**			(68,364)
Interest income			**9,930**			10,240
Unallocated net expenses			**(10,896)**			(9,042)
Profit after taxation and before transactions with unitholders			**1,442,279**			743,500
Depreciation	**10**	**17**	**27**	17	18	35

* Included costs relating to the acquisition of investment properties amounting to $3,980,000.

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2018 Office properties $'000	2018 Retail properties $'000	2018 Total $'000	2017 Office properties $'000	2017 Retail properties $'000	2017 Total $'000
Segment assets	**10,108,755**	**8,705,474**	**18,814,229**	8,882,445	8,236,304	17,118,749
Derivative financial instruments			**34,996**			9,612
Other financial assets			**108,815**			61,377
Cash and bank balances			**641,919**			1,085,897
Tax recoverable			**29,023**			20,291
Deferred tax assets			**186**			435
Unallocated assets			**2,144**			1,419
Total assets			**19,631,312**			18,297,780
Segment liabilities	**(133,850)**	**(141,825)**	**(275,675)**	(123,586)	(139,883)	(263,469)
Derivative financial instruments			**(1,605)**			(10,676)
Bank borrowings			**(4,251,497)**			(3,901,882)
Tax payable			**(69,879)**			(65,483)
Deferred tax liabilities			**(172,076)**			(153,351)
Unallocated liabilities			**(3,589)**			(3,440)
Total liabilities, excluding net assets attributable to unitholders			**(4,774,321)**			(4,398,301)
Capital expenditure incurred during the year	**722,371***	**15,718**	**738,089***	4,473	19,757	24,230

* Included acquisition of investment properties amounting to $718,423,000.

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 :

	2018 $'000	2017 $'000
Rental income (note)	**655,471**	634,087
Car park income	**32,822**	30,875
Rental related income	**129,096**	123,160
	817,389	788,122

Note : Included additional rents based on business revenue of tenants amounting to $1,103,000 (2017 : $1,445,000).

5 Property operating expenses

	2018 $'000	2017 $'000
Building management fee	**59,157**	56,177
Property Manager's fees	**52,601**	51,158
Government rent and rates	**34,873**	35,002
Marketing and promotion expenses	**5,344**	5,814
Car park operating costs	**6,131**	5,822
Other direct costs	**13,222**	10,703
	171,328	164,676

6 Other income

	2018 $'000	2017 $'000
Bank interest income	**7,636**	8,158
Interest income from debt securities	**2,294**	2,082
Others	**815**	653
	10,745	10,893

7 Disposal of investment properties

(a) During the year ended 30 June 2018, the Group completed the disposal of Palatial Stand Property at a consideration of $101,000,000, resulting in a gain of $56,358,000.

(b) The net cash inflow of cash and cash equivalents in respect of the disposal of investment properties for the year ended 30 June 2018 is as follows :

	$'000
Cash consideration	**101,000**
Less : Transaction costs	**(1,242)**
Net proceeds	**99,758**

8 Profit before taxation and transactions with unitholders

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

	2018 $'000	2017 $'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	**74,004**	84,322
Other borrowing costs	**5,179**	29,591
	79,183	113,913
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	**(36)**	(5,564)
– Net fair value gain of ineffective cash flow hedges	**(4,516)**	(1,450)
	(4,552)	(7,014)
	74,631	106,899

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

	2018 $'000	2017 $'000
(b) Other items		
Manager's fees	**96,568**	86,953
Property Manager's fees (notes (i) and (iii))	**52,601**	51,158
Trustee's remuneration and charges	**4,807**	4,426
Auditor's remuneration		
– Audit services	**1,905**	1,875
– Other services	**475**	458
Fees payable to principal valuer		
– Valuation fees	**525**	505
– Commission	**–**	52
Legal and other professional fees	**6,934**	3,818
Commission to property agents	**4,010**	2,058
Bank charges	**283**	389
Net foreign exchange gain	**(255)**	(472)

Notes :

(i) Included rental commission of $14,458,000 (2017 : $14,529,000).

(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 2018, 61.3% (2017 : 65.8%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounting for 42.1% (2017 : 45.1%). The largest supplier, being the Property Manager, 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.

9 Income tax

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

	2018 $'000	2017 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**66,865**	59,306
Over-provision in respect of prior years	**(464)**	(348)
	66,401	58,958
Deferred tax		
Origination and reversal of temporary differences	**13,465**	9,406
	79,866	68,364

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 2015/16, and certain other subsidiaries covering the years of assessment up to 2010/11, in an aggregate amount of $20,085,000 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 2018, the IRD further raised profits tax assessments on the Particular Subsidiary for the year of assessment 2016/17 and on certain other subsidiaries for the year of assessment 2011/12 in respect of such disallowance, bringing the aggregate amount to $28,425,000. Notices of objection were filed with the IRD against all the additional profits tax assessments raised to date, and an equivalent amount of tax reserve certificates have been purchased.

In April 2018, the IRD issued a determination in respect of the objections to the assessments on the Particular Subsidiary, which allowed the deduction of property management fees and rental commission while the management fees remained non-deductible. Based on the professional and positive advice of Sunlight REIT's legal and tax advisers, the Manager decided to strenuously contest the assessments raised and in May 2018, a notice of appeal against the written determination was submitted to the Board of Review.

If the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2017/18 would amount to approximately $86 million.

9 Income tax (continued)

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

	2018 $'000	2017 $'000
Profit before taxation and transactions with unitholders	**1,522,145**	811,864
Notional tax on profit before taxation and transactions with unitholders, calculated at applicable tax rates	**250,989**	133,958
Tax effect of non-deductible expenses	**15,998**	19,594
Tax effect of non-taxable income	**(185,525)**	(79,686)
Tax effect of current year's tax losses not recognised	**163**	23
Tax effect of prior years' tax losses and other temporary differences recognised/derecognised	**(702)**	(3,519)
Tax effect of prior years' tax losses utilised in the current year	**(593)**	(1,658)
Over-provision in respect of prior years	**(464)**	(348)
Actual tax expense	**79,866**	68,364

(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**	**Tax losses $'000**	**Cash flow hedges $'000**	**Total $'000**
At 1 July 2016	144,726	(1,216)	–	143,510
Charged/(credited) to profit or loss	12,300	(2,894)	–	9,406
At 30 June 2017	157,026	(4,110)	–	152,916
At 1 July 2017	**157,026**	**(4,110)**	**–**	**152,916**
Charged to profit or loss	**12,989**	**476**	**–**	**13,465**
Charged to net assets attributable to unitholders	**–**	**–**	**5,509**	**5,509**
At 30 June 2018	**170,015**	**(3,634)**	**5,509**	**171,890**

9 Income tax (continued)

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

	2018 $'000	2017 $'000
Represented by :		
Net deferred tax assets recognised in the consolidated statement of financial position	**(186)**	(435)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**172,076**	153,351
	171,890	152,916

(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 $56,777,000 (2017 : $60,918,000) 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.

10 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2018 amounted to $0.88 (2017 : $0.45). The calculation of basic earnings per unit before transactions with unitholders is based on the Group's profit after taxation and before transactions with unitholders of $1,442,279,000 (2017 : $743,500,000) and the weighted average of 1,641,090,508 units in issue during the year (2017 : 1,636,531,197 units).

Diluted earnings per unit before transactions with unitholders for the years ended 30 June 2018 and 2017 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

11 Fixed assets

	Furniture and fixtures $'000	Investment properties $'000	Total $'000
Cost or valuation :			
At 1 July 2016	237	16,651,000	16,651,237
Additions	28	27,241	27,269
Net increase in fair value	–	384,159	384,159
At 30 June 2017	265	17,062,400	17,062,665
Representing :			
Cost	265	–	265
Valuation – 2017	–	17,062,400	17,062,400
	265	17,062,400	17,062,665
At 1 July 2017	265	17,062,400	17,062,665
Additions (note (c))	6	739,670	739,676
Disposals (note 7)	–	(43,400)	(43,400)
Net increase in fair value	–	996,130	996,130
At 30 June 2018	271	18,754,800	18,755,071
Representing :			
Cost	271	–	271
Valuation – 2018	–	18,754,800	18,754,800
	271	18,754,800	18,755,071
Accumulated depreciation :			
At 1 July 2016	158	–	158
Charge for the year	35	–	35
At 30 June 2017	193	–	193
At 1 July 2017	193	–	193
Charge for the year	27	–	27
At 30 June 2018	220	–	220
Net book value :			
At 30 June 2018	51	18,754,800	18,754,851
At 30 June 2017	72	17,062,400	17,062,472

11 Fixed assets (continued)

(a) 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 2018 and 2017, 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 2018 and 2017 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 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 2018 and 2017 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.

11 Fixed assets (continued)

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

Level 3 valuation methodologies

The following table presents the significant unobservable inputs :

	30 June 2018		
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	**$14.5 to $41.6**	**3.00% to 3.80%**	**87.7% to 100%**
– Retail	**$17.1 to $150.0**	**2.75% to 4.40%**	**82.9% to 100%**

	30 June 2017		
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	$13.3 to $40.0	3.65% to 4.00%	85.0% to 100%
– Retail	$16.4 to $150.0	3.60% to 4.50%	75.2% 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.

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

	2018 $'000	2017 $'000
In Hong Kong		
– Long leases	**8,614,800**	8,068,400
– Medium-term leases	**10,140,000**	8,994,000
	18,754,800	17,062,400

(c) Included the acquisition of investment properties amounting to $718,423,000.

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

12 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 the deferred tax liabilities in respect of possible clawback of depreciation allowances claimed by the Vendors prior to the date of acquisition in connection with the listing of Sunlight REIT in December 2006.

13 Derivative financial instruments

	2018			2017		
	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	**13,122**	**(6)**	**13,116**	2,238	(10,424)	(8,186)
Non-current portion	**21,874**	**(1,599)**	**20,275**	7,374	(252)	7,122
	34,996	**(1,605)**	**33,391**	9,612	(10,676)	(1,064)

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 2018, the net unrealised gains on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to $293,000 were reclassified from net assets attributable to unitholders to profit or loss. As at 30 June 2018, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, net cumulative unrealised losses of ineffective hedges amounting to $257,000 (2017 : gains of $659,000) were reclassified from net assets attributable to unitholders to profit or loss for the year. Also, fair value gain of ineffective hedges amounting to $4,516,000 (2017 : $1,450,000) was credited to profit or loss for the year.

At 30 June 2018, the net cumulative unrealised gains (net of deferred tax) on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to $20,686,000 (2017 : net cumulative unrealised losses of $3,708,000).

During the year ended 30 June 2017, the Group had redesignated certain of its cash flow hedging relationships upon entering into certain Basis Swaps with an aggregate notional amount of $700,000,000. As a result of the redesignation, the net cumulative unrealised losses on the selected existing IRSs amounting to $4,531,000 were reclassified from net assets attributable to unitholders to profit or loss for that year. Meanwhile, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps amounting to $9,436,000 were reclassified from profit or loss to net assets attributable to unitholders.

At 30 June 2018, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of $3,150,000,000 (2017 : $3,100,000,000), supplemented by Basis Swaps with notional amount of $1,450,000,000 (2017 : $2,250,000,000). These swaps will mature between September 2018 to May 2023 (2017 : September 2017 to September 2022).

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.

14 Other financial assets

	2018 $'000	2017 $'000
Held-to-maturity debt securities		
Listed in Hong Kong	**57,411**	19,795
Listed outside Hong Kong	**41,010**	41,582
Unlisted	**10,394**	–
	108,815	61,377

The listed debt securities are issued by corporate entities with investment grade granted by certain credit rating agencies. The unlisted debt security is issued by a corporate entity which is a constituent of the Hang Seng Index. All of the held-to-maturity securities are neither past due nor impaired.

15 Trade and other receivables

	2018 $'000	2017 $'000
Rental receivables	**16,575**	11,785
Deposits and prepayments	**3,941**	6,330
Other receivables	**2,747**	1,585
Amounts due from related companies	**823**	560
	24,086	20,260
Represented by :		
Current portion	**24,086**	18,673
Non-current portion	**–**	1,587
	24,086	20,260

At 30 June 2017, 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.

$3,561,000 (2017 : $3,919,000) 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 :

	2018 $'000	2017 $'000
Current	**12,599**	9,149
Less than 1 month overdue	**1,827**	1,762
More than 1 month and up to 3 months overdue	**1,339**	449
More than 3 months and up to 6 months overdue	**716**	197
More than 6 months overdue	**94**	228
	16,575	11,785

15 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.

16 Cash and bank balances and other cash flow information

(a) Cash and cash equivalents comprise :

	2018 $'000	2017 $'000
Deposits with original maturity within three months	**517,158**	1,038,463
Cash at bank and in hand	**67,391**	47,434
Cash and cash equivalents in the consolidated cash flow statement	**584,549**	1,085,897
Deposits with original maturity over three months	**57,370**	–
Cash and bank balances in the consolidated statement of financial position	**641,919**	1,085,897

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank borrowings $'000 (note 19)	Interest payable $'000	Total $'000
At 1 July 2017	**3,901,882**	**184**	**3,902,066**
Changes from financing cash flows :			
Proceeds from new bank borrowings	**345,000**	**–**	**345,000**
Interest paid	**–**	**(73,630)**	**(73,630)**
Other borrowing costs paid	**(804)**	**–**	**(804)**
Total changes from financing cash flows	**344,196**	**(73,630)**	**270,566**
Other changes :			
Interest expenses (note 8(a))	**–**	**74,004**	**74,004**
Other borrowing and related costs	**5,419**	**–**	**5,419**
Total other changes	**5,419**	**74,004**	**79,423**
At 30 June 2018	**4,251,497**	**558**	**4,252,055**

17 Tenants' deposits

The tenants' deposits include $143,948,000 (2017 : $118,131,000) 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

	2018 $'000	2017 $'000
Creditors and accrued charges	**31,059**	33,451
Manager's fees payable (note 26(b)(ii))	**25,336**	22,585
Amounts due to related companies	**7,249**	7,370
	63,644	63,406

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 $1,248,000 (2017 : $1,149,000) which is due within 30 days.

19 Bank borrowings

	2018 $'000	2017 $'000
Bank borrowings		
– Secured	**2,918,213**	2,590,831
– Unsecured	**1,333,284**	1,311,051
	4,251,497	3,901,882

The bank borrowings were repayable as follows :

	2018 $'000	2017 $'000
Within 1 year	**20,000**	–
After 1 year but within 2 years	**598,473**	–
After 2 years but within 5 years	**3,633,024**	3,901,882
	4,231,497	3,901,882
	4,251,497	3,901,882

19 Bank borrowings (continued)

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate ("**HIBOR**") plus 0.52% per annum to HIBOR plus 0.79% per annum (2017 : HIBOR plus 0.52% per annum to HIBOR plus 0.79% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 13.

All bank borrowings are guaranteed on a joint and several basis by the Trustee (in its capacity as trustee of Sunlight REIT) and Sunlight REIT Holding Limited, the holding company of all other subsidiaries of the Group. In addition, the secured bank borrowings are secured by, among others, the following :

- mortgages over the investment properties with a fair value of $10,574,000,000 at 30 June 2018 (2017 : $9,968,000,000) (note 11); 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 2.31% per annum (2017 : 1.72% per annum).

20 Units in issue

	Number of units	
	2018	**2017**
At the beginning of the year	**1,637,777,762**	1,635,909,905
Issuance of units during the year	**8,662,015**	9,414,857
Units bought back	**(1,300,000)**	(7,547,000)
At the end of the year	**1,645,139,777**	1,637,777,762

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
2018			
1 April 2017 to 30 June 2017	**5.0640**	**10,807**	**2,134,064**
Adjustment of Manager's fees for the financial year 2016/17	**5.1820**	**486**	**93,689**
1 July 2017 to 30 September 2017	**5.2300**	**10,817**	**2,068,299**
1 October 2017 to 31 December 2017	**5.2910**	**11,362**	**2,147,423**
1 January 2018 to 31 March 2018	**5.3150**	**11,791**	**2,218,540**
		45,263	**8,662,015**
2017			
1 April 2016 to 30 June 2016	4.3024	10,537	2,449,071
Adjustment of Manager's fees for the financial year 2015/16	4.9137	311	63,272
1 July 2016 to 30 September 2016	4.9634	10,539	2,123,384
1 October 2016 to 31 December 2016	4.4660	10,665	2,388,068
1 January 2017 to 31 March 2017	4.5920	10,979	2,391,062
		43,031	9,414,857

Pursuant to the general mandate granted to the Manager by unitholders, the Group bought back a total of 1,300,000 units (2017 : 7,547,000 units) on the SEHK during the year ended 30 June 2018 at an aggregate consideration of $6,874,000 (2017 : $35,968,000).

Details of the buy-backs are as follows :

	Number of units bought back	Price per unit Highest $	Lowest $	Aggregate consideration $'000
2018				
Month of buy-back				
December 2017	**250,000**	**5.30**	**5.22**	**1,310**
March 2018	**1,050,000**	**5.33**	**5.23**	**5,564**
	1,300,000			**6,874**
Total buy-back expenses				**22**
				6,896

20 Units in issue (continued)

Details of the buy-backs are as follows : (continued)

	Number of units bought back	Price per unit Highest $	Lowest $	Aggregate consideration $'000
2017				
Month of buy-back				
September 2016	227,000	4.93	4.89	1,118
October 2016	714,000	4.97	4.92	3,528
November 2016	3,566,000	4.77	4.54	16,600
December 2016	331,000	4.72	4.69	1,558
February 2017	1,480,000	4.80	4.69	7,036
May 2017	970,000	4.99	4.89	4,794
June 2017	259,000	5.16	5.13	1,334
	7,547,000			35,968
Total buy-back expenses				124
				36,092

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, debt investments as well as trade and other receivables.

The credit risk on debt investments is limited as all the instruments either have investment grade granted by certain credit rating agencies or is issued by a corporate entity which is a constituent of the Hang Seng Index.

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.

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

(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.

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 :

	2018 Contractual undiscounted cash outflow/(inflow)					
	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	**135,198**	**713,022**	**3,799,070**	**–**	**4,647,290**	**4,251,497**
Tenants' deposits	**58,252**	**73,148**	**70,384**	**417**	**202,201**	**202,201**
Creditors and accrued charges	**31,059**	**–**	**–**	**–**	**31,059**	**31,059**
Manager's fees payable in the form of cash	**12,668**	**–**	**–**	**–**	**12,668**	**12,668**
Amounts due to related companies	**7,249**	**–**	**–**	**–**	**7,249**	**7,249**
	244,426	**786,170**	**3,869,454**	**417**	**4,900,467**	**4,504,674**
Derivative settled net :						
IRS and Basis swap contracts held as cash flow hedging instruments	**(12,735)**	**(5,418)**	**9,147**	**–**	**(9,006)**	

	2017 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	47,504	47,504	4,033,923	–	4,128,931	3,901,882
Tenants' deposits	74,942	57,801	54,932	5,398	193,073	193,073
Creditors and accrued charges	33,451	–	–	–	33,451	33,451
Manager's fees payable in the form of cash	11,293	–	–	–	11,293	11,293
Amounts due to related companies	7,370	–	–	–	7,370	7,370
	174,560	105,305	4,088,855	5,398	4,374,118	4,147,069
Derivative settled net :						
IRS and Basis swap contracts held as cash flow hedging instruments	18,635	14,614	15,185	555	48,989	

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 13.

Sensitivity analysis

At 30 June 2018, if interest rates had been 100 basis points (2017 : 100 basis points) higher with all other variable held constant, the net assets attributable to unitholders would have been approximately $53.6 million (2017 : $60.1 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 100 basis points (2017 : 10 basis points) lower with all other variable held constant, the net assets attributable to unitholders would have been approximately $54.4 million (2017 : $6.0 million) lower as a result of a decrease in the fair values of the cash flow hedges.

At 30 June 2018, if interest rates had been 100 basis points (2017 : 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 $13.8 million (2017 : $6.9 million) lower as a result of higher interest expenses on floating rate borrowings. On the other hand, if interest rates had been 100 basis points (2017 : 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 $13.8 million (2017 : $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 100 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 2018 and 2017, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (see note 13), which fall under Level 2 of the fair value hierarchy described above.

During the years ended 30 June 2018 and 2017, 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 2018 and 2017.

(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 2018, Sunlight REIT's aggregate borrowings represent 21.8% (2017 : 21.5%) of its total gross asset value.

23 Capital commitments

Capital commitments outstanding at 30 June 2018 not provided for in the consolidated financial statements are as follows :

	2018 $'000	2017 $'000
Contracted for	**3,600**	18,622
Authorised but not contracted for	**18,233**	16,570
	21,833	35,192

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 (2017 : $4,585,000).

25 Significant leasing arrangements

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

	2018 $'000	2017 $'000
Within 1 year	**713,960**	611,730
After 1 year but within 5 years	**660,405**	583,630
After 5 years	**163**	12,743
	1,374,528	1,208,103

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

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

(b) Transactions with connected persons/related parties

	2018 $'000	2017 $'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	**10,583**	10,658
– HSBC Group	**22,875**	20,213
Property management expenses paid/payable to (note (i)) :		
– HLD Group	**(15,261)**	(14,921)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	**(189)**	(90)
Manager's fees (note (ii))	**(96,568)**	(86,953)
Property Manager's fees (note (iii))	**(52,601)**	(51,158)
Trustee's remuneration and charges (note (iv))	**(4,808)**	(4,429)
Interest expenses, debt establishment fees, security trustee and other charges on bank borrowings, brokerage commission and other bank charges paid/payable to (notes (i) and (v)) :		
– HSBC Group	**(23,034)**	(23,393)
Net interest expenses on IRSs and Basis Swaps paid/payable to (note (v)) :		
– HSBC Group	**(4,297)**	(10,193)
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	**28**	62
Valuation fees and other charges paid/payable to (note (i)) :		
– Knight Frank Group	**(565)**	(557)
Promotional income received/receivable from (note (i)) :		
– HLD Group	**2,611**	1,967
Promotional expenses paid/payable to (note (i)) :		
– HLD Group	**–**	(6)
Additional consideration paid to (note (vi)) :		
– HLD Group	**(112)**	–

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). The Manager is also entitled to receive an acquisition fee not exceeding 1% of the appraised value of acquired property. During the year ended 30 June 2018, the Manager has received an acquisition fee of $3,290,000 in cash for the Group's acquisition of investment properties (see note 11(c)).

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 20 June 2017, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2018 to be paid 50% in the form of cash and 50% in the form of units. On 28 May 2018, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2019.

(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 four 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.

Under the fourth supplemental agreement to the Property Management Agreement, with effect from 1 July 2018, certain Property Manager's entitlements have been amended as follows :

- a fee *not exceeding* 3% per annum of the Gross Property Revenue;
- a commission *not exceeding* the lower of one-half month's base rent or licence fee, or 10% *(or a lower percentage as mutually agreed between the Manager and the Property Manager from time to time)* of the total rent or licence fee for securing a tenancy, licence or renewal of tenancy or licence for a duration or less than 12 months.

(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.

The Trustee is also entitled to charge additional fees for duties undertaken by the Trustee which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary and normal course of business of Sunlight REIT, including but not limited to any services in relation to the acquisition of real estate by Sunlight REIT. During the year ended 30 June 2018, the Trustee has received an additional fee of $150,000 for the Group's acquisition of investment properties (see note 11(c)).

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

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

Notes : (continued)

(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 13 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.

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

	2018 $'000	2017 $'000
Net amount due to :		
– HLD Group	**(33,123)**	(30,632)
– HSBC Group (note)	**(1,515,291)**	(1,176,716)
– Knight Frank Group	**(300)**	(352)

Note :

Deposits and cash placed with HSBC Group	**67,184**	80,241
Bank borrowings and interest payable to HSBC Group	**(1,575,174)**	(1,250,067)
Others	**(7,301)**	(6,890)
	(1,515,291)	(1,176,716)

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 valuer 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 2018, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately $22,026,000 (2017 : $24,910,000). 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.

(Expressed in Hong Kong dollars)

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 2018

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2018 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
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKAS 40, *Investment property : Transfers of investment property*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC)23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements. However, certain aspects of HKFRS 9 may have an impact on the consolidated financial statements; further details of the expected impacts are discussed below.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments : Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2018 (continued)

HKFRS 9, *Financial instruments* *(continued)*

Expected impacts of the new requirements on the Group's consolidated financial statements are as follows :

(a) *Classification and measurement*

HKFRS 9 contains three principal classification categories for financial assets : measured at (1) amortised cost, (2) fair value through profit or loss ("**FVTPL**") and (3) fair value through other comprehensive income ("**FVTOCI**").

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) *Impairment*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 30 June 2018, accumulated impairment loss at that date would not significantly increase as compared with that recognised under HKAS 39.

(c) *Hedge accounting*

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

(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	Particulars of issued 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
Global Team Development Limited	Hong Kong	100 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
Jetwise Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment
King Firm Enterprises Limited	Hong Kong	1 share	–	100	Property investment
Nicetex Development Limited	Hong Kong	2 ordinary shares and 2 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
Sunlight REIT ULF Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of finance 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	2018	2017	2016	2015	2014
At 30 June :						
Net asset value ($ million)		**14,857**	13,899	13,518	13,097	11,495
Net asset value per unit		**9.03**	8.49	8.26	7.99	7.06
Market capitalisation ($ million)		**8,917**	8,385	7,231	6,472	5,322
For the year ended 30 June :						
Highest traded unit price		**5.61**	5.25	4.44	4.09	3.37
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		**4.98**	4.38	3.48	3.05	2.71
Highest discount of the traded unit price to net asset value per unit (%)		**44.9**	48.4	57.9	61.8	61.6
Closing unit price		**5.42**	5.12	4.42	3.95	3.27
Distribution per unit (cents)	2	**26.5**	33.0	24.3	22.0	20.0
Payout ratio (%)	2	**96.7**	124.3	95.8	95.9	94.8
Distribution yield per unit (%)	3	**4.9**	6.4	5.5	5.6	6.1

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of each financial year.
2. Including special distribution of 7.5 cents in 2017.
3. 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 ("**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 Wednesday, 31 October 2018 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 2018;

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

(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-authorized real estate investment trusts ("**REITs**") in relation to on-market unit repurchases by SFC-authorized 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 Unitholders at a general meeting."; and

(4) Each as a separate Ordinary Resolution, to re-appoint the following independent non-executive directors of the Manager :

(a) Mr. KWAN Kai Cheong; and

(b) Dr. TSE Kwok Sang.

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 2018

Notes :

(a) Pursuant to the Trust Deed, any Unitholder is entitled to appoint separate proxies to attend and vote in his/her stead at the meeting (or any adjournment thereof), but the number of proxies appointed by any Unitholder (other than a recognized clearing house within the meaning of the Securities and Futures Ordinance) shall not exceed two. 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 returned to 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**") no later than 10:00 a.m. on Monday, 29 October 2018, or not less than 48 hours before the time appointed for holding of any 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 any adjournment thereof, or at 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 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 meeting (or any adjournment thereof), the register of Unitholders will be closed from Friday, 26 October 2018 to Wednesday, 31 October 2018, 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 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 Thursday, 25 October 2018.

(e) The voting of the resolutions proposed at the meeting as set out in this notice shall be taken by way of a poll.

(f) If a typhoon signal no. 8 (or above) is in force at or at any time after 7:00 a.m. on the date of the meeting, the meeting will be rescheduled. The Manager will publish an announcement on the websites of Sunlight REIT at www.sunlightreit.com and HKExnews of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk to notify Unitholders of the arrangement on the rescheduled meeting.

Financial Calendar

For FY2017/18

Interim Results Announcement	12 February 2018
Issuance of Interim Report	26 February 2018
Ex-distribution date for interim distribution	1 March 2018
Closure of Register for entitlement of interim distribution	5 March 2018 to 7 March 2018, both days inclusive
Interim distribution paid HK 12.6 cents per unit	20 March 2018
Final Results Announcement	4 September 2018
Ex-distribution date for final distribution	19 September 2018
Issuance of Annual Report	20 September 2018
Closure of Register for entitlement of final distribution	21 September 2018 to 26 September 2018, both days inclusive
Final distribution payable HK 13.9 cents per unit	11 October 2018
Closure of Register for entitlement to attend and vote at Annual General Meeting	26 October 2018 to 31 October 2018, both days inclusive
Annual General Meeting	31 October 2018

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

Responsible Officers of the Manager

WU Shiu Kee, Keith
WONG Chi Ming
LO Yuk Fong, Phyllis
HONG Kam Kit, Eddie
SHUM Chung Wah, Yulanda

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

30th Floor, Sunlight Tower,
248 Queen's Road East, Wan Chai,
Hong Kong

Investor Relations

Tel : (852) 3669 2880
Fax : (852) 2285 9980
Email : ir@HendersonSunlight.com

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
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
MUFG Bank, Ltd.
Oversea-Chinese Banking Corporation Limited, Hong Kong Branch
Sumitomo Mitsui Banking Corporation

Unit Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Website

www.sunlightreit.com

* Pursuant to paragraph 6.10 of the REIT Code, Knight Frank Petty Limited shall retire as the principal valuer of Sunlight REIT with effect from 31 August 2018. Colliers International (Hong Kong) Limited has been appointed by the Trustee to fill the casual vacancy with effect from 1 September 2018.

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com

MIX
Paper from responsible sources
FSC™ C015530
FSC
www.fsc.org