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))

(Stock Code : 435)

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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

The board of directors (the "**Board**") of Henderson Sunlight Asset Management Limited (the "**Manager**") is pleased to report to unitholders the unaudited interim results of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") for the six months ended 31 December 2019 (the "**Reporting Period**").

FINANCIAL HIGHLIGHTS

(in HK$' million, unless otherwise specified)

	Six months ended 31 December 2019	Six months ended 31 December 2018	Change (%)
Revenue	**437.1**	424.9	2.9
Net property income	**345.7**	338.7	2.1
Cost-to-income ratio (%)	**20.9**	20.3	N/A
Profit after taxation [Note]	**30.7**	859.1	(96.4)
Distributable income	**233.5**	231.6	0.8
Distribution per unit (HK cents)	**13.2**	13.2	-
Payout ratio (%)	**93.6**	93.9	N/A
	At 31 December 2019	At 30 June 2019	Change (%)
Portfolio valuation	**19,896.1**	20,002.5	(0.5)
Net asset value	**15,839.1**	15,991.9	(1.0)
Net asset value per unit (HK$)	**9.56**	9.68	(1.2)
Gearing ratio (%)	**20.5**	20.4	N/A

Note : Included a fair value loss on investment properties of HK$162.5 million (versus a fair value gain of HK$661.6 million in the same period last year).

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy Rate (%)		Passing Rent [1] (HK$/sq. ft.)		Rental Reversion [2] (%)		Net Property Income (HK$'000)		Capitalization Rate at 31 Dec 2019 (%)		Appraised Value at 31 Dec 2019 (HK$'000)
	at 31 Dec 2019	at 30 Jun 2019	at 31 Dec 2019	at 30 Jun 2019	six months ended 31 Dec 2019	six months ended 30 Jun 2019	six months ended 31 Dec 2019	six months ended 31 Dec 2018	Office	Retail	
Office											
Grade A											
Sunlight Tower	96.4	98.2	40.6	39.6	14.4	14.5	96,251	89,718	3.75	3.65	5,303,300
Grade B											
Strand 50 [3]	90.9	68.4 [4]	35.6	31.8	13.9	16.1	17,206	17,400	3.45	3.80	1,382,600
The Harvest	100.0	96.4	51.4	51.2	N/A	N/A	8,602	8,784	3.10	2.90	721,000
135 Bonham Strand Trade Centre Property	98.0	100.0	30.1	29.4	13.0	11.0	9,906	9,196	3.45	3.80	663,100
Winsome House Property	98.9	100.0	44.4	43.8	10.3	8.7	9,470	9,639	3.45	3.60	647,300
Righteous Centre	98.9	100.0	36.1	36.3	5.6	10.6	10,434	9,978	3.75	3.40	611,600
235 Wing Lok Street Trade Centre	86.8	93.8	22.8	22.6	6.3	12.2	5,772	6,094	3.45	3.80	423,200
Java Road 108 Commercial Centre	100.0	96.1	26.4	26.4	6.8	9.3	5,294	4,885	3.75	4.00	311,600
On Loong Commercial Building	98.0	100.0	32.6	31.6	8.7	10.0	4,728	4,543	3.65	3.70	284,100
Sun Fai Commercial Centre Property	95.0	100.0	23.7	22.7	18.4	12.9	2,865	2,871	3.80	4.05	193,300
Wai Ching Commercial Building Property	94.5	97.2	17.4	16.1	32.0	26.1	1,207	812	3.55	3.90	81,600
Sub-total/Average	**95.7**	**94.0**	**36.6**	**35.5**	**12.3**	**13.0**	**171,735**	**163,920**			**10,622,700**
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	96.4	98.1	118.6	118.4	7.2	19.2	82,267	85,518	N/A	4.30	4,483,800
Metro City Phase I Property	97.2	98.9	58.9	57.5	11.5	6.9	69,522	68,386	N/A	4.40	3,341,700
Kwong Wah Plaza Property	100.0	100.0	55.3	54.3	13.7	10.5	19,839	18,046	3.60	3.60	1,272,200
Urban											
Beverley Commercial Centre Property	77.4	62.9	42.5	45.6	(26.2)	(0.6)	1,028	1,540	N/A	4.10	101,000
Supernova Stand Property	100.0	100.0	54.5	54.5	N/A	7.7	1,333	1,323	N/A	3.80	74,700
Sub-total/Average	**97.1**	**98.1**	**76.5**	**75.8**	**8.7**	**11.1**	**173,989**	**174,813**			**9,273,400**
Total/Average	**96.1**	**95.3**	**49.4**	**48.6**	**10.3**	**12.2**	**345,724**	**338,733**			**19,896,100**

Notes :
1. Passing rent is calculated on the basis of average rent per sq. ft. for occupied gross rentable area 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 period.
3. The property was previously known as Bonham Trade Centre.
4. Excluding the renovated area, the occupancy rate would have been 95.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

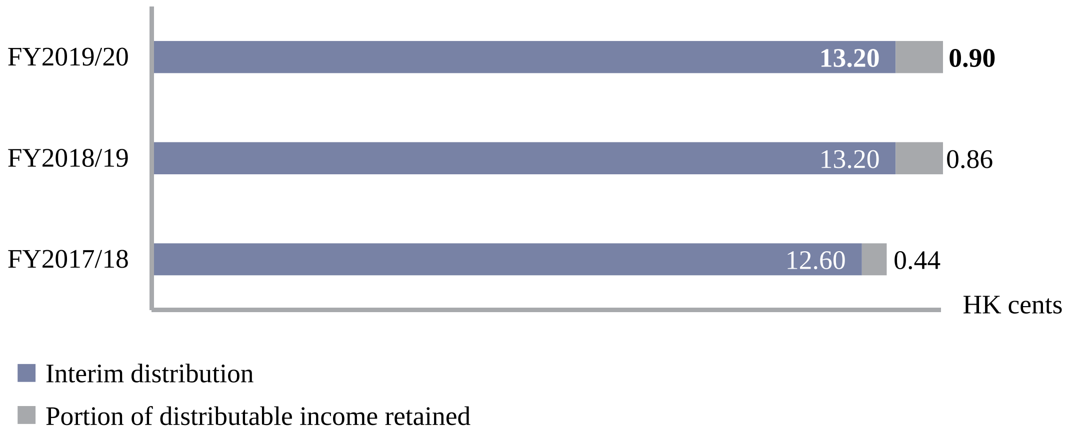
Sunlight REIT registered a 2.9% year-on-year growth in revenue to HK$437.1 million for the Reporting Period. After deducting property operating expenses of HK$91.4 million, net property income was HK$345.7 million, up 2.1% from the corresponding period last year. Finance costs increased 25.1% year on year to HK$64.1 million, of which cash interest expenses went up 18.0% to HK$55.8 million. The increase in finance costs reflected the higher interest rate environment and the expiry of certain low-cost interest rate swaps ("**IRSs**"). Interest income, on the other hand, rose 11.5% to HK$9.5 million during the Reporting Period.

Taking into account the decrease in fair value of investment properties of HK$162.5 million, profit after taxation was HK$30.7 million, compared to HK$859.1 million for the same period last year.

Distribution

Distributable income for the Reporting Period was HK$233.5 million, up 0.8% year on year. The Board of the Manager has resolved to declare an interim distribution per unit ("**DPU**") of HK 13.2 cents, or HK$218.6 million, representing a payout ratio of 93.6%. The interim DPU is unchanged from the corresponding period last year and implies an annualized distribution yield of 5.2%, based on the closing price of HK$5.04 on the last trading day of the Reporting Period.

Interim DPU at a Glance



Operation Review

Notwithstanding a difficult operating environment, Sunlight REIT managed to turn in reasonable operating results for the Reporting Period, with net property income exhibiting a 2.1% rise to HK$345.7 million, while office and retail rental reversions came in at 12.3% and 8.7% respectively. At 31 December 2019, the overall occupancy rate of Sunlight REIT's portfolio was 96.1% as compared to 95.3% at 30 June 2019. Thanks to the completion of asset enhancement works at Strand 50, occupancy rate of the office portfolio rebounded to 95.7% (30 June 2019: 94.0%). Occupancy rate of the retail portfolio declined slightly to 97.1% (30 June 2019: 98.1%), principally reflecting the longer rent void for vacant units at Sheung Shui Centre Shopping Arcade ("**SSC**") and Metro City Phase I Property ("**MCPI**").

In tandem with the overall rental reversion of 10.3% achieved during the Reporting Period, passing rent of the office and retail portfolio rose 3.1% and 0.9% from six months ago to HK$36.6 per sq. ft. and HK$76.5 per sq. ft. respectively.

Despite a slowdown in corporate expansion, performance of the office portfolio remained resilient, given stable office demand in the business areas where Sunlight REIT has a reasonable presence. Sunlight Tower registered a satisfactory rental reversion of 14.4% while the Sheung Wan/Central portfolio continued to show decent performance during the Reporting Period, as demonstrated by the double-digit rental reversions registered by Strand 50, Winsome House Property and 135 Bonham Strand Trade Centre Property.

On the retail front, SSC and MCPI recorded positive rental reversions of 7.2% and 11.5% respectively during the Reporting Period. However, these encouraging figures mainly reflected lease renewals secured prior to the onset of the social unrest. It is evident that the performance of the retail assets, notably SSC, was adversely affected by weakening consumer sentiment. Corresponding measures, such as short-term rental relief and promotional activities, were introduced during the Reporting Period to support tenants and stimulate consumer spending.

Financial Position

The appraised value of Sunlight REIT's portfolio was HK$19,896.1 million at 31 December 2019, a slight decrease of 0.5% from 30 June 2019. Consequently, the gross assets and net assets of Sunlight REIT dropped 0.4% and 1.0% to HK$20,716.0 million and HK$15,839.1 million respectively. Net asset value per unit was HK$9.56 (30 June 2019: HK$9.68).

At 31 December 2019, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 20.5% (30 June 2019: 20.4%), while gross liabilities[1] as a percentage of gross assets was 23.5% (30 June 2019: 23.1%). The EBITDA[2] of Sunlight REIT grew 2.8% year on year to HK$297.6 million. In light of the faster increase in interest expenses, the interest coverage ratio for the Reporting Period decreased to 5.3 times as compared with 6.1 times recorded in the same period last year.

Capital and Interest Rate Management

Sunlight REIT had loan facilities of HK$4,850.0 million in place at 31 December 2019, comprising term loan facilities of HK$4,250.0 million ("**Term Loan Facilities**"), all of which had been drawn, and uncommitted revolving credit facilities of HK$600.0 million that remained undrawn.

The Term Loan Facilities consist of secured loans of HK$2,930.0 million and unsecured loans of HK$1,320.0 million, with the secured tranche 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$11,169.7 million at 31 December 2019.

Notes :

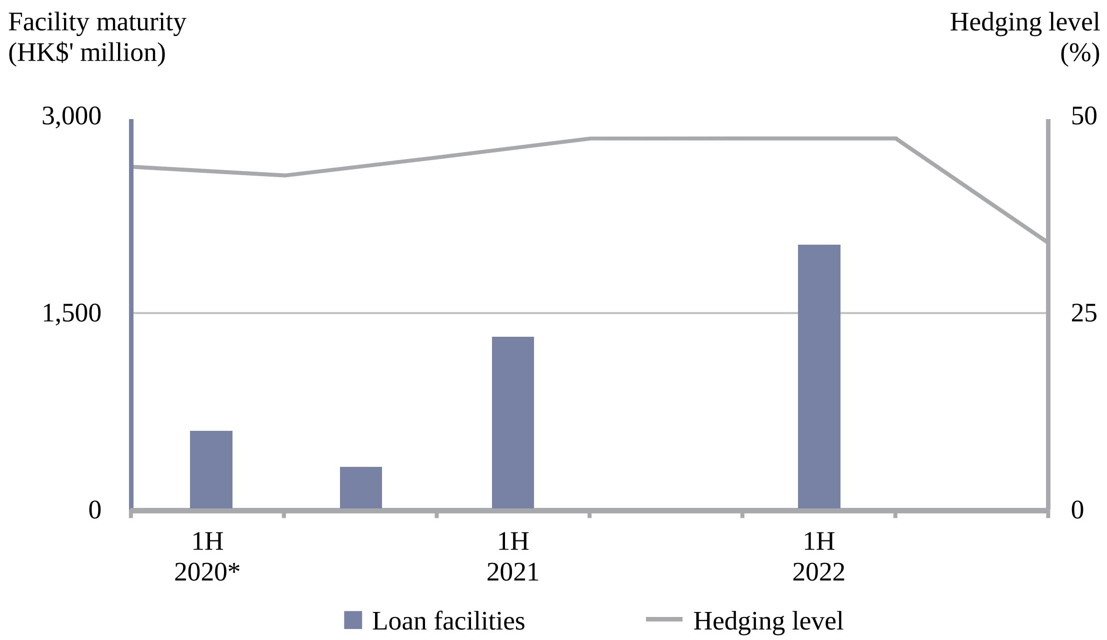
1. Gross liabilities include total borrowings, tenants' deposits and other liabilities.
2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Gain on disposals of investment properties and subsidiaries is excluded from the calculation.

At 31 December 2019, the weighted loan maturity period of the Term Loan Facilities was 1.8 years, with a blended interest margin of 0.69% per annum over the Hong Kong Interbank Offered Rate. Approximately 44% (30 June 2019: 46%) of the Term Loan Facilities were hedged to fixed rates with a weighted average tenure of 1.3 years. The weighted average interest rate (including loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 2.49% per annum (30 June 2019: 2.20% per annum).

On 17 January 2020, the Manager signed a 3-year secured term loan agreement to refinance an existing facility of HK$300.0 million due in March 2020. The weighted interest margin of the overall Term Loan Facilities will remain substantially unchanged upon drawdown of the renewed facility.

Given the fluid interest rate environment, the Manager executed a series of forward-start IRSs during the Reporting Period, bringing the total forward-start IRSs to HK$1,450.0 million at 31 December 2019. Together with the IRSs already effective, the fixed rate portion of the Term Loan Facilities is expected to stay above 33% over the next three years.

Facility Maturity Profile and Hedging Level
(at 31 December 2019)



* Includes HK$300 million term loan facility which has been refinanced in January 2020.

OUTLOOK

While the partial trade agreement between the US and China is a welcome development, one should not postulate that the deal represents a credible de-escalation of the trade war, nor does it address the ongoing tension between the two countries over the future of technology and certain geopolitical issues. With the 2020 US presidential election looming, investors' nerves will be tested from time to time by the unpredictable policy stance of the Trump administration; the heightened tensions in the Middle East is a case in point.

For Hong Kong, the social unrest entangling the territory since the second half of 2019 have clearly imposed a devastating impact on economic growth. The likelihood of higher unemployment rates and a dearth of tourist arrivals, particularly in light of the novel coronavirus outbreak, does not bode well for consumer spending. On the monetary front, despite the prospect of a stable US interest rate environment, the Manager remains of the view that the Hong Kong dollar funding cost may remain at a premium to its US counterpart given the prevailing liquidity environment and credit risk perception.

For the six months ending June 2020, office and retail lease expiries will constitute approximately 12.1% and 18.9% of each of their respective total gross rentable area. The rental outlook for the retail sector remains highly uncertain as sluggish retail sales will unavoidably translate into higher vacancies and lower (or even negative) rental reversion, particularly for trades which are tied to the vagaries of tourist spending. The office leasing market is expected to fare better, although the expansion motives of corporates have seemingly waned in light of the changing economic landscape.

Based on current market conditions, the Manager foresees the possibility of a diminution in the appraised value of Sunlight REIT's portfolio, which would cause a material change in "Profit from Operations" from the previous financial year. However, this is a non-cash item and would have no impact on distributable income.

Despite an arduous operating environment, there are bright spots which demonstrate the resilience of Sunlight REIT. In particular, the Manager is pleased to see the completion of Strand 50's renovation, which has appreciably improved the passing rent and the capital value of the property. The Manager is planning to infuse more sustainability elements into this building, with a view to generating both income and environmental benefits. Elsewhere, the timely enhancement of The Harvest has proved rewarding as the exercise achieved a return on investment of over 12%. Finally, the defensive nature of Sunlight REIT's shopping destinations, having been proactively strengthened by the Manager over the past few years, is expected to help alleviate the adverse impact arising from prevailing circumstances.

By entering into favourable forward-start IRSs in the final quarter of 2019, the Manager has ensured that Sunlight REIT will remain adequately cushioned from interest rate fluctuations going forward. In the meantime, the refinancing of bank loans due before June 2020 has progressed well, which again illustrates the strong credit metrics of Sunlight REIT. Such conservative leverage will allow the Manager to explore acquisition opportunities, both locally and overseas. However, unitholders can rest assured that financial prudence will remain at the forefront of the Manager's priorities.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The ex-distribution date and record date for the interim distribution are Wednesday, 26 February 2020 and Tuesday, 3 March 2020 respectively. The register of unitholders will be closed from Friday, 28 February 2020 to Tuesday, 3 March 2020, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 27 February 2020. Payment of the interim distribution will be made to unitholders on Friday, 13 March 2020.

CORPORATE GOVERNANCE

The Manager is committed to upholding a high standard of corporate governance. It has established a robust corporate governance framework to ensure compliance with all relevant laws and regulations. Accordingly, the Manager has adopted a compliance manual (the "**Compliance Manual**") which sets out the key processes, internal control and system, corporate governance policies as well as other policies and procedures governing the management and operations of Sunlight REIT. During the Reporting Period, the Manager has in material terms complied with the provisions of the Compliance Manual.

During the Reporting Period, the Manager and Sunlight REIT have also complied with, to the extent applicable, the code provisions in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Public Float

Based on information that is publicly available and as far as the Manager is aware, not less than 25% of the outstanding units in issue of Sunlight REIT were held in public hands at 31 December 2019.

New Units Issued

Except for an aggregate of 4,665,284 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Buy-back, Sale or Redemption of Units

During the Reporting Period, there was no purchase, sale or redemption of units by Sunlight REIT or its wholly-owned and controlled entities.

Employees

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

Review of Interim Results

The interim results of Sunlight REIT for the Reporting Period have been reviewed by the audit committee and the disclosures committee of the Manager in accordance with their respective terms of reference. The condensed interim financial statements have also been reviewed by the auditor of Sunlight REIT, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

ISSUANCE OF INTERIM REPORT

The interim report of Sunlight REIT for the Reporting Period will be sent to unitholders on 21 February 2020.

FORWARD-LOOKING STATEMENTS

This announcement 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 and senior management of the Manager. 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2019	2018
	Note	**$'000**	$'000
Revenue	3 & 4	**437,099**	424,883
Property operating expenses	3 & 5	**(91,375)**	(86,150)
Net property income		**345,724**	338,733
Other income		**9,508**	8,506
Administrative expenses		**(57,635)**	(57,758)
Net (decrease)/increase in fair value of investment properties		**(162,527)**	661,635
Profit from operations		**135,070**	951,116
Finance costs on interest bearing liabilities	6(a)	**(64,055)**	(51,210)
Profit before taxation and transactions with unitholders	6	**71,015**	899,906
Income tax	7	**(40,272)**	(40,854)
Profit after taxation and before transactions with unitholders		**30,743**	859,052

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2019	2018
	$'000	$'000
Profit after taxation and before transactions with unitholders	**30,743**	859,052
Other comprehensive income for the period		
Items that have been reclassified/may be reclassified subsequently to profit or loss :		
- Effective portion of changes in fair value of cash flow hedges recognized during the period	**18,040**	(29,327)
- Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	**5,109**	1,791
- Deferred tax credited to other comprehensive income	**-**	4,760
	23,149	(22,776)
Total comprehensive income for the period	**53,892**	836,276

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**31 December 2019 (Unaudited) $'000**	30 June 2019 (Audited) $'000
Non-current assets			
Fixed assets			
- Investment properties		**19,896,100**	20,002,510
- Other fixed assets		**31**	42
		19,896,131	20,002,552
Deferred tax assets		**122**	136
Derivative financial instruments		**10,496**	21
Reimbursement rights		**37,436**	37,436
Other financial assets		**116,374**	136,405
Other non-current assets		**45**	5,955
		20,060,604	20,182,505
Current assets			
Trade and other receivables	9	**32,890**	24,597
Derivative financial instruments		**4,161**	5,122
Cash and bank balances		**574,909**	550,024
Tax recoverable		**43,473**	43,520
		655,433	623,263
Total assets		**20,716,037**	20,805,768
Current liabilities			
Tenants' deposits		**(222,083)**	(216,434)
Rent receipts in advance		**(17,430)**	(8,684)
Trade and other payables	10	**(83,254)**	(69,769)
Bank borrowings		**(924,435)**	(599,326)
Derivative financial instruments		**(5,274)**	(2,703)
Tax payable		**(110,304)**	(76,827)
		(1,362,780)	(973,743)
Net current liabilities		**(707,347)**	(350,480)
Total assets less current liabilities		**19,353,257**	19,832,025

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2019
(Expressed in Hong Kong dollars)

	31 December 2019 (Unaudited) $'000	30 June 2019 (Audited) $'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank borrowings	**(3,315,746)**	(3,637,960)
Deferred tax liabilities	**(185,775)**	(178,995)
Derivative financial instruments	**(12,632)**	(23,203)
	(3,514,153)	(3,840,158)
Total liabilities, excluding net assets attributable to unitholders	**(4,876,933)**	(4,813,901)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	**15,839,104**	15,991,867
Number of units in issue	**1,656,388,363**	1,651,723,079
Net asset value attributable to unitholders per unit	**$9.56**	$9.68

DISTRIBUTION STATEMENT

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2019	2018
	Note	**$'000**	$'000
Profit after taxation and before transactions with unitholders		**30,743**	859,052
Adjustments (note (i)) :			
- Net decrease/(increase) in fair value of investment properties		**162,527**	(661,635)
- Manager's fees paid or payable in the form of units		**25,135**	24,194
- Interest rate swaps - cash flow hedges	6(a)	**5,635**	1,315
- Non-cash finance costs on interest bearing liabilities		**2,649**	2,648
- Deferred tax	7	**6,795**	6,044
		202,741	(627,434)
Distributable income (note (i))		**233,484**	231,618
Interim distribution (note (ii))		**218,643**	217,422
Payout ratio (note (ii))		**93.6%**	93.9%
Distribution per unit (note (ii))		**13.2 cents**	13.2 cents

Notes* :

(i) Pursuant to the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong and the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**"), Sunlight REIT is in any event required to ensure that the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the current period included the adding back of non-cash finance costs on interest bearing liabilities of $2,649,000, or 0.16 cents per unit (2018: $2,648,000 or 0.16 cents per unit) (which is regarded as an effective return of capital) resulting from amortization of debt establishment fees in respect of bank borrowings.

DISTRIBUTION STATEMENT (continued)

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

(ii) The interim distribution of $218,643,000 for the six months ended 31 December 2019 (2018: $217,422,000), representing a payout ratio of 93.6% (2018: 93.9%), is calculated by multiplying the interim distribution per unit of 13.2 cents by 1,656,388,363 units** anticipated to be in issue at 3 March 2020, the record date for FY2019/20 interim distribution (the "**Record Date**") (2018: 13.2 cents by 1,647,139,077 units in issue at 7 March 2019, the record date for FY2018/19 interim distribution).

(iii) The interim distribution is expected to be paid on 13 March 2020 to unitholders whose names appear on the register of unitholders on the Record Date.

(iv) The interim distribution declared after the end of the Reporting Period has not been recognized as a liability at the end of the Reporting Period.

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

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

NOTES

(Expressed in Hong Kong dollars)

1. General

Sunlight REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed and is authorized 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 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. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a new Hong Kong Financial Reporting Standard ("**HKFRS**"), HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the condensed interim financial statements.

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

HKFRS 16, *Leases*

HKFRS 16 replaces Hong Kong Accounting Standard ("**HKAS**") 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The lessor accounting requirements are substantially unchanged from HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as the Group has not entered into any leases as a lessee.

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

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

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

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

3. Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2019 (Unaudited)			2018 (Unaudited)		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
- Rental income	**175,291**	**175,415**	**350,706**	167,303	174,056	341,359
- Car park income	**1,822**	**15,904**	**17,726**	1,839	16,076	17,915
- Rental related income	**34,723**	**33,944**	**68,667**	32,507	33,102	65,609
	211,836	**225,263**	**437,099**	201,649	223,234	424,883
Property operating expenses	**(40,101)**	**(51,274)**	**(91,375)**	(37,729)	(48,421)	(86,150)
Net property income	**171,735**	**173,989**	**345,724**	163,920	174,813	338,733
Administrative expenses	**(27,375)**	**(24,501)**	**(51,876)**	(28,516)	(23,777)	(52,293)
Segment results	**144,360**	**149,488**	**293,848**	135,404	151,036	286,440
Net (decrease)/increase in fair value of investment properties	**(42,152)**	**(120,375)**	**(162,527)**	234,246	427,389	661,635
Finance costs on interest bearing liabilities			**(64,055)**			(51,210)
Income tax			**(40,272)**			(40,854)
Interest income			**9,487**			8,506
Unallocated net expenses			**(5,738)**			(5,465)
Profit after taxation and before transactions with unitholders			**30,743**			859,052
Depreciation	**3**	**8**	**11**	3	9	12

4. Revenue

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

	Six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	$'000	$'000
Rental income	**350,706**	341,359
Car park income	**17,726**	17,915
Rental related income	**68,667**	65,609
	437,099	424,883

5. Property operating expenses

	Six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	$'000	$'000
Building management fee	**31,172**	31,488
Property manager's fees	**27,928**	26,437
Government rent and rates	**18,439**	16,388
Marketing and promotion expenses	**4,182**	2,720
Car park operating costs	**3,322**	3,194
Other direct costs	**6,332**	5,923
	91,375	86,150

6. Profit before taxation and transactions with unitholders

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

	Six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	$'000	$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	**55,771**	47,247
Other borrowing costs	**2,649**	2,648
	58,420	49,895
Interest rate swaps - cash flow hedges		
- Reclassified from net assets attributable to unitholders	**5,109**	1,791
- Net fair value loss/(gain) of ineffective cash flow hedges	**526**	(476)
	5,635	1,315
	64,055	51,210

Other borrowing costs represent various financing charges and the amortization of the debt establishment fees for the bank borrowings.

	Six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	$'000	$'000
(b) Other items		
Interest income	**(9,487)**	(8,506)
Manager's fees	**50,270**	48,388
Property manager's fees (note (i))	**27,928**	26,437
Trustee's remuneration and charges	**2,457**	2,410
Auditor's remuneration		
- Audit services	**791**	739
- Other services	**497**	488
Valuation fees payable to principal valuer	**251**	309
Legal and other professional fees	**1,811**	4,317
Commission to property agents	**771**	298
Bank charges	**146**	140
Net foreign exchange loss	**277**	299

Notes :

(i) Included rental commission of $7,736,000 (2018: $6,701,000).

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

7. Income tax

	Six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	$'000	$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**33,477**	34,810
Deferred tax		
Origination and reversal of temporary differences	**6,795**	6,044
	40,272	40,854

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

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 2016/17, and certain other subsidiaries covering the years of assessment up to 2012/13, as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commissions incurred by these subsidiaries. Notices of objection were filed with the IRD against the above additional profits tax assessments raised to date. At 31 December 2019, tax reserve certificates in an aggregate amount of $43.3 million had been purchased in respect of the additional assessments raised.

Regarding the Particular Subsidiary, the IRD issued a determination in April 2018 in respect of the objections to the assessments on the Particular Subsidiary which allowed the deduction of property management fees and rental commissions, while the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT's legal and tax advisers, the Manager decided to contest the assessments raised in respect of the management fees and a notice of appeal against the written determination was filed with the Board of Review (Inland Revenue Ordinance) ("**BoR**") in May 2018. The appeal was heard by the BoR in June 2019 and its decision is awaited.

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 2019/20 would amount to approximately $109 million.

8. Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2019 amounted to $0.02 (2018: $0.52). 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 $30,743,000 (2018: $859,052,000) and the weighted average of 1,653,371,141 units in issue during the period (2018: 1,645,947,029 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2019 and 2018 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

9. Trade and other receivables

	31 December 2019 (Unaudited) $'000	30 June 2019 (Audited) $'000
Rental receivables	**24,402**	16,385
Deposits and prepayments	**4,681**	5,117
Other receivables	**2,647**	2,229
Amounts due from related companies	**1,160**	866
	32,890	24,597

$3,732,000 (30 June 2019: $3,800,000) 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 recognized as expense within one year.

9. Trade and other receivables (continued)

At the end of the Reporting Period, the ageing analysis of rental receivables, based on the date of revenue recognition and net of loss allowance, is as follows :

	31 December 2019 (Unaudited) $'000	30 June 2019 (Audited) $'000
Current	**20,383**	14,014
Less than 1 month overdue	**2,443**	1,729
More than 1 month and up to 3 months overdue	**1,163**	431
More than 3 months and up to 6 months overdue	**365**	174
More than 6 months overdue	**48**	37
	24,402	16,385

The Group has no significant concentrations of credit risk. The Manager is of the opinion that monthly rents in respect of leasing properties are received in advance and there is no specific credit terms given to the tenants. Sufficient rental deposits are held to cover potential exposure to credit risk.

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

10. Trade and other payables

	31 December 2019 (Unaudited) $'000	30 June 2019 (Audited) $'000
Creditors and accrued charges	**47,107**	33,705
Manager's fees payable	**25,156**	27,362
Amounts due to related companies	**10,991**	8,702
	83,254	69,769

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 Sunlight REIT of $1,212,000 (30 June 2019: $1,343,000) which is due within 30 days.

11. Non-adjusting event after the Reporting Period

After the end of the Reporting Period, the Board of the Manager declared an interim distribution. Further details are disclosed in the "Distribution Statement" of this announcement.

By order of the Board
HENDERSON SUNLIGHT ASSET MANAGEMENT LIMITED
恒基陽光資產管理有限公司
(as manager of Sunlight Real Estate Investment Trust)
CHUNG Siu Wah
Company Secretary

Hong Kong, 11 February 2020

At the date of this announcement, the Board of the Manager comprises: (1) Chairman and Non-executive Director: Mr. AU Siu Kee, Alexander; (2) Chief Executive Officer and Executive Director: Mr. WU Shiu Kee, Keith; (3) Non-executive Director: Mr. KWOK Ping Ho; and (4) Independent Non-executive Directors: Mr. KWAN Kai Cheong, Dr. TSE Kwok Sang and Mr. KWOK Tun Ho, Chester.