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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 2020

The board of directors (the “**Board**”) of Henderson Sunlight Asset Management Limited (the “**Manager**”) announces the unaudited interim results of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) for the six months ended 31 December 2020 (the “**Reporting Period**”).

FINANCIAL HIGHLIGHTS

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

	Six months ended 31 December 2020	Six months ended 31 December 2019	Change (%)
Revenue	399.5	437.1	(8.6)
Net property income	319.5	345.7	(7.6)
(Loss)/profit after taxation ^{Note}	(194.1)	30.7	N/A
Distributable income	220.0	233.5	(5.8)
Distribution per unit (HK cents)	12.5	13.2	(5.3)
Payout ratio (%)	94.7	93.6	N/A
	At 31 December 2020	At 30 June 2020	Change (%)
Portfolio valuation	18,548.6	18,918.0	(2.0)
Net asset value	14,349.7	14,771.2	(2.9)
Net asset value per unit (HK\$)	8.61	8.89	(3.1)
Gearing ratio (%)	22.4	21.6	N/A

Note : Included a fair value loss on investment properties of HK\$380.2 million (six months ended 31 December 2019: HK\$162.5 million).

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 2020 (%)		Appraised Value at 31 Dec 2020 (HK\$'000)
	at 31 Dec 2020	at 30 Jun 2020	at 31 Dec 2020	at 30 Jun 2020	six months ended 31 Dec 2020	six months ended 30 Jun 2020	six months ended 31 Dec 2020	six months ended 31 Dec 2019	Office	Retail	
Office											
Grade A											
Sunlight Tower	88.8	94.3	44.9	40.8	7.3	11.4	83,614	96,251	3.75	3.65	5,304,700
Grade B											
Strand 50	87.2	95.5	33.2	35.6	4.7	9.2	18,672	17,206	3.45	3.80	1,333,400
The Harvest	100.0	100.0	53.3	51.1	N/A	N/A	9,920	8,602	3.30	3.10	652,400
135 Bonham Strand Trade Centre Property	87.3	94.5	29.3	30.1	(5.9)	0.3	9,238	9,906	3.55	3.80	593,400
Winsome House Property	85.8	96.1	45.5	44.8	(9.8)	9.8	8,809	9,470	3.55	3.60	580,600
Righteous Centre	99.3	99.3	34.4	35.2	(7.0)	(2.9)	9,320	10,434	3.75	3.50	541,600
235 Wing Lok Street Trade Centre	86.8	94.3	21.3	22.3	(11.6)	(3.0)	5,305	5,772	3.55	3.80	377,700
Java Road 108 Commercial Centre	96.1	100.0	25.4	26.4	(11.0)	1.7	5,095	5,294	3.75	4.00	281,700
On Loong Commercial Building	96.0	94.1	32.0	32.9	(8.9)	(6.6)	4,202	4,728	3.65	3.70	257,800
Sun Fai Commercial Centre Property	93.1	100.0	23.0	23.1	(7.1)	(1.0)	3,073	2,865	3.80	4.05	172,700
Wai Ching Commercial Building Property	94.5	100.0	17.6	17.8	2.2	11.6	1,364	1,207	3.55	3.90	81,100
Sub-total/Average	90.1	95.6	37.8	36.5	(2.4)	5.6	158,612	171,735			10,177,100
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	92.9	96.8	105.6	112.9	(7.3)	(10.0)	72,872	82,267	N/A	4.30	3,989,600
Metro City Phase I Property	94.3	94.5	57.3	58.4	(9.8)	(1.5)	66,399	69,522	N/A	4.40	3,073,200
Kwong Wah Plaza Property ³	99.3	99.3	53.4	55.7	11.0	5.0	19,021	19,839	3.60	3.60	1,152,600
Urban											
Beverley Commercial Centre Property	80.3	77.4	34.5	39.6	(32.8)	(15.0)	1,218	1,028	N/A	4.10	84,000
Supernova Stand Property	100.0	100.0	54.5	54.5	N/A	4.7	1,376	1,333	N/A	3.80	72,100
Sub-total/Average	94.5	95.8	71.0	74.8	(5.9)	(4.6)	160,886	173,989			8,371,500
Total/Average	91.5	95.7	48.7	48.6	(4.5)	(1.0)	319,498	345,724			18,548,600

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. An additional office unit with gross rentable area of 533 sq. ft. was acquired on 31 July 2020 for HK\$8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

Reflecting the unfavourable operating environment attributable to the pandemic outbreak, Sunlight REIT recorded an 8.6% year-on-year decline in revenue to HK\$399.5 million for the Reporting Period. The decrease in revenue would have been 6.9% had the amortized impact of rental concessions (amounting to HK\$7.8 million) been excluded. After deducting property operating expenses of HK\$80.0 million, net property income (“NPI”) came in at HK\$319.5 million, down 7.6%. Finance costs decreased 28.8% year on year to HK\$45.6 million, thanks to the lower Hong Kong Interbank Offered Rate (“HIBOR”) despite a slightly higher level of borrowings during the Reporting Period.

Taking into account a decrease in fair value of investment properties of HK\$380.2 million, a loss after taxation of HK\$194.1 million was reported, compared to a profit after taxation of HK\$30.7 million for the same period last year.

Distribution

The Board has resolved to declare an interim distribution per unit (“DPU”) of HK 12.5 cents, representing a payout ratio of 94.7%, and an annualized distribution yield of 6.6% based on the closing price of HK\$3.77 on the last trading day of the Reporting Period.

Interim DPU at a Glance



Operation Review

The overall occupancy rate of Sunlight REIT’s portfolio at 31 December 2020 was 91.5% as compared to 95.7% at 30 June 2020. The decline was mainly attributable to office occupancy rate which dropped to 90.1% (30 June 2020: 95.6%), principally reflecting the lengthened rent void when sourcing replacement tenants, particularly for Sunlight Tower and the Sheung Wan/Central portfolio. In contrast, retail occupancy rate of 94.5% was reasonably satisfactory as compared to 95.8% at 30 June 2020, demonstrating some early signs of stability in domestic consumption.

For the Reporting Period, the office and retail portfolios registered negative rental reversions of 2.4% and 5.9% respectively, giving rise to an overall negative rental reversion of 4.5%. Benefitting from the meaningful contribution by a new major tenant at Sunlight Tower, passing rent of the office portfolio rose 3.6% from six months ago to HK\$37.8 per sq. ft. at 31 December 2020, while that of the retail portfolio was HK\$71.0 per sq. ft., down 5.1%.

In respect of the performance of key office properties, Sunlight Tower was inevitably affected by the rental loss due to higher vacancy and slower new letting activities, resulting in a 13.1% decline in NPI to HK\$83.6 million. On the bright side, the Manager was pleased to have refurbished Strand 50 at an appropriate time and secured quality tenants at the low zone, achieving an 8.5% increase in NPI.

Amidst the uncertain business environment, the performance of office properties on the Kowloon side was satisfactory and helped mitigate the adverse impact arising from the other properties. In particular, The Harvest was fully let, while occupancy rate of Righteous Centre was 99.3%.

The performance of the retail portfolio remained under pressure in terms of NPI and passing rent. As a community mall well positioned for non-discretionary shopping, dining and services, Metro City Phase I Property has demonstrated its resilience, with NPI recording a moderate 4.5% decrease to HK\$66.4 million, while occupancy rate was largely unchanged at 94.3% (30 June 2020: 94.5%). On the other hand, NPI of Sheung Shui Centre Shopping Arcade dropped 11.4% to HK\$72.9 million, with a lower occupancy rate of 92.9% (30 June 2020: 96.8%). In response, the Manager launched a promotional campaign by offering shoppers to purchase discount coupons through “eShop@Sunlight”, a new e-commerce platform to stimulate spending at Sunlight REIT’s key shopping destinations.

Financial Position

The appraised value of Sunlight REIT’s portfolio was HK\$18,548.6 million at 31 December 2020, representing a mild decrease of 2.0% from 30 June 2020. Consequently, the gross assets and net assets of Sunlight REIT dropped 1.9% and 2.9% to HK\$19,293.7 million and HK\$14,349.7 million respectively (30 June 2020: HK\$19,674.1 million and HK\$14,771.2 million). Net asset value per unit was HK\$8.61 (30 June 2020: HK\$8.89).

At 31 December 2020, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 22.4% (30 June 2020: 21.6%), while gross liabilities as a percentage of gross assets was 25.6% (30 June 2020: 24.9%). For the Reporting Period, the EBITDA^{Note} of Sunlight REIT decreased 9.2% year on year to HK\$270.1 million, while cash interest expenses of HK\$41.5 million represented a 25.7% decline from the same period last year. In light of a faster decrease in cash interest expenses, interest coverage ratio improved to 6.5 times as compared with 5.3 times recorded in the corresponding period a year earlier.

Note : 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.

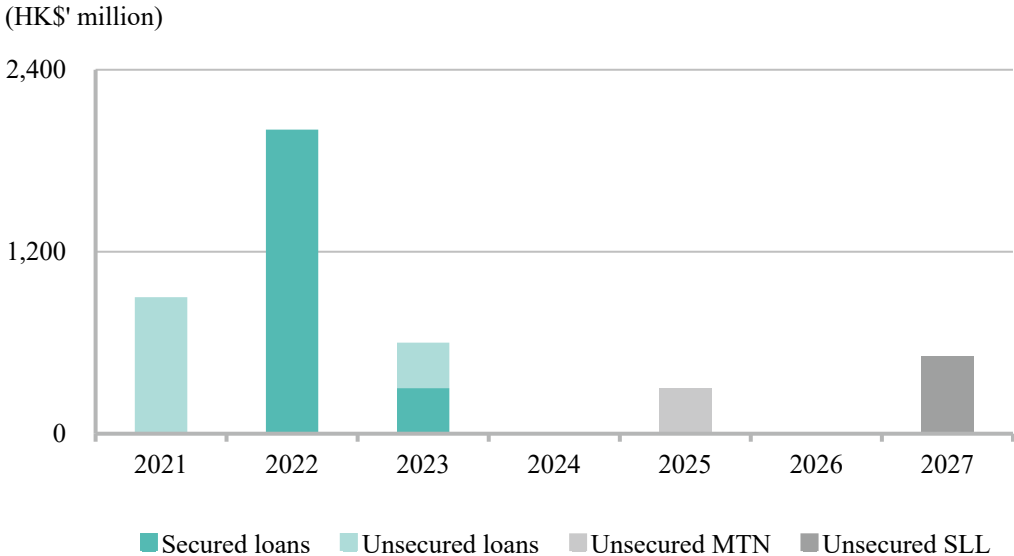
Capital and Interest Rate Management

In October 2020, Sunlight REIT completed its first sustainability-linked loan (“SLL”) with an amount of Japanese yen 7,000 million (equivalent to approximately HK\$513 million) for a tenure of seven years. In November 2020, Sunlight REIT issued its maiden HK\$300 million five-year medium term notes (“MTN”). These new facilities had been principally applied towards the refinancing of certain bank loans due in June 2021 with the remaining balance kept as working capital.

At 31 December 2020, Sunlight REIT had total borrowings of HK\$4,318 million (30 June 2020: HK\$4,250 million) with a weighted debt maturity period of 2.3 years.

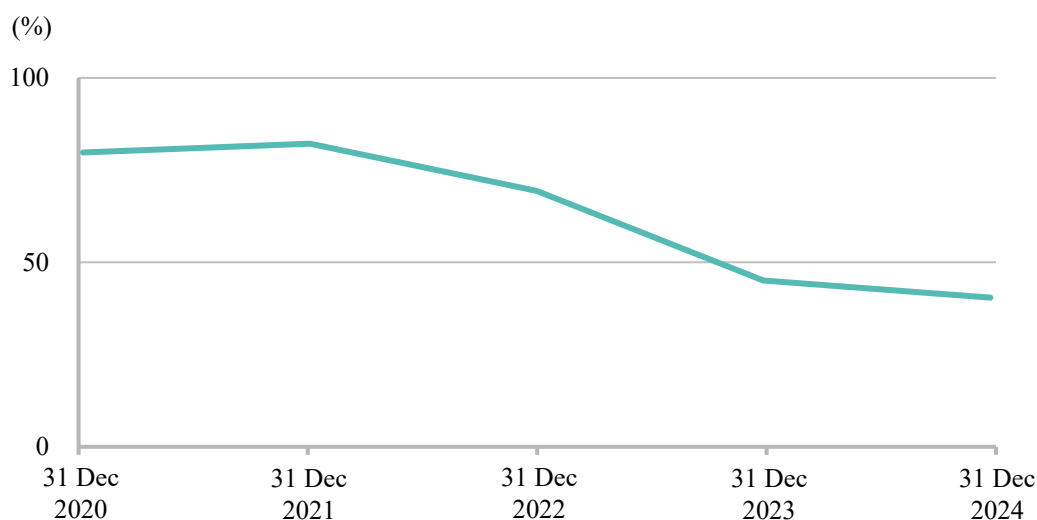
With the first SLL (which has been swapped to fixed rates in Hong Kong dollar) and the issuance of MTN, the percentage of Sunlight REIT’s fixed rate borrowings has increased to approximately 79% at 31 December 2020. The weighted average interest rate (including loan interest margin, if applicable) for the fixed rate borrowings was 2.44% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.72% per annum over HIBOR. Together with the HK\$400 million forward-start interest rate swaps to be effective in the first half of 2021, the fixed rate portion of the borrowings is expected to stay above 65% over the next two years.

Maturity Profile of Total Borrowings
(31 December 2020)



Fixed Rate Borrowings as a % of Total Borrowings

(31 December 2020)



On 2 February 2021, the Manager signed a HK\$500 million unsecured SLL with DBS Bank Ltd., Hong Kong Branch for a tenure of five years; drawdown of this facility is expected to take place around late April 2021.

Tax Matters

On the 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 (the “**Taxpayer**”) was received in April 2018 (the “**Determination**”). While the Determination allowed the deduction of property management fees and rental commissions, the management fees remained non-deductible. The Taxpayer contested the assessments raised in respect of the management fees and a notice of appeal against the Determination was filed with the Board of Review (Inland Revenue Ordinance) (“**BoR**”) in May 2018, and the appeal was heard in June 2019. On 30 November 2020, the BoR handed down its decision (the “**BoR Decision**”) allowing the Taxpayer’s appeal, determining that the relevant profits tax assessments and additional profits tax assessments were excessive or incorrect, and these assessments are to be revised to allow for the deduction of the management fees. The Taxpayer was subsequently informed that the IRD would not appeal against the BoR Decision.

As for the profits tax assessments raised by the IRD relating to the tax deduction disallowances on other property holding companies under Sunlight REIT, notices of objection to these assessments have been filed with the IRD. The Manager has commenced discussions with the IRD with a view to resolving these tax disputes in the light of the BoR Decision.

Note : The IRD disallowed the deductions of the management fees, property management fees and (in some cases) rental commissions incurred by certain property holding companies under Sunlight REIT.

OUTLOOK

While the global economy is still reeling from pandemic uncertainties, the positive investment sentiment on financial assets is escalating rapidly, being spurred by aggressive monetary and fiscal stimulus, as well as growing optimism over the rollout and efficacy of COVID-19 vaccines. In the meantime, economic growth in China is consensually projected to recover strongly in 2021, with private consumption and service sectors expected to steal the limelight. As the dust settles on the US elections, there is a possibility that the incoming Biden administration may adopt a milder stance towards China, though ensuring to maintain sufficient leverage on critical issues.

Accordingly, Hong Kong should echo global developments and be on course for a gradual economic recovery. However, one should take heed of the still unstable epidemic situation, the extent and severity of which may inflict further business closures and a higher level of unemployment.

The near term prospects for commercial leasing are expected to remain lackluster. The persistent theme of downsizing and cost savings among corporates will continue to dampen the demand for office spaces. Driven by steady non-discretionary consumption, the retail sector is envisaged to fare better, although its upward momentum will remain subdued until the prevailing lockdown and social restriction measures are substantially relaxed.

For the six months ending June 2021, leases representing 20.5% of the total gross rentable area of Sunlight REIT are due for renewal, comprising 23.6% and 13.8% for office and retail spaces respectively. While lower occupancy rates, negative rental reversions and the amortized impact of rental concessions are set to stay, their adverse effects should be less pronounced, barring unforeseen circumstances. On a more encouraging note, Sunlight REIT stands to benefit from contributions from new tenants such as Dah Sing Bank, Limited, stringent cost containment measures as well as proactive financing initiatives implemented by the Manager over the past few months.

While the scenario of an economic recovery and the recent sharp surge in commodity prices may somewhat cause concern for inflation, the Manager foresees limited upside on interest rates in the short-to-medium term, with the abundance of market liquidity providing an opportune window for Sunlight REIT to diversify its sources of funds, while refining the maturity profile and fixed rate position of its borrowings. Riding on the success in capital management in the first half of FY2020/21, the Manager is confident about favourably refinancing the indebtedness due for maturity by June 2021, while earmarking sufficient funding for potential acquisition opportunities.

Just before the turn of 2021, the Securities and Futures Commission has published and enacted amendments to the Code on Real Estate Investment Trusts, which would greatly enhance the scope and flexibility of real estate acquisitions. This is a welcome move and should prove beneficial to the long term development of Sunlight REIT. As the Manager is firmly committed to steering through the coronavirus volatility, unitholders should also be assured of the Manager's unwavering aspirations to expanding the investment footprint of Sunlight REIT.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The ex-distribution date and record date for the interim distribution are Thursday, 25 February 2021 and Wednesday, 3 March 2021 respectively. The register of unitholders will be closed from Monday, 1 March 2021 to Wednesday, 3 March 2021, 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 Friday, 26 February 2021. Payment of the interim distribution will be made to unitholders on Friday, 12 March 2021.

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 the date of this announcement.

New Units Issued

Except for an aggregate of 6,238,788 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Buy-back, Sale or Redemption of Units

Pursuant to the general mandate to buy back units granted by unitholders, the Manager bought back a total of 800,000 units on behalf of Sunlight REIT on The Stock Exchange of Hong Kong Limited during the Reporting Period for an aggregate consideration of approximately HK\$2.9 million (excluding buy-back expenses). All the units were bought back and cancelled in November 2020; and the highest and the lowest price paid per unit for such buy-backs were HK\$3.68 and HK\$3.60 respectively.

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

Employees

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

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 24 February 2021.

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 2020 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	2020	2019
		\$'000	\$'000
Revenue	3 & 4	399,534	437,099
Property operating expenses	3 & 5	<u>(80,036)</u>	<u>(91,375)</u>
Net property income		319,498	345,724
Other income		4,780	9,508
Administrative expenses		(54,147)	(57,635)
Net decrease in fair value of investment properties		<u>(380,209)</u>	<u>(162,527)</u>
(Loss)/profit from operations		(110,078)	135,070
Finance costs on interest-bearing liabilities	6(a)	<u>(45,619)</u>	<u>(64,055)</u>
(Loss)/profit before taxation and transactions with unitholders	6	(155,697)	71,015
Income tax	7	<u>(38,429)</u>	<u>(40,272)</u>
(Loss)/profit after taxation and before transactions with unitholders		<u><u>(194,126)</u></u>	<u><u>30,743</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2020	2019
	\$'000	\$'000
(Loss)/profit after taxation and before transactions with unitholders	<u>(194,126)</u>	<u>30,743</u>
Other comprehensive income for the period		
<i>Items that have been reclassified/may be reclassified subsequently to profit or loss :</i>		
- Effective portion of changes in fair value of cash flow hedges recognized during the period	(22,715)	18,040
- Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest-bearing liabilities	<u>483</u>	<u>5,109</u>
	<u>(22,232)</u>	<u>23,149</u>
Total comprehensive (loss)/income for the period	<u><u>(216,358)</u></u>	<u><u>53,892</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in Hong Kong dollars)

	Note	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Non-current assets			
Fixed assets			
- Investment properties		18,548,600	18,918,000
- Other fixed assets		21	22
		18,548,621	18,918,022
Deferred tax assets		137	80
Derivative financial instruments		6,045	-
Reimbursement rights		37,436	37,436
Other financial assets		125,976	115,674
Other non-current assets		1,347	576
		18,719,562	19,071,788
Current assets			
Trade and other receivables	9	53,063	48,920
Derivative financial instruments		-	63
Cash and bank balances		467,310	499,433
Tax recoverable		53,758	53,893
		574,131	602,309
Total assets		19,293,693	19,674,097
Current liabilities			
Tenants' deposits		(198,253)	(220,808)
Rent receipts in advance		(14,429)	(20,094)
Trade and other payables	10	(69,601)	(60,463)
Bank and other borrowings		(899,240)	(1,642,614)
Derivative financial instruments		(51,073)	(30,010)
Tax payable		(39,436)	(77,007)
		(1,272,032)	(2,050,996)
Net current liabilities		(697,901)	(1,448,687)
Total assets less current liabilities		18,021,661	17,623,101

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2020

(Expressed in Hong Kong dollars)

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank and other borrowings	(3,402,500)	(2,596,867)
Deferred tax liabilities	(198,460)	(192,139)
Derivative financial instruments	(70,996)	(62,939)
	<u>(3,671,956)</u>	<u>(2,851,945)</u>
Total liabilities, excluding net assets attributable to unitholders	<u>(4,943,988)</u>	<u>(4,902,941)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u>14,349,705</u>	<u>14,771,156</u>
Number of units in issue	<u>1,666,867,824</u>	<u>1,661,429,036</u>
Net asset value attributable to unitholders per unit	<u>\$8.61</u>	<u>\$8.89</u>

DISTRIBUTION STATEMENT

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	2020	2019
		\$'000	\$'000
(Loss)/profit after taxation and before transactions with unitholders		<u>(194,126)</u>	<u>30,743</u>
Adjustments (note (i)) :			
- Net decrease in fair value of investment properties		380,209	162,527
- Manager's fees paid or payable in the form of units		23,528	25,135
- Interest rate swaps - cash flow hedges	6(a)	905	5,635
- Non-cash finance costs on interest-bearing liabilities		3,262	2,649
- Deferred tax	7	<u>6,264</u>	<u>6,795</u>
		<u>414,168</u>	<u>202,741</u>
Distributable income (note (i))		<u>220,042</u>	<u>233,484</u>
Interim distribution (note (ii))		208,358	218,643
Payout ratio (note (ii))		<u>94.7%</u>	<u>93.6%</u>
Distribution per unit (note (ii))		<u>12.5 cents</u>	<u>13.2 cents</u>

Notes* :

- (i) Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong, a real estate investment trust shall distribute to unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. Pursuant to the trust deed dated 26 May 2006 under which Sunlight REIT was constituted (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”), 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 (loss)/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 which have been recorded in the consolidated statement of profit or loss for the relevant financial period.

DISTRIBUTION STATEMENT (continued)

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

In arriving at the amount available for distribution for the current period, adjustments have been made, among others, to add back the finance costs relating to amortization of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of \$3,262,000, or 0.20 cent per unit (2019: \$2,649,000, or 0.16 cent per unit) (which is an effective return of capital), and to eliminate the effect of decrease in fair value of investment properties.

- (ii) The interim distribution of \$208,358,000 for the six months ended 31 December 2020 (2019: \$218,643,000), representing a payout ratio of 94.7% (2019: 93.6%), is calculated by multiplying the interim distribution per unit of 12.5 cents by 1,666,867,824 units** anticipated to be in issue at 3 March 2021, the record date for FY2020/21 interim distribution (the “**Record Date**”) (2019: 13.2 cents by 1,656,388,363 units in issue at 3 March 2020, the record date for FY2019/20 interim distribution).
- (iii) The interim distribution is expected to be paid on 12 March 2021 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 certain amendments to Hong Kong Financial Reporting Standards that are first effective or available for early adoption 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.

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 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					
	2020			2019		
	(Unaudited)			(Unaudited)		
	Office	Retail	Total	Office	Retail	Total
	properties	properties		properties	properties	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
- Rental income	163,279	159,770	323,049	175,291	175,415	350,706
- Car park income	1,920	14,122	16,042	1,822	15,904	17,726
- Rental related income	28,993	31,450	60,443	34,723	33,944	68,667
	194,192	205,342	399,534	211,836	225,263	437,099
Property operating expenses	(35,580)	(44,456)	(80,036)	(40,101)	(51,274)	(91,375)
Net property income	158,612	160,886	319,498	171,735	173,989	345,724
Administrative expenses	(26,201)	(22,488)	(48,689)	(27,375)	(24,501)	(51,876)
Segment results	132,411	138,398	270,809	144,360	149,488	293,848
Net decrease in fair value of investment properties	(8,119)	(372,090)	(380,209)	(42,152)	(120,375)	(162,527)
Finance costs on interest-bearing liabilities			(45,619)			(64,055)
Income tax			(38,429)			(40,272)
Interest income			4,740			9,487
Unallocated net expenses			(5,418)			(5,738)
(Loss)/profit after taxation and before transactions with unitholders			<u>(194,126)</u>			<u>30,743</u>
Depreciation	<u>1</u>	<u>7</u>	<u>8</u>	<u>3</u>	<u>8</u>	<u>11</u>

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	
	2020	2019
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Rental income	323,049	350,706
Car park income	16,042	17,726
Rental related income	60,443	68,667
	<u>399,534</u>	<u>437,099</u>

5. Property operating expenses

	Six months ended 31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Building management fee	30,149	31,172
Property manager's fees (note)	22,125	27,928
Government rent and rates	14,920	18,439
Marketing and promotion expenses	3,463	4,182
Car park operating costs	3,244	3,322
Other direct costs	6,135	6,332
	<u>80,036</u>	<u>91,375</u>

Note : During the period, the property manager waived an amount of \$2,894,000 from the reimbursement of staff costs incurred for the Group, reflecting the subsidies received from the Employment Support Scheme set up by The Government of the Hong Kong Special Administrative Region.

6. (Loss)/profit before taxation and transactions with unitholders

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

	Six months ended 31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	41,452	55,771
Other borrowing costs	3,262	2,649
	<u>44,714</u>	<u>58,420</u>
Interest rate swaps - cash flow hedges		
- Reclassified from net assets attributable to unitholders	483	5,109
- Net fair value loss of ineffective cash flow hedges	422	526
	<u>905</u>	<u>5,635</u>
	<u>45,619</u>	<u>64,055</u>

Other borrowing costs represent various financing charges and amortization of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes.

	Six months ended 31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(b) Other items		
Interest income	(4,740)	(9,487)
Manager's fees	47,057	50,270
Property manager's fees (note (i))	22,125	27,928
Trustee's remuneration and charges	2,339	2,457
Auditor's remuneration		
- Audit services	752	791
- Other services	497	497
Valuation fee payable to principal valuer	206	251
Legal and other professional fees	2,159	1,811
Commission to property agents	741	771
Bank charges	150	146
Net foreign exchange (gain)/loss	<u>(39)</u>	<u>277</u>

Notes :

- (i) Included rental commission of \$6,344,000 (2019: \$7,736,000).
- (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	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	32,165	33,477
Deferred tax		
Origination and reversal of temporary differences	<u>6,264</u>	<u>6,795</u>
	<u>38,429</u>	<u>40,272</u>

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 IRD raised additional profits tax assessments on certain property holding subsidiaries of the Group, with one of the subsidiaries (“**Particular Subsidiary**”) covering the years of assessment up to 2016/17, and certain other subsidiaries covering the years of assessment up to 2013/14, disallowing the deductions of the management fees and property management fees and in some cases rental commissions incurred by these subsidiaries. Notices of objection were filed with the IRD against such additional profits tax assessments raised to date. At 31 December 2020, tax reserve certificates in an aggregate amount of \$53.5 million had been purchased in respect of the additional assessments raised.

Regarding the Particular Subsidiary, as disclosed in the annual report of the previous financial year, the appeal against the determination from the Deputy Commissioner of the IRD in respect of the disallowed deductions of the management fees was heard by the BoR in June 2019. On 30 November 2020, the BoR handed down its decision allowing the appeal of the Particular Subsidiary, determining that the relevant profits tax assessments and additional profits tax assessments were excessive or incorrect, and these assessments are to be revised to allow for the deduction of the management fees.

8. (Loss)/earnings per unit before transactions with unitholders

The basic loss per unit before transactions with unitholders for the six months ended 31 December 2020 amounted to \$0.12 (2019: basic earnings per unit before transactions with unitholders of \$0.02). The calculation of basic (loss)/earnings per unit before transactions with unitholders is based on the Group’s loss after taxation and before transactions with unitholders of \$194,126,000 (2019: profit after taxation and before transactions with unitholders of \$30,743,000) and the weighted average of 1,663,480,781 units in issue during the period (2019: 1,653,371,141 units).

Diluted (loss)/earnings per unit before transactions with unitholders for the six months ended 31 December 2020 and 2019 are not presented as there was no potential dilution of (loss)/earnings per unit before transactions with unitholders.

9. Trade and other receivables

	31 December	30 June
	2020	2020
	(Unaudited)	(Audited)
	\$'000	\$'000
Rental receivables	45,334	37,339
Deposits and prepayments	5,067	8,473
Other receivables	1,729	1,938
Amounts due from related companies	<u>933</u>	<u>1,170</u>
	<u>53,063</u>	<u>48,920</u>

Included unamortized rent-free and rental concession, deposits and prepayment of \$30,206,000 (30 June 2020: \$13,298,000) which are expected to be recovered or recognized as expense after one year. Apart from the above, all of the balances are expected to be recovered or recognized 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 loss allowance, is as follows :

	31 December	30 June
	2020	2020
	(Unaudited)	(Audited)
	\$'000	\$'000
Current	35,328	26,861
Less than 1 month overdue	6,597	6,584
More than 1 month and up to 3 months overdue	2,035	2,664
More than 3 months and up to 6 months overdue	671	677
More than 6 months overdue	<u>703</u>	<u>553</u>
	<u>45,334</u>	<u>37,339</u>

Provision for expected credit losses on rental receivables was assessed and made by the Manager on a case-by-case basis, based on the historical default experience and forward-looking information that may impact the tenants' ability to repay the outstanding rental receivables. In addition, the Group has collected rental deposits and/or guarantees from its tenants which the Manager considered adequate to cover the outstanding rental receivables.

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

10. Trade and other payables

	31 December	30 June
	2020	2020
	(Unaudited)	(Audited)
	\$'000	\$'000
Creditors and accrued charges	37,179	32,221
Manager's fees payable	23,319	20,802
Amounts due to related companies	9,103	7,440
	<u>69,601</u>	<u>60,463</u>

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 \$2,331,000 (30 June 2020: \$1,014,000) 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, 4 February 2021

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.