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SUNLIGHT REIT

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2021

The board of directors (the “**Board**”) of Henderson Sunlight Asset Management Limited (the “**Manager**”) announces the final results of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) for the year ended 30 June 2021 (the “**Year**”).

FINANCIAL HIGHLIGHTS

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

	2021	2020	Change (%)
For the year ended 30 June :			
Revenue	799.3	854.6	(6.5)
Net property income	639.7	684.7	(6.6)
Loss after taxation	(233.7)	(751.4)	68.9
Annual distributable income	438.3	467.0	(6.1)
Distribution per unit (HK cents)	25.6	26.8	(4.5)
Payout ratio (%)	97.5	95.2	N/A
At 30 June :			
Portfolio valuation	18,341.7	18,918.0	(3.0)
Net asset value	14,124.3	14,771.2	(4.4)
Net asset value per unit (HK\$)	8.45	8.89	(4.9)
Gearing ratio (%)	23.0	21.6	N/A

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy Rate at 30 June (%)		Passing Rent ¹ at 30 June (HK\$/sq. ft.)		Rental Reversion ² (%)		Net Property Income (HK\$'000)		Capitalization Rate at 30 June 2021 (%)		Appraised Value at 30 June 2021 (HK\$'000)
	2021	2020	2021	2020	FY2020/21	FY2019/20	FY2020/21	FY2019/20	Office	Retail	
Office											
Grade A											
Dah Sing Financial Centre ³	88.3	94.3	44.0	40.8	(2.2)	13.6	170,556	189,280	3.75	3.65	5,236,900
Grade B											
Strand 50	95.8	95.5	32.1	35.6	(1.1)	10.9	38,224	34,819	3.45	3.80	1,315,800
The Harvest	100.0	100.0	53.2	51.1	(10.7)	N/A	19,765	18,212	3.30	3.10	627,200
135 Bonham Strand Trade Centre Property	93.1	94.5	27.9	30.1	(9.1)	7.1	17,561	19,984	3.55	3.80	584,700
Winsome House Property	94.3	96.1	42.7	44.8	(11.0)	10.2	16,833	18,925	3.55	3.60	565,000
Righteous Centre	100.0	99.3	33.9	35.2	(6.0)	2.4	19,220	19,781	3.75	3.50	539,000
235 Wing Lok Street Trade Centre	88.6	94.3	20.9	22.3	(11.5)	0.4	10,734	11,291	3.55	3.80	371,400
Java Road 108 Commercial Centre	96.1	100.0	24.9	26.4	(9.1)	4.1	9,927	10,562	3.75	4.00	278,200
On Loong Commercial Building	100.0	94.1	31.2	32.9	(9.8)	7.0	8,717	9,265	3.65	3.70	253,500
Sun Fai Commercial Centre Property	100.0	100.0	21.7	23.1	(9.7)	9.5	5,976	5,839	3.80	4.05	169,400
Wai Ching Commercial Building Property	91.7	100.0	17.4	17.8	(0.4)	21.5	2,717	2,363	3.55	3.90	81,100
Sub-total/Average	92.4	95.6	36.7	36.5	(5.3)	10.0	320,230	340,321			10,022,200
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	95.3	96.8	104.2	112.9	(8.4)	0.9	142,571	161,697	N/A	4.30	3,892,600
Metro City Phase I Property	97.6	94.5	56.7	58.4	(9.0)	6.1	133,173	138,389	N/A	4.40	3,097,400
Kwong Wah Plaza Property ⁴	97.7	99.3	53.5	55.7	6.4	8.9	38,649	39,590	3.60	3.60	1,177,700
Urban											
Beverly Commercial Centre Property	77.5	77.4	32.8	39.6	(32.5)	(24.7)	2,302	2,139	N/A	4.10	77,000
Supernova Stand Property	100.0	100.0	57.2	54.5	(10.7)	4.7	2,728	2,570	N/A	3.80	74,800
Sub-total/Average	96.5	95.8	70.4	74.8	(7.2)	3.2	319,423	344,385			8,319,500
Total/Average	93.7	95.7	47.7	48.6	(6.2)	6.0	639,653	684,706			18,341,700

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 year.

3. The property was previously known as Sunlight Tower (renamed with effect from 8 March 2021).

4. Additional office units with gross rentable area of 533 sq. ft. and 522 sq. ft. were acquired on 31 July 2020 and 31 March 2021 costing HK\$8.0 million and HK\$8.1 million respectively.

PERFORMANCE HIGHLIGHTS

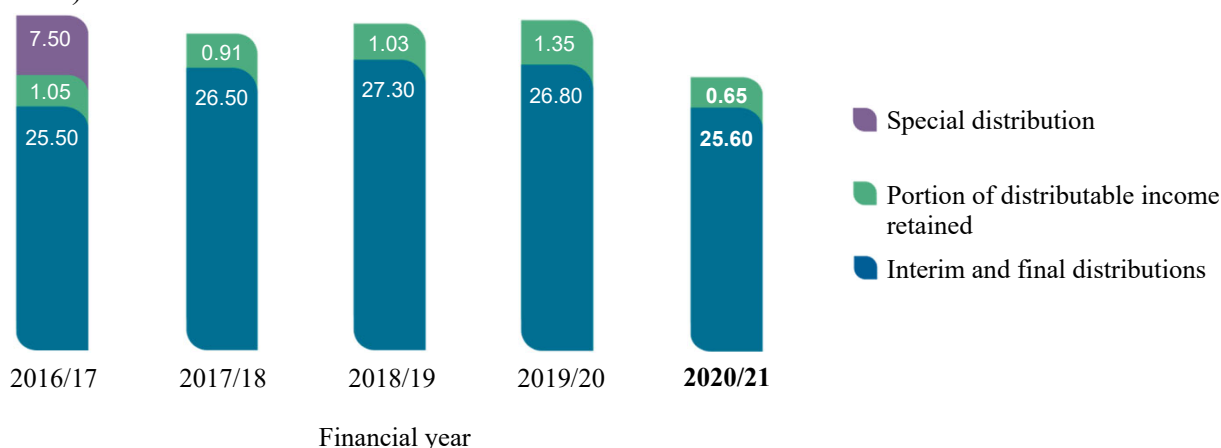
While the global economy staged a strong recovery in the first half of 2021 as a result of extraordinary monetary and fiscal stimulus packages launched to relieve the ravages of COVID-19, protracted travelling and social distancing restrictions continued to take their tolls on the commercial real estate sector. Accordingly, net property income (“NPI”) of Sunlight REIT for the Year registered a decline of 6.6% to HK\$639.7 million, while annual distributable income was down 6.1% from the preceding year to HK\$438.3 million.

The Board has resolved to declare a final distribution of HK 13.1 cents per unit. Together with an interim distribution of HK 12.5 cents per unit, the total distribution per unit for the Year would amount to HK 25.6 cents, implying a payout ratio of 97.5% (FY2019/20: 95.2%).

Reflecting a softening in the market rents of commercial properties, the appraised value of Sunlight REIT’s property portfolio was HK\$18,341.7 million at 30 June 2021, representing a decrease of 3.0% compared with a year ago. Consequently, its net asset value dropped 4.4% to HK\$14,124.3 million, or HK\$8.45 per unit (30 June 2020: HK\$8.89 per unit).

Distribution at a glance

(HK cents)



MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

As a result of intermittent lockdown measures imposed by the government, there has been a noticeable boom in online shopping at the expense of brick-and-mortar stores, while tourist-related spending has come to a virtual standstill. The knock-on effect was to a certain extent felt by Sunlight REIT, as its retail portfolio registered a negative rental reversion of 7.2% for the Year despite a relatively stable occupancy rate of 96.5% at 30 June 2021 (30 June 2020: 95.8%).

Echoing the market’s negative net absorption of office spaces, Sunlight REIT has witnessed slower new letting activities for its office portfolio, evidenced by a lower occupancy rate of 92.4% at 30 June 2021 (30 June 2020: 95.6%) with a negative rental reversion of 5.3%.

The entire portfolio of Sunlight REIT recorded an average occupancy rate of 93.7% at 30 June 2021 (30 June 2020: 95.7%). Office and retail retention rates were 53% and 67% (FY2019/20: 68% and 77%) respectively. Average passing rent of the office portfolio was HK\$36.7 per sq. ft. at 30 June 2021, up 0.5% from a year ago, while that of the retail portfolio was HK\$70.4 per sq. ft., down 5.9% year on year.

Dah Sing Financial Centre

The onset of COVID-19 evidently dampened office leasing demand, as multinational corporations considered downsizing and cost-saving alternatives while adopting work-from-home arrangements. Further, due to the transitional vacancy resulting from the relocation of certain tenants, NPI of the property registered a year-on-year decrease of 9.9% to HK\$170.6 million. Gratifyingly, passing rent grew 7.8% to HK\$44.0 per sq. ft., principally supported by contribution from a new anchor tenant.

On 8 March 2021, this BEAM Plus — Platinum office property was renamed as Dah Sing Financial Centre, signifying a new chapter of collaboration between Sunlight REIT and Dah Sing Bank, Limited. Riding on this opportunity, the Manager has revamped the main lobby to enhance the overall ambience of the property.

Sheung Shui Centre Shopping Arcade

During the Year, social distancing restrictions and border controls hampered the footfall of and the sales of tourist-related trades at Sheung Shui Centre Shopping Arcade. Rental concessions and lower car park revenue further dragged down the overall performance of this retail destination. NPI decreased 11.8% to HK\$142.6 million, while passing rent was down 7.7% to HK\$104.2 per sq. ft..

Reflecting the difficult retail market environment especially for trades heavily relying on tourist spending, a negative rental reversion of 8.4% was recorded, although its occupancy rate managed to stay at a satisfactory level of 95.3%.

Metro City Phase I Property

Metro City Phase I Property continued to demonstrate its resilience as a community shopping mall mostly catered to non-discretionary consumption. Although social distancing restrictions resulted in disruptions to dine-in businesses, the impact was partly offset by growing demand seen by grocery stores and a gradual pickup of consumer sentiment in the first half of 2021. Despite a 2.9% decrease in passing rent to HK\$56.7 per sq. ft., occupancy rate improved to 97.6% as compared to 94.5% a year ago.

NPI dropped 3.8% to HK\$133.2 million, while a negative rental reversion of 9.0% was recorded, principally reflecting business activities not having fully recovered to pre-pandemic levels.

Strand 50

The renovation works completed in the second half of 2019 succeeded in transforming Strand 50 into an appealing modern workplace in the core of the Sheung Wan district, underpinning a 9.8% growth in NPI to HK\$38.2 million with a small negative rental reversion of 1.1%.

Thanks to the commencement of new leases in the first half of 2021, occupancy rate of the property further improved to 95.8%, but passing rent was down 9.8% to HK\$32.1 per sq. ft. as compared to a year ago. Meanwhile, the replacement of chiller plant was completed in April 2021, illustrating the Manager's continuing commitment to enhancing the quality of this property.

Financial Review

The revenue of Sunlight REIT decreased 6.5% for the Year to HK\$799.3 million. In addition to the impact of lower occupancy rates and negative rental reversions, the results were weighed down by a HK\$14.1 million amortization of rental concessions (FY2019/20: HK\$7.5 million) granted to help tenants to weather pandemic-spawned adversities.

Reflecting the favourable interest rate environment during the Year, finance costs declined 22.2% year on year to HK\$93.7 million. Taking into account a decrease in the fair value of investment properties of HK\$605.2 million, a loss after taxation of HK\$233.7 million for the Year was reported (FY2019/20: a loss of HK\$751.4 million).

The EBITDA^{Note} of Sunlight REIT decreased 8.6% year on year to HK\$541.1 million, while cash interest expenses dropped 19.8% to HK\$86.4 million. In light of a faster decrease in cash interest expenses, interest coverage ratio for the Year improved to 6.3 times as compared with 5.5 times recorded in the previous financial year.

At 30 June 2021, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 23.0% (30 June 2020: 21.6%), while gross liabilities as a percentage of gross assets rose to 26.4% (30 June 2020: 24.9%).

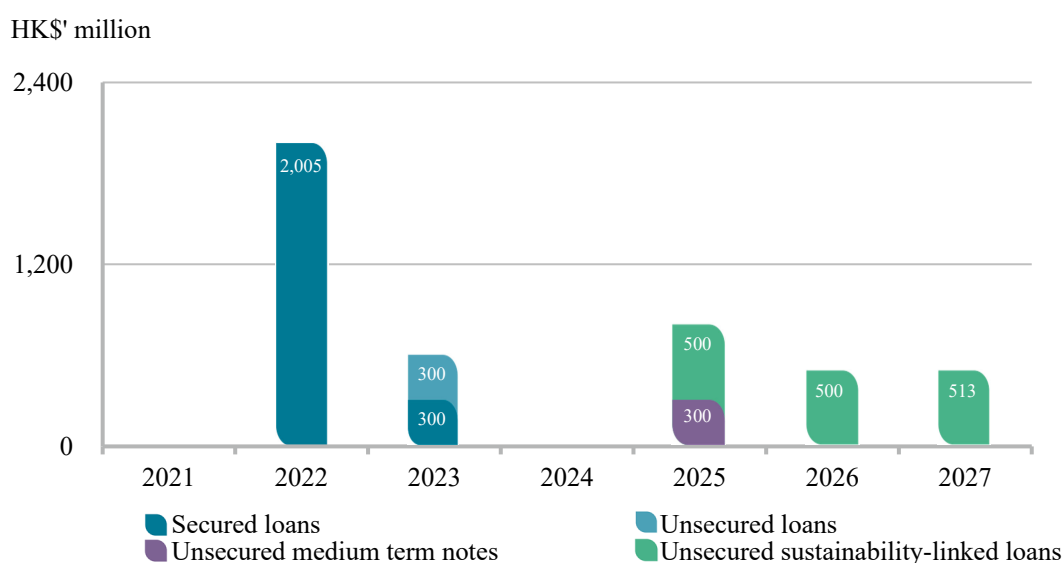
Capital and Interest Rate Management

During the Year, Sunlight REIT successfully raised HK\$1,813 million in the loan and capital markets, comprising HK\$1,513 million sustainability-linked loans and a maiden HK\$300 million five-year medium term notes. These borrowings had been principally applied towards the refinancing of certain bank loans, with a small portion kept as working capital.

At 30 June 2021, Sunlight REIT had total borrowings of HK\$4,418 million (30 June 2020: HK\$4,250 million) consisting of secured loans of HK\$2,305 million and unsecured borrowings of HK\$2,113 million, with a weighted debt maturity period of 2.7 years.

Maturity Profile of Total Borrowings

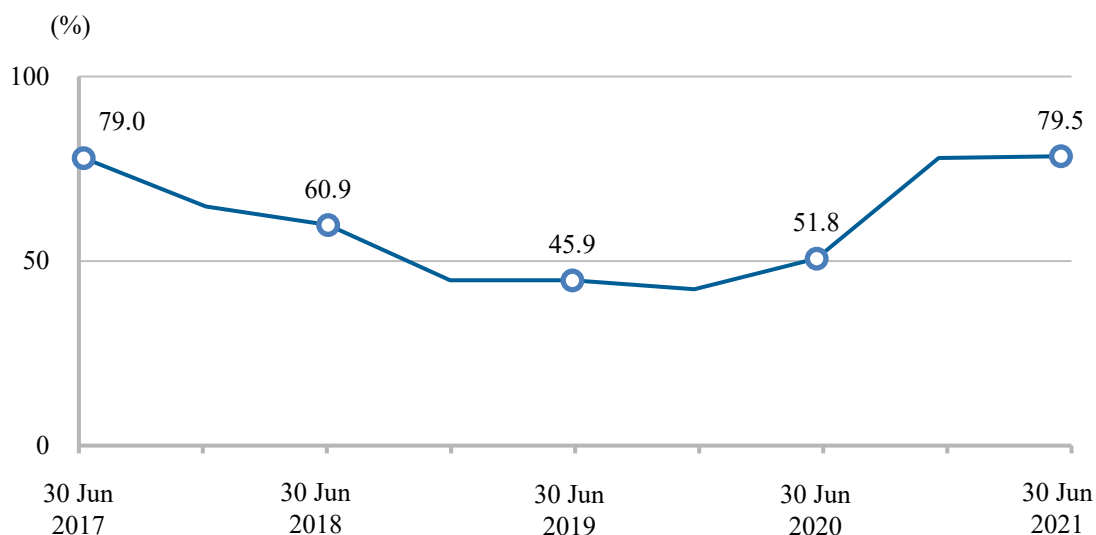
(30 June 2021)



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.

With the issuance of fixed rate notes and the entering into additional interest rate swaps, the percentage of Sunlight REIT’s fixed rate borrowings at 30 June 2021 was approximately 80% (30 June 2020: 52%). The weighted average interest rate (including loan interest margin, if applicable) for the fixed rate borrowings was 2.42% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.74% per annum over Hong Kong Interbank Offered Rate. Weighted average funding cost for the Year was 2.0%, comparing to 2.53% recorded in the preceding financial year.

Fixed Rate Borrowings as a % of Total Borrowings



OUTLOOK

Despite mutations of the coronavirus, at times intimidating, hopes of returning to a normal life are patently growing as concerted efforts to roll out vaccination programmes are yielding encouraging results. However, geopolitics remains a cause for concern, as Sino-US tension has hardly been defused despite a change in US administration.

As the Manager of Sunlight REIT, we are cautious but hopeful about the prospects for the macro environment ahead. Both the office and retail markets appear to have seen the bottom, although the extent of recovery critically depends on the pace at which COVID-19 recedes and the effectiveness of the measures implemented by various governments to restore economic vigour. The short-term upside risk to inflation does not appear to be alarming, which should obviate the need for substantial curtailment of the current expansionary monetary and fiscal policies.

Given that considerable uncertainty remains as to when international travel and inbound tourism can resume, higher-margin retail businesses reliant on the patronage of tourists are, at least in the first half of FY2021/22, likely to stay under pressure, albeit less intense. In contrast, domestic consumption, particularly of durable and non-discretionary items, is expected to remain resilient and should help underpin the demand for retail spaces. The corollary of such a dichotomy is that the adverse impact resulting from negative rental reversions should be partially offset by the prospect of stable occupancy rates.

Going forward, crowded living conditions in Hong Kong may not be conducive to extensive work-from-home schemes once the pandemic is over, precluding perennial disruptions to the office market. Nevertheless, the reasonably substantial new supply expected to come on stream in 2022 and 2023 should, on top of the existing vacant stock, continue to exert pressure on office rents at least in the near term. A redeeming factor is the pent-up demand from domestic and mainland Chinese enterprises, which has gratifyingly supported the performance of certain Grade B office properties of Sunlight REIT.

Sunlight REIT has secured sufficient financial resources to satisfy its working capital, refinancing and capital expenditure requirements. In particular, we are optimistic that the HK\$2,005 million of term loans due by June 2022 will be favourably concluded at an appropriate time. In addition, we will proactively explore acquisition opportunities that can meaningfully add value to Sunlight REIT. Amendments to the REIT Code effective in December 2020 (together with the Trust Deed amendments as approved by unitholders in May 2021) have given us noticeable headway in terms of the scope and flexibility of real estate investments.

In the meantime, we deem it imperative to sharpen our focus on sustainability, which calls for better governance and increased responsibilities to care for our people, our land and our environment in the process of value creation. We are committed to managing the portfolio of Sunlight REIT with a more holistic approach, underwritten by the conviction to optimize rather than maximize, while extending our coverage of performance indicators to key areas of sustainability.

Despite a transitory setback in income performance, the fundamentals of Sunlight REIT remain sturdy. With a firm foundation established over the course of 15 years, it is well-positioned to ride out the storm and to prudently expand its business, assuring unitholders with a sustainable growth in distributions over the long term.

CLOSURE OF REGISTER OF UNITHOLDERS

Distribution Entitlement

The ex-distribution date and record date for the final distribution are Thursday, 23 September 2021 and Wednesday, 29 September 2021 respectively. The register of unitholders will be closed from Monday, 27 September 2021 to Wednesday, 29 September 2021, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "Unit Registrar"), no later than 4:30 p.m. on Friday, 24 September 2021. Payment of the final distribution will be made to unitholders on Friday, 8 October 2021.

Annual General Meeting

The annual general meeting will be held on Wednesday, 10 November 2021, and notice convening the meeting will be issued on Tuesday, 5 October 2021. For the purpose of determining entitlements to attend and vote at the meeting, the register of unitholders will be closed from Friday, 5 November 2021 to Wednesday, 10 November 2021, both days inclusive, during which period no transfer of units will be effected. In order to be eligible to attend and vote at the meeting, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the Unit Registrar no later than 4:30 p.m. on Thursday, 4 November 2021.

CORPORATE GOVERNANCE

The Manager is committed to upholding a high standard of corporate governance. To ensure compliance with all relevant laws and regulations, it has established a robust corporate governance framework. 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 Year, the Manager has in material terms complied with the provisions of the Compliance Manual.

During the Year, 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 (the “**Listing Rules**”).

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

During the Year, a total of 12,204,448 new units were issued to the Manager in October 2020 and April 2021, as payment of part of the Manager’s fees.

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

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 1,500,000 units on behalf of Sunlight REIT on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) during the Year for an aggregate consideration of approximately HK\$5.9 million (excluding buy-back expenses). All the units bought back 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\$)	
November 2020	800,000	3.68	3.60	2,919
May 2021	700,000	4.33	4.29	3,018
Total	1,500,000			5,937

* Excluding buy-back expenses

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 Year.

Employees

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

Review of Final Results

The final results of Sunlight REIT for the Year have been reviewed by the audit committee and the disclosures committee of the Manager in accordance with their respective terms of reference.

The figures in respect of the Sunlight REIT's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, distribution statement and the related notes thereto as set out in this announcement have been compared by the auditor of Sunlight REIT, KPMG, Certified Public Accountants, to the amounts set out in the audited consolidated financial statements of Sunlight REIT for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor on this announcement.

ISSUANCE OF ANNUAL REPORT

The annual report of Sunlight REIT for the Year will be sent to unitholders on 5 October 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 year ended 30 June 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Revenue	3 & 4	799,296	854,563
Property operating expenses	3 & 5	<u>(159,643)</u>	<u>(169,857)</u>
Net property income		639,653	684,706
Other income	6	8,981	17,091
Administrative expenses		(107,550)	(109,826)
Net decrease in fair value of investment properties		<u>(605,160)</u>	<u>(1,142,844)</u>
Loss from operations		(64,076)	(550,873)
Finance costs on interest-bearing liabilities	7(a)	<u>(93,735)</u>	<u>(120,444)</u>
Loss before taxation and transactions with unitholders	7	(157,811)	(671,317)
Income tax	8	<u>(75,866)</u>	<u>(80,077)</u>
Loss after taxation and before transactions with unitholders		<u><u>(233,677)</u></u>	<u><u>(751,394)</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	2021 \$'000	2020 \$'000
Loss after taxation and before transactions with unitholders	<u>(233,677)</u>	<u>(751,394)</u>
Other comprehensive income for the year		
<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 year	(20,310)	(70,999)
- Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest-bearing liabilities	<u>218</u>	<u>6,303</u>
	<u>(20,092)</u>	<u>(64,696)</u>
Total comprehensive loss for the year	<u><u>(253,769)</u></u>	<u><u>(816,090)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current assets			
Fixed assets			
- Investment properties		18,341,700	18,918,000
- Other fixed assets		93	22
		<u>18,341,793</u>	<u>18,918,022</u>
Deferred tax assets		343	80
Reimbursement rights		37,436	37,436
Other financial assets		140,893	115,674
Other non-current assets		967	576
		<u>18,521,432</u>	<u>19,071,788</u>
Current assets			
Trade and other receivables	10	54,946	48,920
Derivative financial instruments		-	63
Cash and bank balances		623,301	499,433
Tax recoverable		67	53,893
		<u>678,314</u>	<u>602,309</u>
Total assets		<u>19,199,746</u>	<u>19,674,097</u>
Current liabilities			
Tenants' deposits		(201,565)	(220,808)
Rent receipts in advance		(12,348)	(20,094)
Trade and other payables	11	(71,393)	(60,463)
Bank and other borrowings		(2,002,645)	(1,642,614)
Derivative financial instruments		(52,964)	(30,010)
Tax payable		(70,152)	(77,007)
		<u>(2,411,067)</u>	<u>(2,050,996)</u>
Net current liabilities		<u>(1,732,753)</u>	<u>(1,448,687)</u>
Total assets less current liabilities		<u>16,788,679</u>	<u>17,623,101</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2021

(Expressed in Hong Kong dollars)

	2021 \$'000	2020 \$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank and other borrowings	(2,398,145)	(2,596,867)
Deferred tax liabilities	(205,107)	(192,139)
Derivative financial instruments	(61,174)	(62,939)
	<u>(2,664,426)</u>	<u>(2,851,945)</u>
Total liabilities, excluding net assets attributable to unitholders	<u>(5,075,493)</u>	<u>(4,902,941)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u>14,124,253</u>	<u>14,771,156</u>
Number of units in issue	<u>1,672,133,484</u>	<u>1,661,429,036</u>
Net asset value attributable to unitholders per unit	<u>\$8.45</u>	<u>\$8.89</u>

DISTRIBUTION STATEMENT

For the year ended 30 June 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Loss after taxation and before transactions with unitholders		<u>(233,677)</u>	<u>(751,394)</u>
Adjustments (note (i)) :			
- Net decrease in fair value of investment properties		605,160	1,142,844
- Manager's fees paid or payable in the form of units		46,775	49,627
- Interest rate swaps - cash flow hedges	7(a)	1,159	7,428
- Non-cash finance costs on interest-bearing liabilities		6,197	5,298
- Deferred tax	8	<u>12,705</u>	<u>13,200</u>
		<u>671,996</u>	<u>1,218,397</u>
Annual distributable income (note (i))		<u>438,319</u>	<u>467,003</u>
Interim distribution, paid (notes (ii) and (iv))		208,358	218,643
Final distribution, to be paid to unitholders (notes (iii) and (iv))		<u>219,050</u>	<u>225,955</u>
Total distributions for the year (note (i))		<u>427,408</u>	<u>444,598</u>
Payout ratio (note (iii))		97.5%	95.2%
Distribution per unit :			
Interim distribution per unit, paid		12.5 cents	13.2 cents
Final distribution per unit, to be paid to unitholders		<u>13.1 cents</u>	<u>13.6 cents</u>
		<u>25.6 cents</u>	<u>26.8 cents</u>

DISTRIBUTION STATEMENT (continued)

For the year ended 30 June 2021

(Expressed in Hong Kong dollars)

Notes* :

- (i) Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the “**REIT Code**”), 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 amended and restated trust deed dated 10 May 2021 under which Sunlight REIT is constituted (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.

Annual distributable income means the amount calculated by the Manager as representing the consolidated profit/loss after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial year, 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 year.

In arriving at the amount available for distribution for the current year, adjustments have been made, among others, to add back the finance costs relating to the amortization of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of \$6,197,000, or 0.37 cents per unit (2020: \$5,298,000, or 0.32 cents per unit) (which is an effective return of capital), and to eliminate the effect of net decrease in fair value of investment properties.

- (ii) The interim distribution of \$208,358,000 for the six months ended 31 December 2020 (31 December 2019: \$218,643,000) is calculated by multiplying the interim distribution per unit of 12.5 cents by 1,666,867,824 units in issue at 3 March 2021, the record date for FY2020/21 interim distribution (31 December 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 final distribution of \$219,050,000 for the year ended 30 June 2021 (2020: \$225,955,000) is calculated by multiplying the final distribution per unit of 13.1 cents by 1,672,133,484 units** anticipated to be in issue at 29 September 2021, the record date for FY2020/21 final distribution (the “**Record Date**”) (2020: 13.6 cents by 1,661,429,036 units in issue at 29 September 2020, the record date for FY2019/20 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2021 represent a payout ratio of 97.5% (2020: 95.2%) of Sunlight REIT’s annual distributable income for the year.

- (iv) The FY2020/21 interim distribution was paid to unitholders on 12 March 2021. The FY2020/21 final distribution is expected to be paid on 8 October 2021 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 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.

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, Dah Sing Financial Centre, 248 Queen’s Road East, Wan Chai, Hong Kong.

2. Basis of preparation

The final results set out in this announcement do not constitute the Group’s statutory consolidated financial statements for the year ended 30 June 2021 but are extracted from those consolidated financial statements.

The 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 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. The consolidated financial statements also comply with the relevant disclosure provisions of the Listing Rules as if those provisions were applicable to Sunlight REIT.

The HKICPA has issued certain amendments to HKFRSs 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 years have been prepared or presented in the consolidated financial statements.

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

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 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, 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 :

	2021			2020		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
- Rental income	329,151	316,317	645,468	345,636	343,232	688,868
- Car park income	4,192	28,251	32,443	3,742	30,452	34,194
- Rental related income	59,049	62,336	121,385	66,066	65,435	131,501
	<u>392,392</u>	<u>406,904</u>	<u>799,296</u>	<u>415,444</u>	<u>439,119</u>	<u>854,563</u>
Property operating expenses	<u>(72,162)</u>	<u>(87,481)</u>	<u>(159,643)</u>	<u>(75,123)</u>	<u>(94,734)</u>	<u>(169,857)</u>
Net property income	320,230	319,423	639,653	340,321	344,385	684,706
Administrative expenses	<u>(51,271)</u>	<u>(43,861)</u>	<u>(95,132)</u>	<u>(52,825)</u>	<u>(46,472)</u>	<u>(99,297)</u>
Segment results	268,959	275,562	544,521	287,496	297,913	585,409
Net decrease in fair value of investment properties	(171,958)	(433,202)	(605,160)	(483,869)	(658,975)	(1,142,844)
Finance costs on interest-bearing liabilities			(93,735)			(120,444)
Income tax			(75,866)			(80,077)
Interest income			8,447			17,091
Unallocated net expenses			<u>(11,884)</u>			<u>(10,529)</u>
Loss after taxation and before transactions with unitholders			<u>(233,677)</u>			<u>(751,394)</u>
Depreciation	<u>2</u>	<u>15</u>	<u>17</u>	<u>5</u>	<u>15</u>	<u>20</u>

3. Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2021			2020		
	Office	Retail	Total	Office	Retail	Total
	properties	properties		properties	properties	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	10,089,505	8,343,833	18,433,338	10,238,011	8,764,634	19,002,645
Derivative financial instruments			-			63
Other financial assets			140,893			115,674
Cash and bank balances			623,301			499,433
Tax recoverable			67			53,893
Deferred tax assets			343			80
Unallocated assets			1,804			2,309
Total assets			<u>19,199,746</u>			<u>19,674,097</u>
Segment liabilities	(141,271)	(134,491)	(275,762)	(158,872)	(135,366)	(294,238)
Derivative financial instruments			(114,138)			(92,949)
Bank and other borrowings			(4,400,790)			(4,239,481)
Tax payable			(70,152)			(77,007)
Deferred tax liabilities			(205,107)			(192,139)
Unallocated liabilities			(9,544)			(7,127)
Total liabilities, excluding net assets attributable to unitholders			<u>(5,075,493)</u>			<u>(4,902,941)</u>
Capital expenditure incurred during the year	<u>11,561</u>	<u>17,778</u>	<u>29,339</u>	<u>52,045</u>	<u>910</u>	<u>52,955</u>

4. Revenue

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

	2021 \$'000	2020 \$'000
Rental income (note)	645,468	688,868
Car park income	32,443	34,194
Rental related income	<u>121,385</u>	<u>131,501</u>
	<u><u>799,296</u></u>	<u><u>854,563</u></u>

Note : Included additional rents based on business revenue of tenants amounting to \$1,137,000 (2020: \$1,024,000).

5. Property operating expenses

	2021 \$'000	2020 \$'000
Building management fee	59,705	61,307
Property manager's fees (note)	46,015	51,882
Government rent and rates	29,111	33,413
Marketing and promotion expenses	5,352	5,632
Car park operating costs	6,695	6,542
Other direct costs	<u>12,765</u>	<u>11,081</u>
	<u><u>159,643</u></u>	<u><u>169,857</u></u>

Note : During the year ended 30 June 2021, the property manager waived an amount of \$2,894,000 (2020: nil) 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. Other income

	2021 \$'000	2020 \$'000
Bank interest income	2,792	11,572
Interest income from debt securities	5,655	5,519
Others	<u>534</u>	<u>-</u>
	<u><u>8,981</u></u>	<u><u>17,091</u></u>

7. Loss before taxation and transactions with unitholders

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

	2021 \$'000	2020 \$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	86,379	107,718
Other borrowing costs	<u>6,197</u>	<u>5,298</u>
	<u>92,576</u>	<u>113,016</u>
Interest rate swaps - cash flow hedges		
- Reclassified from net assets attributable to unitholders	218	6,303
- Net fair value loss of ineffective cash flow hedges	<u>941</u>	<u>1,125</u>
	<u>1,159</u>	<u>7,428</u>
	<u><u>93,735</u></u>	<u><u>120,444</u></u>

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

	2021 \$'000	2020 \$'000
(b) Other items		
Manager's fees	92,531	96,213
Property manager's fees (note (i))	46,015	51,882
Trustee's remuneration and charges	4,621	4,715
Auditor's remuneration		
- Audit services	2,002	2,002
- Other services	497	497
Valuation fee payable to principal valuer	411	502
Legal and other professional fees	5,087	3,216
Commission to property agents	2,763	1,387
Bank charges	337	315
Net foreign exchange (gain)/loss	<u>(265)</u>	<u>816</u>

Notes :

- (i) Included rental commission of \$11,674,000 (2020: \$12,086,000).
- (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.

8. Income tax

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

	2021 \$'000	2020 \$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	63,535	67,513
Over-provision in respect of prior years	(374)	(636)
	<u>63,161</u>	<u>66,877</u>
Deferred tax		
Origination and reversal of temporary differences	12,705	13,200
	<u>75,866</u>	<u>80,077</u>

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 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.

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 Board of Review (Inland Revenue Ordinance) (“**BoR**”) in June 2019. On 30 November 2020, the BoR handed down its decision (the “**BoR Decision**”) allowing the appeal of the Particular Subsidiary, determining that the relevant assessments are to be revised to allow for the deduction of the management fees. The IRD did not appeal against the BoR Decision.

At 30 June 2021, all the relevant additional profits tax assessments in respect of the subsidiaries of the Group had been revised by the IRD to allow for the deduction of management fees, property management fees and rental commissions. The tax reserve certificates with an aggregate amount of \$53.5 million purchased in respect of the additional assessments raised had been redeemed in full from the IRD.

9. Loss per unit before transactions with unitholders

The basic loss per unit before transactions with unitholders for the year ended 30 June 2021 amounted to \$0.14 (2020: \$0.45). The calculation of basic loss per unit before transactions with unitholders is based on the Group’s loss after taxation and before transactions with unitholders of \$233,677,000 (2020: \$751,394,000) and the weighted average of 1,666,146,965 units (2020: 1,655,646,380 units) in issue during the year.

9. Loss per unit before transactions with unitholders (continued)

Diluted loss per unit before transactions with unitholders for the years ended 30 June 2021 and 2020 are not presented as there was no potential dilution of loss per unit before transactions with unitholders.

10. Trade and other receivables

	2021 \$'000	2020 \$'000
Rental receivables	46,569	37,339
Deposits and prepayments	5,571	8,473
Other receivables	2,017	1,938
Amounts due from related companies	789	1,170
	<u>54,946</u>	<u>48,920</u>

Included unamortized rent-free and rental concession, deposits and prepayment of \$29,953,000 (2020: \$13,298,000) which are expected to be recovered or recognized as expenses after one year. Apart from the above, all of the balances are expected to be recovered or recognized as expenses 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 :

	2021 \$'000	2020 \$'000
Current	39,103	26,861
Less than 1 month overdue	4,033	6,584
More than 1 month and up to 3 months overdue	1,697	2,664
More than 3 months and up to 6 months overdue	920	677
More than 6 months overdue	816	553
	<u>46,569</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.

11. Trade and other payables

	2021	2020
	\$'000	\$'000
Creditors and accrued charges	41,145	32,221
Manager's fees payable	22,102	20,802
Amounts due to related companies	<u>8,146</u>	<u>7,440</u>
	<u><u>71,393</u></u>	<u><u>60,463</u></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 \$1,115,000 (2020: \$1,014,000) which is due within 30 days.

12. Non-adjusting event after the reporting period

After the end of the reporting period, the Board of the Manager declared a final 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, 7 September 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.