



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號 : 435

2018/19
Interim Report
中期報告



Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006, Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code : 435) is a real estate investment trust authorized by the Securities and Futures Commission (the “**SFC**”) and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of 11 office and five retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of approximately 1.2 million sq. ft. and an aggregate appraised value of HK\$19,452.5 million at 31 December 2018. The office properties are located in both core and decentralized business areas, while the retail properties are situated in regional transportation hubs, new towns and urban areas with high population density.

Forward-looking Statements

This interim report contains certain statements and terminologies that are forward-looking. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the board of directors (the “**Board**”) and senior management of Henderson Sunlight Asset Management Limited (the “**Manager**”) regarding the industry and sectors in which Sunlight REIT operates. They are subject to risks, uncertainties and other factors beyond the Manager’s control, the emergence of which may cause actual results or performance to differ materially from those expressed or implied in such statements.

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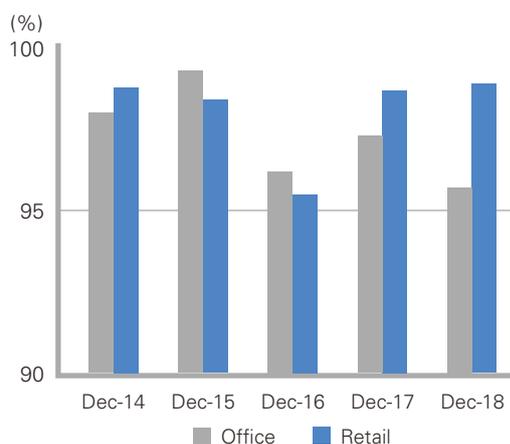
Market and Operation Review

For the six months ended 31 December 2018 (the “**Reporting Period**”), the global business environment clearly turned unfavourable, as international trade tensions, tumbling oil prices and Brexit negotiations cast a shadow on the prospects of economic growth and corporate earnings. Meanwhile, the combination of higher interest rates in the US and tighter liquidity in China dampened the business sentiment and performance of Hong Kong’s property and financial markets.

Notwithstanding, Sunlight REIT continued to make healthy progress during the Reporting Period. In the office sector, particularly in decentralized areas, strong levels of occupier take-up driven by demand from co-working operators, Chinese and multinational corporations underpinned an upsurge in office rents. Meanwhile, facilitated by the launch of the Hong Kong section of High Speed Rail and the opening of the Hong Kong-Zhuhai-Macao Bridge, visitor arrivals from China saw a decent rebound, which contributed to the 4.3% year-on-year growth in Hong Kong retail sales during the Reporting Period. These favourable factors buttressed the performance of Sunlight REIT’s office and retail portfolio, which recorded rental reversion of 10.1% and 11.1% respectively.

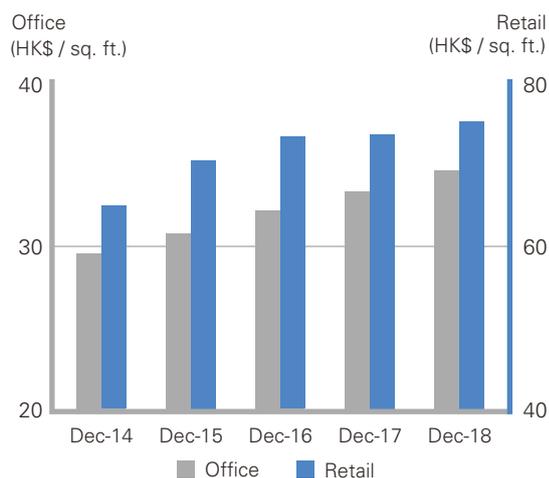
At 31 December 2018, the overall occupancy of Sunlight REIT’s portfolio was 96.7% as compared to 98.2% at 30 June 2018. Office occupancy was 95.7% (30 June 2018: 97.8%), a slight decline mainly attributable to the higher vacancies recorded at Bonham Trade Centre (“**BTC**”) in preparation for the upcoming asset enhancement, and at The Harvest (formerly Fung Shun Commercial Building) upon expiry of the sale and lease back arrangement for the office portion with the previous owner. The retail portfolio maintained a satisfactory occupancy rate of 98.9% (30 June 2018: 99.2%).

Occupancy trend^{Note}



In tandem with the overall rental reversion of 10.6% achieved during the Reporting Period, passing rent of the office and retail portfolio rose 2.7% and 2.0% from six months ago to HK\$34.7 per sq. ft. and HK\$75.4 per sq. ft. respectively.

Passing rent trend^{Note}



During the Reporting Period, buoyed by a rental reversion of 12.8% and relatively high occupancy, Sunlight Tower recorded a 6.9% year-on-year growth in net property income (“NPI”) amid a strong leasing market for Grade A office buildings.

On the retail front, Sheung Shui Centre Shopping Arcade (“SSC”) and Metro City Phase I Property (“MCPI”) achieved satisfactory rental reversions of 10.1% and 13.0% respectively during the Reporting Period. Continuous tenant mix re-balancing and an influx of mainland Chinese shoppers supported the performance of SSC, which recorded an 11.0% year-on-year growth in NPI. For its part, MCPI continued to benefit from an emphasis on non-discretionary spending and registered a NPI growth of 4.8%.

The overall cost-to-income ratio of Sunlight REIT was 20.3% for the Reporting Period, compared with 22.3% recorded in the same period last year.

At 31 December 2018, the overall portfolio had a total of 862 tenancies. The largest tenant accounted for 5.3% of total revenue for the Reporting Period and occupied 7.0% of total GRA at 31 December 2018, while the corresponding figures for the top five tenants were 16.0% and 16.6%.

Note : The occupancy and passing rent figures have been adjusted to exclude properties disposed of in prior years. The Harvest has been included in Sunlight REIT’s portfolio with effect from 15 December 2017.

Financial Review

Financial highlights

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

	Six months ended 31 December 2018	Six months ended 31 December 2017	Change (%)
Revenue	424.9	399.3	6.4
Property operating expenses	86.2	89.1	(3.3)
NPI	338.7	310.2	9.2
Cost-to-income ratio (%)	20.3	22.3	N/A
Profit after taxation	859.1	935.1	(8.1)
Distributable income	231.6	214.1	8.2
Distribution per unit (HK cents)	13.2	12.6	4.8
Payout ratio (%)	93.9	96.6	N/A

	At 31 December 2018	At 30 June 2018	Change (%)
Portfolio valuation	19,452.5	18,754.8	3.7
Total assets	20,237.5	19,631.3	3.1
Total liabilities	4,761.2	4,774.3	(0.3)
Net asset value	15,476.3	14,857.0	4.2
Net asset value per unit (HK\$)	9.40	9.03	4.1
Gearing ratio (%)	21.0	21.8	N/A

Operating results

During the Reporting Period, revenue and NPI of Sunlight REIT registered 6.4% and 9.2% year-on-year growth to HK\$424.9 million and HK\$338.7 million respectively. Improvement in passing rent and initial contribution from The Harvest were the main drivers behind this performance.

Finance costs increased 48.8% year on year to HK\$51.2 million, of which cash interest expenses went up 36.4% to HK\$47.2 million. The increase in finance costs reflected the higher interest rate environment, the expiry of a total of HK\$750.0

million worth of interest rate swaps (“**IRSs**”) and the additional funding costs related to the acquisition of The Harvest. However, interest income rose 76.7% to HK\$8.5 million during the Reporting Period, partly the result of an expanded portfolio of Relevant Investments^{Note}, the book value of which was HK\$157.3 million at 31 December 2018.

Taking into account the fair value gain on investment properties of HK\$661.6 million, profit after taxation was HK\$859.1 million, compared to HK\$935.1 million for the same period last year.

Note : As defined in paragraph 7.2B of the Code on Real Estate Investment Trusts.

Distribution

Distributable income for the Reporting Period rose 8.2% year on year to HK\$231.6 million. The Board of the Manager has resolved to declare an interim distribution per unit (“DPU”) of HK 13.2 cents, or HK\$217.4 million, representing a payout ratio of 93.9%. The interim DPU posted an increase

of 4.8% as compared to HK 12.6 cents paid in the same period last year, implying an annualized distribution yield of 5.3% based on the closing unit price of HK\$5.02 on the last trading day of the Reporting Period.

Interim DPU at a glance



Financial position

The portfolio of Sunlight REIT was appraised by the Principal Valuer¹ at HK\$19,452.5 million at 31 December 2018, representing an increase of 3.7% from 30 June 2018. Consequently, the gross assets and net assets of Sunlight REIT expanded 3.1% and 4.2% to HK\$20,237.5 million and HK\$15,476.3 million respectively. Net asset value per unit was HK\$9.40 (30 June 2018: HK\$9.03).

At 31 December 2018, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) improved to 21.0%, while gross liabilities² as a percentage of gross assets dropped to 23.5%. In respect of contingent liabilities, Sunlight REIT has provided a guarantee in the amount of HK\$4.6 million to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity utility companies.

The EBITDA³ of Sunlight REIT grew 11.5% year on year to HK\$289.5 million. Given the faster

increase in interest expenses, however, the interest coverage ratio for the Reporting Period decreased to 6.1 times as compared with 7.5 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 2018, comprising term loan facilities of HK\$4,250.0 million (“**Term Loan Facilities**”) which had all been drawn and unsecured 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 being backed by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK\$10,866.6 million at 31 December 2018.

Notes :

1. Colliers International (Hong Kong) Limited has been appointed as the principal valuer of Sunlight REIT with effect from 1 September 2018.
2. Gross liabilities include total borrowings, tenants’ deposits and other liabilities.
3. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Any gain on disposals of investment properties and subsidiaries would be excluded from the calculation.

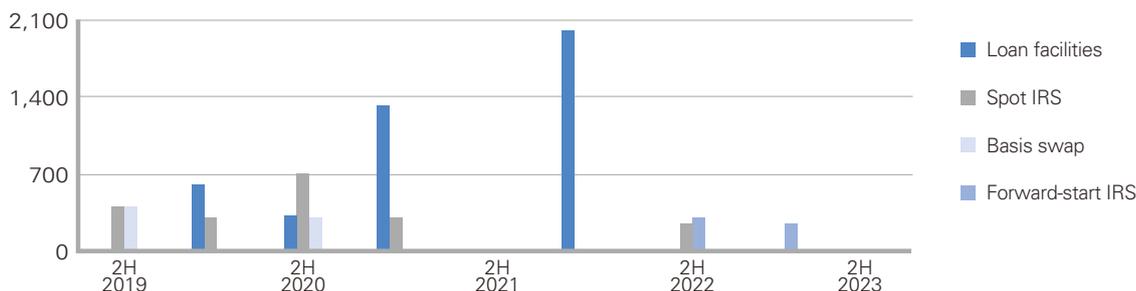
Financial Review

At 31 December 2018, the weighted loan maturity period of the Term Loan Facilities was 2.8 years, with a blended interest margin of 0.69% per annum over Hong Kong Interbank Offered Rate. Approximately 46% (or HK\$1,950.0 million) of borrowings was hedged to fixed rates with a weighted average tenure of 1.7 years;

the weighted average interest rate (before loan interest margin) for the fixed rate portion was 1.52% per annum. Meanwhile, in anticipation of the expiry of HK\$700.0 million worth of IRSs in FY2019/20, forward-start IRS with an aggregate notional amount of HK\$550.0 million (and start dates ranging from late 2019 to mid-2020) are in place to replenish the IRS profile of Sunlight REIT.

Maturity profile at a glance

(HK\$' million)



During the Reporting Period, the Manager bought back (and cancelled) a total of 2,565,000 units for Sunlight REIT at an average price of approximately HK\$5.00 per unit.

Liquidity management

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments, with an overall maturity profile compatible with projected funding requirements. In light of the more attractive return from fixed income securities, the Manager has increased the size of the portfolio of Relevant Investments with a view to enhancing return from surplus cash of Sunlight REIT, while providing an alternative to interest rate hedging. At 31 December 2018, Sunlight REIT had total cash and bank balances of HK\$521.0 million, and maintained a bond portfolio with an aggregate book value of HK\$157.3 million. Taking into consideration the recurrent income generated from its operations, the current cash position and sources of funding available, the Manager is of the view that Sunlight REIT has sufficient financial resources to satisfy its

working capital, distribution payment and capital expenditure (“**CAPEX**”) requirements.

Tax matter

Regarding the dispute with the Inland Revenue Department (“**IRD**”) over certain tax deduction disallowances^{Note} as disclosed in the last annual report, the determination from the Deputy Commissioner of the IRD in respect of the objections to the assessments on one property holding company (“**Determination**”) was received in April 2018. While the Determination allowed the deduction of property management fees and rental commissions, the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT’s legal and tax advisers, the Manager will continue to contest the assessments raised. A notice of appeal against the Determination was filed with the Board of Review in May 2018.

During the Reporting Period, the presiding chairman of the hearing panel of the Board of Review directed that the appeal would be heard in June 2019.

Note : The IRD disallowed the deductions of the management fees, property management fees and rental commissions incurred by certain property holding companies under Sunlight REIT. For details, please refer to note 8 to the condensed interim financial statements on page 34.

Outlook

The market volatility witnessed in the past year seems destined to remain a notable feature in 2019. The ongoing US-China trade tensions, together with a spate of hardline fiscal policies adopted by the US Administration, may further threaten the global economy and undermine investment sentiment. Meanwhile, the plunge in oil prices and the emergence of an inverted US yield curve signify a lack of certainty in terms of economic growth, inflation and interest rates. In contrast, office and retail leasing activities in Hong Kong have shown no obvious sign of subsiding thus far, thanks to the still healthy local economic environment.

Looking ahead, the Manager will stay prudent in mapping out the expansion path of Sunlight REIT, with asset enhancement and capital management continuing as key priorities.

With approximately 46% of Term Loan Facilities hedged to fixed rates at 31 December 2018, the Manager is comfortable with the current level of hedging, particularly given the flat yield curve. Further IRSs would only be executed when appropriate, while the size of the portfolio of Relevant Investments (as an alternative to hedging) is expected to remain largely unchanged.

Regarding asset enhancement, CAPEX of approximately HK\$50 million has been earmarked for the refurbishment of BTC, and the Manager is pleased to report that its preparation works are progressing satisfactorily. In particular, the Manager has already entered into a binding lease agreement with a co-working operator which will help design and operate the low-zone

office and communal facilities of the property. While its vacancy rate is expected to increase transiently given the co-termination of leases (representing approximately 28% of GRA), the Manager is optimistic that the revamp will positively reposition BTC as a unique office building in Sheung Wan, integrating traditional and co-working tenants under one roof. Elsewhere, The Harvest is currently undergoing refurbishment with a view to establishing a more diverse tenant mix on higher passing rents. In light of recently concluded leasing transactions, the Manager is hopeful of realizing an average rental growth of not less than 15% as compared to that of the original lease. Despite the short term volatility in its level of occupancy, this strategic acquisition will surely bear fruit for Sunlight REIT in the future.

For the second half of FY2018/19, the expiring GRA for the office and retail properties of Sunlight REIT constitute approximately 19% and 13% of total GRA respectively. In particular, lease expiries for the top three properties only represent less than 11% of their combined GRA. Given the lower lease renewal activities relative to the same period of the previous financial year, and the acquisition impact from The Harvest being reflected, it is currently envisaged that the pace of revenue growth in the second half of this financial year will slow. This, however, has little bearing on the medium-term prospects of Sunlight REIT which is poised to benefit from the favourable rental reversionary trend and the ongoing asset enhancement initiatives. Given its strong financial war chest, Sunlight REIT is also well positioned to conduct unit buy-backs, as well as to capitalize on any attractive acquisition opportunities which may arise.

Portfolio Statistics

Property	Property details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)				
				Office	Retail	Total	at 31 Dec 2018	at 30 Jun 2018
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	74	72
Grade B								
Bonham Trade Centre	Sheung Wan	1998	0	108,506	9,403	117,909	83	96
The Harvest ³	Mong Kok	1981	0	23,024	11,627	34,651	3	2
Winsome House Property	Central	1999	0	37,937	2,177	40,114	26	26
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	74	75
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	64	63
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	72	70
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	37	36
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	38	38
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	47	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	33	34
Sub-total/Average			46	787,935	56,688	844,623	551	559
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	127	126
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	112	111
Kwong Wah Plaza Property ⁵	Yuen Long	1998	0	40,971	25,741	66,712	38	37
Urban								
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	32	33
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Sub-total/Average			749	40,971	349,129	390,100	311	309
Total/Average			795	828,906	405,817	1,234,723	862	868
Palatial Stand Property								
Total								

Notes :

1. Passing rent is calculated on the basis of average rent per sq. ft. for occupied GRA on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant period.
3. The property was previously known as Fung Shun Commercial Building.
4. The office area vacated at The Harvest is excluded from the calculation.
5. Additional office units in the property with GRA of 1,870 sq. ft. were acquired on 7 September 2018 for a consideration of approximately HK\$29 million.

Operational statistics						Property financials				
Occupancy (%)		Passing rent ¹ (HK\$/sq. ft.)		Rental reversion ² (%)		NPI (HK\$'000)		Capitalization rate at 31 Dec 2018 (%)		Appraised value at 31 Dec 2018 (HK\$'000)
at 31 Dec 2018	at 30 Jun 2018	at 31 Dec 2018	at 30 Jun 2018	six months ended 31 Dec 2018	six months ended 30 Jun 2018	six months ended 31 Dec 2018	six months ended 31 Dec 2017	Office	Retail	
100.0	98.5	38.9	38.2	12.8	7.7	89,718	83,890	3.75	3.65	5,118,100
84.9	93.0	30.4	29.8	7.1	8.1	17,400	17,434	3.45	3.80	1,289,500
63.9	100.0	58.6 ⁴	47.3	N/A	N/A	8,784	826	3.00	2.75	710,200
100.0	100.0	43.0	42.8	2.4	6.7	9,639	7,987	3.45	3.60	643,600
95.2	100.0	28.8	27.6	14.6	10.1	9,196	9,076	3.45	3.80	642,200
100.0	98.8	35.7	34.5	7.8	7.7	9,978	9,173	3.75	3.40	604,500
98.9	96.0	22.3	21.7	8.4	8.4	6,094	5,749	3.45	3.80	421,800
96.1	94.2	25.9	24.7	4.6	7.3	4,885	4,502	3.75	4.00	311,270
100.0	100.0	30.8	30.4	5.7	11.9	4,543	4,168	3.65	3.70	286,300
100.0	100.0	21.9	21.6	5.1	(3.5)	2,871	3,049	3.80	4.05	189,300
95.8	100.0	15.2	14.5	16.6	10.2	812	1,084	3.55	3.90	82,400
95.7	97.8	34.7	33.8	10.1	7.6	163,920	146,938			10,299,170
99.3	98.9	117.4	115.9	10.1	0.8	85,518	77,073	N/A	4.30	4,459,000
99.0	99.8	57.5	55.8	13.0	9.6	68,386	65,279	N/A	4.40	3,304,000
100.0	100.0	53.2	52.1	8.8	5.0	18,046	17,442	3.65	3.60	1,207,300
82.2	82.9	45.1	44.5	0.1	(7.7)	1,540	1,841	N/A	4.10	111,000
100.0	100.0	54.0	54.0	N/A	N/A	1,323	1,323	N/A	3.80	72,000
98.9	99.2	75.4	73.9	11.1	5.6	174,813	162,958			9,153,300
96.7	98.2	47.8	46.5	10.6	6.6	338,733	309,896			19,452,470
						N/A	310			
						338,733	310,206			

Corporate Governance

The Manager is committed to upholding a high standard of corporate governance. It has established, and continuously refined, a robust corporate governance framework to ensure sustainable long-term growth and enhance the overall value of Sunlight REIT.

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorized by the SFC under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The Manager is licensed by the SFC under the SFO to conduct the regulated activity of asset management. With the appointment of Ms. YIP May Ling, Vivian as an additional responsible officer during the Reporting Period and the cessation of Mr. HONG Kam Kit, Eddie as a responsible officer subsequent to 31 December 2018 due to his resignation, the Manager has five responsible officers at the date of issuance of this interim report.

The trustee of Sunlight REIT (the “**Trustee**”) is a trust company registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) and is qualified under the REIT Code to act as a trustee for collective investment schemes authorized under the SFO.

Board of the Manager and changes in Directors’ information

The Board is responsible for the overall management and corporate governance of the Manager. It currently has a total of six Directors, consisting of one Executive Director (who is also the Chief Executive Officer (“**CEO**”)), two Non-executive Directors (including the Chairman of the Board) and three Independent Non-executive Directors (“**INEDs**”). The roles

of the Chairman and the CEO are separate and performed by two different individuals. The Board ensures that board committees are established with clear terms of reference, each of which is to assist the Board in supervising specific issues and functions of the Manager.

Since the publication of the last annual report, Mr. KWOK Tun Ho, Chester has been appointed as a member of the Remuneration and Nomination Committee, and Mr. KWAN Kai Cheong and Dr. TSE Kwok Sang have been appointed as members of the Disclosures Committee, all having taken effect from 1 November 2018. Mr. MA Kwong Wing retired as an INED of the Manager and ceased as a member of each of the Audit Committee, the Remuneration and Nomination Committee and the Disclosures Committee with effect from 21 December 2018.

In addition, Mr. AU Siu Kee, Alexander has been appointed as an INED of Henderson Land Development Company Limited (“**HLD**”) with effect from 13 December 2018.

Conflict of interest and business competition

The Manager and Henderson Sunlight Property Management Limited (the “**Property Manager**”) are both indirect wholly-owned subsidiaries of HLD, with the Chairman of the Manager sitting on the boards of HLD and Henderson Investment Limited (a listed subsidiary of HLD) and a Non-executive Director of the Manager sitting on the board of HLD. Shau Kee Financial Enterprises Limited (“**SKFE**”) and HLD (each being a significant holder of Sunlight REIT) and certain of their subsidiaries and associates are engaged in, among other things, development, investment and management of retail, office and other properties in and outside Hong Kong.

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

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

To ensure that all conflicts of interest relating to Sunlight REIT can be avoided or managed, various control measures have been adopted. The Manager assures that it is capable of performing, and shall continue to perform, its duties for Sunlight REIT in the best interests of Sunlight REIT and its unitholders.

Compliance with the Compliance Manual

The Manager has adopted a compliance manual (the “**Compliance Manual**”) which sets out the key processes, systems, measures, corporate governance policies as well as other policies and procedures governing the management and operations of Sunlight REIT. Modifications to the Compliance Manual will be made if necessary or if relevant legislation or regulations have been enacted or amended. During the Reporting Period, the Compliance Manual has been amended to (i) adopt certain changes to the requirements for compositions of certain board committees and (ii) reflect the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), including the Corporate Governance Code as set out under Appendix 14 thereof, relating to corporate governance, which came into effect on 1 January 2019 (to the extent they are applicable to real estate investment trusts).

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

Compliance with the Dealings Code

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

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

Buy-back, sale or redemption of units

Pursuant to the relevant general mandate to buy back units granted by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 2,565,000 units on the Stock Exchange during the Reporting Period at an aggregate consideration of approximately HK\$12.8 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK\$5.19 and HK\$4.70 respectively. All bought back units were cancelled prior to the end of the Reporting Period.

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

Corporate Governance

Relevant Investments

The full investment portfolio of Relevant Investments of Sunlight REIT at 31 December 2018 is set out below :

Financial instruments ¹ & issuers	Primary listing	Currency	Total cost (HK\$'000)	Mark-to-market value (HK\$'000)	% of gross asset value of Sunlight REIT ²	Credit rating
BNKEA 6 1/8 07/16/20 The Bank of East Asia, Limited	Singapore Exchange Limited	USD	21,623	20,269	0.10	S&P BBB Moody's Baa3
CHALUM 4 7/8 09/07/21 Chalco Hong Kong Investment Company Limited	Stock Exchange	USD	23,432	23,647	0.12	Fitch BBB+
COGO 4 7/8 06/01/21 China Overseas Grand Oceans Finance IV (Cayman) Limited	Stock Exchange	USD	15,739	15,620	0.08	S&P BBB- Moody's Baa2 Fitch BBB
ICBCAS 5 1/8 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Singapore Exchange Limited	USD	20,911	20,131	0.10	S&P A- Moody's Baa2
CHITRA 3 7/8 11/03/19 King Power Capital Ltd.	Stock Exchange	USD	19,841	19,617	0.10	S&P BBB+ Moody's A3
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,492	0.05	N/A
YUEXIU 4 7/8 04/19/21 Westwood Group Holdings Limited	Stock Exchange	USD	22,021	21,942	0.11	Moody's Baa3 Fitch BBB-
CJIANT 4 1/2 09/20/21 Xingsheng (BVI) Company Limited	Stock Exchange	USD	15,635	15,575	0.08	Fitch A+
YXREIT 4 3/4 04/27/21 Yuexiu REIT MTN Company Limited	Stock Exchange	USD	10,152	10,187	0.05	S&P BBB- Moody's Baa3
Total			159,754	157,480	0.79	

Notes :

- All financial instruments are bonds.
- The percentages are arrived at by comparing the mark-to-market value of the investments at 31 December 2018 with the gross asset value of Sunlight REIT (as defined on page 13).

At 31 December 2018, the combined mark-to-market value of Relevant Investments, together with other non-real estate assets of Sunlight REIT, represented 3.8% of the gross asset value of Sunlight REIT (as stated on page 22 of this interim report after adjusted for the interim distribution declared), which is below the Maximum Cap provided in Note (1) to paragraph 7.2B of the REIT Code (being 25% of the gross asset value).

For an update of Relevant Investments at 31 January 2019, please refer to the website of Sunlight REIT.

New units issued

Except for an aggregate of 4,564,300 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.

Public float

At 31 December 2018, based on information that is publicly available and within the knowledge of the Directors of the Manager, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the SFC.

Review of interim report

This interim report has 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.

Employees

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

Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the interim distribution are Friday, 1 March 2019 and Thursday, 7 March 2019 respectively. The register of unitholders will be closed from Tuesday, 5 March 2019 to Thursday, 7 March 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 4 March 2019. Payment of the interim distribution will be made to unitholders on Wednesday, 20 March 2019.

Connected Party Transactions

Information in respect of the transactions entered into between Sunlight REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code) during the Reporting Period, other than those transactions that are excluded pursuant to waivers granted by the SFC and/or exempted from the disclosure requirements, is set out in this section.

Connected party transactions – income and expenses

The following tables set out information on all the connected party transactions (other than those disclosed under “Connected party transactions with the Trustee Connected Persons” on page 15) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Reporting Period :

(a) Income

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Income for the Reporting Period (HK\$'000)	Rental and other deposits received at 31 December 2018 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	3,416	1,604
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	2,231	1,060
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	1,718	N/A
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	242	118
Total			7,607	2,782

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Expenses for the Reporting Period (HK\$'000)
Hang Yick Properties Management Limited	Associated company of the Manager	Building management and licence fee	4,645
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management, lease management and marketing services	26,437
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	1,409
Metro City Management Limited	Associated company of the Manager	Building management	691
Sheung Shui Centre Management Limited	Associated company of the Manager	Building management	1,211
Contender Limited	Associated company of the Manager	Facilities leasing	100
Total			34,493

Note : Within the meaning of the REIT Code.

Connected party transactions with the Trustee Connected Persons

The following table sets out information on all the connected party transactions entered into between Sunlight REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies) and the HSBC Group¹ (collectively, the “Trustee Connected Persons”) during the Reporting Period :

Name of connected person	Relationship with Sunlight REIT	Nature of the connected party transactions	Income/expenses for the Reporting Period (HK\$'000)	Rental and other deposits received at 31 December 2018 (HK\$'000)
Leasing transactions :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing ²	5,794	3,088
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing ³	215	107
Hang Seng Bank Limited	Trustee Connected Persons	Leasing ⁴	5,886	2,853
Ordinary banking and financial services⁵ :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/receivable on bank deposits	83	N/A
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowings, net interest expenses on IRSs and basis swaps and other bank charges	7,606	N/A
HSBC Broking Securities (Asia) Limited	Trustee Connected Persons	Brokerage commission	7	N/A
Hang Seng Bank Limited	Trustee Connected Persons	Interest expenses on bank borrowings and other bank charges ⁶	9,023	N/A

Notes :

1. HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the Trustee of Sunlight REIT).
2. A lease in respect of Shop Nos. 1024–31 of SSC, with gross floor area of 5,390 sq. ft., for a term of 3 years from 4 November 2017 to 3 November 2020; and a lease in respect of Shop Nos. 1032–33 of SSC, with gross floor area of 1,171 sq. ft., for a term of 3 years from 15 August 2017 to 14 August 2020.

Connected Party Transactions

Notes : (continued)

3. Licences in respect of (i) external wall signage Nos. 1–7, Level 1, (ii) external wall signage Nos. 66–81, Level 1, and (iii) external wall signage Nos. 82–93, Level 1 respectively, of SSC.
4. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft., for a term of 3 years from 17 February 2018 to 16 February 2021; and a lease in respect of Shop Nos. 1040–42 of SSC, with gross floor area of 1,235 sq. ft., for a term of 3 years from 29 November 2017 to 28 September 2020.
5. In general, “ordinary banking and financial services” include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto and other banking or financial services.
6. Included the interest expenses relating to a term loan facility of HK\$325 million drawn on 15 December 2017 for financing the acquisition of an investment property.

Other disclosures under the REIT Code

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

During the Reporting Period, the aggregate amount of fees payable by Sunlight REIT to the Manager (including fees paid in the form of units) and to the Trustee under the Trust Deed were approximately HK\$48.4 million and HK\$2.4 million respectively. Particulars of services provided by the Manager, the Trustee and the Principal Valuer, including terms and remuneration, are set out in notes 22(b)(i), (ii) and (iv) to the condensed interim financial statements. The fees payable to the Principal Valuer during the Reporting Period was less than HK\$1 million.

Disclosure of Interests

The REIT Code requires connected persons (as defined in paragraph 8.1 of the REIT Code) of Sunlight REIT to disclose their interests in units. Further, certain provisions of Part XV of the SFO in relation to disclosure of interest are deemed, pursuant to Schedule C of the Trust Deed, to apply to the Manager itself and the Directors or chief executive of the Manager, and also indirectly to certain persons interested in or having a short position in units.

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

At 31 December 2018 and 30 June 2018, the interests and short position in units of the Manager and the Directors or chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed (the “**Register**”), were as follows :

Name	At 31 December 2018		At 30 June 2018		Change in % interest
	Number of units interested (long position)	% of interest in units ¹	Number of units interested (long position)	% of interest in units ²	
The Manager ³	131,836,447	8.004	126,272,147	7.675	0.329
Au Siu Kee, Alexander ⁴	1,530,000	0.093	1,530,000	0.093	–
Wu Shiu Kee, Keith ⁵	700,000	0.042	700,000	0.043	-0.001

Notes :

- The percentages expressed are based on the total number of units in issue of 1,647,139,077 at 31 December 2018.
- The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,645,139,777 at 30 June 2018.
- During the Reporting Period, the Manager (i) received 4,564,300 units as payment of part of the Manager’s fees; and (ii) acquired 1,000,000 units on the open market. The Manager beneficially owned 131,836,447 units at 31 December 2018 (30 June 2018 : 126,272,147 units).
- At 31 December 2018, Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, was interested in 1,530,000 units (30 June 2018 : 1,530,000 units) under Part XV of the SFO. Of the 1,530,000 units, 201,000 units were beneficially held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were beneficially held by his spouse individually.
- At 31 December 2018, Mr. Wu Shiu Kee, Keith, Chief Executive Officer and Executive Director of the Manager, beneficially held 700,000 units (30 June 2018 : 700,000 units).

Other than the above, none of the Manager and the Directors or chief executive of the Manager was beneficially interested (or deemed to be interested) in units or held any short position in units at 31 December 2018 and 30 June 2018 as recorded in the Register.

Disclosure of Interests

Holdings of substantial unitholders

At 31 December 2018 and 30 June 2018, the interests and short position in units of the following substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2018		At 30 June 2018		Change in % interest
	Number of units interested (long position)	% of interest in units ¹	Number of units interested (long position)	% of interest in units ²	
Lee Chau Kee ³	639,891,209	38.85	639,891,209	38.90	-0.05
Lee Financial (Cayman) Limited ³	374,072,708	22.71	374,072,708	22.74	-0.03
Leesons (Cayman) Limited ³	374,072,708	22.71	374,072,708	22.74	-0.03
Leeworld (Cayman) Limited ³	374,072,708	22.71	374,072,708	22.74	-0.03
SKFE ³	374,072,708	22.71	374,072,708	22.74	-0.03
Uplite Limited ³	224,443,625	13.63	224,443,625	13.64	-0.01
Wintrade Limited ³	149,629,083	9.08	149,629,083	9.10	-0.02
Henderson Development Limited ³	264,280,501	16.04	264,280,501	16.06	-0.02
HLD ³	264,280,501	16.04	264,280,501	16.06	-0.02
Hopkins (Cayman) Limited ³	264,280,501	16.04	264,280,501	16.06	-0.02
Riddick (Cayman) Limited ³	264,280,501	16.04	264,280,501	16.06	-0.02
Rimmer (Cayman) Limited ³	264,280,501	16.04	264,280,501	16.06	-0.02
Silchester International Investors LLP ⁴	257,791,150	15.65	257,791,150	15.67	-0.02
Silchester International Investors International Value Equity Trust ⁴	113,294,922	6.88	113,294,922	6.89	-0.01

Notes :

1. The percentages expressed are based on the total number of units in issue of 1,647,139,077 at 31 December 2018.
2. The percentages are arrived at by comparing the relevant number of interested units with the total number of units in issue of 1,645,139,777 at 30 June 2018.
3. At 31 December 2018, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited were wholly-owned subsidiaries of Financial Enterprise Properties Limited which in turn was wholly-owned by SKFE. SKFE was wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which were held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was thus taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2018, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 131,836,447 units were owned by the Manager. Cobase Limited and Richful Resources Limited were wholly-owned subsidiaries of Brightland Enterprises Limited, and the Manager was a wholly-owned subsidiary of Latco Investment Limited, both of which in turn were wholly-owned by HLD. Henderson Development Limited ("HD") owned more than one-third of the issued share capital of HLD. HD was wholly-owned by Hopkins (Cayman) Limited ("Hopkins") as the trustee of a unit trust, the units of which were held by Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as the respective trustees of two discretionary trusts. Under Part XV of the SFO (as applied by the Register), each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in a total of 275,748,764 units at 31 December 2018. In the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 264,280,501 units at 31 December 2018, as no further notification arose on their parts subsequent to the last notification in respect of their interests in units.

Notes : (continued)

At 31 December 2018, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in 649,821,472 units. In the Register, Dr. Lee Shau Kee was recorded as having an interest in 639,891,209 units at 31 December 2018, as no further notification arose on his part subsequent to the last notification in respect of his interests in units.

At 31 December 2018, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

- At 31 December 2018, Silchester International Investors LLP (“**Silchester LLP**”) in its capacity as investment manager, was interested in 257,791,150 units, and Silchester International Investors International Value Equity Trust (“**Silchester Trust**”) beneficially owned 113,294,922 units. The Manager has subsequently been notified informally that at 31 December 2018, (i) Silchester LLP was interested in 250,899,150 units (representing approximately 15.23% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 110,614,922 units (representing approximately 6.72% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

Holdings of other connected persons

So far as is known to the Manager and save as disclosed above, the holdings of units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to the exclusion granted by the SFC) of Sunlight REIT at 31 December 2018 were as follows :

Name	Number of units held	% of unit holding ¹
Chan Wing Cheng ²	150,000	0.0091
Lee King Yue ³	50,000	0.0030
Lee Pui Ling, Angelina ⁴	2,307	0.0001
Lo Yuk Fong, Phyllis ⁵	100,000	0.0061
Employee of the Manager ⁶	5,000	0.0003
Persons related to the Trustee ⁷	9,000	0.0005

Notes :

- The percentages expressed are based on the total number of units in issue of 1,647,139,077 at 31 December 2018.
- Mr. Chan Wing Cheng was a connected person by virtue of being a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 130,000 units at 30 June 2018.
- Mr. Lee King Yue was a connected person by virtue of being a director of certain subsidiaries of HLD. Mr. Lee held 50,000 units at 30 June 2018.
- Mrs. Lee Pui Ling, Angelina was a connected person by virtue of being a director of HLD and one of its subsidiaries. Mrs. Lee held 2,307 units at 30 June 2018.
- Ms. Lo Yuk Fong, Phyllis was a connected person by virtue of being a senior executive of the Manager. Ms. Lo was interested in 100,000 units at 30 June 2018.
- These represented units held by an employee of the Manager, a connected person by virtue of being an associate of Sunlight REIT’s significant holder. Such employee of the Manager was interested in 5,000 units at 30 June 2018.
- The Manager has been informed that certain controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the Trustee were beneficially interested in 9,000 units at 31 December 2018. Such persons were beneficially interested in 2,992,000 units at 30 June 2018.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2018 \$'000	2017 \$'000
Revenue	4 & 5	424,883	399,332
Property operating expenses	4 & 6	(86,150)	(89,126)
Net property income		338,733	310,206
Other income		8,506	4,868
Administrative expenses		(57,758)	(55,400)
Net increase in fair value of investment properties	10(a)	661,635	749,115
Profit from operations		951,116	1,008,789
Finance costs on interest bearing liabilities	7(a)	(51,210)	(34,419)
Profit before taxation and transactions with unitholders	7	899,906	974,370
Income tax	8	(40,854)	(39,316)
Profit after taxation and before transactions with unitholders		859,052	935,054

The notes on pages 28 to 49 form part of these condensed interim financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2018 \$'000	2017 \$'000
Profit after taxation and before transactions with unitholders	859,052	935,054
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 recognised during the period	(29,327)	15,277
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	1,791	(895)
– Deferred tax credited / (charged) to other comprehensive income	4,760	(2,649)
	(22,776)	11,733
Total comprehensive income for the period	836,276	946,787

The notes on pages 28 to 49 form part of these condensed interim financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	10	19,452,470	18,754,800
– Other fixed assets		54	51
		19,452,524	18,754,851
Deferred tax assets		71	186
Derivative financial instruments	12	7,518	21,874
Prepayments	14	539	–
Reimbursement rights	11	37,436	37,436
Other financial assets	13	157,333	108,815
		19,655,421	18,923,162
Current assets			
Trade and other receivables	14	24,474	24,086
Derivative financial instruments	12	7,570	13,122
Cash and bank balances	15	520,976	641,919
Tax recoverable		29,070	29,023
		582,090	708,150
Total assets		20,237,511	19,631,312
Current liabilities			
Tenants' deposits		(213,280)	(202,201)
Rent receipts in advance		(16,777)	(13,419)
Trade and other payables	16	(64,602)	(63,644)
Bank borrowings	17	–	(20,000)
Derivative financial instruments	12	(686)	(6)
Tax payable		(48,345)	(69,879)
		(343,690)	(369,149)
Net current assets		238,400	339,001
Total assets less current liabilities		19,893,821	19,262,163

Consolidated Statement of Financial Position (continued)

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	17	(4,234,391)	(4,231,497)
Deferred tax liabilities		(173,244)	(172,076)
Derivative financial instruments	12	(9,862)	(1,599)
		(4,417,497)	(4,405,172)
Total liabilities, excluding net assets attributable to unitholders			
		(4,761,187)	(4,774,321)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		15,476,324	14,856,991
Number of units in issue			
	18	1,647,139,077	1,645,139,777
Net asset value attributable to unitholders per unit			
		\$9.40	\$9.03

The notes on pages 28 to 49 form part of these condensed interim financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2018 \$'000	2017 \$'000
At the beginning of the period		14,856,991	13,899,479
Profit after taxation and before transactions with unitholders		859,052	935,054
Other comprehensive income		(22,776)	11,733
Total comprehensive income for the period		836,276	946,787
Distribution paid to unitholders		(228,674)	(340,658)
Issuance of units to the Manager during the period	18	24,599	22,110
Units bought back	18	(12,825)	(1,310)
Units buy-back expenses	18	(43)	(5)
		(216,943)	(319,863)
At the end of the period		15,476,324	14,526,403

The notes on pages 28 to 49 form part of these condensed interim financial statements.

Distribution Statement

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2018 \$'000	2017 \$'000
Profit after taxation and before transactions with unitholders		859,052	935,054
Adjustments (note (i)) :			
– Net increase in fair value of investment properties	10(a)	(661,635)	(749,115)
– Manager’s fees paid or payable in the form of units		24,194	22,179
– Interest rate swaps – cash flow hedges	7(a)	1,315	(2,738)
– Non-cash finance costs on interest bearing liabilities		2,648	2,530
– Deferred tax	8	6,044	6,237
		(627,434)	(720,907)
Distributable income (note (i))		231,618	214,147
Interim distribution (note (ii))		217,422	206,870
Payout ratio (note (ii))		93.9%	96.6%
Distribution per unit (note (ii))		13.2 cents	12.6 cents

Notes* :

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

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the current period included the adding back of non-cash finance costs on interest bearing liabilities of \$2,648,000, or 0.16 cents per unit (2017 : \$2,530,000, or 0.15 cents per unit) (which is regarded as an effective return of capital) resulting from amortisation of debt establishment fees in respect of bank borrowings.

Distribution Statement (continued)

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

- (ii) The interim distribution of \$217,422,000 for the six months ended 31 December 2018 (2017 : \$206,870,000), representing a payout ratio of 93.9% (2017 : 96.6%), is calculated by multiplying the interim distribution per unit of 13.2 cents by 1,647,139,077 units** anticipated to be in issue at 7 March 2019, the record date for FY2018/19 interim distribution (the "**Record Date**") (2017 : 12.6 cents by 1,641,823,814 units in issue at 7 March 2018, the record date for FY2017/18 interim distribution).
- (iii) The interim distribution is expected to be paid on 20 March 2019 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 recognised 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 bought back and cancelled before the Record Date.

The notes on pages 28 to 49 form part of these condensed interim financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2018 \$'000	2017 \$'000
Operating activities			
Cash generated from operations		320,383	274,157
Tax paid			
– Hong Kong Profits Tax paid		(56,391)	(52,914)
Net cash generated from operating activities		263,992	221,243
Investing activities			
Payment for expenditure incurred for investment properties		(3,631)	(6,215)
Payment for acquisition of investment properties		(31,652)	(717,918)
Deposits received from disposal of investment properties		–	10,100
Payment for purchase of other fixed assets		(15)	–
Payment for purchase of debt securities		(49,291)	–
Increase in bank deposits with original maturity over three months		(18,730)	–
Other cash flows arising from investing activities		8,213	5,253
Net cash used in investing activities		(95,106)	(708,780)
Financing activities			
Distribution paid to unitholders		(228,674)	(340,658)
Other borrowing costs paid		–	(804)
Interest paid		(47,014)	(34,158)
Proceeds from new bank borrowings		–	325,000
Repayment of bank borrowings		(20,000)	–
Payment for buy-back of units		(12,868)	(1,315)
Net cash used in financing activities		(308,556)	(51,935)
Net decrease in cash and cash equivalents		(139,670)	(539,472)
Cash and cash equivalents at the beginning of the period	15	584,549	1,085,897
Effect of foreign exchange rate changes		(3)	5
Cash and cash equivalents at the end of the period	15	444,876	546,430

The notes on pages 28 to 49 form part of these condensed interim financial statements.

Notes to the Condensed Interim Financial Statements

(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 authorised under section 104 of the Securities and Futures Ordinance. Sunlight REIT is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”).

The principal activity of Sunlight REIT and its subsidiaries (collectively referred to as the “Group”) is to own and invest in income-producing office and retail properties in Hong Kong with the objective of providing unitholders with regular and stable cash distributions with the potential for sustainable long term growth of such distributions and enhancement in value of the property portfolio. It has its principal place of business at 30th Floor, Sunlight Tower, 248 Queen’s Road East, Wan Chai, Hong Kong.

2 Basis of preparation

These condensed interim financial statements have been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 14 February 2019.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2017/18 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018/19 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of a condensed interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017/18 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 Basis of preparation (continued)

The condensed interim financial statements are unaudited, but have been reviewed by KPMG 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 HKICPA. KPMG's independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT (the "**Manager**"), is included on page 50.

The financial information relating to the financial year ended 30 June 2018 that is included in the condensed interim financial statements as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2018 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 4 September 2018.

3 Changes in accounting policies

The HKICPA has issued the following new standards that are first effective for the current accounting period of the Group, which are relevant to the Group's condensed interim financial statements for the current accounting period :

HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments : recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

HKFRS 9 categorises financial assets into three principal classification categories : measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss ("**FVPL**"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The Group's investment in debt securities previously classified as held-to-maturity investment and measured at amortised cost under HKAS 39 is now classified as financial assets measured at amortised cost.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 July 2018 in accordance with the transition requirements. Since there has been no changes on the carry amount of the investment in debt securities upon adoption of HKFRS 9, no adjustment is required to adjust the opening balance of net assets attributable to unitholders at 1 July 2018. Comparative information continues to be reported under HKAS 39.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

3 Changes in accounting policies (continued)

HKFRS 9, *Financial instruments* (continued)

The Group elected for the accounting policy choice to continue with the adoption of HKAS 39 on hedge accounting. The adoption of the expected credit loss model for impairment assessment on the Group's trade and other receivables and debt securities has no significant financial impact on the Group's consolidated statement of profit or loss for the current accounting period.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces HKAS 18, *Revenue*, which covered revenue from rendering of service. Rental income from lease agreements is specifically excluded from the scope of the new standard. The adoption of HKFRS 15 does not have a significant impact on the amount and timing the Group recognises rental related income.

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

4 Segment reporting

The Manager manages the Group's businesses 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 increase in fair value of investment properties, finance costs on interest bearing liabilities, income tax, interest income and the unallocated net expenses.

4 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					
	2018 (Unaudited)			2017 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– Rental income	167,303	174,056	341,359	152,203	166,895	319,098
– Car park income	1,839	16,076	17,915	1,893	14,407	16,300
– Rental related income	32,507	33,102	65,609	31,545	32,389	63,934
	201,649	223,234	424,883	185,641	213,691	399,332
Property operating expenses	(37,729)	(48,421)	(86,150)	(38,703)	(50,423)	(89,126)
Net property income	163,920	174,813	338,733	146,938	163,268	310,206
Administrative expenses	(28,516)	(23,777)	(52,293)	(27,473)*	(22,433)	(49,906)*
Segment results	135,404	151,036	286,440	119,465	140,835	260,300
Net increase in fair value of investment properties	234,246	427,389	661,635	287,584	461,531	749,115
Finance costs on interest bearing liabilities			(51,210)			(34,419)
Income tax			(40,854)			(39,316)
Interest income			8,506			4,814
Unallocated net expenses			(5,465)			(5,440)
Profit after taxation and before transactions with unitholders			859,052			935,054
Depreciation	3	9	12	6	9	15

* Included costs relating to the acquisition of investment properties amounting to \$3,970,000.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

5 Revenue

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

	Six months ended 31 December	
	2018 (Unaudited) \$'000	2017 (Unaudited) \$'000
Rental income	341,359	319,098
Car park income	17,915	16,300
Rental related income	65,609	63,934
	424,883	399,332

6 Property operating expenses

	Six months ended 31 December	
	2018 (Unaudited) \$'000	2017 (Unaudited) \$'000
Building management fee	31,488	30,405
Property Manager's fees	26,437	27,528
Government rent and rates	16,388	17,708
Marketing and promotion expenses	2,720	3,035
Car park operating costs	3,194	3,057
Other direct costs	5,923	7,393
	86,150	89,126

7 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	
	2018 (Unaudited) \$'000	2017 (Unaudited) \$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	47,247	34,627
Other borrowing costs	2,648	2,530
	49,895	37,157
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	1,791	(895)
– Net fair value gain of ineffective cash flow hedges	(476)	(1,843)
	1,315	(2,738)
	51,210	34,419

Other borrowing costs represent various financing charges and the amortisation of the debt establishment fees for the bank borrowings (see note 17).

	Six months ended 31 December	
	2018 (Unaudited) \$'000	2017 (Unaudited) \$'000
(b) Other items		
Interest income	(8,506)	(4,814)
Manager's fees	48,388	47,648
Property Manager's fees (note (i))	26,437	27,528
Trustee's remuneration and charges	2,410	2,454
Auditor's remuneration		
– Audit services	739	740
– Other services	488	475
Valuation fees payable to principal valuer	309	256
Legal and other professional fees	4,317	3,405
Commission to property agents	298	1,447
Bank charges	140	122
Net unrealised foreign exchange loss/(gain)	299	(54)

Notes :

- (i) Included rental commission of \$6,701,000 (2017 : \$8,719,000).
- (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.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

8 Income tax

	Six months ended 31 December	
	2018 (Unaudited) \$'000	2017 (Unaudited) \$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	34,810	33,079
Deferred tax		
Origination and reversal of temporary differences	6,044	6,237
	40,854	39,316

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 2011/12, in an aggregate amount of \$28,425,000 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, and tax reserve certificates of an equivalent amount have been purchased.

In April 2018, the IRD issued a determination in respect of the objections to the assessments on the Particular Subsidiary, which allowed the deduction of property management fees and rental 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 and in May 2018, a notice of appeal against the written determination was submitted to the Board of Review. In August 2018, the presiding chairman of the hearing panel of the Board of Review directed that the appeal would be heard in June 2019.

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 2018/19 would amount to approximately \$97 million.

9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2018 amounted to \$0.52 (2017 : \$0.57). 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 \$859,052,000 (2017 : \$935,054,000) and the weighted average of 1,645,947,029 units in issue during the period (2017 : 1,639,349,129 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2018 and 2017 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

10 Investment properties

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
At 1 July 2018 / 1 July 2017	18,754,800	17,062,400
Movement during the period / year		
– Additions through acquisition of investment properties	31,652	718,423
– Other additions	4,383	21,247
– Disposals	–	(43,400)
– Net increase in fair value	661,635	996,130
	19,452,470	18,754,800

(a) Valuation

The investment properties were appraised at 31 December 2018 by the Group's principal valuer, Colliers International (Hong Kong) Limited ("**Colliers**"), an independent firm that has key personnel who are fellows or members of the Hong Kong Institute of Surveyors or the Royal Institute of Chartered Surveyors (Hong Kong Branch) with recent experience in the location and category of property being valued. Valuation methodologies adopted by Colliers were the same as those adopted by Knight Frank Petty Limited ("**Knight Frank**"), the Group's previous principal valuer which retired on 31 August 2018, when carrying out the valuation for 30 June 2018. As a result of the valuation, a net gain of \$661,635,000 (2017 : \$749,115,000) has been recognised in profit or loss for the period in respect of investment properties.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

10 Investment properties (continued)

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

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
In Hong Kong		
– Long leases	8,784,770	8,614,800
– Medium-term leases	10,667,700	10,140,000
	19,452,470	18,754,800

(c) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 17).

11 Reimbursement rights

The amount represents the reimbursement rights recognised pursuant to the tax indemnity under the relevant deeds of tax covenant dated 21 December 2006 provided by the vendors (comprising certain subsidiaries of Shau Kee Financial Enterprises Limited (“SKFE”), Henderson Land Development Company Limited (“HLD”), Henderson Investment Limited, Henderson Development Limited (“HD”) and Jetwin International Limited) (collectively referred to as the “Vendors”) to the extent of the deferred tax liabilities in respect of possible clawback of depreciation allowances claimed by the Vendors prior to the date of acquisition in connection with the listing of Sunlight REIT in December 2006.

12 Derivative financial instruments

	31 December 2018 (Unaudited)			30 June 2018 (Audited)		
	Assets \$'000	Liabilities \$'000	Net amount \$'000	Assets \$'000	Liabilities \$'000	Net amount \$'000
Interest rate swaps and interest rate basis swaps – cash flow hedges						
Current portion	7,570	(686)	6,884	13,122	(6)	13,116
Non-current portion	7,518	(9,862)	(2,344)	21,874	(1,599)	20,275
	15,088	(10,548)	4,540	34,996	(1,605)	33,391

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

During the six months ended 31 December 2018, the net unrealised gains on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to \$215,000 (2017 : \$895,000) were reclassified from net assets attributable to unitholders to profit or loss. As at 31 December 2018, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, fair value gain of ineffective hedges amounting to \$476,000 (2017 : \$1,404,000) was credited to profit or loss for the period. Also, net cumulative unrealised losses of expired swaps amounting to \$2,006,000 (2017 : net cumulative unrealised gains of expired swaps amounting to \$439,000) were reclassified from net assets attributable to unitholders to profit or loss for the period.

At 31 December 2018, the net cumulative unrealised loss (net of deferred tax) on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to \$2,090,000 (30 June 2018 : net cumulative unrealised gain (net of deferred tax) of \$20,686,000).

At 31 December 2018, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of \$2,500,000,000 (30 June 2018 : \$3,150,000,000), supplemented by Basis Swaps with notional amount of \$700,000,000 (30 June 2018 : \$1,450,000,000). These swaps will mature between August 2019 to May 2023 (30 June 2018 : September 2018 to May 2023).

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

13 Other financial assets

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Financial assets measured at amortised cost (note)		
Debt securities		
– Listed in Hong Kong	106,440	57,411
– Listed outside Hong Kong	40,543	41,010
– Unlisted	10,350	10,394
	157,333	108,815

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

Note : Previously classified as held-to-maturity investments.

14 Trade and other receivables

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Rental receivables	16,585	16,575
Deposits and prepayments	4,773	3,941
Other receivables	2,939	2,747
Amounts due from related companies	716	823
	25,013	24,086
Represented by :		
Current portion	24,474	24,086
Non-current portion	539	–
	25,013	24,086

At 31 December 2018, the balance under non-current portion represented progress payments for the improvement works carried out on certain investment properties of the Group which were in progress at the end of the reporting period.

14 Trade and other receivables (continued)

\$3,670,000 (30 June 2018 : \$3,561,000) included in deposits and prepayments is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered or recognised as expense within one year.

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

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Current	13,508	12,599
Less than 1 month overdue	2,493	1,827
More than 1 month and up to 3 months overdue	363	1,339
More than 3 months and up to 6 months overdue	130	716
More than 6 months overdue	91	94
	16,585	16,575

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.

15 Cash and bank balances

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Deposits with original maturity within three months	417,260	517,158
Cash at bank and in hand	27,616	67,391
Cash and cash equivalents in the condensed consolidated cash flow statement	444,876	584,549
Deposits with original maturity over three months	76,100	57,370
Cash and bank balances in the consolidated statement of financial position	520,976	641,919

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

16 Trade and other payables

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Creditors and accrued charges	31,779	31,059
Manager's fees payable (note 22(b)(ii))	24,525	25,336
Amounts due to related companies	8,298	7,249
	64,602	63,644

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

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

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$1,226,000 (30 June 2018 : \$1,248,000) which is due within 30 days.

17 Bank borrowings

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Bank borrowings		
– Secured	2,919,987	2,918,213
– Unsecured	1,314,404	1,333,284
	4,234,391	4,251,497

17 Bank borrowings (continued)

The bank borrowings were repayable as follows :

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Within 1 year	–	20,000
After 1 year but within 2 years	923,249	598,473
After 2 years but within 5 years	3,311,142	3,633,024
	4,234,391	4,231,497
	4,234,391	4,251,497

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 0.52% per annum to HIBOR plus 0.79% per annum (30 June 2018 : HIBOR plus 0.52% per annum to HIBOR plus 0.79% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 12.

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

- mortgages over the investment properties with a fair value of \$10,866,600,000 at 31 December 2018 (30 June 2018 : \$10,574,000,000) (note 10); and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the end of the reporting period was 2.62% per annum (30 June 2018 : 2.31% per annum).

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

18 Units in issue

	Number of units	
	31 December 2018 (Unaudited)	30 June 2018 (Audited)
At 1 July 2018 / 1 July 2017	1,645,139,777	1,637,777,762
Movement during the period / year		
– Issuance of units	4,564,300	8,662,015
– Units bought back	(2,565,000)	(1,300,000)
	1,647,139,077	1,645,139,777

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

Payment of the Manager's fees for the period / year	Average issue price per unit determined based on the Trust Deed \$	Aggregate amount of units issued \$'000	Number of units issued
For the six months ended			
31 December 2018 (Unaudited)			
1 April 2018 to 30 June 2018	5.454	11,875	2,177,401
Adjustment of Manager's fees for the financial year 2017/18	5.481	793	144,615
1 July 2018 to 30 September 2018	5.321	11,931	2,242,284
		24,599	4,564,300
For the year ended 30 June 2018 (Audited)			
1 April 2017 to 30 June 2017	5.064	10,807	2,134,064
Adjustment of Manager's fees for the financial year 2016/17	5.182	486	93,689
1 July 2017 to 30 September 2017	5.230	10,817	2,068,299
1 October 2017 to 31 December 2017	5.291	11,362	2,147,423
1 January 2018 to 31 March 2018	5.315	11,791	2,218,540
		45,263	8,662,015

18 Units in issue (continued)

Pursuant to the general mandate granted to the Manager by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 2,565,000 units (year ended 30 June 2018 : 1,300,000 units) on the SEHK during the six months ended 31 December 2018 at an aggregate consideration of \$12,825,000 (year ended 30 June 2018 : \$6,874,000). Details of the buy-backs were as follows :

	Number of units bought back	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
For the six months ended 31 December 2018 (Unaudited)				
Month of buy-back				
October 2018	1,909,000	5.19	4.88	9,658
November 2018	656,000	4.89	4.70	3,167
	2,565,000			12,825
Total buy-back expenses				43
				12,868
For the year ended 30 June 2018 (Audited)				
Month of buy-back				
December 2017	250,000	5.30	5.22	1,310
March 2018	1,050,000	5.33	5.23	5,564
	1,300,000			6,874
Total buy-back expenses				22
				6,896

All bought back units were cancelled during the period / year.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

19 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

At 31 December 2018 and 30 June 2018, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (see note 12), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2018 and the year ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occurred.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

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

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2018 and 30 June 2018.

20 Capital commitments

Capital commitments outstanding at 31 December 2018 not provided for in the condensed interim financial statements are as follows :

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Contracted for	7,845	3,600
Authorised but not contracted for	8,383	18,233
	16,228	21,833

21 Contingent liabilities

At the end of the reporting period, the Group has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,585,000 (30 June 2018 : \$4,585,000).

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

22 Connected party transactions and material related party transactions

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

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

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

* With effect from 1 September 2018

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

(b) Transactions with connected persons / related parties

	Six months ended 31 December	
	2018 (Unaudited) \$'000	2017 (Unaudited) \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	5,889	5,300
– HSBC Group	11,895	11,090
Property management expenses paid / payable to (note (i)) :		
– HLD Group	(7,957)	(7,628)
Facilities leasing expenses paid / payable to (note (i)) :		
– HLD Group	(100)	(93)
Manager's fees (note (ii))	(48,388)	(47,648)
Property Manager's fees (note (iii))	(26,437)	(27,528)
Trustee's remuneration and charges (note (iv))	(2,411)	(2,454)
Interest expenses, debt establishment fees, security trustee and other charges on bank borrowings, brokerage commission and other bank charges paid / payable to (notes (i) and (v)) :		
– HSBC Group	(19,055)	(9,447)
Net interest expenses on IRSs and Basis Swaps paid / payable to (note (v)) :		
– HSBC Group	2,419	(3,526)
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	83	15
Valuation fees and other charges paid / payable to (note (i)) :		
– Colliers Group	(309)	–
– Knight Frank and other members of its Group (collectively referred to as "Knight Frank Group")	–	(309)
Promotional income received / receivable from (note (i)) :		
– HLD Group	1,718	1,233
Additional consideration paid to (note (vi)) :		
– HLD Group	–	(112)

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

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

Notes :

- (i) In the opinion of the Manager, these transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) The Manager's fees are calculated as the aggregate of a base fee of 0.4% per annum of the value of all the properties of the Group and a variable fee of 3% per annum of the Group's Net Property Income (as defined in the Trust Deed). The Manager is also entitled to receive an acquisition fee not exceeding 1% of the appraised value of acquired property. During the six months ended 31 December 2017, the Manager had received an acquisition fee of \$3,290,000 in cash for the Group's acquisition of investment properties.

Pursuant to the Trust Deed, the Manager is entitled to make an election for the payment of the Manager's fees, only to the extent that it is related to the Group's Properties (as defined in the Trust Deed), to be made in the form of cash and / or units.

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

- (iii) Under the property management agreement entered into between the Manager and the Property Manager dated 29 November 2006 (as subsequently renewed on amended terms and conditions by four supplemental agreements) (the "**Property Management Agreement**"), the Property Manager is entitled to receive a fee not exceeding 3% per annum of the Gross Property Revenue (as defined in the Property Management Agreement).

The Property Manager is also entitled to receive a commission equivalent to :

- one month's base rent or licence fee for securing a tenancy or licence of three years or more;
- one-half month's base rent or licence fee for securing a tenancy or licence of less than three years;
- one-half month's base rent or licence fee for securing a renewal of tenancy or licence irrespective of the duration of the renewal term;
- an amount not exceeding the lower of one-half month's base rent or licence fee, or 10% (or a lower percentage as mutually agreed between the Manager and the Property Manager from time to time) of the total rent or licence fee for securing a tenancy, licence or renewal of tenancy or licence for a duration of less than 12 months; and
- one-fourth month's base rent or licence fee (as reviewed), for handling each rent or licence review during the term of a tenancy or licence provided for in the tenancy or licence agreement.

In addition to the above fees, the Property Manager is also reimbursed by relevant property companies for staff costs incurred for the management of properties of the Group.

- (iv) The Trustee's remuneration is calculated at 0.03% per annum on the first \$5 billion on the total assets of the Group, 0.025% per annum on the next \$5 billion on the total assets of the Group and 0.02% per annum on the balance, subject to minimum fees of \$50,000 per month. In accordance with the Trust Deed, the Trustee's remuneration may be increased, without obtaining unitholders' approval subject to one month's written notice to unitholders, to a maximum of 0.06% per annum of the total assets of the Group.

The Trustee is also entitled to charge additional fees for duties undertaken by the Trustee which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary and normal course of business of Sunlight REIT, including but not limited to any services in relation to the acquisition of real estate by Sunlight REIT. During the six months ended 31 December 2017, the Trustee had received an additional fee of \$150,000 for the Group's acquisition of investment properties.

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

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

Notes : (continued)

- (v) Interest expenses are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 12 and 17.
- (vi) On 2 December 2006, the Group acquired certain companies from the Vendors by entering into several sale and purchase agreements, which included clauses providing for additional consideration to be payable for the purchase of shares in companies having tax loss benefits, in an amount equivalent to the tax loss benefits of those companies that are utilised by the Group to offset tax liabilities which would otherwise arise. Those clauses were clarified by way of letter agreements in the financial year ended 30 June 2016. Pursuant to those agreements as clarified, the Group agreed to pay additional consideration in respect of the tax loss benefits so utilised.

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

	31 December 2018 (Unaudited) \$'000	30 June 2018 (Audited) \$'000
Net amount due to :		
– HLD Group	(33,264)	(33,123)
– HSBC Group (note)	(1,503,399)	(1,515,291)
– Colliers Group	(309)	–
– Knight Frank Group	–	(300)
Note :		
Deposits and cash placed with HSBC Group	79,275	67,184
Bank borrowings and interest payable to HSBC Group	(1,575,403)	(1,575,174)
Others	(7,271)	(7,301)
	(1,503,399)	(1,515,291)

23 Non-adjusting event after the reporting period

After the end of the reporting period, the Board of Directors of the Manager declared an interim distribution. Further details are disclosed in the “Distribution statement” of the condensed interim financial statements.

Auditor's Review Report



Independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited (the “Manager”)

Introduction

We have reviewed the condensed interim financial statements set out on pages 20 to 49 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the condensed interim financial statements in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the condensed interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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. A review of the condensed interim financial statements consist of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements as at 31 December 2018 are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

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

14 February 2019

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2018	2017	2016	2015	2014
At 31 December :						
Net asset value (\$ million)		15,476	14,526	13,660	13,511	12,207
Net asset value per unit		9.40	8.85	8.35	8.25	7.48
Market capitalisation (\$ million)		8,269	8,800	7,312	6,272	5,715
For the six months ended 31 December :						
Highest traded unit price		5.55	5.57	5.04	4.09	3.68
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A	N/A
Lowest traded unit price		4.66	4.98	4.38	3.48	3.05
Highest discount of the traded unit price to net asset value per unit (%)		50.4	43.7	47.5	57.8	59.2
Closing unit price		5.02	5.36	4.47	3.83	3.50
Distribution per unit (cents)		13.2	12.6	12.2	12.0	10.5
Payout ratio (%)		93.9	96.6	97.3	95.2	95.7
Distribution yield per unit (%)	2	2.6	2.4	2.7	3.1	3.0
Annualised distribution yield per unit (%)	2	5.3	4.7	5.5	6.3	6.0

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of each period.
2. Interim / annualised distribution yield per unit is calculated by dividing the interim / annualised distribution per unit by the closing unit price of the period.

Corporate Information

Board of Directors of the Manager Chairman and Non-executive Director

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-executive Director

KWOK Ping Ho

Independent Non-executive Directors

KWAN Kai Cheong

TSE Kwok Sang

KWOK Tun Ho, Chester

Responsible Officers of the Manager

WU Shiu Kee, Keith

WONG Chi Ming

LO Yuk Fong, Phyllis

SHUM Chung Wah, Yulanda

YIP May Ling, Vivian

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

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

Investor Relations

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Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Colliers International (Hong Kong) Limited

Legal Adviser

Woo Kwan Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

The Hongkong and Shanghai Banking
Corporation Limited

MUFG Bank, Ltd.

Oversea-Chinese Banking Corporation
Limited, Hong Kong Branch

Sumitomo Mitsui Banking Corporation

Unit Registrar

Tricor Investor Services Limited

Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Website

www.sunlightreit.com

Financial Calendar

(in respect of FY2018/19 interim results)

Interim results announcement

14 February 2019

Issuance of interim report

22 February 2019

Ex-distribution date

1 March 2019

for interim distribution

Closure of register of unitholders

5 March 2019 to 7 March 2019,
both days inclusive

for entitlement of interim distribution

Interim distribution payable

20 March 2019

HK 13.2 cents per unit

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

陽光房地產投資信託基金

由恒基陽光資產管理有限公司管理

www.sunlightreit.com

