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Sunlight Real Estate Investment Trust

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

(Stock Code : 435)

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2014

The board of directors (the “**Board**”) of Henderson Sunlight Asset Management Limited (the “**Manager**”) is pleased to announce the final results of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) for the year ended 30 June 2014 (the “**Year**”) as follows :

FINANCIAL HIGHLIGHTS

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

	2014	2013	Change (%)
For the year ended 30 June :			
Turnover	688.9	630.2	9.3
Net property income	535.1	490.6	9.1
Cost-to-income ratio (%)	22.3	22.2	N/A
Profit after taxation	1,230.0	1,674.6	(26.5)
Total distributable income	342.8	307.0	11.7
Distribution per unit ^{Note} (HK cents)	20.0	17.7	13.0
Payout ratio (%)	94.8	93.1	N/A
At 30 June :			
Portfolio valuation	15,390.6	14,408.8	6.8
Net asset value	11,494.9	10,531.7	9.1
Net asset value per unit (HK\$)	7.06	6.52	8.3
Gearing ratio (%)	24.3	25.9	N/A

Note : Please refer to “Distribution Statement” for detailed information.

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy at 30 June (%)		Passing Rent ¹ at 30 June (HK\$ / sq. ft.)		Rental Reversion ² (%)		Net Property Income (HK\$'000)		Capitalisation Rate at 30 June 2014 (%)		Appraised Value at 30 June 2014 (HK\$'000)
	2014	2013	2014	2013	FY2013/14	FY2012/13	FY2013/14	FY2012/13	Office	Retail	
Office											
Grade A											
248 Queen's Road East	98.5	98.5	32.1	29.2	28.9	30.3	135,346	126,756	3.85	3.75	3,986,000
Grade B											
Bonham Trade Centre	97.4	99.7	24.1	21.9	25.8	25.5	28,617	26,784	3.85	4.20	867,200
Righteous Centre	100.0	100.0	36.2	33.1	19.2	27.3	20,239	18,646	3.95	3.60	611,600
Winsome House Property	97.2	100.0	38.0	36.2	13.3	20.7	16,349	15,207	3.85	4.00	490,300
135 Bonham Strand Trade Centre Property	100.0	99.0	22.3	20.8	17.9	19.9	14,610	12,445	3.85	4.20	439,300
235 Wing Lok Street Trade Centre	98.9	98.9	16.9	15.4	17.5	13.5	8,994	7,865	3.85	4.25	269,800
Java Road 108 Commercial Centre	100.0	100.0	20.5	19.4	16.9	22.6	7,394	6,829	3.95	4.20	242,200
Yue Fai Commercial Centre Property	99.4	98.8	18.8	17.6	16.5	15.4	7,631	7,279	4.10	4.10	236,300
On Loong Commercial Building Property	100.0	96.7	27.3	26.0	17.3	15.2	7,368	6,526	3.95	4.00	216,100
Everglory Centre	100.0	100.0	19.7	18.3	21.2	24.4	6,184	5,590	3.85	4.15	186,000
Sun Fai Commercial Centre Property	98.1	100.0	20.6	19.1	19.2	18.0	5,516	5,018	4.10	4.35	154,500
Wai Ching Commercial Building Property	100.0	97.2	10.7	9.5	23.5	23.3	1,621	1,414	3.85	4.20	58,700
Sub-total/Average	98.7	99.0	27.5	25.2	23.4	24.4	259,869	240,359			7,758,000
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	97.4	98.5	102.9	89.6	36.2	29.9	131,034	118,745	N/A	4.40	3,670,800
Metro City Phase I Property	98.3	99.5	44.9	43.2	17.9	30.8	102,373	95,051	N/A	4.50	2,678,800
Kwong Wah Plaza Property	99.3	100.0	43.8	38.3	31.7	31.2	28,484	24,883	3.85	3.80	906,100
Urban											
Royal Terrace Property	100.0	100.0	47.6	46.4	N/A	46.9	6,097	4,718	N/A	4.25	156,500
Beverley Commercial Centre Property	94.5	100.0	51.8	48.6	18.2	29.0	4,436	3,921	N/A	4.30	125,500
Supernova Stand Property	100.0	100.0	47.6	40.8	23.8	N/A	1,948	1,839	N/A	4.00	57,200
Palatial Stand Property	100.0	58.7	13.2	13.2	26.4	20.6	824	875	N/A	4.35	37,700
Sub-total/Average	98.2	98.4	61.6	56.2	28.8	30.4 ³	275,196	250,032 ³			7,632,600
Total/Average	98.6	98.8	38.2	35.0	26.0	27.2 ³	535,065	490,391 ³			15,390,600

Notes : 1. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied GRA on the relevant date.

2. Rental reversion is calculated on the basis of change in effective rent of the leases that have been renewed during the relevant year.

3. These figures have been adjusted to eliminate the effect of the Glory Rise Property, the disposal of which was completed on 3 September 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

Sunlight REIT recorded a 9.3% year-on-year increase in turnover for the Year to HK\$688.9 million. After deducting operating expenses of HK\$153.8 million, net property income was HK\$535.1 million, up 9.1% year-on-year. Meanwhile, finance costs decreased 10.6% from the preceding year to HK\$114.5 million, mainly attributable to savings in interest expenses as a result of reduced fixed rate hedging relating to the term loan facilities. Consequently, the interest coverage ratio^{Note} for the Year improved to 4.68 times as compared to 4 times recorded in the previous year. After taking into account non-property operating expenses and the change in fair value of investment properties, Sunlight REIT reported a profit after taxation of HK\$1,230.0 million (FY2012/13: HK\$1,674.6 million).

The overall portfolio of Sunlight REIT registered an average occupancy of 98.6% at 30 June 2014, largely unchanged from the 98.8% achieved a year ago. The occupancies of the office and retail components stood at 98.7% and 98.2% (30 June 2013: 99.0% and 98.4%) respectively. During the Year, a total of 496,195 sq. ft. were leased out, 27.3% of which was attributable to new lettings while the remainder was renewal. As the pace of office decentralisation moderated, there was no significant tenant movement, contributing to a retention rate of 71.0% (FY2012/13: 67.1%) for the office portfolio. The retention rate for the retail portfolio at 74.5% was also higher than the 69.8% recorded in the previous year.

Average passing rent of the office portfolio was HK\$27.5 per sq. ft., up 9.1% year-on-year, while that of the retail portfolio was HK\$61.6 per sq. ft., up 9.6% from a year ago. During the Year, decent rental reversions of 23.4% and 28.8% were secured by the office and retail portfolios respectively.

Combating cost-push inflation has been a daunting task. During the Year, there was a noticeable 10.2% year-on-year increase in operating expenses, principally caused by a higher wage bill relating to cleaning and security contracts, which to a large extent offset the savings achieved by more efficient energy consumption. The Manager was able to maintain the cost-to-income ratio at 22.3% for the Year, compared with 22.2% for FY2012/13.

Distribution

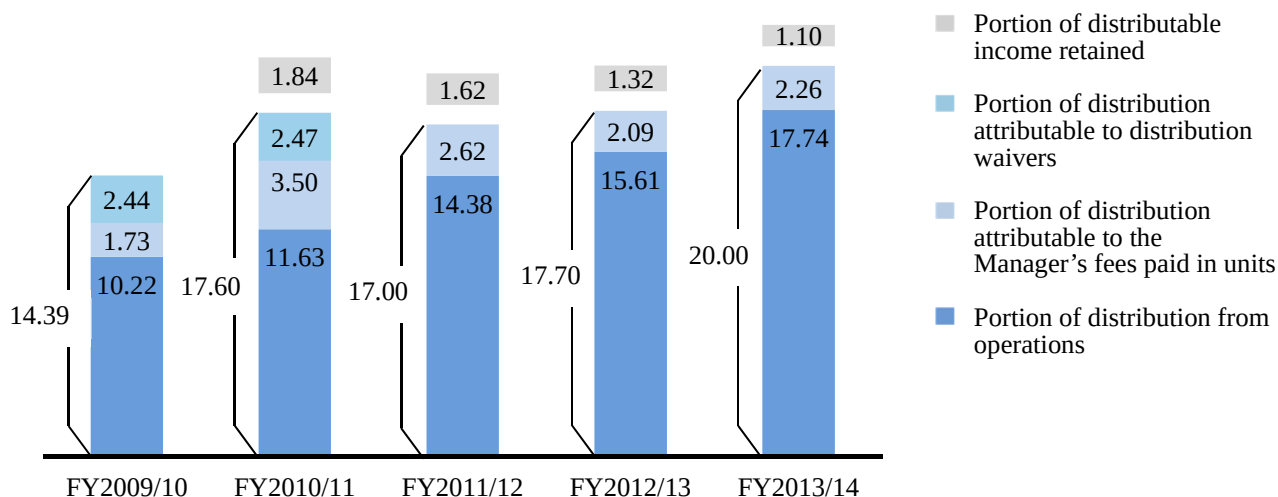
The total distributable income of Sunlight REIT for the Year was HK\$342.8 million, representing an increase of 11.7% from HK\$307.0 million recorded in the previous year. The Board has resolved to declare a final distribution of HK 10.4 cents per unit, or HK\$169.3 million. Together with the interim distribution of HK 9.6 cents per unit, or HK\$155.6 million, total distributions for the Year would amount to HK\$324.9 million, implying a payout ratio of 94.8%. The full year distribution per unit (“DPU”) of HK 20.0 cents was 13.0% ahead of the HK 17.7 cents paid in the preceding year, and represented a distribution yield of 6.1% based on the closing unit price of HK\$3.27 on the last trading day of the Year.

Note : Interest coverage ratio is calculated by dividing EBITDA by cash interest expense incurred on gross borrowings. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortisation.

A comparison of annual DPU is illustrated in the chart entitled “Distribution at a Glance”. The portion of the DPU attributable to operations, cash savings from Manager’s fees paid in units and distribution waivers (as applicable) are shown separately. As the total distributable income is not distributed in its entirety, the effect of the payout ratio on DPU is also exhibited by way of the portion of distributable income retained.

Distribution at a Glance

HK cents



Distribution Entitlement and Closure of Register of Unitholders

The ex-distribution date and record date for the final distribution are Monday, 29 September 2014 and Tuesday, 7 October 2014 respectively. The register of unitholders will be closed from Friday, 3 October 2014 to Tuesday, 7 October 2014, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to the final distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 30 September 2014. Payment of the final distribution will be made to unitholders on Friday, 17 October 2014.

Financial Position

Sunlight REIT’s portfolio was appraised at HK\$15,390.6 million at 30 June 2014, representing a 6.8% appreciation from the HK\$14,408.8 million recorded at the same time last year. At HK\$7,758.0 million, the appraised value of the office portfolio was up 5.9% year-on-year, while the appraised value of the retail properties showed a 7.8% increase to HK\$7,632.6 million. Meanwhile, the net assets of Sunlight REIT rose by 9.1% to HK\$11,494.9 million (30 June 2013: HK\$10,531.7 million). After taking into account the effect of payment of Manager’s fees in units and the cancellation of units bought back during the Year, net asset value per unit rose 8.3% to HK\$7.06 (30 June 2013: HK\$6.52).

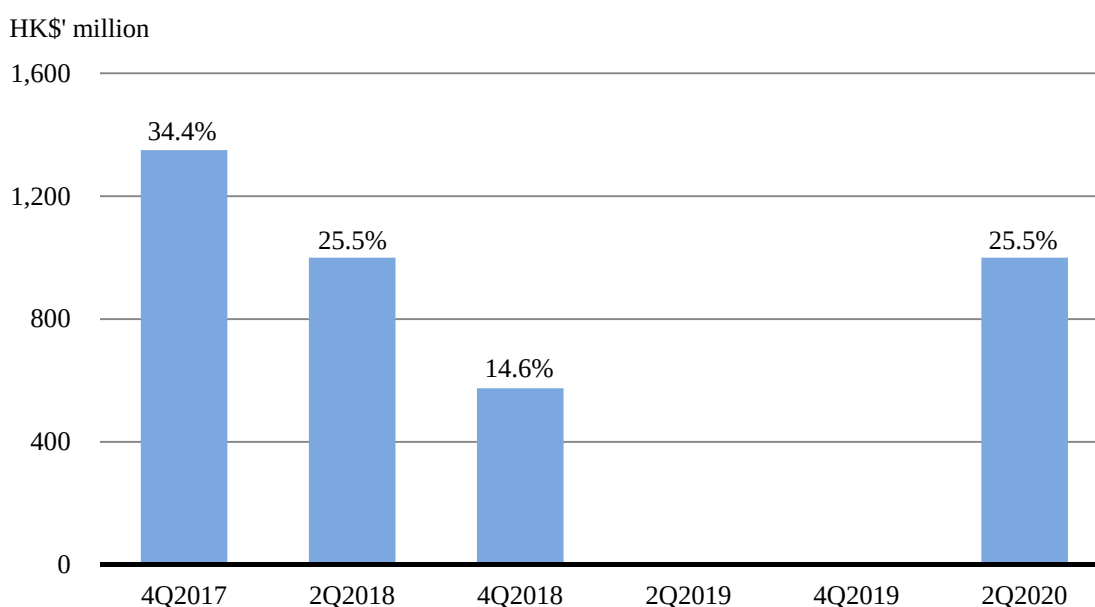
Given the higher property valuation, the gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, fell from 25.9% at 30 June 2013 to 24.3% at 30 June 2014. Gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets was 28.8%. In respect of contingent liabilities, Sunlight REIT has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity utility companies in the total amount of HK\$4.7 million at 30 June 2014.

Capital Management

In September 2013, Sunlight REIT entered into bilateral credit facility agreements with certain banks and was granted an aggregate amount of HK\$1,925.0 million in term loan facilities. Together with the HK\$2,000.0 million term loan facilities granted in April 2013, these facilities had been applied toward an early refinancing of the entire HK\$3,925.0 million term loan facility due in 2014.

During the Year, Sunlight REIT was also granted an unsecured revolving credit facility of HK\$300.0 million. Consequently, Sunlight REIT had in place total loan facilities of HK\$4,225.0 million at 30 June 2014, comprising term loan facilities of HK\$3,925.0 million which were fully drawn and the above-mentioned revolving credit facility that remained undrawn. The term loan facilities, carrying a blended interest margin of 1.24% per annum over HIBOR (before interest rate swap arrangements) and a weighted loan maturity period of 4.3 years, are secured 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\$13,096.8 million at 30 June 2014, assignment of proceeds under tenancies and a floating charge over the bank balances relating to these properties.

Debt Maturity Profile



In order to mitigate financial market risks, Sunlight REIT has maintained certain interest rate swap arrangements. At 30 June 2014, approximately 66.2% (or HK\$2,600.0 million) of Sunlight REIT's indebtedness was hedged to fixed rates with a weighted tenure of 2.8 years. The terms of all the current interest rate swaps are summarised below :

Tenure	Notional amount (HK\$' million)	Weighted average interest rate [*] (per annum)
4 July 2011 – 30 June 2016	1,500	2.0973%
7 October 2011 – 28 September 2018	300	1.5975%
2 July 2013 – 29 June 2018	500	0.8150%
2 October 2013 – 29 September 2017	300	1.3100%
Total :	2,600	1.7022%

* This represents the weighted average interest rate currently payable on the interest rate swap contracts, excluding the relevant interest margin under the respective term loan agreements. The tenure of these contracts may or may not exactly match with that of Sunlight REIT's indebtedness.

It is the Manager's treasury management policy (being in compliance with relevant regulatory requirements) to place funds derived from operations as short term bank deposits or fixed income securities which must be of investment grade, with maturity profile compatible with projected funding requirements. At 30 June 2014, Sunlight REIT had total cash and bank balances of HK\$345.3 million, and had no exposure to fixed income securities. 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 requirements.

OUTLOOK

While the US has opted to phase out its quantitative easing programme, the policymakers of other developed countries look set to maintain loose monetary conditions at this juncture. In any case, the Manager does not expect a dramatic hike in US interest rates in the foreseeable future that may derail a global economic recovery. As for mainland China, its leaders are performing a subtle balancing act between structural reforms and cyclical growth, implying that the monetary, fiscal and reform policies they implement could reverberate across myriad business sectors. The resultant uncertainties could dampen leasing demand for commercial properties in the intermediate term. In the meantime, with 2.1 million sq. ft. of new Grade A offices coming on stream per annum between 2014 and 2018 according to Jones Lang LaSalle Limited's latest estimation, the competition for tenants may somewhat intensify.

Nevertheless, the Manager is confident that the office portfolio of Sunlight REIT can enjoy a high retention rate, in light of prohibitive relocation costs and a lack of deep rental discount offered by new completions. The high retention rate at 248 Queen's Road East ("**248 QRE**") (of 75.9%) was a case in point of the proactive effort in developing customer relationships with existing occupiers. Looking ahead, the improvement works for this flagship property should prove timely in light of the completion of a luxury hotel and upmarket residences in its vicinity, which can together enhance the area's attractiveness as an office destination.

The Manager remains guardedly optimistic about the prospects for the retail property market. For one thing, there should hardly be any new supply in a significant manner in the year ahead. While overall retail sales growth seems to have peaked, the spending spree of mainland Chinese visitors, particularly of same-day travellers, has stayed intact to a large extent. This can be witnessed by heavy pedestrian traffic in Sheung Shui Centre Shopping Arcade and Kwong Wah Plaza Property, and the brisk business enjoyed by the tenants. However, the Manager is aware that there has been a call for the Hong Kong government to curtail the influx of Chinese tourists, especially those who do not choose to stay overnight. The Manager cannot rule out the potential adverse impact on tourist footfall and thus the rental performance of the relevant retail properties should there be such a revision to the government's current policy.

Meanwhile, the refurbishment programme at Metro City Phase I Property is expected to yield a reasonable return on investment, helping to bolster the future performance of Sunlight REIT's retail property portfolio. Together with the two adjoining phases owned by Henderson Land Development Company Limited ("**HLD**"), the Metro City shopping complex, endowed with good accessibility thanks to an extensive traffic network, will accommodate a cornucopia of shops and restaurants that are likely to contribute to an improvement in footfall and business.

Rising operating expenses is a reality that the Manager has to deal with. While the Manager is battling against the odds to control costs, there is little room to cut the wage bill further. Gratifyingly, the installation of a new air-conditioning system and an advanced building management system at 248 QRE has showcased how the implementation of green measures can bring double benefits of fulfilling the social responsibility and achieving cost savings. The Manager is contemplating how such measures can be replicated in other properties, and will attempt to further streamline the property management functions across the portfolio to achieve better economies of scale.

The Manager is less concerned about financial risks despite the apparent recovery of the US economy and the potential rise in US interest rates. Currently, almost two-thirds of Sunlight REIT's indebtedness has been hedged to fixed rates, giving it a buffer against interest rate volatility. Moreover, the financial resources available should not only be able to satisfy working capital requirement and distribution payment, but also be sufficient for the Manager to pursue various value-added strategies, such as on-market buy-backs of units, asset enhancement and property acquisition. The Manager may also consider offloading certain mature non-core assets in the portfolio and use the proceeds for other more attractive investments.

The year ahead is conceivably full of challenges. However, Sunlight REIT has weathered tough times over the years, with an impressive track record of income growth and stable distribution. The Manager is confident that its foresight would help Sunlight REIT in continuously generating a high-quality recurrent income stream, as the underlying potential of the portfolio is further unlocked. The Manager cares about the tenants, as well as clients and customers of the office and retail properties. By ensuring that the properties remain preferred locations for people to work and to shop, the Manager would be able to provide unitholders of Sunlight REIT with the benefit of sustainable returns in the long term.

EMPLOYEES

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

CORPORATE GOVERNANCE

The Manager is committed to a high level of corporate governance practices and procedures. Good corporate governance requires a sound and effective system of checks and balances, and places a strong emphasis on high transparency to and alignment of interests with unitholders. To ensure that the relevant legislations and regulations are duly observed, 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 operation of Sunlight REIT. The Compliance Manual is reviewed regularly and modifications are made if necessary or if relevant legislations or regulations have been enacted or amended.

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

The key components of the corporate governance policies that have been adopted by the Manager and Sunlight REIT will be set out in the forthcoming annual report of Sunlight REIT.

Public Float

At 30 June 2014, based on information that is publicly available and within the knowledge of the Directors, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the Securities and Futures Commission (the “**SFC**”).

New Units Issued

Except for an aggregate of 12,749,727 new units issued to the Manager as payment of part of the Manager’s fees, there were no other new units issued during the Year.

Buy-back, Sale or Redemption of Units

Pursuant to the general mandate granted by unitholders at the annual general meeting held on 28 October 2013, the Manager bought back on behalf of Sunlight REIT a total of 1,500,000 units on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in November 2013, for an aggregate consideration of approximately HK\$4.6 million (excluding buy-back expenses). The highest and the lowest price paid per unit for such buy-backs were HK\$3.08 and HK\$3.03 respectively. All bought back units were cancelled prior to the end of the Year.

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

Review of Final Results

The final results of Sunlight REIT for the Year have been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of reference.

The figures contained in the preliminary announcement of the results of Sunlight REIT for the Year have been compared by the auditor of Sunlight REIT, KPMG, Certified Public Accountants, to the amounts set out in the consolidated financial statements of Sunlight REIT for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

ISSUANCE OF ANNUAL REPORT

The 2013/14 Annual Report of Sunlight REIT will be sent to unitholders on 30 September 2014.

FORWARD-LOOKING STATEMENTS

This announcement contains certain statements and terminologies that are forward-looking. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the Board and senior management of the Manager 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.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Turnover	4 & 5	688,905	630,201
Property operating expenses	4 & 6	<u>(153,840)</u>	<u>(139,604)</u>
Net property income		535,065	490,597
Other income	7	3,678	3,171
Gain on disposal of investment properties		-	2,088
Administrative expenses		(94,836)	(82,881)
Net increase in fair value of investment properties		<u>961,041</u>	<u>1,440,704</u>
Profit from operations		1,404,948	1,853,679
Finance costs on interest bearing liabilities	8(a)	<u>(114,510)</u>	<u>(128,050)</u>
Profit before taxation and transactions with unitholders	8	1,290,438	1,725,629
Income tax	9	<u>(60,391)</u>	<u>(51,008)</u>
Profit after taxation and before transactions with unitholders		<u><u>1,230,047</u></u>	<u><u>1,674,621</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

(Expressed in Hong Kong dollars)

	2014 \$'000	2013 \$'000
Profit after taxation and before transactions with unitholders	1,230,047	1,674,621
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss :		
- Changes in fair value of cash flow hedges recognised during the year	<u>3,658</u>	<u>80,054</u>
Total comprehensive income for the year	<u>1,233,705</u>	<u>1,754,675</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Non-current assets			
Fixed assets			
- Investment properties		15,390,600	14,408,800
- Other fixed assets		<u>79</u>	<u>102</u>
		15,390,679	14,408,902
Deferred tax assets		566	3,875
Derivative financial instruments		19,989	25,471
Prepayments	11	17,735	3,159
Reimbursement rights		<u>203,413</u>	<u>203,413</u>
		<u>15,632,382</u>	<u>14,644,820</u>
Current assets			
Trade and other receivables	11	24,031	24,342
Cash and bank balances		345,254	329,126
Tax recoverable		<u>150,198</u>	<u>158,096</u>
		<u>519,483</u>	<u>511,564</u>
Total assets		<u>16,151,865</u>	<u>15,156,384</u>
Current liabilities			
Tenants' deposits		(178,638)	(159,982)
Rent receipts in advance		(9,459)	(5,183)
Trade and other payables	12	(215,784)	(215,441)
Derivative financial instruments		(33,188)	(27,912)
Tax payable		<u>(50,406)</u>	<u>(41,774)</u>
		<u>(487,475)</u>	<u>(450,292)</u>
Net current assets		<u>32,008</u>	<u>61,272</u>
Total assets less current liabilities		<u>15,664,390</u>	<u>14,706,092</u>

CONSOLIDATED BALANCE SHEET (continued)

At 30 June 2014

(Expressed in Hong Kong dollars)

	2014 \$'000	2013 \$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Secured bank borrowings	(3,872,268)	(3,874,760)
Deferred tax liabilities	(281,470)	(269,409)
Derivative financial instruments	<u>(15,772)</u>	<u>(30,188)</u>
	<u>(4,169,510)</u>	<u>(4,174,357)</u>
Total liabilities, excluding net assets attributable to unitholders	<u>(4,656,985)</u>	<u>(4,624,649)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u>11,494,880</u>	<u>10,531,735</u>
Number of units in issue	<u>1,627,580,493</u>	<u>1,616,330,766</u>
Net asset value attributable to unitholders per unit	<u>\$7.06</u>	<u>\$6.52</u>

DISTRIBUTION STATEMENT

For the year ended 30 June 2014
(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Profit after taxation and before transactions with unitholders		<u>1,230,047</u>	<u>1,674,621</u>
Adjustments : (note (i))			
- Gain on disposal of investment properties		-	(2,088)
- Net increase in fair value of investment properties		(961,041)	(1,440,704)
- Manager's fees paid or payable in the form of units		38,807	36,203
- Non-cash finance costs on interest bearing liabilities		19,632	24,809
- Deferred tax	9	<u>15,370</u>	<u>14,181</u>
		<u>(887,232)</u>	<u>(1,367,599)</u>
Total distributable income (note (i))		<u><u>342,815</u></u>	<u><u>307,022</u></u>
Interim distribution, paid (notes (ii) and (iv))		155,616	136,991
Final distribution, to be paid to unitholders (notes (iii) and (iv))		<u>169,268</u>	<u>148,703</u>
Total distributions for the year (note (i))		<u><u>324,884</u></u>	<u><u>285,694</u></u>
Payout ratio (note (iii))		94.8%	93.1%
Distribution per unit :			
Interim distribution per unit, paid		9.6 cents	8.5 cents
Final distribution per unit, to be paid to unitholders		<u>10.4 cents</u>	<u>9.2 cents</u>
		<u><u>20.0 cents</u></u>	<u><u>17.7 cents</u></u>

DISTRIBUTION STATEMENT (continued)

For the year ended 30 June 2014
(Expressed in Hong Kong dollars)

Notes :

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

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated income statement for the relevant financial period. The adjustments for the year included an adjustment to eliminate non-cash finance costs on interest bearing liabilities of \$19,632,000, or 1.21 cents per unit (2013: \$24,809,000 or 1.53 cents per unit).

- (ii) The interim distribution of \$155,616,000 for the six months ended 31 December 2013 (31 December 2012: \$136,991,000) is calculated by multiplying the interim distribution per unit of 9.6 cents by 1,620,998,045 units in issue at 31 December 2013 (31 December 2012: 8.5 cents by 1,611,664,307 units in issue at 31 December 2012).
- (iii) The final distribution of \$169,268,000 for the year ended 30 June 2014 (2013: \$148,703,000) is calculated by multiplying the final distribution per unit of 10.4 cents by 1,627,580,493 units in issue at 30 June 2014 (2013: 9.2 cents by 1,616,330,766 units in issue at 30 June 2013).

Together with the interim distribution, the total distributions for the year ended 30 June 2014 represent a payout ratio of 94.8% (2013: 93.1%) of Sunlight REIT’s total distributable income for the year.

- (iv) The 2014 interim distribution was paid to unitholders on 27 March 2014. The 2014 final distribution is expected to be paid on 17 October 2014 to unitholders whose names appear on the register of unitholders on 7 October 2014.
- (v) The final distribution proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

NOTES

(Expressed in Hong Kong dollars)

1. General

Sunlight REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed and is authorised under section 104 of the Securities and Futures Ordinance. Sunlight REIT is listed on the Main Board of the Stock Exchange.

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

2. Basis of preparation

The final results set out in this announcement do not constitute the Group’s statutory consolidated financial statements for the year ended 30 June 2014 but are extracted from those consolidated financial statements.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code. The consolidated financial statements also comply with the relevant disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange as if those requirements were applicable to Sunlight REIT.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

3. Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group’s financial statements :

- HKFRS 13, *Fair value measurement*

3. Changes in accounting policies (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impact of the adoption of the new HKFRS is discussed below :

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes to the consolidated financial statements. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

4. Segment reporting

The Manager manages the Group's business by divisions. In a manner consistent with the way in which information is reported internally to the Manager's most senior executive management for the purposes of resource allocation and performance assessment, the Manager has identified two reportable segments, which are "Office properties" and "Retail properties".

As all of the Group's activities are carried out in Hong Kong, no geographical information is presented.

Segment results, assets and liabilities

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

Segment assets include all tangible, intangible and current assets with the exception of cash and bank balances, tax recoverable, deferred tax assets and other corporate assets. Segment liabilities include tenants' deposits, rent receipts in advance and trade and other payables managed directly by the segments.

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

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

4. Segment reporting (continued)

Segment results, assets and liabilities (continued)

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

	2014			2013		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Turnover						
- rental income	269,853	282,539	552,392	248,330	257,870	506,200
- car park income	3,576	25,970	29,546	3,104	22,874	25,978
- rental related income	55,272	51,695	106,967	51,387	46,636	98,023
	328,701	360,204	688,905	302,821	327,380	630,201
Property operating expenses	(68,832)	(85,008)	(153,840)	(62,462)	(77,142)	(139,604)
Net property income	259,869	275,196	535,065	240,359	250,238	490,597
Administrative expenses	(40,994)	(39,941)	(80,935)	(38,189)	(36,988)	(75,177)
Segment results	218,875	235,255	454,130	202,170	213,250	415,420
Net increase in fair value of investment properties	420,839	540,202	961,041	643,233	797,471	1,440,704
Gain on disposal of investment properties	-	-	-	-	2,088	2,088
Finance costs on interest bearing liabilities			(114,510)			(128,050)
Income tax			(60,391)			(51,008)
Interest income			3,677			3,167
Unallocated net expenses			(13,900)			(7,700)
Profit after taxation and before transactions with unitholders			<u>1,230,047</u>			<u>1,674,621</u>
Depreciation	<u>14</u>	<u>16</u>	<u>30</u>	<u>14</u>	<u>13</u>	<u>27</u>

4. Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2014			2013		
	Office	Retail	Total	Office	Retail	Total
	properties	properties		properties	properties	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	7,903,624	7,728,453	15,632,077	7,473,234	7,161,633	14,634,867
Derivative financial instruments			19,989			25,471
Cash and bank balances			345,254			329,126
Tax recoverable			150,198			158,096
Deferred tax assets			566			3,875
Unallocated assets			3,781			4,949
Total assets			<u>16,151,865</u>			<u>15,156,384</u>
Segment liabilities	(126,308)	(119,129)	(245,437)	(113,321)	(104,419)	(217,740)
Derivative financial instruments			(48,960)			(58,100)
Secured bank borrowings			(3,872,268)			(3,874,760)
Tax payable			(50,406)			(41,774)
Deferred tax liabilities			(281,470)			(269,409)
Unallocated liabilities			<u>(158,444)</u>			<u>(162,866)</u>
Total liabilities, excluding net assets attributable to unitholders			<u>(4,656,985)</u>			<u>(4,624,649)</u>
Capital expenditure incurred during the year	<u>10,178</u>	<u>25,164</u>	<u>35,342</u>	<u>3,095</u>	<u>1,552</u>	<u>4,647</u>

5. Turnover

Turnover represents gross income generated from leasing of investment properties. The amount of each significant category of revenue recognised in turnover during the year is as follows :

	2014	2013
	\$'000	\$'000
Rental income (note)	552,392	506,200
Car park income	29,546	25,978
Rental related income	<u>106,967</u>	<u>98,023</u>
	<u>688,905</u>	<u>630,201</u>

Note : Included additional rents based on business turnover of tenants amounting to \$1,350,000 (2013: \$1,740,000).

6. Property operating expenses

	2014 \$'000	2013 \$'000
Building management fee	54,568	51,278
Property manager's fees	43,903	40,421
Government rent and rates	26,487	21,582
Marketing and promotion expenses	10,242	9,032
Car park operating costs (note)	8,682	8,098
Bad debts expenses	150	150
Other direct costs	9,808	9,043
	<u>153,840</u>	<u>139,604</u>

Note : Included property manager's fees of \$2,688,000 (2013: \$2,410,000).

7. Other income

	2014 \$'000	2013 \$'000
Bank interest income	3,677	3,167
Others	1	4
	<u>3,678</u>	<u>3,171</u>

8. Profit before taxation and transactions with unitholders

Profit before taxation and transactions with unitholders is arrived at after charging :

	2014 \$'000	2013 \$'000
(a) Finance costs on interest bearing liabilities		
Interest on secured bank borrowings	94,669	103,090
Other borrowing costs	<u>19,841</u>	<u>24,960</u>
	<u>114,510</u>	<u>128,050</u>

Other borrowing costs represent various financing charges and the amortisation of the debts establishment fees for the secured bank borrowings.

8. Profit before taxation and transactions with unitholders (continued)

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

	2014 \$'000	2013 \$'000
(b) Other items		
Manager's fees	77,614	72,783
Property manager's fees (note (i))	46,591	42,831
Trustee's remuneration and charges	3,963	3,781
Auditor's remuneration		
- Audit services	1,800	1,730
- Other services (note (ii))	1,023	445
Valuation fees	547	573
Other legal and professional fees	8,444	2,540
Commission to property agents	2,522	2,054
Bank charges	461	469

Notes :

- (i) Included rental commission of \$13,295,000 (2013: \$12,237,000).
- (ii) An amount of \$360,000 non-audit service fee paid to the auditor in relation to the establishment of a medium term note programme during the year ended 30 June 2013 had been recognised as a prepayment at 30 June 2013. No notes were issued since the establishment of the programme. The amount was recognised as expense in profit or loss during the year ended 30 June 2014 as no notes are expected to be issued under the programme in the foreseeable future.
- (iii) Sunlight REIT did not appoint any director and the Group did not engage any employee during the year. No employee benefit expense has been incurred in the year accordingly.

9. Income tax

Income tax in the consolidated income statement represents :

	2014 \$'000	2013 \$'000
Current tax - Provision for Hong Kong Profits Tax		
Provision for the year	45,190	36,975
Over-provision in respect of prior years	(169)	(148)
	45,021	36,827
Deferred tax		
Origination and reversal of temporary differences	15,370	14,181
	60,391	51,008

9. Income tax (continued)

Provision for Hong Kong Profits Tax has been made at 16.5% on the estimated assessable profits for the current and prior years, taking into account a one-off reduction of 75% of the tax payable for the year of assessment 2013/14 subject to a ceiling of \$10,000 allowed by the Government of Hong Kong Special Administrative Region for each business.

During the year ended 30 June 2014, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group for the year of assessment 2007/08 in an aggregate amount of \$1,021,000 as the IRD disallowed the deductions of the management and property management fees and in some cases certain rental commission incurred by these subsidiaries. Notices of objection were filed with the IRD and tax reserve certificates have been purchased. Based on the opinion of the Group’s legal and tax advisers, the Manager is of the view that there are strong grounds to object the additional profits tax assessments raised.

10. Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2014 amounted to \$0.76 (2013: \$1.04). The calculation of basic earnings per unit before transactions with unitholders is based on the Group’s profit after taxation and before transactions with unitholders of \$1,230,047,000 (2013: \$1,674,621,000) and the weighted average of 1,620,013,212 units in issue during the year (2013: 1,610,555,216 units).

Diluted earnings per unit before transactions with unitholders for the year ended 30 June 2014 and 2013 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

11. Trade and other receivables

	2014	2013
	\$'000	\$'000
Rental receivables	12,812	11,991
Deposits and prepayments	25,974	12,676
Other receivables	2,345	2,383
Amounts due from related companies	635	451
	41,766	27,501
Represented by :		
Current portion	24,031	24,342
Non-current portion	17,735	3,159
	41,766	27,501

11. Trade and other receivables (continued)

The balance under non-current portion represents progress payments for the improvement works carried out on certain investment properties of the Group which were in progress at the balance sheet dates.

\$4,757,000 (2013: \$4,769,000) 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 balance sheet date, the ageing analysis of rental receivables, based on the date of revenue recognition and net of allowance for doubtful debts, is as follows :

	2014	2013
	\$'000	\$'000
Current	9,386	8,410
Less than 1 month overdue	2,632	2,858
More than 1 month and up to 3 months overdue	341	385
More than 3 months and up to 6 months overdue	199	192
More than 6 months overdue	254	146
	12,812	11,991

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.

12. Trade and other payables

	2014	2013
	\$'000	\$'000
Creditors and accrued charges	36,287	26,879
Manager's fees payable	21,489	20,603
Amounts due to related companies	158,008	167,959
	215,784	215,441

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.

12. Trade and other payables (continued)

The amounts due to related companies primarily represent amounts received from certain vendors (comprising subsidiaries of Shau Kee Financial Enterprises Limited, HLD, Henderson Investment Limited, Henderson Development Limited and Jetwin International Limited) (collectively referred to as the “**Vendors**”) for purchasing tax reserve certificates on their behalf in respect of the potential tax liabilities arising from the outstanding tax cases. The outstanding tax cases relate to the notional gains arising from reclassification of properties at the date of acquisition and the potential tax liabilities are indemnified by the Vendors. The relevant balances of tax reserve certificates were classified as tax recoverable under current assets at the year end. The amounts are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the trustee of Sunlight REIT of \$1,079,000 (2013: \$1,070,000) which is due within 30 days.

13. Non-adjusting post balance sheet events

- (a) After the balance sheet date, the Board of Directors of the Manager proposed a final distribution. Further details are disclosed in the “Distribution statement” on pages 14 and 15 of this announcement.
- (b) On 20 June 2014, the Group entered into a conditional agreement with HLD and certain of its subsidiaries in relation to a proposed acquisition of an office building in East Kowloon, Hong Kong. However, the contemplated transaction did not proceed as the corresponding resolution was not passed at the extraordinary general meeting held on 15 August 2014.

14. Comparative figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

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

Hong Kong, 16 September 2014

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