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SUNLIGHT REIT

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

The board of directors (the “**Board**”) of Henderson Sunlight Asset Management Limited (the “**Manager**”) is pleased to announce the unaudited interim results of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) for the six months ended 31 December 2015 (the “**Reporting Period**”) as follows :

FINANCIAL HIGHLIGHTS

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

	Six months ended 31 December 2015	Six months ended 31 December 2014	Change (%)
Revenue	385.2	370.8	3.9
Net property income	305.2	285.6	6.8
Cost-to-income ratio (%)	20.8	23.0	N/A
Profit after taxation	587.2	854.7	(31.3)
Distributable income	206.4	179.2	15.2
Distribution per unit (HK cents)	12.0	10.5	14.3
Payout ratio (%)	95.2	95.7	N/A
	At 31 December 2015	At 30 June 2015	Change (%)
Portfolio valuation	16,562.7	17,035.3	(2.8)
Net asset value	13,511.4	13,097.1	3.2
Net asset value per unit (HK\$)	8.25	7.99	3.3
Gearing ratio (%)	21.6	22.0	N/A

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy (%)		Passing Rent ¹ (HK\$ / sq. ft.)		Rental Reversion ² (%)		Net Property Income (HK\$ '000)		Capitalisation Rate at 31 Dec 2015 (%)		Appraised Value at ₃ 31 Dec 2015 (HK\$ '000)
	at 31 Dec 2015	at 30 Jun 2015	at 31 Dec 2015	at 30 Jun 2015	six months ended 31 Dec 2015	six months ended 30 Jun 2015	six months ended 31 Dec 2015	six months ended 31 Dec 2014	Office	Retail	
Office											
Grade A											
Sunlight Tower	99.7	99.6	34.6	34.1	13.0	16.3	81,497	72,382	3.85	3.75	4,420,000
Grade B											
Bonham Trade Centre	99.7	98.1	26.8	26.1	20.1	14.8	17,267	15,887	3.65	4.00	1,058,000
Righteous Centre	98.9	98.2	41.2	40.1	13.2	19.5	12,044	10,897	3.95	3.60	673,000
Winsome House Property	100.0	100.0	40.1	39.3	5.8	7.8	8,679	8,366	3.65	3.80	559,400
135 Bonham Strand Trade Centre Property	100.0	95.2	25.3	24.6	15.5	16.7	8,339	7,630	3.65	4.00	536,000
235 Wing Lok Street Trade Centre	97.9	98.9	19.3	18.4	18.8	20.6	5,339	4,771	3.65	4.00	332,000
Java Road 108 Commercial Centre	94.2	98.1	22.5	22.0	11.5	11.4	4,434	3,909	3.95	4.20	269,000
On Loong Commercial Building Property ⁴	100.0	100.0	28.6	28.6	9.5	11.4	4,073	3,635	3.85	3.90	262,000
Sun Fai Commercial Centre Property	98.5	100.0	21.9	21.6	10.5	12.7	2,911	2,801	4.00	4.25	178,000
Wai Ching Commercial Building Property	100.0	100.0	12.5	11.8	20.3	17.5	956	817	3.75	4.10	66,600
Sub-total/Average	99.3	98.9 ⁵	30.8	30.2 ⁵	13.9	15.2 ⁵	145,539	131,095			8,354,000
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	98.3	99.8	114.5	111.3	24.9	22.1	81,228	71,895	N/A	4.40	4,082,000
Metro City Phase I Property	98.2	98.8	51.0	48.1	18.7	16.3	56,447	53,263	N/A	4.50	2,909,000
Kwong Wah Plaza Property	99.3	99.3	48.8	46.0	27.0	19.7	16,445	15,390	3.85	3.80	994,000
Urban											
Beverley Commercial Centre Property	98.2	100.0	51.8	52.1	(1.9)	(3.9)	2,175	2,202	N/A	4.30	124,500
Supernova Stand Property	100.0	100.0	47.6	47.6	N/A	N/A	1,165	1,164	N/A	4.00	60,900
Palatial Stand Property	38.0	58.7	13.1	13.5	N/A	N/A	209	630	N/A	4.35	38,300
Sub-total/Average	97.1	98.4 ⁵	70.1	67.2 ⁵	22.0	17.7 ⁵	157,669	144,544			8,208,700
Total/Average (excluding the disposed properties)	98.6	98.7	43.6	42.4	18.5	16.6	303,208	275,639			16,562,700
Disposed properties							1,957	9,969			
Total							305,165	285,608			

Notes : 1. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied gross rentable area ("GRA") on the relevant date.

2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed during the relevant period.

3. Valuation prepared by Knight Frank Petty Limited.

4. Sunlight REIT acquired the remaining interests in On Loong Commercial Building and has become the sole owner of the building with effect from 3 August 2015. The operational statistics and property financials before and after 3 August 2015 were calculated on the basis of total GRA of 25,564 sq. ft. and 27,206 sq. ft. respectively.

5. These figures have been adjusted to reflect the disposal of Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property completed in July and August 2015 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

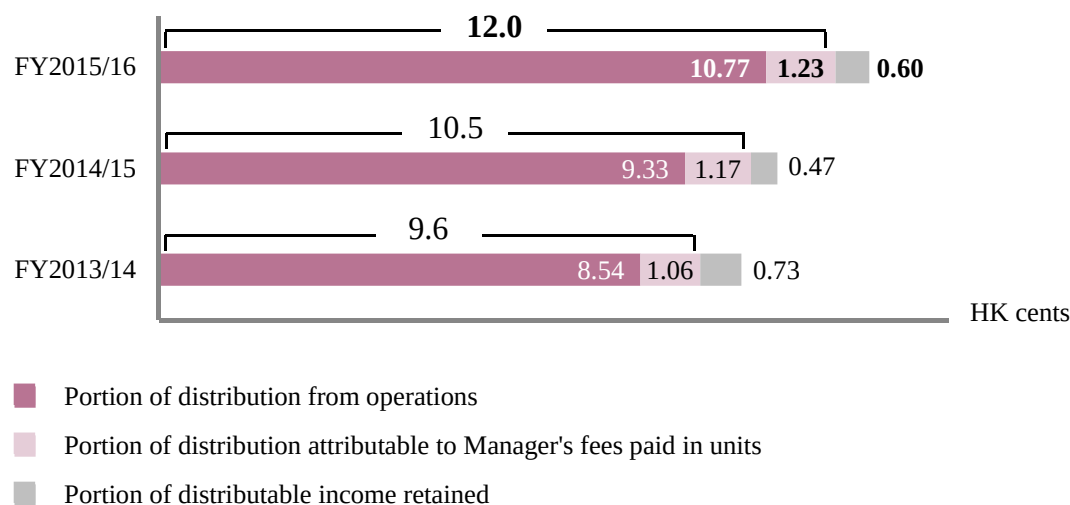
Sunlight REIT reported a 3.9% growth in revenue to HK\$385.2 million for the Reporting Period. After deducting property operating expenses of HK\$80.0 million, net property income increased by 6.8% to HK\$305.2 million. The reported growth figures were actually distorted by the completion of the disposals of three non-core properties (the “**Disposals**”) during the Reporting Period, namely Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property. Stripping out the contributions from the Disposals, the growth in revenue and net property income would have been 7.0% and 10.0% respectively.

Finance costs increased 34.4% year-on-year to HK\$73.5 million, mainly attributable to a reserve movement resulting from the unwinding of certain interest rate swaps (“**IRS**”) for a total cost of HK\$22.2 million (the “**Unwinding Cost**”). Cash interest expenses, on the contrary, dropped 7.0%, thanks to the more favourable rates locked in for the new IRSs during the Reporting Period. Meanwhile, due to the absence of substantial incurrence and/or write-off of professional fees, administrative expenses recorded a year-on-year decrease of 11.4% to HK\$48.8 million. Profit after taxation dwindled 31.3% from the same period last year to HK\$587.2 million, mainly due to a smaller gain in fair value of investment properties.

Distribution

Total distributable income for the Reporting Period came in at HK\$206.4 million, representing an increase of 15.2% from HK\$179.2 million recorded in the previous corresponding period. The reported figure has, among other adjustments, included the adding back of the Unwinding Cost which is capital in nature and is equivalent to HK 1.36 cents per unit. Having taken into consideration the financial position of Sunlight REIT particularly following the Disposals, the Board of the Manager has resolved to declare an interim distribution per unit (“**DPU**”) of HK 12.0 cents, or HK\$196.5 million, which implies a payout ratio of 95.2%. The interim DPU was 14.3% ahead of the HK 10.5 cents paid in the same period last year, and represented an annualised distribution yield of 6.3% based on the closing unit price of HK\$3.83 on the last trading day of the Reporting Period. Please refer to the chart below for further details.

Interim DPU at a Glance



Distribution Entitlement and Closure of Register of Unitholders

The ex-distribution date and record date for the interim distribution are Thursday, 3 March 2016 and Wednesday, 9 March 2016 respectively. The register of unitholders will be closed from Monday, 7 March 2016 to Wednesday, 9 March 2016, both days inclusive, during which period no transfer of units will be effected. In order to be entitled to 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 Friday, 4 March 2016. Payment of the interim distribution will be made to unitholders on Tuesday, 22 March 2016.

Operation Review

At 31 December 2015, the overall portfolio occupancy of Sunlight REIT was 98.6% as compared to 98.7% recorded at 30 June 2015^{Note}. The office portfolio achieved an occupancy rate of 99.3%, representing a slight increase from 98.9% recorded at 30 June 2015. Occupancy of the retail portfolio experienced a mild decline to 97.1% as against 98.4% at 30 June 2015.

Reflecting the solid rental reversion of 13.9% during the Reporting Period, passing rent of the office portfolio continued to rise, registering a growth of 2.0% to HK\$30.8 per sq. ft. at 31 December 2015^{Note}. Meanwhile, passing rent for the retail portfolio rose 4.3% to HK\$70.1 per sq. ft. at 31 December 2015, supported by an encouraging rental reversion of 22.0%.

Despite an apparent slowdown in momentum, rental reversion at Sunlight Tower stayed at a decent 13.0% during the Reporting Period, with a high retention rate of 73.2%. Meanwhile, the Sheung Wan portfolio continued to show positive progress as rents have been well supported by leasing demand from domestic small and medium-sized enterprises. Both Bonham Trade Centre and 135 Bonham Strand Trade Centre Property registered reasonable improvement in passing rents at 31 December 2015, which stood at HK\$26.8 per sq. ft. and HK\$25.3 per sq. ft., representing increases of 2.7% and 2.8% from 30 June 2015 respectively.

On the retail front, despite a mild decline in footfall at Sheung Shui Centre Shopping Arcade resulting from the slowdown in visitor arrivals from the mainland, the performance of this property continued to be satisfactory given its predominant emphasis on necessity shopping. Thanks to a strong rental reversion of 24.9%, passing rent rose 2.9% to HK\$114.5 per sq. ft. at 31 December 2015 complemented by a high level of occupancy of 98.3%. Meanwhile, the ongoing tenant reconfiguration exercise contributed to the rewarding performance of Metro City Phase I Property. With the introduction of certain new quality tenants, the image and dynamics of the complex have been further revitalised. Achieving a respectable rental reversion of 18.7%, passing rent increased by 6.0% to HK\$51.0 per sq. ft., while occupancy rate remained stable at 98.2%.

As regards asset enhancement, the Manager's emphasis on energy savings investment continued to bear fruits. Riding on the success of the installation of a water-cooled chiller at Sunlight Tower in May 2014, the Manager extended the chiller replacement initiative to Sheung Shui Centre Shopping Arcade by replacing all its air-cooled chillers in the second quarter of 2015. Consequently, total electricity usage (as measured by kilowatt hours) of the property during the Reporting Period was reduced by approximately 30% as compared to the same period last year.

Note : Occupancy and passing rent figures at and prior to 30 June 2015 have been adjusted to reflect the Disposals.

Financial Position

The portfolio of Sunlight REIT was appraised by the principal valuer at HK\$16,562.7 million at 31 December 2015, representing a decrease of 2.8% from HK\$17,035.3 million recorded at 30 June 2015. Excluding the three non-core properties which were disposed of during the Reporting Period, the valuation of the current portfolio actually increased by 2.3%. The net assets of Sunlight REIT rose by 3.2% to HK\$13,511.4 million (30 June 2015: HK\$13,097.1 million), and after taking into account the effect of payment of Manager's fees in new units and the cancellation of units bought back during the Reporting Period, net asset value per unit increased by 3.3% to HK\$8.25 (30 June 2015: HK\$7.99).

The gearing ratio of Sunlight REIT, defined as total borrowings as a percentage of gross assets, decreased from 22.0% at 30 June 2015 to 21.6% at 31 December 2015; gross liabilities¹ as a percentage of gross assets also dropped to 25.5%. As the EBITDA² of Sunlight REIT grew 12.0% year-on-year to HK\$260.4 million while cash interest expenses were reduced following the change in the IRS profile, the interest coverage ratio³ for the Reporting Period was further improved to 5.76 times as compared to 4.77 times recorded in the same period last year. 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, the amount of which was HK\$4.6 million at 31 December 2015.

Capital Management

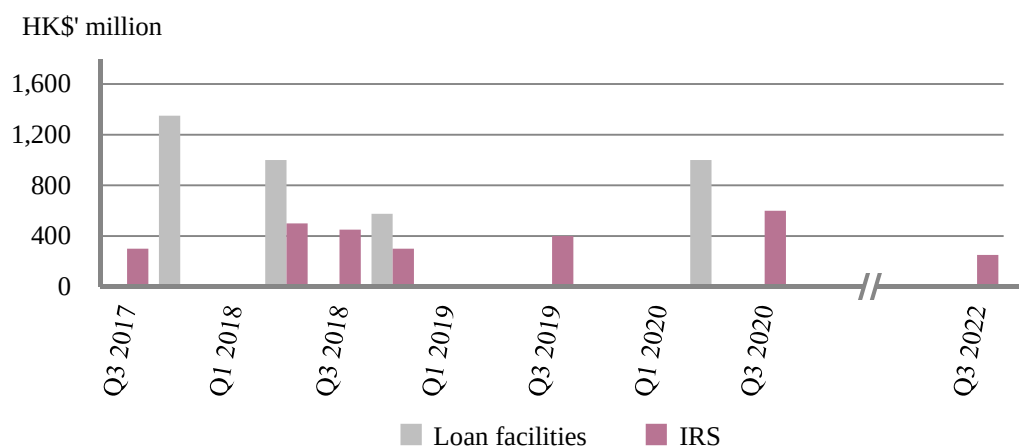
At 31 December 2015, Sunlight REIT had in place total loan facilities of HK\$4,225.0 million, comprising term loan facilities of HK\$3,925.0 million which were fully drawn down and an unsecured revolving credit facility of HK\$300.0 million which has yet been utilised. The term loan facilities, with a blended interest margin of 1.24% per annum over HIBOR (before IRS arrangements) and a weighted loan maturity period of 2.8 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\$14,165.4 million at 31 December 2015), assignment of proceeds under tenancies and a floating charge over the bank balances relating to these properties.

During the Reporting Period, the Manager capitalised on the favourable interest rate environment and restructured the IRS profile of Sunlight REIT. In July 2015, the Manager executed an early unwinding of IRS with an aggregate notional amount of HK\$1,500.0 million, due for expiry in June 2016 with a weighted average interest rate of 2.10% per annum. Subsequently, a series of new IRSs with an aggregate notional amount of HK\$1,250.0 million and a weighted average interest rate of 1.59% per annum have been put in place, with maturity spanning 4 to 7 years. As a result, approximately 71.3% (or HK\$2,800.0 million) of Sunlight REIT's borrowings have been hedged to fixed rates with a weighted average interest rate of 1.37% per annum (before loan interest margin) and a weighted average tenure of 3.5 years at 31 December 2015. The maturity profile of the term loan facilities and IRS are illustrated in the chart on page 6.

Notes :

1. Gross liabilities include total borrowings, tenants' deposits and other liabilities.
2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortisation. Net gain on disposal of investment properties and subsidiaries has been excluded.
3. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on total borrowings.

Maturity Profile of Loan Facilities and IRS



With the amendments to the Code on Real Estate Investment Trusts (the “**REIT Code**”) and the consequential changes to the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”) in early 2015, the Manager is currently permitted to place funds as bank deposits and Relevant Investments^{Note}, with maturity profile compatible with projected funding requirements. Following the completion of the Disposals which has led to a significant rise in cash and bank balances, the Manager has allocated a portion of the sales proceeds to investment grade bonds, with a view to enhancing the return on surplus cash. At 31 December 2015, Sunlight REIT had total cash and bank balances of HK\$1,159.3 million, and a portfolio of Relevant Investments with an aggregate book value of HK\$62.2 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 requirements.

OUTLOOK

The unexpectedly sharp correction in equity and commodity prices at the onset of 2016 clearly demonstrates the intensifying gloom over the global economic prospects and more particularly, the bill of economic health for China. Such heightened nervousness is likely to amplify the negative wealth effect and cause a further curtailment in (domestic and external) demand for goods and services. Consequently, the regime of monetary easing is poised to stay for a longer period of time.

Sunlight REIT unveiled a set of interim results that reflects the Manager’s ability to deliver satisfactory growth notwithstanding an increasingly difficult economic environment. Despite the clear slowdown in rental reversion and the fragile market sentiment, the Manager, barring unforeseen circumstances, remains guardedly optimistic over the rental performance of Sunlight REIT’s portfolio for the rest of this financial year.

On office leasing, the lack of material new Grade A office supply (notably on the Hong Kong Island side) until 2018, together with the stubbornly high cost of office relocation, should combine to provide good support to the retention rate and the market rent of decentralised office properties. Turning to retail, while the slowdown in consumer spending will remain in the short-to-medium term, the Manager is hopeful that the defensive qualities of Sunlight REIT’s retail portfolio, with an emphasis on trades focusing on necessities and consumer staples, will help cushion the adverse impact arising from the prevailing market developments.

Note : As defined in paragraph 7.2B of the REIT Code.

In terms of cost, the upward pressure on operating costs that the Manager endured over the last few years has somewhat alleviated, thus relieving the pressure on operating margin. The Manager will nonetheless remain vigilant and continue to explore opportunities with a view to keeping operating costs under control. In light of perennial issues such as adjustment in minimum wage as well as unforeseen provisions for repair and maintenance costs, constant awareness of improving property management efficiency will stay at the forefront of the Manager's operational agenda.

On asset enhancement, the reconfiguration works involving approximately 20% of the GRA at Sheung Shui Centre Shopping Arcade is expected to commence in April 2016. The purpose of this revitalisation initiative is to bring in a greater variety of quality trades and brands that would improve rental return, create a more diversified trade profile and enhance the overall ambience of the shopping mall. The estimated cost of the project is approximately HK\$25 million, and there will be a rental loss of about HK\$1.3 million per month for the affected area of up to nine months. Based on current projections, the Manager is confident that the benefits to be reaped should more than outweigh the costs incurred. Despite the weakened retail leasing sentiment, the level of enthusiasm received from potential tenants has been strong thus far, and certain pre-letting commitments have already been secured. Barring unforeseen circumstances, the Manager anticipates to re-open the revamped area in October 2016. Elsewhere, the Manager has invested approximately HK\$9 million to install the second water-cooled chiller at Sunlight Tower. Upon completion which is targeted at the second quarter of 2016, the project is expected to further enhance the reliability and cost efficiency of the air-conditioning system of this flagship building.

Under the renewed IRS profile, Sunlight REIT's borrowings are substantially anchored to fixed rates whose expiries range from September 2017 to September 2022. However, the recent uptick in Hong Kong interbank offered rates, if sustainable, would unavoidably increase cash interest expenses on the floating-rate portion. Gratifyingly, the still favourable corporate lending environment, as witnessed by the further narrowing in loan interest margin recently, should provide the Manager a window of opportunity to refine and bolster the capital structure of Sunlight REIT particularly in the light of potential acquisition and the need for refinancing in 2017.

During the Reporting Period, the Manager has successfully completed the Disposals, which enhances Sunlight REIT's ability to pursue various value-added strategies to uphold the long term benefit of unitholders. More importantly, the exercise was conducted with a view to realising non-core asset values and paving way for expansion, as the Manager will make incessant effort to explore acquisition opportunities that are complementary to and would enhance the scalability of Sunlight REIT's current portfolio. Indeed, the prevailing economic upheavals may well be a good opportunity for Sunlight REIT to expand its footprint in a prudent and measurable manner. In the meantime, the Manager shall assign a portion of the cash surplus for unit buy-back and for investing into fixed income instruments, a dual strategy to ensure that the rental loss resulting from the Disposals will be partially compensated before any accretive acquisition materialises.

EMPLOYEES

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

CORPORATE GOVERNANCE

The Manager is committed to upholding a high level of corporate governance standard. Good corporate governance entails a sound and effective system of checks and balances, and requires practices and procedures that promote awareness and observance of stakeholder rights. To ensure that the above objectives are satisfied and 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 operations 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 Reporting Period, the Manager has complied with the provisions of the Compliance Manual.

Public Float

At 31 December 2015, 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 Securities and Futures Commission.

New Units Issued

Except for an aggregate of 5,879,147 new units issued to the Manager as payment of part of the Manager’s fees, there were no other new units issued during the Reporting Period.

Buy-back, Sale or Redemption of Units

Pursuant to the general mandate granted by unitholders at the annual general meeting held on 3 November 2014, the Manager bought back on behalf of Sunlight REIT a total of 6,663,000 units on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) during the Reporting Period, for an aggregate consideration of approximately HK\$25.7 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK\$3.93 and HK\$3.67 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.

Review of Interim Results

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

ISSUANCE OF INTERIM REPORT

The 2015/16 Interim Report of Sunlight REIT will be sent to unitholders on 24 February 2016.

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 STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	2015	2014
		\$'000	\$'000
Revenue	4	385,185	370,845
Property operating expenses	5	<u>(80,020)</u>	<u>(85,237)</u>
Net property income		305,165	285,608
Other income		4,121	2,006
Administrative expenses		(48,800)	(55,057)
Net gain on disposals of investment properties and subsidiaries	6	91,154	-
Net increase in fair value of investment properties		<u>343,943</u>	<u>708,420</u>
Profit from operations		695,583	940,977
Finance costs on interest bearing liabilities	7(a)	<u>(73,481)</u>	<u>(54,683)</u>
Profit before taxation and transactions with unitholders	7	622,102	886,294
Income tax	8	<u>(34,868)</u>	<u>(31,631)</u>
Profit after taxation and before transactions with unitholders		<u><u>587,234</u></u>	<u><u>854,663</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2015	2014
	\$'000	\$'000
Profit after taxation and before transactions with unitholders	587,234	854,663
Other comprehensive income for the period		
<i>Items that have been reclassified / may be reclassified subsequently to profit or loss :</i>		
- Changes in fair value of cash flow hedges recognised during the period	(4,219)	9,111
- Reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	<u>22,197</u>	<u>-</u>
	<u>17,978</u>	<u>9,111</u>
Total comprehensive income for the period	<u><u>605,212</u></u>	<u><u>863,774</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Expressed in Hong Kong dollars)

		31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
	Note		
Non-current assets			
Fixed assets			
- Investment properties		16,562,700	16,192,800
- Other fixed assets		71	87
		<u>16,562,771</u>	<u>16,192,887</u>
Derivative financial instruments		11,330	8,841
Prepayments		1,267	-
Reimbursement rights		179,507	197,145
Other financial assets		62,225	-
		<u>16,817,100</u>	<u>16,398,873</u>
Current assets			
Trade and other receivables	10	24,893	27,356
Cash and bank balances		1,159,263	464,334
Tax recoverable		145,031	157,569
		<u>1,329,187</u>	<u>649,259</u>
Investment properties and assets of disposal groups held for sale	6	-	849,564
		<u>1,329,187</u>	<u>1,498,823</u>
Total assets		<u>18,146,287</u>	<u>17,897,696</u>
Current liabilities			
Tenants' deposits		(188,821)	(186,975)
Rent receipts in advance		(11,830)	(10,161)
Trade and other payables	11	(191,748)	(309,563)
Bank borrowings		-	(10,000)
Derivative financial instruments		(18,818)	(34,122)
Tax payable		(54,526)	(55,072)
		<u>(465,743)</u>	<u>(605,893)</u>
Liabilities directly associated with the assets of disposal groups held for sale	6	-	(18,411)
		<u>(465,743)</u>	<u>(624,304)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2015

(Expressed in Hong Kong dollars)

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Net current assets	<u>863,444</u>	<u>874,519</u>
Total assets less current liabilities	<u>17,680,544</u>	<u>17,273,392</u>
Non-current liabilities, excluding net assets attributable to unitholders		
Bank borrowings	(3,889,968)	(3,884,068)
Deferred tax liabilities	(278,243)	(291,052)
Derivative financial instruments	<u>(947)</u>	<u>(1,132)</u>
	<u>(4,169,158)</u>	<u>(4,176,252)</u>
Total liabilities, excluding net assets attributable to unitholders	<u>(4,634,901)</u>	<u>(4,800,556)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u>13,511,386</u>	<u>13,097,140</u>
Number of units in issue	<u>1,637,702,927</u>	<u>1,638,486,780</u>
Net asset value attributable to unitholders per unit	<u>\$8.25</u>	<u>\$7.99</u>

DISTRIBUTION STATEMENT

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	2015 \$'000	2014 \$'000
Profit after taxation and before transactions with unitholders		587,234	854,663
Adjustments : (note (i))			
- Net gain on disposals of investment properties and subsidiaries	6	(91,154)	-
- Net increase in fair value of investment properties		(343,943)	(708,420)
- Manager's fees paid or payable in the form of units		21,141	20,046
- Cash flow hedges reclassified from net assets attributable to unitholders	7(a)	22,197	-
- Non-cash finance costs on interest bearing liabilities		5,900	5,900
- Deferred tax	8	5,057	6,992
		(380,802)	(675,482)
Distributable income (note (i))		206,432	179,181
Interim distribution (note (ii))		196,524	171,448
Payout ratio (note (ii))		95.2%	95.7%
Distribution per unit (note (ii))		12.0 cents	10.5 cents

Notes :

- (i) Pursuant to the REIT Code and the Trust Deed, Sunlight REIT is in any event required to ensure that the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the period included the adding back of: (a) cash flow hedges reclassified from net assets attributable to unitholders of \$22,197,000, or 1.36 cents per unit (2014: nil), and (b) non-cash finance costs on interest bearing liabilities of \$5,900,000, or 0.36 cents per unit (2014: \$5,900,000, or 0.36 cents per unit).

DISTRIBUTION STATEMENT (continued)

For the six months ended 31 December 2015 – unaudited
(Expressed in Hong Kong dollars)

Notes : (continued)

- (ii) The interim distribution of \$196,524,000 for the six months ended 31 December 2015 (2014: \$171,448,000), representing a payout ratio of 95.2% (2014: 95.7%), is calculated by multiplying the interim distribution per unit of 12.0 cents by 1,637,702,927 units anticipated to be in issue at 9 March 2016, the record date for interim distribution (the “**Record Date**”) (2014: 10.5 cents by 1,632,836,625 units in issue at 27 February 2015, the record date for FY2014/15 interim distribution).
 - (iii) The interim distribution is expected to be paid on 22 March 2016 to unitholders whose names appear on the register of unitholders on the Record Date.
 - (iv) The interim distribution proposed 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.

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, Sunlight Tower, 248 Queen’s Road East, Wan Chai, Hong Kong.

2. Changes in accounting policies

There are no new standard or interpretation issued by the Hong Kong Institute of Certified Public Accountants that are first effective for the current accounting period of the Group.

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

3. Segment reporting

The Manager manages the Group’s 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/(decrease) in fair value of investment properties, net gain on disposals of investment properties and subsidiaries, finance costs on interest bearing liabilities, income tax, interest income and the unallocated net income/(expenses).

3. Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2015			2014		
	(Unaudited)			(Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
- rental income	148,146	161,628	309,774	144,528	151,412	295,940
- car park income	1,894	12,838	14,732	1,814	14,569	16,383
- rental related income	30,854	29,825	60,679	30,143	28,379	58,522
	180,894	204,291	385,185	176,485	194,360	370,845
Property operating expenses	(34,284)	(45,736)	(80,020)	(38,314)	(46,923)	(85,237)
Net property income	146,610	158,555	305,165	138,171	147,437	285,608
Administrative expenses	(22,158)	(22,107)	(44,265)	(21,146)	(20,663)	(41,809)
Segment results	124,452	136,448	260,900	117,025	126,774	243,799
Net increase in fair value of investment properties	270,320	73,623	343,943	358,883	349,537	708,420
Net gain on disposals of investment properties and subsidiaries	58,476	32,678	91,154			-
Finance costs on interest bearing liabilities			(73,481)			(54,683)
Income tax			(34,868)			(31,631)
Interest income			4,031			2,006
Unallocated net expenses			(4,445)			(13,248)
Profit after taxation and before transactions with unitholders			587,234			854,663
Depreciation	8	8	16	6	7	13

4. 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	
	2015	2014
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Rental income	309,774	295,940
Car park income	14,732	16,383
Rental related income	60,679	58,522
	<u>385,185</u>	<u>370,845</u>

5. Property operating expenses

	Six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Building management fee	28,664	29,046
Property manager's fees	24,197	24,995
Government rent and rates	16,783	16,243
Marketing and promotion expenses	2,286	5,627
Car park operating costs	3,117	3,088
Bad debts expenses	-	46
Other direct costs	4,973	6,192
	<u>80,020</u>	<u>85,237</u>

6. Net gain on disposals of investment properties and subsidiaries

On 8 May 2015, the Group, through a wholly-owned subsidiary, entered into an exchange agreement with an independent third party to sell the first floor of Yue Fai Commercial Centre (“1/F Yue Fai”) in exchange for Unit 6A of On Loong Commercial Building (“Unit 6A of On Loong”) and a sum of \$8,000,000 (the “Exchange of Properties”). The gross considerations in respect of the disposal of 1/F Yue Fai and the acquisition of Unit 6A of On Loong were \$13,800,000 and \$5,800,000 respectively.

On 29 May 2015, the Group, through certain of its wholly-owned subsidiaries entered into binding agreements with certain independent third parties in respect of the disposals of two subsidiaries, namely Strong Bright Technology Limited and Lucky Million Development Limited (the “Two Subsidiaries”), and one property, namely Royal Terrace Property (“Royal Terrace”), for an aggregate consideration of \$919,520,000 (subject to post-completion adjustments). Strong Bright Technology Limited was the owner of Everglory Centre and Lucky Million Development Limited was the owner of Yue Fai Commercial Centre Property, excluding the first floor.

The Exchange of Properties, the disposals of the Two Subsidiaries and the disposal of Royal Terrace were completed on 3 July 2015, 31 July 2015 and 31 August 2015 respectively. Net gain on disposals of investment properties and gain on disposals of subsidiaries of \$31,013,000 and \$60,141,000 (net of transactions costs) respectively were credited to profit or loss during the six months ended 31 December 2015. The relevant investment properties and assets and liabilities of disposal groups classified as held for sale at 30 June 2015 were derecognised accordingly upon the completion of the above disposals.

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	
	2015	2014
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	45,234	48,632
Other borrowing costs	<u>6,050</u>	<u>6,051</u>
	51,284	54,683
Interest rate swaps: cash flow hedges, reclassified from net assets attributable to unitholders	<u>22,197</u>	<u>-</u>
	<u><u>73,481</u></u>	<u><u>54,683</u></u>

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

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

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

	Six months ended 31 December	
	2015	2014
	(Unaudited) \$'000	(Unaudited) \$'000
(b) Other items		
Interest income	(4,031)	(2,006)
Manager's fees	42,283	40,093
Property manager's fees (note (i))	24,197	24,995
Trustee's remuneration	2,177	2,050
Auditor's remuneration		
- Audit services	664	715
- Other services	445	830
Valuation fees	270	484
Other legal and professional fees	2,020	9,280
Commission to property agents	429	1,069
Bank charges	161	157

Notes :

- (i) Included rental commission of \$6,492,000 (2014: \$7,552,000).
- (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.

8. Income tax

	Six months ended 31 December	
	2015	2014
	(Unaudited) \$'000	(Unaudited) \$'000
Current tax - Provision for Hong Kong Profits Tax		
Provision for the period	29,811	24,639
Deferred tax		
Origination and reversal of temporary differences	5,057	6,992
	<u>34,868</u>	<u>31,631</u>

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

8. Income tax (continued)

In prior years, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group for the years of assessment 2007/08 and 2008/09, with one of the subsidiaries (the “**Subsidiary**”) covering the years of assessment up to 2013/14, in an aggregate amount of \$8,195,000 as the IRD disallowed the deductions of the management and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the six months ended 31 December 2015, the IRD further raised profits tax assessments on the Subsidiary for the year of assessment 2014/15 in respect of such disallowance in the amount of \$402,000. Notices of objection were filed with the IRD and tax reserve certificates of \$8,195,000 in total 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.

9. Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2015 amounted to \$0.36 (2014: \$0.52). The calculation of basic earnings per unit before transactions with unitholders is based on the Group’s profit after taxation and before transactions with unitholders of \$587,234,000 (2014: \$854,663,000) and the weighted average of 1,637,071,181 units in issue during the period (2014: 1,629,600,322 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2015 and 2014 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

10. Trade and other receivables

	31 December 2015 (Unaudited) \$'000	30 June 2015 (Audited) \$'000
Rental receivables	14,140	13,340
Deposits and prepayments	6,245	10,029
Other receivables	3,535	1,689
Amounts due from related companies	973	2,298
	<u>24,893</u>	<u>27,356</u>

\$3,852,000 (30 June 2015: \$4,147,000) 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.

10. Trade and other receivables (continued)

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

	31 December	30 June
	2015	2015
	(Unaudited)	(Audited)
	\$'000	\$'000
Current	10,794	10,476
Less than 1 month overdue	142	1,835
More than 1 month and up to 3 months overdue	2,704	393
More than 3 months and up to 6 months overdue	190	360
More than 6 months overdue	310	276
	14,140	13,340

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.

11. Trade and other payables

	31 December	30 June
	2015	2015
	(Unaudited)	(Audited)
	\$'000	\$'000
Creditors and accrued charges	25,274	33,716
Deposits received from disposals of investment properties and subsidiaries	-	92,752
Manager's fees payable	21,172	24,975
Amounts due to related companies	145,302	158,120
	191,748	309,563

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.

11. 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, Henderson Land Development Company Limited, 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 in connection with the initial public offering of Sunlight REIT in December 2006 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 period 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 \$1,285,000 (30 June 2015: \$1,272,000) which is due within 30 days.

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, 17 February 2016

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, Dr. TSE Kwok Sang and Mr. KWOK Tun Ho, Chester.