



SUNLIGHT REIT

Interim Results FY2015/16

(6 months to 31 Dec 2015)



Investor Presentation

Agenda



- A. Who We Are**
- B. FY2015/16 Interim Results**
- C. Operating Performance**
- D. Asset Enhancement**
- E. Capital Management**
- F. Outlook**

Appendix: Information on Disposal and Acquisition



Sunlight Tower

Location: Wan Chai
 Year of completion: 1998
 Gross rentable area: 376,381 sq. ft.



Bonham Trade Centre

Location: Sheung Wan
 Year of completion: 1998
 Gross rentable area: 117,909 sq. ft.



Righteous Centre

Location: Mong Kok
 Year of completion: 1996
 Gross rentable area: 51,767 sq. ft.



Winsome House Property

Location: Central
 Year of completion: 1999
 Gross rentable area: 40,114 sq. ft.



135 Bonham Strand Trade Centre Property

Location: Sheung Wan
 Year of completion: 2000
 Gross rentable area: 63,915 sq. ft.



Legend

Office properties

- 6 235 Wing Lok Street Trade Centre
- 7 Java Road 108 Commercial Centre
- 8 On Loong Commercial Building Property ^{Note}
- 9 Sun Fai Commercial Centre Property
- 10 Wai Ching commercial Building Property

Retail properties

- 14 Beverley Commercial Centre Property
- 15 Supernova Stand Property
- 16 Palatial Stand Property



Sheung Shui Centre Shopping Arcade

Location: Sheung Shui
 Year of completion: 1993
 Gross rentable area: 122,339 sq. ft.



Metro City Phase I Property

Location: Tseung Kwan O
 Year of completion: 1996
 Gross rentable area: 188,889 sq. ft.



Kwong Wah Plaza Property

Location: Yuen Long
 Year of completion: 1998
 Gross rentable area: 64,842 sq. ft.

Note: Sunlight REIT acquired the remaining interests in On Loong Commercial Building and has become the sole owner of the building with effect from 3 Aug 2015

A. Who We Are



~ Overview

1. Sunlight REIT was listed on the Hong Kong Stock Exchange in December 2006. The listing was sponsored by Shau Kee Financial Enterprises and Henderson Land Development (“SKFE/HLD”) which currently maintains a holding in Sunlight REIT of approximately 37%.
2. Sunlight REIT currently has a diversified portfolio of 10 offices and 6 retail properties in Hong Kong, with an appraised value of approximately HK\$16,562.7 M as at 31 Dec 2015 and an aggregate GRA of 1,206,827 sq. ft..
3. The office properties are primarily located in core business areas, including Central, Wan Chai and Sheung Wan, as well as in decentralised business areas such as Mongkok / Yau Ma Tei and North Point.
4. The retail properties are primarily situated at regional transportation hubs and New Towns with high population density such as Tseung Kwan O, Sheung Shui and Yuen Long.



B. FY2015/16 Interim Results

Highlights

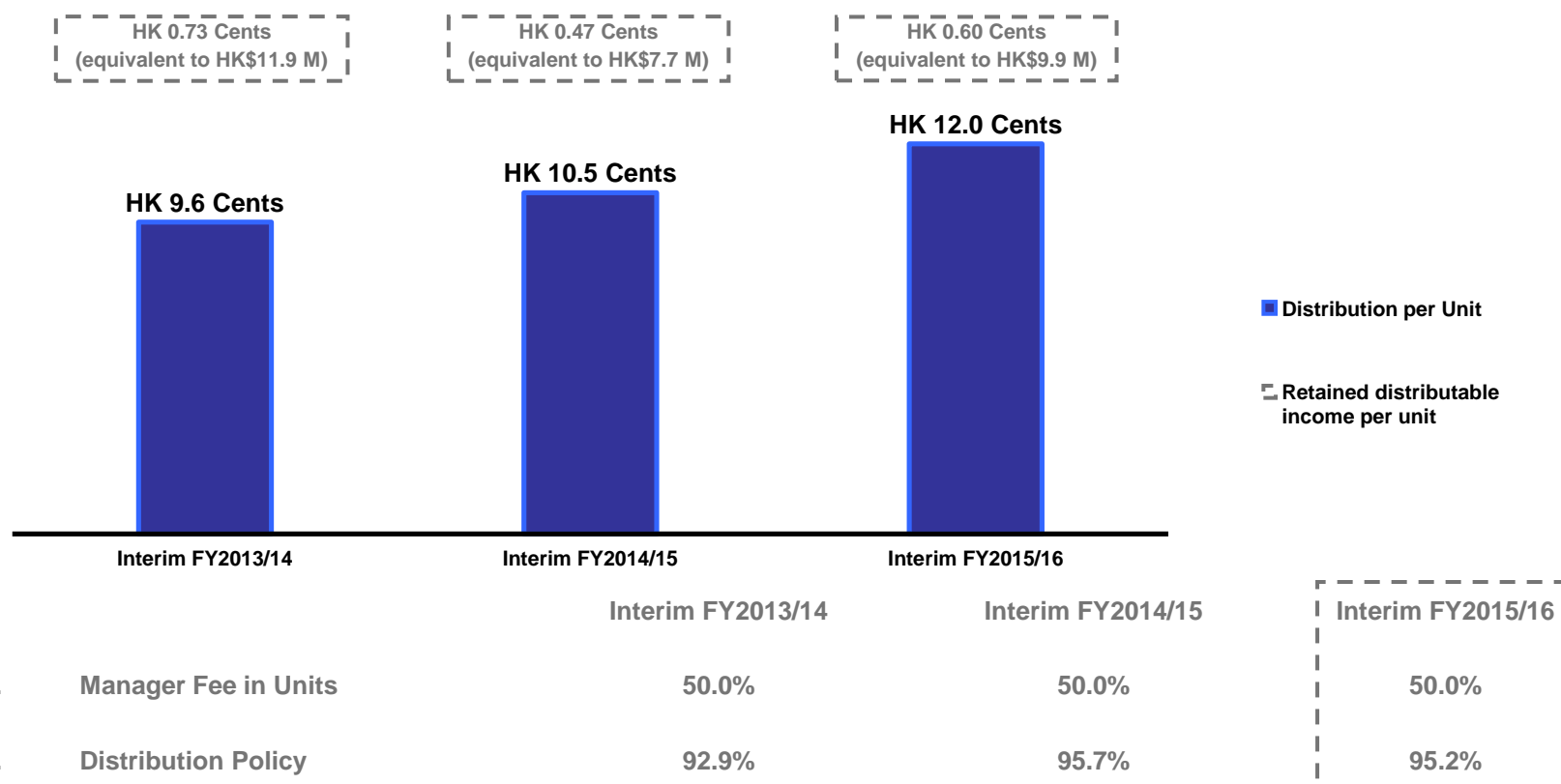


- ~ **The property portfolio continued to show encouraging performance. Excluding the contributions from the three properties that were disposed of during the reporting period, the growth in revenue and net property income were 7.0% and 10.0% respectively.**
- ~ **Key property indicators demonstrate sustainable growth: rental reversions for the office and retail portfolio reached 13.9% and 22.0% respectively, while enjoying a consistently high occupancy level of 99.3% and 97.1%.**
- ~ **During the reporting period, the Manager capitalised on the favourable interest rate environment and restructured the interest rate profile of Sunlight REIT, which extended the fixed rate tenor and lowered the effective interest rate for Sunlight REIT going forward.**
- ~ **The Manager is pleased to unveil a major asset enhancement project at Sheung Shui Centre, which upon completion (targeted at October 2016) is expected to further enhance the rental potential of the property.**

Distribution



- ↗ The Board of Directors declared a distribution of HK 12.0 cents for the first half of FY2015/16 implying a payout ratio of 95.2%.
- ↗ Distribution attributed to the underlying operations before taking into account the effect of management fee paid in units amounted to HK 10.77 cents.



Financial Highlights – Profit and Loss Summary (I)



- ☛ Sunlight REIT recorded a 3.9% growth in revenue to HK\$385.2 M for the reporting period. Property operating expenses amounted to HK\$80.0 M, resulting in a 6.8% increase in net property income to HK\$305.2 M.

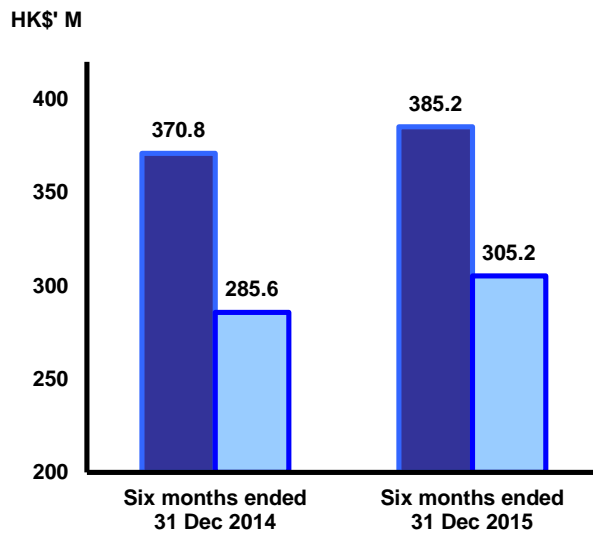
(HK\$' M)	Interim FY2015/16	Interim FY2014/15	Variance
Revenue	385.2	370.8	3.9%
Property Operating Expenses	80.0	85.2	(6.1%)
Net Property Income	305.2	285.6	6.8%
Cost to Income Ratio (%)	20.8	23.0	N/A
Distributable Income	206.4	179.2	15.2%
DPU (HK cents)	12.0	10.5	14.3%
Payout Ratio (%)	95.2	95.7	N/A
Units in Issue ('000)	1,637,702.9		

Financial Highlights – Profit and Loss Summary (II)

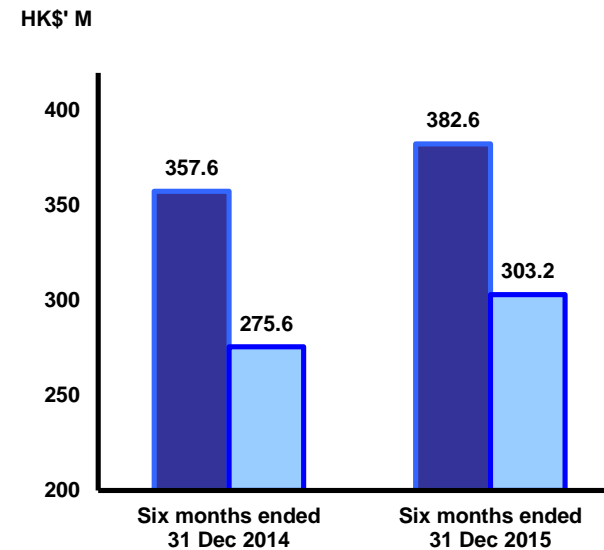


- The reported growth figures were distorted by the completion of disposal of three non-core properties during the reporting period, namely Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property. Stripping out the contributions from the three properties, the growth in revenue and net property income would have been 7.0% and 10.0% respectively.

(Including the contribution from the three disposed properties)



(Excluding the contribution from the three disposed properties)



■ Revenue ■ Net Property Income

Property Operating Expenses



- ↗ The upward pressure on operating costs has somewhat alleviated, as reflected by a 6.1% decrease in property expenses and a competitive cost-to-income ratio of 20.8%.
- ↗ Excluding the properties disposed, property operating expenses fell 3.1%.

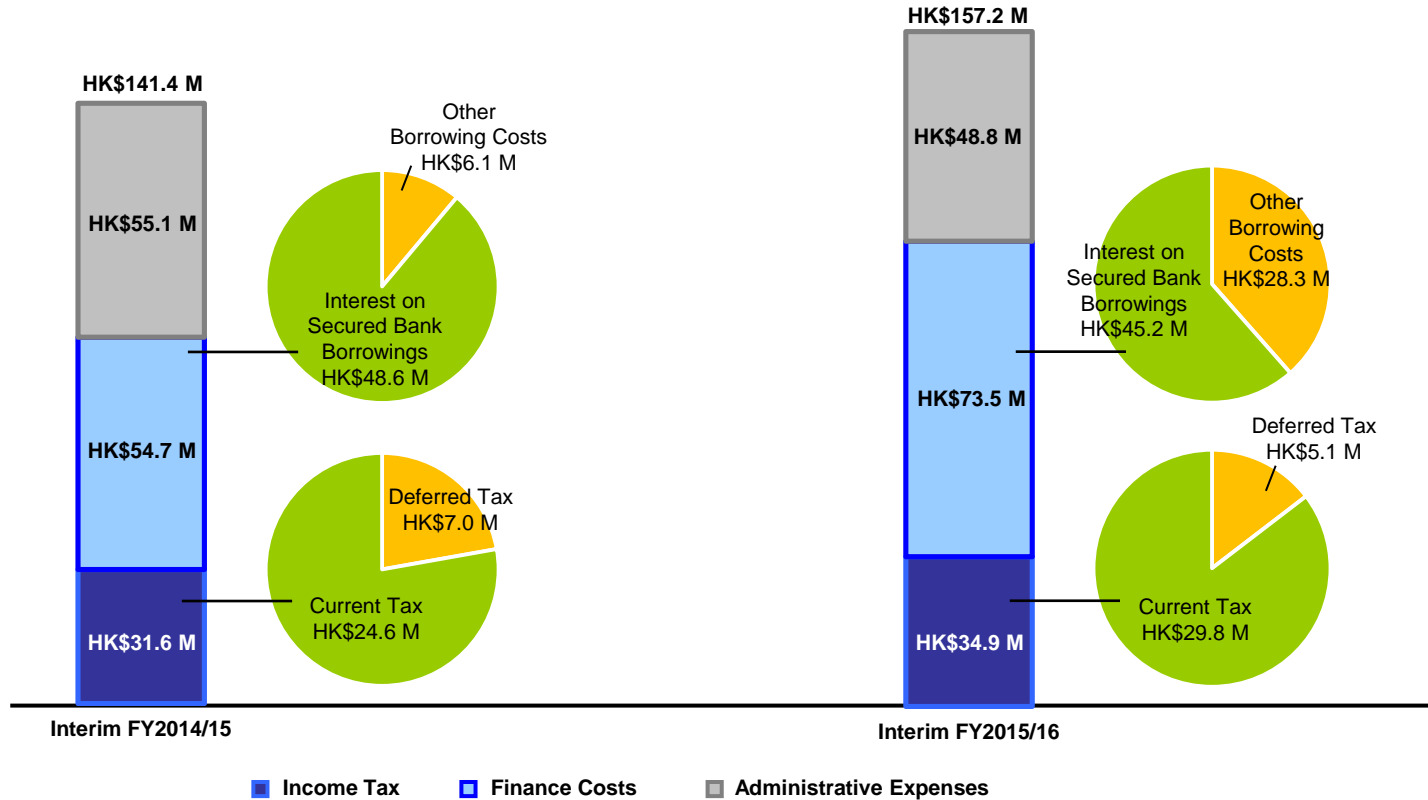
(HK\$' M)	Interim FY2015/16	Interim FY2014/15	Variance
Building management fee	28.6	29.1	(1.3%)
Property Manager's fees	24.2	25.0	(3.2%)
Government rent and rates	16.8	16.2	3.3%
Marketing and promotion expenses	2.3	5.6	(59.4%)
Car park operating costs	3.1	3.1	0.9%
Other direct costs	5.0	6.2	(20.3%)
Total	80.0	85.2	(6.1%)

Other Expenses



Effective interest rate and effective tax rate were 2.28% p.a. and 13.7% respectively.

Breakdown of Other Expenses





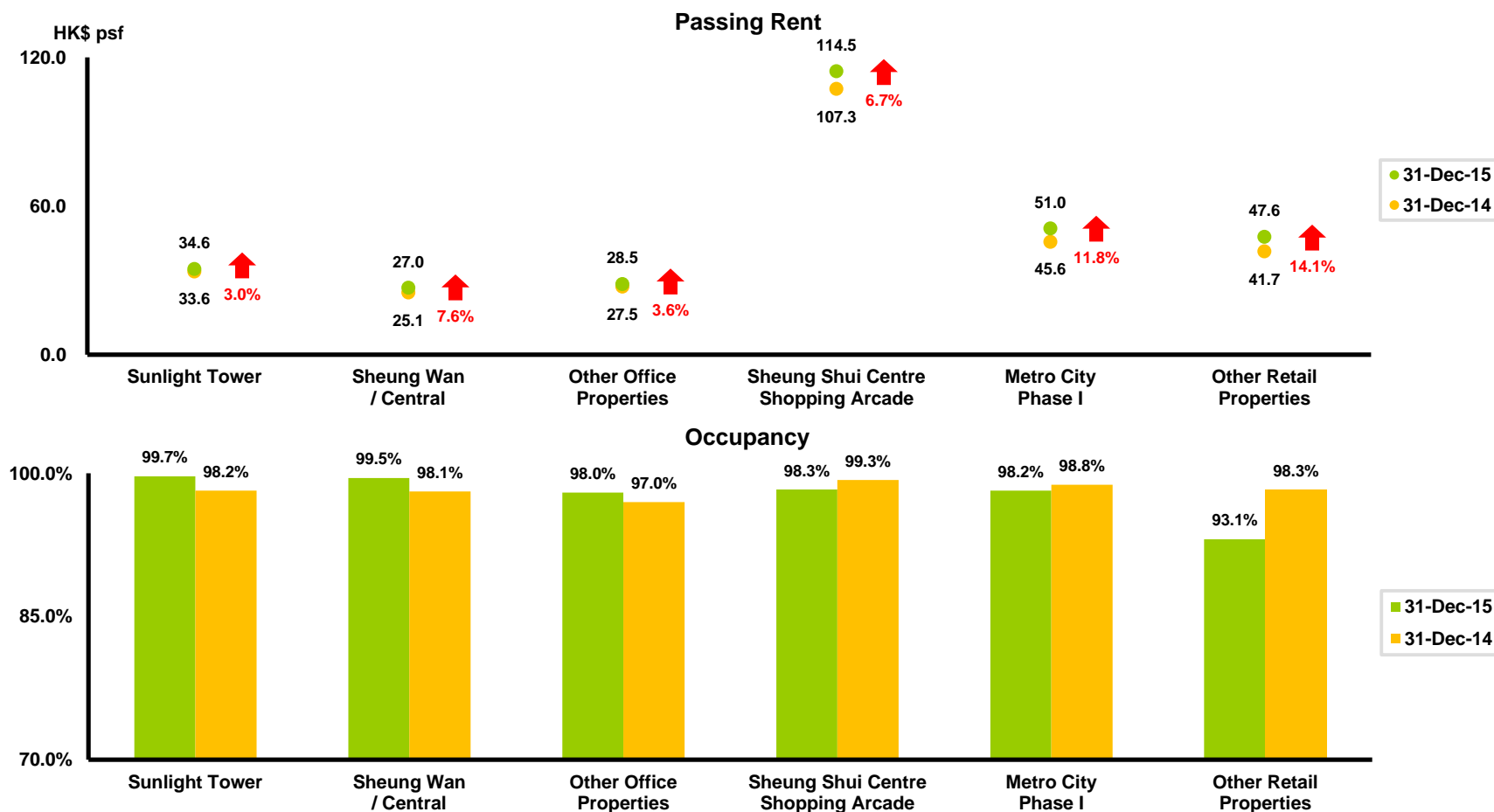
C. Operating Performance



Passing Rent and Occupancy ¹

↗ The rise in passing rent has been the main reason behind the 3.9% growth in revenue.

↗ Occupancy has remained stable in every segment.



Note:

1. Operational statistics of Interim FY2014/15 has been restated to take into account the disposal of Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property, the completions of which took place in Jul and Aug 2015 respectively

Rental Reversion



- ⤴ 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%.
- ⤴ 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.
- ⤴ Metro City Phase I benefited from the ongoing tenant reconfiguration, while Sheung Shui Centre showed steady performance despite slower tourist arrivals, being cushioned by its predominant emphasis on necessity shopping.

Rental Reversion ¹			
	Interim FY2015/16	FY2014/15	Interim FY2014/15
Sunlight Tower	13.0%	19.2%	20.4%
Sheung Wan / Central	15.9%	17.2%	20.1%
Other Office Properties	12.5%	17.6%	19.7%
Sheung Shui Centre Shopping Arcade	24.9%	27.3%	31.7%
Metro City Phase I	18.7%	15.3%	13.5%
Other Retail Properties	24.7%	18.7%	24.5%
Overall	18.5%	19.3%	21.5%

Note:

1. For renewal of leases with turnover and base rent component, rental reversion refers to the changes in base rent component only. Operational statistics of Interim FY2014/15 and FY2014/15 have been restated to take into account the disposal of Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property, the completions of which took place in Jul and Aug 2015 respectively

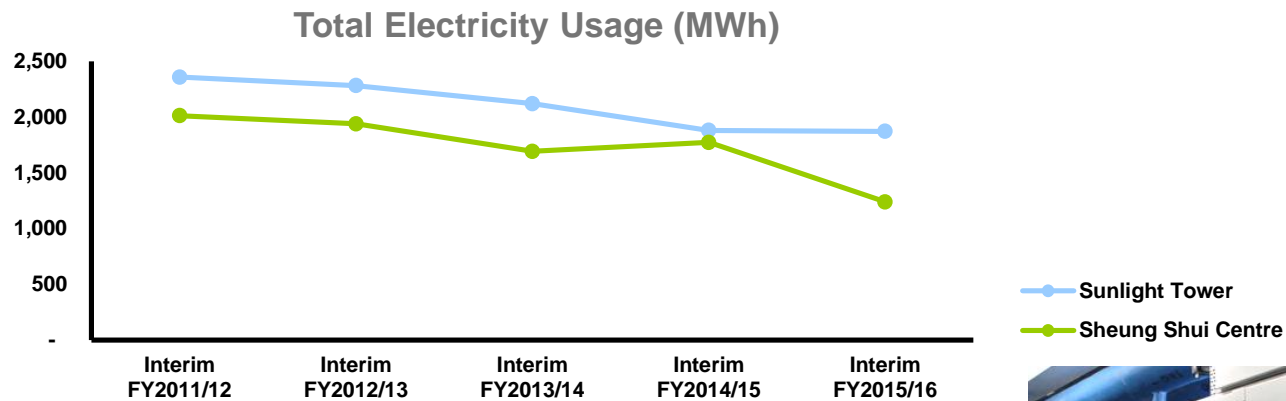


D. Asset Enhancement

Energy Savings



- Since the replacement of one of the three chillers at Sunlight Tower from air-cooled to water-cooled, electricity usage has notably decreased. Approximately HK\$9 M was invested to install a second water-cooled chiller which is targeted for completion in the second quarter of 2016.
- The chiller replacement project was also completed at Sheung Shui Centre. Total electricity usage during the reporting period was reduced by approximately 30% as compared to the same period last year.



Sheung Shui Centre	Interim FY2015/16	Interim FY2014/15	Variance
Total electricity usage	1,239 MWh	1,772 MWh	↓ 533 MWh (↓30.1%)
Avg. Temperature	25.4°C	25.1°C	↑0.3°C (↑1.2%)
Relative Humidity	78.3%	75.0%	↑3.3 pp (↑4.4%)





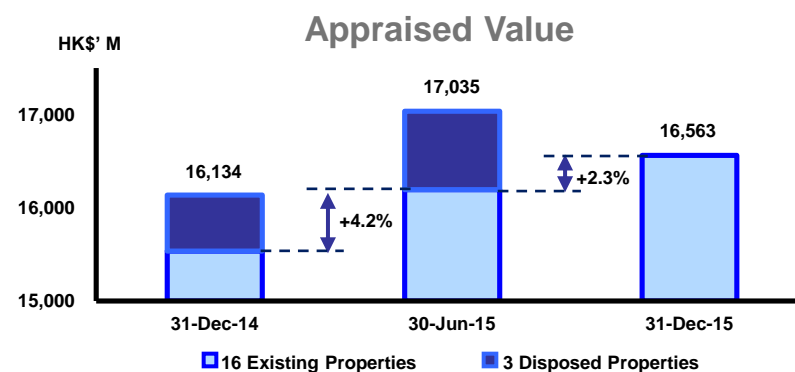
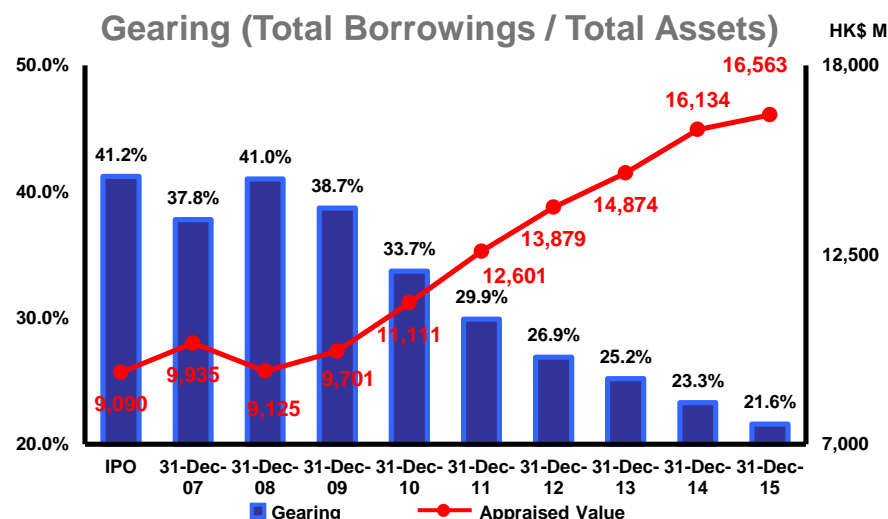
E. Capital Management

Financial Highlights – Balance Sheet



Appraised value of investment properties increased by 6.6% yoy and 2.3% compared to 31 Dec 2014¹ and 30 Jun 2015¹ respectively, supported by growth in achieved rents. Cap rates remained unchanged at 4.1% (Jun 2015: 4.1%, Dec 2014: 4.3%)¹.

HK\$' M	31 Dec 15	31 Dec 14	Change
Investment Properties	16,562.7	16,134.3	2.7%
Other Assets	362.1	399.3	(9.3%)
Relevant Investments	62.2	-	N/A
Cash & Cash Equivalents	1,159.3	320.6	261.6%
Total Assets	18,146.3	16,854.2	7.7%
Interest Bearing Borrowings	3,890.0	3,878.2	0.3%
Deferred Tax Liabilities	279.2	288.0	(3.1%)
Financial Derivatives Liabilities	18.8	39.5	(52.3%)
Other Liabilities	446.9	442.0	1.1%
Total Liabilities	4,634.9	4,647.7	(0.3)%



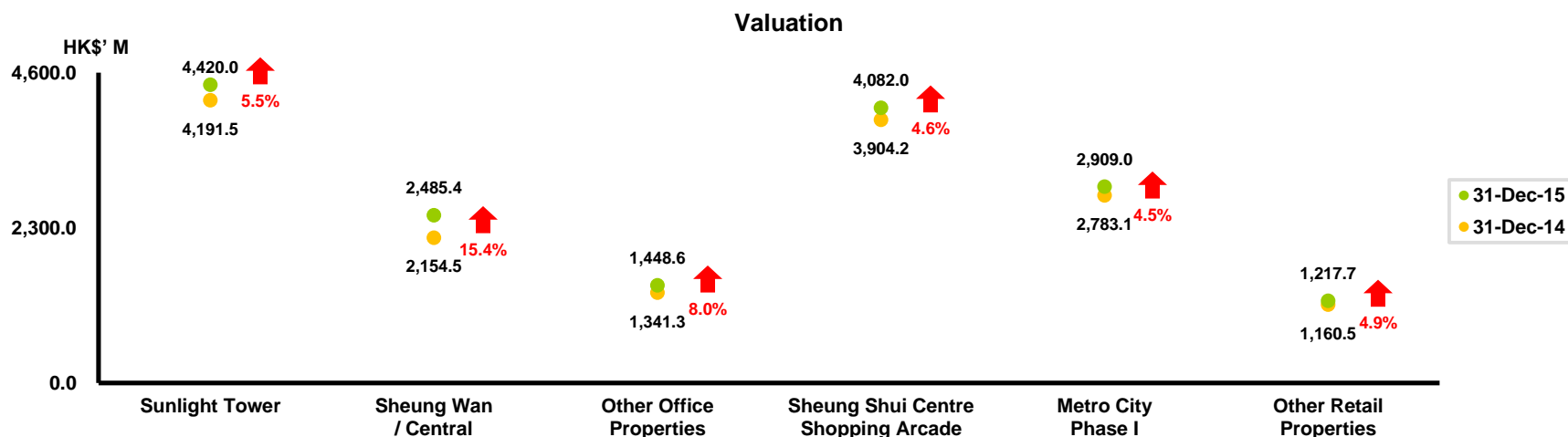
Note:

1. Excluding the three non-core properties (Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property) which were disposed during the reporting period

Valuation



Rental growth remained the driver behind the increase in appraised value.



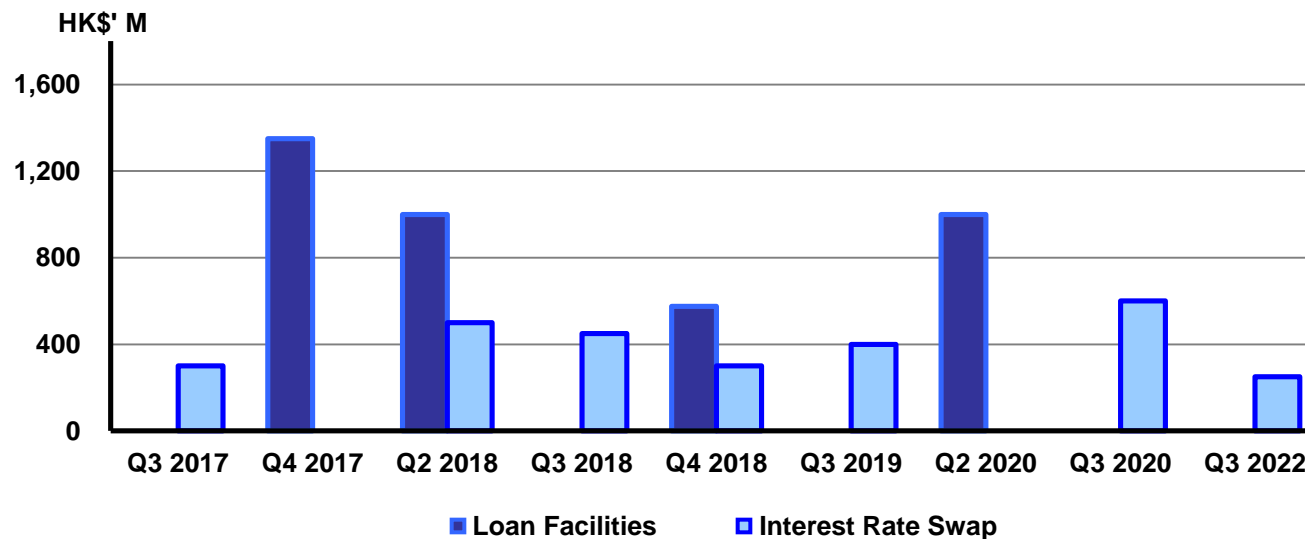
	At 31 Dec 15		At 30 Jun 15		At 31 Dec 14	
	Office	Retail	Office	Retail	Office	Retail
Sunlight Tower	3.85%	3.75%	3.85%	3.75%	3.85%	3.75%
Bonham Trade Centre	3.65%	4.00%	3.65%	4.00%	3.85%	4.20%
Righteous Centre	3.95%	3.60%	3.95%	3.60%	3.95%	3.60%
Sheung Shui Centre Shopping Arcade	N/A	4.40%	N/A	4.40%	N/A	4.40%
Metro City Phase I	N/A	4.50%	N/A	4.50%	N/A	4.50%
Kwong Wah Plaza	3.85%	3.80%	3.85%	3.80%	3.85%	3.80%

Debt Management



- At 31 Dec 2015, Sunlight REIT had in place total loan facilities of HK\$4,225.0 M, comprising term loan facilities of HK\$3,925.0 M which were fully drawn down and an unsecured revolving credit facility of HK\$300.0 M that remained undrawn.
- The term loan facilities, carrying interest costs of a blended interest margin of 1.24% per annum over HIBOR (before interest rate swap arrangements) and a weighted loan maturity period of 2.8 years.
- Approximately 71.3% (or HK\$2,800.0 M) of Sunlight REIT's borrowings was hedged to fixed rates with a weighted average interest rate of 1.37% and weighted tenure of 3.5 years.

Maturity Profile of Loan Facilities and Interest Rate Swap



Financial Highlights – Key Data



- Balance sheet exhibited healthy improvement with better financial ratios as well as an enhanced capital structure.

	31 Dec 2015	31 Dec 2014	Change
Net Assets Attributable to Unitholders (HK\$' M)	13,511.4	12,206.5	10.7%
Net Asset Value (NAV) per Unit (HK\$)	8.25	7.48	10.3%

	Interim FY2016	Interim FY2015
Gearing	21.6%	23.3%
Net Debt / EBITDA (Times)	5.36	7.81
Interest Coverage (Times)	5.76	4.77
Average Cost of Debt	2.28%	2.49%

	31 Dec 2015	31 Dec 2014
Unencumbered properties as % of Total Properties	14.5%	14.7%
Average Term to Maturity (Years)	2.8	3.8
Repayment Tranches	4.0	4.0
Average Spread	1.24%	1.24%
Unused Facility	HK\$300 M	HK\$300 M

Unit Repurchase



- ~ The Manager began on-market repurchase of units on behalf of Sunlight REIT since Jun 2012.

Period	No. of Unit Repurchase	Average Price	Total Cost
2H FY2011/12	3,600,000	2.4648	8,873,340
1H FY2012/13	1,500,000	3.1550	4,732,494
2H FY2012/13	600,000	3.4281	2,056,850
1H FY2013/14	1,500,000	3.0564	4,584,570
1H FY2014/15	1,000,000	3.3966	3,396,600
1H FY2015/16	6,663,000	3.8573	25,701,170
Total	14,863,000	3.3200	49,345,024

- ~ This strategy is expected to continue, subject to funding and as long as there is value to be created for the benefit of unitholders.



F. Outlook

Outlook



- Despite the clear slowdown in rental reversion and the fragile market sentiment, the Manager remains guardedly optimistic over the rental performance of Sunlight REIT's portfolio for the rest of this financial year. The lack of material new Grade A office until 2018 and high cost of office relocation, combine to provide good support to the retention rate and the market rent. 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.
- 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 reconfiguration works involving approximately 20% of the GRA at Sheung Shui Centre is expected to commence in Apr 2016. Based on current projections, the Manager is confident that the benefits to be reaped should more than outweigh the costs incurred. 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.
- The 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.
- The disposal was conducted with a view to realising non-core asset values and paving way for expansion. The prevailing economic upheavals may well be a good opportunity for Sunlight REIT to expand its footprint in a prudent and measurable manner.



Appendix: Information on Disposal and Acquisition

Disposal

10 Everglory Centre

Location: Tsim Sha Tsui
GRA: 29,802 sq. ft.
 (O: 25,896 sq. ft.; R: 3,906 sq. ft. with 4 shops)
No. of car park spaces: 0
Occupancy at 30 Jun 2015: 95.1%
Passing rent at 30 Jun 2015: HK\$ 21.3

Disposal

16 Royal Terrace Property

Location: North Point
GRA: 9,565 sq. ft.
 (R: 9,565 sq. ft. with 7 shops)
No. of car park spaces: 49
Occupancy at 30 Jun 2015: 88.4%
Passing rent at 30 Jun 2015: HK\$ 48.0

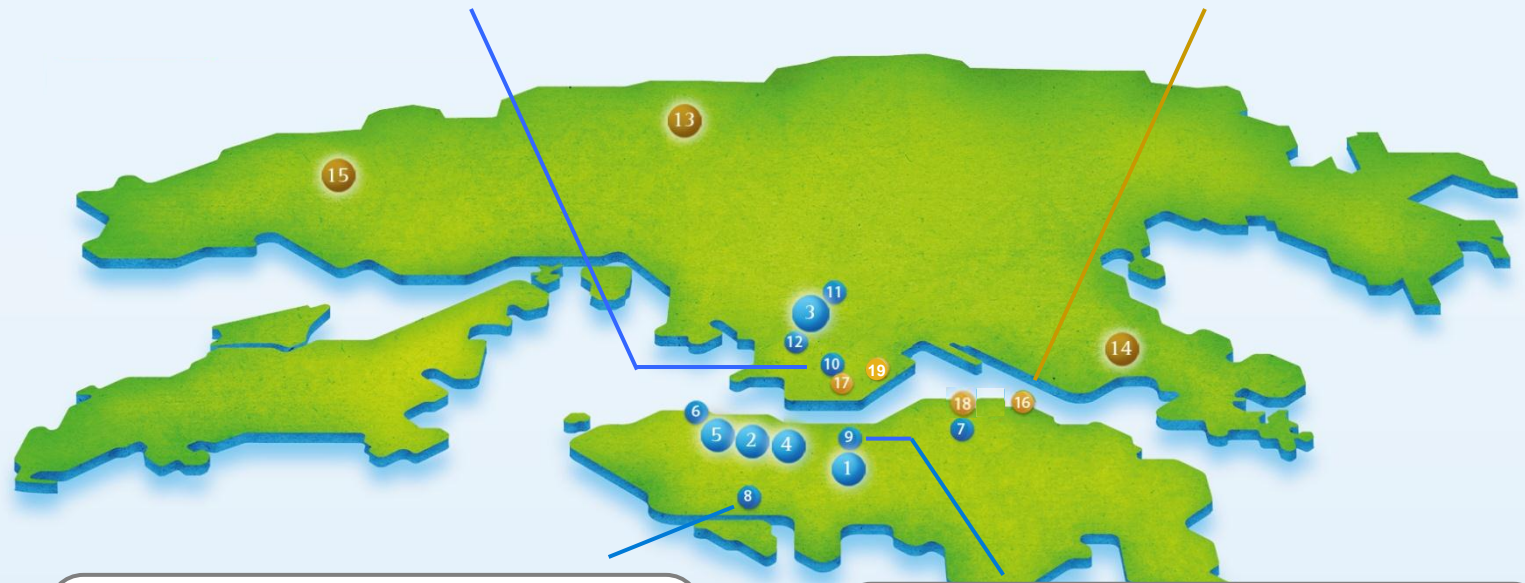
Legend

Office properties

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- 3 Righteous Centre
- 4 Winsome House Property
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- 6 235 Wing Lok Street Trade Centre
- 7 Java Road 108 Commercial Centre
- 8 Yue Fai Commercial Centre Property
- 9 On Loong Commercial Building Property
- 10 Everglory Centre
- 11 Sun Fai Commercial Centre Property
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Retail Properties

- 13 Sheung Shui Centre Shopping Arcade
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- 19 Palatial Stand Property



Disposal

8 Yue Fai Commercial Centre Property

Location: Aberdeen
GRA: 42,751 sq. ft.
 (O: 41,272 sq. ft.; R: 1,479 sq. ft. with 3 shops)
No. of car park spaces: 0
Occupancy at 30 Jun 2015: 97.4%
Passing rent at 30 Jun 2015: HK\$ 18.2

Acquisition of unit 6A & 21/F

9 On Loong Commercial Building Property

Location: Wan Chai
GRA: 27,206 sq. ft. (incl. 6A & 21/F)
 (O: 25,498 sq. ft.; R: 1,708 sq. ft. with 1 shop)
No. of car park spaces: 0
Occupancy at 30 Jun 2015: 100.0% (excl. 6A & 21/F)
Passing rent at 30 Jun 2015: HK\$ 28.6 (excl. 6A & 21/F)

Information relating to the properties



- A slightly lower NPI and distribution may be resulted upon completion of disposals. However, given that the size of the disposals is small (approx. 4.9% of the entire portfolio valuation), such financial impact is expected to be limited.
- After deducting the estimated expenses of HK\$10.5 M, the net proceeds of approx. HK\$909 M will be used for general working capital and there is no current intention for partial repayment of bank borrowings. No material change in gearing ratio should therefore be resulted.

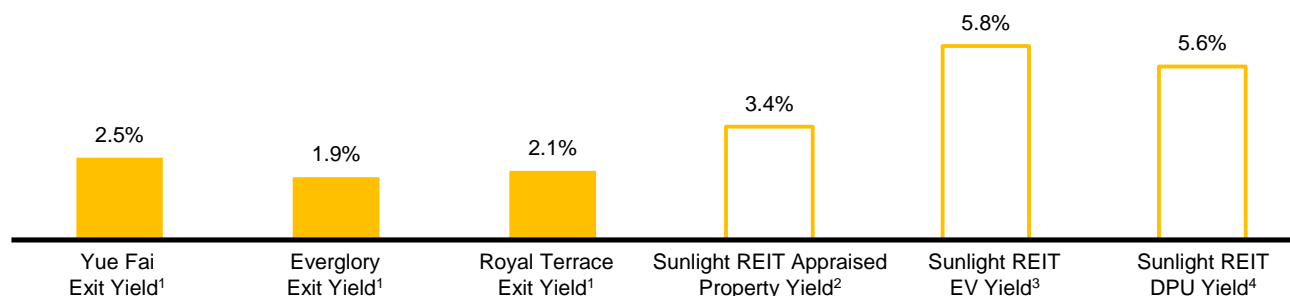
Property	GRA (sq. ft.)			Occupancy at 30 Jun 2015	FY2014/15		At 30 Jun 2015	
	Office	Retail	Total		NPI (HK\$'000)	Approx. % of NPI of entire portfolio	Appraised value (HK\$'000)	Approx. % of appraised value of entire portfolio
Yue Fai Commercial Centre Property	41,272	1,479	42,751	97.4%	7,834	1.3%	287,000	1.7%
Everglory Centre Property	25,896	3,906	29,802	95.1%	6,420	1.1%	309,100	1.8%
Royal Terrace Property	0	9,565	9,565	88.4%	5,854	1.0%	246,400	1.4%
Total	67,168	14,950	82,118	N/A	20,108	3.4%	842,500	4.9%

Disposals of three non-core properties



The consideration for each disposal represents substantial premium the appraised value of the property.

Yield Accretive Transactions



	Consideration (HK\$'000)	Appraised value at 30 Apr 2015 (HK\$'000)	Premium to appraised value at 30 Apr 2015	Appraised value at 30 Jun 2015 (HK\$'000)	Exit yield ¹ (based on NPI of FY2014/15)
Yue Fai Commercial Centre Property (excl. 1/F)	300,640	237,400	26.6%	N/A	N/A
Yue Fai Commercial Centre Property (incl. 1/F)	314,440 ⁵	251,000	25.3%	287,000	2.5%
Everglory Centre	336,880	200,700	67.9%	309,100	1.9%
Royal Terrace Property	282,000	168,100	67.8%	246,400	2.1%
Total⁶	933,320	619,800	50.6%	842,500	2.2%

Notes: 1. Calculated on the basis of NPI of FY2014/15 and the disposal consideration of the property

2. Calculated on the basis of NPI of FY2014/15 and the appraised valuation as at 30 Jun 2015 of Sunlight's portfolio

3. Calculated on the basis of portfolio NPI of FY2014/15 and the share price of HK\$3.95 as at 30 Jun 2015

4. Calculated on the basis of DPU of FY2014/15 and the share price of HK\$3.95 as at 30 Jun 2015

5. Calculated by adding the sale consideration of Yue Fai Commercial Centre Property (excl. 1/F) (HK\$ 300.64 M), the consideration of acquisition of unit 6A of On Loong Commercial Building (HK\$ 5,800 M) & the equity money of HK\$8 M in exchange for the 1/F of Yue Fai Commercial Centre Property

6. Accounts for the sum of the figures of Yue Fai Commercial Centre Property (incl. 1/F), Everglory Centre and Royal Terrace Property

Unification of On Loong Commercial Building



- On 3 July 2015, Sunlight REIT disposed of the 1/F of Yue Fai Commercial Centre Property in exchange for Unit 6A of On Loong Commercial Building and an equality money of HK\$8 M. Separately on 3 August 2015, Sunlight REIT acquired the remaining units (namely, the 21/F) of On Loong Commercial Building and since then has become the sole owner of all the building.
- Unifying the ownership will enhance the capital value of the property and improve the overall internal rate of return of the property. It will also enable the Manager to have more flexibility in terms of usage and renovation of the building.

	Gross consideration (HK\$'000)	Price paid psf (HK\$)	Appraised value at 30 Apr 2015 (HK\$'000)	Appraised value at 31 May 2015 (HK\$'000)	Premium of consideration to appraised value
Unit 6A of On Loong Commercial Building	5,800	10,507	4,070	N/A	42.5%
21/F of On Loong Commercial Building	16,350	15,000	N/A	9,630	69.8%



Q & A