



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號 : 435

2019/20
Interim Report
中期報告



Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006, Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code : 435) is a real estate investment trust authorized by the Securities and Futures Commission (the “**SFC**”) and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of 11 office and five retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of over 1.2 million sq. ft. and an aggregate appraised value of HK\$19,896.1 million at 31 December 2019. The office properties are located in both core and decentralized business areas, while the retail properties are situated in regional transportation hubs, new towns and urban areas with high population density.

Sunlight REIT is managed by Henderson Sunlight Asset Management Limited (the “**Manager**”) which is an indirect wholly-owned subsidiary of Henderson Land Development Company Limited (“**HLD**”). The Manager’s main responsibility is to manage Sunlight REIT and all of its assets in accordance with the Trust Deed in the sole interest of its unitholders.

Forward-looking Statements

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

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Market and Operation Review

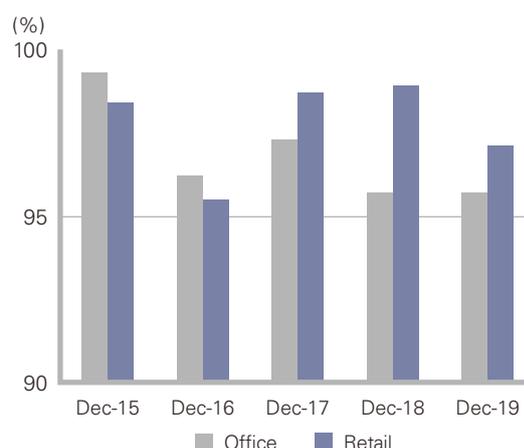
For the six months ended 31 December 2019 (the “**Reporting Period**”), international political gridlock remained an influencing factor, with the prolonged US-China trade tensions and uncertainties surrounding Brexit continuing to cloud the performance of the global economy. Meanwhile, the gradual economic slowdown in China also dampened business sentiment.

During the Reporting Period, the business environment in Hong Kong severely deteriorated, with economic activities being significantly disrupted by persistent social unrest. Fueled by a substantial decline in tourist arrivals, consumer spending was hard-hit, as evidenced by a 20.0% year-on-year drop in retail sales during the Reporting Period. On the other hand, corporations have become more cautious regarding office expansion and major cost outlays. Accordingly, the momentum of decentralization slowed in the second half of 2019, with office rents in Central and Admiralty clearly softening.

Notwithstanding a difficult operating environment, Sunlight REIT managed to turn in reasonable operating results for the Reporting Period, with net property income exhibiting a 2.1%

rise to HK\$345.7 million, while office and retail rental reversions came in at 12.3% and 8.7% respectively. At 31 December 2019, the overall occupancy rate of Sunlight REIT’s portfolio was 96.1% as compared to 95.3% at 30 June 2019. Thanks to the completion of asset enhancement works at Strand 50, occupancy rate of the office portfolio rebounded to 95.7% (30 June 2019: 94.0%). Occupancy rate of the retail portfolio declined slightly to 97.1% (30 June 2019: 98.1%), principally reflecting the longer rent void for vacant units at Sheung Shui Centre Shopping Arcade (“**SSC**”) and Metro City Phase I Property (“**MCPI**”).

Occupancy rate¹



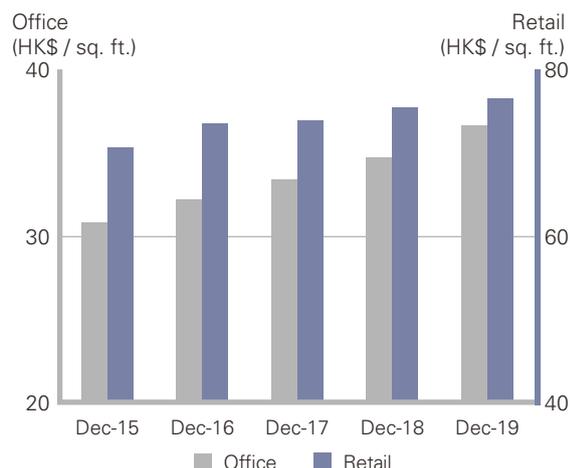
Expiry profile by GRA

(at 31 December 2019)

	FY2019/20	
	1H	2H
Sunlight Tower	19.7%	2.7%
Sheung Shui Centre Shopping Arcade	29.6%	16.8%
Metro City Phase I Property	17.2%	18.1%
Office portfolio	20.5%	12.1%
Retail portfolio	20.6%	18.9%

In tandem with the overall rental reversion of 10.3% achieved during the Reporting Period, passing rent of the office and retail portfolio rose 3.1% and 0.9% from six months ago to HK\$36.6 per sq. ft. and HK\$76.5 per sq. ft. respectively.

Passing rent¹



Despite a slowdown in corporate expansion, performance of the office portfolio remained resilient, given stable office demand in the business areas where Sunlight REIT has a reasonable presence. Sunlight Tower registered a satisfactory rental reversion of 14.4% while

the Sheung Wan/Central portfolio continued to show decent performance during the Reporting Period, as demonstrated by the double-digit rental reversions registered by Strand 50, Winsome House Property and 135 Bonham Strand Trade Centre Property.

On the retail front, SSC and MCPI recorded positive rental reversions of 7.2% and 11.5% respectively during the Reporting Period. However, these encouraging figures mainly reflected lease renewals secured prior to the onset of the social unrest. It is evident that the performance of the retail assets, notably SSC, was adversely affected by weakening consumer sentiment. Corresponding measures, such as short-term rental relief and promotional activities, were introduced during the Reporting Period to support tenants and stimulate consumer spending.

At 31 December 2019, Sunlight REIT had a total of 823 tenancies. The largest tenant accounted for 5.1% of total revenue for the Reporting Period and occupied 6.7% of total GRA at 31 December 2019, while the corresponding figures for the top five tenants were 15.1% and 15.5%.

Tenant mix²

(at 31 December 2019)

	Sheung Shui Centre Shopping Arcade	Metro City Phase I Property
Food and beverage	24.4%	30.2%
Financial	17.5%	13.0%
Fashion and jewellery	15.0%	5.5%
Healthcare and beauty	15.2%	11.3%
Education	10.4%	14.0%
Snacks and convenience store	7.0%	8.4%
Lifestyle	2.2%	8.3%
Others	4.7%	6.5%
Vacant	3.6%	2.8%

Notes :

1. The occupancy rate and passing rent figures have been adjusted to exclude properties disposed of in prior years. The Harvest has been included in Sunlight REIT's portfolio with effect from 15 December 2017.
2. As a percentage of total GRA of the relevant property.

Financial Review

Financial highlights

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

	Six months ended 31 December 2019	Six months ended 31 December 2018	Change (%)
Revenue	437.1	424.9	2.9
Property operating expenses	91.4	86.2	6.1
Net property income	345.7	338.7	2.1
Cost-to-income ratio (%)	20.9	20.3	N/A
Profit after taxation	30.7	859.1	(96.4)
Distributable income	233.5	231.6	0.8
Distribution per unit (HK cents)	13.2	13.2	–
Payout ratio (%)	93.6	93.9	N/A

	At 31 December 2019	At 30 June 2019	Change (%)
Portfolio valuation	19,896.1	20,002.5	(0.5)
Total assets	20,716.0	20,805.8	(0.4)
Total liabilities	4,876.9	4,813.9	1.3
Net asset value	15,839.1	15,991.9	(1.0)
Net asset value per unit (HK\$)	9.56	9.68	(1.2)
Gearing ratio (%)	20.5	20.4	N/A

Operating results

Sunlight REIT registered a 2.9% year-on-year growth in revenue to HK\$437.1 million for the Reporting Period. After deducting property operating expenses of HK\$91.4 million, net property income was HK\$345.7 million, up 2.1% from the corresponding period last year. Finance costs increased 25.1% year on year to HK\$64.1 million, of which cash interest expenses went up 18.0% to HK\$55.8 million. The increase in finance costs reflected the higher interest rate

environment and the expiry of certain low-cost interest rate swaps (“**IRSs**”). Interest income, on the other hand, rose 11.5% to HK\$9.5 million during the Reporting Period.

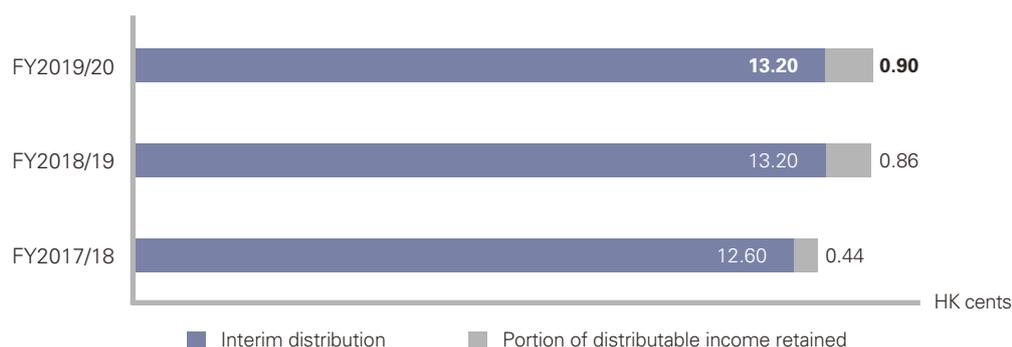
Taking into account the decrease in fair value of investment properties of HK\$162.5 million, profit after taxation was HK\$30.7 million, compared to HK\$859.1 million for the same period last year.

Distribution

Distributable income for the Reporting Period was HK\$233.5 million, up 0.8% year on year. The Board of the Manager has resolved to declare an interim distribution per unit (“DPU”) of HK 13.2 cents, or HK\$218.6 million, representing

a payout ratio of 93.6%. The interim DPU is unchanged from the corresponding period last year and implies an annualized distribution yield of 5.2%, based on the closing price of HK\$5.04 on the last trading day of the Reporting Period.

Interim DPU at a glance



Financial position

The appraised value of Sunlight REIT’s portfolio was HK\$19,896.1 million at 31 December 2019, a slight decrease of 0.5% from 30 June 2019. Consequently, the gross assets and net assets of Sunlight REIT dropped 0.4% and 1.0% to HK\$20,716.0 million and HK\$15,839.1 million respectively. Net asset value per unit was HK\$9.56 (30 June 2019: HK\$9.68).

At 31 December 2019, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 20.5% (30 June 2019: 20.4%), while gross liabilities^{Note} as a percentage of gross assets was 23.5% (30 June 2019: 23.1%). In respect of contingent liabilities, Sunlight REIT has provided a guarantee in the amount of HK\$4.6 million to a commercial bank for its issuance of bank guarantees in lieu of deposits to electricity utility companies.

Note : Gross liabilities include total borrowings, tenants’ deposits and other liabilities.

Financial Review

The EBITDA^{Note} of Sunlight REIT grew 2.8% year on year to HK\$297.6 million. In light of the faster increase in interest expenses, the interest coverage ratio for the Reporting Period decreased to 5.3 times as compared with 6.1 times recorded in the same period last year.

Capital and interest rate management

Sunlight REIT had loan facilities of HK\$4,850.0 million in place at 31 December 2019, comprising term loan facilities of HK\$4,250.0 million ("**Term Loan Facilities**"), all of which had been drawn, and uncommitted revolving credit facilities of HK\$600.0 million that remained undrawn.

The Term Loan Facilities consist of secured loans of HK\$2,930.0 million and unsecured loans of HK\$1,320.0 million, with the secured tranche backed by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK\$11,169.7 million at 31 December 2019.

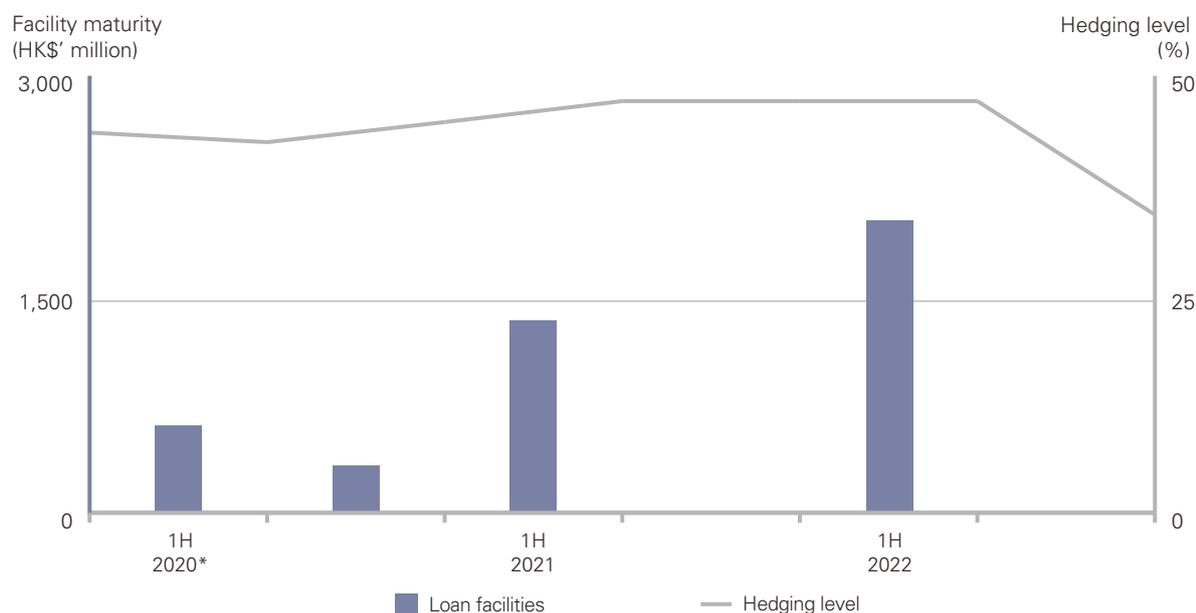
At 31 December 2019, the weighted loan maturity period of the Term Loan Facilities was 1.8 years, with a blended interest margin of 0.69% per annum over the Hong Kong Interbank Offered Rate. Approximately 44% (30 June 2019: 46%) of the Term Loan Facilities were hedged to fixed rates with a weighted average tenure of 1.3 years. The weighted average interest rate (including loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 2.49% per annum (30 June 2019: 2.20% per annum).

On 17 January 2020, the Manager signed a 3-year secured term loan agreement to refinance an existing facility of HK\$300.0 million due in March 2020. The weighted interest margin of the overall Term Loan Facilities will remain substantially unchanged upon drawdown of the renewed facility.

Note : EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Gain on disposals of investment properties and subsidiaries is excluded from the calculation.

Facility maturity profile and hedging level

(at 31 December 2019)



* Includes HK\$300 million term loan facility which has been refinanced in January 2020.

Given the fluid interest rate environment, the Manager executed a series of forward-start IRSs during the Reporting Period, bringing the total forward-start IRSs to HK\$1,450.0 million at 31 December 2019. Together with the IRSs already effective, the fixed rate portion of the Term Loan Facilities is expected to stay above 33% over the next three years.

Liquidity management

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments^{Note}, with an overall maturity profile compatible with projected funding requirements. At 31 December 2019, Sunlight REIT had total cash and bank balances of HK\$574.9 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK\$116.4 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 meet its working capital, distribution payment and capital expenditure requirements.

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

Financial Review

Tax matters

With reference to the dispute with the Inland Revenue Department (“**IRD**”) over certain tax deduction disallowances^{Note} as disclosed in the last annual report, the determination from the Deputy Commissioner of the IRD in respect of the objections to the assessments on one property holding company (the “**Determination**”) was received in April 2018. While the Determination allowed the deduction of property management fees and rental commissions, the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT’s legal and tax advisers, the Manager decided to contest the assessments raised in respect of the management fees and a notice of appeal against the Determination was filed with the Board of Review (Inland Revenue Ordinance) (“**BoR**”) in May 2018. The appeal was heard by the BoR in June 2019 and its decision is awaited.

As for profits tax assessments raised by the IRD relating to the tax deduction disallowances on certain other property holding companies under Sunlight REIT, notices of objection to all these profits tax assessments raised were filed with the IRD.

At 31 December 2019, tax reserve certificates in an aggregate amount of HK\$43.3 million had been purchased. If the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2019/20 would amount to approximately HK\$109 million. The Manager will closely monitor the situation and make appropriate disclosure on the development as and when necessary.

Note : The IRD disallowed the deductions of the management fees, property management fees and (in some cases) rental commissions incurred by certain property holding companies under Sunlight REIT. Please refer to note 8 to the condensed interim financial statements on page 36 for further information.

Outlook

While the partial trade agreement between the US and China is a welcome development, one should not postulate that the deal represents a credible de-escalation of the trade war, nor does it address the ongoing tension between the two countries over the future of technology and certain geopolitical issues. With the 2020 US presidential election looming, investors' nerves will be tested from time to time by the unpredictable policy stance of the Trump administration; the heightened tensions in the Middle East is a case in point.

For Hong Kong, the social unrest entangling the territory since the second half of 2019 have clearly imposed a devastating impact on economic growth. The likelihood of higher unemployment rates and a dearth of tourist arrivals, particularly in light of the novel coronavirus outbreak, does not bode well for consumer spending. On the monetary front, despite the prospect of a stable US interest rate environment, the Manager remains of the view that the Hong Kong dollar funding cost may remain at a premium to its US counterpart given the prevailing liquidity environment and credit risk perception.

For the six months ending June 2020, office and retail lease expiries will constitute approximately 12.1% and 18.9% of each of their respective total GRA. The rental outlook for the retail sector remains highly uncertain as sluggish retail sales will unavoidably translate into higher vacancies and lower (or even negative) rental reversion, particularly for trades which are tied to the vagaries of tourist spending. The office leasing market is expected to fare better, although the expansion motives of corporates have seemingly waned in light of the changing economic landscape.

Based on current market conditions, the Manager foresees the possibility of a diminution in the appraised value of Sunlight REIT's portfolio, which would cause a material change in "Profit from Operations" from the previous financial year. However, this is a non-cash item and would have no impact on distributable income.

Despite an arduous operating environment, there are bright spots which demonstrate the resilience of Sunlight REIT. In particular, the Manager is pleased to see the completion of Strand 50's renovation, which has appreciably improved the passing rent and the capital value of the property. The Manager is planning to infuse more sustainability elements into this building, with a view to generating both income and environmental benefits. Elsewhere, the timely enhancement of The Harvest has proved rewarding as the exercise achieved a return on investment of over 12%. Finally, the defensive nature of Sunlight REIT's shopping destinations, having been proactively strengthened by the Manager over the past few years, is expected to help alleviate the adverse impact arising from prevailing circumstances.

By entering into favourable forward-start IRSs in the final quarter of 2019, the Manager has ensured that Sunlight REIT will remain adequately cushioned from interest rate fluctuations going forward. In the meantime, the refinancing of bank loans due before June 2020 has progressed well, which again illustrates the strong credit metrics of Sunlight REIT. Such conservative leverage will allow the Manager to explore acquisition opportunities, both locally and overseas. However, unitholders can rest assured that financial prudence will remain at the forefront of the Manager's priorities.

Portfolio Statistics

Property	Property details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)				
				Office	Retail	Total		
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	69	70
Grade B								
Strand 50 ³	Sheung Wan	1998	0	108,506	9,403	117,909	63	64
The Harvest	Mong Kok	1981	0	23,024	11,627	34,651	16	11
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	74	77
Winsome House Property	Central	1999	0	37,937	2,177	40,114	25	26
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	63	64
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	62	68
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	38	37
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	37	38
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	32	33
Sub-total/Average			46	787,935	56,688	844,623	525	535
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	120	123
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	112	112
Kwong Wah Plaza Property	Yuen Long	1998	0	41,615	25,741	67,356	38	38
Urban								
Beverly Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	26	24
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Sub-total/Average			749	41,615	349,129	390,744	298	299
Total/Average			795	829,550	405,817	1,235,367	823	834

Notes :

1. Passing rent is calculated on the basis of average rent per sq. ft. for occupied GRA on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant period.
3. The property was previously known as Bonham Trade Centre.
4. Excluding the renovated area, the occupancy rate would have been 95.4%.

Operational statistics						Property financials					
Occupancy rate (%)		Passing rent ¹ (HK\$/sq. ft.)		Rental reversion ² (%)		Net property income (HK\$'000)		Capitalization rate at 31 Dec 2019 (%)		Appraised value at 31 Dec 2019 (HK\$'000)	
at 31 Dec 2019	at 30 Jun 2019	at 31 Dec 2019	at 30 Jun 2019	six months ended 31 Dec 2019	six months ended 30 Jun 2019	six months ended 31 Dec 2019	six months ended 31 Dec 2018	Office	Retail		
96.4	98.2	40.6	39.6	14.4	14.5	96,251	89,718	3.75	3.65	5,303,300	
90.9	68.4 ⁴	35.6	31.8	13.9	16.1	17,206	17,400	3.45	3.80	1,382,600	
100.0	96.4	51.4	51.2	N/A	N/A	8,602	8,784	3.10	2.90	721,000	
98.0	100.0	30.1	29.4	13.0	11.0	9,906	9,196	3.45	3.80	663,100	
98.9	100.0	44.4	43.8	10.3	8.7	9,470	9,639	3.45	3.60	647,300	
98.9	100.0	36.1	36.3	5.6	10.6	10,434	9,978	3.75	3.40	611,600	
86.8	93.8	22.8	22.6	6.3	12.2	5,772	6,094	3.45	3.80	423,200	
100.0	96.1	26.4	26.4	6.8	9.3	5,294	4,885	3.75	4.00	311,600	
98.0	100.0	32.6	31.6	8.7	10.0	4,728	4,543	3.65	3.70	284,100	
95.0	100.0	23.7	22.7	18.4	12.9	2,865	2,871	3.80	4.05	193,300	
94.5	97.2	17.4	16.1	32.0	26.1	1,207	812	3.55	3.90	81,600	
95.7	94.0	36.6	35.5	12.3	13.0	171,735	163,920			10,622,700	
96.4	98.1	118.6	118.4	7.2	19.2	82,267	85,518	N/A	4.30	4,483,800	
97.2	98.9	58.9	57.5	11.5	6.9	69,522	68,386	N/A	4.40	3,341,700	
100.0	100.0	55.3	54.3	13.7	10.5	19,839	18,046	3.60	3.60	1,272,200	
77.4	62.9	42.5	45.6	(26.2)	(0.6)	1,028	1,540	N/A	4.10	101,000	
100.0	100.0	54.5	54.5	N/A	7.7	1,333	1,323	N/A	3.80	74,700	
97.1	98.1	76.5	75.8	8.7	11.1	173,989	174,813			9,273,400	
96.1	95.3	49.4	48.6	10.3	12.2	345,724	338,733			19,896,100	

Corporate Governance

The Manager is committed to upholding a high standard of corporate governance. It has established a robust corporate governance framework to ensure compliance with all relevant laws and regulations.

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorized by the SFC under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The Manager is licensed by the SFC under the SFO to conduct the regulated activity of asset management, and currently has five responsible officers in place.

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

Board of the Manager and Directors’ information

The Board is responsible for the overall management and corporate governance of the Manager. It currently has six directors (“**Directors**”), including one Executive Director (who is also the Chief Executive Officer (the “**CEO**”)), two Non-executive Directors (including the chairman of the Board (the “**Chairman**”)) and three Independent Non-executive Directors (“**INEDs**”). The roles of the Chairman and the CEO are separate and performed by two different individuals. The Board ensures that board committees are established with clear terms of reference, each of which is to assist the Board in supervising specific issues and functions of the Manager.

Subsequent to publication of the last annual report, the Manager has not been notified of any change in Directors’ information.

Conflicts of interest and business competition

The Manager and Henderson Sunlight Property Management Limited (the “**Property Manager**”) are both indirect wholly-owned subsidiaries of HLD. The Chairman and Non-executive Director of the Manager is a director of HLD and some of its subsidiaries and/or associates. Another Non-executive Director of the Manager is also a director of HLD and some of its subsidiaries and/or associates. HLD and some of its subsidiaries and associates are engaged in, among other things, the development, investment and management of retail, office and other properties in and outside Hong Kong.

Therefore, the Manager may experience conflicts of interest with HLD when acquiring and disposing of investments, or in connection with transactions between Sunlight REIT and its subsidiaries on one hand and HLD on the other hand. The Manager and the Property Manager may also experience conflicts of interest with HLD when identifying and competing for potential tenants.

In addition, Colliers International (Hong Kong) Limited (the “**Principal Valuer**”) may provide non-property valuation services to Sunlight REIT and potential conflicts of interest may arise.

To ensure that all conflicts of interest relating to Sunlight REIT are properly managed, various control measures have been adopted, including but not limited to the following :

1. the Manager will not manage any real estate investment trust other than Sunlight REIT nor manage any other real estate assets other than those owned by Sunlight REIT;
2. the Manager has functional units and systems which operate independently of its shareholders;

3. the Manager has established internal control systems to ensure that Sunlight REIT's connected party transactions are monitored and undertaken in compliance with the REIT Code and waivers granted by the SFC, whereas any other situations of potential conflicts of interest are reported and monitored;
4. a Director with potential conflicts of interest shall disclose his interest to the Board and abstain from voting on the relevant matter, as well as not to be counted in the quorum for that resolution;
5. a register of other directorships and senior positions held by the Directors is maintained and updated from time to time; and
6. an annual confirmation is obtained from the Principal Valuer (if applicable) that it has established stringent internal controls and guidelines to its staff with respect to confidentiality and conflicts of interest obligations, and that the provision of leasing agency services would neither affect its performance nor jeopardize its independence as the Principal Valuer.

The Manager assures that it is capable of performing, and shall continue to perform, its duties for Sunlight REIT in the best interests of Sunlight REIT and unitholders.

Compliance with the Compliance Manual and the Corporate Governance Code

The Manager has adopted a compliance manual (the "**Compliance Manual**") which sets out the key processes, internal control and system, corporate governance policies as well as other policies and procedures governing the management and operations of Sunlight REIT. During the Reporting Period, the Manager has in material terms complied with the provisions of the Compliance Manual.

During the Reporting Period, the Manager and Sunlight REIT have also complied with, to the extent applicable, the code provisions in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Compliance with the Dealings Code

The Manager has adopted a code governing dealings in securities of Sunlight REIT by Directors (the "**Dealings Code**"), the terms of which are no less exacting than those set out in Appendix 10 of the Listing Rules. The Dealings Code is also applicable to the Manager. In addition, it is applicable to senior executives, officers, employees of the Manager or the directors of the special purpose vehicles of Sunlight REIT as the Board may determine. Certain restrictions and notification requirements as provided under the Listing Rules are adopted with modifications in the Dealings Code to apply to unit buy-back by the Manager on behalf of Sunlight REIT.

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

Buy-back, sale or redemption of units

During the Reporting Period, there was no purchase, sale or redemption of units by Sunlight REIT or its wholly-owned and controlled entities.

Corporate Governance

Relevant Investments

The full investment portfolio of Relevant Investments, as defined in paragraph 7.2B of the REIT Code, of Sunlight REIT at 31 December 2019 is set out below :

Financial instruments ¹ and issuers	Primary listing	Currency	Total cost (HK\$'000)	Mark-to- market value (HK\$'000)	% of gross asset value of Sunlight REIT ^{2,3}	Credit rating
CHALHK 4 ⁷ / ₈ 09/07/21 Chalco Hong Kong Investment Company Limited	Stock Exchange	USD	23,432	24,145	0.12	Fitch A-
COGO 4 ⁷ / ₈ 06/01/21 China Overseas Grand Oceans Finance IV (Cayman) Limited	Stock Exchange	USD	15,739	15,993	0.08	S&P BBB- Moody's Baa2 Fitch BBB
ICBCAS 5 ¹ / ₈ 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Singapore Exchange Limited	USD	20,911	19,922	0.09	S&P A- Moody's Baa2
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,515	0.05	N/A
YUEXIU 4 ⁷ / ₈ 04/19/21 Westwood Group Holdings Limited	Stock Exchange	USD	22,021	22,351	0.11	Moody's Baa3 Fitch BBB-
CJIANT 4 ¹ / ₂ 09/20/21 Xingsheng (BVI) Company Limited	Stock Exchange	USD	15,635	15,974	0.08	Fitch A+
YXREIT 4 ³ / ₄ 04/27/21 Yuexiu REIT MTN Company Limited	Stock Exchange	USD	10,152	10,373	0.05	S&P BBB- Moody's Baa3
Total			118,290	119,273	0.58	

At 31 December 2019, the combined mark-to-market value of Relevant Investments, together with other non-real estate assets of Sunlight REIT, represented approximately 3.9% of the gross asset value of Sunlight REIT, which is below 25% as required by the REIT Code.

The full investment portfolio of Relevant Investments is updated monthly within five business days of the end of each calendar month on the website of Sunlight REIT.

Notes :

- All financial instruments are bonds and their descriptions are quoted from Bloomberg.
- The percentages are arrived at by comparing the mark-to-market value of the investments with the gross asset value of Sunlight REIT at 31 December 2019.
- Gross asset value refers to the total assets as stated on page 24 of this interim report after adjusted for the interim distribution declared.

New units issued

Except for an aggregate of 4,665,284 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Public float

Based on information that is publicly available and as far as the Manager is aware, not less than 25% of the outstanding units in issue of Sunlight REIT were held in public hands at 31 December 2019.

Employees

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

Review of interim report

This interim report has been reviewed by the audit committee and the disclosures committee of the Manager in accordance with their respective terms of reference. The condensed interim financial statements have also been reviewed by the auditor of Sunlight REIT, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the interim distribution are Wednesday, 26 February 2020 and Tuesday, 3 March 2020 respectively. The register of unitholders will be closed from Friday, 28 February 2020 to Tuesday, 3 March 2020, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 27 February 2020. Payment of the interim distribution will be made to unitholders on Friday, 13 March 2020.

Connected Party Transactions

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

Connected party transactions – income and expenses

The following tables set out information on all the connected party transactions (other than those disclosed under “Connected party transactions with the Trustee Connected Persons” on page 17) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Reporting Period :

(a) Income

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Income for the Reporting Period (HK\$'000)	Rental and other deposits received at 31 December 2019 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	3,430	1,604
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	3,172	942
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	1,749	N/A
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	257	125
Chinese Young Men's Christian Association of Hong Kong	An associate of a Director of the Manager	Licensing	2	2
Total			8,610	2,673

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Expenses for the Reporting Period (HK\$'000)
Hang Yick Properties Management Limited	Associated company of the Manager	Building management and licence fee	4,831
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management, lease management and marketing services	27,927
Megastrong Security Services Company Limited	Associated company of the Manager	Security services	1,901
Metro City Management Limited	Associated company of the Manager	Building management	747
Sheung Shui Centre Management Limited	Associated company of the Manager	Building management	1,237
Contender Limited*	Associated company of the Manager	Facilities leasing	103
Total			36,746

Note : Under the definition of the REIT Code.

Connected party transactions with the Trustee Connected Persons

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

Name of connected person	Nature of the connected party transactions	Income/ (expenses) for the Reporting Period (HK\$'000)	Rental and other deposits received/ (deposits paid) at 31 December 2019 (HK\$'000)
Leasing transactions :			
The Hongkong and Shanghai Banking Corporation Limited	Leasing ²	5,814	3,088
The Hongkong and Shanghai Banking Corporation Limited	Licensing ³	215	107
Hang Seng Bank Limited	Leasing ⁴	5,922	2,853
Ordinary banking and financial services⁵:			
The Hongkong and Shanghai Banking Corporation Limited	Interest income received/receivable on bank deposits and net interest income on IRSs	1,792	N/A
The Hongkong and Shanghai Banking Corporation Limited	Interest expenses and security trustee fees on bank borrowings and other bank charges	(12,048)	N/A
Hang Seng Bank Limited	Interest expenses on bank borrowings and other bank charges	(10,229)	N/A
Hang Seng Bank Limited	Interest income received/receivable on bank deposits	14	N/A
EPS Company (Hong Kong) Limited	Service fees	(62)	(2)

During the Reporting Period, several IRSs with an aggregate notional amount of HK\$600 million were entered into with The Hongkong and Shanghai Banking Corporation Limited.

Connected Party Transactions

Notes :

1. HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Sunlight REIT).
2. A lease in respect of Shop Nos. 1024-31 of SSC, with gross floor area of 5,390 sq. ft., for a term of 3 years from 4 November 2017 to 3 November 2020; and a lease in respect of Shop Nos. 1032-33 of SSC, with gross floor area of 1,171 sq. ft., for a term of 3 years from 15 August 2017 to 14 August 2020.
3. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 66-81, Level 1, and (iii) external wall signage Nos. 82-93, Level 1 respectively, of SSC.
4. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft., for a term of 3 years from 17 February 2018 to 16 February 2021; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., for a term of 3 years from 29 September 2017 to 28 September 2020.
5. In general, "ordinary banking and financial services" include bank deposits and interest earned therefrom, loan facilities and IRSs including interest and charges paid thereto and other banking or financial services.

Other disclosures under the REIT Code

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

During the Reporting Period, the aggregate amount of fees (in the form of cash and/or units) paid or payable by Sunlight REIT to the Manager and to the Trustee under the Trust Deed were approximately HK\$50.3 million and HK\$2.5 million respectively. The fees paid or payable to the Principal Valuer during the Reporting Period were less than HK\$1 million. Particulars of the services provided by the Manager, the Trustee and the Principal Valuer are set out in notes 23(b)(i), (ii) and (iv) to the condensed interim financial statements.

Disclosure of Interests

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

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

At 31 December 2019 and 30 June 2019, the interests in units of the Manager and the Directors or chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed (the “Register”), were as follows :

Name	At 31 December 2019		At 30 June 2019	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
The Manager ²	142,592,733	8.609	137,261,449	8.310
Au Siu Kee, Alexander ³	1,530,000	0.092	1,530,000	0.093
Wu Shiu Kee, Keith ⁴	700,000	0.042	700,000	0.042
Kwok Tun Ho, Chester ⁵	12,000	0.001	12,000	0.001

Notes :

1. The percentages are based on the total number of units in issue of 1,656,388,363 units at 31 December 2019 and 1,651,723,079 units at 30 June 2019 (as the case may be).
2. During the Reporting Period, the Manager received 4,665,284 units as payment of part of the Manager’s fees; and acquired 666,000 units in the open market. The Manager beneficially owned 142,592,733 units at 31 December 2019 (30 June 2019: 137,261,449 units).
3. At 31 December 2019, of the 1,530,000 units held by Mr. Au Siu Kee, Alexander, the Chairman and Non-executive Director of the Manager, 201,000 units were directly held by Mr. Au, 1,229,000 units were jointly held with his spouse, and the remaining 100,000 units were directly held by his spouse (hence in which Mr. Au has deemed interest).
4. Mr. Wu Shiu Kee, Keith is the CEO and Executive Director of the Manager.
5. Mr. Kwok Tun Ho, Chester is an INED of the Manager.

There were no short positions in units held by the Manager and the Directors or chief executive of the Manager at 31 December 2019.

Disclosure of Interests

Holdings of substantial unitholders

At 31 December 2019 and 30 June 2019, the interests in units of the substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2019		At 30 June 2019	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
Lee Shau Kee ²	639,891,209	38.63	639,891,209	38.74
Lee Financial (Cayman) Limited ²	374,072,708	22.58	374,072,708	22.65
Leesons (Cayman) Limited ²	374,072,708	22.58	374,072,708	22.65
Leeworld (Cayman) Limited ²	374,072,708	22.58	374,072,708	22.65
Shau Kee Financial Enterprises Limited ²	374,072,708	22.58	374,072,708	22.65
Uplite Limited ²	224,443,625	13.55	224,443,625	13.59
Wintrade Limited ²	149,629,083	9.03	149,629,083	9.06
Henderson Development Limited ²	280,773,766	16.95	280,773,766	17.00
HLD ²	280,773,766	16.95	280,773,766	17.00
Hopkins (Cayman) Limited ²	280,773,766	16.95	280,773,766	17.00
Riddick (Cayman) Limited ²	280,773,766	16.95	280,773,766	17.00
Rimmer (Cayman) Limited ²	280,773,766	16.95	280,773,766	17.00
Silchester International Investors LLP ³	246,952,150	14.91	246,952,150	14.95
Silchester International Investors International Value Equity Trust ³	113,294,922	6.84	113,294,922	6.86

Notes :

- The percentages are based on the total number of units in issue of 1,656,388,363 units at 31 December 2019 and 1,651,723,079 units at 30 June 2019 (as the case may be).
- At 31 December 2019, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited are wholly-owned subsidiaries of Financial Enterprise Properties Limited, which in turn is wholly-owned by Shau Kee Financial Enterprises Limited ("**SKFE**"). SKFE is wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which are held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Therefore, each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2019, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 142,592,733 units were owned by the Manager. Cobase Limited and Richful Resources Limited are wholly-owned subsidiaries of Brightland Enterprises Limited. The Manager is a wholly-owned subsidiary of Latco Investment Limited. Brightland Enterprises Limited and Latco Investment Limited are wholly-owned subsidiaries of HLD. Henderson Development Limited ("**HD**") owned more than one-third of the issued share capital of HLD. HD is wholly-owned by Hopkins (Cayman) Limited ("**Hopkins**") as the trustee of a unit trust, the units of which are held by Rimmer (Cayman) Limited ("**Rimmer**") and Riddick (Cayman) Limited ("**Riddick**") as the respective trustees of two discretionary trusts. Therefore, as far as the Manager is aware, each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in the total of 286,505,050 units at 31 December 2019. Whereas in the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 280,773,766 units at 31 December 2019, as no notifiable interest arose on their parts subsequent to their last disclosure of interest notifications to the Stock Exchange.

Notes : (continued)

At 31 December 2019, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in the total of 660,577,758 units. Whereas in the Register, Dr. Lee Shau Kee was recorded as having an interest in 639,891,209 units at 31 December 2019, as no notifiable interest arose on his part subsequent to his last disclosure of interest notification to the Stock Exchange.

At 31 December 2019, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

- At 31 December 2019, according to the Register, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 246,952,150 units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 113,294,922 units. The Manager has subsequently been notified informally that at 31 December 2019, (i) Silchester LLP was interested in 237,073,150 units (representing approximately 14.31% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 103,376,922 units (representing approximately 6.24% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

There were no short positions in units held by substantial unitholders at 31 December 2019.

Holdings of other connected persons

Save as disclosed above and as far as the Manager is aware, the holdings of units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to exclusions granted by the SFC) of Sunlight REIT at 31 December 2019 were as follows :

Name	Number of units held	% of unit holding ¹
Lee King Yue ²	50,000	0.0030
Lee Pui Ling, Angelina ³	2,307	0.0001
Lo Yuk Fong, Phyllis ⁴	100,000	0.0060
Employee of the Manager ⁵	1,000	0.0001
Persons related to the Trustee ⁶	100,000	0.0060

Notes :

- The percentages are based on the total number of units in issue of 1,656,388,363 units at 31 December 2019.
- Mr. Lee King Yue is a connected person of Sunlight REIT as he is a director of certain subsidiaries of HLD. Mr. Lee held 50,000 units at 30 June 2019.
- Mrs. Lee Pui Ling, Angelina is a connected person of Sunlight REIT as she is a director of HLD. She was also a director of a subsidiary of HLD at 31 December 2019. Mrs. Lee held 2,307 units at 30 June 2019.
- Ms. Lo Yuk Fong, Phyllis is a connected person of Sunlight REIT as she is a senior executive of the Manager. Ms. Lo held 100,000 units at 30 June 2019.
- Such employee of the Manager held 1,000 units at 30 June 2019.
- Certain controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the Trustee were beneficially interested in 100,000 units at 31 December 2019. Their beneficial interest was 70,000 units at 30 June 2019.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2019 \$'000	2018 \$'000
Revenue	4 & 5	437,099	424,883
Property operating expenses	4 & 6	(91,375)	(86,150)
Net property income		345,724	338,733
Other income		9,508	8,506
Administrative expenses		(57,635)	(57,758)
Net (decrease) / increase in fair value of investment properties	10(a)	(162,527)	661,635
Profit from operations		135,070	951,116
Finance costs on interest bearing liabilities	7(a)	(64,055)	(51,210)
Profit before taxation and transactions with unitholders	7	71,015	899,906
Income tax	8	(40,272)	(40,854)
Profit after taxation and before transactions with unitholders		30,743	859,052

The notes on pages 30 to 51 form part of these condensed interim financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2019 \$'000	2018 \$'000
Profit after taxation and before transactions with unitholders	30,743	859,052
Other comprehensive income for the period		
<i>Items that have been reclassified / may be reclassified subsequently to profit or loss :</i>		
– Effective portion of changes in fair value of cash flow hedges recognised during the period	18,040	(29,327)
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	5,109	1,791
– Deferred tax credited to other comprehensive income	–	4,760
	23,149	(22,776)
Total comprehensive income for the period	53,892	836,276

The notes on pages 30 to 51 form part of these condensed interim financial statements.

Consolidated Statement of Financial Position

At 31 December 2019

(Expressed in Hong Kong dollars)

	Note	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	10	19,896,100	20,002,510
– Other fixed assets		31	42
		19,896,131	20,002,552
Deferred tax assets		122	136
Derivative financial instruments	12	10,496	21
Reimbursement rights	11	37,436	37,436
Other financial assets	13	116,374	136,405
Other non-current assets	14	45	5,955
		20,060,604	20,182,505
Current assets			
Trade and other receivables	15	32,890	24,597
Derivative financial instruments	12	4,161	5,122
Cash and bank balances	16	574,909	550,024
Tax recoverable		43,473	43,520
		655,433	623,263
Total assets		20,716,037	20,805,768
Current liabilities			
Tenants' deposits		(222,083)	(216,434)
Rent receipts in advance		(17,430)	(8,684)
Trade and other payables	17	(83,254)	(69,769)
Bank borrowings	18	(924,435)	(599,326)
Derivative financial instruments	12	(5,274)	(2,703)
Tax payable		(110,304)	(76,827)
		(1,362,780)	(973,743)
Net current liabilities		(707,347)	(350,480)
Total assets less current liabilities		19,353,257	19,832,025

Consolidated Statement of Financial Position (continued)

At 31 December 2019

(Expressed in Hong Kong dollars)

	Note	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	18	(3,315,746)	(3,637,960)
Deferred tax liabilities		(185,775)	(178,995)
Derivative financial instruments	12	(12,632)	(23,203)
		(3,514,153)	(3,840,158)
Total liabilities, excluding net assets attributable to unitholders			
		(4,876,933)	(4,813,901)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		15,839,104	15,991,867
Number of units in issue			
	19	1,656,388,363	1,651,723,079
Net asset value attributable to unitholders per unit			
		\$ 9.56	\$ 9.68

The notes on pages 30 to 51 form part of these condensed interim financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2019 \$'000	2018 \$'000
At the beginning of the period		15,991,867	14,856,991
Profit after taxation and before transactions with unitholders		30,743	859,052
Other comprehensive income		23,149	(22,776)
Total comprehensive income for the period		53,892	836,276
Distribution paid to unitholders		(232,893)	(228,674)
Issuance of units to the Manager during the period	19	26,238	24,599
Units bought back	19	–	(12,825)
Units buy-back expenses	19	–	(43)
		(206,655)	(216,943)
At the end of the period		15,839,104	15,476,324

The notes on pages 30 to 51 form part of these condensed interim financial statements.

Distribution Statement

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2019 \$'000	2018 \$'000
Profit after taxation and before transactions with unitholders		30,743	859,052
Adjustments (note (i)) :			
– Net decrease / (increase) in fair value of investment properties	10(a)	162,527	(661,635)
– Manager's fees paid or payable in the form of units		25,135	24,194
– Interest rate swaps – cash flow hedges	7(a)	5,635	1,315
– Non-cash finance costs on interest bearing liabilities		2,649	2,648
– Deferred tax	8	6,795	6,044
		202,741	(627,434)
Distributable income (note (i))		233,484	231,618
Interim distribution (note (ii))		218,643	217,422
Payout ratio (note (ii))		93.6%	93.9%
Distribution per unit (note (ii))		13.2 cents	13.2 cents

Notes* :

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

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the current period included the adding back of non-cash finance costs on interest bearing liabilities of \$2,649,000, or 0.16 cents per unit (2018 : \$2,648,000 or 0.16 cents per unit) (which is regarded as an effective return of capital) resulting from amortisation of debt establishment fees in respect of bank borrowings.

Distribution Statement (continued)

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

- (ii) The interim distribution of \$218,643,000 for the six months ended 31 December 2019 (2018 : \$217,422,000), representing a payout ratio of 93.6% (2018 : 93.9%), is calculated by multiplying the interim distribution per unit of 13.2 cents by 1,656,388,363 units** anticipated to be in issue at 3 March 2020, the record date for FY2019/20 interim distribution (the “**Record Date**”) (2018 : 13.2 cents by 1,647,139,077 units in issue at 7 March 2019, the record date for FY2018/19 interim distribution).
- (iii) The interim distribution is expected to be paid on 13 March 2020 to unitholders whose names appear on the register of unitholders on the Record Date.
- (iv) The interim distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

** It is anticipated that no additional units will be cancelled, if bought back, before the Record Date.

The notes on pages 30 to 51 form part of these condensed interim financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2019 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2019 \$'000	2018 \$'000
Operating activities			
Cash generated from operations		322,479	320,383
Tax refunded / (paid)			
– Hong Kong Profits Tax refunded / (paid)		47	(56,391)
Net cash generated from operating activities		322,526	263,992
Investing activities			
Payment for expenditure incurred for investment properties		(37,217)	(3,631)
Payment for acquisition of investment properties		–	(31,652)
Payment for purchase of other fixed assets		–	(15)
Payment for purchase of debt securities		–	(49,291)
Receipt from redemption of matured debt securities		19,527	–
Decrease / (increase) in bank deposits with original maturity over three months		115,556	(18,730)
Other cash flows arising from investing activities		9,312	8,213
Net cash generated from / (used in) investing activities		107,178	(95,106)
Financing activities			
Distribution paid to unitholders		(232,893)	(228,674)
Interest paid		(56,364)	(47,014)
Repayment of bank borrowings		–	(20,000)
Payment for buy-back of units		–	(12,868)
Net cash used in financing activities		(289,257)	(308,556)
Net increase / (decrease) in cash and cash equivalents		140,447	(139,670)
Cash and cash equivalents at the beginning of the period	16	358,467	584,549
Effect of foreign exchange rate changes		(5)	(3)
Cash and cash equivalents at the end of the period	16	498,909	444,876

The notes on pages 30 to 51 form part of these condensed interim financial statements.

Notes to the Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

1 General

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

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

2 Basis of preparation

These condensed interim financial statements have been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 11 February 2020.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2018/19 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019/20 annual financial statements. Details of the changes in accounting policies are set out in note 3.

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

These condensed interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018/19 annual financial statements. The condensed interim financial statements do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 Basis of preparation (continued)

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT (the "**Manager**"), is included on page 52.

The financial information relating to the financial year ended 30 June 2019 that is included in the condensed interim financial statements as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2019 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 4 September 2019.

3 Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the condensed interim financial statements.

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

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The lessor accounting requirements are substantially unchanged from HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as the Group has not entered into any leases as a lessee.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

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 decrease / increase in fair value of investment properties, finance costs on interest bearing liabilities, income tax, interest income and the unallocated net expenses.

4 Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2019 (Unaudited)			2018 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– Rental income	175,291	175,415	350,706	167,303	174,056	341,359
– Car park income	1,822	15,904	17,726	1,839	16,076	17,915
– Rental related income	34,723	33,944	68,667	32,507	33,102	65,609
	211,836	225,263	437,099	201,649	223,234	424,883
Property operating expenses	(40,101)	(51,274)	(91,375)	(37,729)	(48,421)	(86,150)
Net property income	171,735	173,989	345,724	163,920	174,813	338,733
Administrative expenses	(27,375)	(24,501)	(51,876)	(28,516)	(23,777)	(52,293)
Segment results	144,360	149,488	293,848	135,404	151,036	286,440
Net (decrease) / increase in fair value of investment properties	(42,152)	(120,375)	(162,527)	234,246	427,389	661,635
Finance costs on interest bearing liabilities			(64,055)			(51,210)
Income tax			(40,272)			(40,854)
Interest income			9,487			8,506
Unallocated net expenses			(5,738)			(5,465)
Profit after taxation and before transactions with unitholders			30,743			859,052
Depreciation	3	8	11	3	9	12

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

5 Revenue

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

	Six months ended 31 December	
	2019	2018
	(Unaudited) \$'000	(Unaudited) \$'000
Rental income	350,706	341,359
Car park income	17,726	17,915
Rental related income	68,667	65,609
	437,099	424,883

6 Property operating expenses

	Six months ended 31 December	
	2019	2018
	(Unaudited) \$'000	(Unaudited) \$'000
Building management fee	31,172	31,488
Property Manager's fees	27,928	26,437
Government rent and rates	18,439	16,388
Marketing and promotion expenses	4,182	2,720
Car park operating costs	3,322	3,194
Other direct costs	6,332	5,923
	91,375	86,150

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	
	2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	55,771	47,247
Other borrowing costs	2,649	2,648
	58,420	49,895
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	5,109	1,791
– Net fair value loss / (gain) of ineffective cash flow hedges	526	(476)
	5,635	1,315
	64,055	51,210

Other borrowing costs represent various financing charges and the amortisation of the debt establishment fees for the bank borrowings (see note 18).

	Six months ended 31 December	
	2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
(b) Other items		
Interest income	(9,487)	(8,506)
Manager's fees	50,270	48,388
Property Manager's fees (note (i))	27,928	26,437
Trustee's remuneration and charges	2,457	2,410
Auditor's remuneration		
– Audit services	791	739
– Other services	497	488
Valuation fees payable to principal valuer	251	309
Legal and other professional fees	1,811	4,317
Commission to property agents	771	298
Bank charges	146	140
Net foreign exchange loss	277	299

Notes :

- (i) Included rental commission of \$7,736,000 (2018 : \$6,701,000).
- (ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the period accordingly.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

8 Income tax

	Six months ended 31 December	
	2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	33,477	34,810
Deferred tax		
Origination and reversal of temporary differences	6,795	6,044
	40,272	40,854

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

In prior years, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group, with one of the subsidiaries (the “**Particular Subsidiary**”) covering the years of assessment up to 2016/17, and certain other subsidiaries covering the years of assessment up to 2012/13, as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commissions incurred by these subsidiaries. Notices of objection were filed with the IRD against the above additional profits tax assessments raised to date. At 31 December 2019, tax reserve certificates in an aggregate amount of \$43.3 million had been purchased in respect of the additional assessments raised.

Regarding the Particular Subsidiary, the IRD issued a determination in April 2018 in respect of the objections to the assessments on the Particular Subsidiary which allowed the deduction of property management fees and rental commissions, while the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT’s legal and tax advisers, the Manager decided to contest the assessments raised in respect of the management fees and a notice of appeal against the written determination was filed with the Board of Review (Inland Revenue Ordinance) (“**BoR**”) in May 2018. The appeal was heard by the BoR in June 2019 and its decision is awaited.

If the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2019/20 would amount to approximately \$109 million.

9 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2019 amounted to \$0.02 (2018 : \$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 \$30,743,000 (2018 : \$859,052,000) and the weighted average of 1,653,371,141 units in issue during the period (2018 : 1,645,947,029 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2019 and 2018 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

10 Investment properties

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
At 1 July 2019 / 1 July 2018	20,002,510	18,754,800
Movement during the period / year		
– Additions through acquisition of investment properties	–	42,504
– Other additions	56,117	11,253
– Net (decrease) / increase in fair value	(162,527)	1,193,953
	19,896,100	20,002,510

(a) Valuation

The investment properties were appraised at 31 December 2019 by the Group's principal valuer, Colliers International (Hong Kong) Limited ("**Colliers**"), an independent firm that has key personnel who are fellows or members of the Hong Kong Institute of Surveyors or the Royal Institute of Chartered Surveyors (Hong Kong Branch) with recent experience in the location and category of property being valued. Valuation methodologies adopted by Colliers were the same as when carrying out the valuation for 30 June 2019. As a result of the valuation, a net loss of \$162,527,000 (2018 : net gain of \$661,635,000) has been recognised in profit or loss for the period in respect of investment properties.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

10 Investment properties (continued)

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

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
In Hong Kong		
– Long leases	9,089,900	9,052,500
– Medium-term leases	10,806,200	10,950,010
	19,896,100	20,002,510

(c) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 18).

11 Reimbursement rights

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

12 Derivative financial instruments

	31 December 2019 (Unaudited)			30 June 2019 (Audited)		
	Assets \$'000	Liabilities \$'000	Net amount \$'000	Assets \$'000	Liabilities \$'000	Net amount \$'000
Interest rate swaps and interest rate basis swaps – cash flow hedges						
Current portion	4,161	(5,274)	(1,113)	5,122	(2,703)	2,419
Non-current portion	10,496	(12,632)	(2,136)	21	(23,203)	(23,182)
	14,657	(17,906)	(3,249)	5,143	(25,906)	(20,763)

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

During the six months ended 31 December 2019, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to \$720,000 (2018 : net unrealised gains \$215,000) were reclassified from net assets attributable to unitholders to profit or loss. As at 31 December 2019, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, fair value loss of ineffective hedges amounting to \$526,000 (2018 : fair value gain of \$476,000) was charged to profit or loss for the period. Also, net cumulative unrealised losses of expired swaps amounting to \$4,389,000 (2018 : \$2,006,000) were reclassified from net assets attributable to unitholders to profit or loss for the period.

At 31 December 2019, the net cumulative unrealised loss on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to \$2,629,000 (30 June 2019 : \$25,778,000).

At 31 December 2019, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of \$3,300,000,000 (30 June 2019 : \$2,900,000,000), supplemented by Basis Swaps with notional amount of \$300,000,000 (30 June 2019 : \$700,000,000). These swaps will mature between May 2020 to October 2025 (30 June 2019 : August 2019 to November 2023).

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

13 Other financial assets

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Financial assets measured at amortised cost		
Debt securities		
– Listed in Hong Kong	86,346	106,119
– Listed outside Hong Kong	19,768	19,980
– Unlisted	10,260	10,306
	116,374	136,405

The listed debt securities are issued by corporate entities with investment grade granted by certain credit rating agencies. The unlisted debt security is issued by a corporate entity which is a constituent of the Hang Seng Index.

14 Other non-current assets

The balance represented progress billings for the improvement works carried out on certain investment properties of the Group which were in progress at the end of the reporting period.

15 Trade and other receivables

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Rental receivables	24,402	16,385
Deposits and prepayments	4,681	5,117
Other receivables	2,647	2,229
Amounts due from related companies	1,160	866
	32,890	24,597

\$3,732,000 (30 June 2019 : \$3,800,000) 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.

15 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 loss allowance, is as follows :

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Current	20,383	14,014
Less than 1 month overdue	2,443	1,729
More than 1 month and up to 3 months overdue	1,163	431
More than 3 months and up to 6 months overdue	365	174
More than 6 months overdue	48	37
	24,402	16,385

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.

16 Cash and bank balances

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Deposits with original maturity within three months	469,722	315,700
Cash at bank and in hand	29,187	42,767
Cash and cash equivalents in the condensed consolidated cash flow statement	498,909	358,467
Deposits with original maturity over three months	76,000	191,557
Cash and bank balances in the consolidated statement of financial position	574,909	550,024

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

17 Trade and other payables

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Creditors and accrued charges	47,107	33,705
Manager's fees payable (note 23(b)(ii))	25,156	27,362
Amounts due to related companies	10,991	8,702
	83,254	69,769

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

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

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of \$1,212,000 (30 June 2019 : \$1,343,000) which is due within 30 days.

18 Bank borrowings

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Bank borrowings		
– Secured	2,923,536	2,921,762
– Unsecured	1,316,645	1,315,524
	4,240,181	4,237,286

18 Bank borrowings (continued)

The bank borrowings were repayable as follows :

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Within 1 year	924,435	599,326
After 1 year but within 2 years	1,316,645	1,640,040
After 2 years but within 5 years	1,999,101	1,997,920
	3,315,746	3,637,960
	4,240,181	4,237,286

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 0.52% per annum to HIBOR plus 0.79% per annum (30 June 2019 : HIBOR plus 0.52% per annum to HIBOR plus 0.79% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 12.

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

- mortgages over the investment properties with a fair value of \$11,169,700,000 at 31 December 2019 (30 June 2019 : \$11,222,900,000) (note 10); and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

The effective interest rate of the bank borrowings at the end of the reporting period was 2.90% per annum (30 June 2019 : 2.69% per annum).

At 31 December 2019, the Group’s uncommitted revolving credit facilities of \$600,000,000 (30 June 2019 : \$600,000,000) remained undrawn.

On 17 January 2020, the Group entered into a term loan agreement to refinance an existing facility of \$300 million due in March 2020.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

19 Units in issue

	Number of units	
	31 December 2019 (Unaudited)	30 June 2019 (Audited)
At 1 July 2019 / 1 July 2018	1,651,723,079	1,645,139,777
Movement during the period / year		
– Issuance of units	4,665,284	9,148,302
– Units bought back	–	(2,565,000)
	1,656,388,363	1,651,723,079

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

Payment of the Manager's fees for the period / year	Average issue price per unit determined based on the Trust Deed \$	Aggregate amount of units issued \$'000	Number of units issued
For the six months ended 31 December 2019 (Unaudited)			
1 April 2019 to 30 June 2019	5.950	12,536	2,106,819
Adjustment of Manager's fees for the financial year 2018/19	5.133	1,145	223,092
1 July 2019 to 30 September 2019	5.377	12,557	2,335,373
		26,238	4,665,284
For the year ended 30 June 2019 (Audited)			
1 April 2018 to 30 June 2018	5.454	11,875	2,177,401
Adjustment of Manager's fees for the financial year 2017/18	5.481	793	144,615
1 July 2018 to 30 September 2018	5.321	11,931	2,242,284
1 October 2018 to 31 December 2018	4.995	12,263	2,454,965
1 January 2019 to 31 March 2019	5.797	12,342	2,129,037
		49,204	9,148,302

19 Units in issue (continued)

During the six months ended 31 December 2019, no unit was bought back by the Manager on behalf of Sunlight REIT.

For the year ended 30 June 2019, the Manager, pursuant to the general mandate granted to the Manager by unitholders, bought back on behalf of Sunlight REIT a total of 2,565,000 units on the SEHK at an aggregate consideration of \$12,825,000.

Details of the buy-backs were as follows :

	Number of units bought back	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
For the year ended 30 June 2019 (Audited)				
Month of buy-back				
October 2018	1,909,000	5.19	4.88	9,658
November 2018	656,000	4.89	4.70	3,167
	<u>2,565,000</u>			<u>12,825</u>
Total buy-back expenses				<u>43</u>
				<u>12,868</u>

All bought back units were cancelled during that year.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

20 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

At 31 December 2019 and 30 June 2019, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (see note 12), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2019 and the year ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2019 and 30 June 2019.

21 Capital commitments

Capital commitments outstanding at 31 December 2019 not provided for in the condensed interim financial statements are as follows :

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Contracted for	1,454	41,821
Authorised but not contracted for	4,485	13,460
	5,939	55,281

22 Contingent liabilities

At the end of the reporting period, the Group has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,585,000 (30 June 2019 : \$4,585,000).

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

23 Connected party transactions and material related party transactions

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

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

Connected person / related party	Relationship with the Group
SKFE and other members of its group (collectively referred to as " SKFE Group ")	Significant holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as " HLD Group ")	Significant holders of Sunlight REIT and their associates
HSBC Institutional Trust Services (Asia) Limited (the " Trustee ")	The Trustee of Sunlight REIT
The Hongkong and Shanghai Banking Corporation Limited and other members of its group (collectively referred to as " HSBC Group ")	Holding companies and associated companies of the Trustee
Henderson Sunlight Asset Management Limited (the " Manager ")	The Manager of Sunlight REIT and a member of HLD Group
Henderson Sunlight Property Management Limited (the " Property Manager ")	The Property Manager of Sunlight REIT and a member of HLD Group
Colliers and other members of its group (collectively referred to as " Colliers Group ")	The principal valuer of Sunlight REIT and its associates
Chinese Young Men's Christian Association of Hong Kong (" YMCA ")	An associate of a director of the Manager

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

(b) Transactions with connected persons / related parties

	Six months ended 31 December	
	2019 (Unaudited) \$'000	2018 (Unaudited) \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	6,859	5,889
– HSBC Group	11,951	11,895
– YMCA	2	–
Property management expenses paid / payable to (note (i)) :		
– HLD Group	(8,716)	(7,957)
Facilities leasing expenses paid / payable to (note (i)) :		
– HLD Group	(103)	(100)
Manager's fees (note (ii))	(50,270)	(48,388)
Property Manager's fees (note (iii))	(27,927)	(26,437)
Trustee's remuneration and charges (note (iv))	(2,457)	(2,411)
Interest expenses and security trustee fees on bank borrowings, brokerage commission and other charges paid / payable to (notes (i) and (v)) :		
– HSBC Group	(22,339)	(19,055)
Net interest income on IRSs and Basis Swaps received / receivable from (note (v)) :		
– HSBC Group	1,522	2,419
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	284	83
Valuation fees and other charges paid / payable to (note (ii)) :		
– Colliers Group	(251)	(309)
Promotional income received / receivable from (note (i)) :		
– HLD Group	1,749	1,718

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

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

Notes :

- (i) In the opinion of the Manager, these transactions were carried out on normal commercial terms and in the ordinary course of business.
- (ii) The Manager's fees are calculated as the aggregate of a base fee of 0.4% per annum of the value of all the properties of the Group and a variable fee of 3% per annum of the Group's Net Property Income (as defined in the Trust Deed).

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

On 28 May 2018, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2019 to be paid 50% in the form of cash and 50% in the form of units. On 17 May 2019, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2020.

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

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

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

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

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

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

Notes : (continued)

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

The Trustee is also entitled to charge additional fees for duties undertaken by the Trustee which are of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary and normal course of business of Sunlight REIT, including but not limited to any services in relation to the acquisition of real estate by Sunlight REIT.

- (v) Interest are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 12 and 18.

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

	31 December 2019 (Unaudited) \$'000	30 June 2019 (Audited) \$'000
Net amount due to :		
– HLD Group	(35,351)	(35,135)
– HSBC Group (note)	(1,496,636)	(1,541,676)
– Colliers Group	(251)	(370)
– YMCA	(2)	–
Note :		
Deposits and cash placed with HSBC Group	87,773	42,229
Bank borrowings and interest payable to HSBC Group	(1,576,325)	(1,576,512)
Others	(8,084)	(7,393)
	(1,496,636)	(1,541,676)

24 Non-adjusting event after the reporting period

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

Auditor's Review Report



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

Introduction

We have reviewed the condensed interim financial statements set out on pages 22 to 51 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2019 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the condensed interim financial statements in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements as at 31 December 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

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

11 February 2020

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2019	2018	2017	2016	2015
At 31 December :						
Net asset value (\$ million)		15,839	15,476	14,526	13,660	13,511
Net asset value per unit		9.56	9.40	8.85	8.35	8.25
Market capitalisation (\$ million)		8,348	8,269	8,800	7,312	6,272
For the six months ended 31 December :						
Highest traded unit price		6.35	5.55	5.57	5.04	4.09
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A	N/A
Lowest traded unit price		4.84	4.66	4.98	4.38	3.48
Highest discount of the traded unit price to net asset value per unit (%)		49.4	50.4	43.7	47.5	57.8
Closing unit price		5.04	5.02	5.36	4.47	3.83
Distribution per unit (cents)		13.2	13.2	12.6	12.2	12.0
Payout ratio (%)		93.6	93.9	96.6	97.3	95.2
Distribution yield per unit (%)	2	2.6	2.6	2.4	2.7	3.1
Annualised distribution yield per unit (%)	2	5.2	5.3	4.7	5.5	6.3

Notes :

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

Corporate Information

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

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-executive Director

KWOK Ping Ho

Independent Non-executive Directors

KWAN Kai Cheong

TSE Kwok Sang

KWOK Tun Ho, Chester

Responsible Officers of the Manager

LO Yuk Fong, Phyllis

SHUM Chung Wah, Yulanda

WONG Chi Ming

WU Shiu Kee, Keith

YIP May Ling, Vivian

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

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

Investor Relations

Tel : (852) 3669 2880

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Principal Valuer

Colliers International (Hong Kong) Limited

Legal Adviser

Woo Kwan Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

The Hongkong and Shanghai Banking
Corporation Limited

MUFG Bank, Ltd.

Oversea-Chinese Banking Corporation
Limited, Hong Kong Branch

Sumitomo Mitsui Banking Corporation

Unit Registrar

Tricor Investor Services Limited

Level 54, Hopewell Centre,

183 Queen's Road East,

Hong Kong

Website

www.sunlightreit.com

Financial Calendar

(in respect of FY2019/20 interim results)

Interim results announcement

11 February 2020

Issuance of interim report

21 February 2020

Ex-distribution date

for interim distribution

26 February 2020

Closure of register of unitholders

for entitlement of interim distribution

28 February 2020 to 3 March 2020,
both days inclusive

Interim distribution payable

HK 13.2 cents per unit

13 March 2020

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

陽光房地產投資信託基金

由恒基陽光資產管理有限公司管理

www.sunlightreit.com

