SUNLIGHT REIT

Sunlight Real Estate Investment Trust

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

(Stock Code : 435)

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Henderson Sunlight Asset Management Limited (the "**Manager**") is pleased to announce the unaudited interim results of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") for the six months ended 31 December 2017 (the "**Reporting Period**"). The interim results and the interim financial report for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee of the Manager and were approved by the Board on 12 February 2018.

FINANCIAL HIGHLIGHTS

(in HK$' million, unless otherwise specified)

	Six months ended 31 December 2017	Six months ended 31 December 2016	Change (%)
Revenue	**399.3**	383.6	4.1
Net property income	**310.2**	299.2	3.7
Cost-to-income ratio (%)	**22.3**	22.0	N/A
Profit after taxation	**935.1**	278.9	235.3
Distributable income	**214.1**	205.1	4.4
Distribution per unit (HK cents)	**12.6**	12.2	3.3
Payout ratio (%)	**96.6**	97.3	N/A
	At 31 December 2017	At 30 June 2017	Change (%)
Portfolio valuation	**18,535.1**	17,062.4	8.6
Net asset value	**14,526.4**	13,899.5	4.5
Net asset value per unit (HK$)	**8.85**	8.49	4.2
Gearing ratio (%)	**22.1**	21.5	N/A

PORTFOLIO STATISTICS

Property	Operational Statistics						Property Financials				
	Occupancy (%)		Passing Rent [1] (HK$/sq. ft.)		Rental Reversion [2] (%)		Net Property Income (HK$'000)		Capitalization Rate at 31 Dec 2017 (%)		Appraised Value at 31 Dec 2017 [3] (HK$'000)
	at 31 Dec 2017	at 30 Jun 2017	at 31 Dec 2017	at 30 Jun 2017	six months ended 31 Dec 2017	six months ended 30 Jun 2017	six months ended 31 Dec 2017	six months ended 31 Dec 2016	Office	Retail	
Office											
Grade A											
Sunlight Tower	96.3	99.1	37.7	36.4	12.0	13.4	83,890	81,715	3.75	3.65	4,924,000
Grade B											
Bonham Trade Centre	95.6	96.1	29.5	28.9	9.9	11.0	17,434	17,936	3.45	3.80	1,214,000
Fung Shun Commercial Building [4]	100.0	N/A	47.3	N/A	N/A	N/A	826	N/A	3.00	2.75	660,000
Winsome House Property	94.3	85.9	42.9	42.9	3.7	9.7	7,987	8,859	3.45	3.60	623,800
135 Bonham Strand Trade Centre Property	100.0	100.0	27.2	26.6	7.7	3.8	9,076	8,456	3.45	3.80	603,000
Righteous Centre	100.0	93.4	34.2	34.7	(21.3)	7.1	9,173	12,095	3.75	3.40	585,000
235 Wing Lok Street Trade Centre	96.3	98.9	21.3	20.8	7.9	9.7	5,749	5,679	3.45	3.80	405,000
Java Road 108 Commercial Centre	100.0	96.1	24.2	24.1	8.8	9.2	4,502	4,273	3.75	4.00	294,000
On Loong Commercial Building	100.0	92.0	30.4	30.9	5.0	7.5	4,168	4,073	3.65	3.70	277,000
Sun Fai Commercial Centre Property	100.0	100.0	21.7	21.7	0.5	(1.1)	3,049	2,657	3.80	4.05	182,000
Wai Ching Commercial Building Property	100.0	94.5	14.2	13.8	7.8	7.2	1,084	939	3.55	3.90	77,900
Sub-total/Average	**97.3**	**97.3**	**33.4**	**32.0**	**6.5**	**9.3**	**146,938**	**146,682**			**9,845,700**
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	97.4	91.7	117.5	118.4	5.4	1.0	77,073	72,629	N/A	4.30	4,267,000
Metro City Phase I Property	99.6	98.7	54.9	54.1	12.5	13.5	65,279	59,516	N/A	4.40	3,101,000
Kwong Wah Plaza Property	100.0	100.0	52.6	49.6	23.8	2.4	17,442	16,866	3.65	3.60	1,101,000
Urban											
Beverley Commercial Centre Property	85.4	96.7	44.4	45.1	(5.7)	(14.0)	1,841	2,050	N/A	4.10	108,400
Supernova Stand Property	100.0	100.0	54.0	54.0	N/A	15.0	1,323	1,167	N/A	3.80	68,600
Palatial Stand Property [5]	75.2	75.2	12.0	12.0	N/A	N/A	310	258	N/A	3.85	43,400
Sub-total/Average	**98.2**	**96.2**	**72.8**	**71.3**	**9.8**	**5.6**	**163,268**	**152,486**			**8,689,400**
Total/Average	**97.6**	**96.9**	**46.0**	**44.9**	**7.9**	**6.7**	**310,206**	**299,168**			**18,535,100**

Notes : 1. Passing rent is calculated on the basis of average rent per sq. ft. for all occupied gross rentable area 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. Valuation prepared by Knight Frank Petty Limited.
4. Completion of the acquisition took place on 15 December 2017.
5. The Palatial Stand Property was disposed of in November 2017 and completion took place on 25 January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

Sunlight REIT reported revenue of HK$399.3 million for the Reporting Period, a 4.1% year-on-year growth, mainly attributable to higher contribution from its retail properties as the refurbishment programme at Sheung Shui Centre Shopping Arcade ("**SSC**") has started to bear fruit. After deducting property operating expenses of HK$89.1 million, net property income came in at HK$310.2 million, up 3.7% year on year.

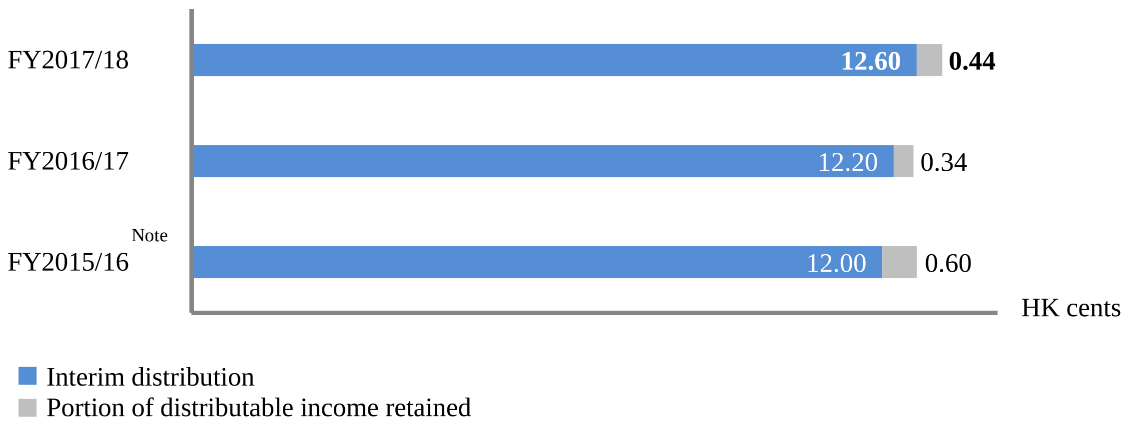
Finance costs dropped 27.4% year on year to HK$34.4 million, thanks to a saving of HK$8.4 million in cash interest expenses, which reflected the benefit of lower interest margin upon refinancing of the term loan facilities. Given the substantial increase in fair value gain on investment properties to HK$749.1 million, profit after taxation was HK$935.1 million versus HK$278.9 million for the same period last year.

Distribution

Distributable income for the Reporting Period rose 4.4% year on year to HK$214.1 million. The growth rate would have been 6.3% if the (one-time) costs of approximately HK$4.0 million relating to the acquisition of Fung Shun Commercial Building had been excluded.

The Board of the Manager has resolved to declare an interim distribution per unit ("**DPU**") of HK 12.6 cents, or HK$206.9 million, which implies a payout ratio of 96.6%. The interim DPU was 3.3% ahead of the HK 12.2 cents paid in the same period last year, and represented an annualized distribution yield of 4.7% based on the closing unit price of HK$5.36 on the last trading day of the Reporting Period.

Interim DPU at a Glance



Note : The interim distribution figures for FY2015/16 included the adding back of a reserve movement resulting from the unwinding of certain interest rate swaps which is capital in nature and which amounted to HK 1.36 cents per unit.

Operation Review

At 31 December 2017, the overall occupancy of Sunlight REIT's portfolio was 97.6% as compared to 96.9% recorded at 30 June 2017. The office portfolio was largely stable with occupancy rate unchanged from six months ago at 97.3%. On the retail front, as the renovated area at SSC was mostly leased out, coupled with sustained low vacancies at Metro City Phase I Property ("**MCPI**"), occupancy of the retail portfolio exhibited a nice rebound to 98.2% (30 June 2017: 96.2%).

Reflecting a rental reversion of 6.5% during the Reporting Period, passing rent of the office portfolio continued to rise with a growth of 4.4% from six months ago to HK$33.4 per sq. ft. at 31 December 2017. Excluding the negative rental reversion recorded for a ground floor shop at Righteous Centre, the office portfolio actually achieved a higher rental reversion of 9.9%. Meanwhile, passing rent for the retail portfolio rose 2.1% to HK$72.8 per sq. ft. at 31 December 2017, supported by a rental reversion of 9.8%.

During the Reporting Period, Sunlight Tower enjoyed a rental reversion of 12.0% with a passing rent increase of 3.6% as office leasing in core business areas including Wan Chai continued to be strong. Despite a slight decline in occupancy to 96.3% (30 June 2017: 99.1%), its tenant retention rate of 87.2% was more than satisfactory. Meanwhile, the level of occupancy for the Sheung Wan/Central portfolio increased slightly to 96.6% (30 June 2017: 96.0%), reflecting the invariably solid demand for inexpensive office spaces at prime and convenient locations. In particular, the Manager is delighted to witness the rebound in occupancy for Winsome House Property from a low of 85.9% (recorded in end-September) to the latest 94.3%. On the Kowloon side, Righteous Centre's occupancy rebounded following the leasing out of a ground floor shop to a food and beverage tenant. However, its rental performance was adversely affected by the still cautious sentiment for prime street shops in the vicinity during the Reporting Period.

The overall occupancy, passing rent and rental reversion in respect of the retail portfolio have all improved. SSC made reasonable headway as its shopping ambience has obviously been lifted by the renovation and the recent establishment of pop-up stores. For MCPI, its balanced trade-mix with a particular focus on necessity shopping has also benefitted from a more buoyant retail sentiment. Moreover, Kwong Wah Plaza Property turned in a sterling performance with a rental reversion of over 23%.

Financial Position

Sunlight REIT's portfolio was appraised by the principal valuer, Knight Frank Petty Limited, at HK$18,535.1 million at 31 December 2017, representing an increase of 8.6% from HK$17,062.4 million recorded at 30 June 2017. Stripping out Fung Shun Commercial Building which was acquired in December 2017, the increase in appraised value of the portfolio would have been 4.8%. The rise was mainly attributable to the portfolio's favourable rental performance and a mild compression in capitalization rates.

The gross assets of Sunlight REIT expanded 5.2% to HK$19,244.8 million (30 June 2017: HK$18,297.8 million) while its net assets grew 4.5% to HK$14,526.4 million (30 June 2017: HK$13,899.5 million), which implies a net asset value per unit of HK$8.85 (30 June 2017: HK$8.49).

At 31 December 2017, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) slightly increased to 22.1%, while gross liabilities[1] as a percentage of gross assets slightly increased to 24.5%. The EBITDA[2] of Sunlight REIT grew 1.8% year on year to HK$259.7 million. Together with savings in cash interest expenses as mentioned earlier, the interest coverage ratio[3] for the Reporting Period further improved to 7.5 times as compared to 5.9 times recorded in the same period last year.

Notes :

1. Gross liabilities include total borrowings, tenants' deposits and other liabilities.
2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Any gain on disposals of investment properties and subsidiaries would be excluded from the calculation.
3. Interest coverage ratio is calculated by dividing EBITDA by cash interest expenses incurred on total borrowings.

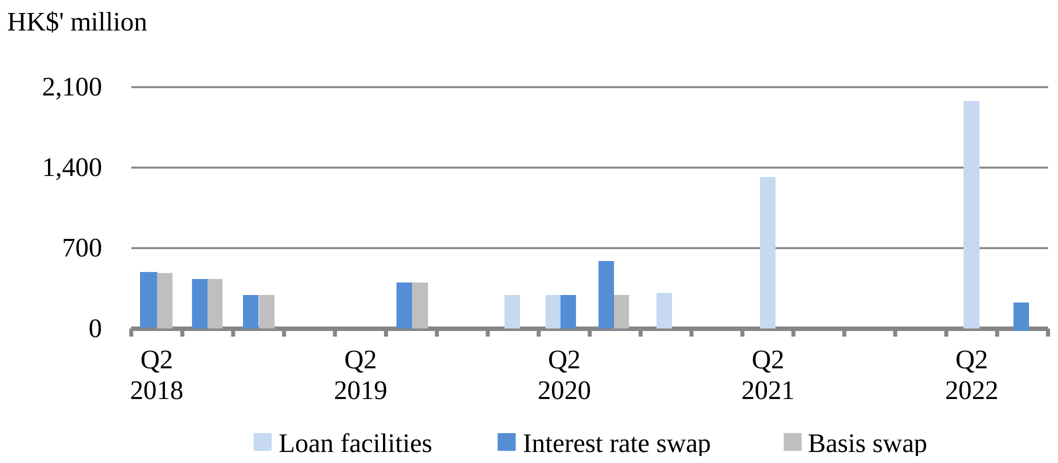
Capital and Interest Rate Management

During the Reporting Period, Sunlight REIT entered into a bilateral term loan facility agreement with a bank and was granted a three-year secured term loan of HK$325.0 million which was fully drawn at 31 December 2017. Consequently, Sunlight REIT had in place total loan facilities of HK$4,550.0 million at 31 December 2017, comprising term loan facilities of HK$4,250.0 million ("**Term Loan Facilities**") which had all been drawn and an unsecured revolving credit facility of HK$300.0 million that remained undrawn.

The Term Loan Facilities consist of secured loans of HK$2,930.0 million and unsecured loans of HK$1,320.0 million, with the secured tranche being backed by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK$10,405.0 million.

At 31 December 2017, the Term Loan Facilities had a weighted loan maturity period of 3.8 years with a blended interest margin of 0.69% per annum over Hong Kong Interbank Offered Rate. Approximately 66% (or HK$2,800.0 million) of Sunlight REIT's borrowings was hedged to fixed rates with a weighted average tenure of 1.8 years. The weighted average interest rate (before loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 1.18% per annum. Subsequent to the Reporting Period, a three-year interest rate swap was entered into with a notional amount of HK$300.0 million beginning 8 February 2018.

Maturity Profile of Loan Facilities, Interest Rate Swap and Basis Swap
(at 31 December 2017)



In light of the special distribution made in FY2016/17 and the acquisition of Fung Shun Commercial Building, cash resources allocated to unit buy-back had been reduced accordingly. During the Reporting Period, the Manager spent approximately HK$1.3 million (excluding buy-back expenses) repurchasing (and cancelling) a total of 250,000 units during the Reporting Period at an average price of approximately HK$5.24 per unit, representing a discount of over 40% to the net asset value per unit of Sunlight REIT.

OUTLOOK

While it is a consensus view that the US Federal Reserve will continue to raise interest rates and tighten the reins on liquidity supply, this has not deterred investment sentiment in view of the continued ascent in asset prices, despite the latest stock market correction. Rather, it remains to be seen whether the relatively flat US yield curve, as illustrated by a narrow differential between 10-year and 2-year US treasuries, represents a harbinger of economic recession or a scenario of tempered inflation in the long run.

As the global economy appears to embark on a stable expansionary path, this should bode well for Hong Kong's business and consumer confidence which in turn would lend support to the commercial real estate market. With a diversified and expanded portfolio, Sunlight REIT is well positioned to capitalize on the evolving trend. Despite the moderation in rental reversions for selected office properties, the overall office portfolio is expected to stay competitive given the healthy supply of and resilient demand for affordable decentralized office spaces. The retail portfolio, in the meantime, is expected to benefit from the gradual recovery in retail spending. While SSC is poised to capture the full benefit from its recent renovation, MCPI's focus on consumer staples supplemented by proactive tenant mix reconfiguration will buttress its income prospects. Barring unforeseen circumstances, the Manager is guardedly optimistic about the rental performance of Sunlight REIT for the rest of the current financial year.

On capital management, through its refinancing arrangement near the end of FY2016/17, Sunlight REIT is equipped with a more flexible funding structure while enjoying a lower loan interest margin. Furthermore, with approximately 66% of debt being hedged to fixed rates, Sunlight REIT is reasonably cushioned from interest rate fluctuations in the short-to-medium term. However, in light of the additional loan facility and the expiry of HK$1,250 million worth of interest rate swap before the end of 2018, the Manager shall endeavor to optimize the interest rate profile of Sunlight REIT over the course of the year.

The acquisition of Fung Shun Commercial Building and the disposal of the Palatial Stand Property have demonstrated the Manager's capability and resolve to swiftly conduct accretive transactions. Going forward, the Manager will continue to place a high priority on asset recycling, with a view to further augmenting the investment footprint while enhancing the value of Sunlight REIT.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The ex-distribution date and record date for the interim distribution are Thursday, 1 March 2018 and Wednesday, 7 March 2018 respectively. The register of unitholders will be closed from Monday, 5 March 2018 to Wednesday, 7 March 2018, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 2 March 2018. Payment of the interim distribution will be made to unitholders on Tuesday, 20 March 2018.

CORPORATE GOVERNANCE

The Manager is committed to upholding a high level of corporate governance standard. Good corporate governance entails a sound and effective system of checks and balances, and requires practices and procedures that promote awareness and observance of stakeholder rights. To ensure that the above objectives are satisfied and the relevant legislation and regulations are duly observed, the Manager has adopted a compliance manual (the "**Compliance Manual**") which sets out the key processes, systems, measures, corporate governance policies as well as other policies and procedures governing the management and operations of Sunlight REIT. Modifications to the Compliance Manual will be made if necessary or if relevant legislation or regulations have been enacted or amended.

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

Public Float

At 31 December 2017, based on information that is publicly available and within the knowledge of the directors of the Manager, Sunlight REIT has maintained a public float of not less than 25% of the outstanding units in issue as required by the Securities and Futures Commission.

New Units Issued

Except for an aggregate of 4,296,052 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Buy-back, Sale or Redemption of Units

Pursuant to the general mandate to buy back units granted by unitholders at the annual general meeting held on 27 October 2017, the Manager bought back on behalf of Sunlight REIT a total of 250,000 units on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the Reporting Period for an aggregate consideration of approximately HK$1.3 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK$5.30 and HK$5.22 respectively. All bought back units were cancelled prior to the end of the Reporting Period.

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

Acquisition and Disposal of Properties

During the Reporting Period, Sunlight REIT acquired Fung Shun Commercial Building and disposed of the Palatial Stand Property. Completion of the transactions took place in December 2017 and January 2018 respectively. Announcements relating to the acquisition of Fung Shun Commercial Building and the disposal of the Palatial Stand Property were published on 26 September 2017, 24 November 2017, 15 December 2017 and 25 January 2018 respectively.

Save as disclosed above, there was no acquisition and disposal of properties by Sunlight REIT or its wholly owned and controlled entities during the Reporting Period.

Review of Interim Results

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

Employees

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

ISSUANCE OF INTERIM REPORT

The 2017/18 Interim Report of Sunlight REIT will be sent to unitholders on 26 February 2018.

FORWARD-LOOKING STATEMENTS

This announcement contains certain statements and terminologies that are forward-looking. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the Board and senior management of the Manager regarding the industry and sectors in which Sunlight REIT operates. They are subject to risks, uncertainties and other factors beyond the Manager's control, the emergence of which may cause actual results or performance to differ materially from those expressed or implied in such statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2017	2016
	Note	**$'000**	$'000
Revenue	3 & 4	**399,332**	383,565
Property operating expenses	3 & 5	**(89,126)**	(84,397)
Net property income		**310,206**	299,168
Other income		**4,868**	4,621
Administrative expenses		**(55,400)**	(48,463)
Net increase in fair value of investment properties		**749,115**	105,239
Profit from operations		**1,008,789**	360,565
Finance costs on interest bearing liabilities	6(a)	**(34,419)**	(47,419)
Profit before taxation and transactions with unitholders	6	**974,370**	313,146
Income tax	7	**(39,316)**	(34,246)
Profit after taxation and before transactions with unitholders		**935,054**	278,900

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2017	2016
	$'000	$'000
Profit after taxation and before transactions with unitholders	**935,054**	278,900
Other comprehensive income for the period		
Items that have been reclassified/may be reclassified subsequently to profit or loss (after tax) :		
- Changes in fair value of cash flow hedges recognized during the period	**12,628**	66,932
- Net reclassification adjustments for amounts transferred from profit or loss in respect of finance costs on interest bearing liabilities	**(895)**	(1,626)
	11,733	65,306
Total comprehensive income for the period	**946,787**	344,206

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in Hong Kong dollars)

	Note	**31 December 2017 (Unaudited) $'000**	30 June 2017 (Audited) $'000
Non-current assets			
Fixed assets			
- Investment properties		**18,491,700**	17,062,400
- Other fixed assets		**57**	72
		18,491,757	17,062,472
Deferred tax assets		**316**	435
Derivative financial instruments		**13,379**	7,374
Prepayments		**2,553**	1,587
Reimbursement rights		**37,436**	37,436
Other financial assets		**60,989**	61,377
		18,606,430	17,170,681
Current assets			
Trade and other receivables	9	**24,224**	18,673
Derivative financial instruments		**4,049**	2,238
Cash and bank balances		**546,430**	1,085,897
Tax recoverable		**20,291**	20,291
		594,994	1,127,099
Investment properties held for sale	10	**43,400**	-
		638,394	1,127,099
Total assets		**19,244,824**	18,297,780
Current liabilities			
Tenants' deposits		**(199,831)**	(193,073)
Rent receipts in advance		**(7,791)**	(10,430)
Trade and other payables	11	**(73,060)**	(63,406)
Derivative financial instruments		**(1,373)**	(10,424)
Tax payable		**(45,647)**	(65,483)
		(327,702)	(342,816)
Net current assets		**310,692**	784,283
Total assets less current liabilities		**18,917,122**	17,954,964

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2017

(Expressed in Hong Kong dollars)

	31 December 2017 (Unaudited) $'000	30 June 2017 (Audited) $'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank borrowings	**(4,228,602)**	(3,901,882)
Deferred tax liabilities	**(162,117)**	(153,351)
Derivative financial instruments	**-**	(252)
	(4,390,719)	(4,055,485)
Total liabilities, excluding net assets attributable to unitholders	**(4,718,421)**	(4,398,301)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	**14,526,403**	13,899,479
Number of units in issue	**1,641,823,814**	1,637,777,762
Net asset value attributable to unitholders per unit	**$8.85**	$8.49

DISTRIBUTION STATEMENT

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2017	2016
	Note	**$'000**	$'000
Profit after taxation and before transactions with unitholders		**935,054**	278,900
Adjustments (note (i)) :			
- Net increase in fair value of investment properties		**(749,115)**	(105,239)
- Manager's fees paid or payable in the form of units		**22,179**	21,204
- Interest rate swaps - cash flow hedges	6(a)	**(2,738)**	(1,626)
- Non-cash finance costs on interest bearing liabilities		**2,530**	5,900
- Deferred tax	7	**6,237**	5,963
		(720,907)	(73,798)
Distributable income (note (i))		**214,147**	205,102
Interim distribution (note (ii))		**206,870**	199,556
Payout ratio (note (ii))		**96.6%**	97.3%
Distribution per unit (note (ii))		**12.6 cents**	12.2 cents

Notes :

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

Distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial period. The adjustments for the current period included the adding back of non-cash finance costs on interest bearing liabilities of $2,530,000, or 0.15 cents per unit (2016: $5,900,000, or 0.36 cents per unit) resulting from amortization of debt establishment fees in respect of bank borrowings.

DISTRIBUTION STATEMENT (continued)

For the six months ended 31 December 2017 – unaudited
(Expressed in Hong Kong dollars)

Notes : (continued)

(ii) The interim distribution of $206,870,000 for the six months ended 31 December 2017 (2016: $199,556,000), representing a payout ratio of 96.6% (2016: 97.3%), is calculated by multiplying the interim distribution per unit of 12.6 cents by 1,641,823,814 units* anticipated to be in issue at 7 March 2018, the record date for FY2017/18 interim distribution (the "**Record Date**") (2016: 12.2 cents by 1,635,707,632 units in issue at 28 February 2017, the record date for FY2016/17 interim distribution).

(iii) The interim distribution is expected to be paid on 20 March 2018 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 recognized as a liability at the end of the Reporting Period.

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

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

NOTES

(Expressed in Hong Kong dollars)

1. General

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

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

2. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued several amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. None of these amendments has 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 interim financial report.

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

3. Segment reporting

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

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

Segment results

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

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

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

3. Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2017 (Unaudited)			2016 (Unaudited)		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
- Rental income	**152,203**	**166,895**	**319,098**	149,416	158,638	308,054
- Car park income	**1,893**	**14,407**	**16,300**	2,000	13,593	15,593
- Rental related income	**31,545**	**32,389**	**63,934**	30,703	29,215	59,918
	185,641	**213,691**	**399,332**	182,119	201,446	383,565
Property operating expenses	**(38,703)**	**(50,423)**	**(89,126)**	(35,437)	(48,960)	(84,397)
Net property income	**146,938**	**163,268**	**310,206**	146,682	152,486	299,168
Administrative expenses (note)	**(27,473)**	**(22,433)**	**(49,906)**	(22,425)	(21,465)	(43,890)
Segment results	**119,465**	**140,835**	**260,300**	124,257	131,021	255,278
Net increase in fair value of investment properties	**287,584**	**461,531**	**749,115**	94,576	10,663	105,239
Finance costs on interest bearing liabilities			**(34,419)**			(47,419)
Income tax			**(39,316)**			(34,246)
Interest income			**4,814**			4,621
Unallocated net expenses			**(5,440)**			(4,573)
Profit after taxation and before transactions with unitholders			**935,054**			278,900
Depreciation	**6**	**9**	**15**	9	10	19

Note : The costs relating to the acquisition of Fung Shun Commercial Building amounting to $3,970,000 was included under administrative expenses.

4. Revenue

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

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	$'000	$'000
Rental income	**319,098**	308,054
Car park income	**16,300**	15,593
Rental related income	**63,934**	59,918
	399,332	383,565

5. Property operating expenses

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	$'000	$'000
Building management fee	**30,405**	28,974
Property manager's fees	**27,528**	25,796
Government rent and rates	**17,708**	17,332
Marketing and promotion expenses	**3,035**	3,083
Car park operating costs	**3,057**	2,920
Other direct costs	**7,393**	6,292
	89,126	84,397

6. 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	
	2017	2016
	(Unaudited)	(Unaudited)
	$'000	$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	**34,627**	42,994
Other borrowing costs	**2,530**	6,051
	37,157	49,045
Interest rate swaps - cash flow hedges		
- reclassified to net assets attributable to unitholders	**(895)**	(1,626)
- net fair value gain of ineffective cash flow hedges	**(1,843)**	-
	(2,738)	(1,626)
	34,419	47,419

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

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	$'000	$'000
(b) Other items		
Interest income	**(4,814)**	(4,621)
Manager's fees	**47,648**	42,409
Property manager's fees (note (i))	**27,528**	25,796
Trustee's remuneration and charges	**2,454**	2,178
Auditor's remuneration		
- Audit services	**740**	734
- Other services	**475**	458
Valuation fees payable to principal valuer	**256**	255
Legal and other professional fees	**3,405**	1,846
Commission to property agents	**1,447**	1,205
Bank charges	**122**	166
Net unrealized foreign exchange (gain)/loss	**(54)**	40

Notes :

(i) Included rental commission of $8,719,000 (2016: $7,821,000).

(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.

7. Income tax

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	$'000	$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**33,079**	28,283
Deferred tax		
Origination and reversal of temporary differences	**6,237**	5,963
	39,316	34,246

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 2015/16, and certain other subsidiaries covering the years of assessment up to 2010/11, in an aggregate amount of $20,085,000 as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the six months ended 31 December 2017, the IRD further raised profits tax assessments on the Particular Subsidiary for the year of assessment 2016/17 in respect of such disallowance, bringing the aggregate amount to $20,564,000. Notices of objection were filed with the IRD against all the additional profits tax assessments raised to date. At 31 December 2017, tax reserve certificates ("**TRC**") of $20,085,000 in total have been purchased while a TRC of $479,000 was purchased in January 2018.

The Manager has received positive advice from the legal and tax advisers of Sunlight REIT, and, in particular, an unequivocal opinion from Senior Counsel to the effect that there are strong prospects of establishing the deductibility of the management fees, property management fees and rental commission. In light of such opinion and in the event that any of the objections mentioned above is determined by the Commissioner of Inland Revenue against the Group, the Manager will appeal against the determination to the Board of Review.

If the IRD were to issue additional profits tax assessments on the other subsidiaries on the basis of disallowing deductions of a similar nature in respect of the years of assessment 2011/12 to 2016/17, the estimated total additional profits tax liabilities would amount to approximately $84,990,000, which includes $20,564,000 as mentioned above. Based on the positive advice received, such additional profits tax assessments, if issued, will likewise be vigorously contested.

8. Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2017 amounted to $0.57 (2016: $0.17). 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 $935,054,000 (2016: $278,900,000) and the weighted average of 1,639,349,129 units in issue during the period (2016: 1,636,525,561 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2017 and 2016 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

9. Trade and other receivables

	31 December 2017 (Unaudited) $'000	30 June 2017 (Audited) $'000
Rental receivables	**15,018**	11,785
Deposits and prepayments	**9,355**	6,330
Other receivables	**1,738**	1,585
Amounts due from related companies	**666**	560
	26,777	20,260
Represented by :		
Current portion	**24,224**	18,673
Non-current portion	**2,553**	1,587
	26,777	20,260

At 31 December 2017 and 30 June 2017, the balance under non-current portion represented progress payments for the improvement works carried out on certain investment properties of the Group which were in progress at the end of the reporting period.

$3,782,000 (30 June 2017: $3,919,000) 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 recognized as expense within one year.

9. Trade and other receivables (continued)

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

	31 December 2017 (Unaudited) $'000	30 June 2017 (Audited) $'000
Current	**11,748**	9,149
Less than 1 month overdue	**2,472**	1,762
More than 1 month and up to 3 months overdue	**529**	449
More than 3 months and up to 6 months overdue	**66**	197
More than 6 months overdue	**203**	228
	15,018	11,785

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.

10. Investment properties held for sale

On 24 November 2017, the Group, through certain of its wholly-owned subsidiaries, entered into a sale and purchase agreement with an independent third party purchaser in relation to the sale of the Palatial Stand Property at a consideration of $101,000,000. Accordingly, the carrying amount of the Palatial Stand Property has been reclassified as investment properties held for sale at 31 December 2017.

11. Trade and other payables

	31 December 2017 (Unaudited) $'000	30 June 2017 (Audited) $'000
Creditors and accrued charges	**31,853**	33,451
Deposits received from disposal of investment properties	**10,100**	-
Manager's fees payable	**22,724**	22,585
Amounts due to related companies	**8,383**	7,370
	73,060	63,406

11. Trade and other payables (continued)

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 Sunlight REIT of $1,192,000 (30 June 2017: $1,149,000) which is due within 30 days.

12. Non-adjusting events after the Reporting Period

(a) After the end of the Reporting Period, the Board of the Manager declared an interim distribution. Further details are disclosed in the "Distribution Statement" of this announcement.

(b) On 25 January 2018, the sale of the Palatial Stand Property was completed, resulting in a gain of approximately $56.4 million being recognized in profit or loss.

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

Hong Kong, 12 February 2018

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