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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 2018

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 2018 (the "**Reporting Period**").

FINANCIAL HIGHLIGHTS

(in HK$' million, unless otherwise specified)

	Six months ended 31 December 2018	Six months ended 31 December 2017	Change (%)
Revenue	**424.9**	399.3	6.4
Net property income	**338.7**	310.2	9.2
Cost-to-income ratio (%)	**20.3**	22.3	N/A
Profit after taxation	**859.1**	935.1	(8.1)
Distributable income	**231.6**	214.1	8.2
Distribution per unit (HK cents)	**13.2**	12.6	4.8
Payout ratio (%)	**93.9**	96.6	N/A
	At 31 December 2018	At 30 June 2018	Change (%)
Portfolio valuation	**19,452.5**	18,754.8	3.7
Net asset value	**15,476.3**	14,857.0	4.2
Net asset value per unit (HK$)	**9.40**	9.03	4.1
Gearing ratio (%)	**21.0**	21.8	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 2018 (%)		Appraised Value at 31 Dec 2018 (HK$'000)
	at 31 Dec 2018	at 30 Jun 2018	at 31 Dec 2018	at 30 Jun 2018	six months ended 31 Dec 2018	six months ended 30 Jun 2018	six months ended 31 Dec 2018	six months ended 31 Dec 2017	Office	Retail	
Office											
Grade A											
Sunlight Tower	100.0	98.5	38.9	38.2	12.8	7.7	89,718	83,890	3.75	3.65	5,118,100
Grade B											
Bonham Trade Centre	84.9	93.0	30.4	29.8	7.1	8.1	17,400	17,434	3.45	3.80	1,289,500
The Harvest [3]	63.9	100.0	58.6 [4]	47.3	N/A	N/A	8,784	826	3.00	2.75	710,200
Winsome House Property	100.0	100.0	43.0	42.8	2.4	6.7	9,639	7,987	3.45	3.60	643,600
135 Bonham Strand Trade Centre Property	95.2	100.0	28.8	27.6	14.6	10.1	9,196	9,076	3.45	3.80	642,200
Righteous Centre	100.0	98.8	35.7	34.5	7.8	7.7	9,978	9,173	3.75	3.40	604,500
235 Wing Lok Street Trade Centre	98.9	96.0	22.3	21.7	8.4	8.4	6,094	5,749	3.45	3.80	421,800
Java Road 108 Commercial Centre	96.1	94.2	25.9	24.7	4.6	7.3	4,885	4,502	3.75	4.00	311,270
On Loong Commercial Building	100.0	100.0	30.8	30.4	5.7	11.9	4,543	4,168	3.65	3.70	286,300
Sun Fai Commercial Centre Property	100.0	100.0	21.9	21.6	5.1	(3.5)	2,871	3,049	3.80	4.05	189,300
Wai Ching Commercial Building Property	95.8	100.0	15.2	14.5	16.6	10.2	812	1,084	3.55	3.90	82,400
Sub-total/Average	**95.7**	**97.8**	**34.7**	**33.8**	**10.1**	**7.6**	**163,920**	**146,938**			**10,299,170**
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	99.3	98.9	117.4	115.9	10.1	0.8	85,518	77,073	N/A	4.30	4,459,000
Metro City Phase I Property	99.0	99.8	57.5	55.8	13.0	9.6	68,386	65,279	N/A	4.40	3,304,000
Kwong Wah Plaza Property [5]	100.0	100.0	53.2	52.1	8.8	5.0	18,046	17,442	3.65	3.60	1,207,300
Urban											
Beverley Commercial Centre Property	82.2	82.9	45.1	44.5	0.1	(7.7)	1,540	1,841	N/A	4.10	111,000
Supernova Stand Property	100.0	100.0	54.0	54.0	N/A	N/A	1,323	1,323	N/A	3.80	72,000
Sub-total/Average	**98.9**	**99.2**	**75.4**	**73.9**	**11.1**	**5.6**	**174,813**	**162,958**			**9,153,300**
Total/Average	**96.7**	**98.2**	**47.8**	**46.5**	**10.6**	**6.6**	**338,733**	**309,896**			**19,452,470**
Palatial Stand Property							N/A	310			
Total							**338,733**	**310,206**			

Notes :
1. Passing rent is calculated on the basis of average rent per sq. ft. for 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. The property was previously known as Fung Shun Commercial Building.
4. The office area vacated at The Harvest is excluded from the calculation.
5. Additional office units in the property with gross rentable area of 1,870 sq. ft. were acquired on 7 September 2018 for a consideration of approximately HK$29 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the Reporting Period, revenue and net property income ("**NPI**") of Sunlight REIT registered 6.4% and 9.2% year-on-year growth to HK$424.9 million and HK$338.7 million respectively. Improvement in passing rent and initial contribution from The Harvest (formerly Fung Shun Commercial Building) were the main drivers behind this performance.

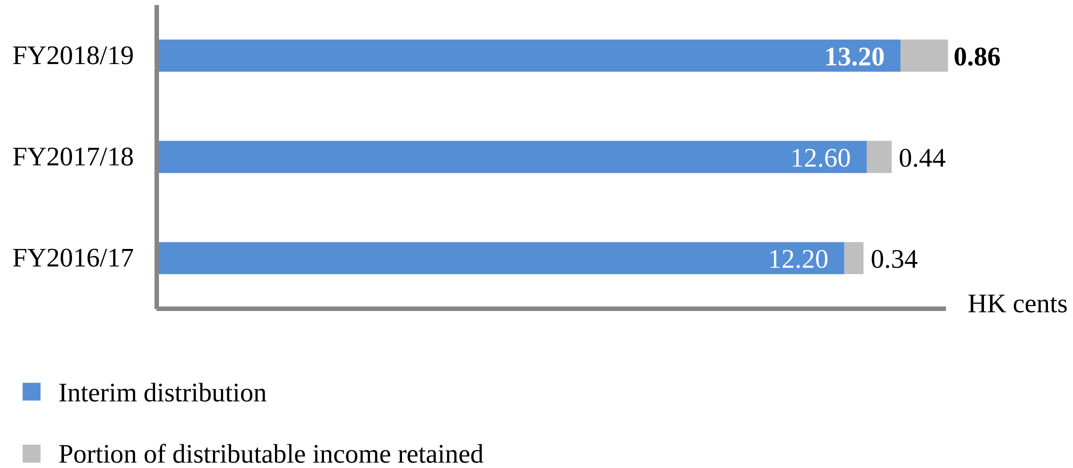
Finance costs increased 48.8% year on year to HK$51.2 million, of which cash interest expenses went up 36.4% to HK$47.2 million. The increase in finance costs reflected the higher interest rate environment, the expiry of a total of HK$750.0 million worth of interest rate swaps ("**IRSs**") and the additional funding costs related to the acquisition of The Harvest. However, interest income rose 76.7% to HK$8.5 million during the Reporting Period, partly the result of an expanded portfolio of Relevant Investments[Note], the book value of which was HK$157.3 million at 31 December 2018.

Taking into account the fair value gain on investment properties of HK$661.6 million, profit after taxation was HK$859.1 million, compared to HK$935.1 million for the same period last year.

Distribution

Distributable income for the Reporting Period rose 8.2% year on year to HK$231.6 million. The Board of the Manager has resolved to declare an interim distribution per unit ("**DPU**") of HK 13.2 cents, or HK$217.4 million, representing a payout ratio of 93.9%. The interim DPU posted an increase of 4.8% as compared to HK 12.6 cents paid in the same period last year, implying an annualized distribution yield of 5.3% based on the closing unit price of HK$5.02 on the last trading day of the Reporting Period.

Interim DPU at a Glance



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

Operation Review

At 31 December 2018, the overall occupancy of Sunlight REIT's portfolio was 96.7% as compared to 98.2% at 30 June 2018. Office occupancy was 95.7% (30 June 2018: 97.8%), a slight decline mainly attributable to the higher vacancies recorded at Bonham Trade Centre ("**BTC**") in preparation for the upcoming asset enhancement, and at The Harvest upon expiry of the sale and lease back arrangement for the office portion with the previous owner. The retail portfolio maintained a satisfactory occupancy rate of 98.9% (30 June 2018: 99.2%).

In tandem with the overall rental reversion of 10.6% achieved during the Reporting Period, passing rent of the office and retail portfolio rose 2.7% and 2.0% from six months ago to HK$34.7 per sq. ft. and HK$75.4 per sq. ft. respectively.

During the Reporting Period, buoyed by a rental reversion of 12.8% and relatively high occupancy, Sunlight Tower recorded a 6.9% year-on-year growth in NPI amid a strong leasing market for Grade A office buildings.

On the retail front, Sheung Shui Centre Shopping Arcade ("**SSC**") and Metro City Phase I Property ("**MCPI**") achieved satisfactory rental reversions of 10.1% and 13.0% respectively during the Reporting Period. Continuous tenant mix re-balancing and an influx of mainland Chinese shoppers supported the performance of SSC, which recorded an 11.0% year-on-year growth in NPI. For its part, MCPI continued to benefit from an emphasis on non-discretionary spending and registered a NPI growth of 4.8%.

The overall cost-to-income ratio of Sunlight REIT was 20.3% for the Reporting Period, compared with 22.3% recorded in the same period last year.

Financial Position

The portfolio of Sunlight REIT was appraised by the Principal Valuer[Note] at HK$19,452.5 million at 31 December 2018, representing an increase of 3.7% from 30 June 2018. Consequently, the gross assets and net assets of Sunlight REIT expanded 3.1% and 4.2% to HK$20,237.5 million and HK$15,476.3 million respectively. Net asset value per unit was HK$9.40 (30 June 2018: HK$9.03).

Note : Colliers International (Hong Kong) Limited has been appointed as the principal valuer of Sunlight REIT with effect from 1 September 2018.

At 31 December 2018, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) improved to 21.0%, while gross liabilities[1] as a percentage of gross assets dropped to 23.5%. The EBITDA[2] of Sunlight REIT grew 11.5% year on year to HK$289.5 million. Given the faster increase in interest expenses, however, the interest coverage ratio for the Reporting Period decreased to 6.1 times as compared with 7.5 times recorded in the same period last year.

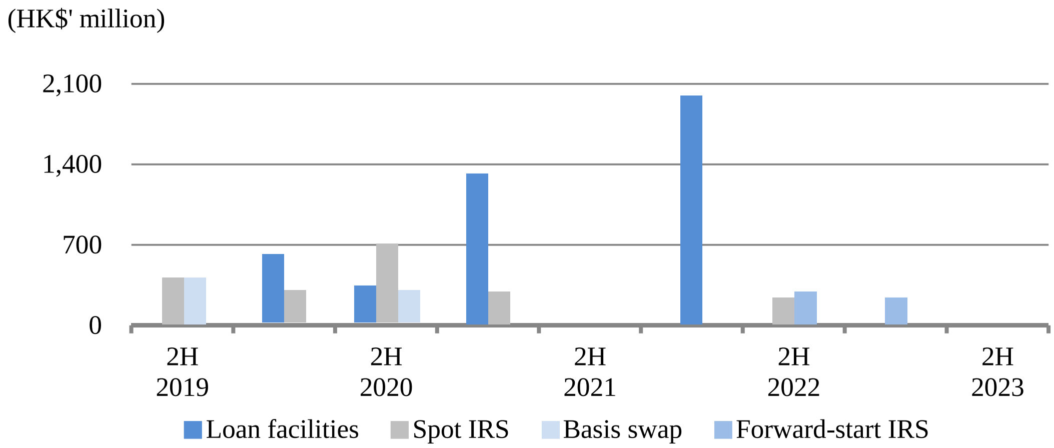
Capital and Interest Rate Management

Sunlight REIT had loan facilities of HK$4,850.0 million in place at 31 December 2018, comprising term loan facilities of HK$4,250.0 million ("**Term Loan Facilities**") which had all been drawn and unsecured 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 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$10,866.6 million at 31 December 2018.

At 31 December 2018, the weighted loan maturity period of the Term Loan Facilities was 2.8 years, with a blended interest margin of 0.69% per annum over Hong Kong Interbank Offered Rate. Approximately 46% (or HK$1,950.0 million) of borrowings was hedged to fixed rates with a weighted average tenure of 1.7 years; the weighted average interest rate (before loan interest margin) for the fixed rate portion was 1.52% per annum. Meanwhile, in anticipation of the expiry of HK$700.0 million worth of IRSs in FY2019/20, forward-start IRS with an aggregate notional amount of HK$550.0 million (and start dates ranging from late 2019 to mid-2020) are in place to replenish the IRS profile of Sunlight REIT.

Maturity Profile at a Glance



During the Reporting Period, the Manager bought back (and cancelled) a total of 2,565,000 units for Sunlight REIT at an average price of approximately HK$5.00 per unit.

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.

OUTLOOK

The market volatility witnessed in the past year seems destined to remain a notable feature in 2019. The ongoing US-China trade tensions, together with a spate of hardline fiscal policies adopted by the US Administration, may further threaten the global economy and undermine investment sentiment. Meanwhile, the plunge in oil prices and the emergence of an inverted US yield curve signify a lack of certainty in terms of economic growth, inflation and interest rates. In contrast, office and retail leasing activities in Hong Kong have shown no obvious sign of subsiding thus far, thanks to the still healthy local economic environment.

Looking ahead, the Manager will stay prudent in mapping out the expansion path of Sunlight REIT, with asset enhancement and capital management continuing as key priorities.

With approximately 46% of Term Loan Facilities hedged to fixed rates at 31 December 2018, the Manager is comfortable with the current level of hedging, particularly given the flat yield curve. Further IRSs would only be executed when appropriate, while the size of the portfolio of Relevant Investments (as an alternative to hedging) is expected to remain largely unchanged.

Regarding asset enhancement, capital expenditure of approximately HK$50 million has been earmarked for the refurbishment of BTC, and the Manager is pleased to report that its preparation works are progressing satisfactorily. In particular, the Manager has already entered into a binding lease agreement with a co-working operator which will help design and operate the low-zone office and communal facilities of the property. While its vacancy rate is expected to increase transiently given the co-termination of leases (representing approximately 28% of gross rentable area ("**GRA**")), the Manager is optimistic that the revamp will positively reposition BTC as a unique office building in Sheung Wan, integrating traditional and co-working tenants under one roof. Elsewhere, The Harvest is currently undergoing refurbishment with a view to establishing a more diverse tenant mix on higher passing rents. In light of recently concluded leasing transactions, the Manager is hopeful of realizing an average rental growth of not less than 15% as compared to that of the original lease. Despite the short term volatility in its level of occupancy, this strategic acquisition will surely bear fruit for Sunlight REIT in the future.

For the second half of FY2018/19, the expiring GRA for the office and retail properties of Sunlight REIT constitute approximately 19% and 13% of total GRA respectively. In particular, lease expiries for the top three properties only represent less than 11% of their combined GRA. Given the lower lease renewal activities relative to the same period of the previous financial year, and the acquisition impact from The Harvest being reflected, it is currently envisaged that the pace of revenue growth in the second half of this financial year will slow. This, however, has little bearing on the medium-term prospects of Sunlight REIT which is poised to benefit from the favourable rental reversionary trend and the ongoing asset enhancement initiatives. Given its strong financial war chest, Sunlight REIT is also well positioned to conduct unit buy-backs, as well as to capitalize on any attractive acquisition opportunities which may arise.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The ex-distribution date and record date for the interim distribution are Friday, 1 March 2019 and Thursday, 7 March 2019 respectively. The register of unitholders will be closed from Tuesday, 5 March 2019 to Thursday, 7 March 2019, 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 Monday, 4 March 2019. Payment of the interim distribution will be made to unitholders on Wednesday, 20 March 2019.

CORPORATE GOVERNANCE

The Manager is committed to upholding a high standard of corporate governance. It has established, and continuously refined, a robust corporate governance framework to ensure sustainable long-term growth and enhance the overall value of Sunlight REIT. Accordingly, 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 2018, 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 4,564,300 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 relevant general mandate to buy back units granted by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 2,565,000 units on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the Reporting Period at an aggregate consideration of approximately HK$12.8 million (excluding buy-back expenses). The highest and the lowest prices paid per unit for such buy-backs were HK$5.19 and HK$4.70 respectively. All bought back units were cancelled prior to the end of the Reporting Period.

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

Review of Interim Results

The interim results of Sunlight REIT for the Reporting Period have been reviewed by the Audit Committee and the Disclosures Committee 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.

Employees

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

ISSUANCE OF INTERIM REPORT

The 2018/19 Interim Report of Sunlight REIT will be sent to unitholders on 22 February 2019.

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 2018 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2018	2017
	Note	**$'000**	$'000
Revenue	3 & 4	**424,883**	399,332
Property operating expenses	3 & 5	**(86,150)**	(89,126)
Net property income		**338,733**	310,206
Other income		**8,506**	4,868
Administrative expenses		**(57,758)**	(55,400)
Net increase in fair value of investment properties		**661,635**	749,115
Profit from operations		**951,116**	1,008,789
Finance costs on interest bearing liabilities	6(a)	**(51,210)**	(34,419)
Profit before taxation and transactions with unitholders	6	**899,906**	974,370
Income tax	7	**(40,854)**	(39,316)
Profit after taxation and before transactions with unitholders		**859,052**	935,054

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2018	2017
	$'000	$'000
Profit after taxation and before transactions with unitholders	**859,052**	935,054
Other comprehensive income for the period		
Items that have been reclassified/may be reclassified subsequently to profit or loss :		
- Effective portion of changes in fair value of cash flow hedges recognized during the period	**(29,327)**	15,277
- Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities	**1,791**	(895)
- Deferred tax credited/(charged) to other comprehensive income	**4,760**	(2,649)
	(22,776)	11,733
Total comprehensive income for the period	**836,276**	946,787

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**31 December 2018 (Unaudited) $'000**	30 June 2018 (Audited) $'000
Non-current assets			
Fixed assets			
- Investment properties		**19,452,470**	18,754,800
- Other fixed assets		**54**	51
		19,452,524	18,754,851
Deferred tax assets		**71**	186
Derivative financial instruments		**7,518**	21,874
Prepayments	9	**539**	-
Reimbursement rights		**37,436**	37,436
Other financial assets		**157,333**	108,815
		19,655,421	18,923,162
Current assets			
Trade and other receivables	9	**24,474**	24,086
Derivative financial instruments		**7,570**	13,122
Cash and bank balances		**520,976**	641,919
Tax recoverable		**29,070**	29,023
		582,090	708,150
Total assets		**20,237,511**	19,631,312
Current liabilities			
Tenants' deposits		**(213,280)**	(202,201)
Rent receipts in advance		**(16,777)**	(13,419)
Trade and other payables	10	**(64,602)**	(63,644)
Bank borrowings		**-**	(20,000)
Derivative financial instruments		**(686)**	(6)
Tax payable		**(48,345)**	(69,879)
		(343,690)	(369,149)
Net current assets		**238,400**	339,001
Total assets less current liabilities		**19,893,821**	19,262,163

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2018
(Expressed in Hong Kong dollars)

	31 December 2018 (Unaudited) $'000	30 June 2018 (Audited) $'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank borrowings	**(4,234,391)**	(4,231,497)
Deferred tax liabilities	**(173,244)**	(172,076)
Derivative financial instruments	**(9,862)**	(1,599)
	(4,417,497)	(4,405,172)
Total liabilities, excluding net assets attributable to unitholders	**(4,761,187)**	(4,774,321)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	**15,476,324**	14,856,991
Number of units in issue	**1,647,139,077**	1,645,139,777
Net asset value attributable to unitholders per unit	**$9.40**	$9.03

DISTRIBUTION STATEMENT

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December **2018** **$'000**	2017 $'000
Profit after taxation and before transactions with unitholders		**859,052**	935,054
Adjustments (note (i)) :			
- Net increase in fair value of investment properties		**(661,635)**	(749,115)
- Manager's fees paid or payable in the form of units		**24,194**	22,179
- Interest rate swaps - cash flow hedges	6(a)	**1,315**	(2,738)
- Non-cash finance costs on interest bearing liabilities		**2,648**	2,530
- Deferred tax	7	**6,044**	6,237
		(627,434)	(720,907)
Distributable income (note (i))		**231,618**	214,147
Interim distribution (note (ii))		**217,422**	206,870
Payout ratio (note (ii))		**93.9%**	96.6%
Distribution per unit (note (ii))		**13.2 cents**	12.6 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 $2,648,000, or 0.16 cents per unit (2017: $2,530,000, or 0.15 cents per unit) (which is regarded as an effective return of capital) resulting from amortization of debt establishment fees in respect of bank borrowings.

DISTRIBUTION STATEMENT (continued)

For the six months ended 31 December 2018 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

(ii) The interim distribution of $217,422,000 for the six months ended 31 December 2018 (2017: $206,870,000), representing a payout ratio of 93.9% (2017: 96.6%), is calculated by multiplying the interim distribution per unit of 13.2 cents by 1,647,139,077 units** anticipated to be in issue at 7 March 2019, the record date for FY2018/19 interim distribution (the "**Record Date**") (2017: 12.6 cents by 1,641,823,814 units in issue at 7 March 2018, the record date for FY2017/18 interim distribution).

(iii) The interim distribution is expected to be paid on 20 March 2019 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.

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

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

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 the following new standards that are first effective for the current accounting period of the Group, which are relevant to the Group's condensed interim financial statements for the current accounting period :

Hong Kong Financial Reporting Standards ("HKFRS") 9, *Financial instruments*

HKFRS 9 replaces Hong Kong Accounting Standard ("**HKAS**") 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

HKFRS 9 categorizes financial assets into three principal classification categories: measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss ("**FVPL**"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The Group's investment in debt securities previously classified as held-to-maturity investment and measured at amortized cost under HKAS 39 is now classified as financial assets measured at amortized cost.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 July 2018 in accordance with the transition requirements. Since there has been no changes on the carry amount of the investment in debt securities upon adoption of HKFRS 9, no adjustment is required to adjust the opening balance of net assets attributable to unitholders at 1 July 2018. Comparative information continues to be reported under HKAS 39.

The Group elected for the accounting policy choice to continue with the adoption of HKAS 39 on hedge accounting. The adoption of the expected credit loss model for impairment assessment on the Group's trade and other receivables and debt securities has no significant financial impact on the Group's consolidated statement of profit or loss for the current accounting period.

2. Changes in accounting policies (continued)

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces HKAS 18, *Revenue*, which covered revenue from rendering of service. Rental income from lease agreements is specifically excluded from the scope of the new standard. The adoption of HKFRS 15 does not have a significant impact on the amount and timing the Group recognizes rental related income.

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					
	2018 (Unaudited)			2017 (Unaudited)		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
- Rental income	**167,303**	**174,056**	**341,359**	152,203	166,895	319,098
- Car park income	**1,839**	**16,076**	**17,915**	1,893	14,407	16,300
- Rental related income	**32,507**	**33,102**	**65,609**	31,545	32,389	63,934
	201,649	**223,234**	**424,883**	185,641	213,691	399,332
Property operating expenses	**(37,729)**	**(48,421)**	**(86,150)**	(38,703)	(50,423)	(89,126)
Net property income	**163,920**	**174,813**	**338,733**	146,938	163,268	310,206
Administrative expenses	**(28,516)**	**(23,777)**	**(52,293)**	(27,473)*	(22,433)	(49,906)*
Segment results	**135,404**	**151,036**	**286,440**	119,465	140,835	260,300
Net increase in fair value of investment properties	**234,246**	**427,389**	**661,635**	287,584	461,531	749,115
Finance costs on interest bearing liabilities			**(51,210)**			(34,419)
Income tax			**(40,854)**			(39,316)
Interest income			**8,506**			4,814
Unallocated net expenses			**(5,465)**			(5,440)
Profit after taxation and before transactions with unitholders			**859,052**			935,054
Depreciation	**3**	**9**	**12**	6	9	15

* Included costs relating to the acquisition of investment properties amounting to $3,970,000.

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	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Rental income	**341,359**	319,098
Car park income	**17,915**	16,300
Rental related income	**65,609**	63,934
	424,883	399,332

5. Property operating expenses

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Building management fee	**31,488**	30,405
Property manager's fees	**26,437**	27,528
Government rent and rates	**16,388**	17,708
Marketing and promotion expenses	**2,720**	3,035
Car park operating costs	**3,194**	3,057
Other direct costs	**5,923**	7,393
	86,150	89,126

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	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
(a) Finance costs on interest bearing liabilities		
Interest on bank borrowings	**47,247**	34,627
Other borrowing costs	**2,648**	2,530
	49,895	37,157
Interest rate swaps - cash flow hedges		
- Reclassified from net assets attributable to unitholders	**1,791**	(895)
- Net fair value gain of ineffective cash flow hedges	**(476)**	(1,843)
	1,315	(2,738)
	51,210	34,419

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

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
(b) Other items		
Interest income	**(8,506)**	(4,814)
Manager's fees	**48,388**	47,648
Property manager's fees (note (i))	**26,437**	27,528
Trustee's remuneration and charges	**2,410**	2,454
Auditor's remuneration		
- Audit services	**739**	740
- Other services	**488**	475
Valuation fees payable to principal valuer	**309**	256
Legal and other professional fees	**4,317**	3,405
Commission to property agents	**298**	1,447
Bank charges	**140**	122
Net unrealized foreign exchange loss/(gain)	**299**	(54)

Notes :

(i) Included rental commission of $6,701,000 (2017: $8,719,000).

(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	
	2018	2017
	(Unaudited)	(Unaudited)
	$'000	$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**34,810**	33,079
Deferred tax		
Origination and reversal of temporary differences	**6,044**	6,237
	40,854	39,316

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 2011/12, in an aggregate amount of $28,425,000 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, and tax reserve certificates of an equivalent amount have been purchased.

In April 2018, the IRD issued a determination 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 and in May 2018, a notice of appeal against the written determination was submitted to the Board of Review. In August 2018, the presiding chairman of the hearing panel of the Board of Review directed that the appeal would be heard in June 2019.

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 2018/19 would amount to approximately $97 million.

8. Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2018 amounted to $0.52 (2017: $0.57). 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 $859,052,000 (2017: $935,054,000) and the weighted average of 1,645,947,029 units in issue during the period (2017: 1,639,349,129 units).

Diluted earnings per unit before transactions with unitholders for the six months ended 31 December 2018 and 2017 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

9. Trade and other receivables

	31 December 2018 (Unaudited) $'000	30 June 2018 (Audited) $'000
Rental receivables	**16,585**	16,575
Deposits and prepayments	**4,773**	3,941
Other receivables	**2,939**	2,747
Amounts due from related companies	**716**	823
	25,013	24,086
Represented by :		
Current portion	**24,474**	24,086
Non-current portion	**539**	-
	25,013	24,086

At 31 December 2018, 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.

$3,670,000 (30 June 2018: $3,561,000) 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 loss allowance, is as follows :

	31 December 2018 (Unaudited) $'000	30 June 2018 (Audited) $'000
Current	**13,508**	12,599
Less than 1 month overdue	**2,493**	1,827
More than 1 month and up to 3 months overdue	**363**	1,339
More than 3 months and up to 6 months overdue	**130**	716
More than 6 months overdue	**91**	94
	16,585	16,575

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. Trade and other payables

	31 December 2018 (Unaudited) $'000	30 June 2018 (Audited) $'000
Creditors and accrued charges	**31,779**	31,059
Manager's fees payable	**24,525**	25,336
Amounts due to related companies	**8,298**	7,249
	64,602	63,644

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 $1,226,000 (30 June 2018: $1,248,000) which is due within 30 days.

11. Non-adjusting event after the Reporting Period

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.

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, 14 February 2019

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