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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 2021

The board of directors (the “**Board**”) of Henderson Sunlight Asset Management Limited (the “**Manager**”) announces the unaudited interim results of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) for the six months ended 31 December 2021 (the “**Reporting Period**”).

FINANCIAL HIGHLIGHTS

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

	Six months ended 31 December 2021	Six months ended 31 December 2020	Change (%)
Revenue	404.3	399.5	1.2
Net property income	323.4	319.5	1.2
Profit/(loss) after taxation ^{Note}	234.2	(194.1)	N/A
Distributable income	217.2	220.0	(1.3)
Distribution per unit (HK cents)	12.2	12.5	(2.4)
Payout ratio (%)	94.2	94.7	N/A
	At 31 December 2021	At 30 June 2021	Change (%)
Portfolio valuation	18,396.9	18,341.7	0.3
Net asset value	14,230.5	14,124.3	0.8
Net asset value per unit (HK\$)	8.48	8.45	0.4
Gearing ratio (%)	23.0	23.0	N/A

Note : Included an increase in fair value of investment properties of HK\$49.7 million (versus a fair value loss of HK\$380.2 million for the six months ended 31 December 2020).

PORTFOLIO STATISTICS

Property	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 2021 (%)		Appraised Value at 31 Dec 2021 (HK\$'000)
	at 31 Dec 2021	at 30 Jun 2021	at 31 Dec 2021	at 30 Jun 2021	six months ended 31 Dec 2021	six months ended 30 Jun 2021	six months ended 31 Dec 2021	six months ended 31 Dec 2020	Office	Retail	
Office											
Grade A											
Dah Sing Financial Centre ³	91.6	88.3	43.0	44.0	(5.0)	(5.0)	87,619	83,614	3.75	3.65	5,235,000
Grade B											
Strand 50	94.1	95.8	32.2	32.1	0.4	(13.5)	21,204	18,672	3.45	3.80	1,317,500
The Harvest	66.4	100.0	36.3	53.2	(4.4)	(10.7)	9,341	9,920	3.30	3.10	614,000
135 Bonham Strand Trade Centre Property	94.7	93.1	27.5	27.9	(7.8)	(13.0)	8,731	9,238	3.55	3.80	584,300
Winsome House Property	100.0	94.3	39.5	42.7	(4.3)	(11.4)	8,430	8,809	3.55	3.60	565,400
Righteous Centre	100.0	100.0	34.2	33.9	(1.8)	(5.0)	10,061	9,320	3.75	3.50	548,000
235 Wing Lok Street Trade Centre	95.6	88.6	20.2	20.9	(6.5)	(10.8)	5,619	5,305	3.55	3.80	369,600
Java Road 108 Commercial Centre	100.0	96.1	25.1	24.9	1.9	(6.1)	4,998	5,095	3.75	4.00	278,800
On Loong Commercial Building	100.0	100.0	30.3	31.2	(10.6)	(12.2)	4,128	4,202	3.65	3.70	254,300
Sun Fai Commercial Centre Property	100.0	100.0	21.4	21.7	(10.7)	(11.3)	2,955	3,073	3.80	4.05	166,900
Wai Ching Commercial Building Property	97.2	91.7	17.3	17.4	(7.8)	(4.1)	1,400	1,364	3.55	3.90	81,100
Sub-total/Average	93.3	92.4	35.4	36.7	(4.5)	(7.3)	164,486	158,612			10,014,900
Retail											
New Town											
Sheung Shui Centre Shopping Arcade	94.6	95.3	100.8	104.2	(5.3)	(12.5)	69,871	72,872	N/A	4.30	3,861,000
Metro City Phase I Property	99.3	97.6	55.2	56.7	(5.1)	(8.2)	67,363	66,399	N/A	4.30	3,189,000
Kwong Wah Plaza Property	97.0	97.7	53.6	53.5	(1.1)	(6.8)	19,336	19,021	3.60	3.60	1,180,000
Urban											
Beverly Commercial Centre Property	82.5	77.5	30.8	32.8	(16.7)	(31.8)	952	1,218	N/A	4.10	77,000
Supernova Stand Property	100.0	100.0	57.2	57.2	N/A	(10.7)	1,378	1,376	N/A	3.80	75,000
Sub-total/Average	97.1	96.5	68.4	70.4	(4.9)	(10.0)	158,900	160,886			8,382,000
Total/Average	94.5	93.7	46.1	47.7	(4.7)	(8.3)	323,386	319,498			18,396,900

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 Sunlight Tower.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

Reflecting a higher average occupancy rate and a lower amortized rental concession (of HK\$3.7 million), Sunlight REIT recorded a 1.2% year-on-year increase in revenue to HK\$404.3 million for the Reporting Period. After deducting property operating expenses of HK\$80.9 million, net property income (“NPI”) was also up 1.2% to HK\$323.4 million.

Finance costs increased 9.9% year on year to HK\$50.1 million as a result of higher funding costs and increased borrowings as compared with the same period last year. Together with lower interest income due to a smaller bond portfolio and lower deposit rates, net cash interest expenses recorded a year-on-year increase of HK\$6.5 million to HK\$43.2 million.

Taking into account an increase in fair value of investment properties of HK\$49.7 million, a profit after taxation of HK\$234.2 million was reported, compared to a loss after taxation of HK\$194.1 million for the corresponding period a year earlier.

Distribution

The Board has resolved to declare an interim distribution per unit (“DPU”) of HK 12.2 cents, representing a payout ratio of 94.2% and an annualized distribution yield of 5.6% based on the closing price of HK\$4.34 on the last trading day of the Reporting Period.

Interim DPU at a glance



Operation Review

The overall occupancy rate of Sunlight REIT’s portfolio at 31 December 2021 was 94.5% as compared to 93.7% at 30 June 2021. Office occupancy rate rose to 93.3% (30 June 2021: 92.4%), principally due to a lower vacancy at Dah Sing Financial Centre (“DSFC”). Such positive impact was to some extent offset by a transitory drop in the occupancy rate of The Harvest. Meanwhile, occupancy rate for the retail portfolio increased to 97.1% (30 June 2021: 96.5%), with Metro City Phase I Property (“MCPI”) achieving a high occupancy rate of 99.3%, while the corresponding rate for Sheung Shui Centre Shopping Arcade (“SSC”) was 94.6%.

For the Reporting Period, the office and retail portfolios registered negative rental reversions of 4.5% and 4.9% respectively, while their corresponding passing rents at 31 December 2021 were down 3.5% and 2.8% from six months ago to HK\$35.4 per sq. ft. and HK\$68.4 per sq. ft. respectively.

Despite the backdrop of a cautious business environment, performance of the office portfolio remained stable for the Reporting Period. Occupancy rate of DSFC has shown reasonable improvement to 91.6% at 31 December 2021, mainly driven by new letting commitments from domestic corporations. In addition, its NPI grew 4.8% year on year to HK\$87.6 million. Benefitting from a gradual recovery of the local economy, occupancy rates of certain Grade B office properties located in Wan Chai and North Point were also at a higher level. On the Kowloon side, occupancy rate of The Harvest declined to 66.4% at 31 December 2021 as its retail bank tenant decided not to renew its tenancy upon expiry. The relevant vacant space will be reconfigured and refurbished with a view to enhancing its appeal to service trade tenants, and the Manager is pleased to report that two floors of the building have already been pre-committed to new beauty parlours prior to the end of 2021.

On the retail front, MCPI recorded a high occupancy rate of 99.3%, with a mild 1.5% year-on-year increase in NPI to HK\$67.4 million. In contrast, SSC saw a 4.1% year-on-year decline in NPI to HK\$69.9 million on the back of a lower occupancy rate of 94.6% and a decrease in passing rent given a diminished presence of high-margin trades.

Financial Position

The portfolio of Sunlight REIT was appraised at HK\$18,396.9 million at 31 December 2021, representing a mild increase of 0.3% from 30 June 2021. Consequently, the gross assets and net assets of Sunlight REIT were HK\$19,209.1 million and HK\$14,230.5 million respectively (30 June 2021: HK\$19,199.7 million and HK\$14,124.3 million). Net asset value per unit was HK\$8.48 (30 June 2021: HK\$8.45).

At 31 December 2021, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 23.0% (30 June 2021: 23.0%), while the percentage of gross liabilities to gross assets was 25.9% (30 June 2021: 26.4%).

The EBITDA^{Note} of Sunlight REIT grew 1.0% year on year to HK\$272.9 million. In light of a faster increase in cash interest expenses, interest coverage ratio decreased to 5.8 times as compared with 6.5 times recorded in the same period a year ago.

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.

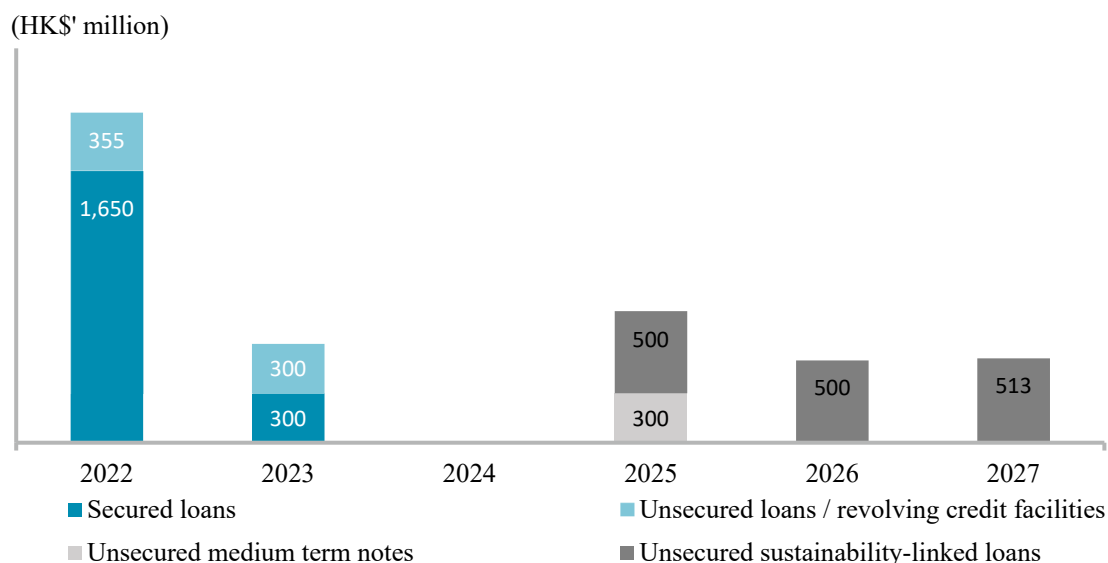
Capital and Interest Rate Management

In November 2021, Sunlight REIT entered into a secured sustainability-linked loan (“SLL”) of HK\$500 million with a tenure of 4.5 years. Drawdown of this facility is expected to take place around late February 2022 and apply towards the refinancing of bank loans due in June 2022.

At 31 December 2021, Sunlight REIT had total borrowings of HK\$4,418 million (30 June 2021: HK\$4,418 million), comprising secured loans of HK\$1,950 million and unsecured borrowings of HK\$2,468 million, with a weighted debt maturity period of 2.3 years.

Maturity Profile of Total Borrowings

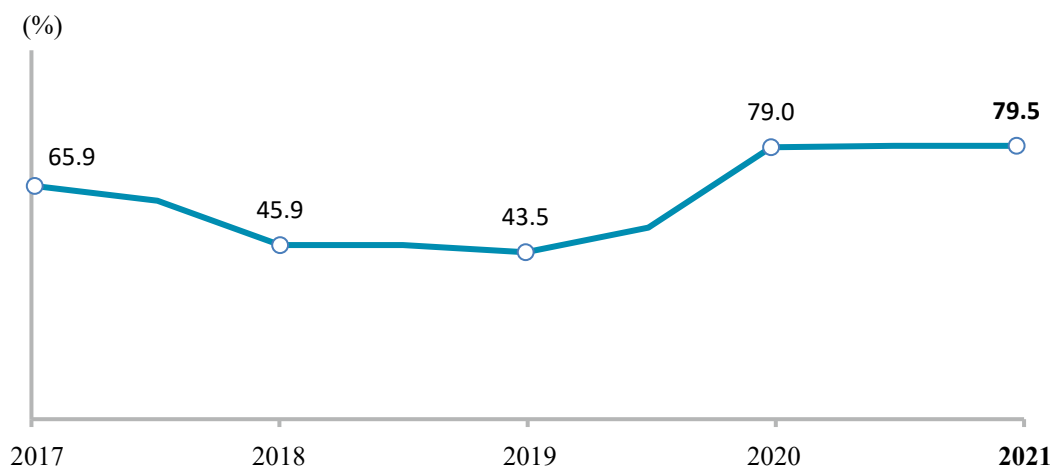
(at 31 December 2021)



With the issuance of fixed rate notes and the arrangement of interest rate swaps, Sunlight REIT’s portion of fixed rate borrowings stayed at approximately 80% of total indebtedness at 31 December 2021. The weighted average interest rate (including loan interest margin, if applicable) for the fixed rate borrowings was 2.42% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.74% per annum over Hong Kong Interbank Offered Rate. Weighted average funding cost for the Reporting Period was 2.09%, compared to 1.92% recorded in the same period last year.

Fixed Rate Borrowings as a % of Total Borrowings

(at 31 December)



OUTLOOK

The recent emergence of Omicron, a highly contagious COVID-19 variant, has sparked a new round of worries, with the rapid surge in infections necessitating the re-imposition of stringent lockdown measures, which may again derail the global economic recovery.

Given the seeming persistence of supply chain disruption and de-globalization, it remains to be seen whether international energy and commodity prices would sustain their uptrend and give key central banks a good excuse to adopt faster tapering measures to tame inflation. Meanwhile, combating the pandemic remains a challenging mission, implying that any reopening of Hong Kong's travel gateway will be prudent and gradual. A potential economic slowdown in China is also cause for concern, not least because there may be ramifications of deleveraging the real estate sector, although the Central government is expected to provide policy support to avert a hard landing of the economy.

Despite myriad uncertainties, it is not doom and gloom. Barring unforeseen circumstances, the Manager believes that the prospects for Sunlight REIT remain solid, while fully committed to caring about the health and safety of the tenants, customers and staff.

Given a diversified and quality asset base, Sunlight REIT is relatively well placed to withstand the impact of swinging market conditions. Retail and office leases expiring in the second half of this financial year will account for 16.6% and 18.0% of GRA respectively. The likelihood of a high tenant retention rate should help mitigate the risk of negative rental reversion which may continue to feature as there remains a reasonable portion of leases committed prior to the coronavirus outbreak.

Moreover, the Manager reiterates that the refinancing exercise in respect of Sunlight REIT's term loans due by June 2022 will be shortly and favourably concluded. In the meantime, SLL as a proportion of total borrowings, which stood at 34% at 31 December 2021, is poised to surpass the 60% milestone by 30 June 2022.

On asset enhancement, the Manager expects to start an extensive overhaul of MCPI, currently targeted to commence in the third quarter of 2022. The intention is to enhance the customer appeal of this community shopping mall with a view to capitalizing on the evolving retail landscape of the Tseung Kwan O district. More project and capital expenditure details will be provided in the next annual report.

While active asset enhancement and recycling shall remain the prime operational focus and priority, the Manager maintains its pledge to advance sustainability. In addition to achieving satisfactory progress on sustainable financing, the Sheung Wan-based Strand 50 has been awarded Excellent grade^{Note} under BEAM Plus V2.0 (Selective Scheme). Together with the successful renewal of DSFC as a BEAM Plus platinum-rated building (Comprehensive Scheme), this achievement amply illustrates the passion of the Manager for managing a greener portfolio which forms an integral part of the sustainability endeavours of Sunlight REIT.

Note : In Materials and Waste, and Indoor Environmental Quality aspects.

DISTRIBUTION ENTITLEMENT AND CLOSURE OF REGISTER OF UNITHOLDERS

The ex-distribution date and record date for the interim distribution are Wednesday, 2 March 2022 and Tuesday, 8 March 2022 respectively. The register of unitholders will be closed from Friday, 4 March 2022 to Tuesday, 8 March 2022, 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, 3 March 2022. Payment of the interim distribution will be made to unitholders on Wednesday, 16 March 2022.

CORPORATE GOVERNANCE

The Manager is committed to upholding a high standard of corporate governance. To ensure compliance with all relevant laws and regulations, it has established a robust corporate governance framework. Accordingly, 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. In addition, the Manager and Sunlight REIT have 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 of Hong Kong Limited.

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 the date of this announcement.

New Units Issued

Except for an aggregate of 5,038,298 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

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

Employees

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

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.

ISSUANCE OF INTERIM REPORT

The interim report of Sunlight REIT for the Reporting Period will be sent to unitholders on or about 1 March 2022.

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. 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 2021 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	2021	2020
		\$'000	\$'000
Revenue	3 & 4	404,326	399,534
Property operating expenses	3 & 5	<u>(80,940)</u>	<u>(80,036)</u>
Net property income		323,386	319,498
Other income		3,865	4,780
Administrative expenses		(54,309)	(54,147)
Net increase/(decrease) in fair value of investment properties		<u>49,712</u>	<u>(380,209)</u>
Profit/(loss) from operations		322,654	(110,078)
Finance costs on interest-bearing liabilities	6(a)	<u>(50,120)</u>	<u>(45,619)</u>
Profit/(loss) before taxation and transactions with unitholders	6	272,534	(155,697)
Income tax	7	<u>(38,293)</u>	<u>(38,429)</u>
Profit/(loss) after taxation and before transactions with unitholders		<u><u>234,241</u></u>	<u><u>(194,126)</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2021 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2021	2020
	\$'000	\$'000
Profit/(loss) after taxation and before transactions with unitholders	<u>234,241</u>	<u>(194,126)</u>
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 recognized during the period	28,760	(22,715)
- Net reclassification adjustments for amounts transferred to profit or loss in respect of :		
- finance costs on interest-bearing liabilities	-	483
- unrealized exchange difference on foreign currency borrowing	<u>39,108</u>	<u>-</u>
	<u>67,868</u>	<u>(22,232)</u>
Total comprehensive income/(loss) for the period	<u><u>302,109</u></u>	<u><u>(216,358)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Expressed in Hong Kong dollars)

	Note	31 December 2021 (Unaudited) \$'000	30 June 2021 (Audited) \$'000
Non-current assets			
Fixed assets			
- Investment properties		18,396,900	18,341,700
- Other fixed assets		94	93
		<u>18,396,994</u>	<u>18,341,793</u>
Deferred tax assets		527	343
Derivative financial instruments		451	-
Reimbursement rights		37,436	37,436
Other financial assets		102,272	140,893
Other non-current assets		443	967
		<u>18,538,123</u>	<u>18,521,432</u>
Current assets			
Trade and other receivables	9	54,024	54,946
Cash and bank balances		616,952	623,301
Tax recoverable		-	67
		<u>670,976</u>	<u>678,314</u>
Total assets		<u>19,209,099</u>	<u>19,199,746</u>
Current liabilities			
Tenants' deposits		(198,908)	(201,565)
Rent receipts in advance		(12,620)	(12,348)
Trade and other payables	10	(70,238)	(71,393)
Bank and other borrowings		(2,004,033)	(2,002,645)
Derivative financial instruments		(46,111)	(52,964)
Tax payable		(34,118)	(70,152)
		<u>(2,366,028)</u>	<u>(2,411,067)</u>
Net current liabilities		<u>(1,695,052)</u>	<u>(1,732,753)</u>
Total assets less current liabilities		<u>16,843,071</u>	<u>16,788,679</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2021

(Expressed in Hong Kong dollars)

	31 December 2021 (Unaudited) \$'000	30 June 2021 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders		
Bank and other borrowings	(2,360,967)	(2,398,145)
Deferred tax liabilities	(211,283)	(205,107)
Derivative financial instruments	(40,346)	(61,174)
	<u>(2,612,596)</u>	<u>(2,664,426)</u>
Total liabilities, excluding net assets attributable to unitholders	<u>(4,978,624)</u>	<u>(5,075,493)</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u>14,230,475</u>	<u>14,124,253</u>
Number of units in issue	<u>1,677,171,782</u>	<u>1,672,133,484</u>
Net asset value attributable to unitholders per unit	<u>\$8.48</u>	<u>\$8.45</u>

DISTRIBUTION STATEMENT

For the six months ended 31 December 2021 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	2021	2020
		\$'000	\$'000
Profit/(loss) after taxation and before transactions with unitholders		<u>234,241</u>	<u>(194,126)</u>
Adjustments (note (i)) :			
- Net (increase)/decrease in fair value of investment properties		(49,712)	380,209
- Manager's fees paid or payable in the form of units		23,220	23,528
- Interest rate swaps - cash flow hedges	6(a)	628	905
- Non-cash finance costs on interest-bearing liabilities		2,773	3,262
- Deferred tax	7	5,993	6,264
- Depreciation		12	-
		<u>(17,086)</u>	<u>414,168</u>
Distributable income (note (i))		<u><u>217,155</u></u>	<u><u>220,042</u></u>
Interim distribution (note (ii))		204,615	208,358
Payout ratio (note (ii))		<u><u>94.2%</u></u>	<u><u>94.7%</u></u>
Distribution per unit (note (ii))		<u><u>12.2 cents</u></u>	<u><u>12.5 cents</u></u>

Notes* :

- (i) Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong, a real estate investment trust shall distribute to unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. Pursuant to the amended and restated trust deed dated 10 May 2021 under which Sunlight REIT is constituted (the “**Trust Deed**”), 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/loss after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments which have been recorded in the consolidated statement of profit or loss for the relevant financial period.

DISTRIBUTION STATEMENT (continued)

For the six months ended 31 December 2021 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

In arriving at the amount available for distribution for the current period, adjustments have been made, among others, to add back the finance costs relating to amortization of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of \$2,773,000, or 0.17 cent per unit (2020: \$3,262,000, or 0.20 cent per unit) (which is an effective return of capital), and to eliminate the effect of increase/decrease in fair value of investment properties.

- (ii) The interim distribution of \$204,615,000 for the six months ended 31 December 2021 (2020: \$208,358,000), representing a payout ratio of 94.2% (2020: 94.7%), is calculated by multiplying the interim distribution per unit of 12.2 cents by 1,677,171,782 units** anticipated to be in issue at 8 March 2022, the record date for FY2021/22 interim distribution (the “**Record Date**”) (2020: 12.5 cents by 1,666,867,824 units in issue at 3 March 2021, the record date for FY2020/21 interim distribution).
- (iii) The interim distribution is expected to be paid on 16 March 2022 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 cancelled, if bought back, 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 of Hong Kong Limited.

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, Dah Sing Financial Centre, 248 Queen’s Road East, Wan Chai, Hong Kong.

2. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) that are first effective for the current accounting period of the Group, of which the following is relevant to the Group’s condensed interim financial statements :

Amendments to HKFRS 9, Hong Kong Accounting Standard 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications; and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR**”) (“**IBOR reform**”).

During the period ended 31 December 2021, the Group had an outstanding bank loan advanced from a bank (the “**Bank**”) and which is hedged against interest rate risk and foreign currency risk by way of a cross currency interest rate swap contract. For any interest period commencing prior to 1 January 2022, interest expenses paid to the Bank on the bank loan and interest payments received from the Bank on the swap contract were calculated based on the Japanese Yen London Interbank Offered Rate (“**JPY LIBOR**”). On 21 December 2021, the Group and the Bank had agreed to select Tokyo Overnight Average Rate as the alternative benchmark rate (the “**Benchmark Rate**”) under the IBOR reform. As a result, for any interest period commencing on or after 1 January 2022, the relevant interest expenses and interest payments will be calculated based on the Benchmark Rate. The Group has assessed the change of referencing rate from JPY LIBOR to the Benchmark Rate in respect of the bank loan and the swap contract, and considered that the mismatch risk is minimal and the change does not have any material impact on the Group’s results and financial position for the current or prior periods.

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 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 increase/decrease 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					
	2021 (Unaudited)			2020 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
- Rental income	166,345	156,783	323,128	163,279	159,770	323,049
- Car park income	2,351	15,260	17,611	1,920	14,122	16,042
- Rental related income	31,710	31,877	63,587	28,993	31,450	60,443
	200,406	203,920	404,326	194,192	205,342	399,534
Property operating expenses	(35,920)	(45,020)	(80,940)	(35,580)	(44,456)	(80,036)
Net property income	164,486	158,900	323,386	158,612	160,886	319,498
Administrative expenses	(25,879)	(22,038)	(47,917)	(26,201)	(22,488)	(48,689)
Segment results	138,607	136,862	275,469	132,411	138,398	270,809
Net increase/(decrease) in fair value of investment properties	(8,623)	58,335	49,712	(8,119)	(372,090)	(380,209)
Finance costs on interest-bearing liabilities			(50,120)			(45,619)
Income tax			(38,293)			(38,429)
Interest income			3,432			4,740
Unallocated net expenses			(5,959)			(5,418)
Profit/(loss) after taxation and before transactions with unitholders			234,241			(194,126)
Depreciation	5	7	12	1	7	8

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	
	2021	2020
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Rental income	323,128	323,049
Car park income	17,611	16,042
Rental related income	63,587	60,443
	<u>404,326</u>	<u>399,534</u>

5. Property operating expenses

	Six months ended 31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Building management fee	30,540	30,149
Property manager's fees	23,748	22,125
Government rent and rates	15,076	14,920
Marketing and promotion expenses	2,428	3,463
Car park operating costs	3,121	3,244
Other direct costs	6,027	6,135
	<u>80,940</u>	<u>80,036</u>

6. Profit/(loss) before taxation and transactions with unitholders

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

	Six months ended 31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	46,650	41,452
Other borrowing costs	2,842	3,262
	<u>49,492</u>	<u>44,714</u>
Interest rate swaps - cash flow hedges		
- Reclassified from net assets attributable to unitholders	-	483
- Net fair value loss of ineffective cash flow hedges	628	422
	<u>628</u>	<u>905</u>
	<u><u>50,120</u></u>	<u><u>45,619</u></u>

Other borrowing costs represent various financing charges and amortization of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes.

	Six months ended 31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	\$'000	\$'000
(b) Other items		
Interest income	(3,432)	(4,740)
Manager's fees	46,440	47,057
Property manager's fees (notes (i) and (ii))	23,748	22,125
Trustee's remuneration and charges	2,310	2,339
Auditor's remuneration		
- Audit services	753	752
- Other services	750	497
Valuation fee payable to principal valuer	224	206
Legal and other professional fees	1,892	2,159
Commission to property agents	2,031	741
Bank charges	153	150
Net foreign exchange gain	(432)	(39)

Notes :

- (i) Included rental commission of \$4,956,000 (2020: \$6,344,000).
- (ii) During the period ended 31 December 2020, the property manager waived an amount of \$2,894,000 from the reimbursement of staff costs incurred for the Group, reflecting the subsidies received from the Employment Support Scheme set up by The Government of the Hong Kong Special Administrative Region.
- (iii) 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	
	2021 (Unaudited) \$'000	2020 (Unaudited) \$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	32,300	32,165
Deferred tax		
Origination and reversal of temporary differences	<u>5,993</u>	<u>6,264</u>
	<u>38,293</u>	<u>38,429</u>

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

8. Earning/(loss) per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the six months ended 31 December 2021 amounted to \$0.14 (2020: basic loss per unit before transactions with unitholders of \$0.12). The calculation of basic earnings/(loss) per unit before transactions with unitholders is based on the Group's profit after taxation and before transactions with unitholders of \$234,241,000 (2020: loss after taxation and before transactions with unitholders of \$194,126,000) and the weighted average of 1,673,913,317 units (2020: 1,663,480,781 units) in issue during the period.

Diluted earnings/(loss) per unit before transactions with unitholders for the six months ended 31 December 2021 and 2020 are not presented as there was no potential dilution of earnings/(loss) per unit before transactions with unitholders.

9. Trade and other receivables

	31 December	30 June
	2021 (Unaudited) \$'000	2021 (Audited) \$'000
Rental receivables	41,744	46,569
Deposits and prepayments	9,911	5,571
Other receivables	1,681	2,017
Amounts due from related companies	<u>688</u>	<u>789</u>
	<u>54,024</u>	<u>54,946</u>

9. Trade and other receivables (continued)

Included unamortized rent-free and rental concession, deposits and prepayment of \$32,599,000 (30 June 2021: \$29,953,000) which are expected to be recovered or recognized as expenses after one year. Apart from the above, all of the balances are expected to be recovered or recognized as expenses within one year.

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 2021 (Unaudited) \$'000	30 June 2021 (Audited) \$'000
Current	34,096	39,103
Less than 1 month overdue	4,240	4,033
More than 1 month and up to 3 months overdue	2,201	1,697
More than 3 months and up to 6 months overdue	169	920
More than 6 months overdue	1,038	816
	<u>41,744</u>	<u>46,569</u>

Provision for expected credit losses on rental receivables was assessed and made by the Manager on a case-by-case basis, based on the historical default experience and forward-looking information that may impact the tenants' ability to repay the outstanding rental receivables. In addition, the Group has collected rental deposits and/or guarantees from its tenants which the Manager considered adequate to cover the outstanding rental receivables.

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

10. Trade and other payables

	31 December 2021 (Unaudited) \$'000	30 June 2021 (Audited) \$'000
Creditors and accrued charges	39,057	41,145
Manager's fees payable	23,236	22,102
Amounts due to related companies	7,945	8,146
	<u>70,238</u>	<u>71,393</u>

10. 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 \$1,149,000 (30 June 2021: \$1,115,000) 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, 15 February 2022

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.