



SUNLIGHT REIT

陽光房地產基金

Stock Code 股份代號 : 435

2020/21
Interim Report
中期報告



Sunlight REIT

Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 21 December 2006, Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code : 435) is a real estate investment trust authorized by the Securities and Futures Commission (the “**SFC**”) and constituted by the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of 11 office and five retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of over 1.2 million sq. ft. and an aggregate appraised value of HK\$18,548.6 million at 31 December 2020. The office properties are located in both core and decentralized business areas, while the retail properties are situated in regional transportation hubs, new towns and urban areas with high population density.

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

Forward-looking Statements

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

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Market and Operation Review

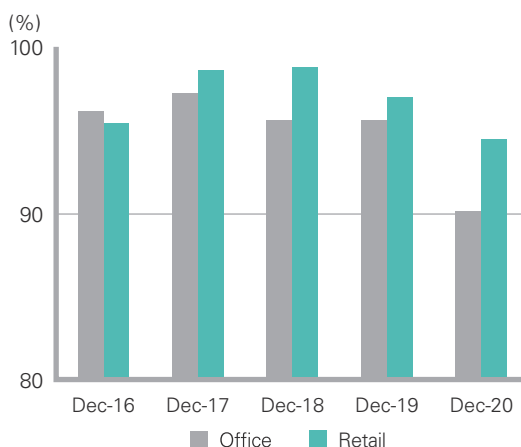
For the six months ended 31 December 2020 (the “**Reporting Period**”), the pandemic situation had shown no signs of subsiding, with tight social distancing restrictions continuing to cause serious disruptions to the global economy, particularly to sectors inextricably linked with the tourism industry. In the meantime, the strained Sino-US relations and Brexit-related uncertainties further cast a shadow on the prospects of an overall recovery.

The Hong Kong economy was clearly not immune to the global recessionary climate. The general business sentiment remained very cautious, while the level of unemployment was steadily on the rise. Together with the absence of tourist spending, local retail sales extended its downtrend, recording a 12.8% year-on-year decline during the Reporting Period. On the office front, negative take-up remained a major feature, as multinational corporations continued to implement cost savings and downsizing initiatives, thus exerting further downward pressure on market rents.

Reflecting the unfavourable operating environment, the overall occupancy rate of Sunlight REIT’s portfolio at 31 December 2020 was 91.5% as compared to 95.7% at 30 June 2020. The decline was mainly attributable to office occupancy rate which dropped to 90.1% (30 June 2020: 95.6%), principally reflecting the

lengthened rent void when sourcing replacement tenants, particularly for Sunlight Tower and the Sheung Wan/Central portfolio. In contrast, retail occupancy rate of 94.5% was reasonably satisfactory as compared to 95.8% at 30 June 2020, demonstrating some early signs of stability in domestic consumption.

Occupancy rate¹



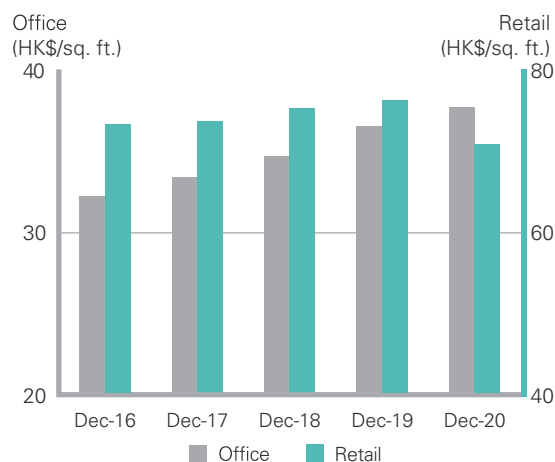
For the Reporting Period, the office and retail portfolios registered negative rental reversions of 2.4% and 5.9% respectively, giving rise to an overall negative rental reversion of 4.5%. Benefitting from the meaningful contribution by a new major tenant at Sunlight Tower, passing rent of the office portfolio rose 3.6% from six months ago to HK\$37.8 per sq. ft. at 31 December 2020, while that of the retail portfolio was HK\$71.0 per sq. ft., down 5.1%.

Expiry profile by GRA

(31 December 2020)

	FY2020/21	
	1H	2H
Sunlight Tower	33.5%	25.0%
Sheung Shui Centre Shopping Arcade	32.6%	14.1%
Metro City Phase I Property	9.2%	12.6%
Office portfolio	27.5%	23.6%
Retail portfolio	19.5%	13.8%

Passing rent¹



In respect of the performance of key office properties, Sunlight Tower was inevitably affected by the rental loss due to higher vacancy and slower new letting activities, resulting in a 13.1% decline in net property income (“NPI”) to HK\$83.6 million. On the bright side, the Manager was pleased to have refurbished Strand 50 at an appropriate time and secured quality tenants at the low zone, achieving an 8.5% increase in NPI.

Amidst the uncertain business environment, the performance of office properties on the Kowloon side was satisfactory and helped mitigate the adverse impact arising from the other properties.

In particular, The Harvest was fully let, while occupancy rate of Righteous Centre was 99.3%.

The performance of the retail portfolio remained under pressure in terms of NPI and passing rent. As a community mall well positioned for non-discretionary shopping, dining and services, Metro City Phase I Property has demonstrated its resilience, with NPI recording a moderate 4.5% decrease to HK\$66.4 million, while occupancy rate was largely unchanged at 94.3% (30 June 2020: 94.5%). On the other hand, NPI of Sheung Shui Centre Shopping Arcade dropped 11.4% to HK\$72.9 million, with a lower occupancy rate of 92.9% (30 June 2020: 96.8%). In response, the Manager launched a promotional campaign by offering shoppers to purchase discount coupons through “eShop@Sunlight”, a new e-commerce platform to stimulate spending at Sunlight REIT’s key shopping destinations.

At 31 December 2020, Sunlight REIT had a total of 795 tenancies. The largest tenant accounted for 5.4% of total revenue for the Reporting Period and occupied 5.8% of total GRA at 31 December 2020, while the corresponding figures for the top five tenants were 14.5% and 14.8%.

Tenant mix²

(31 December 2020)

	Sheung Shui Centre Shopping Arcade	Metro City Phase I Property
Food and beverage	23.9%	30.6%
Financial	16.4%	12.0%
Fashion and jewellery	13.8%	5.4%
Healthcare and beauty	12.2%	11.4%
Education	10.4%	11.4%
Snacks and convenience store	9.1%	8.8%
Lifestyle	3.0%	8.7%
Others	4.1%	6.0%
Vacant	7.1%	5.7%

Notes :

1. The occupancy rate and passing rent figures have been adjusted to exclude properties disposed of in prior years.
2. As a percentage of total GRA of the relevant property.

Financial Review

Financial highlights

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

	Six months ended 31 December 2020	Six months ended 31 December 2019	Change (%)
Revenue	399.5	437.1	(8.6)
Property operating expenses	80.0	91.4	(12.4)
Net property income	319.5	345.7	(7.6)
Cost-to-income ratio (%)	20.0	20.9	N/A
(Loss)/profit after taxation	(194.1)	30.7	N/A
Distributable income	220.0	233.5	(5.8)
Distribution per unit (HK cents)	12.5	13.2	(5.3)
Payout ratio (%)	94.7	93.6	N/A

	At 31 December 2020	At 30 June 2020	Change (%)
Portfolio valuation	18,548.6	18,918.0	(2.0)
Gross assets	19,293.7	19,674.1	(1.9)
Gross liabilities	4,944.0	4,902.9	0.8
Net asset value	14,349.7	14,771.2	(2.9)
Net asset value per unit (HK\$)	8.61	8.89	(3.1)
Gearing ratio (%)	22.4	21.6	N/A

Operating results

For the Reporting Period, Sunlight REIT recorded an 8.6% year-on-year decline in revenue to HK\$399.5 million. The decrease in revenue would have been 6.9% had the amortized impact of rental concessions (amounting to HK\$7.8 million) been excluded. After deducting property operating expenses of HK\$80.0 million, NPI came in at HK\$319.5 million, down 7.6%.

Finance costs decreased 28.8% year on year to HK\$45.6 million, thanks to the lower Hong Kong Interbank Offered Rate (“**HIBOR**”) despite a slightly higher level of borrowings during the Reporting Period.

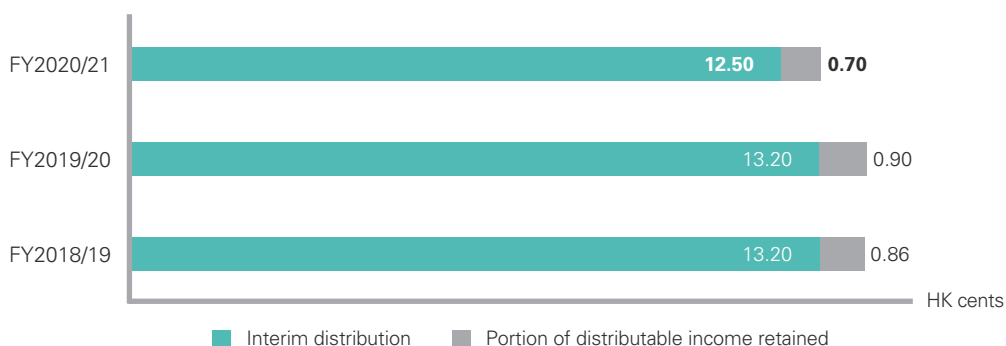
Taking into account a decrease in fair value of investment properties of HK\$380.2 million, a loss after taxation of HK\$194.1 million was reported, compared to a profit after taxation of HK\$30.7 million for the same period last year.

Distribution

The Board has resolved to declare an interim distribution per unit (“**DPU**”) of HK 12.5 cents, representing a payout ratio of 94.7%, and an

annualized distribution yield of 6.6% based on the closing price of HK\$3.77 on the last trading day of the Reporting Period.

Interim DPU at a glance



Financial position

The appraised value of Sunlight REIT’s portfolio was HK\$18,548.6 million at 31 December 2020, representing a mild decrease of 2.0% from 30 June 2020. Consequently, the gross assets and net assets of Sunlight REIT dropped 1.9% and 2.9% to HK\$19,293.7 million and HK\$14,349.7 million respectively (30 June 2020: HK\$19,674.1 million and HK\$14,771.2 million). Net asset value per unit was HK\$8.61 (30 June 2020: HK\$8.89).

For the Reporting Period, the EBITDA^{Note} of Sunlight REIT decreased 9.2% year on year to HK\$270.1 million, while cash interest expenses of HK\$41.5 million represented a 25.7% decline from the same period last year. In light of a faster decrease in cash interest expenses, interest coverage ratio improved to 6.5 times as compared with 5.3 times recorded in the corresponding period a year earlier.

At 31 December 2020, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 22.4% (30 June 2020: 21.6%), while gross liabilities as a percentage of gross assets was 25.6% (30 June 2020: 24.9%). In respect of contingent liabilities, Sunlight REIT has provided a guarantee in the amount of HK\$4.6 million to a commercial bank for its issuance of bank guarantees in lieu of deposits to electricity utility companies.

Note : 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.

Financial Review

Capital and interest rate management

In October 2020, Sunlight REIT completed its first sustainability-linked loan (“**SLL**”) with an amount of Japanese yen 7,000 million (equivalent to approximately HK\$513 million) for a tenure of seven years. In November 2020, Sunlight REIT issued its maiden HK\$300 million five-year medium term notes (“**MTN**”). These new facilities had been principally applied towards the refinancing of certain bank loans due in June 2021 with the remaining balance kept as working capital.

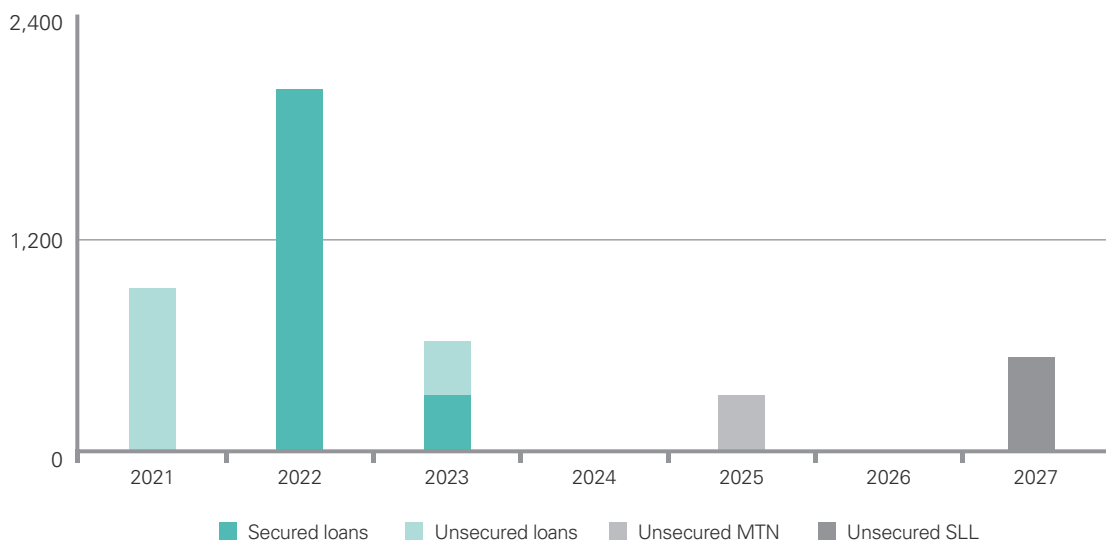
At 31 December 2020, Sunlight REIT had total borrowings of HK\$4,318 million (30 June 2020: HK\$4,250 million) with a weighted debt maturity period of 2.3 years.

With the first SLL (which has been swapped to fixed rates in Hong Kong dollar) and the issuance of MTN, the percentage of Sunlight REIT’s fixed rate borrowings has increased to approximately 79% at 31 December 2020. The weighted average interest rate (including loan interest margin, if applicable) for the fixed rate borrowings was 2.44% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.72% per annum over HIBOR. Together with the HK\$400 million forward-start interest rate swaps to be effective in the first half of 2021, the fixed rate portion of the borrowings is expected to stay above 65% over the next two years.

Maturity profile of total borrowings

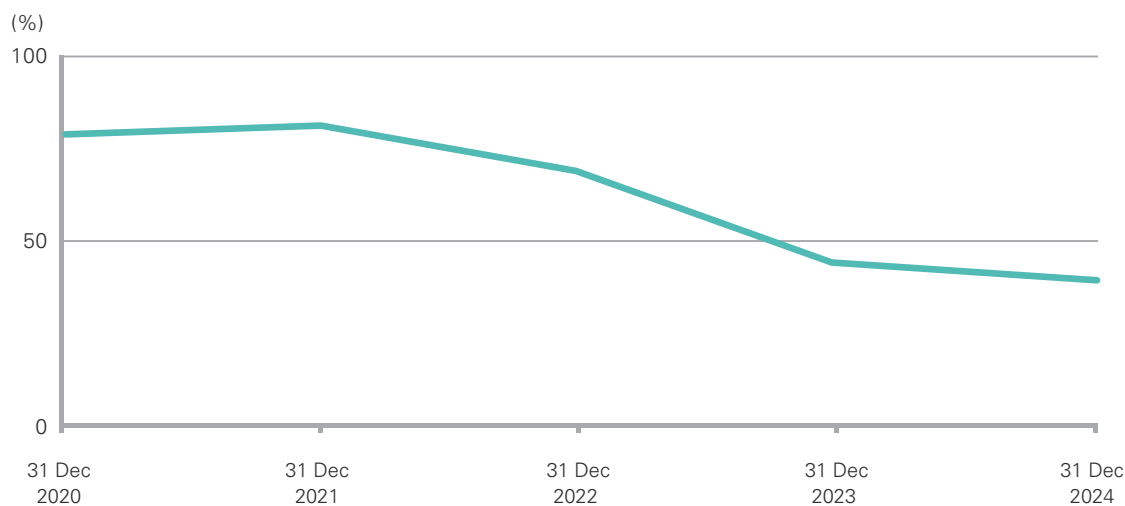
(31 December 2020)

(HK\$' million)



Fixed rate borrowings as a % of total borrowings

(31 December 2020)



On 2 February 2021, the Manager signed a HK\$500 million unsecured SLL with DBS Bank Ltd., Hong Kong Branch for a tenure of five years; drawdown of this facility is expected to take place around late April 2021.

Liquidity management

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments^{Note}, with an overall maturity profile compatible with projected funding requirements. At 31 December 2020, Sunlight REIT had total cash and bank

balances of HK\$467.3 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK\$126.0 million. It also had uncommitted revolving credit facilities of HK\$600 million that remained undrawn at the end of the Reporting Period. Taking into consideration the recurrent income generated from its operations, the current cash position and sources of funding available, the Manager is of the view that Sunlight REIT has sufficient financial resources to meet its working capital, distribution payment and capital expenditure requirements.

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

Financial Review

Tax matters

On the dispute with the Inland Revenue Department (“**IRD**”) over certain tax deduction disallowances^{Note}, the determination from the Deputy Commissioner of the IRD in respect of the objections to the assessments on one property holding company (the “**Taxpayer**”) was received in April 2018 (the “**Determination**”). While the Determination allowed the deduction of property management fees and rental commissions, the management fees remained non-deductible. The Taxpayer contested the assessments raised in respect of the management fees and a notice of appeal against the Determination was filed with the Board of Review (Inland Revenue Ordinance) (“**BoR**”) in May 2018, and the appeal was heard in June 2019. On 30 November 2020, the BoR handed down its decision (the “**BoR Decision**”)

allowing the Taxpayer’s appeal, determining that the relevant profits tax assessments and additional profits tax assessments were excessive or incorrect, and these assessments are to be revised to allow for the deduction of the management fees. The Taxpayer was subsequently informed that the IRD would not appeal against the BoR Decision.

As for the profits tax assessments raised by the IRD relating to the tax deduction disallowances on other property holding companies under Sunlight REIT, notices of objection to these assessments have been filed with the IRD. The Manager has commenced discussions with the IRD with a view to resolving these tax disputes in the light of the BoR Decision.

Note : The IRD disallowed the deductions of the management fees, property management fees and (in some cases) rental commissions incurred by certain property holding companies under Sunlight REIT. Please refer to note 8 to the condensed interim financial statements on page 35 for further information.

Outlook

While the global economy is still reeling from pandemic uncertainties, the positive investment sentiment on financial assets is escalating rapidly, being spurred by aggressive monetary and fiscal stimulus, as well as growing optimism over the rollout and efficacy of COVID-19 vaccines. In the meantime, economic growth in China is consensually projected to recover strongly in 2021, with private consumption and service sectors expected to steal the limelight. As the dust settles on the US elections, there is a possibility that the incoming Biden administration may adopt a milder stance towards China, though ensuring to maintain sufficient leverage on critical issues.

Accordingly, Hong Kong should echo global developments and be on course for a gradual economic recovery. However, one should take heed of the still unstable epidemic situation, the extent and severity of which may inflict further business closures and a higher level of unemployment.

The near term prospects for commercial leasing are expected to remain lackluster. The persistent theme of downsizing and cost savings among corporates will continue to dampen the demand for office spaces. Driven by steady non-discretionary consumption, the retail sector is envisaged to fare better, although its upward momentum will remain subdued until the prevailing lockdown and social restriction measures are substantially relaxed.

For the six months ending June 2021, leases representing 20.5% of the total GRA of Sunlight REIT are due for renewal, comprising 23.6% and 13.8% for office and retail spaces respectively. While lower occupancy rates, negative rental

reversions and the amortized impact of rental concessions are set to stay, their adverse effects should be less pronounced, barring unforeseen circumstances. On a more encouraging note, Sunlight REIT stands to benefit from contributions from new tenants such as Dah Sing Bank, Limited, stringent cost containment measures as well as proactive financing initiatives implemented by the Manager over the past few months.

While the scenario of an economic recovery and the recent sharp surge in commodity prices may somewhat cause concern for inflation, we foresee limited upside on interest rates in the short-to-medium term, with the abundance of market liquidity providing an opportune window for Sunlight REIT to diversify its sources of funds, while refining the maturity profile and fixed rate position of its borrowings. Riding on the success in capital management in the first half of FY2020/21, the Manager is confident about favourably refinancing the indebtedness due for maturity by June 2021, while earmarking sufficient funding for potential acquisition opportunities.

Just before the turn of 2021, the SFC has published and enacted amendments to the Code on Real Estate Investment Trusts, which would greatly enhance the scope and flexibility of real estate acquisitions. This is a welcome move and should prove beneficial to the long term development of Sunlight REIT. As the Manager is firmly committed to steering through the coronavirus volatility, unitholders should also be assured of our unwavering aspirations to expanding the investment footprint of Sunlight REIT.

Portfolio Statistics

Property	Property details							No. of leases	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)			at 31 Dec 2020		
				Office	Retail	Total			
Office									
Grade A									
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	61	67	
Grade B									
Strand 50	Sheung Wan	1998	0	108,506	9,403	117,909	63	64	
The Harvest	Mong Kok	1981	0	23,024	11,627	34,651	16	16	
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	67	71	
Winsome House Property	Central	1999	0	37,937	2,177	40,114	22	24	
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	63	63	
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	65	69	
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	36	38	
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	36	35	
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	45	48	
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	32	34	
Sub-total/Average			46	787,935	56,688	844,623	506	529	
Retail									
New Town									
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	116	121	
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	110	110	
Kwong Wah Plaza Property ³	Yuen Long	1998	0	42,148	25,741	67,889	38	37	
Urban									
Beverly Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	23	23	
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2	
Sub-total/Average			749	42,148	349,129	391,277	289	293	
Total/Average			795	830,083	405,817	1,235,900	795	822	

Notes :

1. Passing rent is calculated on the basis of average rent per sq. ft. for occupied GRA on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant period.
3. An additional office unit with GRA of 533 sq. ft. was acquired on 31 July 2020 for HK\$8 million.

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 2020 (%)		Appraised value at 31 Dec 2020 (HK\$'000)	
at 31 Dec 2020	at 30 Jun 2020	at 31 Dec 2020	at 30 Jun 2020	six months ended 31 Dec 2020	six months ended 30 Jun 2020	six months ended 31 Dec 2020	six months ended 31 Dec 2019	Office	Retail		
88.8	94.3	44.9	40.8	7.3	11.4	83,614	96,251	3.75	3.65	5,304,700	
87.2	95.5	33.2	35.6	4.7	9.2	18,672	17,206	3.45	3.80	1,333,400	
100.0	100.0	53.3	51.1	N/A	N/A	9,920	8,602	3.30	3.10	652,400	
87.3	94.5	29.3	30.1	(5.9)	0.3	9,238	9,906	3.55	3.80	593,400	
85.8	96.1	45.5	44.8	(9.8)	9.8	8,809	9,470	3.55	3.60	580,600	
99.3	99.3	34.4	35.2	(7.0)	(2.9)	9,320	10,434	3.75	3.50	541,600	
86.8	94.3	21.3	22.3	(11.6)	(3.0)	5,305	5,772	3.55	3.80	377,700	
96.1	100.0	25.4	26.4	(11.0)	1.7	5,095	5,294	3.75	4.00	281,700	
96.0	94.1	32.0	32.9	(8.9)	(6.6)	4,202	4,728	3.65	3.70	257,800	
93.1	100.0	23.0	23.1	(7.1)	(1.0)	3,073	2,865	3.80	4.05	172,700	
94.5	100.0	17.6	17.8	2.2	11.6	1,364	1,207	3.55	3.90	81,100	
90.1	95.6	37.8	36.5	(2.4)	5.6	158,612	171,735			10,177,100	
92.9	96.8	105.6	112.9	(7.3)	(10.0)	72,872	82,267	N/A	4.30	3,989,600	
94.3	94.5	57.3	58.4	(9.8)	(1.5)	66,399	69,522	N/A	4.40	3,073,200	
99.3	99.3	53.4	55.7	11.0	5.0	19,021	19,839	3.60	3.60	1,152,600	
80.3	77.4	34.5	39.6	(32.8)	(15.0)	1,218	1,028	N/A	4.10	84,000	
100.0	100.0	54.5	54.5	N/A	4.7	1,376	1,333	N/A	3.80	72,100	
94.5	95.8	71.0	74.8	(5.9)	(4.6)	160,886	173,989			8,371,500	
91.5	95.7	48.7	48.6	(4.5)	(1.0)	319,498	345,724			18,548,600	

Corporate Governance

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

Structure of Sunlight REIT

Sunlight REIT is a collective investment scheme authorized by the SFC under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The Manager is licensed under Part V of the SFO and approved by the SFC to manage Sunlight REIT.

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

Board of the Manager and changes in Directors’ information

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

Subsequent to publication of the last annual report, the Manager has been informed of the following changes in Directors’ information :

1. Mr. Au Siu Kee, Alexander has been re-designated from a non-executive director to an independent non-executive director of Miramar Hotel and Investment Company, Limited with effect from 1 December 2020; and

2. Dr. Tse Kwok Sang resigned as an independent non-executive director of GTI Holdings Limited with effect from 2 November 2020 and has been appointed as an independent non-executive director of China Bozza Development Holdings Limited with effect from 8 December 2020.

Conflicts of interest and business competition

The Manager and Henderson Sunlight Property Management Limited (the “**Property Manager**”) are both indirect wholly-owned subsidiaries of HLD. Both Non-Executive Directors of the Manager (including the Chairman) are directors of HLD and some of its subsidiaries, associates and/or related companies. HLD, its holding companies and related companies, some of their subsidiaries and associates are engaged in, among other things, the development, investment and management of retail, office and other properties in and outside Hong Kong.

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

Colliers International (Hong Kong) Limited (the “**Principal Valuer**”) is no longer a connected person of Sunlight REIT with effect from 4 December 2020 (when the amendments to the REIT Code became effective). As far as the Manager is aware, there was no conflict of interest between Sunlight REIT and the Principal Valuer during the period from 1 July 2020 to 3 December 2020.

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

1. the Manager will not manage any real estate investment trust other than Sunlight REIT nor manage any other real estate assets other than those owned by Sunlight REIT;

2. the Manager has functional units and systems which operate independently of its shareholder(s);
3. the Manager has established internal control systems to ensure that Sunlight REIT's connected party transactions are monitored and undertaken in compliance with the REIT Code and waivers granted by the SFC, whereas any other situations of potential conflicts of interest are reported and monitored;
4. a Director with potential conflicts of interest shall disclose his interest to the Board and abstain from voting on the relevant matter, as well as not to be counted in the quorum for that resolution; and
5. a register of other directorships and senior positions held by the Directors is maintained and updated from time to time.

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

Compliance with the Compliance Manual and the Corporate Governance Code

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

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

Compliance with the Dealings Code

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

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

Buy-back, sale or redemption of units

Pursuant to the general mandate to buy back units granted by unitholders, the Manager bought back a total of 800,000 units on behalf of Sunlight REIT on the Stock Exchange during the Reporting Period for an aggregate consideration of approximately HK\$2.9 million (excluding buy-back expenses). All the units were bought back and cancelled in November 2020; and the highest and the lowest price paid per unit for such buy-backs were HK\$3.68 and HK\$3.60 respectively.

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

Corporate Governance

Relevant Investments

The full investment portfolio of Relevant Investments, as defined in paragraph 7.2B of the REIT Code, of Sunlight REIT at 31 December 2020 is set out below :

Financial instruments ¹ and issuers	Primary listing	Currency	Total cost (HK\$'000)	Mark-to- market value (HK\$'000)	% of gross asset value of Sunlight REIT ^{2,3}	Credit rating
CHALHK 4 7/8 09/07/21 Chalco Hong Kong Investment Company Limited	Stock Exchange	USD	23,432	23,763	0.12	Fitch A-
COGO 4 7/8 06/01/21 China Overseas Grand Oceans Finance IV (Cayman) Limited	Stock Exchange	USD	15,739	15,698	0.08	S&P BBB- Moody's Baa2 Fitch BBB
COGARD 5.4 05/27/25 Country Garden Holdings Company Limited	Singapore Exchange Limited	USD	14,452	14,427	0.08	Fitch BBB-
GEELZ 3 03/05/25 Geely Finance (Hong Kong) Limited	Singapore Exchange Limited	USD	15,373	15,584	0.08	S&P BBB-
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,559	0.06	N/A
YUEXIU 4 7/8 04/19/21 Westwood Group Holdings Limited	Stock Exchange	USD	22,021	21,909	0.12	Moody's Baa3 Fitch BBB-
CJIANT 4 1/2 09/20/21 Xingsheng (BVI) Company Limited	Stock Exchange	USD	15,635	15,832	0.08	Fitch A+
YXREIT 4 3/4 04/27/21 Yuexiu REIT MTN Company Limited	Stock Exchange	USD	10,152	10,174	0.05	S&P BBB- Moody's Baa3
Total			127,204	127,946	0.67	

At 31 December 2020, the combined mark-to-market value of Relevant Investments, together with other ancillary investments of Sunlight REIT, represented approximately 3.9% of the gross asset value of Sunlight REIT.

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

Notes :

1. All financial instruments are bonds and their descriptions are quoted from Bloomberg.
2. The percentages are arrived at by comparing the mark-to-market value of the investments with the gross asset value of Sunlight REIT at 31 December 2020.
3. Gross asset value refers to the total assets after adjusted for the interim distribution declared. Total assets and the interim distribution are stated on page 24 and page 27 of this interim report respectively.

New units issued

Except for an aggregate of 6,238,788 new units issued to the Manager as payment of part of the Manager's fees, there were no other new units issued during the Reporting Period.

Public float

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

Review of interim report

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

Employees

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

Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the interim distribution are Thursday, 25 February 2021 and Wednesday, 3 March 2021 respectively. The register of unitholders will be closed from Monday, 1 March 2021 to Wednesday, 3 March 2021, 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 Friday, 26 February 2021. Payment of the interim distribution will be made to unitholders on Friday, 12 March 2021.

Connected Party Transactions

The SFC announced and gazetted amendments to the REIT Code which became effective from 4 December 2020 (the REIT Code prior to such amendments, the “**Previous REIT Code**”, and the REIT Code as so amended, the “**Amended REIT Code**”). The Amended REIT Code contains, among other things, changes to the definitions of connected persons to broadly align with the relevant requirements under the Listing Rules. Notwithstanding the amendments, waivers previously granted to Sunlight REIT for connected party transactions shall continue to apply until expiry according to their terms or as otherwise modified or revoked.

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

Connected party transactions – income and expenses

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

(a) Income

Name of connected person	Relationship with Sunlight REIT ¹	Nature of the connected party transactions	Income for the Reporting Period (HK\$'000)	Rental and other deposits received at 31 December 2020 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	3,436	1,604
Henderson Sunlight Property Management Limited	Associate of the Manager and substantial unitholders ²	Leasing	1,799	942
Henderson Real Estate Agency Limited	Associate of the Manager and substantial unitholders ²	Joint effort arrangements	1,411	N/A
Galaxy Hotel Management Company Limited	Associate of the Manager and substantial unitholders ²	Leasing and licensing	235	125
Total			6,881	2,671

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ¹	Nature of the connected party transactions	Expenses for the Reporting Period (HK\$'000)
Hang Yick Properties Management Limited	Associate of the Manager and substantial unitholders ²	Building management and licence fee	4,273
Henderson Sunlight Property Management Limited	Associate of the Manager and substantial unitholders ²	Property management, lease management and marketing services	22,125
Megastrength Security Services Company Limited	Associate of the Manager and substantial unitholders ²	Security services	2,009
Metro City Management Limited	Associate of the Manager and substantial unitholders ²	Building management	569
Sheung Shui Centre Management Limited	Associate of the Manager and substantial unitholders ²	Building management	1,197
Contender Limited*	Associate of the Manager and substantial unitholders ²	Facilities leasing	60
Total			30,233

Notes :

- Under the definition of the Amended REIT Code.
- The connected person was an associated company of the Manager under the Previous REIT Code.

Connected party transactions with the Trustee Connected Persons

The following table sets out information on all the connected party transactions entered into between Sunlight REIT on the one hand, and the Trustee and Trustee related connected persons of Sunlight REIT (including without limitation, the HSBC Group¹) (collectively, the “**Trustee Connected Persons**”) on the other hand during the Reporting Period :

Name of connected person	Nature of the connected party transactions	Income/ (expenses) for the Reporting Period (HK\$'000)	Rental and other deposits received/ (deposits paid) at 31 December 2020 (HK\$'000)
Leasing transactions :			
The Hongkong and Shanghai Banking Corporation Limited (“ HSBC ”)	Leasing ²	5,605	2,779
HSBC	Licensing ³	200	84
Hang Seng Bank Limited (“ Hang Seng ”)	Leasing ⁴	5,318	2,275
Ordinary banking and financial services⁵:			
HSBC	Interest income received/receivable on bank deposits	0.1	N/A
HSBC	Interest expenses and security trustee fees on bank borrowings, net interest expenses on interest rate swaps and other bank charges	(12,553)	N/A
Hang Seng	Interest expenses on bank borrowings and other bank charges	(3,023)	N/A
Hang Seng	Interest income received/receivable on bank deposits	519	N/A
EPS Company (Hong Kong) Limited	Service fees	(63)	(2)

Connected Party Transactions

Notes :

1. HSBC Group means HSBC and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Sunlight REIT).
2. A lease in respect of Shop Nos. 1024-31 of SSC, with gross floor area of 5,390 sq. ft. from 4 November 2017 to 3 November 2020 and which was renewed upon its expiry until 3 November 2022; and a lease in respect of Shop Nos. 1032-33 of SSC, with gross floor area of 1,171 sq. ft. from 15 August 2017 to 14 August 2020 and which was renewed upon its expiry until 3 November 2022.
3. Licences in respect of (i) external wall signage Nos. 1-7, Level 1, (ii) external wall signage Nos. 66-81, Level 1, and (iii) external wall signage Nos. 82-93, Level 1 respectively, of SSC.
4. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft. from 17 February 2018 to 16 February 2021; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., from 29 September 2017 to 2 July 2020.
5. In general, "ordinary banking and financial services" include bank deposits and interest earned therefrom, loan facilities and interest rate swaps including interest and charges paid thereto and other banking or financial services.

Other disclosures under the REIT Code

Pursuant to the REIT Code, services provided to Sunlight REIT by the Manager and the Trustee (and the Principal Valuer, which was a connected person of Sunlight REIT prior to 4 December 2020 pursuant to the Previous REIT Code) as contemplated under the constitutive documents shall not be treated as connected party transactions but particulars of such services (except where any services transaction has a value of not more than HK\$1 million), such as terms and remuneration, shall be disclosed in the relevant interim or annual report.

During the Reporting Period, the aggregate amount of fees (in the form of cash and/or units) paid or payable by Sunlight REIT to the Manager and to the Trustee under the Trust Deed were approximately HK\$47.1 million and HK\$2.3 million respectively. The fees paid or payable to the Principal Valuer from 1 July 2020 to 3 December 2020 (before the Amended REIT Code became effective) were less than HK\$1 million. Particulars of the services provided by the Manager and the Trustee are set out in notes 23(b)(i), (ii) and (iv) to the condensed interim financial statements.

Disclosure of Interests

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

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

At 31 December 2020 and 30 June 2020, the interests in units of the Manager and the Directors or chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed (the “Register”), were as follows :

Name	At 31 December 2020		At 30 June 2020	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
The Manager ²	156,657,194	9.398	150,418,406	9.054
Au Siu Kee, Alexander ³	2,300,000	0.138	2,300,000	0.138
Wu Shiu Kee, Keith ⁴	930,000	0.056	930,000	0.056
Kwok Tun Ho, Chester ⁵	12,000	0.001	12,000	0.001

Notes :

1. The percentages are based on the total number of units in issue of 1,666,867,824 units at 31 December 2020 and 1,661,429,036 units at 30 June 2020 (as the case may be).
2. During the Reporting Period, the Manager received 6,238,788 units as payment of part of the Manager’s fees. The Manager beneficially owned 156,657,194 units at 31 December 2020 (30 June 2020: 150,418,406 units).
3. At 31 December 2020, of the 2,300,000 units in which Mr. Au Siu Kee, Alexander, the Chairman and Non-Executive Director of the Manager, was interested, 201,000 units were directly held by Mr. Au, 1,999,000 units were jointly held under his name and his deceased spouse’s name, and the remaining 100,000 units were directly held under the estate of his deceased spouse (hence in which Mr. Au has deemed interest).
4. Mr. Wu Shiu Kee, Keith is the CEO and Executive Director of the Manager.
5. Mr. Kwok Tun Ho, Chester is an INED of the Manager.

There were no short positions in units held by the Manager and the Directors or chief executive of the Manager at 31 December 2020.

Disclosure of Interests

Holdings of substantial unitholders

At 31 December 2020 and 30 June 2020, the interests in units of the substantial unitholders, as recorded in the Register, were as follows :

Name	At 31 December 2020		At 30 June 2020	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
Lee Shau Kee ²	662,182,758	39.73	662,182,758	39.86
Lee Financial (Cayman) Limited ²	374,072,708	22.44	374,072,708	22.52
Leesons (Cayman) Limited ²	374,072,708	22.44	374,072,708	22.52
Leeworld (Cayman) Limited ²	374,072,708	22.44	374,072,708	22.52
Shau Kee Financial Enterprises Limited ²	374,072,708	22.44	374,072,708	22.52
Uplite Limited ²	224,443,625	13.46	224,443,625	13.51
Wintrade Limited ²	149,629,083	8.98	149,629,083	9.01
Henderson Development Limited ²	300,569,511	18.03	280,773,766	16.90
HLD ²	300,569,511	18.03	280,773,766	16.90
Hopkins (Cayman) Limited ²	300,569,511	18.03	280,773,766	16.90
Riddick (Cayman) Limited ²	300,569,511	18.03	280,773,766	16.90
Rimmer (Cayman) Limited ²	300,569,511	18.03	280,773,766	16.90
Silchester International Investors LLP ³	232,364,150	13.94	232,364,150	13.99
Silchester International Investors International Value Equity Trust ³	98,824,922	5.93	98,824,922	5.95

Notes :

- The percentages are based on the total number of units in issue of 1,666,867,824 units at 31 December 2020 and 1,661,429,036 units at 30 June 2020 (as the case may be).
- At 31 December 2020, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited are wholly-owned subsidiaries of Financial Enterprise Properties Limited, which in turn is wholly-owned by Shau Kee Financial Enterprises Limited (“SKFE”). SKFE is wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which are held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Therefore, each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2020, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 156,657,194 units were owned by the Manager. Cobase Limited and Richful Resources Limited are wholly-owned subsidiaries of Brightland Enterprises Limited. The Manager is a wholly-owned subsidiary of Latco Investment Limited. Brightland Enterprises Limited and Latco Investment Limited are wholly-owned subsidiaries of HLD. Henderson Development Limited (“HD”) owned more than one-third of the issued share capital of HLD. HD is wholly-owned by Hopkins (Cayman) Limited (“Hopkins”) as the trustee of a unit trust, the units of which are held by Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”) as the respective trustees of two discretionary trusts. Therefore, as far as the Manager is aware, each of HD, HLD, Hopkins, Riddick and Rimmer was taken to be interested in the total of 300,569,511 units at 31 December 2020.

Notes : (continued)

At 31 December 2020, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in the total of 674,642,219 units. Whereas in the Register, Dr. Lee Shau Kee was recorded as having an interest in 662,182,758 units at 31 December 2020, as no notifiable interest arose on his part subsequent to his last disclosure of interest notification to the Stock Exchange.

At 31 December 2020, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT under the Amended REIT Code.

- At 31 December 2020, according to the Register, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 232,364,150 units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 98,824,922 units. The Manager has subsequently been notified informally that at 31 December 2020, (i) Silchester LLP was interested in 230,249,150 units (representing approximately 13.81% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 98,992,922 units (representing approximately 5.94% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

At 31 December 2020, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT under the Amended REIT Code.

Based on the Register, there were no short positions in units held by substantial unitholders at 31 December 2020.

Holdings of other connected persons

Save as disclosed above and as far as the Manager is aware, the holdings of units of other connected persons (as defined in paragraph 8.1 of the Amended REIT Code) of Sunlight REIT at 31 December 2020 were as follows :

Name	Number of units held	% of unit holding ¹
Lo Yuk Fong, Phyllis ²	100,000	0.0060
Persons related to the Trustee ³	98,000	0.0059

Notes :

- The percentages are based on the total number of units in issue of 1,666,867,824 units at 31 December 2020.
- Ms. Lo Yuk Fong, Phyllis is a connected person of Sunlight REIT as she is a director of certain subsidiaries of Sunlight REIT. Ms. Lo held 100,000 units at 30 June 2020.
- Certain associates (as defined in the Amended REIT Code) of the Trustee were beneficially interested in 98,000 units at 31 December 2020. Their beneficial interest was 110,000 units at 30 June 2020.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2020 \$'000	2019 \$'000
Revenue	4 & 5	399,534	437,099
Property operating expenses	4 & 6	(80,036)	(91,375)
Net property income		319,498	345,724
Other income		4,780	9,508
Administrative expenses		(54,147)	(57,635)
Net decrease in fair value of investment properties	10(a)	(380,209)	(162,527)
(Loss) / profit from operations		(110,078)	135,070
Finance costs on interest-bearing liabilities	7(a)	(45,619)	(64,055)
(Loss) / profit before taxation and transactions with unitholders	7	(155,697)	71,015
Income tax	8	(38,429)	(40,272)
(Loss) / profit after taxation and before transactions with unitholders		(194,126)	30,743

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2020 \$'000	2019 \$'000
(Loss) / profit after taxation and before transactions with unitholders	(194,126)	30,743
Other comprehensive income for the period		
<i>Items that have been reclassified / may be reclassified subsequently to profit or loss :</i>		
– Effective portion of changes in fair value of cash flow hedges recognised during the period	(22,715)	18,040
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest-bearing liabilities	483	5,109
	(22,232)	23,149
Total comprehensive (loss) / income for the period	(216,358)	53,892

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

Consolidated Statement of Financial Position

At 31 December 2020

(Expressed in Hong Kong dollars)

	Note	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	10	18,548,600	18,918,000
– Other fixed assets		21	22
		18,548,621	18,918,022
Deferred tax assets		137	80
Derivative financial instruments	12	6,045	–
Reimbursement rights	11	37,436	37,436
Other financial assets	13	125,976	115,674
Other non-current assets	14	1,347	576
		18,719,562	19,071,788
Current assets			
Trade and other receivables	15	53,063	48,920
Derivative financial instruments	12	–	63
Cash and bank balances	16	467,310	499,433
Tax recoverable		53,758	53,893
		574,131	602,309
Total assets		19,293,693	19,674,097
Current liabilities			
Tenants' deposits		(198,253)	(220,808)
Rent receipts in advance		(14,429)	(20,094)
Trade and other payables	17	(69,601)	(60,463)
Bank and other borrowings	18	(899,240)	(1,642,614)
Derivative financial instruments	12	(51,073)	(30,010)
Tax payable		(39,436)	(77,007)
		(1,272,032)	(2,050,996)
Net current liabilities		(697,901)	(1,448,687)
Total assets less current liabilities		18,021,661	17,623,101

Consolidated Statement of Financial Position (continued)

At 31 December 2020

(Expressed in Hong Kong dollars)

	Note	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank and other borrowings	18	(3,402,500)	(2,596,867)
Deferred tax liabilities		(198,460)	(192,139)
Derivative financial instruments	12	(70,996)	(62,939)
		(3,671,956)	(2,851,945)
Total liabilities, excluding net assets attributable to unitholders			
		(4,943,988)	(4,902,941)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		14,349,705	14,771,156
Number of units in issue			
	19	1,666,867,824	1,661,429,036
Net asset value attributable to unitholders per unit			
		\$8.61	\$8.89

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

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2020 \$'000	2019 \$'000
At the beginning of the period		14,771,156	15,991,867
(Loss) / profit after taxation and before transactions with unitholders		(194,126)	30,743
Other comprehensive (loss) / income		(22,232)	23,149
Total comprehensive (loss) / income for the period		(216,358)	53,892
Distribution paid to unitholders		(225,955)	(232,893)
Issuance of units to the Manager	19	23,790	26,238
Units bought back	19	(2,919)	–
Units buy-back expenses	19	(9)	–
		(205,093)	(206,655)
At the end of the period		14,349,705	15,839,104

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

Distribution Statement

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2020 \$'000	2019 \$'000
(Loss) / profit after taxation and before transactions with unitholders		(194,126)	30,743
Adjustments (note (i)) :			
– Net decrease in fair value of investment properties	10(a)	380,209	162,527
– Manager's fees paid or payable in the form of units		23,528	25,135
– Interest rate swaps – cash flow hedges	7(a)	905	5,635
– Non-cash finance costs on interest-bearing liabilities		3,262	2,649
– Deferred tax	8	6,264	6,795
		414,168	202,741
Distributable income (note (i))		220,042	233,484
Interim distribution (note (ii))		208,358	218,643
Payout ratio (note (ii))		94.7%	93.6%
Distribution per unit (note (ii))		12.5 cents	13.2 cents

Notes* :

- (i) Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code"), 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 trust deed dated 26 May 2006 under which Sunlight Real Estate Investment Trust ("Sunlight REIT") was constituted (as amended and supplemented by six supplemental deeds) (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 (loss) / 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 which have been recorded in the consolidated statement of profit or loss for the relevant financial period.

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 amortisation of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of \$3,262,000, or 0.20 cent per unit (2019 : \$2,649,000, or 0.16 cent per unit) (which is an effective return of capital), and to eliminate the effect of decrease in fair value of investment properties.

Distribution Statement (continued)

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

- (ii) The interim distribution of \$208,358,000 for the six months ended 31 December 2020 (2019 : \$218,643,000), representing a payout ratio of 94.7% (2019 : 93.6%), is calculated by multiplying the interim distribution per unit of 12.5 cents by 1,666,867,824 units** anticipated to be in issue at 3 March 2021, the record date for FY2020/21 interim distribution (the “**Record Date**”) (2019 : 13.2 cents by 1,656,388,363 units in issue at 3 March 2020, the record date for FY2019/20 interim distribution).
 - (iii) The interim distribution is expected to be paid on 12 March 2021 to unitholders whose names appear on the register of unitholders on the Record Date.
 - (iv) The interim distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- * Certain figures in these notes to distribution statement have been rounded to the nearest thousand.
- ** It is anticipated that no additional units will be cancelled, if bought back, before the Record Date.

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2020 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2020 \$'000	2019 \$'000
Operating activities			
Cash generated from operations		261,918	322,479
Tax (paid) / refunded			
– Hong Kong Profits Tax (paid) / refunded		(69,601)	47
Net cash generated from operating activities		192,317	322,526
Investing activities			
Payment for expenditure incurred for investment properties		(3,396)	(37,217)
Payment for acquisition of investment properties		(8,343)	–
Payment for purchase of debt securities		(29,826)	–
Proceeds from redemption of matured debt securities		19,381	19,527
Decrease in bank deposits with original maturity over three months		5,835	115,556
Other cash flows arising from investing activities		5,547	9,312
Net cash (used in) / generated from investing activities		(10,802)	107,178
Financing activities			
Distribution paid to unitholders		(225,955)	(232,893)
Payment for buy-back of units		(2,928)	–
Proceeds from new bank borrowings		523,196	–
Proceeds from issuance of medium term notes		297,525	–
Repayment of bank borrowings		(755,000)	–
Interest paid		(40,297)	(56,364)
Other borrowing cost paid		(4,348)	–
Net cash used in financing activities		(207,807)	(289,257)
Net (decrease) / increase in cash and cash equivalents		(26,292)	140,447
Cash and cash equivalents at the beginning of the period	16	373,920	358,467
Effect of foreign exchange rate changes		4	(5)
Cash and cash equivalents at the end of the period	16	347,632	498,909

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

Notes to the Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

1 General

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

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

2 Basis of preparation

These condensed interim financial statements have been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issuance on 4 February 2021.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019/20 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020/21 annual financial statements. Details of the changes in accounting policies are set out in note 3.

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

These condensed interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019/20 annual financial statements. The condensed interim financial statements do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

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

2 Basis of preparation (continued)

The financial information relating to the financial year ended 30 June 2020 that is included in the condensed interim financial statements as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2020 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8 September 2020.

3 Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

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

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

4 Segment reporting

The Manager manages the Group's business by divisions. In a manner consistent with the way in which information is reported internally to the Manager's most senior executive management for the purposes of resource allocation and performance assessment, the Manager has identified two reportable segments, which are "Office properties" and "Retail properties". As all of the Group's activities are carried out in Hong Kong, no geographical information is presented.

Segment results

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

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

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

4 Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2020 (Unaudited)			2019 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– Rental income	163,279	159,770	323,049	175,291	175,415	350,706
– Car park income	1,920	14,122	16,042	1,822	15,904	17,726
– Rental related income	28,993	31,450	60,443	34,723	33,944	68,667
	194,192	205,342	399,534	211,836	225,263	437,099
Property operating expenses	(35,580)	(44,456)	(80,036)	(40,101)	(51,274)	(91,375)
Net property income	158,612	160,886	319,498	171,735	173,989	345,724
Administrative expenses	(26,201)	(22,488)	(48,689)	(27,375)	(24,501)	(51,876)
Segment results	132,411	138,398	270,809	144,360	149,488	293,848
Net decrease in fair value of investment properties	(8,119)	(372,090)	(380,209)	(42,152)	(120,375)	(162,527)
Finance costs on interest-bearing liabilities			(45,619)			(64,055)
Income tax			(38,429)			(40,272)
Interest income			4,740			9,487
Unallocated net expenses			(5,418)			(5,738)
(Loss) / profit after taxation and before transactions with unitholders			(194,126)			30,743
Depreciation	1	7	8	3	8	11

5 Revenue

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

	Six months ended 31 December	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
Rental income	323,049	350,706
Car park income	16,042	17,726
Rental related income	60,443	68,667
	399,534	437,099

6 Property operating expenses

	Six months ended 31 December	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
Building management fee	30,149	31,172
Property manager's fees (note)	22,125	27,928
Government rent and rates	14,920	18,439
Marketing and promotion expenses	3,463	4,182
Car park operating costs	3,244	3,322
Other direct costs	6,135	6,332
	80,036	91,375

Note : During the period, 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.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

7 (Loss) / profit before taxation and transactions with unitholders

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

	Six months ended 31 December	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	41,452	55,771
Other borrowing costs	3,262	2,649
	44,714	58,420
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	483	5,109
– Net fair value loss of ineffective cash flow hedges	422	526
	905	5,635
	45,619	64,055

Other borrowing costs represent various financing charges and amortisation of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes (see note 18).

	Six months ended 31 December	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
(b) Other items		
Interest income	(4,740)	(9,487)
Manager's fees	47,057	50,270
Property manager's fees (note (i))	22,125	27,928
Trustee's remuneration and charges	2,339	2,457
Auditor's remuneration		
– Audit services	752	791
– Other services	497	497
Valuation fee payable to principal valuer	206	251
Legal and other professional fees	2,159	1,811
Commission to property agents	741	771
Bank charges	150	146
Net foreign exchange (gain) / loss	(39)	277

Notes :

- (i) Included rental commission of \$6,344,000 (2019 : \$7,736,000).
- (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.

8 Income tax

	Six months ended 31 December	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	32,165	33,477
Deferred tax		
Origination and reversal of temporary differences	6,264	6,795
	38,429	40,272

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 property holding subsidiaries of the Group, with one of the subsidiaries (“**Particular Subsidiary**”) covering the years of assessment up to 2016/17, and certain other subsidiaries covering the years of assessment up to 2013/14, disallowing the deductions of the management fees and property management fees and in some cases rental commissions incurred by these subsidiaries. Notices of objection were filed with the IRD against such additional profits tax assessments raised to date. At 31 December 2020, tax reserve certificates in an aggregate amount of \$53.5 million had been purchased in respect of the additional assessments raised.

Regarding the Particular Subsidiary, as disclosed in the annual report of the previous financial year, the appeal against the determination from the Deputy Commissioner of the IRD in respect of the disallowed deductions of the management fees was heard by the Board of Review (Inland Revenue Ordinance) (“**BoR**”) in June 2019. On 30 November 2020, the BoR handed down its decision allowing the appeal of the Particular Subsidiary, determining that the relevant profits tax assessments and additional profits tax assessments were excessive or incorrect, and these assessments are to be revised to allow for the deduction of the management fees.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

9 (Loss) / earnings per unit before transactions with unitholders

The basic loss per unit before transactions with unitholders for the six months ended 31 December 2020 amounted to \$0.12 (2019 : basic earnings per unit before transactions with unitholders of \$0.02). The calculation of basic (loss) / earnings per unit before transactions with unitholders is based on the Group's loss after taxation and before transactions with unitholders of \$194,126,000 (2019 : profit after taxation and before transactions with unitholders of \$30,743,000) and the weighted average of 1,663,480,781 units in issue during the period (2019 : 1,653,371,141 units).

Diluted (loss) / earnings per unit before transactions with unitholders for the six months ended 31 December 2020 and 2019 are not presented as there was no potential dilution of (loss) / earnings per unit before transactions with unitholders.

10 Investment properties

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
At 1 July 2020 / 1 July 2019	18,918,000	20,002,510
Movement during the period / year		
– Additions through acquisition of investment properties	8,743	–
– Other additions	2,066	58,334
– Net decrease in fair value	(380,209)	(1,142,844)
	18,548,600	18,918,000

(a) Valuation

The investment properties were appraised at 31 December 2020 by the Group's principal valuer, Colliers International (Hong Kong) Limited ("**Colliers**"), an independent firm that has key personnel who are fellows or members of The Hong Kong Institute of Surveyors or the Royal Institute of Chartered Surveyors (Hong Kong Branch) with recent experience in the location and category of property being valued. Valuation methodologies adopted by Colliers were the same as when carrying out the valuation for 30 June 2020. As a result of the valuation, a net loss of \$380,209,000 (2019 : \$162,527,000) has been recognised in profit or loss for the period in respect of investment properties.

10 Investment properties (continued)

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

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
In Hong Kong		
– Long leases	8,801,400	8,783,400
– Medium-term leases	9,747,200	10,134,600
	18,548,600	18,918,000

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

11 Reimbursement rights

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

12 Derivative financial instruments

	31 December 2020 (Unaudited)			30 June 2020 (Audited)		
	Assets \$'000	Liabilities \$'000	Net amount \$'000	Assets \$'000	Liabilities \$'000	Net amount \$'000
Interest rate swaps, interest rate basis swaps and cross currency interest rate swap – cash flow hedges						
Current portion	–	(51,073)	(51,073)	63	(30,010)	(29,947)
Non-current portion	6,045	(70,996)	(64,951)	–	(62,939)	(62,939)
	6,045	(122,069)	(116,024)	63	(92,949)	(92,886)

The Group uses interest rate swaps (“**IRSs**”), and in some cases, supplemented by interest rate basis swaps (“**Basis Swaps**”), to hedge against the interest rate risk in relation to its floating rate term loans.

The Group also uses a cross currency interest rate swap (“**CCIRS**”) to hedge against the interest rate risk and foreign currency risk in relation to its floating rate term loan denominated in Japanese yen.

During the six months ended 31 December 2020, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to \$120,000 (2019 : \$720,000) were reclassified from net assets attributable to unitholders to profit or loss. As at 31 December 2020, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, fair value loss of ineffective hedges amounting to \$422,000 (2019 : \$526,000) was charged to profit or loss for the period. Also, net cumulative unrealised losses of expired swaps amounting to \$363,000 (2019 : \$4,389,000) were reclassified from net assets attributable to unitholders to profit or loss for the period.

At 31 December 2020, the net cumulative unrealised losses on the IRSs, Basis Swaps and CCIRS included in the net assets attributable to unitholders amounted to \$112,706,000 (30 June 2020 : \$90,474,000).

At 31 December 2020, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of \$3,000,000,000 (30 June 2020 : \$3,700,000,000, supplemented by Basis Swaps with notional amount of \$300,000,000) and CCIRS with notional amount of \$513,196,000 (30 June 2020 : nil). These swaps will mature between February 2021 and October 2027 (30 June 2020 : between August 2020 and October 2025).

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

13 Other financial assets

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Financial assets measured at amortised cost		
Debt securities		
– Listed in Hong Kong	86,020	85,950
– Listed outside Hong Kong	29,790	19,511
– Unlisted	10,166	10,213
	125,976	115,674

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

14 Other non-current assets

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

15 Trade and other receivables

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Rental receivables	45,334	37,339
Deposits and prepayments	5,067	8,473
Other receivables	1,729	1,938
Amounts due from related companies	933	1,170
	53,063	48,920

Included unamortised rent-free and rental concession, deposits and prepayment of \$30,206,000 (30 June 2020 : \$13,298,000) which are expected to be recovered or recognised as expense after one year. Apart from the above, all of the balances are expected to be recovered or recognised as expense 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 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Current	35,328	26,861
Less than 1 month overdue	6,597	6,584
More than 1 month and up to 3 months overdue	2,035	2,664
More than 3 months and up to 6 months overdue	671	677
More than 6 months overdue	703	553
	45,334	37,339

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.

16 Cash and bank balances

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Deposits with original maturity within three months	293,457	328,541
Cash at bank and in hand	54,175	45,379
Cash and cash equivalents in the condensed consolidated cash flow statement	347,632	373,920
Deposits with original maturity over three months	119,678	125,513
Cash and bank balances in the consolidated statement of financial position	467,310	499,433

17 Trade and other payables

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Creditors and accrued charges	37,179	32,221
Manager's fees payable (note 23(b)(ii))	23,319	20,802
Amounts due to related companies	9,103	7,440
	69,601	60,463

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 \$2,331,000 (30 June 2020 : \$1,014,000) which is due within 30 days.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

18 Bank and other borrowings

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Bank loans (note (i))		
– Secured	2,300,226	2,623,610
– Unsecured	1,706,962	1,615,871
	4,007,188	4,239,481
Medium term notes – unsecured (note (ii))	294,552	–
	4,301,740	4,239,481
The bank and other borrowings were repayable as follows :		
Within 1 year	899,240	1,642,614
After 1 year but within 2 years	2,001,463	2,000,282
After 2 years but within 5 years	891,737	596,585
After 5 years	509,300	–
	3,402,500	2,596,867
	4,301,740	4,239,481

Notes :

- (i) The Group entered into IRSs, Basis Swaps and CCIRS, details of which are set out in note 12.

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

- mortgages over the investment properties with a fair value of \$10,627,700,000 at 31 December 2020 (30 June 2020 : \$10,734,400,000) (note 10); and
 - first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.
- (ii) The Group has a US\$1,000,000,000 (30 June 2020 : US\$1,000,000,000) Medium Term Note Programme (“**MTN programme**”). At 31 December 2020, notes with nominal amount of \$300,000,000 were issued under the MTN programme with fixed coupon rate of 2.00% per annum. The notes are guaranteed by the Trustee (in its capacity as trustee of Sunlight REIT).
- (iii) The effective interest rate of the bank and other borrowings at the end of the reporting period was 2.13% per annum (30 June 2020 : 1.99% per annum).
- (iv) At 31 December 2020, the Group’s uncommitted revolving credit facilities of \$600,000,000 (30 June 2020 : \$600,000,000) remained undrawn.

19 Units in issue

	Number of units	
	31 December 2020 (Unaudited)	30 June 2020 (Audited)
At 1 July 2020 / 1 July 2019	1,661,429,036	1,651,723,079
Movement during the period / year		
– Issuance of units	6,238,788	10,705,957
– Units bought back	(800,000)	(1,000,000)
	1,666,867,824	1,661,429,036

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

Payment of the Manager's fees for the period / year	Average issue price per unit determined based on the Trust Deed \$	Aggregate amount of units issued \$'000	Number of units issued
For the six months ended 31 December 2020 (Unaudited)			
1 April 2020 to 30 June 2020	3.922	11,921	3,039,588
1 July 2020 to 30 September 2020	3.710	11,869	3,199,200
		23,790	6,238,788
For the year ended 30 June 2020 (Audited)			
1 April 2019 to 30 June 2019	5.950	12,536	2,106,819
Adjustment of Manager's fees for the financial year 2018/19	5.133	1,145	223,092
1 July 2019 to 30 September 2019	5.377	12,557	2,335,373
1 October 2019 to 31 December 2019	5.000	12,578	2,515,570
1 January 2020 to 31 March 2020	3.566	12,570	3,525,103
		51,386	10,705,957

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

19 Units in issue (continued)

Pursuant to the general mandate granted to the Manager by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 800,000 units (year ended 30 June 2020 : 1,000,000,units) on the SEHK during the six months ended 31 December 2020 at an aggregate consideration of \$2,919,000 (year ended 30 June 2020 : \$4,456,000).

Details of the units buy-backs were as follows :

	Number of units bought back	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
For the six months ended 31 December 2020 (Unaudited)				
Month of buy-back				
November 2020	800,000	3.68	3.60	2,919
	800,000			2,919
Total buy-back expenses				9
				2,928
For the year ended 30 June 2020 (Audited)				
Month of buy-back				
March 2020	1,000,000	4.60	4.27	4,456
	1,000,000			4,456
Total buy-back expenses				15
				4,471

All bought back units were cancelled during that period / year.

20 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

At 31 December 2020 and 30 June 2020, the Group's only financial instruments carried at fair value are the IRSs, Basis Swaps and CCIRS (see note 12), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2020 and the year ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2020 and 30 June 2020.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

21 Capital commitments

Capital commitments outstanding at 31 December 2020 not provided for in the condensed interim financial statements are as follows :

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Contracted for	7,292	14,108
Authorised but not contracted for	11,301	8,154
	18,593	22,262

22 Contingent liabilities

At the end of the reporting period, the Group has provided a guarantee to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity companies in the total amount of \$4,585,000 (30 June 2020 : \$4,585,000). This guarantee is not recognised in the Group's consolidated statement of financial position as its fair value is considered immaterial and initial transaction price was nil.

23 Connected party transactions and material related party transactions

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

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

Connected person / related party	Relationship with the Group
SKFE and other members of its group (collectively referred to as " SKFE Group ")	Substantial holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as " HLD Group ")	Substantial holders of Sunlight REIT and their associates
HSBC Institutional Trust Services (Asia) Limited (the " Trustee ")	The Trustee of Sunlight REIT
The Hongkong and Shanghai Banking Corporation Limited and other members of its group (collectively referred to as " HSBC Group ")	Associates of the Trustee
Henderson Sunlight Asset Management Limited (the " Manager ")	The Manager of Sunlight REIT and a member of HLD Group
Henderson Sunlight Property Management Limited (the " Property Manager ")	The Property Manager of Sunlight REIT and a member of HLD Group
Colliers and other members of its group (collectively referred to as " Colliers Group ")	The principal valuer of Sunlight REIT and its associates (note (v))

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected persons / related parties

	Six months ended 31 December	
	2020 (Unaudited) \$'000	2019 (Unaudited) \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	5,470	6,859
– HSBC Group	11,123	11,951
– Chinese Young Men's Christian Association of Hong Kong ("YMCA") (notes (v) and (vii))	–	2
Property management expenses paid / payable to (note (i)) :		
– HLD Group	(8,048)	(8,716)
Facilities leasing expenses paid / payable to (note (i)) :		
– HLD Group	(60)	(103)
Manager's fees (note (ii))	(47,057)	(50,270)
Property Manager's fees (note (iii))	(22,125)	(27,927)
Trustee's remuneration and charges (note (iv))	(2,339)	(2,457)
Interest expenses and security trustee fees on bank borrowings and other charges paid / payable to (note (i)) :		
– HSBC Group	(6,030)	(22,339)
Net interest (expenses) / income on IRSs and Basis Swaps paid / payable to or received / receivable from (note (i)) :		
– HSBC Group	(9,609)	1,522
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	519	284
Valuation fee paid / payable to (notes (i), (v) and (vi)) :		
– Colliers Group	(176)	(251)
Promotional income received / receivable from (note (i)) :		
– HLD Group	1,411	1,749

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

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

Notes :

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

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

On 17 May 2019, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2020 to be paid 50% in the form of cash and 50% in the form of units. On 16 June 2020, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2021.

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

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

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

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

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

Notes : (continued)

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

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

- (v) On 4 December 2020, these parties are no longer connected persons of the Group as defined under the REIT Code when its amendments became effective on the same date.
- (vi) The valuation fee paid / payable to Colliers Group from 1 July 2020 to 3 December 2020 was \$176,000 (six months ended 31 December 2019 : \$251,000).
- (vii) YMCA was a connected person of the Group as it was an associate of a director of the Manager as defined under the REIT Code prior to its amendments effective on 4 December 2020. During the period from 1 July 2020 to 3 December 2020, no fee was paid to YMCA (six months ended 31 December 2019 : \$2,000).

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

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

	31 December 2020 (Unaudited) \$'000	30 June 2020 (Audited) \$'000
Net amount due to :		
– HLD Group	(31,417)	(28,619)
– HSBC Group (note)	(511,599)	(1,121,439)
– Colliers Group (note 23(b)(v))	–	(336)
Note :		
Deposits and cash placed with HSBC Group	146,670	161,586
Bank borrowings and interest payable to HSBC Group	(650,447)	(1,275,344)
Others	(7,822)	(7,681)
	(511,599)	(1,121,439)

24 Non-adjusting event after the reporting period

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

Auditor's Review Report



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

Introduction

We have reviewed the condensed interim financial statements set out on pages 22 to 51 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2020 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the condensed interim financial statements in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements as at 31 December 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

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

4 February 2021

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2020	2019	2018	2017	2016
At 31 December :						
Net asset value (\$ million)		14,350	15,839	15,476	14,526	13,660
Net asset value per unit		8.61	9.56	9.40	8.85	8.35
Market capitalisation (\$ million)		6,284	8,348	8,269	8,800	7,312
For the six months ended 31 December :						
Highest traded unit price		4.19	6.35	5.55	5.57	5.04
Highest premium of the traded unit price to net asset value per unit	1	N/A	N/A	N/A	N/A	N/A
Lowest traded unit price		3.29	4.84	4.66	4.98	4.38
Highest discount of the traded unit price to net asset value per unit (%)		61.8	49.4	50.4	43.7	47.5
Closing unit price		3.77	5.04	5.02	5.36	4.47
Distribution per unit (cents)		12.5	13.2	13.2	12.6	12.2
Payout ratio (%)		94.7	93.6	93.9	96.6	97.3
Distribution yield per unit (%)	2	3.3	2.6	2.6	2.4	2.7
Annualised distribution yield per unit (%)	2	6.6	5.2	5.3	4.7	5.5

Notes :

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

Corporate Information

Board of Directors of the Manager

Chairman and Non-Executive Director

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-Executive Director

KWOK Ping Ho

Independent Non-Executive Directors

KWAN Kai Cheong

TSE Kwok Sang

KWOK Tun Ho, Chester

Responsible Officers of the Manager

LO Yuk Fong, Phyllis

SHUM Chung Wah, Yulanda

WONG Chi Ming

WU Shiu Kee, Keith

YIP May Ling, Vivian

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

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

Investor Relations

Tel : (852) 3669 2880

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Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Certified Public Accountants and

Registered Public Interest Entity Auditor

Principal Valuer

Colliers International (Hong Kong) Limited

Legal Adviser

Woo Kwan Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

Dah Sing Bank, Limited

The Hongkong and Shanghai Banking
Corporation Limited

MUFG Bank, Ltd.

Sumitomo Mitsui Banking Corporation

Unit Registrar

Tricor Investor Services Limited

Level 54, Hopewell Centre,

183 Queen's Road East,

Hong Kong

Website

www.sunlightreit.com

Financial Calendar

(in respect of FY2020/21 interim results)

Interim results announcement

4 February 2021

Issuance of interim report

24 February 2021

Ex-distribution date

25 February 2021

for interim distribution

Closure of register of unitholders

1 March 2021 to 3 March 2021,
both days inclusive

for entitlement of interim distribution

Interim distribution payable

12 March 2021

HK 12.5 cents per unit

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

陽光房地產投資信託基金

由恒基陽光資產管理有限公司管理

www.sunlightreit.com

