



SUNLIGHT REIT

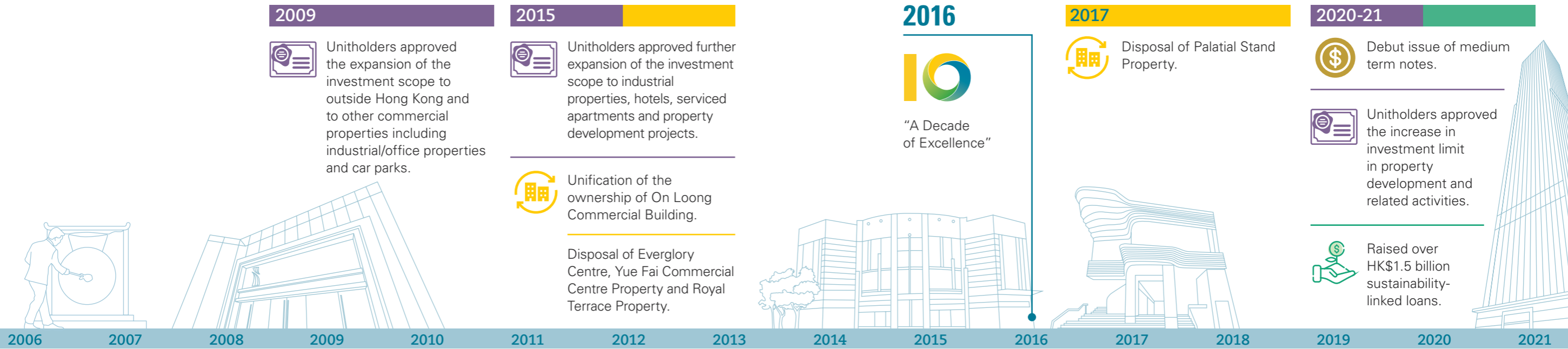
Stock Code : 435

Advancing Sustainability

Annual Report 2020/21



Our Key Milestones




2009

 Unitholders approved the expansion of the investment scope to outside Hong Kong and to other commercial properties including industrial/office properties and car parks.

2015

 Unitholders approved further expansion of the investment scope to industrial properties, hotels, serviced apartments and property development projects.

 Unification of the ownership of On Loong Commercial Building.


Disposal of Everglory Centre, Yue Fai Commercial Centre Property and Royal Terrace Property.

2016





“A Decade of Excellence”


2017

 Disposal of Palatial Stand Property.

2020-21

 Debut issue of medium term notes.

 Unitholders approved the increase in investment limit in property development and related activities.

 Raised over HK\$1.5 billion sustainability-linked loans.

2006

Listed on The Stock Exchange of Hong Kong Limited on 21 December 2006.



2011

248 Queen's Road East¹ was awarded the highest Platinum Rating by the Building Environmental Assessment Method for Existing Buildings.



2014

Remodeled and upgraded the facade and atrium of Metro City Phase I Property.



2016

Conducted major space reconfiguration works at Sheung Shui Centre Shopping Arcade.



2017

Acquisition of Fung Shun Commercial Building².



2021

Sunlight Tower was renamed as Dah Sing Financial Centre.



- Asset enhancement
- Asset recycling
- Governance
- Sustainability

2015

Completed the lobby renovation and retail space reconfiguration of Sunlight Tower.



Converted Sunlight Tower's air-conditioning to water-cooled system.



2019

Remodeled the facade and refurbished the low zone of Strand 50³.



2021

Replacement of chiller plants at Strand 50.



Notes :
 1. The property was subsequently renamed as Sunlight Tower on 1 January 2015.
 2. The property has been renamed as The Harvest from 17 December 2018.
 3. The property was previously known as Bonham Trade Centre.

Contents

Overview	2	Quotes from Stakeholders
	4	Who We Are : In Brief
	6	Chairman’s Statement
	8	CEO’s Report
	12	Portfolio at a Glance
Management Discussion and Analysis	14	Portfolio Statistics
	16	Business Review
	28	Financial Review
Corporate Governance	32	Environmental, Social and Governance Report
	60	Board of Directors and Senior Management
	66	Corporate Governance Report
	87	Connected Party Transactions
	91	Disclosure of Interests
Financial and Other Information	94	Valuation Report
	112	Trustee’s Report
	113	Independent Auditor’s Report
	118	Consolidated Financial Statements
	163	Performance Table
	164	Financial Calendar
	165	Corporate Information

Forward-looking Statements

This annual 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 Henderson Sunlight Asset Management Limited (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.

Quotes from Stakeholders



“ Relocating our headquarters to the conveniently located Dah Sing Financial Centre represents a key milestone for our Group. We are delighted to partner with the highly responsive management team of Sunlight REIT, whose commitment to incorporating green and proptech features is well aligned with Dah Sing Financial Group’s focus on establishing sustainable and eco-friendly work places for our staff. ”

Mr. Harold Wong
Managing Director and Chief Executive
Dah Sing Bank, Limited



“ We are grateful for the support and advice provided by the Sunlight REIT’s leasing team. Sheung Wan has a very interesting neighbourhood and the landlord has made good use of the characteristics of the community and built a good vibe for Strand 50. We are delighted to be part of it. ”

Mr. Law Wing Chung
Founder and Managing Partner
Jervois One (Hong Kong) Limited



“ Sunlight REIT’s passion for sustainability is embedded in the design of the refurbishment at Strand 50. The landscape podium garden and the new wavy animated facade with the feature atrium setback from the street invites daylight and enhances ventilation along the urban streetscapes. We are blessed to work with Sunlight REIT’s team in this iconic and meaningful project. ”

Mr. Yip Chun Hang
Architecture Director
LAAB Architects



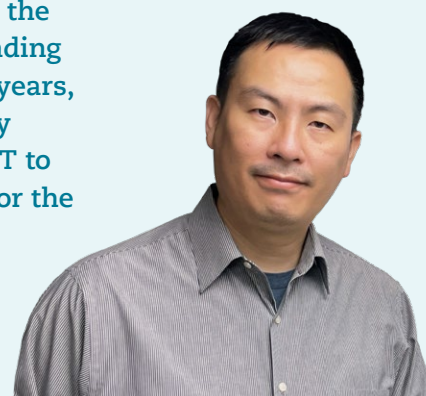
“ We are delighted to be in partnership all along with Sunlight REIT for the past 15 years. Besides unwavering support for our business, their creative thinking also helps inspire our launch of many brands such as “V-Taste”, which has been well received thus far. Looking forward to further collaboration with Sunlight REIT. ”

Mr. Lau Sai Wo
Chairman
Victoria Harbour Restaurant Group (HK)



“ We would like to extend our warm congratulations on the 15th listing anniversary of Sunlight REIT. As a longstanding tenant, we grow together with Sunlight REIT over the years, and are testament to their fine and improving property management services. We sincerely wish Sunlight REIT to go from strength to strength, expanding its business for the benefit of stakeholders. ”

Mr. Joshua Yau
Training Director
Form.Welkin Limited



“ Sustainability is a key strategic focus for both DBS and Sunlight REIT. We are delighted to have partnered with Sunlight REIT on its sustainability journey by offering a sustainability-linked loan back in February 2021. Together, we create a positive environmental impact for our community. ”

Ms. Louisa Chau
Managing Director, Hong Kong Conglomerates &
Large Local Corporates Head, Institutional Banking Group
DBS Bank Ltd., Hong Kong Branch



“ As a social welfare organization serving Hong Kong for over 70 years, we are delighted to have developed a long-term partnership with Sunlight REIT in providing appropriate services to the needy. We look forward to further concerted efforts in constructing a harmonious and sustainable community. ”

Mr. David Fung
Assistant Chief Executive Officer
St. James' Settlement



Who We Are : In Brief

Sunlight REIT's unit price performance (30 June 2021)

	Total return ^{Note} (%)		
	1-year	5-year	Since listing
Sunlight REIT	24.7	34.8	388.1
Hang Seng Index	21.6	63.6	146.0
Hang Seng Index - Properties	13.2	43.6	147.7
Hang Seng REIT Index	23.0	33.7	194.2

Source : Bloomberg

Our Business

Sunlight Real Estate Investment Trust ("**Sunlight REIT**") is a real estate investment trust authorized by the Securities and Futures Commission (the "**SFC**"), and constituted by the amended and restated trust deed dated 10 May 2021 (the "**Trust Deed**"). The trustee of Sunlight REIT (the "**Trustee**") is HSBC Institutional Trust Services (Asia) Limited.

Listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 21 December 2006, the market capitalization of Sunlight REIT was approximately HK\$7,508 million at 30 June 2021.

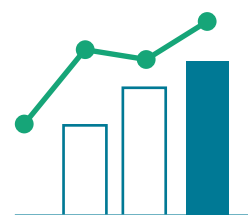
Sunlight REIT offers investors the opportunity to invest in a diversified portfolio of 11 office and five retail properties in Hong Kong with a total gross rentable area ("**GRA**") of over 1.2 million sq. ft.. The office properties are primarily located in core business areas, including Wan Chai and Sheung Wan/Central, as well as in decentralized business areas such as Mong Kok and North Point. The retail properties are situated in regional transportation hubs and new towns including Sheung Shui, Tseung Kwan O and Yuen Long, as well as in urban

Portfolio composition by appraised value



Annualized total return to investors since listing

11.5%



areas with high population density. At 30 June 2021, Sunlight REIT's portfolio was appraised by its principal valuer, Colliers International (Hong Kong) Limited (the "**Principal Valuer**") at HK\$18,341.7 million, with office and retail properties accounting for 54.6% and 45.4% of this valuation respectively.

Our Management

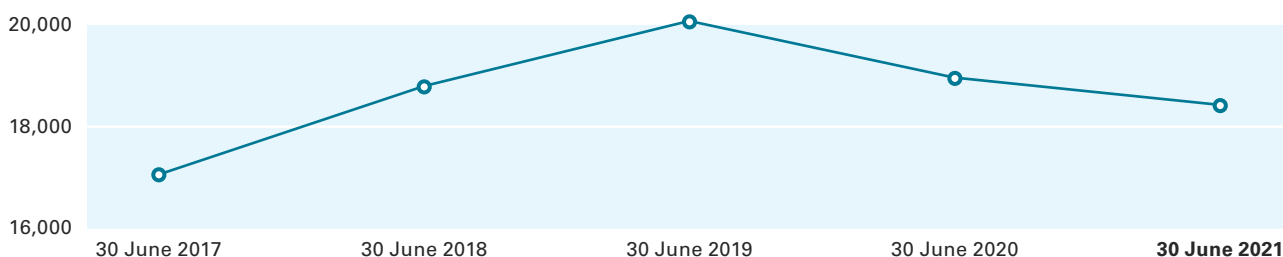
An indirect wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**"), the Manager's main responsibility is to manage Sunlight REIT and all of its assets in accordance with the Trust Deed in the sole interest of the unitholders of Sunlight REIT ("**Unitholders**"). It is also responsible for ensuring compliance with the Code on Real Estate Investment Trusts (the "**REIT Code**"), the Trust Deed, applicable provisions of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Rules Governing the Listing of Securities on the Stock Exchange, as well as other relevant laws and regulations.

Henderson Sunlight Property Management Limited (the "**Property Manager**") has been delegated the responsibilities of providing property management, lease management and marketing services solely and exclusively for the properties of Sunlight REIT located in Hong Kong, subject to the overall management and supervision of the Manager.

Note : Total return is the holding period return with dividends (or distributions in the case of Sunlight REIT) reinvested in the relevant security.

Valuation^{Note}

(HK\$' million)



Our Strategy

The key objectives of the Manager are to provide Unitholders with regular and stable cash distributions, and the potential for sustainable growth of such distributions and long-term enhancement in capital value of the properties. The Manager has identified the following business areas for which proactive strategies have been implemented to ensure the accomplishment of these objectives:

Operational management and asset enhancement

The Manager works closely with the Property Manager to develop proactive leasing strategies, cost saving solutions and asset enhancement initiatives aimed at improving the rental income and unlocking the value of the properties.

Investment and acquisition growth

The Manager seeks to acquire income-producing investment properties which have the potential to provide attractive total returns to Unitholders through accretion in distribution yield, sustainable growth in distributions and/or long-term enhancement in capital value. The Manager also considers from time to time fine-tuning the portfolio through divestment of non-core assets for more attractive investment alternatives.

Capital and business management

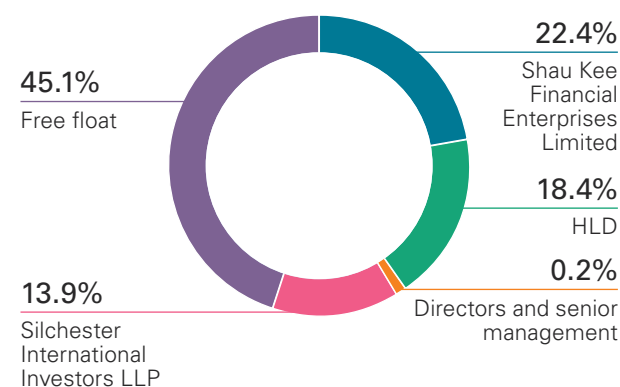
In support of the operational and acquisition growth strategies of Sunlight REIT, the Manager has in place an efficient capital management strategy, characterized by the appropriate use of equity and leverage. It has also established a solid business management framework which includes sound corporate governance practices, effective risk management and internal control systems, reliable management information systems as well as an experienced workforce.

Our Strength

Celebrating its 15th listing anniversary by December 2021, Sunlight REIT has established a solid track record in delivering steady operational performance and impressive long term return to investors. Its defensive qualities are supported by a competent management team which places a strong emphasis on asset enhancement, financial management and corporate governance. Further, Sunlight REIT has received valuable support from HLD (and its associates) from time to time. The chart below depicts the unitholding structure of Sunlight REIT at 30 June 2021.

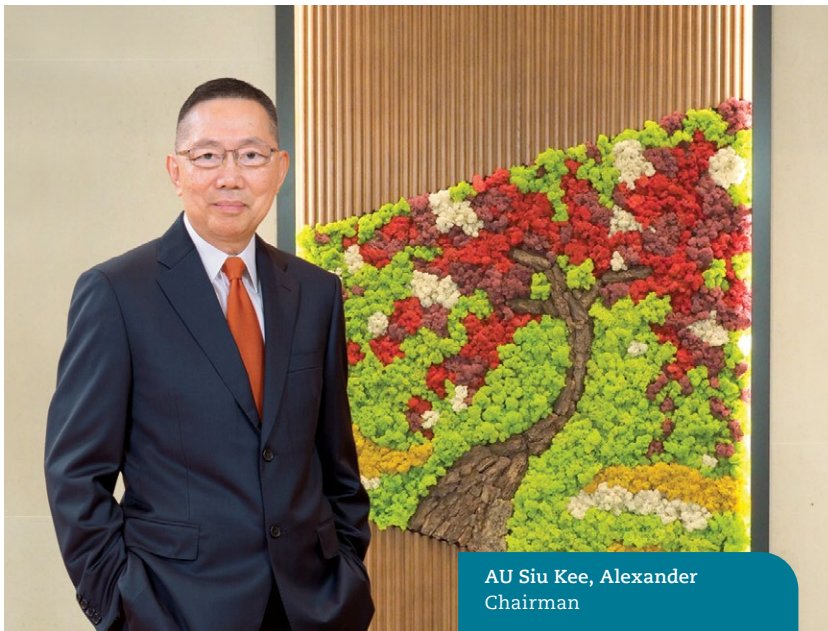
Unitholding structure

(30 June 2021)



Note : Valuation at 30 June 2018 included one acquired property.

Chairman's Statement



AU Siu Kee, Alexander
Chairman

“ This year will mark the 15th listing anniversary of Sunlight REIT – all along it has established a respectable track record by offering steady long-term returns to Unitholders, while striking a balance among economic, environmental and social values in its operations. ”

On behalf of the Board, I present the financial results of Sunlight REIT for the year ended 30 June 2021 (the “**Year**”).

While the global economy staged a strong recovery in the first half of 2021 as a result of extraordinary monetary and fiscal stimulus packages launched to relieve the ravages of COVID-19, protracted travelling and social distancing restrictions continued to take their tolls on the commercial real estate sector. Accordingly, net property income (“**NPI**”) of Sunlight REIT for the Year registered a decline of 6.6% to HK\$639.7 million, while annual distributable income was down 6.1% from the preceding year to HK\$438.3 million.

The Board has resolved to declare a final distribution of HK 13.1 cents per unit. Together with an interim distribution of HK 12.5 cents per unit, the total distribution per unit (“**DPU**”) for the Year would amount to HK 25.6 cents, implying a payout ratio of 97.5% (FY2019/20: 95.2%).

Reflecting a softening in the market rents of commercial properties, the appraised value of Sunlight REIT’s property portfolio was HK\$18,341.7 million at 30 June 2021, representing a decrease of 3.0% compared with a year ago. Consequently, its net asset value dropped 4.4% to HK\$14,124.3 million, or HK\$8.45 per unit (30 June 2020: HK\$8.89 per unit).

The setback to the bottom line due to COVID-19 was tempered by the Manager’s proactive leasing strategies and asset enhancement initiatives that had borne fruit, while a highly disciplined approach to managing operating expenses and lower finance costs attributable to a carefully crafted capital structure provided further cushion.

Compound annual growth since listing

Net property income



Net asset value



Despite mutations of the coronavirus, at times intimidating, hopes of returning to a normal life are patently growing as concerted efforts to roll out vaccination programmes are yielding encouraging results. However, geopolitics remains a cause for concern, as Sino-US tension has hardly been defused despite a change in US administration.

In the near term, gradual lifting of lockdown measures is crucial to spur a broad-based and more enduring pickup in economic activities. The Manager will remain agile and responsive to changing market conditions by maintaining the high quality and safety standards of the properties under management to retain and attract tenants and customers, implementing strict cost controls, enhancing efficiency in capital management and exploring acquisition opportunities.

This year will mark the 15th listing anniversary of Sunlight REIT – all along it has established a respectable track record by offering steady long-term returns to Unitholders, while striking a balance among economic, environmental and social values in its operations. Over the past few years, the Manager has proactively devoted more effort to integrating sustainability practices into the business, firmly committed to creating value for various stakeholders of Sunlight REIT.

Once again, I would like to take this opportunity to express my heartfelt gratitude to all staff for working tirelessly to navigate stormy waters over the Year, and I am grateful to my fellow directors and the management team for their exemplary performance amidst a myriad of challenges. I look forward to your continued support in the years to come.

AU Siu Kee, Alexander

Chairman

7 September 2021

CEO's Report



WU Shiu Kee, Keith
Chief Executive Officer

“ The regime of low interest rates and exceptionally strong liquidity has given the Manager a window of opportunity to diversify the funding sources of Sunlight REIT. ”

Reminiscent of the SARS outbreak in 2003, the onset of COVID-19 at the turn of 2020 had caught the world off-guard as it rapidly developed into a pandemic that precipitated a global crisis, markedly eclipsing SARS in terms of the number of fatalities and economic repercussions.

As a result of intermittent lockdown measures imposed by the government, there has been a noticeable boom in online shopping at the expense of brick-and-mortar stores, while tourist-related spending has come to a virtual standstill. The knock-on effect was to a certain extent felt by Sunlight REIT, as its retail portfolio registered a negative rental reversion of 7.2% for the Year despite a relatively stable occupancy rate of 96.5% at 30 June 2021 (30 June 2020: 95.8%).

Given that considerable uncertainty remains as to when international travel and inbound tourism can resume, higher-margin retail businesses reliant on the patronage of tourists are, at least in the first half of FY2021/22, likely to stay under pressure, albeit less intense. In contrast, domestic consumption, particularly of durable and non-discretionary items, is expected to remain resilient and should help underpin the demand for retail spaces. The corollary of such a dichotomy is that the adverse impact resulting from negative rental reversions should be partially offset by the prospect of stable occupancy rates.

Hong Kong retail sales (January - June 2021)



Hong Kong unemployment rate (April - June 2021)



Source: Census and Statistics Department

Meanwhile, the office leasing market is bearing the brunt of the coronavirus outbreak as multinational corporations have been exploring various downsizing and cost-saving options partly because of a murky business outlook and partly because of increased work-from-home arrangements triggered by the pandemic. Echoing the market's negative net absorption of office spaces, Sunlight REIT has witnessed slower new letting activities for its office portfolio, evidenced by a lower occupancy rate of 92.4% at 30 June 2021 (30 June 2020: 95.6%) with a negative rental reversion of 5.3%. However, we welcome maiden contribution from the eponymous new anchor tenant at Dah Sing Financial Centre (formerly Sunlight Tower), while the addition of quality new tenants at the high zone of the refurbished Strand 50 illustrated the importance of our timely asset enhancement exercise completed in 2019 to reposition the former Bonham Trade Centre as a superior mid-sized office destination situated at the heart of Sheung Wan.

Going forward, crowded living conditions in Hong Kong may not be conducive to extensive work-from-home schemes once the pandemic is over, precluding perennial disruptions to the office market. Nevertheless, the reasonably substantial new supply expected to come on stream in 2022 and 2023 should, on top of the existing vacant stock, continue to exert pressure on office rents at least in the near term. A redeeming factor is the pent-up demand from domestic and mainland Chinese enterprises, which has gratifyingly supported the performance of certain Grade B office properties of Sunlight REIT.

The regime of low interest rates and exceptionally strong liquidity has given the Manager a window of opportunity to diversify the funding sources of Sunlight REIT. In addition to the maiden HK\$300 million five-year medium term notes issued in November 2020, we have also completed over HK\$1.5 billion sustainability-linked loans ("**SLLs**") during the Year, with this figure likely to double by the end of FY2021/22. These exercises not only demonstrate the credit quality of Sunlight REIT, but also indicate our firm commitment to supporting sustainability.

We are well aware of the market's oscillating concerns about the duration and strength of the economic rebound that may necessitate a slightly tighter rein on monetary and fiscal stimulus. It is therefore a valuable strength of Sunlight REIT to have maintained a healthy financial position, allowing us to continue with meaningful asset enhancement initiatives, while supporting our growing aspirations for enhancing portfolio and Environmental, Social and Governance ("**ESG**") performance.

“ Both the office and retail markets appear to have seen the bottom, although the extent of recovery critically depends on the pace at which COVID-19 recedes and the effectiveness of the measures implemented by various governments to restore economic vigour. ”

The Way Forward

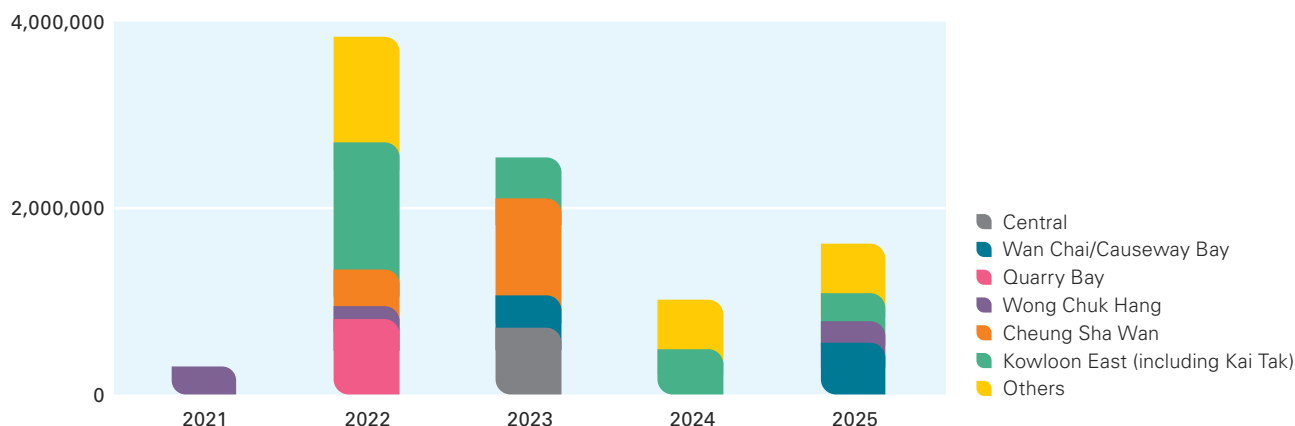
Over the past few years, we have strived to strengthen our operational framework to enable and encourage swift responses to fast-changing market conditions that are less than predictable. Our effort is manifested in the themes adopted in previous annual reports, including “Embedding Agility”, “Infusing Sustainability” and “Extending Care”. Nonetheless, it turns out that the extent of the upheavals faced by us since 2019 has somewhat confounded our expectations.

As the Manager of Sunlight REIT, we are cautious but hopeful about the prospects for the macro environment ahead. Both the office and retail markets appear to have seen the bottom, although the extent of recovery critically depends on the pace at which COVID-19 recedes and the effectiveness of the measures implemented by various governments to restore economic vigour. The short-term upside risk to inflation does not appear to be alarming, which should obviate the need for substantial curtailment of the current expansionary monetary and fiscal policies.

Sunlight REIT has secured sufficient financial resources to satisfy its working capital, refinancing and capital expenditure requirements. In particular, we are optimistic that the HK\$2,005 million of term loans due by June 2022 will be favourably concluded at an appropriate time. In addition, we will proactively explore acquisition opportunities that can meaningfully add value to Sunlight REIT. Amendments to the REIT Code effective in December 2020 (together with the Trust Deed amendments as approved by Unitholders in May 2021) have given us noticeable headway in terms of the scope and flexibility of real estate investments.

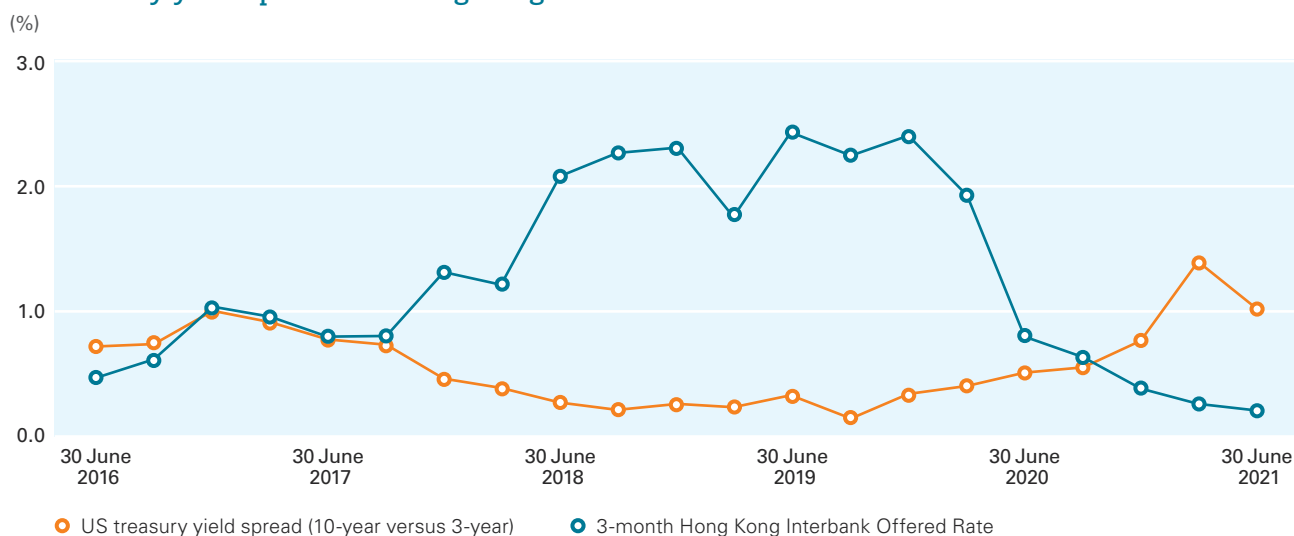
Hong Kong Grade A office supply

(sq. ft. net floor area)



Source : Colliers International (Hong Kong) Limited

US treasury yield spread and Hong Kong Interbank Offered Rate



Source : Bloomberg

“ We deem it imperative to sharpen our focus on sustainability, which calls for better governance and increased responsibilities to care for our people, our land and our environment in the process of value creation. ”

In the meantime, we deem it imperative to sharpen our focus on sustainability, which calls for better governance and increased responsibilities to care for our people, our land and our environment in the process of value creation. We are committed to managing the portfolio of Sunlight REIT with a more holistic approach, underwritten by the conviction to optimize rather than maximize, while extending our coverage of performance indicators to key areas of sustainability.

Despite a transitory setback in income performance, the fundamentals of Sunlight REIT remain sturdy. With a firm foundation established over the course of 15 years, it is well-positioned to ride out the storm and to prudently expand its business, assuring Unitholders with a sustainable growth in distributions over the long term.

WU Shiu Kee, Keith

Chief Executive Officer

7 September 2021

Portfolio at a Glance

Top three properties



Dah Sing Financial Centre



Sheung Shui Centre Shopping Arcade



Metro City Phase I Property



Sheung Wan/Central office properties

Strand 50
135 Bonham Strand Trade Centre Property
Winsome House Property
235 Wing Lok Street Trade Centre



Other office properties

The Harvest
Righteous Centre
Java Road 108 Commercial Centre
On Loong Commercial Building
Sun Fai Commercial Centre Property
Wai Ching Commercial Building Property

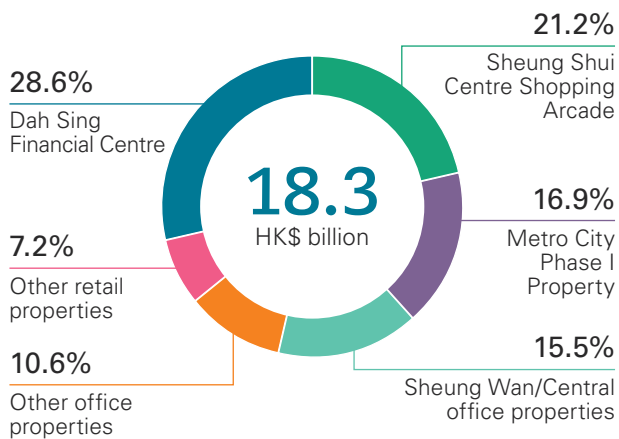


Other retail properties

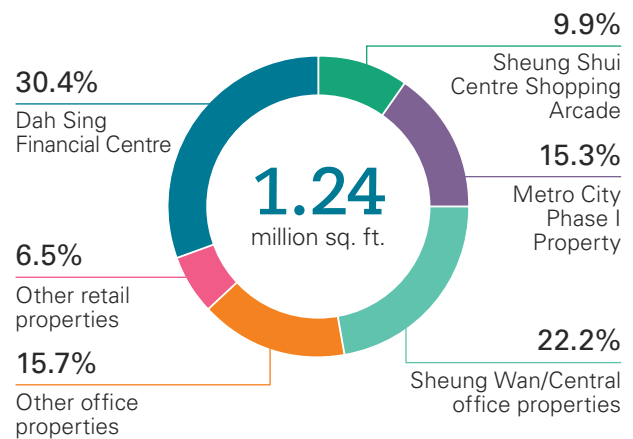
Kwong Wah Plaza Property
Beverley Commercial Centre Property
Supernova Stand Property

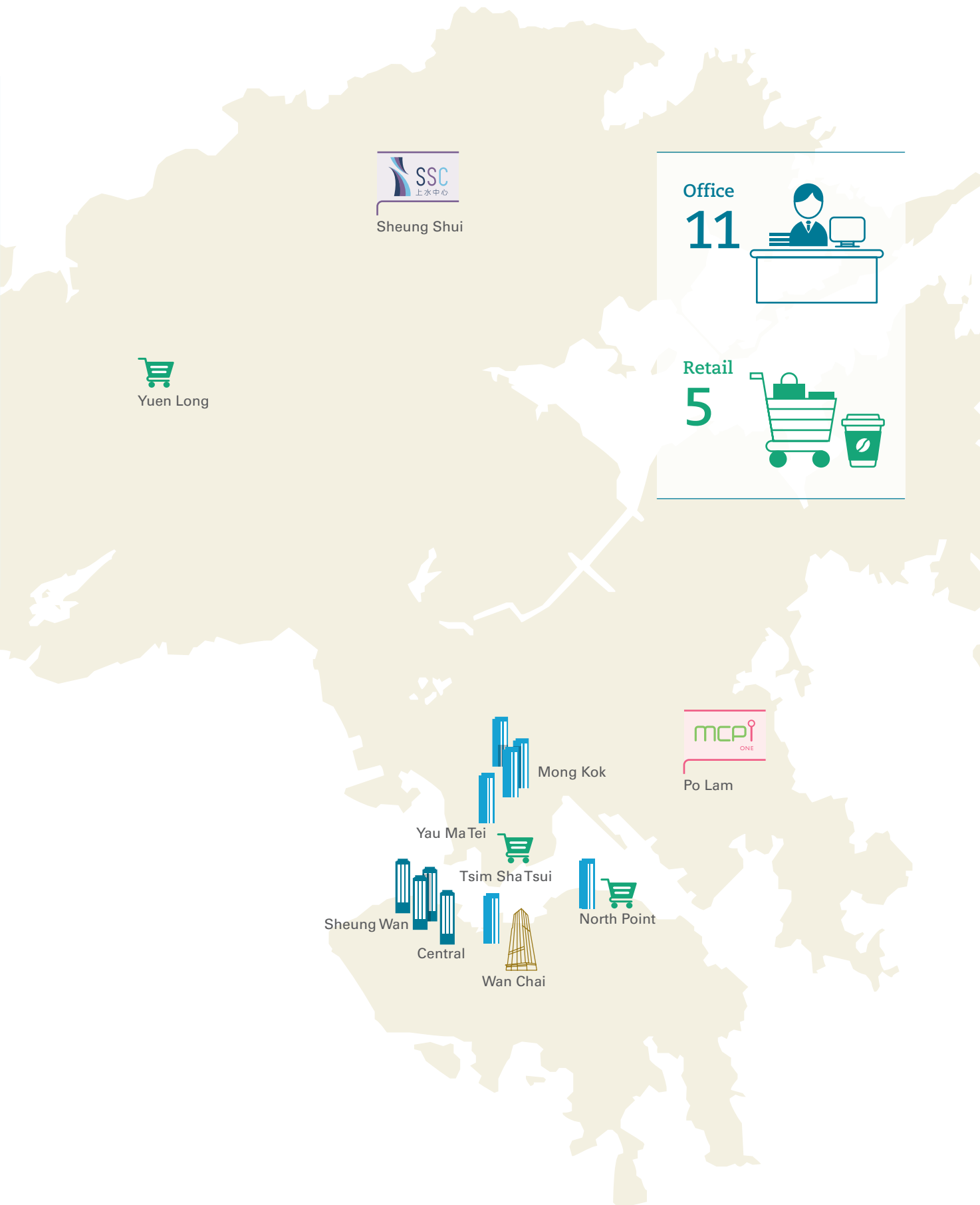


Valuation



Gross rentable area





Portfolio Statistics

Property	Property details						No. of leases at 30 June	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)				
				Office	Retail	Total		
Office								
Grade A								
Dah Sing Financial Centre ⁴	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	67	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	68	71
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	24
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	64	63
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	66	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	37	35
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	48	48
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	31	34
Sub-total/Average			46	787,935	56,688	844,623	518	529
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	123	121
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	115	110
Kwong Wah Plaza Property ⁵	Yuen Long	1998	0	42,670	25,741	68,411	37	37
Urban								
Beverly Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	22	23
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Sub-total/Average			749	42,670	349,129	391,799	299	293
Total/Average			795	830,605	405,817	1,236,422	817	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 year.
3. Please refer to "Valuation Report" on pages 94 to 111 for further details.
4. The property was previously known as Sunlight Tower (renamed with effect from 8 March 2021).
5. Additional office units with GRA of 533 sq. ft. and 522 sq. ft. were acquired on 31 July 2020 and 31 March 2021 costing HK\$8.0 million and HK\$8.1 million respectively.

Operational statistics						Property financials				
Occupancy rate at 30 June (%)		Passing rent ¹ at 30 June (HK\$/sq. ft.)		Rental reversion ² (%)		NPI (HK\$'000)		Capitalization rate at 30 June 2021 (%)		Appraised value at 30 June 2021 ³ (HK\$'000)
2021	2020	2021	2020	FY2020/21	FY2019/20	FY2020/21	FY2019/20	Office	Retail	
88.3	94.3	44.0	40.8	(2.2)	13.6	170,556	189,280	3.75	3.65	5,236,900
95.8	95.5	32.1	35.6	(1.1)	10.9	38,224	34,819	3.45	3.80	1,315,800
100.0	100.0	53.2	51.1	(10.7)	N/A	19,765	18,212	3.30	3.10	627,200
93.1	94.5	27.9	30.1	(9.1)	7.1	17,561	19,984	3.55	3.80	584,700
94.3	96.1	42.7	44.8	(11.0)	10.2	16,833	18,925	3.55	3.60	565,000
100.0	99.3	33.9	35.2	(6.0)	2.4	19,220	19,781	3.75	3.50	539,000
88.6	94.3	20.9	22.3	(11.5)	0.4	10,734	11,291	3.55	3.80	371,400
96.1	100.0	24.9	26.4	(9.1)	4.1	9,927	10,562	3.75	4.00	278,200
100.0	94.1	31.2	32.9	(9.8)	7.0	8,717	9,265	3.65	3.70	253,500
100.0	100.0	21.7	23.1	(9.7)	9.5	5,976	5,839	3.80	4.05	169,400
91.7	100.0	17.4	17.8	(0.4)	21.5	2,717	2,363	3.55	3.90	81,100
92.4	95.6	36.7	36.5	(5.3)	10.0	320,230	340,321			10,022,200
95.3	96.8	104.2	112.9	(8.4)	0.9	142,571	161,697	N/A	4.30	3,892,600
97.6	94.5	56.7	58.4	(9.0)	6.1	133,173	138,389	N/A	4.40	3,097,400
97.7	99.3	53.5	55.7	6.4	8.9	38,649	39,590	3.60	3.60	1,177,700
77.5	77.4	32.8	39.6	(32.5)	(24.7)	2,302	2,139	N/A	4.10	77,000
100.0	100.0	57.2	54.5	(10.7)	4.7	2,728	2,570	N/A	3.80	74,800
96.5	95.8	70.4	74.8	(7.2)	3.2	319,423	344,385			8,319,500
93.7	95.7	47.7	48.6	(6.2)	6.0	639,653	684,706			18,341,700

Dah Sing Financial Centre



- Occupancy rate of this property was under pressure as multinational corporations mulled over downsizing and cost-saving plans in light of global economic uncertainties.
- Thanks to maiden contribution from a new anchor tenant, overall passing rent showed a nice improvement as compared with the previous year.

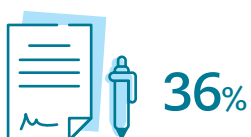
Valuation



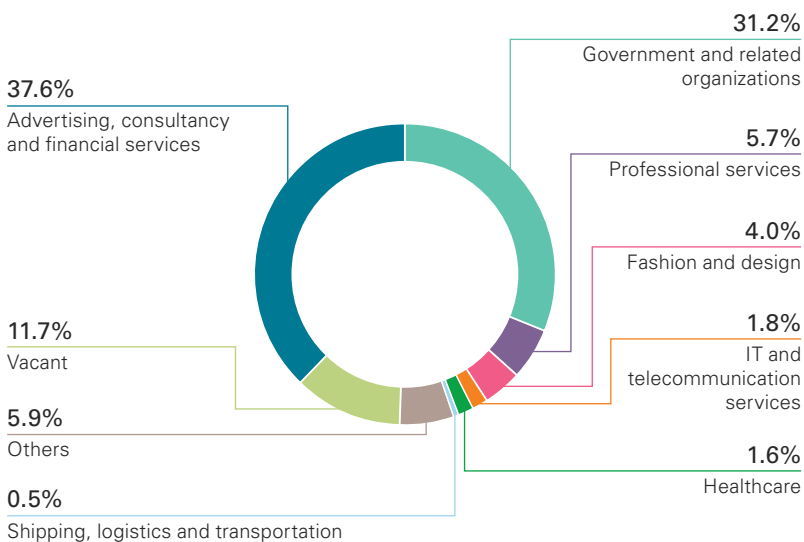
Rental reversion



Retention rate



Tenant mix*



* Tenant mix charts on pages 16 to 20 are expressed as a percentage of total GRA of the relevant property at 30 June 2021.

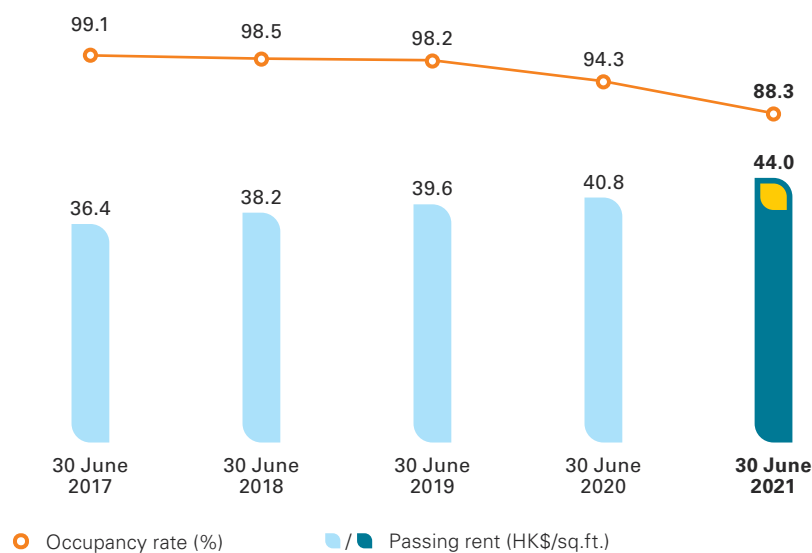


The onset of COVID-19 evidently dampened office leasing demand, as multinational corporations considered downsizing and cost-saving alternatives while adopting work-from-home arrangements. Further, due to the transitional vacancy resulting from the relocation of certain tenants, NPI of the property registered a year-on-year decrease of 9.9% to HK\$170.6 million. Gratifyingly, passing rent grew 7.8% to HK\$44.0 per sq. ft., principally supported by contribution from a new anchor tenant.

On 8 March 2021, this BEAM Plus – Platinum office property was renamed as Dah Sing Financial Centre (“**DSFC**”), signifying a new chapter of collaboration between Sunlight REIT and Dah Sing Bank, Limited (“**DSBL**”). Riding on this opportunity, the Manager has revamped the main lobby to enhance the overall ambience of the property.

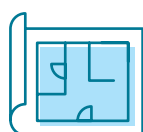
Including DSBL, advertising, consultancy and financial services ranked first in terms of tenant composition at 30 June 2021. Despite this change, DSFC continued to maintain a well-balanced and diversified tenant base, including government-related organizations and multinational corporations from a wide range of business sectors. At 30 June 2021, the number of leases at DSFC was 61 (30 June 2020: 67).

Occupancy rate and passing rent



Expiry profile (30 June 2021)

By GRA (%)



FY2021/22 **14.2**
 FY2022/23 **24.3**

By average rent (HK\$/sq. ft.)



FY2021/22 **43.6**
 FY2022/23 **44.5**



Sheung Shui Centre Shopping Arcade

- The absence of tourist spending continued to hamper the performance of SSC, though the gradual recovery in domestic spending was evident and gratifying.
- Introduction of quality eateries and the launch of a new e-shopping platform were met with a warm reception and helped stimulate footfall and sales.

Valuation



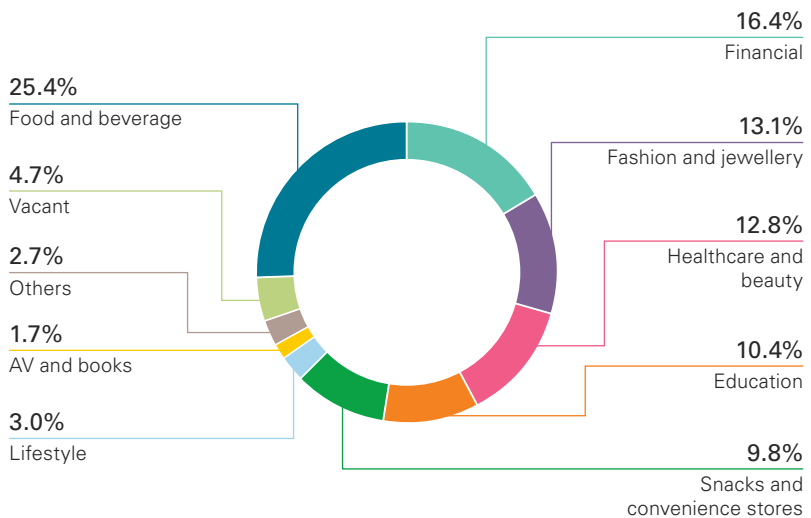
Rental reversion



Retention rate



Tenant mix



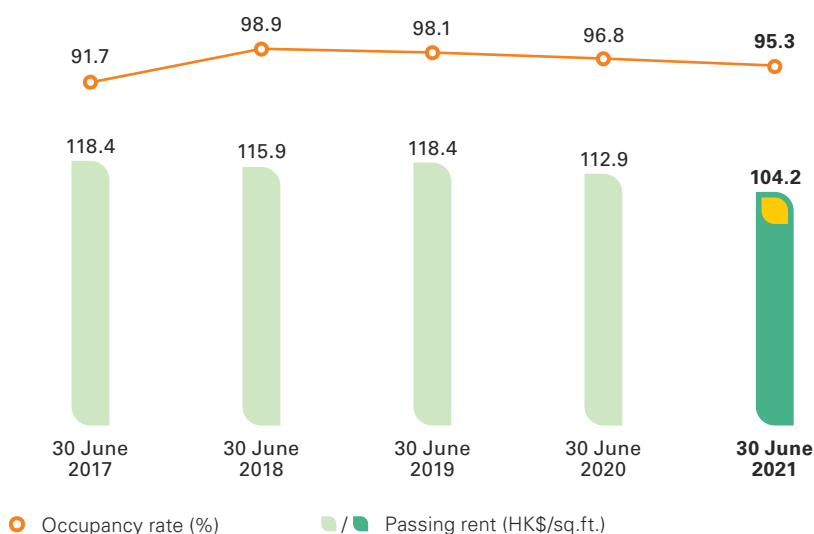


During the Year, social distancing restrictions and border controls hampered the footfall of and the sales of tourist-related trades at Sheung Shui Centre Shopping Arcade (“SSC”). Rental concessions and lower car park revenue further dragged down the overall performance of this retail destination. NPI decreased 11.8% to HK\$142.6 million, while passing rent was down 7.7% to HK\$104.2 per sq. ft..

Reflecting the difficult retail market environment especially for trades heavily relying on tourist spending, a negative rental reversion of 8.4% was recorded, although its occupancy rate managed to stay at a satisfactory level of 95.3%.

Gratifyingly, a gradual rebound in terms of footfall, tenants’ sales and new letting activities has emerged since the first quarter of 2021, mainly driven by the rollout of vaccination programmes and stabilized local consumer sentiment. In light of potential rental upside should the border be reopened later in the last quarter of 2021, the Manager has adopted a swift and selective approach in securing leases for prime locations in the mall.

Occupancy rate and passing rent



Expiry profile (30 June 2021)

By GRA (%)



FY2021/22	26.6
FY2022/23	43.2

By average rent (HK\$/sq. ft.)



FY2021/22	120.2
FY2022/23	116.2



Metro City Phase I Property

- Mirroring the gradual relaxation of social distancing restrictions, MCPI's performance has steadily improved since the early part of 2021, achieving a high level of occupancy rate throughout the Year.
- High retention rate and decent new leasing demand from non-discretionary trades provided notable support to revenue and underscored the defensive nature of this community shopping destination.

Valuation



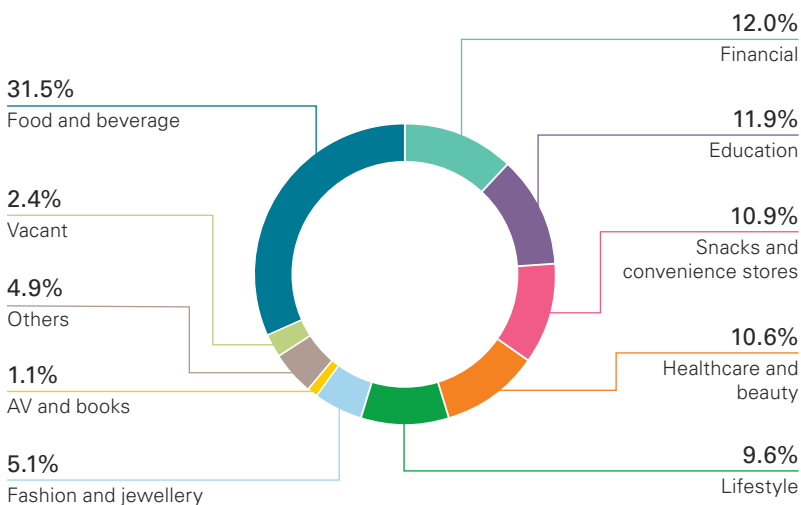
Rental reversion



Retention rate



Tenant mix

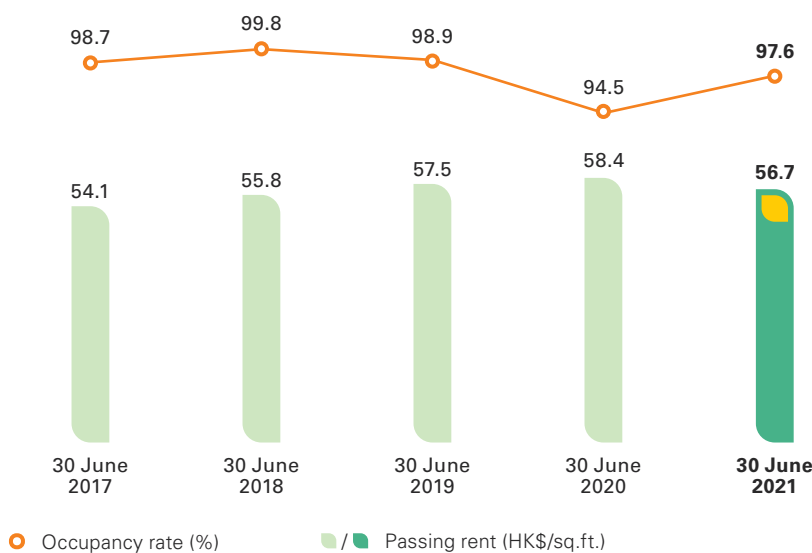




Metro City Phase I Property (“**MCPI**”) continued to demonstrate its resilience as a community shopping mall mostly catered to non-discretionary consumption. Although social distancing restrictions resulted in disruptions to dine-in businesses, the impact was partly offset by growing demand seen by grocery stores and a gradual pickup of consumer sentiment in the first half of 2021. Despite a 2.9% decrease in passing rent to HK\$56.7 per sq. ft., occupancy rate improved to 97.6% as compared to 94.5% a year ago.

NPI dropped 3.8% to HK\$133.2 million, while a negative rental reversion of 9.0% was recorded, principally reflecting business activities not having fully recovered to pre-pandemic levels.

Occupancy rate and passing rent



Expiry profile (30 June 2021)

By GRA (%)



FY2021/22 **39.4**
 FY2022/23 **40.3**

By average rent (HK\$/sq. ft.)

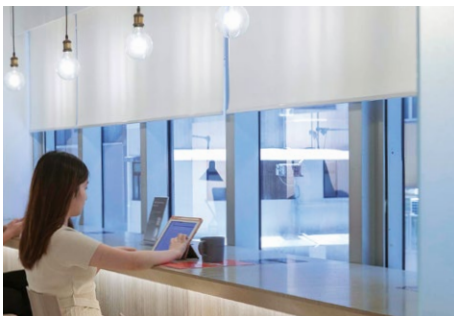


FY2021/22 **63.8**
 FY2022/23 **50.1**

Strand 50



- Timely asset enhancement initiatives helped Strand 50 to attract quality tenants, translating into encouraging performance in terms of occupancy rate and NPI.
- Completion of chiller plant replacement project will further improve the energy efficiency of the building.



The renovation works completed in the second half of 2019 succeeded in transforming Strand 50 into an appealing modern workplace in the core of the Sheung Wan district, underpinning a 9.8% growth in NPI to HK\$38.2 million with a small negative rental reversion of 1.1%.

Thanks to the commencement of new leases in the first half of 2021, occupancy rate of the property further improved to 95.8%, but passing rent was down 9.8% to HK\$32.1 per sq. ft. as compared to a year ago. Stripping out the impact from lease restructuring with theDesk, passing rent declined by a milder 3.6% to HK\$31.8 per sq. ft..



With the aim of infusing more green features into the building, the Manager is exploring the application of proptech in energy saving, risk containment and public hygiene. Meanwhile, the replacement of chiller plant was completed in April 2021, illustrating our continuing commitment to enhancing the quality of this property.

Sheung Wan/ Central office properties^{Note}



Winsome House Property



135 Bonham Strand Trade Centre Property

Valuation



2.8
HK\$ billion

Rental reversion



(7.1)%

Retention rate



61%

The Sheung Wan/Central portfolio of Sunlight REIT comprises of four properties with a combined GRA of over 250,000 sq. ft.. Its performance somewhat fell short of expectations amidst a shrinking economy and higher vacancy rates in Central office buildings. Overall NPI declined 2.0% to HK\$83.4 million.

Selected tenants of smaller office buildings such as 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre were still suffering from the lack of international trade flows, causing a decline in occupancy rates to 93.1% and 88.6% respectively. (30 June 2020: 94.5% and 94.3%), while negative rental reversions of 9.1% and 11.5% respectively for these buildings were recorded for the Year.

Winsome House Property managed to maintain its occupancy rate at 94.3%, though a negative rental reversion of 11.0% was recorded for the Year, mainly attributable to business suspension of certain semi-retail tenants under social distancing restrictions.

Note : Including Strand 50.

Other office properties

The other office properties include six smaller Grade B office buildings which are mainly located at decentralized areas such as North Point and Mong Kok, contributing approximately 10.4% of Sunlight REIT's NPI for the Year.

Tenants of these properties are typically location-driven and engaged in various service-related businesses, including healthcare and beauty, education and professional services. Although certain tenants in those trades had to put up with temporary business suspension during the Year, relatively stable domestic consumption helped to cushion the adverse impact on them.

At 30 June 2021, occupancy rate of this portfolio reached 98.5% and retention rate was maintained at 77%.

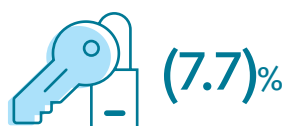


Righteous Centre (left) & The Harvest (right)

Valuation



Rental reversion



Retention rate



Kwong Wah Plaza Property

Other retail properties

The other three retail properties, comprising Kwong Wah Plaza Property in Yuen Long and a few street shops or retail spaces in residential or commercial buildings, constituted 6.8% of total NPI for the Year.

Kwong Wah Plaza Property continued to be a bright spot of Sunlight REIT's operating performance. Given its strategic location and the scarcity of office properties in the immediate vicinity, its occupancy rate was 97.7% with a respectable 6.4% rental reversion for the Year.

The performance of Beverley Commercial Centre Property was dampened by a shattering blow to wedding-related trades given a near absence of wedding ceremonies during the pandemic, leading to its relatively low occupancy rate of 77.5%. In contrast, the Supernova Stand Property achieved full occupancy at 30 June 2021.

Valuation



Rental reversion



Retention rate



Key asset enhancement initiatives

Over the past few years, the Manager has devoted considerable effort to implementing asset enhancement initiatives to burnish the brand identity and enhance the energy efficiency of Sunlight REIT's key properties. We are pleased to highlight two initiatives conducted during the Year.



Retail reconfiguration and lobby renovation at Dah Sing Financial Centre

With a strategic objective of promoting the renamed DSFC and catering for the needs of tenants, the Manager has revamped the main lobby of the building, comprising a complete overhaul of its entrances as well as refurbishment of the end wall of the lift lobby with an intelligent and energy efficient lighting system, a new concierge counter and refreshing greenery wall panels.

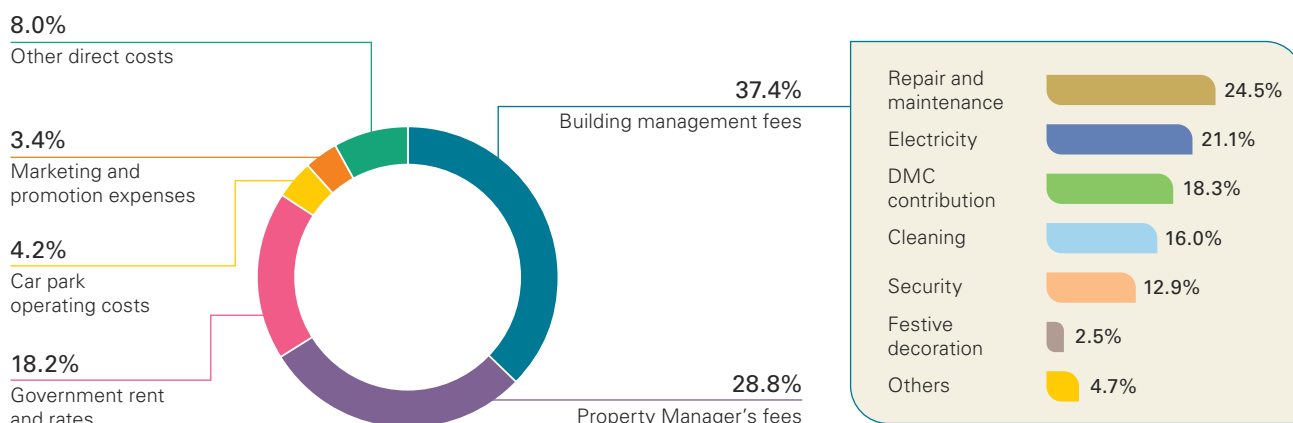
To complement the new flagship branch of DSBL, the Manager has brought in two well regarded eateries on the ground floor, serving authentic Korean dishes as well as coffee and wellness beverages.



Chiller plant replacement at Strand 50

As a continual enhancement of Strand 50, the Manager undertook energy efficiency improvement measures by replacing all of the chiller plants of the building. Completed in April 2021 at a cost of approximately HK\$6 million, this asset enhancement initiative is another example to demonstrate the Manager's commitment to ensuring greater energy efficiency.

Components of property operating expenses



Operational statistics

The entire portfolio of Sunlight REIT recorded an average occupancy rate of 93.7% at 30 June 2021 (30 June 2020: 95.7%). As a consequence of the headwinds faced by the office leasing market, occupancy rate of the office portfolio was 92.4% (30 June 2020: 95.6%), while the corresponding figure of the retail portfolio was 96.5% (30 June 2020: 95.8%). Their retention rates were 53% and 67% (FY2019/20: 68% and 77%) respectively.

Average passing rent of the office portfolio was HK\$36.7 per sq. ft. at 30 June 2021, up 0.5% from a year ago, while that of the retail portfolio was HK\$70.4 per sq. ft., down 5.9% year on year. During the Year, office and retail portfolios recorded negative rental reversions of 5.3% and 7.2% respectively, resulting in a 6.2% average negative rental reversion of the portfolio.

At 30 June 2021, the weighted average lease length in terms of GRA was 3.3 years for the entire portfolio. Leases expiring in FY2021/22 account for 29.1% of office GRA and 37.1% of retail GRA. The average rents for the expiring office and retail leases are HK\$36.1 per sq. ft. and HK\$73.3 per sq. ft. respectively.

Tenancy base

Sunlight REIT maintained a diverse tenancy base with 817 tenancies at 30 June 2021. The largest tenant accounted for 5.6% of total revenue for the Year and occupied 7.2% of total GRA at 30 June 2021, while the corresponding figures for the top five tenants were 16.0% and 14.9%.

Car park income

Sunlight REIT held a total of 795 car park spaces at three properties, namely DSFC, SSC and MCPI. Compared to the preceding year, car park income declined 5.1% to HK\$32.4 million, mainly attributable to lower hourly income at SSC.

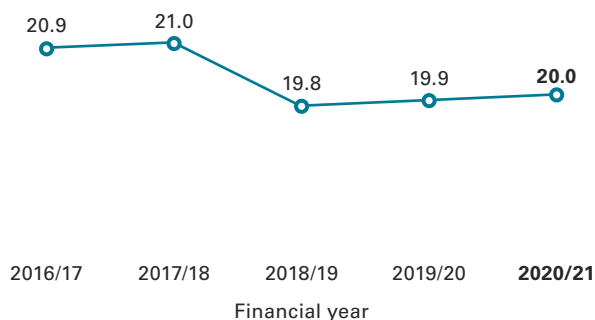
Cost control and capital expenditure

The Manager maintained a high level of discipline in cost control particularly by minimizing non-essential operating expenses. Cost-to-income ratio for the Year was unchanged at 20.0%.

Capital expenditure ("**CAPEX**") (excluding the costs for property acquisition) for the Year amounted to HK\$12.5 million (FY2019/20: HK\$52.5 million), while contracted capital commitments at 30 June 2021 were HK\$6.2 million.

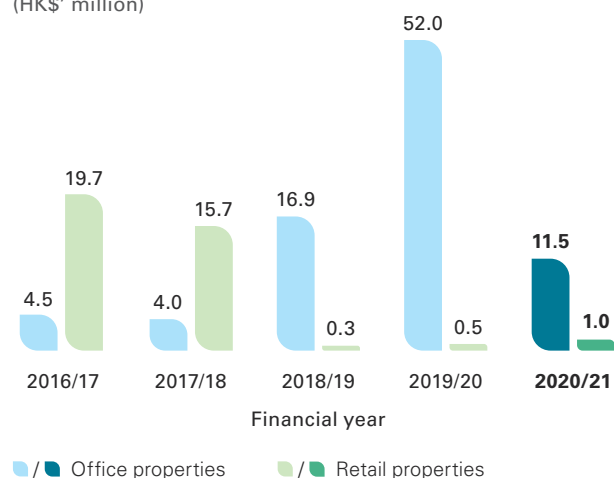
Cost-to-income ratio

(%)



Capital expenditure^{Note}

(HK\$' million)



Environmental, Social and Governance

Grounded on the firm belief that environmental, social and governance and corporate performance are intrinsically intertwined, the Manager is committed to pursuing sustainability with continued efforts to deliver positive environmental and societal contributions.

During the Year, we devoted substantial resources to enhancing the ESG performance of Sunlight REIT, particularly through policy formulation, green project implementation, sustainable finance participation and active stakeholder management. First, with a view to improving our assessment of ESG performance, the Board has approved the formal adoption of four ESG policies during the Year, covering the areas of waste and water, climate change, sustainable procurement and community investment. Meanwhile, thanks to the diligence of the technical team, we completed the chiller plant replacement project at Strand 50 on schedule in April 2021. On the financial front, our attempt to integrate sustainable finance into the capital management framework of Sunlight REIT has met with

a warm reception from the banking community. With over one-third of Sunlight REIT's borrowings currently tied to sustainability, we expect this proportion to further increase in the coming financial year.

The persistence of COVID-19 did not deter us from extending care to and building a collaborative relationship with our stakeholders and our community. Some of our key endeavours during the Year included our partnership with non-governmental organizations ("**NGOs**") to serve the underprivileged and the elderly, investment in proptech to enhance the health and safety standards of our properties, and the launch of a rental assistance scheme to support ESG-related start-ups and NGOs. During the Year, the Manager and Sunlight REIT complied with all relevant laws and regulations in relation to ESG.

Details in relation to the environmental and social performances of Sunlight REIT, the Manager and the Property Manager are set out in our "Environmental, Social and Governance Report" on pages 32 to 59.

Note : Excluding the costs for property acquisition.

Financial Review

Financial highlights

(in HK\$' million, unless otherwise specified)	2021	2020	2019	2018	2017
For the year ended 30 June :					
Revenue	799.3	854.6	850.7	817.4	788.1
Property operating expenses	159.6	169.9	168.2	171.3	164.7
NPI	639.7	684.7	682.5	646.1	623.4
Cost-to-income ratio (%)	20.0	19.9	19.8	21.0	20.9
(Loss)/profit after taxation	(233.7)	(751.4)	1,591.1	1,442.3	743.5
Annual distributable income	438.3	467.0	467.3	450.5	434.5
DPU (HK cents) ^{Note}	25.6	26.8	27.3	26.5	33.0
Payout ratio (%) ^{Note}	97.5	95.2	96.4	96.7	124.3
At 30 June :					
Portfolio valuation	18,341.7	18,918.0	20,002.5	18,754.8	17,062.4
Total assets	19,199.7	19,674.1	20,805.8	19,631.3	18,297.8
Total liabilities	5,075.4	4,902.9	4,813.9	4,774.3	4,398.3
Net asset value	14,124.3	14,771.2	15,991.9	14,857.0	13,899.5
Net asset value per unit (HK\$)	8.45	8.89	9.68	9.03	8.49
Gearing ratio (%)	23.0	21.6	20.4	21.8	21.5

Operating results

The revenue of Sunlight REIT decreased 6.5% for the Year to HK\$799.3 million. In addition to the impact of lower occupancy rates and negative rental reversions, the results were weighed down by a HK\$14.1 million amortization of rental concessions (FY2019/20: HK\$7.5 million) granted to help tenants to weather pandemic-spawned adversities.

Reflecting the favourable interest rate environment during the Year, finance costs declined 22.2% year on year to HK\$93.7 million. Taking into account a decrease in the fair value of investment properties of HK\$605.2 million, a loss after taxation of HK\$233.7 million for the Year was reported (FY2019/20: a loss of HK\$751.4 million).

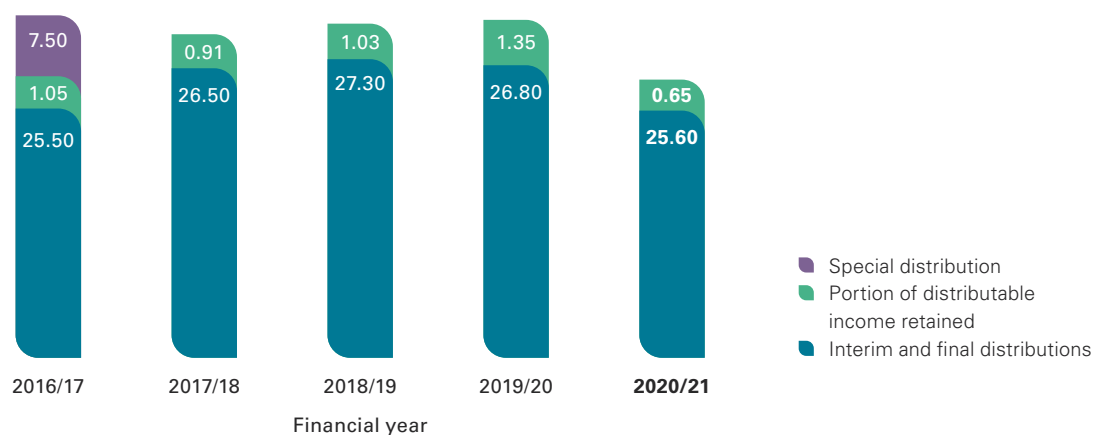
Distribution

Total distributions for the Year amounted to HK\$427.4 million, down 3.9% year on year. The full-year DPU of HK 25.6 cents represented a distribution yield of 5.7% based on the closing price of HK\$4.49 on the last trading day of the Year.

Note : A special distribution of HK 7.5 cents was included in 2017. Excluding the special distribution, the payout ratio in 2017 would have been 96.1%.

Distribution at a glance

(HK cents)



Financial position

The Sunlight REIT's portfolio was appraised by the Principal Valuer at HK\$18,341.7 million at 30 June 2021, representing a decrease of 3.0% from a year ago. Consequently, the gross assets and net assets of Sunlight REIT were HK\$19,199.7 million and HK\$14,124.3 million respectively (30 June 2020: HK\$19,674.1 million and HK\$14,771.2 million). Net asset value per unit was HK\$8.45 (30 June 2020: HK\$8.89).

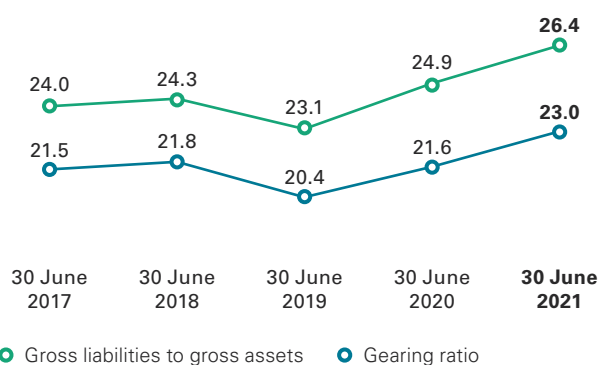
At 30 June 2021, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) was 23.0% (30 June 2020: 21.6%), while

gross liabilities as a percentage of gross assets rose to 26.4% (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 deposit to electricity utility companies.

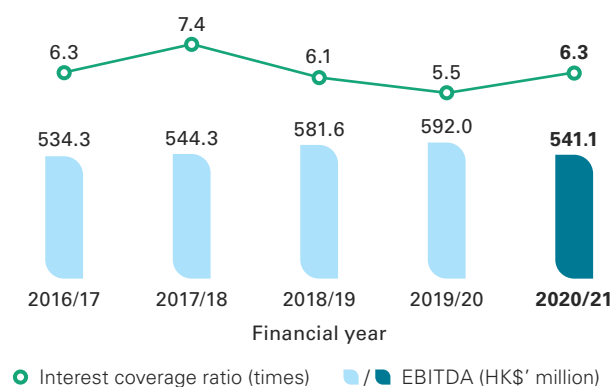
The EBITDA^{Note} of Sunlight REIT decreased 8.6% year on year to HK\$541.1 million, while cash interest expenses dropped 19.8% to HK\$86.4 million. In light of a faster decrease in cash interest expenses, interest coverage ratio for the Year improved to 6.3 times as compared with 5.5 times recorded in the previous financial year.

Gearing ratio and gross liabilities to gross assets

(%)



EBITDA and interest coverage ratio



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

Interest margin of term loan facilities

0.74%
per annum (over HIBOR)

Weighted average funding cost

2.0%
(FY2019/20 : 2.53%)

Capital and interest rate management

During the Year, Sunlight REIT successfully raised HK\$1,813 million in the loan and capital markets, comprising HK\$1,513 million SLLs and a maiden HK\$300 million five-year medium term notes. These borrowings had been principally applied towards the refinancing of certain bank loans, with a small portion kept as working capital.

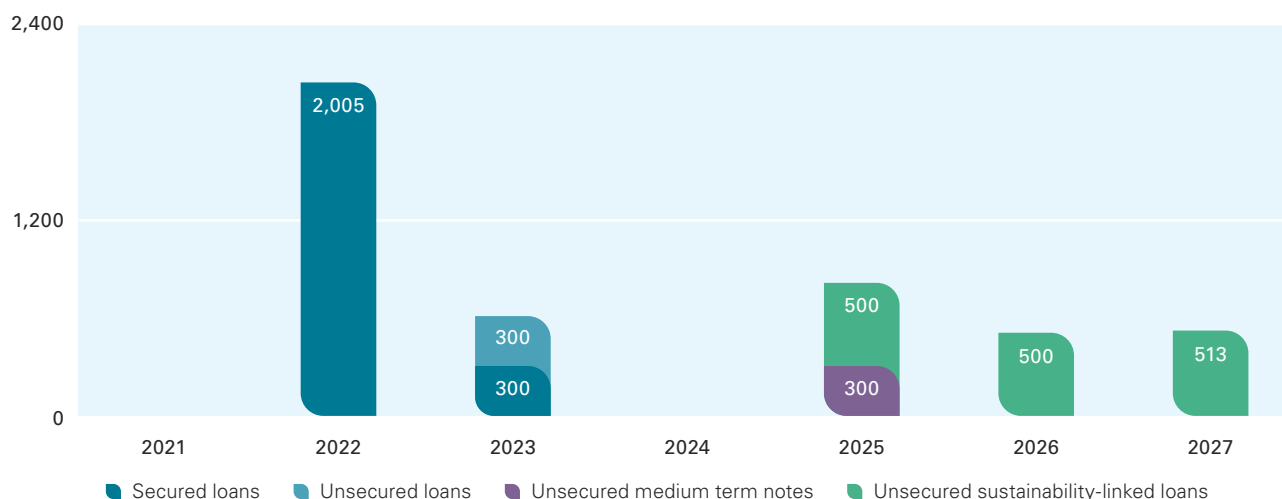
At 30 June 2021, Sunlight REIT had total borrowings of HK\$4,418 million (30 June 2020: HK\$4,250 million) consisting of secured loans of HK\$2,305 million and unsecured borrowings of HK\$2,113 million, with a weighted debt maturity period of 2.7 years.

With the issuance of fixed rate notes and the entering into additional interest rate swaps, the percentage of Sunlight REIT's fixed rate borrowings at 30 June 2021 was approximately 80% (30 June 2020: 52%). The weighted average interest rate (including loan interest margin, if applicable) for the fixed rate borrowings was 2.42% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.74% per annum over Hong Kong Interbank Offered Rate ("HIBOR"). Weighted average funding cost for the Year was 2.0%, comparing to 2.53% recorded in the preceding financial year. It is expected that the fixed rate portion of the borrowings will stay above 55% over the next two years.

Maturity profile of total borrowings

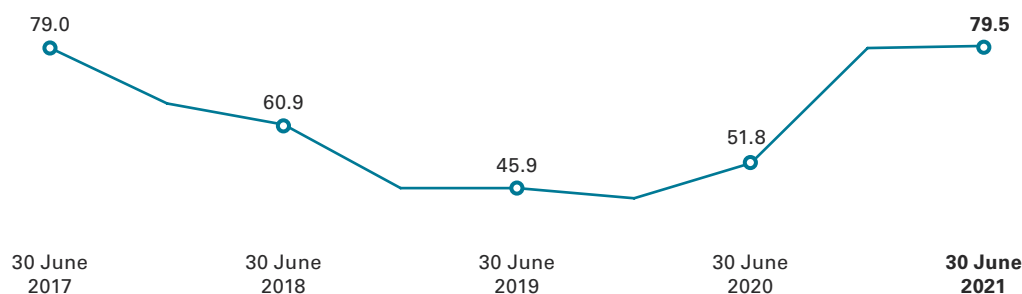
(30 June 2021)

HK\$' million



Fixed rate borrowings as a % of total borrowings

(%)



Liquidity management and currency exposure

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments¹, with an overall maturity profile compatible with projected funding requirements.

At 30 June 2021, Sunlight REIT had total cash and bank balances of HK\$623.3 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK\$140.9 million. It also had uncommitted revolving credit facilities of HK\$600 million which remained undrawn at the end of the Year. 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 CAPEX requirements.

Sunlight REIT has exposure to United States dollars through its portfolio of Relevant Investments while its exposure to Japanese yen (in relation to 7,000 million Japanese yen loan) has been fully hedged by swapping the position into Hong Kong dollars.

Tax matters

In prior years, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on one property holding company (the “**Taxpayer**”) as well as certain other property holding companies under

Sunlight REIT, disallowing certain tax deductions². Notices of objection were filed with the IRD against the additional profits tax assessments raised and tax reserve certificates with an aggregate amount of HK\$53.5 million were purchased.

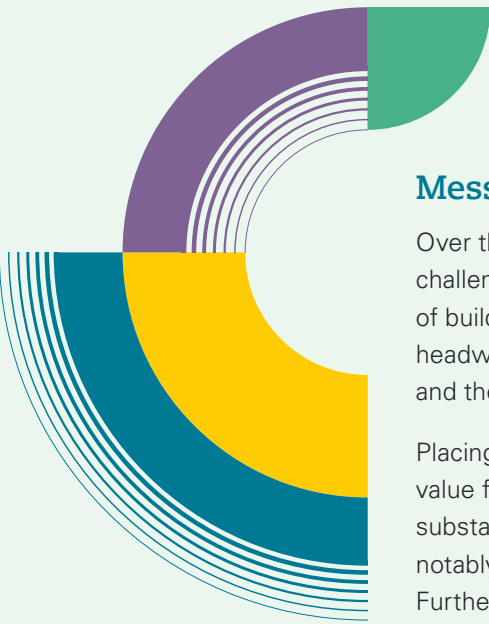
In April 2018, the determination from the Deputy Commissioner of the IRD in respect of the objections to the assessments on the Taxpayer was received, allowing the deduction of property management fees and rental commissions, while the management fees remained non-deductible. The Taxpayer contested the determination and a notice of appeal 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 assessments are to be revised to allow for the deduction of the management fees. The IRD did not appeal against the BoR Decision.

The Manager is delighted to report that at 30 June 2021, all the relevant additional profits tax assessments in respect of the property holding companies had been revised by the IRD to allow for the deduction of management fees, property management fees and rental commissions. In addition, all the applicable tax reserve certificates had been redeemed in full from the IRD. Accordingly, the tax dispute is fully settled.

Notes :

1. As defined in paragraph 7.2B of the REIT Code.
2. The IRD disallowed the deductions of 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 consolidated financial statements on page 141 for further information.

Environmental, Social and Governance Report



Message from CEO

Over the past year, the COVID-19 pandemic has continued to present an unprecedented challenge to the real estate industry, which further underscores the vital importance of building a business strategy that may ensure resilience amid sudden relentless headwinds. The crisis has also brought to the fore the intricate interplay between people and the planet, hence the priority of sustainability.

Placing ESG at the heart of our operating philosophy, we strive to create long-lasting value for our stakeholders and society at large. During the Year, we continued to devote substantial resources to enhancing the energy efficiency of our managed properties, notably including chiller replacement and installation of intelligent lighting systems. Furthermore, we are re-assessing our buildings through performance measurement and audits in order to track and improve operational efficiency. In particular, riding on the success of Dah Sing Financial Centre as a BEAM Plus platinum rated property, we shall strive to expand our footprint on green building certification going forward, enabling us to keep abreast of the evolving industry standard.

In prevailing extraordinary circumstances, we cannot emphasize more the importance of engaging with our employees and stakeholders in response to the pandemic. We have worked closely with our partners to cope with the challenges jointly by launching a rental assistance scheme that offers discounted rents to tenants with sustainability missions to alleviate their financial burden. Internally, we have invested in staff development, health and safety as well as workplace well-being, nurturing our human capital in the face of an ever-changing market environment.

Embarking on the second phase of our three-year sustainability roadmap, we have strengthened our ESG framework by revamping our sustainability-related policies and committing 21 targets to drive our strategy forward. In addition, we have secured over HK\$1.5 billion sustainable financing during the Year, with interest margin being tied to measurable sustainability targets over the course of the borrowings. These initiatives demonstrate not only the financial value of our ESG pursuits, but also our aspiration to operate a more sustainable business.

The theme of our annual report, “**Advancing Sustainability**”, underpins our passion for and commitment to sustainability. In crafting our strategic roadmap ahead of the 15th listing anniversary of Sunlight REIT, we shall endeavour to integrate sustainability initiatives into our management framework, while acting as a responsible corporate citizen to drive positive societal and environmental impacts. Guided by the 2030 Sustainability Vision, I am confident that Sunlight REIT will continue to grow along the sustainability journey and be the preferred real estate investment trust that creates value for our environment and society.

WU Shiu Kee, Keith

Chief Executive Officer

7 September 2021

About the ESG Report

Reporting standard

This ESG Report has been prepared in accordance with the requirements stipulated in the ESG Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). It provides details of the management approach and the ESG performance of Sunlight REIT for the Year, while establishing a channel to communicate our ESG-related policies and initiatives to our stakeholders. Please refer to the Performance Summary on pages 55 to 56, which provides quantitative information of our ESG performance, including our calculation methodologies and conversion factors.

This ESG Report covers the performance of Sunlight REIT, the Manager and the Property Manager with the considerations of the percentage of ownership and level of operational control of the premises when defining the reporting boundaries, in order to illustrate the majority of our environmental and social impacts from our operations. The scope of the environmental key performance indicators (“**KPIs**”) covers a selected portfolio of managed properties^{Note}.

Corporate governance can be found in relevant section of this annual report. A detailed contents index with reference to the ESG Reporting Guide is also included on pages 58 to 59.

Contact us

We welcome your feedback on our ESG Report and management. Please share your thoughts with us at ir@HendersonSunlight.com.



Note : Data of energy consumption, greenhouse gas emissions and waste management cover all wholly-owned properties, including DSFC, SSC, MCPI, Strand 50, The Harvest, Righteous Centre, 235 Wing Lok Street Trade Centre, Java Road 108 Commercial Centre and On Loong Commercial Building. Water consumption data cover DSFC, SSC, MCPI, Strand 50, Righteous Centre, 235 Wing Lok Street Trade Centre, Java Road 108 Commercial Centre and On Loong Commercial Building.

Sustainability strategy framework



As the Manager of Sunlight REIT, we are committed to managing sustainability as an integral part of our business strategy. In the preceding year, we established a sustainability strategy framework to help us operate responsibly across all aspects of our business.

Guided by our 2030 Sustainability Vision, the sustainability strategy framework is structured with the following management elements in place :

- **Strategic pillars:** Indispensable building blocks for business continuity where ESG risks and opportunities shall be addressed and considered.
- **Focus areas:** ESG priorities upon which our sustainability aspirations are built.
- **Business foundations:** Good corporate governance is fundamental to long-term business viability while “capital” and “relationship” represent the two facets reflecting our core business foundations.

Following the formulation of our sustainability strategy framework and the completion of key sustainability-related policies and target setting exercise during the Year, we will focus on tracking and assessing our performance in the coming financial year.



**Phase 1:
Strategy formulation**

Establishing the sustainability strategy lays the groundwork for strengthening our sustainability management. Projects completed are:

- Enhanced internal awareness through capacity building and engagement exercises
- Developed a sustainability strategy framework to drive ESG performance



**Phase 2:
Target setting**

During the Year, we put our emphasis on improving the management system by reinforcing governance and setting targets:

- Established four sustainability-related policies
- Set sustainability targets in each focus area



**Phase 3:
Progress tracking**

Stepping into the third phase of our sustainability journey, we will focus on implementation and effectiveness tracking:

- Review the progress of implementing the sustainability strategy
- Track and analyze sustainability target performance
- Engage stakeholders to identify gaps and respective action plans

Environmental, Social and Governance Report

Sustainability targets¹

During the Year, we developed sustainability targets with a view to accomplishing the 2030 Sustainability Vision. Through a series of internal stakeholder communications and feasibility discussions, 21 goals across four strategic pillars are formulated in a specific, attainable and measurable manner.

Land



Green buildings

- Obtain green building certifications for four properties (DSFC, SSC, MCPI and Strand 50) by FY2025/26
- Obtain good class or above indoor air quality (“IAQ”) certificates for 50% of properties (in terms of total GRA) by FY2025/26
- Adopt one building innovation and/or ESG-related proptech annually



Waste and water

- Divert 25% waste from landfill by FY2030/31
- Reduce 25% water consumption by FY2030/31
- Develop policy and system to record quantity of certain recyclables² for selected wholly-owned properties by FY2021/22
- Conduct water risk assessment by FY2021/22



Energy and carbon emissions

- Reduce 25% energy consumption and carbon emissions by FY2030/31
- Conduct carbon audit by FY2025/26



Climate change

- Adopt Task Force on Climate-related Financial Disclosures (TCFD) framework for climate-related disclosure by FY2025/26

Notes :

1. The sustainability targets cover Sunlight REIT’s wholly-owned properties and operations of the Manager and the Property Manager. The baseline year for energy consumption and carbon emissions as well as water consumption is FY2015/16, while the corresponding baseline year for training hours per employee, volunteering hours and CSR budget is FY2017/18.
2. Recyclables comprise glass bottles, rechargeable batteries and waste electrical and electronic equipment.

Human



Employee well-being

- Conduct annual employee well-being survey by FY2022/23



Health and safety

- Evaluate occupational health and safety training needs of employees by FY2025/26



Training and development

- Increase 30% training hours per employee by FY2030/31
- Develop employee learning and development plan by FY2025/26

Partnership



Tenant satisfaction and well-being

- Establish a green lease programme by FY2025/26



Sustainable financing

- Develop sustainable finance framework by FY2025/26



Supply chain management

- Develop supply chain risks assessment system by FY2025/26
- Develop and implement green procurement system by FY2025/26



Strategic partnerships with NGOs

- Conduct impact measurement for major corporate social responsibility (“**CSR**”) initiatives by FY2030/31

Neighbourhood



Community investment

- Increase 50% volunteering hours by FY2030/31
- Increase 100% CSR budget by FY2030/31

Environmental, Social and Governance Report

Materiality

Effective sustainability management requires us to identify the material sustainability issues, which are determined by the importance to and the level of impact on the business and its stakeholders.

We strive to understand stakeholder expectations in order to prioritize the time and resources to create lasting value for stakeholders. Accordingly, we have conducted a range of stakeholder engagement activities and a materiality assessment exercise during the Year.

Stakeholder engagement

We value the feedback from internal and external stakeholders, particularly their concerns and expectations about sustainability issues. Through various communication channels, we are delighted to have engaged with a diverse group of significant stakeholders, including directors, employees, tenants, customers, suppliers, investors, financial institutions and community organizations.

Key stakeholders' feedback

Climate change

How does Sunlight REIT address climate-related impacts and associated regulatory requirements?

Tenants, investors,
financial institutions



Our responses

- The Manager has established a climate change policy and related targets to enhance the readiness for and mitigate the physical and regulatory impacts. Also, we continue to ramp up our efforts in sustaining green buildings and green operations with a view to minimizing our impact on the environment.
- For more information, please refer to the climate change section of this report on page 47.

Sustainable financing

How does Sunlight REIT capitalize on the growing opportunities of sustainable financing?

Investors,
financial institutions



Our responses

- The Manager has been actively engaging in sustainable financing, as exemplified by the securing of three sustainability-linked loans during the Year.
- Going forward, we aim for at least 20% of the entire borrowings of Sunlight REIT contain sustainability features. We will also develop a sustainable finance framework in accordance with the Sustainability Linked Loan Principles^{Note} as our medium-term target.
- For more information, please refer to the sustainable financing section of this report on pages 51 to 52.

Note : Jointly issued by Asia Pacific Loan Market Association, Loan Market Association as well as Loan Syndications and Trading Association.

Stakeholders' well-being

How does Sunlight REIT take care of the stakeholders' wellness in its properties and workplace?

Tenants, employees

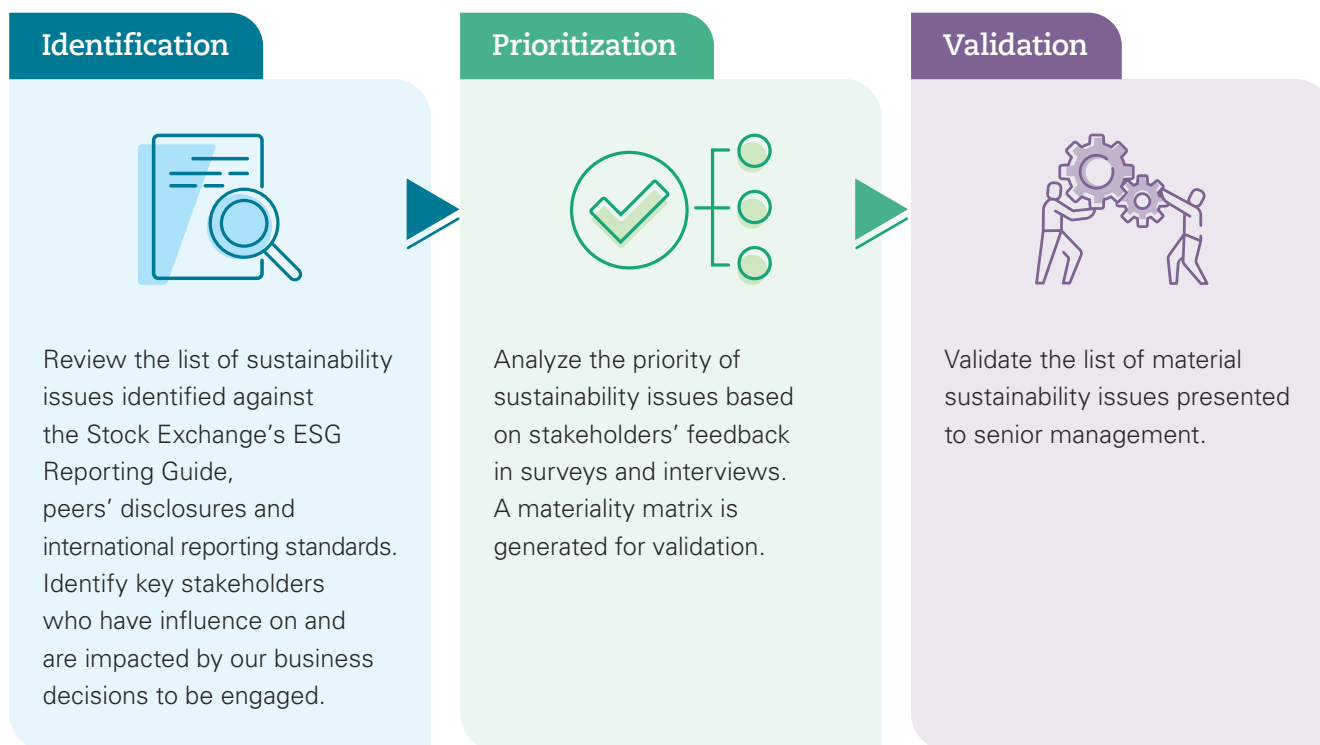


Our responses

- COVID-19 has posed unprecedented challenges to our stakeholders both physically and mentally. The Manager is well aware of their growing well-being needs.
- For employees, we provide necessary support to relieve their mental pressure, such as organizing leisure activities, offering flexible working hours and granting vaccination leave. As regards enhancing tenants' wellness, tenant engagement programmes and activities have also been organized; as a case in point, we launched an online seminar for tenants to share insights and tips on methods to enhance indoor air quality.
- For more information, please refer to our responses to COVID-19 section of this report on page 43.

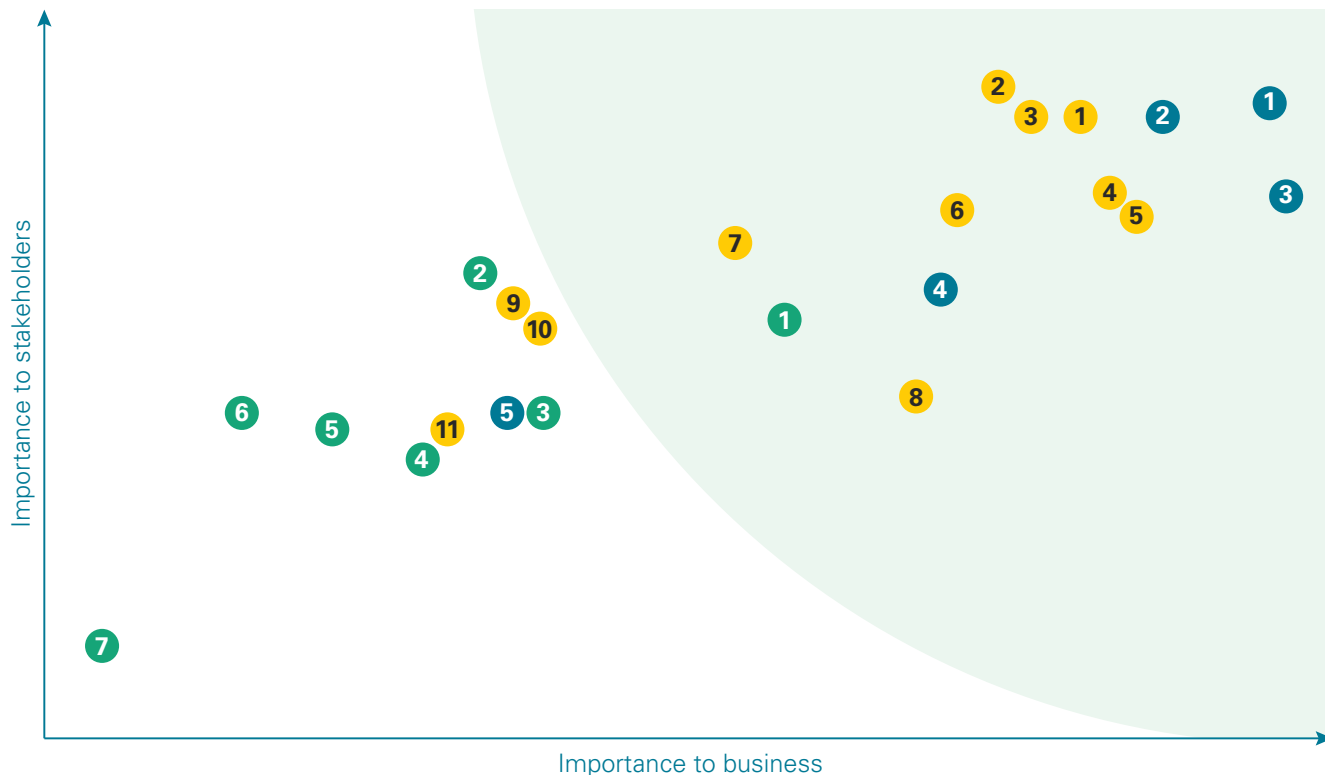
Materiality assessment

Materiality assessment is the process of identifying and prioritizing sustainability topics that matter to our stakeholders and to the business of Sunlight REIT. We have conducted the materiality assessment via the following three-step process :



Environmental, Social and Governance Report

During the Year, we appointed an independent consultant to conduct a materiality assessment. Through online surveys, internal and external stakeholders were engaged. Based on the consolidated results from nearly 200 survey responses, a materiality matrix illustrating the relative importance of the 23 sustainability topics is summarized below.



Environment	
1	Energy consumption
2	Green buildings
3	Materials use
4	Waste management
5	Greenhouse gas emissions
6	Water consumption
7	Climate change

Social	
1	Customer privacy protection
2	Quality assurance and customer satisfaction
3	Occupational health and safety
4	Customer health and safety
5	Employee well-being
6	Talent attraction and retention
7	Staff training and development
8	Employment practices
9	Diversity and inclusion
10	Supply chain management
11	Community investment

Governance	
1	Legal compliance
2	Anti-corruption
3	Ethics and integrity
4	Risk management
5	Stakeholder engagement

Sustainability governance structure

A robust governance structure is a critical component of effective ESG management. From the top, the Board is responsible for overseeing and approving the ESG framework and strategy proposed by the ESG Committee. It also takes a leading role in assessing the impact of material ESG-related risks and opportunities as well as their associated business implications for Sunlight REIT in the long run.

The ESG Committee is in place to guide our sustainability directions and priorities. Chaired by the Chief Executive Officer, the ESG Committee comprises senior representatives from the Manager and the Property Manager. Its main duties include (but not limited to) defining Sunlight REIT's ESG strategy, priorities and work plan. In respect of the social aspect, the ESG Committee works closely with the CSR Committee on community investment and involvement, while fostering connections with our stakeholders.



The Board

- Oversee and approve ESG strategy, work plan, performance and reporting
- Evaluate, prioritize and manage material ESG-related risks and explore opportunities
- Review progress towards ESG-related goals and targets

ESG Committee

- Report to the Disclosures Committee and the Board; work closely with the CSR Committee and operating units to formulate and implement the ESG strategy of Sunlight REIT
- Establish ESG goals and objectives, conduct performance reviews

CSR Committee

- Initiate and implement community programmes which are aligned with social responsibility principles

Operating Units

- Execute sustainability-related initiatives and report progress to the ESG Committee

Environmental, Social and Governance Report

Board statement

The Board is committed to and has the ultimate responsibility for sustainability - in recognition of the growing importance of integrating ESG principles and values into business decision-making processes, it plays an active role with direct oversight on the ESG performance of Sunlight REIT.

To ensure effective implementation of management system and initiatives, ESG-related matters have been incorporated in the agenda of Board meetings, at which an update report from the ESG Committee shall be provided. The strategic ESG directions are cascaded from the Board to various operating units principally through the ESG Committee.

The Board is also responsible for reviewing the list of material ESG issues and the ESG risk register to ensure appropriate risk mitigation plans and control measures are in place. Goals and targets are derived from ESG issues which have material impact on the business. All sustainability disclosures and internal policies are reviewed and endorsed by the Board, while targets and performance are assessed on a timely basis.

Anti-corruption and integrity

We are committed to adopting the industry best practice of business ethics and integrity from the management to the operational level, with no tolerance for corruption and/or bribery activities. Employees are expected to strictly adhere to relevant policies, including the anti-money laundering policy and the anti-fraud policy. Further, our employee code of conduct also stipulates the requirements of preventing corruption in the workplace, while the policy of reporting irregularities sets out the guidelines about whistle-blowing procedures. We also encourage employees and business partners to report suspected misconduct and malpractice through various communication channels such as dedicated hotline and email.

We review from time to time the robustness of our internal control systems which are developed to ensure relevant policies and guidelines are strictly enforced. Meanwhile, heads of departments and operating units are responsible for conducting systematic fraud risk assessments and imposing mitigation controls for identified fraud risks. Guidance is provided to employees through training which also forms part of the induction programme for new hires. During the Year, the Manager organized an anti-corruption seminar jointly with the Independent Commission Against Corruption.

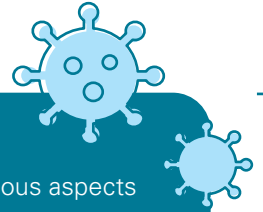
We comply with the local laws and regulations relating to bribery, extortion, fraud and money laundering^{Note}. During the Year, there were no concluded legal cases regarding corrupt practices brought against the Manager or its employees.

Note : Including but not limited to Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615) and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) issued by the SFC.



Our responses to COVID-19

The enduring impact of COVID-19 remains a serious risk encompassing various aspects of the economy and the society. Accordingly, we have stayed on high alert to combat the pandemic, ensuring that our health and safety measures as well as our caring initiatives are adequate.



Enhancing health and safety protection



Comprehensive disinfection

More frequent and comprehensive disinfection measures were conducted in particular to our shopping malls and lobbies of core office properties.



Regular COVID-19 testing

All on-site staff, security guards and cleaners were required to conduct COVID-19 tests every 14 days.



Online training about air quality

An online training about the effective ways to improve indoor air quality was organized for tenants to promote healthy workplace.

Enhancing workplace protection



Split team and work-from-home

The Manager has adopted split team and work-from-home arrangements to minimize employees' infection risk to COVID-19.



Face masks and COVID-19 testing kits

The Manager provided face masks and COVID-19 testing kits to employees to mitigate the risk of contamination.



Vaccination leave

Two days of vaccination leave are granted to employees for each COVID-19 vaccination received.

Enhancing community care initiatives



Rental assistance

A rental assistance scheme for NGOs and start-ups organizations with sustainability focuses was launched.



Online learning for children

Online workshops were arranged for children from underprivileged families, learning the skills of handmade toys and having fun learning.



Sunlight goodies bags

To extend our care to the community, the Manager distributed Sunlight goodies bags with anti-virus resources to the elderly during Dragon Boat Festival.

Our Four Strategic Pillars



Land

As the Manager of Sunlight REIT, we support land use and real estate practices that contribute to a resilient community and a healthy environment. We strictly comply with local regulations and standards^{Note} relating to air quality and greenhouse gas (“GHG”) emissions, effluent discharges and hazardous and non-hazardous wastes handling in our operations.



Green buildings

Aspiration : We operate our properties in accordance with a holistic set of green building principles and benchmarks for continuous improvement of our performance.

We strive to advance sustainability in our daily business through integrating environmental considerations into the management, operations and maintenance of our properties. Our property management team takes a holistic approach to optimizing the building performance in energy, waste and water management while improving indoor environmental quality and tenant satisfaction according to green building principles.

Our commitment to advocating green buildings is exemplified by our flagship property, DSFC (formerly Sunlight Tower), which has been awarded by the BEAM Society Limited the highest Platinum Rating in HK-BEAM and subsequently BEAM Plus since 2011. While the existing structure of the property may somewhat limit the flexibility to install additional green facilities, we continue to invest in upgrading our building facilities to more energy-efficient models and implementing green purchasing practices during building renovations. To ensure the effectiveness of green management, we conducted a wide range of assessments, including energy and carbon audit, lighting simulation, acoustic measurement and freshwater quality measurement at DSFC during this Year, paving the way to renew the certification under the latest BEAM Plus for Existing Buildings version 2.0 by the end of 2021.

Riding on the experience of managing a quality green Grade A office building, we will walk an extra mile by extending similar green practices to smaller office properties, while exploring the feasibility of obtaining additional green building certifications for relevant properties.

Note : Including but not limited to Air Pollution Control Ordinance (Chapter 311), Waste Disposal Ordinance (Chapter 354), Water Pollution Control Ordinance (Chapter 358) and Noise Control Ordinance (Chapter 400).



Energy and carbon emissions

Aspiration : We actively optimize energy efficiency and minimize carbon footprint of the properties under management by promoting best management practices and innovations.

We are conscious of the energy consumption level of our buildings, being the major source of GHG emissions. As stated in our policies and operational guidelines, we are dedicated to implementing energy saving measures to enhance operational efficiency while tracking performance through energy and carbon audits. We have also committed to a long-term energy consumption and carbon emissions reduction target in support of the low carbon economy transition.

Upgrading of building equipment to increase efficiency

During the Year, all chillers at Strand 50 were replaced with energy-efficient models through which we aim for reducing electricity usage by at least 20%. Upon conclusion of this project, four core properties of Sunlight REIT, namely DSFC, SSC, MCPI and Strand 50, have completed the replacement of obsolete chillers over the past decade to minimize environmental footprint. In the meantime, we will continue the initiative of replacing obsolete split-type air-conditioning units in selected office properties to optimize energy efficiency.



Replaced with new split-type air-conditioning unit

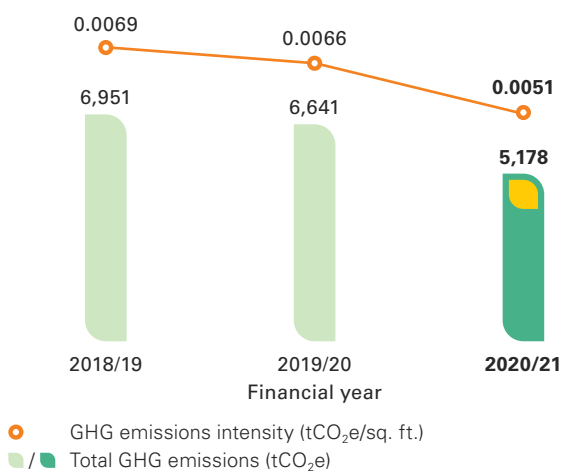
Increasing the use of renewable energy

We continue to explore opportunities to adopt renewable energy onsite where feasible with a view to reducing the carbon footprint of our operations. At DSFC and Strand 50, we have installed solar lights to power up the outdoor podium at night. Meanwhile, the installation of solar panel systems at SSC is in progress, with completion targeted by the end of 2021.

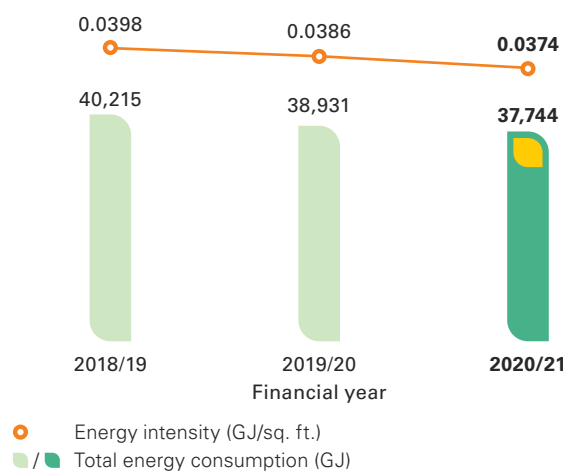


Solar lights at DSFC

GHG emissions¹ and intensity



Energy consumption² and intensity



Notes :

1. The total GHG emissions of FY2018/19 covered Scope 2 and Scope 3 emissions, while scope 1 emissions data would be included starting from FY2019/20.
2. The total energy consumption of FY2018/19 covered purchased electricity only, while direct energy consumption at properties such as the use of diesel for emergency generators would be included starting from FY2019/20.



Waste and water

Aspiration : We monitor the waste generated and water consumed in our operations to look for reduction opportunities to protect our environment.

As stated in our new waste and water management policy, we are committed to reducing waste generation and water consumption in our operations for the sake of minimizing our environmental impacts. Through standardizing the management procedures and practices, the policy guides us to gradually deploy waste and water initiatives in our properties to achieve the established targets.

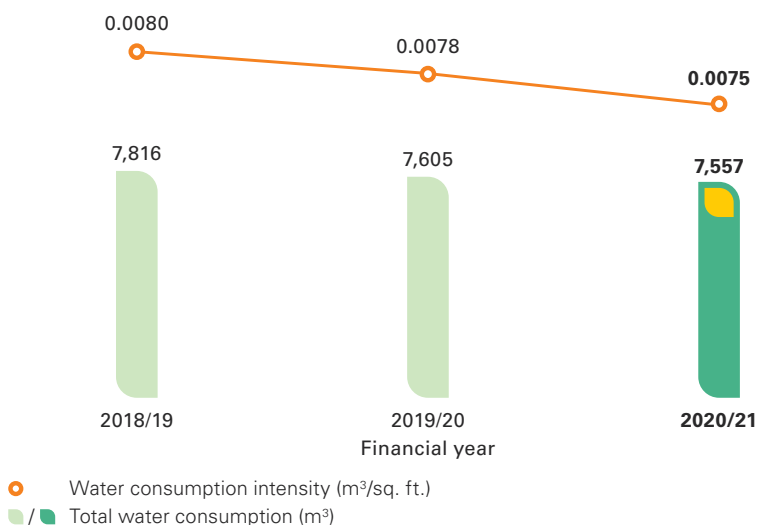
Waste management

Proper waste management is critical to lessening the environmental burden to the society. Guided by the 3R approach (Reduce, Reuse, Recycle), we promote reusable materials in our operations and designate waste sorting facilities at our key properties for recycling whenever possible. We also work with other organizations to encourage the recycling habit of our tenants and shoppers. As a case in point, we worked with Baguio Waste Management & Recycling Limited to promote the iRecycle Scheme at SSC in April 2021. Participants could receive credits for redeeming rewards by recycling cleaned glass and plastic bottles. Besides, we have established a waste monitoring mechanism and started maintaining proper records of the waste generated and recycled at our core properties. Going forward, we will extend the practices to other properties to evaluate the effectiveness of our waste management system and the progress made toward our waste reduction target.

Water conservation

Water is a precious resource that is indispensable to our operations and society. To conserve water, we minimize our consumption through various measures at our properties including the installation of water-efficient fixtures or flow regulators and dual flush systems at lavatories. Our guidelines for efficient water consumption also encourage our tenants to adopt water conservation habits. Besides, we actively monitor our water consumption level to detect abnormal usage patterns and take immediate actions to prevent wastage due to water leakage.

Water consumption and intensity





Climate change

Aspiration : We communicate the risks associated with climate change to our business partners and develop a policy with a view to enhancing the resilience of our business and stakeholders.

The emerging challenge of climate change creates visible and more frequent disruptions to our properties and the community. We believe that minimizing the environmental footprint and influencing the stakeholders through our operations is essential to mitigating the adverse impact of climate change. As a long-term yet pressing sustainability issue, we take immediate actions to strengthen our preparedness and mitigation measures.

To proactively manage climate-related risks, we have developed a new climate change policy that stipulates our approach to alleviating such risks to our operations while increasing our resilience to climate change. Our risk management system, which assesses ESG risks at approximately quarterly intervals, has included climate-related risks in our corporate risk register, allowing us to keep track of any potential climate related issues which would cause financial and operational disruptions. Going forward, we are planning to leverage proptech as preventive and enhancement measures to detect physical risks and improve operational efficiency of our routine property management services.

Examples of climate-related risks that may impact Sunlight REIT and the corresponding actions are as follows :



Physical risk

Increased frequency of extreme weather events caused by climate change, leading to incidents and damage to properties.



- Conduct property enhancement initiatives to prevent and alleviate impacts due to extreme weather events, including flooding and typhoon.

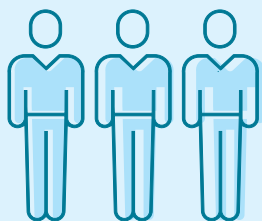


Transition risk

More stringent reporting and data requirements for energy usage and GHG emissions.



- Conduct regular reviews and analyses of local and international reporting requirements.
- Enhance reporting and data collection procedures through assistance from independent consultant.



Human

The sustainability and resilience of Sunlight REIT relies on an experienced workforce with a proactive and committed mentality. We have invested significant resources in staff's professional development, well-being and occupational health and safety. By creating an inclusive and safe working environment, we strive to foster a dedicated workforce that leads us to success.

We have a staff handbook and a set of human resources policies which set out the requirements relating to compensation, recruitment and promotion, working hours, rest periods, diversity, professional ethics and integrity, anti-discrimination, and other benefits and welfare. Our interview process includes a guideline on equal opportunities which outlines our commitment to ensuring equal opportunities in the workplace regardless of employee sex, disability, family status, race and age. During the Year, we complied with laws and regulations^{Note} relating to equal opportunities and other employment and labour practices, including but not limited to compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity, anti-discrimination, child labour and forced labour.



Employee well-being

Aspiration : We endeavour to provide our employees with a quality working environment and to ensure that they are satisfied and engaged at work.

We are committed to supporting our employees' well-being to create an environment in the workplace that is conducive to physical and mental health, nurturing a caring culture.

Creating a healthy workplace

To promote a healthy working environment, we have adopted various measures in the office, such as providing height adjustable tables for certain of our colleagues. In addition, we offer competitive medical allowances and in-patient insurance coverage for all staff.

In response to the pandemic, we closely monitor the pandemic situation and make swift responses to protect our employees. Work-from-home and split team arrangements have been arranged since the early stage of the outbreak, while regular disinfection measures have been conducted to ensure a safe workplace for our staff. We have also supported our employees by providing quick self-testing kits, personal hygiene supplies and anti-pandemic tips; more recently, free pre-vaccination health assessment and vaccination leave are offered to incentivize more staff to get vaccinated.

Note : Including but not limited to Employment Ordinance (Chapter 57), Inland Revenue Ordinance (Chapter 112), Sex Discrimination Ordinance (Chapter 480), Mandatory Provident Fund Schemes Ordinance (Chapter 485), Personal Data (Privacy) Ordinance (Chapter 486), Disability Discrimination Ordinance (Chapter 487), Family Status Discrimination Ordinance (Chapter 527), Race Discrimination Ordinance (Chapter 602) and Minimum Wage Ordinance (Chapter 608).

Crafting a positive and caring work culture

An important way to enhance productivity and create a positive atmosphere at work is to promote employee well-being. Aiming to reinforce the bonding among our colleagues, we offer various kinds of initiatives, including provision of lunch and refreshment, casual wear on Fridays, seasonal holiday celebrations and other leisure activities. Flexible working hours are offered to help employees strike a balance between work and personal needs. To brighten up the workplace and embrace the caring work culture, lucky draw and month-end special tea arrangements are organized.

Our guidelines on health and safety management provide our property management team with the necessary information and instructions to identify and mitigate potential risks and hazards to minimize work-related injuries in our workplace and our managed properties. Training courses are encouraged to equip our employees with sound knowledge of health and safety while keeping abreast of good industry practices.

During the Year, we strictly complied with relevant laws and regulations related to employee safety such as the Occupational Safety and Health Ordinance (Chapter 509) and the Employees' Compensation Ordinance (Chapter 282).



Health and safety

Aspiration : It is our duty to look after employees' health and safety in the workplace and implement preventive measures to manage risks and emergency events.

Number and rate of work-related fatalities & lost days due to work injury

Number of work-related fatalities

Nil

Rate of work-related fatalities

N/A

Lost days due to work injury

Nil



Training and development

Aspiration : We invest in our employees to develop and motivate talents so as to achieve our operating objectives.

Our employees are valuable assets that drive organizational success. We encourage our employees to prepare themselves with the necessary skills in dealing with the changing business environment. Through our education and professional bodies allowance policy, we offer subsidies to staff for professional training and for relevant professional certifications and charters. A staff development fund has also been set up to support designated training programmes.

We assess training needs annually and facilitate training in specific areas that are considered necessary. During the Year, staff had been given opportunities to participate in courses on cyber security, REIT Code amendments and ESG-related issues. In light of the pandemic, we expect to offer staff with more online training programmes which allow a flexible and convenient learning experience.

Total training hours completed by employees

1,465 hours

Percentage of employees trained by gender



Male

79%



Female

82%



Partnership

Maintaining a trusting and sustainable partnership with our stakeholders is integral to our business strategy. While we are committed to providing quality services and spaces to our tenants, other stakeholders including our suppliers, financial institutions and NGO partners are also critical to achieving excellence in business operations and sustainable development.



Tenant satisfaction and well-being

Aspiration : We strive to develop a trusting landlord-tenant relationship with the provision of high-quality properties and services.

Understanding our tenants' needs is the crucial step for building trust and sustainable relationship. To ensure the quality of our property management services, we conduct an annual survey to collect and understand tenants' feedback and assess their satisfaction levels; while diligently addressing their concerns. We issue newsletters on a semi-annual basis as a communication channel to provide an update of Sunlight REIT's latest business, ESG-related and social responsibility initiatives. In case of any complaints, clear guidelines and instructions are provided to our employees to handle them promptly.

It is the Manager's top priority to ensure the well-being of tenants as well as the shoppers and visitors of our properties. In this regard, we have applied proptech to help combat the pandemic. For example, an UV-C disinfection robot has been deployed at SSC recently to automate the cleaning process. In addition, we will introduce IAQ sensors in our two shopping malls to monitor air quality such as levels of carbon dioxide and PM2.5.



UV-C disinfection robot

Overall satisfaction rate by tenants^{Note}



Note : A total of 342 completed questionnaires from our tenants were received.

Customer data security and privacy are of paramount importance in the digital age. We recognize our responsibility to ensure all data and private information are properly protected in compliance with our privacy policy statement formulated and updated on the basis of the Personal Data (Privacy) Ordinance (Chapter 486) in Hong Kong. Access to sensitive customer information is restricted to designated personnel only. No personal customer data will be retained and used for marketing purposes unless proper authorization and/or consent from tenants and customers is received. In tandem with the launch of our eShop online shopping platform, we have implemented additional precautionary measures to handle our customer data and strengthen staff awareness of cyber security through proper training. During the Year, we complied with relevant laws and regulations relating to advertising, labelling and privacy matters in respect of services provided.



Supply chain management

Aspiration : We work with our suppliers to ensure we operate on the basis of a sustainable value chain.

Managing our supply chain is part of our strategy to deliver quality services and enhance sustainability performance. We have a procurement system to assess our suppliers based on their qualifications, experience and certification. As the initial step to fulfill our sustainability target, we have established a new sustainable procurement policy, which sets out the procedures and practices of integrating environmental and social considerations as well as assessment of relevant risks into the procurement process. As a case in point, we seek biodegradable, reusable and recyclable alternatives for single-use products such as toilet seat covers, hand towels and umbrella bags. We have also adopted FSC certified paper for printed materials, including the annual and interim reports, to reduce the demand for virgin materials. As stipulated in our policy, we regularly communicate our environmental and social requirements and expectations with our major suppliers.



Sustainable financing

Aspiration : We collaborate with financial institutions to explore sustainable financing opportunities that can gauge and contribute to sustainability initiatives.

We actively seek opportunities to integrate sustainability into the financing activities of Sunlight REIT. During the Year, Sunlight REIT raised three sustainability-linked loans, whereby certain interest rate incentives are provided based on satisfaction of predetermined sustainability performance targets relating to environmental and social aspects. We are grateful to our banking partners, supporting us to accelerate the integration of sustainability into our business.

Environmental, Social and Governance Report

Highlights of sustainability-linked loans

Sustainability-linked loans			
Lender	Sumitomo Mitsui Banking Corporation	DBS Bank Ltd., Hong Kong Branch	Bank of China (Hong Kong) Limited
Drawdown date	October 2020	April 2021	June 2021
Loan size	Japanese yen 7,000 million (equivalent to approximately HK\$513 million)	HK\$500 million	HK\$500 million
Tenure	7 years	5 years	4 years
Sustainability performance targets	The targets focus on environmental and social aspects, comprising energy consumption, IAQ, education and youth career development.		



Strategic partnerships with NGOs

Aspiration : We build strategic partnerships with NGOs to leverage resources with a view to maximizing our positive impact on the community.

Over the years, the Manager has developed trusted relationships with a spate of NGOs, enabling us to collaboratively create value for the benefit of the society. As a case in point, St. James' Settlement which specializes in the provision of care, family, counseling, youth and community centre services, has been our community partner since 2010. Chinese YMCA of Hong Kong is also our major partner on youth education and training. More details of our partnerships can be found in the section under "Neighbourhood".

We continue to explore NGO partnerships for further collaboration on programmes with an environmental focus. During the Year, we sponsored the Evangelical Lutheran Church of Hong Kong in support of Agriculture, Fisheries and Conservation Department's Country Parks Plantation Enrichment Programme, which is a five-year tree planting and monitoring programme until 2025. In support restoring the local woodland and raising our staff's awareness of nature conservation, 21 of our employees together with their family members participated as volunteers to plant native species seedlings in Ma On Shan in June 2021.



Country Parks Plantation Enrichment Programme



Neighbourhood

We are closely connected with the neighbourhood of the properties under management. As we endeavour to provide quality services to our customers and tenants, we are equally aware of our role in serving and connecting with the local community with a view to creating sustainable societal value.



Community investment

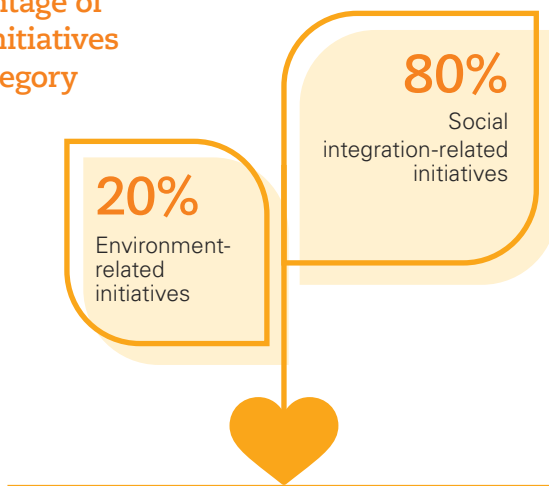
Aspiration : We aspire to create positive impact on the community, trusting that when the neighbourhood in which we operate thrives, so do we.

Sunlight REIT values every stakeholder in the community where it operates. In addressing to the needs and concerns of our community, the Manager collaborate with our employees, tenants and community partners with a continuous focus on enhancing youth education and addressing the needs of the underprivileged. A community investment policy is in place to enable us to evaluate and prioritize initiatives which are relevant to our business and can optimize the impact of Sunlight REIT’s neighbourhood.

Total volunteering hours



Percentage of CSR initiatives by category





Supporting ESG initiatives through rental assistance scheme

As a real estate investment trust manager, we are committed to utilizing our properties as hubs to create social value. During the Year, we launched a rental assistance scheme which offers office or retail spaces at discounted rent to support NGOs and start-up organizations with clear sustainability focus.

As a case in point, Po Leung Kuk was the first NGO beneficiary of the scheme. Aimed to support the underprivileged families in Yuen Long, a “Blue Sky Food Assistance Service Project” has been launched to provide food support to the needy in the vicinity. We are pleased to offer rental assistance to Po Leung Kuk which has leased up a space at the Yuen Long-based Kwong Wah Plaza Property for this meaningful initiative.



Caring for the youth

During the Year, we organized and participated in different youth education activities encompassing skills development, extra-curricular areas and career planning. Notably, we collaborated with Chinese YMCA of Hong Kong to organize the “1+1” Online Learning Programme, through which children from low-income families could attend online workshops during the school closure period.

In addition, we supported the Career Sparkle – Career Live programme organized by St. James’ Settlement to motivate students to plan for their career goals and nurture good work ethics. With a mission to navigate adolescents and youth in search of their dreams and work aspirations, different career experience games, school services and education programmes were organized. We sincerely hope that our experience and expertise can help nurture and inspire our next generation.



“1+1” Online Learning Programme



Career Sparkle – Career Live Programme



323 students

participated in the programme

Performance Summary

	Unit	FY2020/21	FY2019/20	FY2018/19			
Environmental							
(1) Energy consumption and GHG emissions¹							
(a) Direct energy consumption²							
(i) Diesel by emergency generation	L	413	471	-			
(b) Indirect energy consumption							
(i) Purchased electricity	'000 kWh	10,480	10,809	11,171			
(c) Total energy consumption							
(i) Total energy consumption	GJ	37,744	38,931	40,215			
(ii) Energy intensity	GJ/sq. ft.	0.0374	0.0386	0.0398			
(d) GHG emissions³							
(i) Direct emissions (Scope 1)	tCO ₂ e	1.08	1.23	-			
(ii) Indirect emissions (Scope 2)	tCO ₂ e	5,174	6,637	6,948			
(iii) Indirect emissions (Scope 3)	tCO ₂ e	3.04	3.06	3.14			
(iv) Total GHG emissions	tCO ₂ e	5,178	6,641	6,951			
(v) GHG emissions intensity	tCO ₂ e/sq. ft.	0.0051	0.0066	0.0069			
(2) Waste management							
(a) Waste generation⁴							
(i) Non-hazardous waste	'000 kg	902	-	-			
(ii) Non-hazardous waste intensity	kg/sq. ft.	0.9	-	-			
(b) Waste recycling⁵							
(i) Paper	'000 kg	74	82	85			
(ii) Plastic	kg	1,008	343	282			
(iii) Metal	kg	567	320	362			
(iv) Fluorescent lamps and tubes	kg	225	225	240			
(3) Water consumption⁶							
(a) Total water consumption							
	m ³	7,557	7,605	7,816			
(b) Water consumption intensity							
	m ³ /sq. ft.	0.0075	0.0078	0.0080			
Social							
(1) Profile of workforce							
(a) Total workforce							
	Number	140	142	145			
(i) By gender							
Male	Number	82	59%	80	56%	82	57%
Female	Number	58	41%	62	44%	63	43%
(ii) By employment type							
Full-time	Number	139	99%	141	99%	144	99%
Part-time	Number	1	1%	1	1%	1	1%
(iii) By age group							
Below 30	Number	11	8%	10	7%	14	10%
30 – 50	Number	79	56%	83	58%	80	55%
Over 50	Number	50	36%	49	35%	51	35%
(iv) By employee category							
General	Number	58	42%	60	42%	69	48%
Supervisory	Number	48	34%	48	34%	42	29%
Managerial	Number	34	24%	34	24%	34	23%
(v) By geographical region							
Hong Kong	Number	140	100%	142	100%	145	100%

Notes :

- The coverage of energy consumption and greenhouse gas emissions included all nine wholly-owned properties of Sunlight REIT. The figures of FY2018/19 were restated due to the change of reporting scope.
- The direct energy consumption data from building operation is reported starting from FY2019/20 to reflect the level of direct emissions (Scope 1).
- References for the calculation of our Scope 1, Scope 2 and Scope 3 emissions include the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 edition), emission intensity published by CLP Power Hong Kong Limited and The Hong Kong Electric Company, Limited in 2020 and the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.
- The non-hazardous waste generation data would be reported starting from FY2020/21. The coverage of the data included all nine wholly-owned properties of Sunlight REIT. The assumption for the weight of a 660-litre waste bin is 60kg.
- The coverage of paper, plastic and metal recycling included DSFC, SSC, MCPI and Strand 50. The coverage of fluorescent lamps and tubes recycling included DSFC, SSC and Strand 50 only. Hazardous waste includes fluorescent lamps and tubes while non-hazardous waste includes paper, plastic and metal.
- The coverage of water consumption included eight wholly-owned properties of Sunlight REIT, excluding The Harvest, in which all water points are located within tenants' area and under tenants' control.

Environmental, Social and Governance Report

	Unit	FY2020/21	FY2019/20	FY2018/19
Social				
(2) Employee turnover				
(a) Turnover rate	%	16%	16%	16%
(b) Total number of turnover	Number	22	23	23
(i) By gender				
Male	Number	9	12	9
Female	Number	13	11	14
(ii) By age group				
Below 30	Number	5	7	6
30 – 50	Number	15	7	13
Over 50	Number	2	9	4
(3) Health and safety				
(a) Number of work-related fatalities	Number	Nil	Nil	Nil
(b) Rate of work-related fatalities	%	N/A	N/A	N/A
(c) Lost days due to work injury	Days	Nil	6	2
(4) Development and training				
(a) Percentage of employees trained	%	80%	71%	93%
(b) Total training hours completed by employees	Hours	1,465	1,088	2,307
(i) By gender				
Male	%	79%	70%	93%
Female	%	82%	72%	92%
(ii) By employee category				
General	%	61%	56%	83%
Supervisory	%	90%	71%	98%
Managerial	%	100%	100%	100%
(c) Average training hours completed per employee	Hours	10	8	16
(i) By gender				
Male	Hours	10	5	14
Female	Hours	11	11	18
(ii) By employee category				
General	Hours	5	4	9
Supervisory	Hours	16	9	20
Managerial	Hours	10	13	24
(5) Supply chain management				
(a) Total number of suppliers ⁷	Number	275	-	-
(i) By geographical region				
Hong Kong	Number	274	-	-
Overseas	Number	1	-	-
(6) Complaints received				
(a) Number of service-related complaints received ⁸	Number	15	-	-
(7) Anti-corruption and integrity				
(a) Number of concluded legal cases regarding corrupt practices brought against the Manager or its employees	Number	Nil	Nil	Nil
(8) Community investment				
(a) Total volunteering hours ⁹	Hours	112	148	462

Notes :

7. The number of suppliers would be reported starting from FY2020/21.

8. The number of service-related complaints received would be reported starting from FY2020/21.

9. The decrease of total volunteering hours was mainly due to the cancellation of CSR activities attributable to the COVID-19 outbreak in Hong Kong.

Awards and certificates in FY2020/21

Awards/Certificates	Participating entities/Properties	Awarding bodies
Environmental		
Corporate Environmental Leadership Award 2020	The Property Manager : 1. Strand 50 2. Righteous Centre 3. Sheung Shui Centre Shopping Arcade 4. Metro City Phase I Property	Bank of China (Hong Kong)
Green Office Award Labelling Scheme (GOALS)	The Property Manager : 1. Strand 50 2. Righteous Centre 3. Sheung Shui Centre Shopping Arcade 4. Metro City Phase I Property	World Green Organisation
Green Pledge, Hong Kong Green Day 2021 (Certificate of Participation)	The Property Manager	Green Council
Hong Kong Green Organisation Certification	The Property Manager : Dah Sing Financial Centre	Environmental Campaign Committee
Hong Kong Green Organisation Certification Energywi\$e Certificate (Basic Level)	The Property Manager : Strand 50	Environmental Campaign Committee
Hong Kong Green Organisation Certification Wastewi\$e Certificate (Basic Level)	The Property Manager : Dah Sing Financial Centre	Environmental Campaign Committee
Hong Kong Green Shop Alliance (Certificate of Appreciation)	The Property Manager : 1. Strand 50 2. Sheung Shui Centre Shopping Arcade	Hong Kong Green Building Council
Indoor Air Quality Certificate (Excellent Class)	The Property Manager : Dah Sing Financial Centre	Indoor Air Quality Information Centre, Environmental Protection Department, The Government of the HKSAR
Indoor Air Quality Certificate (Good Class)	The Property Manager : 1. Strand 50 2. Sheung Shui Centre Shopping Arcade 3. Metro City Phase I Property	Indoor Air Quality Information Centre, Environmental Protection Department, The Government of the HKSAR
Quality Water Supply Scheme for Buildings – Flushing Water (Gold)	The Property Manager : 1. Dah Sing Financial Centre 2. Strand 50 3. Righteous Centre 4. 235 Wing Lok Street Trade Centre 5. Java Road 108 Commercial Centre	Water Supplies Department, The Government of the HKSAR
The HKIFM Excellence in Facility Management Awards 2020 – Office Building (Excellence Award)	The Property Manager : Dah Sing Financial Centre	The Hong Kong Institute of Facility Management
The HKIFM Excellence in Facility Management Awards 2020 – Office Building (Merit Award)	The Property Manager : Strand 50	The Hong Kong Institute of Facility Management
The HKIFM Excellence in Facility Management Awards 2020 – Retail (Excellence Award)	The Property Manager : 1. Sheung Shui Centre Shopping Arcade 2. Metro City Phase I Property	The Hong Kong Institute of Facility Management
Social and Governance		
Caring Company	1. The Manager 2. The Property Manager	The Hong Kong Council of Social Service
Good MPF Employer	1. The Manager 2. The Property Manager	Mandatory Provident Fund Schemes Authority
Happy Company	1. The Manager 2. The Property Manager	Promoting Happiness Index Foundation

Environmental, Social and Governance Report

ESG reporting guide contents index

Aspect	KPI	Description	Corresponding Section
A. Environmental			
A1 Emissions	A1	General disclosure	Land – Introduction, Energy and carbon emissions, Waste and water
	A1.1	The types of emissions and respective emissions data	Due to the business nature of Sunlight REIT, air pollutant emissions are not considered to be material issues
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity	Land – Energy and carbon emissions; Performance summary
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Performance summary
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Performance summary
	A1.5	Description of emissions target(s) set and steps taken to achieve them	Sustainability targets; Land – Energy and carbon emissions
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	Sustainability targets; Land – Waste and water
A2 Use of resources	A2	General disclosure	Land – Introduction, Green buildings, Energy and carbon emissions, Waste and water Due to the business nature of Sunlight REIT, raw materials are not considered to be material issues
	A2.1	Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity	Land – Energy and carbon emissions; Performance summary
	A2.2	Water consumption in total and intensity	Land – Waste and water; Performance summary
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	Sustainability targets; Land – Energy and carbon emissions
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	Sustainability targets; Land – Waste and water No issue in sourcing water since it is provided by the Water Supplies Department, The Government of the HKSAR
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Due to the business nature of Sunlight REIT, packaging material is not considered to be a material issue
A3 The environment and natural resources	A3	General disclosure	Land – Introduction, Green buildings, Energy and carbon emissions, Waste and water, Climate change
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Land – Green buildings, Energy and carbon emissions, Waste and water, Climate change
A4 Climate Change	A4	General disclosure	Land – Climate change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	Sustainability targets; Land – Climate change

Aspect	KPI	Description	Corresponding Section
B. Social			
B1 Employment	B1	General disclosure	Human – Introduction
	B1.1	Total workforce by gender, employment type, age group and geographical region	Human – Introduction; Performance summary
	B1.2	Employee turnover rate by gender, age group and geographical region	Performance summary
B2 Health and safety	B2	General disclosure	Human – Health and safety
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	Human – Health and safety; Performance summary
	B2.2	Lost days due to work injury	Human – Health and safety; Performance summary
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored	Human – Employee well-being, Health and safety
B3 Development and training	B3	General disclosure	Human – Training and development; Performance summary
	B3.1	The percentage of employees trained by gender and employee category	Performance summary
	B3.2	The average training hours completed per employee by gender and employee category	Human – Training and development; Performance summary
B4 Labour standards	B4	General disclosure	Human – Introduction Due to the business nature of Sunlight REIT, child and forced labour is not considered to be a material issue
	B4.1	Description of measures to review employment practices to avoid child and forced labour	Due to the business nature of Sunlight REIT, child and forced labour is not considered to be a material issue
	B4.2	Description of steps taken to eliminate such practices when discovered	Due to the business nature of Sunlight REIT, child and forced labour is not considered to be a material issue
B5 Supply chain management	B5	General disclosure	Partnership – Supply chain management
	B5.1	Number of suppliers by geographical region	Performance summary
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	Partnership – Supply chain management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	Partnership – Supply chain management
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	Partnership – Supply chain management
B6 Product responsibility	B6	General disclosure	Partnership – Tenant satisfaction and well-being Due to the business nature of Sunlight REIT, advertising and labelling are not considered to be material issues
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Due to the business nature of Sunlight REIT, product recall is not applicable to the business
	B6.2	Number of products and service related complaints received and how they are dealt with	Partnership – Tenant satisfaction and well-being; Performance summary
	B6.3	Description of practices relating to observing and protecting intellectual property rights	Due to the business nature of Sunlight REIT, intellectual property rights are not considered to be material issues
	B6.4	Description of quality assurance process and recall procedures	Partnership – Tenant satisfaction and well-being
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Partnership – Tenant satisfaction and well-being
B7 Anti-corruption	B7	General disclosure	Sustainability Governance – Anti-corruption and integrity
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Sustainability Governance – Anti-corruption and integrity; Performance summary
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Sustainability Governance – Anti-corruption and integrity
	B7.3	Description of anti-corruption training provided to directors and staff	Sustainability Governance – Anti-corruption and integrity
B8 Community investment	B8	General disclosure	Partnership – Strategic partnerships with NGOs; Neighbourhood
	B8.1	Focus areas of contribution	Neighbourhood – Introduction; Performance summary
	B8.2	Resources contributed to the focus area	Neighbourhood – Community investment; Performance summary

Board of Directors and Senior Management

Board of Directors



Mr. AU Siu Kee, Alexander

OBE, FCA, FCCA, FCPA, AAIA,
FCIB, FHKIB

**Chairman and
Non-Executive Director**

Mr. Au, aged 74, has been the Chairman and Non-Executive Director of the Manager since 2010. Mr. Au was an executive director and the Chief Financial Officer of HLD from December 2005 to June 2011. In July 2011, he stepped down from the position of Chief Financial Officer and was re-designated as a non-executive director of HLD. He was further re-designated in December 2012 as an independent non-executive director of HLD until his retirement in June 2015. In December 2018, Mr. Au rejoined HLD as an independent non-executive director. Currently, Mr. Au is also an independent non-executive director of Henderson Investment Limited, Miramar Hotel and Investment Company, Limited and Wharf Real Estate Investment Company Limited, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited, the shares of all of which are listed on the Main Board of the Stock Exchange.

A banker by profession, Mr. Au was the Chief Executive Officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. Mr. Au previously served as an independent non-executive director of The Wharf (Holdings) Limited and was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited. An accountant by training, Mr. Au is a fellow of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.



Mr. WU Shiu Kee, Keith

BS, MS, FHKIoD

**Chief Executive Officer and
Executive Director**

Mr. Wu, aged 57, has been the Chief Executive Officer, Executive Director and a responsible officer of the Manager since 2006. He has over 30 years of experience encompassing the fields of property investment, corporate finance, asset management and investment research.

From 1997 to 2005, Mr. Wu was an executive director of a listed company engaged in property development and investment. Prior to this appointment, he worked in the banking industry and held senior research and asset management positions with several international financial institutions in Hong Kong.

Mr. Wu holds a Master of Science degree in Engineering-Economic Systems (since renamed Management Science and Engineering) from Stanford University in the United States and a Bachelor of Science degree in Economics and Statistics (High Distinction) from the University of Toronto in Canada. He is a fellow of The Hong Kong Institute of Directors.



Mr. KWOK Ping Ho

B.Sc., M.Sc., Post-graduate Diploma in Surveying, FRICS, ACIB
Non-Executive Director

Mr. Kwok, aged 68, has been a Non-Executive Director of the Manager since 2006. He has also been an executive director of HLD, a company listed on the Main Board of the Stock Exchange, since December 1993.

Mr. Kwok holds a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London, a Master of Science degree in Administrative Sciences from Cass Business School, City, University of London as well as a Post-graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong. He is a Fellow of the Royal Institution of Chartered Surveyors as well as an Associate of The Chartered Institute of Bankers of the United Kingdom. He had previously been a Part-time Lecturer for the MBA programme of The University of Hong Kong and presently serves as an Adjunct Professor of the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong.

Mr. Kwok has over 35 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury as well as project management activities of the HLD group of companies since 1987, including group re-organization, privatization proposals and corporate acquisitions.



Mr. KWAN Kai Cheong

BAcc, FCA (Aust.), FCPA, FHKIoD
Independent Non-Executive Director

Mr. Kwan, aged 71, has been an Independent Non-Executive Director of the Manager since 2006. He previously worked for Merrill Lynch & Co., Inc. and was the president for its Asia Pacific region. He is presently the Managing Director of Morrison & Company Limited, a business consultancy firm. He is also the chairman of the board of G.T. Land Holdings Limited, a commercial property company in the People's Republic of China.

He is a non-executive director of China Properties Group Limited and an independent non-executive director of Win Hanverky Holdings Limited, Greenland Hong Kong Holdings Limited and CK Life Sciences Int'l., (Holdings) Inc.. He is also an independent non-executive director of both HK Electric Investments Manager Limited (as the trustee-manager of HK Electric Investments) and HK Electric Investments Limited. Mr. Kwan was previously an independent non-executive director of Beijing Energy International Holding Co., Ltd. (formerly known as Panda Green Energy Group Limited) from April 2011 until June 2021. All the above being companies / trust listed on the Main Board of the Stock Exchange.

Mr. Kwan holds a Bachelor of Accountancy (Honours) degree from the University of Singapore (since renamed National University of Singapore). He is also a fellow of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. He completed the Stanford Executive Program in 1992.

Board of Directors and Senior Management



Dr. TSE Kwok Sang

*BSc, MBA, MSc, PhD, ASA,
MHKIoD, JP*

**Independent Non-Executive
Director**

Dr. Tse, aged 64, has been an Independent Non-Executive Director of the Manager since 2006. He is currently a Principal Lecturer and Programme Director, Faculty of Business and Economics of The University of Hong Kong.

Dr. Tse has published widely on the subject of real estate finance and economics, financial regulations and capital markets and investments. He is also a member of the CFP Examination Committee. Currently, Dr. Tse is an Ex Officio member of the Executive Committee of the New Territories Heung Yee Kuk and a Justice of the Peace. He is also an independent non-executive director of Wing Lee Property Investments Limited and China Bozza Development Holdings Limited. Dr. Tse was previously an independent non-executive director of GTI Holdings Limited from July 2015 until November 2020. All the above being companies listed on the Main Board of the Stock Exchange.

Dr. Tse holds a Ph.D. in Finance from Michigan State University in the United States. He is an associate of the Society of Actuaries and a member of The Hong Kong Institute of Directors.



Mr. KWOK Tun Ho, Chester

BA, FHKIoD

**Independent Non-Executive
Director**

Mr. Kwok, aged 58, has been an Independent Non-Executive Director of the Manager since 2016. Mr. Kwok holds a Bachelor of Arts degree from the University of Cambridge. He had been working in the banking industry since 1989 and has over 30 years of experience in corporate finance and investment and commercial banking in Hong Kong and in Asia. Prior to his retirement from the banking business in October 2015, he had held senior positions in a number of international financial institutions, including Credit Suisse and Standard Chartered Bank.

Mr. Kwok is an independent non-executive director of Yixin Group Limited and SF REIT Asset Management Limited, the manager of SF Real Estate Investment Trust, which are company / real estate investment trust listed on the Main Board of the Stock Exchange respectively. He is a fellow of The Hong Kong Institute of Directors and is currently a member of the Process Review Panel of the SFC.



1. Mr. POON Hung Tak
2. Mr. LEE Kiu Ming
3. Ms. HO Kuk Fong
4. Ms. YIP May Ling, Vivian
5. Ms. PO Chin Fei, Kathy
6. Mr. WU Shiu Kee, Keith
7. Ms. LO Yuk Fong, Phyllis
8. Ms. CHUNG Siu Wah
9. Ms. YU Hoi Zin
10. Mr. WONG Chi Ming
11. Mr. HAH Yick Yat, Kelvin

Senior Management

Mr. WU Shiu Kee, Keith Chief Executive Officer, Executive Director and Responsible Officer

Mr. Wu is responsible for the implementation of the strategy and objectives as set by the Board, ensuring that Sunlight REIT is operating in accordance with the stated strategies, policies and regulations. In addition, he takes charge of the day-to-day management and operations of the Manager.

Details of his experience are set out in “Board of Directors” on page 60.

Ms. LO Yuk Fong, Phyllis Chief Financial Officer and Responsible Officer

Ms. Lo is principally responsible for supervising the overall financial management of Sunlight REIT, including but not limited to financial reporting, taxation and cash flow management, monitoring of capital expenditure, reviewing of and making recommendation on financing matters and budget preparation. She is also a director of certain special purpose vehicles of Sunlight REIT.

Ms. Lo has over 25 years of experience in financial management and company secretarial functions. Prior to joining the Manager, Ms. Lo was the Chief Financial Officer of a media company previously listed in Singapore.

Ms. Lo holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. She is a fellow of the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Board of Directors and Senior Management

Mr. WONG Chi Ming

General Manager – Asset Management and Responsible Officer

Mr. Wong is responsible for, among other matters, driving the operating performance of Sunlight REIT's property portfolio, planning and developing asset enhancement strategies for recommendation to the Chief Executive Officer and to the Board, and directing the development and implementation of marketing strategies and business development plans for Sunlight REIT. He is also a director of certain special purpose vehicles of Sunlight REIT.

Mr. Wong has over 30 years of experience in the leasing and property management fields. Between 2006 and April 2010, Mr. Wong was the Chief Leasing Administration Manager of the Property Manager. Prior to joining the Property Manager, Mr. Wong was a leasing manager of HLD from 2005 to 2006, and worked for Hang Lung Properties Limited from 1990 to 2005.

Mr. Wong holds a Bachelor of Engineering degree from The University of Hong Kong and a Master of Corporate Governance degree from The Open University of Hong Kong. He is a holder of Hong Kong Estate Agent's Licence (Individual).

Ms. YIP May Ling, Vivian

General Manager – Investment and Investor Relations and Responsible Officer

Ms. Yip is responsible for, among other matters, formulating and implementing the Manager's investment plans, strategy and policy for Sunlight REIT, identifying and evaluating potential acquisition or divestment opportunities consistent with the investment strategy of Sunlight REIT. She is also responsible for communication with Unitholders, investors and other key stakeholders.

Ms. Yip has over 15 years of experience in corporate finance, investment and audit. Prior to joining the Manager, she was the Finance Director and Deputy Investment Director of Henderson (China) Investment Co. Ltd., a wholly-owned subsidiary of HLD. Between 2010 and 2014, she was an Investment Director of China Everbright Limited.

Ms. Yip holds a Master of Science (Investment Management) degree from The Hong Kong University of Science and Technology and a Bachelor of Business Administration degree from The Chinese University of Hong Kong. She is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. HAH Yick Yat, Kelvin

Assistant General Manager – Human Resources and Operations

Mr. Hah is responsible for, among other matters, human resources management, procurement and office administration, supporting the Manager's core management functions through the provision of ancillary back-office services and ensuring the optimal efficiency and operation of the information technology systems.

Mr. Hah has over 20 years of experience in the finance and administration areas; in particular, he was the Finance and Administration Officer of Eastar Technology Limited, a subsidiary of Henderson Cyber Limited between 2000 and 2003.

Mr. Hah holds a Master of Science degree in Financial Management from the University of London, a Professional Diploma in Marketing from the University of California, Berkeley, in the United States and a Bachelor of Arts degree in Economics from The University of British Columbia in Canada.

Ms. PO Chin Fei, Kathy

Manager – Internal Audit

Ms. Po is responsible for, among other things, planning and conducting audits on compliance, operational control and risk management and facilitating design and operation of the internal control system.

Ms. Po has over 15 years of experience in financial statement audit and internal audit. Prior to joining the Manager, Ms. Po was an internal audit manager of CK Hutchison Holdings Limited from 2005 to 2017.

Ms. Po holds a Bachelor of Engineering degree from The University of Hong Kong. She is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Ms. YU Hoi Zin

Compliance Manager

Ms. Yu is responsible for, among other things, the design and implementation of adequate internal control and systems, so as to ensure that both Sunlight REIT and the Manager are in compliance with all relevant laws, rules and regulations.

Ms. Yu has over 15 years of experience in compliance, company secretarial, finance and auditing. Prior to joining the Manager, she was the Compliance Manager and Company Secretary of the manager of a real estate investment trust previously listed in Hong Kong. Ms. Yu holds a Bachelor in Business Administration in Global Business and Accounting from The Hong Kong University of Science and Technology. She is a member of the Hong Kong Institute of Certified Public Accountants, a Chartered Financial Analyst and an associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute.

Ms. CHUNG Siu Wah

Company Secretary

Ms. Chung joined the Manager in 2008 and served as the Company Secretary since November 2011. Ms. Chung has over 25 years of experience in the company secretarial field. Prior to joining the Manager, she was the Assistant Company Secretary of a company previously listed on the Main Board of the Stock Exchange.

Ms. Chung holds a Bachelor of Arts degree in Accountancy from the City University of Hong Kong. She is an associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute.

Mr. LEE Kiu Ming

General Manager

Mr. Lee is responsible for formulating and implementing business plans and strategies and business development of the Property Manager. Mr. Lee has over 30 years of marketing, leasing and property management experience in the property field in Hong Kong. Prior to joining the Property Manager, he was a leasing manager in the Portfolio Leasing Department of HLD.

Mr. Lee holds a Bachelor of Social Science degree from The Chinese University of Hong Kong and a Bachelor of Science degree (Estate Management) from the University of Reading in the United Kingdom. He is a holder of Hong Kong Estate Agent's Licence (Individual).

Mr. POON Hung Tak

Deputy General Manager – Property Management

Mr. Poon works with the General Manager to oversee the building operations of the Property Manager.

Mr. Poon has over 30 years of experience in property management. Prior to joining the Property Manager, he was employed as Estate Manager in the Portfolio Leasing Department of HLD.

Mr. Poon holds a Master of Business Administration in Construction and Real Estate degree from the University of Reading in the United Kingdom, a Bachelor of Arts degree from The University of Hong Kong and a Professional Diploma in Real Estate Administration from the School of Professional and Continuing Education of The University of Hong Kong. He is also a professional member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors.

Ms. HO Kuk Fong

Deputy General Manager – Leasing

Ms. Ho works with the General Manager to oversee the marketing and leasing administration of the Property Manager.

Ms. Ho has over 25 years of experience in property leasing. Prior to joining the Property Manager, she was the Senior Leasing Manager of Sun Hung Kai Real Estate Agency Limited.

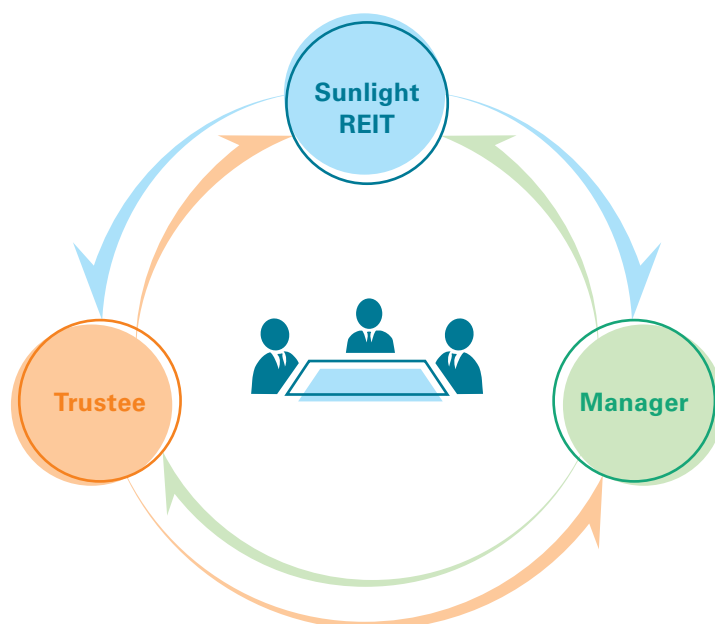
Ms. Ho holds a Master of Science in Real Estate degree from The University of Hong Kong, a Postgraduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Diploma in Property Development from the School of Professional and Continuing Education of The University of Hong Kong. She is a holder of Hong Kong Estate Agent's Licence (Individual).

Corporate Governance Report

The Manager is committed to upholding a high standard of corporate governance. To ensure compliance with all relevant laws and regulations, it has established a robust corporate governance framework supported by five key elements, namely **checks and balances**, risk management, internal control, communication and transparency.

Checks and Balances

The Trustee and the Manager



Trustee

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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”).

The Trustee is responsible for, among other things, the safe custody of the assets of Sunlight REIT on behalf of Unitholders as well as overseeing the activities of the Manager to ensure compliance with the Trust Deed and regulatory requirements applicable to Sunlight REIT.

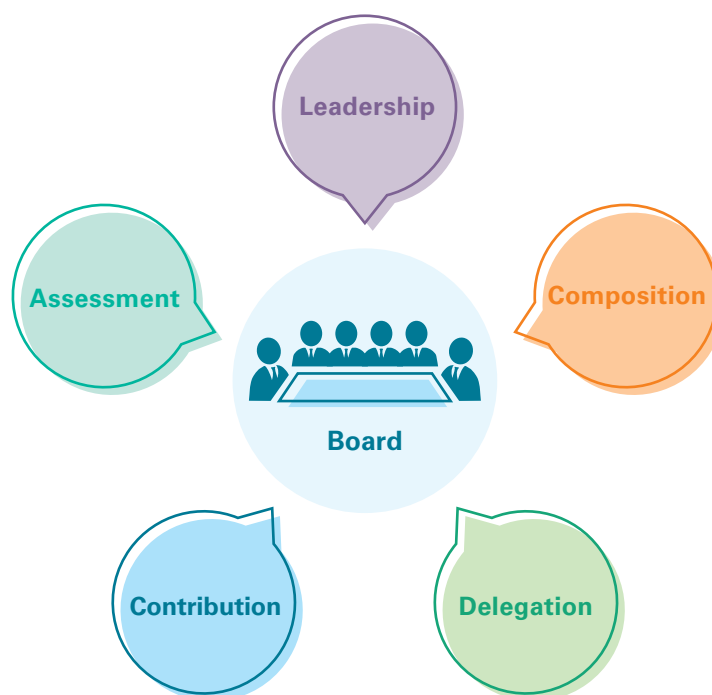
Manager

The Manager is licensed under Part V of the SFO and approved by the SFC to manage Sunlight REIT. It currently has five responsible officers in place.

The Manager is responsible for the management and operation of Sunlight REIT, ensuring that the financial and economic aspects of Sunlight REIT’s assets are professionally managed in the sole interest of Unitholders.

The Board of the Manager

The Board is responsible for the overall management and corporate governance of the Manager, and the following core elements are embedded to ensure Board effectiveness :



Leadership

- The Board plays a leading role in setting out the corporate strategies and direction of Sunlight REIT. It oversees the day-to-day management functions and corporate governance of the Manager.
- The chairman of the Board (the “**Chairman**”) provides leadership and ensures that the Board performs its responsibilities and that all key issues are discussed in a timely manner. A culture of openness is promoted to facilitate effective contributions from and communications among directors of the Manager (the “**Directors**”).

Composition











- The Board currently has six Directors, including one Executive Director (who is also the Chief Executive Officer (the “CEO”)), two Non-Executive Directors (“NEDs”) (including the Chairman) and three Independent Non-Executive Directors (“INEDs”).

Balance of power and authority

- The roles of the Chairman and the CEO are separate and performed by two different individuals.
- There are no financial, business, family or other material/relevant relationships among the Directors and in particular, between the Chairman and the CEO.

Board diversity

- The board diversity policy of the Manager sets out the approach to achieve diversity on the Board. Selection of candidates is based on a number of factors, including but not limited to age, cultural and educational background, gender, knowledge, length of service and professional experience or skills. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The remuneration and nomination committee of the Board (the “Remuneration and Nomination Committee”) monitors the implementation of this policy and reviews the policy on a regular basis.

Age	Designation and years of service of Directors		
51-60			 Executive
61-70			 Independent Non-Executive
>70			 Non-Executive
			 Years of service

Nomination and appointment of Directors

- The nomination policy of the Manager lists out the factors in evaluating and selecting candidates for appointment and re-appointment as a Director, including but not limited to (i) relevant qualifications and experiences; (ii) ability to carry out duties competently, honestly and fairly; (iii) reputation, character, reliability and integrity; (iv) commitment as to whether sufficient time will be devoted to the Board; and (v) potential contribution such as perspectives, skills, experiences and other diversity attributes which the candidates can bring to the Board. The Remuneration and Nomination Committee may engage external recruitment consultants and conduct interviews when necessary. It will then make recommendations to the Board.
- All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with its articles of association.
- NEDs (including INEDs) are currently appointed for a term of three years. In particular, further appointment of an INED who has served more than nine years is subject to a separate ordinary resolution to be approved by Unitholders. A circular and/or an explanatory statement accompanying the notice of the relevant general meeting to explain why the Board believes such INED is still independent and should be re-elected shall be provided to Unitholders.

Delegation

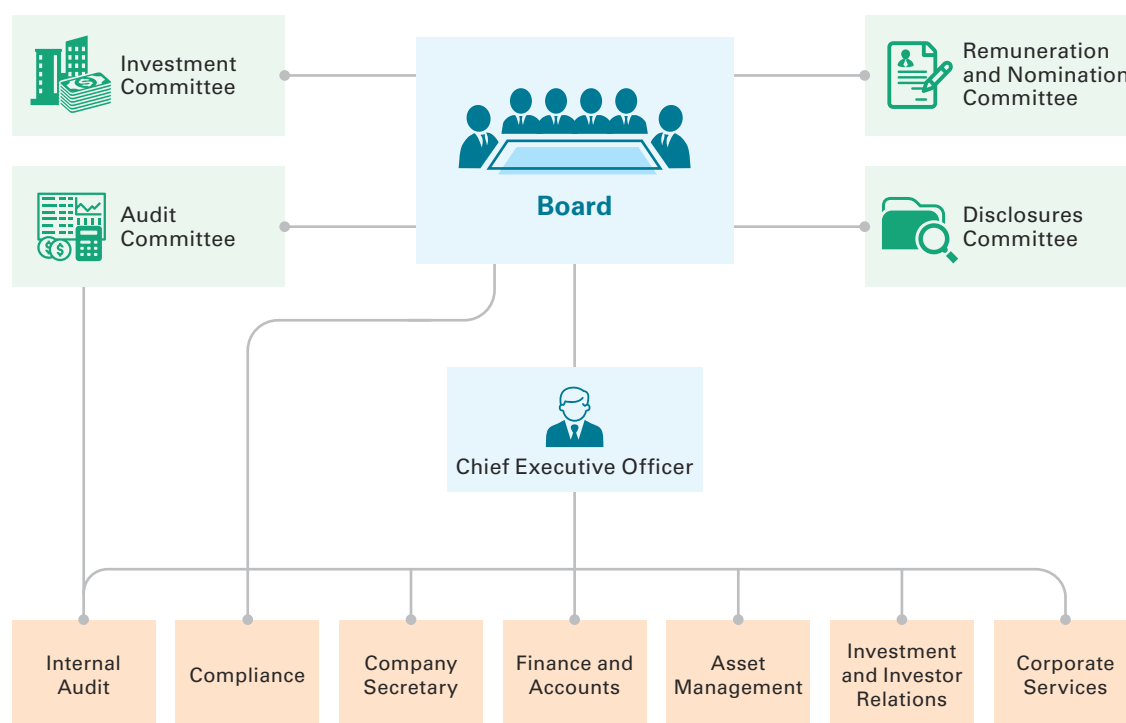
- Except for reserved matters as stated in the compliance manual of the Manager (the “**Compliance Manual**”) which must first be considered by the full Board, the day-to-day management of the Manager is delegated to designated committees of the Board (the “**Board Committees**”) and the management team.

Board Committees

- The Board has established four Board Committees, namely the investment committee (the “**Investment Committee**”), the audit committee (the “**Audit Committee**”), the Remuneration and Nomination Committee and the disclosures committee (the “**Disclosures Committee**”). All Board Committees have clear terms of reference and are established to assist the Board in supervising specific issues and functions of Sunlight REIT and the Manager, and to report back to the Board of their findings, decisions and recommendations.

Management

- The strategies and objectives set by the Board are implemented by the management team under the leadership of the CEO.
- Management functions of the Manager are delegated to seven departments, with a clear organizational structure formulated for delegation of key duties and functions as shown below. Apart from day-to-day communications among departments, management meetings are held regularly to oversee and facilitate implementation of strategies and business operations.



- Property management, lease management and marketing services are delegated to the Property Manager pursuant to a property management agreement entered into between the Manager and the Property Manager, as amended and supplemented from time to time.

Contribution

- Board meetings are held at least four times in each financial year at approximately quarterly intervals.
- At least 14 days' notice in writing is given to Directors for regular Board meetings. Board consents are adopted by way of majority votes at Board meetings, or by written resolutions signed by all Directors.
- Board members are encouraged to make active contributions to the Board's affairs, to exercise independent and professional judgment on matters that require decision making, and to act in the best interests of Sunlight REIT and its Unitholders.
- All Directors shall participate in continuous professional training to develop and refresh their knowledge and skills, ensuring that their contribution to the Board remains informed and relevant. During the Year, all Directors participated in the activities set out below as part of their ongoing training and professional development :

Director	Role	Attending trainings, seminars and talks	Updates in meetings and reading materials
Mr. Au Siu Kee, Alexander	Chairman and NED	Yes	Yes
Mr. Wu Shiu Kee, Keith	CEO and Executive Director	Yes	Yes
Mr. Kwok Ping Ho	NED	Yes	Yes
Mr. Kwan Kai Cheong	INED	Yes	Yes
Dr. Tse Kwok Sang	INED	Yes	Yes
Mr. Kwok Tun Ho, Chester	INED	Yes	Yes

- Below are the major responsibilities and key work performed by the Board and Board Committees during the Year :



The Board

Responsibilities :

- Lead and guide the corporate strategy and direction of Sunlight REIT
- Oversee the management of Sunlight REIT and corporate governance of the Manager

Work performed :

- Approved financial results, distributions, business plans and CAPEX budget of Sunlight REIT
- Reviewed the work performed by the ESG Committee and approved the ESG report of Sunlight REIT
- Approved ESG-related policies and updates in various policies and guidelines
- Approved the engagement of external consultant relating to ESG matters of Sunlight REIT
- Approved the arranging of credit facilities for Sunlight REIT
- Reviewed and approved potential property acquisition opportunities
- Approved amendments to the Compliance Manual
- Reviewed the risk environment and factors affecting Sunlight REIT, including corresponding mitigating controls, risk parameters and risk appetite statement
- Reviewed the internal control systems of Sunlight REIT
- Reviewed amendments to the Trust Deed and certain continuing connected party transactions and their respective annual caps for the three financial years ending 30 June 2024 and recommended the same to Unitholders for approval
- Formed an independent board committee for the purpose of matters pertaining to continuing connected party transactions of Sunlight REIT
- Considered and recommended the engagement of a new principal valuer of Sunlight REIT
- Approved the re-appointment of Directors



Investment Committee

Responsibilities :

- Oversee investment and financial matters of Sunlight REIT
- Review investment strategies and proposals, as well as internal controls
- Review mitigation measures for investment and financial related risks
- Formulate treasury management and capital management policies

Work performed :

- Reviewed and considered financial results, operational statistics, business plans and CAPEX budget of Sunlight REIT; recommended distributions for the Board's approval
- Reviewed and formulated capital and treasury management strategies
- Evaluated potential property acquisition opportunities and made recommendations to the Board as appropriate
- Considered and recommended tenant relief programme and rental assistance scheme in light of COVID-19 for the Board's approval
- Reviewed and assessed investment and financial risks of Sunlight REIT



Audit Committee

Responsibilities :

- Ensure the quality and integrity of risk management and internal controls
- Recommend appointment of external auditor and review their performance
- Review completeness, accuracy, clarity and fairness of the financial statements
- Ensure compliance with applicable legal and regulatory requirements

Work performed :

- Reviewed internal audit activities reports and the effectiveness of internal audit function
- Reviewed interim and annual results of Sunlight REIT
- Considered and recommended to the Board on the re-appointment of external auditor (and their audit fees)
- Assessed the risk environment of Sunlight REIT and considered corresponding mitigation measures
- Reviewed and considered the effectiveness of risk management and internal control systems
- Reviewed connected party transactions entered into by Sunlight REIT to ensure compliance with the requirements of the REIT Code, the Listing Rules and waivers granted by the SFC
- Reviewed adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions
- Considered and recommended to the Board on amendments to the anti-money laundering policy and the guidelines on connected party transactions



Remuneration and Nomination Committee

Responsibilities :

- Oversee human resources strategy and policies of the Manager, including succession planning for Directors and the management team
- Review the structure, size and composition of the Board and Board Committees
- Evaluate performance of the Board and Board Committees, and to review independence qualification of INEDs

Work performed :

- Reviewed and appraised overall staff performance
- Reviewed and approved employee benefits policies
- Considered and approved salary and bonus proposals
- Reviewed structure of the Board and evaluated performance of the Board, Board Committees and their members
- Considered and recommended to the Board on re-appointment of Directors
- Reviewed split team and contingency arrangements pertinent to COVID-19



Disclosures Committee

Responsibilities :

- Review matters relating to disclosure of information of Sunlight REIT in corporate communications to Unitholders
- Ensure compliance with applicable legal requirements, and accurate and complete disclosure of information to the public and regulators

Work performed :

- Reviewed announcements, press releases, advertorials, interim and annual reports of Sunlight REIT and other corporate communications to Unitholders or investors
- Reviewed public regulatory filings to the applicable regulatory authorities
- Reviewed implication of amendments in rules and regulations to Sunlight REIT and its special purpose vehicles
- Reviewed the ESG-related matters of Sunlight REIT (including work performed by the ESG Committee and the ESG report of Sunlight REIT) and made recommendations to the Board

Assessment

- The Board's performance and effectiveness is regularly reviewed via the assistance of the Remuneration and Nomination Committee and the hiring of external consultants (as appropriate).
- Membership of the Board and Board Committees and the attendance record of Directors to the meetings held during the Year were as follows :

Type of meetings Director	No. of meetings attended / eligible to attend						
	Board	Investment Committee	Audit Committee	Remuneration and Nomination Committee	Disclosures Committee	2020 Annual General Meeting	2021 Extra-ordinary General Meeting
Mr. Au Siu Kee, Alexander	6/6	4/4		2/2		1/1	1/1
Mr. Wu Shiu Kee, Keith	6/6	4/4			2/2	1/1	1/1
Mr. Kwok Ping Ho	6/6					1/1	1/1
Mr. Kwan Kai Cheong	6/6		4/4	2/2	2/2	1/1	1/1
Dr. Tse Kwok Sang	6/6	4/4	4/4		2/2	1/1	1/1
Mr. Kwok Tun Ho, Chester	6/6	4/4	4/4	2/2		1/1	1/1

Chairman/chairman of the Board Committee
 chairman of the meeting
 N/A

Risk Management

Background

Risk management forms an integral part of Sunlight REIT's operating processes and is fundamental to the achievement of its vision, mission and core values.

The COVID-19 outbreak, which has caused unpredictable operating conditions since early 2020, clearly illustrates the importance of an agile risk management framework to ensure health and safety, business resilience and effective cyber risk control. During the Year, the Manager and the Property Manager have devoted incessant effort to mitigate the fast emerging risks associated with the pandemic, with a view to safeguarding the performance of Sunlight REIT and the well-being of its stakeholders.

Risk Value

The risk management framework of Sunlight REIT is established on the basis of achieving the following value propositions:

- A risk savvy culture in Sunlight REIT so that strategic and operational decisions are consciously weighted against the associated risks to support the achievement of strategic and operational objectives.
- A robust governance framework under which all key risks are identified, assessed and accounted for as well as ensuring that risks are managed to an acceptable level with reference to Sunlight REIT's overall goals and objectives.
- Enhancement of operational efficiency and effectiveness through regular process reviews.
- Protection of people, assets, reputation and values of Sunlight REIT.
- Identification of key risk indicators to provide early warning signals on the risk levels which may potentially prevent Sunlight REIT from achieving its strategic objectives.

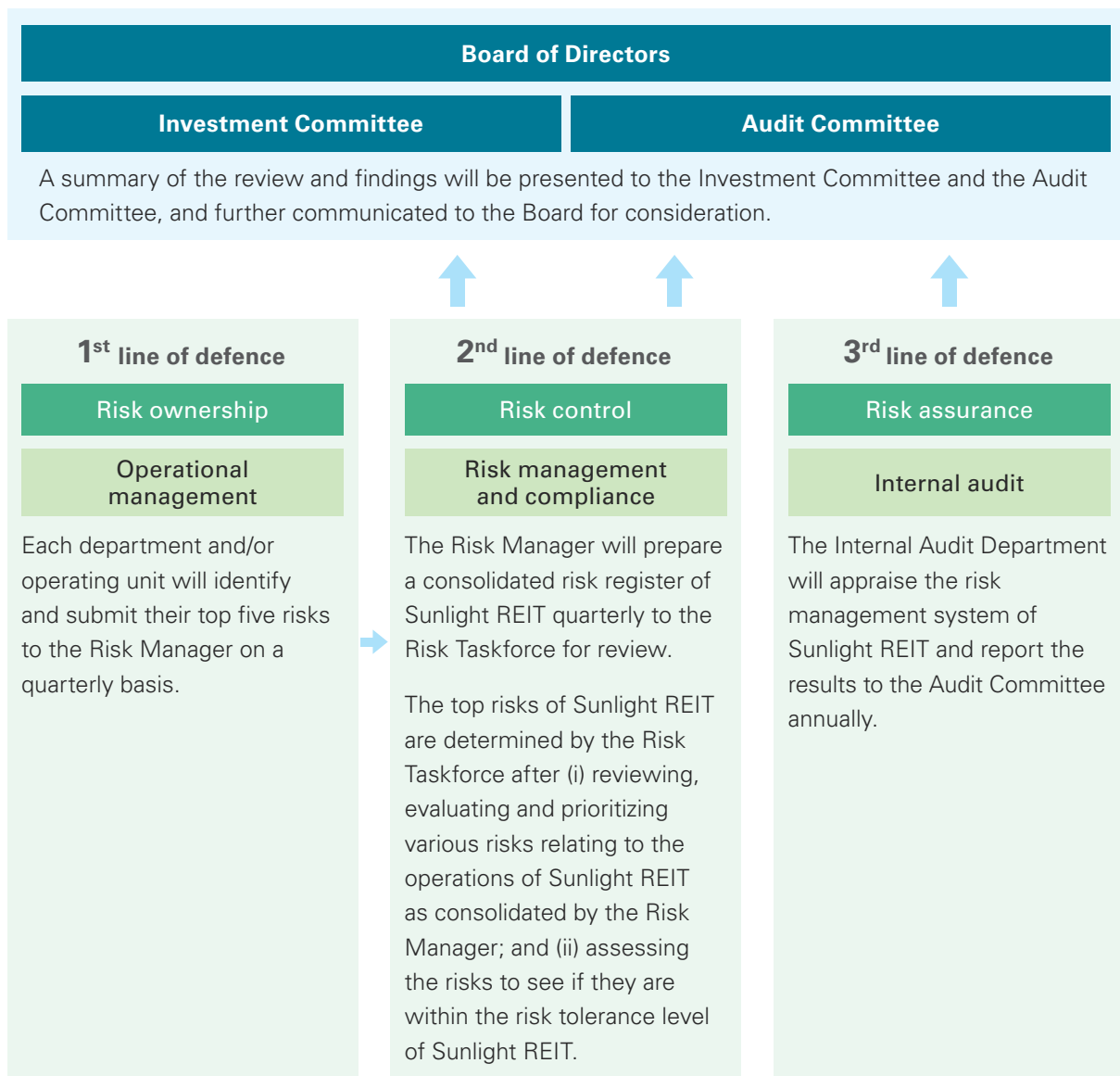
Approach and responsibilities

In enabling a consistent and holistic view of risk management, the Manager adopts a blended approach whereby application of the risk management framework encompasses day-to-day business activities to strategic planning processes at the Board level. The risk process involves collating and appraising bottom-up input from risk owners, with refinements and adjustments through top-down input by the CEO and heads of departments and/or operating units (excluding the Head of Internal Audit) as the Appointed Risk Leads ("ARLs"). The Risk Taskforce* meets at approximately quarterly intervals to review the key risks of Sunlight REIT and to determine whether the proposed risk controls are adequate and sufficient. The ultimate responsibility of risk management is assumed by the Board, the role of which is to ensure that appropriate and rigorous systems are in place to manage and mitigate the identified risks. The Audit Committee and the Investment Committee are designated to assist the Board in risk governance by monitoring the risk assessment process and timely communicating to the Board on key risks where necessary, while the internal audit function independently appraises Sunlight REIT's risk management framework and reports annually to the Audit Committee.

The risk management framework of Sunlight REIT can be summarized and illustrated by the 'Three Lines of Defence' model as provided on page 75.

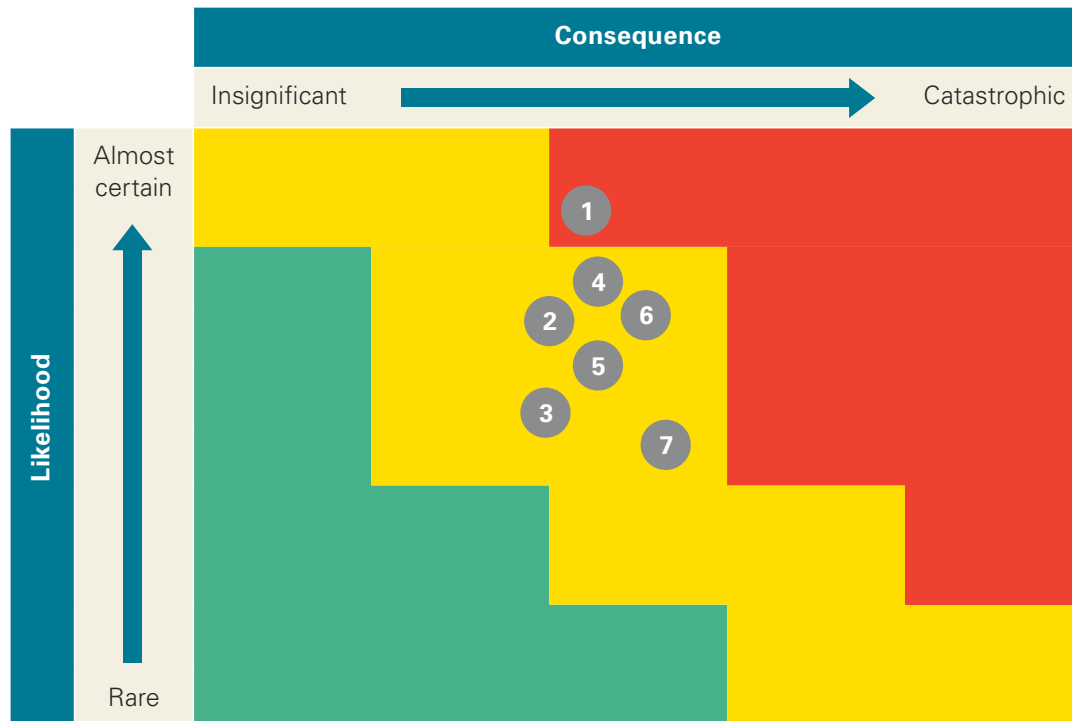
* The Risk Taskforce comprises the CEO, the Chief Financial Officer, the Risk Manager (the role of which is assumed by the Compliance Manager) and two rotational members from different departments and operating units.

Risk governance structure and process



Corporate Governance Report

Risk heat map at 30 June 2021



The risk heat map above provides an illustration of the top risks of Sunlight REIT at 30 June 2021 in terms of their likelihood and consequence. The risk tolerance level and the risk appetite statement of Sunlight REIT were reviewed and endorsed by the Board.

Based on the recommendation from the Risk Taskforce, the Board has approved the top risks of Sunlight REIT at 30 June 2021, details of which are depicted on pages 77 to 78 of this annual report. Meanwhile, enhanced controls and procedures are put in place by the Manager to mitigate these new and amended risks.

Summary of the top risks of Sunlight REIT at 30 June 2021

Risk no.	Description	Nature	Major controls
1 AMENDED	Rental pressure and higher vacancy rates due to the still difficult operating environment in Hong Kong	Financial and operational	<ul style="list-style-type: none"> Closely monitor rental receivables Provide more flexible leasing terms and rent free periods to tenants and offer competitive rental commission to leasing agents when necessary Identify new tenants engaged in non-discretionary trades Initiate early negotiations with existing and prospective tenants Monitor the leasing market and review leasing terms more closely
2	Reliance on major properties of the portfolio for a substantial proportion of income	Financial and investment	<ul style="list-style-type: none"> Maintain a diversified or balanced portfolio of office and retail properties Explore suitable acquisition opportunities
3 AMENDED	Disruption to work and operations due to the outbreak of COVID-19	Human resources and operations	<ul style="list-style-type: none"> Maintain effective and efficient communications with tenants and staff Provide adequate information technology support to facilitate work-from-home arrangements A contingency plan is in place and under review from time to time
4	Structural changes in the pattern of work and consumer spending may reduce demand for office and retail spaces	Financial and operational	<ul style="list-style-type: none"> Rebalance the trade mix of the tenancy portfolio to cope with the changes in the pattern of work and consumer behaviour Launch creative promotional and marketing campaigns to enhance customer shopping experience and loyalty Facilities improvement to maintain competitiveness of the properties Closely monitor property acquisition/disposal opportunities to enhance portfolio's quality Explore business opportunities and collaborations with new business partners

Corporate Governance Report

Risk no.	Description	Nature	Major controls
5 AMENDED	Cyber security and other IT risks	Operational	<ul style="list-style-type: none"> Implement protective measures including installation of anti-virus software and firewalls Establish system backup mechanism for data recovery Provide regular training to staff and conduct periodic phishing tests
6 AMENDED	Financial, operating and ESG performance may fall short of investors' expectations	Reputation	<ul style="list-style-type: none"> Proactive communications with potential investors and Unitholders Provide investors' feedback, performance benchmark and ESG updates to the Board regularly Timely disclosure of material information
7 NEW	Aging portfolio leading to unforeseen facilities breakdown, substantial increase in insurance premium and difficulty in pursuing green objectives	Operational	<ul style="list-style-type: none"> Conduct regular inspection and preventive maintenance for properties and facilities Devote more resources to aging properties to lower the rate of facilities breakdown and number of damage incidents

Internal Control

Internal control framework

The Audit Committee assists the Board in overseeing the effectiveness of Sunlight REIT's risk management and internal control systems. The Internal Audit Department ("IAD") conducts independent reviews to ensure the adequacy, effectiveness and efficiency of operational processes and internal controls. Based on the three-year strategic audit plan approved by the Audit Committee, the IAD conducts financial, operations and compliance reviews, recurring and ad-hoc audits, fraud investigation and process efficiency reviews.

A summary report with key findings, improvement recommendations and implementation status is provided to the Audit Committee on a quarterly basis.

Internal control system

The risk management and internal control systems of Sunlight REIT are designed to manage rather than eliminate the risk of failure in achieving business objectives, and thus can only provide reasonable but not absolute assurance against material misstatements or losses. The key control components of the systems include :

- Control environment**
- A clear organizational structure is established with defined lines of responsibility and limits of delegated authority to facilitate segregation of duties and controls.
 - Code of conduct, anti-fraud policy and policy of reporting of irregularities are adopted to emphasize the ethical standards and integrity of Directors and employees in all aspects of operations, and to establish mechanisms for reporting unethical conduct.

- Risk assessment**
- A risk management framework is in place to identify, assess and manage various types of risks that may have an impact on the achievement of business objectives. Please refer to "Risk Management" on pages 74 to 78 for more details.
 - A fraud risk register is established to identify specific fraud schemes and risks, and to assess their significance with relevant controls for ongoing monitoring.
 - ESG risks are integrated into the existing risk management framework and are monitored regularly by the ARLs, the ESG Committee and the Risk Taskforce.

- Control activities**
- A series of key policies and procedures are established to ensure that relevant management directives are carried out, and actions, including verifications and approvals, reviews and safeguarding of assets, are taken to address risks.

- Information and communication**
- Processes and systems are in place to capture and report operational, financial and compliance related information to enable effective communication within the organization and with external stakeholders.
 - An inside information policy is adopted to ensure that inside information is to be handled and disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations. Procedures have been set up in respect of preservation and handling of inside information. Directors and employees of the Manager are prohibited from (i) making any unauthorized disclosure of confidential information, or (ii) making any use of such information for their own advantage or which may constitute conflicts of interest with the public and/or Sunlight REIT.

- Monitoring activities**
- Regular reviews of key risk areas are performed by the IAD to ascertain whether the controls are present and functioning, and to ensure compliance with internal policies and regulatory requirements. Internal control deficiencies are timely communicated to responsible parties for taking corrective actions.

Corporate Governance Report

Results of annual review of risk management and internal control systems

For the Year, the Audit Committee reviewed the effectiveness of Sunlight REIT's risk management and internal control systems, covering all material controls including financial, operational and compliance. The IAD assisted the Audit Committee in the review process by conducting regular reviews and providing annual appraisal of the risk management system, as well as reviewing the annual self-assessment of internal control and assurance on systems effectiveness submitted by different operational functions. Based on the recommendation of the Audit Committee, the Board confirmed that Sunlight REIT's risk management and internal control systems were effective and adequate with no significant areas of concern identified.

The Board, through the Audit Committee, also reviewed the resources, staff qualifications and experience, training and budgets of the Manager's accounting, financial reporting and internal audit functions, and considered that they were adequate.

Conflicts of interest and business competition

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD. Both NEDs of the Manager (including the Chairman) are directors of HLD and some of its subsidiaries, associates and/or related companies, which are/may be 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 and HLD. The Manager and the Property Manager may also experience conflicts of interest with HLD when identifying and competing for potential tenants.

The Principal Valuer is no longer a connected person of Sunlight REIT since 4 December 2020 (when the amendments to the REIT Code became effective). As far as the Manager is aware, there was no conflicts 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 connected party transactions of Sunlight REIT are monitored and undertaken in compliance with the REIT Code, the Listing Rules 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. registers of other directorships and senior positions held by the Directors are 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.

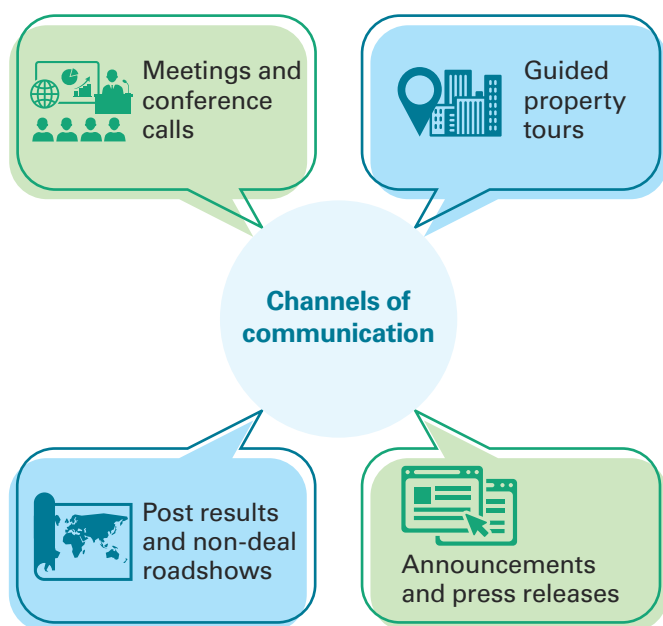
The Manager confirms that there were no transactions, arrangements or contracts of significance subsisting with Sunlight REIT during the Year in which a Director or an entity connected with the Director was materially interested.

Communication

Investor relations

The Manager is committed to providing open and effective communications, ensuring that Unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT. The Manager has an investor relations team which utilizes a range of interactive means to engage and maintain dialogues with investors and analysts. Investors' feedback and comments are reported to the Board regularly. The Manager believes that feedback and comments from the investment community are necessary in assisting the Board to map out the strategic direction of Sunlight REIT.

Communications with investors are conducted through various means as illustrated below :



In addition, investors and Unitholders may direct their enquiries to the Manager by email or by post. Please refer to "Corporate Information" on page 165 for contact details of the Manager.

General meetings

General meetings provide communication channels for Unitholders to obtain a better understanding of the business and operating performance of Sunlight REIT.

During the Year, the annual general meeting of Sunlight REIT was held on 6 November 2020 at which an ordinary resolution in relation to the granting of a general mandate to the Manager to buy back units (on-market) on behalf of Sunlight REIT was passed.

In addition, an extraordinary general meeting of Sunlight REIT was held on 5 May 2021 (the "2021 EGM") at which special resolutions in relation to the increase of Property Development Cap (the term as defined in the REIT Code) of Sunlight REIT and amendments to the Trust Deed, and an ordinary resolution in relation to certain continuing connected party transactions and their respective annual caps for the three financial years ending 30 June 2024 were passed. Accordingly, the Trustee and the Manager executed an amended and restated Trust Deed on 10 May 2021 to give effect to the relevant Trust Deed amendments.

Transparency

Annual and interim reports

Financial statements of Sunlight REIT are prepared in accordance with accounting principles generally accepted in Hong Kong. In accordance with the REIT Code, the annual reports of Sunlight REIT are published and distributed to Unitholders within four months following the end of each financial year, and interim reports are published and distributed to Unitholders within three months following the end of the relevant period.

Corporate Governance Report

Results announcements and other information

Pursuant to the requirements of the REIT Code, results announcements of Sunlight REIT are released on a semi-annual basis.

It is customary for the Manager to conduct presentations with Unitholders, investors, analysts and/or the press immediately following the release of results announcements. The relevant presentation materials and results announcements are available to the public on the website of Sunlight REIT.

To keep Unitholders abreast of the position of Sunlight REIT, public announcements on material information and developments of Sunlight REIT are made by the Manager on a timely basis in accordance with the applicable regulatory requirements. Briefings with analysts and the press may subsequently be convened by the Manager if necessary. The Manager also voluntarily releases the operational statistics of Sunlight REIT twice a year.

Other Compliance and Disclosure Matters

Compliance with the Compliance Manual and the Corporate Governance Code

The Manager has adopted 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 Year, the Manager has in material terms complied with the provisions of the Compliance Manual. In addition, the Manager and Sunlight REIT have complied with, to the extent applicable, the code provisions in the Corporate Governance Code in Appendix 14 of the 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 Year.

Changes in Directors’ information

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

1. Mr. KWOK Tun Ho, Chester has been appointed as an independent non-executive director of SF REIT Asset Management Limited, being the manager of SF Real Estate Investment Trust which was listed on the Stock Exchange on 17 May 2021; and
2. Mr. KWAN Kai Cheong has resigned as an independent non-executive director of Beijing Energy International Holding Co., Ltd. (formerly known as Panda Green Energy Group Limited), a company listed on the Stock Exchange, with effect from 18 June 2021.

Save as aforesaid, the Manager has not been notified of any change in Directors’ information.

Confirmation on independence

Each INED has provided an annual written confirmation of his independence by reference to the factors set out in the corporate governance policy of the Compliance Manual, inter alia, any cross-directorships or significant links with other Directors through involvement in other companies or bodies. Based on such confirmations, the Manager considered that the INEDs were independent.

Unitholders' rights

In accordance with the Trust Deed, at least 10 business days' notice of every meeting shall be given to Unitholders, except that at least 21 days' notice of the meeting shall be given to Unitholders where a special resolution is proposed for consideration at such meeting; and not less than 20 business days' notice shall be given to Unitholders for an annual general meeting. The place, date and time of the meeting and details of any resolution proposed will be specified in the meeting notice.

As required by the Trust Deed, any resolution put to the meeting shall be decided on a poll, except where the chairman of the meeting may, in good faith, exercise his/her discretion to allow a resolution which relates purely to a procedural or administrative matter to be decided on a show of hands. The voting results at the meeting shall be published by way of an announcement and will be posted on the websites of Sunlight REIT and the Stock Exchange.

Pursuant to the Trust Deed, not less than two Unitholders registered as holding together not less than 10% of the outstanding units in issue for the time being are entitled to request the Manager in writing to convene a meeting of Unitholders. Unitholders who wish to direct any such request to the Manager may

refer to "Corporate Information" on page 165 for contact details of the Manager. The Trustee or the Manager may at any time convene a meeting of Unitholders.

Matters decided by Unitholders by special resolutions

In accordance with the Trust Deed, matters including but not limited to the following require specific approval of Unitholders by way of special resolutions :

- modification, variation, alteration or addition to the Trust Deed;
- removal of the Trustee;
- disposal of a real estate within two years from the date of its acquisition (except for disposal of a Non-qualified Minority-owned Property (the term as defined in the REIT Code));
- termination or merger of Sunlight REIT;
- changes in the investment policy and objective of Sunlight REIT; and
- increase in the maximum remuneration (other than any additional fee as allowed under the Trust Deed) or changes to the structure of the remuneration of the Trustee or the Manager.

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 1,500,000 units on behalf of Sunlight REIT on the Stock Exchange during the Year for an aggregate consideration of approximately HK\$5.9 million (excluding buy-back expenses). All the units bought back were cancelled prior to the end of the Year. Details of the buy-backs are as follows :

Month of buy-back	Number of units bought-back	Price paid per unit		Aggregate consideration paid* (HK\$'000)
		Highest (HK\$)	Lowest (HK\$)	
November 2020	800,000	3.68	3.60	2,919
May 2021	700,000	4.33	4.29	3,018
Total	1,500,000			5,937

* Excluding buy-back expenses

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 Year.

Corporate Governance Report

Relevant Investments

The full investment portfolio of Relevant Investments, as defined in paragraph 7.2B of the REIT Code, of Sunlight REIT at 30 June 2021 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
CATHAY 4 7/8 08/17/26 Cathay Pacific MTN Financing (HK) Limited	Stock Exchange	USD	11,672	11,885	0.06	N/A
CHALHK 4 7/8 09/07/21 Chalco Hong Kong Investment Company Limited	Stock Exchange	USD	23,432	23,442	0.13	Fitch A-
COGARD 5.4 05/27/25 Country Garden Holdings Company Limited	Singapore Exchange Limited	USD	14,452	14,384	0.08	Fitch BBB-
COGARD 3 1/8 10/22/25 Country Garden Holdings Company Limited	Singapore Exchange Limited	USD	10,115	10,155	0.05	Moody's Baa3 Fitch BBB-
GEELZ 3 03/05/25 Geely Finance (Hong Kong) Limited	Singapore Exchange Limited	USD	15,373	15,812	0.08	S&P BBB-
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,474	0.06	N/A
PCPDC 5 1/8 06/18/26 PCPD Capital Limited	Singapore Exchange Limited	USD	11,639	11,801	0.06	N/A
CJIANT 4 1/2 09/20/21 Xingsheng (BVI) Company Limited	Stock Exchange	USD	15,635	15,627	0.08	Fitch A+
ZHONAN 3 1/8 07/16/25 ZhongAn Online P & C Insurance Co., Ltd.	Stock Exchange	USD	28,743	28,826	0.15	Moody's Baa2
Total			141,461	142,406	0.75	

At 30 June 2021, the combined mark-to-market value of Relevant Investments, together with other ancillary investments of Sunlight REIT, represented approximately 4.5% 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 :

- All financial instruments are bonds and their descriptions are quoted from Bloomberg.
- The percentages are arrived at by comparing the mark-to-market value of the investments with the gross asset value of Sunlight REIT at 30 June 2021.
- Gross asset value refers to the total assets after adjusted for the final distribution declared. Total assets and final distribution are stated on page 120 and page 123 of this annual report respectively.

Issue of further units

Further issue of units is subject to compliance with the pre-emption provisions contained in the REIT Code. Such provisions generally require that, unless the REIT Code otherwise permits, further issues of units shall be offered on a pro rata basis to existing Unitholders. If new units are not offered on a pro rata basis, the approval of Unitholders by way of an ordinary resolution is required unless the aggregate number of new units issued during the financial year does not increase the total number of units in issue at the end of the previous financial year by more than 20%.

During the Year, a total of 12,204,448 new units were issued to the Manager in October 2020 and April 2021, as payment of part of the Manager's fees.

Save as aforesaid, there were no other new units issued during the Year.

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 annual report.

Review of annual report

This annual report has been reviewed by the Audit Committee and the Disclosures Committee in accordance with their respective terms of reference.

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of Sunlight REIT and its subsidiaries for the Year.

Auditor's remuneration

During the Year, fees payable to the auditor amounted to HK\$2,002,000 for audit and audit related services. Non-audit services fee payable to the auditor were HK\$497,000 for services relating to the review of interim financial statements of Sunlight REIT.

Promotional expenses

Pursuant to the waiver granted by the SFC on 27 April 2009 from strict compliance with paragraph 9.13(b) of the REIT Code, certain expenses for advertising or promotional activities are allowed to be paid out of the deposited property of Sunlight REIT. A further waiver

was granted by the SFC on 30 April 2012 to expand the scope of such expenses to include the fees, costs and expenses incurred in relation to any fund raising exercise by, any assets of or otherwise in connection with Sunlight REIT, and these expenses are collectively referred to as the "**Promotional Expenses**".

During the Year, the Promotional Expenses incurred were HK\$713,000. Having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee, pursuant to the conditions of the above waivers, confirmed that these Promotional Expenses were incurred in accordance with the internal control procedures of the Manager, and solely for the purposes as set out in the relevant clauses of the Trust Deed relating to the Promotional Expenses.

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 final distribution are Thursday, 23 September 2021 and Wednesday, 29 September 2021 respectively. The register of Unitholders will be closed from Monday, 27 September 2021 to Wednesday, 29 September 2021, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the final 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, 24 September 2021. Payment of the final distribution will be made to Unitholders on Friday, 8 October 2021.

Distribution policy

Pursuant to the Trust Deed, the total amounts distributed or distributable to Unitholders shall be no less than 90% of annual distributable income (i.e. the consolidated audited net profit after tax of Sunlight REIT subject to certain adjustments in accordance with the Trust Deed) for each financial year.

Corporate Governance Report

Top five real estate agents and contractors for the Year

Real estate agent and contractor ¹	Nature of services	Commission and value of contracts ² (HK\$'000)	% of total commission and value of contracts
Henderson Sunlight Property Management Limited ³	Property management, lease management and marketing services	46,015	36.4
Hang Yick Properties Management Limited ³	Building management and licence fee	9,120	7.2
Wardson Engineering Limited	Repairs, maintenance and chiller plant installation	6,116	4.9
Ngai Lik Cleaning Services Company Limited	Cleaning services	5,989	4.7
Winston Air Conditioning & Engineering (Hong Kong) Company Limited	Repairs and maintenance	4,454	3.5
Total		71,694	56.7

Notes :

1. Commission and value of contracts paid to all real estate agents and contractors for the Year amounted to HK\$14.6 million and HK\$111.8 million respectively, of which HK\$13.0 million and HK\$60.0 million were attributable to the top five real estate agents and the top five contractors.
2. Included commission and value of contracts for the supply of items or services which are of a capital nature.
3. Wholly-owned subsidiaries of HLD. HLD is interested in more than 5% of the total number of units of Sunlight REIT in issue.

Connected Party Transactions

Amendments to the REIT Code were 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**”). Such amendments broadly aligned connected party transaction requirements with 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 Year, 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 88) from which Sunlight REIT derived its income or in which Sunlight REIT incurred its expenses during the Year :

(a) Income

Name of connected person	Relationship with Sunlight REIT ¹	Nature of the connected party transactions	Income for the Year (HK\$'000)	Rental and other deposits received at 30 June 2021 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	6,867	1,604
Henderson Sunlight Property Management Limited	Associate of the Manager and substantial Unitholders ²	Leasing	3,594	942
Henderson Real Estate Agency Limited	Associate of the Manager and substantial Unitholders ²	Joint effort arrangements	2,592	N/A
Galaxy Hotel Management Company Limited	Associate of the Manager and substantial Unitholders ²	Leasing and licensing	461	105
Total			13,514	2,651

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ¹	Nature of the connected party transactions	Expenses for the Year (HK\$'000)
Hang Yick Properties Management Limited	Associate of the Manager and substantial Unitholders ²	Building management and licence fee	9,120
Henderson Sunlight Property Management Limited	Associate of the Manager and substantial Unitholders ²	Property management, lease management and marketing services	46,015
Megastrength Security Services Company Limited	Associate of the Manager and substantial Unitholders ²	Security services	3,855
Metro City Management Limited	Associate of the Manager and substantial Unitholders ²	Building management	1,351
Sheung Shui Centre Management Limited	Associate of the Manager and substantial Unitholders ²	Building management	2,389
Contender Limited*	Associate of the Manager and substantial Unitholders ²	Facilities leasing	120
Total			62,850

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

Connected party transactions with the Trustee Connected Persons

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

Name of connected person	Nature of the connected party transactions	Income/ (expenses) for the Year (HK\$'000)	Rental and other deposits received/ (deposits paid) at 30 June 2021 (HK\$'000)
Leasing transactions :			
The Hongkong and Shanghai Banking Corporation Limited (“ HSBC ”)	Leasing ²	10,892	2,779
HSBC	Licensing ³	368	84
Hang Seng Bank Limited (“ Hang Seng ”)	Leasing ⁴	9,646	2,100
Ordinary banking and financial services⁵ :			
HSBC	Interest income received/receivable on bank deposits	0.1	N/A
HSBC	Interest expenses and security trustee fee on bank borrowings, net interest expenses on interest rate swaps and other bank charges	(26,177)	N/A
Hang Seng	Interest expenses on bank borrowings and other bank charges	(4,153)	N/A
Hang Seng	Interest income received/receivable on bank deposits	588	N/A
EPS Company (Hong Kong) Limited	Service fees	(125)	(2)

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 which was renewed upon its expiry until 16 February 2024; 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 Year, 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\$92.5 million and HK\$4.6 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 26(b)(i), (ii) and (iv) to the consolidated financial statements.

Confirmation by the INEDs

The INEDs confirmed that they have reviewed all the connected party transactions during the Year as disclosed in the paragraphs headed “Connected party transactions – income and expenses” and “Connected party transactions with the Trustee Connected Persons” above and that they are satisfied that those transactions have been entered into :

- (i) in the ordinary and usual course of business of Sunlight REIT;
- (ii) on normal commercial terms (to the extent that there are sufficient comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Sunlight REIT than terms readily available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements and the Manager’s internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of Unitholders as a whole.

Confirmation by the Auditor of Sunlight REIT

Pursuant to the waivers granted by the SFC from strict compliance with the requirements under Chapter 8 of the REIT Code, the Manager has engaged KPMG, being the auditor of Sunlight REIT, to report on the continuing connected transactions on the leasing and licensing arrangements (including facilities leasing), property management and operations (including joint effort arrangements and security services) and ordinary banking and financial services transactions for the Year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor’s findings and conclusions in respect of the aforesaid continuing connected transactions disclosed in this annual report in accordance with the waivers and a copy of such letter has been provided to the SFC.

Connected Party Transactions

Agreements entered into during the Year in respect of Continuing Connected Party Transactions

The waivers previously granted to Sunlight REIT for certain continuing connected party transactions of Sunlight REIT expired on 30 June 2021 ("**CPT Waivers**"). Hence, the following agreements were entered into on 31 March 2021 by or on behalf of Sunlight REIT for the purposes of governing the continuing connected party transactions upon expiry of the CPT Waivers in accordance with the Amended REIT Code, for a term of three years from 1 July 2021 to 30 June 2024 :

- (i) Master Leasing Agreement*;
- (ii) Joint Effort Carparking Agreement*;
- (iii) Renewed Property Management Agreement*; and
- (iv) Master Services Agreement*.

In addition, transactions contemplated under the Connected Deeds of Mutual Covenant* will continue to constitute continuing connected party transactions of Sunlight REIT under the Amended REIT Code.

The transactions contemplated under the Renewed Property Management Agreement, the Master Services Agreement and the Connected Deeds of Mutual Covenant (collectively, the "**Property Management Transactions**") and their respective annual caps for the three financial years ending 30 June 2024 require the approval of the independent Unitholders under the Amended REIT Code. Such approval was obtained at the 2021 EGM.

Further information about the Master Leasing Agreement and the Joint Effort Carparking Agreement was disclosed in the announcement of Sunlight REIT dated 31 March 2021 ("**Announcement**").

Further information about the Property Management Transactions was disclosed in the Announcement and the circular of Sunlight REIT dated 9 April 2021 ("**Circular**").

* Such capitalized terms shall carry the meanings as defined in the Announcement and/or the Circular.

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 interests 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 30 June 2021 and 31 December 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 30 June 2021		At 31 December 2020	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
The Manager ²	164,325,854	9.827	156,657,194	9.398
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 1,672,133,484 units at 30 June 2021 and 1,666,867,824 units at 31 December 2020 (as the case may be).
2. During the Year, the Manager received 12,204,448 units as payment of part of the Manager’s fees; and acquired 1,703,000 units in the open market. The Manager beneficially owned 164,325,854 units at 30 June 2021 (31 December 2020 : 156,657,194 units).
3. At 30 June 2021, of the 2,300,000 units in which Mr. Au Siu Kee, Alexander (being the Chairman and NED of the Manager) was interested, 201,000 units were directly held by Mr. Au, 1,999,000 units were jointly held by him and his deceased spouse, and the remaining 100,000 units were directly held under the estate of his deceased spouse (hence in which Mr. Au has deemed interest). On 25 August 2021, the aforesaid 1,999,000 units were registered under the sole name of Mr. Au by virtue of his succession rights and the aforesaid 100,000 units were transferred to him as beneficiary of his deceased spouse’s estate. Accordingly, Mr. Au became the sole beneficial owner of a total of 2,300,000 units on 25 August 2021.
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 30 June 2021.

Disclosure of Interests

Holdings of substantial Unitholders

At 30 June 2021 and 31 December 2020, the interests in units of the substantial Unitholders, as recorded in the Register, were as follows :

Name	At 30 June 2021		At 31 December 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	39.60	662,182,758	39.73
Lee Financial (Cayman) Limited ²	374,072,708	22.37	374,072,708	22.44
Leesons (Cayman) Limited ²	374,072,708	22.37	374,072,708	22.44
Leeworld (Cayman) Limited ²	374,072,708	22.37	374,072,708	22.44
Shau Kee Financial Enterprises Limited ²	374,072,708	22.37	374,072,708	22.44
Uplite Limited ²	224,443,625	13.42	224,443,625	13.46
Wintrade Limited ²	149,629,083	8.95	149,629,083	8.98
Henderson Development Limited ²	300,569,511	17.98	300,569,511	18.03
HLD ²	300,569,511	17.98	300,569,511	18.03
Hopkins (Cayman) Limited ²	300,569,511	17.98	300,569,511	18.03
Riddick (Cayman) Limited ²	300,569,511	17.98	300,569,511	18.03
Rimmer (Cayman) Limited ²	300,569,511	17.98	300,569,511	18.03
Silchester International Investors LLP ³	232,364,150	13.90	232,364,150	13.94
Silchester International Investors International Value Equity Trust ³	100,231,922	5.99	98,824,922	5.93

Notes :

1. The percentages are based on the total number of units in issue of 1,672,133,484 units at 30 June 2021 and 1,666,867,824 units at 31 December 2020 (as the case may be).
2. At 30 June 2021, 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 30 June 2021, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 164,325,854 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 308,238,171 units at 30 June 2021. Whereas in the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 300,569,511 units at 30 June 2021, as no notifiable interest arose on their parts subsequent to their last disclosure of interest notifications to the Stock Exchange.

Notes : (cont'd)

At 30 June 2021, 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 682,310,879 units. Whereas in the Register, Dr. Lee Shau Kee was recorded as having an interest in 662,182,758 units at 30 June 2021, as no notifiable interest arose on his part subsequent to his last disclosure of interest notification to the Stock Exchange.

At 30 June 2021, the units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT under the Amended REIT Code.

3. At 30 June 2021, 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 beneficially owned 100,231,922 units. According to the Register, Silchester LLP's interest was reduced to 200,482,150 units (representing approximately 11.99% of the then total number of units in issue) on 13 September 2021.

At 30 June 2021, 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 30 June 2021.

Holdings of other connected persons

Save as disclosed above and as far as the Manager is aware, the holding of units of other connected person (as defined in paragraph 8.1 of the Amended REIT Code) of Sunlight REIT at 30 June 2021 was as follows :

Name	Number of units held	% of unit holding ¹
Lo Yuk Fong, Phyllis ²	100,000	0.0060

Notes :

- The percentage is based on the total number of units in issue of 1,672,133,484 units at 30 June 2021.
- 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 31 December 2020.

Valuation Report

Colliers International (Hong Kong) Limited

Suite 5701, Central Plaza
18 Harbour Road
Wan Chai, Hong Kong

Main (852) 2828 9888
Fax (852) 2828 9899
Website www.colliers.com



HSBC Institutional Trust Services (Asia) Limited
(in its capacity as the Trustee of Sunlight Real Estate Investment Trust ("**Sunlight REIT**"))
17/F, Tower 2 & 3 HSBC Centre
1 Sham Mong Road, Kowloon

27 July 2021

and

Henderson Sunlight Asset Management Limited
(in its capacity as the Manager of Sunlight REIT)
30/F, Dah Sing Financial Centre
248 Queen's Road East, Wan Chai, Hong Kong

Dear Sir/Madam,

Re: Valuation of 16 Properties held by Sunlight REIT (the "Properties")

1.1 Terms of engagement

Terms of engagement have been agreed with HSBC Institutional Trust Services (Asia) Limited (the "**Trustee**") (in its capacity as the Trustee of Sunlight REIT) and Henderson Sunlight Asset Management Limited (the "**Manager**") (in its capacity as the Manager of Sunlight REIT) to provide the market value of the Properties (as defined hereinafter) as at 30 June 2021 (the "**Valuation Date**") for accounting and for financial reporting purpose, in compliance with the relevant requirements set out in the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong (the "**SFC**"), the trust deed of Sunlight REIT and where applicable, the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong (the "**Listing Rules**").

1.2 The Properties

The Properties comprise 16 properties located in Hong Kong, being 11 office buildings and 5 retail properties. The details are listed below :

No.	Property	Address
1	Dah Sing Financial Centre (formerly known as 'Sunlight Tower')	No. 248 Queen's Road East, Wan Chai
2	Strand 50	No. 50 Bonham Strand, Sheung Wan
3	Righteous Centre	No. 585 Nathan Road, Mong Kok
4	Various Portions in 135 Bonham Strand Trade Centre	No. 135 Bonham Strand, Sheung Wan
5	Various Portions in Winsome House	No. 73 Wyndham Street, Central
6	Java Road 108 Commercial Centre	No. 108 Java Road, North Point
7	Various Portions in Sun Fai Commercial Centre	No. 576 Reclamation Street, Mong Kok
8	Various Portions in Wai Ching Commercial Building	No. 77 Wai Ching Street, Yau Ma Tei
9	235 Wing Lok Street Trade Centre	No. 235 Wing Lok Street, Sheung Wan
10	On Loong Commercial Building	Nos. 276-278 Lockhart Road, Wan Chai
11	The Harvest	No. 591 Nathan Road, Mong Kok
12	Commercial Development and Car Parks, Metro City Phase I	No. 1 Wan Hang Road, Tseung Kwan O
13	Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in the Podium and Basement, Sheung Shui Centre	No. 3 Chi Cheong Road, Sheung Shui
14	Various Portions in Kwong Wah Plaza	No. 11 Tai Tong Road, Yuen Long
15	Various Shops Units on Ground Floor, Beverley Commercial Centre	Nos. 87-105 Chatham Road South, Tsim Sha Tsui
16	Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand	No. 28 Mercury Street, North Point

1.3 Valuer's interest

We hereby confirm that :

- We fulfil the qualification requirements set out in Chapter 6 on Paragraph 6.4 of the REIT Code.
- We have no present or prospective interest in the Properties and we are independent of Sunlight REIT, the Trustee, the Manager and each of the substantial holders of Sunlight REIT for the purpose of Paragraph 6.5 of the REIT Code.
- We are authorised to practice as valuers and have the necessary expertise and experience in valuing similar types of properties.
- The valuations have been prepared on a fair and unbiased basis

1.4 Basis of valuation

Our valuation is made on the basis of market value, which is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

1.5 Valuation standards

The valuations have been carried out in accordance with “The HKIS Valuation Standards (2020 Edition)” published by The Hong Kong Institute of Surveyors, and in compliance with the requirements contained in relevant provisions in Chapter 5 of the Listing Rules, and Paragraph 6.8 of the REIT Code issued by the SFC in December 2020.

1.6 Valuation rationale

In the course of our valuations, we have adopted the **Income Approach – Term and Reversion Method**. This valuation method estimates the value of properties or assets on a market basis by capitalising net rental income on a fully leased basis. This method is used when a property or asset is leased out for a specific term(s). This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deductions are made for outgoings such as property management fees, capital expenditure, vacancy loss and other necessary expenses.

This analysis has been cross-checked by the **Market Approach** assuming the sale of the Properties in their existing state and by making reference to comparable sales transactions as available in the relevant markets. By analysing sales which qualify as arm’s-length transactions, between willing buyers and sellers, relevant adjustments are made to account for differences in time, location, age, size, condition and other relevant factors.

1.7 Title investigations

We have not been provided with extracts from title documents relating to the Properties, but have conducted searches at the Land Registry. We have not, however, seen the original documents to verify ownership, nor to ascertain the existence of any amendments that may not appear in our searches. We do not accept any liability for any misinterpretation as a result.

1.8 Information sources

We have relied to a considerable extent on the information provided by the Manager on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

Valuation Report

Our valuation is carried out subject to the existing tenancy arrangements and tenancy renewal agreements. In accordance with the tenancy schedule provided by the Manager, the majority of the tenancies are exclusive of rates, Government rent, management fees, promotional levy and air-conditioning charges. In accordance with the standard tenancy agreement, the landlord is responsible for structural repairs, the landlord's fixtures and fittings and for keeping the conduits in tenanted repair while the tenants are responsible for internal repairs to the Properties.

We have also been advised by the Manager that no material factors or information has been omitted or withheld from the information supplied and we consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

We have made enquires and relevant searches at the Hong Kong Land Registry. However, we have not searched the original documents nor verified the existence of any amendments that do not appear in the documents available to us. All documents have been used for reference only.

1.9 Site measurement

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Properties, but have assumed that the areas shown on the documents and plans provided to us are correct.

1.10 Site inspections

We have inspected the exteriors and the interiors of the Properties. Our inspections of the Properties were carried out by Stella Ho (MRICS and MHKIS) on 25 and 26 June 2021. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services. Our valuations have been prepared on the assumption that these aspects are satisfactory.

1.11 Caveats and assumptions

Our valuations have been made on the assumption that the Properties can be sold on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect their values although they are subject to the existing management agreements and lease agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

This report and our valuations are for the use of the Manager and the Trustee of Sunlight REIT only and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or any part of the content of these valuations.

In addition, we have made the following assumptions :

- All information on the Properties provided by the Manager is correct.
- Proper ownership titles of and relevant planning approvals for the Properties have been obtained, all payable land premiums, land-use rights fees and other relevant fees have been fully settled and the Properties can be freely transferred, sub-let, mortgaged or otherwise disposed of.
- We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement. We have not examined the lease documents for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies are valid, binding and enforceable.
- As instructed, we have relied upon carpark numbers as advised by the Manager. We have not carried out on-site counting to verify the correctness of the carpark numbers of the Properties valued.

- Any land premium or other fees payable for the acquisition, transfer, sale, letting or mortgage of the Properties have been fully paid and settled.
- Unless otherwise stated, we have not carried out any valuation on a redevelopment basis, nor the study of possible alternative options.
- No acquisition costs or disposal costs have been taken into account in the valuation.
- As the Properties are held under long term government leases, we have assumed that the owner has free and uninterrupted rights to use the Properties for the whole of the unexpired term of the lease, in accordance with the terms of the lease.
- The government leases will be renewed upon expiry on normal terms.
- We are not aware of any easements or rights of way affecting the Properties and have assumed that none exists.
- We have assumed that the Properties are free from any contamination and environmental problems or hazards.
- We have assumed that the Properties have been constructed, occupied and used in full compliance with, and without contravention of, all relevant laws, ordinances and statutory requirements.
- We have assumed that for any use of the Properties upon which this valuation report is based, any and all required licences, permits, certificates, and authorisations have been obtained and are ordinarily renewable.
- We have assumed that the Properties are structurally sound, in a good state of repair and maintained in a condition fit for purpose.

All monetary figures stated in this report are in Hong Kong dollars (HKD).

Our valuations of the Properties are set out in (2) Summary of Valuations, (3) Valuation Particulars, (4) Office Market Overview and (5) Retail Market Overview attached hereto, which together with this covering letter, form our valuation report in the summary form. A full version is available for public inspection at the registered office of the Manager.

Yours faithfully,

For and on behalf of

Colliers International (Hong Kong) Limited

Stella Ho

BSSc (Hons) MSc MRICS MHKIS RPS (GP) MCIREA

Registered Real Estate Appraiser PRC

Senior Director

Valuation & Advisory Services

Note : Stella Ho is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Chapter 417) in the Hong Kong Special Administrative Region ("Hong Kong"). She is suitably qualified to carry out the valuation and has over 20 years' experience in the valuation of properties of this magnitude and nature.

Valuation Report

2 Summary of valuations

Property	Approximate gross floor area (sq. ft.)	No. of parking lots (excluding motor and bicycle spaces)	Market value as at 30 June 2021 (HKD)	Capitalization rate adopted			Estimate net property yield (%)
				Retail (%)	Office (%)	Carpark (%)	
1 Dah Sing Financial Centre	376,381	46	5,236,900,000	3.65	3.75	4.90	3.43
2 Strand 50	117,909	N/A	1,315,800,000	3.80	3.45	N/A	3.30
3 Righteous Centre	51,767	N/A	539,000,000	3.50	3.75	N/A	4.00
4 Various Portions in 135 Bonham Strand Trade Centre	63,915	N/A	584,700,000	3.80	3.55	N/A	3.41
5 Various Portions in Winsome House	40,114	N/A	565,000,000	3.60	3.55	N/A	3.43
6 Java Road 108 Commercial Centre	37,923	N/A	278,200,000	4.00	3.75	N/A	3.91
7 Various Portions in Sun Fai Commercial Centre	26,151	N/A	169,400,000	4.05	3.80	N/A	4.03
8 Various Portions in Wai Ching Commercial Building	16,321	N/A	81,100,000	3.90	3.55	N/A	3.85
9 235 Wing Lok Street Trade Centre	52,285	N/A	371,400,000	3.80	3.55	N/A	3.12
10 On Loong Commercial Building	27,206	N/A	253,500,000	3.70	3.65	N/A	4.01
11 The Harvest	34,651	N/A	627,200,000	3.10	3.30	N/A	3.53
12 Commercial Development and Car Parks, Metro City Phase I	188,889	452	3,097,400,000	4.40	N/A	5.00	4.72
13 Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in the Podium and Basement, Sheung Shui Centre	122,339	297	3,892,600,000	4.30	N/A	5.80	4.06
14 Various Portions in Kwong Wah Plaza	68,411	N/A	1,177,700,000	3.60	3.60	N/A	3.65
15 Various Shops Units on Ground Floor, Beverley Commercial Centre	7,934	N/A	77,000,000	4.10	N/A	N/A	3.14
16 Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand	4,226	N/A	74,800,000	3.80	N/A	N/A	3.88
Total	1,236,422		18,341,700,000				

3 Valuation particulars

Dah Sing Financial Centre

Dah Sing Financial Centre at 248 Queen's Road East, Wan Chai, Hong Kong (formerly known as 'Sunlight Tower')

Description

Dah Sing Financial Centre is a 40-storey (including mechanical floor) commercial development in Wan Chai district with retail accommodation on the Ground Floor and carparking spaces on the 1st to 4th Floors. The 5th Floor is designated a mechanical floor and 6th to 42nd Floors are designated for office purposes. The development was completed in 1998. (14, 24, and 34 are omitted from floor numbering)

The Property comprises the whole of the retail accommodation and the all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 6,490 sq. ft. and 369,891 sq. ft. respectively, total to about 376,381 sq. ft. (34,966.65 sq. m.).

Tenure

Inland Lot No. 506 is held under Government Lease for a term of 999 years commencing on 16 November 1855. The Government rent for the lot is 36 pounds 10 shillings per annum.

Inland Lot No. 387 is held under Government Lease for a term of 999 years commencing on 16 March 1855. The Government rent for the lot is 20 pounds 4 shillings and 10 pence per annum.

Monthly rental income as at 30 June 2021

HKD14,632,329 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2021*

HKD344,005 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2021*

HKD10,068 exclusive of rates and management fees

Market value in existing state as at 30 June 2021

HKD5,236,900,000

Estimated Net Property Yield

3.43%

* Monthly car parking income and monthly licence income are the average of the respective incomes from July 2020 to May 2021.

Strand 50

Strand 50 at 50 Bonham Strand, Sheung Wan, Hong Kong

Description

Strand 50 is a 28-storey commercial development in Sheung Wan district. The Ground and 1st Floors of the development are designated for shops and the 2nd to 27th Floors are designated for office use. The development was completed in 1998.

The Property comprises the whole of the retail accommodation and all office units of the development. The total gross rentable areas of the retail and office portions of the Property are 9,403 sq. ft. and 108,506 sq. ft. respectively, total to about 117,909 sq. ft. (10,954.01 sq. m.).

Tenure

Inland Lot No. 15 is held under Government Lease for a term of 999 years commencing on 26 December 1860. The Government rent for the remaining portion for the lot is HKD11.9 per annum.

Marine Lot No. 142 is held under Government Lease for a term of 981 years commencing on 26 December 1860. The Government Rent for the lot HKD41.96 per annum.

Marine Lot No. 144 is held under Government Lease for a term of 981 years commencing on 26 December 1860. The Government Rent for the lot is HKD82.84 per annum.

Monthly rental income as at 30 June 2021

HKD3,622,306 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD1,315,800,000

Estimated Net Property Yield

3.30%

Valuation Report

Righteous Centre

Righteous Centre at 585 Nathan Road, Mong Kok, Kowloon, Hong Kong

Description

Righteous Centre is a 26-storey (including mechanical floor) commercial development in Mong Kok district with retail accommodation on the Ground to 3rd Floors. The 4th Floor is used for mechanical plant rooms and the 5th to 25th Floors are designated for office use. The development was completed in 1996.

The Property comprises the whole of the retail accommodation and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 12,720 sq. ft. and 39,047 sq. ft. respectively, total to about 51,767 sq. ft. (4,809.27 sq. m.).

Tenure

Kowloon Inland Lot No. 6827 is held under Conditions of Renewal No. 5654 for a term of 150 years commencing on 25 December 1887. The Government Rent for Section A of the lot is HKD78 per annum.

Kowloon Inland Lot No. 7097 is held under Conditions of Regrant No. 5759 for a term of 150 years commencing on 25 December 1887. The Government Rent for the lot is HKD150 per annum.

Monthly rental income as at 30 June 2021

HKD1,753,483 exclusive of rates, management and air-conditioning charges

Monthly licence income as at 30 June 2021*

HKD42,255 exclusive of rates and management fees

Market value in existing state as at 30 June 2021

HKD539,000,000

Estimated Net Property Yield

4.00%

135 Bonham Trade Centre

Various Portions in 135 Bonham Strand Trade Centre, 135 Bonham Strand, Sheung Wan, Hong Kong

Description

135 Bonham Strand Trade Centre is a 25-storey (including mechanical floor) commercial development in Sheung Wan district with retail accommodation on the Ground Floor and offices on 1st to 2nd and 4th to 24th Floors (3rd Floor is used for plant rooms). The development was completed in 2000.

The Property comprises Shop Nos. 1-2 and 6-7 on Ground Floor and Office Nos. 1-5 on 1st to 2nd and 6th to 24th Floors. The total gross rentable areas of the retail and office portions of the Property are 3,071 sq. ft. and 60,844 sq. ft. respectively, total to about 63,915 sq. ft. (5,937.85 sq. m.).

Tenure

Marine Lot No. 173 is held under Government Lease for a term of 999 years commencing on 26 December 1860. The total Government Rent for Section A, Section B and Remaining Portion for the lot is HKD88 per annum.

Inland Lot No. 6896 is held under Government Lease for a term of 75 years commencing on 14 November 1952 renewable for 75 years thereafter. The Government Rent for the lot is HKD196 per annum.

Monthly rental income as at 30 June 2021

HKD1,659,967 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD584,700,000

Estimated Net Property Yield

3.41%

* Monthly licence income is the average of the income from July 2020 to May 2021.

Winsome House

Various Portions in Winsome House, 73 Wyndham Street, Central, Hong Kong

Description

Winsome House is a 27-storey commercial development in Central district with retail accommodation on the Lower and Upper Ground Floors. The 1st to 25th Floors are designated for office use. The development was completed in 1999.

The Property comprises Shop 1 on the Upper Ground Floor (together with the adjoining flat roof), Shop 3 (together with the flat roof above) and Shop 4 on the Lower Ground Floor, Offices Nos. 1 on 2nd to 7th, 9th, 10th, 14th to 17th and 19th to 21st Floors; Office No. 1 on 25th Floor; Offices Nos. 2 on 2nd to 7th, 9th, 10th, 13th to 17th, 19th to 21st and 25th Floors. The total gross rentable areas of the retail and office portions of the Property are 2,177 sq. ft. and 37,937 sq. ft. respectively, total to about 40,114 sq. ft. (3,726.68 sq. m.). The flat roofs between the lower and upper ground level are of approximately 393 sq. ft. (36.51 sq. m.).

Tenure

Inland Lot No. 5025 is held under Government Lease for a term of 999 years commencing on 26 June 1843. The Government Rent for the lot is HKD16 per annum.

Inland Lot No. 7968 is held under Conditions of Exchange No. 8224 for a term of 999 years commencing on 22 January 1844. The Government Rent for the lot is HKD30 per annum.

Inland Lot No. 994 is held under Government Lease for a term of 999 years commencing on 26 June 1843. The Government Rent for the lot is HKD130 per annum.

Monthly rental income as at 30 June 2021

HKD1,615,285 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD565,000,000

Estimated Net Property Yield

3.43%

Java Road 108 Commercial Centre

Java Road 108 Commercial Centre at 108 Java Road, North Point, Hong Kong

Description

Java Road 108 Commercial Centre is a 25-storey commercial development in North Point with retail accommodation on the Ground Floor. The 1st to 24th Floors are designated for office use. The development was completed in 1998.

The Property comprises the whole of the retail accommodation and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 2,229 sq. ft. and 35,694 sq. ft. respectively, total to about 37,923 sq. ft. (3,523.13 sq. m.).

Tenure

Inland Lot No. 3539 is held under Government Lease for a term of 75 years commencing on 12 June 1933 renewable for 75 years thereafter. The Government Rents for Section C and Section D of the lot are HKD95,770 and HKD93,142 respectively.

Monthly rental income as at 30 June 2021

HKD906,554 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD278,200,000

Estimated Net Property Yield

3.91%

Valuation Report

Sun Fai Commercial Centre

Various Portions in Sun Fai Commercial Centre at 576 Reclamation Street, Mong Kok, Kowloon, Hong Kong

Description

Sun Fai Commercial Centre is a 15-storey commercial development in Mong Kok with retail accommodation on the Ground Floor, the 1st to 14th Floors being designated for office use. The development was completed in 1998.

The Property comprises the whole of the retail accommodation and Office Units A to E on 1st to 3rd Floors, 7th to 9th Floors, 11th and 14th Floors; Office Units A to D on 6th Floor, Office Units C and E on 10th Floor, Office Units A to C on 12th Floor and Office Units B to D on 13th Floor. The total gross rentable areas of the retail and office portions of the Property are 2,334 sq. ft. and 23,817 sq. ft. respectively, total to about 26,151 sq. ft. (2,429.49 sq. m.).

Tenure

Kowloon Inland Lot No. 10813 is held under Conditions of Lease Extension No. 12068 for a term commencing on 28 June 1985 and expiring on 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Kowloon Inland Lot No. 10814 is held under Conditions of Lease Extension No. 12269 for a term commencing on 28 June 1985 and expiring on 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Kowloon Inland Lot No. 10815 is held under Conditions of Lease Extension No. 12259 for a term commencing on 28 June 1985 and expiring on 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Monthly rental income as at 30 June 2021

HKD568,370 exclusive of rates, management and air-conditioning charges.

Market value in existing state as at 30 June 2021

HKD169,400,000

Estimated Net Property Yield

4.03%

Wai Ching Commercial Building

Various Portions in Wai Ching Commercial Building at 77 Wai Ching Street, Yau Ma Tei, Kowloon, Hong Kong

Description

Wai Ching Commercial Building is a 19-storey commercial development in Mong Kok with retail accommodation on the Ground to 1st Floors. The 2nd to 18th Floors are designated for office use. The development was completed in 1997.

The Property comprises Shop 2 on Ground Floor, Office Units 1 to 2 on 1st, 3rd to 7th and 9th to 18th Floors, and Office Unit 1 on 2nd Floor. The total gross rentable areas of the retail and office portions of the Property are 2,082 sq. ft. and 14,239 sq. ft. respectively, total to about 16,321 sq. ft. (1,516.26 sq. m.).

Tenure

Kowloon Inland Lot No. 6167 is held under Government Lease for a term of 75 years commencing on 18 September 1974. The Government Rent for the lot is HKD28,696 per annum.

Kowloon Inland Lot No. 6168 is held under Government Lease for a term of 75 years commencing on 18 September 1974. The Government Rent for the lot is HKD28,870 per annum.

Monthly rental income as at 30 June 2021

HKD259,950 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD81,100,000

Estimated Net Property Yield

3.85%

235 Wing Lok Street Trade Centre

235 Wing Lok Street Trade Centre at 235 Wing Lok Street, Sheung Wan, Hong Kong

Description

235 Wing Lok Street Trade Centre is a 26-storey commercial development in Sheung Wan district with retail accommodation on the Ground Floor. The 1st Floor is designated for both retail and office purposes; 2nd to 28th Floors are for office use (4, 14 and 24 have been omitted from floor numberings). The development was completed in 2000.

The Property comprises the whole of the retail accommodation and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 3,126 sq. ft. and 49,159 sq. ft. respectively, total to about 52,285 sq. ft. (4,857.40 sq. m.).

Tenure

Marine Lot No. 37A is held under Government Lease for a term of 979 years commencing on 26 December 1863. The Government Rents for Remaining Portion of Section A and Section B of the lot are HKD20 and HKD38 per annum respectively.

Monthly rental income as at 30 June 2021

HKD966,295 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD371,400,000

Estimated Net Property Yield

3.12%

On Loong Commercial Building

On Loong Commercial Building at 276-278 Lockhart Road, Wan Chai, Hong Kong

Description

On Loong Commercial Building is a 23-storey commercial development in Wan Chai with retail accommodation on the ground floor. The development was completed in 1984.

The Property comprises the whole of the retail accommodation and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 1,708 sq. ft. and 25,498 sq. ft. respectively, total to about 27,206 sq. ft. (2,527.50 sq. m.).

Tenure

Inland Lot No. 7061 is held under Government Lease for a term of 99 years commencing on 11 May 1928 renewable for 99 years thereafter. The Government Rent for the lot is HKD10 per annum.

Inland Lot No. 7062 is held under Government Lease for a term of 99 years commencing on 11 May 1928 renewable for 99 years thereafter. The Government Rent for the lot is HKD10 per annum.

Monthly rental income as at 30 June 2021

HKD848,084 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD253,500,000

Estimated Net Property Yield

4.01%

Valuation Report

The Harvest

The Harvest at 591 Nathan Road, Mong Kok, Kowloon, Hong Kong

Description

The Harvest is a 22-storey (including basement) commercial development in Mong Kok district. The Basement to 4th Floors of the development are designated for bank use according to the Alteration and Addition Plans; and the 5th to 20th Floors are designated for office use. The development was completed in 1981.

The Property comprises the whole of the retail accommodation and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 11,627 sq. ft. and 23,024 sq. ft. respectively, total to about 34,651 sq. ft. (3,219.16 sq. m.).

Tenure

Kowloon Inland Lot No. 7891 is held under Conditions of Renewal No. 6372 for a term of 150 years commencing on 25 December 1887. The Government Rent for the lot is HKD152 per annum.

Monthly rental income as at 30 June 2021

HKD1,843,834 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD627,200,000

Estimated Net Property Yield

3.53%

Metro City Phase I

Commercial Development and Carparks in Metro City Phase I at 1 Wan Hang Road, Tseung Kwan O, Hong Kong

Description

Metro City Phase I is a commercial/ residential development comprising 6 domestic tower blocks over a 4-level podium (including Ground Floor). The development was completed in 1996.

The Property comprises the whole of the retail accommodation on the Ground Floor and Level 2 of the podium with a total gross rentable area of about 188,889 sq. ft. (17,548.22 sq. m.). It also comprises the carparks on the Ground Floor to Level 2 of the podium.

Tenure

Tseung Kwan O Town Lot No. 36 is held under New Grant No. 8275 for a term commencing on 29 November 1993 to 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Monthly rental income as at 30 June 2021

HKD10,471,966 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2021*

HKD1,553,934 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2021*

HKD145,475 exclusive of rates and management fees

Market value in existing state as at 30 June 2021

HKD3,097,400,000

Estimated Net Property Yield

4.72%

* Monthly car parking income and monthly licence income are the average of the respective incomes from July 2020 to May 2021.

Sheung Shui Centre

Commercial Development (including all shops, the restaurant and the kindergarten) and Carparks in the Podium and Basement in Sheung Shui Centre at 3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong

Description

Sheung Shui Centre is a residential development comprising six residential tower blocks over a 3-level podium and a basement for car parking. The development was completed in 1993.

The Property comprises the whole of the retail accommodation on Levels 1 to 3 of the podium (including all shops, restaurant and kindergarten) with a total gross rentable area of about 122,339 sq. ft. (11,365.57 sq. m.) and the basement carpark.

Tenure

Fanling Sheung Shui Town Lot No. 55 is held under New Grant No. N12406 for a term commencing on 16 October 1989 to 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Monthly rental income as at 30 June 2021

HKD12,198,402 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2021*

HKD790,699 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2021*

HKD196,855 exclusive of rates and management fees

Market value in existing state as at 30 June 2021

HKD3,892,600,000

Estimated Net Property Yield

4.06%

Kwong Wah Plaza

Various Portions in Kwong Wah Plaza at 11-15 Tai Tong Road, Yuen Long, New Territories, Hong Kong

Description

Kwong Wah Plaza is a 17-storey (including basement and mechanical floor) commercial development in Yuen Long with retail accommodation on Basement to 1st Floor. The 2nd Floor is a mechanical floor and the 3rd to 15th Floors are designated for office use. The development was completed in 1998.

The Property comprises the whole of the retail accommodation and some office units in the development. The total gross rentable areas of the retail and office portions of the Property are 25,741 sq. ft. and 42,670 sq. ft. respectively, total to about 68,411 sq. ft. (6,355.60 sq. m.). The Property also comprises a Flat Roof on the 13th Floor with an area of about 171 sq. ft. (15.85 sq. m.).

Tenure

Lot No. 4015 in D.D. 120 is held under New Grant No. 4135 for a term from 25 May 1993 to 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Monthly rental income as at 30 June 2021

HKD3,576,443 exclusive of rates, management and air-conditioning charges

Monthly licence income as at 30 June 2021*

HKD5,001 exclusive of rates and management fees

Market value in existing state as at 30 June 2021

HKD1,177,700,000

Estimated Net Property Yield

3.65%

* Monthly car parking income and monthly licence income are the average of the respective incomes from July 2020 to May 2021.

* Monthly licence income is the average of the income from July 2020 to May 2021.

Valuation Report

Beverley Commercial Centre

Various Shops Units on Ground Floor in Beverley Commercial Centre at 87-105 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong

Description

Beverley Commercial Centre is a 20-storey (including basement) commercial development in Tsim Sha Tsui with retail accommodation on Basement Floor to 2nd Floor. The development was completed in 1982.

The Property comprises 60 shops on the Ground Floor with a total gross rentable area of about 7,934 sq. ft. (737.09 sq. m.).

Tenure

Kowloon Inland Lot Nos. 10574, 10211, 10575, 10518, 10580, 10160, 10503, 10526, 10247 and 10616 are held under Conditions of Regrant Nos. 11117, 10318, 11118, 11125, 11098, 10312, 11134, 11053, 10404 and 11243 respectively each for a term of 150 years commencing on 25 December 1902. The total Government Rent for the lots is HKD7,576 per annum.

Monthly rental income as at 30 June 2021

HKD201,585 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD77,000,000

Estimated Net Property Yield

3.14%

Supernova Stand

Shops 1 to 9 on Ground Floor and Commercial Common Area and Facilities in Supernova Stand at 28 Mercury Street, North Point, Hong Kong

Description

Supernova Stand is a 27-storey residential development in North Point with retail accommodation on the Ground Floor. The development was completed in 2001.

The Property comprises the whole of the retail accommodation on the Ground Floor with a total gross rentable area of about 4,226 sq. ft. (392.60 sq. m.).

Tenure

Inland Lot no. 1366 is held under Government Lease for a term of 999 years commencing on 24 February 1896. The Government Rent for the lot is HKD338 per annum.

Monthly rental income as at 30 June 2021

HKD241,568 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2021

HKD74,800,000

Estimated Net Property Yield

3.88%

4 Office market overview

4.1. Introduction

Considering the uncertainty of the pandemic and the global economic environment, the Hong Kong Government forecasts real GDP growth in the range of 3.5% to 5.5% in 2021¹, a contraction of 7.0% to 13.0% compared with 2020.

The roll out of the global vaccination programme has alleviated the COVID-19 pandemic. Subsequently, the office market has shown early signs of recovery in Q1 2021. Since numerous countries have begun to recover from the pandemic, the Hong Kong border may soon open, and the market will see a surge in investment activities especially from the mainland Chinese investors and firms. The pandemic has triggered massive and consecutive work-from-home exercises globally, and corporates are rethinking the cost implications of renting workspaces in the future.

According to our research, in Q2 2021, Hong Kong Grade A office rent declined by 1.6% QOQ. This is due to the slower expansion or even reduction of footprints of some multinational corporations (MNCs). The epidemic and the uncertain political environment continue to influence workplaces in the city and are likely to weigh on leasing sentiments for the rest of 2021. Occupiers have tended to be more cost-conscious during the pandemic with some downsizing their office space or exploring options in cheaper buildings. In Q2 2021, the vacancy rates of Grade A offices in Central/Admiralty (8.0%) and Wan Chai/Causeway Bay (9.4%) reached the highest level since 2010.

Although MNCs have decelerated their expansion momentum amid cautious market sentiment, the effect could be partially offset by rising interest from mainland Chinese counterparties. We anticipate a return of demand from mainland China, with more mainland Chinese firms preferring to list in Hong Kong (instead of the US) due to the current tightening of US regulations for listed companies. Companies like China International Capital Corporation (CICC), Hautai Financial Holdings (Hong Kong) Limited will become the key drivers of the Grade A office market. CICC has taken up around 26,000 sq. ft.² office space in One ifc in Q2 of 2021.

4.2 Supply

According to the Rating and Valuation Department, by the end of 2020 total office stock amounted to about 100 million sq. ft., including 65.0% Grade A, 23.0% Grade B and 12.0% Grade C offices³. More than 700,000 sq. ft. was completed in 2020, representing a 74.0% decrease from 2019. Office space in Sheung Wan, Central, Wan Chai, Causeway Bay and Tsim Sha Tsui accounted for more than 50.0% of the total stock.

The new supply of Grade A office stock has been unsteady in recent years. It fell by 16.0% from 2008 to 2014 yet edged up from 2015 to 2017 reaching an average of 1.6 million sq. ft. per annum. It declined by about 4.0% in 2018 but rebounded by about 35.5% in 2019. In 2020, the newly completed Grade A space amounted to around 500,000 sq. ft., down by around 74.0% compared to 2019. Most of the new supply was located in non-core districts, e.g. Tsuen Wan.

The market has seen a decrease in overall office supply in 2021, but it is expected to rebound sharply in 2022. Around 480,000 sq. ft. of Grade A office stock is forecasted to be completed in 2021, a decrease of 4.0% compared with 2020. This figure is estimated to increase to about 2 million sq. ft. in 2022. The new supply in 2021 will primarily come from Sham Shui Po and Tsuen Wan.

Looking beyond 2022, new office supply will come from Kowloon East CBD2, West Kowloon Cultural District and the redevelopment of Warwick House in Taikoo Place. According to market news, around 4.38 million sq. ft.⁴ of office space will be completed between 2022 to 2023, with several iconic projects in the pipeline such as Airside at Kai Tak, 91 King Lam Street in Cheung Sha Wan. According to our research, during the period between 2021 to 2025, it is envisioned that average supply will amount to 2.27 million sq. ft. per annum.

¹ Hong Kong Economy: <https://www.hkeconomy.gov.hk/en/situation/development/index.htm>

² Market News

³ Hong Kong Property Review 2021 (Office): <https://www.rvd.gov.hk/en/publications/hkpr.html>

⁴ Market News

Valuation Report

4.3 Take-up and vacancy

Demand for office space in Hong Kong has softened in the face of the COVID-19 pandemic, political uncertainties and the associated containment measures. The high unemployment rate and the COVID-19 pandemic have prompted the longest ever work-from-home (WFH) exercise around the globe. Most MNCs have begun the grim task of rationalisation by cutting back headcount and reducing floor space. As a result, an immense volume of space was returned to the market and the overall negative net take-up reached about 285,483 sq. ft. in Q2 2021. Looking ahead, the average demand for Grade A office space is expected to reach 1.36 million sq. ft. per annum between 2021 to 2025.

Following the reduction in leasing activities by MNCs and the generally weak leasing momentum, overall vacancies in Grade A offices went up to 10.5% in Q2 2021, a 0.4% increase QOQ and a 2.4% increase in YOY. The vacancy rate in Central/Admiralty rose from around 2.0% in Q2 2020 to 8.0% in Q2 2021. During the same period, increased vacancy rates were also observed in other districts, such as 4.2% in Sheung Wan, 3.3% in Quarry Bay and 10.0% in Shatin. With mainland Chinese firms envisioned to take up more spaces in the core CBD cluster starting from H2 2021, it is expected that the vacancy rate in Central and Admiralty will fall in the near future.

4.4 Rental trends

Rents of both Grade A and Grade B offices in Hong Kong have experienced continuous growth in the past decade, but this has slackened in recent years against softened demand caused by various external uncertainties and the pandemic.

Overall office rents decreased by 2.0% QOQ in Q2 2021 with decentralized areas experiencing sharper decline than the core business districts. According to our research, rents in core business districts, such as Central/Admiralty and Causeway Bay/Wan Chai recorded an average effective rent of around HKD103/ sq. ft. and HKD62/ sq. ft. respectively, both dropping around 1.0% compared to the previous quarter. Among the key submarkets, Cheung Sha Wan (4.9%), Hung Hom (5.2%), Kwun Tong (5.4%) declined at a faster pace than other non-core areas which were around 2.6%. The overall effective rent of non-core areas ranges from HKD22/ sq. ft. to HKD60/ sq. ft.. Looking at Grade A offices specifically, the average rents in core business districts decreased by around 1.5% QOQ in Q2 2021, while those of decentralized area decreased by around 5.5%. Driven by the sharper decline in office rent in decentralized areas, the rental gap between the CBD and the decentralized areas is widening.

MNCs and co-working space operators have lost their growth momentum amid the current geopolitical and economic uncertainties. WeWork failed to list in the US in 2019 and suffered more than USD2.1 billion loss in Q1 2021. In April 2021, Standard Chartered Bank reportedly surrendered eight floors (around 60,000 sq. ft. of space) in the Standard Chartered Bank Building in Central. Due to the overall high vacancy rate and restrained leasing activities, office rents in both the CBD and decentralized districts are under pressure. Firms are beginning to relocate or cutback their office spaces amid the challenging business outlook. Although the pandemic issues are beginning to dissipate, and the economy has shown signs of recovery, we remain cautious about rental growth in 2021 given the uncertain economic outlook and business sentiment.

4.5 Price trends

Office prices experienced a surge between 2013 and 2018. According to the Rating and Valuation Department, from 2013 to 2018, Grade A and Grade B office prices in Hong Kong increased by 42.3% and 33.6%, respectively. Due to the geopolitical and economic uncertainties in H2 2019 and the business disruption resulting from COVID-19 in 2020, Grade A and Grade B office prices fell about 12.0% and 10.0% from Q4 2019 to Q4 2020.

As Hong Kong begins to recover from the pandemic, we expect investment sentiment to improve slowly with a higher level of transactions this year, especially compared to 2020's low base. Although investment appetite remains solid for those institutional investors loaded with capital to deploy, we believe the bid-ask price gap will still exist in 2021. Amid lingering economic uncertainties, office prices and rents remain under pressure in H1 2021. According to our research, in Q1 2021, total investment sales value reached HKD2.19 billion, an 85.0% decline QOQ but a 157.0% increase YOY. We anticipate the overall market sentiment in 2021 to remain sluggish with strata-titled office prices correcting by 10.0% YOY and rents dropping by 7.0% YOY. In the medium term, overall Grade A office prices may recover modestly starting from 2022.

4.6 Outlook

Hong Kong's overall economy and the labour market continue to be influenced by the pandemic and political uncertainties, giving rise to investor hesitation. The compounding effect of the social unrest in H2 2019 and the outbreak of the pandemic in 2020 has weighed heavily on the office market. The slow absorption of new buildings completed in the last few years together with existing vacancies and weakened demand will continue to put pressure on office rents in H2 2021. We expect overall office rents in Hong Kong are likely to fall by 7.0% in 2021, with around 8.0% drop in the CBD. Rents in decentralized districts are undergoing a large correction and the rental difference between the CBDs and non-core areas is widening.

Office demand in Hong Kong will continue to suffer from the dampened business sentiment and the ongoing COVID-19 protection measures. The well-established work-from-home (WFH) routine may lead companies to hesitate on expanding their office space in the short run. As the main Grade A office demand driver, mainland Chinese firms have already started their active expansion in Hong Kong with a focus on Central Grade A offices. We estimate that currently over 20.0% of Grade A office space in Central is occupied by mainland Chinese firms. As mainland Chinese firms diversify business lines, they may consider locating their business lines to the non-core areas in the near future.

In the investment market, we expect the office prices to recover modestly starting from 2022, as the prolonged lack of supply should support a rebound in prices. Looking ahead, the economic recovery in China combined with the prospect of greater political stability may encourage Chinese investors to look positively at Hong Kong again. After 2022, we believe Hong Kong's property market should embark on a trajectory of steady growth.

Valuation Report

5 Retail market overview

5.1 Introduction

Having suffered from the economic recession caused by the outbreak of the COVID-19 pandemic and social unrest, the retail sector has shown signs of recovery over the past six months but is still substantially lower than pre-COVID levels. Hong Kong's retail sales rebounded in Q1 2021 due to the improved local consumption sentiment. According to the Census and Statistics Department, the value of total retail sales in February, March, April, and May 2021 increased by 30.0%, 20.2%, 12.1%, and 10.5% respectively⁵, compared with 2020. The consistent recovery has shown the retail market is resilient and gradually recovering from the recession.

However, the retail market continues to face immense challenges as a result of continuing economic uncertainty and strict travel restrictions. The Hong Kong retail sector is highly dependent on tourism and, according to the Hong Kong Tourism Board, total visitors from January to April 2021 declined by 99.5% YOY⁶. The retail market cannot return to normal as long as the travel restrictions continue.

5.2 Supply

According to the Rating and Valuation Department, commercial property saw a significant number of completions between 2016 – 2019, with an average of approximately 1.27 million sq. ft. per annum. In comparison, the recent new supply is sluggish with only approximately 720,000 sq. ft. completed in 2020 and 150,000 sq. ft. in 2021 (up to 31 May 2021)⁷.

Supply is expected to remain flat for the upcoming 12 months due to the unsettled economic uncertainty and ongoing COVID-19 pandemic. Developers will have more incentive to build new retail spaces once the border reopens and the retail sector further recovers.

5.3 Take-up and vacancy

Retail vacancy rate increased by 30.0% and retail take-up decreased from approximately 77,000 sq. ft. to -1.17 million sq. ft. from 2017 to 2020⁸. The significant increase in retail vacancy rate and decrease in take-up were primarily caused by the prolonged social unrest and the COVID-19 pandemic.

Meanwhile, landlords of prime street shops and shopping malls are adopting different approaches to cope with the soaring vacancies. For street shops, landlords are using pop-ups and short-term tenancies to avoid void periods while waiting for the market to recover. For shopping malls, landlords are looking for innovative ideas and crowd-pulling retailers, such as the NAMCO Sportainment Arena in Telford Plaza II, to diversify their trade and tenant mix with the hope to increase footfalls.

5.4 Rental trends

Rental in the retail market has experienced a mild drop in 1H of 2021. In contrast to fast consumption goods such as food and beverage (F&B) and mass commodities, sales of luxuries and cosmetics have seen a more notable downturn.

Although the retail rental market in neighbourhood malls has seen signs of recovery, rents in prime areas such as Central are still suffering. For example, Nos. 17-19 Wellington Street in Central was previously let to Tsui Wah Restaurant and the monthly unit rent once reached HKD282 per sq. ft.. In March 2020, Tsui Wah Restaurant did not renew the tenancy. After a void period of 14 months, the shop has been partially leased to Tam Jai Sam Gor at a monthly unit rent of HKD110 per sq. ft.⁹. This 61.0% drop in unit rent demonstrates how far the rental market in prime areas has fallen from its peak prior to the social unrest and COVID-19.

⁵ Census and Statistics Department – Total Retail Sales: https://www.censtatd.gov.hk/en/web_table.html?id=89

⁶ Hong Kong Tourism Board – March Arrival Figures

⁷⁻⁸ Rating and Valuation Department-Completions and Related Statistics

⁹ HK01 – 前翠華中環旗艦店空置14個月 獲譚仔三哥米線45萬承租兩層 (Tam Jai Sam Gor rents two-storey premise in Central at a monthly rent of HKD450,000. The space has been vacant for 14 months that was formerly occupied by Tsui Wah Restaurant)

5.5 Price trends

Prices for retail properties experienced robust growth between 2010 and 2013, with an average increase of 27.0% per annum. The growth slowed down in 2014 and picked up again towards the end of 2015. Following a fall in price levels in 2016 due to the softening retail market, it regained momentum in 2017 and 2018. Price levels fell again in 2019 and have been continuing to suffer from COVID-19 since Q1 2020.

Since March 2021, we have begun to see a rebound in the property market especially in the retail, industrial and residential sectors. As of June 2021, both transaction volume and values have increased significantly in the retail sector, compared with the same period (Jan to June) last year. Neighbourhood malls and retail podiums continue to be a sought-after asset category in Hong Kong due to the stability of income, high market demand, and the possibility of value increment after refurbishment or repositioning. Strong sentiment remains, and we expect to see more investment activity in this sector in 2021, particularly from private investors and institutional funds.

Two new retail podium transactions were recorded in mid-2021. Firstly, private investors Chan Ping-che and Lam Chi-fung bought two neighbourhood malls in Kwai Chung from the Tang Shing-bor family at a consideration of HKD1.3 billion. The On Yam Shopping Centre has a total area of 40,899 sq. ft. and 355 parking spaces, while Shek Wai Kok Commercial Centre has a total area of 132,000 sq. ft. and 578 parking spaces.

5.6 Outlook

Retailers and consumers have begun to accept COVID-19 as the new norm. Retailers have adapted their business to the new social distancing restrictions by providing delivery services and exploring Omni-channel retail mode. F&B operators have introduced new preventive measures to cope with the pandemic so that consumers are more comfortable dining in. As the public acquires more knowledge of COVID-19, the vaccine programme continues to roll out, and the number of infections remains low, consumers will be more willing to frequent retail premises. This will lead to increasing footfall and a more desirable business environment for retailers. Together with the Consumption Voucher Scheme, local purchasing power will regain its strength and boost retail sales in the city. However, we believe that neighbourhood shops will be the main beneficiaries. The rent and price of tourist-oriented areas such as Tsim Sha Tsui, Causeway Bay, Central, and Mong Kok are still facing downward pressure as the travel restrictions persist. The recovery of retail market in prime areas will remain challenging at least until borders are fully re-opened.

Trustee's Report

We hereby confirm that, in our opinion, the Manager of Sunlight Real Estate Investment Trust has, in all material respects, managed Sunlight Real Estate Investment Trust in accordance with the provisions of the amended and restated trust deed dated 10 May 2021 for the year ended 30 June 2021.

HSBC Institutional Trust Services (Asia) Limited

(in its capacity as the trustee of Sunlight Real Estate Investment Trust)

Hong Kong, 7 September 2021

Independent Auditor's Report



Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") and its subsidiaries (together the "**Group**") set out on pages 118 to 162, which comprise the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 30 June 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Key audit matters (continued)

Valuation of investment properties

Refer to note 10 to the consolidated financial statements and the accounting policy 2(h)

The Key Audit Matter

The Group holds a portfolio of investment properties located in Hong Kong, which had an aggregate fair value of HK\$18,342 million and accounted for 96% of the Group's total assets as at 30 June 2021.

The fair values of the investment properties as at 30 June 2021 were assessed by Henderson Sunlight Asset Management Limited, as the manager of Sunlight REIT (the "Manager"), based on independent valuations prepared by qualified external property valuers.

The decrease in fair value of investment properties recorded in the consolidated statement of profit or loss for the year ended 30 June 2021 amounted to HK\$605 million.

We identified the valuation of the Group's investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of the changes in fair value of the investment properties to the loss before taxation of the Group and because the valuation of investment properties is complex and involves a significant degree of judgement and estimation in determining capitalisation rates and market rents.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following :

- obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the Manager's assessment of the valuation of investment properties was based;
- assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence;
- with the assistance of our internal property valuation specialists and utilising their industry knowledge and experience, discussing with the external property valuers, without the presence of the Manager, their valuation methodology; and assessing the key estimates and assumptions adopted in the valuation by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data; and
- comparing the tenancy information, including committed rents and occupancy rates, provided by the Manager to the external property valuers, with underlying contracts and relevant underlying documentation, on a sample basis.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust *(continued)*

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

Information other than the consolidated financial statements and auditor's report thereon

The Manager is responsible for the other information, which comprises all information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the consolidated financial statements

The Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition, the Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the amended and restated trust deed dated 10 May 2021 (the "**Trust Deed**") and the relevant disclosure provisions set out in Appendix C of the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong.

The Manager is assisted by the Audit Committee in discharging its responsibility for overseeing the Group's financial reporting process.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also :

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the unitholders of Sunlight Real Estate Investment Trust (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code

In our opinion, the consolidated financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions set out in Appendix C of the REIT Code.

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

KPMG

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

7 September 2021

Consolidated Statement of Profit or Loss

For the year ended 30 June 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Revenue	3 & 4	799,296	854,563
Property operating expenses	3 & 5	(159,643)	(169,857)
Net property income		639,653	684,706
Other income	6	8,981	17,091
Administrative expenses		(107,550)	(109,826)
Net decrease in fair value of investment properties	10	(605,160)	(1,142,844)
Loss from operations		(64,076)	(550,873)
Finance costs on interest-bearing liabilities	7(a)	(93,735)	(120,444)
Loss before taxation and transactions with unitholders	7	(157,811)	(671,317)
Income tax	8(a)	(75,866)	(80,077)
Loss after taxation and before transactions with unitholders		(233,677)	(751,394)

The notes on pages 126 to 162 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	2021 \$'000	2020 \$'000
Loss after taxation and before transactions with unitholders	(233,677)	(751,394)
Other comprehensive income for the year		
<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 year	(20,310)	(70,999)
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest-bearing liabilities	218	6,303
	(20,092)	(64,696)
Total comprehensive loss for the year	(253,769)	(816,090)

The notes on pages 126 to 162 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current assets			
Fixed assets	10		
– Investment properties		18,341,700	18,918,000
– Other fixed assets		93	22
		18,341,793	18,918,022
Deferred tax assets	8(c)	343	80
Reimbursement rights	11	37,436	37,436
Other financial assets	13	140,893	115,674
Other non-current assets	14	967	576
		18,521,432	19,071,788
Current assets			
Trade and other receivables	15	54,946	48,920
Derivative financial instruments	12	–	63
Cash and bank balances	16(a)	623,301	499,433
Tax recoverable		67	53,893
		678,314	602,309
Total assets		19,199,746	19,674,097
Current liabilities			
Tenants' deposits	17	(201,565)	(220,808)
Rent receipts in advance		(12,348)	(20,094)
Trade and other payables	18	(71,393)	(60,463)
Bank and other borrowings	19	(2,002,645)	(1,642,614)
Derivative financial instruments	12	(52,964)	(30,010)
Tax payable		(70,152)	(77,007)
		(2,411,067)	(2,050,996)
Net current liabilities		(1,732,753)	(1,448,687)
Total assets less current liabilities		16,788,679	17,623,101

Consolidated Statement of Financial Position (continued)

At 30 June 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank and other borrowings	19	(2,398,145)	(2,596,867)
Deferred tax liabilities	8(c)	(205,107)	(192,139)
Derivative financial instruments	12	(61,174)	(62,939)
		(2,664,426)	(2,851,945)
Total liabilities, excluding net assets attributable to unitholders			
		(5,075,493)	(4,902,941)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		14,124,253	14,771,156
Number of units in issue			
	20	1,672,133,484	1,661,429,036
Net asset value attributable to unitholders per unit			
		\$8.45	\$8.89

The consolidated financial statements on pages 118 to 162 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the "Manager"), on 7 September 2021 and were signed on its behalf by :

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 126 to 162 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
At the beginning of the year		14,771,156	15,991,867
Loss after taxation and before transactions with unitholders		(233,677)	(751,394)
Other comprehensive loss		(20,092)	(64,696)
Total comprehensive loss for the year		(253,769)	(816,090)
Distribution paid to unitholders		(434,313)	(451,536)
Issuance of units to the Manager	20	47,136	51,386
Units bought back	20	(5,937)	(4,456)
Units buy-back expenses	20	(20)	(15)
		(393,134)	(404,621)
At the end of the year		14,124,253	14,771,156

The notes on pages 126 to 162 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Loss after taxation and before transactions with unitholders		(233,677)	(751,394)
Adjustments (note (i)) :			
– Net decrease in fair value of investment properties	10	605,160	1,142,844
– Manager’s fees paid or payable in the form of units		46,775	49,627
– Interest rate swaps – cash flow hedges	7(a)	1,159	7,428
– Non-cash finance costs on interest-bearing liabilities		6,197	5,298
– Deferred tax	8(a)	12,705	13,200
		671,996	1,218,397
Annual distributable income (note (i))		438,319	467,003
Interim distribution, paid (notes (ii) and (iv))		208,358	218,643
Final distribution, to be paid to unitholders (notes (iii) and (iv))		219,050	225,955
Total distributions for the year (note (i))		427,408	444,598
Payout ratio (note (iii))		97.5%	95.2%
Distribution per unit :			
Interim distribution per unit, paid		12.5 cents	13.2 cents
Final distribution per unit, to be paid to unitholders		13.1 cents	13.6 cents
		25.6 cents	26.8 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 amended and restated trust deed dated 10 May 2021 under which Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) is constituted (the “**Trust Deed**”), the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

Annual distributable income means the amount calculated by the Manager as representing the consolidated profit/loss after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial year, 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 year.

In arriving at the amount available for distribution for the current year, adjustments have been made, among others, to add back the finance costs relating to the amortisation of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of \$6,197,000, or 0.37 cents per unit (2020 : \$5,298,000, or 0.32 cents per unit) (which is an effective return of capital), and to eliminate the effect of net decrease in fair value of investment properties.

Distribution Statement (continued)

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

Notes* : (continued)

- (ii) The interim distribution of \$208,358,000 for the six months ended 31 December 2020 (31 December 2019 : \$218,643,000) is calculated by multiplying the interim distribution per unit of 12.5 cents by 1,666,867,824 units in issue at 3 March 2021, the record date for FY2020/21 interim distribution (31 December 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 final distribution of \$219,050,000 for the year ended 30 June 2021 (2020 : \$225,955,000) is calculated by multiplying the final distribution per unit of 13.1 cents by 1,672,133,484 units** anticipated to be in issue at 29 September 2021, the record date for FY2020/21 final distribution (the "**Record Date**") (2020 : 13.6 cents by 1,661,429,036 units in issue at 29 September 2020, the record date for FY2019/20 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2021 represent a payout ratio of 97.5% (2020 : 95.2%) of Sunlight REIT's annual distributable income for the year.

- (iv) The FY2020/21 interim distribution was paid to unitholders on 12 March 2021. The FY2020/21 final distribution is expected to be paid on 8 October 2021 to unitholders whose names appear on the register of unitholders on the Record Date.
- (v) The final 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 126 to 162 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Operating activities			
Loss before taxation and transactions with unitholders		(157,811)	(671,317)
Adjustments :			
– Manager's fees paid or payable in the form of units		46,775	49,627
– Net decrease in fair value of investment properties	10	605,160	1,142,844
– Finance costs on interest-bearing liabilities	7(a)	93,735	120,444
– Depreciation	10	17	20
– Interest income		(8,715)	(17,091)
– Net unrealised foreign exchange (gain) / loss		(205)	837
Operating cash flow before changes in working capital		578,956	625,364
Increase in trade and other receivables		(8,945)	(24,081)
(Decrease) / increase in tenants' deposits		(19,243)	4,374
(Decrease) / increase in rent receipts in advance		(7,746)	11,410
Increase / (decrease) in trade and other payables		9,284	(5,545)
Cash generated from operations		552,306	611,522
Hong Kong Profits Tax paid		(69,809)	(77,157)
Hong Kong Profits Tax refunded		53,619	87
Net cash generated from operating activities		536,116	534,452
Investing activities			
Interest received		9,462	17,379
Payment for acquisition of investment properties		(16,826)	(400)
Payment for expenditure incurred for investment properties		(11,573)	(52,721)
Payment for purchase of other fixed assets		(88)	–
Payment for purchase of debt securities		(91,995)	–
Proceeds from redemption of matured debt securities		66,674	19,527
(Increase) / decrease in bank deposits with original maturity over three months		(264,415)	66,043
Net cash (used in) / generated from investing activities		(308,761)	49,828
Financing activities			
Distribution paid to unitholders		(434,313)	(451,536)
Payment for buy-back of units		(5,957)	(4,471)
Proceeds from new bank borrowings	16(b)	1,523,196	600,000
Proceeds from issuance of medium term notes	16(b)	297,525	–
Repayment of bank borrowings	16(b)	(1,655,000)	(600,000)
Interest paid	16(b)	(85,224)	(109,919)
Other borrowing costs paid	16(b)	(8,148)	(2,880)
Net cash used in financing activities		(367,921)	(568,806)
Net (decrease) / increase in cash and cash equivalents		(140,566)	15,474
Cash and cash equivalents at the beginning of the year	16(a)	373,920	358,467
Effect of foreign exchange rate changes		19	(21)
Cash and cash equivalents at the end of the year	16(a)	233,373	373,920

The notes on pages 126 to 162 form part of these consolidated financial statements.

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

2 Significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the relevant provisions of the Trust Deed and the relevant disclosure provisions set out in Appendix C of the REIT Code. These consolidated financial statements also comply with the relevant disclosure provisions of the Rules Governing the Listing of Securities on the SEHK as if those provisions were applicable to Sunlight REIT. Significant accounting policies adopted by the Group are disclosed below.

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 years have been prepared or presented in the consolidated financial statements.

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

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2021 incorporate the financial statements of Sunlight REIT and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below :

- derivative financial instruments (see note 2(f)); and
- investment properties (see note 2(h)).

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 27.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

(d) Investments in debt securities

Investments in debt securities are recognised/derecognised on the date the Group commits to purchase/sell the investment or they expire. The investments are initially stated at fair value plus directly attributable transaction costs.

Non-equity investments held by the Group are classified as financial assets measured at amortised cost if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(r)(iii)).

(e) Unitholders' funds as a financial liability

In accordance with the Trust Deed, Sunlight REIT has a limited life of 80 years less 1 day from the date of commencement of Sunlight REIT. In addition, Sunlight REIT is required to distribute to unitholders no less than 90% of its annual distributable income for each financial year in accordance with the Trust Deed. Accordingly, the units contain contractual obligations to pay cash dividends and also upon the termination of Sunlight REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Sunlight REIT less any liabilities, in accordance with their proportionate interests in Sunlight REIT at the date of its termination. The unitholders' funds are therefore classified as financial liabilities in accordance with HKFRS 9, *Financial instruments*. It is shown on the consolidated statement of financial position as "Net assets attributable to unitholders".

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(g)).

(Expressed in Hong Kong dollars)

2 Significant accounting policies (continued)

(g) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in other comprehensive income and accumulated separately in net assets attributable to unitholders. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

The associated gain or loss is reclassified from net assets attributable to unitholders to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in net assets attributable to unitholders until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from net assets attributable to unitholders to profit or loss immediately.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(r)(i).

(i) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

Gains or losses arising from the retirement or disposal of an item of other fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows :

– Furniture and fixtures	3 – 5 years
--------------------------	-------------

Where parts of an item of other fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Leased assets

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration payable by the recipient of such right (i.e. the lessee). The right to control an identified asset is conveyed when the lessee has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 Significant accounting policies *(continued)*

(j) Leased assets *(continued)*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with the relevant revenue and other income recognition policy (see note 2(r)(i)).

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Group recognises a loss allowance for expected credit losses ("**ECLs**") on the following items :

- financial assets measured at amortised cost (including other financial assets, cash and bank balances, trade and other receivables and prepayments); and
- lease receivables (which is included under "Rental receivables" within trade and other receivables).

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material :

- fixed-rate financial assets and trade and other receivables : effective interest rate determined at initial recognition or an approximation thereof; and
- lease receivables : discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases :

- 12-month ECLs : these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs : these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and lease receivables (continued)

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition :

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and lease receivables (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(r)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events :

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased :

- other fixed assets; and
- other non-current assets.

If any such indication exists, the asset's recoverable amount is estimated.

2 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest identifiable group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(s)).

2 Significant accounting policies (continued)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 2(k)(i).

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in net assets attributable to unitholders, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in net assets attributable to unitholders, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

(Expressed in Hong Kong dollars)

2 Significant accounting policies (continued)

(p) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movement therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met :

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either :
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (continued)

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties.

Further details of the Group's revenue and other income recognition policies are as follows :

(i) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments are recognised as income in the accounting period in which they are earned.

(ii) *Car park income and rental related income*

Car park income and rental related income are recognised when the related services are rendered.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(k)(i)).

(s) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(Expressed in Hong Kong dollars)

2 Significant accounting policies (continued)

(t) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person :
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies :
 - (i) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (ii) The entity is controlled or jointly controlled by a person identified in (a).
 - (iii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.
 - (iv) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Manager's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the settlements have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Segment reporting

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

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

3 Segment reporting (continued)

Segment results, assets and liabilities

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

Segment assets include all tangible, intangible and current assets with the exception of cash and bank balances, tax recoverable, deferred tax assets, other financial assets and other corporate assets. Segment liabilities include tenants' deposits, rent receipts in advance and trade and other payables managed directly by the segments.

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

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 year is set out below :

	2021			2020		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– Rental income	329,151	316,317	645,468	345,636	343,232	688,868
– Car park income	4,192	28,251	32,443	3,742	30,452	34,194
– Rental related income	59,049	62,336	121,385	66,066	65,435	131,501
	392,392	406,904	799,296	415,444	439,119	854,563
Property operating expenses	(72,162)	(87,481)	(159,643)	(75,123)	(94,734)	(169,857)
Net property income	320,230	319,423	639,653	340,321	344,385	684,706
Administrative expenses	(51,271)	(43,861)	(95,132)	(52,825)	(46,472)	(99,297)
Segment results	268,959	275,562	544,521	287,496	297,913	585,409
Net decrease in fair value of investment properties	(171,958)	(433,202)	(605,160)	(483,869)	(658,975)	(1,142,844)
Finance costs on interest-bearing liabilities			(93,735)			(120,444)
Income tax			(75,866)			(80,077)
Interest income			8,447			17,091
Unallocated net expenses			(11,884)			(10,529)
Loss after taxation and before transactions with unitholders			(233,677)			(751,394)
Depreciation	2	15	17	5	15	20

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2021			2020		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Segment assets	10,089,505	8,343,833	18,433,338	10,238,011	8,764,634	19,002,645
Derivative financial instruments			–			63
Other financial assets			140,893			115,674
Cash and bank balances			623,301			499,433
Tax recoverable			67			53,893
Deferred tax assets			343			80
Unallocated assets			1,804			2,309
Total assets			<u>19,199,746</u>			<u>19,674,097</u>
Segment liabilities	(141,271)	(134,491)	(275,762)	(158,872)	(135,366)	(294,238)
Derivative financial instruments			(114,138)			(92,949)
Bank and other borrowings			(4,400,790)			(4,239,481)
Tax payable			(70,152)			(77,007)
Deferred tax liabilities			(205,107)			(192,139)
Unallocated liabilities			(9,544)			(7,127)
Total liabilities, excluding net assets attributable to unitholders			<u>(5,075,493)</u>			<u>(4,902,941)</u>
Capital expenditure incurred during the year	11,561	17,778	29,339	52,045	910	52,955

4 Revenue

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

	2021 \$'000	2020 \$'000
Rental income (note)	645,468	688,868
Car park income	32,443	34,194
Rental related income	121,385	131,501
	<u>799,296</u>	<u>854,563</u>

Note : Included additional rents based on business revenue of tenants amounting to \$1,137,000 (2020 : \$1,024,000).

5 Property operating expenses

	2021 \$'000	2020 \$'000
Building management fee	59,705	61,307
Property Manager's fees (note)	46,015	51,882
Government rent and rates	29,111	33,413
Marketing and promotion expenses	5,352	5,632
Car park operating costs	6,695	6,542
Other direct costs	12,765	11,081
	159,643	169,857

Note : During the year ended 30 June 2021, the property manager waived an amount of \$2,894,000 (2020 : nil) 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.

6 Other income

	2021 \$'000	2020 \$'000
Bank interest income	2,792	11,572
Interest income from debt securities	5,655	5,519
Others	534	–
	8,981	17,091

7 Loss before taxation and transactions with unitholders

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

	2021 \$'000	2020 \$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	86,379	107,718
Other borrowing costs	6,197	5,298
	92,576	113,016
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	218	6,303
– Net fair value loss of ineffective cash flow hedges	941	1,125
	1,159	7,428
	93,735	120,444

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

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

7 Loss before taxation and transactions with unitholders (continued)

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

	2021 \$'000	2020 \$'000
(b) Other items		
Manager's fees	92,531	96,213
Property Manager's fees (notes (i) and (iii))	46,015	51,882
Trustee's remuneration and charges	4,621	4,715
Auditor's remuneration		
– Audit services	2,002	2,002
– Other services	497	497
Valuation fee payable to principal valuer	411	502
Legal and other professional fees	5,087	3,216
Commission to property agents	2,763	1,387
Bank charges	337	315
Net foreign exchange (gain) / loss	(265)	816

Notes :

- (i) Included rental commission of \$11,674,000 (2020 : \$12,086,000).
- (ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the year accordingly.
- (iii) For the year ended 30 June 2021, 61.0% (2020 : 64.7%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounting for 40.4% (2020 : 43.2%). The largest supplier, being the Property Manager, is a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"). HLD is interested in more than 5% of the total number of units in issue of Sunlight REIT.

8 Income tax

(a) Income tax in the consolidated statement of profit or loss represents :

	2021 \$'000	2020 \$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	63,535	67,513
Over-provision in respect of prior years	(374)	(636)
	63,161	66,877
Deferred tax		
Origination and reversal of temporary differences	12,705	13,200
	75,866	80,077

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

8 Income tax (continued)

(a) Income tax in the consolidated statement of profit or loss represents : (continued)

In prior years, the Inland Revenue Department (“**IRD**”) raised additional profits tax assessments on certain subsidiaries of the Group, with one of the subsidiaries (the “**Particular Subsidiary**”) covering the years of assessment up to 2016/17, and certain other subsidiaries covering the years of assessment up to 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.

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 (the “**BoR Decision**”) allowing the appeal of the Particular Subsidiary, determining that the relevant assessments are to be revised to allow for the deduction of the management fees. The IRD did not appeal against the BoR Decision.

At 30 June 2021, all the relevant additional profits tax assessments in respect of the subsidiaries of the Group had been revised by the IRD to allow for the deduction of management fees, property management fees and rental commissions. The tax reserve certificates with an aggregate amount of \$53.5 million purchased in respect of the additional assessments raised had been redeemed in full from the IRD.

(b) Reconciliation between tax expense and accounting loss at applicable tax rate :

	2021 \$'000	2020 \$'000
Loss before taxation and transactions with unitholders	(157,811)	(671,317)
Notional tax on loss before taxation and transactions with unitholders, calculated at applicable tax rates	(26,204)	(110,932)
Tax effect of non-deductible expenses	111,894	195,308
Tax effect of non-taxable income	(7,472)	(2,709)
Tax effect of current year’s tax losses not recognised	10	42
Tax effect of other temporary differences recognised / derecognised	(320)	16
Tax effect of prior years’ unrecognised tax losses recognised in current year	(1,467)	(963)
Tax effect of prior years’ unrecognised tax losses utilised in current year	(201)	(49)
Over-provision in respect of prior years	(374)	(636)
Actual tax expense	75,866	80,077

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

8 Income tax (continued)

(c) Deferred tax assets and liabilities recognised :

The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows :

Deferred tax arising from :	Depreciation allowances in excess of related depreciation \$'000	Tax losses \$'000	Total \$'000
At 1 July 2019	182,538	(3,679)	178,859
Charged to profit or loss	13,182	18	13,200
At 30 June 2020	195,720	(3,661)	192,059
At 1 July 2020	195,720	(3,661)	192,059
Charged / (credited) to profit or loss	13,143	(438)	12,705
At 30 June 2021	208,863	(4,099)	204,764
		2021 \$'000	2020 \$'000
Represented by :			
Net deferred tax assets recognised		(343)	(80)
Net deferred tax liabilities recognised		205,107	192,139
		204,764	192,059

(d) Deferred tax assets not recognised :

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries of \$39,820,000 (2020 : \$49,232,000) as it is probable that sufficient future taxable profits will not be available against which the unused tax losses can be utilised. The Hong Kong tax losses do not expire under current tax legislation.

9 Loss per unit before transactions with unitholders

The basic loss per unit before transactions with unitholders for the year ended 30 June 2021 amounted to \$0.14 (2020 : \$0.45). The calculation of basic loss per unit before transactions with unitholders is based on the Group's loss after taxation and before transactions with unitholders of \$233,677,000 (2020 : \$751,394,000) and the weighted average of 1,666,146,965 units (2020 : 1,655,646,380 units) in issue during the year.

Diluted loss per unit before transactions with unitholders for the years ended 30 June 2021 and 2020 are not presented as there was no potential dilution of loss per unit before transactions with unitholders.

10 Fixed assets

	Furniture and fixtures \$'000	Investment properties \$'000	Total \$'000
Cost or valuation :			
At 1 July 2019	286	20,002,510	20,002,796
Additions	–	58,334	58,334
Decrease in fair value	–	(1,142,844)	(1,142,844)
At 30 June 2020	286	18,918,000	18,918,286
Representing :			
Cost	286	–	286
Valuation – 2020	–	18,918,000	18,918,000
	286	18,918,000	18,918,286
At 1 July 2020	286	18,918,000	18,918,286
Additions (note (c))	88	28,860	28,948
Decrease in fair value	–	(605,160)	(605,160)
At 30 June 2021	374	18,341,700	18,342,074
Representing :			
Cost	374	–	374
Valuation – 2021	–	18,341,700	18,341,700
	374	18,341,700	18,342,074
Accumulated depreciation :			
At 1 July 2019	244	–	244
Charge for the year	20	–	20
At 30 June 2020	264	–	264
At 1 July 2020	264	–	264
Charge for the year	17	–	17
At 30 June 2021	281	–	281
Net book value :			
At 30 June 2021	93	18,341,700	18,341,793
At 30 June 2020	22	18,918,000	18,918,022

(Expressed in Hong Kong dollars)

10 Fixed assets (continued)

(a) Fair value measurement of investment properties

Fair value hierarchy

HKFRS 13, *Fair value measurement*, requires the fair value of investment properties 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

The Group's investment properties measured at fair value are not categorised as Level 1 and Level 2 valuations.

During the years ended 30 June 2021 and 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.

Valuation process

The investment properties were appraised at 30 June 2021 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.

The Manager has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation was performed at each interim and annual reporting date and was reviewed and approved by senior management.

Valuation methodologies

The fair values of the Group's investment properties at 30 June 2021 and 2020 were arrived at using the income capitalisation approach cross-referenced to the direct comparison approach. The income capitalisation approach is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The direct comparison approach is based on comparing the properties to be valued directly with other comparable properties which recently changed hands.

10 Fixed assets (continued)

(a) Fair value measurement of investment properties (continued)

Level 3 valuation methodologies

The following table presents the significant unobservable inputs :

	30 June 2021		
	Market unit rent	Capitalisation rate	Occupancy rate
In Hong Kong			
– Office	\$14.7 to \$43.4	3.3% to 3.8%	87.9% to 100%
– Retail	\$13.9 to \$134.1	3.1% to 4.4%	77.5% to 100%
	30 June 2020		
	Market unit rent	Capitalisation rate	Occupancy rate
In Hong Kong			
– Office	\$17.3 to \$46.1	3.3% to 3.8%	93.7% to 100%
– Retail	\$27.6 to \$149.9	3.1% to 4.4%	77.4% to 100%

The fair value measurement of investment property is positively correlated to the market unit rent and the occupancy rate and negatively correlated to the capitalisation rate.

All leased properties meet the definition of investment properties (see note 2(h)) are classified as investment properties.

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

	2021 \$'000	2020 \$'000
In Hong Kong		
– Long leases	8,680,300	8,783,400
– Medium-term leases	9,661,400	10,134,600
	18,341,700	18,918,000

(c) Included the acquisition of investment properties amounting to \$17,226,000 (2020 : nil).

(d) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 19).

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”), 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 Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

12 Derivative financial instruments

	2021			2020		
	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	–	(52,964)	(52,964)	63	(30,010)	(29,947)
Non-current portion	–	(61,174)	(61,174)	–	(62,939)	(62,939)
	–	(114,138)	(114,138)	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 rates 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 (“**JPY**”).

During the year ended 30 June 2021, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to \$120,000 (2020 : \$1,656,000) were reclassified from net assets attributable to unitholders to profit or loss. As at 30 June 2021, 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 \$941,000 (2020 : \$1,125,000) was charged to profit or loss for the year. Also, net cumulative unrealised losses of expired swaps amounting to \$98,000 (2020 : \$4,647,000) were reclassified from net assets attributable to unitholders to profit or loss for the year.

At 30 June 2021, the net cumulative unrealised loss on the IRSs, Basis Swaps and CCIRS included in the net assets attributable to unitholders amounted to \$110,567,000 (2020 : \$90,474,000).

At 30 June 2021, the Group had IRSs with an aggregate notional amount of \$2,700,000,000 (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 (2020 : nil). These swaps will mature between September 2022 to October 2027 (2020 : August 2020 to 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

	2021 \$'000	2020 \$'000
Financial assets measured at amortised cost		
Debt securities		
– Listed in Hong Kong	79,262	85,950
– Listed outside Hong Kong	51,513	19,511
– Unlisted	10,118	10,213
	140,893	115,674

14 Other non-current assets

The balance represented the amounts incurred relating to the 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 and, if applicable, the acquisition of investment properties.

15 Trade and other receivables

	2021 \$'000	2020 \$'000
Rental receivables	46,569	37,339
Deposits and prepayments	5,571	8,473
Other receivables	2,017	1,938
Amounts due from related companies	789	1,170
	54,946	48,920

Included unamortised rent-free and rental concession, deposits and prepayment of \$29,953,000 (2020 : \$13,298,000) which are expected to be recovered or recognised as expenses after one year. Apart from the above, all of the balances are expected to be recovered or recognised as expenses within one year.

At the end of the reporting period, the ageing analysis of rental receivables, based on the date of revenue recognition and net of loss allowance, is as follows :

	2021 \$'000	2020 \$'000
Current	39,103	26,861
Less than 1 month overdue	4,033	6,584
More than 1 month and up to 3 months overdue	1,697	2,664
More than 3 months and up to 6 months overdue	920	677
More than 6 months overdue	816	553
	46,569	37,339

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

15 Trade and other receivables (continued)

Details of the Group's credit policy are set out in note 21(a).

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 and other cash flow information

(a) Cash and cash equivalents comprise :

	2021 \$'000	2020 \$'000
Deposits with original maturity within three months	194,843	328,541
Cash at bank and in hand	38,530	45,379
Cash and cash equivalents in the consolidated cash flow statement	233,373	373,920
Deposits with original maturity over three months	389,928	125,513
Cash and bank balances in the consolidated statement of financial position	623,301	499,433

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other borrowings \$'000 (note 19)	Interest payable \$'000	Total \$'000
At 1 July 2019	4,237,286	3,689	4,240,975
Changes from financing cash flows :			
Proceeds from new bank borrowings	600,000	–	600,000
Repayment of bank borrowings	(600,000)	–	(600,000)
Other borrowing costs paid	(2,880)	–	(2,880)
Interest paid	–	(109,919)	(109,919)
Total changes from financing cash flows	(2,880)	(109,919)	(112,799)
Non-cash changes :			
Interest expenses (note 7(a))	–	107,718	107,718
Other borrowing and related costs	5,075	–	5,075
Total non-cash changes	5,075	107,718	112,793
At 30 June 2020	4,239,481	1,488	4,240,969

16 Cash and bank balances and other cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other borrowings \$'000 (note 19)	Interest payable \$'000	Total \$'000
At 1 July 2020	4,239,481	1,488	4,240,969
Changes from financing cash flows :			
Proceeds from new bank borrowings	1,523,196	–	1,523,196
Proceeds from issuance of medium term notes	297,525	–	297,525
Repayment of bank borrowings	(1,655,000)	–	(1,655,000)
Other borrowing costs paid	(8,148)	–	(8,148)
Interest paid	–	(85,224)	(85,224)
Total changes from financing cash flows	157,573	(85,224)	72,349
Non-cash changes :			
Interest expenses (note 7(a))	–	86,379	86,379
Other borrowing and related costs	3,736	–	3,736
Total non-cash changes	3,736	86,379	90,115
At 30 June 2021	4,400,790	2,643	4,403,433

17 Tenants' deposits

The tenants' deposits include \$125,430,000 (2020 : \$120,331,000) which is expected to be settled after one year. The remaining balances are expected to be settled within one year, if tenancies are not renewed upon expiry.

18 Trade and other payables

	2021 \$'000	2020 \$'000
Creditors and accrued charges	41,145	32,221
Manager's fees payable (note 26(b)(ii))	22,102	20,802
Amounts due to related companies	8,146	7,440
	71,393	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 \$1,115,000 (2020 : \$1,014,000) which is due within 30 days.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

19 Bank and other borrowings

	2021 \$'000	2020 \$'000
Bank loans (note (i))		
– Secured	2,301,693	2,623,610
– Unsecured	1,804,003	1,615,871
	4,105,696	4,239,481
Medium term notes		
– Unsecured (note (ii))	295,094	–
	4,400,790	4,239,481

The bank and other borrowings were repayable as follows :

	2021 \$'000	2020 \$'000
Within 1 year	2,002,645	1,642,614
After 1 year but within 2 years	597,786	2,000,282
After 2 years but within 5 years	1,290,772	596,585
After 5 years	509,587	–
	2,398,145	2,596,867
	4,400,790	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 \$10,445,300,000 at 30 June 2021 (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 (2020 : US\$1,000,000,000) Medium Term Note Programme (“**MTN programme**”). At 30 June 2021, notes with nominal amount of \$300,000,000 (2020 : nil) were issued by Sunlight REIT MTN Limited 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 2.10% per annum (2020 : 1.99% per annum).
- (iv) At 30 June 2021, the Group’s uncommitted revolving credit facilities of \$600,000,000 (2020 : \$600,000,000) remained undrawn.

20 Units in issue

	Number of units	
	2021	2020
At the beginning of the year	1,661,429,036	1,651,723,079
Movement during the year		
– Issuance of units	12,204,448	10,705,957
– Units bought back	(1,500,000)	(1,000,000)
At the end of the year	1,672,133,484	1,661,429,036

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

Payment of the Manager's fees for the year	Average issue price per unit determined based on the Trust Deed \$	Aggregate amount of units issued \$'000	Number of units issued
2021			
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
1 October 2020 to 31 December 2020	3.756	11,660	3,104,221
1 January 2021 to 31 March 2021	4.084	11,686	2,861,439
		47,136	12,204,448
2020			
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

Pursuant to the general mandate granted to the Manager by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 1,500,000 units (2020 : 1,000,000 units) on the SEHK during the year ended 30 June 2021 at an aggregate consideration of \$5,937,000 (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 \$	
2021				
Month of buy-back				
November 2020	800,000	3.68	3.60	2,919
May 2021	700,000	4.33	4.29	3,018
	1,500,000			5,937
Total buy-back expenses				20
				5,957

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

20 Units in issue (continued)

Details of the units buy-backs were as follows : (continued)

	Number of units bought back	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
2020				
Month of buy-back				
March 2020	1,000,000	4.60	4.27	4,456
	<u>1,000,000</u>			<u>4,456</u>
Total buy-back expenses				<u>15</u>
				<u>4,471</u>

All bought back units were cancelled during the year.

21 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from the potential failure of the Group's counterparties to meet their obligations under financial contracts. The Group is exposed to credit risk on its cash at bank and deposits with banks and financial institutions, derivative financial instruments, debt securities as well as trade and other receivables.

The credit risk on debt securities is limited as either the majority of the instruments have investment grade granted by certain credit rating agencies or the debt security is issued by a corporate entity which is a constituent of the Hang Seng Index.

In respect of credit exposures to tenants, credit risk exposure is minimised by undertaking transactions with a large number of counterparties and conducting credit reviews on prospective tenants. The Group also has policies in place to ensure that rental deposits and/or guarantees are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The Group has no significant concentrations of credit risk. The Manager is of the opinion that monthly rents in respect of leasing properties are received in advance and there is no specific credit terms given to the tenants. Sufficient rental deposits and/or guarantees are held to cover potential exposure to credit risk.

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

21 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

The Group maintains sufficient cash reserve and committed lines of funding from financial institutions with sound credit ratings to meet its liquidity requirements in the short and longer term.

The Group also monitors regularly its current and expected liquidity requirements and its compliance with lending covenants and limits on total borrowings as stipulated under the REIT Code.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay :

	2021					Carrying amount \$'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	More than 5 years \$'000	Total \$'000	
Bank and other borrowings	2,045,461	624,158	1,349,797	517,675	4,537,091	4,400,790
Tenants' deposits	76,135	76,224	32,249	16,957	201,565	201,565
Creditors and accrued charges	41,145	–	–	–	41,145	41,145
Manager's fees payable in the form of cash	10,541	–	–	–	10,541	10,541
Amounts due to related companies	8,146	–	–	–	8,146	8,146
	2,181,428	700,382	1,382,046	534,632	4,798,488	4,662,187
Derivative settled net :						
IRS and CCIRS contracts held as cash flow hedging instruments	52,842	45,050	50,900	10,220	159,012	
	2020					Carrying amount \$'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	More than 5 years \$'000	Total \$'000	
Bank and other borrowings	1,695,748	2,035,916	606,135	–	4,337,799	4,239,481
Tenants' deposits	100,477	62,780	42,058	15,493	220,808	220,808
Creditors and accrued charges	32,221	–	–	–	32,221	32,221
Manager's fees payable in the form of cash	8,881	–	–	–	8,881	8,881
Amounts due to related companies	7,440	–	–	–	7,440	7,440
	1,844,767	2,098,696	648,193	15,493	4,607,149	4,508,831
Derivative settled net :						
IRS and Basis swap contracts held as cash flow hedging instruments	31,227	33,236	44,695	457	109,615	

21 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate and currency risk

The Group's interest rate and currency risk arises from interest-bearing liabilities. Certain borrowings raised at variable interest rates expose the Group to cash flow interest rate risk, while one of the borrowings denominated in JPY exposes the Group to currency risk. The Group managed its cash flow interest rate risk and foreign currency risk by using floating-to-fixed IRSs (and in some cases, supplemented by Basis Swaps) and back-to-back JPY/HKD CCIRS. Such IRSs and CCIRS arrangements have the economic effect of converting borrowings from floating rates to fixed rates. Under the IRSs and CCIRS, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts, as well as the principal repayment of the foreign currency borrowing at a fixed exchange rate. Under the Basis Swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between agreed floating rates interest amounts calculated by reference to the agreed notional principal amounts. Details regarding the IRSs, Basis Swaps and CCIRS are set out in note 12.

Sensitivity analysis

At 30 June 2021, if interest rates had been 10 basis points higher/lower (2020 : 100 basis points higher/10 basis points lower) with all other variable held constant, the loss after taxation and before transactions with unitholders would have been approximately \$0.8 million higher/lower (2020 : \$17.1 million higher/\$1.7 million lower) as a result of higher/lower interest expenses on floating rate borrowings; while the net assets attributable to unitholders would have been approximately \$9.3 million higher/\$9.2 million lower (2020 : \$74.6 million higher/\$7.6 million lower), mainly as a result of an increase/decrease in the fair values of the cash flow hedges as described above.

At 30 June 2021, a 5% appreciation/depreciation of JPY against HKD would increase/decrease the net assets attributable to unitholders by \$26.2 million as a result of an increase/decrease in the fair values of the cash flow hedges as described above.

The sensitivity analysis above has been determined assuming that the change in interest rates and exchange rate had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group. The analysis for change in interest rates has been performed in the same approach as in the prior year.

21 Financial risk management and fair values of financial instruments (continued)

(d) Fair values

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

At 30 June 2021 and 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 as defined in HKFRS 13 (see note 10(a) for fair value hierarchy).

During the years ended 30 June 2021 and 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.

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 the current interest rates and the current creditworthiness of the swap counterparties.

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 30 June 2021 and 2020.

(e) Estimation of fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of IRSs, Basis Swaps and CCIRS is calculated as the present value of the estimated future cash flows.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

22 Capital management

The Group's primary objective is to provide its unitholders risk-adjusted, long-term capital growth through investing in a diversified portfolio of office and retail properties in Hong Kong.

The Manager aims to support Sunlight REIT's operational and acquisition growth strategies within a prudent risk management framework, by employing an efficient capital management strategy.

The Manager believes that an efficient capital management strategy will improve total returns while reducing risks for unitholders by maintaining financial flexibility to meet capital expenditure requirements. The Manager will regularly review its capital management strategy to reflect Sunlight REIT's investment opportunities, its operating and the general economic environment and the REIT Code requirements.

In accordance to clause 7.9 of the REIT Code and clause 20.4 of the Trust Deed, Sunlight REIT's aggregate borrowings shall not exceed 50 per cent (2020 : 45 per cent) of the total gross asset value of the scheme. In the event that the limit is exceeded, the unitholders and the Securities and Futures Commission (the "SFC") shall be informed of the magnitude of the breach, the cause of the breach, and the proposed method of rectification. In cases where there is a breach, no further borrowing is permitted and the Manager shall use its best endeavours to reduce the excess borrowings. Furthermore, the unitholders and the SFC shall be informed on a regular basis as to the progress of the rectification. At 30 June 2021, Sunlight REIT's aggregate borrowings represent 23.0% (2020 : 21.6%) of its total gross asset value.

23 Capital commitments

Capital commitments outstanding at 30 June 2021 not provided for in the consolidated financial statements are as follows :

	2021 \$'000	2020 \$'000
Contracted for	6,175	14,108
Authorised but not contracted for	17,378	8,154
	23,553	22,262

24 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 (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.

25 Significant leasing arrangements

The Group's total future minimum rental income receivables under non-cancellable operating leases are as follows :

	2021 \$'000	2020 \$'000
Within 1 year	558,763	558,588
After 1 year but within 2 years	317,064	341,760
After 2 years but within 3 years	152,067	141,412
After 3 years but within 4 years	73,091	68,126
After 4 years but within 5 years	64,562	64,041
After 5 years	179,297	237,447
	1,344,844	1,411,374

The operating leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated.

26 Connected party transactions and material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated 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 year :

(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 Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected persons/related parties

	2021 \$'000	2020 \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	10,922	12,279
– HSBC Group	20,906	23,855
– 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	(16,715)	(17,279)
Facilities leasing expenses paid / payable to (note (i)) :		
– HLD Group	(120)	(103)
Manager’s fees (note (ii))	(92,531)	(96,213)
Property Manager’s fees (note (iii))	(46,015)	(51,882)
Trustee’s remuneration and charges (note (iv))	(4,622)	(4,716)
Interest expenses and security trustee fee on bank borrowings and other charges paid / payable to (note (i)) :		
– HSBC Group	(8,880)	(41,260)
Net interest (expenses) / income on IRSs and Basis Swaps paid / payable to or received / receivable from (note (i)) :		
– HSBC Group	(21,575)	1,274
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	588	1,358
Valuation fee paid / payable to (notes (i), (v) and (vi)) :		
– Colliers Group	(176)	(537)
Promotional income received / receivable from (note (i)) :		
– HLD Group	2,592	3,256

26 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 16 June 2020, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2021 to be paid 50% in the form of cash and 50% in the form of units.

- (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 five 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.

Under the fifth supplemental agreement to the Property Management Agreement, with effect from 1 July 2021, one of the Property Manager's entitlements has been amended as follows :

- The Manager and the Property Manager may mutually agree in writing from time to time to revise the rate of the commission payable to the Property Manager for the marketing services provided that the revised rate shall not exceed the relevant rate as stated above.
- (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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

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

Notes : (continued)

- (vi) The valuation fee paid/payable to Colliers Group from 1 July 2020 to 3 December 2020 was \$176,000 (year ended 30 June 2020 : \$537,000).
- (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 (year ended 30 June 2020 : \$2,000).
- (viii) Other than the fees paid/payable to the Manager, Trustee and principal valuer of Sunlight REIT, all the above material related party transactions, as set out in this note 26 also constitute connected transactions/continuing connected transactions under the Rules Governing the Listing of the Securities on the SEHK.

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

	2021 \$'000	2020 \$'000
Net amount due to :		
– HLD Group	(30,354)	(28,619)
– HSBC Group (note)	(518,935)	(1,121,439)
– Colliers Group (note 26(b)(v))	–	(336)
Note :		
Deposits and cash placed with HSBC Group	38,207	161,586
Bank borrowings and interest payable to HSBC Group	(550,631)	(1,275,344)
Others	(6,511)	(7,681)
	(518,935)	(1,121,439)

27 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

Valuation of investment properties

In arriving at the fair value of the investment properties, the Manager has considered information from different sources, including a valuation performed by an independent firm of professional valuer after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rates.

28 Non-adjusting event after the reporting period

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

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2021

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments to HKFRSs which are not yet effective for the year ended 30 June 2021 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 16, <i>Property, plant and equipment</i> : <i>Proceeds before intended use</i>	1 January 2022
Amendments to HKAS 37, <i>Provisions, contingent liabilities and contingent assets</i> : <i>Onerous contracts – costs of fulfilling a contract</i>	1 January 2022
Amendments to HKFRS 3, <i>Business combinations</i> : <i>Reference to the Conceptual Framework</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

30 Principal subsidiaries

Details of the principal subsidiaries of Sunlight REIT which, in the opinion of the Manager, materially contribute to the results of the Group or hold a material portion of the assets or liabilities of the Group are as follows :

Name of subsidiary	Place of incorporation/operation	Particulars of issued share capital	% of shares held by		Principal activity
			Sunlight REIT	a subsidiary	
Sunlight REIT Holding Limited	Cayman Islands	1 share of US\$1	100	–	Investment holding
Bayman Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Property investment
Bestguard Investment Limited	Hong Kong	2 ordinary shares	–	100	Property investment
Global Team Development Limited	Hong Kong	100 ordinary shares	–	100	Property investment
Glory Hero Development Limited	Hong Kong	3,000,000 ordinary shares	–	100	Property investment
Grand Faith Development Limited	Hong Kong	10,000,000 ordinary shares and 2 non-voting deferred shares	–	100	Property investment
Jetwise Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment
King Firm Enterprises Limited	Hong Kong	1 share	–	100	Property investment
Nicetex Development Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100	Property investment
Seiren Investment Limited	Hong Kong	10,000 ordinary shares	–	100	Property investment
Sunlight Crownwill Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Property investment
Sunlight REIT Finance Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT Finance (2020) Limited	Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT MTN Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT Treasury Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of treasury functions
Sunlight REIT ULF Limited	British Virgin Islands/ Hong Kong	1 share	–	100	Provision of finance functions
Tinselle Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment

Except for Sunlight REIT MTN Limited which has issued medium term notes as detailed in note 19, no other subsidiaries has issued any debt securities.

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2021	2020	2019	2018	2017
At 30 June :						
Net asset value (\$ million)		14,124	14,771	15,992	14,857	13,899
Net asset value per unit		8.45	8.89	9.68	9.03	8.49
Market capitalisation (\$ million)		7,508	6,397	9,894	8,917	8,385
For the year ended 30 June :						
Highest traded unit price		4.65	6.35	6.10	5.61	5.25
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	3.19	4.66	4.98	4.38
Highest discount of the traded unit price to net asset value per unit (%)		61.1	64.1	51.9	44.9	48.4
Closing unit price		4.49	3.85	5.99	5.42	5.12
Distribution per unit (cents)	2	25.6	26.8	27.3	26.5	33.0
Payout ratio (%)	2	97.5	95.2	96.4	96.7	124.3
Distribution yield per unit (%)	3	5.7	7.0	4.6	4.9	6.4

Notes :

1. The highest traded unit price is lower than the net asset value per unit at the end of each financial year.
2. Including special distribution of 7.5 cents in 2017.
3. Distribution yield per unit is calculated by dividing the distribution per unit by the closing unit price of the year.

Financial Calendar

For FY2020/21

Interim results announcement	4 February 2021
Issuance of interim report	24 February 2021
Ex-distribution date for interim distribution	25 February 2021
Closure of register of unitholders for entitlement of interim distribution	1 March 2021 to 3 March 2021, both days inclusive
Interim distribution paid HK 12.5 cents per unit	12 March 2021
Final results announcement	7 September 2021
Ex-distribution date for final distribution	23 September 2021
Closure of register of unitholders for entitlement of final distribution	27 September 2021 to 29 September 2021, both days inclusive
Issuance of annual report	5 October 2021
Final distribution payable HK 13.1 cents per unit	8 October 2021
Closure of register of unitholders for entitlement to attend and vote at annual general meeting	5 November 2021 to 10 November 2021, both days inclusive
Annual general meeting	10 November 2021

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

Investor Relations

Tel : (852) 3669 2880

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

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

DBS Bank Ltd., Hong Kong Branch

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

* Pursuant to paragraph 6.10 of the REIT Code, Colliers International (Hong Kong) Limited shall retire as the principal valuer of Sunlight REIT by 31 August 2021. CBRE Limited has been appointed by the Trustee to fill the casual vacancy with effect from 1 September 2021.

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com

