



SUNLIGHT REIT

Stock Code : 435

Extending Care

Annual Report 2019/20

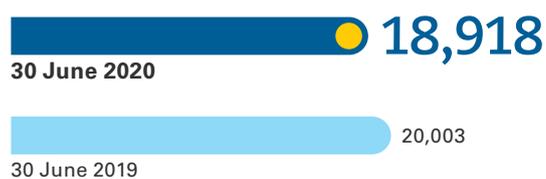


Highlights of the Year

- A reasonably respectable set of results underwritten by a good mix of decentralized offices and community retail premises
- Decent performance achieved in the first half of the Year was eroded by difficult operating conditions attributable to the COVID-19 outbreak
- Capitalized on a favourable interest rate environment to further enhance the stability of funding cost

Performance Highlights

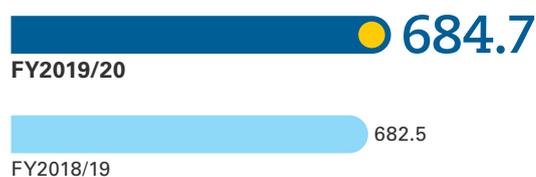
Appraised property value (HK\$' million)



Revenue (HK\$' million)



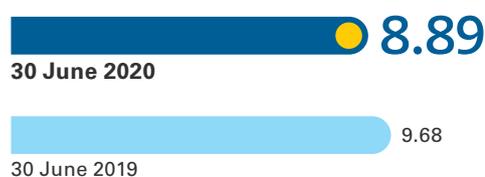
Net property income (HK\$' million)



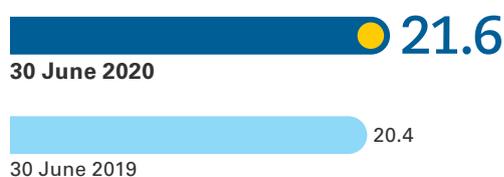
Distribution per unit (HK cents)



Net asset value per unit (HK\$)



Gearing (%)



Contents

Overview	2	Who We Are : In Brief
	4	Chairman’s Statement
	6	CEO’s Report
	10	Portfolio at a Glance
Management Discussion and Analysis	12	Portfolio Statistics
	14	Business Review
	28	Financial Review
Corporate Governance	32	Environmental, Social and Governance Report
	56	Board of Directors and Senior Management
	62	Corporate Governance Report
	82	Connected Party Transactions
	85	Disclosure of Interests
Financial and Other Information	88	Valuation Report
	106	Trustee’s Report
	107	Independent Auditor’s Report
	112	Consolidated Financial Statements
	158	Performance Table
	159	Notice of Annual General Meeting
	162	Financial Calendar
163	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.

Who We Are : In Brief

Sunlight REIT's unit price performance (30 June 2020)

	Total return ^{Note} (%)		
	1-year	5-year	Since listing
Sunlight REIT	(32.2)	28.4	291.3
Hang Seng Index	(11.7)	11.0	102.3
Hang Seng Index - Properties	(21.4)	10.5	118.7
Hang Seng REIT Index	(29.8)	21.1	139.1

Source : Bloomberg

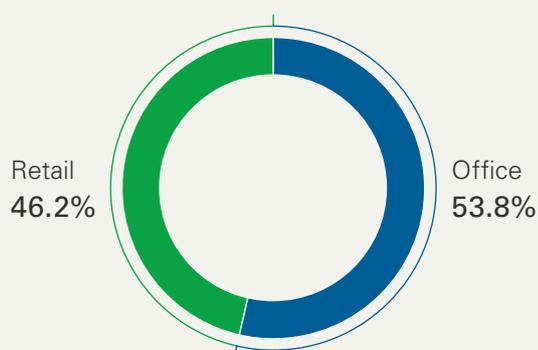
Our Business

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 trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (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\$6,397 million at 30 June 2020.

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 areas with high population density. At 30 June 2020,

Portfolio composition by appraised value



Annualized total return to investors since listing



Sunlight REIT's portfolio was appraised by its principal valuer, Colliers International (Hong Kong) Limited (the "**Principal Valuer**") at HK\$18,918.0 million, with office and retail properties accounting for 53.8% and 46.2% 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} and net property income

(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

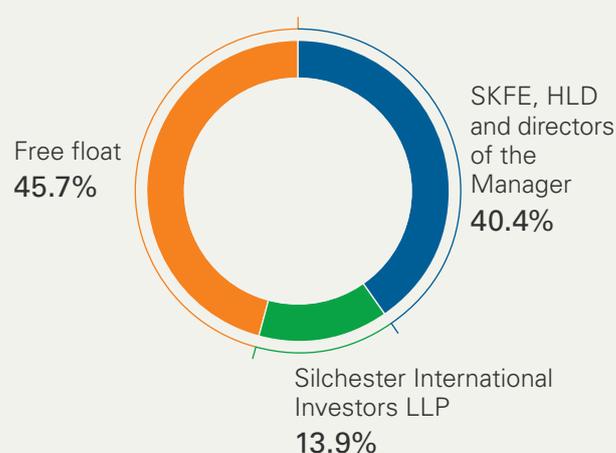
In support of the operational and acquisition growth strategies of Sunlight REIT, the Manager has in place an efficient capital management strategy, characterized by the appropriate use of equity and leverage. It has also established a solid business management framework which includes sound corporate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

Our Strength

Sunlight REIT has established a solid track record in delivering growth in rental income and portfolio value since inception. 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 unwavering support from its sponsors, namely Shau Kee Financial Enterprises Limited (“SKFE”) and HLD, which owned 40.2% of the total number of units of Sunlight REIT (“Units”) in issue at 30 June 2020.

Unitholding structure

(30 June 2020)



Note : Valuation for FY2015/16 and FY2017/18 excluded three disposed properties and included one acquired property respectively.

Chairman's Statement



“ Looking ahead, the operating environment is envisaged to remain challenging, as the repercussions of COVID-19 continue to reverberate across the globe. ”

AU Siu Kee, Alexander
Chairman

On behalf of the Board, I present the results of Sunlight REIT for the financial year ended 30 June 2020 (the “**Year**”).

Despite unprecedented challenges during the Year, including social unrest, the COVID-19 outbreak and unrelenting Sino-US tension, Sunlight REIT managed to deliver reasonably respectable results, registering a 0.3% year-on-year rise in net property income (“**NPI**”) to HK\$684.7 million. Annual distributable income was HK\$467.0 million, virtually unchanged from last year.

The Board has resolved to declare a final distribution of HK 13.6 cents per Unit. Coupled with an interim distribution of HK 13.2 cents per Unit, the total distribution per Unit (“**DPU**”) for the Year would amount to HK 26.8 cents, down 1.8% year on year. The implied payout ratio is 95.2%, compared with 96.4% in the preceding year.

At 30 June 2020, the value of Sunlight REIT’s property portfolio was appraised by the Principal Valuer at HK\$18,918.0 million, 5.4% lower than a year ago; accordingly, its net asset value declined by 7.6% to HK\$14,771.2 million, or HK\$8.89 per Unit (30 June 2019: HK\$9.68 per Unit).

In view of the headwinds that have buffeted the Hong Kong economy over the past 12 months, we have adopted a theme of “**Extending Care**” for this annual report. In this respect, Sunlight REIT has extended a range of relief and caring measures to various stakeholders, while ensuring that our properties are safe and healthy destinations for our tenants, customers and staff.

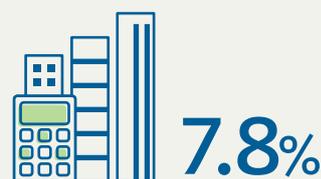
A positive trend for the Year was the favourable interest rate environment since March 2020 induced by aggressive monetary easing by major central banks to wrestle with the severe economic contraction caused by the virus outbreak. The Manager capitalized on this window of opportunity to increase Sunlight REIT’s fixed rate exposure of its loan facilities to approximately 52% at 30 June 2020.

Compound annual growth since listing

Net property income



Net asset value



Looking ahead, the operating environment is envisaged to remain challenging, as the repercussions of COVID-19 continue to reverberate across the globe. More particularly, rental income may be under pressure due to the likelihood of longer rent void, negative rental reversion and the adverse impact from rental concessions. In response, the Manager is committed to improving operational efficiencies and reducing non-essential operating and capital expenditures.

While I am cautious about the near-term prospects for Sunlight REIT, investors should be assured of the resilience of its portfolio, with a good mix of decentralized offices and community retail premises. Meanwhile, it gives me great pleasure to welcome Dah Sing Bank, Limited as an anchor tenant of Sunlight Tower beginning October 2020. Its presence and contribution will surely underpin the performance of our flagship property. In sum, the Manager will continue to monitor and mitigate the risks posed by the fast-changing market dynamics and stay proactive in maintaining a sturdy and sustainable operation.

Finally, I would like to once again express my sincere thanks to my fellow directors, the management team and the staff for their exemplary performance and support during the Year. As always, they have contributed greatly to the continued success of Sunlight REIT.

AU Siu Kee, Alexander

Chairman

8 September 2020



“ Notwithstanding a tough operating environment, the Manager managed to navigate a multitude of challenges and delivered a stable performance during this turbulent period, while extending special care to our stakeholders. ”

WU Shiu Kee, Keith
Chief Executive Officer

As economic activities were showing signs of a recovery at the turn of 2020 when disruptive social events gradually faded, the COVID-19 outbreak, leading to stringent lockdown measures imposed by The Government of the HKSAR, has wreaked havoc on the domestic economy since Chinese New Year. Following a 1.2% decline in real GDP in 2019, the recession deepened in the first half of 2020 with the economy contracting by a sharp 9.0%, while unemployment rate hit 6.2% for the second quarter of this year, its highest level in more than 15 years. The adverse impact of lockdown was also demonstrated by a staggering 89.9% decline in tourist arrivals and a 33.3% dive in total retail sales in this six-month period.

Notwithstanding a tough operating environment, the Manager managed to navigate a multitude of challenges and delivered a stable performance during this turbulent period, while extending special care to our stakeholders. Apart from ensuring the safety of every person that interacts with the properties with a range of sanitation and protective measures, tenant support schemes, notably a rent relief programme, were launched to help alleviate tenants' burden, with priority given to small to medium sized enterprises. For the Year, the rent relief coverage (by number of tenancies) totalled 50%, while the amortized impact of rental concessions was approximately HK\$7.5 million, representing 1.1% of NPI.

Hong Kong retail sales (January - June 2020)



Source : Census and Statistics Department

Hong Kong unemployment rate (April - June 2020)



Source : Census and Statistics Department

Given the fragile business confidence and consumer sentiment, the commercial leasing market was under pressure for most of the Year, notably the retail sector. The results of Sunlight REIT demonstrate how the decent performance achieved in the first half of the Year was eroded by difficult operating conditions attributable to the COVID-19 outbreak. To further illustrate, the retail portfolio recorded a negative rental reversion of 4.6% in the second half of the Year in contrast to a positive 8.7% in the first half, while the corresponding reversionary figures for the office portfolio stayed positive at 5.6% and 12.3% respectively. Gratifyingly, the overall portfolio was able to maintain a high average occupancy rate of 95.7% at 30 June 2020.

One of the few bright spots for the Year was the continuation of a downtrend in interest rates. The highly accommodative monetary policies adopted by the Federal Reserve (and other key central banks) have kept Hong Kong interbank rates at an exceptionally low level. However, credit margins for conventional bank loans have clearly been on the rise over the Year, thereby constraining the benefit of interest savings to Sunlight REIT.

Amidst the difficult operating environment, the Manager has devoted substantial effort to asset enhancement, with a view to creating value for Unitholders. We are pleased to report that the enhancement works at Strand 50 have been completed, successfully repositioning this asset as a welcoming iconic property in Sheung Wan. Meanwhile, the enhancement initiative at The Harvest, which involved lobby renovation and a complete overhaul of all office units, has also proved to be a fruitful exercise. In sum, the two projects achieved an average return on investment of approximately 12%.

For Hong Kong, its economic prospects may be further clouded by the strained Sino-US relations.

Outlook

The short-term outlook for the global economy will be highly dependent on the duration of the COVID-19 outbreak. Unfortunately, attempts to relax lockdown restrictions in many jurisdictions, including Hong Kong, have had to be aborted due to a sharp resurgence in infected cases, and the reintroduction of even stricter social distancing measures will inevitably inflict further damage to the already ailing economies.

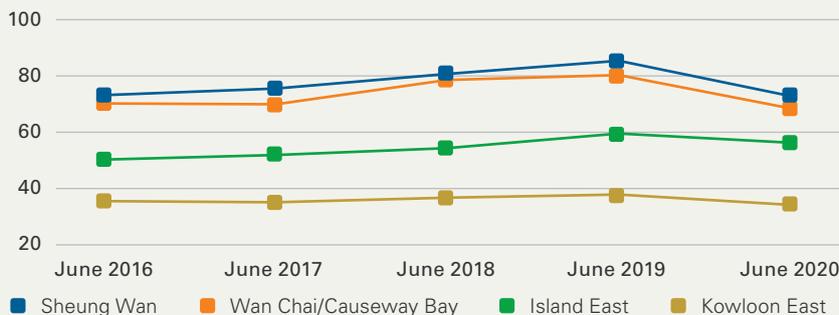
For Hong Kong, its economic prospects may be further clouded by the strained Sino-US relations. Notwithstanding the initial success in trade negotiations, the two superpowers remain on a collision course particularly given the recent pandemic outbreak. With broad bipartisan support, it appears that the anti-China sentiment in the US is a disposition poised to stay for some time.

The supply-demand balance of the commercial leasing market remains uncertain. Despite a more subdued new office supply profile in 2020, given the relatively high vacancy in existing office stock and the foreseeable downsizing activities pursued by multinational corporations, the office market is envisaged to remain under pressure both in terms of rent and occupancy rate. In the meantime, consumer sentiment is expected to stay cautious, with tourist spending unlikely to offer contributions until the relaxation of lockdown restrictions. Nonetheless, one should have witnessed the bottom of retail sales after suffering from a double whammy of social unrest and virus outbreak; any future structural changes to the retail market could well be a more healthy and sustainable development.

Given such a backdrop, the near-term prospects for Sunlight REIT are expected to be challenging. Negative rental reversion will be a more dominant feature particularly for the retail properties. In the meantime, the amortization of rental concessions granted is expected to exert a bigger impact on the bottom line of FY2020/21 in comparison with this financial year.

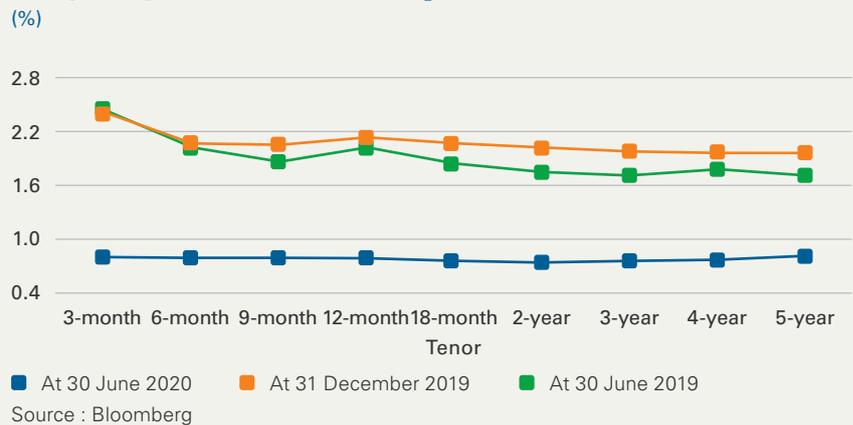
Hong Kong Grade A office rents in decentralized areas

(HK\$/sq. ft. net effective)



Source : Colliers International (Hong Kong) Limited

Hong Kong dollar 3-month swaps curve



On a more positive note, our proactive office leasing and asset enhancement strategies will reap further rewards in the coming year. In particular, we welcome Dah Sing Bank, Limited to become an anchor tenant of Sunlight Tower beginning October 2020, occupying office and retail spaces of over 89,000 sq. ft.. Meanwhile, Strand 50 will be enjoying full-year contributions from incoming retail tenants, as well as theDesk which under a restructured lease will operate about 20,000 sq. ft. of co-working spaces at the low zone of the building.

Sunlight REIT's financial position remains healthy as it continues to receive strong support from its banking partners. On the refinancing of bank loans due for maturity in the next 12 months, the Manager will endeavor to diversify the funding sources while actively pursuing sustainability-linked financing opportunities. As a case in point, we are pleased to announce that Sunlight REIT has recently secured a Japanese yen 7,000 million (equivalent to approximately HK\$500 million) sustainability-linked loan for a tenure of seven years.

On asset enhancement, the Manager will be prudent on capital expenditure ("CAPEX") outlay, with a prime focus on initiatives that could bring cost savings and green benefits. For the coming year, the key project currently on the drawing board is chiller replacement at Strand 50, which is budgetted at approximately HK\$6 million.

Time and again, Hong Kong has shown its resilience to an array of internal and external obstacles. Likewise, Sunlight REIT has demonstrated its robustness and agility in the face of unprecedented challenges. With a defensive portfolio, firm financial footing supported by clear strategic priorities, we believe that it is well positioned to capitalize on new opportunities and expand its footprint for the long-term benefits of Unitholders.

...Sunlight REIT has demonstrated its robustness and agility in the face of unprecedented challenges...it is well positioned to capitalize on new opportunities and expand its footprint for the long-term benefits of Unitholders.

WU Shiu Kee, Keith

Chief Executive Officer
8 September 2020

Portfolio at a Glance

Top three properties



Sunlight Tower **P**



Sheung Shui Centre Shopping Arcade **P**



Metro City Phase I Property **P**



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
Beverly Commercial Centre Property
Supernova Stand Property

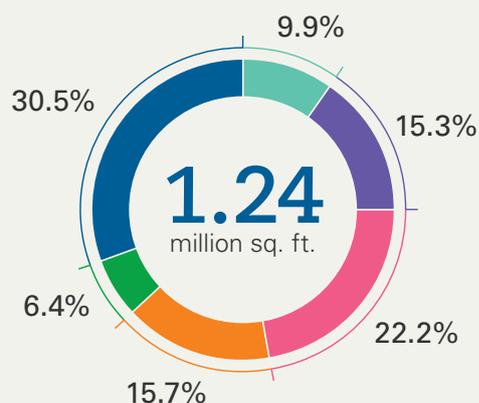
P Car park



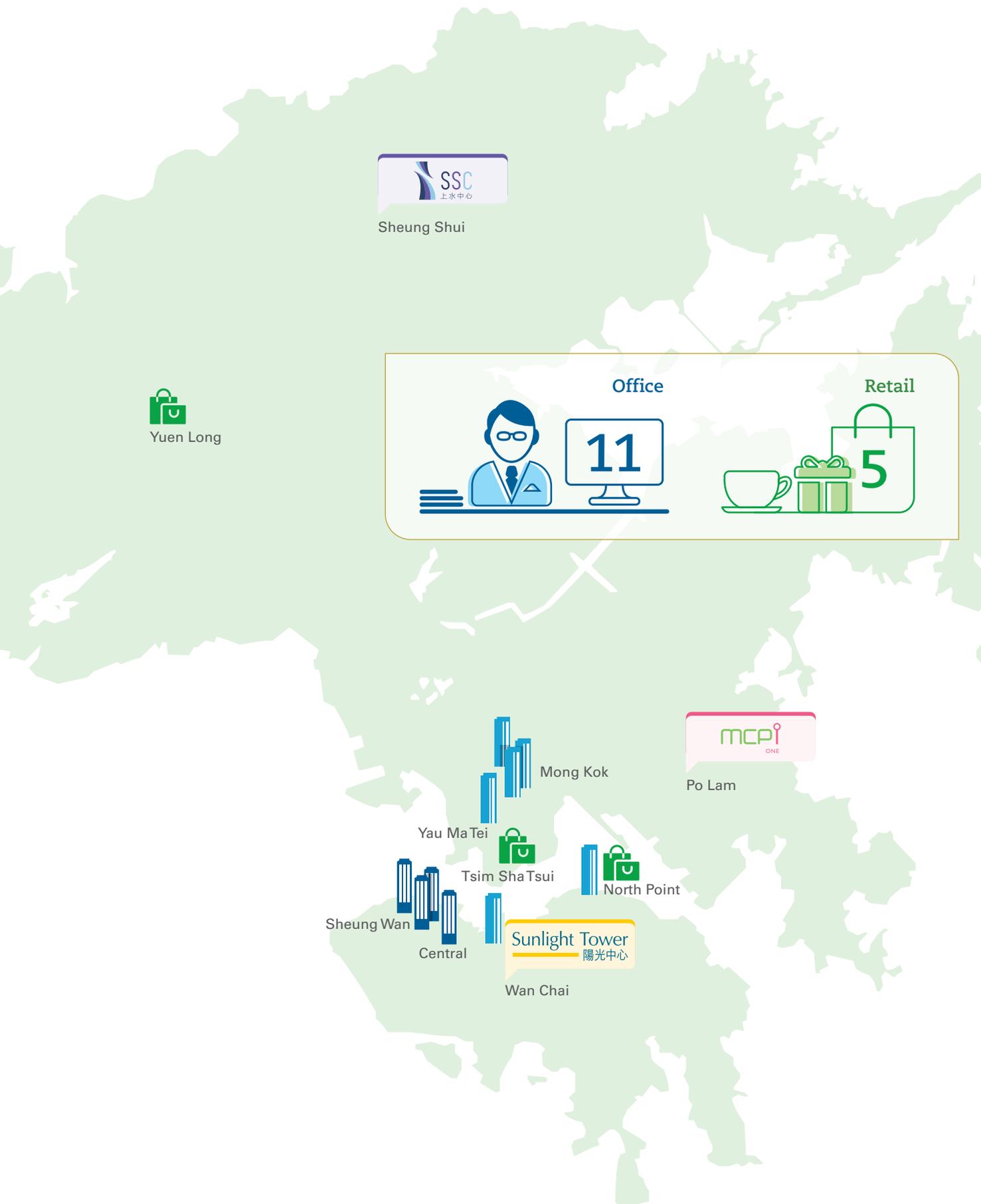
Valuation



Gross rentable area



- Sunlight Tower
- Sheung Wan/Central office properties
- Sheung Shui Centre Shopping Arcade
- Other office properties
- Metro City Phase I Property
- Other retail properties



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								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	67	70
Grade B								
Strand 50 ⁴	Sheung Wan	1998	0	108,506	9,403	117,909	64	64
The Harvest	Mong Kok	1981	0	23,024	11,627	34,651	16	11
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	71	77
Winsome House Property	Central	1999	0	37,937	2,177	40,114	24	26
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	63	64
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	69	68
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	38	37
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	35	38
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	48	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	34	33
Sub-total/Average			46	787,935	56,688	844,623	529	535
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	121	123
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	110	112
Kwong Wah Plaza Property ⁶	Yuen Long	1998	0	41,615	25,741	67,356	37	38
Urban								
Beverly Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	23	24
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Sub-total/Average			749	41,615	349,129	390,744	293	299
Total/Average			795	829,550	405,817	1,235,367	822	834

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 88 to 105 for further details.
4. The property was previously known as Bonham Trade Centre.
5. Excluding the renovated area, the occupancy rate would have been 95.4%.
6. Subsequent to the financial year end, an additional office unit with GRA of 533 sq. ft. was acquired on 31 July 2020 for HK\$8 million.

Operational statistics							Property financials				
Occupancy rate at 30 June (%)		Passing rent ¹ at 30 June (HK\$/sq. ft.)		Rental reversion ² (%)		NPI (HK\$'000)		Capitalization rate at 30 June 2020 (%)		Appraised value at 30 June 2020 ³ (HK\$'000)	
2020	2019	2020	2019	FY2019/20	FY2018/19	FY2019/20	FY2018/19	Office	Retail		
94.3	98.2	40.8	39.6	13.6	13.5	189,280	181,162	3.75	3.65	5,200,300	
95.5	68.4 ⁵	35.6	31.8	10.9	10.6	34,819	32,532	3.45	3.80	1,339,800	
100.0	96.4	51.1	51.2	N/A	N/A	18,212	16,643	3.30	3.10	660,400	
94.5	100.0	30.1	29.4	7.1	12.6	19,984	18,681	3.55	3.80	614,800	
96.1	100.0	44.8	43.8	10.2	6.5	18,925	19,040	3.55	3.60	597,300	
99.3	100.0	35.2	36.3	2.4	8.5	19,781	20,523	3.75	3.50	554,500	
94.3	93.8	22.3	22.6	0.4	9.2	11,291	12,330	3.55	3.80	393,500	
100.0	96.1	26.4	26.4	4.1	7.1	10,562	10,112	3.75	4.00	298,700	
94.1	100.0	32.9	31.6	7.0	8.6	9,265	9,132	3.65	3.70	266,900	
100.0	100.0	23.1	22.7	9.5	9.1	5,839	5,856	3.80	4.05	175,900	
100.0	97.2	17.8	16.1	21.5	20.8	2,363	2,019	3.55	3.90	81,100	
95.6	94.0	36.5	35.5	10.0	11.4	340,321	328,030			10,183,200	
96.8	98.1	112.9	118.4	0.9	13.4	161,697	172,310	N/A	4.30	4,194,300	
94.5	98.9	58.4	57.5	6.1	11.5	138,389	139,913	N/A	4.40	3,184,500	
99.3	100.0	55.7	54.3	8.9	9.6	39,590	36,972	3.60	3.60	1,191,900	
77.4	62.9	39.6	45.6	(24.7)	(0.2)	2,139	2,674	N/A	4.10	92,000	
100.0	100.0	54.5	54.5	4.7	7.7	2,570	2,638	N/A	3.80	72,100	
95.8	98.1	74.8	75.8	3.2	11.4	344,385	354,507			8,734,800	
95.7	95.3	48.6	48.6	6.0	11.4	684,706	682,537			18,918,000	



Net property income

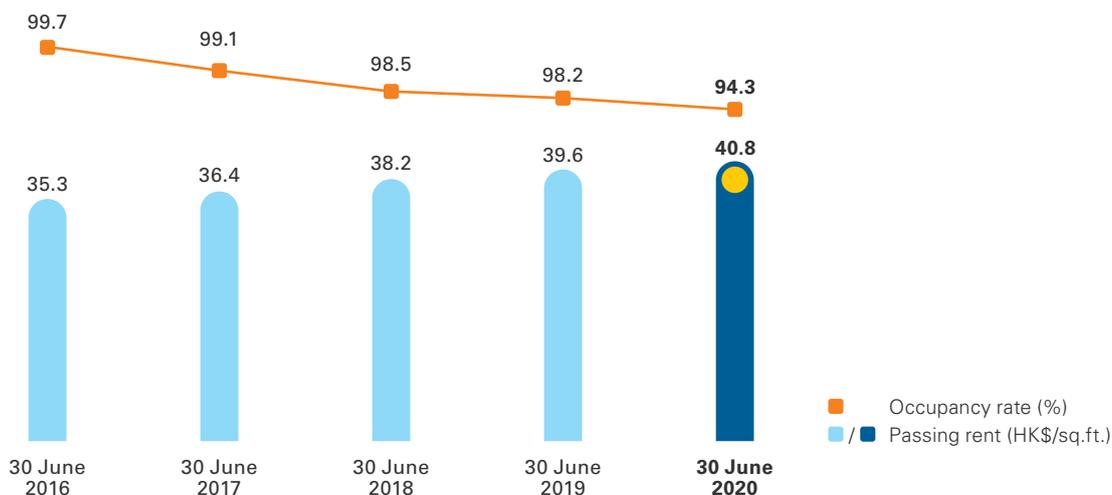
189.3

HK\$ million

Sunlight Tower

- Moderated occupancy rate reflected a sluggish office leasing market
- Benefitting from the property's desirable location and affordable rentals, rental reversion remained decent

Occupancy rate and passing rent



Valuation



Rental reversion



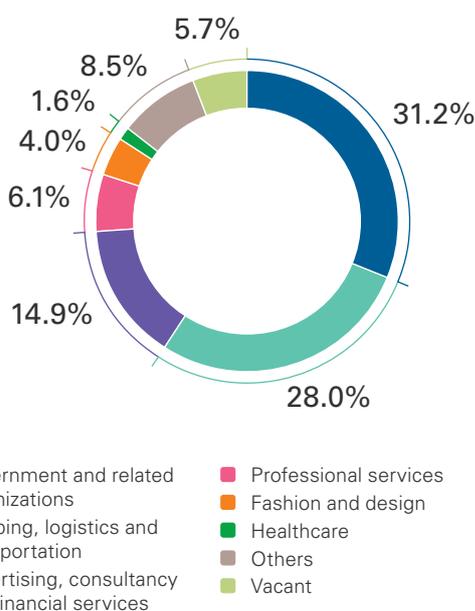
Retention rate



Sunlight Tower's performance was somewhat impacted by a sluggish office leasing market. NPI grew 4.5% year on year to HK\$189.3 million, while occupancy rate moderated to 94.3% at 30 June 2020. During the Year, new letting activities were slow due to an exceptionally conservative approach adopted by corporations in making relocation decisions. However, thanks to the continuous support and satisfaction of existing tenants, rental reversion stayed at a decent 13.6% as compared to 13.5% in the prior year, while passing rent rose 3.0% to HK\$40.8 per sq. ft..

Sunlight Tower was able to maintain a diversified and balanced tenant mix, including government-related organizations and multinational enterprises from different sectors. At 30 June 2020, the total number of leases at Sunlight Tower was 67 (30 June 2019: 70).

Tenant mix*



Expiry profile (30 June 2020)

By GRA (%)



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



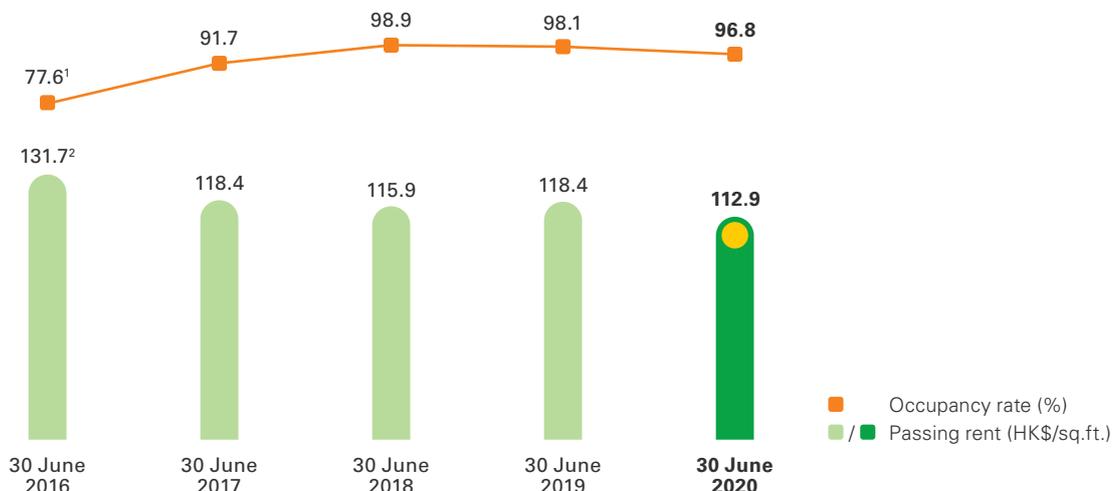
* Tenant mix charts on pages 15 to 19 are expressed as a percentage of total GRA of the relevant property at 30 June 2020.



Sheung Shui Centre Shopping Arcade

- Severe deterioration of the retail market dampened rental reversion, NPI and valuation of the property
- Agile and timely support schemes to alleviate operating and cash flow pressure of tenants

Occupancy rate and passing rent



Notes :

1. Excluding the renovated area, the occupancy rate would have been 98.5%.
2. The renovated area is excluded from the calculation.

Valuation



Rental reversion



Retention rate

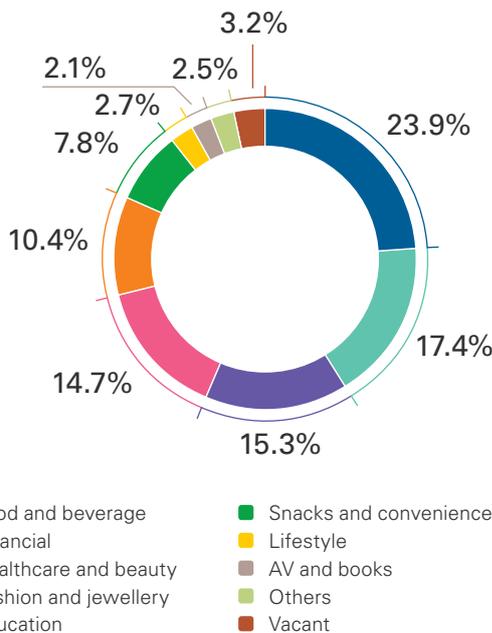


The COVID-19 outbreak brought inbound tourism to a virtual standstill and severely dented local consumer sentiment, resulting in a 6.2% decline in NPI of Sheung Shui Centre Shopping Arcade (“SSC”) to HK\$161.7 million.

Despite a very challenging operating environment, occupancy rate of SSC remained at a satisfactory level of 96.8%. However, the positive rental reversion achieved prior to the COVID-19 outbreak was largely whittled away by leases concluded in the last few months of the Year, ending up with a small reversionary gain of 0.9%. Further, given a relatively high base locked in from the previous rental cycle, there was a downward adjustment of passing rent from HK\$118.4 per sq. ft. to HK\$112.9 per sq. ft. at 30 June 2020.

Tenant support schemes such as rental concessions and management fee waivers had been implemented on a case-by-case basis and in a timely manner to alleviate the pressure on tenants, in particular for those relying on Mainland shoppers and suffering from social distancing restrictions or compulsory closure. Meanwhile, more resources have been devoted to providing a hygienic and healthy environment to tenants and customers.

Tenant mix



Expiry profile (30 June 2020)

By GRA (%)



45.6
FY2020/21

21.8
FY2021/22

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



109.3
FY2020/21

130.4
FY2021/22



Metro City Phase I Property

- Maintained positive rental reversion despite weak local consumer sentiment
- A relatively low occupancy rate reflected longer rent void for vacant units

Occupancy rate and passing rent



Valuation



Rental reversion



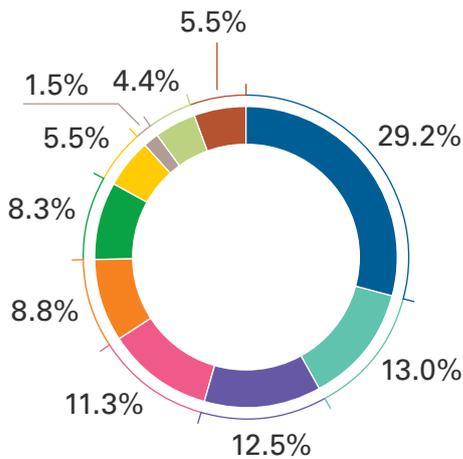
Retention rate



Metro City Phase I Property (“**MCPI**”) demonstrated its resilience in an exceptionally difficult retail environment, as NPI remained stable at HK\$138.4 million with a reasonable rental reversion of 6.1%. Average passing rent also recorded a slight increase of 1.6% to HK\$58.4 per sq. ft.. However, cautious business sentiment clearly led to longer rent void for vacant units during the Year, as its occupancy rate declined to 94.5% at 30 June 2020.



Tenant mix



- Food and beverage
- Lifestyle
- Financial
- Fashion and jewellery
- Education
- AV and books
- Healthcare and beauty
- Others
- Snacks and convenience store
- Vacant

Expiry profile (30 June 2020)

By GRA (%)



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





Net property income

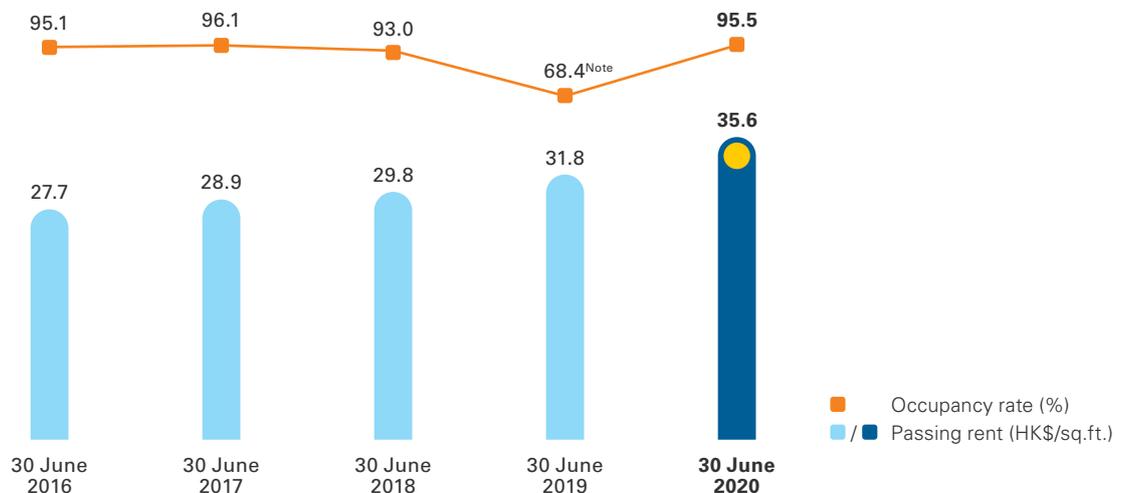
34.8

HK\$ million

Strand 50

- NPI growth fuelled by the benefit reaped from asset enhancement works
- theDesk will continue to offer synergistic benefits to the property

Occupancy rate and passing rent



Note : Excluding the renovated area, the occupancy rate would have been 95.4%.

Valuation



Rental reversion



Retention rate



With its refurbished low zone and convenient location, Strand 50 proved appealing to both existing and new tenants, achieving an encouraging rental reversion of 10.9% while passing rent increased 11.9% to HK\$35.6 per sq. ft. as compared to a year ago. At the same time, occupancy rate rebounded to 95.5% after completion of asset enhancement works.

In view of a less favorable business environment facing co-working space operators and the resultant industry consolidation, the Manager has decided to restructure the lease with theDesk. Despite the adverse impact on passing rent, the Manager is confident that theDesk will continue to offer synergistic benefits to Strand 50.

The renovation project was completed with total CAPEX amounting to nearly HK\$48 million. This asset enhancement initiative signified the Manager's commitment to unlocking the value of Sunlight REIT's properties.

New tenants at low zone

Co-working space



Food and beverage



Fitness





Around the clock at Strand 50



Architect's Talk

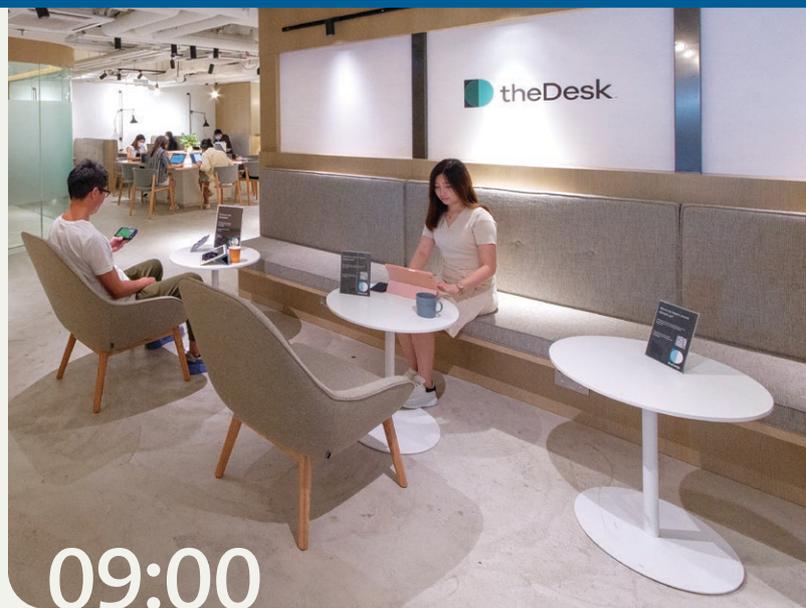
Being one of the earliest developed districts in Hong Kong, Sheung Wan carries an inherent image of narrow and bustling streets, crowded signboards and a myriad of dried seafood shops. Aspiring for a breakthrough, Sunlight REIT selected LAAB to provide an innovative design solution to revitalize Strand 50 (formerly Bonham Trade Centre), with a view to “lighting up the Strand” at which the property is situated.

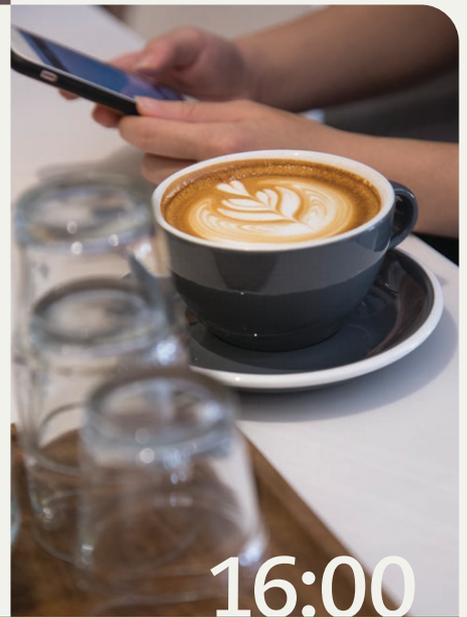
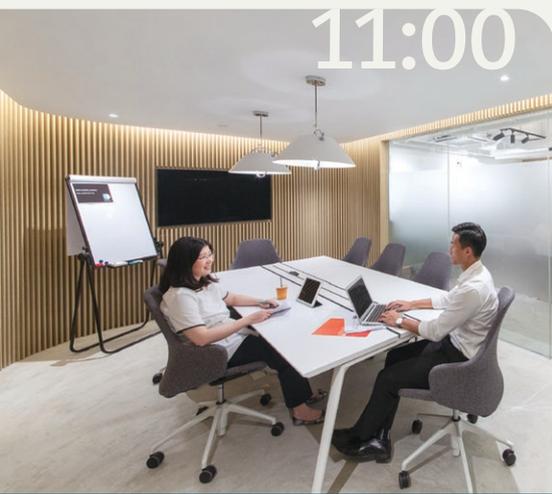
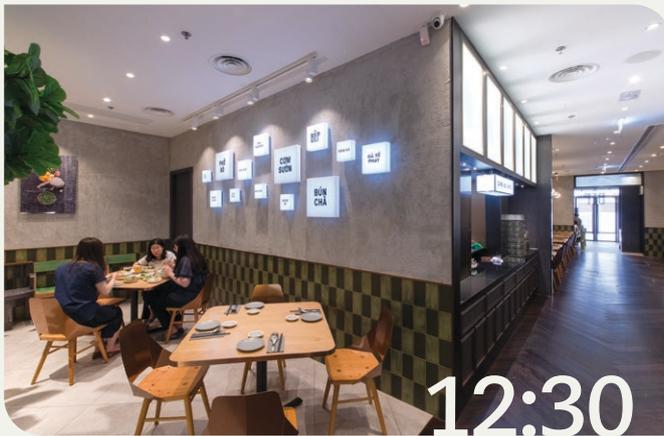
“The entire design concept expresses the connectivity and integration with the landscape and neighbourhood of Sheung Wan”, said Yip Chun Hang from LAAB. The wavy brown entrance canopy merging with the new facade and spandrel are the pivotal design elements which help open up the original podium facade along the busy Bonham Strand.

“The grand staircase connecting the street to the second floor’s co-working space is the highlight (and challenge) of this project, both conceptually and technically. It reflects Sunlight REIT’s goal to embrace the local community, dissolving the boundary and extending the public space into the newly refurbished property”, said Yip Chun Hang.

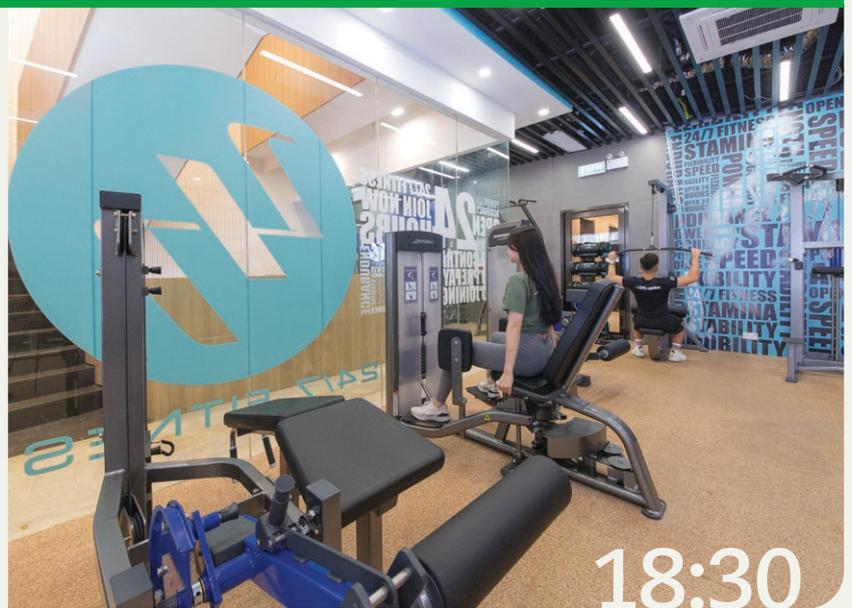
Work

“ We are thrilled to offer an agile work environment that answers to the fast-changing pace and evolving needs of businesses, ” said Thomas Hui, CEO and Co-founder of theDesk.





Life



A 24-hour gym in Sheung Wan to cater for fitness needs round the clock.



Winsome House Property



135 Bonham Strand Trade Centre Property

Sheung Wan/Central office properties^{Note}

Although it is encouraging to note the positive rental reversion for the Sheung Wan/Central office properties amidst a slowdown in the office leasing market, the momentum has weakened as compared to the previous financial year.

Affected by souring Sino-US relations and virus-induced lockdowns worldwide, the businesses of small and medium sized enterprises were badly disrupted, which was the situation facing the tenants of smaller office properties such as 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre. As a result, their occupancy rates were 94.5% and 94.3% respectively at 30 June 2020. Gratifyingly, the performance of Winsome House Property was satisfactory, registering an occupancy rate of 96.1% with a decent rental reversion of 10.2%.

Note : Including Strand 50.

Valuation

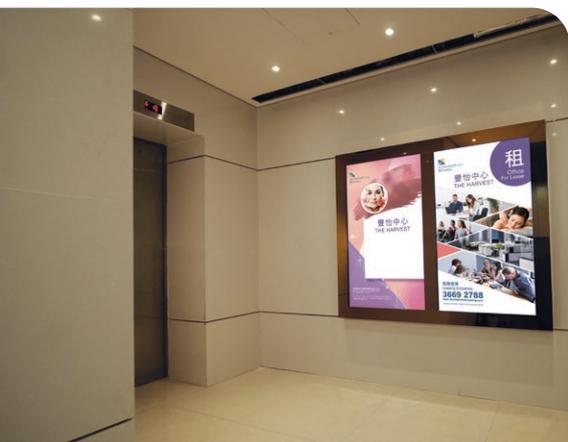


Rental reversion



Retention rate





The Harvest

Other office properties

The other office properties comprised six smaller Grade B office buildings mainly in decentralized areas, accounting for approximately 11% of total portfolio valuation at 30 June 2020.

Collectively, these properties showed a stable performance and provided a steady income stream to Sunlight REIT. During the Year, NPI registered a 2.7% year-on-year growth and amounted to HK\$66.0 million with a combined rental reversion of 5.6%.

A renovated asset at a convenient location, The Harvest managed to absorb quality service-related tenants, maintaining passing rent of HK\$51.1 per sq. ft. at 30 June 2020. Meanwhile, benefitting from a low base and a proactive leasing strategy targeting finance-related tenants, the performance of Wai Ching Commercial Building Property was encouraging and rental reversion surpassed 21% for the Year.

Valuation



Rental reversion



Retention rate



Other retail properties

The other retail properties consisted of Kwong Wah Plaza Property in Yuen Long and a number of street shops or retail spaces in residential or commercial buildings, contributing 6.5% of total NPI for the Year.

Given its strategic location with steady demand from various kinds of service trades serving the local community, Kwong Wah Plaza Property delivered a stable performance with a 7.1% year-on-year growth in NPI. Supported by a high retention rate, it was virtually fully let with a respectable 8.9% rental reversion for the Year.

On the other hand, faced with intense competition from wedding exhibitions, coupled with a near suspension of wedding ceremonies during the COVID-19 outbreak, the weak performance of Beverley Commercial Centre Property was in line with expectations. While occupancy rate experienced a rebound from 62.9% to 77.4% because of a gradual change in tenant mix, the property suffered from a negative rental reversion of 24.7% for the Year.



Kwong Wah Plaza Property

Valuation



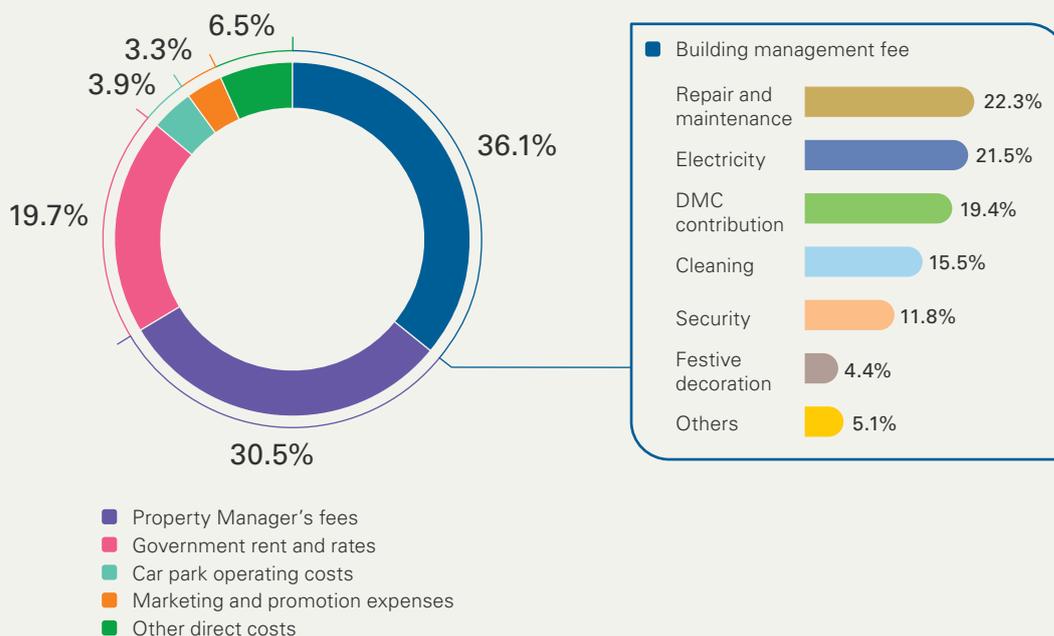
Rental reversion



Retention rate



Components of property operating expenses



Operational statistics

At 30 June 2020, average occupancy rate of the entire portfolio of Sunlight REIT increased to 95.7% (30 June 2019: 95.3%). Contrary to the office portfolio which registered an improvement in occupancy rate to 95.6% (30 June 2019: 94.0%), occupancy rate of the retail properties dropped to 95.8% (30 June 2019: 98.1%), reflecting the emerging negative impact of an economic recession and weakening consumer confidence. The retention rates of the office and retail portfolios were 68% and 77% (FY2018/19: 64% and 74%) respectively.

Average passing rent of the office portfolio was HK\$36.5 per sq. ft. at 30 June 2020, up 2.8% year on year, while that of the retail portfolio was HK\$74.8 per sq. ft., down 1.3% as compared to a year ago. During the Year, rental reversions of 10.0% and 3.2% were achieved by the office and retail portfolios respectively, resulting in a 6.0% average rental reversion of the portfolio.

At 30 June 2020, the weighted average lease length in terms of GRA was 2.7 years for the entire portfolio. Leases expiring in FY2020/21 account for 50.6% of office GRA and 31.9% of retail GRA. The average rents for the expiring office and retail leases are HK\$34.1 per sq. ft. and HK\$84.0 per sq. ft. respectively.

Tenancy base

The portfolio had a diverse tenancy base with 822 tenancies at 30 June 2020. The largest tenant accounted for 5.2% of total revenue for the Year and occupied 6.7% of total GRA at 30 June 2020, while the corresponding figures for the top five tenants were both 15.5%. (Please refer to page 81 for further information).

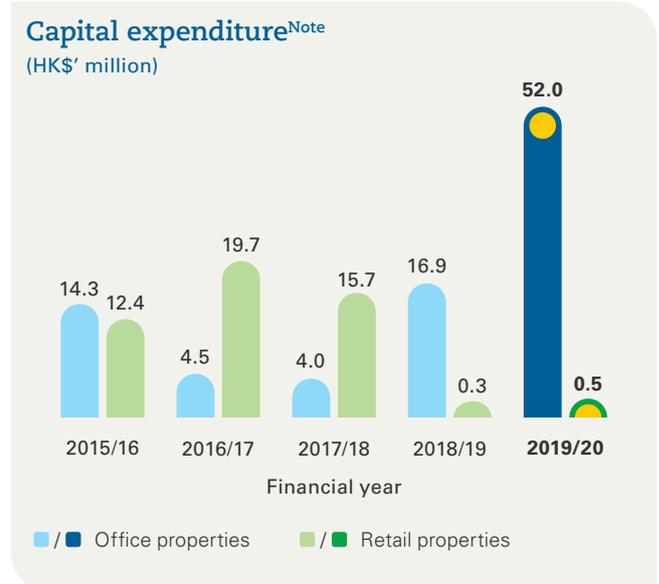
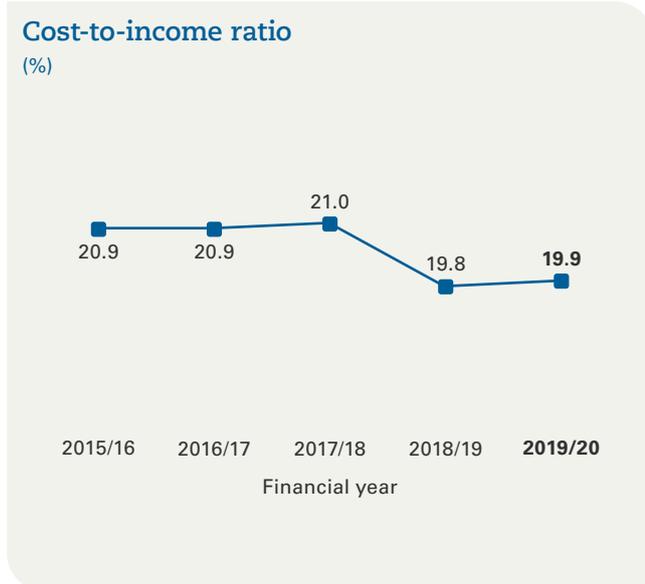
Car park income

Sunlight REIT held a total of 795 car park spaces. They generated an income of HK\$34.2 million for the Year, representing a decrease of 3.0% from last year. The decline was principally caused by lower hourly rate usage at SSC due to temporary closure of the nearby Lo Wu/Lok Ma Chau border since February 2020.

Cost control and capital expenditure

The cost-to-income ratio for the Year remained largely unchanged at 19.9%. Although a statutory minimum wage enforced since May 2019 had put cost pressure on cleaning and security contracts, it was partly offset by lower rental commissions and legal costs incurred during the Year.

Excluding the costs for property acquisition, CAPEX for the Year hit a record high since the listing of Sunlight REIT and amounted to HK\$52.5 million (FY2018/19: HK\$17.2 million), the majority of which was spent on Strand 50 and The Harvest. The contracted capital commitments at 30 June 2020 were HK\$14.1 million.



Note : Excluding the costs for property acquisition.

Financial Review

Financial highlights

(in HK\$' million, unless otherwise specified)	2020	2019	2018	2017	2016
For the year ended 30 June :					
Revenue	854.6	850.7	817.4	788.1	769.7
Property operating expenses	169.9	168.2	171.3	164.7	161.2
NPI	684.7	682.5	646.1	623.4	608.5
Cost-to-income ratio (%)	19.9	19.8	21.0	20.9	20.9
(Loss)/profit after taxation	(751.4)	1,591.1	1,442.3	743.5	825.3
Annual distributable income	467.0	467.3	450.5	434.5	415.0
DPU (HK cents) ^{Note}	26.8	27.3	26.5	33.0	24.3
Payout ratio (%) ^{Note}	95.2	96.4	96.7	124.3	95.8
At 30 June :					
Portfolio valuation	18,918.0	20,002.5	18,754.8	17,062.4	16,651.0
Total assets	19,674.1	20,805.8	19,631.3	18,297.8	17,925.0
Total liabilities	4,902.9	4,813.9	4,774.3	4,398.3	4,406.9
Net asset value	14,771.2	15,991.9	14,857.0	13,899.5	13,518.1
Net asset value per Unit (HK\$)	8.89	9.68	9.03	8.49	8.26
Gearing ratio (%)	21.6	20.4	21.8	21.5	21.9

Operating results

Sunlight REIT recorded a 0.5% growth in revenue for the Year to HK\$854.6 million. Had the amortization of rental concessions and the write-off of a restructured lease's unamortized rent-free benefits been excluded, revenue growth would have been 1.8%. After deducting property operating expenses of HK\$169.9 million, NPI came in at HK\$684.7 million, up 0.3% year on year.

Finance costs increased 16.8% year on year to HK\$120.4 million, reflecting a higher interest rate environment and the expiry of certain low-cost interest rate swaps ("IRSs"). Taking into account a decrease in

fair value of investment properties of HK\$1,142.8 million, a loss after taxation of HK\$751.4 million for the Year was reported (FY2018/19 profit after taxation: HK\$1,591.1 million).

Distribution

Total distributions for the Year amounted to HK\$444.6 million, down 1.3% year on year. The full-year DPU of HK 26.8 cents represented a distribution yield of 7.0% based on the closing price of HK\$3.85 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 appraised value of Sunlight REIT's portfolio decreased 5.4% to HK\$18,918.0 million. Consequently, the gross assets and net assets of Sunlight REIT reduced 5.4% and 7.6% to HK\$19,674.1 million and HK\$14,771.2 million respectively at 30 June 2020 (30 June 2019: HK\$20,805.8 million and HK\$15,991.9 million). Net asset value per Unit was HK\$8.89 (30 June 2019: HK\$9.68).

Trade and other receivables increased 98.9% to HK\$48.9 million (30 June 2019: HK\$24.6 million), partly due to the unamortized amount of rental concessions introduced in the Year to support selected tenants.

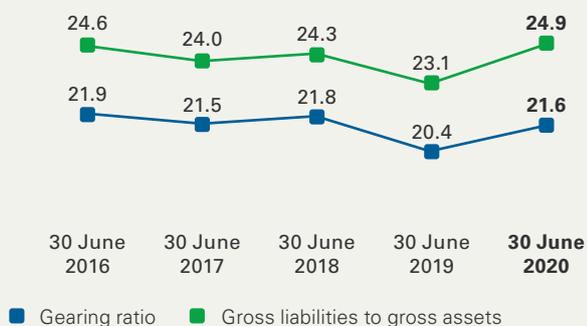
At 30 June 2020, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross

assets) increased to 21.6% (30 June 2019: 20.4%), while gross liabilities¹ as a percentage of gross assets rose to 24.9% (30 June 2019: 23.1%). 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.

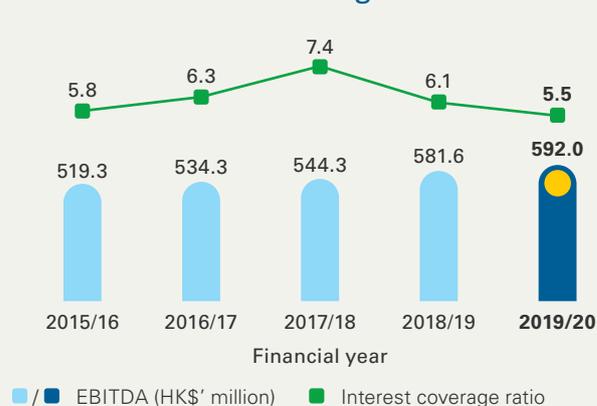
The EBITDA² of Sunlight REIT grew 1.8% year on year to HK\$592.0 million. Cash interest expenses rose 12.6% to HK\$107.7 million, translating to an average borrowing cost of 2.53% per annum as compared to 2.25% recorded in FY2018/19. In light of a faster increase in interest expenses, interest coverage ratio for the Year decreased to 5.5 times as compared with 6.1 times recorded in the previous financial year.

Gearing ratio and gross liabilities to gross assets (%)

(%)



EBITDA and interest coverage ratio



Notes :

- Gross liabilities include total borrowings, tenants' deposits and other liabilities.
- 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

0.71%
per annum (over HIBOR)

Fixed rate portion of Term Loan Facilities

52%
(30 June 2019 : 46%)

Capital and interest rate management

During the Year, Sunlight REIT entered into two 3-year bilateral credit facility agreements with banks and was granted an aggregate amount of HK\$600.0 million in term loan facilities (“**New Facilities**”). The New Facilities had all been drawn down and applied in full to the refinancing of matured term loan facilities.

At 30 June 2020, Sunlight REIT had loan facilities of HK\$4,850.0 million in place, comprising term loan facilities of HK\$4,250.0 million (“**Term Loan Facilities**”) which had all been drawn down and uncommitted revolving credit facilities of HK\$600.0 million that remained undrawn.

The Term Loan Facilities consisted of secured loans of HK\$2,630.0 million (30 June 2019: HK\$2,930.0 million) and unsecured loans of HK\$1,620.0 million (30 June 2019: HK\$1,320.0 million), with the secured tranche

backed by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK\$10,734.4 million at 30 June 2020.

At 30 June 2020, the weighted loan maturity period of the Term Loan Facilities was 1.7 years, with a blended interest margin of 0.71% per annum over Hong Kong Interbank Offered Rate. Approximately 52% (30 June 2019: 46%) of the Term Loan Facilities were hedged to fixed rates with a weighted average tenure of 1.8 years.

Given a volatile interest rate environment, the Manager executed a series of spot and forward-start IRSs in the Year with total forward-start IRSs amounting to HK\$1,500.0 million at 30 June 2020. Together with the IRSs already in place, the fixed rate portion of the Term Loan Facilities is expected to stay above 40% over the next three financial years.

Facility maturity profile and hedging level

(30 June 2020)



In April 2020, the Manager relaunched the medium term note programme for Sunlight REIT; meanwhile, a maiden 7-year sustainability-linked loan of Japanese yen 7,000 million (equivalent to approximately HK\$500 million) has been secured with Sumitomo Mitsui Banking Corporation after the financial year end. The endeavours demonstrate the Manager's intention to diversify the funding source of Sunlight REIT, while contemplating to connect our capital management strategy with sustainability initiatives.

During the Year, the Manager bought back (and cancelled) a total of 1,000,000 Units for Sunlight REIT at an average price of HK\$4.46 per Unit.

Liquidity management

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 2020, Sunlight REIT had total cash and bank balances of HK\$499.4 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK\$115.7 million. 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.

Tax matters

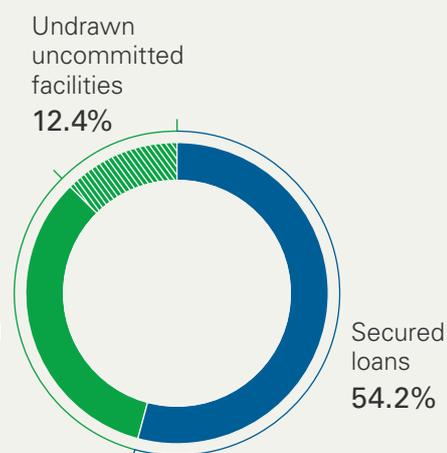
On the dispute with the Inland Revenue Department ("IRD") over certain tax deduction disallowances², the determination from the Deputy Commissioner of the IRD in respect of the objections to the assessments on one property holding company (the "**Determination**") was received in April 2018. While the Determination allowed the deduction of property management fees and rental commissions, the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT's legal and tax advisers, the Manager decided to contest the assessments raised in respect of the management fees and a notice of appeal against the Determination was filed with the Board of Review (Inland Revenue Ordinance) ("**BoR**") in May 2018. The appeal was heard by the BoR in June 2019, and its decision is pending.

As for the profits tax assessments raised by the IRD relating to the tax deduction disallowances on certain other property holding companies under Sunlight REIT, notices of objection to all these profits tax assessments were filed with the IRD.

At 30 June 2020, tax reserve certificates with an aggregate amount of HK\$53.5 million had been purchased. If the management fees were finally determined as non-deductible for all property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2019/20 would amount to approximately HK\$109 million. The Manager will closely monitor the situation and make appropriate disclosure on the development as and when necessary.

Borrowing profile

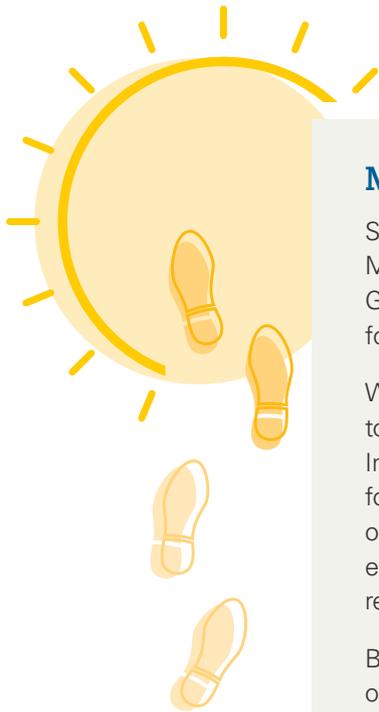
(30 June 2020)



Notes :

- As defined in paragraph 7.2B of the REIT Code.
- 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 136 for further information.

Environmental, Social and Governance Report



Message from CEO

Sustainability is an integral part of Sunlight REIT's business DNA. As Manager, we strive for excellence in the realm of Environmental, Social and Governance ("**ESG**"), with the aim of creating mutually sustainable values for our business, stakeholders and at places where we operate.

We are at a critical point in the transformation to a greener economy that aims to combat climate change, in which the real estate sector plays a pivotal role. In managing Sunlight REIT's portfolio, we aspire to optimize its environmental footprint and utilize resources prudently in daily operations, while saving operational costs in the long run. During the Year, we continued our efforts to enhance the energy efficiency of our buildings, promote waste recycling and reduce water consumption through a variety of environmental-focused initiatives.

Beyond the physical assets we manage, the success of Sunlight REIT relies on a determined mindset of our people towards sustainability. We place great emphasis on cultivating a caring workplace and nurturing our people in their professional growth and development, enabling the team to be adaptable and resilient in response to ever changing market conditions. Meanwhile, we regard our stakeholders as partners in the pursuit of sustainability. Amidst the unprecedented crisis triggered by COVID-19, not only have we put the well-being of our people and tenants at the forefront of priorities by implementing a series of anti-pandemic initiatives promptly, we have also engaged with our non-governmental organization ("**NGO**") partners to distribute anti-virus supplies to those in need, fighting the pandemic with our community hand in hand.

Our business is closely intertwined with the challenges and opportunities associated with sustainable development. The socioeconomic impacts from COVID-19 are drawing increasing attention to ESG which can serve as a barometer for corporate resilience. To better position ourselves, we have re-crafted our sustainability strategy framework, charting our corporate trajectory towards a more sustainable future.

The theme of this annual report, "**Extending Care**", illustrates our passion and commitment to caring for the people working for and with us, and for the real estate assets which uphold the core business of Sunlight REIT. Looking ahead, as the pattern of life and work has been significantly altered by the massive virus outbreak, so will our awareness to sustainability issues be raised by it. In unveiling this new ESG chapter for Sunlight REIT, I assure you that the management team will devote incessant effort to expanding our ESG horizons, ensuring that the sustainability initiatives will be implemented in a timely fashion to create values for the environment and society.

WU Shiu Kee, Keith

Chief Executive Officer

8 September 2020

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 and offers a transparent channel to communicate the ESG-related policies and initiatives of Sunlight REIT in a clear and accurate manner to various stakeholders.

This ESG Report covers Sunlight REIT, the Manager and the Property Manager. The scope of the environmental key performance indicators (“**KPIs**”) covers a selected portfolio of managed properties^{Note}.

Corporate governance and financial metrics can be found in the relevant sections of this annual report. A detailed content index is also included on pages 54 to 55 for reference.

Contact us

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

Note : Greenhouse gas emissions and energy consumption data cover Sunlight Tower, 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 Sunlight Tower, SSC, MCPI, Strand 50, Righteous Centre, 235 Wing Lok Street Trade Centre, Java Road 108 Commercial Centre and On Loong Commercial Building. Waste data cover Sunlight Tower, SSC and MCPI.



Sustainability strategy framework



In view of an ever-changing business landscape and emerging trends in ESG, the Manager has re-crafted a sustainability strategy framework to guide resources and efforts into areas that are most critical to the sustainability of its business. The framework also assists structural thinking in assessing ESG-related risks and opportunities in daily operations. It consists of three key elements under a 2030 sustainability vision :

- **Strategic pillars** : Indispensable building blocks for business continuity where ESG risks and opportunities shall be well addressed and considered.

- **Focus areas** : ESG priorities upon which sustainability aspirations are built to create value for stakeholders.
- **Business foundations** : Robust corporate governance is fundamental to long-term business viability while “capital” and “relationship” represent the two facets reflecting our core business philosophy.

A three-phase sustainability journey

Establishing the sustainability strategy framework is the first step of the sustainability journey. Moving forward, we will set targets and track the progress in ESG performance to realize our sustainability vision. Throughout the journey, we will continue to actively engage various stakeholders to align our sustainability goals.



Environmental, Social and Governance Report

Approach to sustainability

As a responsible corporation, sustainability is at the heart of our business approach to creating long-term value for stakeholders. Our sustainability performance relies on an effective system in managing ESG-related matters in every aspect of our operations, while we actively engage stakeholders to understand their expectations and concerns.

Stakeholder engagement

We treasure the feedback from stakeholders and believe that their viewpoints on our ESG management are critical to long-term success. We engage internal and external stakeholders, including directors, employees,

tenants, customers, suppliers, investors and community organizations, to understand their expectations about sustainability issues.

During the Year, the Manager appointed an independent consultant to conduct an internal stakeholder engagement exercise to review its materiality assessment. Through an online survey, employees were asked to rank the importance of sustainability issues and share their feedback on sustainability strategy. Furthermore, in-depth interviews were conducted with senior management to review the material issues against a changing business landscape and to identify the strategic directions for ESG management.

Key stakeholders' feedback

	Key Stakeholders' Feedback	Our Responses
Sustainability Strategy 	<p>A solid sustainability plan should be developed to drive improvement.</p>	<p>We have re-crafted a sustainability strategy framework which comprises four strategic pillars with 12 focus areas to guide sustainability efforts for continuous improvement. During the strategy development process, we engaged our employees to identify material sustainability areas and to gain their buy-in for the strategy.</p>
Board Involvement 	<p>Board's oversight of ESG issues is expected to facilitate an ESG-aware decision-making process.</p>	<p>The Board has a critical role of overseeing Sunlight REIT's ESG issues. An ESG Committee has been established and would report material ESG issues and progress to the Board. During the Year, the Board and employees involved in ESG management participated in an ESG workshop to understand the latest ESG trends in the property sector and to offer their feedback on Sunlight REIT's sustainability strategy.</p>
Environmental Protection 	<p>Stakeholders inquired if there are any initiatives to engage tenants in environmental protection.</p>	<p>Recognizing the challenge of waste treatment in Hong Kong, the Manager has been encouraging the tenants to reduce and recycle waste via various means including provision of plastic umbrella bag recycling points, installation of hand dryers in lavatories and participation in waste recycling programmes.</p>
Caring for Employees and The Community 	<p>Stakeholders inquired how Sunlight REIT responds to the COVID-19 outbreak.</p>	<p>The health and well-being of our employees, tenants and customers is of top priority. We closely monitor the development of COVID-19 and have no hesitation in implementing preventive measures at our workplace and properties. As a caring company, we have also collaborated with community organizations regularly; during the Year, we teamed up with our NGO partners and distributed 1,000 anti-virus packs ("Sunlight Care Packs") to the elderly and underprivileged communities.</p>

Materiality assessment

To prioritize relevant sustainability areas that would have a material impact on Sunlight REIT’s operations and reputation, the Manager adopted a three-step process to conduct materiality assessment.

Stage 1: Identification

Review the list of sustainability issues identified against the Stock Exchange’s ESG Reporting Guide, peers’ disclosures and international reporting standards.



Stage 2: Prioritization

Analyze the priority of sustainability issues based on stakeholders’ feedbacks in surveys and interviews. A list of high priority ESG issues is generated for validation.



Stage 3: Validation

Validate the list of material sustainability issues presented to senior management.



A list of material sustainability issues was identified as a reference for our ESG disclosure and strategy development. Good governance in operational management and positive employer-employee and landlord-tenant relationships are classified as the strengths in Sunlight REIT’s business.

Top five issues identified for the Year

- Ethics and Integrity
- Legal Compliance
- Anti-corruption
- Employee Well-being
- Customer Health and Safety



Environmental, Social and Governance Report

Sustainability governance

ESG governance structure

Good corporate governance is the key to effective ESG management. In the case of Sunlight REIT, the Board takes the responsibility to oversee and approve the ESG framework and strategy recommended by the ESG Committee. It is also responsible for evaluating the impacts of ESG risks and opportunities relevant to Sunlight REIT's long-term business objectives.

During the Year, an ESG Committee was established to devise a holistic sustainability strategy to prioritize and drive ESG performance. The ESG Committee, comprising senior representatives from the Manager and the Property Manager and chaired by the Chief Executive Officer, is tasked with establishing the ESG framework for Sunlight REIT, including goal setting and performance review on a regular basis. It works closely with the Corporate Social Responsibility (“**CSR**”) Committee which mainly focuses on initiating community programmes and cultivating a trusting relationship with society.

Sustainability governance structure



The Board

- Oversee and approve the ESG framework and strategy
- Evaluate, prioritize and manage material ESG-related risks and explore opportunities
- Review progress towards ESG-related goals and targets

ESG Committee

- Report to the Board and liaise with the CSR Committee and operating units on conveyance of strategic directions in ESG management
- Recommend ESG strategy, goal setting and conduct performance review

CSR Committee

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

Operating Units

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

Anti-corruption and integrity

The Manager upholds high standards of business ethics and integrity in governance and day-to-day operations. We have no tolerance for corruption and bribery activities and there are requirements for employees concerning the offer and acceptance of gifts and entertainment. Our code of conduct in the staff handbook sets out clearly specific guidelines and requirements to prevent bribery, fraud and conflicts of interest. Heads of departments and operating units are responsible for conducting systematic fraud risk assessments and imposing effective mitigation controls for identified fraud risks.

Regular anti-corruption seminars held by the Independent Commission Against Corruption are arranged for employees. Our policy of reporting irregularities establishes clear channels, protection and guidance on reporting improprieties, which encourages employees and business partners to report any perceived misconduct, malpractice or irregularity without fear of reprisal. Furthermore, we comply with the laws and regulations^{Note} relating to bribery, extortion, fraud and money laundering. Policies and guidelines, including an anti-money laundering policy and anti-fraud policy, are formulated and updated in accordance with these laws and regulations applicable to our business. During the Year, there were no concluded legal cases regarding corruption 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.



Highlights of major awards and certificates in FY2019/20

The HKIFM Excellence in Facility Management Awards 2019 – Office Building & Retail (Excellence Award)

by The Hong Kong Institute of Facility Management

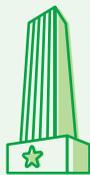
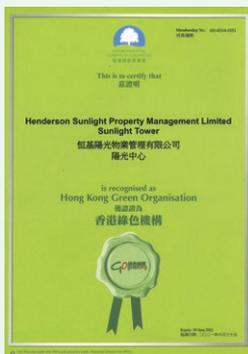


Recognizing the outstanding performance in delivering facility management services at Sunlight Tower, SSC and MCPI.



Hong Kong Green Organisation Certification

by Environmental Campaign Committee



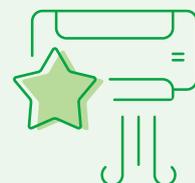
Recognizing the high level of commitment to environmental related performance at Sunlight Tower.

Indoor Air Quality Certificate (Excellent Class)

by Indoor Air Quality Information Centre, Environmental Protection Department, The Government of the HKSAR



Certifying the excellent indoor air quality level and effective indoor air quality management practices at Sunlight Tower.





Land

Land is the primary resource that Sunlight REIT deploys to develop its core business.

The Manager regards “land” as the natural resources that enable the existence and operation of the buildings. Environmental protection is embedded as one of our core management values with the aims of achieving sustainable business growth and creating a sustainable environment for our stakeholders. We also 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.

Applying green building principles is considered as a systematic approach to preserving natural resources and providing a healthy environment for building occupants in every stage of the building’s life cycle. We strive to incorporate green building principles in our operation and we benchmark our performance against the standards set in Hong Kong BEAM Plus for Existing Buildings to ensure good practices are adopted.

Sunlight Tower has exemplified the best practices in our portfolio. It was awarded the highest Platinum Rating in the early versions of BEAM and BEAM Plus for Existing Buildings in 2011 and 2016



respectively. Since then, we have continued to undertake various measures to enhance its performance in energy efficiency, water conservation and waste management. Moving forward, we are planning to renew the certification in accordance with the latest BEAM Plus for Existing Buildings version 2.0. The experience learnt during the certification process will help us extend the good practices to other managed properties.



Energy and carbon emissions

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

Energy consumption in buildings is one of the major sources of GHG emissions in Hong Kong. Improving energy efficiency in our operations is crucial to mitigating climate change. We have established an operation guideline which comprises a set of actions and documentary requirements for energy management, guiding the Property Manager to reduce energy consumption and GHG emissions. For continuous improvement, we track the results of energy improvement measures and monitor our performance through energy audit and carbon audit.

Equipment upgrade and optimization

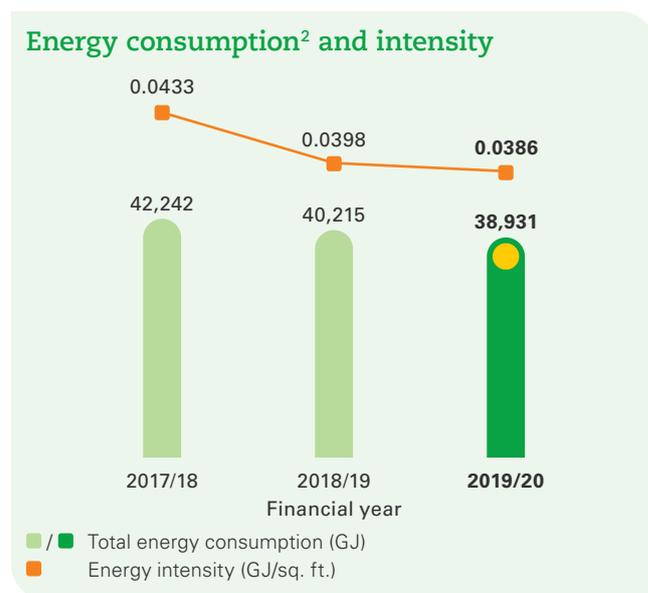
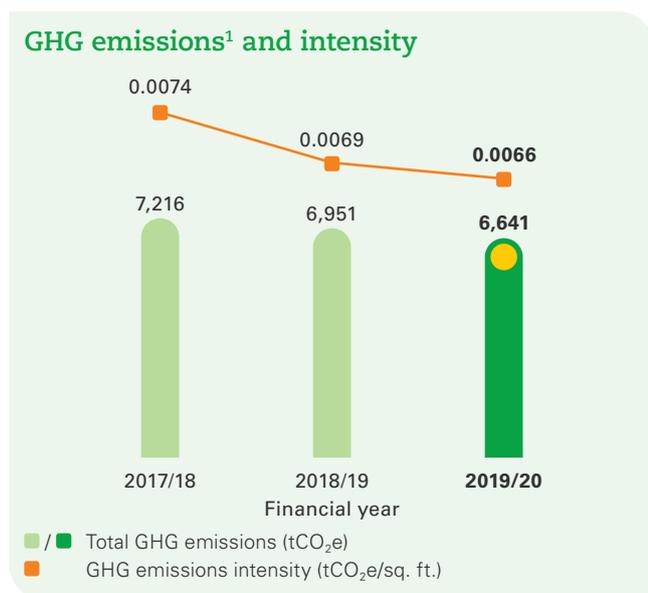
The Manager strives to adopt appropriate measures to optimize the energy performance across Sunlight REIT’s portfolio. Key strategies include upgrading buildings with new energy-efficient equipment and optimizing the performance of existing building service systems.

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).

During the Year, we launched an initiative for the replacement of obsolete split-type air conditioning units with energy-efficient models. Through ongoing testing and commissioning, we identified energy-saving opportunities by enhancement of operational sequence and arrangement. At SSC, we have linked up the two existing chiller plant systems of different cooling capacity so as to achieve higher energy efficiency. Going forward, we plan to replace the chillers at Strand 50 in the fourth quarter of 2020, which should lead to significant energy savings.

Promotion of energy-saving behaviour

Apart from optimizing the performance of building installation systems, we also promote an energy-saving culture in property management and office operation. At our property management offices, we maintain a room temperature of 25.5 degree Celsius to save energy on air conditioning. We also remind our employees to switch off lights when not in use and to turn on the energy-saving mode to avoid unnecessary wastage. At our office buildings, we provide tenants with practical green tips for energy savings.



Waste and water

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

Our waste management plan and water conservation plan provide clear guidelines for waste sorting and recycling as well as various water-saving measures. We record recycling quantity and water consumption level to monitor our performance for continuous improvement. To better manage the handling of waste and identify methods for waste reduction, we are planning to develop a mechanism to further monitor the quantity of waste generation.

Notes :

1. The total GHG emissions of FY2017/18 and 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 FY2017/18 and 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 management

We sort and recycle the solid waste generated at our properties to lessen the burden on Hong Kong's landfill. We also explore various measures to reduce specific types of waste. At selected properties, we set up plastic umbrella bag recycling points to reduce plastic waste and install hand dryers in lavatories to save paper towels. Moreover, we collaborate with environmental groups to launch festival food recycling campaigns. For example, we worked with St. James' Settlement and The Salvation Army to organize "FOOD – CO: Save & Share" and Chinese New Year Recycling Campaign respectively during the Year. Besides, hazardous waste such as fluorescent tubes were collected and recycled by an approved contractor registered under the Environmental Protection Department. Going forward, we plan to roll out the replacement of existing fluorescent tubes with more environmental friendly LED tubes to reduce hazardous waste generation.

Water conservation

Water is a scarce yet essential resource for supporting life. We strive to reduce water consumption level by implementing various measures, including the installation of water-efficient fixtures or flow regulators and dual flush systems at lavatories across our properties. Our water consumption monitoring mechanism also allows us to identify abnormal consumption patterns due to leaking taps and pipes for immediate mitigation actions. We also provide guidelines for efficient water consumption practices to our tenants, encouraging water conservation habits.

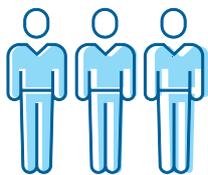
Water consumption and intensity



Climate change

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

To mitigate the challenges from climate change, we are conducting a pilot scheme for using renewable energy at our properties. The planning for installing solar panel systems at SSC and On Loong Commercial Building is underway. In view of the escalating risks posed by climate change, we are planning to establish a climate change policy as part of our sustainability strategy.



Human

Human capital is the key determinant of sustainability management capacity.

The knowledge and experience of our people constitutes the human capital that drives the organic growth of Sunlight REIT. The Manager places great emphasis on creating a working environment and culture that inspires employee loyalty and empowers employees to grow. We strive for a committed and capable management team leading our staff to achieve long-term business success.

We also foster a fair and harassment-free workplace, and state our policy clearly in the staff handbook that every employee should follow the professional business conduct according to the laws and regulations in relation to anti-discrimination and anti-harassment behaviour. An internal guideline on equal opportunities for interviewers has been established to ensure fair recruitment processes. Throughout the Year, we complied with laws and regulations^{Note} relating to equal opportunities and other employment and labour practices, including those relating 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 ensure they are satisfied and engaged at work.



Offsite retreat

Promoting employee well-being is an essential element in formulating our strategy to maintain an effective workforce. Our initiatives encompass both the physical and mental well-being of employees, allowing them to cope with stress and challenges when performing their duties.

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).

Environmental, Social and Governance Report

Healthy and productive working environment

We create a productive working environment for employees such as ensuring an optimal distance between each staff member's workstation and a comfortable lighting environment with proper illumination. Height adjustable computer monitors and chairs have been gradually introduced to maintain proper sitting posture. All of our staff are also entitled to an annual medical check-up subsidy to monitor their health conditions.

The COVID-19 outbreak has been posing enormous challenges to the business and operations of Sunlight REIT. Our Human Resources team and Property Manager have been closely monitoring the situation and taken necessary actions to safeguard the well-being of our staff as well as our tenants and customers. With the spread of COVID-19, we have promptly implemented a number of initiatives such as home office and split-team arrangement, and have extensively utilized technology for work coordination, maintaining normal business operations with minimal disruption.

Work-life balance and a caring workplace

Maintaining mental well-being at work is equally important to keep up staff's morale and sense of belonging. With the intention of creating a socially engaging atmosphere at work, our initiatives include the provision of lunch and tea refreshment, casual wear on Fridays, seasonal holiday celebrations and other leisure activities throughout the Year. We also offer flexible working hours to help employees maintain a good balance between their work and personal life.



Staff trip



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.

The health and safety management guidelines provide property management team with the necessary information and instructions to identify and mitigate potential risks and hazards to minimize work-related injuries. Our employees are also obliged to perform their duties with a high awareness of health and safety and report any work-related injuries to management immediately. Occupational health tips and related information are regularly shared internally while we also encourage employees to equip themselves with the latest safety knowledge by arranging external occupational health and safety training courses on a semi-annual basis. During the Year, we strictly complied with the Occupational Safety and Health Ordinance (Chapter 509) and the Employees’ Compensation Ordinance (Chapter 282).

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

Number of work-related fatalities	Rate of work-related fatalities	Lost days due to work injury
Nil	N/A	6



Training and development

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

To encourage the professional growth of employees, we provide on-the-job training and encourage them to join external training courses which help equip them with a broad range of skill sets. Our education allowance policy provides financial support to our employees to pursue further studies and enrol in education programmes relevant to their job duties. Further, a staff development fund has been established to provide extra financial assistance for individual staff or support group training programmes. To motivate our employees to expand their professional network, we sponsor eligible employees for membership in relevant professional bodies or charters under our professional body allowance policy.

The Manager also emphasizes leadership development and nurtures a culture of coaching and mentoring to share knowledge and best practices throughout the organization. We encourage mutual communication in annual performance appraisals which allow effective conversations on work performance and career development opportunities.

Total training hours completed by employees

1,088 hours

Percentage of employees trained by employee category





Partnership

Mutual value creation with stakeholders that enables synergy towards sustainability.

Building a trusting and collaborative relationship with stakeholders is of paramount importance in our business strategy. We are committed to providing quality services and spaces to tenants and rely on their feedback to drive excellence. To achieve social responsibility in the supply chain, we influence our suppliers through our green procurement policy. Financial institutions and NGOs help us access financial resources and community networks that we can leverage and create a long-term positive impact.



Tenant satisfaction and well-being

Aspiration : We strive to develop a trusting landlord-tenant relationship with the provision of distinguished places that tenants would enjoy.

Understanding tenants' needs and concerns is the first step to establish trust and achieve their high level of satisfaction. We highly value our tenants' well-being and customers privacy for developing a long-term relationship.

To monitor service quality, we conduct an annual survey on our property management services to gauge the satisfaction level of tenants. On top of that, we aim to issue newsletters on a semi-annual basis to keep stakeholders abreast of Sunlight REIT's latest business and social responsibility initiatives. We have clear guidelines on complaint handling to ensure prompt response, while feedback from tenants and customers is collected and reviewed for any service enhancement opportunities.

Overall satisfaction rate by tenants¹



Measurement of indoor air quality

In a bid to promote tenants' health and well-being, we regularly evaluate the indoor air quality and the quality of water supply in our properties against credible industry standards. During the Year, three properties² renewed the Indoor Air Quality Certificate of Environmental Protection Department. Notably, Sunlight Tower has achieved Indoor Air Quality Certificate – Excellent Class. Meanwhile, five properties³ complied with the standards of the Quality Water Supply Scheme For Buildings – Flushing Water (Gold) launched by the Water Supplies Department.

Notes :

1. A total of 280 completed questionnaires from our tenants were received.
2. The three properties include Sunlight Tower, SSC and MCP1.
3. The five properties include Sunlight Tower, Strand 50, Righteous Centre, 235 Wing Lok Street Trade Centre and Java Road 108 Commercial Centre.

Application of anti-virus RAZE photocatalytic technology



Precautionary measures against COVID-19 infection

We pay due regard to the well-being of tenants, shoppers and visitors of our properties. With the spread of COVID-19, various precautionary measures have been promptly implemented. In addition to increasing the frequency of cleaning and disinfection of common areas and facilities, we have regularly applied RAZE, an anti-virus photocatalytic nano coating onto frequently-touched facilities such as door handles, lift buttons and handrails, etc. Besides, we have maintained fresh air intake for central air conditioning systems (if any) at the maximum level to ensure better ventilation and strengthened the disinfection of air filters in air handling units and fan-coil units.

Further, rapid infrared screening systems have been set up at Sunlight Tower and Strand 50 for measuring body temperature of tenants and visitors. Waivers of additional air-conditioning charges were offered to tenants of the two properties to encourage implementation of flexible working hours which would effectively avoid the rush-hour traffic of public transport as well as crowdedness in lift cars.



Body temperature measurement by rapid infrared scanning camera

Privacy protection

It is our responsibility to protect the data privacy of tenants and customers. We strictly comply with the privacy policy statement formulated and updated with reference to the Personal Data (Privacy) Ordinance (Chapter 486) in Hong Kong. Only designated personnel are authorized to handle sensitive customer information, including the collection, disclosure, retention of and rights to access personal data. Unless authorization from tenants and customers has been obtained, no personal customer data will be retained and used for marketing purposes. During the Year, we also complied with relevant laws and regulations relating to advertising, labelling and privacy matters relating to all services provided.

Environmental, Social and Governance Report



Supply chain management

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

We work closely with our major suppliers to ensure quality services are delivered to tenants and customers. Under our procurement mechanism, we evaluate and review suppliers based on their qualifications, experience and certification. Integrating social responsibility into the procurement process, we have established environmental-friendly requirements on procurement of materials from suppliers such as biodegradable, reusable and recyclable qualities.



Sustainable financing

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

The Manager proactively explores sustainable financing opportunities with its banking partners to support sustainability initiatives. Subsequent to the end of the Year, a sustainability-linked loan has been secured, through which Sunlight REIT can enjoy certain interest margin privileges when specific sustainability performance targets have been achieved. Those targets mainly cover the environmental and social aspect of our ESG initiatives.



Strategic corporate-NGO partnership

Aspiration : We build strategic partnerships with NGOs to leverage resources and maximize our impact on the community.

The Manager values its long-standing partnerships with community organizations. We have been working with our long-term partner St. James' Settlement, which shares the common mission of building a harmonious and socially inclusive community since 2010. St. James' Settlement is a charitable organization first established in the Wan Chai district providing diversified community services, including children and youth services, elderly services and rehabilitation services.

We partnered with St. James' Settlement and the Salvation Army in supporting the community during the outbreak of COVID-19. A total of 1,000 Sunlight Care Packs containing face masks, hand sanitisers and food items were prepared and donated to our community partners. Leveraging their network, we were able to reach the people in need.



Sunlight Care Packs



Packing of Sunlight Care Packs by our volunteers



Neighbourhood

Sunlight REIT forms part of a connected and symbiotic neighbourhood.

As a landlord, the Manager believes that it has a role to play in supporting a sustainable community where it operates. While we make every effort to develop our properties as community landmarks, we also strive to enhance people’s quality of life in the neighbourhood where our properties are located, and to create a positive impact on the wider Hong Kong community through a variety of initiatives.

Total CSR engagement in hours



Percentage of CSR initiatives by category

Environment-related initiatives

25%



Social integration-related initiatives

75%



Community investment

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

With a mission to build an inclusive and sustainable community, we work continuously with employees, NGOs and community partners to spearhead outreach and provide charitable initiatives. We also recognize the potential of positioning our properties as hubs to strengthen community bonding through connecting tenants and customers with different stakeholders and charitable initiatives such as inviting our tenants to volunteer in our programmes and promoting charity events at our premises.



Engaging tenants in charity

We collaborated with St. James' Settlement to organize a Cantonese opera appreciation session with a lunch gathering for the elderly at the renowned world-class cultural hub West Kowloon Cultural District in August 2019, with the participation of tenants as well. Around 100 senior citizens and volunteers enjoyed the performance of Cantonese opera at Xiqu Centre and a dim-sum lunch nearby.



Cantonese opera at Xiqu Centre

Caring for the community

Over the years, the Manager has been supporting various community organizations and NGOs. For example, we donated warm clothes to Sowers Action's Sending Love 2019 Campaign during the Year for children living in poor and distant villages in Mainland China. Moreover, our employees participated in the Community Chest Dress Casual Day to raise money for social welfare groups. To achieve music inclusion between musicians with disabilities and non-disabled musicians, we helped to promote the first charitable concert organized by Hong Kong Enharmonica held in November 2019 by sharing this meaningful event to a wider community through our various promotional avenues.



Charitable concert by Hong Kong Enharmonica



Sowers Action's Sending Love 2019 Campaign

Performance summary

	Unit	FY2019/20	FY2018/19	FY2017/18			
Environmental							
(1) Energy consumption and GHG emissions¹							
(a) Direct energy consumption²							
(i) Diesel by emergency generation	L	471	-	-			
(b) Indirect energy consumption							
(i) Purchased electricity	'000 kWh	10,809	11,171	11,734			
(c) Total energy consumption							
(i) Total energy consumption	GJ	38,931	40,215	42,242			
(ii) Energy intensity	GJ/sq. ft.	0.0386	0.0398	0.0433			
(d) GHG emissions³							
(i) Direct emissions (Scope 1)	tCO ₂ e	1.23	-	-			
(ii) Indirect emissions (Scope 2)	tCO ₂ e	6,637	6,948	7,213			
(iii) Indirect emissions (Scope 3)	tCO ₂ e	3.06	3.14	3.18			
(iv) Total GHG emissions	tCO ₂ e	6,641	6,951	7,216			
(v) GHG emissions intensity	tCO ₂ e/sq. ft.	0.0066	0.0069	0.0074			
(2) Waste management							
(a) Waste recycling⁴							
(i) Paper	kg	822	849	965			
(ii) Plastic	kg	343	282	362			
(iii) Metal	kg	320	362	370			
(iv) Fluorescent tubes	kg	225	240	51			
(3) Water consumption⁵							
(a) Total water consumption	m ³	7,605	7,816	7,925			
(b) Water consumption intensity	m ³ /sq. ft.	0.0078	0.0080	0.0081			
Social							
(1) Profile of workforce							
(a) Total workforce	Number	142	145	147			
(i) By gender							
Male	Number	80	56%	82	57%	82	56%
Female	Number	62	44%	63	43%	65	44%
(ii) By employment type							
Full-time	Number	141	99%	144	99%	147	100%
Part-time	Number	1	1%	1	1%	0	0%
(iii) By age group							
Below 30	Number	10	7%	14	10%	19	13%
30 – 50	Number	83	58%	80	55%	82	56%
Over 50	Number	49	35%	51	35%	46	31%
(iv) By employee category							
General	Number	60	42%	69	48%	68	46%
Supervisory	Number	48	34%	42	29%	46	31%
Managerial	Number	34	24%	34	23%	33	23%
(v) By geographical region							
Hong Kong	Number	142	100%	145	100%	147	100%

Notes :

- The coverage of energy consumption and GHG emissions included all nine wholly-owned properties of Sunlight REIT for FY2018/19 and FY2019/20 while it only included eight wholly-owned properties for FY2017/18, excluding The Harvest which was acquired in FY2017/18. The figures of FY2018/19 were restated due to the change of reporting scope.
- The direct energy consumption data from building operation would be 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 Hongkong Electric Company, Limited in 2019 and the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.
- The coverage of paper, plastic and metal recycling included Sunlight Tower, SSC and MCPI. The coverage of fluorescent tubes recycling includes Sunlight Tower only. Hazardous waste includes fluorescent tubes and non-hazardous waste includes paper, plastic and metal. We will work with our ESG consultant and will consider if we can collect additional data on hazardous and non-hazardous wastes onwards.
- The coverage of water consumption included eight wholly-owned properties of Sunlight REIT, excluding The Harvest, in which all water points are located in tenants' area and under tenants' control.

Environmental, Social and Governance Report

	Unit	FY2019/20	FY2018/19	FY2017/18
Social				
(2) Employee turnover				
(a) Turnover rate	%	16%	16%	17%
(b) Total number of turnover	Number	23	23	25
(i) By gender				
Male	Number	12	9	16
Female	Number	11	14	9
(ii) By age group				
Below 30	Number	7	6	7
30 – 50	Number	7	13	12
Over 50	Number	9	4	6
(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	6	2	9.5
(4) Development and training				
(a) Percentage of employees trained	%	71%	93%	99%
(b) Total training hours completed by employees	hours	1,088	2,307	2,067
(i) By gender				
Male	%	70%	93%	98%
Female	%	72%	92%	100%
(ii) By employee category				
General	%	56%	83%	94%
Supervisory	%	71%	98%	100%
Managerial	%	100%	100%	100%
(c) Average training hours completed per employee	hours	8	16	15
(i) By gender				
Male	hours	5	14	13
Female	hours	11	18	15
(ii) By employee category				
General	hours	4	9	10
Supervisory	hours	9	20	16
Managerial	hours	13	24	20
(5) Anti-corruption and integrity				
(a) Number of concluded legal cases regarding corrupt practices brought against the Manager or its employees	Number	Nil	Nil	Nil
(6) Community investment				
(a) Total CSR engagement hours^{Note}	Hours	148	462	181

Note : Decrease of total CSR engagement hours was mainly due to the cancellation of CSR activities because of the COVID-19 outbreak in Hong Kong.

Awards and certificates in FY2019/20

Awards/Certificates	Participating entities/Properties	Awarding bodies
Environmental		
Computer & Communication Products Recycling Programme (Certificate of Appreciation)	The Property Manager : Sunlight Tower	Environmental Protection Department, The Government of the HKSAR
Corporate Environmental Leadership Award 2019	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)
Energy Saving Charter 2019	The Property Manager : Strand 50	Electrical and Mechanical Services Department, The Government of the HKSAR
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 2020 (Certificate of Participation)	The Property Manager : Strand 50	Green Council
Hong Kong Green Organisation Certification	The Property Manager : Sunlight Tower	Environmental Campaign Committee
Hong Kong Green Organisation Certification Wastewi\$e Certificate (Basic Level)	The Property Manager : Sunlight Tower	Environmental Campaign Committee
Indoor Air Quality Certificate (Excellent Class)	The Property Manager : Sunlight Tower	Indoor Air Quality Information Centre, Environmental Protection Department, The Government of the HKSAR
Indoor Air Quality Certificate (Good Class)	The Property Manager : 1. Sheung Shui Centre Shopping Arcade 2. 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. Sunlight Tower 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 2019 – Office Building (Excellence Award)	The Property Manager : Sunlight Tower	The Hong Kong Institute of Facility Management
The HKIFM Excellence in Facility Management Awards 2019 – 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	The 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 content 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 a material issue.
	A1.2	Greenhouse gas emissions in total and intensity	Land – Energy and Carbon Emissions; Performance Summary
	A1.3	Hazardous waste produced in total and intensity	Performance Summary
	A1.4	Non-hazardous waste produced in total and intensity	Performance Summary
	A1.5	Description of measures to mitigate emissions and results achieved	Land – Energy and Carbon Emissions, Climate Change
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Land – Waste and Water
A2 Use of resources	A2	General disclosure	Land – Introduction, Energy and Carbon Emissions, Waste and Water
	A2.1	Direct and/or indirect energy consumption by type 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 initiatives and results achieved	Land – Energy and Carbon Emissions
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Land – Waste and Water
	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, packing 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 actions taken to manage them	Land – Green Buildings, Energy and Carbon Emissions, Waste and Water, 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 and age group	Performance Summary
B2 Health and safety	B2	General disclosure	Human – Health and Safety
	B2.1	Number and rate of work-related fatalities	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, how they are implemented and monitored	Human – 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
B5 Supply chain management	B5	General disclosure	Partnership – Supply Chain Management
B6 Product responsibility	B6	General disclosure	Partnership – Tenant Satisfaction and Well-being
	B6.2	How products and service related complaints are dealt with	Partnership – Tenant Satisfaction and Well-being
	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
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Sustainability Governance – Anti-corruption and Integrity
B8 Community investment	B8	General disclosure	Partnership – Strategic Corporate-NGO Partnership; Neighbourhood
	B8.1	Focus areas of contribution	Neighbourhood – Introduction
	B8.2	Resources contributed to the focus areas	Neighbourhood – Introduction; 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 73, 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 and Wharf Real Estate Investment Company Limited, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment 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. He 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. Mr. Au previously served as an independent non-executive director of The Wharf (Holdings) Limited until 23 November 2017. 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 56, 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 67, 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 Honorary 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 70, 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, Panda Green Energy Group 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 Dynagreen Environmental Protection Group Co., Limited from January 2014 until February 2018. 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 63, 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 GTI Holdings Limited, both are 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 56, 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 25 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, a company listed on the Main Board of the Stock Exchange. 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. Ms. YIP May Ling, Vivian
2. Mr. WONG Chi Ming
3. Ms. PO Chin Fei, Kathy
4. Ms. LO Yuk Fong, Phyllis
5. Ms. YU Hoi Zin
6. Mr. HAH Yick Yat, Kelvin
7. Ms. CHUNG Siu Wah
8. Mr. WU Shiu Kee, Keith

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 56.

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 which are principally engaged in property investment.

Mr. Wong has over 25 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. He also

worked for Hang Lung Properties Limited from 1990 to 2005 and was its property manager from 1994 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. 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 which are principally engaged in property investment, finance and treasury functions.

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

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

Senior Manager – Operations and Administration

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 is experienced 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 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 Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

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.



1. Mr. LEE Kiu Ming
2. Ms. HO Kuk Fong
3. Mr. POON Hung Tak

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 Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

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 25 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.

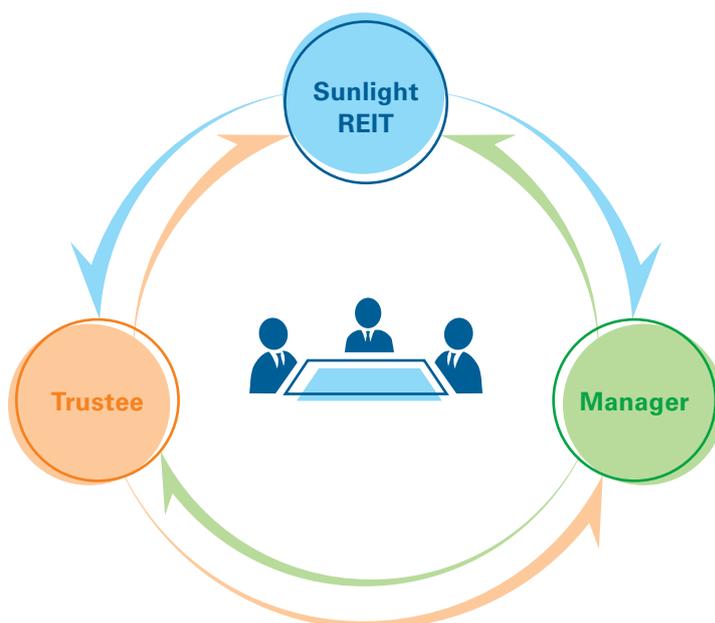
Ms. Ho holds a Master of Science in Real Estate degree from The University of Hong Kong, a Postgraduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Diploma in Property Development from the School of Professional and Continuing Education of The University of Hong 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. It has established a robust corporate governance framework to ensure compliance with all relevant laws and regulations. The framework is supported by five key elements : 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.

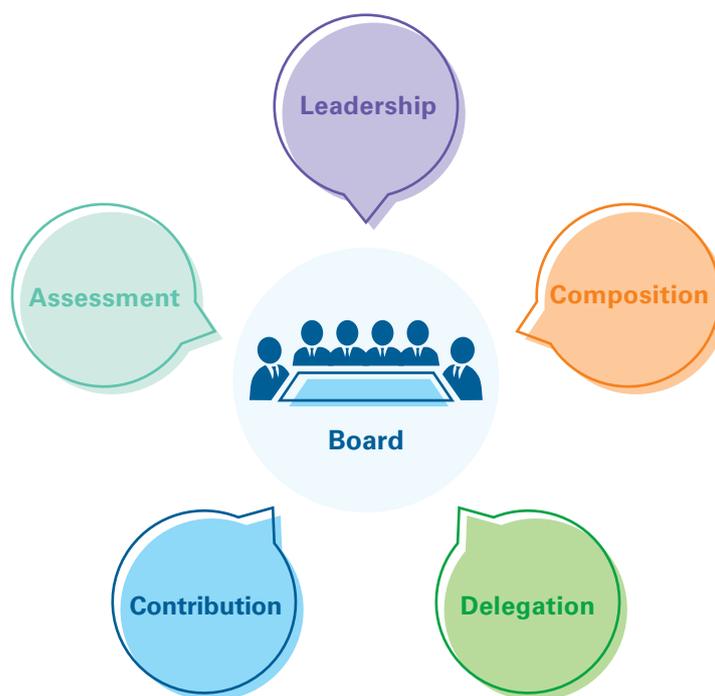
Manager

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 and good relations among directors of the Manager (the “**Directors**”).

Corporate Governance Report

Composition

- The Board currently has six Directors, including one Executive Director (who is also the Chief Executive Officer (the “CEO”)), two Non-Executive Directors (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 from time to time.

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.
- Non-Executive Directors are currently appointed for a term of three years. The 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 the INED is still independent and should be re-elected shall be provided to Unitholders.

Delegation

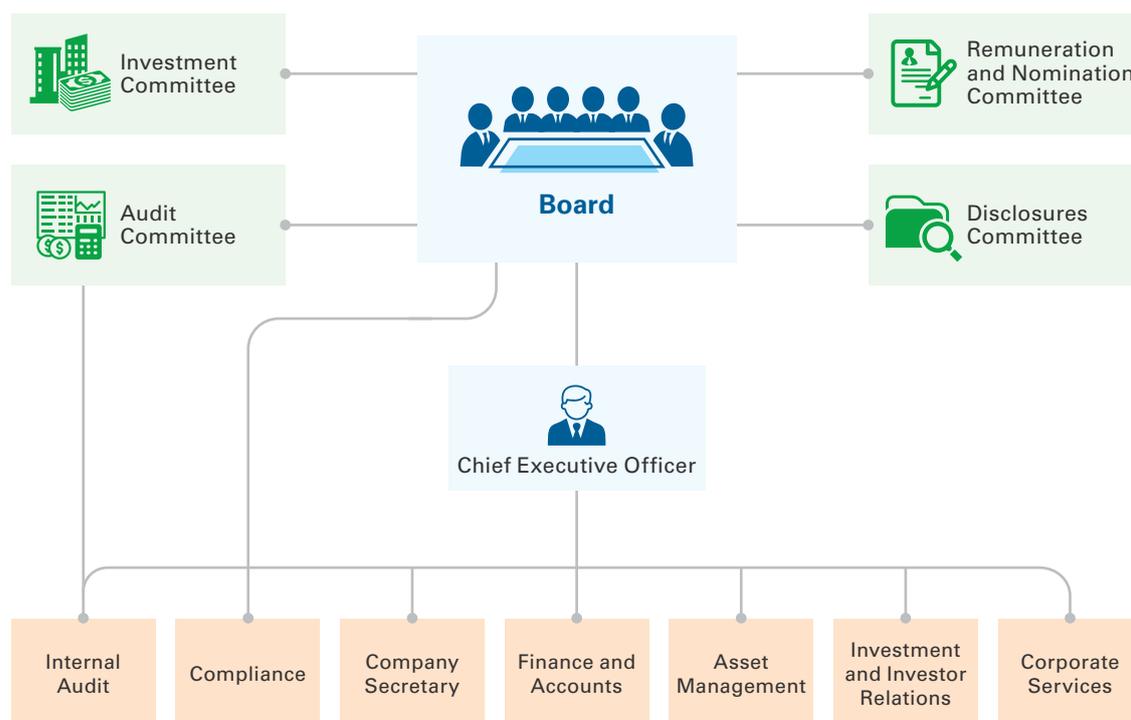
- Except for reserved matters as stated in the compliance manual of the Manager (the “**Compliance Manual**”) which must first be considered by the full Board, the day-to-day management of the Manager is delegated to designated committees of the Board (the “**Board Committees**”) and the management team.

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 to enable them to perform their functions properly, and their decisions and recommendations will be reported back to the Board.

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 regular communications among departments, management meetings are held regularly to 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 contribution to the Board's affairs, to exercise independent judgment and decision making, as well as to act in the best interests of Sunlight REIT.
- 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, the 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 Non-Executive Director	Yes	Yes
Mr. Wu Shiu Kee, Keith	CEO and Executive Director	Yes	Yes
Mr. Kwok Ping Ho	Non-Executive Director	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, business plans and CAPEX budget of Sunlight REIT
- Approved the reactivation of the guaranteed medium term note programme of Sunlight REIT
- Approved the engagement of a new ESG consultant for Sunlight REIT
- Approved the ESG report of Sunlight REIT
- Approved the refinancing of banking facilities of Sunlight REIT
- Reviewed and approved potential property acquisition opportunities
- Approved amendments to the Compliance Manual, including terms of reference of Board Committees
- Approved updates in various policies and guidelines governing the management of Sunlight REIT
- Reviewed the risk environment and factors affecting Sunlight REIT, including corresponding mitigating controls, risk parameters and the risk appetite statement
- Reviewed the internal control systems of Sunlight REIT



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
- Reviewed and formulated capital and treasury management strategies, and revised the relevant guidelines
- Evaluated potential property acquisition opportunities and made recommendations to the Board as appropriate
- Assessed investment and financial risks of Sunlight REIT
- Considered and recommended to the Board on the refinancing of banking facilities 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 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 REIT Code requirements and waiver conditions of the SFC
- Reviewed adequacy of resources, qualifications and experience, training programmes and budget of accounting, internal audit and financial reporting functions



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



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, interim and annual reports of Sunlight REIT and other corporate communications to Unitholders to ensure regulatory compliance
- Reviewed public regulatory filings to relevant regulatory authorities
- Reviewed applicability of new rules and regulations to Sunlight REIT and its special purpose vehicles

Assessment

- The Board regularly reviews its own performance and effectiveness.
- 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 of Directors	Investment Committee	Audit Committee	Remuneration and Nomination Committee	Disclosures Committee	2019 Annual General Meeting
Mr. Au Siu Kee, Alexander	8/8	4/4		2/2		1/1
Mr. Wu Shiu Kee, Keith	8/8	4/4			2/2	1/1
Mr. Kwok Ping Ho	8/8					1/1
Mr. Kwan Kai Cheong	8/8		4/4	1/2	2/2	1/1
Dr. Tse Kwok Sang	8/8	4/4	4/4		2/2	1/1
Mr. Kwok Tun Ho, Chester	8/8	4/4	4/4	2/2		1/1

Chairman/chairman of the Board Committee
 N/A

Risk Management

The Board has the overall responsibility for overseeing the risk management and internal control systems of Sunlight REIT on an ongoing basis and ensuring that these systems are effectively maintained.

The Manager is aware of the importance of risk management and is fully committed to building and maintaining a solid risk management framework based on the risk management policy adopted by the Board to ensure long term business viability and sustainability.

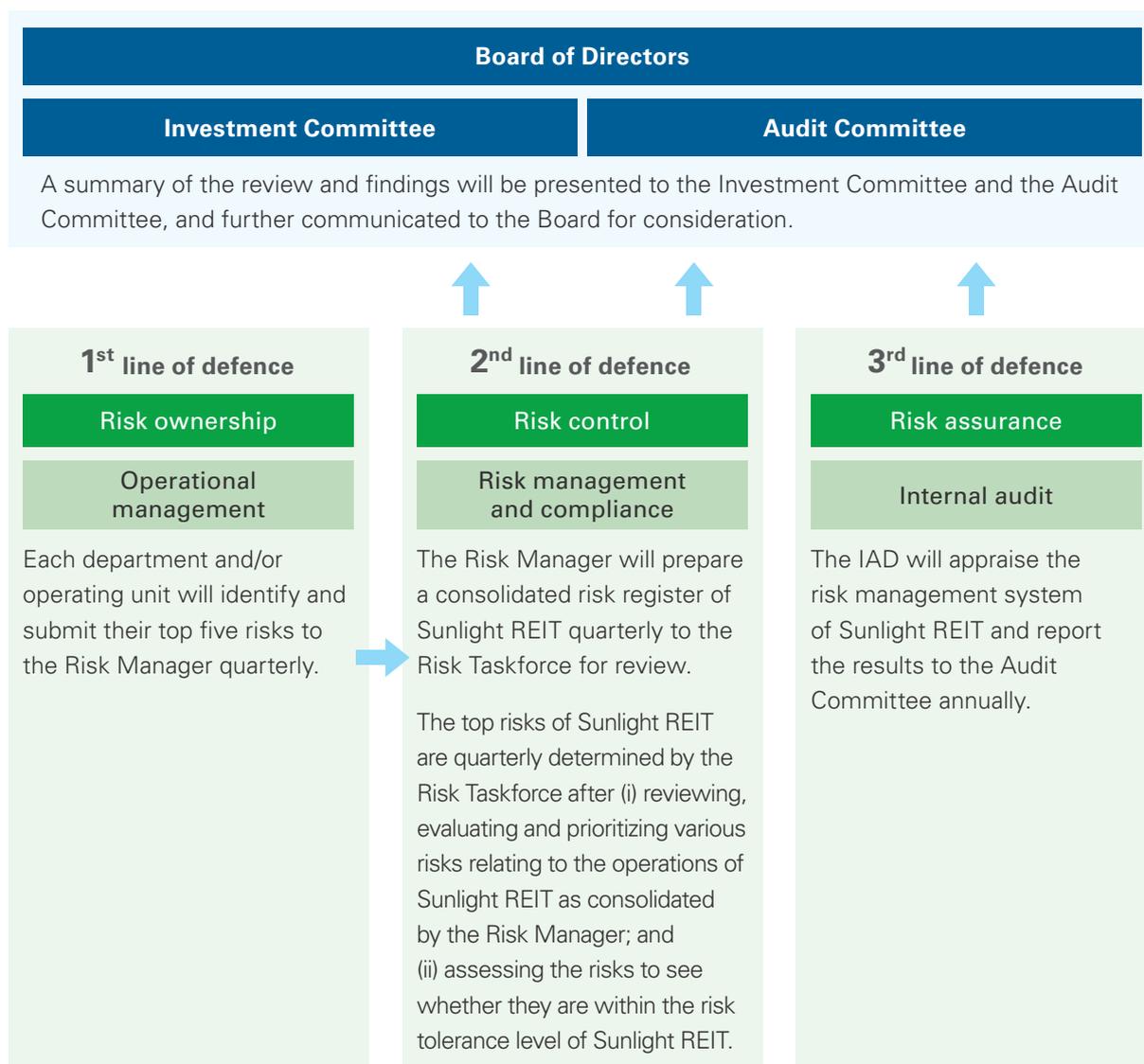
The risk governance structure of Sunlight REIT is depicted through an accountability and responsibility framework illustrated by the 'Three Lines of Defence' model.

The '1st line of defence' refers to the identification and management of day-to-day operational risks by various departments and operating units as risk owners. The '2nd line of defence', performed by the Risk Taskforce*, oversees the risk control process and monitors the effectiveness of risk management practices. Lastly, the Internal Audit Department ("IAD") is responsible for the '3rd line of defence' by providing assurance to the Board regarding the effectiveness of (i) the overall compliance with the risk management framework; and (ii) the controls in place in monitoring and mitigating the risk factors identified by the risk owners.

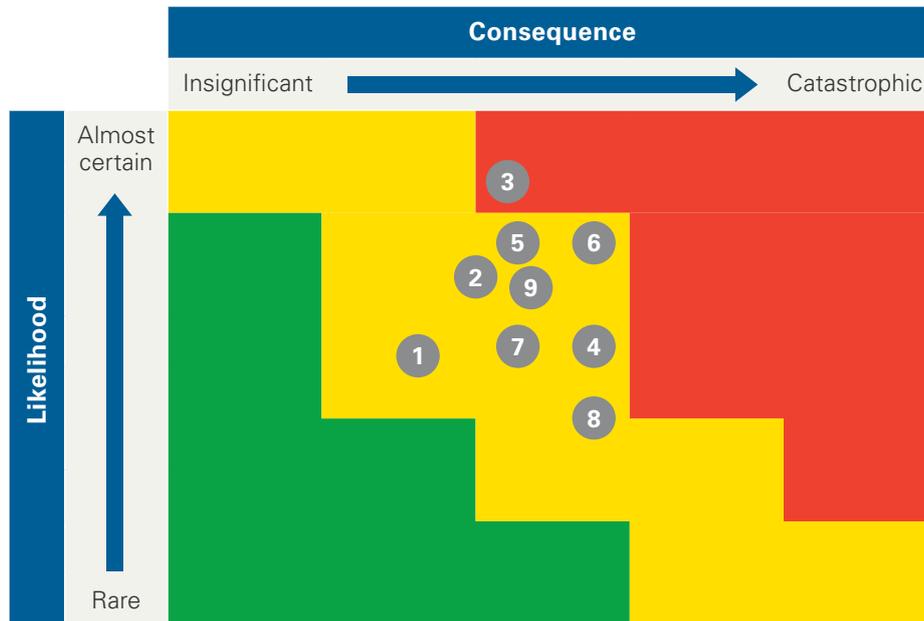
* The Risk Taskforce comprises the CEO, the Chief Financial Officer, the Risk Manager (the role of which is assumed by the Compliance Manager) and two rotational members from different departments and operating units.

Corporate Governance Report

Risk governance structure and process



Risk heat map



The risk heat map above provides an illustration of the top risks of Sunlight REIT at 30 June 2020 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 and with due consideration of the rapidly changing operating environment, the Board has approved the top risks of Sunlight REIT at 30 June 2020, details of which are depicted on pages 72 to 73 of this annual report. Meanwhile, enhanced controls and procedures are put in place by the Manager to mitigate these new and amended risks.

Corporate Governance Report

Summary of the top risks of Sunlight REIT

Risk no.	Description	Nature	Major controls
1 AMENDED	Disruption to work due to the outbreak of COVID-19	Human resources	<ul style="list-style-type: none"> • Ensure proper communication channels and contingency arrangements among departments • Split teams at different offices (or at home) to minimize cross-infections and disruption to business operations • Provide adequate information technology support to facilitate work from home arrangement
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 NEW	Negative rental reversion, higher delinquency and vacancy rates due to the sharp economic downturn in Hong Kong	Financial and operational	<ul style="list-style-type: none"> • Closely monitor rental receivables • Provide rent relief, more flexible tenancy terms and restructuring of leases to specific tenants when necessary • Identify new tenants engaged in non-discretionary trades • Initiate negotiations with existing and prospective tenants earlier • Monitor the leasing market and review lease terms more closely
4	Incidents triggered by defective building facilities/conditions	Operational	<ul style="list-style-type: none"> • Conduct periodic scanning and inspection of external walls, air conditioner drain pipes and water pipes • Ensure adequate insurance coverage
5 NEW	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 align with the changes in pattern of work and consumer behaviour • Launch creative promotional and marketing campaigns to enhance customers' shopping experience and loyalty • Increase competitiveness of the properties by enhancing their facilities • Closely monitor market trends for property acquisition/disposal opportunities to improve competitiveness of the portfolio • Explore business opportunities and collaborations with new business partners

Risk no.	Description	Nature	Major controls
6	Implications of a tax dispute with the IRD over expenditure deductibility	Financial	<ul style="list-style-type: none"> Seek advice from tax consultants and legal counsel and make provision for potential tax liability Keep investors informed of any new development and implication on distribution
7	Cyber security	Operational	<ul style="list-style-type: none"> Implement protective measures including installation of anti-virus software and firewalls Set up system backup mechanism for data recovery Engage external IT consultants to conduct periodic risk assessment Provide adequate training to staff
8 AMENDED	Disruption to property management operations due to the outbreak of COVID-19	Operational	<ul style="list-style-type: none"> A contingency plan is in place and to be reviewed from time to time Maintain effective and efficient communications with tenants and staff
9 NEW	Financial results falling short of investors' expectations	Reputation	<ul style="list-style-type: none"> Proactive communication with potential investors and Unitholders Timely disclosure of material information

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 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 | <ul style="list-style-type: none">• 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 provide mechanisms to report unethical conduct. |
| Risk assessment | <ul style="list-style-type: none">• A risk management system 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 69 to 73 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. |
| Control activities | <ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">• 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 making any unauthorized disclosure of confidential information or making any use of such information for their own advantage, or in conflicts of interest with the public and/or Sunlight REIT. |
| Monitoring activities | <ul style="list-style-type: none">• 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. |
-

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. The Chairman and Non-Executive Director of the Manager is a director of HLD and some of its subsidiaries and/or associates. Another Non-Executive Director of the Manager is also a director of HLD and some of its subsidiaries and/or associates. HLD and some of its subsidiaries and associates are engaged in, among other things, the development, investment and management of retail, office and other properties in and outside Hong Kong.

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

In addition, the Principal Valuer may provide non-property valuation services to Sunlight REIT and potential conflicts of interest may arise.

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 shareholders;
3. the Manager has established internal control systems to ensure that Sunlight REIT's connected party transactions are monitored and undertaken in compliance with the REIT Code and waivers granted by the SFC, whereas any other situations of potential conflicts of interest are reported and monitored;
4. a Director with potential conflicts of interest shall disclose his interest to the Board and abstain from voting on the relevant matter, as well as not to be counted in the quorum for that resolution;
5. a register of other directorships and senior positions held by the Directors is maintained and updated from time to time; and
6. if the provision of leasing agency services arises, a confirmation shall be obtained from the Principal Valuer that it has established stringent internal controls and guidelines to its staff with respect to confidentiality and conflicts of interest obligations, and that the provision of such services would neither affect its performance nor jeopardize its independence as the Principal Valuer.

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.

Corporate Governance Report

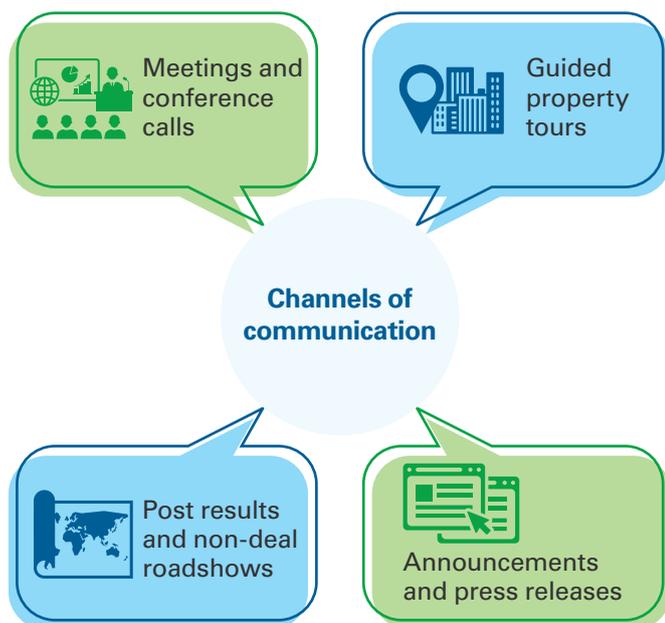
Communication

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 believes that feedback and comments from the investment community are necessary in assisting the Board to map out the strategic direction 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.

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



In addition, investors and Unitholders may direct their enquiries through the Manager's investor relations team to the Board by email or by post. Please refer to "Corporate Information" on page 163 for details.

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 30 October 2019 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 approved.

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 two months following the end of the relevant period.

Results announcements and other information

Pursuant to the requirements under 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.

During the Year, the Manager and Sunlight REIT have also complied with, to the extent applicable, the code provisions in the Corporate Governance Code in Appendix 14 of the 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 also applicable to the Manager. In addition, it is applicable to senior executives, officers, employees of the Manager or the directors of the special purpose vehicles of Sunlight REIT as the Board may determine. 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.

Pursuant to the Dealings Code, any Director who wishes to deal in any securities of Sunlight REIT must first have regard to the provisions of the SFO with respect to, among other things, insider dealing and market misconduct, as if those provisions of the SFO applied to any securities of Sunlight REIT.

Any Director who is aware of, privy to or is in possession of any inside information including but not limited to any negotiations or agreements relating to intended acquisitions or disposals by Sunlight REIT which are either notifiable transactions under Chapter 14 of the Listing Rules (as if such rules were applicable to Sunlight REIT) or connected party transactions under the REIT Code, must immediately refrain from dealing in any securities of Sunlight REIT until (i) proper disclosure of the information has been made in accordance with the REIT Code and any applicable provisions of the Listing Rules; or (ii) the aforesaid negotiations or agreements related to such intended acquisitions or disposals have lapsed. Any Director who is privy to relevant negotiations or agreements or any inside information should caution those Directors who are not that there may be unpublished inside information and that they must not deal in any securities of Sunlight REIT during that period.

In general, Directors must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of themselves or others.

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.

Directors' information

Subsequent to publication of the last interim report, the Manager has not been notified of any change in Director's information. The biographical details of the Directors are set out in “Board of Directors and Senior Management” on pages 56 to 58.

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.

Corporate Governance Report

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 together holding 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 163 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;
- 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, on behalf of Sunlight REIT, bought back a total of 1,000,000 Units on the Stock Exchange during the Year (in March 2020) for an aggregate consideration of approximately HK\$4.5 million (excluding buy-back expenses). The highest and the lowest price paid per Unit for such buy-backs were HK\$4.60 and HK\$4.27 respectively. All bought back Units were cancelled prior to the end of the Year.

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.

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 2020 is set out below :

Financial instruments ¹ & issuers	Primary listing	Currency	Total cost (HK\$'000)	Mark-to-market value (HK\$'000)	% of gross asset value of Sunlight REIT ^{2,3}	Credit rating
CHALHK 4 $\frac{7}{8}$ 09/07/21 Chalco Hong Kong Investment Company Limited	Stock Exchange	USD	23,432	23,902	0.12	Fitch A-
COGO 4 $\frac{7}{8}$ 06/01/21 China Overseas Grand Oceans Finance IV (Cayman) Limited	Stock Exchange	USD	15,739	15,832	0.08	S&P BBB- Moody's Baa2 Fitch BBB
ICBCAS 5 $\frac{1}{8}$ 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Singapore Exchange Limited	USD	20,911	19,658	0.10	S&P A- Moody's Baa2
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,681	0.06	N/A
YUEXIU 4 $\frac{7}{8}$ 04/19/21 Westwood Group Holdings Limited	Stock Exchange	USD	22,021	22,048	0.12	Moody's Baa3 Fitch BBB-
CJIANT 4 $\frac{1}{2}$ 09/20/21 Kingsheng (BVI) Company Limited	Stock Exchange	USD	15,635	15,945	0.08	Fitch A+
YXREIT 4 $\frac{3}{4}$ 04/27/21 Yuexiu REIT MTN Company Limited	Stock Exchange	USD	10,152	10,237	0.05	S&P BBB- Moody's Baa3
Total			118,290	118,303	0.61	

At 30 June 2020, the combined mark-to-market value of Relevant Investments, together with other non-real estate assets of Sunlight REIT, represented approximately 3.9% of the gross asset value of Sunlight REIT, which is below 25% as required by the REIT Code.

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

Notes :

1. All financial instruments are bonds and their descriptions are quoted from Bloomberg.
2. The percentages are arrived at by comparing the mark-to-market value of the investments with the gross asset value of Sunlight REIT at 30 June 2020.
3. Gross asset value refers to the total assets after adjusted for the final distribution declared. Total assets and the final distribution are stated on pages 114 and 117 of this annual report respectively.

Corporate Governance Report

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 10,705,957 new Units were issued to the Manager in October 2019 and April 2020, 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\$857,000 for services relating to the review of interim financial statements and the update of the guaranteed medium term note programme 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\$726,000. 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 Wednesday, 23 September 2020 and Tuesday, 29 September 2020 respectively. The register of Unitholders will be closed from Friday, 25 September 2020 to Tuesday, 29 September 2020, 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 Thursday, 24 September 2020. Payment of the final distribution will be made to Unitholders on Friday, 9 October 2020.

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.

Top five tenants for the Year

Tenant	Trade sectors	Occupied GRA at 30 June 2020 (sq. ft.)	% of total GRA at 30 June 2020	% of total revenue
Anglo-Eastern Ship Management Limited	Shipping, logistic and transportation	83,311	6.7	5.2
The Financial Secretary Incorporated c/o Government Property Agency	Government and related organizations	72,196	5.9	4.9
Tenant A	Healthcare and electrical appliances	19,886	1.6	2.1
Tenant B	Financial	8,871	0.7	1.7
Bank of Communications (Hong Kong) Limited	Financial	6,891	0.6	1.6
Total		191,155	15.5	15.5

Top five real estate agents and contractors for the Year

Real estate agent and contractor ¹	Nature of services	Commission and value of contract ² (HK\$'000)	% of total commission and value of contracts
Henderson Sunlight Property Management Limited ³	Property management, lease management and marketing services	51,882	30.0
New Progress Construction Company Limited	Renovation works, repairs and maintenance	21,970	12.7
INO Design Limited	Interior fitting-out and renovation works	19,189	11.1
Hang Yick Properties Management Limited ³	Building management and licence fee	9,756	5.6
Ngai Lik Cleaning Services Company Limited	Cleaning services	5,971	3.4
Total		108,768	62.8

Notes :

1. Commission and value of contracts paid to all real estate agents and contractors for the Year amounted to HK\$13.5 million and HK\$159.7 million respectively, of which HK\$12.6 million and HK\$96.7 million were attributable to the top five real estate agents and the top five contractors.
2. Included 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 in issue.

Connected Party Transactions

Information in respect of the transactions entered into between Sunlight REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code) 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 83) 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 ^{Note}	Nature of the connected party transactions	Income for the Year (HK\$'000)	Rental and other deposits received at 30 June 2020 (HK\$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	6,827	1,604
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	4,950	942
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	3,256	N/A
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	502	125
Chinese Young Men's Christian Association of Hong Kong	An associate of a Director of the Manager	Licensing	2	N/A
Total			15,537	2,671

(b) Expenses

Name of connected person	Relationship with Sunlight REIT ^{Note}	Nature of the connected party transactions	Expenses for the Year (HK\$'000)
Hang Yick Properties Management Limited	Associated company of the Manager	Building management and licence fee	9,756
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management, lease management and marketing services	51,882
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	3,763
Metro City Management Limited	Associated company of the Manager	Building management	1,313
Sheung Shui Centre Management Limited	Associated company of the Manager	Building management	2,447
Contender Limited*	Associated company of the Manager	Facilities leasing	103
Total			69,264

Note : Under the definition of the REIT Code.

Connected party transactions with the Trustee Connected Persons

The following table sets out information on all the connected party transactions entered into between Sunlight REIT and the Trustee (and its directors, senior executives, officers, controlling entities, holding companies, subsidiaries and associated companies) and 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 2020 (HK\$'000)
Leasing transactions :			
The Hongkong and Shanghai Banking Corporation Limited (“ HSBC ”)	Leasing ²	11,599	3,088
HSBC	Licensing ³	429	107
Hang Seng Bank Limited	Leasing ⁴	11,827	2,853
Ordinary banking and financial services⁵ :			
HSBC	Interest income received/receivable on bank deposits and net interest income on IRSs	1,648	N/A
HSBC	Interest expenses and security trustee fees on bank borrowings and other bank charges	(21,897)	N/A
Hang Seng Bank Limited	Interest expenses on bank borrowings and other bank charges	(19,238)	N/A
Hang Seng Bank Limited	Interest income received/receivable on bank deposits	984	N/A
EPS Company (Hong Kong) Limited	Service fees	(125)	(2)

During the Year, several IRSs with an aggregate notional amount of HK\$1,000 million were entered into with HSBC.

Corporate finance transactions :

During the Year, the US\$1,000,000,000 guaranteed medium term note programme established in 2013 by Sunlight REIT MTN Limited (the “**Issuer**”) (a special purpose vehicle wholly-owned by Sunlight REIT) was updated (the “**Updated MTN Programme**”) and the relevant circular was issued on 20 April 2020.

In respect of the Updated MTN Programme, HSBC was appointed as an arranger and was one of the dealers for the Updated MTN Programme. Since the SFC granted a waiver to Sunlight REIT on 30 November 2006 from strict compliance with the requirement under paragraphs 8.9 and 8.11 of the REIT Code to seek Unitholders’ prior approval and to make announcements and circulars (in accordance with Chapter 10 of the REIT Code) in respect of certain “corporate finance transactions” between Sunlight REIT and its subsidiaries and the HSBC Group, including where HSBC is involved in an underwriting or arranging capacity for an issue of debt instruments or other related arrangements, no approval is required from the Unitholders for HSBC to act as arranger and dealer in connection with the Updated MTN Programme.

During the Year, no medium term note was issued by the Issuer and no fee was paid to HSBC relating to the Updated MTN Programme.

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., for a term of 3 years from 4 November 2017 to 3 November 2020; and a lease in respect of Shop Nos. 1032-33 of SSC, with gross floor area of 1,171 sq. ft., for a term of 3 years from 15 August 2017 to 14 August 2020.
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., for a term of 3 years from 17 February 2018 to 16 February 2021; and a lease in respect of Shop Nos. 1040-42 of SSC, with gross floor area of 1,235 sq. ft., for a term of 3 years from 29 September 2017 to 28 September 2020.
5. In general, “ordinary banking and financial services” include bank deposits and interest earned therefrom, loan facilities and IRSs including interest and charges paid thereto and other banking or financial services.

Connected Party Transactions

Other disclosures under the REIT Code

Pursuant to Note (2) to paragraph 8.10 of the REIT Code, services provided to Sunlight REIT by the Manager, the Trustee and the Principal Valuer as contemplated under the constitutive documents shall not be deemed 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\$96.2 million and HK\$4.7 million respectively. The fees paid or payable to the Principal Valuer during the Year were less than HK\$1 million. Particulars of the services provided by the Manager, the Trustee and the Principal Valuer are set out in notes 26(b)(i), (ii) and (iv) to the consolidated financial statements.

On 20 March 2020, two deeds of novation were entered into pursuant to which the rights and obligations of Barson Resources Limited, a special purpose vehicle wholly-owned and controlled by Sunlight REIT, under the sale and purchase agreement dated 2 December 2006 and the deed of tax covenant dated 21 December 2006 (together, the **"Transaction Documents"**) to which Barson Resources Limited was a party, each as described in the offering circular of Sunlight REIT dated 8 December 2006, have been assigned and novated to Meca Enterprises Limited (the **"Transferee"**), another special purpose vehicle wholly-owned and controlled by Sunlight REIT.

The title, rights, benefits, interest, obligations and undertakings of Barson Resources Limited under the Transaction Documents have been novated to the Transferee. HLD will continue to be liable for all its outstanding obligations under the Transaction Documents notwithstanding such novation.

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 Manager and the Trustee

Each of the Manager and the Trustee confirms that the transactions under the Updated MTN Programme that involve HSBC have complied with the general conditions of the relevant waiver granted by the SFC to Sunlight REIT on 30 November 2006 in respect of "corporate finance transactions" between Sunlight REIT and the HSBC Group and that the Trustee has not been involved in the making of any decision to enter into any of the above corporate finance transactions on behalf of Sunlight REIT (subject to the Trustee's duties of oversight under the REIT Code and the Trust Deed), including the selection of arrangers and dealers for the Updated MTN Programme.

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), ordinary banking and financial services and corporate finance 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 will be provided to the SFC.

Disclosure of Interests

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

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

At 30 June 2020 and 31 December 2019, 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 2020		At 31 December 2019	
	Number of Units interested	% of interest in Units ¹	Number of Units interested	% of interest in Units ¹
The Manager ²	150,418,406	9.054	142,592,733	8.609
Au Siu Kee, Alexander ³	2,300,000	0.138	1,530,000	0.092
Wu Shiu Kee, Keith ⁴	930,000	0.056	700,000	0.042
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 1,661,429,036 Units at 30 June 2020 and 1,656,388,363 Units at 31 December 2019 (as the case may be).
2. During the Year, the Manager received 10,705,957 Units as payment of part of the Manager's fees; and acquired 2,451,000 Units in the open market. The Manager beneficially owned 150,418,406 Units at 30 June 2020 (31 December 2019 : 142,592,733 Units).
3. At 30 June 2020, of the 2,300,000 Units held by Mr. Au Siu Kee, Alexander, the Chairman and Non-Executive Director of the Manager, 201,000 Units were directly held by Mr. Au, 1,999,000 Units were jointly held with his spouse, and the remaining 100,000 Units were directly held by his spouse (hence in which Mr. Au has deemed interest).
4. Mr. Wu Shiu Kee, Keith is the CEO and Executive Director of the Manager.
5. Mr. Kwok Tun Ho, Chester is an INED of the Manager.

There were no short positions in Units held by the Manager and the Directors or chief executive of the Manager at 30 June 2020.

Disclosure of Interests

Holdings of substantial Unitholders

At 30 June 2020 and 31 December 2019, the interests in Units of the substantial Unitholders, as recorded in the Register, were as follows :

Name	At 30 June 2020		At 31 December 2019	
	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	39.86	639,891,209	38.63
Lee Financial (Cayman) Limited ²	374,072,708	22.52	374,072,708	22.58
Leesons (Cayman) Limited ²	374,072,708	22.52	374,072,708	22.58
Leeworld (Cayman) Limited ²	374,072,708	22.52	374,072,708	22.58
SKFE ²	374,072,708	22.52	374,072,708	22.58
Uplite Limited ²	224,443,625	13.51	224,443,625	13.55
Wintrade Limited ²	149,629,083	9.01	149,629,083	9.03
Henderson Development Limited ²	280,773,766	16.90	280,773,766	16.95
HLD ²	280,773,766	16.90	280,773,766	16.95
Hopkins (Cayman) Limited ²	280,773,766	16.90	280,773,766	16.95
Riddick (Cayman) Limited ²	280,773,766	16.90	280,773,766	16.95
Rimmer (Cayman) Limited ²	280,773,766	16.90	280,773,766	16.95
Silchester International Investors LLP ³	232,364,150	13.99	246,952,150	14.91
Silchester International Investors International Value Equity Trust ³	98,824,922	5.95	113,294,922	6.84

Notes :

1. The percentages are based on the total number of Units in issue of 1,661,429,036 Units at 30 June 2020 and 1,656,388,363 Units at 31 December 2019 (as the case may be).
2. At 30 June 2020, 224,443,625 Units were owned by Uplite Limited and 149,629,083 Units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited are wholly-owned subsidiaries of Financial Enterprise Properties Limited, which in turn is wholly-owned by 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 2020, 76,533,345 Units were owned by Cobase Limited, 67,378,972 Units were owned by Richful Resources Limited and 150,418,406 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 294,330,723 Units at 30 June 2020. Whereas in the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 280,773,766 Units at 30 June 2020, as no notifiable interest arose on their parts subsequent to their last disclosure of interest notifications to the Stock Exchange.

At 30 June 2020, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the above unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in the total of 668,403,431 Units. Whereas in the Register, Dr. Lee Shau Kee was recorded as having an interest in 662,182,758 Units at 30 June 2020, as no notifiable interest arose on his part subsequent to his last disclosure of interest notification to the Stock Exchange.

At 30 June 2020, the Units mentioned under this note were beneficially held or interested in by connected persons of Sunlight REIT.

Notes : (cont'd)

3. At 30 June 2020, according to the Register, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 232,364,150 Units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 98,824,922 Units. The Manager has subsequently been notified informally that at 30 June 2020, (i) Silchester LLP was interested in 230,696,150 Units (representing approximately 13.89% of the total number of Units in issue); and (ii) Silchester Trust was beneficially interested in 98,824,922 Units (representing approximately 5.95% of the total number of Units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

There were no short positions in Units held by substantial Unitholders at 30 June 2020.

Holdings of other connected persons

Save as disclosed above and as far as the Manager is aware, the holdings of Units of other connected persons (as defined in paragraph 8.1 of the REIT Code, subject to exclusions granted by the SFC) of Sunlight REIT at 30 June 2020 were as follows :

Name	Number of Units held	% of Unit holding ¹
Lee King Yue ²	50,000	0.0030
Lee Pui Ling, Angelina ³	2,307	0.0001
Lo Yuk Fong, Phyllis ⁴	100,000	0.0060
Shum Chung Wah, Yulanda ⁵	40,000	0.0024
Employees of the Manager ⁶	1,000	0.0001
Persons related to the Trustee ⁷	110,000	0.0066

Notes :

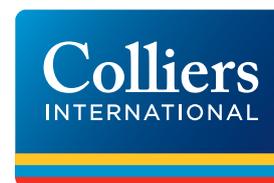
- The percentages are based on the total number of Units in issue of 1,661,429,036 Units at 30 June 2020.
- Mr. Lee King Yue is a connected person of Sunlight REIT as he is a director of certain subsidiaries of HLD. Mr. Lee held 50,000 Units at 31 December 2019.
- Mrs. Lee Pui Ling, Angelina is a connected person of Sunlight REIT as she is a director of HLD. Mrs. Lee held 2,307 Units at 31 December 2019.
- Ms. Lo Yuk Fong, Phyllis is a connected person of Sunlight REIT as she is a senior executive of the Manager. Ms. Lo held 100,000 Units at 31 December 2019.
- Ms. Shum Chung Wah, Yulanda is a connected person of Sunlight REIT as she is a senior executive of the Manager. Ms. Shum did not hold any Units at 31 December 2019.
- An employee of the Manager held 1,000 Units at 31 December 2019.
- Certain controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the Trustee were beneficially interested in 110,000 Units at 30 June 2020. Their beneficial interest was 100,000 Units at 31 December 2019.

Valuation Report

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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

25 July 2020

and

Henderson Sunlight Asset Management Limited
(in its capacity as the Manager of Sunlight REIT)
30/F, Sunlight Tower
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 2020 (the "**Valuation Date**") for accounting purposes, 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 Limited (the "**Listing Rules**").

1.2 The Properties

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

No.	Property	Address
1	Sunlight Tower	No. 248 Queen's Road East, Wan Chai
2	Strand 50 (formerly known as "Bonham Trade Centre")	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 1	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 Shopping Arcade	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, Tin Hau

1.3 Valuer's interest

We hereby confirm that :

- We fulfil the qualification requirements set out in Chapter 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 significant holders of Sunlight REIT for the purpose of Chapter 6.5 (a), (b) and (c) of the REIT Code.
- We are authorized 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 2017 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 Chapter 6.8 of the REIT Code issued by the SFC in August 2014.

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 capitalizing 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 capitalizing 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 analyzing 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 etc.

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 which may not appear in our searches. We do not accept any liability for any misinterpretation as a result.

Valuation Report

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.

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 and the landlord's fixtures and fittings and to keep the conduits in tenantable repair whilst the tenants are responsible for internal repairs to the Properties.

We have also been advised by the Manager that no material factors or information have been omitted or withheld from the information supplied and 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 Land Registry. However, we have not searched the original documents nor verified the existence of any amendments, which 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 June 2020 and 26 June 2020. 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.

- 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 authorizations 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 sincerely,

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. 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 2020 (HKD)	Capitalization rate adopted			Estimate net property yield (%)
				Retail (%)	Office (%)	Carpark (%)	
1 Sunlight Tower	376,381	46	5,200,300,000	3.65	3.75	4.90	3.41
2 Strand 50	117,909	N/A	1,339,800,000	3.80	3.45	N/A	3.59
3 Righteous Centre	51,767	N/A	554,500,000	3.50	3.75	N/A	4.01
4 Various Portions in 135 Bonham Strand Trade Centre	63,915	N/A	614,800,000	3.80	3.55	N/A	3.55
5 Various Portions in Winsome House	40,114	N/A	597,300,000	3.60	3.55	N/A	3.47
6 Java Road 108 Commercial Centre	37,923	N/A	298,700,000	4.00	3.75	N/A	4.03
7 Various Portions in Sun Fai Commercial Centre	26,151	N/A	175,900,000	4.05	3.80	N/A	4.11
8 Various Portions in Wai Ching Commercial Building	16,321	N/A	81,100,000	3.90	3.55	N/A	4.29
9 235 Wing Lok Street Trade Centre	52,285	N/A	393,500,000	3.80	3.55	N/A	3.35
10 On Loong Commercial Building	27,206	N/A	266,900,000	3.70	3.65	N/A	3.79
11 The Harvest	34,651	N/A	660,400,000	3.10	3.30	N/A	3.22
12 Commercial Development and Car Parks, Metro City Phase 1	188,889	452	3,184,500,000	4.40	-	5.00	4.60
13 Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in the Podium and Basement, Sheung Shui Centre Shopping Arcade	122,339	297	4,194,300,000	4.30	-	5.80	4.18
14 Various Portions in Kwong Wah Plaza	67,356	N/A	1,191,900,000	3.60	3.60	N/A	3.76
15 Various Shops Units on Ground Floor, Beverley Commercial Centre	7,934	N/A	92,000,000	4.10	-	N/A	3.17
16 Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand	4,226	N/A	72,100,000	3.80	-	N/A	3.83
Total	1,235,367	-	18,918,000,000				

3 Valuation particulars

Sunlight Tower

Sunlight Tower at 248 Queen's Road East, Wan Chai, Hong Kong

Description

Sunlight Tower 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 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 2020

HKD14,467,106 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2020

HKD310,900 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2020

HKD10,500 exclusive of rates and management fees

Market value in existing state as at 30 June 2020

HKD5,200,300,000

Estimated net property yield

3.41%

Strand 50

Strand 50 at 50 Bonham Strand, Sheung Wan, Hong Kong (formerly known as "Bonham Trade Centre")

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 is 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 2020

HKD4,012,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2020

HKD1,339,800,000

Estimated net property yield

3.59%

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 2020

HKD1,809,000 exclusive of rates, management and air-conditioning charges

Monthly licence income as at 30 June 2020

HKD44,300 exclusive of rates and management fees

Market value in existing state as at 30 June 2020

HKD554,500,000

Estimated net property yield

4.01%

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 2020

HKD1,821,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD614,800,000

Estimated net property yield

3.55%

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 2020

HKD1,727,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2020

HKD597,300,000

Estimated net property yield

3.47%

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 2020

HKD1,003,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD298,700,000

Estimated net property yield

4.03%

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 2020

HKD603,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD175,900,000

Estimated net property yield

4.11%

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 2020

HKD290,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD81,100,000

Estimated net property yield

4.29%

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 2020

HKD1,100,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD393,500,000

Estimated net property yield

3.35%

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 2020

HKD842,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD266,900,000

Estimated net property yield

3.79%

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 2020

HKD1,771,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD660,400,000

Estimated net property yield

3.22%

Metro City Phase 1

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

Description

Metro City Phase 1 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 2020

HKD10,453,500 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2020

HKD1,609,000 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2020

HKD150,600 exclusive of rates and management fees

Market value in existing state as at 30 June 2020

HKD3,184,500,000

Estimated net property yield

4.60%

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 2020

HKD13,396,800 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2020

HKD937,600 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2020

HKD270,500 exclusive of rates and management fees

Market value in existing state as at 30 June 2020

HKD4,194,300,000

Estimated net property yield

4.18%

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 Floors. 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 41,615 sq. ft. respectively, total to about 67,356 sq. ft. (6,257.53 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 2020

HKD3,728,000 exclusive of rates, management and air-conditioning charges

Monthly licence income as at 30 June 2020

HKD5,000 exclusive of rates and management fees

Market value in existing state as at 30 June 2020

HKD1,191,900,000

Estimated net property yield

3.76%

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 2020

HKD243,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD92,000,000

Estimated net property yield

3.17%

Supernova Stand

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

Description

Supernova Stand is a 27-storey residential development in Causeway Bay 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 2020

HKD230,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2020

HKD72,100,000

Estimated net property yield

3.83%

4 Office market overview

4.1. Introduction

The Hong Kong Government predicts real GDP growth in the range of -4% to -7% in 2020¹, a contraction compared with a year earlier in the face of the outbreak of the COVID-19 pandemic and other pandemic-related headwinds. Reflecting Hong Kong's social unrest since mid-2019 and the impact of COVID-19, the overall economy and labour market deteriorated in the first half of 2020. The global spread of COVID-19 has triggered many governments to implement lockdown measures and travel restrictions, which curtailed investment activities. The pandemic has also triggered the largest work-from-home exercise around the globe, inducing corporates to rethink the cost implications of renting workspaces in the future.

In the second quarter of 2020 Hong Kong's Grade A office market rent declined 5.8% QOQ on the slower expansion or even reduction of footprints in Hong Kong of some multinational corporations (MNCs), which continued into the first half of 2020. The pandemic continues to affect workplaces in the city and globally and is expected to weigh on leasing sentiment in 2020. Occupiers are tending to be more cost-conscious amidst the pandemic threat as well as various market uncertainties. Some may downsize their office space or explore options in cheaper buildings.

Investment volumes in Hong Kong plunged in the first half of 2020 as COVID-19 halted the already slowing investment momentum. Investors have become more cautious and will continue to adopt defensive tactics. We expect capital values of properties to adjust downward to reflect the risks associated with rising vacancies and falling rents.

Although MNCs have slowed their expansion momentum amidst cautious market sentiment, the effect could be partly offset by a resumption of interest from mainland Chinese enterprises. We also expect a return of demand from the PRC, 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.

4.2 Supply

According to the Rating and Valuation Department, Hong Kong's Grade A office supply dipped by 16.0% from 2008 to 2014, but then edged up from 2015 to 2017 reaching an average of 1.6 million sq. ft. per annum. It declined slightly by about 4.0% in 2018, but rebounded by about 35.5% in 2019. Most of the new supply was located in non-core areas such as Kwun Tong and Shatin. The supply of Grade B offices was erratic from 2008 to 2014. It reached 400,000 sq. ft. in 2015 and thereafter remained stable in 2016-2017, providing an average of 100,000 sq. ft. per annum, with the majority of supply on Hong Kong Island. The supply of Grade B offices dipped significantly to 7,500 sq. ft. in 2018 rebounded to about 217,000 sq. ft. in 2019. The total floor area of Grade A office space in 2019 was more than 86 million sq. ft., 3.1% higher than that of 2018, while the total floor area of Grade B office space was more than 30 million sq. ft., similar to the amount seen in 2018. In the meantime, Grade A office supply in the Yau Ma Tei/Mong Kok area saw no significant increase after 2007-2011 when the annual average supply was 340,400 sq. ft.. However, a new wave of Grade A office supply in 2020 will add, amounting to about 92,570 sq. ft. to the stock in that area.

Hong Kong overall is likely to see a decrease in office supply in 2020, but this will rebound in 2021. According to the Rating and Valuation Department, new Grade A office supply in 2020 will be only about 511,000 sq. ft., a significant decrease of 80% compared with 2019. New supply will be mainly located in Tsuen Wan and Sai Kung. New Grade B office supply in 2020 will show a mild increase to over 320,000 sq. ft. compared to 250,000 sq. ft. added in 2019. Most of the new supply will be in Shatin and Wan Chai/Causeway Bay.

After analyzing future supply by district, we note that of the supply will be in decentralized areas outside the core business districts. Citywide new supply will average 2.03 million sq. ft. per annum between 2020 and 2024².

¹ Source: Census and Statistics Department

² Source: Colliers Research

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 and the associated containment measures. Overall vacancies in Grade-A offices went up to 8.1% in the second quarter of 2020, a 0.8% increase QOQ. The vacancy rate in Central/Admiralty rose from 2.1% in the fourth quarter of 2018 to 6.1% in the second quarter of 2020.³

The COVID-19 pandemic has triggered the largest ever work-from-home exercise around the globe, and continues to weigh on the already slowing leasing momentum in the first half of 2020. Driven by the retreat of some co-working space operators from Hong Kong amidst the dampened leasing market sentiment, large volumes of space have returned to the market and overall negative net take-up reached over 619,000 sq. ft. in the second quarter of 2020. Tsim Sha Tsui accounted for more than 45% of the negative net take-up, amounting to about 280,000 sq. ft.. Looking ahead, we expect that annual negative net take-up will reach 1.87 million sq. ft. on average from 2020 to 2024.⁴

Following the reduction in leasing activities by MNCs and the general weak leasing momentum, the Grade A office vacancy rate in Wan Chai/Causeway Bay sub-district climbed from 2.7% in the second quarter of 2019 to 6.1% in the second quarter of 2020, while Tsim Sha Tsui and Mong Kok sub-districts saw increases of 9.3% and 10.6%, respectively. The vacancy rate in Sheung Wan remained tight at 3.0%.⁵

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 slowed in recent years in the face of softened demand from various external uncertainties and the outbreak of COVID-19 since end-2019.

Overall office rents decreased by 5.8% QOQ in the second quarter of 2020. Among the key submarkets, it appears that rents in traditional CBDs declined at a faster pace than other non-core areas. Rents in Sheung Wan, Central/Admiralty and Tsim Sha Tsui dropped by 5.6%, 5.6% and 7.2%, respectively. However, decentralized districts such as Wong Chuk Hang and Island East remained resilient, showing milder decreases of 1.1% and 3.3%, respectively, as rents there are still discounted from the CBD and CBD fringe areas such as Sheung Wan, Wan Chai and Causeway Bay.

We expect the COVID-19 pandemic and its associated economic impacts to continue to weigh on the office market throughout 2020. MNCs and co-working space operators have lost their growth momentum amidst the current geopolitical and economic uncertainties as well as the outbreak of the pandemic. Rents in the CBD and decentralized districts such as Tsim Sha Tsui will be under pressure as leasing activities remain restrained. Firms are beginning to relocate or downsize their office spaces amidst the challenging business outlook. In the face of weaker demand for office space, rents in the CBDs have experienced a large correction. Driven by the decline in Grade A office rent in Hong Kong, the rental gap between the CBD and other sub-markets is narrowing, providing an opening for professional firm and PRC companies to explore recentralization opportunities.

Although MNCs have reduced their leasing activities in Hong Kong, the impact may be offset by a resumption of interest from mainland Chinese enterprises, with more PRC firms preferring to list in Hong Kong (instead of the US) due to the current tightening of US regulations on listed companies. We have not yet seen firm evidence of such a pick-up in demand. However, there have been signs of a resumption of mainland Chinese investment interest in Hong Kong. For example, Ping An Life has recently taken a 30% stake in the office space atop West Kowloon XRL station from Sun Hung Kai and the Kwok family for HKD11.27 billion.⁶

³⁻⁶ Source: Colliers Research

However, we remain cautious about rental growth in 2020 given the weaker economic outlook and business sentiment. According to the Rating and Valuation Department, average rents for Grade A offices in Sheung Wan rose by around 9.9% whereas that in Central decreased by 0.5% from 2018 to the first quarter of 2020, while rents for Grade B offices in the same areas decreased by 5.1% and increased by 4.5%, respectively, over the same timeframe.

4.5 Price trends

Office prices experienced a surge between 2013 and 2018. According to the Rating and Valuation Department, Grade A and Grade B office prices in Hong Kong increased by 42.3% and 33.6%, respectively, from 2013 to 2018. However, due to the geopolitical and economic uncertainties in the second half of 2019 and the business disruption resulting from COVID-19 in the first half of 2020, Grade A office prices fell about 22.5% from 2018 to the second quarter of 2020.⁷

The supply of Grade A offices remained limited in the sales market in the second quarter of 2020. There are fewer deals in the investment markets as investors are adopting a wait-and-see attitude or defensive strategies to minimize risk. According to Colliers Research and Real Capital Analytics, in the first quarter of 2020 total investment sales declined 58% QOQ and 90% YOY to HKD3.4 billion, as COVID-19 put a pause on the already slowing investment momentum. Investment sales stayed weak in the first half of 2020 and the strata-title office price index fell by 7.0% QOQ in the second quarter of 2020.⁸

In the first quarter of 2020, average prices for Grade B offices in Yau Ma Tei/Mong Kok dipped by 21.6% QOQ according to the Rating and Valuation Department.

We expect prices for strata-titled Grade A offices to decline by about 15% in 2020. In the medium term, overall Grade A office prices will recover modestly after 2020.⁹

4.6 Outlook

To sum up, Hong Kong's overall economy and labour market continues to be affected by the pandemic, giving rise to investor hesitation. The compounding effect of social unrest in the second half of 2019 and the outbreak of the pandemic in the first half of 2020 has weighed on the office market. Rents in CBDs are undergoing a large correction and the rental difference between the CBDs and non-core areas is narrowing. Occupiers looking for offices in CBDs should move now given that office leasing activities currently low, with rents falling and vacancy rates rising.

Office demand in Hong Kong is likely to continue to be affected by the dampened business sentiment and COVID-19 is continuing to weigh on the already slowing economy and leasing momentum. Companies might well hesitate to expand in the short run. According to Colliers Research, overall rents will likely fall by 14% in 2020, with a bigger correction of 18% YOY in the CBD. The slow absorption rate in new buildings completed in the last two years together with existing vacancies and weakened demand are expected to continue to put pressure on office rents in the second half of 2020.

In the investment market, we expect the office market to recover modestly after 2020, as the prolonged lack of new supply should support a rebound in prices and rents. Looking ahead, the recovery in China and the prospect of greater political stability in Hong Kong may encourage Chinese investors to start looking positively at Hong Kong again.¹⁰ After 2020, we believe Hong Kong's property market should return to a trajectory of steady growth.

⁷ Source: Rating and Valuation Department

⁸⁻¹⁰ Source: Colliers Research

Valuation Report

5 Retail market overview

5.1 Introduction

The global spread of COVID-19 has led many governments to implement lockdown measures and travel restrictions, which curtailed consumption activities and tourists' arrival due to the travel bans. The pandemic has hit the retail sector hard, especially tourist-oriented retailers. Some international luxury brands gave up their flagship stores in Tsim Sha Tsui in end-2019 or early 2020.

According to the Census and Statistics Department, the value of total retail sales declined by 34.8% for the first five months of 2020 compared with the same period in 2019. The volume of total retail sales in May 2020 provisionally decreased by 36.5% compared with the same period in 2019. Notably, the value of sales of commodities in jewellery, watches and clocks, and valuable gifts decreased by 69.7% and that in medicines and cosmetics decreased by 62.0%. Amidst the hard times in the retail sector, retailers in neighbourhood areas who are capitalizing on the daily spending of local residents appear to be less affected.

5.2 Supply

According to the Rating and Valuation Department, the supply of commercial property has seen continuous growth between 2015 and 2019, providing an average of approximately 1.16 million sq. ft. per annum. Supply totalled about 1.26 million sq. ft. in 2019, representing a 6% decrease compared with 2018. The New Territories area contributed 47% of the total supply in 2019, with Sai Kung accounting for the largest share in New Territories at 61%.

Supply is expected to remain flat in the coming two years. According to the Rating and Valuation Department, 1.13 million sq. ft. and 1.06 million sq. ft. of commercial space will be completed in 2020 and 2021, respectively. Supply in 2019 was mainly concentrated in Sai Kung and Yau Tsim Mong, contributing 29% and 21%, respectively, of the total completions. In 2020, the main sources of supply will be Shatin and Tsuen Wan. These districts will account for 29% and 21%, respectively, of the total completions.

5.3 Take-up and vacancy

According to the Rating and Valuation Department, take-up in the past decade averaged 460,053 sq. ft. per annum. The take-up trended down between 2013 and 2016 due to softened retail market sentiment. Take-up rebounded in 2017 and 2018, reaching about 824,500 sq. ft. and 491,910 sq. ft., respectively. However, it plunged by about 82% in 2019, representing a net take-up of only 89,300 sq. ft. in the face of compounded challenges in Hong Kong, notably prolonged social unrest since end-2019 and the COVID-19 pandemic.

The number of tourist arrivals has plunged due to the anti-epidemic measures around the globe including travel bans, which resulted in a fall in retail sales in the first quarter of 2020. Some international luxury brands such as Prada, Valentino and Coach gave up their flagship stores in Tsim Sha Tsui in end-2019 or early 2020. Overall growth of retail sales will, therefore, remain subdued and the vacancy rate of commercial properties will increase. According to the Rating and Valuation Department, the vacancy rate of commercial properties as at the end of 2019 rose to 10.1%.

5.4 Rental trends

Rentals in the retail market experienced a great drop in the first half of 2020. In contrast to goods with a relatively small decline in sales, such as food, alcoholic drinks and tobacco and other consumer goods, sales of luxury goods, medicines and cosmetics have seen a relatively large downturn.

Landlords appear reluctant to offer considerable rental reductions and only some rental concessions were provided to existing tenants in early 2020. As such, rents of street shops are not declining at the same magnitude as those in shopping malls. High-street rents in Mong Kok, Tsim Sha Tsui and Causeway Bay have edged down since the fourth quarter of 2019, showing a fall of 36.6%, 31.1% and 33.3% QOQ, respectively, in the second quarter of 2020.¹¹ A shop on Yee Wo Street in Causeway Bay previously occupied by local dessert retailer Hui Lau Shan was leased to Food & Beverage operator Tong Kee Bao Dim at a unit rent of about HKD660, representing a 65% discount compared with the previous tenancy.

5.5 Price trends

Prices for retail properties experienced robust growth between 2010 and 2013, averaging an increase of 27% per annum, according to the Rating and Valuation Department. Growth slowed in 2014 and picked up again towards the end of 2015. Following a fall in price levels in 2016 in a softened retail market, prices gained momentum again in 2017 and 2018 before falling again in 2019 until the first quarter of 2020. Retail sales were greatly affected by the pandemic in the first half of 2020. Excluding the purchase of shopping mall stakes (for example, a sale of a 50% stake in Telford Plaza II in Kowloon Bay and a 21% interest in PopCorn 2 in Tseung Kwan O to MTR by New World Development), the investment volume fell by more than 50% QOQ in the first quarter of 2020.

Driven by the elevated risk in retail properties, prices have adjusted downward and yields have slightly increased.

5.6 Outlook

Hampered by the social unrest in the second half of 2019 and the outbreak of the pandemic in the first half of 2020, the retail sector has been hit hard. The number of tourist arrivals and the associated drop in retail consumption were affected, giving rise to investor hesitation. High-street rents in tourist spots such as Mong Kok, Tsim Sha Tsui and Causeway Bay showed a significant decline and will remain challenging.

The travel and tourism industry, which makes up 18% of GDP in Hong Kong, is expected to weaken again in 2020. A decreased appetite for shopping in Hong Kong in the first half of 2020 due to the measures imposed to curb the spread of COVID-19 has hit retailers hard, especially luxury retail. We expect that local economic activities will take time to fully recover and that high-street retail rents will likely continue to drop in 2020.

Retailers in neighbourhood districts capitalizing on the daily spending of local residents appear to be less affected and are forecast to be a driving force to sustain demand.

¹¹ Source: Colliers Research

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 trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) for the year ended 30 June 2020.

HSBC Institutional Trust Services (Asia) Limited

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

Hong Kong, 8 September 2020

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 112 to 157, which comprise the consolidated statement of financial position as at 30 June 2020, 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 2020 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\$18,918 million and accounted for 96% of the Group's total assets as at 30 June 2020.

The fair values of the investment properties as at 30 June 2020 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 2020 amounted to HK\$1,143 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. The other information 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 Trust Deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (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 HKSA's 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 HKSA's, 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

8 September 2020

Consolidated Statement of Profit or Loss

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Revenue	3 & 4	854,563	850,705
Property operating expenses	3 & 5	(169,857)	(168,168)
Net property income		684,706	682,537
Other income	6	17,091	17,808
Administrative expenses		(109,826)	(118,745)
(Decrease) / increase in fair value of investment properties	10	(1,142,844)	1,193,953
(Loss) / profit from operations		(550,873)	1,775,553
Finance costs on interest-bearing liabilities	7(a)	(120,444)	(103,129)
(Loss) / profit before taxation and transactions with unitholders	7	(671,317)	1,672,424
Income tax	8(a)	(80,077)	(81,323)
(Loss) / profit after taxation and before transactions with unitholders		(751,394)	1,591,101

The notes on pages 120 to 157 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
(Loss) / profit after taxation and before transactions with unitholders		(751,394)	1,591,101
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		(70,999)	(53,892)
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest-bearing liabilities		6,303	1,918
– Deferred tax credited to other comprehensive income	8(c)	–	5,509
		(64,696)	(46,465)
Total comprehensive (loss) / income for the year		(816,090)	1,544,636

The notes on pages 120 to 157 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Non-current assets			
Fixed assets	10		
– Investment properties		18,918,000	20,002,510
– Other fixed assets		22	42
		18,918,022	20,002,552
Deferred tax assets	8(c)	80	136
Derivative financial instruments	12	–	21
Reimbursement rights	11	37,436	37,436
Other financial assets	13	115,674	136,405
Other non-current assets	14	576	5,955
		19,071,788	20,182,505
Current assets			
Trade and other receivables	15	48,920	24,597
Derivative financial instruments	12	63	5,122
Cash and bank balances	16(a)	499,433	550,024
Tax recoverable		53,893	43,520
		602,309	623,263
Total assets		19,674,097	20,805,768
Current liabilities			
Tenants' deposits	17	(220,808)	(216,434)
Rent receipts in advance		(20,094)	(8,684)
Trade and other payables	18	(60,463)	(69,769)
Bank borrowings	19	(1,642,614)	(599,326)
Derivative financial instruments	12	(30,010)	(2,703)
Tax payable		(77,007)	(76,827)
		(2,050,996)	(973,743)
Net current liabilities		(1,448,687)	(350,480)
Total assets less current liabilities		17,623,101	19,832,025

Consolidated Statement of Financial Position (continued)

At 30 June 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	19	(2,596,867)	(3,637,960)
Deferred tax liabilities	8(c)	(192,139)	(178,995)
Derivative financial instruments	12	(62,939)	(23,203)
		(2,851,945)	(3,840,158)
Total liabilities, excluding net assets attributable to unitholders			
		(4,902,941)	(4,813,901)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		14,771,156	15,991,867
Number of units in issue			
	20	1,661,429,036	1,651,723,079
Net asset value attributable to unitholders per unit			
		\$8.89	\$9.68

The consolidated financial statements on pages 112 to 157 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the “**Manager**”), on 8 September 2020 and were signed on its behalf by :

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 120 to 157 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
At the beginning of the year		15,991,867	14,856,991
(Loss) / profit after taxation and before transactions with unitholders		(751,394)	1,591,101
Other comprehensive income		(64,696)	(46,465)
Total comprehensive (loss) / income for the year		(816,090)	1,544,636
Distribution paid to unitholders		(451,536)	(446,096)
Issuance of units to the Manager	20	51,386	49,204
Units bought back	20	(4,456)	(12,825)
Units buy-back expenses	20	(15)	(43)
		(404,621)	(409,760)
At the end of the year		14,771,156	15,991,867

The notes on pages 120 to 157 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
(Loss) / profit after taxation and before transactions with unitholders		(751,394)	1,591,101
Adjustments (note (i)) :			
– Decrease / (increase) in fair value of investment properties	10	1,142,844	(1,193,953)
– Manager's fees paid or payable in the form of units		49,627	50,217
– Interest rate swaps – cash flow hedges	7(a)	7,428	2,180
– Non-cash finance costs on interest-bearing liabilities		5,298	5,297
– Deferred tax	8(a)	13,200	12,478
		1,218,397	(1,123,781)
Annual distributable income (note (i))		467,003	467,320
Interim distribution, paid (notes (ii) and (iv))		218,643	217,422
Final distribution, to be paid to unitholders (notes (iii) and (iv))		225,955	232,893
Total distributions for the year (note (i))		444,598	450,315
Payout ratio (note (iii))		95.2%	96.4%
Distribution per unit :			
Interim distribution per unit, paid		13.2 cents	13.2 cents
Final distribution per unit, to be paid to unitholders		13.6 cents	14.1 cents
		26.8 cents	27.3 cents

Notes* :

- (i) Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code"), a real estate investment trust shall distribute to unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. Pursuant to the trust deed dated 26 May 2006 under which Sunlight Real Estate Investment Trust ("Sunlight REIT") was constituted (as amended and supplemented by six supplemental deeds) (the "Trust Deed"), the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

Annual distributable income means the amount calculated by the Manager as representing the consolidated profit after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial 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 borrowings of \$5,298,000, or 0.32 cents per unit (2019 : \$5,297,000, or 0.32 cents per unit) (which is an effective return of capital), and to eliminate the effect of decrease in fair value of investment properties.

Distribution Statement (continued)

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

Notes* : (continued)

- (ii) The interim distribution of \$218,643,000 for the six months ended 31 December 2019 (31 December 2018 : \$217,422,000) is calculated by multiplying the interim distribution per unit of 13.2 cents by 1,656,388,363 units in issue at 3 March 2020, the record date for FY2019/20 interim distribution (31 December 2018 : 13.2 cents by 1,647,139,077 units in issue at 7 March 2019, the record date for FY2018/19 interim distribution).
- (iii) The final distribution of \$225,955,000 for the year ended 30 June 2020 (2019 : \$232,893,000) is calculated by multiplying the final distribution per unit of 13.6 cents by 1,661,429,036 units** anticipated to be in issue at 29 September 2020, the record date for FY2019/20 final distribution (the "**Record Date**") (2019 : 14.1 cents by 1,651,723,079 units in issue at 25 September 2019, the record date for FY2018/19 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2020 represent a payout ratio of 95.2% (2019 : 96.4%) of Sunlight REIT's annual distributable income for the year.

- (iv) The FY2019/20 interim distribution was paid to unitholders on 13 March 2020. The FY2019/20 final distribution is expected to be paid on 9 October 2020 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 120 to 157 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Operating activities			
(Loss) / profit before taxation and transactions with unitholders		(671,317)	1,672,424
Adjustments :			
– Manager's fees paid or payable in the form of units		49,627	50,217
– Decrease / (increase) in fair value of investment properties	10	1,142,844	(1,193,953)
– Finance costs on interest-bearing liabilities	7(a)	120,444	103,129
– Depreciation	10	20	24
– Interest income		(17,091)	(16,794)
– Net unrealised foreign exchange loss		837	613
Operating cash flow before changes in working capital		625,364	615,660
(Increase) / decrease in trade and other receivables		(24,081)	10
Increase in tenants' deposits		4,374	14,233
Increase / (decrease) in rent receipts in advance		11,410	(4,735)
(Decrease) / increase in trade and other payables		(5,545)	3,117
Cash generated from operations		611,522	628,285
Hong Kong Profits Tax paid		(77,157)	(76,394)
Hong Kong Profits Tax refunded		87	–
Net cash generated from operating activities		534,452	551,891
Investing activities			
Interest received		17,379	17,574
Payment for acquisition of investment properties		(400)	(42,504)
Payment for expenditure incurred for investment properties		(52,721)	(18,343)
Payment for purchase of other fixed assets		–	(15)
Payment for purchase of debt securities		–	(49,291)
Proceeds from disposal of debt securities		–	20,283
Proceeds from redemption of matured debt securities		19,527	–
Decrease / (increase) in bank deposits with original maturity over three months		66,043	(134,187)
Net cash generated from / (used in) investing activities		49,828	(206,483)
Financing activities			
Distribution paid to unitholders		(451,536)	(446,096)
Payment for buy-back of units		(4,471)	(12,868)
Proceeds from new bank borrowings	16(b)	600,000	50,000
Repayment of bank borrowings	16(b)	(600,000)	(70,000)
Interest paid	16(b)	(109,919)	(92,521)
Other borrowing costs paid	16(b)	(2,880)	–
Net cash used in financing activities		(568,806)	(571,485)
Net increase / (decrease) in cash and cash equivalents		15,474	(226,077)
Effect of foreign exchange rate changes		(21)	(5)
Cash and cash equivalents at the beginning of the year	16(a)	358,467	584,549
Cash and cash equivalents at the end of the year	16(a)	373,920	358,467

The notes on pages 120 to 157 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, Sunlight Tower, 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 a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective 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.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets. The lessor accounting requirements are substantially unchanged from HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group’s consolidated financial statements as the Group has not entered into any leases as a lessee.

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2020 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.

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)).

2 Significant accounting policies (continued)

(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)).

(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.

2 Significant accounting policies (continued)

(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).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group had elected on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases.

(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
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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.

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)).

2 Significant accounting policies (continued)

(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.

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.

2 Significant accounting policies (continued)

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

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

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.

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.

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 (continued)

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.

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.

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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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 :

	2020			2019		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– Rental income	345,636	343,232	688,868	334,558	349,537	684,095
– Car park income	3,742	30,452	34,194	3,677	31,590	35,267
– Rental related income	66,066	65,435	131,501	64,625	66,718	131,343
	415,444	439,119	854,563	402,860	447,845	850,705
Property operating expenses	(75,123)	(94,734)	(169,857)	(74,830)	(93,338)	(168,168)
Net property income	340,321	344,385	684,706	328,030	354,507	682,537
Administrative expenses	(52,825)	(46,472)	(99,297)	(58,596)	(49,429)	(108,025)
Segment results	287,496	297,913	585,409	269,434	305,078	574,512
(Decrease)/increase in fair value of investment properties	(483,869)	(658,975)	(1,142,844)	537,407	656,546	1,193,953
Finance costs on interest- bearing liabilities			(120,444)			(103,129)
Income tax			(80,077)			(81,323)
Interest income			17,091			16,794
Unallocated net expenses			(10,529)			(9,706)
(Loss)/profit after taxation and before transactions with unitholders			(751,394)			1,591,101
Depreciation	5	15	20	6	18	24

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2020			2019		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Segment assets	10,238,011	8,764,634	19,002,645	10,663,109	9,406,247	20,069,356
Derivative financial instruments			63			5,143
Other financial assets			115,674			136,405
Cash and bank balances			499,433			550,024
Tax recoverable			53,893			43,520
Deferred tax assets			80			136
Unallocated assets			2,309			1,184
Total assets			19,674,097			20,805,768
Segment liabilities	(158,872)	(135,366)	(294,238)	(148,131)	(140,170)	(288,301)
Derivative financial instruments			(92,949)			(25,906)
Bank borrowings			(4,239,481)			(4,237,286)
Tax payable			(77,007)			(76,827)
Deferred tax liabilities			(192,139)			(178,995)
Unallocated liabilities			(7,127)			(6,586)
Total liabilities, excluding net assets attributable to unitholders			(4,902,941)			(4,813,901)
Capital expenditure incurred during the year	52,045	910*	52,955*	16,948	42,779*	59,727*

* Included amounts incurred relating to the acquisition of investment properties of \$435,000 (2019 : \$42,504,000).

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 :

	2020 \$'000	2019 \$'000
Rental income (note)	688,868	684,095
Car park income	34,194	35,267
Rental related income	131,501	131,343
	854,563	850,705

Note : Included additional rents based on business revenue of tenants amounting to \$1,024,000 (2019 : \$1,428,000).

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

5 Property operating expenses

	2020 \$'000	2019 \$'000
Building management fee	61,307	59,772
Property Manager's fees	51,882	52,216
Government rent and rates	33,413	33,737
Marketing and promotion expenses	5,632	5,042
Car park operating costs	6,542	6,365
Other direct costs	11,081	11,036
	169,857	168,168

6 Other income

	2020 \$'000	2019 \$'000
Bank interest income	11,572	10,717
Interest income from debt securities	5,519	6,077
Others	–	1,014
	17,091	17,808

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

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

	2020 \$'000	2019 \$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank borrowings	107,718	95,652
Other borrowing costs	5,298	5,297
	113,016	100,949
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	6,303	1,918
– Net fair value loss of ineffective cash flow hedges	1,125	262
	7,428	2,180
	120,444	103,129

Other borrowing costs represent various financing charges and the amortisation of the debt establishment fees for the bank borrowings (note 19).

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

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

	2020 \$'000	2019 \$'000
(b) Other items		
Manager's fees	96,213	100,433
Property Manager's fees (notes (i) and (iv))	51,882	52,216
Trustee's remuneration and charges	4,715	4,943
Auditor's remuneration		
– Audit services	2,002	1,965
– Other services (note (ii))	497	488
Fees payable to principal valuer		
– Valuation fees	502	628
Legal and other professional fees	3,216	8,088
Commission to property agents	1,387	1,239
Bank charges	315	299
Net foreign exchange loss	816	613

Notes :

- (i) Included rental commission of \$12,086,000 (2019 : \$12,569,000).
- (ii) Excluded an amount of \$360,000 non-audit service fee paid to the auditor in relation to the update of a medium term note programme during the year ended 30 June 2020 which had been recognised as a prepayment at 30 June 2020.
- (iii) 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.
- (iv) For the year ended 30 June 2020, 64.7% (2019 : 64.3%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounting for 43.2% (2019 : 44.0%). 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 :

	2020 \$'000	2019 \$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	67,513	69,161
Over-provision in respect of prior years	(636)	(316)
	66,877	68,845
Deferred tax		
Origination and reversal of temporary differences	13,200	12,478
	80,077	81,323

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

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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 2012/13, as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commissions incurred by these subsidiaries. During the year ended 30 June 2020, the IRD further raised profits tax assessments on certain other subsidiaries for the year of assessment 2013/14 in respect of such disallowance. Notices of objection were filed with the IRD against the above additional profits tax assessments raised to date. At 30 June 2020, tax reserve certificates in an aggregate amount of \$53.5 million (2019 : \$43.3 million) had been purchased in respect of the additional assessments raised.

Regarding the Particular Subsidiary, the IRD issued a determination in April 2018 in respect of the objections to the assessments on the Particular Subsidiary which allowed the deduction of property management fees and rental commissions, while the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT’s legal and tax advisers, the Manager decided to contest the assessments raised in respect of the management fees and a notice of appeal against the written determination was filed with the Board of Review (Inland Revenue Ordinance) (“**BoR**”) in May 2018. The appeal was heard by the BoR in June 2019 and its decision is pending.

If the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2019/20 would amount to approximately \$109 million.

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rate :

	2020 \$'000	2019 \$'000
(Loss)/profit before taxation and transactions with unitholders	(671,317)	1,672,424
Notional tax on (loss)/profit before taxation and transactions with unitholders, calculated at applicable tax rates	(110,932)	275,950
Tax effect of non-deductible expenses	195,308	7,089
Tax effect of non-taxable income	(2,709)	(200,525)
Tax effect of current year’s tax losses not recognised	42	127
Tax effect of prior years’ tax losses and other temporary differences recognised/derecognised	(947)	(943)
Tax effect of prior years’ unrecognised tax losses utilised in the current year	(49)	(59)
Over-provision in respect of prior years	(636)	(316)
Actual tax expense	80,077	81,323

8 Income tax (continued)

(c) Deferred tax assets and liabilities recognised :

The components of deferred tax (assets)/liabilities 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	Cash flow hedges \$'000	Total \$'000
At 1 July 2018	170,015	(3,634)	5,509	171,890
Charged/(credited) to profit or loss	12,523	(45)	–	12,478
Credited to net assets attributable to unitholders	–	–	(5,509)	(5,509)
At 30 June 2019	182,538	(3,679)	–	178,859
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

	2020 \$'000	2019 \$'000
Represented by :		
Net deferred tax assets recognised in the consolidated statement of financial position	(80)	(136)
Net deferred tax liabilities recognised in the consolidated statement of financial position	192,139	178,995
	192,059	178,859

(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 \$49,232,000 (2019 : \$56,151,000) 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)/earnings per unit before transactions with unitholders

The basic loss per unit before transactions with unitholders for the year ended 30 June 2020 amounted to \$0.45 (2019 : basic earning per unit before transactions with unitholders of \$0.97). The calculation of basic (loss)/earnings per unit before transactions with unitholders is based on the Group's loss after taxation and before transactions with unitholders of \$751,394,000 (2019 : profit after taxation and before transactions with unitholders of \$1,591,101,000) and the weighted average of 1,655,646,380 units in issue during the year (2019 : 1,647,392,160 units).

Diluted (loss)/earnings per unit before transactions with unitholders for the years ended 30 June 2020 and 2019 are not presented as there was no potential dilution of (loss)/earnings per unit before transactions with unitholders.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

10 Fixed assets

	Furniture and fixtures \$'000	Investment properties \$'000	Total \$'000
Cost or valuation :			
At 1 July 2018	271	18,754,800	18,755,071
Additions (note (c))	15	53,757	53,772
Increase in fair value	–	1,193,953	1,193,953
At 30 June 2019	286	20,002,510	20,002,796
Representing :			
Cost	286	–	286
Valuation – 2019	–	20,002,510	20,002,510
	286	20,002,510	20,002,796
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
Accumulated depreciation :			
At 1 July 2018	220	–	220
Charge for the year	24	–	24
At 30 June 2019	244	–	244
At 1 July 2019	244	–	244
Charge for the year	20	–	20
At 30 June 2020	264	–	264
Net book value :			
At 30 June 2020	22	18,918,000	18,918,022
At 30 June 2019	42	20,002,510	20,002,552

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 2020 and 2019, 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 2020 by the Group's principal valuer, Colliers International (Hong Kong) Limited ("**Colliers**"), an independent firm that has key personnel who are fellows or members of The Hong Kong Institute of Surveyors or the Royal Institute of Chartered Surveyors (Hong Kong Branch) with recent experience in the location and category of property being valued.

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 2020 and 2019 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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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 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%

	30 June 2019		
	Market unit rent	Capitalisation rate	Occupancy rate
In Hong Kong			
– Office	\$15.3 to \$45.4	3.1% to 3.8%	73.9% to 100%
– Retail	\$17.8 to \$154.0	2.9% to 4.4%	4.0%* 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.

* Due to the renovation work at a property commenced in April 2019.

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

	2020 \$'000	2019 \$'000
In Hong Kong		
– Long leases	8,783,400	9,052,500
– Medium-term leases	10,134,600	10,950,010
	18,918,000	20,002,510

(c) Included the acquisition of investment properties amounting to \$42,504,000 in 2019.

(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.

12 Derivative financial instruments

	2020			2019		
	Assets \$'000	Liabilities \$'000	Net amount \$'000	Assets \$'000	Liabilities \$'000	Net amount \$'000
Interest rate swaps and interest rate basis swaps – cash flow hedges						
Current portion	63	(30,010)	(29,947)	5,122	(2,703)	2,419
Non-current portion	–	(62,939)	(62,939)	21	(23,203)	(23,182)
	63	(92,949)	(92,886)	5,143	(25,906)	(20,763)

The Group uses interest rate swaps (“**IRSs**”), and in some cases, supplemented by interest rate basis swaps (“**Basis Swaps**”), to hedge the exposure to movements in interest rates in relation to its floating rate term loan by swapping from floating rates to fixed rates.

During the year ended 30 June 2020, the net unrealised losses on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to \$1,656,000 (2019 : net unrealised gains \$89,000) were reclassified from net assets attributable to unitholders to profit or loss. As at 30 June 2020, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, fair value loss of ineffective hedges amounting to \$1,125,000 (2019 : \$262,000) was charged to profit or loss for the year. Also, net cumulative unrealised losses of expired swaps amounting to \$4,647,000 (2019 : \$2,007,000) were reclassified from net assets attributable to unitholders to profit or loss for the year.

At 30 June 2020, the net cumulative unrealised loss on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to \$90,474,000 (2019 : \$25,778,000).

At 30 June 2020, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of \$3,700,000,000 (2019 : \$2,900,000,000), supplemented by Basis Swaps with notional amount of \$300,000,000 (2019 : \$700,000,000). These swaps will mature between August 2020 to October 2025 (2019 : August 2019 to November 2023).

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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

13 Other financial assets

	2020 \$'000	2019 \$'000
Financial assets measured at amortised cost		
Debt securities		
– Listed in Hong Kong	85,950	106,119
– Listed outside Hong Kong	19,511	19,980
– Unlisted	10,213	10,306
	115,674	136,405

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

14 Other non-current assets

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

15 Trade and other receivables

	2020 \$'000	2019 \$'000
Rental receivables	37,339	16,385
Deposits and prepayments	8,473	5,117
Other receivables	1,938	2,229
Amounts due from related companies	1,170	866
	48,920	24,597

Included unamortised rent-free and rental concession, deposits and prepayment of \$13,298,000 (2019 : \$10,125,000) which are expected to be recovered or recognised as expense after one year. Apart from the above, all of the balances are expected to be recovered or recognised as expense within one year.

At the end of the reporting period, the ageing analysis of rental receivables, based on the date of revenue recognition and net of loss allowance, is as follows :

	2020 \$'000	2019 \$'000
Current	26,861	14,014
Less than 1 month overdue	6,584	1,729
More than 1 month and up to 3 months overdue	2,664	431
More than 3 months and up to 6 months overdue	677	174
More than 6 months overdue	553	37
	37,339	16,385

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 :

	2020 \$'000	2019 \$'000
Deposits with original maturity within three months	328,541	315,700
Cash at bank and in hand	45,379	42,767
Cash and cash equivalents in the consolidated cash flow statement	373,920	358,467
Deposits with original maturity over three months	125,513	191,557
Cash and bank balances in the consolidated statement of financial position	499,433	550,024

(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 borrowings \$'000 (note 19)	Interest payable \$'000	Total \$'000
At 1 July 2018	4,251,497	558	4,252,055
Changes from financing cash flows :			
Proceeds from new bank borrowings	50,000	–	50,000
Repayment of bank borrowings	(70,000)	–	(70,000)
Interest paid	–	(92,521)	(92,521)
Total changes from financing cash flows	(20,000)	(92,521)	(112,521)
Non-cash changes :			
Interest expenses (note 7(a))	–	95,652	95,652
Other borrowing and related costs	5,789	–	5,789
Total non-cash changes	5,789	95,652	101,441
At 30 June 2019	4,237,286	3,689	4,240,975

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

16 Cash and bank balances and other cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Bank 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

17 Tenants' deposits

The tenants' deposits include \$120,331,000 (2019 : \$145,635,000) 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

	2020 \$'000	2019 \$'000
Creditors and accrued charges	32,221	33,705
Manager's fees payable (note 26(b)(ii))	20,802	27,362
Amounts due to related companies	7,440	8,702
	60,463	69,769

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 \$1,014,000 (2019 : \$1,343,000) which is due within 30 days.

19 Bank borrowings

	2020 \$'000	2019 \$'000
Bank borrowings		
– Secured	2,623,610	2,921,762
– Unsecured	1,615,871	1,315,524
	4,239,481	4,237,286

The bank borrowings were repayable as follows :

	2020 \$'000	2019 \$'000
Within 1 year	1,642,614	599,326
After 1 year but within 2 years	2,000,282	1,640,040
After 2 years but within 5 years	596,585	1,997,920
	2,596,867	3,637,960
	4,239,481	4,237,286

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate (“HIBOR”) plus 0.52% per annum to HIBOR plus 0.82% per annum (2019 : HIBOR plus 0.52% per annum to HIBOR plus 0.79% per annum). The Group also entered into the IRSs and Basis Swaps, details of which are set out in note 12.

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

- mortgages over the investment properties with a fair value of \$10,734,400,000 at 30 June 2020 (2019 : \$11,222,900,000) (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.

The effective interest rate of the bank borrowings at the end of the reporting period was 1.99% per annum (2019 : 2.69% per annum).

At 30 June 2020, the Group’s uncommitted revolving credit facilities of \$600,000,000 (2019 : \$600,000,000) remained undrawn.

20 Units in issue

	Number of units	
	2020	2019
At the beginning of the year	1,651,723,079	1,645,139,777
Movement during the year		
– Issuance of units	10,705,957	9,148,302
– Units bought back	(1,000,000)	(2,565,000)
At the end of the year	1,661,429,036	1,651,723,079

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

20 Units in issue (continued)

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
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
2019			
1 April 2018 to 30 June 2018	5.454	11,875	2,177,401
Adjustment of Manager's fees for the financial year 2017/18	5.481	793	144,615
1 July 2018 to 30 September 2018	5.321	11,931	2,242,284
1 October 2018 to 31 December 2018	4.995	12,263	2,454,965
1 January 2019 to 31 March 2019	5.797	12,342	2,129,037
		49,204	9,148,302

Pursuant to the general mandate granted to the Manager by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 1,000,000 units (2019 : 2,565,000 units) on the SEHK during the year ended 30 June 2020 at an aggregate consideration of \$4,456,000 (2019 : \$12,825,000).

Details of the units buy-backs were as follows :

	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
	1,000,000			4,456
Total buy-back expenses				15
				4,471

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 \$	
2019				
Month of buy-back				
October 2018	1,909,000	5.19	4.88	9,658
November 2018	656,000	4.89	4.70	3,167
	<u>2,565,000</u>			<u>12,825</u>
Total buy-back expenses				<u>43</u>
				<u>12,868</u>

All bought back units were cancelled during the year.

21 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate 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 all the instruments have investment grade granted by certain credit rating agencies or 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 guarantee are held to cover potential exposure to credit risk.

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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 :

	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 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	
	2019					Carrying amount \$'000
	Contractual undiscounted cash outflow/(inflow)					
	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 borrowings	730,972	1,754,967	2,067,566	–	4,553,505	4,237,286
Tenants' deposits	70,798	82,400	47,121	16,115	216,434	216,434
Creditors and accrued charges	33,705	–	–	–	33,705	33,705
Manager's fees payable in the form of cash	13,681	–	–	–	13,681	13,681
Amounts due to related companies	8,702	–	–	–	8,702	8,702
	857,858	1,837,367	2,114,687	16,115	4,826,027	4,509,808
Derivative settled net :						
IRS and Basis swap contracts held as cash flow hedging instruments	(13,360)	(4,054)	(6,299)	–	(23,713)	

21 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings raised at variable interest rates expose the Group to cash flow interest rate risk. The Group managed its cash flow interest rate risk by using floating-to-fixed IRSs (and in some cases, supplemented by Basis Swaps). Such interest rate swap arrangements have the economic effect of converting borrowings from floating rates to fixed rates. Under the IRSs, 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. 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 and Basis Swaps are set out in note 12.

Sensitivity analysis

At 30 June 2020, if interest rates had been 100 basis points (2019 : 100 basis points) higher with all other variable held constant, the net assets attributable to unitholders would have been approximately \$91.7 million (2019 : \$47.5 million) higher as a result of an increase in the fair values of the cash flow hedges as described above. On the other hand, if interest rates had been 10 basis points (2019 : 100 basis points) lower with all other variable held constant, the net assets attributable to unitholders would have been approximately \$9.3 million (2019 : \$47.9 million) lower as a result of a decrease in the fair values of the cash flow hedges.

At 30 June 2020, if interest rates had been 100 basis points (2019 : 100 basis points) higher with all other variable held constant, the Group's loss after taxation and before transactions with unitholders would have been approximately \$17.1 million higher (2019 : profit after taxation and before transactions with unitholders would have been approximately \$19.2 million lower) and net assets attributable to unitholders would have been approximately \$17.1 million (2019 : \$19.2 million) lower as a result of higher interest expenses on floating rate borrowings. On the other hand, if interest rates had been 10 basis points (2019 : 100 basis points) lower with all other variable held constant, the Group's loss after taxation and before transactions with unitholders would have been approximately \$1.7 million lower (2019 : profit after taxation and before transactions with unitholders would have been approximately \$19.2 million higher) and net assets attributable to unitholders would have been approximately \$1.7 million (2019 : \$19.2 million) higher as a result of lower interest expenses on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group. The 100 basis point increase and 10 basis point decrease in interest rates represent the Manager's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis 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 2020 and 2019, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (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 2020 and 2019, 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 and Basis Swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(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 cost or amortised cost are not materially different from their fair values at 30 June 2020 and 2019.

(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 and Basis Swaps is calculated as the present value of the estimated future cash flows.

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 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 2020, Sunlight REIT's aggregate borrowings represent 21.6% (2019 : 20.4%) of its total gross asset value.

23 Capital commitments

Capital commitments outstanding at 30 June 2020 not provided for in the consolidated financial statements are as follows :

	2020 \$'000	2019 \$'000
Contracted for	14,108	41,821
Authorised but not contracted for	8,154	13,460
	22,262	55,281

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 (2019 : \$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.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

25 Significant leasing arrangements

The Group's total future minimum rental income receivables under non-cancellable operating leases are as follows :

	2020 \$'000	2019 \$'000
Within 1 year	558,588	603,886
After 1 year but within 2 years	341,760	392,580
After 2 years but within 3 years	141,412	185,198
After 3 years but within 4 years	68,126	84,397
After 4 years but within 5 years	64,041	68,333
After 5 years	237,447	301,147
	1,411,374	1,635,541

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 ")	Significant holders of Sunlight REIT and their associates
HLD and other members of its group (collectively referred to as " HLD Group ")	Significant 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 ")	Holding companies and associated companies 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
Chinese Young Men's Christian Association of Hong Kong (" YMCA ")	An associate of a director of the Manager

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

(b) Transactions with connected persons/related parties

	2020	2019
	\$'000	\$'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	12,279	11,781
– HSBC Group	23,855	23,798
– YMCA	2	–
Property management expenses paid/payable to (note (i)) :		
– HLD Group	(17,279)	(15,858)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	(103)	(100)
Manager's fees (note (ii))	(96,213)	(100,433)
Property Manager's fees (note (iii))	(51,882)	(52,216)
Trustee's remuneration and charges (note (iv))	(4,716)	(4,944)
Interest expenses and security trustee fees on bank borrowings, brokerage commission and other charges paid/payable to (notes (i) and (v)) :		
– HSBC Group	(41,260)	(37,941)
Net interest income on IRSs and Basis Swaps received/receivable from (note (v)) :		
– HSBC Group	1,274	3,137
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	1,358	257
Valuation fees paid/payable to (note (i)) :		
– Colliers Group	(537)	(653)
– Knight Frank Petty Limited* and other members of its group	–	(5)
Promotional income received/receivable from (note (i)) :		
– HLD Group	3,256	3,226

* Knight Frank Petty Limited was the principal valuer of Sunlight REIT for the period from 1 September 2015 to 31 August 2018.

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

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

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

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

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

- (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) Interest are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 12 and 19.

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

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

	2020	2019
	\$'000	\$'000
Net amount due to :		
– HLD Group	(28,619)	(35,135)
– HSBC Group (note)	(1,121,439)	(1,541,676)
– Colliers Group	(336)	(370)
Note :		
Deposits and cash placed with HSBC Group	161,586	42,229
Bank borrowings and interest payable to HSBC Group	(1,275,344)	(1,576,512)
Others	(7,681)	(7,393)
	(1,121,439)	(1,541,676)

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.

(a) 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.

(b) Recognition of deferred tax assets

At 30 June 2020, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately \$22,186,000 (2019 : \$22,299,000). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the asset can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

Notes to the Consolidated Financial Statements (continued)

(Expressed in Hong Kong dollars)

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 2020

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, a new standard and interpretations which are not yet effective for the year ended 30 June 2020 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 HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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.

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 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

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2020	2019	2018	2017	2016
At 30 June :						
Net asset value (\$ million)		14,771	15,992	14,857	13,899	13,518
Net asset value per unit		8.89	9.68	9.03	8.49	8.26
Market capitalisation (\$ million)		6,397	9,894	8,917	8,385	7,231
For the year ended 30 June :						
Highest traded unit price		6.35	6.10	5.61	5.25	4.44
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		3.19	4.66	4.98	4.38	3.48
Highest discount of the traded unit price to net asset value per unit (%)		64.1	51.9	44.9	48.4	57.9
Closing unit price		3.85	5.99	5.42	5.12	4.42
Distribution per unit (cents)	2	26.8	27.3	26.5	33.0	24.3
Payout ratio (%)	2	95.2	96.4	96.7	124.3	95.8
Distribution yield per unit (%)	3	7.0	4.6	4.9	6.4	5.5

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.

Notice of Annual General Meeting

PRECAUTIONARY MEASURES FOR THE AGM

In view of the COVID-19 outbreak, the Manager will implement the following precautionary measures for the AGM to safeguard the health and safety of Unitholders and other attendees :

- (a) compulsory body temperature screening;
- (b) submission of health declaration;
- (c) mandatory wearing of surgical face masks at all times;
- (d) assignment of a designated seating area to each attendee at the time of entrance; and
- (e) no refreshments, drinks and gifts will be provided.

The Manager reserves the right to deny entry into the AGM venue if such person :

- (i) refuses to comply with measures (a) to (d) above;
- (ii) has a body temperature of over 37.4 degree Celsius; or
- (iii) is subject to health quarantine prescribed by The Government of the HKSAR or has close contact with any person under quarantine.

These precautionary measures take time to complete; Unitholders are advised to arrive earlier in order to enter the AGM venue on time. The Manager seeks the understanding and cooperation of Unitholders to minimize the risk of spreading COVID-19.

The Manager reminds that attendees should carefully consider the risks of attending the AGM, taking into account their own personal circumstances. Instead of attending the AGM in person, Unitholders are strongly encouraged to appoint the Chairman of the AGM as their proxy to vote at the AGM. The Manager will keep the evolving COVID-19 situation under review and will announce closer to the date of the AGM on implementation of additional measures, if necessary.

NOTICE IS HEREBY GIVEN that the annual general meeting (the “**AGM**”) of the unitholders (“**Unitholders**”) of Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) will be held at The Ballroom, 18th Floor, The Mira Hong Kong, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Friday, 6 November 2020 at 11:00 a.m. for the following purposes :

- (1) To note the audited consolidated financial statements of Sunlight REIT together with the independent auditor’s report for the year ended 30 June 2020;
- (2) To note the appointment of auditor of Sunlight REIT and the fixing of their remuneration; and

- (3) To consider and, if thought fit, pass with or without modification, the following resolution as an Ordinary Resolution :

“THAT :

- (a) the exercise by Henderson Sunlight Asset Management Limited (the “**Manager**”) during the Relevant Period (as defined in paragraph (c) below) of all the powers of the Manager to buy back units of Sunlight REIT (“**Units**”) on behalf of Sunlight REIT on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), subject to and in accordance with the circular dated 31 January 2008 issued by the Securities and Futures Commission (the “**SFC**”) to management companies of SFC-authorized real estate investment trusts (“**REITs**”) in relation to on-market unit repurchases by SFC-authorized REITs, paragraph (b) below, the trust deed constituting Sunlight REIT dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the “**Trust Deed**”), the applicable laws of Hong Kong, the Code on Real Estate Investment Trusts, the applicable provisions of the Codes on Takeovers and Mergers and Share Buy-backs, the guidelines issued by the SFC from time to time, and applicable rules and regulations, be and is hereby generally and unconditionally approved;
- (b) the aggregate number of Units which may be bought back or agreed to be bought back on the Stock Exchange by the Manager on behalf of Sunlight REIT pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate number of Units in issue at the date of the passing of this resolution, and such approval shall be limited accordingly; and
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until the earliest of :
- (i) the conclusion of the next annual general meeting of Unitholders following the passing of this resolution;
 - (ii) the expiration of the period within which the meeting referred to in (i) above is required to be held under the Trust Deed; and
 - (iii) the revocation or variation of the authority conferred by this resolution by an ordinary resolution of Unitholders at a general meeting.”

By order of the Board
HENDERSON SUNLIGHT ASSET MANAGEMENT LIMITED
(as manager of Sunlight Real Estate Investment Trust)
CHUNG Siu Wah
Company Secretary

Hong Kong, 25 September 2020

Notes :

- (a) Pursuant to the Trust Deed, any Unitholder is entitled to appoint proxy to attend and vote in his/her stead at the meeting (or any adjournment thereof), but the number of proxies appointed by any Unitholder (other than HKSCC Nominees Limited or a recognized clearing house within the meaning of the Securities and Futures Ordinance) shall not exceed two. A proxy need not be a Unitholder.
- (b) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be returned to the unit registrar of Sunlight REIT, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "**Unit Registrar**"), no later than 11:00 a.m. on Wednesday, 4 November 2020, or not less than 48 hours before the time appointed for holding of any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting (or any adjournment thereof) or at the poll concerned should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
- (c) In the case of joint Unitholders, the vote of Unitholder who is first-named on the register of Unitholders, whether tendered in person or by proxy, shall be acceptable to the exclusion of the votes of other joint Unitholders. For this purpose, seniority shall be determined by the order in which the names stand in the register of Unitholders.
- (d) For the purpose of determining entitlements to attend and vote at the meeting (or any adjournment thereof), the register of Unitholders will be closed from Tuesday, 3 November 2020 to Friday, 6 November 2020, both days inclusive, during which period no transfer of Units will be effected. In order to be eligible to attend and vote at the meeting (or any adjournment thereof), completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the Unit Registrar no later than 4:30 p.m. on Monday, 2 November 2020.
- (e) The voting of the resolution proposed at the meeting as set out in this notice shall be taken by way of a poll.
- (f) If a Typhoon Signal No. 8 (or above) is hoisted or a Black Rainstorm Warning Signal is in force at or at any time after 7:00 a.m. on the date of the meeting, the meeting will be rescheduled. The Manager will publish an announcement on the websites of Sunlight REIT at www.sunlightreit.com and HKExnews of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk to notify Unitholders of the arrangement on the rescheduled meeting.
- (g) Please indicate in advance, not less than one week before the time appointed for holding the meeting, if Unitholders, because of disabilities, need special arrangements to participate in the meeting. Any such request should be made in writing to the Unit Registrar by post or by email at Sunlightreit-ecom@hk.tricorglobal.com. The Manager will endeavour to make the necessary arrangements unless there is unjustifiable hardship in arranging for them.

Financial Calendar

For FY2019/20

Interim results announcement	11 February 2020
Issuance of interim report	21 February 2020
Ex-distribution date for interim distribution	26 February 2020
Closure of register of unitholders for entitlement of interim distribution	28 February 2020 to 3 March 2020, both days inclusive
Interim distribution paid HK 13.2 cents per unit	13 March 2020
Final results announcement	8 September 2020
Ex-distribution date for final distribution	23 September 2020
Issuance of annual report	25 September 2020
Closure of register of unitholders for entitlement of final distribution	25 September 2020 to 29 September 2020, both days inclusive
Final distribution payable HK 13.6 cents per unit	9 October 2020
Closure of register of unitholders for entitlement to attend and vote at annual general meeting	3 November 2020 to 6 November 2020, both days inclusive
Annual general meeting	6 November 2020

Corporate Information

Board of Directors of the Manager

Chairman and Non-Executive Director

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-Executive Director

KWOK Ping Ho

Independent Non-Executive Directors

KWAN Kai Cheong

TSE Kwok Sang

KWOK Tun Ho, Chester

Responsible Officers of the Manager

LO Yuk Fong, Phyllis

SHUM Chung Wah, Yulanda

WONG Chi Ming

WU Shiu Kee, Keith

YIP May Ling, Vivian

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

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

Investor Relations

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Email : ir@HendersonSunlight.com

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

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

Hang Seng Bank Limited

The Hongkong and Shanghai Banking
Corporation Limited

MUFG Bank, Ltd.

Oversea-Chinese Banking Corporation
Limited, Hong Kong Branch

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

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com

