SUNLIGHT REIT

Stock Code : 435

Infusing Sustainability

Annual Report 2018/19

Highlights of the Year

- A satisfactory set of results supported by respectable rental reversion and effective cost control
- The office portfolio continued to benefit from the momentum in decentralization, while key retail assets turned in a decent performance despite a slowdown in consumer spending
- The rebranding cum asset enhancement initiatives at Strand 50 and The Harvest are poised to bring reasonable benefits to Unitholders

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

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**") regarding the industry and sectors in which Sunlight Real Estate Investment Trust ("**Sunlight REIT**") operates. They are subject to risks, uncertainties and other factors beyond the Manager's control, the emergence of which may cause actual results or performance to differ materially from those expressed or implied in such statements.

Who We Are : In Brief

Sunlight REIT's unit price performance (at 30 June 2019)

	Total return[Note] (%)			
	1-year	3-year	5-year	Since listing
Sunlight REIT	16.0	59.4	142.8	477.1
Hang Seng Index	2.5	52.3	47.4	129.0
Hang Seng Index - Properties	14.8	61.3	75.1	178.3
Hang Seng REIT Index	20.8	54.8	106.4	240.7

Source : Bloomberg

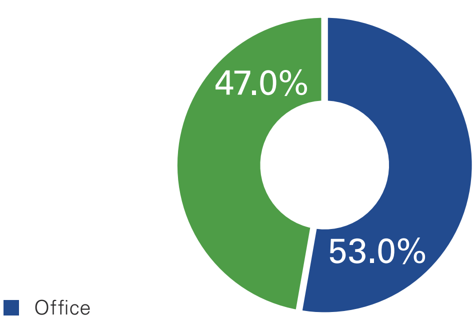
Our Business

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$9,894 million at 30 June 2019.

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 2019, Sunlight REIT's portfolio was appraised by its principal valuer, Colliers International (Hong Kong) Limited (the "**Principal Valuer**") at HK$20,002.5 million, with office and retail properties accounting for 53.0% and 47.0% of total valuation respectively.

Portfolio composition by appraised value



Annualized total return to investors since listing

Our Management

An indirect wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**"), the Manager is responsible for managing Sunlight REIT 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 with 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 would enhance returns 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.

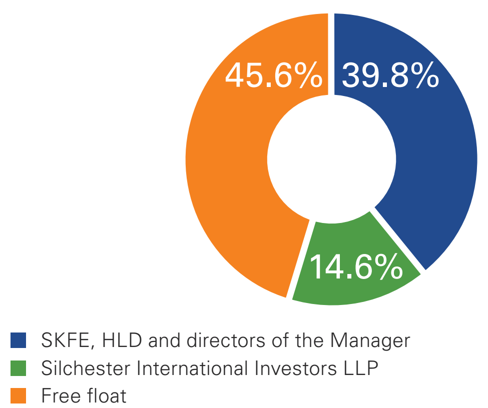
Capital and business management

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 work force.

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 collectively owned 39.7% of the total number of units of Sunlight REIT ("**Units**") in issue at 30 June 2019.

Unitholding structure
(30 June 2019)



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

Chairman's Statement

> **"During the Year, the Manager continued to devote substantial resources on asset enhancement, while forging strategic leasing partnerships in ensuring the income sustainability of Sunlight REIT."**

AU Siu Kee, Alexander
Chairman

On behalf of the Board, I have the pleasure of presenting the results of Sunlight REIT for the financial year ended 30 June 2019 (the "**Year**").

Sunlight REIT delivered a satisfactory set of results amidst a whirlwind of global economic uncertainty, as reflected by a 5.6% year-on-year rise in net property income ("**NPI**") to HK$682.5 million. Sustainable momentum in rental reversion and effective cost control were among the key impetus for growth, which helped improve the cost-to-income ratio to 19.8% (FY2017/18: 21.0%). Meanwhile, the anticipated upsurge in interest outlay was mitigated by a strong increase in interest income attributable to an expanded fixed income portfolio and higher cash return. Accordingly, annual distributable income recorded a 3.7% growth to HK$467.3 million.

The Board has resolved to declare a final distribution of HK 14.1 cents per Unit. Coupled with an interim distribution of HK 13.2 cents per Unit, the total distribution per Unit ("**DPU**") for the Year amounts to HK 27.3 cents, up 3.0% year on year. The implied payout ratio is 96.4%, compared with 96.7% in the preceding year.

At 30 June 2019, Sunlight REIT's property portfolio was appraised by the Principal Valuer at HK$20,002.5 million, 6.7% higher than a year ago. Net asset value consequently rose 7.6% to HK$15,991.9 million at 30 June 2019, or HK$9.68 per Unit (30 June 2018: HK$9.03 per Unit). Based on the closing price of HK$5.99 on the last trading day of the Year, the Units were trading at a 38.1% discount to asset backing.

During the Year, the Manager continued to devote substantial resources on asset enhancement, while forging strategic leasing partnerships in ensuring the income sustainability of Sunlight REIT. In the meantime, trade mix optimization for our retail assets was at the forefront of our operational initiatives, which has proved rewarding in light of the slight curtailment in retail sales.

Compound annual growth since listing

Net property income

7.6%

Net asset value

9.1%

Looking forward, there is a likelihood of the global economy experiencing another bout of cyclical slowdown, with issues such as the US-China trade tensions expected to linger. Rejuvenating measures including stronger fiscal stimulus and a more accommodative monetary stance would therefore be a high priority for policy makers.

On the domestic front, the adverse impact arising from the ongoing social unrest is taking a heavy toll on economic activities, particularly in terms of investment demand and tourism spending. As such, I will be more cautious about the prospects for Sunlight REIT despite its sound fundamentals and a tempered trend for interest rates. The management team will closely monitor the situation and take appropriate measures to cushion the downside risks associated with this unforeseen business disruption.

Meanwhile, we will capitalize on the prevailing interest rate environment with a view to strengthening the capital structure of Sunlight REIT. Given our solid track record in capital management, we are hopeful of making favourable headway for the benefit of Unitholders.

In sum, Unitholders should be assured that the Manager will be fully committed to maintaining a pragmatic yet agile operation to keep pace with changing market dynamics, while staying highly motivated in identifying acquisition and asset enhancement opportunities.

Finally, I would like to once again express my sincere thanks to my fellow directors, the management team and the staff for another year of exemplary performance and support. Their contribution has been and will continue to be a pivotal factor in the success of Sunlight REIT.

AU Siu Kee, Alexander
Chairman
4 September 2019

CEO's Report

"...Sunlight REIT has weathered the challenges and recorded another year of respectable growth, while continuing to build a sturdy structure for sustainable returns."

WU Shiu Kee, Keith
Chief Executive Officer

Notwithstanding the emergence of a wide range of adverse developments on global economic fronts, Sunlight REIT has weathered the challenges and recorded another year of respectable growth, while continuing to build a sturdy structure for sustainable returns.

During the Year, the Manager has steadfastly focused on reinforcing the sustainability framework of Sunlight REIT. Whether retrofitting existing properties to meet evolving trends, entering into long-term strategic partnerships, managing financial resources proactively or meeting our environmental responsibilities for the benefit of stakeholders, we look at *Infusing Sustainability*, the theme of this year's report, from a broad and sincere perspective.

This strategy has served well in the face of the protracted US-China trade tensions and unresolved issues surrounding Brexit. As the major economies have evidently entered a synchronized slowdown, the US Federal Reserve has promptly reversed its gears on interest rate policy, thus establishing an inverted yield curve since early 2019.

During the Year, the commercial property sector continued to demonstrate its resilience in spite of the various issues which hindered economic growth. In particular, the period under review witnessed the impressive performance of the overall Grade A office market, clearly benefitting from the momentum in office decentralization. In contrast to predictions that abundant new office supply would put pressure on rental rates, this has, in fact, provided a platform for corporations to expand with reasonable cost savings, while enabling co-work operators to augment their footprints.

On the other hand, retail sales have in general showed signs of faltering over the course of the Year, as evidenced by a 2.6% decline in overall retail spending in the first half of 2019.

Hong Kong retail sales (January - June 2019)

Source : Census and Statistics Department

Tourist arrivals into Hong Kong (January - June 2019)

Source : Hong Kong Tourism Board

Sunlight REIT turned in a decent operational performance for the Year, with its portfolio recording an average rental reversion of 11.4%. The slight retreat in the average portfolio occupancy rate was primarily attributable to the transitional vacancy in connection with the asset enhancement works at Strand 50, formerly known as Bonham Trade Centre.

I take pleasure in unveiling two strategic leasing commitments secured during the Year. First, we welcome Dah Sing Bank, Limited ("**DSBL**") which has agreed to enter into a 9-year lease at Sunlight Tower, occupying a combined office and retail space of approximately 81,000 sq. ft. with effect from October 2020. We have also agreed to grant DSBL the naming right of the building, which will be renamed "Dah Sing Financial Centre" upon lease commencement (or at a later date as mutually agreed). Meanwhile, at Strand 50, we are pleased to announce our collaboration with theDesk which leases and operates over 20% of GRA of the building dedicated for co-working facilities beginning from September 2019.

These exciting initiatives will not only provide sustainable improvement in rental income, but also help to rebrand and enhance the image of the two key office properties of Sunlight REIT.

Our rebranding cum enhancement strategy also extends to The Harvest, previously known as Fung Shun Commercial Building. We are gradually transforming this property from a traditional banking office into a service-driven hub, achieving satisfactory rental growth as compared to the previous lease, with good scalability given its proximity to Righteous Centre. The benefits derived from The Harvest acquisition require no further elaboration.

On capital expenditure ("**CAPEX**"), we have budgetted over HK$70 million for the refurbishment of Strand 50 and The Harvest. Meanwhile, with the chiller plant replacement project at Metro City Phase I Property ("**MCPI**") completed near the end of the previous financial year, we are pleased to report that electricity savings of approximately 19% (in kilowatt hours) have been recorded for the Year.

> “…there is a likelihood of higher Hong Kong dollar funding costs in spite of lower interest rates in the US.”

Outlook

Uncertainties on the macro-economic landscape, led by the US-China trade tensions, will continue to cloud the outlook of the global economy. The swift change in the monetary stance of the US exemplifies the view that positive consumer sentiment may succumb to waning business confidence, thus impeding economic expansion.

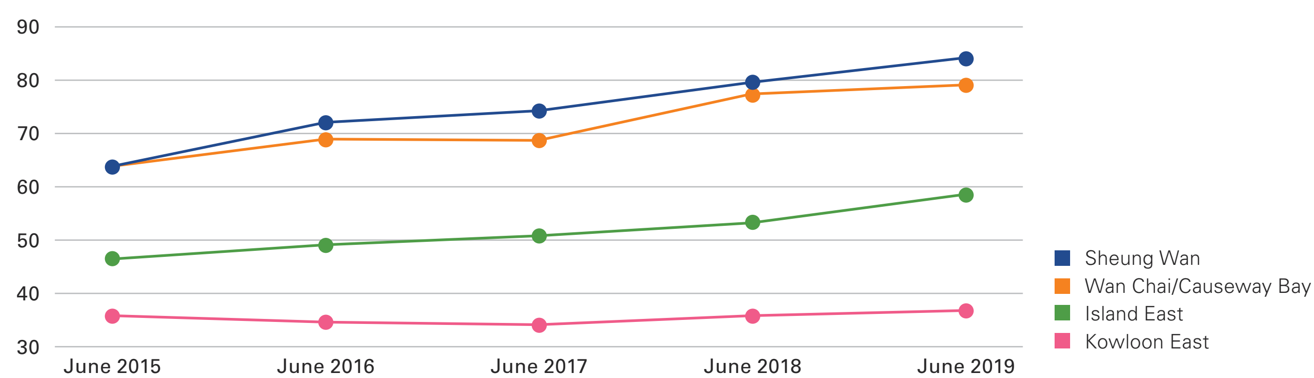
Meanwhile, the business environment of Hong Kong is becoming more precarious in light of the ongoing social unrest which will exacerbate the slowdown in retail spending and put further pressure on economic growth.

On the monetary front, as an interest rate hike has become less of a threat in the short-to-medium term, the prolonged weakness of the Hong Kong Interbank Offered Rate (“**HIBOR**”) seems to have run its course. While it may be premature to establish a view on the liquidity environment of Hong Kong, there is a likelihood of higher Hong Kong dollar funding costs in spite of lower interest rates in the US.

We consider the downside risk of the office portfolio to be relatively low, as decentralization is expected to support Grade A office demand in business areas where Sunlight REIT has a meaningful presence. Moreover, the ongoing asset enhancement exercises at Strand 50 and The Harvest will serve as engines for growth.

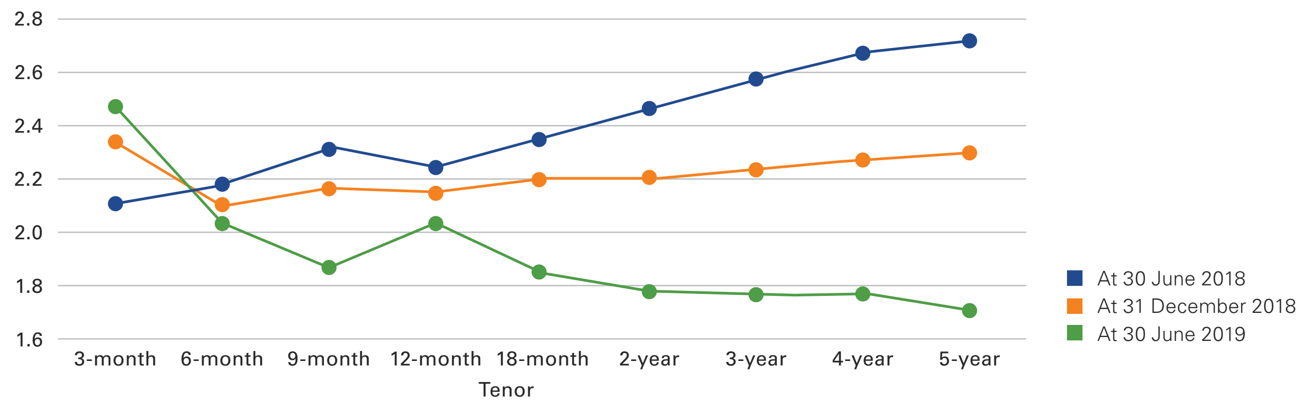
Prospects for the retail sector are clearly less certain. In addition to the acute impact triggered by the social unrest, increasing reliance on e-commerce shopping will continue to affect certain traditional trades such as fashion and electrical/electronic appliances. Moreover, we are aware of a rise in supply of new retail space, notably in areas such as Tsuen Wan and Tseung Kwan O. In sum, the scenario of lower rental reversion (possibly negative for selected trades) and longer rent void cannot be ruled out.

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
(%)



Source : Bloomberg

> **“Prospects for the retail sector are clearly less certain...the scenario of lower rental reversion (possibly negative for selected trades) and longer rent void cannot be ruled out.”**

Regarding capital management, our decision to reduce Sunlight REIT's fixed rate exposure in light of a persistently flat (and at times, inverted) yield curve during most of the Year has proved rewarding. Looking ahead, we will proactively manage the interest rate profile of Sunlight REIT, and are prepared to deal with minor refinancing activities to address certain loans which will fall due in the next 12 months.

Given its strong financial war chest, Sunlight REIT is well positioned to consider acquisition opportunities that will complement the existing portfolio and can enhance portfolio return. However, given the recent market volatility and ongoing interest rate fluctuations, we will stay prudent and only conduct acquisitions or disposals which are of clear benefit to Unitholders.

Over the past five financial years, Sunlight REIT has achieved compounded annual growth rates of 5.0% and 6.8% in NPI and net asset value respectively, while its annualized return to Unitholders (including distributions) surpassed 19%*. This is an enviable track record, particularly when considering the competitive operating environment and the vagaries of the global economy. However, there is little room for complacency given the formidable challenges ahead of us. Going forward, we will endeavour to navigate the businesses of Sunlight REIT proactively and responsibly, with a view to infusing long-term and sustainable value for our stakeholders.

WU Shiu Kee, Keith
Chief Executive Officer
4 September 2019

* Source : Bloomberg

Portfolio at a Glance

Top three properties

Sunlight Tower P

Sheung Shui Centre Shopping Arcade P

Metro City Phase I Property P

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

Sheung Wan/Central office properties

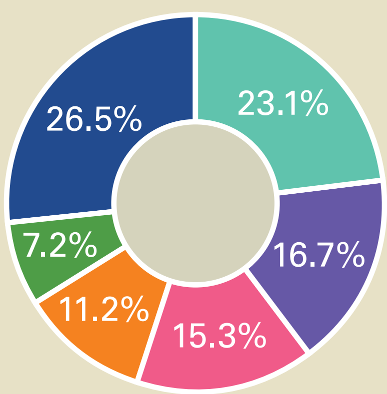
Strand 50
135 Bonham Strand Trade Centre Property
Winsome House Property
235 Wing Lok Street Trade Centre

Other retail properties

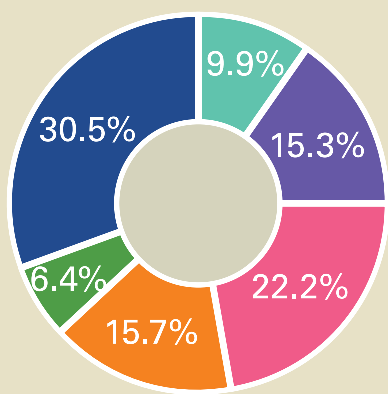
Kwong Wah Plaza Property
Beverley Commercial Centre Property
Supernova Stand Property

P Car park

Valuation



Gross rentable area



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

Office

11

Retail

5

Valuation

20.0 HK$ billion

Gross rentable area

1.24 million sq. ft.

Portfolio Statistics

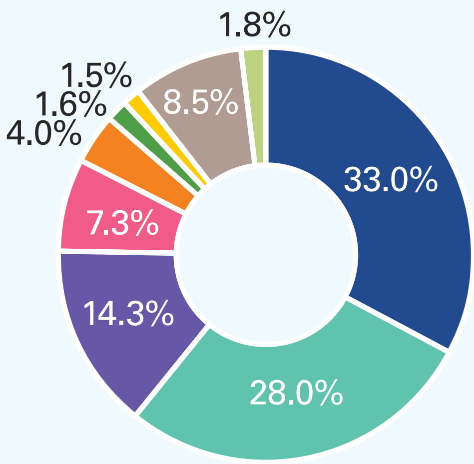
Property	Property details						No. of leases at 30 June	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.) Office	Retail	Total	2019	2018
Office								
Grade A								
Sunlight Tower	Wan Chai	1998	46	369,891	6,490	376,381	70	72
Grade B								
Bonham Trade Centre[4]	Sheung Wan	1998	0	108,506	9,403	117,909	64	96
The Harvest[6]	Mong Kok	1981	0	23,024	11,627	34,651	11	2
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	77	75
Winsome House Property	Central	1999	0	37,937	2,177	40,114	26	26
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	64	63
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	68	70
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	37	36
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	38	38
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	47	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	33	34
Sub-total/Average			**46**	**787,935**	**56,688**	**844,623**	**535**	**559**
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	123	126
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	112	111
Kwong Wah Plaza Property[7]	Yuen Long	1998	0	41,615	25,741	67,356	38	37
Urban								
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	24	33
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Sub-total/Average			**749**	**41,615**	**349,129**	**390,744**	**299**	**309**
Total/Average			**795**	**829,550**	**405,817**	**1,235,367**	**834**	**868**
Palatial Stand Property								
Total								

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 82 to 99 for further details.
4. The property has been renamed Strand 50 with effect from 1 September 2019.
5. Excluding the renovated area, the occupancy rate would have been 95.4%.
6. The property was previously known as Fung Shun Commercial Building.
7. Additional office units with GRA of 1,870 sq. ft. and 644 sq. ft. were acquired on 7 September 2018 and 25 April 2019 for approximately HK$29 million and HK$10 million respectively.

Operational statistics						Property financials				
Occupancy rate at 30 June (%)		Passing rent[1] at 30 June (HK$/sq. ft.)		Rental reversion[2] (%)		NPI (HK$'000)		Capitalization rate at 30 June 2019 (%)		Appraised value at 30 June 2019[3] (HK$'000)
2019	2018	2019	2018	FY2018/19	FY2017/18	FY2018/19	FY2017/18	Office	Retail	
98.2	98.5	39.6	38.2	13.5	10.4	181,162	170,628	3.75	3.65	5,294,300
68.4[5]	93.0	31.8	29.8	10.6	9.1	32,532	36,065	3.45	3.80	1,311,400
96.4	100.0	51.2	47.3	N/A	N/A	16,643	10,284	3.10	2.90	730,800
100.0	100.0	29.4	27.6	12.6	8.6	18,681	18,648	3.45	3.80	671,000
100.0	100.0	43.8	42.8	6.5	4.0	19,040	17,321	3.45	3.60	652,700
100.0	98.8	36.3	34.5	8.5	(15.1)	20,523	19,368	3.75	3.40	621,700
93.8	96.0	22.6	21.7	9.2	8.1	12,330	11,509	3.45	3.80	432,600
96.1	94.2	26.4	24.7	7.1	8.0	10,112	8,965	3.75	4.00	321,200
100.0	100.0	31.6	30.4	8.6	5.5	9,132	8,742	3.65	3.70	294,600
100.0	100.0	22.7	21.6	9.1	(2.3)	5,856	5,613	3.80	4.05	193,800
97.2	100.0	16.1	14.5	20.8	8.8	2,019	2,195	3.55	3.90	85,100
94.0	**97.8**	**35.5**	**33.8**	**11.4**	**6.9**	**328,030**	**309,338**			**10,609,200**
98.1	98.9	118.4	115.9	13.4	3.8	172,310	161,204	N/A	4.30	4,617,200
98.9	99.8	57.5	55.8	11.5	10.5	139,913	133,062	N/A	4.40	3,332,610
100.0	100.0	54.3	52.1	9.6	21.8	36,972	35,958	3.60	3.60	1,257,600
62.9	82.9	45.6	44.5	(0.2)	(6.2)	2,674	3,485	N/A	4.10	111,200
100.0	100.0	54.5	54.0	7.7	N/A	2,638	2,637	N/A	3.80	74,700
98.1	**99.2**	**75.8**	**73.9**	**11.4**	**8.0**	**354,507**	**336,346**			**9,393,310**
95.3	**98.2**	**48.6**	**46.5**	**11.4**	**7.4**	**682,537**	**645,684**			**20,002,510**
						N/A	377			
						682,537	**646,061**			

Sunlight Tower

Tenant mix*



- Government and related organizations
- Shipping, logistics and transportation
- Advertising, consultancy and financial services
- Professional services
- Fashion and design
- Healthcare
- IT and telecommunication services
- Others
- Vacant

Expiry profile (at 30 June 2019)

By GRA
(%)

FY2019/20	FY2020/21
20.5	61.1

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

FY2019/20	FY2020/21
40.4	38.6

* Tenant mix charts on pages 14 to 18 are expressed as a percentage of total GRA of the relevant property at 30 June 2019.

Net property income

↑6.2% year on year

Rental reversion

13.5%

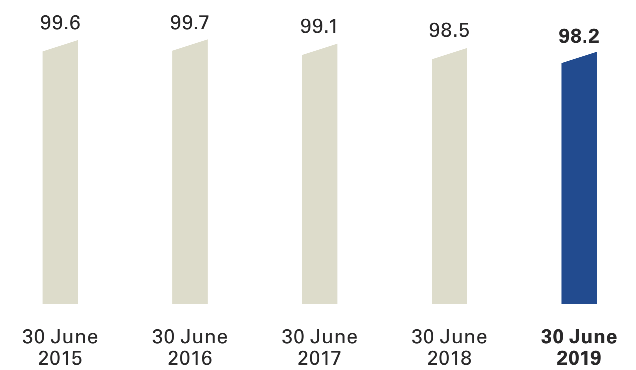
Retention rate

78%

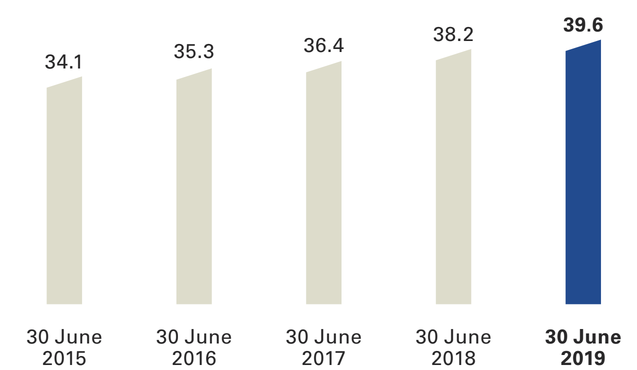
Wan Chai/Causeway Bay remained an appealing choice for corporate tenants. Sunlight Tower, as an award-winning Grade A office property situated at the south side of Wan Chai, continued to benefit from the office decentralization momentum and stable leasing environment. This flagship property of Sunlight REIT achieved an encouraging rental reversion of 13.5% with a high retention rate of 78%, contributing to a 6.2% year-on-year growth in NPI to HK$181.2 million. At 30 June 2019, its occupancy rate was 98.2%, while passing rent rose 3.7% to HK$39.6 per sq. ft..

Sunlight Tower has maintained a well-balanced tenant base, including government-related organizations and a diverse range of multinational enterprises. At 30 June 2019, the total number of leases at Sunlight Tower was 70 (30 June 2018: 72).

Occupancy rate
(%)

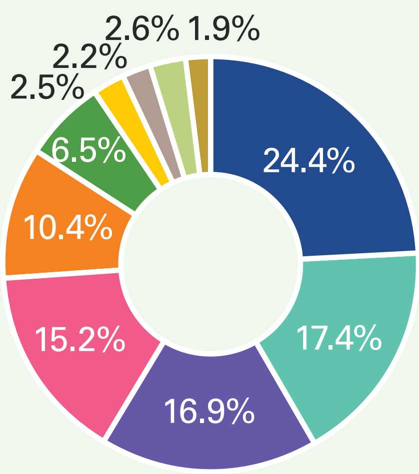


Passing rent
(HK$/sq. ft.)



Sheung Shui Centre Shopping Arcade

Tenant mix



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

Expiry profile (at 30 June 2019)

By GRA
(%)

FY2019/20	FY2020/21
47.4	40.3

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

FY2019/20	FY2020/21
123.3	107.7

Net property income

↑6.9% year on year

Rental reversion

13.4%

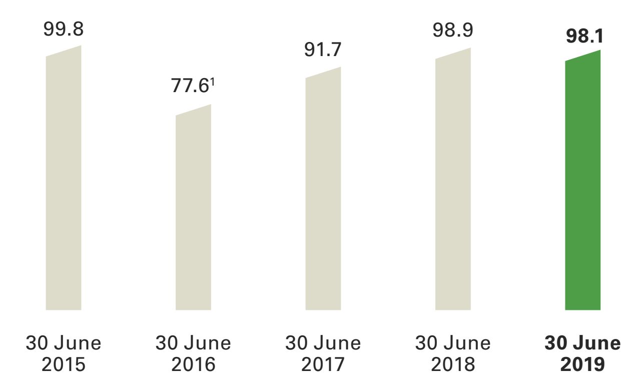
Retention rate

68%

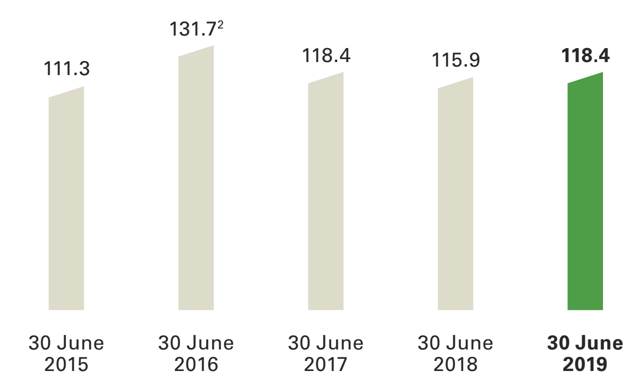
Sheung Shui Centre Shopping Arcade ("**SSC**") achieved a stable growth in revenue and NPI amidst a retrenchment in consumer spending. Supported by a 13.4% rental reversion and effective cost-saving measures, NPI grew 6.9% year on year to HK$172.3 million. Occupancy rate stood at 98.1% while passing rent rose 2.2% to HK$118.4 per sq. ft. at 30 June 2019.

Looking forward, 47.4% of SSC's GRA will expire in the next financial year, mainly relating to the area which was revamped in late 2016. The Manager will continue to fine-tune the tenant mix to maintain SSC as one of the most reputable shopping malls in the northern New Territories.

Occupancy rate
(%)



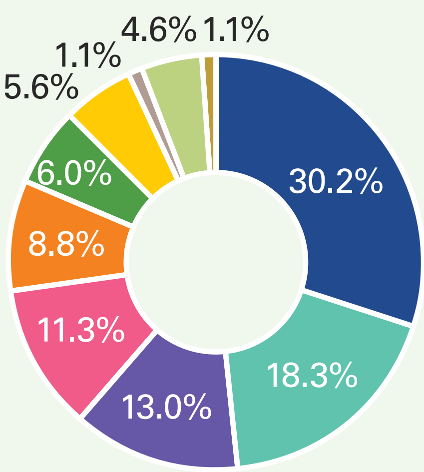
Passing rent
(HK$/sq. ft.)



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

Metro City Phase I Property

Tenant mix



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

Expiry profile (at 30 June 2019)

By GRA
(%)

35.0	18.1
FY2019/20	FY2020/21

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

56.8	78.9
FY2019/20	FY2020/21

Net property income

↑5.1% year on year

Rental reversion

11.5%

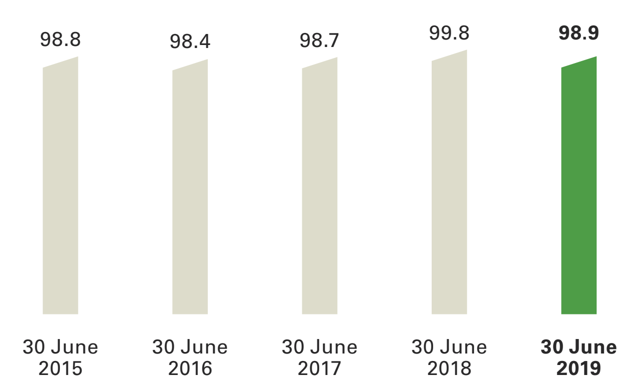
Retention rate

75%

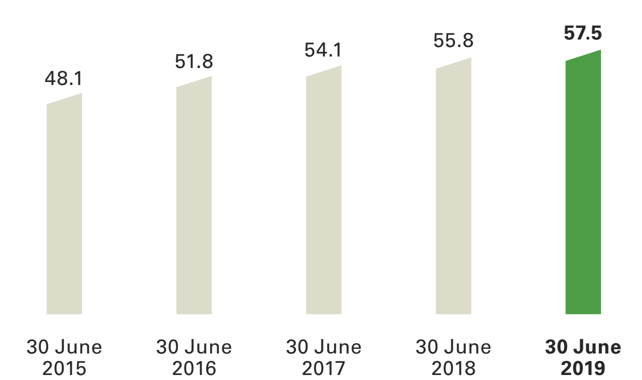
MCPI registered a 5.1% growth in NPI to HK$139.9 million on the back of a rental reversion of 11.5%; passing rent rose 3.0% year on year to HK$57.5 per sq. ft.. The steady performance reflected the continued efforts in trade mix optimization, effectively positioning MCPI as a defensive service-oriented retail destination in the district. At 30 June 2019, the occupancy rate was 98.9% (30 June 2018: 99.8%).

The replacement of the chiller plant system in April 2018 made a meaningful contribution to cost savings. Despite an increase in electricity tariff and a higher average temperature, we managed to reduce the electricity costs at MCPI by approximately 11% for the Year.

Occupancy rate
(%)

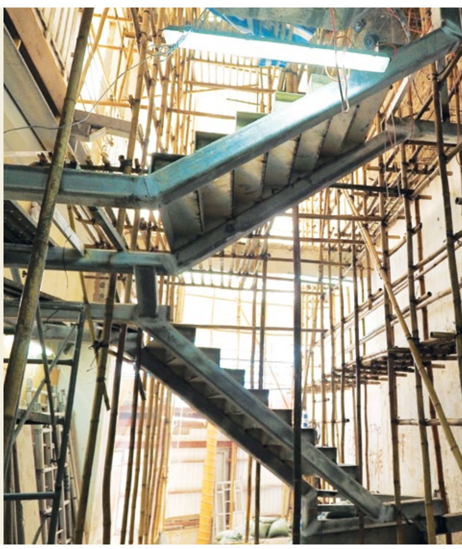


Passing rent
(HK$/sq. ft.)



Strand 50

Artist's impression



Net property income

↓9.8%
year on year

Rental reversion

10.6%

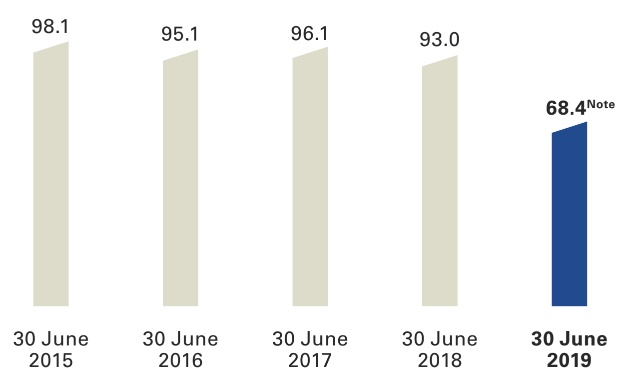
Retention rate

48%

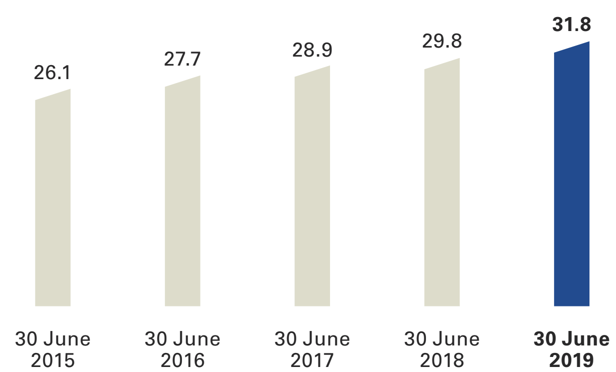
With a strategic objective of providing modern leasing management and creating a co-work community for our Sheung Wan/Central office properties, the Manager has adopted a flex-and-core model in transforming Strand 50 to become a contemporary workplace catering to the needs of flexible and traditional tenants. Elements of the refurbishment comprise a complete overhaul of the façade as well as the construction of a new staircase to attract vertical footfall, modern conferencing facilities and event spaces, complemented by a podium garden.

Due to the asset enhancement works which commenced in April 2019, NPI of Strand 50 dropped by 9.8%, while occupancy rate declined to 68.4% at 30 June 2019, or 95.4% if the area vacated for renovation were excluded. However, the property was able to register a rental reversion of 10.6% while the passing rent rose 6.7% to HK$31.8 per sq. ft.. Based on the long term lease signed with theDesk and the renovation budget of HK$50 million, a return on investment of approximately 15% is currently expected.

Occupancy rate
(%)

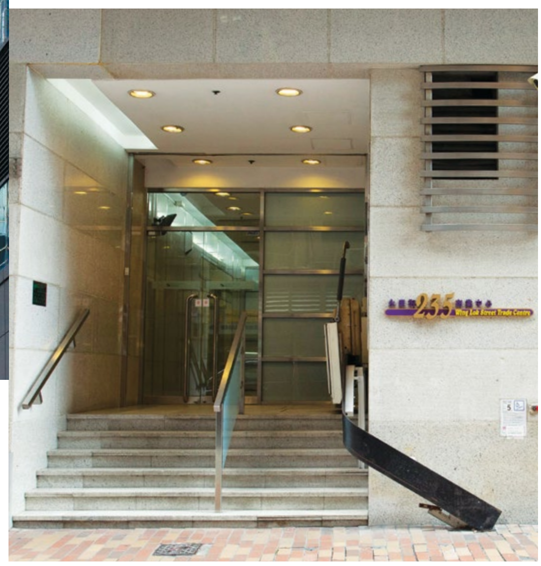


Passing rent
(HK$/sq. ft.)



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

Winsome House Property



235 Wing Lok Street Trade Centre

Sheung Wan/Central office properties

The four office properties (including Strand 50) of Sunlight REIT located in the Sheung Wan/Central districts exhibited a stable growth in passing rents, supported by their proximity to Central, affordable rentals and spillover demand from small and medium sized tenants in Central. The passing rent of these Grade B offices increased 5.4% to HK$31.3 per sq. ft. with an average rental reversion of 10.3%.

In particular, Winsome House Property performed well with a strong NPI growth of 9.9% and was fully let at 30 June 2019, as it benefitted from a limited office supply in Central and effective operation management for cost savings.

Net property income

↓1.1%
year on year

Rental reversion

10.3%

Retention rate

58%

Other office properties

The Harvest

The other office properties, representing approximately 11% of Sunlight REIT's portfolio valuation, registered a combined 8.9% growth in rental reversion with an average occupancy rate of 98.4%.

Occupancy rate of The Harvest experienced slight volatility as the previous sole office tenant opted to move out in phases during and subsequent to the Year. This, however, provides an optimal window for us to formulate an over HK$20 million renovation plan with a view to attracting a diverse service-related tenant mix on higher passing rent.

Tenants of these smaller office properties are mostly location-driven and engaged in various service-related businesses such as healthcare and beauty, education and professional services; such businesses rely heavily on domestic consumption which contribute steady and recurrent rental income and cash flow to Sunlight REIT.

Net property income

↑16.5% year on year

Rental reversion

8.9%

Retention rate

57%

Other retail properties

The other retail properties contributed to approximately 7% of Sunlight REIT's portfolio valuation. Average occupancy rate stood at 96.3%, with rental reversion and passing rent growth of 8.4% and 4.1% respectively.

Benefitting from its strategic location and the scarcity of quality office properties in Yuen Long, Kwong Wah Plaza Property recorded another year of resilient growth with a 9.6% rental reversion and a 4.2% rise in passing rent to HK$54.3 per sq. ft.. On the other hand, the performance at Beverley Commercial Centre Property was below expectation in terms of both income and occupancy rate, principally due to prolonged construction works nearby and changes of structural consumption pattern in wedding-related trades.


Kwong Wah Plaza Property

Net property income

↑0.5% year on year

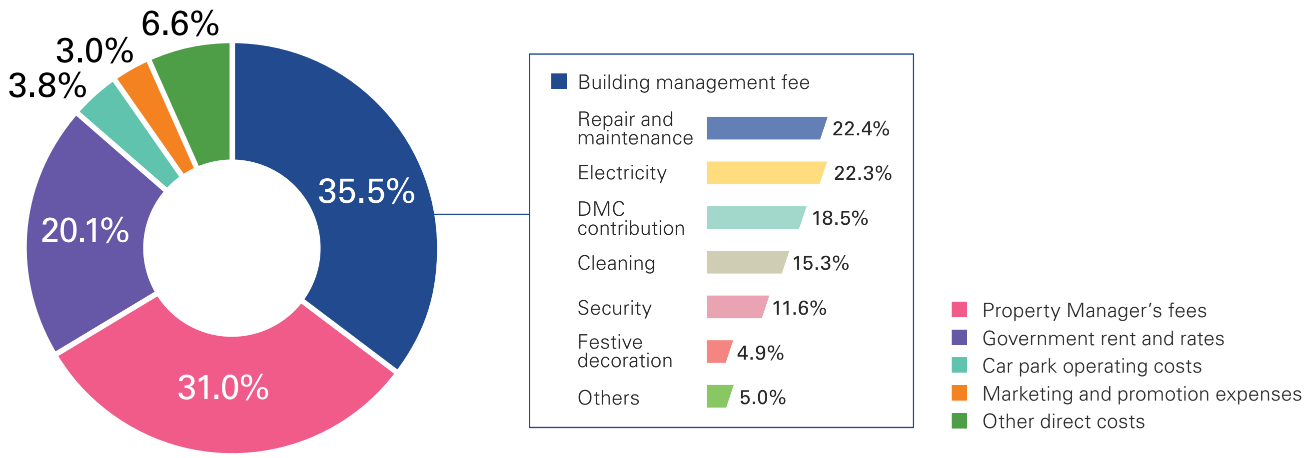
Rental reversion

8.4%

Retention rate

75%

Components of property operating expenses



Operational statistics

The overall portfolio of Sunlight REIT recorded an average occupancy rate of 95.3% at 30 June 2019 (30 June 2018: 98.2%). The occupancy rates of the office and retail portfolios were 94.0% and 98.1% (30 June 2018: 97.8% and 99.2%) respectively, while their corresponding retention rates stood at 64% and 74% (FY2017/18: 74% and 80%).

Average passing rent of the office portfolio was HK$35.5 per sq. ft. at 30 June 2019, up 5.0% year on year, while that of the retail portfolio rose 2.6% to HK$75.8 per sq. ft.. Average rental reversion of the portfolio was 11.4%.

At 30 June 2019, the weighted average lease length in terms of GRA was 2.8 years for the entire portfolio. Leases expiring in FY2019/20 account for 30.7% of office GRA and 39.6% of retail GRA. The average unit rents for the expiring office and retail leases are HK$32.1 per sq. ft. and HK$80.0 per sq. ft. respectively.

Tenancy base

Sunlight REIT had a total of 834 tenancies at 30 June 2019. The largest tenant accounted for 5.3% of total revenue for the Year and occupied 6.7% of total GRA at 30 June 2019, while the corresponding figures for the top five tenants were 15.7% and 16.4%. (Please refer to page 75 for further details).

Other income

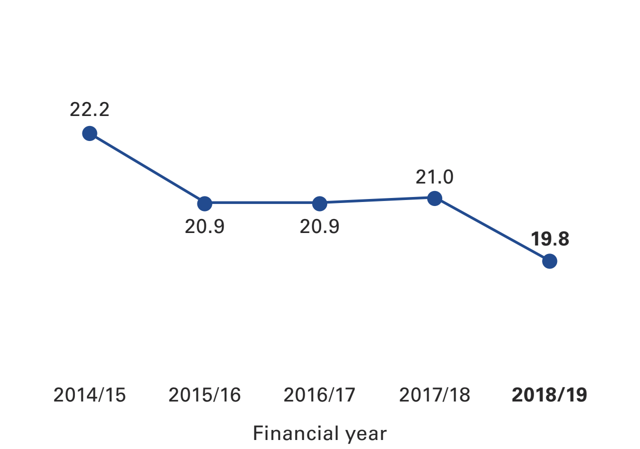
Sunlight REIT held a total of 795 car park spaces at three properties, which collectively contributed income of HK$35.3 million, up 7.4% year on year.

Cost control and capital expenditure

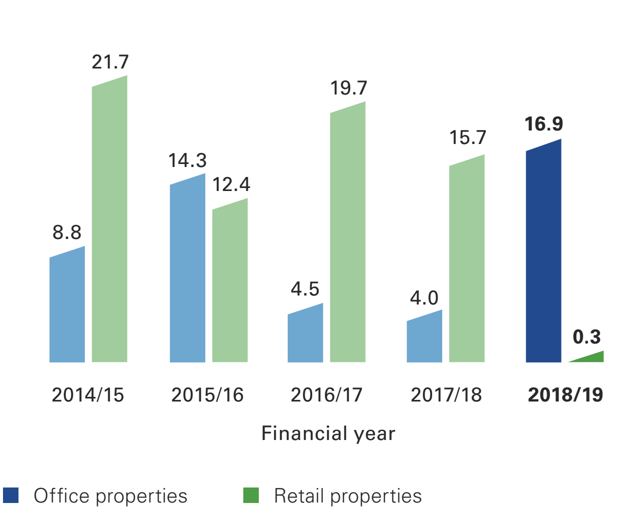
The Manager maintained a high level of discipline in cost control. The cost-to-income ratio improved from 21.0% to 19.8%, partly due to lower rental commissions reflecting relatively fewer leasing activities during the Year.

Excluding the costs for property acquisition, CAPEX for the Year amounted to HK$17.2 million (FY2017/18: HK$19.7 million), while contracted capital commitments at 30 June 2019 were HK$41.8 million.

Cost-to-income ratio
(%)



Capital expenditure[Note]
(HK$' million)



Note : Excluding the costs for property acquisition.

Financial Review

Financial highlights

(in HK$' million, unless otherwise specified)	2019	2018	2017	2016	2015
For the year ended 30 June :					
Revenue	**850.7**	817.4	788.1	769.7	754.4
Property operating expenses	**168.2**	171.3	164.7	161.2	167.8
NPI	**682.5**	646.1	623.4	608.5	586.6
Cost-to-income ratio (%)	**19.8**	21.0	20.9	20.9	22.2
Profit after taxation	**1,591.1**	1,442.3	743.5	825.3	1,902.7
Annual distributable income	**467.3**	450.5	434.5	415.0	375.2
DPU (HK cents)[Note]	**27.3**	26.5	33.0	24.3	22.0
Payout ratio (%)[Note]	**96.4**	96.7	124.3	95.8	95.9
At 30 June :					
Portfolio valuation	**20,002.5**	18,754.8	17,062.4	16,651.0	17,035.3
Total assets	**20,805.8**	19,631.3	18,297.8	17,925.0	17,897.7
Total liabilities	**4,813.9**	4,774.3	4,398.3	4,406.9	4,800.6
Net asset value	**15,991.9**	14,857.0	13,899.5	13,518.1	13,097.1
Net asset value per Unit (HK$)	**9.68**	9.03	8.49	8.26	7.99
Gearing ratio (%)	**20.4**	21.8	21.5	21.9	22.0

Operating results

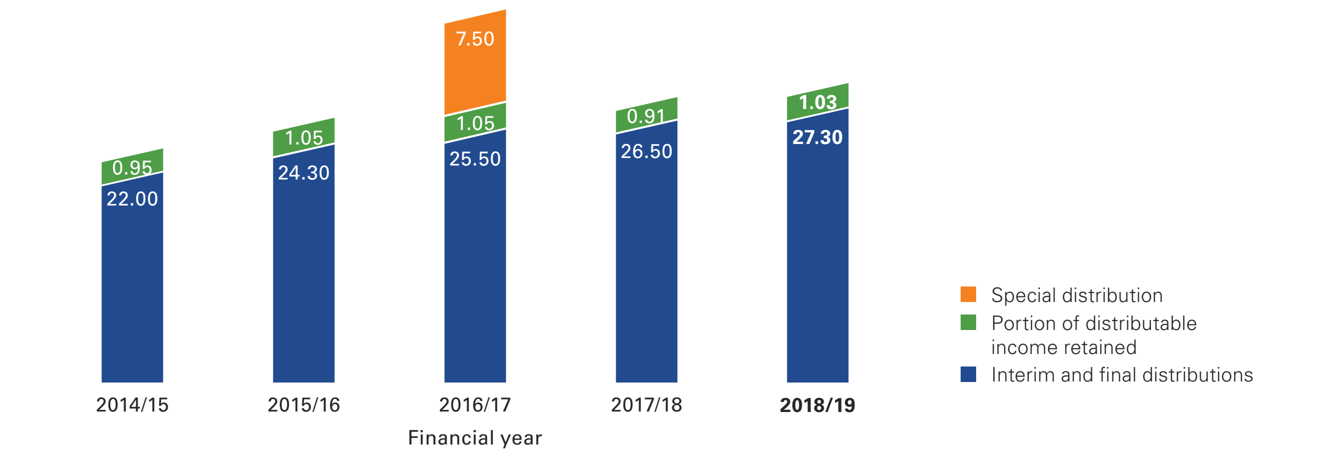
Sunlight REIT recorded a 4.1% growth in revenue for the Year to HK$850.7 million. Property operating expenses were HK$168.2 million which gave rise to an NPI of HK$682.5 million, up 5.6% year on year.

Finance costs increased 38.2% year on year to HK$103.1 million, of which cash interest expenses went up 29.3% to HK$95.7 million. A higher interest rate environment, the expiry of certain low-cost interest rate swaps ("**IRSs**") and the additional funding costs relating to the acquisition of The Harvest were the major factors for the increase. However, interest income rose 69.1% to HK$16.8 million, partly the result of an expanded bond portfolio.

Taking into account the fair value gain on investment properties of HK$1,194.0 million, profit after taxation for the Year was HK$1,591.1 million (FY2017/18: HK$1,442.3 million).

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)



Distribution

Total distributions for the Year amounts to HK$450.3 million, up 3.4% year on year. The full-year DPU of HK 27.3 cents represents a distribution yield of 4.6% based on the closing price of HK$5.99 on the last trading day of the Year.

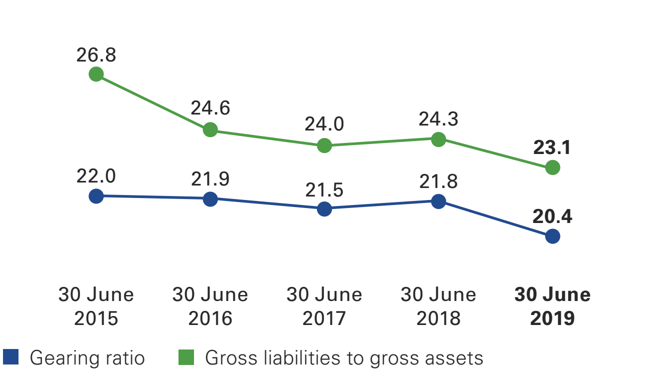
Financial position

The appraised value of Sunlight REIT's portfolio grew 6.7% to HK$20,002.5 million. Consequently, the gross assets and net assets of Sunlight REIT expanded 6.0% and 7.6% to HK$20,805.8 million and HK$15,991.9 million respectively at 30 June 2019 (30 June 2018: HK$19,631.3 million and HK$14,857.0 million). Net asset value per Unit was HK$9.68 (30 June 2018: HK$9.03).

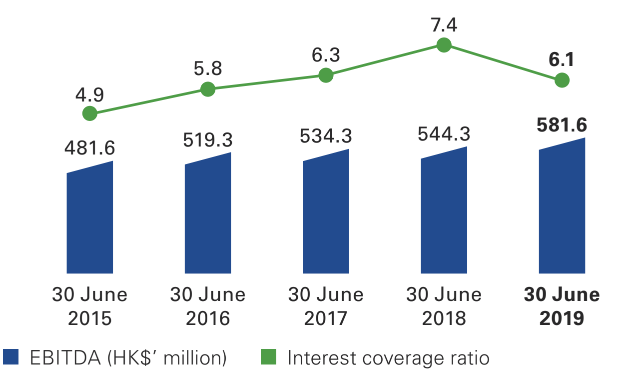
At 30 June 2019, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) improved to 20.4% (30 June 2018: 21.8%), while gross liabilities[1] as a percentage of gross assets dropped to 23.1% (30 June 2018: 24.3%). In respect of contingent liabilities, Sunlight REIT has provided a guarantee in the amount of HK$4.6 million to a commercial bank for its issuance of bank guarantees in lieu of deposit to electricity utility companies.

The EBITDA[2] of Sunlight REIT grew 6.9% year on year to HK$581.6 million. In light of the faster increase in interest expenses, the interest coverage ratio for the Year decreased to 6.1 times as compared with 7.4 times recorded in the previous financial year.

Gearing ratio and gross liabilities to gross assets
(%)



EBITDA and interest coverage ratio



Notes :
1. Gross liabilities include total borrowings, tenants' deposits and other liabilities.
2. EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Any gain on disposals of investment properties and subsidiaries would be excluded from the calculation.

Financial Review

Interest margin of Term Loan Facilities	Fixed rate portion of Term Loan Facilities	Weighted average interest rate (fixed rate portion)
0.69%	**46%**	**1.52%**
per annum (over HIBOR)	(30 June 2018 : 61%)	per annum (before interest margin) (30 June 2018 : 1.38%)

Capital and interest rate management

Sunlight REIT had loan facilities of HK$4,850.0 million in place at 30 June 2019, comprising term loan facilities of HK$4,250.0 million ("**Term Loan Facilities**") which had all been drawn, and uncommitted revolving credit facilities of HK$600.0 million that remained undrawn.

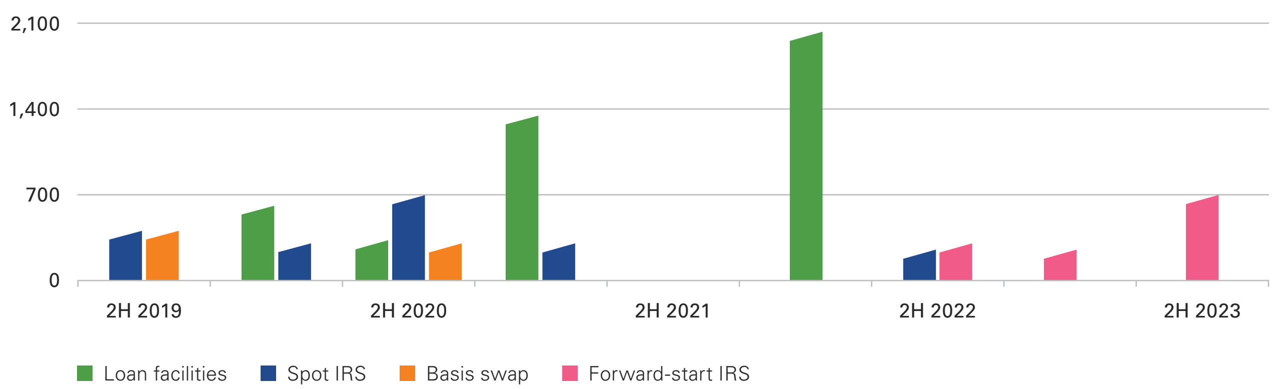
The Term Loan Facilities consist of secured loans of HK$2,930.0 million and unsecured loans of HK$1,320.0 million, with the secured tranche backed by a pool of securities (shared on a pari passu basis) including, among others, a mortgage over certain properties held by Sunlight REIT with an appraised value of HK$11,222.9 million at 30 June 2019.

At 30 June 2019, the weighted loan maturity period of the Term Loan Facilities was 2.3 years, with a blended interest margin of 0.69% per annum over HIBOR. Approximately 46% (30 June 2018: 61%) of the Term Loan Facilities were hedged to fixed rates with a weighted average tenure of 1.2 years. The weighted average interest rate (before loan interest margin) for the fixed rate portion of Sunlight REIT's borrowings was 1.52% per annum (30 June 2018: 1.38% per annum).

With a view to recalibrating the IRS profile of Sunlight REIT given the changing interest rate environment, the Manager further executed a series of forward-start IRSs during the Year and subsequent to year-end, bringing the total forward-start IRSs to HK$1,250.0 million at 31 August 2019. Together with the spot IRSs already in place, the fixed rate portion of the Term Loan Facilities is expected to stay above 33% over the next two financial years.

During the Year, the Manager bought back (and cancelled) a total of 2,565,000 Units for Sunlight REIT at an average price of HK$5.00 per Unit.

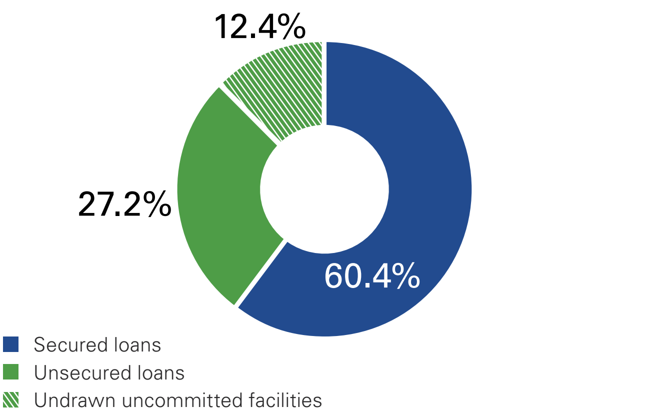
Maturity profile at a glance
(HK$' million)



Liquidity management

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments[1], with an overall maturity profile compatible with projected funding requirements. In light of higher returns from fixed income securities while providing an alternative to interest rate hedging, the Manager has increased the size of the portfolio of Relevant Investments. At 30 June 2019, Sunlight REIT had total cash and bank balances of HK$550.0 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK$136.4 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 satisfy its working capital, distribution payment and CAPEX requirements.

Borrowing profile
(30 June 2019)



Tax matters

With reference to the dispute with the Inland Revenue Department ("**IRD**") over certain tax deduction disallowances[2], 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 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 awaited.

Regarding 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 raised were filed with the IRD.

At 30 June 2019, tax reserve certificates in an aggregate amount of HK$43.3 million had been purchased. If the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2018/19 would amount to approximately HK$97 million. The Manager will closely monitor the situation and make appropriate disclosure on the development as and when necessary.

Notes :
1. As defined in paragraph 7.2B of the REIT Code.
2. The IRD disallowed the deductions of the management fees, property management fees and (in some cases) rental commissions incurred by certain property holding companies under Sunlight REIT. Please refer to note 9 to the consolidated financial statements on page 132 for further information.

Environmental, Social and Governance Report

Message from CEO

As a responsible and ethical corporation, it is vital to conduct business with a keen awareness of optimizing income growth and societal contribution. This Environmental, Social and Governance ("**ESG**") Report demonstrates our commitment and dedication to constructing a sustainable model for business development and value creation for our stakeholders, while expounding details on how the Manager has integrated ESG aspects into a variety of initiatives and undertakings across our business.

During the period under review, we have adopted a diverse range of operational initiatives to address issues pertinent to environment sustainability. Notably, we continued to achieve improvements in energy efficiency and waste reduction at our managed properties by completing the installation of more energy efficient chillers, replacing light fixtures and supporting recycling programmes, in addition to the launch of behavioural campaigns.

The importance of our employees to the success of Sunlight REIT cannot be overstated. Their dedication to, and support of, our strategies and policies are vital to achieving our objectives. We, in turn, are committed to providing our staff with a positive and caring workplace which fosters a culture of excellence and opportunity for continuous personal and career development. We take pride in our volunteer spirit and our efforts to help the less fortunate, and are privileged to serve the community and participate in many charitable events throughout the Year.

We acknowledge our role in building our collective futures and understand that the proper management of risks and opportunities arising from our operating environment is a critical component of an effective business strategy. In steering the future course of Sunlight REIT, I assure you of our management's unwavering commitment and strong aspiration in delivering value to our stakeholders in a sustainable and resilient manner.

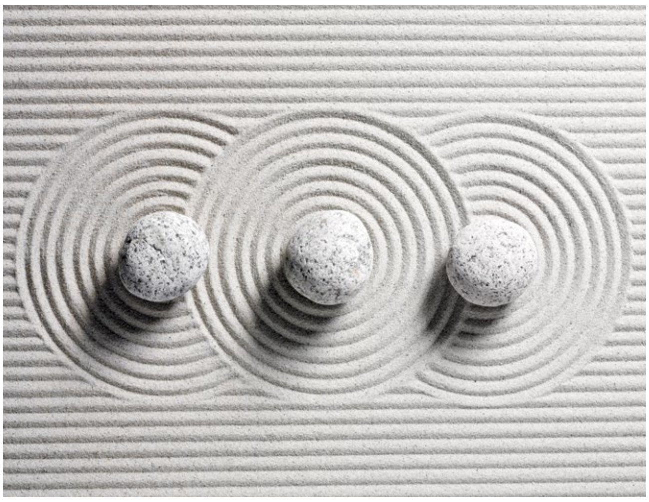
WU Shiu Kee, Keith
Chief Executive Officer
4 September 2019

About the ESG Report

Reporting standard

This ESG Report has been prepared in accordance with the requirements of 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 and offers a transparent channel for Sunlight REIT to clearly and accurately communicate ESG-related policies and initiatives to various stakeholders. This ESG Report covers Sunlight REIT, the Manager and the Property Manager for the Year. The scope of the environmental key performance indicators ("**KPIs**") covers a selected portfolio of managed properties[Note].

Corporate governance and comprehensive financial metrics can be found in the relevant sections of this annual report. A detailed content index is included on page 51 for easy reference.



Stakeholder engagement

The Manager has appointed an independent consultant to conduct a stakeholder engagement exercise for the preparation of this ESG Report. External stakeholders, including investors, non-governmental organizations ("**NGOs**"), suppliers and tenants, were invited to provide insight as to the materiality of various ESG issues, and to share their thoughts on the current sustainability performance and future direction of Sunlight REIT through online surveys. Internal focus group discussions were also conducted with selected employees across various departments to compile their key concerns and suggestions for improvement.

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

Key stakeholders' feedback and Sunlight REIT's responses

We actively listen to and communicate with our key stakeholders. Their feedback and suggestions gathered through online surveys and focus group discussions are reviewed to identify areas for improvement, while assisting us in the formulation of future action plans.

	Key Stakeholders' Feedback	Our Responses
ESG Missions and Values	Employees inquired whether the Manager would establish a well-structured governance body to develop a long-term ESG mission and values.	We have strengthened the functions of the Corporate Social Responsibility Committee ("**CSRC**") with the objective of further enhancing our ability to identify, evaluate and manage material ESG-related issues, including ESG risks and opportunities, and also to establish a cohesive, long-term ESG mission and values in line with our business nature.
Friendly Workplace	Employees noted the Manager's efforts to promote work-life balance through implementing different employee-friendly initiatives, but also suggested that the Manager can further strengthen communication channels between staff and management.	Our employees are our greatest asset and we value their constructive feedback. We recognize that effective communication can help to minimize misunderstandings and boost staff morale in the workplace. Moving forward, we will explore the possibility of setting up more communication channels to further enhance staff engagement.
Environmental Protection	Stakeholders were aware of environmental commitments for energy consumption and waste generation over the Year.	Energy use and waste management are the two focus areas of our environmental stewardship. Over the Year, we actively improved our performance through technological upgrades, energy optimization and cultivation of environmental awareness.
Community Investment	Stakeholders showed interest in the overarching plans of the Manager to support the growth of the community.	We work closely with our staff, NGOs and community partners to contribute to the development of local communities under our three principal pillars, namely : caring for the environment, caring for the youth and caring for the community.

Materiality assessment

To ensure that the report includes topics which are relevant and material to the operations of Sunlight REIT, the Manager conducted a materiality assessment exercise based on a three-step process.

Stage 1 : Identification

- Peer benchmarking: ESG disclosures of five peer companies were reviewed to identify issues considered material by the industry and commonalities for sustainability disclosure. The greater the degree of disclosure of an issue by the peer companies, the higher its level of materiality.
- Stakeholder engagement: internal stakeholders (directors and employees) and external stakeholders (investors, NGOs, suppliers and tenants) were invited in FY2017/18 and FY2018/19 respectively to rate the materiality of various ESG issues and share their thoughts on previous reports. As the surveys included the views of both internal and external stakeholders, ESG issues with higher ranking were more likely to be considered material.

Stage 2 : Prioritization

- The results of peer benchmarking and the outcomes of the stakeholder engagement were then combined and analyzed. A list of ESG-related issues of high- and medium-level materiality was generated for further validation.

Stage 3 : Validation

- The list of potential material ESG issues was presented to senior management for consideration. A list of relevant aspects and KPIs[Note] was finalized for disclosure in this report.

Materiality assessment results

After consideration from senior management, the material ESG-related issues were confirmed as listed below. The corresponding sections are referenced in this ESG Report.

Corresponding Sections in this ESG Report	**Our People**	**Our Environment**	**Our Community**	**Our Customers and Suppliers**
Material ESG Issues	Employment practices Staff development and training Occupational health and safety Anti-corruption	Energy consumption Greenhouse gas ("**GHG**") emissions Waste management Water consumption	Community investment	Complaint handling Quality assurance Customer privacy protection

Note : Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules is organized into two ESG subject areas – Environmental and Social. There are various aspects under the two subject areas and each aspect sets out KPIs for issuers to report on so as to demonstrate their performance.

Awards and certificates in FY2018/19

Awards/Certificates	Participating entities/Properties	Awarding bodies
Environmental		
Computer & Communication Products Recycling Programme (Certificate of Appreciation)	The Property Manager : Sunlight Tower	Environmental Protection Department, HKSAR Government
Corporate Environmental Leadership Awards 2018	The Property Manager : 1. Righteous Centre 2. Sheung Shui Centre Shopping Arcade 3. Metro City Phase I Property	Bank of China (Hong Kong)
Energy Saving Charter 2018 and 4Ts Charter (Participation Certificate)	The Property Manager : Sunlight Tower	Electrical and Mechanical Services Department, HKSAR Government
Green Office Award Labelling Scheme (GOALS)	The Manager The Property Manager : 1. Bonham Trade Centre 2. Righteous Centre 3. Metro City Phase I Property 4. Sheung Shui Centre Shopping Arcade	World Green Organisation
Hong Kong Awards for Environmental Excellence – Property Management (Commercial & Industrial) (Certificate of Merit)	The Property Manager : Sunlight Tower	Environmental Campaign Committee
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, HKSAR Government
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, HKSAR Government
My Favourite Hong Kong Green Buildings	The Property Manager : Sunlight Tower	U Magazine
Quality Water Supply Scheme for Buildings – Flushing Water (Gold)	The Property Manager : 1. Sunlight Tower 2. Bonham Trade Centre 3. Righteous Centre 4. 235 Wing Lok Street Trade Centre 5. Java Road 108 Commercial Centre	Water Supplies Department, HKSAR Government
The HKIFM Excellence in Facility Management Award 2018 – Office Building (Excellence Award)	The Property Manager : Sunlight Tower	The Hong Kong Institute of Facility Management
The HKIFM Excellence in Facility Management Award 2018 – Retail (Excellence Award)	The Property Manager : Metro City Phase I Property	The Hong Kong Institute of Facility Management
Social and Governance		
Caring Company	1. The Manager 2. The Property Manager	The Hong Kong Council of Social Service
Good MPF Employer	1. The Manager 2. The Property Manager	Mandatory Provident Fund Schemes Authority
Happy Company	1. The Manager 2. The Property Manager	Promoting Happiness Index Foundation
Sustainable Business Award 2018	The Manager	World Green Organisation

Highlights of major awards and certificates in FY2018/19

The HKIFM Excellence in Facility Management Awards 2018 – 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 and MCPI.

My Favourite Hong Kong Green Buildings (Sunlight Tower) by U Magazine

Commending excellent performance on sustainable development of local business.

Sustainable Business Award 2018 by World Green Organisation

Certifying the contribution of the Manager in promoting workplace quality, environmental protection, operational practice and community investment.

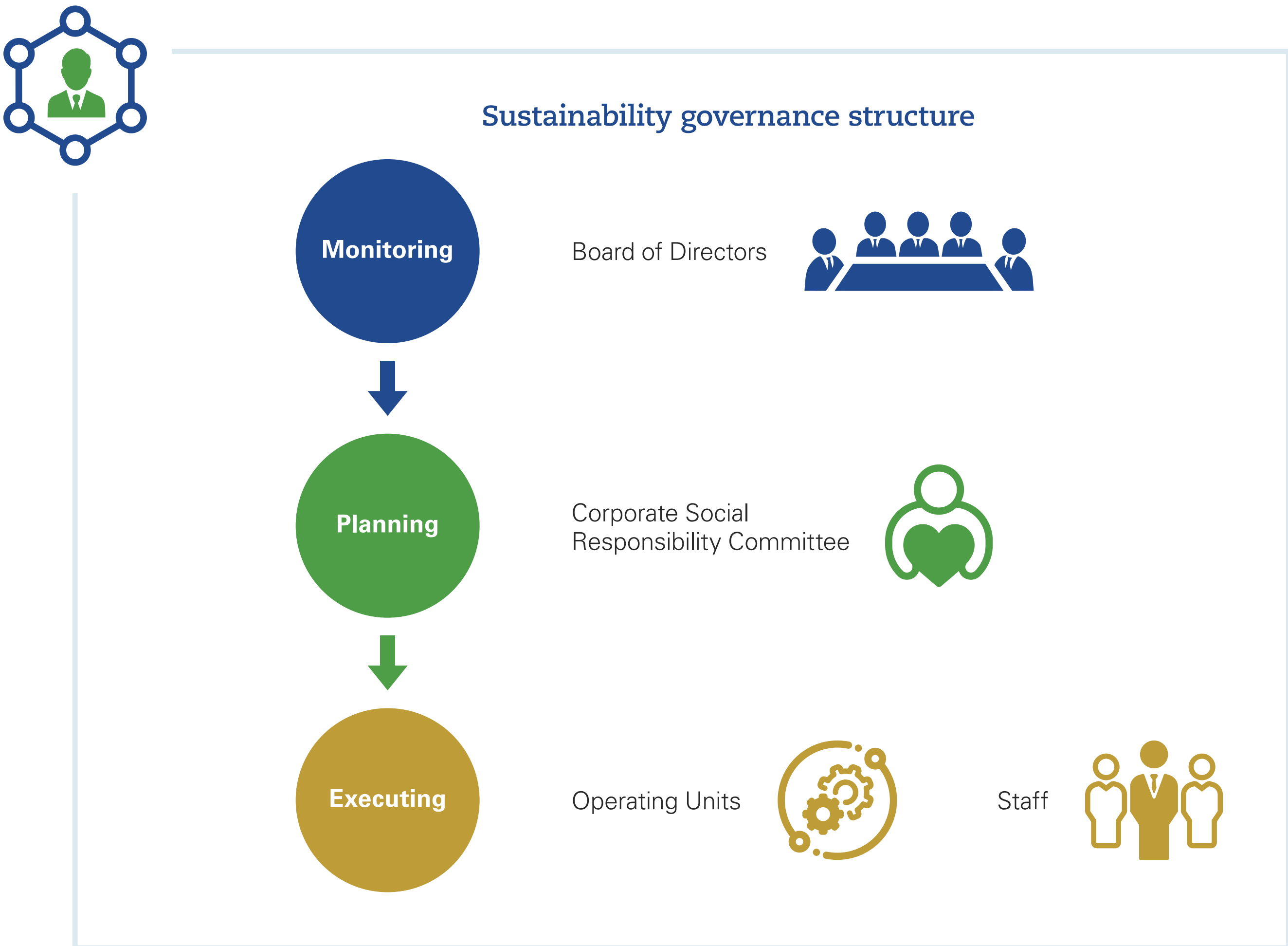
Sustainability governance

ESG governance framework

An effective governance structure is crucial in addressing sustainability issues and managing ESG-related risks. Existing and emerging risks pertinent to ESG matters have been strategically addressed and monitored in our risk management framework and internal control systems, for which the Board has an overall supervisory responsibility.

Corporate social responsibility committee

The CSRC was established by the Manager in 2012 to plan and coordinate various ESG initiatives. Headed by the CEO, the CSRC is composed of representatives from the Manager and the Property Manager. A number of ESG issues relating to energy efficiency, waste management and community contributions were discussed at regular meetings during the Year. The CSRC is responsible for spearheading Sunlight REIT's sustainability initiatives and ensuring that business practices align with our sustainability and social responsibility principles.



Our People

The Manager is dedicated to providing a supportive, safe and pleasant working environment for our employees to fulfill their professional and personal aspirations.

Caring company

As a responsible employer, the Manager is committed to strict adherence to the equal opportunity law ordinances in Hong Kong, while creating a fair and harmonious working environment. The staff handbook includes provisions on anti-discrimination and anti-harassment and gives guidance regarding professional business conduct. Our recruitment practices are in line with the core principles of equal opportunity and job assessments are based solely on merit.

We believe that confident and satisfied employees make a competent and passionate workforce. We strive to make our employees feel supported, appreciated and motivated. Our employees are rewarded with competitive remuneration and benefits commensurate with their work experience and job duties. Career development and staff communication are significant aspects of our talent retention strategy. Annual performance appraisals are conducted as a two-way communication channel on work performance and career development opportunities.

Workplace upgrades to enhance work-life balance

When creating a caring workplace, consideration of the well-being of employees is one of our top priorities. We offer flexible work hour arrangements to cater for different employees' needs. Other arrangements to promote employee wellness include the provision of lunch and tea refreshment, casual dress on Fridays and various leisure activities arranged for staff throughout the Year. To enhance employee morale and team spirit, we organize a range of staff engagement activities such as annual dinners, overseas staff trips and seasonal holiday celebrations. We are also conscious of our employees' physical comfort in the office; as a case in point, we have recently refurbished the staff pantry with an enlarged refreshment area to create a warm and comfortable space for employees to interact and socialize.

Refurbished pantry at Sunlight Tower

Total workforce by gender, age group and employment type
Employee turnover rate by age group and gender

Total workforce by gender

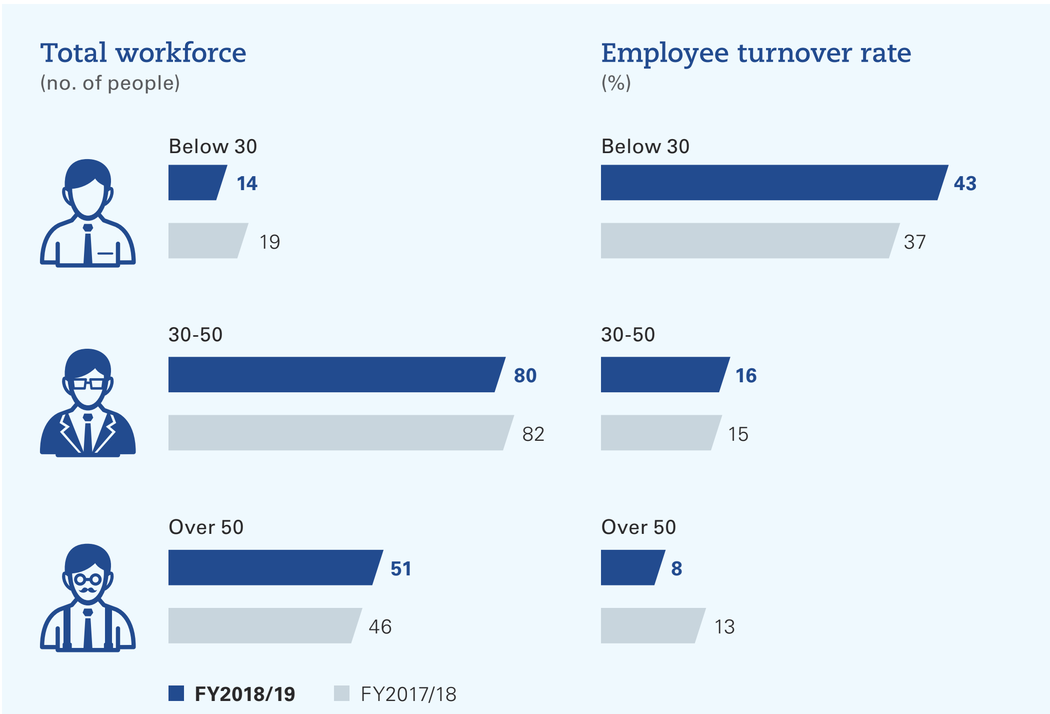
Male

57% FY2018/19 | 56% FY2017/18

Female

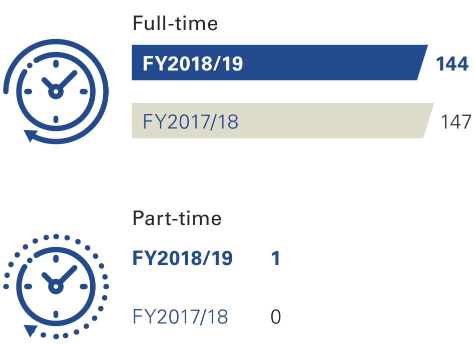
43% FY2018/19 | 44% FY2017/18

Total workforce and employee turnover rate by age group



Total workforce by employment type

(no. of people)



Employee turnover rate by gender

Male

11% FY2018/19 | 20% FY2017/18

Female

22% FY2018/19 | 14% FY2017/18

Staff development

Our staff serve as the foundation of our quality services and the success of our business. The sustainable development of Sunlight REIT relies heavily on their up-to-date and forward-looking skill sets. We nurture a continuous learning culture and support employees in achieving their full potential by encouraging them to join both internal and external training courses. In addition to on-the-job training, our education allowance policy ensures that our employees receive meaningful financial support for job enrichment. We have established a staff development fund to provide extra financial assistance for staff in pursuit of further studies or education programmes relevant to their job duties. To facilitate professional development, we provide eligible employees with a professional body allowance and encourage them to apply for membership in relevant professional bodies or charters.

Customized training programmes to nurture employees

To maintain the competitiveness of our people in an ever changing business environment, we proactively assess the training needs of employees and have arranged several customized training programmes during the Year to strengthen the skills and knowledge of our staff. Such professional development was supplemented by off-site staff retreats and immersion programmes. For the Year, a total of over 2,300 hours of training was conducted, representing an average of 16 training hours per employee.

▶ Microsoft Excel workshop

Total training hours received by employees

2,307 hours

Percentage of employees trained by employee category and gender

	FY2018/19	FY2017/18
General	83%	94%
Supervisory	98%	100%
Managerial	100%	100%
Male	93%	98%
Female	92%	100%

Average training hours completed per employee by employee category and gender

(hours)

	FY2018/19	FY2017/18
General	9	10
Supervisory	20	16
Managerial	24	20
Male	14	13
Female	18	15

Health and safety

Ensuring the occupational health and safety of our employees is our foremost concern. We have established internal guidelines and systems to minimize potential health risks and work injuries in accordance with the local Occupational Safety and Health Ordinance (Chapter 509) and the Employees' Compensation Ordinance (Chapter 282). We encourage staff to attend safety training courses to update their safety knowledge. Should any work-related injuries occur, the injured employee is obligated to report to management immediately. We also subsidize annual medical examinations for employees as a preventative measure.

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	2

Anti-corruption and whistle-blowing policy

The Manager is committed to maintaining high ethical standards and integrity in our day-to-day operations. Our ethical values and expectations for professional conduct are reflected in our code of conduct, which stipulates specific guidelines and requirements regarding the prevention of bribery, fraud and conflict of interest. Our policies against unethical conduct are detailed in our staff handbook. Together with regular anti-corruption seminars provided by the Independent Commission Against Corruption, our anti-money laundering policy, policy of reporting of irregularities and anti-fraud policy ensure that our employees are kept abreast of updates relating to these subjects and that they are provided with clear guidance on the relevant practices. Furthermore, our policies and guidelines are continuously formulated and updated in accordance with the laws and regulations[1] applicable to our business.

Our policy of reporting of irregularities establishes clear channels, protections and guidance on reporting possible improprieties, which encourages employees and business partners to report any perceived misconduct, malpractice or irregularity without fear of reprisal. This policy is administrated, reviewed and updated by the Internal Audit Department ("**IAD**") and monitored by the Audit Committee. Complaints are sent to the IAD directly, and confidentiality is respected under all circumstances. The IAD examines each case and takes possible follow up actions, such as an internal inquiry or formal investigation. The result of any investigation will be submitted to the CEO or the Audit Committee to determine any appropriate corrective or preventive actions.

The anti-fraud policy sets out the management's commitment to upholding our professional business ethics and the responsibility in maintaining an effective fraud risk management framework. Heads of departments and operating units are required to identify the types of fraud that may occur within their areas of responsibility, conduct systematic fraud risk assessments and impose effective control measures to mitigate identified fraud risks.

During the Year, there were no concluded legal cases regarding corrupt practices brought against the Manager or our employees.

Compliance with employment and labour standards

Throughout the Year, we strictly complied with relevant laws and regulations[2] in relation to employment and labour practices, including those related to occupational health and safety, anti-discrimination, child labour and forced labour.

Number of concluded legal cases regarding corrupt practices brought against the Manager or its employees

FY2018/19	FY2017/18
Nil	Nil

Notes :

1. 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.
2. 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), Minimum Wage Ordinance (Chapter 608).

Our Environment

The Manager is dedicated to enhancing our performance in energy efficiency, GHG emissions reduction, water conservation and resource management by incorporating environmental impact mitigation measures in our operation management and asset enhancement strategies. We aim to foster a culture of sustainable behaviour among our employees and promote green awareness across different external stakeholder groups as well as the wider community.

Energy and emissions

We continue to promote efficient energy consumption at our buildings by actively heightening energy efficiency and reducing GHG emissions through technological upgrades and energy optimization practices.

Asset enhancements to optimize energy efficiency

We allocate ample resources to leverage technologies in improving energy efficiency at our buildings. One of the major initiatives we completed during the Year was the chiller plant replacement project at MCPI. Upgrades were made to the chillers, pumps and direct digital control system with new configurations, achieving a higher energy efficiency. As a result, power consumption savings (in kilowatt hours) of around 19% has been achieved during the Year.

Energy savings

19%

(in kilowatt hours) with new chiller plant systems

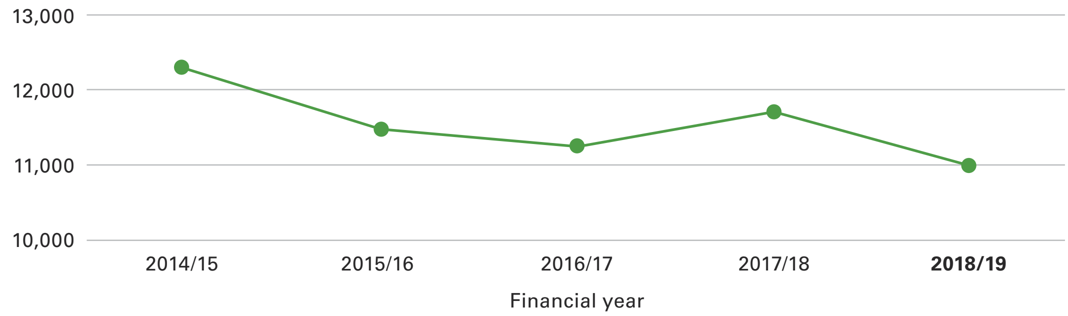
▶ New chiller plant system at MCPI

We also capitalized on opportunities to improve our energy efficiency at a number of our buildings. Upgrading of the lighting systems at Java Road 108 Commercial Centre, SSC and MCPI, with LED lights were in progress. Motion controlled lighting sensors were also installed to save electricity.

▶ Replacement of LED lighting at MCPI

Total energy consumption[1]

('000 kWh)



Greenhouse gas emissions

In total
(tonnes of CO_2e)

By intensity
(tonnes of CO_2e/FTE[2])

Energy consumption – purchased electricity

In total
('000 kWh)

By intensity
('000 kWh/FTE)

FY2018/19 FY2017/18

	FY2018/19	FY2017/18
Breakdown of greenhouse gas emissions		
Scope 1 emissions (tonnes of CO_2e)	N/A	N/A
Scope 2 emissions (tonnes of CO_2e)	6,860.41	7,212.73
Scope 3 emissions (tonnes of CO_2e)	3.14	3.18

Notes :

1. Cumulative measurements taken at Sunlight REIT's wholly-owned properties. The increase in energy consumption since FY2017/18 was due to an increase in areas served by the new air-conditioning systems in SSC and MCPI.
2. FTE represents full-time equivalent employees.

Waste management

As the burden on Hong Kong's landfills become more severe, we aim to utilize resources more efficiently through proper waste management at our office and retail properties. During the Year, we provided eco-friendly umbrella dryers at Sunlight Tower as an alternative to plastic umbrella bags and set up plastic umbrella bag recycling points at MCPI's entrances to emphasize our waste management practices. At Sunlight Tower, we installed hand dryers in the lavatories to encourage saving of paper towels, while making every effort to refurbish rather than replace existing fixtures and assets.

Eco-friendly umbrella dryers at Sunlight Tower

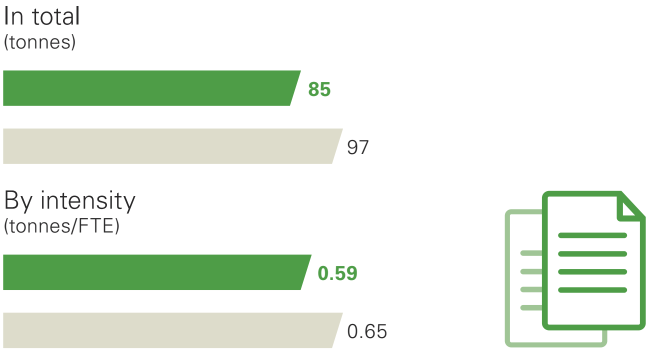
Total solid waste recycled at Sunlight Tower, Sheung Shui Centre Shopping Arcade and Metro City Phase I Property

(a) FY2018/19

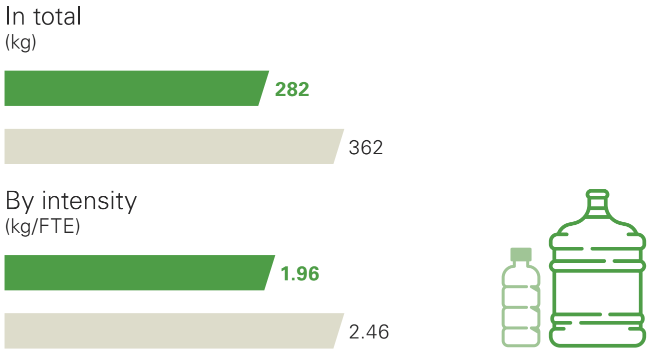
	Sunlight Tower	Sheung Shui Centre Shopping Arcade	Metro City Phase I Property
Waste paper (tonnes)	0.1	23	62
Plastic bottles (kg)	21	72	189
Aluminium cans (kg)	72	82	208
Fluorescent tubes (kg)	240	N/A	N/A

(b) Two-year comparison

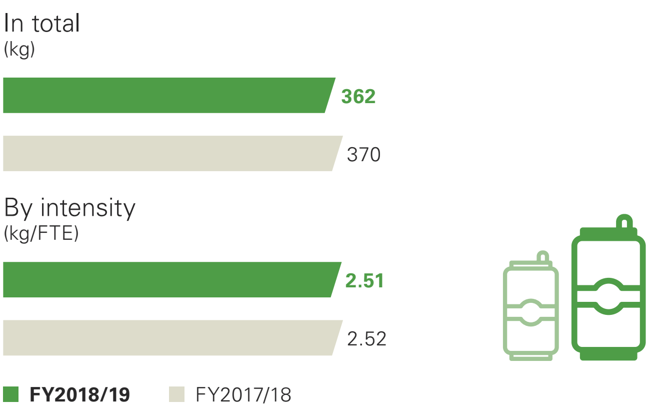
Waste paper



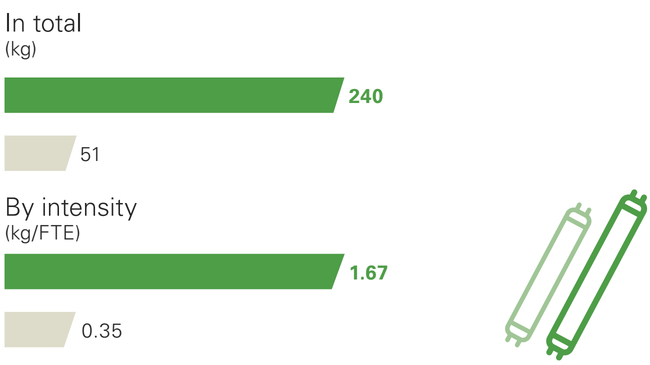
Plastic bottles



Aluminium cans



Fluorescent tubes[Note]



Note : At Sunlight Tower only.

Water resources

Fresh water is a precious and valuable asset vital to our health and well-being. We, therefore, endeavour to implement water-saving and recycling measures in our daily operations. Water consumption is monitored and controlled through water efficient equipment, such as water-saving faucets and dual flush fittings in all washrooms. We also encourage our tenants to use water wisely by providing them with guidelines for efficient water consumption practices. Compared to FY2017/18, water consumption at our properties[1] has been reduced by 1.0%.

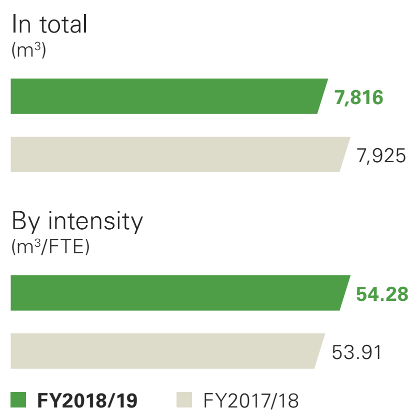
Cultivating environmental awareness

Fostering behavioural change is conducive to sustainable development. We endeavour to nurture environmental stewardship through a wide range of initiatives. During the Year, new tenants were provided with practical green tips on fitting out their premises and subsequent operational practices. Internal notices were distributed to tenants and employees to encourage proper recycling routines and efficient use of resources.

Environmental compliance

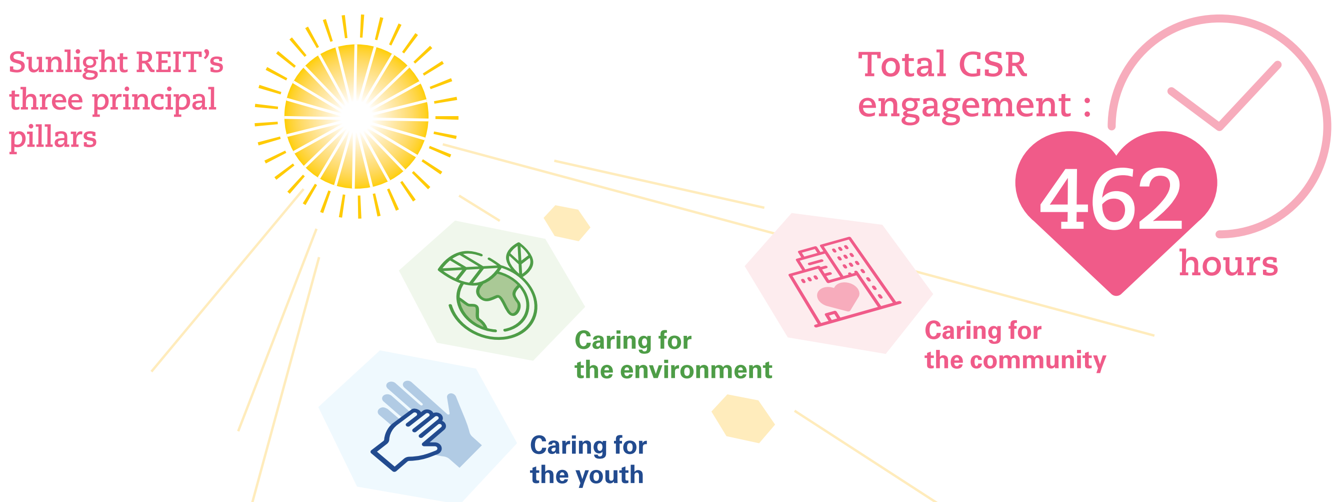
Throughout the Year, we complied with local regulations and standards[2] relating to air and GHG emissions, discharges into water and land, generation and safe handling of hazardous and non-hazardous wastes.

Water consumption



Our Community

Sunlight REIT's continuous efforts to implement and organize charitable activities in past years have further strengthened our relationship with the community. We work closely with our employees, NGOs and community partners to promote outreach and charitable initiatives which are upheld by our three principal pillars.



Notes :
1. Please refer to the note on page 31.
2. Including but not limited to : Air Pollution Control Ordinance (Chapter 311), Waste Disposal Ordinance (Chapter 354), Water Pollution Control Ordinance (Chapter 358), Noise Control Ordinance (Chapter 400).

Caring for the environment

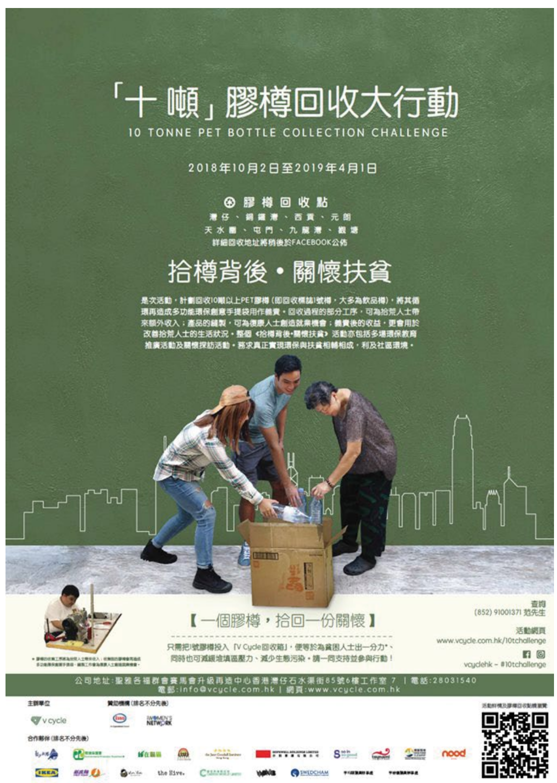
Enhancing public awareness is essential to driving environmental stewardship in the community. Therefore, we have arranged and participated in a range of programmes to strengthen the environmental consciousness of our employees and community members.

Bring a Book and Share

We always seek opportunities to utilize our shopping arcades as platforms to promote waste reduction and recycling practices in an effort to inspire public awareness towards a greener culture. During the Year, we continued to collaborate with our charity partner – Read Cycling to launch the "Bring a Book and Share" event at Sunlight Tower, SSC and MCPI. This book-donation event encourages resource circulation within the local community through the donation of used books among our tenants and the public and also helps to promote a stronger reading culture.

10 Tonne PET Bottle Collection Challenge

Committed to creating positive impacts on our environment and society, we supported the plastic bottle recycling campaign "10 Tonne PET Bottle Collection Challenge" organized by V cycle aiming at reducing landfill preasure. Collection bins for plastic bottles were set up at Sunlight Tower and Bonham Trade Centre to collect used bottles. After treatment, these bottles were recycled and remade into reusable bags for a charity sale with proceeds going to support elderly waste pickers. The collection and processing of plastic bottles into eco-friendly tote bags also created job opportunities for people who can take up the responsibilities of waste picking, sewing and stitching.



Overview | Management Discussion and Analysis | Corporate Governance | Financial and Other Information

Caring for the youth

We appreciate that the children and youth of today are tomorrow's leaders and have invested heavily in supporting their development. We make every effort to nurture our next generation of champions to reach their full potential and empower them to build a better future.

Step Out for Children

In September 2018, we collaborated with The Society for Relief for Disabled Children to title sponsor the charity fundraising event "Step Out for Children" which aimed at facilitating health advancements by creating a rare disease data registry for patients with genetic disorders in Hong Kong. Around 50 volunteers from the Manager and the Property Manager participated in this meaningful event by helping to carry out treasure hunts in Tai Kwun. Through this community programme, we promoted Sunlight REIT's staff volunteering culture by extending our care to children in Hong Kong suffering from rare diseases.

Up & Play

Joining hands with the non-profit youth organization, Breakthrough, we organized "Up & Play" to educate the younger generation on the importance of waste management, resource conservation and upcycling. During the event, children and their families helped extend the lifecycle of resources by designing upcycled artworks and transforming waste materials into new products.

Sunlight Unplug Day & Camp

We sponsored the Chinese YMCA of Hong Kong to host the "Sunlight Unplug Day & Camp" to promote face-to-face communication between children and their parents by setting their smartphones aside. Over the course of this two-day event, workshops and talks were held to raise awareness of the long-term negative social and health implications of the excessive use of smartphones. A series of recreational activities were also carried out for children and their families to enhance interaction, strengthen family bonds and enjoy valuable time together.

Caring for the community

Community care is ingrained in our CSR values as we continuously promote a culture of volunteering and encourage staff to support the underprivileged. Through our various volunteering activities, we remain steadfast in our commitments to serve the community and promote social integration.

FOOD-CO Save & Share

A large number of moon cakes are thrown away every year following the Mid-Autumn Festival in Hong Kong. To minimize food wastage, we collaborated with St. James' Settlement for the second consecutive year in collecting surplus moon cakes at Sunlight Tower during the festival period. The moon cakes were redistributed by FOOD-CO to people living in need.

Village Casserole Feast with the elderly

During the Chinese New Year, we collaborated with St. James' Settlement to spread love and care to single seniors through a "Village Casserole Feast". During the event, the elderly shared their valued experiences with our volunteers and the smiling faces of everyone reflected the meaning and value of the event.

Mobile Blood Donation Service at Sunlight Tower

In support of the Hong Kong Red Cross' blood drive, we helped to set up a mobile blood donation station at Sunlight Tower in April 2019. This initiative provided an opportunity for our staff, tenants and neighbourhood to save lives by replenishing the blood inventory, fulfilling the constant demand for blood supply and supporting patients in need.

Our Customers and Suppliers

Sunlight REIT fully respects the expectations of quality and product responsibility placed on us by our customers. Adequate policies are in place to ensure customer service satisfaction, quality assurance, customer privacy protection and supply chain management.

Customer service satisfaction

We listen and respond to the valuable feedback from our customers and tenants. As outlined in the guidelines on complaint handling, all employees are required to follow our procedures for handling tenant/customer complaints in order to resolve issues promptly and appropriately. Reporting and recording instructions are stated in the guidelines to establish clear directives for our staff to follow. To achieve the best practices in customer service, feedback is collected and subsequently reviewed for any service enhancement opportunities.

Quality assurance

In recognition of the importance of responsible business practices and high-quality standards, we have developed measures to protect customer interests and foster continual enhancement to our services. We conduct annual surveys on our property management services to better understand the needs and expectations of our tenants and to identify areas of improvement. This Year, more than 96% of the survey respondents[Note] were satisfied with the overall performance of our property management services.

Customer privacy protection

The Manager is devoted to protecting the data privacy of our 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. As required by law, all personal data is handled by designated personnel with a high degree of confidentiality, including the collection, disclosure, retention and rights to access personal data. Our privacy policy statement is accessible on the website of Sunlight REIT at http://www.sunlightreit.com/en-us/privacy-policy-statement.

During the Year, we complied with relevant laws and regulations relating to customer health and safety, advertising, labelling and privacy matters relating to services provided as well as methods of redress.

Supply chain management

The impact of supply chain management is relatively low in view of our business nature. Yet, regular engagement with our key suppliers is conducted to ensure quality services are delivered to our tenants and shoppers. Whilst guidelines and regulations are in place, we also implement a mechanism to constantly review and evaluate approved suppliers in respect of their qualifications, experience and certifications.

Note : A total of 297 completed questionnaires from our tenants were received.

ESG reporting guide content index

Aspect	KPI	Description	Corresponding Section
A. Environmental			
A1 Emissions	A1	General disclosure	Our Environment – Introduction, Environmental compliance
	A1.1	The types of emissions and respective emissions data	Due to the business nature of Sunlight REIT, this KPI is considered not material.
	A1.2	Greenhouse gas emissions in total and intensity	Our Environment – Energy and emissions
	A1.3	Hazardous waste produced in total and intensity	Our Environment – Waste management
	A1.4	Non-hazardous waste produced in total and intensity	Our Environment – Waste management
	A1.5	Description of measures to mitigate emissions and results achieved	Our Environment – Energy and emissions
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Our Environment – Waste management
A2 Use of resources	A2	General disclosure	Our Environment – Introduction, Environmental compliance
	A2.1	Direct and/or indirect energy consumption by type and intensity	Our Environment – Energy and emissions
	A2.2	Water consumption in total and intensity	Our Environment – Water resources
	A2.3	Description of energy use efficiency initiatives and results achieved	Our Environment – Energy and emissions
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Our Environment – Water resources
	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, this KPI is considered not material.
A3 The environment and natural resources	A3	General disclosure	Our Environment
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Our Environment – Cultivating environmental awareness
B. Social			
B1 Employment	B1	General disclosure	Our People
	B1.1	Total workforce by gender, employment type and age group	Our People – Caring company
	B1.2	Employee turnover rate by gender and age group	Our People – Caring company
B2 Health and safety	B2	General disclosure	Our People – Health and safety
	B2.1	Number and rate of work-related fatalities	Our People – Health and safety
	B2.2	Lost days due to work injury	Our People – Health and safety
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Our People – Health and safety
B3 Development and training	B3	General disclosure	Our People – Staff development
	B3.1	The percentage of employees trained by gender and employee category	Our People – Staff development
	B3.2	The average training hours completed per employee by gender and employee category	Our People – Staff development
B4 Labour standards	B4	General disclosure	Our People
B5 Supply chain management	B5	General disclosure	Our Customers and Suppliers – Supply chain management
B6 Product responsibility	B6	General disclosure	Our Customers and Suppliers
	B6.2	How products and service related complaints are dealt with	Our Customers and Suppliers – Customer service satisfaction
	B6.4	Description of quality assurance process and recall procedures	Our Customers and Suppliers – Quality assurance
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Our Customers and Suppliers – Customer privacy protection
B7 Anti-corruption	B7	General disclosure	Our People – Anti-corruption and whistle-blowing policy
	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	Our People – Anti-corruption and whistle-blowing policy
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Our People – Anti-corruption and whistle-blowing policy
B8 Community investment	B8	General disclosure	Our Community – Introduction
	B8.1	Focus areas of contribution	Our Community
	B8.2	Resources contributed to the focus areas	Our Community – Introduction

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 72, 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. Further, he was 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 55, 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

BSc, MSc, Post-graduate Diploma in Surveying, FRICS, ACIB

Non-executive Director

Mr. Kwok, aged 66, has 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 finance, corporate and treasury investment 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 69, is presently the President of Morrison & Company Limited, a business consultancy firm. He is also the Chairman of the board of Utopa Limited, a commercial property operating 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. (all being companies listed on the Main Board of the Stock Exchange). He is also an independent non-executive director of both HK Electric Investments Manager Limited and HK Electric Investments Limited. HK Electric Investments Manager Limited is the trustee-manager of HK Electric Investments, which is a trust the units of which together with the shares of HK Electric Investments Limited are listed on the Stock Exchange as share stapled units.

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.

Dr. TSE Kwok Sang
BSc, MBA, MSc, PhD, ASA, MHKIoD, JP
Independent Non-executive Director

Dr. Tse, aged 62, 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 a Co-opted Councillor 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 55, holds a Bachelor of Arts degree from the University of Cambridge. Before joining the Manager in January 2016, 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 52.

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 management plans, fund investment 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 asset management and investment 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 15 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.

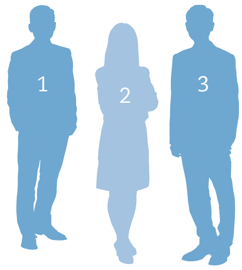
Ms. YU Hoi Zin
Compliance Manager

Ms. Yu is responsible for the design and implementation of adequate internal control and systems, as well as a strong risk management framework and system, 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 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 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 20 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.

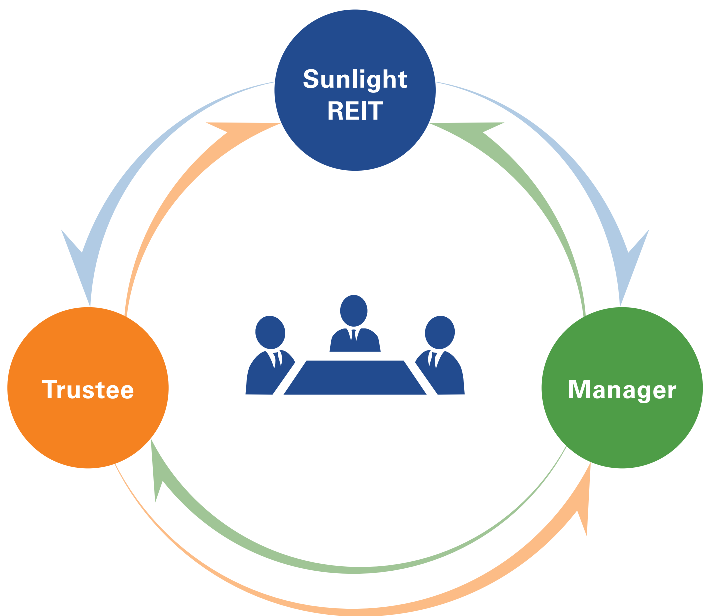
Ms. Ho holds a Master of Science in Real Estate degree from The University of Hong Kong, a Postgraduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong and a Diploma in Property Development from the School of Professional and Continuing Education of The University of Hong 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	Manager
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.	The Manager is licensed by the SFC under the SFO to conduct the regulated activity of asset management, and 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, as well as the design, implementation and monitoring of the risk management and internal control systems of Sunlight REIT.
- 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**").

Composition

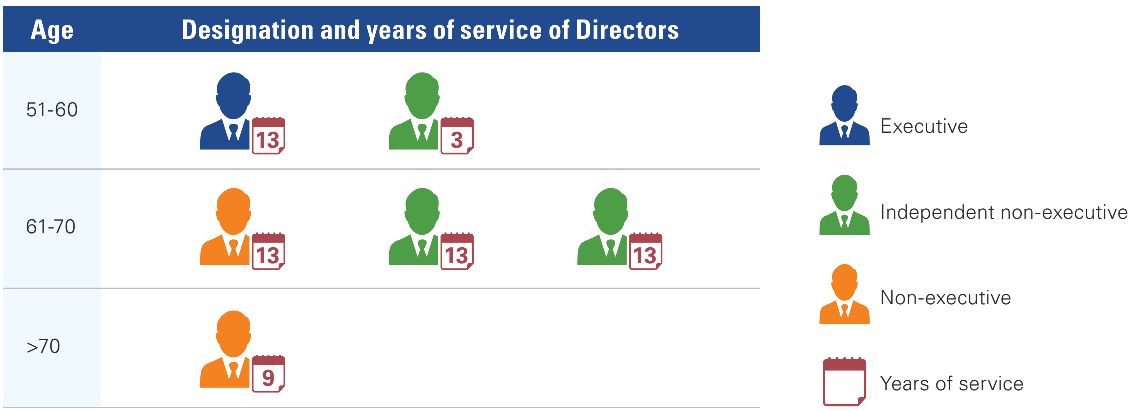
- The Board currently has six Directors, including one Executive Director (who is also the Chief Executive Officer (the "**CEO**")), two Non-executive Directors (including the Chairman) and three Independent Non-executive Directors ("**INEDs**").

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 ensures that a balance of skills, experience and diversity of the Board is maintained. 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.



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 attributes in terms of diversity 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. Each INED who has served for more than nine years is subject to re-appointment by way of a separate ordinary resolution at a general meeting to be approved by Unitholders. A circular and/or an explanatory statement shall be provided to Unitholders to confirm that such INED continues to be independent and may be re-appointed.

Delegation

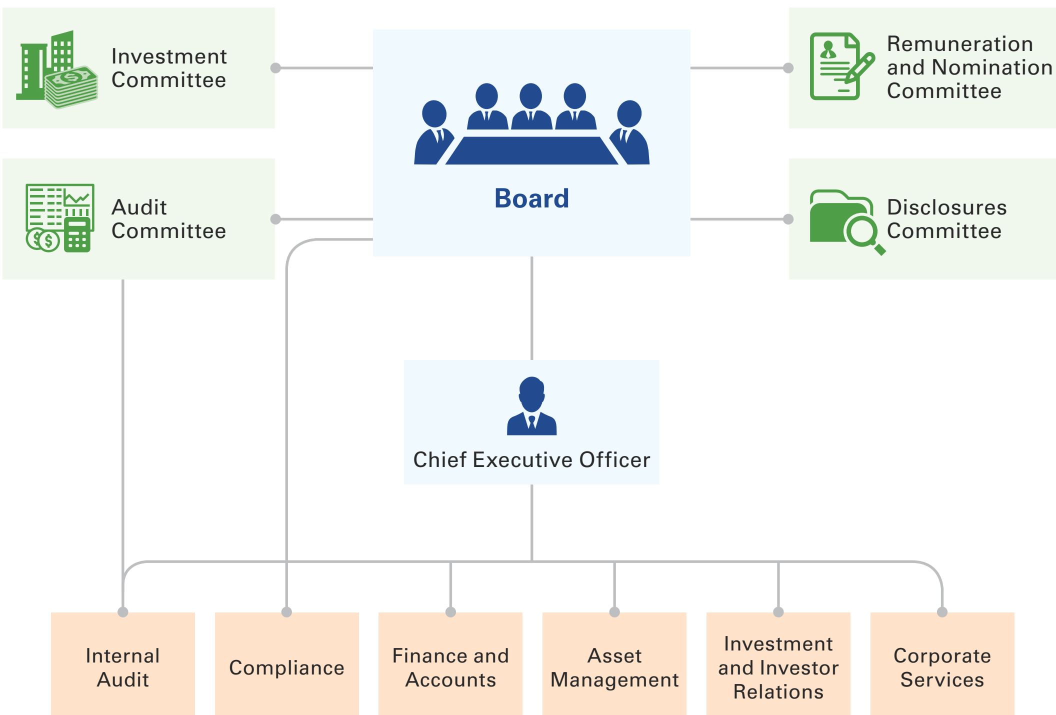
- Except for reserved matters as stated in the compliance manual of the Manager (the "**Compliance Manual**") which must first be considered by the full Board, the day-to-day management of the Manager is delegated to committees of the Board (the "**Board Committees**") and the management team.

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 to report back to the Board on their decisions and recommendations.

Management

- The strategies and objectives set by the Board are implemented by the management team under the leadership of the CEO.
- Management functions of the Manager are delegated to six 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 effective and efficient implementation of strategies and business operations.



Note : The Company Secretary reports to the CEO and the Chief Financial Officer.

- 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 regarding regular Board meetings, with mechanisms to allow them to raise items in the agenda; 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 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 :

Directors	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

Note : Mr. Ma Kwong Wing retired as an INED with effect from 21 December 2018.

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

Investment Committee

Responsibilities :

- Overseeing investment and financial matters of Sunlight REIT
- Reviewing investment strategies and proposals, internal controls and responsible for mitigation of investment and financial related risks
- Formulating treasury management and capital management policies

Work performed :

- Reviewed and considered financial results, business plans and CAPEX budget of Sunlight REIT
- Reviewed and formulated capital and treasury management strategies and revised the relevant guidelines
- Evaluated potential acquisition/disposal opportunities and made recommendations to the Board as appropriate
- Assessed investment and financial risks affecting Sunlight REIT, considered mitigating measures and recommended to the Board the revised risk parameters and risk appetite statement

Audit Committee

Responsibilities :

- Ensuring the quality and integrity of risk management and internal controls
- Recommending appointment of external auditors and reviewing their performance
- Reviewing the completeness, accuracy, clarity and fairness of financial statements
- Ensuring compliance of Sunlight REIT with applicable laws and regulations

Work performed :

- Reviewed internal audit activities reports and the effectiveness of internal audit function
- Reviewed financial statements of Sunlight REIT
- Considered and recommended to the Board on re-appointment of external auditor and their audit fees
- Assessed risk exposures of Sunlight REIT, considered corresponding mitigation measures and recommended to the Board the revised risk parameters and risk appetite statement
- Reviewed and considered the effectiveness of risk management and internal control systems
- Reviewed the connected party transactions entered into by Sunlight REIT to ensure compliance with the REIT Code requirements and waiver conditions of the SFC
- Ensured compliance of Sunlight REIT with applicable laws and regulations
- Reviewed adequacy of resources, qualifications and experience, training programmes and budget of accounting, internal audit and financial reporting functions

Remuneration and Nomination Committee

Responsibilities :

- Overseeing human resources strategy and policies of the Manager, including succession plan of Directors and management team
- Reviewing the structure, size and composition of the Board and Board Committees
- Evaluating performance of the Board, Board Committees and their members, including ensuring independence of INEDs

Work performed :

- Reviewed overall appraisals of staff performance
- Approved revised 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
- Formulated a nomination policy for adoption by the Board
- Considered and recommended to the Board on re-appointment of Directors
- Engaged an external consultant on Board effectiveness evaluation

Disclosures Committee

Responsibilities :

- Reviewing matters relating to disclosure of information of Sunlight REIT in corporate communications to Unitholders
- Ensuring 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 with the relevant regulatory authorities
- Reviewed applicability of new rules and regulations to Sunlight REIT and its special purpose vehicles

Assessment

- The Board regularly reviews its performance; during the Year, an external consultant was engaged to evaluate and give recommendations to improve Board effectiveness.
- Membership of the Board and Board Committees and attendances of Directors to the meetings held during the Year are as follows :

	No. of meetings attended / eligible to attend					
Type of meetings / Directors	Board of Directors	Investment Committee	Audit Committee	Remuneration and Nomination Committee	Disclosures Committee	2018 Annual General Meeting
Current Directors						
Mr. Au Siu Kee, Alexander	5/6[1]	4/4		4/4		1/1
Mr. Wu Shiu Kee, Keith	6/6	4/4			2/2	1/1
Mr. Kwok Ping Ho	5/6					1/1
Mr. Kwan Kai Cheong[2]	5/6		3/4	4/4	2/2[4]	1/1
Dr. Tse Kwok Sang[2]	6/6	4/4	4/4		1/1	1/1
Mr. Kwok Tun Ho, Chester[3]	6/6	4/4	4/4	2/2		1/1
Retired Director						
Mr. Ma Kwong Wing[5]	0/2		0/2	0/2	0/1[4]	0/1

Chairman/chairman of the Board Committee   N/A

Notes :
1. Mr. Au Siu Kee, Alexander did not attend a Board meeting at which renewal of his term of appointment was considered.
2. Mr. Kwan Kai Cheong and Dr. Tse Kwok Sang were appointed as members of the Disclosures Committee with effect from 1 November 2018.
3. Mr. Kwok Tun Ho, Chester was appointed as a member of the Remuneration and Nomination Committee with effect from 1 November 2018.
4. Mr. Kwan Kai Cheong was appointed as an alternate to Mr. Ma Kwong Wing for the sole purpose of attending a Disclosures Committee meeting.
5. Mr. Ma Kwong Wing did not attend the meetings due to health reason, and retired as an INED and ceased as a member of each of the Audit Committee, the Remuneration and Nomination Committee and the Disclosures Committee with effect from 21 December 2018.

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* and the Risk Manager, oversees the risk control process and monitors the effectiveness of risk management practices. Lastly, the 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.

Risk governance structure and process

Board of Directors

Investment Committee | **Audit Committee**

A summary of the review and findings will be presented to the Investment Committee and the Audit Committee, and further communicated to the Board for consideration.

1st line of defence

Risk ownership

Operational management

Each department and/or operating unit will identify and submit their top five risks to the Risk Manager quarterly.

2nd line of defence

Risk control

Risk management and compliance

The Risk Manager will prepare a consolidated risk register of Sunlight REIT quarterly to the Risk Taskforce for review.

The top risks of Sunlight REIT are quarterly determined by the Risk Taskforce after (i) reviewing, evaluating and prioritizing various risks relating to the operations of Sunlight REIT as consolidated by the Risk Manager; and (ii) assessing the risks to see whether they are within the risk tolerance level of Sunlight REIT.

3rd line of defence

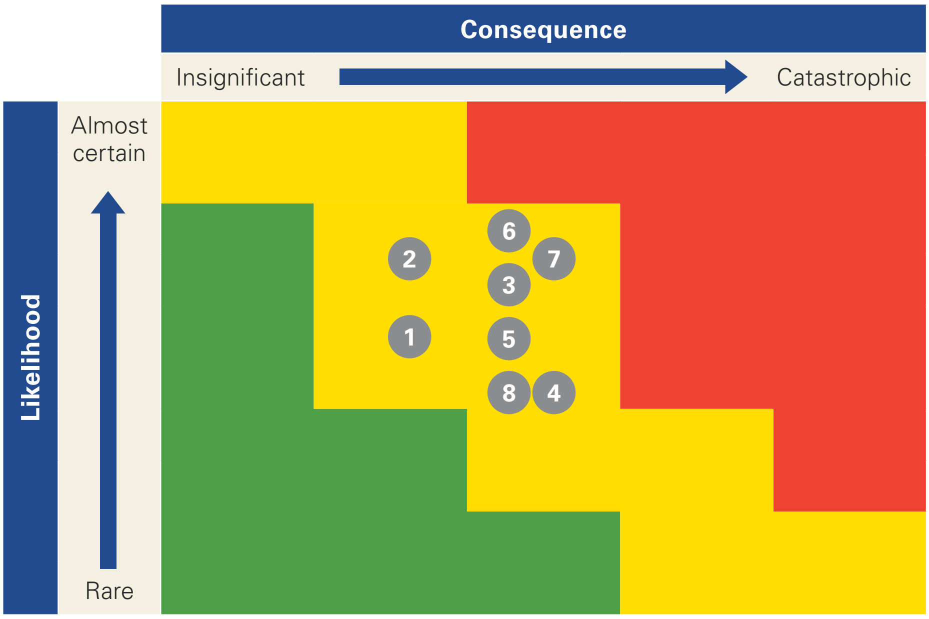
Risk assurance

Internal audit

The IAD will appraise the risk management system of Sunlight REIT and report the results to the Audit Committee annually.

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

Risk heat map



The risk heat map above provides an illustration of the top risks of Sunlight REIT at 30 June 2019 in terms of likelihood and consequence. During the Year, the risk tolerance level and the risk appetite statement were reviewed and endorsed by the Board.

During the Year, the Risk Taskforce reviewed the supervision of project management and considered that "Quality assurance on major works/projects" was no longer a top risk of Sunlight REIT at 30 June 2019.

The Risk Taskforce noticed the swift changes in the overall economic environment caused by the US-China trade tensions and more recently, the ongoing social unrest in Hong Kong. Accordingly, it opined that one of the top risks in the previous financial year, namely "High level of vacancies due to stiff competition and co-termination of tenancies resulting from asset enhancement works for selected properties" should be amended to "Rent reduction and high level of vacancies due to global economic slowdown and the recent social unrest in Hong Kong". The Risk Taskforce also introduced a new top risk, "Property management risks arising from the recent social unrest in Hong Kong", in response to the recent demonstrations in Hong Kong. Enhanced controls and procedures are in place by the Manager to mitigate these new and amended risks.

Summary of the top risks of Sunlight REIT

Risk no.	Description	Nature	Major controls
1	Recruitment and retention of staff; disruption to work due to high vacancies or prolonged leave of absence by key personnel	Human resources	• Benchmarking of remuneration package • Provide clear career development plans and training programmes for staff
2	Reliance on major properties of the portfolio for a substantial proportion of income	Financial and investment	• Maintain a diversified or balanced portfolio of office and retail properties • Explore suitable acquisition opportunities
3	Interest rate fluctuations	Financial	• Hedge certain portion of bank borrowings by way of IRSs • Closely monitor interest rate movements and floating rate exposure
4	Incidents triggered by defective building facilities/conditions	Operational	• Conduct periodic scanning and inspection of external walls, air conditioner drain pipes and water pipes • Ensure adequate insurance is in place
5 NEW	Property management risks arising from the recent social unrest in Hong Kong	Operational	• Front line staff to be alert to demonstrations and social unrest near properties • Maintain effective communication with tenants • A contingency plan is in place and to be reviewed periodically
6 AMENDED	Rent reduction and high level of vacancies due to global economic slowdown and the recent social unrest in Hong Kong	Financial and operational	• Identify tenants who are engaged in non-discretionary trades • Initiate negotiations with existing and prospective tenants earlier • Monitor the leasing market and review leasing terms more closely
7	Tax implications of a dispute with the IRD over expenditure deductibility	Financial	• 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
8	Cyber security	Operational	• Implement protection measures including installation of anti-virus software and firewalls • Set up system backup mechanism for data recovery • Engage external consultants to conduct periodic risk assessment on information technology • Provide adequate training to staff

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	• 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	• 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. Details are described in the "Risk Management" on pages 65 to 67. • Fraud risk register is established to identify specific fraud schemes and risks, and assess their significance with relevant controls for ongoing monitoring.
Control activities	• A series of key policies and procedures are established to ensure that relevant management directives are carried out, and actions, including verifications and approvals, reviews and safeguarding of assets, are taken to address risks.
Information and communication	• Processes and systems are in place to capture and report operational, financial and compliance related information to enable effective communication within the organization and with external stakeholders. • An inside information policy is adopted to ensure that inside information is to be handled and disseminated to the public in 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 conflict of interest with the public and/or the Manager.
Monitoring activities	• Regular reviews of key risk areas are performed by the IAD to ascertain whether the controls are present and functioning, and to ensure compliance with the internal policies and regulatory requirements. Internal control deficiencies are timely communicated to responsible parties to take corrective actions.

Results of annual review of risk management and internal control systems

For the Year, the Audit Committee reviewed the continued 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, qualifications and experience, training and budgets of the Manager's staff, particularly for 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 and its subsidiaries 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 all 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. a confirmation 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 leasing agency services would neither affect its performance nor jeopardize its independence as the Principal Valuer is obtained annually, if applicable.

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 are 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 is or was materially interested.

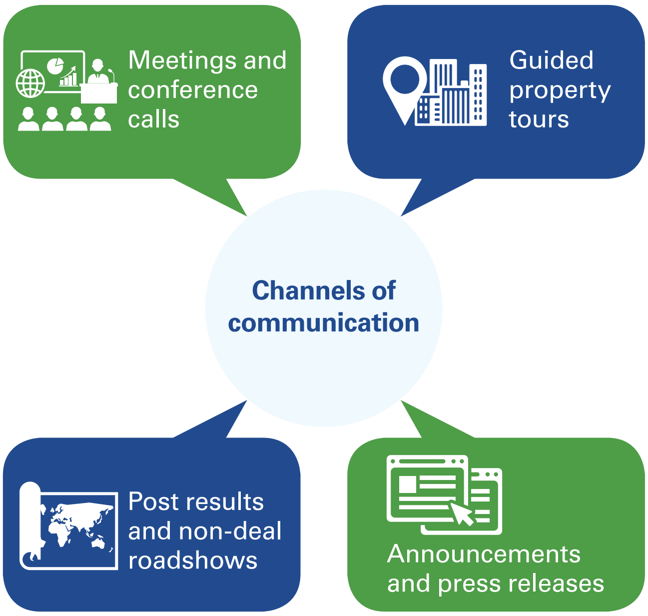
Communication

Investor relations

The Manager is committed to providing open and effective communications, ensuring that Unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT. The Manager 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 :



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 31 October 2018 at which ordinary resolutions in relation to the granting of a general mandate to the Manager to buy back Units (on-market) on behalf of Sunlight REIT and the re-appointment of Mr. KWAN Kai Cheong and Dr. TSE Kwok Sang as INEDs were approved by Unitholders.

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 159 for details.

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 the press immediately following the release of results announcements. The relevant presentation materials and 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 with respect to Sunlight REIT are made by the Manager on a timely basis in accordance with the applicable regulatory requirements. Subsequent briefings with analysts and the press may 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.

A practical guidance note on the operation of the Dealings Code, setting out additional information and procedures for seeking clearance under the Dealings Code, is in place and applies to the Directors and the Manager. It is also 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.

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

Changes in Directors' information

Subsequent to publication of the last interim report, the Manager was informed that the term of appointment of Mr. KWOK Tun Ho, Chester as the deputy chairman and member of the Share Registrars' Disciplinary Committee of the SFC expired on 31 March 2019.

Save as aforesaid, the Manager has not been notified of any change in Director's information.

Confirmation on independence

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

Unitholders' rights

In accordance with the Trust Deed, at least 10 business days' notice of every meeting shall be given to Unitholders, except that at least 21 days' notice of the meeting shall be given to Unitholders where a special resolution is proposed for consideration at such meeting; and not less than 20 business days' notice shall be given to Unitholders for an annual general meeting. The place, date and time of the meeting and details of any resolution to be 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 159 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 2,565,000 Units on the Stock Exchange during the Year for an aggregate consideration of approximately HK$12.8 million (excluding buy-back expenses). All bought back Units were cancelled prior to the end of the Year. Details of the buy-backs are as follows :

Month of buy-back	Number of Units bought back	Price paid per Unit		Aggregate consideration paid* (HK$'000)
		Highest (HK$)	Lowest (HK$)	
October 2018	1,909,000	5.19	4.88	9,658
November 2018	656,000	4.89	4.70	3,167
Total	**2,565,000**			**12,825**

* Excluding buy-back expenses

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

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 2019 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]	Credit rating
CHALHK 4 ⅞ 09/07/21 Chalco Hong Kong Investment Company Limited	Stock Exchange	USD	23,432	24,193	0.12	Fitch BBB+[3]
COGO 4 ⅞ 06/01/21 China Overseas Grand Oceans Finance IV (Cayman) Limited	Stock Exchange	USD	15,739	16,061	0.08	S&P BBB- Moody's Baa2 Fitch BBB
ICBCAS 5 ⅛ 11/30/20 Industrial and Commercial Bank of China (Asia) Limited	Singapore Exchange Limited	USD	20,911	20,182	0.10	S&P A- Moody's Baa2
CHITRA 3 ⅞ 11/03/19 King Power Capital Ltd.	Stock Exchange	USD	19,841	19,605	0.09	S&P BBB+[4] Moody's A3
NWDEVL 5 09/06/22 New World Capital Finance Limited	Unlisted	HKD	10,400	10,681	0.05	N/A
YUEXIU 4 ⅞ 04/19/21 Westwood Group Holdings Limited	Stock Exchange	USD	22,021	22,481	0.11	Moody's Baa3 Fitch BBB-
CJIANT 4 ½ 09/20/21 Xingsheng (BVI) Company Limited	Stock Exchange	USD	15,635	15,954	0.08	Fitch A+
YXREIT 4 ¾ 04/27/21 Yuexiu REIT MTN Company Limited	Stock Exchange	USD	10,152	10,425	0.05	S&P BBB- Moody's Baa3
Total			**138,131**	**139,582**	**0.68**	

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 at 30 June 2019 with the gross asset value of Sunlight REIT (as defined below).
3. Fitch has upgraded the rating of this financial instrument from BBB+ to A- with effect from 17 July 2019.
4. S&P has upgraded the rating of this financial instrument from BBB+ to A- with effect from 28 August 2019.

At 30 June 2019, 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 (as stated on page 108 of this annual report after adjusted for the final distribution declared), 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.

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 9,148,302 new Units were issued to the Manager in October 2018 and April 2019, 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 30 June 2019.

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

Fees payable to the auditor during the Year amounted to HK$1,965,000 for audit and audit related services and HK$488,000 for non-audit services. Non-audit services fees were paid to the auditor to provide consulting services to supplement the internal audit function of the Manager.

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$1,046,000. Having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee, pursuant to the conditions of the above waivers, confirmed that these Promotional Expenses were incurred in accordance with the internal control procedures of the Manager, and solely for the purposes as set out in the relevant clauses of the Trust Deed relating to the Promotional Expenses.

Employees

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

Distribution entitlement and closure of register of Unitholders

The ex-distribution date and record date for the final distribution are Thursday, 19 September 2019 and Wednesday, 25 September 2019 respectively. The register of Unitholders will be closed from Monday, 23 September 2019 to Wednesday, 25 September 2019, both days inclusive, during which period no transfer of Units will be effected. In order to qualify for the final distribution, completed transfer forms accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 20 September 2019. Payment of the final distribution will be made to Unitholders on Friday, 11 October 2019.

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 sector	Occupied GRA at 30 June 2019 (sq. ft.)	% of total GRA at 30 June 2019	% of total revenue
Anglo-Eastern Ship Management Limited	Shipping, logistic and transportation	83,311	6.7	5.3
The Financial Secretary Incorporated c/o Government Property Agency	Government and related organizations	72,196	5.8	4.5
Tenant A	Financial	20,627	1.7	2.2
Tenant B	Healthcare and electrical appliances	19,886	1.6	2.1
Bank of Communications Co., Ltd.	Financial	6,891	0.6	1.6
Total		**202,911**	**16.4**	**15.7**

Top five real estate agents and contractors for the Year

Real estate agents and contractors[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	52,216	38.4
Hang Yick Properties Management Limited[3]	Building management and licence fee	9,314	6.8
New Progress Construction Company Limited	Renovation works, repairs and maintenance	5,732	4.2
Ngai Lik Cleaning Services Company Limited	Cleaning services	5,603	4.1
Winston Air Conditioning & Engineering (Hong Kong) Co., Limited	Repairs and maintenance	5,343	4.0
Total		**78,208**	**57.5**

Notes :

1. Commission and value of contracts paid to all real estate agents and contractors for the Year amounted to HK$14.0 million and HK$122.0 million respectively, of which HK$13.4 million and HK$65.6 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, which 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 77) 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$'000)	Rental and other deposits received at 30 June 2019 (HK$'000)
Henderson Sunlight Asset Management Limited	The Manager	Leasing	6,824	1,604
Henderson Sunlight Property Management Limited	Associated company of the Manager	Leasing	4,465	1,060
Henderson Real Estate Agency Limited	Associated company of the Manager	Joint effort arrangements	3,226	N/A
Galaxy Hotel Management Company Limited	Associated company of the Manager	Leasing and licensing	492	125
Total			**15,007**	**2,789**

(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	9,314
Henderson Sunlight Property Management Limited	Associated company of the Manager	Property management, lease management and marketing services	52,216
Megastrength Security Services Company Limited	Associated company of the Manager	Security services	2,818
Metro City Management Limited	Associated company of the Manager	Building management	1,314
Sheung Shui Centre Management Limited	Associated company of the Manager	Building management	2,412
Contender Limited*	Associated company of the Manager	Facilities leasing	100
Total			**68,174**

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 Group[1] (collectively, the "**Trustee Connected Persons**") during the Year :

Name of connected person	Relationship with Sunlight REIT	Nature of the connected party transactions	Income/ (expenses) for the Year (HK$'000)	Rental and other deposits received/ (deposits paid) at 30 June 2019 (HK$'000)
Leasing transactions :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing[2]	11,592	3,088
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Licensing[3]	430	107
Hang Seng Bank Limited	Trustee Connected Persons	Leasing[4]	11,776	2,853
Ordinary banking and financial services[5] :				
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest income received/ receivable on bank deposits and net interest income on IRSs and basis swaps	3,394	N/A
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Interest expenses, security trustee and other charges on bank borrowings and other bank charges	(20,025)	N/A
HSBC Broking Securities (Asia) Limited*	Trustee Connected Persons	Brokerage commission	(7)	N/A
Hang Seng Bank Limited	Trustee Connected Persons	Interest expenses on bank borrowings and other bank charges	(17,786)	N/A
EPS Company (Hong Kong) Limited	Trustee Connected Persons	Service fees	(123)	(2)

During the Year, several forward-start IRSs with an aggregate notional amount of HK$300 million were entered into with The Hongkong and Shanghai Banking Corporation Limited.

Notes :

1. HSBC Group means The Hongkong and Shanghai Banking Corporation Limited 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 interest rate swaps 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$100.4 million and HK$4.9 million respectively. Particulars of the services provided by the Manager, the Trustee, the Principal Valuer and Knight Frank Petty Limited, the former principal valuer of Sunlight REIT who retired on 31 August 2018, are set out in notes 27(b)(i), (ii) and (iv) to the consolidated financial statements. The fees paid or payable to the Principal Valuer and Knight Frank Petty Limited during the Year were in total less than HK$1 million.

Confirmation by the INEDs

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

(i) in the ordinary and usual course of business of Sunlight REIT;

(ii) on normal commercial terms (to the extent that there are sufficient comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Sunlight REIT than terms readily available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements and the Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of Unitholders as a whole.

Confirmation by the Auditor of Sunlight REIT

Pursuant to the waivers granted by the SFC from strict compliance with the requirements under Chapter 8 of the REIT Code, the Manager has engaged KPMG, being the auditor of Sunlight REIT, to report on the continuing connected transactions on the leasing and licensing arrangements (including facilities leasing), property management and operations (including joint effort arrangements and security services) and ordinary banking and financial services transactions for the Year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the aforesaid continuing connected transactions disclosed in this annual report in accordance with the waivers and a copy of such letter 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 2019 and 30 June 2018, 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 :

	At 30 June 2019		At 30 June 2018	
Name	Number of Units interested	% of interest in Units[1]	Number of Units interested	% of interest in Units[1]
The Manager[2]	137,261,449	8.310	126,272,147	7.675
Au Siu Kee, Alexander[3]	1,530,000	0.093	1,530,000	0.093
Wu Shiu Kee, Keith[4]	700,000	0.042	700,000	0.043
Kwok Tun Ho, Chester[5]	12,000	0.001	-	-

Notes :

1. The percentages are based on the total number of Units in issue of 1,651,723,079 Units at 30 June 2019 and 1,645,139,777 Units at 30 June 2018 (as the case may be).
2. During the Year, the Manager received 9,148,302 Units as payment of part of the Manager's fees; and acquired 1,841,000 Units in the open market. The Manager beneficially owned 137,261,449 Units at 30 June 2019 (30 June 2018 : 126,272,147 Units).
3. At 30 June 2019, of the 1,530,000 Units held by Mr. Au Siu Kee, Alexander, Chairman and Non-executive Director of the Manager, 201,000 Units were directly held by Mr. Au, 1,229,000 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 2019.

Disclosure of Interests

Holdings of substantial Unitholders

At 30 June 2019 and 30 June 2018, the interests in Units of the substantial Unitholders, as recorded in the Register, were as follows :

Name	At 30 June 2019		At 30 June 2018	
	Number of Units interested	% of interest in Units[1]	Number of Units interested	% of interest in Units[1]
Lee Shau Kee[2]	639,891,209	38.74	639,891,209	38.90
Lee Financial (Cayman) Limited[2]	374,072,708	22.65	374,072,708	22.74
Leesons (Cayman) Limited[2]	374,072,708	22.65	374,072,708	22.74
Leeworld (Cayman) Limited[2]	374,072,708	22.65	374,072,708	22.74
SKFE[2]	374,072,708	22.65	374,072,708	22.74
Uplite Limited[2]	224,443,625	13.59	224,443,625	13.64
Wintrade Limited[2]	149,629,083	9.06	149,629,083	9.10
Henderson Development Limited[2]	280,773,766	17.00	264,280,501	16.06
HLD[2]	280,773,766	17.00	264,280,501	16.06
Hopkins (Cayman) Limited[2]	280,773,766	17.00	264,280,501	16.06
Riddick (Cayman) Limited[2]	280,773,766	17.00	264,280,501	16.06
Rimmer (Cayman) Limited[2]	280,773,766	17.00	264,280,501	16.06
Silchester International Investors LLP[3]	246,952,150	14.95	257,791,150	15.67
Silchester International Investors International Value Equity Trust[3]	113,294,922	6.86	113,294,922	6.89

Notes :

1. The percentages are based on the total number of Units in issue of 1,651,723,079 Units at 30 June 2019 and 1,645,139,777 Units at 30 June 2018 (as the case may be).
2. At 30 June 2019, 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 2019, 76,533,345 Units were owned by Cobase Limited, 67,378,972 Units were owned by Richful Resources Limited and 137,261,449 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 281,173,766 Units at 30 June 2019. 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 2019, as no notifiable interest arose on their parts subsequent to their last disclosure of interest notifications to the Stock Exchange.

   At 30 June 2019, 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 655,246,474 Units. Whereas in the Register, Dr. Lee Shau Kee was recorded as having an interest in 639,891,209 Units at 30 June 2019, as no notifiable interest arose on his part subsequent to his last disclosure of interest notification to the Stock Exchange.

   At 30 June 2019, 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 2019, according to the Register, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 246,952,150 Units, and Silchester International Investors International Value Equity Trust ("**Silchester Trust**") beneficially owned 113,294,922 Units. The Manager has subsequently been notified informally that at 30 June 2019, (i) Silchester LLP was interested in 240,491,150 Units (representing approximately 14.56% of the total number of Units in issue); and (ii) Silchester Trust was beneficially interested in 104,834,922 Units (representing approximately 6.35% 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 2019.

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 2019 were as follows :

Name	Number of Units held	% of Unit holding[1]
Chan Wing Cheng[2]	150,000	0.0091
Lee King Yue[3]	50,000	0.0030
Lee Pui Ling, Angelina[4]	2,307	0.0001
Liu Wai Hing, Ludwig[5]	5,000	0.0003
Lo Yuk Fong, Phyllis[6]	100,000	0.0061
Employee of the Manager[7]	1,000	0.0001
Persons related to the Trustee[8]	70,000	0.0042

Notes :

1. The percentages are based on the total number of Units in issue of 1,651,723,079 Units at 30 June 2019.
2. Mr. Chan Wing Cheng is a connected person of Sunlight REIT as he is a director of a company controlled by the family trust of Dr. Lee Shau Kee. Mr. Chan held 130,000 Units at 30 June 2018.
3. 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 30 June 2018.
4. Mrs. Lee Pui Ling, Angelina is a connected person of Sunlight REIT as she is a director of HLD and one of its subsidiaries. Mrs. Lee held 2,307 Units at 30 June 2018.
5. Mr. Liu Wai Hing, Ludwig is a connected person of Sunlight REIT as he is a director of certain subsidiaries of HD. Mr. Liu did not hold any Units at 30 June 2018.
6. 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 30 June 2018.
7. This represented Units held by an employee of the Manager who joined the Manager during the Year, thus being a connected person of Sunlight REIT.
8. Certain controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the Trustee were beneficially interested in 70,000 Units at 30 June 2019. Their beneficial interest was 2,992,000 Units at 30 June 2018.

Valuation Report

Colliers International (Hong Kong) Limited

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25 July 2019

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

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 2019 (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 (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	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	No. 276-278 Lockhart Road, Wan Chai
11	The Harvest (formerly known as "Fung Shun Commercial Building")	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	No. 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 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.
- We are authorised to practice as valuers and have the necessary expertise and experience in valuing similar types of properties.
- The valuations have been prepared on a fair and unbiased basis.

1.4 Basis of valuation

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

1.5 Valuation standards

The valuations have been carried out in accordance with "The HKIS Valuation Standards (2017 Edition)" published by The Hong Kong Institute of Surveyors, and in compliance with the requirements contained in relevant provisions in Chapter 5 of the Listing Rules, and 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 capitalising net rental income on a fully leased basis. This method is used when a property or asset is leased out for a specific term(s). This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deductions are made for outgoings such as property management fees, capital expenditure, vacancy loss, and other necessary expenses.

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

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 Hong Kong 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) from 15 July 2019 to 19 July 2019. 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 assume that all information on the Properties provided by the Manager is correct.
- We assume that proper ownership titles of and relevant planning approvals for the Properties have been obtained, all payable land premiums, land-use rights fees and other relevant fees have been fully settled and the Properties can be freely transferred, sub-let, mortgaged or otherwise disposed of.
- We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement. We have not examined the lease documents for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies are valid, binding and enforceable.
- As instructed, we have relied upon carpark numbers as advised by the Manager. We have not carried out on-site counting to verify the correctness of the carpark numbers of the Properties valued.
- 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 valuations.
- We assume that the Government Leases will be renewed upon expiry on normal terms.

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 and (3) Valuation particulars, 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 (Cap. 417) in the Hong Kong Special Administrative Region. She is suitably qualified to carry out the valuation and has over 18 years' experience in the valuation of properties of this magnitude and nature.

David Faulkner
BSc (Hons) FRICS FHKIS RPS (GP) MAE
Managing Director
Valuation & Advisory Services – Asia

Note : David Faulkner is a Fellow of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in the Hong Kong Special Administrative Region. He is suitably qualified to carry out the valuation and has over 39 years' experience in the valuation of properties of this magnitude and nature, and over 34 years' experience in Hong Kong and China.

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 2019 (HKD)	Capitalization rate adopted Retail (%)	Office (%)	Carpark (%)	Estimate net property yield (%)
1	Sunlight Tower	376,381	46	5,294,300,000	3.65	3.75	4.90	3.39
2	Bonham Trade Centre	117,909	N/A	1,311,400,000	3.80	3.45	N/A	2.35
3	Righteous Centre	51,767	N/A	621,700,000	3.40	3.75	N/A	3.73
4	Various Portions in 135 Bonham Strand Trade Centre	63,915	N/A	671,000,000	3.80	3.45	N/A	3.36
5	Various Portions in Winsome House	40,114	N/A	652,700,000	3.60	3.45	N/A	3.23
6	Java Road 108 Commercial Centre	37,923	N/A	321,200,000	4.00	3.75	N/A	3.59
7	Various Portions in Sun Fai Commercial Centre	26,151	N/A	193,800,000	4.05	3.80	N/A	3.68
8	Various Portions in Wai Ching Commercial Building	16,321	N/A	85,100,000	3.90	3.55	N/A	3.61
9	235 Wing Lok Street Trade Centre	52,285	N/A	432,600,000	3.80	3.45	N/A	3.07
10	On Loong Commercial Building	27,206	N/A	294,600,000	3.70	3.65	N/A	3.50
11	The Harvest (formerly known as "Fung Shun Commercial Building")	34,651	N/A	730,800,000	2.90	3.10	N/A	2.81
12	Commercial Development and Car Parks, Metro City Phase 1	188,889	452	3,332,610,000	4.40	-	5.00	4.50
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	4,617,200,000	4.30	-	5.80	4.06
14	Various Portions in Kwong Wah Plaza	67,356	N/A	1,257,600,000	3.60	3.60	N/A	3.49
15	Various Shops Units on Ground Floor, Beverley Commercial Centre	7,934	N/A	111,200,000	4.10	-	N/A	2.45
16	Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand	4,226	N/A	74,700,000	3.80	-	N/A	3.70
	Total	**1,235,367**	**-**	**20,002,510,000**				

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 the all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 6,490 sq. ft. and 369,891 sq. ft. respectively, totalling 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 from 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 from 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 2019

HKD14,632,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2019

HKD307,700 exclusive of operating expenses, rates, government rents and management fees

Market value in existing state as at 30 June 2019

HKD5,294,300,000

Estimated net property yield

3.39%

Bonham Trade Centre

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

Description

Bonham Trade Centre 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, totalling 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 from 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 from 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 from 26 December 1860. The Government Rent for the lot is HKD82.84 per annum.

Monthly rental income as at 30 June 2019

HKD2,563,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2019

HKD1,311,400,000

Estimated net property yield

2.35%

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 10,763 sq. ft. and 41,004 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. UB5654 for a term of 150 years commencing from 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 from 25 December 1887. The Government Rent for the lot is HKD150 per annum.

Monthly rental income as at 30 June 2019

HKD1,878,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD621,700,000

Estimated net property yield

3.73%

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, totalling 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 from 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 from 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 2019

HKD1,881,000,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD671,000,000

Estimated net property yield

3.36%

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, totalling about 40,114 sq. ft. (3,726.68 sq. m.). The flat roofs on the lower and upper ground level are of approximately 393 sq. ft..

Tenure

Inland Lot No. 5025 is held under Government Lease for a term of 999 years commencing from 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 from 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 from 26 June 1843. The Government Rent for the lot is HKD130 per annum.

Monthly rental income as at 30 June 2019

HKD1,757,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Market value in existing state as at 30 June 2019

HKD652,700,000

Estimated net property yield

3.23%

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 from 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 2019

HKD961,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD321,200,000

Estimated net property yield

3.59%

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 from 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 from 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 from 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 2019

HKD594,000 exclusive of rates, management and air-conditioning charges.

Market value in existing state as at 30 June 2019

HKD193,800,000

Estimated net property yield

3.68%

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, totalling 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 from 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 from 18 September 1974. The Government Rent for the lot is HKD28,870 per annum.

Monthly rental income as at 30 June 2019

HKD256,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD85,100,000

Estimated net property yield

3.61%

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 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 4,804 sq. ft. and 47,481 sq. ft. respectively totalling 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 from 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 2019

HKD1,107,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD432,600,000

Estimated net property yield

3.07%

On Loong Commercial Building

On Loong Commercial Centre Property 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, totalling 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 from 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 from 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 2019

HKD859,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD294,600,000

Estimated net property yield

3.50%

The Harvest

The Harvest at 591 Nathan Road, Mong Kok, Kowloon, Hong Kong (formerly known as "Fung Shun Commercial Building")

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, totalling 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 from 25 December 1887. The Government Rent for the lot is HKD152 per annum.

Monthly rental income as at 30 June 2019

HKD1,710,000 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD730,800,000

Estimated net property yield

2.81%

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 from 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 2019

HKD10,781,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2019

HKD1,555,000 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2019

HKD152,200 exclusive of rates and management fees

Market value in existing state as at 30 June 2019

HKD3,332,610,000

Estimated net property yield

4.50%

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 from 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 2019

HKD14,272,000 exclusive of rates, management and air-conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2019

HKD1,067,000 exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2019

HKD289,400 exclusive of rates and management fees

Market value in existing state as at 30 June 2019

HKD4,617,200,000

Estimated net property yield

4.06%

Kwong Wah Plaza

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

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, totalling 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 2019

HKD3,657,000 exclusive of rates, management and air-conditioning charges

Monthly licence income as at 30 June 2019

HKD4,800 exclusive of rates and management fees

Market value in existing state as at 30 June 2019

HKD1,257,600,000

Estimated net property yield

3.49%

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 from 25 December 1902. The total Government Rent for the lots is HKD7,576 per annum.

Monthly rental income as at 30 June 2019

HKD227,500 exclusive of rates, management and air-conditioning charges

Market value in existing state as at 30 June 2019

HKD111,200,000

Estimated net property yield

2.45%

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 from 24 February 1896. The Government Rent for the lot is HKD338 per annum.

Monthly rental income as at 30 June 2019

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

Market value in existing state as at 30 June 2019

HKD74,700,000

Estimated net property yield

3.70%

4 Office market overview

4.1 Introduction

Hong Kong Government predicts real GDP growth of 2 to 3% in 2019[1] , albeit slower in the face of external uncertainties, notably the yet unresolved US-China trade issues and other headwinds. The overall economy and labour market remained tight in the first half of 2019, stemming from the low unemployment rate and weakened local economic performance. Following a decline in transaction values and prices for Grade A offices in the first half of 2019, Hong Kong's office investment market has slowed due to rising concerns about the global economy. However, the local stock market showed a rebound in the first quarter of 2019 while the concerns about the US-China trade tensions have faded for the time being.

Affected by the slower expansions of multinational corporations and flexible working space operators in the first half of 2019, Hong Kong's Grade A office market rent rose only slightly mainly because of tight vacancy in the Central Business District ("**CBD**"). Unit rentals in the decentralised district like Island East recorded stronger growth due to the recent completion of Central-Wan Chai Bypass. The high rental growth and tight supply of office buildings in CBD has encouraged the relocation of professional firms to decentralised area since 2018, with the focus on Taikoo Place in Quarry Bay and Kowloon East. The trend should continue as occupiers remain cost-cautious.

Even though Chinese companies have slowed down the expansion momentum amid cautious market sentiment, we expect more Chinese companies to consider Tsim Sha Tsui due to the completion of the Express Rail Link.

4.2 Supply

According to the Rating and Valuation Department, Hong Kong's Grade A office supply dipped by 16% 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 is predicted to rebound by 14.4% in 2019. The supply of Grade B offices was inconsistent 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. The total floor area of Grade A office space in 2018 was over 83 million sq. ft., 2.4% higher than that of 2017; while the total floor area of Grade B office space was over 30 million sq. ft., 1.2% higher than that of 2017. In the meanwhile, Grade A offices in Yau Ma Tei/Mong Kok area saw no significant increase in supply after the period between 2007 to 2011 when the annual average stood at 340,400 sq. ft.. There will be virtually no Grade A office supply there in the short-term.

Hong Kong is likely to see a rise in office supply in the next five years. According to the Rating and Valuation Department, new Grade A office supply in 2019 will be over 2.7 million sq. ft., 44.3% higher than that in 2018, mainly attributable to the completions in Shatin and Kwun Tong. New Grade B office supply in 2019 will soar to about 250,000 sq. ft. compared to a mere 11,000 sq. ft. in 2018, and most of that will be in Kwai Tsing and Island East.

Analysing future supply by districts, it is worth noting that most will be in decentralised areas outside the core business districts. Kowloon East, identified as a future Central Business District, will be the area providing the largest office supply. The Kowloon East area is expected to contribute about 3.2 million sq. ft. to total new office supply in Hong Kong between 2019 to 2023.[2]

[1] Source: Census and Statistic Department

[2] Source: Colliers Research

4.3 Take-up and vacancy

Demand for office space in Hong Kong remains resilient in the face of external uncertainties. Overall vacancy in Grade-A offices went up to 4.7% in the first quarter of 2019, representing a 1.1% increase QOQ. Vacancy in Central/ Admiralty increased from 2.1% in the fourth quarter of 2018 to 2.5% in the first quarter of 2019.[3]

Driven by the completion of new office space such as One Hennessy in Wan Chai, Grade A office vacancy increased in the Wan Chai/ Causeway Bay sub-district from 1.7% in fourth quarter of 2018 to 2.6% in the first quarter of 2019. Vacancy in Island East declined to 1.7% and that in Tsim Sha Tsui remained tight at 1.9% . The redevelopment of Hutchison House in Central might be benefitting Tsim Sha Tsui by pushing tenants to this district. The vacancy level in Kowloon East increased 12.2% as at the first quarter of 2019 as the flexible workspace operators, WeWork, have slowed down their expansion momentum and have given up their intention to lease multiple floors in Two Harbour Square.[4]

In the first quarter of 2019, overall net take-up returned to a positive 142,340 sq. ft. due to the coming onstream of One Hennessy. However, a negative net take-up of -77,920 sq. ft. was recorded in Central/ Admiralty. Low net take-up of 740 sq. ft. was recorded in Tsim Sha Tsui. It is expected that annual net take-up will rise to 1.9 million sq. ft. on average from 2019 to 2023.[5]

4.4 Rental trends

Office rents of both Grade A and Grade B offices in Hong Kong have experienced continuous growth in the past decade but have slowed down in recent years in the face of softened demand from various external uncertainties.

Overall office rents increased slightly, by 1.1% QOQ, in the first quarter of 2019. It is foreseeable that the US-China trade tensions and slower local economic growth might have some impact on the office market. Meanwhile, the decentralisation trend is expected to continue considering the cost-cautious atmosphere and the improved accessibility to non-CBD areas. The upcoming high supply of 1.9 million sq. ft. in Kowloon is most likely to put pressure on that area.[6]

Strong take-up in new developments and low vacancy rates in both CBD and decentralised areas pushed up rental levels there in 2018. Yet, caution remains about rental growth in 2019 given the weaker economic outlook and business sentiment. According to the Rating and Valuation Department, average Grade A and Grade B office rents in Hong Kong rose by around 14.9% and 10.44% respectively from 2015 to 2018. Rents for Grade A offices in Sheung Wan and Central rose by 18.6% and 5.2% YOY respectively; while that for Grade B offices in the same areas increased by 9.8% and 6.1% respectively.

However, as Chinese companies and coworking space operators have lost their growth momentum amid geopolitical and economic uncertainties, rents in CBD and decentralized districts such as Tsim Sha Tsui will be under pressure as leasing activities remain restrained. CBD rents increased despite negative net take-up, which implies a higher risk of a rental correction over the coming months. We expect modest rental growth in the non-CBD area like Island East and Kowloon East due to the improved accessibility.[7]

[3-7] Source: Colliers Research

4.5 Price trends

Office prices also 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. As the supply of Grade A offices remained limited in the sales market, buyers continued to look for opportunities in lower tier markets. Some notable en-bloc transactions of Grade B offices include the acquisitions of Bonham Circus in Sheung Wan and W Square in Wan Chai, which were sold for HKD1.7 billion and HKD2.85 billion respectively.

With limited supply and the unresolved US-China trade tensions, there was only one en-bloc office investor, Hong Kong International Management Group, who purchased CentreHollywood for HKD700 million. The strata-titled market remains active in core locations. Two units on the twentieth floor of Shun Tak Centre were sold with a unit price of HKD31,800 per sq. ft. Due to the low transaction volume, the overall price of Grade A offices fell 1.8% QOQ.[8]

Average prices for Grade B offices in Yau Ma Tei/ Mong Kok dipped by 8.4% QOQ in the first quarter of 2019 according to the Rating and Valuation Department.

It is expected that the prices for strata-titled Grade A offices will decline by around 5% in 2019. In the medium term, overall Grade A office prices will rise at an average of 2% per annum between 2019 and 2023.[9]

4.6 Outlook

To sum up, the overall economy and labour market continue to be affected by the US-China trade tensions, giving rise to investor hesitation. The uncertainty, however, has not had a negative effect on rents due to low vacancy rates. CBD rents were up in spite of negative net take-up, and it is therefore likely that a rental correction might happen in the coming months. On the other hand, due to the current decentralisation trend, modest rental growth is expected in the submarkets of Hong Kong Island. Island East should stand out even more because of improved accessibility. Kowloon, however, might feel pressure on rental growth in view of the increased vacancy there.

Based on Colliers' Occupier Survey 2019, occupiers currently located in Hong Kong Island indicated they were considering relocation since rents in Kowloon and New Territories are relatively low. However, some occupiers with relocation intentions showed a preference to relocate within core CBD areas (Central and Admiralty), where they are currently located. Some occupiers currently in fringe CBD areas (Sheung Wan/ Wan Chai/ Causeway Bay) have also indicated their plans to relocate to the core CBD. It would appear that some occupiers are determined to stay in core locations for reasons of prestige.

Generally speaking, office demand in Hong Kong is likely to be affected by dampened business sentiment. Companies might well hesitate to expand in the short run. We thus expect rents in Central/Admiralty to decline slightly in 2019. Rental growth in Kowloon might face pressure whereas Island East is expected to grow strong.

As for the investment market, the low yield environment that has resulted from the suspension of interest rate hikes for the foreseeable future is likely to persist, which will support investment activity. This could result in investors regaining confidence which might counterbalance the negative effect brought by US-China trade war. With that said, price growth in Grade A office buildings might still be insignificant because of the other issues in force, slower economic growth and unprecedently high price levels.

[8-9] Source: Colliers Research

5 Retail market overview

5.1 Introduction

The retail market faced a downturn for the first time since the first quarter of 2017. According to the Census and Statistics Department, total retail sales in the first two months were down slightly mainly due to festive sales and US-China trade tensions. However, it is believed that the local domestic market and growing number of tourists will sustain the sector.

5.2 Supply

According to the Rating and Valuation Department, the supply of commercial property has undergone a continuous growth between 2014 and 2018, providing an average of approximately 1.1 million sq. ft. per annum. After a slight decrease in 2017, there was almost a 19% increment in completions in 2018. Kowloon area contributed 38% of the total supply in 2018, in which Yau Tsim Mong accounted for the largest proportion at 28%.

Supply is expected to remain flat in the coming two years. According to the Rating and Valuation Department, 1 million sq. ft. and 1.45 million sq. ft. of commercial space is to be completed in 2019 and 2020 respectively. Supply in 2019 will mainly be concentrated in Yau Tsim Mong and the Island, each contributing 26% of the total estimated completions. In 2020, the main source of supply will be located in Sai Kung, Tsuen Wan and Wan Chai. These districts will account for 23%, 16% and 16% of the total completions respectively.

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. Vacancy declined to 7.2% in 2013 but edged up to 9.4% in 2018 in the face of softer retail sales.

Despite slower Chinese economic growth and a relatively weaker RMB, which resulted in a slight decrease in retail sales in the first quarter of 2019, overall growth on retail sales due to the growing number of Chinese tourists and strong local labour market. It is therefore expected that take-up will stay positive.

5.4 Rental trends

The rental growth in retail market has remained steady. In contrast to strong retail sales in medicines and cosmetics, sales of luxuries and electrical goods has seen a relatively large downturn, leading to a decrease of 1.6% YOY in overall retail sales in the first two months of 2019. However, it should be noted that the figure is partly affected by festive sales during Lunar New Year. With the influx of Chinese tourists and a strong local labour market, it is likely that retail sales levels can be sustained and will improve by 1.0% YOY for core retail districts in 2019.[10]

High-street rents in Mong Kok, Tsim Sha Tsui and Causeway Bay edged down in the first quarter of 2019. However, high-street rents in major retail districts are expected to experience rises of between 1-3% YOY in 2019, with the exception of Central, due to the strong take-up and the current tendency to sub-divide large retail premises. The annual average rental growth between 2013 and 2018 is estimated to be 2.2%.[11] Newly completed infrastructure such as the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macao Bridge may benefit retailers in West Kowloon District and adjacent areas, promoting rental growth there.

[10-11] Source: Colliers Research

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, it gained momentum again in 2017 and 2018 and it is expected that the trend will continue in 2019. The successful sale of 12 malls owned by LINK REIT for HKD12 billion in the fourth quarter of 2018 has also demonstrated investors' optimism about Hong Kong's retail sector. Investment in retail podiums in residential districts is also expected to become a new trend. To illustrate, three retail podiums were sold by Wheelock Properties to Phoenix Property for HKD3.38 billion.

5.6 Outlook

US-China trade tensions and a weaker RMB have affected tourist retail consumption to some extent. A decreased appetite for shopping in Hong Kong was evident in the first two months of 2019. Despite the current unstable political environment in Hong Kong which might discourage tourists, it is most likely that these concerns are temporary. A strong local labour market and increasing number of tourists overall is expected to sustain the retail market.

It is worth mentioning that landlords in prime locations tend to subdivide larger shops into smaller units. This helps in providing a greater variety of shops and flexibility, but might inhibit the rental growth in core high-street locations. Retail podiums in residential districts are expected to remain active with rents steadily increasing year on year.

With the completion in the second half of 2018 of mega infrastructure projects, namely the Hong Kong-Zhuhai-Macao Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link, and the resultant enhanced connectivity to the major cities in mainland China, retail demand is expected to continue its growth momentum in the short-to-medium-term. Tsim Sha Tsui in particular will continue to benefit by Express Rail Link as will West Kowloon Cultural District. Rental growth in Mong Kok would be less sensitive as the district caters not only tourists but also local youngsters. Retailers in other districts, however, might be more cautious about expansion, while landlords might be more flexible in rental negotiations.

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 2019.

HSBC Institutional Trust Services (Asia) Limited
(in its capacity as the trustee of Sunlight Real Estate Investment Trust)

Hong Kong, 4 September 2019

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 106 to 154, which comprise the consolidated statement of financial position as at 30 June 2019, 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 2019 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 11 to the consolidated financial statements and the accounting policy 2(h)

The Key Audit Matter	How the matter was addressed in our audit
The Group holds a portfolio of investment properties located in Hong Kong, which had an aggregate fair value of HK$20,003 million and accounted for 96% of the Group's total assets as at 30 June 2019. The fair values of the investment properties as at 30 June 2019 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 net changes in fair value of investment properties recorded in the consolidated statement of profit or loss represented 71% of the Group's profit before taxation for the year ended 30 June 2019. 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 profit 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.	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.

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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

– Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

4 September 2019

Consolidated Statement of Profit or Loss

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Revenue	3 & 4	**850,705**	817,389
Property operating expenses	3 & 5	**(168,168)**	(171,328)
Net property income		**682,537**	646,061
Other income	6	**17,808**	10,745
Administrative expenses		**(118,745)**	(112,518)
Gain on disposal of investment properties	7(a)	**–**	56,358
Net increase in fair value of investment properties	11	**1,193,953**	996,130
Profit from operations		**1,775,553**	1,596,776
Finance costs on interest bearing liabilities	8(a)	**(103,129)**	(74,631)
Profit before taxation and transactions with unitholders	8	**1,672,424**	1,522,145
Income tax	9(a)	**(81,323)**	(79,866)
Profit after taxation and before transactions with unitholders		**1,591,101**	1,442,279

The notes on pages 114 to 154 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Profit after taxation and before transactions with unitholders		**1,591,101**	1,442,279
Other comprehensive income for the year			
Items that have been reclassified / may be reclassified subsequently to profit or loss :			
– Effective portion of changes in fair value of cash flow hedges recognised during the year		**(53,892)**	29,939
– Net reclassification adjustments for amounts transferred to profit or loss in respect of finance costs on interest bearing liabilities		**1,918**	(36)
– Deferred tax credited / (charged) to other comprehensive income	9(c)	**5,509**	(5,509)
		(46,465)	24,394
Total comprehensive income for the year		**1,544,636**	1,466,673

The notes on pages 114 to 154 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Non-current assets			
Fixed assets	11		
– Investment properties		**20,002,510**	18,754,800
– Other fixed assets		**42**	51
		20,002,552	18,754,851
Deferred tax assets	9(c)	**136**	186
Derivative financial instruments	13	**21**	21,874
Reimbursement rights	12	**37,436**	37,436
Other financial assets	14	**136,405**	108,815
Other non-current assets	15	**5,955**	–
		20,182,505	18,923,162
Current assets			
Trade and other receivables	16	**24,597**	24,086
Derivative financial instruments	13	**5,122**	13,122
Cash and bank balances	17(a)	**550,024**	641,919
Tax recoverable		**43,520**	29,023
		623,263	708,150
Total assets		**20,805,768**	19,631,312
Current liabilities			
Tenants' deposits	18	**(216,434)**	(202,201)
Rent receipts in advance		**(8,684)**	(13,419)
Trade and other payables	19	**(69,769)**	(63,644)
Bank borrowings	20	**(599,326)**	(20,000)
Derivative financial instruments	13	**(2,703)**	(6)
Tax payable		**(76,827)**	(69,879)
		(973,743)	(369,149)
Net current (liabilities) / assets		**(350,480)**	339,001
Total assets less current liabilities		**19,832,025**	19,262,163

At 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	20	**(3,637,960)**	(4,231,497)
Deferred tax liabilities	9(c)	**(178,995)**	(172,076)
Derivative financial instruments	13	**(23,203)**	(1,599)
		(3,840,158)	(4,405,172)
Total liabilities, excluding net assets attributable to unitholders		**(4,813,901)**	(4,774,321)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		**15,991,867**	14,856,991
Number of units in issue	21	**1,651,723,079**	1,645,139,777
Net asset value attributable to unitholders per unit		**$9.68**	$9.03

The consolidated financial statements on pages 106 to 154 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the "**Manager**"), on 4 September 2019 and were signed on its behalf by :

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 114 to 154 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
At the beginning of the year		**14,856,991**	13,899,479
Profit after taxation and before transactions with unitholders		**1,591,101**	1,442,279
Other comprehensive income		**(46,465)**	24,394
Total comprehensive income for the year		**1,544,636**	1,466,673
Distribution paid to unitholders		**(446,096)**	(547,528)
Issuance of units to the Manager during the year	21	**49,204**	45,263
Units bought back	21	**(12,825)**	(6,874)
Units buy-back expenses	21	**(43)**	(22)
		(409,760)	(509,161)
At the end of the year		**15,991,867**	14,856,991

The notes on pages 114 to 154 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Profit after taxation and before transactions with unitholders		**1,591,101**	1,442,279
Adjustments (note (i)) :			
– Gain on disposal of investment properties	7(a)	**–**	(56,358)
– Net increase in fair value of investment properties	11	**(1,193,953)**	(996,130)
– Manager's fees paid or payable in the form of units		**50,217**	46,639
– Interest rate swaps – cash flow hedges	8(a)	**2,180**	(4,552)
– Non-cash finance costs on interest bearing liabilities		**5,297**	5,179
– Deferred tax	9(a)	**12,478**	13,465
		(1,123,781)	(991,757)
Annual distributable income (note (i))		**467,320**	450,522
Interim distribution, paid (notes (ii) and (iv))		**217,422**	206,870
Final distribution, to be paid to unitholders (notes (iii) and (iv))		**232,893**	228,674
Total distributions for the year (note (i))		**450,315**	435,544
Payout ratio (note (iii))		**96.4%**	96.7%
Distribution per unit :			
Interim distribution per unit, paid		**13.2 cents**	12.6 cents
Final distribution per unit, to be paid to unitholders		**14.1 cents**	13.9 cents
		27.3 cents	26.5 cents

Notes* :

(i) Pursuant to the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "**REIT Code**") and the trust deed dated 26 May 2006 (as amended and supplemented by six supplemental deeds) (the "**Trust Deed**"), Sunlight Real Estate Investment Trust ("**Sunlight REIT**") is in any event required to ensure that the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

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 (as defined in the Trust Deed) recorded in the consolidated statement of profit or loss for the relevant financial year. The adjustments for the current year included the adding back of non-cash finance costs on interest bearing liabilities of $5,297,000, or 0.32 cents per unit (2018 : $5,179,000, or 0.31 cents per unit) (which is regarded as an effective return of capital) resulting from amortisation of debt establishment fees in respect of bank borrowings.

Notes* : (continued)

(ii) The interim distribution of $217,422,000 for the six months ended 31 December 2018 (31 December 2017 : $206,870,000) is calculated by multiplying the interim distribution per unit of 13.2 cents by 1,647,139,077 units in issue at 7 March 2019, the record date for FY2018/19 interim distribution (31 December 2017 : 12.6 cents by 1,641,823,814 units in issue at 7 March 2018, the record date for FY2017/18 interim distribution).

(iii) The final distribution of $232,893,000 for the year ended 30 June 2019 (2018 : $228,674,000) is calculated by multiplying the final distribution per unit of 14.1 cents by 1,651,723,079 units** anticipated to be in issue at 25 September 2019, the record date for FY2018/19 final distribution (the "**Record Date**") (2018 : 13.9 cents by 1,645,139,777 units in issue at 26 September 2018, the record date for FY2017/18 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2019 represent a payout ratio of 96.4% (2018 : 96.7%) of Sunlight REIT's annual distributable income for the year.

(iv) The FY2018/19 interim distribution was paid to unitholders on 20 March 2019. The FY2018/19 final distribution is expected to be paid on 11 October 2019 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 114 to 154 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Operating activities			
Profit before taxation and transactions with unitholders		**1,672,424**	1,522,145
Adjustments :			
– Manager's fees paid or payable in the form of units		**50,217**	46,639
– Gain on disposal of investment properties	7(a)	**–**	(56,358)
– Net increase in fair value of investment properties	11	**(1,193,953)**	(996,130)
– Finance costs on interest bearing liabilities	8(a)	**103,129**	74,631
– Depreciation	11	**24**	27
– Interest income		**(16,794)**	(9,930)
– Net unrealised foreign exchange loss/(gain)		**613**	(222)
Operating cash flow before changes in working capital		**615,660**	580,802
Decrease/(increase) in trade and other receivables		**10**	(4,541)
Increase in tenants' deposits		**14,233**	9,128
(Decrease)/increase in rent receipts in advance		**(4,735)**	2,989
Increase/(decrease) in trade and other payables		**3,117**	(597)
Cash generated from operations		**628,285**	587,781
Hong Kong Profits Tax paid		**(76,394)**	(70,737)
Net cash generated from operating activities		**551,891**	517,044
Investing activities			
Interest received		**17,574**	10,161
Payment for acquisition of investment properties		**(42,504)**	(718,423)
Net proceeds from disposal of investment properties	7(b)	**–**	99,758
Payment for expenditure incurred for investment properties		**(18,343)**	(20,552)
Payment for purchase of other fixed assets		**(15)**	(6)
Payment for purchase of debt securities		**(49,291)**	(48,088)
Proceeds from disposal of debt securities		**20,283**	–
Increase in bank deposits with original maturity over three months		**(134,187)**	(57,370)
Net cash used in investing activities		**(206,483)**	(734,520)
Financing activities			
Distribution paid to unitholders		**(446,096)**	(547,528)
Payment for buy-back of units		**(12,868)**	(6,896)
Proceeds from new bank borrowings	17(b)	**50,000**	345,000
Repayment of bank borrowings	17(b)	**(70,000)**	–
Interest paid	17(b)	**(92,521)**	(73,630)
Other borrowing costs paid	17(b)	**–**	(804)
Net cash used in financing activities		**(571,485)**	(283,858)
Net decrease in cash and cash equivalents		**(226,077)**	(501,334)
Effect of foreign exchange rate changes		**(5)**	(14)
Cash and cash equivalents at the beginning of the year	17(a)	**584,549**	1,085,897
Cash and cash equivalents at the end of the year	17(a)	**358,467**	584,549

The notes on pages 114 to 154 form part of these consolidated financial statements.

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

– HKFRS 9, *Financial instruments*

– HKFRS 15, *Revenue from contracts with customers*

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments : recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

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

2 Significant accounting policies (continued)

(a) Statement of compliance (continued)

(i) HKFRS 9, Financial instruments (continued)

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

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

(ii) HKFRS 15, Revenue from contracts with customers

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

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

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2019 incorporate the financial statements of Sunlight REIT and its subsidiaries.

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

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

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

2 Significant accounting policies (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 28.

(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. These investments are subsequently accounted for as follows.

(A) Policy applicable from 1 July 2018

Non-equity investments held by the Group are classified as measured at amortised cost if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest.

(B) Policy applicable prior to 1 July 2018

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost.

(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 and the REIT Code. 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".

2 Significant accounting policies (continued)

(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.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) 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).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

2 Significant accounting policies (continued)

(i) Other fixed assets

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

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

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

– Furniture and fixtures 3 – 5 years

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

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(h)).

(k) Credit losses and impairment of assets

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

(A) Policy applicable from 1 July 2018

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, trade and other receivables and cash and bank balances); 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.

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

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

(A) Policy applicable from 1 July 2018 (continued)

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)

(A) Policy applicable from 1 July 2018 (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.

2 Significant accounting policies (continued)

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

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

(A) Policy applicable from 1 July 2018 (continued)

Basis of calculation of interest income

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

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

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

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

Write-off policy

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

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

2 Significant accounting policies (continued)

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

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

(B) Policy applicable prior to 1 July 2018

Prior to 1 July 2018, an "incurred loss" model was used to measure impairment losses on financial assets not measured at FVPL (e.g. trade and other receivables and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included :

– 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; and
– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss was determined and recognised as follows :

For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective rate originally computed at initial recognition of the asset), where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 Significant accounting policies (continued)

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

(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.

- 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.

2 Significant accounting policies (continued)

(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)).

(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.

2 Significant accounting policies (continued)

(p) Income tax (continued)

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.

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. Contingent rentals 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.

(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.

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 net increase in fair value of investment properties, gain on disposal 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 :

	2019			2018		
	Office properties $'000	Retail properties $'000	Total $'000	Office properties $'000	Retail properties $'000	Total $'000
Revenue						
– Rental income	**334,558**	**349,537**	**684,095**	317,459	338,012	655,471
– Car park income	**3,677**	**31,590**	**35,267**	3,678	29,144	32,822
– Rental related income	**64,625**	**66,718**	**131,343**	63,696	65,400	129,096
	402,860	**447,845**	**850,705**	384,833	432,556	817,389
Property operating expenses	**(74,830)**	**(93,338)**	**(168,168)**	(75,495)	(95,833)	(171,328)
Net property income	**328,030**	**354,507**	**682,537**	309,338	336,723	646,061
Administrative expenses	**(58,596)**	**(49,429)**	**(108,025)**	(55,143)	(45,664)	(100,807)
Segment results	**269,434**	**305,078**	**574,512**	254,195	291,059	545,254
Net increase in fair value of investment properties	**537,407**	**656,546**	**1,193,953**	501,260	494,870	996,130
Gain on disposal of investment properties	**–**	**–**	**–**	–	56,358	56,358
Finance costs on interest bearing liabilities			**(103,129)**			(74,631)
Income tax			**(81,323)**			(79,866)
Interest income			**16,794**			9,930
Unallocated net expenses			**(9,706)**			(10,896)
Profit after taxation and before transactions with unitholders			**1,591,101**			1,442,279
Depreciation	**6**	**18**	**24**	10	17	27

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2019			2018		
	Office properties $'000	Retail properties $'000	Total $'000	Office properties $'000	Retail properties $'000	Total $'000
Segment assets	**10,663,109**	**9,406,247**	**20,069,356**	10,108,755	8,705,474	18,814,229
Derivative financial instruments			**5,143**			34,996
Other financial assets			**136,405**			108,815
Cash and bank balances			**550,024**			641,919
Tax recoverable			**43,520**			29,023
Deferred tax assets			**136**			186
Unallocated assets			**1,184**			2,144
Total assets			**20,805,768**			19,631,312
Segment liabilities	**(148,131)**	**(140,170)**	**(288,301)**	(133,850)	(141,825)	(275,675)
Derivative financial instruments			**(25,906)**			(1,605)
Bank borrowings			**(4,237,286)**			(4,251,497)
Tax payable			**(76,827)**			(69,879)
Deferred tax liabilities			**(178,995)**			(172,076)
Unallocated liabilities			**(6,586)**			(3,589)
Total liabilities, excluding net assets attributable to unitholders			**(4,813,901)**			(4,774,321)
Capital expenditure incurred during the year	**16,948**	**42,779***	**59,727***	722,371*	15,718	738,089*

* Included acquisition of investment properties amounting to $42,504,000 (2018 : $718,423,000).

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 :

	2019 $'000	2018 $'000
Rental income (note)	**684,095**	655,471
Car park income	**35,267**	32,822
Rental related income	**131,343**	129,096
	850,705	817,389

Note : Included additional rents based on business revenue of tenants amounting to $1,428,000 (2018 : $1,103,000).

5 Property operating expenses

	2019 $'000	2018 $'000
Building management fee	**59,772**	59,157
Property Manager's fees	**52,216**	52,601
Government rent and rates	**33,737**	34,873
Marketing and promotion expenses	**5,042**	5,344
Car park operating costs	**6,365**	6,131
Other direct costs	**11,036**	13,222
	168,168	171,328

6 Other income

	2019 $'000	2018 $'000
Bank interest income	**10,717**	7,636
Interest income from debt securities	**6,077**	2,294
Others	**1,014**	815
	17,808	10,745

7 Disposal of investment properties

(a) During the year ended 30 June 2018, the Group completed the disposal of Palatial Stand Property at a consideration of $101,000,000, resulting in a gain of $56,358,000.

(b) The net cash inflow of cash and cash equivalents in respect of the disposal of investment properties for the year ended 30 June 2018 was as follows :

	$'000
Cash consideration	101,000
Less : Transaction costs	(1,242)
Net proceeds	99,758

8 Profit before taxation and transactions with unitholders

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

		2019 $'000	2018 $'000
(a)	**Finance costs on interest bearing liabilities**		
	Interest on bank borrowings	**95,652**	74,004
	Other borrowing costs	**5,297**	5,179
		100,949	79,183
	Interest rate swaps – cash flow hedges		
	– Reclassified from net assets attributable to unitholders	**1,918**	(36)
	– Net fair value loss/(gain) of ineffective cash flow hedges	**262**	(4,516)
		2,180	(4,552)
		103,129	74,631

Other borrowing costs represent various financing charges and the amortisation of the debt establishment fees for the bank borrowings (note 20).

		2019 $'000	2018 $'000
(b)	**Other items**		
	Manager's fees	**100,433**	96,568
	Property Manager's fees (notes (i) and (iii))	**52,216**	52,601
	Trustee's remuneration and charges	**4,943**	4,807
	Auditor's remuneration		
	– Audit services	**1,965**	1,905
	– Other services	**488**	475
	Fees payable to principal valuer		
	– Valuation fees	**628**	525
	Legal and other professional fees	**8,088**	6,934
	Commission to property agents	**1,239**	4,010
	Bank charges	**299**	283
	Net foreign exchange loss/(gain)	**613**	(255)

Notes :

(i) Included rental commission of $12,569,000 (2018 : $14,458,000).

(ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the year accordingly.

(iii) For the year ended 30 June 2019, 64.3% (2018 : 61.3%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounting for 44.0% (2018 : 42.1%). The largest supplier, being the Property Manager, is a wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**") which is interested in more than 5% of the total number of units in issue of Sunlight REIT.

9 Income tax

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

	2019 $'000	2018 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**69,161**	66,865
Over-provision in respect of prior years	**(316)**	(464)
	68,845	66,401
Deferred tax		
Origination and reversal of temporary differences	**12,478**	13,465
	81,323	79,866

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

In prior years, the Inland Revenue Department ("**IRD**") raised additional profits tax assessments on certain subsidiaries of the Group, with one of the subsidiaries (the "**Particular Subsidiary**") covering the years of assessment up to 2016/17, and certain other subsidiaries covering the years of assessment up to 2011/12, in an aggregate amount of $28,425,000 as the IRD disallowed the deductions of the management fees and property management fees and in some cases certain rental commission incurred by these subsidiaries. During the year ended 30 June 2019, the IRD further raised profits tax assessments on certain other subsidiaries for the year of assessment 2012/13 in respect of such disallowance. Notices of objection were filed with the IRD against all the additional profits tax assessments raised to date, and tax reserve certificates in an aggregate amount of $43,267,000 have been purchased.

Regarding the Particular Subsidiary, the IRD issued a determination in respect of the objections to the assessments on the Particular Subsidiary in April 2018, which allowed the deduction of property management fees and rental commissions, while the management fees remain non-deductible. Based on the professional opinion and advice of Sunlight REIT's legal and tax advisers, the Manager decided to contest the assessments raised and 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 awaited.

If the management fees were finally determined as non-deductible for all the property holding companies under Sunlight REIT, the estimated total additional profits tax liabilities up to the year of assessment 2018/19 would amount to approximately $97 million.

9 Income tax (continued)

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

	2019 $'000	2018 $'000
Profit before taxation and transactions with unitholders	**1,672,424**	1,522,145
Notional tax on profit before taxation and transactions with unitholders, calculated at applicable tax rates	**275,950**	250,989
Tax effect of non-deductible expenses	**7,089**	15,998
Tax effect of non-taxable income	**(200,525)**	(185,525)
Tax effect of current year's tax losses not recognised	**127**	163
Tax effect of prior years' tax losses and other temporary differences recognised/derecognised	**(943)**	(702)
Tax effect of prior years' unrecognised tax losses utilised in the current year	**(59)**	(593)
Over-provision in respect of prior years	**(316)**	(464)
Actual tax expense	**81,323**	79,866

(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 2017	157,026	(4,110)	–	152,916
Charged to profit or loss	12,989	476	–	13,465
Charged to net assets attributable to unitholders	–	–	5,509	5,509
At 30 June 2018	170,015	(3,634)	5,509	171,890
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**

9 Income tax (continued)

(c) Deferred tax assets and liabilities recognised : (continued)

	2019 $'000	2018 $'000
Represented by :		
Net deferred tax assets recognised in the consolidated statement of financial position	**(136)**	(186)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**178,995**	172,076
	178,859	171,890

(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 $56,151,000 (2018 : $56,777,000) 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.

10 Earnings per unit before transactions with unitholders

The basic earnings per unit before transactions with unitholders for the year ended 30 June 2019 amounted to $0.97 (2018 : $0.88). The calculation of basic earnings per unit before transactions with unitholders is based on the Group's profit after taxation and before transactions with unitholders of $1,591,101,000 (2018 : $1,442,279,000) and the weighted average of 1,647,392,160 units in issue during the year (2018 : 1,641,090,508 units).

Diluted earnings per unit before transactions with unitholders for the years ended 30 June 2019 and 2018 are not presented as there was no potential dilution of earnings per unit before transactions with unitholders.

11 Fixed assets

	Furniture and fixtures $'000	Investment properties $'000	Total $'000
Cost or valuation :			
At 1 July 2017	265	17,062,400	17,062,665
Additions (note (c))	6	739,670	739,676
Disposals (note 7)	–	(43,400)	(43,400)
Net increase in fair value	–	996,130	996,130
At 30 June 2018	271	18,754,800	18,755,071
Representing :			
Cost	271	–	271
Valuation – 2018	–	18,754,800	18,754,800
	271	18,754,800	18,755,071
At 1 July 2018	271	18,754,800	18,755,071
Additions (note (c))	15	53,757	53,772
Net 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
Accumulated depreciation :			
At 1 July 2017	193	–	193
Charge for the year	27	–	27
At 30 June 2018	220	–	220
At 1 July 2018	220	–	220
Charge for the year	24	–	24
At 30 June 2019	244	–	244
Net book value :			
At 30 June 2019	42	20,002,510	20,002,552
At 30 June 2018	51	18,754,800	18,754,851

11 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 2019 and 2018, 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 2019 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 independent valuation of investment properties at 30 June 2018 was performed by Knight Frank Petty Limited ("**Knight Frank**").

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 2019 and 2018 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.

11 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 2019	
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	**$15.3 to $45.4**	**3.10% to 3.80%**	**73.9% to 100%**
– Retail	**$17.8 to $154.0**	**2.90% to 4.40%**	**4.0%* to 100%**

		30 June 2018	
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	$14.5 to $41.6	3.00% to 3.80%	87.7% to 100%
– Retail	$17.1 to $150.0	2.75% to 4.40%	82.9% 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 properties held under operating leases that would otherwise meet the definition of investment properties 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 :

	2019 $'000	2018 $'000
In Hong Kong		
– Long leases	**9,052,500**	8,614,800
– Medium-term leases	**10,950,010**	10,140,000
	20,002,510	18,754,800

(c) Included the acquisition of investment properties amounting to $42,504,000 (2018 : $718,423,000).

(d) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 20).

12 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 ("**HD**") 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.

13 Derivative financial instruments

	2019			2018		
	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	**5,122**	**(2,703)**	**2,419**	13,122	(6)	13,116
Non-current portion	**21**	**(23,203)**	**(23,182)**	21,874	(1,599)	20,275
	5,143	**(25,906)**	**(20,763)**	34,996	(1,605)	33,391

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 2019, the net unrealised gains on those IRSs redesignated upon entering into Basis Swaps in prior years amounting to $89,000 (2018 : $293,000) were reclassified from net assets attributable to unitholders to profit or loss. As at 30 June 2019, 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 $262,000 (2018 : fair value gain of $4,516,000) was charged to profit or loss for the year. Also, net cumulative unrealised losses of expired swaps amounting to $2,007,000 (2018 : $257,000) were reclassified from net assets attributable to unitholders to profit or loss for the year.

At 30 June 2019, the net cumulative unrealised loss on the IRSs and Basis Swaps included in the net assets attributable to unitholders amounted to $25,778,000 (2018 : net cumulative unrealised gains (net of deferred tax) of $20,686,000).

At 30 June 2019, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of $2,900,000,000 (2018 : $3,150,000,000), supplemented by Basis Swaps with notional amount of $700,000,000 (2018 : $1,450,000,000). These swaps will mature between August 2019 to November 2023 (2018: September 2018 to May 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.

14 Other financial assets

	2019 $'000	2018 $'000
Financial assets measured at amortised cost (note)		
Debt securities		
– Listed in Hong Kong	**106,119**	57,411
– Listed outside Hong Kong	**19,980**	41,010
– Unlisted	**10,306**	10,394
	136,405	108,815

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.

Note : Previously classified as held-to-maturity investments.

15 Other non-current assets

The balance represented 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.

16 Trade and other receivables

	2019 $'000	2018 $'000
Rental receivables	**16,385**	16,575
Deposits and prepayments	**5,117**	3,941
Other receivables	**2,229**	2,747
Amounts due from related companies	**866**	823
	24,597	24,086

$3,800,000 (2018 : $3,561,000) included in deposits and prepayments is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered or 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 :

	2019 $'000	2018 $'000
Current	**14,014**	12,599
Less than 1 month overdue	**1,729**	1,827
More than 1 month and up to 3 months overdue	**431**	1,339
More than 3 months and up to 6 months overdue	**174**	716
More than 6 months overdue	**37**	94
	16,385	16,575

16 Trade and other receivables (continued)

Details of the Group's credit policy are set out in note 22(a).

Based on past experience, current economic condition and the Manager's view of the economic conditions over the expected lives of the receivables, the Manager believes that allowance for expected credit losses is insignificant. In addition, the Group has collected rental deposits 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.

17 Cash and bank balances and other cash flow information

(a) Cash and cash equivalents comprise :

	2019 $'000	2018 $'000
Deposits with original maturity within three months	**315,700**	517,158
Cash at bank and in hand	**42,767**	67,391
Cash and cash equivalents in the consolidated cash flow statement	**358,467**	584,549
Deposits with original maturity over three months	**191,557**	57,370
Cash and bank balances in the consolidated statement of financial position	**550,024**	641,919

(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 20)	Interest payable $'000	Total $'000
At 1 July 2017	3,901,882	184	3,902,066
Changes from financing cash flows :			
Proceeds from new bank borrowings	345,000	–	345,000
Interest paid	–	(73,630)	(73,630)
Other borrowing costs paid	(804)	–	(804)
Total changes from financing cash flows	344,196	(73,630)	270,566
Non-cash changes :			
Interest expenses (note 8(a))	–	74,004	74,004
Other borrowing and related costs	5,419	–	5,419
Total non-cash changes	5,419	74,004	79,423
At 30 June 2018	4,251,497	558	4,252,055

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

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

	Bank borrowings $'000 (note 20)	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 8(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**

18 Tenants' deposits

The tenants' deposits include $145,635,000 (2018 : $143,948,000) which is expected to be settled after more than one year. If tenancies are not renewed upon expiry, the remaining balances are expected to be settled within one year.

19 Trade and other payables

	2019 $'000	2018 $'000
Creditors and accrued charges	**33,705**	31,059
Manager's fees payable (note 27(b)(ii))	**27,362**	25,336
Amounts due to related companies	**8,702**	7,249
	69,769	63,644

All creditors and accrued charges are due within one month or on demand and expected to be settled within one year.

Manager's fees payable is due within four months and payable in the form of cash and units.

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment except for the amount due to the Trustee of $1,343,000 (2018 : $1,248,000) which is due within 30 days.

20 Bank borrowings

	2019 $'000	2018 $'000
Bank borrowings		
– Secured	**2,921,762**	2,918,213
– Unsecured	**1,315,524**	1,333,284
	4,237,286	4,251,497

The bank borrowings were repayable as follows :

	2019 $'000	2018 $'000
Within 1 year	**599,326**	20,000
After 1 year but within 2 years	**1,640,040**	598,473
After 2 years but within 5 years	**1,997,920**	3,633,024
	3,637,960	4,231,497
	4,237,286	4,251,497

Bank borrowings bear floating interest rates ranging from Hong Kong Interbank Offered Rate ("**HIBOR**") plus 0.52% per annum to HIBOR plus 0.79% per annum (2018 : 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 13.

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 $11,222,900,000 at 30 June 2019 (2018 : $10,574,000,000) (note 11); 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 2.69% per annum (2018 : 2.31% per annum).

At 30 June 2019, the Group's uncommitted revolving credit facilities of $600,000,000 (2018 : $300,000,000) remained undrawn.

21 Units in issue

	Number of units 2019	2018
At the beginning of the year	**1,645,139,777**	1,637,777,762
Issuance of units during the year	**9,148,302**	8,662,015
Units bought back	**(2,565,000)**	(1,300,000)
At the end of the year	**1,651,723,079**	1,645,139,777

21 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
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**
2018			
1 April 2017 to 30 June 2017	5.064	10,807	2,134,064
Adjustment of Manager's fees for the financial year 2016/17	5.182	486	93,689
1 July 2017 to 30 September 2017	5.230	10,817	2,068,299
1 October 2017 to 31 December 2017	5.291	11,362	2,147,423
1 January 2018 to 31 March 2018	5.315	11,791	2,218,540
		45,263	8,662,015

Pursuant to the general mandate granted to the Manager by unitholders, the Manager bought back on behalf of Sunlight REIT a total of 2,565,000 units (2018 : 1,300,000 units) on the SEHK during the year ended 30 June 2019 at an aggregate consideration of $12,825,000 (2018 : $6,874,000).

Details of the buy-backs were as follows :

	Number of units bought back	Price per unit Highest $	Price per unit Lowest $	Aggregate consideration $'000
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**
	2,565,000			**12,825**
Total buy-back expenses				**43**
				12,868

21 Units in issue (continued)

Details of the buy-backs were as follows : (continued)

	Number of units bought back	Price per unit Highest $	Lowest $	Aggregate consideration $'000
2018				
Month of buy-back				
December 2017	250,000	5.30	5.22	1,310
March 2018	1,050,000	5.33	5.23	5,564
	1,300,000			6,874
Total buy-back expenses				22
				6,896

All bought back units were cancelled during the year.

22 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, debt securities as well as trade and other receivables.

The credit risk on debt securities is limited as all the instruments either 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 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 are held to cover potential exposure to credit risk.

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

22 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 :

	2019 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	Carrying amount $'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)**	

	2018 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	Carrying amount $'000
Bank borrowings	135,198	713,022	3,799,070	–	4,647,290	4,251,497
Tenants' deposits	58,252	73,148	70,384	417	202,201	202,201
Creditors and accrued charges	31,059	–	–	–	31,059	31,059
Manager's fees payable in the form of cash	12,668	–	–	–	12,668	12,668
Amounts due to related companies	7,249	–	–	–	7,249	7,249
	244,426	786,170	3,869,454	417	4,900,467	4,504,674
Derivative settled net :						
IRS and Basis swap contracts held as cash flow hedging instruments	(12,735)	(5,418)	9,147	–	(9,006)	

22 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 13.

Sensitivity analysis

At 30 June 2019, if interest rates had been 100 basis points (2018 : 100 basis points) higher with all other variable held constant, the net assets attributable to unitholders would have been approximately $47.5 million (2018 : $53.6 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 100 basis points (2018 : 100 basis points) lower with all other variable held constant, the net assets attributable to unitholders would have been approximately $47.9 million (2018 : $54.4 million) lower as a result of a decrease in the fair values of the cash flow hedges.

At 30 June 2019, if interest rates had been 100 basis points (2018 : 100 basis points) higher with all other variable held constant, the Group's profit after taxation and before transactions with unitholders and net assets attributable to unitholders would have been approximately $19.2 million (2018 : $13.8 million) lower as a result of higher interest expenses on floating rate borrowings. On the other hand, if interest rates had been 100 basis points (2018 : 100 basis points) lower with all other variable held constant, the Group's profit after taxation and before transactions with unitholders and net assets attributable to unitholders would have been approximately $19.2 million (2018 : $13.8 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 re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. The 100 basis point increase and 100 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 on the same basis for 2018.

22 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 2019 and 2018, the Group's only financial instruments carried at fair value are the IRSs and Basis Swaps (see note 13), which fall under Level 2 of the fair value hierarchy as defined in HKFRS 13 (see note 11(a) for fair value hierarchy).

During the years ended 30 June 2019 and 2018, 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 occurred.

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 2019 and 2018.

(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.

23 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 2019, Sunlight REIT's aggregate borrowings represent 20.4% (2018 : 21.8%) of its total gross asset value.

24 Capital commitments

Capital commitments outstanding at 30 June 2019 not provided for in the consolidated financial statements are as follows :

	2019 $'000	2018 $'000
Contracted for	**41,821**	3,600
Authorised but not contracted for	**13,460**	18,233
	55,281	21,833

25 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 (2018 : $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.

26 Significant leasing arrangements

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

	2019 $'000	2018 $'000
Within 1 year	**603,886**	713,960
After 1 year but within 5 years	**730,508**	660,405
After 5 years	**301,147**	163
	1,635,541	1,374,528

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.

27 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**")	Connected persons of SKFE Group, the Manager and the Property Manager
HD	Connected persons of SKFE Group and holding company of HLD Group
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**")	Connected persons 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

* Colliers has replaced Knight Frank and been appointed as the principal valuer of Sunlight REIT with effect from 1 September 2018.

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

(b) Transactions with connected persons/related parties

	2019 $'000	2018 $'000
Rental and rental related income received/receivable from (note (i)) :		
– HLD Group	**11,781**	10,583
– HSBC Group	**23,798**	22,875
Property management expenses paid/payable to (note (i)) :		
– HLD Group	**(15,858)**	(15,261)
Facilities leasing expenses paid/payable to (note (i)) :		
– HLD Group	**(100)**	(189)
Manager's fees (note (ii))	**(100,433)**	(96,568)
Property Manager's fees (note (iii))	**(52,216)**	(52,601)
Trustee's remuneration and charges (note (iv))	**(4,944)**	(4,808)
Interest expenses, debt establishment fees, security trustee and other charges on bank borrowings, brokerage commission and other charges paid/payable to (notes (i) and (v)) :		
– HSBC Group	**(37,941)**	(23,034)
Net interest income/(expenses) on IRSs and Basis Swaps received/receivable from or (paid/payable) to (note (v)) :		
– HSBC Group	**3,137**	(4,297)
Interest income on bank deposits received/receivable from (note (i)) :		
– HSBC Group	**257**	28
Valuation fees and other charges paid/payable to (note (i)) :		
– Colliers Group	**(653)**	–
– Knight Frank and other members of its group (collectively referred to as "**Knight Frank Group**")	**(5)**	(565)
Promotional income received/receivable from (note (i)) :		
– HLD Group	**3,226**	2,611
Additional consideration paid to (note (vi)) :		
– HLD Group	**–**	(112)

27 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). The Manager is also entitled to receive an acquisition fee not exceeding 1% of the appraised value of acquired property.

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 28 May 2018, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2019 to be paid 50% in the form of cash and 50% in the form of units. On 17 May 2019, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2020.

(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.

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

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

Notes : (continued)

(v) Interest expenses are calculated on the outstanding borrowings, IRSs and Basis Swaps balance by reference to the interest rates as set out in notes 13 and 20.

(vi) On 2 December 2006, the Group acquired certain companies from the Vendors by entering into several sale and purchase agreements, which included clauses providing for additional consideration to be payable for the purchase of shares in companies having tax loss benefits, in an amount equivalent to the tax loss benefits of those companies that are utilised by the Group to offset tax liabilities which would otherwise arise. Those clauses were clarified by way of letter agreements in the financial year ended 30 June 2016. Pursuant to those agreements as clarified, the Group agreed to pay additional consideration in respect of the tax loss benefits so utilised.

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

	2019 $'000	2018 $'000
Net amount due to :		
– HLD Group	**(35,135)**	(33,123)
– HSBC Group (note)	**(1,541,676)**	(1,515,291)
– Colliers Group	**(370)**	–
– Knight Frank Group	**–**	(300)
Note :		
Deposits and cash placed with HSBC Group	**42,229**	67,184
Bank borrowings and interest payable to HSBC Group	**(1,576,512)**	(1,575,174)
Others	**(7,393)**	(7,301)
	(1,541,676)	(1,515,291)

28 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 2019, the Group has recognised deferred tax assets in relation to the unused tax losses amounting to approximately $22,299,000 (2018 : $22,026,000). 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.

29 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.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2019

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2019 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
HKFRS 16, *Leases*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
HK(IFRIC)23, *Uncertainty over income tax treatments*	1 January 2019

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.

(Expressed in Hong Kong dollars)

31 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 Sunlight REIT	% of shares held by a subsidiary	Principal activity
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	2019	2018	2017	2016	2015
At 30 June :						
Net asset value ($ million)		**15,992**	14,857	13,899	13,518	13,097
Net asset value per unit		**9.68**	9.03	8.49	8.26	7.99
Market capitalisation ($ million)		**9,894**	8,917	8,385	7,231	6,472
For the year ended 30 June :						
Highest traded unit price		**6.10**	5.61	5.25	4.44	4.09
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		**4.66**	4.98	4.38	3.48	3.05
Highest discount of the traded unit price to net asset value per unit (%)		**51.9**	44.9	48.4	57.9	61.8
Closing unit price		**5.99**	5.42	5.12	4.42	3.95
Distribution per unit (cents)	2	**27.3**	26.5	33.0	24.3	22.0
Payout ratio (%)	2	**96.4**	96.7	124.3	95.8	95.9
Distribution yield per unit (%)	3	**4.6**	4.9	6.4	5.5	5.6

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

NOTICE IS HEREBY GIVEN that the annual general meeting 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 Wednesday, 30 October 2019 at 10:00 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 2019;

(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, 23 September 2019

Notes :

(a) Pursuant to the Trust Deed, any Unitholder is entitled to appoint separate proxies 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 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 10:00 a.m. on Monday, 28 October 2019, 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 Friday, 25 October 2019 to Wednesday, 30 October 2019, 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 Thursday, 24 October 2019.

(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 FY2018/19

Interim results announcement	14 February 2019
Issuance of interim report	22 February 2019
Ex-distribution date for interim distribution	1 March 2019
Closure of register of unitholders for entitlement of interim distribution	5 March 2019 to 7 March 2019, both days inclusive
Interim distribution paid HK 13.2 cents per unit	20 March 2019
Final results announcement	4 September 2019
Ex-distribution date for final distribution	19 September 2019
Issuance of annual report	23 September 2019
Closure of register of unitholders for entitlement of final distribution	23 September 2019 to 25 September 2019, both days inclusive
Final distribution payable HK 14.1 cents per unit	11 October 2019
Closure of register of unitholders for entitlement to attend and vote at annual general meeting	25 October 2019 to 30 October 2019, both days inclusive
Annual general meeting	30 October 2019

Corporate Information

Board of Directors of the Manager

Chairman and Non-executive Director

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-executive Director

KWOK Ping Ho

Independent Non-executive Directors

KWAN Kai Cheong
TSE Kwok Sang
KWOK Tun Ho, Chester

Responsible Officers of the Manager

LO Yuk Fong, Phyllis
SHUM Chung Wah, Yulanda
WONG Chi Ming
WU Shiu Kee, Keith
YIP May Ling, Vivian

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

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

Investor Relations

Tel : (852) 3669 2880
Fax : (852) 2285 9980
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
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