



SUNLIGHT REIT

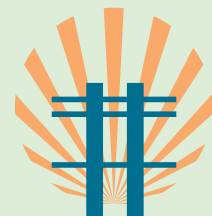
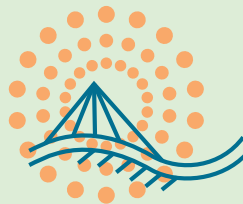
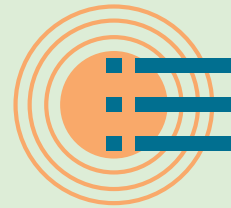
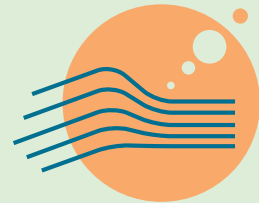
陽光房地產基金

Stock Code 股份代號 : 435

2022/23

Interim Report

中期報告



Sunlight REIT

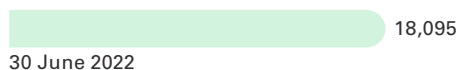
Listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 21 December 2006, Sunlight Real Estate Investment Trust (“**Sunlight REIT**”) (stock code : 435) is a real estate investment trust authorized by the Securities and Futures Commission (the “**SFC**”) and constituted by the amended and restated trust deed dated 10 May 2021 (the “**Trust Deed**”). It offers investors the opportunity to invest in a diversified portfolio of 11 office and five retail properties in Hong Kong with a total gross rentable area (“**GRA**”) of over 1.2 million sq. ft. and an aggregate appraised value of HK\$17,649.3 million at 31 December 2022. The office properties are located in both core and decentralized business areas, while the retail properties are situated in regional transportation hubs, new towns and urban areas with high population density.

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

Performance Highlights

Appraised property value

(HK\$' million)



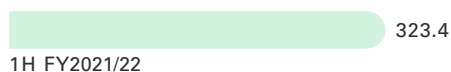
Revenue

(HK\$' million)



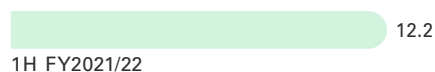
Net property income

(HK\$' million)



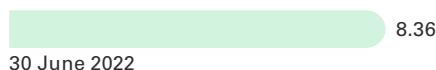
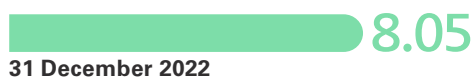
Distribution per unit

(HK cents)



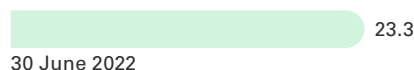
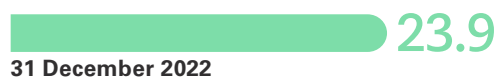
Net asset value per unit

(HK\$)



Gearing

(%)



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Forward-looking Statements

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

Market and Operation Review

For the six months ended 31 December 2022 (the “Reporting Period”), the general economic environment of Hong Kong had yet to show any signs of an encouraging rebound, as evidenced by domestic retail sales which recorded a mere 0.8% increase compared with the same period a year ago. However, thanks to continued relaxation of social distancing restrictions in December 2022, the retail scene witnessed a welcome improvement in business during the traditional festive season, reflecting better consumer sentiment and boding well for the commercial property sector. We have also noticed a gradual pickup in the leasing activities of Grade B office properties with convenient access that cater to service-trade tenants. Nevertheless, new lettings of prime offices remained lacklustre. According to the statistics provided by CBRE Limited, Grade A office market recorded an average vacancy rate of 15.1% at 31 December 2022 versus 11.9% six months ago, as new supply continued to outstrip absorption.

Against the backdrop of a still challenging operating environment, the overall occupancy rate of Sunlight REIT’s portfolio at 31 December 2022 was 92.5% as compared to 94.7% at 30 June 2022. Office occupancy rate declined to 92.2% (30 June 2022 : 94.8%), while retail occupancy rate also registered a decrease to 93.1% (30 June 2022 : 94.5%).

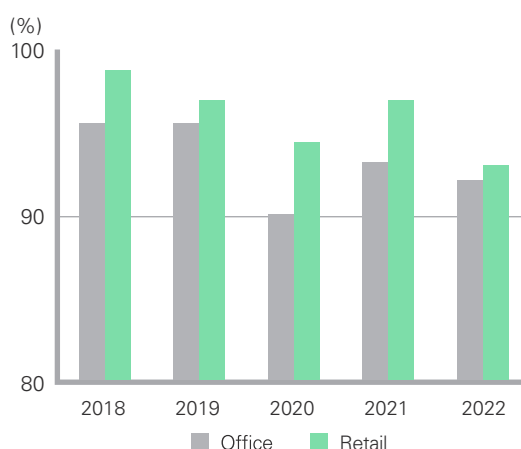
Expiry profile by GRA

(at 31 December 2022)

	FY2022/23	
	1H	2H
Dah Sing Financial Centre	19.9%	5.7%
Sheung Shui Centre Shopping Arcade	33.2%	19.4%
Metro City Phase I Property	21.4%	27.9%
Office portfolio	23.6%	17.1%
Retail portfolio	24.2%	23.2%

Occupancy rate

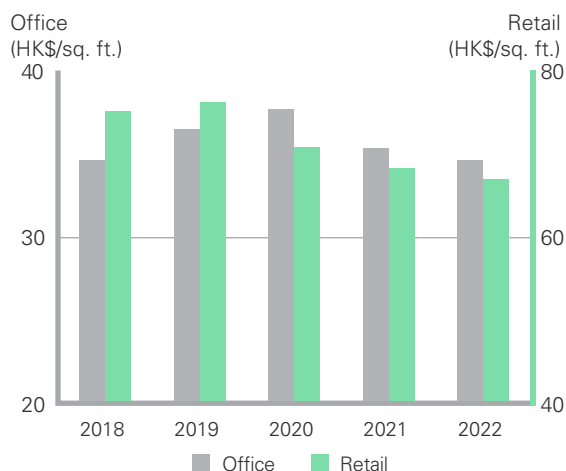
(at 31 December)



For the Reporting Period, the office and retail portfolios registered negative rental reversions of 4.5% and 4.8% respectively, giving rise to an overall negative rental reversion of 4.6%. Passing rent of the office portfolio declined 1.1% from six months ago to HK\$34.7 per sq. ft. at 31 December 2022, while that of the retail portfolio was HK\$67.1 per sq. ft., down 0.7%.

Passing rent

(at 31 December)



Despite a lower occupancy rate of 88.5% at 31 December 2022, the operating performance of Dah Sing Financial Centre was relatively resilient, as demonstrated by a slight 0.9% year-on-year drop in net property income (“NPI”) to HK\$86.9 million. Meanwhile, the Sheung Wan/Central portfolio continued to experience headwinds owing to prolonged pandemic woes, as evidenced by a downward adjustment in the level of occupancy of Strand 50 and Winsome House Property. Gratifyingly, occupancy rate of The Harvest rebounded to 91.4%, while the neighbouring Righteous Centre was fully let, reflecting the relatively stable leasing demand from service trades on the Kowloon side.

Tenant mix²

(at 31 December 2022)

	Sheung Shui Centre Shopping Arcade	Metro City Phase I Property
Food and beverage	25.1%	30.3%
Financial	16.4%	8.5%
Fashion and jewellery	10.2%	6.6%
Healthcare and beauty	11.4%	12.4%
Education	10.4%	12.1%
Supermarket and foodstuff	11.6%	9.2%
Lifestyle	2.6%	8.0%
Others	4.0%	4.8%
Vacant	8.3%	8.1%

Notes :

- Valuation was prepared by Knight Frank Petty Limited, an independent valuer appointed under paragraph 6.5(d) Note 1 of the Code on Real Estate Investment Trusts.
- As a percentage of total GRA of the relevant property.

On the retail front, NPI of Sheung Shui Centre Shopping Arcade (“SSC”) was down 4.9% year on year to HK\$66.4 million. The setback was mainly attributable to a gradual shift in tenant mix from high-margin trades to shops focusing more on non-discretionary items. Occupancy rate of SSC decreased to 91.7%, reflecting the cautious approach adopted by tenants in mapping out their future expansion. In the meantime, Metro City Phase I Property (“MCPI”) recorded an 8.2% year-on-year drop in NPI to HK\$61.8 million and a lower occupancy rate of 91.9%. This was mainly attributable to the rental gap caused by the ongoing renovation project as well as the departure of certain bank tenants in the second and third quarter of 2022.

On 11 January 2023, Sunlight REIT entered into an agreement with an independent third party to acquire a company which indirectly holds West 9 Zone Kids, a three-storey commercial development located in close proximity to the Olympic station with a GRA of about 58,800 sq. ft.. The agreed consideration of HK\$748 million (subject to adjustments) represents a discount of approximately 11.9% to the appraised value¹ of the property. Upon completion of the acquisition which is expected to take place in April 2023, the gearing ratio of Sunlight REIT is projected to increase from 23.9% to approximately 26.4%.

Financial Review

Financial highlights

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

	Six months ended 31 December 2022	Six months ended 31 December 2021	Change (%)
Revenue	388.5	404.3	(3.9)
Property operating expenses	80.9	80.9	–
Net property income	307.6	323.4	(4.9)
Cost-to-income ratio (%)	20.8	20.0	N/A
(Loss) / profit after taxation	(274.4)	234.2	N/A
Distributable income	198.2	217.2	(8.7)
Distribution per unit (HK cents)	11.0	12.2	(9.8)
Payout ratio (%)	93.7	94.2	N/A

	At 31 December 2022	At 30 June 2022	Change (%)
Portfolio valuation	17,649.3	18,095.2	(2.5)
Gross assets	18,468.7	18,960.4	(2.6)
Gross liabilities	4,869.9	4,909.0	(0.8)
Net asset value	13,598.8	14,051.4	(3.2)
Net asset value per unit (HK\$)	8.05	8.36	(3.7)
Gearing ratio (%)	23.9	23.3	N/A

Operating results

For the Reporting Period, Sunlight REIT's revenue was HK\$388.5 million, down 3.9% year on year, mainly as a result of lower passing rents and occupancy rates registered at various properties. NPI declined 4.9% year on year to HK\$307.6 million, implying a cost-to-income ratio of 20.8%.

Reflecting a higher interest rate regime, interest expenses increased 25.7% year on year to

HK\$58.6 million, although such adverse impact was partially mitigated by a sharp increase in interest income to HK\$10.1 million.

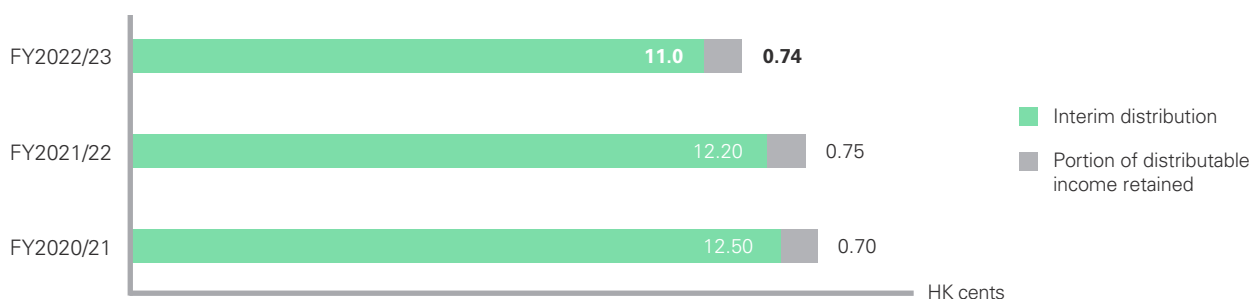
Taking into account the decrease in fair value of investment properties of HK\$448.4 million, a loss after taxation of HK\$274.4 million was reported, compared to a profit after taxation of HK\$234.2 million for the same period in the preceding year.

Distribution

Distributable income for the Reporting Period was HK\$198.2 million, down 8.7% from the same period last year. The Board has resolved to declare an interim distribution per unit (“DPU”) of HK 11.0 cents, representing a payout ratio of 93.7% and an annualized distribution yield of 6.5% based on the closing price of HK\$3.37 on the last trading day of the Reporting Period.

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Interim DPU at a glance



Financial position

The portfolio of Sunlight REIT was appraised at HK\$17,649.3 million at 31 December 2022, representing a decrease of 2.5% from 30 June 2022. Consequently, the gross assets and net assets of Sunlight REIT were HK\$18,468.7 million and HK\$13,598.8 million respectively (30 June 2022 : HK\$18,960.4 million and HK\$14,051.4 million). Net asset value per unit was HK\$8.05 (30 June 2022 : HK\$8.36).

of gross assets) was 23.9% (30 June 2022 : 23.3%), while the percentage of gross liabilities to gross assets was 26.4% (30 June 2022 : 25.9%).

The EBITDA^{Note} of Sunlight REIT dropped 3.4% year on year to HK\$263.6 million. Interest coverage ratio decreased to 4.5 times as compared with 5.8 times recorded in the corresponding period a year earlier.

At 31 December 2022, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage

Note : EBITDA represents net earnings before change in fair value of investment properties, interest expenses, taxation, depreciation and amortization. Gain on disposals of investment properties and subsidiaries is excluded from the calculation, if any.

Financial Review

Capital and interest rate management

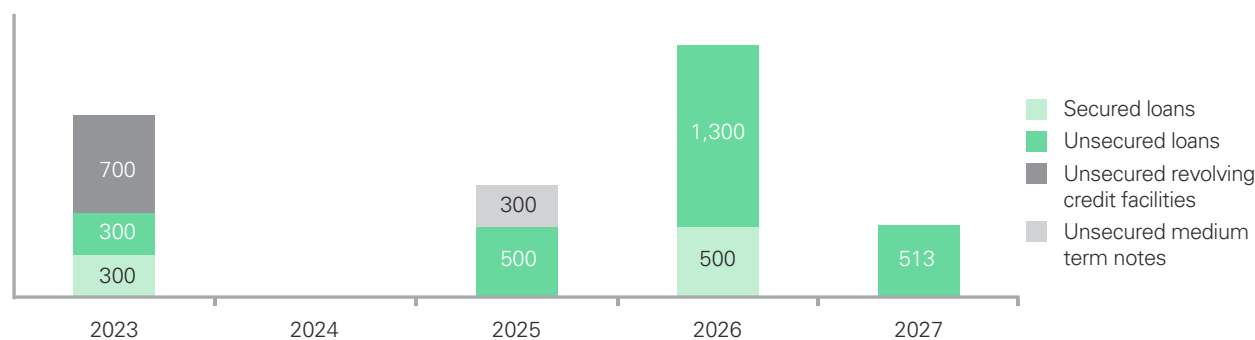
At 31 December 2022, Sunlight REIT had total borrowings of HK\$4,413 million (30 June 2022 : HK\$4,413 million), comprising secured loans of HK\$800 million and unsecured borrowings

of HK\$3,613 million with a weighted debt maturity period of 2.6 years. The percentage of sustainability-linked loans to total borrowings was about 64%.

Maturity profile of total borrowings

(at 31 December 2022)

(HK\$' million)

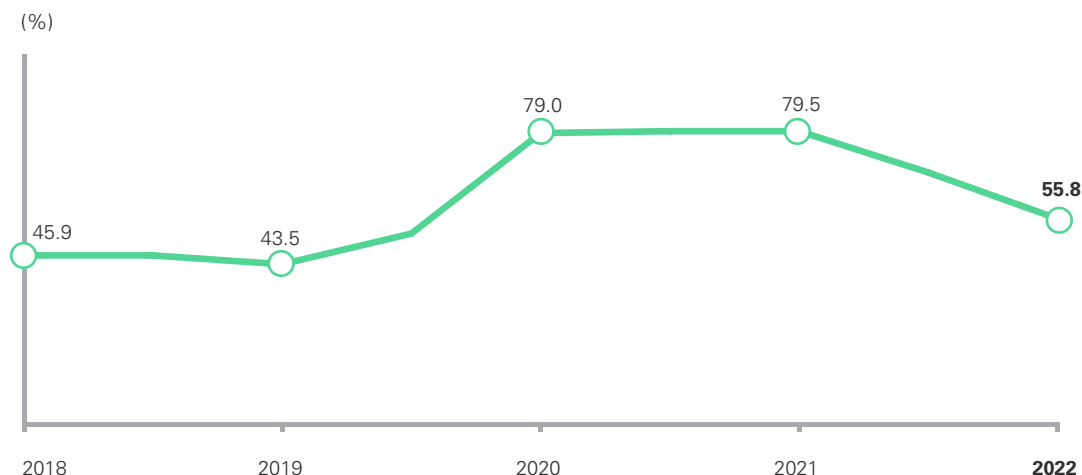


Sunlight REIT has in place interest rate swaps (“**IRSs**”) and fixed rate medium term notes to mitigate its interest rate risks. At 31 December 2022, the proportion of Sunlight REIT’s fixed rate borrowings dropped to 55.8% (31 December 2021 : 79.5%), with the decline mainly attributable to the unwinding and natural expiry of certain IRSs in 2022. The weighted average interest rate (including loan interest margin, if applicable) for the fixed rate borrowings was 2.39% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.80% per annum over Hong Kong Interbank Offered Rate. Average funding cost for the Reporting Period was 2.64%, compared to 2.09% recorded in the corresponding period a year ago.

On 18 January 2023, Sunlight REIT entered into a HK\$300 million secured term loan facility agreement with a bank for a tenure of 4.5 years. This new, sustainability-linked facility will be drawn and applied in full to refinance an existing facility due in March 2023.

Fixed rate borrowings as a % of total borrowings

(at 31 December)



Liquidity management and currency exposure

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments^{Note}, with an overall maturity profile compatible with projected funding requirements. At 31 December 2022, Sunlight REIT had total cash and bank balances of HK\$587 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK\$92 million. It also had revolving credit facilities of HK\$1,200 million, of which HK\$500 million remained undrawn at the end of the Reporting Period. Taking into consideration the recurrent income generated from operations, the current cash position, the

sources of funding available and the liquidity risk associated with the Relevant Investments, the Manager is of the view that Sunlight REIT has sufficient financial resources to meet its working capital, distribution payment and capital expenditure requirements.

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

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

Outlook

While the emergence of certain encouraging economic data points seems to suggest light at the end of the tunnel, the disruptive forces that have undermined global macro stability are likely to remain potent, if not stronger, in the foreseeable future. The inflation spiral triggered by various unforeseen events, notably including the still ongoing Russo-Ukrainian War, is now being further driven by escalating service prices and faster wage growth. As such, it is a formidable challenge for key central banks to alleviate the inflationary pressure without causing a severe recession. All these uncertainties will continue to ripple through global financial markets.

We, however, are encouraged by recent developments in China, which may help partly mitigate an impending global economic slowdown. As stringent pandemic control measures have mostly been jettisoned, enormous pent-up consumer demand is being unleashed. Coupled with the likelihood of continued policy stimulus, it is generally expected that the Chinese economy may stage a strong rebound as early as in the second quarter of 2023. The gradual relaxation of cross-border traffic controls in Hong Kong should prove a boon to the tourism industry, generating more momentum to a nascent economic recovery.

In the medium to long term, the retail portfolio of Sunlight REIT is bound to benefit from an expected upturn in domestic consumption and tourist spending. This should especially be the case for SSC, which has been a popular shopping destination for visitors from the Mainland and has received a palpable increase in leasing enquiries. Having said that, tangible benefits relating to the above developments will not be material in the near term. In the meantime, the renovation project at MCPI is expected to be completed in the second quarter of this year, implying that the gains which may be reaped from this initiative will only begin to contribute by FY2023/24.

With an additional 3.9 million sq. ft. of new Grade A office space expected to come on stream between 2023-2024, the current high level of office vacancies is poised to persist unless there is a sharp turnaround in demand from multinational corporations and Mainland Chinese enterprises. While this may continue to have an adverse impact on the office portfolio of Sunlight REIT, it is envisaged that the performance of selected Grade B office buildings focusing on semi-retail trades will remain stable and are well placed to capitalize on a recovery of consumer spending.

On the cost side, the Manager has remained disciplined in implementing budgetary controls, but overheads are edging up in light of an increase in utility expenses due to higher energy costs, while an upward adjustment to the statutory minimum wage will pose additional challenges to managing the cost-to-income ratio.

Reflecting the increase in local interbank rates and the prospect of additional borrowing relating to the acquisition of West 9 Zone Kids, interest expenses of Sunlight REIT is envisaged to be considerably higher than that recorded in the previous financial year. Nonetheless, the prevailing yield curve seemingly indicates that the interest rate uptrend may possibly reverse in the latter part of this year. The Manager will closely monitor the evolving trend and strive to maintain a prudent and agile capital management strategy to optimize the interest rate exposure of Sunlight REIT. Meanwhile, refinancing of the term loan due before the end of this financial year is currently underway and we are confident that it will be concluded shortly with favourable terms.

We are excited to announce the acquisition of West 9 Zone Kids on 11 January 2023. With a direct connection to the Olympic station, this defensive West Kowloon community mall will provide complementary benefits to the existing retail portfolio of Sunlight REIT by expanding its geographical exposure to a fast-growing residential hub. Further, this well-timed acquisition indicates the Manager's intention to initiate a new chapter of asset recycling, with a view to enhancing the value and quality of the overall portfolio.

Portfolio Statistics

Property	Property details						No. of leases	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)				
				Office	Retail	Total		
Office								
Grade A								
Dah Sing Financial Centre	Wan Chai	1998	46	369,891	6,490	376,381	65	65
Grade B								
Strand 50	Sheung Wan	1998	0	108,506	9,403	117,909	64	68
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	71	71
The Harvest	Mong Kok	1981	0	23,024	11,627	34,651	20	17
Winsome House Property	Central	1999	0	37,937	2,177	40,114	23	24
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	64	64
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	69	71
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	36	38
On Loong Commercial Building	Wan Chai	1984	0	25,498	1,708	27,206	37	37
Sun Fai Commercial Centre Property	Mong Kok	1998	0	23,817	2,334	26,151	46	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	33	33
Sub-total / Average			46	787,935	56,688	844,623	528	535
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	117	118
Metro City Phase I Property	Tseung Kwan O	1996	452	0	188,889	188,889	115	112
Kwong Wah Plaza Property	Yuen Long	1998	0	42,670	25,741	68,411	36	36
Urban								
Supernova Stand Property	North Point	2001	0	0	4,226	4,226	2	2
Beverley Commercial Centre Property	Tsim Sha Tsui	1982	0	0	7,934	7,934	28	21
Sub-total / Average			749	42,670	349,129	391,799	298	289
Total / Average			795	830,605	405,817	1,236,422	826	824

Notes :

1. Passing rent is calculated on the basis of average rent per sq. ft. for occupied GRA on the relevant date.
2. Rental reversion is calculated on the basis of change in effective rent of the leases renewed and commenced during the relevant period.
3. Valuation was prepared by CBRE Limited, principal valuer of Sunlight REIT.

Operational statistics						Property financials					
Occupancy rate (%)		Passing rent ¹ (HK\$/sq. ft.)		Rental reversion ² (%)		Net property income (HK\$'000)		Capitalization rate at 31 Dec 2022 (%)		Appraised value ³ at 31 Dec 2022 (HK\$'000)	
at 31 Dec 2022	at 30 Jun 2022	at 31 Dec 2022	at 30 Jun 2022	six months ended 31 Dec 2022	six months ended 30 Jun 2022	six months ended 31 Dec 2022	six months ended 31 Dec 2021	Office	Retail		
88.5	91.4	41.6	42.7	(9.0)	(10.0)	86,858	87,619	3.80	3.70	5,068,000	
92.3	99.7	32.3	32.4	0.8	0.4	19,680	21,204	3.55	3.85	1,274,400	
99.4	99.1	26.7	27.1	(4.7)	(3.6)	8,983	8,731	3.65	3.85	558,900	
91.4	80.4	41.0	36.7	(0.2)	2.2	6,099	9,341	3.45	3.25	547,000	
88.8	97.2	39.9	39.9	(5.4)	N/A	7,340	8,430	3.65	3.65	537,600	
100.0	100.0	34.9	34.5	5.7	0.0	9,823	10,061	3.75	3.50	532,000	
94.5	96.8	19.7	19.8	(4.3)	(1.6)	5,602	5,619	3.65	3.85	354,900	
96.1	100.0	24.8	25.0	(2.8)	(5.7)	5,027	4,998	3.85	4.05	267,900	
100.0	100.0	27.2	27.6	(3.7)	(21.6)	4,201	4,128	3.75	3.75	239,000	
97.1	98.5	21.4	21.4	(0.3)	1.0	2,885	2,955	3.90	4.10	163,200	
97.2	97.2	17.0	17.0	(0.8)	(1.9)	1,268	1,400	3.65	3.95	77,700	
92.2	94.8	34.7	35.1	(4.5)	(6.1)	157,766	164,486			9,620,600	
91.7	92.9	98.4	100.6	(6.4)	(4.0)	66,443	69,871	N/A	4.35	3,690,000	
91.9	94.6	54.6	54.7	(1.6)	(4.7)	61,808	67,363	N/A	4.35	3,050,000	
97.8	98.4	52.1	50.5	(2.3)	(6.6)	19,008	19,336	3.70	3.65	1,141,000	
100.0	100.0	57.2	57.2	N/A	N/A	1,378	1,378	N/A	3.80	74,100	
100.0	81.9	29.6	30.6	1.5	(4.1)	1,155	952	N/A	4.15	73,600	
93.1	94.5	67.1	67.6	(4.8)	(5.2)	149,792	158,900			8,028,700	
92.5	94.7	45.0	45.4	(4.6)	(5.7)	307,558	323,386			17,649,300	

Corporate Governance

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

Structure of Sunlight REIT

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

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

Board of the Manager and changes in Directors’ information

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

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

1. Mr. Kwok Tun Ho, Chester has ceased to be a member of the Process Review Panel for the SFC on expiry of his term of appointment on 31 October 2022;
2. Ms. Helen Zee has ceased to be a member of each of the Estate Agents Authority and the Process Review Panel for the SFC on expiry of her term of appointment on 31 October 2022. Meanwhile, she has been appointed as an independent non-executive director of China South City Holdings Limited with effect from 6 January 2023; and
3. Dr. Tse Kwok Sang has resigned as an independent non-executive director of Wing Lee Property Investments Limited with effect from 1 December 2022.

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

Conflicts of interest and business competition

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

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

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

1. the Manager will not manage any real estate investment trust other than Sunlight REIT nor manage any other real estate assets other than those owned by Sunlight REIT;
2. the Manager has functional units and systems which operate independently of its shareholder(s);
3. the Manager has established internal control systems to ensure that Sunlight REIT's connected party transactions are monitored and undertaken in compliance with the REIT Code, the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and waivers granted by the SFC, whereas any other situations of potential conflicts of interest are reported and monitored;
4. a Director with potential conflicts of interest shall disclose his/her interest to the Board and abstain from voting on the relevant matter, as well as not to be counted in the quorum for that resolution; and
5. registers of other directorships and senior positions held by the Directors are maintained and updated from time to time.

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

Compliance with the Compliance Manual and the Corporate Governance Code

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

During the Reporting Period, the Manager has in material terms complied with the provisions of the Compliance Manual. In addition, the Manager and Sunlight REIT have, to the extent applicable, applied the principles and complied with the code provisions in the Corporate Governance Code in Appendix 14 of the Listing Rules.

Compliance with the Dealings Code

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

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

Corporate Governance

Relevant Investments

The full investment portfolio of Relevant Investments, as defined in paragraph 7.2B of the REIT Code, of Sunlight REIT at 31 December 2022 is set out below :

Financial instruments ¹ & issuers	Primary listing	Currency	Total cost (HK\$'000)	Mark-to-market value (HK\$'000)	% of gross asset value of Sunlight REIT ^{2,3}	Credit rating
CATHAY 4 7/8 08/17/26 Cathay Pacific MTN Financing (HK) Limited	Stock Exchange	USD	11,672	11,208	0.06	N/A
COGARD 5.4 05/27/25 Country Garden Holdings Company Limited	Singapore Exchange	USD	14,452	8,974	0.05	N/A
COGARD 3 1/8 10/22/25 Country Garden Holdings Company Limited	Singapore Exchange	USD	10,115	6,223	0.03	Moody's Ba3
GEELZ 3 03/05/25 Geely Finance (Hong Kong) Limited	Singapore Exchange	USD	15,373	14,226	0.08	S&P BBB-
PANVA 4 04/26/27 TCCL (Finance) Limited	Stock Exchange	USD	4,623	4,364	0.02	S&P BBB+ Moody's Baa1
PCPDC 5 1/8 06/18/26 PCPD Capital Limited	Singapore Exchange	USD	11,639	8,894	0.05	N/A
ZHONAN 3 1/8 07/16/25 ZhongAn Online P & C Insurance Co., Ltd.	Stock Exchange	USD	28,743	25,121	0.14	Moody's Baa2
Total			96,617	79,010	0.43	

At 31 December 2022, the combined mark-to-market value of Relevant Investments, together with other ancillary investments of Sunlight REIT, represented approximately 4.4% of the gross asset value of Sunlight REIT.

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

Notes :

1. All financial instruments are bonds and their descriptions are quoted from Bloomberg.
2. The percentages are arrived at by comparing the mark-to-market value of the investments with the gross asset value of Sunlight REIT at 31 December 2022.
3. Gross asset value refers to the total assets after adjusted for the interim distribution declared. Total assets and interim distribution are stated on page 24 and page 27 of this interim report respectively.

Acquisition of property

Subsequent to the end of the Reporting Period, Sunlight REIT (via a wholly-owned and controlled special purpose vehicle) entered into a sale and purchase agreement on 11 January 2023 to acquire a company which indirectly holds a commercial development, currently known as “West 9 Zone Kids” located at No. 38 Cherry Street, Tai Kok Tsui, Kowloon, at a consideration of HK\$748 million (subject to adjustments). Upon fulfilment of certain conditions, completion of the acquisition is scheduled to take place in April 2023. Please refer to the announcement of Sunlight REIT dated 11 January 2023 for further details.

Tenants

Sunlight REIT had a total of 826 tenancies at 31 December 2022. The largest tenant accounted for 7.8% of total revenue for the Reporting Period and occupied 7.2% of total GRA at 31 December 2022, while the corresponding figures for the top five tenants were 18.2% and 15.2%.

Buy-back, sale or redemption of units

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

New units issued

Except for an aggregate of 6,583,269 new units issued to the Manager as payment of part of the Manager’s fees, there were no other new units issued during the Reporting Period.

Public float

Based on information that is publicly available and as far as the Manager is aware, not less than 25% of the outstanding units in issue of Sunlight REIT were held in public hands on 15 February 2023, the date of the interim results announcement.

Review of interim report

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

Employees

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

Distribution entitlement and closure of register of unitholders

The ex-distribution date and record date for the interim distribution are Thursday, 2 March 2023 and Wednesday, 8 March 2023 respectively. The register of unitholders will be closed from Monday, 6 March 2023 to Wednesday, 8 March 2023, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, all transfer documents accompanied by the relevant unit certificates must be lodged for registration with the unit registrar of Sunlight REIT, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 3 March 2023. Payment of the interim distribution will be made to unitholders on Thursday, 16 March 2023.

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 Reporting Period, other than those transactions that are excluded pursuant to waivers granted by the SFC and/or exempted from the reporting requirements (if any), is set out in this section. All the transactions are continuing connected party transactions.

Connected party transactions with the HLD Related Group

HLD and its subsidiaries (“**HLD Group**”) hold an aggregate of approximately 19.5% of units in issue of Sunlight REIT. The Manager is an indirect wholly-owned subsidiary of HLD. Therefore, HLD and its subsidiaries and associates (which has the meaning given to it under the REIT Code) (“**HLD Related Group**”), are connected persons of Sunlight REIT. Accordingly, the transactions made between Sunlight REIT, special purpose vehicles owned and controlled by Sunlight REIT (“**Sunlight REIT Group**”) and members of the HLD Related Group constitute connected party transactions of Sunlight REIT.

The following agreements were entered into on 31 March 2021 by or on behalf of Sunlight REIT with members of the HLD Related Group, for a term of three years from 1 July 2021 to 30 June 2024 :

- (i) master leasing agreement to govern all leasing and licensing transactions made with members of the HLD Related Group in respect of premises owned by the Sunlight REIT Group (the “**Master Leasing Agreement**”);
- (ii) joint effort carparking agreement in respect of sharing of fees and costs among the owners of Metro City Phases I, II and III relating to free parking provided to customers thereof (the “**Joint Effort Carparking Agreement**”);
- (iii) renewed property management agreement to extend the term of appointment of the Property Manager under the Property Management Agreement (such term as defined in the announcement of Sunlight REIT dated 31 March 2021) (the “**Renewed Property Management Agreement**”); and
- (iv) master services agreement to govern all service transactions related to the management and operation of properties of the Sunlight REIT Group to be provided by the HLD Related Group (the “**Master Services Agreement**”).

In addition, transactions with the DMC managers (which are members of the HLD Group) of certain properties of the Sunlight REIT Group currently appointed for maintenance and management of common areas and facilities as shared among different owners of the relevant property under the relevant deeds of mutual covenant (the “**Connected Deeds of Mutual Covenant**”), constitute continuing connected party transactions of Sunlight REIT under the REIT Code.

The income and expenses of Sunlight REIT derived from the transactions contemplated under the aforementioned agreements during the Reporting Period are summarized below :

Agreement	Income/(Expenses) for the Reporting Period¹ (HK\$'000)
Master Leasing Agreement	5,227
Joint Effort Carparking Agreement	1,271
Renewed Property Management Agreement	(22,576)
Master Services Agreement	(361)
Connected Deeds of Mutual Covenant	(6,874)

Further information about the abovementioned agreements can be found in the announcement and circular of Sunlight REIT dated 31 March 2021 and 9 April 2021 respectively.

Connected party transactions with the Trustee Connected Persons

Sunlight REIT has certain connected party transactions with the Trustee and Trustee related connected persons of Sunlight REIT (including without limitation, the HSBC Group² (collectively, the “**Trustee Connected Persons**”)) during the Reporting Period, which include ordinary banking and financial services provided by the HSBC Group (such as interest income on bank deposits, interest expenses and security trustee fee on bank borrowings, net interest income/expense on interest rate swaps and other bank charges) for which HK\$4.0 million has been paid or is payable by Sunlight REIT, and leasing or licensing of premises owned by the Sunlight REIT Group for which HK\$9.6 million has been received or to be received by Sunlight REIT.

Notes :

1. All of them were within the respective annual caps for the year ending 30 June 2023.
2. HSBC Group means HSBC and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Sunlight REIT).

Connected Party Transactions

Other disclosures under the REIT Code

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

During the Reporting Period, the aggregate amount of fees (in the form of cash and/or units) paid or payable by Sunlight REIT to the Manager and to the Trustee under the Trust Deed were approximately HK\$45.0 million and HK\$2.3 million respectively. Particulars of the services provided by the Manager and the Trustee are set out in notes 23(b)(i), (ii) and (iv) to the condensed interim financial statements.

Disclosure of Interests

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

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

At 31 December 2022 and 30 June 2022, the interests in units of the Manager and the Directors or chief executive of the Manager as recorded in the register required to be kept by the Manager under Schedule C of the Trust Deed (the “Register”), were as follows :

Name	At 31 December 2022		At 30 June 2022	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
The Manager ²	185,887,710	11.010	177,304,441	10.543
Au Siu Kee, Alexander ³	2,300,000	0.136	2,300,000	0.137
Wu Shiu Kee, Keith ⁴	930,000	0.055	930,000	0.055
Kwok Tun Ho, Chester ⁵	62,000	0.004	62,000	0.004

Notes :

1. The percentages are based on the total number of units in issue of 1,688,295,340 units at 31 December 2022 and 1,681,712,071 units at 30 June 2022 (as the case may be).
2. During the Reporting Period, the Manager received 6,583,269 units as payment of part of the Manager’s fees; and acquired 2,000,000 units in the open market. The Manager beneficially owned 185,887,710 units at 31 December 2022 (30 June 2022 : 177,304,441 units).
3. Mr. Au Siu Kee, Alexander is the Chairman and NED of the Manager.
4. Mr. Wu Shiu Kee, Keith is the CEO and ED of the Manager.
5. Mr. Kwok Tun Ho, Chester is an INED of the Manager.

There were no short positions in units held by the Manager and the Directors or chief executive of the Manager at 31 December 2022.

Disclosure of Interests

Holdings of substantial unitholders

At 31 December 2022 and 30 June 2022, the interests in units of the substantial unitholders (other than the Manager), as recorded in the Register, were as follows :

Name	At 31 December 2022		At 30 June 2022	
	Number of units interested	% of interest in units ¹	Number of units interested	% of interest in units ¹
Lee Shau Kee ²	688,349,177	40.77	688,349,177	40.93
Lee Financial (Cayman) Limited ²	374,072,708	22.16	374,072,708	22.24
Leesons (Cayman) Limited ²	374,072,708	22.16	374,072,708	22.24
Leeworld (Cayman) Limited ²	374,072,708	22.16	374,072,708	22.24
Shau Kee Financial Enterprises Limited ²	374,072,708	22.16	374,072,708	22.24
Uplite Limited ²	224,443,625	13.29	224,443,625	13.35
Wintrade Limited ²	149,629,083	8.86	149,629,083	8.90
Henderson Development Limited ²	321,216,758	19.03	321,216,758	19.10
HLD ²	321,216,758	19.03	321,216,758	19.10
Hopkins (Cayman) Limited ²	321,216,758	19.03	321,216,758	19.10
Riddick (Cayman) Limited ²	321,216,758	19.03	321,216,758	19.10
Rimmer (Cayman) Limited ²	321,216,758	19.03	321,216,758	19.10
Silchester International Investors LLP ³	200,482,150	11.87	200,482,150	11.92
Silchester International Investors International Value Equity Trust ³	93,459,690	5.54	100,231,922	5.96

Notes :

- The percentages are based on the total number of units in issue of 1,688,295,340 units at 31 December 2022 and 1,681,712,071 units at 30 June 2022 (as the case may be).
- At 31 December 2022, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited are wholly-owned subsidiaries of Financial Enterprise Properties Limited, which in turn is wholly-owned by Shau Kee Financial Enterprises Limited ("SKFE"). SKFE is wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which are held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Therefore, each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

Apart from the above, at 31 December 2022, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 185,887,710 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 329,800,027 units at 31 December 2022. Whereas in the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was respectively recorded as having an interest in 321,216,758 units at 31 December 2022, as no notifiable interest arose on their parts subsequent to their last disclosure of interest notifications to the Stock Exchange.

Notes : (continued)

At 31 December 2022, under Part XV of the SFO, by virtue of being the beneficial owner of the entire issued share capital of the trustees of the aforementioned unit trusts and discretionary trusts, Dr. Lee Shau Kee was taken to be interested in the total of 703,872,735 units. Whereas in the Register, Dr. Lee Shau Kee was recorded as having an interest in 688,349,177 units at 31 December 2022, as no notifiable interest arose on his part subsequent to his last disclosure of interest notification to the Stock Exchange.

- At 31 December 2022, according to the Register, Silchester International Investors LLP (“**Silchester LLP**”) in its capacity as investment manager, was interested in 200,482,150 units, and Silchester International Investors International Value Equity Trust (“**Silchester Trust**”) beneficially owned 93,459,690 units. The Manager has subsequently been notified informally that at 31 December 2022, (i) Silchester LLP was interested in 193,111,150 units (representing approximately 11.44% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 92,876,690 units (representing approximately 5.50% of the total number of units in issue), and such interest has been included as part of the interests (reported above) of Silchester LLP.

The units mentioned under notes 2 and 3 were beneficially held or interested in by connected persons of Sunlight REIT under the REIT Code. Based on the Register, there were no short positions in units held by substantial unitholders at 31 December 2022.

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 of Sunlight REIT at 31 December 2022 were as follows :

Name	Number of units held	% of unit holding ¹
Lo Yuk Fong, Phyllis ²	100,000	0.006
Persons related to the Trustee ³	665,000	0.039

Notes :

- The percentages are based on the total number of units in issue of 1,688,295,340 units at 31 December 2022.
- Ms. Lo Yuk Fong, Phyllis is a connected person of Sunlight REIT by virtue of being a director of certain subsidiaries of Sunlight REIT. Ms. Lo held 100,000 units at 30 June 2022.
- Certain associates (as defined in the REIT Code) of the Trustee were beneficially interested in 665,000 units at 31 December 2022. They did not have any beneficial interest at 30 June 2022.

Consolidated Statement of Profit or Loss

For the six months ended 31 December 2022 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2022 \$'000	2021 \$'000
Revenue	4 & 5	388,520	404,326
Property operating expenses	4 & 6	(80,962)	(80,940)
Net property income		307,558	323,386
Other net income	7	8,377	3,865
Administrative expenses		(52,307)	(54,309)
(Decrease) / increase in fair value of investment properties	11(a)	(448,408)	49,712
(Loss) / profit from operations		(184,780)	322,654
Finance costs on interest-bearing liabilities	8(a)	(55,318)	(50,120)
(Loss) / profit before taxation and transactions with unitholders	8	(240,098)	272,534
Income tax	9	(34,276)	(38,293)
(Loss) / profit after taxation and before transactions with unitholders		(274,374)	234,241

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2022 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 31 December	
	2022 \$'000	2021 \$'000
(Loss) / profit after taxation and before transactions with unitholders	(274,374)	234,241
Other comprehensive income for the period		
<i>Items that have been reclassified / may be reclassified subsequently to profit or loss :</i>		
– Effective portion of changes in fair value of cash flow hedges recognised during the period	33,734	28,760
– Net reclassification adjustments for amounts transferred to profit or loss in respect of :		
– finance costs on interest-bearing liabilities	(4,878)	–
– unrealised exchange difference on foreign currency borrowing	(11,606)	39,108
– unwinding of swaps	(2,796)	–
– deferred tax charged to other comprehensive income	(198)	–
	14,256	67,868
Total comprehensive (loss) / income for the period	(260,118)	302,109

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

Consolidated Statement of Financial Position

At 31 December 2022

(Expressed in Hong Kong dollars)

	Note	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Non-current assets			
Fixed assets			
– Investment properties	11	17,649,300	18,095,200
– Other fixed assets		69	81
		17,649,369	18,095,281
Deferred tax assets		471	500
Derivative financial instruments	13	12,105	14,395
Reimbursement rights	12	37,436	37,436
Other financial assets	14	92,096	104,453
Other non-current assets	15	5,554	1,224
		17,797,031	18,253,289
Current assets			
Trade and other receivables	16	53,715	64,777
Derivative financial instruments	13	30,745	11,326
Cash and bank balances	17	587,255	630,990
		671,715	707,093
Total assets		18,468,746	18,960,382
Current liabilities			
Tenants' deposits		(192,726)	(201,406)
Rent receipts in advance		(9,788)	(7,469)
Trade and other payables	18	(69,073)	(69,372)
Bank and other borrowings	19	(1,299,588)	(1,298,987)
Derivative financial instruments	13	(8,145)	(11,386)
Tax payable		(30,980)	(65,568)
		(1,610,300)	(1,654,188)
Net current liabilities		(938,585)	(947,095)
Total assets less current liabilities		16,858,446	17,306,194

Consolidated Statement of Financial Position (continued)

At 31 December 2022

(Expressed in Hong Kong dollars)

	Note	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank and other borrowings	19	(3,003,347)	(2,989,807)
Deferred tax liabilities		(222,775)	(217,627)
Derivative financial instruments	13	(33,507)	(47,341)
		(3,259,629)	(3,254,775)
Total liabilities, excluding net assets attributable to unitholders			
		(4,869,929)	(4,908,963)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		13,598,817	14,051,419
Number of units in issue			
	20	1,688,295,340	1,681,712,071
Net asset value attributable to unitholders per unit			
		\$8.05	\$8.36

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

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 31 December 2022 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2022 \$'000	2021 \$'000
At the beginning of the period		14,051,419	14,124,253
(Loss) / profit after taxation and before transactions with unitholders		(274,374)	234,241
Other comprehensive income		14,256	67,868
Total comprehensive (loss) / income for the period		(260,118)	302,109
Distribution paid to unitholders		(215,259)	(219,050)
Issuance of units to the Manager	20	22,775	23,163
		(192,484)	(195,887)
At the end of the period		13,598,817	14,230,475

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

Distribution Statement

For the six months ended 31 December 2022 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2022 \$'000	2021 \$'000
(Loss) / profit after taxation and before transactions with unitholders		(274,374)	234,241
Adjustments (note (i)) :			
– Decrease / (increase) in fair value of investment properties	11(a)	448,408	(49,712)
– Manager's fees paid or payable in the form of units		22,486	23,220
– Interest rate swaps – cash flow hedges	8(a)	(5,348)	628
– Non-cash finance costs on interest-bearing liabilities		2,042	2,773
– Deferred tax	9	4,979	5,993
– Depreciation		12	12
		472,579	(17,086)
Distributable income (note (i))		198,205	217,155
Interim distribution (note (ii))		185,712	204,615
Payout ratio (note (ii))		93.7%	94.2%
Distribution per unit (note (ii))		11.0 cents	12.2 cents

Notes* :

- (i) Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code"), a real estate investment trust shall distribute to unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. Pursuant to the amended and restated trust deed dated 10 May 2021 under which Sunlight Real Estate Investment Trust ("Sunlight REIT") is constituted (the "Trust Deed"), the total amounts distributed or distributable to unitholders shall be no less than 90% of annual distributable income for each financial year.

Distributable income means the amount calculated by the Manager as representing the consolidated profit / loss after taxation and before transactions with unitholders of Sunlight REIT for the relevant financial period, as adjusted to eliminate the effects of certain adjustments which have been recorded in the consolidated statement of profit or loss for the relevant financial period.

In arriving at the amount available for distribution for the current period, adjustments have been made, among others, to add back the finance costs relating to amortisation of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of \$2,042,000, or 0.12 cent per unit (2021 : \$2,773,000, or 0.17 cent per unit) (which is an effective return of capital), and to eliminate the effect of increase / decrease in fair value of investment properties.

Distribution Statement (continued)

For the six months ended 31 December 2022 – unaudited
(Expressed in Hong Kong dollars)

Notes* : (continued)

- (ii) The interim distribution of \$185,712,000 for the six months ended 31 December 2022 (2021 : \$204,615,000), representing a payout ratio of 93.7% (2021 : 94.2%), is calculated by multiplying the interim distribution per unit of 11.0 cents by 1,688,295,340 units** anticipated to be in issue at 8 March 2023, the record date for FY2022/23 interim distribution (the “**Record Date**”) (2021 : 12.2 cents by 1,677,171,782 units in issue at 8 March 2022, the record date for FY2021/22 interim distribution).
 - (iii) The interim distribution is expected to be paid on 16 March 2023 to unitholders whose names appear on the register of unitholders on the Record Date.
 - (iv) The interim distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- * Certain figures in these notes to distribution statement have been rounded to the nearest thousand.
- ** It is anticipated that no additional units will be cancelled, if bought back, before the Record Date.

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2022 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 December	
		2022 \$'000	2021 \$'000
Operating activities			
Cash generated from operations		286,364	292,437
Tax paid			
– Hong Kong Profits Tax paid		(63,885)	(68,267)
Net cash generated from operating activities		222,479	224,170
Investing activities			
Payment for expenditure incurred for investment properties		(8,301)	(7,912)
Proceeds from redemption of matured debt securities		10,000	38,832
(Increase) / decrease in bank deposits with original maturity over three months		(64,901)	264,728
Other cash flows arising from investing activities		6,984	3,782
Net cash (used in) / generated from investing activities		(56,218)	299,430
Financing activities			
Distribution paid to unitholders		(215,259)	(219,050)
Proceeds from new bank borrowings		200,000	355,000
Repayment of bank borrowings		(200,000)	(355,000)
Interest paid		(59,636)	(46,173)
Net cash used in financing activities		(274,895)	(265,223)
Net (decrease) / increase in cash and cash equivalents		(108,634)	258,377
Cash and cash equivalents at the beginning of the period	17	326,257	233,373
Effect of foreign exchange rate changes		(2)	2
Cash and cash equivalents at the end of the period	17	217,621	491,752

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

Notes to the Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

1 General

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

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

2 Basis of preparation

These condensed interim financial statements have been prepared in accordance with the relevant disclosure provisions of the REIT Code and the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) as if the relevant disclosure provisions of the Listing Rules were applicable to Sunlight REIT, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issuance on 15 February 2023.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2021/22 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022/23 annual financial statements. Details of the changes in accounting policies are set out in note 3.

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

These condensed interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021/22 annual financial statements. The condensed interim financial statements do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

2 Basis of preparation (continued)

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

The financial information relating to the financial year ended 30 June 2022 that is included in the condensed interim financial statements as being previously reported information does not constitute Sunlight REIT's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2022 are available from Sunlight REIT's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 6 September 2022.

3 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

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

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

4 Segment reporting

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

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

Segment results

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

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

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

4 Segment reporting (continued)

Segment results (continued)

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

	Six months ended 31 December					
	2022 (Unaudited)			2021 (Unaudited)		
	Office properties \$'000	Retail properties \$'000	Total \$'000	Office properties \$'000	Retail properties \$'000	Total \$'000
Revenue						
– Rental income	160,521	147,438	307,959	166,345	156,783	323,128
– Car park income	2,438	14,709	17,147	2,351	15,260	17,611
– Rental related income	32,035	31,379	63,414	31,710	31,877	63,587
	194,994	193,526	388,520	200,406	203,920	404,326
Property operating expenses	(37,228)	(43,734)	(80,962)	(35,920)	(45,020)	(80,940)
Net property income	157,766	149,792	307,558	164,486	158,900	323,386
Administrative expenses	(25,134)	(21,300)	(46,434)	(25,879)	(22,038)	(47,917)
Segment results	132,632	128,492	261,124	138,607	136,862	275,469
(Decrease) / increase in fair value of investment properties	(275,699)	(172,709)	(448,408)	(8,623)	58,335	49,712
Finance costs on interest-bearing liabilities			(55,318)			(50,120)
Income tax			(34,276)			(38,293)
Interest income			10,051			3,432
Unallocated net expenses			(7,547)			(5,959)
(Loss) / profit after taxation and before transactions with unitholders			(274,374)			234,241
Depreciation	5	7	12	5	7	12

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

5 Revenue

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

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
Rental income	307,959	323,128
Car park income	17,147	17,611
Rental related income	63,414	63,587
	388,520	404,326

6 Property operating expenses

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
Building management fee	31,813	30,540
Property Manager's fees (note)	22,576	23,748
Government rent and rates	14,721	15,076
Marketing and promotion expenses	1,783	2,428
Car park operating costs	3,402	3,121
Provision for credit losses on rental receivables (note 16(b))	1,545	182
Other direct costs	5,122	5,845
	80,962	80,940

Note : During the period ended 31 December 2022, the property manager waived an amount of \$788,000 (2021 : Nil) from the reimbursement of staff costs incurred for the Group, reflecting the subsidies received from the Employment Support Scheme set up by The Government of the Hong Kong Special Administrative Region.

7 Other net income

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
Bank interest income	8,185	1,172
Interest income from debt securities	1,866	2,260
Provision for credit losses on debt securities (note 21(b))	(1,674)	–
Others	–	433
	8,377	3,865

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

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

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	58,624	46,650
Other borrowing costs	2,042	2,842
	60,666	49,492
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	(4,878)	–
– Net fair value (gain) / loss of ineffective cash flow hedges	(470)	628
	(5,348)	628
	55,318	50,120

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

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
(b) Other items		
Manager's fees	44,971	46,440
Property Manager's fees (note (i))	22,576	23,748
Trustee's remuneration and charges	2,260	2,310
Auditor's remuneration		
– Audit services	768	753
– Other services	512	750
Valuation fee payable to principal valuer	224	224
Legal and other professional fees	1,473	1,892
Commission to property agents	1,173	2,031
Bank charges	153	153
Foreign exchange loss / (gain)	569	(432)

Notes :

- (i) Included rental commission of \$5,443,000 (2021 : \$4,956,000).
- (ii) Sunlight REIT does not appoint any director and the Group does not engage any employee. No employee benefit expense was incurred in the period accordingly.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

9 Income tax

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	29,297	32,300
Deferred tax		
Origination and reversal of temporary differences	4,979	5,993
	34,276	38,293

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

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

The basic loss per unit before transactions with unitholders for the six months ended 31 December 2022 amounted to \$0.16 (2021 : basis earnings per unit before transactions with unitholders of \$0.14). The calculation of basic (loss) / earnings per unit before transactions with unitholders is based on the Group's loss after taxation and before transactions with unitholders of \$274,374,000 (2021 : profit after taxation and before transactions with unitholders of \$234,241,000) and the weighted average of 1,684,073,460 units (2021 : 1,673,913,317 units) in issue during the period.

Diluted (loss) / earnings per unit before transactions with unitholders for the six months ended 31 December 2022 and 2021 are not presented as there was no potential dilution of (loss) / earnings per unit before transactions with unitholders.

11 Investment properties

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
At 1 July 2022 / 1 July 2021	18,095,200	18,341,700
Movement during the period / year		
– Additions	2,508	17,390
– Decrease in fair value	(448,408)	(263,890)
	17,649,300	18,095,200

11 Investment properties (continued)

(a) Valuation

The investment properties were appraised at 31 December 2022 by the Group's principal valuer, CBRE Limited ("**CBRE**"), an independent firm that has key personnel who are fellows or members of The Hong Kong Institute of Surveyors or the Royal Institute of Chartered Surveyors (Hong Kong Branch) with recent experience in the location and category of property being valued. Valuation methodologies adopted by CBRE were the same as when carrying out the valuation for 30 June 2022. As a result of the valuation, a loss of \$448,408,000 (2021 : gain of \$49,712,000) has been recognised in profit or loss for the period in respect of investment properties.

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

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
In Hong Kong		
– Long leases	8,374,800	8,588,300
– Medium-term leases	9,274,500	9,506,900
	17,649,300	18,095,200

(c) Certain investment properties of the Group have been mortgaged to secure banking facilities granted to the Group (see note 19).

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**"), Henderson Land Development Company Limited ("**HLD**"), Henderson Investment Limited, Henderson Development Limited and Jetwin International Limited) (collectively referred to as the "**Vendors**") to the extent of the deferred tax liabilities in respect of possible clawback of depreciation allowances claimed by the Vendors prior to the date of acquisition in connection with the listing of Sunlight REIT in December 2006.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

13 Derivative financial instruments

	31 December 2022 (Unaudited)			30 June 2022 (Audited)		
	Assets \$'000	Liabilities \$'000	Net amount \$'000	Assets \$'000	Liabilities \$'000	Net amount \$'000
Interest rate swaps and cross currency interest rate swap – cash flow hedges						
Current portion	30,745	(8,145)	22,600	11,326	(11,386)	(60)
Non-current portion	12,105	(33,507)	(21,402)	14,395	(47,341)	(32,946)
	42,850	(41,652)	1,198	25,721	(58,727)	(33,006)

The Group uses interest rate swaps (“**IRSs**”) to hedge against the interest rate risk in relation to its floating rate borrowings.

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

During the year ended 30 June 2022, the Group received \$16,625,000 from two swap counterparties for unwinding of four IRSs with an aggregate notional amount of \$500,000,000. Such amount would be recognised over the original tenors of the respective IRSs; and \$2,796,000 was recognised as a saving in finance costs for the period. The remaining balance of \$13,534,000 (30 June 2022 : \$16,330,000) was included in the net assets attributable to unitholders at 31 December 2022.

At 31 December 2022, the Group assessed the effectiveness of its cash flow hedges and identified certain ineffectiveness. As a result, fair value gain of ineffective hedges amounting to \$470,000 (2021 : fair value loss of \$628,000) was recognised to profit or loss for the period.

For the six months ended 31 December 2022, the increase in the effective portion of changes in fair value of cash flow hedges of \$33,734,000 (2021 : \$28,760,000) and a reclassification adjustment in respect of unrealised exchange loss on foreign currency borrowing of \$11,606,000 (2021 : unrealised exchange gain of \$39,108,000) recognised in other comprehensive income were included in the net assets attributable to unitholders.

At 31 December 2022, the Group had IRSs with an aggregate notional amount of \$1,650,000,000 (30 June 2022 : \$2,200,000,000) and CCIRS with notional amount of \$513,196,000 (30 June 2022 : \$513,196,000) and their net cumulative unrealised fair value changes were included in the net assets attributable to unitholders. These swaps will mature between May 2023 to October 2027 (30 June 2022 : September 2022 to October 2027).

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

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Financial assets measured at amortised cost		
Debt securities		
– Listed in Hong Kong	45,208	45,471
– Listed outside Hong Kong	51,438	51,840
– Unlisted	–	10,018
	96,646	107,329
Less : provision for credit losses (note 21(b))	(4,550)	(2,876)
	92,096	104,453

15 Other non-current assets

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

16 Trade and other receivables

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Rental receivables	37,091	51,697
Deposits and prepayments	10,253	10,288
Other receivables	5,312	1,856
Amounts due from related companies	1,059	936
	53,715	64,777

Included unamortised rent-free and rental concession, deposits and prepayment of \$23,651,000 (30 June 2022 : \$28,967,000) which are expected to be recovered or recognised as expenses after one year. Apart from the above, all of the balances are expected to be recovered or recognised as expenses within one year.

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

16 Trade and other receivables (continued)

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of rental receivables, based on the date of revenue recognition and net of provision for credit losses, is as follows :

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Current	29,399	31,179
Less than 1 month overdue	4,456	8,728
More than 1 month and up to 3 months overdue	2,133	8,702
More than 3 months and up to 6 months overdue	424	2,517
More than 6 months overdue	679	571
	37,091	51,697

(b) Provision for credit losses on rental receivables

Provision for credit losses on rental receivables was assessed and made by the Group on a case-by-case basis, based on the historical default experience and forward-looking information that may impact the tenants' ability to repay the outstanding rental receivables. If the Group considered that the recovering of the rental receivable is remote, relevant provision for credit losses would be written off against the receivable directly.

The movement in the loss allowance for rental receivables during the period / year is as follows :

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
At 1 July 2022 / 1 July 2021	7,182	2,031
Provision for credit losses (note 6)	1,545	6,180
Written off	(570)	(1,029)
	8,157	7,182

17 Cash and bank balances

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Deposits with original maturity within three months	206,098	269,745
Cash at bank and in hand	11,523	56,512
Cash and cash equivalents in the condensed consolidated cash flow statement	217,621	326,257
Deposits with original maturity over three months	369,634	304,733
Cash and bank balances in the consolidated statement of financial position	587,255	630,990

18 Trade and other payables

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Creditors and accrued charges	39,592	39,920
Manager's fees payable (note 23(b)(ii))	22,231	21,960
Amounts due to related companies	7,250	7,492
	69,073	69,372

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 \$1,112,000 (30 June 2022 : \$1,098,000) which is due within 30 days.

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

19 Bank and other borrowings

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Bank loans (note (i))		
– Secured	798,173	797,652
– Unsecured	3,208,019	3,194,953
	4,006,192	3,992,605
Medium term notes – unsecured (note (ii))	296,743	296,189
	4,302,935	4,288,794
The bank and other borrowings were repayable as follows :		
Within 1 year	1,299,588	1,298,987
After 2 years but within 5 years	3,003,347	2,587,969
After 5 years	–	401,838
	3,003,347	2,989,807
	4,302,935	4,288,794

Notes :

- (i) The Group entered into IRSs and CCIRS, details of which are set out in note 13.

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

- mortgages over the investment properties with a fair value of \$4,964,400,000 at 31 December 2022 (30 June 2022 : \$5,096,900,000) (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.
- (ii) The Group has a US\$1,000,000,000 (30 June 2022 : US\$1,000,000,000) Medium Term Note Programme (“**MTN programme**”). At 31 December 2022, notes with nominal amount of \$300,000,000 (30 June 2022 : \$300,000,000) were issued by Sunlight REIT MTN Limited under the MTN programme with fixed coupon rate of 2.00% (30 June 2022 : 2.00%) per annum. The notes are guaranteed by the Trustee (in its capacity as trustee of Sunlight REIT).
- (iii) The effective interest rate of the bank and other borrowings at the end of the reporting period was 3.68% per annum (30 June 2022 : 2.17% per annum).
- (iv) At 31 December 2022, the Group’s uncommitted revolving credit facilities of \$500,000,000 (30 June 2022 : \$500,000,000) remained undrawn.

20 Units in issue

	Number of units	
	31 December 2022 (Unaudited)	30 June 2022 (Audited)
At 1 July 2022 / 1 July 2021	1,681,712,071	1,672,133,484
Movement during the period / year		
– Issuance of units	6,583,269	10,778,587
– Units bought back	–	(1,200,000)
	1,688,295,340	1,681,712,071

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

Payment of the Manager's fees for the period / year	Average issue price per unit determined based on the Trust Deed \$	Aggregate amount of units issued \$'000	Number of units issued
For the six months ended 31 December 2022 (Unaudited)			
1 April 2022 to 30 June 2022	3.692	11,405	3,089,108
1 July 2022 to 30 September 2022	3.254	11,370	3,494,161
		22,775	6,583,269
For the year ended 30 June 2022 (Audited)			
1 April 2021 to 30 June 2021	4.542	11,561	2,545,429
1 July 2021 to 30 September 2021	4.654	11,602	2,492,869
1 October 2021 to 31 December 2021	4.202	11,618	2,764,939
1 January 2022 to 31 March 2022	3.905	11,619	2,975,350
		46,400	10,778,587

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

20 Units in issue (continued)

During the six months ended 31 December 2022, no unit was bought back by the Manager on behalf of Sunlight REIT.

For the year ended 30 June 2022, the Manager, pursuant to the general mandate granted to the Manager by unitholders, bought back on behalf of Sunlight REIT a total of 1,200,000 units on the SEHK at an aggregate consideration of \$4,594,000.

Details of the units buy-backs were as follows :

	Number of units bought back	Price per unit		Aggregate consideration \$'000
		Highest \$	Lowest \$	
For the year ended 30 June 2022				
(Audited)				
Month of buy-back				
April 2022	1,072,000	3.86	3.78	4,099
May 2022	128,000	3.87	3.86	495
	<u>1,200,000</u>			<u>4,594</u>
Total buy-back expenses				<u>17</u>
				<u>4,611</u>

All bought back units were cancelled during that year.

21 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

At 31 December 2022 and 30 June 2022, the Group's only financial instruments carried at fair value are the IRSs and CCIRS (see note 13), which fall under Level 2 of the fair value hierarchy described above.

During the six months ended 31 December 2022 and the year ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

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

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

21 Fair value measurement of financial instruments (continued)

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 31 December 2022 and 30 June 2022, except for the Group's investment in debt securities, of which its carrying amount is \$92,096,000 (30 June 2022 : \$104,453,000) as compared to its fair value of \$79,010,000 (30 June 2022 : \$90,319,000). The Manager assessed the credit risk of the debt securities held by the Group with reference to the credit ratings assigned by credit rating agencies, where available, and default probability analysis provided by external financial data providers. The credit risk on one of the issuers of the debt securities held by the Group has been significantly increased since the initial recognition of the debt securities. Therefore, the credit losses measured based on lifetime ECLs was provided on such debt securities.

Movement in the loss allowance for debt securities measured at amortised cost during the period / year is as follows :

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
At 1 July 2022 / 1 July 2021	2,876	–
Provision for credit losses (note 7)	1,674	2,876
At 31 December 2022 / 30 June 2022 (note 14)	4,550	2,876

22 Capital commitments

Capital commitments outstanding at 31 December 2022 not provided for in the condensed interim financial statements are as follows :

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
Contracted for	20,575	4,237
Authorised but not contracted for	8,088	30,168
	28,663	34,405

23 Connected party transactions and material related party transactions

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

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

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

(b) Transactions with connected persons / related parties

	Six months ended 31 December	
	2022 (Unaudited) \$'000	2021 (Unaudited) \$'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	5,227	5,223
– HSBC Group	9,610	9,642
Property management expenses paid / payable to (note (i) & (v)) :		
– HLD Group	(7,242)	(6,943)
Facilities leasing expenses paid / payable to (note (i) & (v)) :		
– HLD Group	–	(60)
Manager's fees (note (ii))	(44,971)	(46,440)
Property Manager's fees (note (iii))	(22,576)	(23,748)
Trustee's remuneration and charges (note (iv))	(2,260)	(2,310)
Interest expenses and security trustee fee on bank borrowings and other charges paid / payable to (note (i)) :		
– HSBC Group	(7,774)	(2,278)
Net interest income / (expenses) on IRSs received / receivable from or (paid / payable) to (note (i)) :		
– HSBC Group	2,699	(12,719)
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	1,066	–
Interest income from debt securities received / receivable from (note (i) & (v)) :		
– HLD Group	102	–
Promotional income received / receivable from (note (i)) :		
– HLD Group	1,271	1,785

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

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

Notes :

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

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

On 12 July 2021, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2022 to be paid 50% in the form of cash and 50% in the form of units. On 13 June 2022, the Manager has elected to keep the split unchanged for the financial year ending 30 June 2023.

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

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

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

The Manager and the Property Manager may mutually agree in writing from time to time to revise the rate of the commission payable to the Property Manager for the marketing services provided that the revised rate shall not exceed the relevant rate as stated above.

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

Notes to the Condensed Interim Financial Statements (continued)

(Expressed in Hong Kong dollars)

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

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

Notes : (continued)

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

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

- (v) The connected party transactions with HLD Group in respect of the investment in debt securities issued by HLD Group, one of the property management expenses (of \$6,250), facilities leasing expenses and interest income from debt securities are exempted from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).
- (vi) Other than the fees paid / payable to the Manager and the Trustee, all the above material related party transactions, as set out in this note 23 also constitute connected transactions / continuing connected transactions under the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in "Connected Party Transaction" on pages 16 to 18 in this interim report.

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

	31 December 2022 (Unaudited) \$'000	30 June 2022 (Audited) \$'000
HLD Group :		
– Net payable amount	(30,006)	(29,067)
– Debt securities issued by HLD Group (note 23(b)(v))	4,601	4,620
HSBC Group :		
– Deposits and cash placed with HSBC Group	97,193	115,030
– Bank borrowings and interest payable to HSBC Group	(500,326)	(500,927)
– Other net payable amount	(6,909)	(6,413)

24 Non-adjusting event after the reporting period

- (a) On 11 January 2023, the Group, through a wholly-owned subsidiary, entered into a sale and purchase agreement with an independent third party to acquire the entire beneficial interest in a company which indirectly holds a commercial development, currently known as “West 9 Zone Kids”, at a consideration of \$748,000,000 (subject to adjustments). \$74,800,000 was paid as deposit upon signing of the sale and purchase agreement. Completion of the acquisition is expected to take place in April 2023. Please refer to the Group’s announcement dated 11 January 2023 for details.

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

Auditor's Review Report



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

Introduction

We have reviewed the condensed interim financial statements set out on pages 22 to 51 which comprises the consolidated statement of financial position of Sunlight Real Estate Investment Trust as of 31 December 2022 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the condensed interim financial statements in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements as at 31 December 2022 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

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

15 February 2023

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2022	2021	2020	2019	2018
At 31 December :						
Net asset value (\$ million)		13,599	14,230	14,350	15,839	15,476
Net asset value per unit		8.05	8.48	8.61	9.56	9.40
Market capitalisation (\$ million)		5,690	7,279	6,284	8,348	8,269
For the six months ended 31 December :						
Highest traded unit price		3.85	5.07	4.19	6.35	5.55
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		2.45	4.11	3.29	4.84	4.66
Highest discount of the traded unit price to net asset value per unit (%)		69.6	51.5	61.8	49.4	50.4
Closing unit price		3.37	4.34	3.77	5.04	5.02
Distribution per unit (cents)		11.0	12.2	12.5	13.2	13.2
Payout ratio (%)		93.7	94.2	94.7	93.6	93.9
Annualised distribution yield per unit (%)	2	6.5	5.6	6.6	5.2	5.3

Notes :

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

Corporate Information

Board of Directors of the Manager Chairman and Non-Executive Director

AU Siu Kee, Alexander

Chief Executive Officer and Executive Director

WU Shiu Kee, Keith

Non-Executive Director

KWOK Ping Ho

Independent Non-Executive Directors

KWAN Kai Cheong

TSE Kwok Sang

KWOK Tun Ho, Chester

Helen ZEE

Responsible Officers of the Manager

LO Yuk Fong, Phyllis

SHUM Chung Wah, Yulanda

WONG Chi Ming

WU Shiu Kee, Keith

YIP May Ling, Vivian

Company Secretary of the Manager

CHUNG Siu Wah

Registered Office of the Manager

30th Floor, Dah Sing Financial Centre,

248 Queen's Road East, Wan Chai,

Hong Kong

Investor Relations

Tel : (852) 3669 2880

Fax : (852) 2285 9980

Email : ir@HendersonSunlight.com

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor

KPMG

Certified Public Accountants and

Registered Public Interest Entity Auditor

Principal Valuer

CBRE Limited

Legal Adviser

Woo Kwan Lee & Lo

Principal Bankers

Bank of China (Hong Kong) Limited

Dah Sing Bank, Limited

DBS Bank Ltd., Hong Kong Branch

The Hongkong and Shanghai Banking

Corporation Limited

MUFG Bank, Ltd.

Sumitomo Mitsui Banking Corporation

Unit Registrar

Tricor Investor Services Limited

17/F, Far East Finance Centre,

16 Harcourt Road,

Hong Kong

Website

www.sunlightreit.com

Financial Calendar

(in respect of FY2022/23 interim results)

Interim results announcement

15 February 2023

Issuance of interim report

1 March 2023

Ex-distribution date

2 March 2023

for interim distribution

Closure of register of unitholders

6 March 2023 to 8 March 2023,

for entitlement of interim distribution

both days inclusive

Payment of interim distribution

16 March 2023

HK 11.0 cents per unit

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

陽光房地產投資信託基金

由恒基陽光資產管理有限公司管理

www.sunlightreit.com

