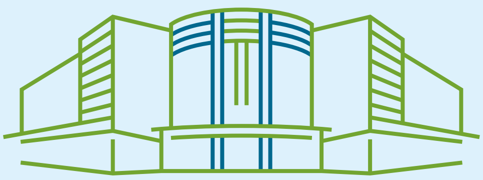
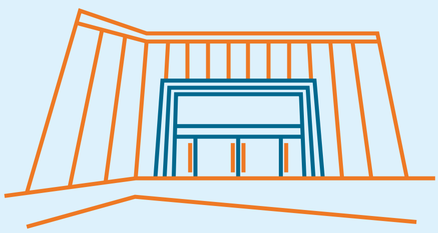
SUNLIGHT REIT

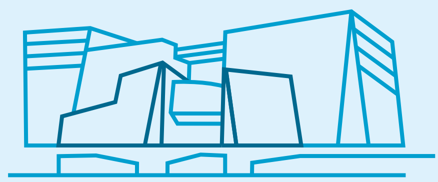
STOCK CODE : 435

ANNUAL REPORT 2022/23

RENOVATE RECOVER RECYCLE







Highlights of the Year

- While net property income saw a mild setback, the downturn in distributable income for the Year was further affected by a sharp increase in interest expense.
- A gradual recovery in domestic consumption has been evident with the resumption of Hong Kong's international travel and inbound tourism, which has given support to the retail portfolio of Sunlight REIT.
- The acquisition of West 9 Zone Kids has improved the geographical footprint of Sunlight REIT's portfolio while helping to diversify its income base.

Appraised property value
(HK$' million)

30 June 2023	**18,512**
30 June 2022	18,095

Revenue
(HK$' million)

FY2022/23	**783.3**
FY2021/22	802.9

Net property income
(HK$' million)

FY2022/23	**624.0**
FY2021/22	641.9

Distribution per unit
(HK cents)

FY2022/23	**22.0**
FY2021/22	25.0

Net asset value per unit
(HK$)

30 June 2023	**8.06**
30 June 2022	8.36

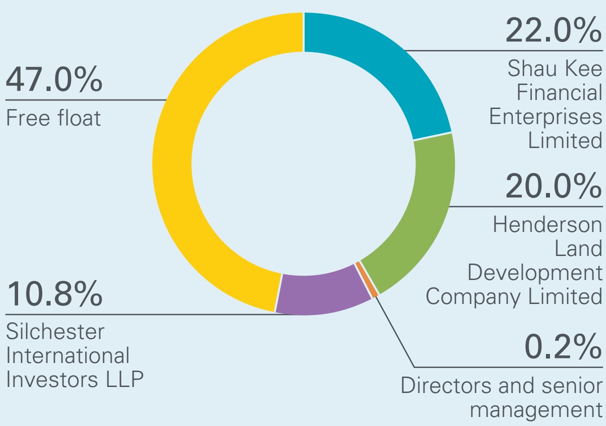
Gearing
(%)

30 June 2023	**26.1**
30 June 2022	23.3

Annualized total return to investors since listing

8.0%

Unitholding structure
(30 June 2023)



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Forward-looking Statements

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

Who We Are : In Brief

Our Business

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

Listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 21 December 2006, the market capitalization of Sunlight REIT was approximately HK$4,882 million at 30 June 2023.

Sunlight REIT offers investors the opportunity to invest in a diversified portfolio of 11 office and six retail properties in Hong Kong with a total gross rentable area ("**GRA**") of approximately 1.3 million sq. ft.. The office properties are primarily located in core business areas, including Wan Chai and Sheung Wan/Central, as well as in decentralized business areas such as Mong Kok and North Point. The retail properties are situated in regional transportation hubs and new towns including Sheung Shui, Tseung Kwan O and Yuen Long, as well as in urban areas with high population density such as Tai Kok Tsui. At 30 June 2023, Sunlight REIT's portfolio was appraised by its principal valuer, CBRE Limited (the "**Principal Valuer**") at HK$18,512.2 million, with office and retail properties accounting for 51.6% and 48.4% of this valuation respectively.

Our Management

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

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

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of Henderson Land Development Company Limited ("**HLD**").

Our Strategy

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

Operational management and asset enhancement

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

Investment and acquisition growth

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

Capital and business management

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

Our Culture

A good and healthy corporate culture can nurture and reinforce the sustainability framework of Sunlight REIT, enabling it to become more resilient and to thrive even in most trying times.

The Manager is committed to cultivating and upholding a culture of strong corporate governance, characterized by a high level of professional integrity and ethical values, while fostering a culture of care, learning and responsibility with regard to the environment and stakeholders.

The corporate culture of Sunlight REIT contains four core values, namely:

Accountability	Care	Innovation	Integrity

Please refer to "Corporate Governance Report" on page 38 for details.

Chairman's Statement

AU Siu Kee, Alexander
Chairman

"In view of the fluidity of the macro environment, prudence remains the strategic priority. Specifically, our effort to ensure a strong financial footing for Sunlight REIT should help it sail through the prevailing tight credit conditions."

It is a great relief that the COVID-19 pandemic, which has had a profound impact on the global economy and our way of life over the past three years, is finally abating. Against such a soothing backdrop, I have the pleasure of presenting the results of Sunlight REIT for the year ended 30 June 2023 (the "**Year**") on behalf of the Board.

While the Hong Kong economy staged a rebound in the second half of the Year, the performance of Sunlight REIT was somewhat marred by a cyclical downswing of the commercial property market, notably the office sector. Consequently, net property income ("**NPI**") exhibited a mild 2.8% year-on-year decrease to HK$624.0 million. Given a steep increase in interest rates which resulted in a significant surge in interest expense, annual distributable income for the Year was down 11.8% year on year to HK$380.3 million.

The Board has resolved to declare a final distribution of HK 11.0 cents per unit. Coupled with an interim distribution of HK 11.0 cents per unit, total distribution per unit ("**DPU**") for the Year would amount to HK 22.0 cents, representing a payout ratio of 97.9% versus 97.4% in the preceding year, while the distribution yield was 7.6% based on the closing price of HK$2.88 on the last trading day of the Year.

During the Year, Sunlight REIT managed to capitalize on a window of opportunity and successfully sealed the acquisition of West 9 Zone Kids ("**W9Z**"), a community shopping mall with direct connection to the Olympic station of the Mass Transit Railway. With a maiden contribution from the acquisition of W9Z completed in April 2023, the value of Sunlight REIT's property portfolio as appraised by the Principal Valuer increased to HK$18,512.2 million at 30 June 2023. Its net asset value was HK$13,669.2 million at 30 June 2023, or HK$8.06 per unit.

Compound annual growth since listing

Net property income

5.1%

Net asset value

5.8%

At this juncture, the Hong Kong economy is arguably back on a more solid footing. However, the year ahead remains replete with challenges, as external conditions appear less than supportive, and caution is warranted. In particular, the unprecedented pace of interest rate increase initiated by the US Federal Reserve since March 2022 has caused considerable consternation in the market. It is likely that interest rates will stay at current levels for a longer period of time given that inflation remains sticky, while the wage-price spiral is still actively in motion.

Meanwhile, the performance and recovery of the Chinese economy continues to tread a precarious path as the growth momentum of consumption and investment appears uninspiring. What is more, languishing Sino-US relations not only obscure the prospects for the Chinese economy, but are also impeding international trade and investment flows.

In view of the fluidity of the macro environment, prudence remains the strategic priority. Specifically, our effort to ensure a strong financial footing for Sunlight REIT should help it sail through the prevailing tight credit conditions. Better still, we have been able to marshal resources to expand and strengthen the retail portfolio of Sunlight REIT, rendering it greater potential to benefit from a consumption recovery. Moreover, we will continue to play to our core strengths in operational management and asset enhancement.

Once again, I would like to take this opportunity to express my heartfelt gratitude to fellow directors, the management team and all the staff, who have been exceptionally resilient and reliable in the face of adversities, and have adapted fast to surmount fresh challenges. I am grateful that I can count on their continued support and contribution in the coming year.

AU Siu Kee, Alexander
Chairman
6 September 2023

WU Shiu Kee, Keith
Chief Executive Officer

> **"..., the Manager has been striving to proactively fortify the fundamentals of Sunlight REIT so that it can emerge stronger from the formidable challenges."**

In less than two decades, we at Sunlight REIT have more than once witnessed that event risks may engender dire consequences; the ultimate in this is the COVID-19 pandemic, which spanned three bruising years before receding at the turn of 2023. Instead of just adopting a reactive approach to cope with unpredictable adversities over the past several years, the Manager has been striving to proactively fortify the fundamentals of Sunlight REIT so that it can emerge stronger from the formidable challenges.

Operating performance remained largely solid ...

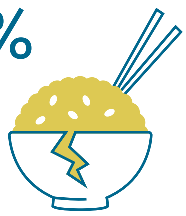
In tandem with China's reversal of its stringent anti-pandemic policies towards the end of 2022, Hong Kong's international travel and inbound tourism have substantially revived since the early part of 2023. The benefits to the retail portfolio of Sunlight REIT have gradually been emerging, particularly for Sheung Shui Centre Shopping Arcade ("**SSC**"). While the unforeseen renovation delay and the departure of certain bank tenants had adversely affected the NPI performance of Metro City Phase I Property ("**MCPI**") for the Year, this impact was somewhat tempered by the maiden contribution from W9Z, the acquisition of which was completed on 13 April 2023. In sum, the occupancy rate of the retail portfolio stood at 93.5% at 30 June 2023, compared with 94.5% a year earlier, while rental reversion of negative 2.5% was recorded for the Year, versus negative 5.0% in FY2021/22.

Hong Kong retail sales (January - June 2023)

20.7% year on year

Hong Kong unemployment rate (April - June 2023)

3.0%



Source :
Census and Statistics Department

In contrast, the Grade A office market in Hong Kong continued to be blighted by a yawning gap between supply and demand during the Year, as evidenced by an average vacancy rate of 15.7%[Note] at 30 June 2023. This was in part due to sustained popularity of the hybrid working model, aided by the quick advancement of digital connectivity. However, NPI decline for the office portfolio of Sunlight REIT was not material as the merits of effective cost control and resilient contributions from certain service trade-oriented Grade B office buildings helped mitigate the downswing. At 30 June 2023, the portfolio registered an occupancy rate of 93.1% (30 June 2022: 94.8%). Rental reversion for the Year was negative 2.1%, versus negative 5.5% recorded in the previous financial year.

… but credit cost proved a hindrance

While we were already braced for a reversal of the low interest rate environment by establishing a defensive capital structure for Sunlight REIT, the speed and magnitude of global monetary tightening was admittedly more intense than previously anticipated. The impact of higher local interbank rates was felt particularly in the second half of the Year, although it was to a certain extent moderated by fixed rate borrowings representing approximately 42% of total indebtedness at 30 June 2023.

Risk factors have yet to subside …

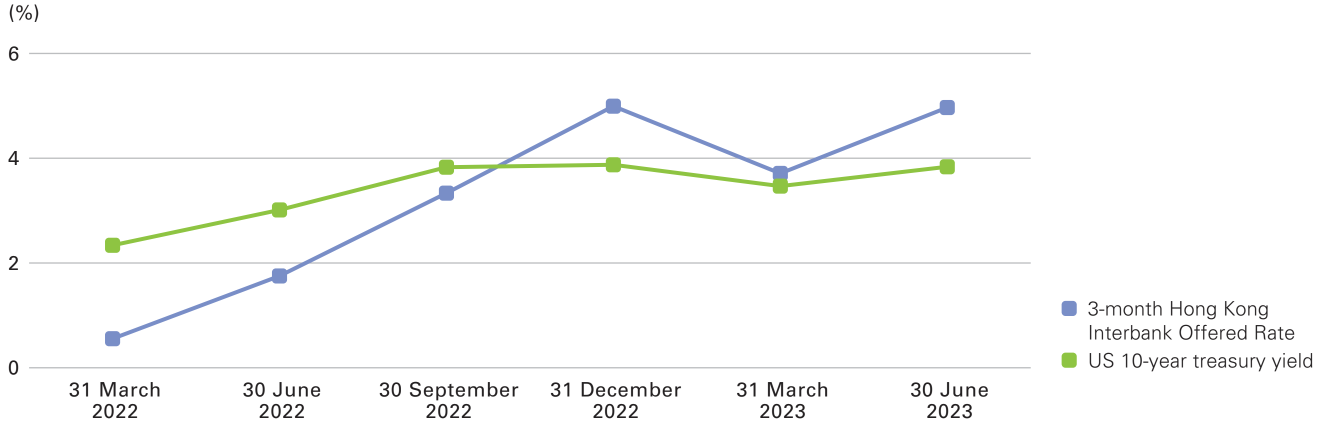
The key strategic risks to Sunlight REIT are interest rates and market liquidity. Financial institutions are likely to remain conservative in extending credit in the foreseeable future, while borrowing costs may stay high in light of the aggressive monetary stance of major central banks, principally led by the US. Accordingly, the interest outlay of Sunlight REIT is expected to rise further in FY2023/24, not least because the recent addition of W9Z to its portfolio was predominantly debt financed. This will constitute the principal swing factor for the distributable income of Sunlight REIT in the near term.

While we shall endeavour to monitor the erratic interest rate environment and manage the proportion of floating rate exposure, unitholders should be assured that the gearing ratio of Sunlight REIT at 30 June 2023 remained manageable at 26.1%, while no refinancing exercise will take place until the middle of 2025 when credit conditions may become more benign.

Moreover, as part of an ongoing asset recycling initiative, we are constantly reviewing individual asset performance and may consider the disposal of selected non-core assets to unlock their intrinsic values while buttressing the capital position of Sunlight REIT.

Note : Statistics provided by the Principal Valuer.

US 10-year treasury yield and Hong Kong Interbank Offered Rate

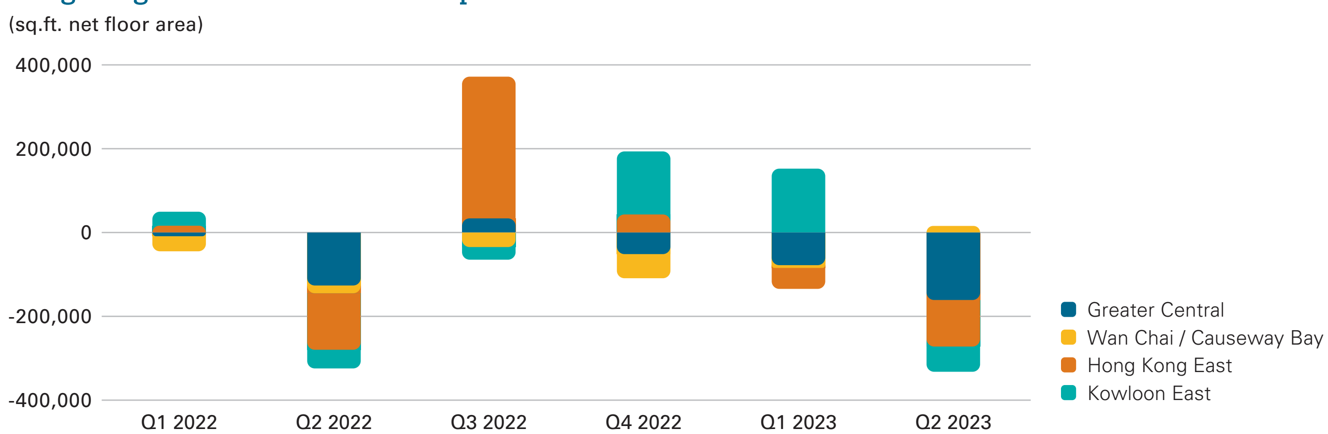


Source : Bloomberg

On the operation front, despite a more promising outlook for the Hong Kong economy after shaking off the shackles of the pandemic, the commercial leasing market appears set to show mixed fortunes. In particular, it is difficult to foresee a noticeable upswing for the Grade A office market, with double-digit vacancies poised to become a "new normal" given persistently tepid leasing appetite and ample new office supply in the pipeline. In contrast, the Grade B buildings in Mong Kok and Yuen Long are expected to perform reasonably well as they have attracted tenants engaging in semi-retail trades that are benefitting from a revival in domestic consumption.

Maintaining the cost-to-income ratio at a reasonable level is another challenge ahead, given that rising utility expenses and wages have continued to inflate overheads. In addition to enhancing operational efficiencies and reducing non-essential expenditures, we shall make reasonable adjustments to management fees to partly cushion the impact of a rising cost base.

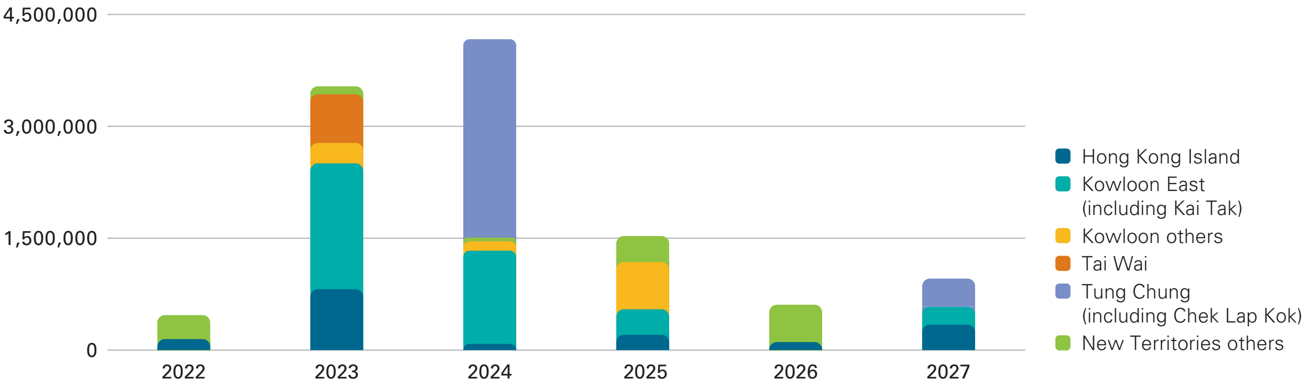
Hong Kong Grade A office net absorption



Source : CBRE Limited

Hong Kong Retail Supply

(sq.ft. net floor area)



Source : CBRE Limited

"The theme of this annual report, "*Renovate, Recover, Recycle*", illustrates our belief that Sunlight REIT is well positioned to benefit from a recovery in consumer spending."

… but Sunlight REIT is well placed for a retail recovery

The theme of this annual report, "***Renovate, Recover, Recycle***", illustrates our belief that Sunlight REIT is well positioned to benefit from a recovery in consumer spending.

Firstly, the completion of phase one of the renovation works at MCPI will enable the asset to deliver a more respectable rental performance in the coming year. Meanwhile, SSC is a notable beneficiary of the return of Mainland Chinese visitors. We are thrilled to witness the renewed enthusiasm of quality tenants in leasing up strategic spaces at SSC, an initiative reflecting their optimism of a sustainable return of tourist spending going forward. Finally, the timely acquisition of W9Z give impetus to NPI growth in FY2023/24 by making a full-year contribution. This move represents part of an asset recycling drive intended to enhance Sunlight REIT's portfolio quality and returns.

Despite a much less serious threat from the pandemic, the operating environment will continue to face multiple challenges which would require robust responses. There are still a slew of uncontrollable factors, including the possibility of a global recession, an uncertain economic recovery in China, heightened geopolitical tensions and tight credit supply. Yet the proactive moves that were made in previous years should prove rewarding. We shall remain committed to managing the portfolio of Sunlight REIT prudently and productively, charting a course to create sustainable value for our stakeholders.

WU Shiu Kee, Keith
Chief Executive Officer
6 September 2023

Portfolio at a Glance

Top three properties

1. Dah Sing Financial Centre
2. Sheung Shui Centre Shopping Arcade
3. Metro City Phase I Property

Sheung Wan/Central office properties

4. Strand 50
5. 135 Bonham Strand Trade Centre Property
6. Winsome House Property
7. 235 Wing Lok Street Trade Centre

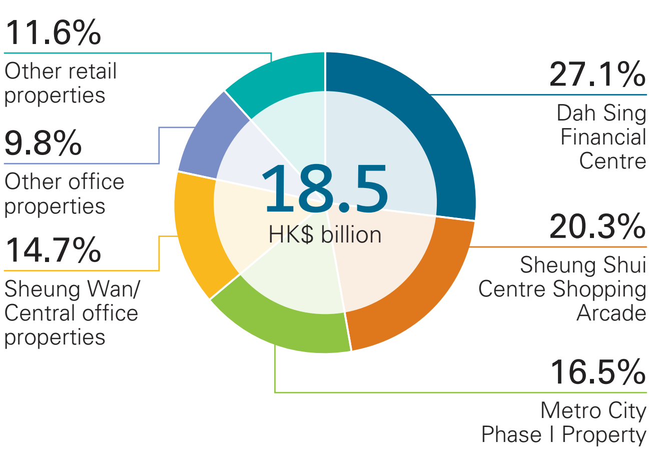
Other office properties

8. The Harvest
9. Righteous Centre
10. Java Road 108 Commercial Centre
11. On Loong Commercial Building
12. Sun Fai Commercial Centre Property
13. Wai Ching Commercial Building Property

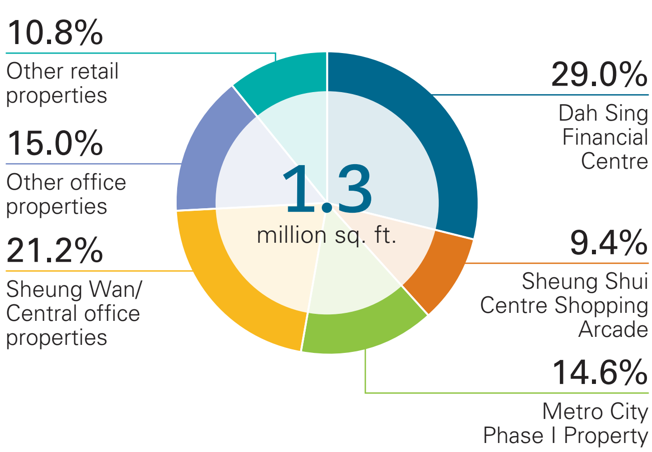
Other retail properties

14. Kwong Wah Plaza Property
15. West 9 Zone Kids
16. Beverley Commercial Centre Property
17. Supernova Stand Property

Valuation



Gross rentable area




2
Sheung Shui
Yuen Long
14
Tsuen Wan
Mei Foo
Nam Cheong
Olympic
15
12
8
9
13
Mong Kok
Yau Ma Tei
Tsim Sha Tsui
16
3
Po Lam
Sheung Wan
7
5
4
6
11
10
17
North Point
Central
1
Wan Chai
11
Office Properties
6
Retail Properties

Portfolio Statistics

Property	Property details						No. of leases at 30 June	
	Location	Year of completion	No. of car park spaces	GRA (sq. ft.)				
				Office	Retail	Total	2023	2022
Office								
Grade A								
Dah Sing Financial Centre	Wan Chai	1998	46	369,891	6,490	376,381	67	65
Grade B								
Strand 50	Sheung Wan	1998	0	108,506	9,403	117,909	65	68
135 Bonham Strand Trade Centre Property	Sheung Wan	2000	0	60,844	3,071	63,915	72	71
Winsome House Property	Central	1999	0	37,937	2,177	40,114	22	24
Righteous Centre	Mong Kok	1996	0	41,004	10,763	51,767	62	64
The Harvest	Mong Kok	1981	0	23,024	11,627	34,651	21	17
235 Wing Lok Street Trade Centre	Sheung Wan	2000	0	47,481	4,804	52,285	71	71
Java Road 108 Commercial Centre	North Point	1998	0	35,694	2,229	37,923	38	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	44	47
Wai Ching Commercial Building Property	Yau Ma Tei	1997	0	14,239	2,082	16,321	31	33
Sub-total/Average			**46**	**787,935**	**56,688**	**844,623**	**530**	**535**
Retail								
New Town								
Sheung Shui Centre Shopping Arcade	Sheung Shui	1993	297	0	122,339	122,339	122	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								
West 9 Zone Kids[4]	Tai Kok Tsui	2008	17	0	58,836	58,836	42	N/A
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			**766**	**42,670**	**407,965**	**450,635**	**345**	**289**
Total/Average			**812**	**830,605**	**464,653**	**1,295,258**	**875**	**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 year.
3. Please refer to "Valuation Report" on pages 66 to 85 for further details.
4. The property was acquired on 13 April 2023 for a consideration of HK$748 million (before adjustments).

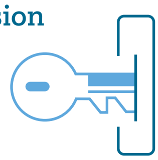
Operational statistics						Property financials				
Occupancy rate at 30 June (%)		Passing rent[1] at 30 June (HK$/sq. ft.)		Rental reversion[2] (%)		NPI (HK$ '000)		Capitalization rate at 30 June 2023 (%)		Appraised value at 30 June 2023[3] (HK$ '000)
2023	2022	2023	2022	FY2022/23	FY2021/22	FY2022/23	FY2021/22	Office	Retail	
90.4	91.4	41.8	42.7	(7.4)	(7.1)	170,465	178,432	3.80	3.70	5,023,000
94.4	99.7	31.0	32.4	2.2	0.4	39,878	39,876	3.55	3.85	1,266,700
100.0	99.1	26.6	27.1	(1.6)	(5.7)	18,414	17,987	3.65	3.85	558,200
83.0	97.2	38.8	39.9	0.4	(7.8)	14,657	17,038	3.65	3.65	536,200
97.4	100.0	35.2	34.5	5.1	(1.3)	20,252	20,372	3.75	3.50	535,000
95.7	80.4	41.2	36.7	(0.2)	0.0	13,629	13,753	3.55	3.40	534,000
96.7	96.8	19.7	19.8	(2.4)	(3.4)	11,145	11,097	3.65	3.85	355,100
100.0	100.0	24.7	25.0	(0.8)	(1.1)	10,156	10,210	3.85	4.05	268,400
100.0	100.0	27.9	27.6	(2.0)	(17.0)	8,372	8,374	3.75	3.75	238,700
91.0	98.5	22.0	21.4	(0.1)	(4.9)	5,509	5,934	3.90	4.10	163,200
91.7	97.2	16.9	17.0	(0.3)	(4.5)	2,287	2,760	3.65	3.95	77,800
93.1	**94.8**	**34.6**	**35.1**	**(2.1)**	**(5.5)**	**314,764**	**325,833**			**9,556,300**
97.6	92.9	96.0	100.6	(4.3)	(5.0)	135,362	139,522	N/A	4.35	3,760,000
92.2	94.6	53.8	54.7	(0.4)	(4.9)	124,671	135,400	N/A	4.35	3,050,000
95.4	98.4	54.6	50.5	(1.4)	(4.7)	38,335	37,189	3.70	3.65	1,152,000
85.7	N/A	55.7	N/A	14.5	N/A	5,724	N/A	N/A	4.25	845,000
100.0	100.0	57.3	57.2	4.0	N/A	2,677	2,751	N/A	3.80	75,000
100.0	81.9	29.8	30.6	2.3	(10.2)	2,443	1,204	N/A	4.15	73,900
93.5	**94.5**	**65.6**	**67.6**	**(2.5)**	**(5.0)**	**309,212**	**316,066**			**8,955,900**
93.3	**94.7**	**45.4**	**45.4**	**(2.3)**	**(5.2)**	**623,976**	**641,899**			**18,512,200**

Dah Sing Financial Centre

- Lower rental income was mainly attributable to higher vacancy rate and negative rental reversion as demand for office expansion remained sluggish.
- Gratifyingly, occupancy rate has shown an early sign of stabilization in view of a satisfactory retention rate and increased leasing enquiries as economic activities gradually resume.

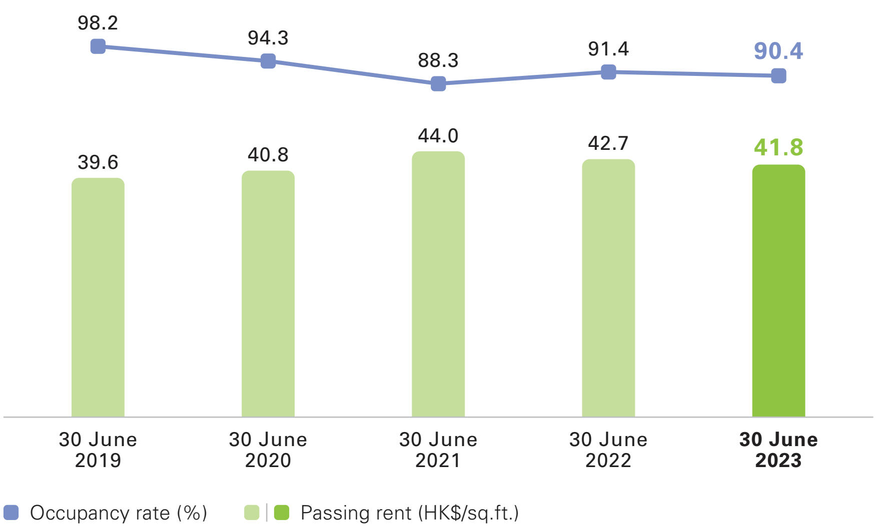
Valuation
5.0
HK$ billion

Rental reversion
(7.4)%



Retention rate
72%

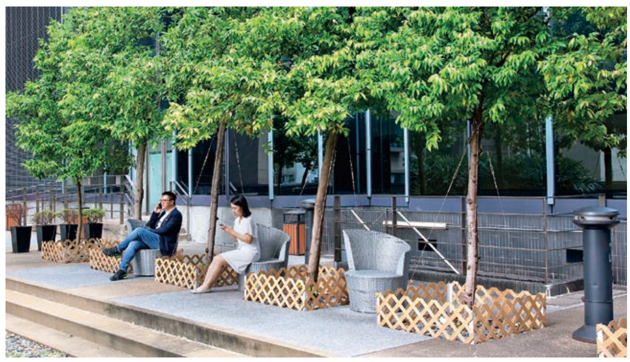
Occupancy rate and passing rent



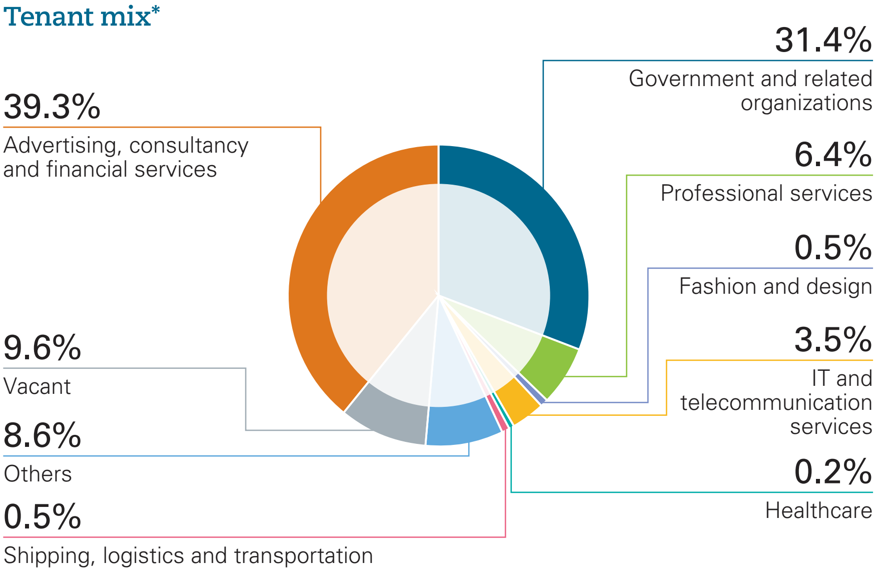
There was a glimmer of hope that the pent-up demand from Chinese enterprises would be a key driver of the office market when borders were fully reopened. However, such an expectation has yet to be realized, and the overall Grade A office market continued to be under pressure. Against the unfavourable office market dynamics, NPI of Dah Sing Financial Centre ("**DSFC**") for the Year was down 4.5% to HK$170.5 million, while the passing rent at 30 June 2023 registered a 2.1% decline against a year ago to HK$41.8 per sq. ft.. While tenant retention rate stayed at a satisfactory 72%, downsizing and cost-saving initiatives remained as a dominant feature, resulting in a rental reversion of negative 7.4% (FY2021/22: negative 7.1%).

We are nevertheless encouraged by the positive impact arising from post-COVID business normalcy at the turn of 2023, as the occupancy rate of DSFC exhibited a mild rebound from six months ago to 90.4% at 30 June 2023, mainly attributable to the inception of a co-working space collaboration with theDesk. Moreover, to foster a culture of care, the Manager has set up a new wellness centre at DSFC for tenants and the nearby community, which will be utilized to organize sustainability-related events.

DSFC continued to maintain a diversified tenant base, including financial institutions, government-related organizations and multinational corporations from different sectors. At 30 June 2023, the number of leases was 67 (30 June 2022: 65).



Tenant mix*



* Tenant mix charts on pages 15 to 19 are expressed as a percentage of total GRA of the relevant property at 30 June 2023.

Expiry profile (30 June 2023)

By GRA (%)

29.9
FY2023/24

24.0
FY2024/25

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

39.0
FY2023/24

37.7
FY2024/25

Sheung Shui Centre Shopping Arcade

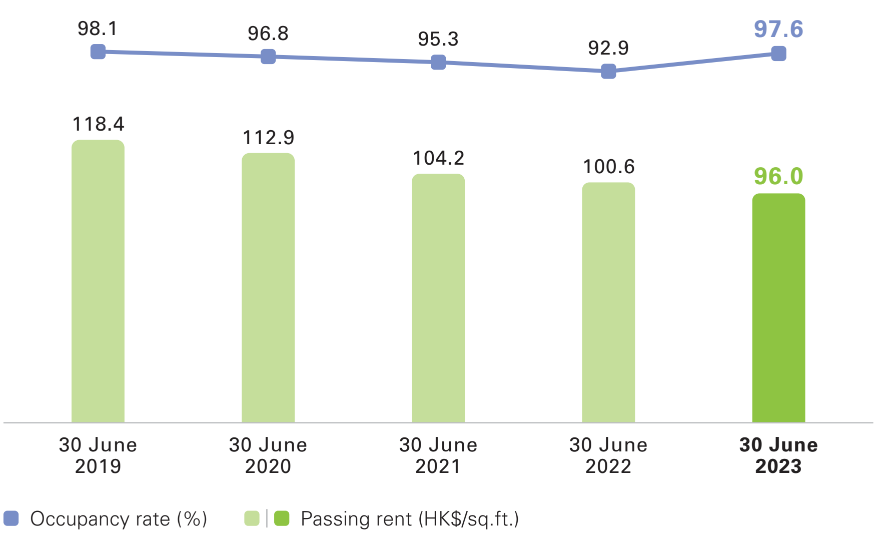
- Benefitting from the return of Mainland Chinese tourists, SSC's occupancy rate rebounded to a higher level, thanks to new commitments from quality tenants.
- While a negative rental reversion of 4.3% was recorded for the Year, the momentum of downward adjustment was clearly decelerating, reflecting the gradual improvement in consumer sentiment and the positive impact from tourist spending.

Valuation
3.8
HK$ billion

Rental reversion
(4.3)%

Retention rate
91%

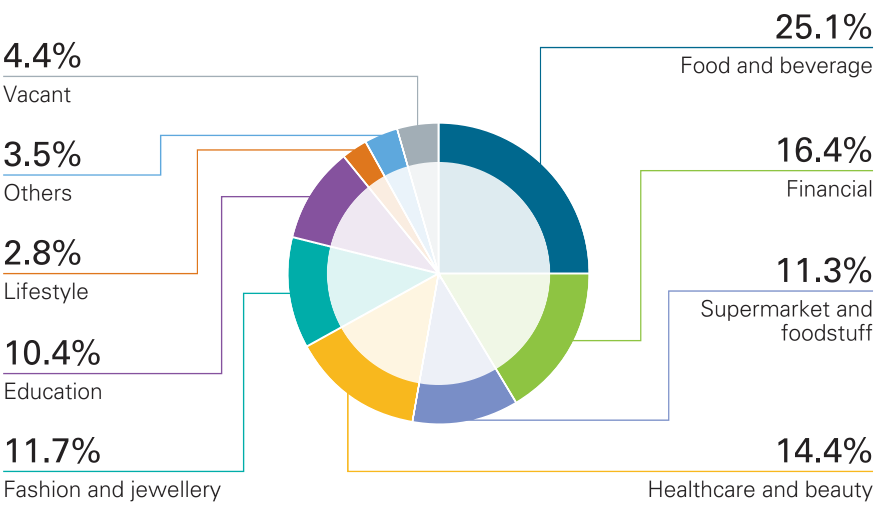
Occupancy rate and passing rent



SSC has probably pulled through the toughest time of the prolonged pandemic, underpinned by improved footfall and new leasing commitments. Capitalizing on a resurgence of same-day travelers from Mainland since border reopening, SSC has successfully attracted a spate of quality tenants to re-establish their presence in this well-located retail property, while a high retention rate of 91% was recorded as well. As a result, the occupancy rate of SSC achieved a nice rebound to 97.6% at 30 June 2023. However, this has yet to translate into a meaningful impact on SSC's NPI for the Year, which recorded a 3.0% year-on-year decline to HK$135.4 million, while the passing rent also decreased by 4.6% to HK$96.0 per sq. ft. at 30 June 2023. Reflecting downward rental adjustments from high-margin trades such as banks and property agencies, SSC recorded a rental reversion of negative 4.3% for the Year, versus negative 5.0% for the previous financial year.

While it may take some time to restore the footfall and tenants' sales to pre-COVID levels, the Manager is optimistic about the medium-term prospects of SSC, backed by its superior location in Sheung Shui as a one-stop destination for local and cross-border patrons.

Tenant mix



Expiry profile (30 June 2023)

By GRA (%)

29.4
FY2023/24

27.0
FY2024/25

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

105.2
FY2023/24

97.8
FY2024/25

Metro City Phase I Property

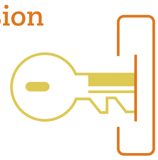
- The performance of MCPI was disrupted by an unforeseen renovation delay and the departure of certain bank tenants.
- Guided by the theme of “Care and Conserve”, the completion of the asset enhancement initiative is expected to bring tangible benefits to our stakeholders in the coming year.

Valuation

3.1
HK$ billion

Rental reversion

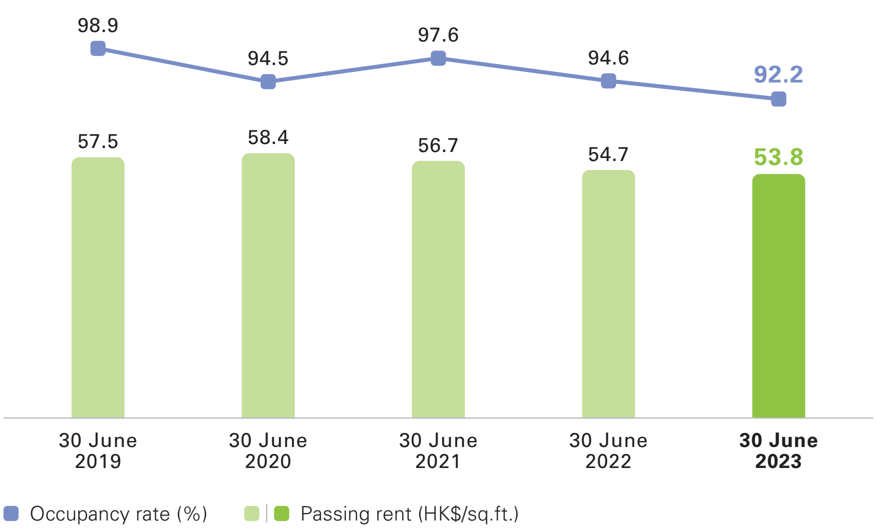
(0.4)%



Retention rate

79%

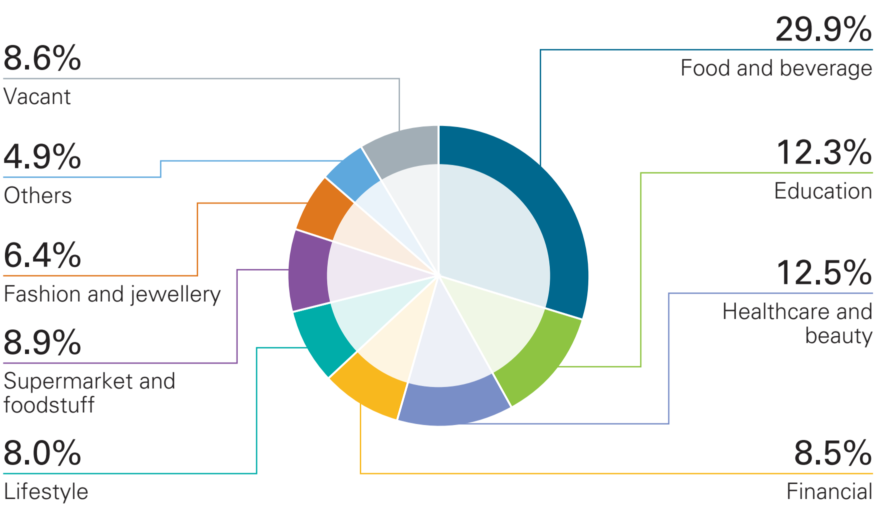
Occupancy rate and passing rent



MCPI's performance for the Year was slightly below expectations as its NPI registered a 7.9% year-on-year decline to HK$124.7 million. This was mainly attributable to the unforeseen renovation delay and the departure of certain bank tenants. Its occupancy rate recorded a drop to 92.2%, while the passing rent was HK$53.8 per sq. ft., down 1.6% as compared to a year ago. On the bright side, local consumer sentiment remained solid as rental reversion further narrowed to negative 0.4% (FY2021/22 : negative 4.9%), while tenant retention rate improved to 79%.

Supported by a capital outlay of approximately HK$17 million, phase one of MCPI's asset enhancement project was substantially completed in July 2023. Under the theme of "Care and Conserve", the Manager aims to provide customers with a refreshing and inclusive shopping environment. In addition to the provision of new kids-friendly lavatory facilities and an upgraded recycle corner, the renovation has also incorporated certain sustainable features such as the utilization of certified eco-friendly tiles and recycled materials for seating areas and art pieces. Further, the construction of a new corridor is expected to enhance accessibility to the shuttle lift, while improving the overall footfall circulation of the shopping mall. In parallel with the enhancement works, we are proactively enriching the tenant mix with new retail operators and eateries, with a view to offering a greater variety of shopping and dining alternatives for the vicinity. Despite a slight delay due to unforeseen circumstances, we are hopeful that this initiative will bring tangible benefits to our stakeholders in the coming year.

Tenant mix



Expiry profile (30 June 2023)

By GRA (%)

29.8
FY2023/24

29.4
FY2024/25

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

57.5
FY2023/24

66.1
FY2024/25

West 9 Zone Kids

Property details

Gross rentable area:
58,836 sq. ft.

Completion year:
2008

Consideration:
HK$748 million
(before adjustments)

Completion date:
13 Apr 2023

W9Z is the commercial development of *Florient Rise*, a three-storey shopping arcade principally offering comprehensive educational services to children living nearby. Given its close proximity to the Olympic station, the Manager strives to optimize the tenant composition by repositioning this newly acquired asset as a family-oriented community mall with a diverse trade mix encompassing healthcare, beauty, education and eateries. From the sustainability perspective, ample resources will be devoted to align its operational practices with the green building standards adopted across the portfolio.

Benefits to the portfolio

- Retail presence in a growing residential hub of Kowloon
- Fresh impetus to revenue growth
- Diversification of rental income from major properties
- Enhance leasing synergy with existing retail properties




Sheung Wan/Central office properties

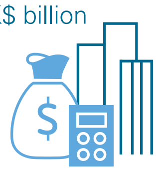
Winsome House Property

Strand 50

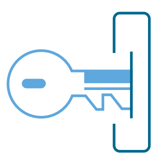
The Sheung Wan/Central portfolio of Sunlight REIT comprises four properties with a combined GRA of over 250,000 sq. ft.. Its performance was affected by the higher vacancy rates in Central office buildings and more intense competition for tenants engaged in general trades in Lan Kwai Fong's vicinity.

The occupancy rate and passing rent of Strand 50 at 30 June 2023 were lower at 94.4% and HK$31.0 per sq. ft. respectively, principally reflecting a lease restructuring with the co-working space operator. However, thanks to lower operating expenses, its NPI was almost unchanged at HK$39.9 million. Meanwhile, the performance of Winsome House Property experienced headwinds caused by the subdued leasing demand from overseas corporations, as demonstrated by a lower occupancy rate of 83.0% at 30 June 2023. In contrast, smaller Grade B office properties with affordable rentals in Sheung Wan continued to be a decent choice for small-to-medium sized enterprises. As a case in point, both 135 Bonham Strand Trade Centre Property and 235 Wing Lok Street Trade Centre enjoyed high occupancy rates of 100% and 96.7% respectively.

Valuation
2.7
HK$ billion



Rental reversion
(0.1)%



Retention rate
66%

Righteous Centre (left) & The Harvest (right)

Other office properties

The other office properties include six smaller Grade B office buildings which are mainly located at decentralized areas such as Mong Kok and North Point, contributing over 9% of Sunlight REIT's NPI for the Year. Tenants of these properties are typically location driven and engaged in various service-related businesses, such as healthcare and beauty, education and professional services. In particular, the performances of Righteous Centre and The Harvest were satisfactory in terms of occupancy rates and rental reversions, reflecting resilient and steady leasing demand from service trades.

Valuation
1.8
HK$ billion

Rental reversion
1.9%

Retention rate
83%

Kwong Wah Plaza Property

Other retail properties

Other retail properties consist of four assets, including Kwong Wah Plaza Property ("**KWP**") in Yuen Long, the newly acquired W9Z and a few street shops or retail spaces in residential or commercial buildings, which contributed approximately 8% of Sunlight REIT's NPI for the Year.

With an unrivalled location in Yuen Long, KWP continued to deliver a satisfactory operating performance, registering a 3.1% year-on-year increase in NPI to HK$38.3 million. Its occupancy rate stood at 95.4% with an 8.1% year-on-year growth in passing rent to HK$54.6 per sq. ft. at 30 June 2023.

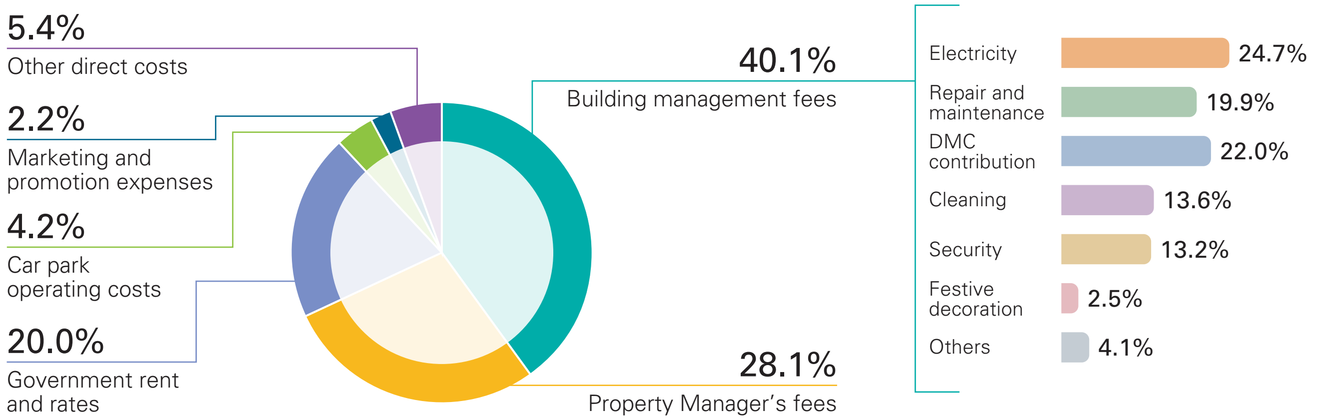
Surrounded by private housing developments with extensive young families, W9Z has a primary focus on education trades, occupying approximately 57% of its GRA at 30 June 2023. The occupancy rate of 85.7% at 30 June 2023, which was lower than 90.7% recorded at 31 December 2022, partly reflects the Manager's intention to engage in a major tenant reshuffling programme over the next six to 12 months, with a view to enhancing the vitality of W9Z while embracing the needs of the community.

Valuation
2.1
HK$ billion

Rental reversion
1.7%

Retention rate
58%

Components of property operating expenses



Operational statistics

The overall portfolio of Sunlight REIT registered an occupancy rate of 93.3% at 30 June 2023 (30 June 2022: 94.7%). The office portfolio exhibited a satisfactory retention rate of 74% (FY2021/22: 82%), while the corresponding figure of the retail portfolio was 79% (FY2021/22: 77%). Occupancy rates of the office and retail portfolios were 93.1% and 93.5% (30 June 2022: 94.8% and 94.5%) respectively.

Average passing rents of the office and retail portfolios were HK$34.6 per sq. ft. and HK$65.6 per sq. ft. respectively at 30 June 2023, down 1.4% and 3.0% as compared to a year ago. Negative rental reversions of 2.1% and 2.5% were recorded respectively, resulting in an average rental reversion of negative 2.3% for the overall portfolio.

At 30 June 2023, the overall portfolio's weighted average lease length in terms of GRA was 3.1 years. Leases expiring in FY2023/24 account for 35.6% of office GRA and 31.0% of retail GRA. Average rents for the expiring office and retail leases are HK$32.5 per sq. ft. and HK$71.0 per sq. ft. respectively.

Tenancy base

Sunlight REIT maintained a diverse tenancy base with 875 tenancies at 30 June 2023. The largest tenant accounted for 7.7% of total revenue for the Year and occupied 6.9% of total GRA at 30 June 2023, while the corresponding figures for the top five tenants were 17.9% and 14.6%.

Car park income

Sunlight REIT has a total of 812 car park spaces at four properties, namely DSFC, SSC, MCPI and W9Z. In light of the increase in vehicular traffic to SSC, car park income for the Year was HK$34.6 million, a mild growth of 3.1% year on year.

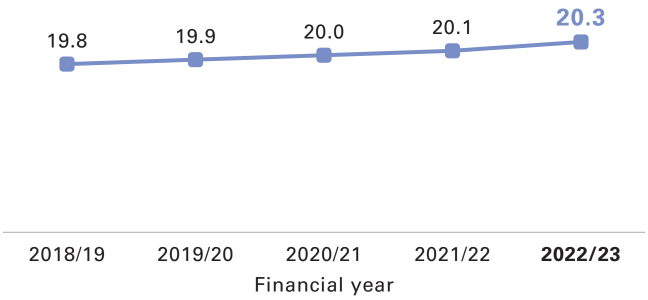
Cost control and capital expenditure

The Manager continued to maintain a high level of discipline in cost control and minimize non-essential operating expenses. Notwithstanding the inflationary pressure primarily caused by surging fuel surcharges and the mandatory minimum wage requirement, the overall cost-to-income ratio was steady at 20.3% for the Year.

Capital expenditure ("**CAPEX**") (excluding the costs for property acquisition) for the Year amounted to HK$19.6 million (FY2021/22: HK$17.6 million), while contracted capital commitments at 30 June 2023 were HK$19.8 million.

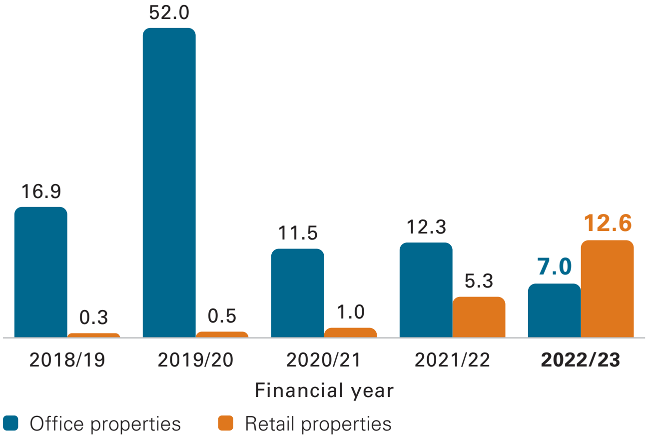
Cost-to-income ratio

(%)



Captial expenditure[Note]

(HK$' million)



Environmental, Social and Governance

The Manager has further sharpened its focus on sustainability and continued to manage the portfolio with a more holistic and greener approach. As the year under review marked the introduction of the second three-year sustainability roadmap, the Manager is pleased to have delivered an encouraging Environmental, Social and Governance ("**ESG**") performance through participation in GRESB Assessment and continued involvement in sustainable finance. In particular, Sunlight REIT attained a two-star rating in its first attempt at the 2022 GRESB Real Estate Assessment, while about 70% of its total borrowings at 30 June 2023 were sustainability-linked loans ("**SLLs**").

The Manager has also laid considerable emphasis on ESG in the areas of asset enhancement and corporate governance. Firstly, the Board has further reviewed and approved two ESG policies on environmental and energy management. In respect of cultivating our caring culture, the Manager has included employee well-being and occupational health and safety matters as a part of the employee satisfaction survey with a view to obtaining feedback from staff, enabling us to fine-tune upcoming training and well-being programmes. We also launched team building activities and a post-pandemic annual dinner to reconnect with our employees of different offices. Further, the establishment of "The Well", a new wellness centre at DSFC and the adoption of the "Care and Conserve" theme for MCPI's renovation, illustrate our strong commitment to incorporating ESG elements into our asset enhancement initiatives.

To minimize the use of paper and hence our environmental footprint, Sunlight REIT has issued, for the first time, a standalone sustainability report for the Year which will only be available in electronic format. In addition, the Manager has commissioned the British Standards Institution, an independent third party, to verify the accuracy and compliance of the sustainability report.

During the Year, Sunlight REIT and the Manager complied with all relevant laws and regulations in relation to ESG. Details in relation to the environmental and social performances of Sunlight REIT, the Manager and the Property Manager are set out in the performance summary of the sustainability report.

Note : Excluding the costs for property acquisition.

Financial Review

Financial highlights

(in HK$' million, unless otherwise specified)	2023	2022	2021	2020	2019
For the year ended 30 June :					
Revenue	**783.3**	802.9	799.3	854.6	850.7
Property operating expenses	**159.3**	161.0	159.6	169.9	168.2
NPI	**624.0**	641.9	639.7	684.7	682.5
Cost-to-income ratio (%)	**20.3**	20.1	20.0	19.9	19.8
(Loss) / profit after taxation	**(28.4)**	102.9	(233.7)	(751.4)	1,591.1
Annual distributable income	**380.3**	431.1	438.3	467.0	467.3
DPU (HK cents)	**22.0**	25.0	25.6	26.8	27.3
Payout ratio (%)	**97.9**	97.4	97.5	95.2	96.4
At 30 June :					
Portfolio valuation	**18,512.2**	18,095.2	18,341.7	18,918.0	20,002.5
Total assets	**19,217.9**	18,960.4	19,199.7	19,674.1	20,805.8
Total liabilities	**5,548.7**	4,909.0	5,075.4	4,902.9	4,813.9
Net asset value	**13,669.2**	14,051.4	14,124.3	14,771.2	15,991.9
Net asset value per unit (HK$)	**8.06**	8.36	8.45	8.89	9.68
Gearing ratio (%)	**26.1**	23.3	23.0	21.6	20.4

Operating results

The revenue of Sunlight REIT decreased 2.4% year on year to HK$783.3 million. After deducting property operating expenses of HK$159.3 million, NPI dropped 2.8% to HK$624.0 million, implying a steady cost-to-income ratio of 20.3%.

Reflecting a higher interest rate environment and increased borrowings as compared with the preceding year, finance costs rose 34.5% year on year to HK$132.3 million, with the adverse impact being partially mitigated by a sharp increase in interest income to HK$20.8 million. Taking into account a decrease in fair value of investment properties of HK$354.4 million, a loss after taxation of HK$28.4 million was reported for the Year.

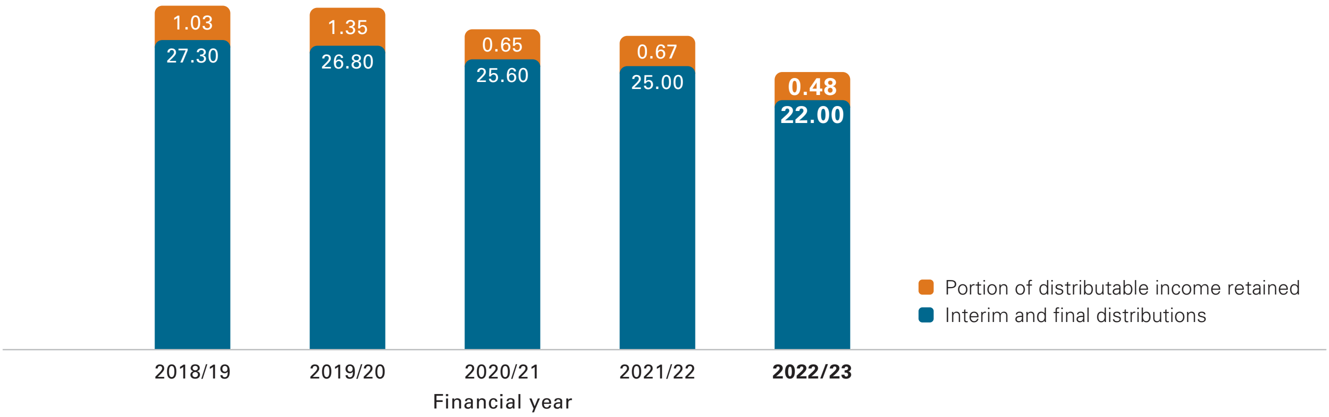
Distribution

Reflecting the sharp increase in interest expense as well as a provision of HK$13.3 million (FY2021/22 : HK$2.9 million) made for credit losses for the portfolio of Relevant Investments[Note], total distributions for the Year was down 11.4% year on year to HK$372.2 million. The full-year DPU of HK 22.0 cents represented a distribution yield of 7.6% based on the closing price of HK$2.88 on the last trading day of the Year.

Note : As defined in paragraph 7.2B of the REIT Code.

Distribution at a glance

(HK cents)



Financial position

The appraised value of Sunlight REIT's portfolio grew 2.3% to HK$18,512.2 million at 30 June 2023, mainly attributable to the contribution from the newly acquired W9Z. Consequently, the gross assets and net assets of Sunlight REIT were HK$19,217.9 million and HK$13,669.2 million respectively, translating to a net asset value per unit of HK$8.06.

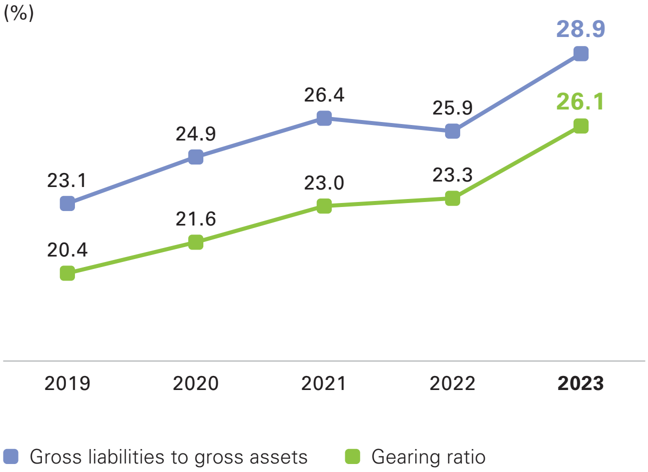
Given the additional borrowings incurred for the acquisition of W9Z, the gearing ratio of Sunlight REIT (defined as total borrowings as a percentage of gross assets) rose to 26.1% at 30 June 2023 (30 June 2022 : 23.3%), while the percentage of gross liabilities to gross assets was 28.9% (30 June 2022 : 25.9%).

The EBITDA[Note] of Sunlight REIT recorded a mild decrease of 2.9% to HK$525.7 million. In light of the sharp rise in interest expense, interest coverage ratio was 3.9 times as compared with 5.8 times recorded in the previous financial year.

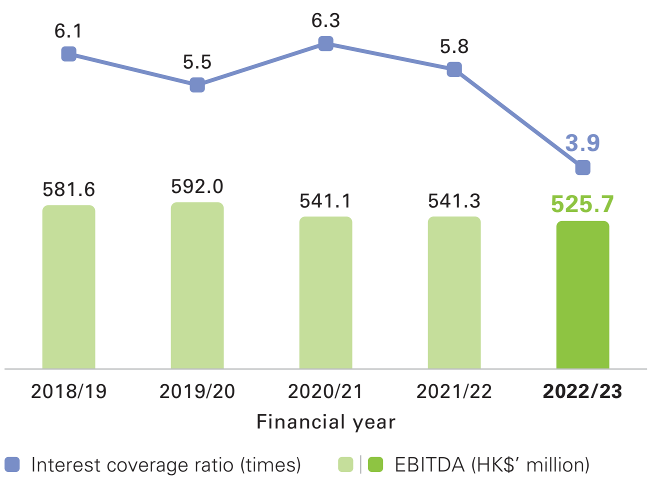
Gearing ratio and gross liabilities to gross assets

(at 30 June)

(%)



EBITDA and interest coverage ratio



Note : EBITDA represents net earnings before change in fair value of investment properties, interest expense, taxation, depreciation and amortization.

Interest margin of bank borrowings

0.79%
per annum
(over HIBOR)

Weighted average interest rate for fixed rate borrowings

2.27%
(including interest margin, if applicable)

Weighted average funding cost

2.9%
(FY2021/22 : 2.1%)

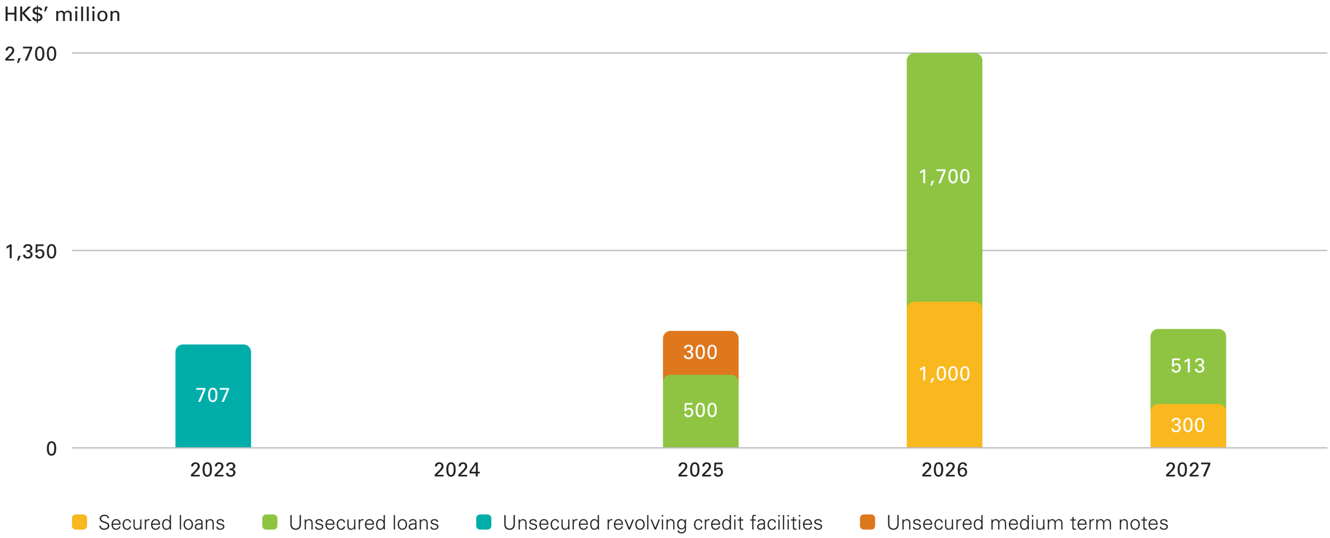
Capital and interest rate management

During the Year, Sunlight REIT raised a total of HK$1,307 million of bank borrowings for the purposes of refinancing existing bank loans and the acquisition of W9Z, of which HK$700 million were SLLs. Consequently, Sunlight REIT had total borrowings of HK$5,020 million at 30 June 2023 (30 June 2022 : HK$4,413 million), comprising secured loans of HK$1,300 million and unsecured borrowings of HK$3,720 million, with a weighted debt maturity period of 2.6 years.

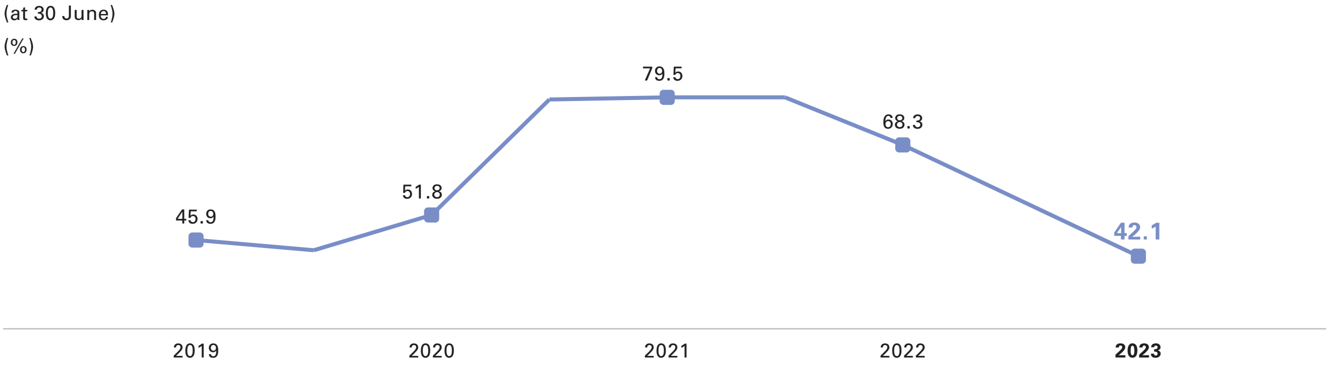
With the natural expiry of certain interest rate swaps, the proportion of Sunlight REIT's fixed rate borrowings at 30 June 2023 was reduced to approximately 42% (30 June 2022 : 68%). The weighted average interest rate for the fixed rate borrowings was 2.27% per annum, while the floating rate portion of the borrowings carried a blended interest margin of 0.79% per annum over Hong Kong Interbank Offered Rate ("**HIBOR**"). The weighted average funding cost for the Year was 2.9%, compared to 2.1% recorded in the preceding financial year.

Maturity profile of total borrowings

(at 30 June 2023)



Fixed rate borrowings as a % of total borrowings



Regarding the SLLs, Sunlight REIT achieved all the predetermined sustainability performance targets as set out in the respective facility agreements and was entitled to certain predetermined interest margin privileges in the Year. At 30 June 2023, the percentage of SLLs to total borrowings was about 70%, comparing to 64% recorded a year earlier.

During the Year, the Manager executed two forward-start interest rate swaps ("**IRSs**") with an aggregate notional amount of HK$200 million, both of which will be effective in the first half of FY2023/24.

Subsequent to the end of the Year, Sunlight REIT entered into a HK$700 million unsecured SLL facility agreement with a bank on 5 September 2023 for a tenure of two years, based on which the proceeds will be drawn in full on or before 15 September 2023 for refinancing its existing bank borrowings.

Liquidity management and currency exposure

The Manager is permitted to place funds as bank deposits and to invest in Relevant Investments, with an overall maturity profile compatible with projected funding requirements. At 30 June 2023, Sunlight REIT had total cash and bank balances of HK$485.2 million and maintained a portfolio of Relevant Investments with an aggregate book value of HK$80.8 million. It also had revolving credit facilities of HK$1,200 million, of which HK$493 million remained undrawn at the end of the Year. Taking into consideration the recurrent income generated from its operations, the current cash position, the sources of funding available, and the liquidity risk associated with Relevant Investments, the Manager is of the view that Sunlight REIT has sufficient financial resources to meet its working capital, distribution payment and CAPEX requirements.

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

Board of Directors and Senior Management

Board of Directors

Mr. AU Siu Kee, Alexander

OBE, FCA, FCCA, FCPA, FCIB, FHKIB

Chairman and Non-Executive Director

Mr. Au, aged 76, has been the Chairman and Non-Executive Director of the Manager since 2010. Mr. Au was an executive director and the Chief Financial Officer of HLD from December 2005 to June 2011. In July 2011, he stepped down from the position of Chief Financial Officer and was re-designated as a non-executive director of HLD. He was further re-designated in December 2012 as an independent non-executive director of HLD until his retirement in June 2015. In December 2018, Mr. Au rejoined HLD as an independent non-executive director. Currently, Mr. Au is also an independent non-executive director of Henderson Investment Limited, Miramar Hotel and Investment Company, Limited and Wharf Real Estate Investment Company Limited, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited, the shares of all of which are listed on the Main Board of the Stock Exchange.

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

Mr. WU Shiu Kee, Keith

BS, MS, FHKIoD

Chief Executive Officer and Executive Director

Mr. Wu, aged 59, has been the Chief Executive Officer, Executive Director and a responsible officer of the Manager since 2006. He has over 30 years of experience encompassing the fields of property investment, corporate finance, asset management and investment research.

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

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

Mr. KWOK Ping Ho

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

Mr. Kwok, aged 70, has been a Non-Executive Director of the Manager since 2006. He has also been an executive director of HLD, a company listed on the Main Board of the Stock Exchange, since December 1993.

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

Mr. Kwok has over 30 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury as well as project management activities of the HLD group of companies since 1987, including group re-organization, privatization proposals and corporate acquisitions.

Mr. KWAN Kai Cheong

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

Mr. Kwan, aged 73, has been an Independent Non-Executive Director of the Manager since 2006. He previously worked for Merrill Lynch & Co., Inc. and was the president for its Asia Pacific region. He is presently the Managing Director of Morrison & Company Limited, a business consultancy firm. He is also the chairman of the board of G.T. Land Holdings Limited, a commercial property company in the People's Republic of China.

Mr. Kwan is an independent non-executive director of Win Hanverky Holdings Limited, Greenland Hong Kong Holdings Limited and CK Life Sciences Int'l., (Holdings) Inc., HK Electric Investments Manager Limited in its capacity as the trustee-manager of HK Electric Investments and HK Electric Investments Limited, all of which are companies/trust listed on the Main Board of the Stock Exchange. Mr. Kwan was a non-executive director of China Properties Group Limited (which was delisted from the Stock Exchange); and an independent non-executive director of Beijing Energy International Holding Co., Ltd. (a company listed on the Stock Exchange).

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

Dr. TSE Kwok Sang

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

Independent Non-Executive Director

Dr. Tse, aged 66, has been an Independent Non-Executive Director of the Manager since 2006. He is currently a Principal Lecturer and Programme Director, Faculty of Business and Economics of The University of Hong Kong.

Dr. Tse has published widely on the subject of real estate finance and economics, financial regulations and capital markets and investments. He is a director of HKU School of Professional and Continuing Education and a member of the CFP Examination Committee. Dr. Tse is also an Ex Officio member of the Executive Committee of the New Territories Heung Yee Kuk and a Justice of the Peace.

Dr. Tse was an independent non-executive director of GTI Holdings Limited (which was delisted from the Stock Exchange). He was also an independent non-executive director of China Bozza Development Holdings Limited and Wing Lee Property Investments Limited, both of which are listed companies on the Main Board of the Stock Exchange.

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

Mr. KWOK Tun Ho, Chester

BA, FHKIoD

Independent Non-Executive Director

Mr. Kwok, aged 59, has been an Independent Non-Executive Director of the Manager since 2016. Mr. Kwok holds a Bachelor of Arts degree from the University of Cambridge. He had been working in the banking industry since 1989 and has over 30 years of experience in corporate finance and investment and commercial banking in Hong Kong and in Asia. Prior to his retirement from the banking business in October 2015, he had held senior positions in a number of international financial institutions, including Credit Suisse and Standard Chartered Bank.

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

Ms. Helen ZEE

BSc, AICPA

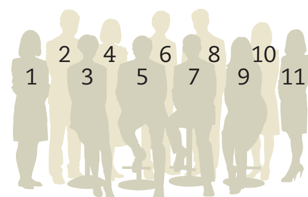
Independent Non-Executive Director

Ms. Zee, aged 56, has almost 20 years of experience in investment banking and corporate finance, and held various senior positions including Deputy Chief Executive Officer and Managing Director of Haitong International Capital Limited from 2013 to 2019. Ms. Zee is an independent non-executive director of China South City Holdings Limited, a company listed on the Main Board of the Stock Exchange. Ms. Zee currently holds various positions in public service, including a member of Mandatory Provident Fund Schemes Advisory Committee, University Grants Committee and Innovation and Technology Venture Fund Advisory Committee. She was previously a member of as well as chairperson of the investment committee of the Hong Kong Deposit Protection Board, a member of Cyberport Advisory Panel and a member of Police Children's Education Trust Investment Advisory Board and Police Education and Welfare Trust Investment Advisory Board.

Ms. Zee holds a Bachelor of Science, Business Administration degree from University of California, Berkeley, and is a member of the American Institute of Certified Public Accountants.

Senior Management

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



Mr. WU Shiu Kee, Keith

Chief Executive Officer, Executive Director and Responsible Officer

Mr. Wu, aged 59, is responsible for the implementation of the strategy and objectives as set by the Board, ensuring that Sunlight REIT is operating in accordance with the stated strategies, policies and regulations. In addition, he takes charge of the day-to-day management and operations of the Manager.

Details of his experience are set out in"Board of Directors"on page 30.

Ms. LO Yuk Fong, Phyllis

Chief Financial Officer and Responsible Officer

Ms. Lo, aged 58, is principally responsible for supervising the overall financial management of Sunlight REIT, including but not limited to financial reporting, taxation and cash flow management, monitoring of capital expenditure, reviewing of and making recommendation on financing matters and budget preparation. She is also a director of certain special purpose vehicles of Sunlight REIT.

Ms. Lo has over 30 years of experience in financial management and company secretarial functions. Prior to joining the Manager, Ms. Lo was the Chief Financial Officer of a media company previously listed in Singapore.

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

Mr. WONG Chi Ming

General Manager – Asset Management and Responsible Officer

Mr. Wong, aged 59, is responsible for, among other matters, driving the operating performance of Sunlight REIT's property portfolio, planning and developing asset enhancement strategies for recommendation to the Chief Executive Officer and to the Board, and directing the development and implementation of marketing strategies and business development plans for Sunlight REIT. He is also a director of certain special purpose vehicles of Sunlight REIT.

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

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

Ms. YIP May Ling, Vivian

General Manager – Investment and Investor Relations and Responsible Officer

Ms. Yip, aged 42, is responsible for, among other matters, formulating and implementing the Manager's investment plans, strategy and policy for Sunlight REIT, identifying and evaluating potential acquisition or divestment opportunities consistent with the investment strategy of Sunlight REIT. She is also responsible for communication with Unitholders, investors and other key stakeholders.

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

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

Mr. HAH Yick Yat, Kelvin

Assistant General Manager – Human Resources and Operations

Mr. Hah, aged 47, is responsible for, among other matters, human resources management, procurement and office administration, supporting the Manager's core management functions through the provision of ancillary back-office services and ensuring the optimal efficiency and operation of the information technology systems.

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

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

Ms. FUNG Wing Yan

Internal Auditor

Ms. Fung, aged 44, is responsible for, among other matters, planning and conducting audits on compliance, operational control and risk management and facilitating design and operation of the internal control system.

Ms. Fung has over 20 years of experience in financial statement audit and internal audit. Prior to joining the Manager, Ms. Fung was an internal audit manager of CK Hutchison Holdings Limited between 2008 and 2022. Ms. Fung holds a Bachelor of Business Administration degree in Accountancy and Law from the City University of Hong Kong. She is a fellow of the Association of Chartered Certified Accountants and an affiliate of The Society of Chinese Accountants and Auditors.

Ms. YU Hoi Zin
Compliance Manager

Ms. Yu, aged 40, is responsible for, among other matters, the design and implementation of adequate internal control and systems, so as to ensure that both Sunlight REIT and the Manager are in compliance with all relevant laws, rules and regulations.

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

Ms. CHUNG Siu Wah
Company Secretary

Ms. Chung, aged 57, joined the Manager in 2008 and served as the Company Secretary since November 2011. Ms. Chung has over 25 years of experience in the company secretarial field. Prior to joining the Manager, she was the Assistant Company Secretary of a company previously listed on the Main Board of the Stock Exchange.

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

Mr. LEE Kiu Ming
General Manager

Mr. Lee, aged 58, is responsible for formulating and implementing business plans and strategies and business development of the Property Manager. Mr. Lee has over 30 years of marketing, leasing and property management experience in the property field in Hong Kong. Prior to joining the Property Manager, he was a leasing manager in the Portfolio Leasing Department of HLD.

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

Mr. POON Hung Tak
Deputy General Manager – Property Management

Mr. Poon, aged 59, works with the General Manager to oversee the building operations of the Property Manager.

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

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

Ms. HO Kuk Fong
Deputy General Manager – Leasing

Ms. Ho, aged 55, works with the General Manager to oversee the marketing and leasing administration of the Property Manager.

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

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

Corporate Governance Report

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

Checks and Balances

The Trustee and the Manager

Sunlight REIT

Trustee

The Trustee has the fiduciary duty to hold the assets of Sunlight REIT in trust for the benefit of Unitholders and to oversee the activities of the Manager to ensure compliance with the Trust Deed and regulatory requirements applicable to Sunlight REIT.

It is registered under Part VIII of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong), and is qualified under the REIT Code to act as a trustee for collective investment schemes authorized under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**").

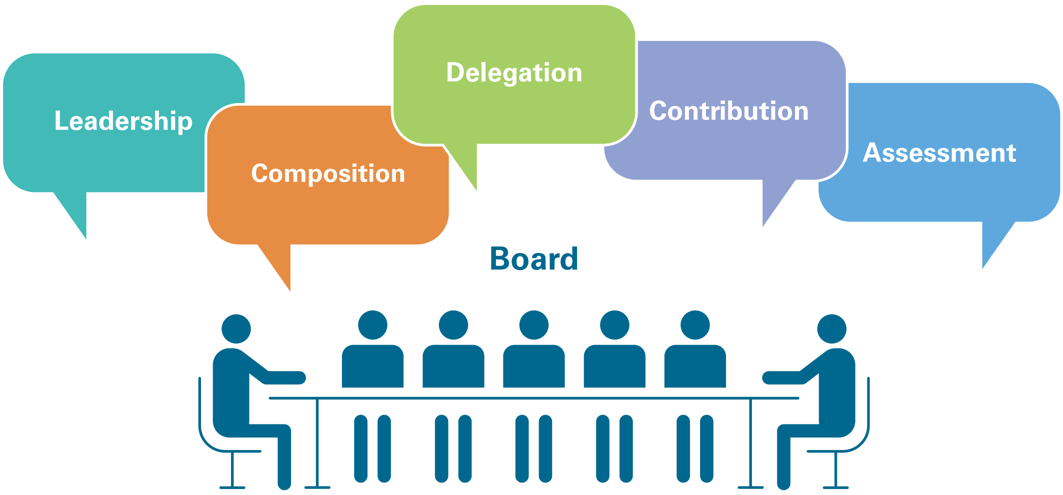
Manager

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

The Manager is licensed under Part V of the SFO and approved by the SFC to manage Sunlight REIT.

The Board of the Manager

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



Leadership

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

  (i) developing and reviewing the policies and practices on corporate governance;

  (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management;

  (iii) reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements;

  (iv) reviewing and ensuring compliance with the compliance manual of the Manager (**"Compliance Manual**"); and

  (v) reviewing Sunlight REIT's compliance with the corporate governance code in Appendix 14 of the Listing Rules (the "**Corporate Governance Code**") and disclosure in the Corporate Governance Report.

Pursuant to the Corporate Governance Code, the Board is also responsible for setting the **corporate culture of Sunlight REIT** and plays a pivotal role in promoting, monitoring and assessing such culture. The senior management has been delegated by the Board with the responsibility to review the culture at regular intervals, ensuring that it is in alignment with the business strategy and organizational structure of Sunlight REIT.

As approved by the Board, the corporate culture of Sunlight REIT contains four core values, namely :

Accountability

- We have established an organizational structure with proper segregation of duties to govern our business operations and to ensure alignment with our corporate strategy and culture.
- We promote employee responsibility and engagement in maintaining our robust risk management framework and sound internal control system.
- We encourage teamwork and collaboration to develop trust and accountability.
- We believe in mentoring and coaching of our key talents, through which they can experience personal growth and become strategic leaders of Sunlight REIT.

Care

- We aspire to accomplish our "2030 Sustainability Vision", with human and land being identified as key strategic pillars in our sustainability framework.
- We have clear and comprehensive remuneration and performance management frameworks to motivate and support our employees.
- We nurture our employees with a strong sense of belonging and identity by extending care to our stakeholders, the community and the environment.

Innovation

- We support continuous learning by motivating our employees to engage in professional training and to share knowledge and experience with peers.
- We encourage and foster constant communication with our stakeholders for new ideas and suggestions in respect of our strategy and business.
- We encourage our employees to be critical thinkers, and to develop innovative ideas to propel our business.

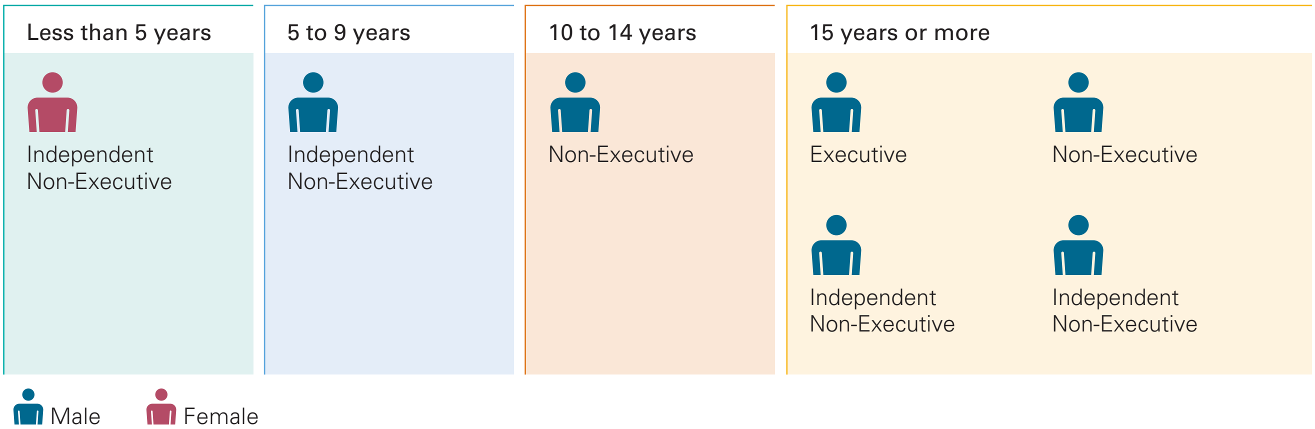
Integrity

- We operate our business in a lawful, honest, fair and transparent manner with strong professional integrity and sound business ethics.
- We strive to inculcate sound moral and ethical values in the workplace with no tolerance for corruption, misconduct and malpractice.

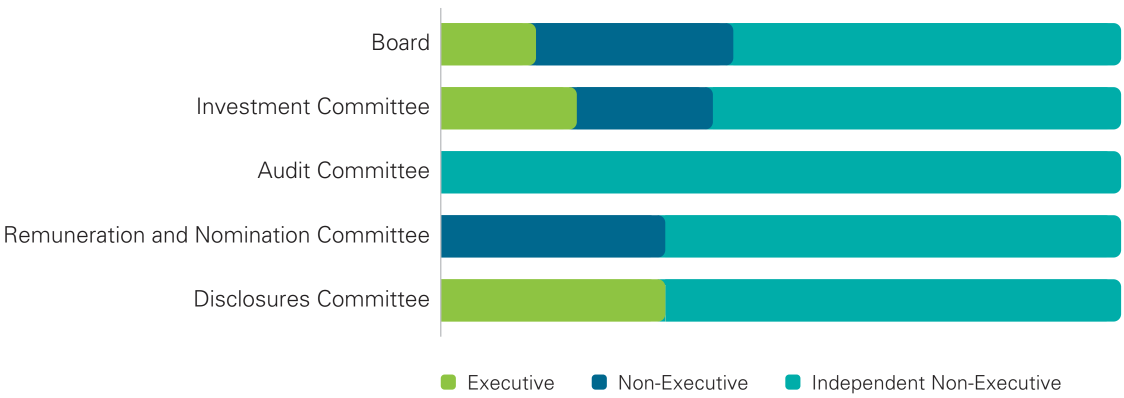
Composition

- The Board currently has seven Directors, including one Executive Director ("**ED**") (who is also the Chief Executive Officer (the "**CEO**")), two Non-Executive Directors ("**NEDs**") (including the Chairman) and four Independent Non-Executive Directors ("**INEDs**"). The diagrams below illustrate the profile of Directors in terms of designation, years of service and gender.

Designation and years of service of Directors



Independence weighting of the Board and Board Committees



Balance of power and authority

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

Board diversity

- The board diversity policy of the Manager (the "**Board Diversity Policy**") sets out the approach to achieve diversity on the Board. Selection of candidates is based on a number of factors, including but not limited to age, cultural and educational background, gender, knowledge, length of service and professional experience or skills. The ultimate decision will be based on merit and contribution that the selected candidate(s) will bring to the Board. The remuneration and nomination committee of the Board (the "**Remuneration and Nomination Committee**") monitors the implementation of this policy and reviews the policy on an annual basis, and where appropriate, makes recommendations on changes to the Board to complement Sunlight REIT's corporate strategy and to ensure that the Board maintains a balanced and diverse profile.

- Sunlight REIT has complied with the Listing Rules requirement for achieving the Board's gender diversity. The Board also places a strong emphasis on skillset diversity – the diagram below provides a snapshot of the various skills and experience of the Board members :

Nomination and appointment of Directors

- The nomination policy of the Manager (the "**Nomination Policy**") lists out the criteria in evaluating and selecting candidates for appointment and re-appointment as a Director, including but not limited to (i) relevant qualifications and experiences; (ii) ability to carry out duties competently, honestly and fairly; (iii) reputation, character, reliability and integrity; (iv) commitment as to whether sufficient time will be devoted to the Board; and (v) potential contributions and other attributes that the candidates can bring to the Board. The Remuneration and Nomination Committee may engage external consultants to assist the recruitment process as it deems necessary and shall conduct interviews with the candidates. It will then make recommendations to the Board.

- The INED who was appointed in 2022 and both NEDs do not have a specific term of appointment, while the other INEDs have a current term of appointment of three years.

- All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with its articles of association. Further appointment of an INED who has served more than nine years is subject to separate ordinary resolution to be approved by Unitholders.

Delegation

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

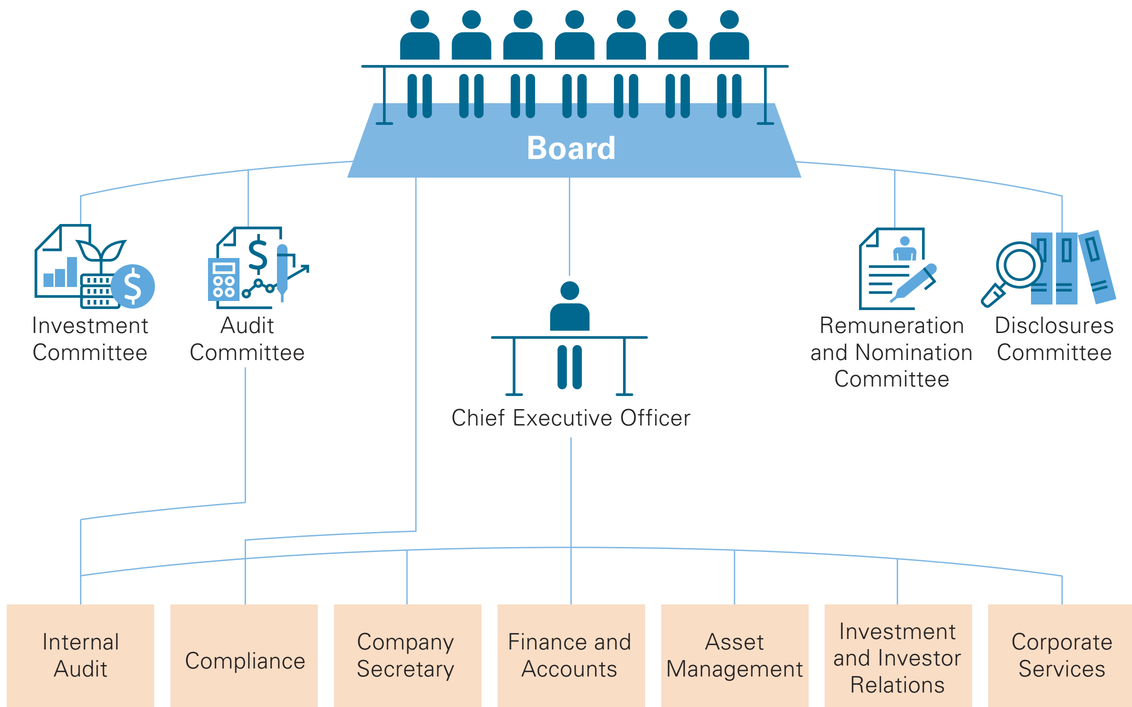
Board Committees

- The Board has established four Board Committees, namely the investment committee (the "**Investment Committee**"), the audit committee (the "**Audit Committee**"), the Remuneration and Nomination Committee and the disclosures committee (the "**Disclosures Committee**"). Each Board Committee has clear terms of reference and 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.

Management

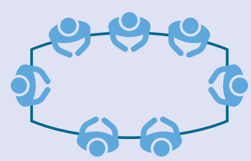
- The strategies and objectives set by the Board are implemented by the management team under the leadership of the CEO.

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



Contribution

- Board meetings are held at least four times in each financial year at approximately quarterly intervals.
- At least 14 days' notice in writing is given to Directors for regular Board meetings. Board consents are adopted by way of majority votes at Board meetings, or by written resolutions signed by all Directors.
- The Chairman may, at the written request of any two Directors or the Company Secretary, convene a Board meeting.
- Board members are encouraged to make active contributions to the Board's affairs, to exercise independent and professional judgment on matters that require decision making, and to act in the best interests of Sunlight REIT and Unitholders.
- Board members are encouraged to communicate their views and provide input to the Board and senior management. A policy of mechanisms ensuring independent views available to the Board is in place to ensure independent views and input are available to the Board through, among other things, independence assessment of INEDs and annual meetings of the Chairman with INEDs.
- The major responsibilities and key work performed by the Board and Board Committees during the Year are set out below :



The Board

Responsibilities :

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

Work performed :

- Approved financial results, distributions, business plans and budget and CAPEX proposals of Sunlight REIT
- Considered potential property acquisition opportunities and disposal proposals, and approved mandates on investment and divestment as appropriate
- Considered and approved the acquisition of W9Z
- Considered and approved the arranging of credit facilities for Sunlight REIT
- Reviewed and approved refinement to the guideline of Relevant Investments of Sunlight REIT
- Reviewed the work performed by the ESG committee (the "**ESG Committee**"), approved the ESG report and ESG-related strategy and policies of Sunlight REIT
- Set specific ESG performance targets of Sunlight REIT for designated senior management
- Approved the engagement of the ESG consultant of Sunlight REIT
- Approved updates in and adoption of new corporate policies and guidelines
- Reviewed the risk environment and factors affecting Sunlight REIT, including corresponding mitigating controls, changes in description of risk metrics in risk parameters and risk appetite and modification to the risk heat map template
- Reviewed the investor relations activities of Sunlight REIT
- Reviewed the internal control system of Sunlight REIT
- Approved the appointment of the new Internal Auditor and her designation as the manager-in-charge of core function – operational control and review
- Approved the designation of the manager-in-charge in respect of complaint handling

Investment Committee

Responsibilities :

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

Work performed :

- Reviewed and considered financial results, operational statistics, business plans and budget of Sunlight REIT; recommended distributions, budget and CAPEX proposals to the Board for approval
- Evaluated potential acquisition opportunities, reviewed disposal proposals and made recommendations to the Board as appropriate
- Reviewed the investment strategy of Sunlight REIT
- Reviewed and assessed investment and financial related risks of Sunlight REIT

Audit Committee

Responsibilities :

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

Work performed :

- Reviewed internal audit activities reports and the effectiveness of the internal audit function
- Reviewed interim and final results of Sunlight REIT
- Considered and recommended to the Board on the re-appointment of external auditor and their audit fees
- Assessed the risk environment of Sunlight REIT and considered corresponding mitigation measures
- Reviewed and recommended amendments to the risk management policy and the anti-fraud policy, as well as the renaming of the policy of reporting of irregularities to the whistleblowing policy to the Board for approval
- Reviewed and considered the effectiveness of risk management and internal control systems
- Reviewed and recommended changes to the contingency plan to the Board for approval
- Reviewed connected party transactions entered into by Sunlight REIT to ensure compliance with the requirements of the REIT Code and the Listing Rules and waivers granted by the SFC
- Reviewed adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting and internal audit functions

Remuneration and Nomination Committee

Responsibilities :

- Oversee and establish the overall human resources strategy and policies of the Manager, including succession planning, compensation and employment terms and conditions of Directors and senior management
- Review the structure, size and composition of the Board and Board Committees
- Evaluate performance of the Board and Board Committees and review the independence qualification of INEDs

Work performed :

- Reviewed structure and diversity of the Board and evaluated performance of the Board, Board Committees and their members
- Considered and recommended amendments to the Board Diversity Policy and the Nomination Policy, and adoption of the new policy of mechanisms ensuring independent views available to the Board for approval by the Board
- Reviewed and appraised overall staff performance
- Reviewed and approved employee benefits policies
- Considered and approved salary and bonus proposals (including remuneration packages of the ED and senior management)

Disclosures Committee

Responsibilities :

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

Work performed :

- Reviewed announcements, press releases, advertorials, interim and annual reports of Sunlight REIT and other corporate communications to Unitholders or investors
- Reviewed public regulatory filings to the applicable regulatory authorities
- Reviewed implication of amendments in rules and regulations to Sunlight REIT and its special purpose vehicles
- Reviewed the ESG-related matters of Sunlight REIT (including work performed by the ESG Committee and the ESG report of Sunlight REIT) and made recommendations to the Board
- Reviewed adequacy of resources, staff qualifications and experience, training programmes and budget of function relating to ESG performance and reporting
- Considered and recommended amendments to the climate change policy and adoption of the new environmental policy and energy management policy to the Board for approval

Assessment

- The Board's performance and effectiveness is regularly reviewed via the assistance of the Remuneration and Nomination Committee and the hiring of external consultants (as appropriate).
- All Directors shall participate in continuous professional training to develop and refresh their knowledge and skills, ensuring that their contribution to the Board remains informed and relevant. Membership of the Board and Board Committees, attendance record of Directors to the meetings and Directors' ongoing training and professional development activities held during the Year were as follows :

Type of meetings / Director (Designation)	Number of meetings attended / eligible to attend						Training and professional development activities
	Board of Directors	Investment Committee	Audit Committee	Remuneration and Nomination Committee	Disclosures Committee	Annual General Meeting	
Mr. Au Siu Kee, Alexander (Chairman & NED)	5/5	4/4		2/2		1/1	√
Mr. Wu Shiu Kee, Keith (CEO & ED)	5/5	4/4			2/2	1/1	√
Mr. Kwok Ping Ho (NED)	5/5					1/1	√
Mr. Kwan Kai Cheong (INED)	5/5		4/4	2/2	2/2	1/1	√
Dr. Tse Kwok Sang (INED)	5/5	4/4	4/4		2/2	1/1	√
Mr. Kwok Tun Ho, Chester (INED)	5/5	4/4	4/4	2/2		1/1	√
Ms. Helen Zee (INED)	5/5	4/4	4/4			1/1	√

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

Risk Management

Background

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

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

- Establish a risk savvy culture so that strategic and operational decisions are consciously weighted against the associated risks to support the achievement of strategic and operational objectives.
- Maintain a robust governance framework under which all key risks are identified, assessed and accounted for, while ensuring that such risks are managed to an acceptable level with reference to Sunlight REIT's overall goals and objectives.
- Enhance operational control and effectiveness through regular process reviews.
- Protect assets, reputation and values of Sunlight REIT and the Manager.
- Identify key risk indicators to provide early warning signals on emerging risks and/or escalating risk levels, either of which may potentially prevent Sunlight REIT from achieving its strategic goals and objectives.

Approach and responsibilities

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

The risk management framework of Sunlight REIT is summarized and illustrated by the 'Three Lines of Defence' model on page 47.

Note : The Risk Taskforce comprises the CEO, the Chief Financial Officer, the Assistant General Manager – Human Resources and Operations and the Risk Manager (the role of which is assumed by the Compliance Manager) as core members and three rotational members from different departments and operating units.

Risk governance structure and process

Board of Directors

Investment Committee | **Disclosures Committee** | **Audit Committee**

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

1st line of defence

Risk ownership

Operational management

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

2nd line of defence

Risk control

Risk management and compliance

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

The ESG Committee will review and monitor ESG risks (including climate-related risks) and make recommendations to the Risk Taskforce.

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

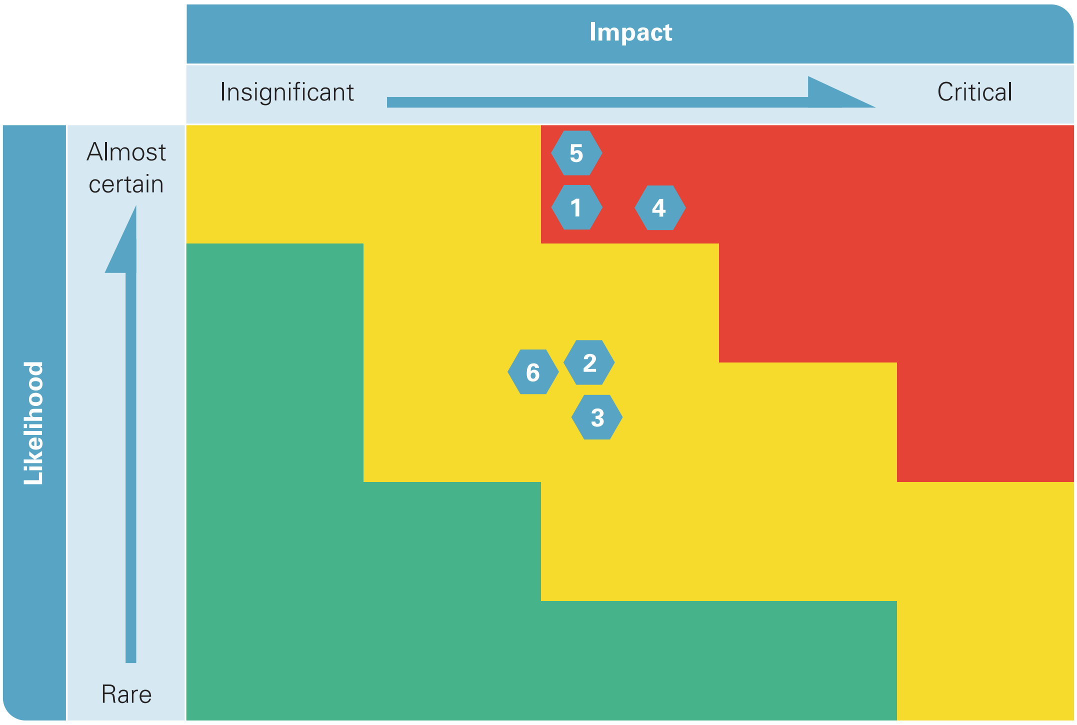
3rd line of defence

Risk assurance

Internal audit

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

Risk heat map at 30 June 2023



During the Year, based on the consultative recommendations by KPMG, discussion amongst the Risk Taskforce and as approved by the Board, the Manager has updated the risk heat map template with the aim to further enhance the robustness of the risk management framework.

The risk heat map above provides an illustration of the top risks of Sunlight REIT at 30 June 2023 in terms of their likelihood and impact. The risk tolerance level and the risk appetite statement of Sunlight REIT were reviewed and endorsed by the Board.

The Risk Taskforce has identified a list of strategic risks of Sunlight REIT at 30 June 2023, including but not limited to the macroeconomic risk regarding global inflation and increase in interest rates and sustainability risk relating to heightened reporting obligations from regulatory bodies and stakeholders' expectations on ESG and climate-related matters, and has assessed their impact to Sunlight REIT as well as the corresponding mitigating controls. These strategic risks were considered when determining the top risks of Sunlight REIT.

The Risk Taskforce has reviewed the relevance and materiality of climate-related risks during the Year. Since climate-related risks were assessed to be well within the acceptable risk tolerance limits of Sunlight REIT, they are considered relevant but non-material to Sunlight REIT.

Based on the recommendation from the Risk Taskforce, the Board has approved the top risks of Sunlight REIT at 30 June 2023, details of which are depicted on page 49. Meanwhile, enhanced controls and procedures are formulated by the Manager to mitigate these new and amended risks.

Summary of the top risks of Sunlight REIT at 30 June 2023

Risk no.	Description	Nature	Major controls
1 AMENDED	High vacancy rates and rental pressure on the Hong Kong Grade A office market	Financial and operational	• Provide more flexible leasing terms to tenants and offer competitive rental commission to leasing agents when necessary
			• Monitor expenses and adopt suitable cost-reduction measures
			• Initiate early negotiations with existing and prospective tenants
			• Enhance landlord provisions and introduce more proptech initiatives to attract prospective tenants
2	Cyber security and other IT risks	Operational	• Implement protective measures including installation of anti-virus software and firewalls
			• Establish system backup mechanism for data recovery
			• Provide regular training to staff and conduct periodic phishing tests
			• Maintain an effective IT disaster recovery plan, with review at regular intervals
3	Aging portfolio leading to unforeseen facilities breakdown, substantial increase in insurance premium and difficulty in pursuing green objectives	Operational	• Conduct regular inspection and preventive maintenance for property facilities
			• Devote more resources to aging properties in order to reduce the rate of facilities breakdown and number of damage incidents
			• Explore the use of building technology for more effective and efficient property management
4 AMENDED	Rise in interest rates may cause negative impact on DPU	Financial	• Perform sensitivity analysis on interest rate fluctuations
			• Communicate with banks in advance and obtain standby credit facilities to meet funding needs
			• Maintain an appropriate level of hedging for borrowings
5 NEW	Sharp increase in building operation costs due to sustaining supply chain disruption, labour shortage and minimum wage revision	Operational	• Implementation of energy saving measures and explore to increase the use of new technology
			• Regular review of manpower and outsourced servicing contracts
			• Adopt centralized or bulk purchasing arrangement to save costs
6 NEW	Challenges on staff retention and recruitment	People and operational	• Foster staff's sense of belonging
			• Ensure competitive staff remuneration and benefits
			• Maintain properly documented workflow and ensure back-up arrangements are in place

Internal control

Internal control framework

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

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

Internal control system

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

Control environment	• A clear organizational structure is established with defined lines of responsibility and limits of delegated authority to facilitate segregation of duties and controls.
	• Code of conduct, anti-fraud policy and whistleblowing policy are adopted to emphasize the ethical standards and integrity of employees in all aspects of operations, and mechanisms are established for reporting unethical conduct.
Risk assessment	• A risk management framework is in place to identify, assess and manage various types of risks that may have an impact on the achievement of business objectives. Please refer to "Risk Management" on pages 46 to 49 for more details.
	• A fraud risk register is established to identify specific fraud schemes and risks, and to assess their significance with relevant controls for ongoing monitoring.
	• ESG risks are integrated into the existing risk management framework and are monitored regularly by the ARLs, the ESG Committee, the Risk Taskforce and the Disclosures Committee.
Control activities	• A series of key policies and procedures is established to ensure that relevant management directives are carried out, and actions, including verifications and approvals, reviews and safeguarding of assets, are taken to address risks.
Information and communication	• Processes and systems are in place to capture and report operational, financial and compliance related information to enable effective communication within the organization and with external stakeholders.
	• An inside information policy is adopted to ensure that inside information is handled and disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations. Procedures have been set up in respect of preservation and handling of inside information. Directors and employees of the Manager are prohibited from (i) making any unauthorized disclosure of confidential information, or (ii) making any use of such information for their own advantage or which may constitute conflicts of interest with the public and/or Sunlight REIT.
Monitoring activities	• Regular reviews of key risk areas are performed by the IAD to ascertain whether the controls are in place and functioning, and to ensure compliance with internal policies and regulatory requirements. Internal control deficiencies are timely communicated to responsible parties for taking corrective actions.

Results of annual review of risk management and internal control systems

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

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

Conflicts of interest and business competition

The Manager and the Property Manager are both indirect wholly-owned subsidiaries of HLD. 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 Listing Rules and waivers granted by the SFC;
4. the Manager has a conflicts of interest policy in place to ensure fairness and good corporate governance, so that any situations of actual, potential or perceived conflicts of interest of employees are reported and monitored;
5. 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
6. registers of other directorships and senior positions held by the Directors are maintained and updated from time to time.

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

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

Communication

Investor relations

The Manager is committed to providing open and effective communications, ensuring that Unitholders and the investment community at large are informed of the ongoing developments of Sunlight REIT. In order to allow the Manager to have a better understanding of the views of Unitholders and other stakeholders, the Manager has in place a Unitholders' communication policy ("**Unitholders' Communication Policy**"), providing guidelines on how information are being communicated to Unitholders and the investment community and how Unitholders can direct their enquiries to the Manager through various established channels. The Manager has an investor relations team which utilizes a range of interactive means to engage and maintain dialogues with investors and analysts. Investors' feedback and comments are reported to the Board regularly. The Manager believes that feedback and comments from the investment community are necessary in assisting the Board to map out the strategic direction of Sunlight REIT.

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

Channels of communication

Meetings and conference calls

Post results and non-deal roadshows

Announcements and press releases

Guided property tours

In addition, investors and Unitholders may direct their enquiries to the Manager by email or by post. Please refer to "Corporate Information" on page 143 for contact details of the Manager.

The Manager conducted a review of the implementation and effectiveness of the Unitholders' Communication Policy during the Year, the purpose of which was to ascertain whether performance targets set in the prior financial year have been fulfilled. Based on both qualitative and quantitative assessments, the Manager considers that the Unitholders' Communication Policy was effective during the Year.

General meetings

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

During the Year, an annual general meeting of Sunlight REIT was held on 10 November 2022 at which an ordinary resolution was passed to approve the grant of a general mandate to the Manager to buy back units (on-market) on behalf of Sunlight REIT.

Unitholders' rights

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

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

Pursuant to the Trust Deed, not less than two Unitholders registered as holding together not less than 10% of the outstanding units in issue for the time being are entitled to request the Manager in writing to convene a meeting of Unitholders. Unitholders who wish to direct any such request to the Manager may refer to "Corporate Information" on page 143 for contact details of the Manager. The Trustee or the Manager may at any time convene a meeting of Unitholders.

Matters decided by Unitholders by special resolutions

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

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

Transparency

Annual and interim reports

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

Results announcements and other information

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

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

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

Acquisition of property

On 11 January 2023, Sunlight REIT (via a wholly-owned and controlled special purpose vehicle) entered into a sale and purchase agreement to acquire a company which indirectly holds W9Z in Tai Kok Tsui, Kowloon. Completion of the acquisition took place on 13 April 2023. After taking into account the completion adjustment and the post-completion adjustment, consideration for the acquisition was approximately HK$737.3 million. Please refer to the announcements of Sunlight REIT dated 11 January 2023, 13 April 2023 and 15 June 2023 for further details.

Distribution entitlement and closure of register of Unitholders

The ex-distribution date and record date for the final distribution are Thursday, 21 September 2023 and Wednesday, 27 September 2023 respectively. The register of Unitholders will be closed from Monday, 25 September 2023 to Wednesday, 27 September 2023, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the final 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, 22 September 2023. Payment of the final distribution will be made to Unitholders on Tuesday, 10 October 2023.

Please refer to "Financial Calendar" on page 142 for key dates of Sunlight REIT.

Distribution policy

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

Employees

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

Workforce diversity

The Manager is committed to ensuring that gender diversity is achieved in the workforce. At 30 June 2023, the Manager and the Property Manager's overall workforce comprised 57% males and 43% females.

The existing gender diversity in the workforce of the Manager and the Property Manager (including senior management) is considered to be well-balanced and the Manager anticipates such workforce diversity will be maintained going forward.

Other Compliance and Disclosure Matters

Compliance with the Compliance Manual and the Corporate Governance Code

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

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

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 Year.

Changes in Directors' information

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

1. On 31 May 2023, China Properties Group Limited ("**China Properties**"), a company which was listed on the Stock Exchange and of which Mr. Kwan Kai Cheong was a non-executive director, was ordered to be wound up by the Hong Kong High Court (for further details, please refer to the announcement of Sunlight REIT dated 7 June 2023). China Properties' shares were delisted from the Stock Exchange on 4 August 2023; and
2. Ms. Helen Zee ceased to be (i) a member of Cyberport Advisory Panel in February 2023; and (ii) a member and the chairperson of the investment committee of the Hong Kong Deposit Protection Board, and a member of each of the Police Children's Education Trust Investment Advisory Board and the Police Education and Welfare Trust Investment Advisory Board, all on 30 June 2023.

   Ms. Zee has been appointed as a member of (i) the Innovation and Technology Venture Fund Advisory Committee with effect from 16 June 2023; and (ii) the Chinese Medicine Council of Hong Kong with effect from 13 September 2023.

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

Confirmation on independence

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

Buy-back, sale or redemption of units

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

Relevant Investments

The full investment portfolio of Relevant Investments, as defined in paragraph 7.2B of the REIT Code, of Sunlight REIT at 30 June 2023 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	11,400	0.06	N/A
COGARD 5.4 05/27/25 Country Garden Holdings Company Limited	Singapore Exchange	USD	14,452	5,006	0.03	N/A
COGARD 3 1/8 10/22/25 Country Garden Holdings Company Limited	Singapore Exchange	USD	10,115	3,211	0.02	Moody's Ba3[4]
GEELZ 3 03/05/25 Geely Finance (Hong Kong) Limited	Singapore Exchange	USD	15,373	14,885	0.08	S&P BBB-
PANVA 4 04/26/27 TCCL (Finance) Limited	Stock Exchange	USD	4,623	4,441	0.02	S&P BBB+ Moody's Baa1
PCPDC 5 1/8 06/18/26 PCPD Capital Limited	Singapore Exchange	USD	11,639	9,404	0.05	N/A
ZHONAN 3 1/8 07/16/25 ZhongAn Online P & C Insurance Co., Ltd.	Stock Exchange	USD	28,743	25,664	0.13	Moody's Baa2
Total			**96,617[5]**	**74,011**	**0.39**	

At 30 June 2023, the combined mark-to-market value of Relevant Investments, together with other ancillary investments of Sunlight REIT, represented approximately 3.7% 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 30 June 2023.
3. Gross asset value refers to the total assets after adjusted for the final distribution declared. Total assets and final distribution are stated on page 94 and page 97 respectively.
4. Moody's has lowered the rating of this financial instrument to C with effect from 31 August 2023.
5. A cumulative provision for credit losses on debt securities of HK$16.2 million was made up to financial year ended 30 June 2023.

Issue of further units

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

During the Year, a total of 13,323,086 new units were issued to the Manager in October 2022 and April 2023 as payment of part of the Manager's fees. The payment of the Manager's fees by way of units is provided for in the Trust Deed and does not require specific prior approval of Unitholders pursuant to a waiver granted by the SFC. Under such waiver, the number of units issued to the Manager as payment of all or part of the Manager's fees for each financial year will be counted as part of the 20% of units outstanding at the end of the previous financial year that the Manager may issue in each financial year without requiring Unitholders' approval pursuant to paragraph 12.2 of the REIT Code.

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

Unitholder statistics

An analysis of the registered Unitholders at 30 June 2023 by type according to the register of Unitholders of Sunlight REIT was as follows :

Range of unitholdings	Number of registered Unitholders	Aggregate number of units held	% of unit holdings[Note]
1 – 10,000	2,310	3,676,870	0.22
10,001 – 100,000	275	10,314,410	0.61
100,001 – 1,000,000	59	17,329,592	1.02
1,000,001 or above	10	1,663,714,285	98.15

HKSCC Nominees Limited (through which most Unitholders hold their units) remained as the single largest registered Unitholder, holding 1,306,969,672 units (representing approximately 77.1%[Note] of units in issue) at 30 June 2023.

Save as disclosed in the "Disclosure of Interests" section of this annual report, there were no other members of the senior management holding units at 30 June 2023.

Public float

Based on information that is publicly available and as far as the Manager is aware, 47.0% of the outstanding units in issue of Sunlight REIT were held in public hands at the date of this annual report, which satisfies the minimum public float requirement of 25% under the Listing Rules.

Review of annual report

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

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

Auditor's remuneration

During the Year, fees payable to the auditor amounted to HK$2,148,000 for audit and audit related services. Non-audit services fee payable to the auditor was HK$512,000 for services relating to the review of interim financial statements of Sunlight REIT.

Promotional expenses

Pursuant to the waiver granted by the SFC on 27 April 2009 from strict compliance with paragraph 9.13(b) of the REIT Code, certain expenses for advertising or promotional activities are allowed to be paid out of the deposited property of Sunlight REIT. A further waiver was granted by the SFC on 30 April 2012 to expand the scope of such expenses to include the fees, costs and expenses incurred in relation to any fund raising exercise by, any assets of or otherwise in connection with Sunlight REIT. All these expenses mentioned above are collectively referred to as the "**Promotional Expenses**".

Promotional Expenses incurred for the Year were HK$725,000. Having reviewed the supporting evidence as it may reasonably deem necessary, the Audit Committee, pursuant to the conditions of the above waivers, confirmed that these Promotional Expenses were incurred in accordance with the internal control procedures of the Manager, and solely for the purposes as set out in the relevant clauses of the Trust Deed relating to the Promotional Expenses.

Note: The percentages are based on the total number of units in issue of 1,695,035,157 units at 30 June 2023.

Top five real estate agents and contractors for the Year

Real estate agents and contractors[1]	Nature of services	Commission and value of contracts[2] (HK$'000)	% of total commission and value of contracts
Henderson Sunlight Property Management Limited[3]	Property management, lease management and marketing services	44,696	34.8
Chinney Builders Company Limited	Renovation works, repairs and maintenance	10,745	8.4
Hang Yick Properties Management Limited[3]	Building management and licence fee	10,157	7.9
Ngai Lik Cleaning Services Company Limited	Cleaning services	5,213	4.1
Dusservice Hong Kong Limited	Security services	4,510	3.5
Total		**75,321**	**58.7**

Notes :

1. Commission and value of contracts paid to all real estate agents and contractors for the Year amounted to HK$11.6 million and HK$116.6 million respectively, of which HK$10.3 million and HK$65.8 million were attributable to the top five real estate agents and the top five contractors.
2. Included commission and value of contracts for the supply of items or services which are of a capital nature.
3. Wholly-owned subsidiaries of HLD. HLD is interested in more than 5% of the total number of units in issue of Sunlight REIT.

Connected Party Transactions

Information in respect of the transactions entered into between Sunlight REIT and its connected persons (as defined in paragraph 8.1 of the REIT Code) during the Year, other than those transactions that are excluded pursuant to waivers granted by the SFC and/or exempted from the 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 20.0% 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**", which for the avoidance of doubt, exclude the Sunlight REIT Group (as defined below)), 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) A master leasing agreement entered into between the Manager and HLD ("**Master Leasing Agreement**") to set out the framework terms governing all leasing and licensing transactions entered into by members of the HLD Related Group in respect of premises owned by the Sunlight REIT Group. With respect to the leasing and licensing transactions agreed to be provided during the term of the Master Leasing Agreement, the relevant members of the HLD Related Group and of the Sunlight REIT Group shall enter into separate definitive leasing agreement(s) setting out the detailed terms (including the fee and the payment terms).

    The rental or licence fee payable under the definitive leasing agreements shall be negotiated on a case-by-case and an arm's length basis and shall be on normal commercial terms which, (a) from the Sunlight REIT Group's perspective, shall be no more favourable than those made available by the Sunlight REIT Group to its independent third party lessees, tenants or licensees; and (b) from the HLD Related Group's perspective, shall be no less favourable than those which the relevant members of the HLD Related Group could obtain from independent landlords or lessors of comparable premises.

(ii) A joint effort carparking agreement entered into between the Property Manager (as agent of the owner of the commercial development of Metro City Phase I, which is a member of the Sunlight REIT Group) and Henderson Leasing Agency Limited (as agent of the owners of commercial development of Metro City Phases II and III, which are wholly-owned by the HLD Group) ("**Joint Effort Carparking Agreement**") in respect of sharing of fees and costs among such owners relating to free parking provided to customers of the shopping arcades in Metro City Phases I, II and III.

    The determination of the sharing of fees and costs under the Joint Effort Carparking Agreement is based on an agreed formula which takes into account (a) the notional parking income that could have been received by each of the Sunlight REIT Group and HLD Group through the implied value of parking coupons utilized by the customers in respect of parking at their respective premises; and (b) the relevant parking expenses allocated between the parties with reference to the proportion of gross floor areas of the respective shopping arcades of Metro City Phases I, II and III.

(iii) A renewed property management agreement entered into between the Manager and the Property Manager ("**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) to 30 June 2024.

The fees for property management services and lease management services pursuant to the Renewed Property Management Agreement shall not exceed 3% per annum of the gross property revenue of each relevant property of Sunlight REIT, whereas the commission for marketing services is based on the base rent or licence fee for the relevant tenancy or licence.

(iv) A master services agreement entered into between the Manager and HLD ("**Master Services Agreement**") to set out the framework terms governing all service transactions relating to the management and operation of properties of the Sunlight REIT Group to be provided by the HLD Related Group, including the provision of security services and other property related ancillary services. With respect to the service transactions to be provided during the term of the Master Services Agreement, the relevant members of the HLD Related Group and of the Sunlight REIT Group (or the Property Manager as agent for, or at the costs of, the relevant members of the Sunlight REIT Group) shall enter into separate definitive service agreement(s) setting out the detailed terms (including the fee and the payment terms).

The terms of, and the fee payable under the definitive service agreements shall be negotiated on a case-by-case and an arm's length basis, and shall be on normal commercial terms which (a) from the Sunlight REIT Group's perspective, shall be no less favourable than those which the relevant members of the Sunlight REIT Group could obtain from independent contractors or suppliers of comparable services; and (b) from the HLD Related Group's perspective, shall be no more favourable than those made available by the relevant members of the HLD Related Group to their independent third party customers.

In addition, transactions with the DMC managers (which are members of the HLD Group) ("**Connected DMC Manager**") 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 ("**Connected Deeds of Mutual Covenant**") constitute continuing connected party transactions of Sunlight REIT under the REIT Code. The principal terms of such relevant Connected Deeds of Mutual Covenant are summarized below :

Property owned by the relevant property holding company of the Sunlight REIT Group	Date of the Connected Deed of Mutual Covenant	Connected DMC Manager	Property holding company of the Sunlight REIT Group	Term of the appointment of the Connected DMC Manager under the Connected Deed of Mutual Covenant
1. Metro City Phase I Property	26 April 1997	Metro City Management Limited	Sunlight Crownwill Limited	Initially for a term of two years from the date of the first occupation permit in respect of any part of the estate and thereafter until the Connected DMC Manager resigns or is removed pursuant to the terms of the relevant Connected Deed of Mutual Covenant.
2. Sheung Shui Centre Shopping Arcade	3 March 1994	Sheung Shui Centre Management Limited	Bayman Limited	
3. Supernova Stand Property	15 December 2001	Hang Yick Properties Management Limited ("**Hang Yick**")	United Glory Development Limited	Initially for a term not exceeding two years from the date of the Connected Deed of Mutual Covenant and thereafter until the Connected DMC Manager resigns or is removed pursuant to the terms of the relevant Connected Deed of Mutual Covenant.
4. Kwong Wah Plaza Property	3 July 1998 (supplemented by a sub-deed of mutual covenant dated 30 September 1999)	Hang Yick	Seiren Investment Limited and Sound Bright Investment Limited	Initially for a term of two years from the date of issue of the occupation permit and thereafter until the Connected DMC Manager resigns or is removed pursuant to the terms of the relevant Connected Deed of Mutual Covenant.

Property owned by the relevant property holding company of the Sunlight REIT Group	Date of the Connected Deed of Mutual Covenant	Connected DMC Manager	Property holding company of the Sunlight REIT Group	Term of the appointment of the Connected DMC Manager under the Connected Deed of Mutual Covenant
5. Winsome House Property	3 July 1999	Hang Yick	Grand Faith Development Limited	Initially for a term of two years from the date of issue of the occupation permit and thereafter until the Connected DMC Manager resigns or is removed pursuant to the terms of the relevant Connected Deed of Mutual Covenant.
6. Wai Ching Commercial Building Property	22 June 1998	Hang Yick	Gain Fortune Development Limited	
7. Sun Fai Commercial Centre Property	22 June 1998	Hang Yick	Yu Loy Development Company Limited	
8. 135 Bonham Strand Trade Centre Property	23 June 2000	Hang Yick	Tinselle Investment Limited	Initially for a term of two years from the date of issue of the occupation permit (which is 3 January 2000).[2]
9. Beverley Commercial Centre Property	8 November 1982	Hang Yick	Newcorp Development Limited	Initially for a term of five years from the date of issue of the occupation permit and thereafter until a management committee has been appointed under the Multi-Storey Building (Owners Incorporation) Ordinance or any statutory modification thereof for the time being in force.[3]

Notes :

1. In addition to the Connected DMC Manager and the relevant property holding company of the Sunlight REIT Group ("**Property Holding Company**"), there are numerous other parties which are bound by the aforesaid relevant Connected Deed of Mutual Covenant, including the first owner of the relevant building and the current owners of the portions of the relevant building not owned by the Sunlight REIT Group. Such other parties are not named in the above table.
2. The initial term of Hang Yick as the DMC manager of 135 Bonham Strand Trade Centre has ended and the Connected Deed of Mutual Covenant does not provide for any subsequent term of the DMC manager. After the expiry of the initial term, Hang Yick has continued to act as the DMC manager with no specified term. As the subject property is not wholly-owned by the Sunlight REIT Group, it is not entitled to fix the current term of such appointment until an owners' corporation is established and the relevant resolution in the general meeting is passed.
3. Hang Yick has continued to act as the DMC manager of Beverley Commercial Centre notwithstanding the appointment of the management committee of Incorporated Owners for the subject property. As the subject property is not majority-owned by the Sunlight REIT Group, it is not entitled to pass any resolution in the general meeting of the owners' corporation to fix the current term of such appointment.

The relevant Property Holding Companies as well as the other owners of the relevant building or development shall bear and pay due proportion of the building management fees and expenses to the Connected DMC Managers in accordance with the Connected Deeds of Mutual Covenant. The management fees and expenses payable by the relevant Property Holding Company to the relevant Connected DMC Manager ("**DMC Management Fee**") are generally calculated based on a Specified Portion (as defined below) of (i) annual budgeted management expenses prepared by the Connected DMC Manager in the management of the building or development in respect of the building, development or respective type/user of the property; and (ii) total remuneration receivable by the Connected DMC Manager from all owners of the relevant building or development (such remuneration amount not to exceed 10% or 15% of the annual management expenses). The "Specified Portion" represents the proportion of management units allocated to the property owned by the relevant Property Holding Company bears to the total management units allocated to the relevant building, development or respective type/user of the property. In addition, for Winsome House Property, Wai Ching Commercial Building Property, Sun Fai Commercial Centre Property and 135 Bonham Strand Trade Centre Property, if any management expenses incurred are solely relating to a specific portion or part of the building or development, such expenses shall be shared among the owners of the relevant portion or part of the building or development only.

In respect of the management and maintenance of Beverley Commercial Centre Property, the DMC Management Fee is calculated based on (i) a fixed sum of monthly expense specified under the Connected Deed of Mutual Covenant to be payable in respect of the shops owned by Newcorp Development Limited; and (ii) a Specified Portion of the management expenses incurred by the Connected DMC Manager in the management of the shops and offices of the entire development (which is inclusive of the remuneration receivable by the Connected DMC Manager).

Connected Party Transactions

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

Agreement	Income/(Expenses) for the Year (HK$'000)	Annual caps for the Year (HK$'000)
Master Leasing Agreement	10,474	20,631
Joint Effort Carparking Agreement	2,640	4,100
Renewed Property Management Agreement	(44,695)	(68,710)
Master Services Agreement	(695)	(7,590)
Connected Deeds of Mutual Covenant	(13,982)	(18,960)

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

The following table sets out information on all the connected party transactions entered into between Sunlight REIT and the Trustee and Trustee related connected persons of Sunlight REIT (including without limitation, the HSBC Group[1] (collectively, "**Trustee Connected Persons**")) during the Year :

Name of connected person	Nature of the connected party transactions	Income/ (expenses) for the Year (HK$'000)	Rental and other deposits received/ (deposits paid) at 30 June 2023 (HK$'000)
Leasing transactions :			
The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**")	Leasing[2]	10,392	2,779
HSBC	Licensing[3]	336	84
Hang Seng Bank Limited ("**Hang Seng**")	Leasing[4]	8,402	2,100
Ordinary banking and financial services[5] :			
HSBC	Interest income received/receivable on bank deposits and net interest income on IRSs	11,809	N/A
HSBC	Interest expense and security trustee fee on bank borrowings and other bank charges	(18,418)	N/A
Hang Seng	Interest expense and debt establishment fee on bank borrowings and other bank charges	(5,915)	N/A
Hang Seng	Interest income received/receivable on bank deposits	1,071	N/A
EPS Company (Hong Kong) Limited	Service fees	(70)	(2)
During the Year, two IRSs with an aggregate notional amount of HK$200 million were entered into with HSBC.			
Corporate finance transaction[6] :			
HSBC	Interest expense and debt establishment fee on bank borrowing	(5,951)	N/A

Notes :

1. HSBC Group means HSBC and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Sunlight REIT).
2. A lease in respect of Shop Nos. 1024-31 of SSC, with gross floor area of 5,390 sq. ft. from 4 November 2020 to 3 November 2022 was renewed upon its expiry until 3 November 2024. Further, a lease in respect of Shop Nos. 1032-33 of SSC, with gross floor area of 1,171 sq. ft. from 15 August 2020 to 3 November 2022 was renewed upon its expiry until 3 November 2024.
3. Licences in respect of (i) external wall signage Nos. 66-81, Level 1, and (ii) external wall signage Nos. 82-93, Level 1 respectively, of SSC.
4. A lease in respect of Shop No. 211 of MCPI, with gross floor area of 7,628 sq. ft. from 17 February 2021 to 16 February 2024.
5. In general, "ordinary banking and financial services" include bank deposits and interest earned therefrom, loan facilities and IRSs including interest and charges paid thereto and other banking or financial services.
6. The interest expense and fee were paid in relation to a HK$500 million term loan facility granted by HSBC under a facility agreement dated 17 March 2023 for financing the acquisition of W9Z.

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 Year, the aggregate amount of fees (in the form of cash and/or units) paid or payable by Sunlight REIT to the Manager and to the Trustee under the Trust Deed were approximately HK$91.8 million and HK$4.7 million respectively. Particulars of the services provided by the Manager and the Trustee are set out in notes 26(b)(i), (ii) and (iv) to the consolidated financial statements.

Confirmation by the INEDs

The INEDs confirmed that they have reviewed all the connected party transactions during the Year as disclosed in the paragraphs headed "Connected party transactions with the HLD Related Group" and "Connected party transactions with the Trustee Connected Persons" above and that they are satisfied that each transaction has been entered into :

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

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

(iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of Sunlight REIT and the Unitholders as a whole.

Confirmation by the Manager and the Trustee in respect of the corporate finance transaction with the HSBC Group

Each of the Manager and the Trustee confirmed that the abovementioned corporate finance transaction entered into with the HSBC Group during the Year has complied with the general conditions of the relevant waiver granted by the SFC and that the Trustee has not involved in the making of any decision to enter into such corporate finance transaction on behalf of Sunlight REIT (subject to the Trustee's duties of oversight under the REIT Code and the Trust Deed).

Confirmation by the Auditor of Sunlight REIT

Pursuant to the Listing Rules and waiver granted by the SFC from strict compliance with the requirements under Chapter 8 of the REIT Code, the Manager has engaged KPMG, being the auditor of Sunlight REIT, to report on all the connected party transactions during the Year as disclosed in the paragraphs headed "Connected party transactions with the HLD Related Group" and "Connected party transactions with the Trustee Connected Persons" above in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unmodified letter containing its findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with the Rule 14A.56 of the Listing Rules (to the extent applicable to REITs) and waiver granted by the SFC. A copy of such auditors' letter has been provided to the SFC.

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 30 June 2023 and 31 December 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 :

	At 30 June 2023		At 31 December 2022	
Name	Number of units interested	% of interest in units[1]	Number of units interested	% of interest in units[1]
The Manager[2]	195,103,527	11.510	185,887,710	11.010
Au Siu Kee, Alexander[3]	2,300,000	0.136	2,300,000	0.136
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 1,695,035,157 units at 30 June 2023 and 1,688,295,340 units at 31 December 2022 (as the case may be).
2. During the Year, the Manager received 13,323,086 units as payment of part of the Manager's fees; and acquired 4,476,000 units in the open market. The Manager beneficially owned 195,103,527 units at 30 June 2023 (31 December 2022: 185,887,710 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 30 June 2023.

Holdings of substantial Unitholders

At 30 June 2023 and 31 December 2022, the interests in units of the substantial Unitholders (other than the Manager), as recorded in the Register, were as follows :

	At 30 June 2023		At 31 December 2022	
Name	Number of units interested	% of interest in units[1]	Number of units interested	% of interest in units[1]
Lee Shau Kee[2]	713,088,552	42.07	688,349,177	40.77
Lee Financial (Cayman) Limited[2]	374,072,708	22.07	374,072,708	22.16
Leesons (Cayman) Limited[2]	374,072,708	22.07	374,072,708	22.16
Leeworld (Cayman) Limited[2]	374,072,708	22.07	374,072,708	22.16
Shau Kee Financial Enterprises Limited[2]	374,072,708	22.07	374,072,708	22.16
Uplite Limited[2]	224,443,625	13.24	224,443,625	13.29
Wintrade Limited[2]	149,629,083	8.83	149,629,083	8.86
Henderson Development Limited[2]	339,015,844	20.00	321,216,758	19.03
HLD[2]	339,015,844	20.00	321,216,758	19.03
Hopkins (Cayman) Limited[2]	339,015,844	20.00	321,216,758	19.03
Riddick (Cayman) Limited[2]	339,015,844	20.00	321,216,758	19.03
Rimmer (Cayman) Limited[2]	339,015,844	20.00	321,216,758	19.03
Silchester International Investors LLP[3]	185,283,150	10.93	200,482,150	11.87
Silchester International Investors International Value Equity Trust[3]	93,459,690	5.51	93,459,690	5.54

Notes :

1. The percentages are based on the total number of units in issue of 1,695,035,157 units at 30 June 2023 and 1,688,295,340 units at 31 December 2022 (as the case may be).
2. At 30 June 2023, 224,443,625 units were owned by Uplite Limited and 149,629,083 units were owned by Wintrade Limited. Uplite Limited and Wintrade Limited are wholly-owned subsidiaries of Financial Enterprise Properties Limited, which in turn is wholly-owned by Shau Kee Financial Enterprises Limited ("**SKFE**"). SKFE is wholly-owned by Lee Financial (Cayman) Limited as the trustee of a unit trust, the units of which are held by Leesons (Cayman) Limited and Leeworld (Cayman) Limited as the respective trustees of two discretionary trusts. Therefore, each of Lee Financial (Cayman) Limited, Leesons (Cayman) Limited and Leeworld (Cayman) Limited was taken to be interested in the total of 374,072,708 units owned by Uplite Limited and Wintrade Limited.

   Apart from the above, at 30 June 2023, 76,533,345 units were owned by Cobase Limited, 67,378,972 units were owned by Richful Resources Limited and 195,103,527 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 per the Register, each of HD, HLD, Hopkins, Riddick and Rimmer was interested in the total of 339,015,844 units at 30 June 2023.

   At 30 June 2023, 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, as per the Register, Dr. Lee Shau Kee was interested in the total of 713,088,552 units.
3. At 30 June 2023, according to the Register, Silchester International Investors LLP ("**Silchester LLP**") in its capacity as investment manager, was interested in 185,283,150 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 30 June 2023, (i) Silchester LLP was interested in 182,673,000 units (representing approximately 10.78% of the total number of units in issue); and (ii) Silchester Trust was beneficially interested in 86,555,000 units (representing approximately 5.11% 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 30 June 2023.

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 30 June 2023 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]	676,000	0.040

Notes :

1. The percentages are based on the total number of units in issue of 1,695,035,157 units at 30 June 2023.
2. Ms. Lo Yuk Fong, Phyllis is a connected person of Sunlight REIT by virtue of being a director of certain subsidiaries of Sunlight REIT (31 December 2022: 100,000 units).
3. Certain associates (as defined in the REIT Code) of the Trustee were beneficially interested in 676,000 units at 30 June 2023 (31 December 2022: 665,000 units).

Valuation Report

2 August 2023

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Admiralty, Hong Kong

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

AND

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

Dear Sirs,

Valuation of Portfolio held by Sunlight REIT (the "Properties")

We refer to the instruction from HSBC Institutional Trust Services (Asia) Limited (in its capacity as the Trustee of Sunlight REIT) (the "**Trustee**") and Henderson Sunlight Asset Management Limited (in its capacity as the Manager of Sunlight REIT) (the "**Manager**") (the Manager and the Trustee collectively known as "**Instructing Party**" or "**Instructing Parties**") for us to carry out valuation of the market value of the Properties as at 30 June 2023 (the "**Date of Valuation**") for accounting and financial reporting purposes in compliance with the relevant requirements set out in the Code on Real Estate Investment Trusts (the "**REIT Code**") issued by the Securities and Futures Commission of Hong Kong (the "**SFC**"), the trust deed of Sunlight REIT and where applicable, the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Details are set out in the attached valuation particulars. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties at the Date of Valuation. We have valued the Properties subject to existing tenancies and occupational arrangements and assumed they are free from encumbrances.

Valuation Basis and Assumptions

Unless otherwise specified in the report, the valuations are conducted in accordance with "the HKIS Valuation Standards 2020" published by the Hong Kong Institute of Surveyors and compliant with the requirements contained in the relevant provisions in Chapter 5 of the Listing Rules and Paragraph 6.8 of the REIT Code issued by the SFC. All valuations are undertaken by appropriately qualified professionals and the definition of market value and valuation methodologies are in line with the above standards unless otherwise specified.

Our valuation is made on the basis of Market Value ("**Market Value**"), which is defined under the HKIS Valuation Standards as "the estimated amount for which an asset or liability should exchange on the Date of Valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Market Value is understood as the value of an asset or liability estimated without regard to any cost of sale or purchase (or transaction), or deduction for any associated or potential taxes. Our valuation has been made on the assumption that the owner sells the Properties on the open market without the benefit and burden of any deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the Properties.

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

Unless otherwise stated, we have valued the Properties on the assumption that they are freely disposable and transferable for the whole of the unexpired land lease term without any land premium payment.

The Properties

The Properties comprise 17 properties located in Hong Kong including 11 office properties and 6 retail properties. Details of the Properties are set out below:

No.	Property	Address
1	Dah Sing Financial Centre	No. 248 Queen's Road East, Wan Chai
2	Strand 50	No. 50 Bonham Strand, Sheung Wan
3	Various Portions in 135 Bonham Strand Trade Centre	No. 135 Bonham Strand, Sheung Wan
4	Various Portions in Winsome House	No. 73 Wyndham Street, Central
5	Righteous Centre	No. 585 Nathan Road, Mong Kok
6	The Harvest	No. 591 Nathan Road, Mong Kok
7	235 Wing Lok Street Trade Centre	No. 235 Wing Lok Street, Sheung Wan
8	Java Road 108 Commercial Centre	No. 108 Java Road, North Point
9	On Loong Commercial Building	Nos. 276-278 Lockhart Road, Wan Chai
10	Various Portions in Sun Fai Commercial Centre	No. 576 Reclamation Street, Mong Kok
11	Various Portions in Wai Ching Commercial Building	No. 77 Wai Ching Street, Yau Ma Tei
12	Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in the Podium and Basement, Sheung Shui Centre	No. 3 Chi Cheong Road, Sheung Shui
13	Commercial Development and Car Parks, Metro City Phase I	No. 1 Wan Hang Road, Tseung Kwan O
14	Various Portions in Kwong Wah Plaza	No. 11 Tai Tong Road, Yuen Long
15	West 9 Zone Kids	No. 38 Cherry Street, Tai Kok Tsui
16	Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand	No. 28 Mercury Street, North Point
17	Various Shops Units on Ground Floor, Beverley Commercial Centre	Nos. 87-105 Chatham Road South, Tsim Sha Tsui

Source of Information

We have obtained the Land Register records of the Properties from the Land Registry. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendment which may not appear on the copies handed to us. We have not perused any original land documentation. We have assumed that there is no easement or encumbrance which may affect the value but is not shown in the Land Register records.

No on-site measurement has been taken. Dimension, measurement and area included in the valuation certificates are based on the information provided by the Manager, or the information contained in or our measurement of the plans and documents available to us. We have no reason to doubt the truth and accuracy of the information provided to us, which may be material to the valuation. Please note that all measurements are only approximations. We are advised that the standard tenancy agreement of the Properties states that the landlord is obligated to handle structural repairs, upkeep the landlord's fixtures and fittings and ensure the conduits are in tenantable repair whilst the tenants are responsible for conducting internal repairs to the Properties.

We have assumed that the Properties are erected within the lot boundary. No site investigation has been carried out to determine the suitability of the subsoil condition, services, etc. for development and we have assumed that these aspects are satisfactory. This report does not make any allowance for contamination or pollution of land, if any, which may have occurred as a result of past usage.

Site Inspection

We have conducted external inspections of the Properties in June 2023 to such extent that we consider necessary for the purpose of this valuation. Although not all areas in the Properties were accessible for viewing at the time of inspections, we have endeavoured to inspect all areas of the Properties. We were not instructed to undertake any structural surveys, test the services or arrange for any investigations to be carried out to determine whether any deleterious materials have been used in the construction of the Properties. Our valuation has therefore been undertaken on the basis that the Properties are in satisfactory repair and condition and contain no deleterious materials and that services function satisfactorily.

Valuation Methodology

We have adopted the Income Approach in this valuation.

In Income Approach, we take into account the rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate. Other income relating to advertising and promotion recoveries, casual leasing, sundry items and car parking revenue has additionally been incorporated within our calculations. Where appropriate, results of the Income Approach will be cross-checked by Direct Comparison Approach where reference has been made to the comparable sales evidence as available in the relevant markets.

Under the Direct Comparison Approach, a comparison is made based on unit prices realized on actual transactions of comparable properties. Comparable properties with high similarity to the subject are analysed and weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

Unless otherwise stated, all monetary amounts are stated in Hong Kong Dollars ("HK$").

Assumptions

We have made certain assumptions in the course of the valuation. These are noted as follows:

- **Information Provided.** We have relied to a considerable extent on the information provided by the Manager and have accepted the advice given to us on matters such as floor plans, number of units and car park, usage, licenses and all other relevant matters. The accuracy of the opinion reported herein may be affected should subsequently available information proved to be materially different.
- **Good title.** We have valued the Properties with the benefit of good titles and have assumed that all land premiums for the land grant and subsequent modifications and/or additions to the land grant conditions had been fully settled and paid.
- **Alienation.** We have assumed that the Properties are free of encumbrance and can be freely disposable and transferable in the market for their designated use for the whole of the unexpired term as granted.
- **Site Conditions.** We assumed that there are no hidden or unapparent conditions of the subject sites that would adversely affect the occupancy from an engineering, geological or environmental perspective.
- **Statutory Requirements.** We assumed that the uses of the Properties comply with the conditions of the relevant Government Leases, Outline Zoning Plans, Occupation Permits and other statutory requirements. We have further assumed that all necessary approvals and licenses for the Properties have been obtained from the relevant government authorities without onerous restrictions.
- **Land Tenure.** We assumed that all government leases and/or land grants will be renewed upon expiry under typical terms and arrangements.
- **Construction/User Compliance.** We have assumed that the Properties have been completed and used in accordance with relevant government regulations, ordinances and the approved building plans.
- **No Illegal/Unlicensed Business Activities.** We have assumed that all tenants and occupiers have obtained all relevant/required business licenses and that there are no illegal or unlicensed business operations within the Properties.
- **Rental and Management Fee Delinquency.** We have assumed that tenants would honour their obligations on their respective contractual lease terms, rents and management fees and there is no significant default in rental payment and management shortfall that would impact the values of the Properties. We have allowed for certain non-recoverable expenses for the assumed long term structural vacancy.
- **Unregistered Tenancies.** We have assumed that for those existing tenancy agreements that have not been registered with the relevant government departments, the legal effectiveness, validity and enforceability of those tenancies would not be affected.
- **Redevelopment.** Unless otherwise stated, we have not conducted any valuation on a redevelopment basis, nor study of possible alternative redevelopment options.

Confidentiality and Disclaimers

This valuation report will be for the sole use of the Manager, the Trustee and unitholders of Sunlight REIT (the "**Reliant Parties**"). We will not be liable for any loss arising from any unauthorised use or reliance upon this valuation report by anyone other than the Reliant Parties.

The Instructing Party is expected to keep the valuation report to itself (save and except where the valuation report is required to be published under the REIT Code, the Listing Rules and any other relevant laws and regulations) and not to disclose the report or any part of it to any third party.

This report and valuation shall be used only in its entirety and no part shall be used without making reference to the whole report. They may not be used for any purposes other than the intended purpose mentioned above. Neither the whole nor any part of the valuation report may be included in any other published document or circular without our prior written consent to the form and context in which they may appear (for the avoidance of doubt, save and except where the valuation report is required to be published under the REIT Code, the Listing Rules and any other relevant laws and regulations).

CBRE's liability associated with this report is limited as stated under the "Limitation of Liability" section of the letter of engagement signed between us and the Trustee dated 24 August 2021.

Market Volatility and Uncertainty – COVID-19

We draw your attention to a combination of global inflationary pressures (leading to higher interest rates) and recent failures/stress in banking systems which have significantly increased the potential for constrained credit markets, negative capital value movements and enhanced volatility in property markets over the short-to-medium term.

Experience has shown that consumer and investor behaviour can quickly change during periods of such heightened volatility. Lending or investment decisions should reflect this heightened level of volatility and the potential for deteriorating market conditions. Lending and Investment caution is advised in this regard.

It is important to note that the conclusions set out in this report are valid as at the Valuation Date only. Where appropriate, we recommend that the valuation is closely monitored, as we continue to track how markets respond to evolving events.

Valuer's Interest

We hereby confirm that:

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

The following staff have provided professional assistance to the person signing this report.

Bill Zhang, Alan Cheng, Ilkka Zhang

We enclose herewith a summary of valuation, our valuation particulars, office market overview and retail market overview, which together with this covering letter, form our valuation report in the summary form. A full version is available for public inspection at the registered office of the Manager.

Yours faithfully,
For and on behalf of
CBRE Limited

Stephen Lin
MHKIS MRICS MCIREA RPS(GP) RICS Registered Valuer
Senior Director
Valuation & Advisory Services

Encl.

Mr. Stephen Lin is a Member of the Hong Kong Institute of Surveyors (HKIS), a Member of the Royal Institution of Chartered Surveyors (RICS), a Member of the China Institute of Real Estate Appraisers and Agents, Registered Professional Surveyor (General Practice Division) as well as a RICS Registered Valuer with over 16 years' experience in real estate valuation in Hong Kong.

Summary of valuation

No.	Property	Approximate GRA (sq. ft.)	No. of Parking Lots*	Market Value at 30 June 2023 (HK$)	Capitalization Rate Adopted Retail (%)	Office (%)	Car Park & Others (%)	Estimated Net Property Yield (%)
1	Dah Sing Financial Centre	376,381	46	5,023,000,000	3.7	3.8	4.9	3.39
2	Strand 50	117,909	–	1,266,700,000	3.85	3.55	–	3.21
3	Various Portions in 135 Bonham Strand Trade Centre	63,915	–	558,200,000	3.85	3.65	–	3.65
4	Various Portions in Winsome House	40,114	–	536,200,000	3.65	3.65	–	2.89
5	Righteous Centre	51,767	–	535,000,000	3.5	3.75	5.5	4.06
6	The Harvest	34,651	–	534,000,000	3.4	3.55	–	3.07
7	235 Wing Lok Street Trade Centre	52,285	–	355,100,000	3.85	3.65	–	3.38
8	Java Road 108 Commercial Centre	37,923	–	268,400,000	4.05	3.85	–	4.18
9	On Loong Commercial Building	27,206	–	238,700,000	3.75	3.75	–	3.81
10	Various Portions in Sun Fai Commercial Centre	26,151	–	163,200,000	4.1	3.9	–	3.85
11	Various Portions in Wai Ching Commercial Building	16,321	–	77,800,000	3.95	3.65	–	3.92
12	Commercial Development (including all shops, the restaurant and the kindergarten) and Car Parks in the Podium and Basement, Sheung Shui Centre Shopping Arcade	122,339	297	3,760,000,000	4.35	–	5.5	4.03
13	Commercial Development and Car Parks, Metro City Phase I	188,889	452	3,050,000,000	4.35	–	5	4.33
14	Various Portions in Kwong Wah Plaza	68,411	–	1,152,000,000	3.65	3.7	4.7	3.72
15	West 9 Zone Kids	58,836	17	845,000,000	4.25	–	5	4.08
16	Shops 1 to 9 on Ground Floor and Commercial Common Areas and Facilities, Supernova Stand	4,226	–	75,000,000	3.8	–	–	3.87
17	Various Shops Units on Ground Floor, Beverley Commercial Centre	7,934	–	73,900,000	4.15	–	–	3.83
	Total	**1,295,258**		**18,512,200,000**				

* Excluding motorcycle and bicycle spaces

Valuation Particulars

Dah Sing Financial Centre

Dah Sing Financial Centre at 248 Queen's Road East, Wan Chai, Hong Kong

Description

Dah Sing Financial Centre is a 40-storey (including mechanical floor) commercial development in Wan Chai district with retail units on the G/F and car parking spaces on 1/F to 4/F. 5/F is designated for mechanical floor and 6/F to 42/F are designated for office uses. The development was completed in 1998. (14/F, 24/F, and 34/F are omitted from floor numbering)

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

Tenure

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

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

Monthly rental income as at 30 June 2023

about HK$13,770,000, exclusive of rates, management and air conditioning charges but inclusive of turnover rent

Monthly car parking income as at 30 June 2023*

about HK$408,000, exclusive of operating expenses, rates, government rents and management fees

Monthly licence income as at 30 June 2023*

about HK9,900, exclusive of rates and management fees

Market value in existing state as at 30 June 2023

HK$5,023,000,000

Estimated Net Property Yield

3.39%

Strand 50

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

Description

Strand 50 is a 28-storey commercial development in Sheung Wan district. G/F and 1/F of the development are designated for shops and 2/F to 27/F are designated for office use. The development was completed in 1998.

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

Tenure

Inland Lot No. 15 is held under Government Lease for a term of 999 years commencing on 26 December 1860. The Government rent for the remaining portion of the lot is HK$11.9 per annum.

Marine Lot No. 142 is held under Government Lease for a term of 981 years commencing on 26 December 1860. The Government rent for the lot is HK$41.96 per annum.

Marine Lot No. 144 is held under Government Lease for a term of 981 years commencing on 26 December 1860. The Government rent for the lot is HK$82.84 per annum.

Monthly rental income as at 30 June 2023

about HK$3,387,000, exclusive of rates, management and air conditioning charges

Market value in existing state as at 30 June 2023

HK$1,266,700,000

Estimated Net Property Yield

3.21%

* Monthly car parking income and monthly licence income are the average of the respective income from June 2022 to May 2023

135 Bonham Strand Trade Centre

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

Description

135 Bonham Strand Trade Centre is a 25-storey (including mechanical floor) commercial development in Sheung Wan district with retail units on G/F and offices on 1/F to 2/F and 4/F to 24/F (3/F is designated for plant rooms). The development was completed in 2000.

The Property comprises Shop Nos. 1-2 and 6-7 on G/F and Office Nos. 1-5 on 1/F to 2/F and 6/F to 24/F. The total gross rentable areas of the retail and office portions of the Property are 3,071 sq. ft. and 60,844 sq. ft. respectively, with a total of about 63,915 sq. ft. (5,937.85 sq. m.).

Tenure

Marine Lot No. 173 is held under Government Lease for a term of 999 years commencing on 26 December 1860. The total Government rent for Section A, Section B and the Remaining Portion for the lot is HK$88 per annum.

Inland Lot No. 6896 is held under Government Lease for a term of 75 years commencing on 14 November 1952, renewable for 75 years thereafter. The Government rent for the lot is HK$196 per annum.

Monthly rental income as at 30 June 2023

about HK$1,699,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$558,200,000

Estimated Net Property Yield

3.65%

Winsome House

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

Description

Winsome House is a 27-storey commercial development in Central district with retail units on LG/F and UG/F. 1/F to 25/F are designated for office use. The development was completed in 1999.

The Property comprises Shop 1 on UG/F (together with the adjoining flat roof), Shop 3 (together with the flat roof above) and Shop 4 on LG/F, Offices Nos. 1 on 2/F to 7/F, 9/F, 10/F, 14/F to 17/F and 19/F to 21/F; Office No. 1 on 25/F; Offices Nos. 2 on 2/F to 7/F, 9/F, 10/F, 13/F to 17/F, 19/F to 21/F and 25/F. The total gross rentable areas of the retail and office portions of the Property are 2,177 sq. ft. and 37,937 sq. ft. respectively, with a total of about 40,114 sq. ft. (3,726.68 sq. m.). The flat roofs between the LG/F and UG/F are about 393 sq. ft. (36.51 sq. m.).

Tenure

Inland Lot No. 5025 is held under Government Lease for a term of 999 years commencing on 26 June 1843. The Government rent for the lot is HK$16 per annum.

Inland Lot No. 7968 is held under Conditions of Exchange No. 8224 for a term of 999 years commencing on 22 January 1844. The Government rent for the lot is HK$30 per annum.

Inland Lot No. 994 is held under Government Lease for a term of 999 years commencing on 26 June 1843. The Government rent for the lot is HK$130 per annum.

Monthly rental income as at 30 June 2023

about HK$1,290,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$$536,200,000

Estimated Net Property Yield

2.89%

Righteous Centre

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

Description

Righteous Centre is a 26-storey (including mechanical floor) commercial development in Mong Kok district with retail units on G/F to 3/F. 4/F is designated for mechanical plant rooms and 5/F to 25/F are designated for office use. The development was completed in 1996.

The Property comprises the whole of the retail units and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 10,763 sq. ft. and 41,004 sq. ft. respectively, with a total of about 51,767 sq. ft. (4,809.27 sq. m.).

Tenure

Kowloon Inland Lot No. 6827 is held under Conditions of Renewal No. UB5654 for a term of 150 years commencing on 25 December 1887. The Government rent for Section A of the lot is HK$78 per annum.

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

Monthly rental income as at 30 June 2023

about HK$1,777,000, exclusive of rates, management and air conditioning charges.

Monthly licence income as at 30 June 2023*

about HK$33,600, exclusive of rates and management fees

Market value in existing state as at 30 June 2023

HK$535,000,000

Estimated Net Property Yield

4.06%

The Harvest

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

Description

The Harvest is a 22-storey (including basement) commercial development in Mong Kok district. B/F to 4/F of the development are designated for bank use according to the Alterations and Additions Plans; and 5/F to 20/F are designated for office use. The development was completed in 1981.

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

Tenure

Kowloon Inland Lot No. 7891 is held under Conditions of Renewal No. 6372 for a term of 150 years commencing on 25 December 1887. The Government rent for the lot is HK$152 per annum.

Monthly rental income as at 30 June 2023

about HK$1,367,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$534,000,000

Estimated Net Property Yield

3.07%

* Monthly licence income is the average of the income from June 2022 to May 2023

235 Wing Lok Street Trade Centre

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

Description

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

The Property comprises the whole of the retail units and all office units in the development. The total gross rentable areas of the retail and office portions of the Property are 4,804 sq. ft. and 47,481 sq. ft. respectively with a total of about 52,285 sq. ft. (4,857.40 sq. m.).

Tenure

Marine Lot No. 37A is held under Government Lease for a term of 979 years commencing on 26 December 1863. The Government rents for the Remaining Portion of Section A and Section B of the lot are HK$20 and HK$38 per annum respectively.

Monthly rental income as at 30 June 2023

about HK$$999,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$355,100,000

Estimated Net Property Yield

3.38%

Java Road 108 Commercial Centre

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

Description

Java Road 108 Commercial Centre is a 25-storey commercial development in North Point with retail units on G/F. 1/F to 24/F are designated for office use. The development was completed in 1998.

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

Tenure

Inland Lot No. 3539 is held under Government Lease for a term of 75 years commencing on 12 June 1933, renewable for 75 years thereafter. The Government rents for Section C and Section D of the lot are HK$95,770 and HK$93,142 respectively.

Monthly rental income as at 30 June 2023

about HK$935,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$268,400,000

Estimated Net Property Yield

4.18%

On Loong Commercial Building

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

Description

On Loong Commercial Building is a 23-storey commercial development in Wan Chai with retail units on G/F. The development was completed in 1984.

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

Tenure

Inland Lot No. 7061 is held under Government Lease for a term of 99 years commencing on 11 May 1928, renewable for 99 years thereafter. The Government rent for the lot is HK$10 per annum.

Inland Lot No. 7062 is held under Government Lease for a term of 99 years commencing on 11 May 1928, renewable for 99 years thereafter. The Government rent for the lot is HK$10 per annum.

Monthly rental income as at 30 June 2023

about HK$758,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$238,700,000

Estimated Net Property Yield

3.81%

Sun Fai Commercial Centre

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

Description

Sun Fai Commercial Centre is a 15-storey commercial development in Mong Kok with retail units on G/F, 1/F to 14/F being designated for office use. The development was completed in 1998.

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

Tenure

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

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

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

Monthly rental income as at 30 June 2023

about HK$524,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$163,200,000

Estimated Net Property Yield

3.85%

Wai Ching Commercial Building

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

Description

Wai Ching Commercial Building is a 19-storey commercial development in Mong Kok with retail units on G/F to 1/F. 2/F to 18/F are designated for office use. The development was completed in 1997.

The Property comprises Shop 2 on G/F, Office Units 1 to 2 on 1/F, 3/F to 7/F and 9/F to 18/F, and Office Unit 1 on 2/F. The total gross rentable areas of the retail and office portions of the Property are 2,082 sq. ft. and 14,239 sq. ft. respectively, with a total of about 16,321 sq. ft. (1,516.26 sq. m.).

Tenure

Kowloon Inland Lot No. 6167 is held under Government Lease for a term of 75 years commencing on 18 September 1974. The Government rent for the lot is HK$28,696 per annum.

Kowloon Inland Lot No. 6168 is held under Government Lease for a term of 75 years commencing on 18 September 1974. The Government rent for the lot is HK$28,870 per annum.

Monthly rental income as at 30 June 2023

about HK$254,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$$77,800,000

Estimated Net Property Yield

3.92%

Sheung Shui Centre Shopping Arcade

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

Description

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

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

Tenure

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

Monthly rental income as at 30 June 2023

about HK$11,318,000, exclusive of rates, management and air conditioning charges but inclusive of turnover rent.

Monthly car parking income as at 30 June 2023*

about HK$890,000, exclusive of operating expenses, rates, government rents and management fees.

Monthly licence income as at 30 June 2023*

about HK$406,000, exclusive of rates and management fees.

Market value in existing state as at 30 June 2023

HK$3,760,000,000

Estimated Net Property Yield

4.03%

* Monthly car parking income and monthly licence income are the average of the respective income from June 2022 to May 2023

Metro City Phase I

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

Description

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

The Property comprises the whole of the retail units on G/F and Level 2 of the podium with a total gross rentable area of about 188,889 sq. ft. (17,548.22 sq. m.). It also comprises the car parks on G/F to Level 2 of the podium.

Tenure

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

Monthly rental income as at 30 June 2023

about HK$9,296,000, exclusive of rates, management and air conditioning charges but inclusive of turnover rent.

Monthly car parking income as at 30 June 2023*

about HK$1,567,000, exclusive of operating expenses, rates, government rents and management fees.

Monthly licence income as at 30 June 2023*

about HK$146,000, exclusive of rates and management fees.

Market value in existing state as at 30 June 2023

HK$3,050,000,000

Estimated Net Property Yield

4.33%

Kwong Wah Plaza

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

Description

Kwong Wah Plaza is a 17-storey (including basement and mechanical floor) commercial development in Yuen Long with retail units on B/F to 1/F. 2/F is designated for mechanical floor and 3/F to 15/F are designated for office use. The development was completed in 1998.

The Property comprises the whole of the retail units and some office units in the development. The total gross rentable areas of the retail and office portions of the Property are 25,741 sq. ft. and 42,670 sq. ft. respectively, with a total of about 68,411 sq. ft. (6,355.54 sq. m.). The Property also comprises a Flat Roof on 13/F with an area of about 171 sq. ft. (15.85 sq. m.).

Tenure

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

Monthly rental income as at 30 June 2023

about HK$3,562,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$1,152,000,000

Estimated Net Property Yield

3.72%

* Monthly car parking income and monthly licence income are the average of the respective income from June 2022 to May 2023

West 9 Zone Kids

Commercial Accommodation including External Wall Advertising Spaces 1–8 and 17 Commercial Carparking Spaces, Florient Rise, No. 38 Cherry Street, Tai Kok Tsui, Kowloon

Description

Florient Rise ("the Development") is a residential cum commercial development bounded by Cherry Street, Hoi King Street, Foo Kwai Street and Tai Kok Tsui Road at the southern part of Tai Kok Tsui in Yau Tsim Mong District. The Development is directly connected to the MTR Olympic station of the Tung Chung Line.

According to the Occupation Permits No. KN39/2008(OP), Commercial Development was completed in 2008.

The Property comprises the whole of the retail units on G/F to 2/F of the podium (including all shops) with a total gross rentable area of about 58,836 sq. ft. (5,466 sq. m.) and the commercial car park with 17 car parking spaces.

Tenure

Inland Lot No. 11162 is held under Conditions of Exchange No. UB12664 for a term of 50 years commencing on 14 October 2004 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.

Monthly rental income as at 30 June 2023

about HK$2,805,000, exclusive of rates, Government rent, management fee and air-conditioning charges.

Monthly car parking income as at 30 June 2023*

about HK$51,000, exclusive of operating expenses, rates, government rents and management fees.

Monthly licence income as at 30 June 2023*

about HK$15,000, exclusive of rates and management fees.

Market value in existing state as at 30 June 2023

HK$845,000,000

Estimated Net Property Yield

4.08%

* Monthly car parking income and monthly licence income are the average of the respective income from June 2022 to May 2023

Supernova Stand

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

Description

Supernova Stand is a 27-storey residential development in North Point with retail units on G/F. The development was completed in 2001.

The Property comprises the whole of the retail units on G/F with a total gross rentable area of about 4,226 sq. ft. (392.60 sq. m.).

Tenure

Inland Lot No. 1366 is held under Government Lease for a term of 999 years commencing on 24 February 1896. The Government rent for the lot is HK$338 per annum.

Monthly rental income as at 30 June 2023

about HK$242,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$75,000,000

Estimated Net Property Yield

3.87%

Beverley Commercial Centre

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

Description

Beverley Commercial Centre is a 20-storey (including basement) commercial development in Tsim Sha Tsui with retail units on B/F to 2/F. The development was completed in 1982.

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

Tenure

Kowloon Inland Lot Nos. 10574, 10211, 10575, 10518, 10580, 10160, 10503, 10526, 10247 and 10616 are held under Conditions of Regrant Nos. 11117, 10318, 11118, 11125, 11098, 10312, 11134, 11053, 10404 and 11243 respectively each for a term of 150 years commencing on 25 December 1902. The total Government rent for the lots is HK$7,576 per annum.

Monthly rental income as at 30 June 2023

about HK$236,000, exclusive of rates, management and air conditioning charges.

Market value in existing state as at 30 June 2023

HK$73,900,000

Estimated Net Property Yield

3.83%

Valuation Report

Office Market Overview

Introduction

Hong Kong's office market has been traditionally dominated by centralised districts such as Central, Admiralty, Wan Chai and Causeway Bay in Hong Kong Island and Tsim Sha Tsui in Kowloon.

In recent years, some upscale decentralized districts such as Quarry Bay and Wong Chuk Hang in Hong Kong Island, Kowloon Bay and Kwun Tong in Kowloon East, are gaining popularity due to the rental discounts and connectivity improvements offered by these districts.

Supply

According to the Rating and Valuation Department, there were a total of 139.0 million sq. ft.[Note] of office stock as of the end of 2022, of which Grade A, Grade B and Grade C made up 66%, 23% and 11% respectively.

In 2023 and 2024, it is estimated that a total of 4.0 million sq. ft. of new Grade A office space will be due for completion, two-thirds of which is due to come on stream in 2023, including 0.8 million sq. ft. in Central, 1.1 million sq. ft. in Cheung Sha Wan and the remainder in Wan Chai, Wong Chuk Hang and Kowloon East. Certain notable new office buildings expected to be completed in 2023 include Cheung Kong Center II and The Henderson in Central, Six Pacific Place in Wan Chai and Portas in Cheung Sha Wan.

New supply is likely to further boost vacancy in H2 2023 given the current slow pre-commitment rate. Low absorption in stock completed in 2022 (or before) will dilute demand for upcoming supply. While occupier demand and leasing volume are expected to recover gradually, the substantial volume of space will not be absorbed in a short period of time. The adoption of hybrid working may also result in lower demand compared with historical levels.

Leasing Trend

The lifting of travel restrictions and steady economic recovery led to a pick-up in leasing momentum in Q1 2023. New leasing volume rose 42.0% q-o-q to 1.1 million sq. ft., although the increase was inflated by the low base in the previous quarter. Prolonged global economic uncertainty continued to negatively impact office leasing demand in Q2 2023. Gross leasing volume shrank by 26% q-o-q to 786,000 sq. ft., bringing the H1 2023 total to 1.8 million sq. ft., a decline of 11% y-o-y. Most deals registered during the quarter were generally small in size despite an increase in the number of transactions.

The rise in leasing volume ensured positive net absorption for a third consecutive quarter, registering 135,900 sq. ft. in Q1 2023. Commitments to newer buildings in Kowloon continued to underpin net absorption. Deals included an insurance company leasing 188,600 sq. ft. in Portas, Tower A in Cheung Sha Wan, a new building to be completed in Q3 2023. However, after staying positive for three consecutive quarters due to several major new relocation lettings, net absorption fell back into negative territory of -378,900 sq. ft. in Q2 2023, as these tenants returned sizable spaces in their previous locations. Negative net absorption was recorded in all major submarkets except Wan Chai/Causeway Bay and Wong Chuk Hang. This brought net absorption in H1 2023 to -283,100 sq. ft.

The majority of negative net absorption was contributed by Greater Central which recorded a total of -273,000 sq. ft. in 1H 2023, staying negative for the third consecutive quarter.

Having stayed negative for the past five quarters, net absorption in Wan Chai/Causeway Bay rose to 15,700 sq. ft. in Q2 2023 (-6,600 sq. ft. in Q1 2023), bringing H1 2023 to a positive net absorption of 9,100 sq. ft.

Note : Internal Floor Area

Vacancy

Despite the absence of new supply in 1H 2023, overall negative net absorption ensured vacancy reaching another new record high of 15.7%. As of June 2023, all submarkets recorded double-digit vacancy, the first time in history. Total vacant space reached 13.5 million sq. ft., also an all-time high.

By submarkets, Greater Central vacancy grew by 1.8-ppt to 10.1%, the first time in history it has reached a double-digit level. This was also the sharpest rise since Q4 2020, with the higher vacancy mainly attributed to Admiralty and Sheung Wan. Meanwhile, core Central's vacancy rate remained single-digit. Hong Kong East also logged the sharpest increase in vacancy, rising to 14.7%. Tsim Sha Tsui's vacancy increased to 13.6%, marking an all-time high, with pressure mainly coming from buildings in core Tsim Sha Tsui. Kowloon East vacancy edged down by 0.5-ppt to 21.9% (mainly attributed to a 0.8-ppt drop in Q1 2023 thanks to steady absorption of spaces in new buildings completed in 2022, such as The Millennity and Airside)

Rental Trend

Despite an increase in leasing volume in Q1 2023, high vacancy and limited expansionary demand ensured a fall in overall rents by 1.7% q-o-q, largely the same with the 1.6% q-o-q decline registered in Q4 2022. Overall rents in Q2 2023 fell for the 17th consecutive quarter, declining 0.5% q-o-q, bringing the contraction for H1 2023 to 2.2%. Rents in all major submarkets fell amid rising vacancy. However, the decline was slower than the previous quarter's fall as landlords adopted a wait-and-see approach amid positive economic growth and normalised business and travel activities.

Rising vacancy ensured a rental drop in Greater Central by 1.9% in H1 2023, as landlords strived to remain competitive in view of large upcoming supply due in H2 2023. Slower leasing momentum in Wan Chai/Causeway Bay pushed rents lower by 2.1% in total during the first half of 2023. A rapid jump in Hong Kong East vacancy, which was especially prominent in North Point, marked a total of 4.2% rental decline y-t-d. Tsim Sha Tsui was the only submarket with rents staying flat during H1 2023. Despite positive net absorption, rents in Kowloon East fell by 1.6% q-o-q in Q1 2023, amid strong competition within the submarket between various recently completed new buildings. This trend did carry forward to Q2 2023, leading to a total rental drop of 3.5% during H1 2023.

According to the Rating and Valuation Department, the average office rent during the first five months of 2023 dropped by 0.8% y-t-d. Grade A and Grade B offices recorded a drop of 1.0% y-t-d and 1.3% y-t-d, respectively while Grade C offices increased by 1.1% y-t-d.

Outlook

Leasing momentum is expected to remain stable in H2 2023 on the back of the improving economy. However, ongoing financial market uncertainties and corporates' gradual shift to activity-based working will continue to constrain the recovery of office demand.

While banks and financial institutions are likely to remain cost cautious, some smaller emerging sectors such as wealth management, family offices, medical and healthcare and other new economy firms may spur the demand for office space. Some new set-ups from these sectors may see coworking centres an option for their debuts. However, the growth of tourist-related sectors will be determined by the pace of the recovery in visitor arrivals in H2 2023, which is currently at about half of pre-pandemic levels.

Although demand from mainland Chinese companies has not shown any sign of a strong rebound despite normalised cross border travel, the introduction of new measures to stimulate China's economic growth in H2 2023 should help to drive the gradual return of office demand from Chinese enterprises.

Vacancy is expected to rise in H2 2023, with 2.8 million sq. ft. of new supply expected to come on stream over the next six months and a low pre-commitment rate of below 30%. With more new supply, occupiers will have more options for flight-to-quality moves.

The anticipated increase in new supply may impose pressure on landlords, and they are likely to stay flexible towards negotiations. The slow recovery of leasing momentum means the rental downcycle is likely to be extended, with rents in most submarkets forecast to decline by up to 5% in 2023.

Retail Market Overview

Introduction

The beginning of 2023 marked a return to normalcy for Hong Kong with a full resumption of cross-border travel, while all anti-pandemic restrictions were lifted.

Underpinned by strengthening consumer sentiment, total retail sales grew by 24.1% y-o-y in Q1 2023, the largest quarterly growth rate since Q3 2011. In terms of retail sales value, the HK$102.8 billion registered during the quarter was the highest level since Q2 2019.

Private consumption expenditure rose significantly by 12.5% y-o-y in Q1 2023, accelerating from a growth of 1.7% y-o-y in the preceding quarter, albeit a low base of comparison. Private consumption expenditure showed notable growth as sentiment improved sharply along with the removal of anti-epidemic measures in both Hong Kong and the Mainland.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (Q2 2023), the proportion of respondents expecting a better business situation in Q2 2023 is 25%, higher than expecting it will be worse (10%). Analysed by sector, significantly more respondents in the accommodation and food services, manufacturing, retail, financing and insurance sectors expect their business situation to be better in Q2 2023 (as compared with Q1 2023).

Supply

According to the Rating and Valuation Department, there were a total of 125.9 million sq. ft. of commercial stock by end of 2022.

In 2022, a total of 1.5 million sq. ft. of retail space was completed, including two major shopping malls – Airside in Kai Tak and The Millennity in Kwun Tong.

Between 2023 to 2024, it is estimated that a total of 6.7 million sq. ft. of retail space will be due for completion. This marks a significant increase in retail space as compared to previous years. Among these new retail supply, approximately 80% of the spaces will come from five large shopping malls; one in Chek Lap Kok (11 Skies), spanning 2.66 million sq. ft., two located in Kai Tak, comprising a total of 1.63 million sq. ft., while the remaining was from The Southside in Wong Chuk Hang and The Wai in Tai Wai.

Leasing Trend

With cross-border travel returning to normal and retail sales rebounding, leasing momentum accelerated in Q1 2023, propelled by demand from pharmacies and cosmetics retailers. Leasing momentum continued to be strong in Q2 2023 with H1 2023 logging the highest half-yearly level since 2010, where these retail leasing transactions mainly took place in high street shops. Several sectors exhibited strong expansionary demand, with increased activities observed along first-tier high streets in core districts during the quarter.

Local pharmacies accounted for one-third of new leases in Q1 2023, supported by the return of mainland tourist demand for necessities and products such as medicines and cosmetics. Mong Kok and Tsim Sha Tsui were the main beneficiaries of this rebound in leasing demand, although new shops are typically under 3,000 sq. ft. Strong demand from these trades offset the impact of numerous facemask stores returning units on first-tier high streets. Despite the gradual return of tourists, luxury fashion brands remained cautious and F&B remained the major demand driver in H1 2023. New commitments included an anime-themed restaurant, which leased 75,100 sq. ft. spanning three floors of Silvercord in Tsim Sha Tsui. Cosmetics retailers were also active, with major deals including Chanel's 17,600 sq. ft. lease commitment at Capitol Centre in Causeway Bay. Among fashion brands, demand was mainly driven by casual wear.

Vacancy

Strong leasing momentum ensured high-street shop vacancy falling 3.3-ppt to 11.6% in 1H 2023, the lowest since Q1 2020. Causeway Bay registered the sharpest fall of 4.2-ppt to 7.9%, narrowing the gap with Central's 6.6%. Vacancy in Tsim Sha Tsui and Mong Kok fell 4.3-ppt and 2.8-ppt, respectively, to 15.9% and 13.7%, marking the lowest levels since Q3 2020.

Rental Trend

Lower vacancy supported a rebound in rents on high-streets by 1.2% q-o-q in Q1 2023, adding to gains of 0.2% q-o-q logged in the preceding quarter. All core districts registered accelerated rental growth. High-street rents rose at a faster rate in Q2 2023, increasing by 1.9% q-o-q, bringing year-to-date growth to 3.1%. All core districts registered stronger rental growth in Q2 2023.

Outlook

With more holidays and festive events in H2 2023, visitor arrivals should continue to increase in the coming months, spurring stronger tourist consumption. The 500,000-air ticket giveaway under the Government's Hello Hong Kong promotional campaign will also likely boost arrivals in H2 2023, given the nine-month validity period of the air tickets.

Meanwhile, distribution of the second instalment of the HK$5,000 Consumption Voucher Scheme to Hong Kong's permanent residents in mid-July will provide support to local spending. Coupled with the strong labour market and improving local economy, domestic consumption is expected to stay resilient in the short-to-medium term.

Demand from tourist-oriented retailers is also expected to remain strong, driven by cosmetics, beauty product chains, and pharmacies. Demand from fashion retailers will be led by local brands and casual wear, while luxury fashion brands are likely to remain in a holding pattern. With the border now fully re-open, mainland Chinese F&B operators and retailers will gather momentum.

As mentioned above, 6.0 million sq. ft. of new shopping mall stock is due to come on stream over the next 18 months, with the majority located in decentralised locations. This will provide opportunities for retailers and F&B operators, especially new entrants, to enhance their presence in Hong Kong. Abundant new supply will cater to increasing demand, with realistic rental offers set to be key to successfully concluding transactions.

With retail leasing demand expected to gain further momentum in H2 2023, CBRE expects high street shop rents to recover steadily, growing by a projected 5%-10% in 2023.

Trustee's Report

We hereby confirm that, in our opinion, the manager of Sunlight Real Estate Investment Trust has, in all material respects, managed Sunlight Real Estate Investment Trust in accordance with the provisions of the amended and restated trust deed dated 10 May 2021 for the year ended 30 June 2023.

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

Hong Kong, 6 September 2023

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

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sunlight Real Estate Investment Trust ("**Sunlight REIT**") and its subsidiaries (together the "**Group**") set out on pages 92 to 140, which comprise the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the distribution statement and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 30 June 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Basis for opinion

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

Key audit matters

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

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

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

Key audit matters (continued)

Valuation of investment properties

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

The Key Audit Matter	How the matter was addressed in our audit
The Group holds a portfolio of investment properties located in Hong Kong, which had an aggregate fair value of HK$18,512 million and accounted for 96% of the Group's total assets as at 30 June 2023. The fair values of the investment properties as at 30 June 2023 were assessed by Henderson Sunlight Asset Management Limited, as the manager of Sunlight REIT (the "**Manager**"), based on valuations prepared by qualified external property valuers. The decrease in fair value of investment properties recorded in the consolidated statement of profit or loss for the year ended 30 June 2023 amounted to HK$354 million. We identified the valuation of the Group's investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of the changes in fair value of the investment properties to the profit before taxation of the Group and because the valuation of investment properties is complex and involves a significant degree of judgement and estimation in determining capitalisation rates and market rents.	Our audit procedures to assess the valuation of investment properties included the following : • obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the Manager's assessment of the valuation of investment properties was based; • assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity; • with the assistance of our internal property valuation specialists and utilising their industry knowledge and experience, discussing with the external property valuers their valuation methodology without the presence of the Manager, and assessing the key estimates and assumptions adopted in the valuation by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data; and • comparing the tenancy information, including committed rents and occupancy rates, provided by the Manager to the external property valuers, with underlying contracts and relevant underlying documentation, on a sample basis.

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

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

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

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

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

Responsibilities of the Manager for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 September 2023

Consolidated Statement of Profit or Loss

For the year ended 30 June 2023
(Expressed in Hong Kong dollars)

	Note	2023 $'000	2022 $'000
Revenue	3 & 4	**783,272**	802,930
Property operating expenses	3 & 5	**(159,296)**	(161,031)
Net property income		**623,976**	641,899
Other net income	6	**7,491**	5,307
Administrative expenses		**(105,973)**	(105,813)
Net decrease in fair value of investment properties	10	**(354,424)**	(263,890)
Profit from operations		**171,070**	277,503
Finance costs on interest-bearing liabilities	7(a)	**(132,294)**	(98,396)
Profit before taxation and transactions with unitholders	7	**38,776**	179,107
Income tax	8(a)	**(67,208)**	(76,163)
(Loss) / profit after taxation and before transactions with unitholders		**(28,432)**	102,944

The notes on pages 100 to 140 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023
(Expressed in Hong Kong dollars)

	2023 $'000	2022 $'000
(Loss) / profit after taxation and before transactions with unitholders	**(28,432)**	102,944
Other comprehensive income for the year		
Items that have been reclassified / may be reclassified subsequently to profit or loss :		
– Effective portion of changes in fair value of cash flow hedges recognised during the year	**(12,103)**	98,086
– Net reclassification adjustments for amounts transferred to profit or loss in respect of :		
– finance costs on interest-bearing liabilities	**(4,904)**	(16)
– unrealised exchange difference on foreign currency borrowing	**24,752**	108,323
– unwinding of swaps	**(5,593)**	(295)
	2,152	206,098
Total comprehensive (loss) / income for the year	**(26,280)**	309,042

The notes on pages 100 to 140 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 30 June 2023
(Expressed in Hong Kong dollars)

	Note	2023 $'000	2022 $'000
Non-current assets			
Fixed assets	10		
– Investment properties		**18,512,200**	18,095,200
– Other fixed assets		**1,115**	81
		18,513,315	18,095,281
Deferred tax assets	8(c)	**358**	500
Derivative financial instruments	12	**9,234**	14,395
Reimbursement rights	11	**37,436**	37,436
Other financial assets	13	**80,769**	104,453
Other non-current assets	14	**12,430**	1,224
		18,653,542	18,253,289
Current assets			
Trade and other receivables	15	**53,254**	64,777
Derivative financial instruments	12	**25,816**	11,326
Cash and bank balances	16(a)	**485,242**	630,990
Tax recoverable		**8**	–
		564,320	707,093
Total assets		**19,217,862**	18,960,382
Current liabilities			
Tenants' deposits	17	**(206,358)**	(201,406)
Rent receipts in advance		**(15,765)**	(7,469)
Trade and other payables	18	**(75,434)**	(69,372)
Bank and other borrowings	19	**(707,000)**	(1,298,987)
Derivative financial instruments	12	**(8,829)**	(11,386)
Tax payable		**(58,635)**	(65,568)
		(1,072,021)	(1,654,188)
Net current liabilities		**(507,701)**	(947,095)
Total assets less current liabilities		**18,145,841**	17,306,194

Consolidated Statement of Financial Position (continued)

At 30 June 2023
(Expressed in Hong Kong dollars)

	Note	2023 $'000	2022 $'000
Non-current liabilities, excluding net assets attributable to unitholders			
Bank and other borrowings	19	**(4,164,229)**	(2,989,807)
Deferred tax liabilities	8(c)	**(241,557)**	(217,627)
Derivative financial instruments	12	**(70,851)**	(47,341)
		(4,476,637)	(3,254,775)
Total liabilities, excluding net assets attributable to unitholders		**(5,548,658)**	(4,908,963)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		**13,669,204**	14,051,419
Number of units in issue	20	**1,695,035,157**	1,681,712,071
Net asset value attributable to unitholders per unit		**$8.06**	$8.36

The consolidated financial statements on pages 92 to 140 were approved and authorised for issue by Henderson Sunlight Asset Management Limited, as the manager of Sunlight Real Estate Investment Trust (the "**Manager**"), on 6 September 2023 and were signed on its behalf by :

Au Siu Kee, Alexander
Chairman

Wu Shiu Kee, Keith
Executive Director

The notes on pages 100 to 140 form part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2023
(Expressed in Hong Kong dollars)

	Note	2023 $'000	2022 $'000
At the beginning of the year		**14,051,419**	14,124,253
(Loss) / profit after taxation and before transactions with unitholders		**(28,432)**	102,944
Other comprehensive income		**2,152**	206,098
Total comprehensive (loss) / income for the year		**(26,280)**	309,042
Distribution paid to unitholders		**(400,972)**	(423,665)
Issuance of units to the Manager	20	**45,037**	46,400
Units bought back	20	**–**	(4,594)
Units buy-back expenses	20	**–**	(17)
		(355,935)	(381,876)
At the end of the year		**13,669,204**	14,051,419

The notes on pages 100 to 140 form part of these consolidated financial statements.

Distribution Statement

For the year ended 30 June 2023
(Expressed in Hong Kong dollars)

	Note	2023 $'000	2022 $'000
(Loss) / profit after taxation and before transactions with unitholders		**(28,432)**	102,944
Adjustments (note (i)) :			
– Net decrease in fair value of investment properties	10	**354,424**	263,890
– Manager's fees paid or payable in the form of units		**45,161**	46,244
– Interest rate swaps – cash flow hedges	7(a)	**(5,384)**	313
– Non-cash finance costs on interest-bearing liabilities		**4,084**	5,290
– Deferred tax	8(a)	**10,246**	12,363
– Depreciation		**173**	25
		408,704	328,125
Annual distributable income (note (i))		**380,272**	431,069
Interim distribution, paid (notes (ii) and (iv))		**185,712**	204,615
Final distribution, to be paid to unitholders (notes (iii) and (iv))		**186,454**	215,259
Total distributions for the year (note (i))		**372,166**	419,874
Payout ratio (note (iii))		**97.9%**	97.4%
Distribution per unit :			
Interim distribution per unit, paid		**11.0 cents**	12.2 cents
Final distribution per unit, to be paid to unitholders		**11.0 cents**	12.8 cents
		22.0 cents	25.0 cents

Notes* :

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

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

In arriving at the amount available for distribution for the current year, adjustments have been made, among others, to add back the finance costs relating to the amortisation of debt establishment fees for bank and other borrowings and discount on issuance of medium term notes of $4,084,000 or 0.24 cent per unit (2022 : $5,290,000, or 0.31 cent per unit) (which is an effective return of capital), and to eliminate the effect of increase / decrease in fair value of investment properties.

For the year ended 30 June 2023
(Expressed in Hong Kong dollars)

Notes* : (continued)

(ii) The interim distribution of $185,712,000 for the six months ended 31 December 2022 (31 December 2021 : $204,615,000) is calculated by multiplying the interim distribution per unit of 11.0 cents by 1,688,295,340 units in issue at 8 March 2023, the record date for FY2022/23 interim distribution (31 December 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 final distribution of $186,454,000 for the year ended 30 June 2023 (2022 : $215,259,000) is calculated by multiplying the final distribution per unit of 11.0 cents by 1,695,035,157 units** anticipated to be in issue at 27 September 2023, the record date for FY2022/23 final distribution (the "**Record Date**") (2022 : 12.8 cents by 1,681,712,071 units in issue at 28 September 2022, the record date for FY2021/22 final distribution).

Together with the interim distribution, the total distributions for the year ended 30 June 2023 represent a payout ratio of 97.9% (2022 : 97.4%) of Sunlight REIT's annual distributable income for the year.

(iv) The FY2022/23 interim distribution was paid to unitholders on 16 March 2023. The FY2022/23 final distribution is expected to be paid on 10 October 2023 to unitholders whose names appear on the register of unitholders on the Record Date.

(v) The final distribution declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

* Certain figures in these notes to distribution statement have been rounded to the nearest thousand.

** It is anticipated that no additional units will be cancelled, if bought back, before the Record Date.

The notes on pages 100 to 140 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2023
(Expressed in Hong Kong dollars)

	Note	2023 $'000	2022 $'000
Operating activities			
Profit before taxation and transactions with unitholders		**38,776**	179,107
Adjustments :			
– Manager's fees paid or payable in the form of units		**45,161**	46,244
– Net decrease in fair value of investment properties	10	**354,424**	263,890
– Finance costs on interest-bearing liabilities	7(a)	**132,294**	98,396
– Depreciation	10	**173**	25
– Interest income		**(20,820)**	(7,153)
– Provision for credit losses on debt securities	6	**13,329**	2,876
– Net unrealised foreign exchange loss / (gain)		**136**	(956)
Operating cash flow before changes in working capital		**563,473**	582,429
Decrease / (increase) in trade and other receivables		**20,407**	(9,029)
Decrease in tenants' deposits		**(7,677)**	(159)
Increase / (decrease) in rent receipts in advance		**7,250**	(4,879)
Increase / (decrease) in trade and other payables		**5,100**	(406)
Cash generated from operations		**588,553**	567,956
Hong Kong Profits Tax paid		**(63,903)**	(68,384)
Hong Kong Profits Tax refunded		**–**	67
Net cash generated from operating activities		**524,650**	499,639
Investing activities			
Interest received		**19,455**	7,369
Payment for acquisition of subsidiaries	21	**(743,055)**	–
Payment for expenditure incurred for investment properties		**(22,734)**	(19,137)
Payment for purchase of other fixed assets		**(51)**	(13)
Payment for purchase of debt securities		**–**	(4,623)
Proceeds from redemption of matured debt securities		**10,000**	38,832
Decrease in bank deposits with original maturity over three months		**71,470**	85,195
Net cash (used in) / generated from investing activities		**(664,915)**	107,623
Financing activities			
Distribution paid to unitholders		**(400,972)**	(423,665)
Payment for buy-back of units		**–**	(4,611)
Proceeds from unwinding of swaps	12	**–**	16,625
Proceeds from new bank borrowings	16(b)	**1,652,000**	2,000,000
Repayment of bank borrowings	16(b)	**(1,045,000)**	(2,005,000)
Interest paid	16(b)	**(136,096)**	(92,948)
Other borrowing costs paid	16(b)	**(3,945)**	(4,790)
Net cash generated from / (used in) financing activities		**65,987**	(514,389)
Net (decrease) / increase in cash and cash equivalents		**(74,278)**	92,873
Cash and cash equivalents at the beginning of the year	16(a)	**326,257**	233,373
Effect of foreign exchange rate changes		**(1)**	11
Cash and cash equivalents at the end of the year	16(a)	**251,978**	326,257

The notes on pages 100 to 140 form part of these consolidated financial statements.

1 General

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

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

2 Significant accounting policies

(a) Statement of compliance

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

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

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

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

2 Significant accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 30 June 2023 incorporate the financial statements of Sunlight REIT and its subsidiaries.

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

– derivative financial instruments (see note 2(f)); and

– investment properties (see note 2(h)).

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

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

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

(c) Subsidiaries

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

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

2 Significant accounting policies (continued)

(d) Investments in debt securities

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

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

(e) Unitholders' funds as a financial liability

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

(f) Derivative financial instruments

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

2 Significant accounting policies (continued)

(g) Hedging

Cash flow hedges

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

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

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

(h) Investment properties

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

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

2 Significant accounting policies (continued)

(i) Other fixed assets

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

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

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

– Leasehold improvements, furniture and fixtures 3 – 5 years

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

(j) Leased assets

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

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

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

2 Significant accounting policies (continued)

(k) Credit losses and impairment of assets

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

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

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

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

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases :

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

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

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

2 Significant accounting policies (continued)

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

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

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Basis of calculation of interest income

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

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

2 Significant accounting policies (continued)

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

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

Basis of calculation of interest income (continued)

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

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

Write-off policy

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

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

(ii) *Impairment of other assets*

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

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

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

- *Calculation of recoverable amount*

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

2 Significant accounting policies (continued)

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

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(l) Trade and other receivables

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

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

(m) Interest-bearing borrowings

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

(n) Trade and other payables

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

(o) Cash and cash equivalents

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

2 Significant accounting policies (continued)

(p) Income tax

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

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

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

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

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

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

2 Significant accounting policies (continued)

(p) Income tax (continued)

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

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

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

(q) Provisions and contingent liabilities

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

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

2 Significant accounting policies (continued)

(r) Revenue and other income

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

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

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

(i) *Rental income from operating leases*

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

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

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

(iii) *Interest income*

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

(s) Borrowing costs

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

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

2 Significant accounting policies (continued)

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person :

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies :

(i) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(ii) The entity is controlled or jointly controlled by a person identified in (a).

(iii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.

(iv) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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

(v) Segment reporting

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

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

3 Segment reporting

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

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

3 Segment reporting (continued)

Segment results, assets and liabilities

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

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

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

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

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

	2023			2022		
	Office properties $'000	**Retail properties $'000**	**Total $'000**	**Office properties $'000**	**Retail properties $'000**	**Total $'000**
Revenue						
– Rental income	**315,776**	**302,311**	**618,087**	331,286	311,497	642,783
– Car park income	**4,967**	**29,661**	**34,628**	4,392	29,200	33,592
– Rental related income	**63,897**	**66,660**	**130,557**	62,862	63,693	126,555
	384,640	**398,632**	**783,272**	398,540	404,390	802,930
Property operating expenses	**(69,876)**	**(89,420)**	**(159,296)**	(72,707)	(88,324)	(161,031)
Net property income	**314,764**	**309,212**	**623,976**	325,833	316,066	641,899
Administrative expenses	**(49,277)**	**(45,759)**	**(95,036)**	(51,141)	(43,457)	(94,598)
Segment results	**265,487**	**263,453**	**528,940**	274,692	272,609	547,301
Net decrease in fair value of investment properties	**(345,203)**	**(9,221)**	**(354,424)**	(140,768)	(123,122)	(263,890)
Finance costs on interest-bearing liabilities			**(132,294)**			(98,396)
Income tax			**(67,208)**			(76,163)
Interest income			**20,820**			7,153
Unallocated net expenses			**(24,266)**			(13,061)
(Loss) / profit after taxation and before transactions with unitholders			**(28,432)**			102,944
Depreciation	**12**	**161**	**173**	10	15	25

3 Segment reporting (continued)

Segment results, assets and liabilities (continued)

	2023			2022		
	Office properties $'000	Retail properties $'000	Total $'000	Office properties $'000	Retail properties $'000	Total $'000
Segment assets	**9,617,297**	**8,995,708**	**18,613,005**	9,964,831	8,232,101	18,196,932
Derivative financial instruments			**35,050**			25,721
Other financial assets			**80,769**			104,453
Cash and bank balances			**485,242**			630,990
Tax recoverable			**8**			–
Deferred tax assets			**358**			500
Unallocated assets			**3,430**			1,786
Total assets			**19,217,862**			18,960,382
Segment liabilities	**(137,126)**	**(146,367)**	**(283,493)**	(141,376)	(127,642)	(269,018)
Derivative financial instruments			**(79,680)**			(58,727)
Bank and other borrowings			**(4,871,229)**			(4,288,794)
Tax payable			**(58,635)**			(65,568)
Deferred tax liabilities			**(241,557)**			(217,627)
Unallocated liabilities			**(14,064)**			(9,229)
Total liabilities, excluding net assets attributable to unitholders			**(5,548,658)**			(4,908,963)
Capital expenditure incurred during the year	**6,996**	**755,653***	**762,649***	12,367	5,293	17,660

* Included acquisition of subsidiaries amounting to $743,055,000 (see note 21).

4 Revenue

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

	2023 $'000	2022 $'000
Rental income (note)	**618,087**	642,783
Car park income	**34,628**	33,592
Rental related income	**130,557**	126,555
	783,272	802,930

Note : Included additional rents based on business revenue of tenants amounting to $1,495,000 (2022 : $1,244,000).

5 Property operating expenses

	2023 $'000	2022 $'000
Building management fee	**63,944**	59,487
Property Manager's fees (note)	**44,695**	45,143
Government rent and rates	**31,929**	29,892
Marketing and promotion expenses	**3,429**	4,330
Car park operating costs	**6,720**	6,273
(Reversal of provision) / provision for credit losses on rental receivables (note 15(b))	**(684)**	6,180
Other direct costs	**9,263**	9,726
	159,296	161,031

Note : During the year ended 30 June 2023, the property manager waived an amount of $788,000 (2022 : $399,000) from the reimbursement of staff costs incurred for the Group, reflecting the subsidies received from the Employment Support Scheme set up by The Government of the Hong Kong Special Administrative Region.

6 Other net income

	2023 $'000	2022 $'000
Bank interest income	**17,162**	2,991
Interest income from debt securities	**3,658**	4,162
Provision for credit losses on debt securities (note 22(a))	**(13,329)**	(2,876)
Others	**–**	1,030
	7,491	5,307

7 Profit before taxation and transactions with unitholders

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

	2023 $'000	2022 $'000
(a) Finance costs on interest-bearing liabilities		
Interest on bank and other borrowings	**133,594**	92,684
Other borrowing costs	**4,084**	5,399
	137,678	98,083
Interest rate swaps – cash flow hedges		
– Reclassified from net assets attributable to unitholders	**(4,904)**	(16)
– Net fair value (gain) / loss of ineffective cash flow hedges	**(480)**	329
	(5,384)	313
	132,294	98,396

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.

7 Profit before taxation and transactions with unitholders (continued)

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

	2023 $'000	2022 $'000
(b) Other items		
Manager's fees	**91,800**	91,638
Property Manager's fees (notes (i) and (iii))	**44,695**	45,143
Trustee's remuneration and charges	**4,709**	4,570
Auditor's remuneration		
– Audit services	**2,148**	2,008
– Other services	**512**	750
Valuation fee payable to principal valuer	**447**	483
Legal and other professional fees	**3,014**	3,234
Commission to property agents	**2,162**	3,083
Bank charges	**303**	301
Net foreign exchange loss / (gain)	**136**	(1,030)

Notes :

(i) Included rental commission of $9,485,000 (2022 : $8,692,000).

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

(iii) For the year ended 30 June 2023, 62.9% (2022 : 62.4%) of the total purchase of items or services were attributable to the five largest suppliers, with the largest one accounting for 41.1% (2022 : 41.2%). The largest supplier, being the Property Manager, is a wholly-owned subsidiary of Henderson Land Development Company Limited ("**HLD**"). HLD is interested in more than 5% of the total number of units in issue of Sunlight REIT.

8 Income tax

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

	2023 $'000	2022 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**57,037**	64,041
Over-provision in respect of prior years	**(75)**	(241)
	56,962	63,800
Deferred tax		
Origination and reversal of temporary differences	**10,246**	12,363
	67,208	76,163

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

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

	2023 $'000	2022 $'000
Profit before taxation and transactions with unitholders	**38,776**	179,107
Notional tax on profit before taxation and transactions with unitholders, calculated at applicable tax rates	**6,233**	29,388
Tax effect of non-deductible expenses	**80,057**	51,027
Tax effect of non-taxable income	**(17,843)**	(2,621)
Tax effect of current year's tax losses not recognised	**4**	153
Tax effect of other temporary differences derecognised	**(213)**	(454)
Tax effect of prior years' unrecognised tax losses recognised in current year	**(870)**	(1,010)
Tax effect of prior years' unrecognised tax losses utilised in current year	**(85)**	(79)
Over-provision in respect of prior years	**(75)**	(241)
Actual tax expense	**67,208**	76,163

8 Income tax (continued)

(c) Deferred tax assets and liabilities recognised :

The components of deferred tax liabilities / (assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from :	Depreciation allowances in excess of related depreciation $'000	Tax losses $'000	Total $'000
At 1 July 2021	208,863	(4,099)	204,764
Charged / (credited) to profit or loss	12,775	(412)	12,363
At 30 June 2022	221,638	(4,511)	217,127
At 1 July 2022	**221,638**	**(4,511)**	**217,127**
Charged to profit or loss	**10,011**	**235**	**10,246**
Acquisition of subsidiaries (note 21)	**14,737**	**(911)**	**13,826**
At 30 June 2023	**246,386**	**(5,187)**	**241,199**

	2023 $'000	2022 $'000
Represented by :		
Net deferred tax assets recognised	**(358)**	(500)
Net deferred tax liabilities recognised	**241,557**	217,627
	241,199	217,127

(d) Deferred tax assets not recognised :

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of unused tax losses of certain subsidiaries of $24,992,000 (2022 : $31,141,000) as it is probable that sufficient future taxable profits will not be available against which the unused tax losses can be utilised. The Hong Kong tax losses do not expire under current tax legislation.

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

The basic loss per unit before transactions with unitholders for the year ended 30 June 2023 amounted to $0.02 (2022 : basic earnings per unit before transactions with unitholders of $0.06). 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 $28,432,000 (2022 : profit after taxation and before transactions with unitholders of $102,944,000) and the weighted average of 1,687,367,291 units (2022 : 1,676,368,004 units) in issue during the year.

Diluted (loss) / earnings per unit before transactions with unitholders for the years ended 30 June 2023 and 2022 are not presented as there was no potential dilution of (loss) / earnings per unit before transactions with unitholders.

10 Fixed assets

	Leasehold improvements, furniture and fixtures $'000	Investment properties $'000	Total $'000
Cost or valuation :			
At 1 July 2021	374	18,341,700	18,342,074
Additions	13	17,390	17,403
Net decrease in fair value	–	(263,890)	(263,890)
At 30 June 2022	387	18,095,200	18,095,587
Representing :			
Cost	387	–	387
Valuation – 2022	–	18,095,200	18,095,200
	387	18,095,200	18,095,587
At 1 July 2022	387	18,095,200	18,095,587
Additions through acquisition of subsidiaries (note 21)	1,156	763,086	764,242
Additions	51	8,338	8,389
Net decrease in fair value	–	(354,424)	(354,424)
At 30 June 2023	1,594	18,512,200	18,513,794
Representing :			
Cost	1,594	–	1,594
Valuation – 2023	–	18,512,200	18,512,200
	1,594	18,512,200	18,513,794
Accumulated depreciation :			
At 1 July 2021	281	–	281
Charge for the year	25	–	25
At 30 June 2022	306	–	306
At 1 July 2022	306	–	306
Charge for the year	173	–	173
At 30 June 2023	479	–	479
Net book value :			
At 30 June 2023	1,115	18,512,200	18,513,315
At 30 June 2022	81	18,095,200	18,095,281

10 Fixed assets (continued)

(a) Fair value measurement of investment properties

Fair value hierarchy

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

– Level 1 valuations : Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations : Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations : Fair value measured using significant unobservable inputs

The Group's investment properties measured at fair value are not categorised as Level 1 and Level 2 valuations.

During the years ended 30 June 2023 and 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.

Valuation process

The investment properties were appraised at 30 June 2023 by the Group's principal valuer, CBRE Limited, an independent firm that has key personnel who are fellows or members of The Hong Kong Institute of Surveyors or the Royal Institute of Chartered Surveyors (Hong Kong Branch) with recent experience in the location and category of property being valued.

The Manager has reviewed the valuation results performed by the surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation was performed at each interim and annual reporting date and was reviewed and approved by senior management.

Valuation methodologies

The fair values of the Group's investment properties at 30 June 2023 and 2022 were arrived at using the income capitalisation approach cross-referenced to the direct comparison approach. The income capitalisation approach is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The direct comparison approach is based on comparing the properties to be valued directly with other comparable properties which recently changed hands.

10 Fixed assets (continued)

(a) Fair value measurement of investment properties (continued)

Level 3 valuation methodologies

The following table presents the significant unobservable inputs :

	30 June 2023		
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	**$13.9 to $41.9**	**3.55% to 3.90%**	**83.0% to 100%**
– Retail	**$17.0 to $121.6**	**3.40% to 4.35%**	**85.7% to 100%**

	30 June 2022		
	Market unit rent	**Capitalisation rate**	**Occupancy rate**
In Hong Kong			
– Office	$14.0 to $42.2	3.30% to 3.80%	80.4% to 100%
– Retail	$17.0 to $126.2	3.10% to 4.30%	81.9% to 100%

The fair value measurement of investment property is positively correlated to the market unit rent and the occupancy rate and negatively correlated to the capitalisation rate.

All leased properties meet the definition of investment properties (see note 2(h)) are classified as investment properties.

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

	2023 $'000	**2022 $'000**
In Hong Kong		
– Long leases	**8,321,300**	8,588,300
– Medium-term leases	**10,190,900**	9,506,900
	18,512,200	18,095,200

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

11 Reimbursement rights

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

12 Derivative financial instruments

	2023			2022		
	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	**25,816**	**(8,829)**	**16,987**	11,326	(11,386)	(60)
Non-current portion	**9,234**	**(70,851)**	**(61,617)**	14,395	(47,341)	(32,946)
	35,050	**(79,680)**	**(44,630)**	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 ("**JPY**").

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 $5,593,000 (2022 : $295,000) was recognised as a saving in finance costs for the year. The remaining balance of $10,737,000 (2022 : $16,330,000) was included in the net assets attributable to unitholders at 30 June 2023.

At 30 June 2023, 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 $480,000 (2022 : fair value loss of $329,000) was recognised in profit or loss for the year.

For the year ended 30 June 2023, the decrease in the effective portion of changes in fair value of cash flow hedges of $12,103,000 (2022 : an increase of $98,086,000) and a reclassification adjustment in respect of unrealised exchange gain on foreign currency borrowing of $24,752,000 (2022 : $108,323,000) recognised in other comprehensive income were included in the net assets attributable to unitholders.

At 30 June 2023, the Group had a combination of spot and forward-start IRSs with an aggregate notional amount of $1,500,000,000 (2022 : $2,200,000,000) and CCIRS with notional amount of $513,196,000 (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 July 2023 to October 2027 (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.

13 Other financial assets

	2023 $'000	2022 $'000
Financial assets measured at amortised cost		
Debt securities		
– Listed in Hong Kong	**45,413**	45,471
– Listed outside Hong Kong	**51,561**	51,840
– Unlisted	**–**	10,018
	96,974	107,329
Less : provision for credit losses (note 22(a))	**(16,205)**	(2,876)
	80,769	104,453

14 Other non-current assets

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

15 Trade and other receivables

	2023 $'000	2022 $'000
Rental receivables	**37,606**	51,697
Deposits and prepayments	**11,452**	10,288
Other receivables	**3,567**	1,856
Amounts due from related companies	**629**	936
	53,254	64,777

Included unamortised rent-free and rental concession, deposits and prepayments of $24,656,000 (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.

(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 :

	2023 $'000	2022 $'000
Current	**28,213**	31,179
Less than 1 month overdue	**5,730**	8,728
More than 1 month and up to 3 months overdue	**2,564**	8,702
More than 3 months and up to 6 months overdue	**114**	2,517
More than 6 months overdue	**985**	571
	37,606	51,697

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

15 Trade and other receivables (continued)

(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 year is as follows :

	2023 $'000	2022 $'000
At the beginning of the year	**7,182**	2,031
(Reversal of provision) / provision for credit losses (note 5)	**(684)**	6,180
Written off	**(917)**	(1,029)
At the end of the year	**5,581**	7,182

16 Cash and bank balances and other cash flow information

(a) Cash and cash equivalents comprise :

	2023 $'000	2022 $'000
Deposits with original maturity within three months	**240,420**	269,745
Cash at bank and in hand	**11,558**	56,512
Cash and cash equivalents in the consolidated cash flow statement	**251,978**	326,257
Deposits with original maturity over three months	**233,264**	304,733
Cash and bank balances in the consolidated statement of financial position	**485,242**	630,990

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

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other borrowings $'000 (note 19)	Interest payable $'000	Total $'000
At 1 July 2021	4,400,790	2,643	4,403,433
Changes from financing cash flows :			
Proceeds from new bank borrowings	2,000,000	–	2,000,000
Repayment of bank borrowings	(2,005,000)	–	(2,005,000)
Other borrowing costs paid	(4,790)	–	(4,790)
Interest paid	–	(92,948)	(92,948)
Total changes from financing cash flows	(9,790)	(92,948)	(102,738)
Non-cash changes :			
Interest expense (note 7(a))	–	92,684	92,684
Reclassification adjustment on unwinding of swaps	–	295	295
Exchange adjustment	(108,323)	–	(108,323)
Other borrowing and related costs	6,117	–	6,117
Total non-cash changes	(102,206)	92,979	(9,227)
At 30 June 2022	4,288,794	2,674	4,291,468

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

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

	Bank and other borrowings $'000 (note 19)	Interest payable $'000	Total $'000
At 1 July 2022	**4,288,794**	**2,674**	**4,291,468**
Changes from financing cash flows :			
Proceeds from new bank borrowings	**1,652,000**	**–**	**1,652,000**
Repayment of bank borrowings	**(1,045,000)**	**–**	**(1,045,000)**
Other borrowing costs paid	**(3,945)**	**–**	**(3,945)**
Interest paid	**–**	**(136,096)**	**(136,096)**
Total changes from financing cash flows	**603,055**	**(136,096)**	**466,959**
Non-cash changes :			
Interest expense (note 7(a))	**–**	**133,594**	**133,594**
Reclassification adjustment on unwinding of swaps	**–**	**5,593**	**5,593**
Exchange adjustment	**(24,752)**	**–**	**(24,752)**
Other borrowing and related costs	**4,132**	**–**	**4,132**
Total non-cash changes	**(20,620)**	**139,187**	**118,567**
At 30 June 2023	**4,871,229**	**5,765**	**4,876,994**

17 Tenants' deposits

The tenants' deposits include $126,370,000 (2022 : $109,863,000) which is expected to be settled after one year. The remaining balances are expected to be settled within one year, if tenancies are not renewed upon expiry.

18 Trade and other payables

	2023 $'000	2022 $'000
Creditors and accrued charges	**44,563**	39,920
Manager's fees payable (note 26(b)(ii))	**22,666**	21,960
Amounts due to related companies	**8,205**	7,492
	75,434	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 $1,128,000 (2022 : $1,098,000) which is due within 30 days.

19 Bank and other borrowings

	2023 $'000	2022 $'000
Bank loans (note (i))		
– Secured	**1,296,181**	797,652
– Unsecured	**3,277,753**	3,194,953
	4,573,934	3,992,605
Medium term notes		
– Unsecured (note (ii))	**297,295**	296,189
	4,871,229	4,288,794

The bank and other borrowings were repayable as follows :

	2023 $'000	2022 $'000
Within 1 year	**707,000**	1,298,987
After 1 year but within 2 years	**498,957**	–
After 2 years but within 5 years	**3,665,272**	2,587,969
After 5 years	**–**	401,838
	4,164,229	2,989,807
	4,871,229	4,288,794

Notes :

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

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

- mortgages over the investment properties with a fair value of $5,026,700,000 at 30 June 2023 (2022 : $5,096,900,000) (note 10); and
- first fixed charge over all present and future rights, title and interest in and to, all present and future shares in Sunlight REIT Finance Limited and Sunlight REIT Holding Limited, both being subsidiaries of the Group, and dividends and distributions thereof.

(ii) The Group has a US$1,000,000,000 (2022 : US$1,000,000,000) Medium Term Note Programme ("**MTN programme**"). At 30 June 2023, notes with nominal amount of $300,000,000 (2022 : $300,000,000) were issued by Sunlight REIT MTN Limited under the MTN programme with fixed coupon rate of 2.00% (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 4.17% per annum (2022 : 2.17% per annum).

(iv) At 30 June 2023, the Group's uncommitted revolving credit facilities of $493,000,000 (2022 : $500,000,000) remained undrawn.

20 Units in issue

	Number of units 2023	Number of units 2022
At the beginning of the year	**1,681,712,071**	1,672,133,484
Movement during the year		
– Issuance of units	**13,323,086**	10,778,587
– Units bought back	**–**	(1,200,000)
At the end of the year	**1,695,035,157**	1,681,712,071

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

Payment of the Manager's fees for the year	Average issue price per unit determined based on the Trust Deed $	Aggregate amount of units issued $'000	Number of units issued
2023			
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**
1 October 2022 to 31 December 2022	**3.341**	**11,116**	**3,327,031**
1 January 2023 to 31 March 2023	**3.266**	**11,146**	**3,412,786**
		45,037	**13,323,086**
2022			
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

20 Units in issue (continued)

During the year ended 30 June 2023, 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 Highest $	Price per unit Lowest $	Aggregate consideration $'000
2022				
Month of buy-back				
April 2022	1,072,000	3.86	3.78	4,099
May 2022	128,000	3.87	3.86	495
	1,200,000			4,594
Total buy-back expenses				17
				4,611

All bought back units were cancelled during that year.

21 Acquisition of subsidiaries

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 an investment property, currently known as "West 9 Zone Kids". Acquisition was completed on 13 April 2023 with total costs amounting to $743,055,000.

Details of assets acquired and liabilities assumed of the acquired companies, based on the audited financial statements of such entities for the period from 1 January 2023 to 13 April 2023 and fair value of the acquired investment property at 13 April 2023, were as follows :

	$'000
Fixed assets (note 10)	**764,242**
Trade and other receivables	**7,581**
Tenants' deposits	**(12,629)**
Rent receipts in advance	**(1,046)**
Trade and other payables	**(281,253)**
Deferred tax liabilities (note 8(c))	**(13,826)**
Assets acquired and liabilities assumed	**463,069**
Consideration for the sale loan	**279,986**
Total acquisition costs	**743,055**

22 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from the potential failure of the Group's counterparties to meet their obligations under financial contracts. The Group is exposed to credit risk on its cash at bank and deposits with banks and financial institutions, derivative financial instruments, debt securities as well as trade and other receivables.

The debt securities held by the Group which measured at amortised cost are either with investment grade assigned by certain credit rating agencies or issued by a corporate entity which is listed on the SEHK and/or a constituent of the Hang Seng Index. 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. At the end of the reporting period, 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 year is as follows :

	2023 $'000	2022 $'000
At the beginning of the year	**2,876**	–
Provision for credit losses (note 6 and note 13)	**13,329**	2,876
At the end of the year	**16,205**	2,876

The Group has no significant concentrations of credit risk. The Manager is of the opinion that monthly rents in respect of leasing properties are received in advance and there is no specific credit terms given to the tenants. The Group also has policies in place to ensure that rental deposits and/or guarantees are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

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

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

(b) Liquidity risk

The Group maintains sufficient cash reserve and revolving credit facilities from financial institutions with sound credit ratings to meet its liquidity requirements in the short and longer term.

The Group also monitors regularly its current and expected liquidity requirements and its compliance with lending covenants and limits on total borrowings as stipulated under the REIT Code.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay :

	2023 Contractual undiscounted cash outflow / (inflow)					
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	**Carrying amount $'000**
Bank and other borrowings	**929,082**	**710,493**	**4,001,309**	**–**	**5,640,884**	**4,871,229**
Tenants' deposits	**79,988**	**65,949**	**43,411**	**17,010**	**206,358**	**206,358**
Creditors and accrued charges	**44,563**	**–**	**–**	**–**	**44,563**	**44,563**
Manager's fees payable in the form of cash	**11,137**	**–**	**–**	**–**	**11,137**	**11,137**
Amounts due to related companies	**8,205**	**–**	**–**	**–**	**8,205**	**8,205**
	1,072,975	**776,442**	**4,044,720**	**17,010**	**5,911,147**	**5,141,492**
Derivative settled net :						
IRS and CCIRS contracts held as cash flow hedging instruments	**(20,489)**	**(5,707)**	**15,805**	**–**	**(10,391)**	

	2022 Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	**Carrying amount $'000**
Bank and other borrowings	1,358,601	49,214	2,688,963	514,148	4,610,926	4,288,794
Tenants' deposits	91,543	53,574	39,330	16,959	201,406	201,406
Creditors and accrued charges	39,920	–	–	–	39,920	39,920
Manager's fees payable in the form of cash	10,555	–	–	–	10,555	10,555
Amounts due to related companies	7,492	–	–	–	7,492	7,492
	1,508,111	102,788	2,728,293	531,107	4,870,299	4,548,167
Derivative settled net :						
IRS and CCIRS contracts held as cash flow hedging instruments	24,020	12,696	25,376	2,252	64,344	

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

(c) Interest rate and currency risk

The Group's interest rate and currency risk arises from interest-bearing liabilities. Certain borrowings raised at variable interest rates expose the Group to cash flow interest rate risk, while one of the borrowings denominated in JPY exposes the Group to currency risk. The Group managed its cash flow interest rate risk and foreign currency risk by using floating-to-fixed IRSs and back-to-back JPY / HKD CCIRS. Such IRSs and CCIRS arrangements have the economic effect of converting borrowings from floating rates to fixed rates. Under the IRSs and CCIRS, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts, as well as the principal repayment of the foreign currency borrowing at a fixed exchange rate. Details regarding the IRSs and CCIRS are set out in note 12.

Sensitivity analysis

At 30 June 2023, if interest rates had been 10 basis points (2022 : 10 basis points) higher / lower with all other variable held constant, the loss after taxation and before transactions with unitholders would have been approximately $2.4 million higher / lower (2022 : profit after taxation and before transactions with unitholders would have been approximately $1.2 million lower / higher) as a result of higher / lower interest expense on floating rate borrowings; while the net assets attributable to unitholders would have been approximately $1.3 million (2022 : $3.9 million) higher / lower, mainly as a result of an increase / decrease in the fair values of the cash flow hedges as described above.

At 30 June 2023, a 5% appreciation / depreciation of JPY against HKD would increase / decrease the net assets attributable to unitholders by $1.0 million (2022 : $1.6 million) as a result of an increase / decrease in the fair values of the cash flow hedges as described above.

The sensitivity analysis above has been determined assuming that the change in interest rates and exchange rate had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group. The analysis for change in interest rates and exchange rate has been performed in the same approach as in the prior year.

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

(d) Fair values

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

At 30 June 2023 and 2022, the Group's only financial instruments carried at fair value are the IRSs and CCIRS (see note 12), which fall under Level 2 of the fair value hierarchy as defined in HKFRS 13 (see note 10(a) for fair value hierarchy).

During the years ended 30 June 2023 and 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.

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.

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

At 30 June 2023, the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values, except for the Group's investment in debt securities, of which its carrying amount is $80,769,000 (2022 : $104,453,000) as compared to its fair value of $74,011,000 (2022 : $90,319,000). The assessment of the credit risk of the investment in debt securities is set out in note 22(a).

(e) Estimation of fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of IRSs and CCIRS is calculated as the present value of the estimated future cash flows.

23 Capital management

The Group's primary objective is to provide its unitholders risk-adjusted, long-term capital growth through investing in a diversified portfolio of office and retail properties in Hong Kong.

The Manager aims to support Sunlight REIT's operational and acquisition growth strategies within a prudent risk management framework, by employing an efficient capital management strategy.

The Manager believes that an efficient capital management strategy will improve total returns while reducing risks for unitholders by maintaining financial flexibility to meet capital expenditure requirements. The Manager will regularly review its capital management strategy to reflect Sunlight REIT's investment opportunities, its operating and the general economic environment and the REIT Code requirements.

In accordance to clause 7.9 of the REIT Code and clause 20.4 of the Trust Deed, Sunlight REIT's aggregate borrowings shall not exceed 50 per cent of the total gross asset value of the scheme. In the event that the limit is exceeded, the unitholders and the Securities and Futures Commission (the "**SFC**") shall be informed of the magnitude of the breach, the cause of the breach, and the proposed method of rectification. In cases where there is a breach, no further borrowing is permitted and the Manager shall use its best endeavours to reduce the excess borrowings. Furthermore, the unitholders and the SFC shall be informed on a regular basis as to the progress of the rectification. At 30 June 2023, Sunlight REIT's aggregate borrowings represent 26.1% (2022 : 23.3%) of its total gross asset value.

24 Capital commitments

Capital commitments outstanding at 30 June 2023 not provided for in the consolidated financial statements are as follows :

	2023 $'000	**2022 $'000**
Contracted for	**12,088**	4,237
Authorised but not contracted for	**7,747**	30,168
	19,835	34,405

25 Significant leasing arrangements

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

	2023 $'000	2022 $'000
Within 1 year	**542,122**	523,695
After 1 year but within 2 years	**308,624**	314,870
After 2 years but within 3 years	**142,480**	136,608
After 3 years but within 4 years	**64,069**	66,872
After 4 years but within 5 years	**58,011**	57,129
After 5 years	**99,920**	122,502
	1,215,226	1,221,676

The operating leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated.

26 Connected party transactions and material related party transactions

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

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

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

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

(b) Transactions with connected persons / related parties

	2023 $'000	2022 $'000
Rental and rental related income received / receivable from (note (i)) :		
– HLD Group	**10,474**	10,651
– HSBC Group	**19,130**	19,278
Property management expenses paid / payable to (notes (i) & (v)) :		
– HLD Group	**(14,690)**	(13,932)
Facilities leasing and other expenses paid / payable to (notes (i) & (v)) :		
– HLD Group	**(13)**	(60)
Manager's fees (note (ii))	**(91,800)**	(91,638)
Property Manager's fees (note (iii))	**(44,695)**	(45,143)
Trustee's remuneration and charges (note (iv))	**(4,709)**	(4,571)
Interest expense, debt establishment fee and security trustee fee on bank borrowings and other charges paid / payable to (note (i)) :		
– HSBC Group	**(30,354)**	(7,087)
Net interest income / (expense) on IRSs received / receivable from or (paid / payable) to (note (i)) :		
– HSBC Group	**11,334**	(24,076)
Interest income on bank deposits received / receivable from (note (i)) :		
– HSBC Group	**1,546**	96
Interest income from debt securities received / receivable from (notes (i) & (v)) :		
– HLD Group	**205**	13
Proceeds from unwinding of IRSs received from (note 12) :		
– HSBC Group	**–**	13,071
Promotional income received / receivable from (note (i)) :		
– HLD Group	**2,640**	3,016

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

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

Notes :

(i) In the opinion of the Manager, these transactions were carried out on normal commercial terms and in the ordinary course of business.

(ii) The Manager's fees are calculated as the aggregate of a base fee not exceeding 0.4% per annum of the value of all the properties of the Group and a variable fee of 3% per annum of the Group's Net Property Income (as defined in the Trust Deed). The Manager is also entitled to receive an acquisition fee not exceeding 1% of the purchase price of acquired property. During the year ended 30 June 2023, the Manager has received an acquisition fee of $1,870,000 in cash for the Group's acquisition of investment properties (see note 21).

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 13 June 2022, the Manager made an election for the base fee and the variable fee for the financial year ended 30 June 2023 to be paid 50% in the form of cash and 50% in the form of units.

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

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

– one month's base rent or licence fee for securing a tenancy or licence of three years or more;

– one-half month's base rent or licence fee for securing a tenancy or licence of less than three years;

– one-half month's base rent or licence fee for securing a renewal of tenancy or licence irrespective of the duration of the renewal term;

– an amount not exceeding the lower of one-half month's base rent or licence fee, or 10% (or a lower percentage as mutually agreed between the Manager and the Property Manager from time to time) of the total rent or licence fee for securing a tenancy, licence or renewal of tenancy or licence for a duration of less than 12 months; and

– one-fourth month's base rent or licence fee (as reviewed), for handling each rent or licence review during the term of a tenancy or licence provided for in the tenancy or licence agreement.

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.

(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. During the year ended 30 June 2023, the Trustee has received an additional fee of $200,000 for the Group's acquisition of investment properties (see note 21).

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

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

Notes : (continued)

(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 $12,525 (2022 : $12,225)), facilities leasing and other 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 26 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 Transactions" on pages 59 to 63 in this annual report.

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

	2023 $'000	2022 $'000
HLD Group :		
– Net payable amount	**(29,658)**	(29,067)
– Debt securities issued by HLD Group	**4,630**	4,620
HSBC Group :		
– Deposits and cash placed with HSBC Group	**15,326**	115,030
– Bank borrowings and interest payable to HSBC Group	**(1,301,947)**	(500,927)
– Other net payable amount	**(7,490)**	(6,413)

27 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

Valuation of investment properties

In arriving at the fair value of the investment properties, the Manager has considered information from different sources, including a valuation performed by an independent firm of professional valuer after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rates.

28 Non-adjusting event after the reporting period

After the end of the reporting period, the Board of Directors of the Manager declared a final distribution. Further details are disclosed in the "Distribution Statement" of the consolidated financial statements.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2023

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments to HKFRSs, which are not yet effective for the year ended 30 June 2023 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements : Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements : Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors : Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Income taxes : Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

(Expressed in Hong Kong dollars)

30 Principal subsidiaries

Details of the principal subsidiaries of Sunlight REIT which, in the opinion of the Manager, materially contribute to the results of the Group or hold a material portion of the assets or liabilities of the Group are as follows :

Name of subsidiary	Place of incorporation / operation	Particulars of issued share capital	% of shares held by Sunlight REIT	% of shares held by a subsidiary	Principal activity
Sunlight REIT Holding Limited	Cayman Islands	1 share of US$1	100	–	Investment holding
Bayman Limited	British Virgin Islands / Hong Kong	1 share	–	100	Property investment
Bestguard Investment Limited	Hong Kong	2 ordinary shares	–	100	Property investment
Global Team Development Limited	Hong Kong	100 ordinary shares	–	100	Property investment
Glory Hero Development Limited	Hong Kong	3,000,000 ordinary shares	–	100	Property investment
Grand Faith Development Limited	Hong Kong	10,000,000 ordinary shares and 2 non-voting deferred shares	–	100	Property investment
Jetwise Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment
King Firm Enterprises Limited	Hong Kong	1 share	–	100	Property investment
Nicetex Development Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100	Property investment
Seiren Investment Limited	Hong Kong	10,000 ordinary shares	–	100	Property investment
Sunlight Crownwill Limited	British Virgin Islands / Hong Kong	1 share	–	100	Property investment
Sunlight REIT Finance Limited	British Virgin Islands / Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT Finance (2020) Limited	Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT MTN Limited	British Virgin Islands / Hong Kong	1 share	–	100	Provision of finance functions
Sunlight REIT Treasury Limited	British Virgin Islands / Hong Kong	1 share	–	100	Provision of treasury functions
Tinselle Investment Limited	Hong Kong	10,000,000 ordinary shares and 10,000 non-voting deferred shares	–	100	Property investment
Victory Wave Limited	Hong Kong	1 share	–	100	Property investment

Except for Sunlight REIT MTN Limited which has issued medium term notes as detailed in note 19, no other subsidiaries has issued any debt securities.

Performance Table

(Expressed in Hong Kong dollars, unless otherwise specified)

	Note	2023	2022	2021	2020	2019
At 30 June :						
Net asset value ($ million)		**13,669**	14,051	14,124	14,771	15,992
Net asset value per unit		**8.06**	8.36	8.45	8.89	9.68
Market capitalisation ($ million)		**4,882**	6,138	7,508	6,397	9,894
For the year ended 30 June :						
Highest traded unit price		**3.85**	5.07	4.65	6.35	6.10
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**	3.53	3.29	3.19	4.66
Highest discount of the traded unit price to net asset value per unit (%)		**69.6**	57.8	61.1	64.1	51.9
Closing unit price		**2.88**	3.65	4.49	3.85	5.99
Distribution per unit (cents)		**22.0**	25.0	25.6	26.8	27.3
Payout ratio (%)		**97.9**	97.4	97.5	95.2	96.4
Distribution yield per unit (%)	2	**7.6**	6.8	5.7	7.0	4.6

Notes :

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

Financial Calendar

For FY2022/23

Interim results announcement	15 February 2023
Issuance of interim report	1 March 2023
Ex-distribution date for interim distribution	2 March 2023
Closure of register of unitholders for entitlement of interim distribution	6 March 2023 to 8 March 2023, both days inclusive
Payment of interim distribution HK 11.0 cents per unit	16 March 2023
Final results announcement	6 September 2023
Ex-distribution date for final distribution	21 September 2023
Closure of register of unitholders for entitlement of final distribution	25 September 2023 to 27 September 2023, both days inclusive
Issuance of annual report	3 October 2023
Payment of final distribution HK 11.0 cents per unit	10 October 2023
Closure of register of unitholders for entitlement to attend and vote at annual general meeting	9 November 2023 to 14 November 2023, both days inclusive
Annual general meeting	14 November 2023

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
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
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

Sunlight Real Estate Investment Trust

Managed by Henderson Sunlight Asset Management Limited

www.sunlightreit.com