

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Rental income	123,923	129,125	249,014	246,824
Other operating income	2,957	2,742	6,745	6,259
Gross revenue	126,880	131,867	255,759	253,083
Quit rent, assessment and insurance	(3,384)	(3,472)	(6,821)	(7,048)
Other property operating expenses	(29,441)	(31,341)	(58,818)	(59,039)
Property operating expenses	(32,825)	(34,813)	(65,639)	(66,087)
Net property income	94,055	97,054	190,120	186,996
Other income	5,191	4,793	6,112	9,734
Net investment income	99,246	101,847	196,232	196,730
Manager's fee	(7,805)	(7,842)	(15,650)	(15,472)
Trustee's fee	(308)	(304)	(615)	(607)
Finance costs	(22,076)	(21,618)	(43,833)	(43,103)
Other expenses	2,086 *	(563)	(848)	(1,515)
	(28,103)	(30,327)	(60,946)	(60,697)
Profit before tax	71,143	71,520	135,286	136,033
Income tax expense	-	-	-	-
Profit for the period	71,143	71,520	135,286	136,033
Profit for the period comprise the following:				
Realised	67,130	73,576	133,862	134,141
Unrealised	4,013	(2,056)	1,424	1,892
	71,143	71,520	135,286	136,033
Earnings per unit (sen)				
- realised	2.31	2.48	4.55	4.54
- unrealised	0.14	(0.07)	0.05	0.06
	2.45	2.41	4.60	4.60
Proposed/declared distribution per unit (sen)	2.28	2.57	4.55	4.69

* Included in other expenses for 2Q2017 was a reclassification of fair value loss on derivative financial instruments which arose in the previous quarter, amounting to RM2.6 million, to other income. The reclassification was done as the YTD 2Q2017 net fair value on derivative financial instruments was a net gain of RM1.4 million. Excluding this reclassification, other income and other expenses for 2Q2017 will be RM7.8 million and RM0.5 million respectively.

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Profit for the period	71,143	71,520	135,286	136,033
Other comprehensive income				
Cash flow hedge - fair value of derivative ¹	32,714	(9,461)	44,844	53,218
Cash flow hedge reserve recycled to profit or loss ²	(35,050)	10,200	(45,450)	(50,800)
Total comprehensive income for the period	68,807	72,259	134,680	138,451

¹ Please refer to Note B15b) for details.

² Please refer to Note A14 for details.

Income distribution

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Realised total comprehensive income for the period	67,130	73,576	133,862	134,141
Add: Surplus cash arising from Manager's fee paid/payable in Units ³ (2Q2016: 25%)	-	1,961	-	3,869
Total available for income distribution for the period	67,130	75,537	133,862	138,010
Brought forward undistributed income available for distribution	392	557	513	414
Total available for income distribution	67,522	76,094	134,375	138,424
Less: Proposed/declared income distribution	(67,148)	(75,592)	(134,001)	(137,922)
Balance undistributed arising from rounding difference	374	502	374	502

³ The Manager's fee paid/payable in Units has ceased with effect from 1Q2017.

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As At 31.12.2016 (Unaudited)	As At 30.06.2016 (Unaudited)
	RM'000	RM'000
ASSETS		
Non-current assets		
Plant and equipment	9,046	8,698
Investment properties	6,502,892	6,433,000
Derivatives	26,387	-
	<u>6,538,325</u>	<u>6,441,698</u>
Current assets		
Receivables, deposits and prepayments	26,003	25,842
Cash and bank balances	41,437	69,719
	<u>67,440</u>	<u>95,561</u>
	<u>6,605,765</u>	<u>6,537,259</u>
FINANCED BY:		
Unitholders' funds		
Unitholders' capital	2,727,829	2,725,933
Undistributed income	1,330,713	1,325,297
Total Unitholders' funds	<u>4,058,542</u>	<u>4,051,230</u>
Non-current liabilities		
Borrowings	1,048,600	1,403,150
Long term liabilities	62,274	56,256
Deferred tax liability	5,896	5,896
Derivatives	1,928	22,189
	<u>1,118,698</u>	<u>1,487,491</u>
Current liabilities		
Trade and other payables	205,697	226,138
Borrowings	1,222,387	772,400
Derivatives	441	-
	<u>1,428,525</u>	<u>998,538</u>
	<u>6,605,765</u>	<u>6,537,259</u>
Number of units in circulation ('000 units)	2,945,078	2,943,918
NET ASSET VALUE ("NAV")		
- Before income distribution	4,058,542	4,051,230
- After income distribution	3,991,394	3,988,819
NET ASSET VALUE PER UNIT (RM)		
- Before income distribution ¹	1.3781	1.3761
- After income distribution ²	1.3553	1.3549

¹ Before the 2Q2017 proposed income distribution of 2.28 sen per unit (4Q2016: 2.12 sen per unit).

² After the 2Q2017 proposed income distribution of 2.28 sen per unit (4Q2016: 2.12 sen per unit).

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

	Unitholders' <-- Undistributed Income -->			Total
	Capital	Realised	Unrealised	Unitholders' Funds
	RM'000	RM'000	RM'000	RM'000
As at 1 July 2016	2,725,933	(4,688)	1,329,985	4,051,230
Total comprehensive income				
Profit for the period	-	133,862	1,424	135,286
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	44,844	44,844
- Cash flow hedge reserve recycled to profit or loss	-	-	(45,450)	(45,450)
Total comprehensive income, representing the increase in net assets resulting from operations	2,725,933	129,174	1,330,803	4,185,910
Unitholders' transactions				
Creation of units ¹				
- Manager's fee paid in units	1,896	-	-	1,896
Distribution to unitholders				
- Income distribution declared and paid in current period	-	(66,853)	-	(66,853)
- Income distribution proposed in prior year but paid in current period	-	(62,411)	-	(62,411)
Increase/(decrease) in net assets resulting from unitholders' transactions	1,896	(129,264)	-	(127,368)
As at 31 December 2016 (Unaudited)	2,727,829	(90)	1,330,803	4,058,542

	Unitholders' <-- Undistributed Income -->			Total
	Capital	Realised	Unrealised	Unitholders' Funds
	RM'000	RM'000	RM'000	RM'000
As at 1 July 2015	2,716,456	727	1,265,077	3,982,260
Total comprehensive income				
Profit for the year	-	262,473	61,223	323,696
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	21,785	21,785
- Cash flow hedge reserve recycled to profit or loss	-	-	(18,100)	(18,100)
Total comprehensive income, representing the increase in net assets resulting from operations	2,716,456	263,200	1,329,985	4,309,641
Unitholders' transactions				
Creation of units ¹				
- Manager's fee paid in units	9,477	-	-	9,477
Distribution to unitholders				
- Income distribution declared and paid in current year	-	(207,664)	-	(207,664)
- Income distribution proposed in prior year but paid in current year	-	(60,224)	-	(60,224)
Increase/(decrease) in net assets resulting from unitholders' transactions	9,477	(267,888)	-	(258,411)
As at 30 June 2016 (Unaudited)	2,725,933	(4,688)	1,329,985	4,051,230

The unaudited condensed consolidated statement of changes in net asset value should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE (CONT'D)

¹ Issue of new units comprise the following:

	31.12.2016	
	Units	Amount
	'000	RM'000
Issuance of new units pursuant to 25% Manager's fee paid in units:		
- at RM1.6348 per unit for the quarter ended 30 June 2016	1,160	1,896
Total Manager's fee paid in units	<u>1,160</u>	<u>1,896</u>
	30.06.2016	
	Units	Amount
	'000	RM'000
Issuance of new units pursuant to 50% Manager's fee paid in units:		
- at RM1.5953 per unit for the quarter ended 30 June 2015	2,302	3,672
Issuance of new units pursuant to 25% Manager's fee paid in units:		
- at RM1.5178 per unit for the quarter ended 30 September 2015	1,257	1,907
- at RM1.4534 per unit for the quarter ended 31 December 2015	1,349	1,961
- at RM1.5692 per unit for the quarter ended 31 March 2016	1,233	1,937
Total Manager's fee paid in units	<u>6,141</u>	<u>9,477</u>

The unaudited condensed consolidated statement of changes in net asset value should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative Quarter ended	
	31.12.2016	31.12.2015
	RM'000	RM'000
OPERATING ACTIVITIES		
Cash receipts from customers	288,927	276,838
Refundable security deposits from customers	800	8,369
Cash paid for operating expenses	(128,071)	(119,087)
Net cash generated from operating activities	<u>161,656</u>	<u>166,120</u>
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(1,298)	(2,903)
Acquisition of investment properties	(17,200)	-
Subsequent expenditure of investment properties	(53,242)	(30,427)
Incidental costs on acquisition of investment properties	(82)	-
Interest received	1,464	1,420
Net cash used in investing activities	<u>(70,358)</u>	<u>(31,910)</u>
FINANCING ACTIVITIES		
Issuance of commercial papers	25,000	1,344,000
Drawdown of revolving loans	4,028,000	3,287,400
Repayment of commercial papers	-	(969,000)
Repayment of revolving loans	(4,003,000)	(3,613,400)
Interest paid	(40,316)	(44,575)
Distribution paid	(129,264)	(122,554)
Net cash used in financing activities	<u>(119,580)</u>	<u>(118,129)</u>
Net increase in cash and bank balances	(28,282)	16,081
Cash and bank balances at beginning of year	69,719	66,218
Cash and bank balances at end of period	<u>41,437</u>	<u>82,299</u>
Cash and bank balances at end of period comprise:		
Cash on hand and at banks	31,437	23,299
Deposits placed with licensed financial institutions	10,000	59,000
Cash and bank balances	<u>41,437</u>	<u>82,299</u>

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

Part A - Explanatory Notes Pursuant to Malaysian Financial Reporting Standards ("MFRS") 134

A1. Corporate Information

Sunway Real Estate Investment Trust ("Sunway REIT" or "Fund") is a Malaysia-domiciled real estate investment trust constituted pursuant to the trust deed dated 20 May 2010 and the supplementary deed dated 10 June 2010 (collectively referred to as the "Deed") between Sunway REIT Management Sdn. Bhd. (the "Manager") and RHB Trustees Berhad (the "Trustee"). The Fund was listed on the Main Market of Bursa Malaysia Securities Berhad on 8 July 2010.

The condensed consolidated interim financial statements comprise Sunway REIT and its subsidiaries (the "Group").

A2. Significant Accounting Policies and Basis of Preparation

The condensed consolidated interim financial statements of the Group for the financial period ended 31 December 2016 have been prepared in accordance with MFRS 134: *Interim Financial Reporting*, paragraph 9.44 of the Bursa Malaysia Securities Berhad Listing Requirements, the Deed and the Securities Commission's Guidelines on Real Estate Investment Trust ("the REITs Guidelines"). These condensed consolidated interim financial statements also comply with IAS 34: *Interim Financial Reporting* issued by the International Accounting Standards Board.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016 and the accompanying explanatory notes attached to the unaudited condensed consolidated interim financial statements.

The consolidated financial statements of the Group for the financial year ended 30 June 2016 which were prepared under MFRS are available upon request from the management company's registered office at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway 47500, Subang Jaya, Selangor Darul Ehsan.

A3. Audit Report of Preceding Financial Year

The auditors have expressed an unqualified opinion on Sunway REIT's financial statements for the financial year ended 30 June 2016.

A4. Changes in Estimates

This is not applicable as no estimates were previously reported.

A5. Unusual Items

There were no material unusual items affecting the amounts reported for the current quarter ended 31 December 2016 except for the recognition of RM3.2 million included in other income, being the court award for assessment for damages in relation to the litigation as mentioned in Note B11(1). The impact of this non-recurring item to DPU amounted to 0.11 sen.

A6. Issuance, Repurchases and Repayments of Debt and Equity Securities

There were no issuance, repurchases and repayments of debt and equity securities for the current quarter and cumulative quarter ended 31 December 2016 except as disclosed below.

Sunway REIT has issued 1,159,600 new units at RM1.6348* per unit on 30 August 2016, being 25% payment of the Manager's fee for the quarter ended 30 June 2016. The units were listed on the Main Market of Bursa Malaysia Securities Berhad on 1 September 2016.

* Based on the 10-day volume weighted average price ("VWAP") of the units up to 30 June 2016.

A7. Changes in the Composition/Fund Size of the Trust

Sunway REIT's fund size increased from 2,943.9 million units as at 30 June 2016 to 2,945.1 million units with the issuance of new units as mentioned in Note A6.

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

A8. Segmental Reporting

By segment

Segmental results for the quarter ended 31 December 2016 are as follows:

Second Quarter

	Second Quarter ended 31.12.2016					Second Quarter ended 31.12.2015				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
REVENUE AND EXPENSES										
Gross revenue	98,838	14,788	7,877	5,377	126,880	97,453	21,731	7,489	5,194	131,867
Net property income	70,779	13,903	3,996	5,377	94,055	67,317	20,779	3,764	5,194	97,054
Other income					5,191					4,793
Trust and other expenses					(6,027)					(8,709)
Finance costs					(22,076)					(21,618)
Profit before tax					71,143					71,520
Income tax expense					-					-
Profit for the period					71,143					71,520

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

A8. Segmental Reporting (Cont'd)

By segment (Cont'd)

Cumulative Quarter

	Cumulative Quarter ended 31.12.2016					Cumulative Quarter ended 31.12.2015				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
REVENUE AND EXPENSES										
Gross revenue	198,532	31,169	15,304	10,754	255,759	184,532	42,332	15,831	10,388	253,083
Net property income	142,311	29,323	7,732	10,754	190,120	128,320	40,425	7,863	10,388	186,996
Other income					6,112					9,734
Trust and other expenses					(17,113)					(17,594)
Finance costs					(43,833)					(43,103)
Profit before tax					135,286					136,033
Income tax expense					-					-
Profit for the period					135,286					136,033

A8. Segmental Reporting (Cont'd)
By property

Properties	Gross Revenue			Net Property Income			Gross Revenue			Net Property Income		
	Second Quarter			Second Quarter			Cumulative Quarter ended			Cumulative Quarter ended		
	31.12.2016	31.12.2015	Change	31.12.2016	31.12.2015	Change	31.12.2016	31.12.2015	Change	31.12.2016	31.12.2015	Change
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Retail												
Sunway Pyramid Shopping Mall	74,363	72,384	2.7%	55,225	52,130	5.9%	148,729	144,355	3.0%	111,862	106,533	5.0%
Sunway Carnival Shopping Mall	10,845	10,744	0.9%	7,079	6,818	3.8%	22,570	21,260	6.2%	14,461	13,599	6.3%
SunCity Ipoh Hypermarket	1,251	1,250	0.1%	1,165	1,168	-0.3%	2,501	2,500	0.0%	2,360	2,366	-0.3%
Sunway Putra Mall	12,379	13,075	-5.3%	7,310	7,201	1.5%	24,732	16,417	50.6%	13,628	5,822	134.1%
	98,838	97,453	1.4%	70,779	67,317	5.1%	198,532	184,532	7.6%	142,311	128,320	10.9%
Hotel												
Sunway Resort Hotel & Spa	8,116	11,530	-29.6%	7,709	11,167	-31.0%	20,025	22,947	-12.7%	19,242	22,211	-13.4%
Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East)	750	5,713	-86.9%	636	5,596	-88.6%	799	11,810	-93.2%	580	11,577	-95.0%
Sunway Hotel Seberang Jaya	921	921	0.0%	869	869	0.0%	1,737	1,816	-4.4%	1,633	1,712	-4.6%
Sunway Putra Hotel	3,701	2,433	52.1%	3,442	2,058	67.2%	6,178	3,800	62.6%	5,544	3,068	80.7%
Sunway Hotel Georgetown	1,300	1,134	14.6%	1,247	1,089	14.5%	2,430	1,959	24.0%	2,324	1,857	25.1%
	14,788	21,731	-31.9%	13,903	20,779	-33.1%	31,169	42,332	-26.4%	29,323	40,425	-27.5%
Office												
Menara Sunway	4,074	4,289	-5.0%	2,638	2,963	-11.0%	8,088	8,683	-6.9%	5,370	6,110	-12.1%
Sunway Tower	856	599	42.9%	(309)	(597)	48.2%	1,683	2,007	-16.1%	(508)	(376)	-35.1%
Sunway Putra Tower	1,286	895	43.7%	668	307	117.6%	2,214	1,788	23.8%	872	25	3388.0%
Wisma Sunway	1,661	1,706	-2.6%	999	1,091	-8.4%	3,319	3,353	-1.0%	1,998	2,104	-5.0%
	7,877	7,489	5.2%	3,996	3,764	6.2%	15,304	15,831	-3.3%	7,732	7,863	-1.7%
Others												
Sunway Medical Centre	5,377	5,194	3.5%	5,377	5,194	3.5%	10,754	10,388	3.5%	10,754	10,388	3.5%
	5,377	5,194	3.5%	5,377	5,194	3.5%	10,754	10,388	3.5%	10,754	10,388	3.5%
TOTAL PORTFOLIO	126,880	131,867	-3.8%	94,055	97,054	-3.1%	255,759	253,083	1.1%	190,120	186,996	1.7%

**SUNWAY REAL ESTATE INVESTMENT TRUST
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A8. Segmental Reporting (Cont'd)

The Group comprises the following major business segments:

- (i) Retail - renting of retail premises to tenants
- (ii) Hotel - leasing of hotel premises to hotel operators
- (iii) Office - renting of office premises to tenants
- (iv) Others - leasing of a medical premise to a hospital operator

There have been no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

a) Review of Current Quarter Results

Retail segment

The retail segment achieved gross revenue of RM98.8 million for the current quarter ended 31 December 2016 (2Q2017), an increase of 1.4% or RM1.4 million compared to the preceding year corresponding quarter (2Q2016). The increase was mainly contributed by Sunway Pyramid Shopping Mall due to higher average gross rent per sq. ft. and Sunway Carnival Shopping Mall following the completion of the new food and beverage ("F&B") area with NLA of approximately 16,000 sq. ft. (3% of total NLA), but partially offset by Sunway Putra Mall.

Sunway Putra Mall's contribution was marginally lower by RM0.7 million for 2Q2017 mainly due to rebates granted during the quarter.

SunCity Ipoh Hypermarket maintained its gross revenue of RM1.3 million for the same period.

Property operating expenses of the retail segment for 2Q2017 was RM28.1 million, a decrease of 6.9% or RM2.1 million mainly attributable to lower operating expenses at Sunway Pyramid Shopping Mall and Sunway Putra Mall due to reversal of allowance for doubtful debts.

Net property income of the retail segment for 2Q2017 was RM70.8 million, higher by 5.1% or RM3.5 million compared to 2Q2016.

Hotel segment

The hotel segment registered gross revenue of RM14.8 million for 2Q2017, lower by 31.9% or RM6.9 million compared to 2Q2016, primarily attributable to the closure of Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East) ("SPRH") for refurbishment since April 2016 (partially re-opened in November 2016 on a progressive basis) and lower gross revenue for Sunway Resort Hotel & Spa ("SRHS"), but mitigated by better performance from Sunway Putra Hotel and Sunway Hotel Georgetown.

Gross revenue for SRHS was lower by 29.6% or RM3.4 million in 2Q2017 as SRHS's performance was affected by softer leisure market and business sentiment in respect of both rooms and F&B division.

Sunway Putra Hotel achieved an average occupancy rate of 71.7% in 2Q2017 compared to 45.0% in 2Q2016 as the hotel completed its refurbishment in the preceding year corresponding quarter. Post completion of refurbishment, the hotel has embarked on active marketing activities and promotional rates to regain market share across all customer segments.

Gross revenue for Sunway Hotel Seberang Jaya was maintained at RM0.9 million for the same period.

Sunway Hotel Georgetown registered higher gross revenue by RM0.2 million for 2Q2017 on the back of higher average occupancy but partially offset by lower average daily rate due to tactical strategy in view of increased competition from new hotels in Georgetown and weak leisure market.

Net property income of the hotel segment for 2Q2017 was RM13.9 million, lower by 33.1% or RM6.9 million, as compared to 2Q2016, in tandem with lower gross revenue.

Note: The hotel properties are under hotel master leases and hence, incurred minimum property operating expenses which comprise mainly quit rent, assessment and insurance. The gross revenue represents the hotel lease rental income.

A8. Segmental Reporting (Cont'd)

a) Review of Current Quarter Results (Cont'd)

Office segment

Gross revenue for the office segment was higher by 5.2% or RM0.4 million in the current quarter compared to 2Q2016 primarily attributable to higher contribution from Sunway Putra Tower and Sunway Tower, but partially offset by Menara Sunway and Wisma Sunway.

Higher average occupancy at Sunway Putra Tower contributed to the increase in gross revenue by RM0.4 million in 2Q2017 as a new tenant occupying 51,500 sq. ft. (16% of total NLA) has commenced in the current quarter.

Gross revenue for Sunway Tower was higher by RM0.3 million in 2Q2017 contributed by higher average occupancy in the current quarter compared to the preceding year corresponding quarter due to non-renewal by tenants who occupied approximately 16,000 sq. ft. (6% of total NLA) in 2Q2016. New tenants for approximately 35,000 sq. ft. (13% of total NLA) have since commenced in 3Q2016 and 4Q2016.

Menara Sunway registered lower gross revenue of RM4.1 million, a decrease of 5.0% or RM0.2 million in the current quarter mainly due to non-renewal of a tenant who occupied 46,000 sq. ft. (16% of total NLA) since December 2015 but mitigated by replacement tenants of approximately 32,500 sq. ft. (11% of total NLA) who have commenced in 4Q2016.

Wisma Sunway recorded a marginal decrease in gross revenue by 2.6% for 2Q2017 mainly due to lower average occupancy from the non-renewal by a tenant occupying approximately 3,300 sq. ft. (2% of total NLA) since 4Q2016 but partially offset by higher average net rent per sq. ft.

Property operating expenses of the office segment for 2Q2017 was higher by 4.2% or RM0.2 million.

Net property income of the office segment in 2Q2017 was RM4.0 million, higher by 6.2% or RM0.2 million compared to the preceding year corresponding quarter.

Others

Sunway Medical Centre contributed RM5.4 million revenue and net property income for 2Q2017, an increase of 3.5% compared to 2Q2016 mainly due to rental reversion in accordance with the Master Lease Agreement.

Note: Sunway Medical Centre was acquired on 31 December 2012 and leased to Sunway Medical Centre Sdn Bhd on even date on a 10-year master lease agreement at an annual rental of RM19 million and with a 3.5% rental reversion per annum. The lease is based on a triple net basis whereby all the property operating expenses, quit rent, assessment and insurance will be borne by the lessee.

Profit before tax

Finance costs for 2Q2017 was RM22.1 million, higher by 2.1% or RM0.5 million compared to 2Q2016 mainly due to a higher principal loan amount to fund capital expenditure.

Net profit for 2Q2017 was RM71.1 million (2Q2016: RM71.5 million) comprising realised profit of RM67.1 million (2Q2016: RM73.6 million) and unrealised gain of RM4.0 million (2Q2016: unrealised loss of RM2.1 million).

The decrease in realised profit by 8.8% or RM6.4 million in the current quarter was mainly due to lower net property income. In addition, Sunway REIT recognised a court award of RM3.2 million under other income in 2Q2017, as explained in Note A5, compared to RM6.2 million court award for loss of income in relation to the litigation for Sunway Putra recognised as other income in the preceding year corresponding quarter.

The unrealised gain in 2Q2017 was mainly attributable to fair value gain on interest rate swap amounting to RM4.0 million compared to a fair value loss on interest rate swap of RM2.1 million in 2Q2016.

A8. Segmental Reporting (Cont'd)

b) Review of Cumulative Quarter Results

Retail segment

The retail segment recorded gross revenue of RM198.5 million for the cumulative quarter ended 31 December 2016 (YTD 2Q2017), an increase of 7.6% or RM14.0 million compared to the preceding year corresponding cumulative quarter (YTD 2Q2016). This was mainly contributed by Sunway Putra Mall which recorded lower revenue for YTD 2Q2016 as tenants were given a 2.5 months rent-free period in 1Q2016, coupled with better performance from both Sunway Pyramid Shopping Mall and Sunway Carnival Shopping Mall for YTD 2Q2017 as mentioned in Note A8(a) above.

Property operating expenses of the retail segment was maintained at RM56.2 million for the same period.

Net property income of the retail segment for YTD 2Q2017 was RM142.3 million, an increase of 10.9% or RM14.0 million compared to YTD 2Q2016.

Hotel segment

The hotel segment registered gross revenue of RM31.2 million for YTD 2Q2017, a decrease of 26.4% or RM11.2 million compared to YTD 2Q2016 primarily due to the reasons as mentioned in Note A8(a).

SRHS recorded a lower gross revenue for YTD 2Q2017 mainly due to lower contribution from the F&B division but mitigated by both higher average occupancy rate and average daily rate. Performance of the F&B division was adversely affected by the prevailing soft leisure market and business sentiment. The higher occupancy and average daily rate were substantially attributable to 1Q2017 due to the strong demand during Middle Eastern holiday season.

Net property income of the hotel segment for YTD 2Q2017 stood at RM29.3 million, lower by 27.5% or RM11.1 million, in line with revenue.

Office segment

Gross revenue for the office segment was RM15.3 million for YTD 2Q2017, a marginal decline of 3.3% or RM0.5 million compared to YTD 2Q2016 due to the reasons mentioned in Note A8(a), with the exception of Sunway Tower which recorded a lower gross revenue for YTD 2Q2017 mainly due to lower average net rent per sq. ft.

Property operating expenses of the office segment for YTD 2Q2017 was RM7.6 million, lower by 5.0% or RM0.4 million compared to YTD 2Q2016, mainly attributable to lower maintenance expenses for Sunway Putra Tower.

Correspondingly, net property income of the office segment for YTD 2Q2017 was RM7.7 million, lower by 1.7% or RM0.1 million.

Others

Sunway Medical Centre contributed RM10.8 million of revenue and net property income for YTD 2Q2017, an increase of 3.5% compared to YTD 2Q2016 due to the reason mentioned in Note A8(a).

Profit before tax

Finance costs for YTD 2Q2017 was RM43.8 million, higher by 1.7% or RM0.7 million compared to YTD 2Q2016 mainly due to the reasons mentioned in Note A8(a).

Net profit for YTD 2Q2017 was RM135.3 million (YTD 2Q2016: RM136.0 million) comprising realised profit of RM133.9 million (YTD 2Q2016: RM134.1 million) and unrealised profit of RM1.4 million (YTD 2Q2016: RM1.9 million). Realised profit for YTD 2Q2017 was marginally lower by 0.2% or RM0.3 million compared to YTD 2Q2016 despite higher net property income and lower other expenses as these were offset by lower other income, as explained in Note A8(a), and higher finance costs.

The unrealised profit for YTD 2Q2017 was RM1.4 million, lower by RM0.5 million compared to RM1.9 million for YTD 2Q2016 primarily due to lower net fair value gain on interest rate swap.

A9. Seasonality of Operations

The quarterly results were not materially affected by seasonal or cyclical factors except for the hotel segment, which will typically enjoy better performance from July to December due to higher leisure and business activities and year end corporate functions.

A10. Profit Before Tax

Included in the profit before tax are the following items:

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Interest Income	(596)	(661)	(1,499)	(1,654)
Net changes in fair value of long term liabilities	(44)	(19)	(62)	(37)
Unrealised foreign exchange loss - hedged item	35,050	(10,200)	45,450	50,800
Cash flow hedge reserve recycled to profit or loss	(35,050)	10,200	(45,450)	(50,800)
Net changes in fair value of derivative financial instrument	(3,969)	2,075	(1,362)	(1,855)
(Reversal of)/Allowance for impairment of trade receivables	(1,719)	37	(503)	226
Bad debts written off	154	8	154	242
Depreciation of plant and equipment	366	215	728	432

A11. Income Tax Expense

Taxation of the REIT

The tax transparency system under Section 61A of the Malaysian Income Tax Act 1967, exempts the REIT from income tax in a year of assessment if the REIT distributes at least 90% of its total taxable income in the same year of assessment.

Since Sunway REIT shall be distributing 100% of its realised year-to-date income (which translates to more than 90% of its total taxable income), the REIT should not incur any tax expense for the financial year ending 30 June 2017.

Taxation of the Unitholders

Pursuant to Section 109D(2) of Income Tax Act, 1967, where 90% or more of the REIT's total taxable income is distributed by the REIT, distributions to unitholders (other than resident corporate investors) will be subject to tax based on a withholding tax mechanism at the following rates:

Unitholders	Withholding tax rate
Individuals & all other non-corporate investors such as institutional investors	10%
Non-resident corporate investors	24%

Resident corporate investors are required to report the distributions in their normal corporate tax return and subject to the prevailing corporate tax rate of 24%.

A12. Income Distribution

For the quarter ended 31 December 2016, the Manager proposed an interim income distribution of approximately 100% of the realised distributable income amounting to RM67.148 million or 2.28 sen per unit, comprising taxable and non-taxable/tax exempt amount of 1.67 sen per unit and 0.61 sen per unit respectively.

The book closure and payment dates in respect of the proposed interim income distribution will be fixed on 1 March 2017 and 15 March 2017 respectively.

A13. Valuation of Investment properties

Investment properties are valued by independent registered valuer, C H Williams Talhar & Wong. The difference between the valuation and the carrying amounts of the respective investment properties are charged or credited to the profit or loss for the period in which they arise. There was no valuation performed during the quarter under review.

A14. Borrowings and Debt Securities

	As at 31.12.2016 RM'000	As at 30.06.2016 RM'000
<u>Short term borrowings</u>		
Secured		
- Commercial papers	25,000	-
- Unrated medium term notes	400,000	-
	<u>425,000</u>	<u>-</u>
Unsecured		
- Revolving loan	797,400	772,400
Total gross short term borrowings	<u>1,222,400</u>	<u>772,400</u>
Less: Discount on commercial papers	(13)	-
Total short term borrowings	<u>1,222,387</u>	<u>772,400</u>
 <u>Long term borrowings</u>		
Secured		
- Term loans	448,600	403,150
- Unrated medium term notes	600,000	1,000,000
Total long term borrowings	<u>1,048,600</u>	<u>1,403,150</u>
Total borrowings	<u>2,270,987</u>	<u>2,175,550</u>

Included in the long term borrowings for 31 December 2016 is a secured 3-year term loan of USD100 million, hedged with a 2-year cross currency swap contract, upon maturity of the earlier 1-year contract, to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation.

As at 31 December 2016, the cumulative unrealised foreign exchange loss from the translation of the USD100 million loan amounted to RM26.6 million (30.6.2016: gain of RM18.9 million). The unrealised foreign exchange loss reflected in the statement of comprehensive income for 2Q2017 and YTD 2Q2017 were RM35.1 million (2Q2016: gain of RM10.2 million) and RM45.5 million (YTD 2Q2016: RM50.8 million) respectively.

A15. Fair Value Hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1

Quoted market prices in an active market for identical assets or liabilities.

Level 2

Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3

Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable.

A15. Fair Value Hierarchy (Cont'd)

The following table provides the fair value hierarchy of the Group's assets and financial instruments:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 31 December 2016				
Financial assets				
Investment properties	-	-	6,502,892	6,502,892
Derivative	-	26,387	-	26,387
<hr/>				
Financial liability				
Derivatives	-	(2,369)	-	(2,369)
<hr/>				
At 30 June 2016				
Financial assets				
Investment properties	-	-	6,433,000	6,433,000
<hr/>				
Financial liability				
Derivatives	-	(22,189)	-	(22,189)
<hr/>				

No transfers between any levels of the fair value hierarchy took place during the current quarter and the preceding year corresponding quarter.

A16. Material Event

There were no material events since the end of the last annual reporting period, except for the following:

Proposed acquisition

On 20 June 2016, Kenanga Investment Bank Berhad ("Kenanga") announced on behalf of the Board of Directors of Sunway REIT Management Sdn Bhd, the Manager for Sunway REIT ("SunREIT"), represented by its trustee, RHB Trustees Berhad, had on even date entered into a conditional sale and purchase agreement ("SPA") with Commercial Parade Sdn Bhd, an indirect subsidiary of Sunway Berhad, to acquire a parcel of vacant land ("Proposed Acquisition") held under Pajakan Negeri 1814, Lot 5493, Mukim 1, Seberang Perai Tengah, Pulau Pinang which is adjacent to Sunway Carnival Shopping Mall ("Sunway Carnival") for a purchase price of RM17.2 million. The Proposed Acquisition is to facilitate the plans of the Manager to expand the existing Sunway Carnival Shopping Mall.

The completion of the sale of Lot 5493 is conditional upon fulfilling the following conditions precedent:

- (i) State Authority approval;
- (ii) the Securities Commission's ("SC") approval for the waiver of Clause 8.44(b) and Clause 8.44(c) of the Guidelines on Real Estate Investment Trusts ("REIT Guidelines")¹; and
- (iii) any other approvals of any authority as may be deemed necessary by the parties

The Proposed Acquisition has been completed on 27 December 2016 in accordance with the terms and conditions of the SPA, upon fulfilment of the above conditions precedent.

¹ Clause 8.44(b) and Clause 8.44(c) of the REIT Guidelines state that a fund is not permitted to conduct property development activities and/or acquire vacant land.

A17. Material Events Subsequent to the end of the Current Quarter

There were no material events subsequent to the quarter ended 31 December 2016, except for the following:

Proposed acquisition

On 11 January 2017, the Board of Directors of Sunway REIT Management Sdn Bhd, the Manager for Sunway REIT ("SunREIT"), represented by its trustee, RHB Trustees Berhad ("Trustee"), had on even date entered into a conditional sale and purchase agreement with Champion Edge Sdn Bhd ("CESB") to acquire the land and the buildings, collectively referred to as the "Property", erected on the land held under H.S.(D) 132499, Lot No. PT 65, Section 23, Bandar Shah Alam, Daerah Petaling, Negeri Selangor Darul Ehsan ("SPA") for a purchase price of RM91.5 million to be fully satisfied in cash ("Purchase Price").

The completion of the SPA by the parties shall be conditional upon the satisfaction of the following conditions precedent:

- (i) CESB obtaining the written approval of the State Authority (as defined in the SPA) in respect of the transfer of the Property in favour of the Trustee;
- (ii) the Trustee obtaining from CESB a copy of the full set of approved building plans and as-built plans;
- (iii) CESB having delivered the BOMBA (fire authority) certificate and the latest renewal thereof;
- (iv) the Trustee obtaining the latest redemption statement and letter of undertaking from CESB's financier addressed to the Trustee;
- (v) CESB obtaining (i) the signed lease novation agreement from the lessee which will take effect from the Completion Date (as hereinafter defined) and substantially in the form as annexed in the SPA subject to any amendments as may be agreed by both CESB and the Trustee and (ii) the lessee's letter of consent addressed to the relevant land registry to the transfer of the Property in favour of the Trustee; and
- (vi) the Trustee obtaining a copy of the assignment agreement duly signed by CESB in respect of the assignment of the corporate guarantee in respect of the existing lease in favour of the Trustee.

(collectively, "Conditions Precedent") within a period of 3 months from the date of the SPA or such extended period as may be determined by CESB in writing ("Conditional Period") and the SPA shall become unconditional on the date all the Conditions Precedent are fulfilled or waived as the case may be shall be ("Unconditional Date").

The Purchase Price (excluding GST) shall be paid by the Trustee in the following manner:

- (i) a sum of RM2 million only being the earnest deposit ("Earnest Deposit") has been paid by the Trustee to CESB's agent, Knight Frank Malaysia Sdn Bhd (Company No. 585479-A) prior to the date of the SPA whereupon CESB's agent shall deposit the Earnest Deposit with the Trustee's Solicitors as stakeholders upon the execution of the SPA;
- (ii) a sum of RM7.15 million being the balance deposit ("Balance Deposit") shall be paid by the Trustee to the Trustee's Solicitors as stakeholders upon the execution of the SPA; and
- (iii) a sum of RM82.35 million equivalent to 90% of the Purchase Price being the balance thereof ("Balance Sum") shall be paid by the Trustee to CESB's Solicitors as stakeholder within 1 month from the Unconditional Date ("Completion Period"). CESB's Solicitors shall hold the remaining Balance Sum after deducting the Redemption Sum ("Remaining Balance") as stakeholder and shall and are hereby authorised by the parties to release the Remaining Balance together with any interest accrued thereon to CESB after the expiry of a period of 7 days following the date of presentation of the Memorandum of Transfer and the discharge documents for registration at the relevant land registry (provided that the Memorandum of Transfer and/or the discharge documents have not been rejected for registration by the relevant land registry at any time prior to the release of the Remaining Balance).

The date of the receipt by CESB's Solicitors of the Balance Sum and the GST payable on the Purchase Price in full shall be referred to as the "Completion Date".

A18. Capital Commitments

The amount of commitments for investment properties not provided for in the unaudited condensed consolidated interim financial statements as at 31 December 2016 were as follows:

	As at 31.12.2016 RM'000
Approved and contracted for	72,724
Approved but not contracted for	34,147
	<u>106,871</u>

The capital commitment approved and contracted for is mainly in relation to the refurbishment of SPRH, which commenced in April 2016. Similarly, the amount approved but not contracted for mainly relates to the refurbishment of SPRH and various minor asset enhancement works for most of the properties.

A19. Contingent Liabilities and Assets

There were no contingent liabilities or contingent assets as at 31 December 2016.

A20. Transactions with Parties Related to the Manager

The following table provides information on the transactions which have been entered into with parties related to the Manager during the period ended 31 December 2016 and 31 December 2015 as well as the balances with the parties related to the Manager as at 31 December 2016 and 30 June 2016:

	<u>Second Quarter ended</u>		<u>Cumulative Quarter ended</u>	
	<u>31.12.2016</u>	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>(Sales to)/purchases from parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Sales	(32,334)	(38,373)	(64,912)	(73,892)
- Purchases	50,821	22,294	82,915	45,582
(b) Sunway Technology Sdn. Bhd. Group ("STSB Group")				
- Sales	(133)	(140)	(254)	(275)
	<hr/>		<hr/>	
			As at	As at
			31.12.2016	30.06.2016
			RM'000	RM'000
<u>Amount owed by parties related to Manager:</u>				
(a) Sunway Berhad Group			9,558	6,406
(b) Sunway Technology Sdn. Bhd. Group			-	-
			<hr/>	
			As at	As at
			31.12.2016	30.06.2016
			RM'000	RM'000
<u>Amount owed to parties related to Manager:</u>				
(a) Sunway Berhad Group			26,892	30,279
			<hr/>	

Part B - Additional Information Pursuant to Paragraph 9.44 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad

B1. Review of Performance

Explanatory comment on the performance of each of the Group's business segment is provided in Note A8.

B2. Maintenance Costs and Major Capital Expenditure

There was no unusual maintenance costs during the quarter under review. Sunway REIT incurred capital expenditure of approximately RM26.4 million for 2Q2017 and RM52.4 million for YTD 2Q2017 mainly for the refurbishment of Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East).

B3. Material Changes in Quarterly Results

	Current Quarter Ended 31.12.2016 RM'000	Immediate Preceding Quarter Ended 30.09.2016 RM'000
Realised profit	67,130	66,732
Unrealised profit/(loss)	4,013	(2,589)
Profit for the quarter	<u>71,143</u>	<u>64,143</u>

Sunway REIT registered a realised profit of RM67.1 million for 2Q2017, which was RM0.4 million higher compared to the immediate preceding quarter (1Q2017) of RM66.7 million, mainly due to the recognition of RM3.2 million in other income as mentioned in Note A5 but partially offset by lower net property income from the retail and hotel segment (RM2.0 million), lower interest income (RM0.3 million) and higher finance costs (RM0.3 million).

Unrealised profit for the current quarter of RM4.0 million and unrealised loss for the previous quarter (1Q2017) of RM2.6 million was mainly due to fair value movements from the derivative financial instrument.

B4. Commentary on Prospects

Global economic growth in CY2016 is estimated to grow at a slower pace of 2.3% (CY2015: 2.4%), the weakest performance since global financial crisis. Advanced economies continue to be plagued by weak growth and low inflation coupled with heightened uncertainties on future policy direction. Fiscal stimulus in key major economies, the United States, in particular, may boost growth in the near term. The World Bank expects global economic growth to pick up to 2.7% in CY2017, however, at a slower pace compared to its earlier projection of 2.8%.

The Malaysian economy expanded by 4.3% year-on-year in 3Q CY2016 underpinned by sustained growth in private sector activities. Although the gross domestic product ("GDP") has picked up compared to 2Q CY2016's GDP growth of 4.0%, economic growth in 3Q CY2016 was weaker than the same period last year (3Q CY2015: 4.7%). Year-to-date cumulative 9M CY2016 Malaysia's economic growth averaged at 4.2%, in line with the official GDP target of between 4.0% to 4.5%. The government expects the economy to expand between 4.0% to 5.0% in CY2017.

Headline inflation averaged at 2.1% in CY2016 (2015 CPI: 2.1%), largely due to higher food and non-alcoholic price and partially mitigated by lower transport prices. This is in line with Bank Negara's ("BNM") expectation of between 2.0% to 2.5% for CY2016. Going forward, BNM has indicated that inflationary pressure may inch higher in CY2017 amid the prospect of higher global oil prices.

The BNM has maintained the Overnight Policy Rate ("OPR") at 3.00% at the recent Monetary Policy Committee ("MPC") meeting on 19 January 2017. At the current level of the OPR, the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid stable inflation. The MPC will continue to assess the risks surrounding the outlook for domestic growth and inflation.

B4. Commentary on Prospects (Cont'd)

The Manager expects a marginal decrease in DPU in FY2017 compared to FY2016 mainly on the back of:

- (i) Lower contribution from the hotel segment due to the closure of Sunway Pyramid Hotel to undertake refurbishment.
- (ii) Cessation of payment of Manager's fees in units with effect from FY2017.

The Manager is committed to distribute 100% of its distributable net income for FY2017.

Review of retail market

The Retail Group Malaysia ("RGM") reported that the Malaysia's retail industry recorded a dismal growth of 1.9% in the 3Q CY2016 (3Q FY2015: 1.6%), as retailers enjoyed minimal impact from the Hari Raya and higher minimum wages implementation in July 2016. For the nine months of 2016 ("9M CY2016"), retail sale grew by 1.6%.

RGM, for the second time, has revised downwards the retail industry sales growth from 3.5% to 3.0% for CY2016 to reflect the poor retail sales performance during the 3Q CY2016. RGM expects retail sales in Malaysia to grow by 5.0% in CY2017 with expected recovery in second half of CY2017.

On the supply side, the total existing stock of retail space within purpose built retail centre in the Klang Valley stood at 59.9 million sq.ft. with an average occupancy of 80.1% in 3Q CY2016.

Sunway Pyramid Shopping Mall remained resilient during the financial year. The average occupancy rate was stabled at 97.7% for YTD 2Q FY2017 compared to 97.9% in 1Q FY2017. Based on the total net lettable area ("NLA") of 979,276 sq.ft. which is due for renewal in this financial year, a total NLA of 766,849 sq.ft. was renewed for YTD 2Q FY2017 at a single-digit rental reversion rate over the three-year tenancy term. The renewal has included the two anchor tenants in the mall which were renewed in 1Q FY2017.

Average occupancy rate at Sunway Carnival Shopping Mall inched higher to 97.1% for YTD 2Q FY2017 following the completion of the remodeling of 2nd floor area of approximately 16,000 sq.ft. (equivalent to 3% of total NLA) into food and beverage ("F&B") area. Based on the total NLA of 327,408 sq.ft. which is due for renewal in this financial year, a total of 221,788 sq.ft. of NLA was renewed for YTD 2Q FY2017 at a single-digit rental reversion rate over the three-year tenancy term. The renewal has included an anchor tenant in the mall which was renewed in 1Q FY2017.

Sunway Putra Mall's average occupancy rate improved marginally to 85.5% for YTD 2Q FY2017 compared to 85.2% in 1Q FY2017.

The outlook for FY2017 remains challenging, as consumer sentiment remains weak mainly due to the escalating cost of living and weakened Ringgit. Although unemployment rate remains healthy, consumers are expected to remain cautious in their spending in the near term.

The manager expects a modest growth for Sunway REIT's retail assets in FY2017 contributed by the resilient performance from the flagship asset, Sunway Pyramid Shopping Mall and Sunway Carnival Shopping Mall as well as expected gradual improvement in the performance of Sunway Putra Mall.

B4. Commentary on Prospects (Cont'd)

Review of hotel market

Tourist arrivals for the 11M CY2016 came in lower at 22.06 million tourists compared to 23.12 million tourists during the same period last year, representing a decline of 4.6%. Extrapolation of the 11M data indicates that tourist arrivals will be significantly below the CY2016 official target of 30.5 million.

Tourism activities may improve in view of the weak Ringgit and implementation of eVisa and visa waiver programme for Chinese tourists. The Tourism and Culture Ministry had cited that there are plans to increase the frequency of flights from major cities in China to Malaysia to promote tourism activities in the country.

The average occupancy rate for Sunway Resort Hotel & Spa eased marginally to 80.3% in 2Q FY2017 compared to 81.8% in 2Q FY2016, mainly due to lower corporate and leisure demand.

Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East) has progressively re-opened since 2Q FY2017. A total of 316 rooms were fully refurbished and has progressively re-opened for business as at 31 December 2016. In 2Q FY2017, the average occupancy rate for the hotel stood at 78.2% based on available rooms inventory of 316 rooms. The hotel is expected to fully re-open in 4Q FY2017.

The average occupancy rate at Sunway Putra Hotel improved significantly to 71.7% in 2Q FY2017, from 45.0% during the corresponding period in the preceding year. Following the completion of the refurbishment of the hotel, the hotel operator embarked on active marketing activities and promotional rates to regain market share across all customer segments.

In Penang, the tactical strategy embarked by Sunway Hotel Seberang Jaya and Sunway Hotel Georgetown continued to gain traction. The average occupancy rate for Sunway Hotel Seberang Jaya rebounded / improved further to 73.9% in 2Q FY2017, from 64.1% in 2Q FY2016. Likewise, Sunway Hotel Georgetown recorded encouraging average occupancy rate of 88.7% in 2Q FY2017 compared to 74.1% in 2Q FY2016.

In all, the Manager expects a lower contribution from the hotel segment in FY2017 primarily due to competitive market environment, weak corporate and leisure market as well as the closure of Sunway Pyramid Hotel which was closed since April 2016 to undertake an accelerated refurbishment.

Review of office market

The oversupply situation in the Klang Valley office market is expected to continue with the huge incoming supply of approximately 13.32 million sq.ft. of office space scheduled to be completed by the end of 2018. The existing office stock in the Klang Valley stood at 114.4 million sq.ft. in 3Q CY2016.

The disequilibrium between the demand and supply is unlikely to be resolved in the absence of any strong economic catalysts. This may adversely impact on the occupancy and rental rates in a highly challenging market landscape. The situation may deteriorate further in view of consolidation of major industries such as the oil & gas, financial institutions and relocation of multinationals out of Malaysia.

The average occupancy rate for Menara Sunway was maintained at 89.8% for YTD 2Q FY2017 compared to 1Q FY2017. The Manager has secured new tenants totalling 18,000 sq.ft. (equivalent to 6% of total NLA) which will commence their tenancies in 3Q FY2017 and this will improve the occupancy rate to approximately 96%.

The average occupancy rate for Sunway Tower was unchanged at 20.7% for YTD 2Q FY2017 compared to the previous quarter.

The average occupancy rate at Sunway Putra Tower has improved from 25.7% in 1Q FY2017 to 31.2% for YTD 2Q FY2017. The improvement was attributable to commencement of a new tenant occupying 51,500 sq.ft. (equivalent to 16% of total NLA) in 2Q FY2017. As at 31 December 2016, the occupancy rate for Sunway Putra Tower stood at 38.1%. In addition, the Manager has secured another 12,000 sq.ft. (equivalent to 4% of total NLA) which will commence its tenancy in 3Q FY2017 and this will improve the occupancy rate to approximately 42%.

The average occupancy for Wisma Sunway was stable at 87.6% for YTD 2Q FY2017.

The asset manager is actively seeking replacement tenants to improve the occupancy of the office towers.

The Manager expects the office segment to remain challenging as reflected by the challenges clouding the office sub-sector in the Klang Valley. However, the Manager expects the performance of Sunway REIT's office segment to gradually improve in FY2017 following the gradual improvement in Sunway Putra Tower.

B5. Investment Objectives

The Manager's key investment objective for Sunway REIT is to provide the unitholders with exposure to a diverse portfolio of authorised investments (pursuant to provisions of the trust deed) that will provide stable cash distributions with the potential for sustainable growth in net asset value per unit and distribution per unit (DPU). The principal investment policy of Sunway REIT is to invest in retail, hospitality, office and other real estate assets, subject to the REIT Guidelines.

The Manager is confident of providing stable cash distributions going forward and will endeavour to grow the net asset value over a longer period of time. There was no change in the objectives during the period under review.

B6. Performance Benchmark

Performance indicators	Period ended 31.12.2016	Year ended 30.06.2016
a) Management expense ratio *	0.85%	0.88%
b) Total returns *	8.9%	13.3%
c) Average annual returns (5 years) *	10.6%	14.4%
d) Distribution yield *	5.3%	5.5%
e) NAV per unit (after income distribution) (RM)	1.3553	1.3549

* The performance indicators for the period ended 31 December 2016 was based on annualised results.

- The ratio of expenses incurred in operating Sunway REIT to the NAV of Sunway REIT.
- Total return represents the change in unit price from beginning of financial year plus annualised distribution yield for the year.
- Average annual return is the sum of the return rates of Sunway REIT over a given number of years divided by that number of years.
- Based on annualised DPU of 9.03 sen divided by its closing price as at 31 December 2016 of RM1.72 (30 June 2016 - DPU: 9.18 sen; Closing price: RM1.66).
- NAV of Sunway REIT as determined by deducting the value of all Sunway REIT's liabilities from the total asset value, divided by total issued units.

B7. Strategies and Policies

The Manager's strategies can be broadly categorised as:

- active asset management strategy
- acquisition growth strategy
- capital and risk management strategy

There was no change in the strategies and policies employed during the period under review.

B8. Manager's Fee

Pursuant to the Deed constituting Sunway REIT, the Manager is entitled to receive the following fees from Sunway REIT:

- Base fee of 0.3% per annum on the total assets value;
- Performance fee of 3% per annum of net property income, but before deduction of fees payable to the Property Manager pursuant to the Property Management Agreement;
- Acquisition fee of 1% of the acquisition price of any future assets of Sunway REIT or a Single-Purpose Company acquired by the Trustee for Sunway REIT (pro rated if applicable to the proportion of the interest in Real Estate or Single-Purpose Company purchased by the Trustee for Sunway REIT); and
- Divestment fee of 0.5% of the sale price of any future Assets of Sunway REIT or a Single-Purpose Company sold or divested by the Trustee (pro rated if applicable to the proportion of the interest of Sunway REIT in the Assets of Sunway REIT sold).

B8. Manager's Fee (Cont'd)

The Manager's fee shall be net of all applicable tax, duties and levies imposed by the relevant authorities in Malaysia. The Manager shall be paid the base fee and performance fee which may be in the forms of cash, new Units or a combination thereof, such proportion which may be varied at the discretion of the Manager.

The applicable proportion, with effect from FY2017, is 100% in the form of cash. In the previous financial year, the proportion of Manager's fee was 75% in the form of cash and 25% in the form of new Units. The Manager made the decision to cease the payment of Manager's fee in units after taking into consideration, amongst others, the implication arising from the implementation of the Goods and Services Tax.

Total fees accrued to the Manager for the current quarter and cumulative quarter ended 31 December 2016 were RM8.0 million (Total base and performance fee of RM7.8 million and acquisition fee of RM0.2 million) and RM15.8 million ((Total base and performance fee of RM15.6 million and acquisition fee of RM0.2 million) respectively compared to the preceding year corresponding quarter and cumulative quarter ended 31 December 2015 of RM7.8 million and RM15.5 million respectively. The acquisition fee of RM0.2 million was paid to the Manager for the acquisition of Sunway Carnival land and this fee was capitalised as part of the acquisition costs during the period under review.

B9. Trustee's Fee

Pursuant to the Deed constituting Sunway REIT, the Trustee is entitled to receive up to 0.03% per annum of the net asset value of Sunway REIT, net of all applicable taxes, duties and levies imposed by the relevant authorities in Malaysia, is calculated on a monthly accrual basis, based on a year of 12 months. The total Trustee's fee for the current and cumulative quarter ended 31 December 2016 was RM0.3 million and RM0.6 million respectively, similar to the fees for the preceding year corresponding quarter and cumulative quarter ended 31 December 2015.

B10. Status of Corporate Proposals

There was no corporate proposal that has been announced but not completed as at the date of this report, except for the Proposed Acquisitions as disclosed in Note A17.

B11. Material Litigation

1. Sunway Putra (formerly known as Putra Place) - Assessment for Damages (High Court Originating Summons No. 24NCVC-1255-2011, Court of Appeal W-02(NCVC)-1680-2011 and W-02(NCVC)-1773)-2011, Federal Court Leave to Appeal 08(f)-425-09-2011) and Rayuan Sivil No. W-03(IM)(NCVC)-8-01/20-15)

After the Federal Court has on 20 February 2012 dismissed Metroplex Holdings Sdn Bhd's ("MHSB") application for leave to appeal, RHB Trustees Berhad (as trustee of Sunway REIT) ("Trustee") and Sunway REIT Management Sdn Bhd ("Manager") proceeded with the enforcement of the remaining parts of the Orders made by the High Court that have not been enforced, *inter alia*, the damages awarded to the Trustee.

The Trustee and the Manager instituted the assessment proceedings to determine the amount of damages to be paid by MHSB.

On 27 August 2014, the court awarded a total of RM3,184,071.67 in damages to be paid to the Trustee being RM2,859,000 for revenue foregone and RM325,071.67 for security costs. The court found that these claims were justified as they were a direct result of MHSB's unlawful possession of Sunway Putra (formerly known as Sunway Putra Place). No costs were awarded by the court.

On 19 April 2016, the REIT Manager received a cheque for RM3,189,071.67 from MHSB's lawyers after the Court dismissed various appeals by MHSB.

The REIT Manager has recognised the amount received of RM3,189,071.67 in 2Q2017, following confirmation of closure of the case closure by the Manager and Trustee's lawyer.

B11. Material Litigation (Cont'd)

2. Sunway Putra (formerly known as Putra Place) - Striking out statement of claim on chattels and movable items
(Kuala Lumpur High Court Civil Suit No. 22NCVC-523-09/2015)

Metroplex Holdings Sdn Bhd ("MHSB") had filed writ summons and a statement of claim dated 28 September 2015 claiming for various chattels and movable items (e.g. furniture and office equipment, decorations, cutlery, kitchen equipment, bar equipment, concierge and reception tables, blinds and curtains) which were allegedly acquired and owned by MHSB but not removed by MHSB when the Manager took possession of the hotel at Sunway Putra on 27 September 2011. MHSB has in its statement of claim alleged that the various chattels and moveable items were worth in excess of RM80 million as at September 2011.

A striking out application dated 24 November 2015 was filed by the Manager to strike out the said writ summons and statement of claim on the grounds that the claim by MHSB was scandalous, frivolous or vexatious and/or an abuse of the process of the court.

On 1 April 2016, the Manager was informed that the High Court of Malaya at Kuala Lumpur had on 31 March 2016, dismissed the striking out application. The Learned High Court Judge dismissed the Manager's application on the grounds that there are triable issues in the pleadings and that MHSB should be given an opportunity to prove its claim. The trial dates in November 2016 have been adjourned and are now fixed on 12, 13 and 14 April 2017, 4 and 5 May 2017. The next case management is on 7 March 2017.

If the eventual outcome of this case is not in the Manager's favour, it would not have any impact on the distribution per unit and immaterial impact on the total asset value of Sunway REIT.

B12. Soft commission

There was no soft commission received by the Manager and/or its delegate during the period under review from its brokers/dealers by virtue of transactions conducted for Sunway REIT.

B13. Summary of EPU, DPU, NAV and Market Price

	Current quarter ended 31.12.2016	Immediate preceding quarter ended 30.09.2016	% change
Number of units in issue (units)	2,945,078,000	2,945,078,000	0.0%
Realised net income (RM'000)	67,130	66,732	0.6%
Realised earnings per unit (EPU) (sen)	2.31	2.24	3.1%
Income distribution(RM'000)	67,148	66,853	0.4%
Distribution per unit (DPU)(sen)	2.28	2.27	0.4%
Net Asset Value (NAV) (After income distribution) (RM'000)	3,991,394	3,989,735	0.0%
NAV per unit (After income distribution) (RM)	1.3553	1.3547	0.0%
Market price per unit (RM)	1.72	1.73	-0.6%

B14. Income Distribution

Please refer to Note A12 for details .

B15. Disclosure of Nature of Outstanding Derivative Financial Instruments

Derivative financial instruments are recognised in the financial statements in accordance with MFRS139.

Type of Derivatives	Contract/Notional Value		Fair value at reporting date	
	As at 31.12.2016	As at 30.06.2016	As at 31.12.2016	As at 30.06.2016
	RM'000	RM'000	RM'000	RM'000
a) Interest rate swap				
- Less than 1 year	150,000	-	(441)	
- 1 year to 3 years	922,000	1,072,000	(1,928)	(3,732)
	1,072,000	1,072,000	(2,369)	(3,732)
b) Cross currency swap				
- Less than 2 years	422,000	422,000	26,387	(18,457)
	1,494,000	1,494,000	24,018	(22,189)

a) Interest rate swap

During the previous financial years, Sunway REIT had entered into several interest rate swap ("IRS") contracts to manage its exposure of the floating rate borrowings. The cumulative IRS contracts to-date amounted to RM1.1 billion. The IRS contracts were entered into to mitigate the risk of increase in interest rate over the hedging period on the floating rate borrowings. The fair value gains or losses on remeasuring the fair value of the IRS contracts are recognised immediately in the income statement as unrealised item as it does not qualify as a cash flow hedge.

The fair value of the IRS recognised in the income statement for 2Q2017 and YTD 2Q2017 amounted to a gain of RM4.0 million (2Q2016: loss of RM2.1 million) and RM1.4 million (YTD 2Q2016: RM1.9 million) respectively. This brings the cumulative total fair value loss of the IRS to RM2.4 million as at 31 December 2016 and reflected as a derivative liability in the balance sheet.

b) Cross currency swap

Sunway REIT had entered into a 2-year cross currency swap ("CCS") contract in February 2016 to manage its exposure in foreign currency risk arising from foreign currency borrowings. The CCS contract was entered into to hedge against the foreign currency exposure for the remaining period of the foreign currency borrowings. Sunway REIT uses cash flow hedge to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation over the hedging period on the foreign currency borrowings.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognized directly in other comprehensive income until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement.

The fair value gain of the CCS recognised in the statement of comprehensive income for 2Q2017 and YTD 2Q2017 amounted to RM32.7 million (2Q2016: loss of RM9.5 million) and RM44.8 million (YTD 2Q2016: RM53.2 million) respectively. This brings the cumulative total fair value gain of the CCS to RM26.4 million as at 31 December 2016 and reflected as a derivative asset in the balance sheet.

B16. Risks and Policies of Derivatives

The Group has Interest Rate Swap contracts and a Cross Currency Swap contract as mentioned in Note B15 above.

The overall risks and policies relating to the management of derivative financial instrument are similar to those disclosed in the annual financial statements for the financial year ended 30 June 2016 except the IRS contracts do not qualify as cash flow hedge and consequently, the fair value gains or losses on remeasuring the fair value of the IRS contracts are recognised immediately in the income statement as an unrealised item.

B17. Disclosure of Gains/Losses Arising from Fair Value Changes of Financial Liabilities

Please refer to Note A10 for details.

B18. Realised and Unrealised Retained Profits/Undistributed Income

The breakdown of the retained profits/undistributed income of the Group as at 31 December 2016 into realised and unrealised profits/undistributed income is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1. Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Period ended 31.12.2016 RM'000	As at end of previous financial year RM'000
Total retained profits/undistributed income		
- realised	(87)	(4,685)
- unrealised	1,330,803	1,329,985
	<u>1,330,716</u>	<u>1,325,300</u>
Less: Consolidation adjustments	(3)	(3)
Total retained profits/undistributed income	<u>1,330,713</u>	<u>1,325,297</u>

B19. Directors' Declaration

In the opinion of the Manager, this quarterly report has been prepared in accordance with MFRS 134: Interim Financial Reporting and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of Sunway REIT as at 31 December 2016 and of its financial performance and cash flows for the quarter ended on that date and duly authorised for release by the Board of the Manager on 14 February 2017.

BY ORDER OF THE BOARD

Sunway REIT Management Sdn. Bhd.
(As Manager for Sunway Real Estate Investment Trust)

Tan Kim Aun (MAICSA No.: 7002988)
Chin Soo Ching (MAICSA No.: 7042265)
Company Secretaries

Bandar Sunway
Date: 14 February 2017