

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Third Quarter ended		Cumulative Quarter ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Rental income	131,350	127,474	380,364	374,298
Other operating income	3,223	2,871	9,968	9,130
Gross revenue	134,573	130,345	390,332	383,428
Quit rent, assessment and insurance	(3,429)	(2,379)	(10,250)	(9,427)
Other property operating expenses	(30,963)	(31,281)	(89,781)	(90,320)
Property operating expenses	(34,392)	(33,660)	(100,031)	(99,747)
Net property income	100,181	96,685	290,301	283,681
Other income	1,278	1,006	7,390	10,740
Net investment income	101,459	97,691	297,691	294,421
Manager's fee	(7,938)	(7,747)	(23,588)	(23,219)
Trustee's fee	(342)	(300)	(957)	(907)
Finance costs	(22,507)	(21,595)	(66,340)	(64,698)
Other expenses	(316)	(3,283)	(1,164)	(4,798)
	(31,103)	(32,925)	(92,049)	(93,622)
Profit before tax	70,356	64,766	205,642	200,799
Income tax expense	-	-	-	-
Profit for the period	70,356	64,766	205,642	200,799
Profit for the period comprise the following:				
Realised	69,906	67,714	203,768	201,855
Unrealised	450	(2,948)	1,874	(1,056)
	70,356	64,766	205,642	200,799
Earnings per unit (sen)				
- realised	2.37	2.33	6.92	6.87
- unrealised	0.01	(0.10)	0.06	(0.04)
	2.38	2.23	6.98	6.83
Proposed/declared distribution per unit (sen)	2.37	2.37	6.92	7.06

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)

	Third Quarter ended		Cumulative Quarter ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Profit for the period	70,356	64,766	205,642	200,799
Other comprehensive income				
Cash flow hedge - fair value of derivative ¹	(5,825)	(42,526)	39,019	10,692
Cash flow hedge reserve recycled to profit or loss ²	6,300	45,650	(39,150)	(5,150)
Total comprehensive income for the period	70,831	67,890	205,511	206,341

¹ Please refer to Note B15b) for details.

² Please refer to Note A14 for details.

Income distribution

	Third Quarter ended		Cumulative Quarter ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Realised total comprehensive income for the period	69,906	67,714	203,768	201,855
Add: Surplus cash arising from Manager's fee paid/payable in Units ³ (3Q2016: 25%)	-	1,936	-	5,805
Total available for income distribution for the period	69,906	69,650	203,768	207,660
Brought forward undistributed income available for distribution	374	502	513	414
Total available for income distribution	70,280	70,152	204,281	208,074
Less: Proposed/declared income distribution	(69,798)	(69,742)	(203,799)	(207,664)
Balance undistributed arising from rounding difference	482	410	482	410

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 THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As At 31.03.2017 (Unaudited)	As At 30.06.2016 (Unaudited)
	RM'000	RM'000
ASSETS		
Non-current assets		
Plant and equipment	9,168	8,698
Investment properties	6,514,392	6,433,000
	<u>6,523,560</u>	<u>6,441,698</u>
Current assets		
Receivables, deposits and prepayments	34,768	25,842
Derivatives	20,562	-
Cash and bank balances	72,785	69,719
	<u>128,115</u>	<u>95,561</u>
	<u>6,651,675</u>	<u>6,537,259</u>
FINANCED BY:		
Unitholders' funds		
Unitholders' capital	2,727,829	2,725,933
Undistributed income	1,334,396	1,325,297
Total Unitholders' funds	<u>4,062,225</u>	<u>4,051,230</u>
Non-current liabilities		
Borrowings	400,000	1,403,150
Long term liabilities	60,118	56,256
Deferred tax liability	5,896	5,896
Derivatives	345	22,189
	<u>466,359</u>	<u>1,487,491</u>
Current liabilities		
Trade and other payables	198,801	226,138
Borrowings	1,922,700	772,400
Derivatives	1,590	-
	<u>2,123,091</u>	<u>998,538</u>
	<u>6,651,675</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	4,062,225	4,051,230
- After income distribution	3,992,427	3,988,819
NET ASSET VALUE PER UNIT (RM)		
- Before income distribution ¹	1.3793	1.3761
- After income distribution ²	1.3556	1.3549

¹ Before the 3Q2017 proposed income distribution of 2.37 sen per unit (4Q2016: 2.12 sen per unit).

² After the 3Q2017 proposed income distribution of 2.37 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 THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised 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	-	203,768	1,874	205,642
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	39,019	39,019
- Cash flow hedge reserve recycled to profit or loss	-	-	(39,150)	(39,150)
Total comprehensive income, representing the increase in net assets resulting from operations	2,725,933	199,080	1,331,728	4,256,741
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	-	(134,001)	-	(134,001)
- 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	(196,412)	-	(194,516)
As at 31 March 2017 (Unaudited)	2,727,829	2,668	1,331,728	4,062,225

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised 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 THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

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

¹ Issue of new units comprise the following:

	31.03.2017	
	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 THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative Quarter ended	
	31.03.2017	31.03.2016
	RM'000	RM'000
OPERATING ACTIVITIES		
Cash receipts from customers	443,210	429,822
Refundable security deposits from customers	1,256	7,392
Cash paid for operating expenses	(206,373)	(179,394)
Net cash generated from operating activities	<u>238,093</u>	<u>257,820</u>
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(1,664)	(3,780)
Acquisition of investment properties	(17,200)	-
Subsequent expenditure of investment properties	(67,473)	(46,695)
Incidental costs on acquisition of investment properties	(265)	-
Interest received	2,299	2,515
Net cash used in investing activities	<u>(84,303)</u>	<u>(47,960)</u>
FINANCING ACTIVITIES		
Issuance of commercial papers	58,000	3,396,200
Drawdown of revolving loans	6,578,200	3,587,400
Repayment of commercial papers	(58,000)	(2,997,800)
Repayment of revolving loans	(6,470,200)	(3,976,800)
Interest paid	(62,312)	(65,771)
Distribution paid	(196,412)	(198,146)
Net cash used in financing activities	<u>(150,724)</u>	<u>(193,817)</u>
Net increase in cash and bank balances	3,066	16,043
Cash and bank balances at beginning of year	69,719	66,218
Cash and bank balances at end of period	<u>72,785</u>	<u>82,261</u>
Cash and bank balances at end of period comprise:		
Cash on hand and at banks	20,785	82,261
Deposits placed with licensed financial institutions	52,000	-
Cash and bank balances	<u>72,785</u>	<u>82,261</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 THIRD QUARTER ENDED 31 MARCH 2017 (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 March 2017 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 March 2017.

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 March 2017 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 THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

A8. Segmental Reporting

By segment

Segmental results for the quarter ended 31 March 2017 are as follows:

Third Quarter

	Third Quarter ended 31.03.2017					Third Quarter ended 31.03.2016				
	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	105,659	15,209	8,140	5,565	134,573	101,751	16,338	6,879	5,377	130,345
Net property income	75,855	14,227	4,534	5,565	100,181	73,302	15,330	2,676	5,377	96,685
Other income					1,278					1,006
Trust and other expenses					(8,596)					(11,330)
Finance costs					(22,507)					(21,595)
Profit before tax					70,356					64,766
Income tax expense					-					-
Profit for the period					70,356					64,766

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE THIRD QUARTER ENDED 31 MARCH 2017 (UNAUDITED)

A8. Segmental Reporting (Cont'd)

By segment (Cont'd)

Cumulative Quarter

	Cumulative Quarter ended 31.03.2017					Cumulative Quarter ended 31.03.2016				
	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	304,191	46,378	23,444	16,319	390,332	286,283	58,670	22,710	15,765	383,428
Net property income	218,166	43,550	12,266	16,319	290,301	201,622	55,755	10,539	15,765	283,681
Other income					7,390					10,740
Trust and other expenses					(25,709)					(28,924)
Finance costs					(66,340)					(64,698)
Profit before tax					205,642					200,799
Income tax expense					-					-
Profit for the period					205,642					200,799

A8. Segmental Reporting (Cont'd)
By property

Properties	Gross Revenue			Net Property Income			Gross Revenue			Net Property Income		
	Third Quarter			Third Quarter			Cumulative Quarter ended			Cumulative Quarter ended		
	31.03.2017	31.03.2016	Change	31.03.2017	31.03.2016	Change	31.03.2017	31.03.2016	Change	31.03.2017	31.03.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Retail												
Sunway Pyramid Shopping Mall	79,564	77,734	2.4%	60,269	59,038	2.1%	228,293	222,089	2.8%	172,131	165,571	4.0%
Sunway Carnival Shopping Mall	11,750	11,615	1.2%	7,671	7,593	1.0%	34,320	32,875	4.4%	22,132	21,192	4.4%
SunCity Ipoh Hypermarket	1,250	1,250	0.0%	1,166	1,165	0.1%	3,751	3,750	0.0%	3,526	3,531	-0.1%
Sunway Putra Mall	13,095	11,152	17.4%	6,749	5,506	22.6%	37,827	27,569	37.2%	20,377	11,328	79.9%
	105,659	101,751	3.8%	75,855	73,302	3.5%	304,191	286,283	6.3%	218,166	201,622	8.2%
Hotel												
Sunway Resort Hotel & Spa	9,147	9,230	-0.9%	8,744	8,827	-0.9%	29,172	32,177	-9.3%	27,986	31,038	-9.8%
Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East)	884	2,854	-69.0%	761	2,730	-72.1%	1,683	14,664	-88.5%	1,341	14,307	-90.6%
Sunway Hotel Seberang Jaya	768	811	-5.3%	717	758	-5.4%	2,505	2,627	-4.6%	2,350	2,470	-4.9%
Sunway Putra Hotel	3,337	1,882	77.3%	2,983	1,507	97.9%	9,515	5,682	67.5%	8,527	4,575	86.4%
Sunway Hotel Georgetown	1,073	1,561	-31.3%	1,022	1,508	-32.2%	3,503	3,520	-0.5%	3,346	3,365	-0.6%
	15,209	16,338	-6.9%	14,227	15,330	-7.2%	46,378	58,670	-21.0%	43,550	55,755	-21.9%
Office												
Menara Sunway	4,196	3,618	16.0%	3,021	2,028	49.0%	12,284	12,301	-0.1%	8,391	8,138	3.1%
Sunway Tower	832	675	23.3%	99	(424)	123.3%	2,515	2,682	-6.2%	(409)	(800)	48.9%
Sunway Putra Tower	1,438	902	59.4%	410	37	1008.1%	3,652	2,690	35.8%	1,282	62	1967.7%
Wisma Sunway	1,674	1,684	-0.6%	1,004	1,035	-3.0%	4,993	5,037	-0.9%	3,002	3,139	-4.4%
	8,140	6,879	18.3%	4,534	2,676	69.4%	23,444	22,710	3.2%	12,266	10,539	16.4%
Others												
Sunway Medical Centre	5,565	5,377	3.5%	5,565	5,377	3.5%	16,319	15,765	3.5%	16,319	15,765	3.5%
	5,565	5,377	3.5%	5,565	5,377	3.5%	16,319	15,765	3.5%	16,319	15,765	3.5%
TOTAL PORTFOLIO	134,573	130,345	3.2%	100,181	96,685	3.6%	390,332	383,428	1.8%	290,301	283,681	2.3%

**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 RM105.7 million for the current quarter ended 31 March 2017 (3Q2017), an increase of 3.8% or RM3.9 million compared to the preceding year corresponding quarter (3Q2016). The increase was mainly contributed by Sunway Pyramid Shopping Mall and Sunway Putra Mall due to higher average gross rent per sq. ft..

Gross revenue from Sunway Carnival Shopping Mall was marginally higher by RM0.1 million for the current quarter and SunCity Ipoh Hypermarket maintained its gross revenue of RM1.3 million for the same period.

Property operating expenses of the retail segment for 3Q2017 was RM29.8 million, an increase of 4.8% or RM1.4 million mainly attributable to higher advertising and promotion ("A&P") expenses for Sunway Pyramid Shopping Mall and higher assessment for Sunway Putra Mall. The assessment expense was lower for Sunway Putra Mall in the previous year corresponding quarter due to vacancy allowance received.

Net property income of the retail segment for 3Q2017 was RM75.9 million, higher by 3.5% or RM2.6 million compared to 3Q2016.

Hotel segment

The hotel segment recorded gross revenue of RM15.2 million for 3Q2017, lower by 6.9% or RM1.1 million compared to 3Q2016, 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 Hotel Georgetown, but mitigated by better performance from Sunway Putra Hotel.

Gross revenue for Sunway Resort Hotel & Spa ("SRHS") was marginally lower by RM0.1 million for the current quarter mainly due to lower average occupancy but mitigated by higher F&B revenue.

Sunway Hotel Seberang Jaya maintained its gross revenue of RM0.8 million for the same period.

Sunway Putra Hotel's average occupancy rate improved to 67.0% in 3Q FY2017 compared to 58.3% in the same quarter last year as the hotel gains traction through its ongoing marketing and promotional rates campaign to regain market share across all customer segments.

Gross revenue for Sunway Hotel Georgetown was lower in the current quarter by RM0.5 million, although average occupancy rate was higher, mainly due to an adjustment for rental under-recognised in the preceding year corresponding quarter.

Net property income of the hotel segment for 3Q2017 was RM14.2 million, lower by 7.2% or RM1.1 million, as compared to 3Q2016, in line with 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 18.3% or RM1.3 million in the current quarter compared to 3Q2016 contributed by all offices due to higher average occupancy during the quarter under review, with the exception of Wisma Sunway, which maintained its gross revenue of RM1.7 million for the same period.

Property operating expenses of the office segment for 3Q2017 was lower by 14.2% or RM0.6 million primarily attributable to lower utilities for Menara Sunway and lower assessment for Sunway Tower due to vacancy allowance received.

Net property income of the office segment in 3Q2017 was RM4.5 million, higher by RM1.9 million compared to the preceding year corresponding quarter.

Others

Sunway Medical Centre contributed RM5.6 million revenue and net property income for 3Q2017, an increase of 3.5% compared to 3Q2016 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 3Q2017 was RM22.5 million, higher by 4.2% or RM0.9 million compared to 3Q2016 due to a higher principal loan amount to fund capital expenditure.

Net profit for 3Q2017 was RM70.4 million (3Q2016: RM64.8 million) comprising realised profit of RM69.9 million (3Q2016: RM67.7 million) and unrealised gain of RM0.5 million (3Q2016: unrealised loss of RM2.9 million).

The increase in realised profit by 3.2% or RM2.2 million in the current quarter was mainly due to higher net property income but partially offset by higher finance costs.

The unrealised gain in 3Q2017 was mainly attributable to fair value gain on interest rate swap amounting to RM0.5 million compared to a fair value loss on interest rate swap of RM2.8 million in 3Q2016.

b) Review of Cumulative Quarter Results

Retail segment

The retail segment achieved gross revenue of RM304.2 million for the cumulative quarter ended 31 March 2017 (YTD 3Q2017), an increase of 6.3% or RM17.9 million compared to the preceding year corresponding cumulative quarter (YTD 3Q2016). This was mainly contributed by Sunway Putra Mall which recorded lower revenue in the previous year for YTD 3Q2016 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 3Q2017.

Sunway Pyramid Shopping Mall registered higher gross revenue for YTD 3Q2017 for the reason as mentioned in Note A8(a) above and gross revenue for Sunway Carnival Shopping Mall was higher for the same period following the completion of the 2nd floor food and beverage ("F&B") area with NLA of approximately 16,000 sq. ft. (3% of total NLA) in 4Q2016.

Property operating expenses of the retail segment for YTD 3Q2017 was RM86.0 million, higher by 1.6% or RM1.4 million, primarily attributable to higher assessment for Sunway Putra Mall, as explained in Note A8(a), and higher A&P expenses for Sunway Carnival Shopping Mall but mitigated by lower allowance for doubtful debts for Sunway Pyramid Shopping Mall.

Net property income of the retail segment for YTD 3Q2017 was RM218.2 million, an increase of 8.2% or RM16.5 million compared to YTD 3Q2016.

A8. Segmental Reporting (Cont'd)

b) Review of Cumulative Quarter Results (Cont'd)

Hotel segment

The hotel segment recorded gross revenue of RM46.4 million for YTD 3Q2017, a decrease of 21.0% or RM12.3 million compared to YTD 3Q2016 mainly due to the reasons as mentioned in Note A8(a).

SRHS recorded a lower gross revenue for YTD 3Q2017 despite marginally higher average occupancy of 84.8% compared to 83.8% for YTD 3Q2016, mainly due to lower contribution from the F&B division which was adversely affected by the soft business sentiment.

Net property income of the hotel segment for YTD 3Q2017 stood at RM43.6 million, lower by 21.9% or RM12.2 million, in tandem with lower gross revenue.

Office segment

Gross revenue for the office segment was RM23.4 million for YTD 3Q2017, an increase of 3.2% or RM0.7 million compared to YTD 3Q2016 largely contributed by Sunway Putra Tower due to the reason mentioned in Note A8(a), but partially offset by Sunway Tower primarily attributable to lower average net rent per sq. ft..

Menara Sunway and Wisma Sunway maintained gross revenue at RM12.3 million and RM5.0 million respectively for the same period.

Property operating expenses of the office segment for YTD 3Q2017 was RM11.2 million, lower by 8.2% or RM1.0 million compared to YTD 3Q2016, mainly due to the reasons as mentioned in Note A8(a). In addition, Sunway Putra Tower recorded lower property operating expenses for YTD 3Q2017 by 9.8% or RM0.3 million mainly due to lower maintenance expenses.

Correspondingly, net property income of the office segment for YTD 3Q2017 was RM12.3 million, higher by 16.4% or RM1.7 million.

Others

Sunway Medical Centre contributed RM16.3 million of revenue and net property income for YTD 3Q2017, an increase of 3.5% compared to YTD 3Q2016 due to the reason mentioned in Note A8(a).

Profit before tax

Finance costs for YTD 3Q2017 was RM66.3 million, higher by 2.5% or RM1.6 million compared to YTD 3Q2016 mainly due to the reason mentioned in Note A8(a).

Net profit for YTD 3Q2017 was RM205.6 million (YTD 3Q2016: RM200.8 million) comprising realised profit of RM203.8 million (YTD 3Q2016: RM201.9 million) and unrealised profit of RM1.9 million (YTD 3Q2016: unrealised loss of RM1.1 million). Realised profit for YTD 3Q2017 was higher by 0.9% or RM1.9 million compared to YTD 3Q2016, due to the reasons mentioned in Note A8(a), coupled with lower other income as explained in the previous quarter.

The unrealised profit for YTD 3Q2017 was RM1.9 million, higher by RM2.9 million compared to an unrealised loss of RM1.0 million for YTD 3Q2016 primarily due the reason mentioned in Note A8(a).

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:

	Third Quarter ended		Cumulative Quarter ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Interest Income	(824)	(1,081)	(2,323)	(2,735)
Net changes in fair value of long term liabilities	(16)	108	(78)	71
Unrealised foreign exchange (gain) / loss - hedged item	(6,300)	(45,650)	39,150	5,150
Cash flow hedge reserve recycled to profit or loss	6,300	45,650	(39,150)	(5,150)
Net changes in fair value of derivative financial instrument	(434)	2,841	(1,796)	986
Allowance for / (Reversal of) impairment of trade receivables	429	789	(74)	1,015
Bad debts written off	-	52	154	294
Depreciation of plant and equipment	364	384	1,092	816

A11. Income Tax ExpenseTaxation 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 March 2017, the Manager proposed an interim income distribution of approximately 100% of the realised distributable income amounting to RM69.798 million or 2.37 sen per unit, comprising taxable and non-taxable/tax exempt amount of 1.90 sen per unit and 0.47 sen per unit respectively.

The book closure and payment dates in respect of the proposed interim income distribution will be fixed on 22 May 2017 and 6 June 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 31.03.2017 RM'000	As at 30.06.2016 RM'000
<u>Short term borrowings</u>		
Secured		
- Commercial papers	-	-
- Term loans	442,300	-
- Unrated medium term notes	600,000	-
	<u>1,042,300</u>	-
Unsecured		
- Revolving loan	880,400	772,400
Total gross short term borrowings	<u>1,922,700</u>	<u>772,400</u>
Less: Discount on commercial papers	-	-
Total short term borrowings	<u>1,922,700</u>	<u>772,400</u>
 <u>Long term borrowings</u>		
Secured		
- Term loans	-	403,150
- Unrated medium term notes	400,000	1,000,000
Total long term borrowings	<u>400,000</u>	<u>1,403,150</u>
Total borrowings	<u>2,322,700</u>	<u>2,175,550</u>

Included in the short term borrowings for 31 March 2017 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 March 2017, the cumulative unrealised foreign exchange loss from the translation of the USD100 million loan amounted to RM20.3 million (30.6.2016: gain of RM18.9 million). The unrealised foreign exchange gain reflected in the statement of comprehensive income for 3Q2017 was RM6.3 million (3Q2016: RM45.7 million) and unrealised foreign exchange loss for YTD 3Q2017 was RM39.2 million (YTD 3Q2016: RM5.2 million).

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 March 2017				
Financial assets				
Investment properties	-	-	6,514,392	6,514,392
Derivative	-	20,562	-	20,562
<hr/>				
Financial liability				
Derivatives	-	(1,935)	-	(1,935)
<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:

a) Completed 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.

A16. Material Event (Cont'd)

b) 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".

CESB and SunREIT, represented by its Trustee, has via a Letter Agreement dated 10 April 2017, mutually agreed to extend the Conditional Period to 25 May 2017 or such other period as may be mutually agreed in writing between the Parties.

Accordingly, the proposed acquisition is expected to be completed in the second quarter of calendar year 2017.

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

There were no material events subsequent to the quarter ended 31 March 2017.

A18. Capital Commitments

The amount of commitments for investment properties not provided for in the unaudited condensed consolidated interim financial statements as at 31 March 2017 were as follows:

	As at 31.03.2017 RM'000
Approved and contracted for	44,864
Approved but not contracted for	22,085
	<u>66,949</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 March 2017.

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 March 2017 and 31 March 2016 as well as the balances with the parties related to the Manager as at 31 March 2017 and 30 June 2016:

	<u>Third Quarter ended</u>		<u>Cumulative Quarter ended</u>	
	<u>31.03.2017</u>	<u>31.03.2016</u>	<u>31.03.2017</u>	<u>31.03.2016</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	(31,471)	(33,070)	(96,383)	(106,962)
- Purchases	25,433	20,437	108,348	66,019
(b) Sunway Technology Sdn. Bhd. Group ("STSB Group")				
- Sales	(207)	(121)	(461)	(396)
			<u>As at 31.03.2017 RM'000</u>	<u>As at 30.06.2016 RM'000</u>
<u>Amount owed by parties related to Manager:</u>				
(a) Sunway Berhad Group			6,779	6,406
(b) Sunway Technology Sdn. Bhd. Group			-	-
			<u>As at 31.03.2017 RM'000</u>	<u>As at 30.06.2016 RM'000</u>
<u>Amount owed to parties related to Manager:</u>				
(a) Sunway Berhad Group			13,483	30,279

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 RM11.5 million for 3Q2017 and RM63.9 million for YTD 3Q2017 mainly for the refurbishment of Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East).

B3. Material Changes in Quarterly Results

	Current Quarter Ended 31.03.2017 RM'000	Immediate Preceding Quarter Ended 31.12.2016 RM'000
Realised profit	69,906	67,130
Unrealised profit	450	4,013
Profit for the quarter	<u>70,356</u>	<u>71,143</u>

Sunway REIT recorded a realised profit of RM69.9 million for 3Q2017, which was RM2.8 million higher compared to the immediate preceding quarter (2Q2017) of RM67.1 million, mainly due to higher net property income but partially offset by lower other income. The other income was higher in 2Q2017 primarily contributed by the recognition of RM3.2 million court award for assessment for damages in relation to the litigation as mentioned in Note B11(1).

Unrealised profit for the current quarter and immediate preceding quarter of RM0.5 million and RM4.0 million respectively were mainly due to fair value movements from the derivative financial instrument.

B4. Commentary on Prospects

After a sluggish year in CY2016, global economy growth is projected to pick up to 2.7% in CY2017, based on World Bank's estimates. Global growth is expected to be underpinned by domestic demand in the advanced and emerging market economies. The outlook would also be supported by a recovery in commodity prices. Nevertheless, uncertainties of a retreat from globalization and free trade in the advanced economies and anticipation of monetary divergence between the U.S. and the other major economies may cause volatility in the foreign exchange markets and capital flows.

The Malaysian economy expanded at a slower pace of 4.2% in CY2016, from 5.0% in CY2015 amidst considerable external and domestic headwinds. Going forward, Bank Negara Malaysia (BNM) expects the Malaysian economy to sustain its growth of 4.3% to 4.8% in CY2017, supported by gradual improvement in global growth, recovery in global commodity prices and continued growth in domestic demand.

BNM has also projected headline inflation to creep higher in the range of 3.0% to 4.0% in CY2017 in view of the expected higher global commodity prices and energy prices coupled with weakened MYR. The expected higher inflation has begun to trickle through the Consumer Price Index (CPI) since the start of CY2017. Headline inflation spiked to an eight year high of 5.1% in March 2017, owing to the low base effect in the previous year and higher retail fuel prices, bringing 1Q CY2017 CPI to 4.3%.

BNM has reiterated that monetary policy stance for CY2017 is to sustain a steady growth path amid price stability. The policy environment is expected to remain challenging in view of the expected higher inflation, volatile capital flows and lingering uncertainties in the global economic and financial environment. The focus of the Monetary Policy Committee is to ensure a monetary policy that balances steady growth and stable inflation, supported by healthy financial intermediation in the economy. The Manager maintains its view that interest rate is to remain unchanged in FY2017.

B4. Commentary on Prospects (Cont'd)

The Manager maintains the expectation of 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 which is expected to be completed by 4Q2017.
- (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

In a recent report by the Retail Group Malaysia ("RGM"), Malaysia's retail sales recorded marginal growth of 0.3% year-on-year (y-o-y) in 4Q CY2016 as consumers continued to tighten their belts. This translated into CY2016 retail sales of 1.7% y-o-y, similar to the growth of 1.4% y-o-y in CY2015. Following the dismal performance in retail sales, RGM has slashed its retail sales growth forecast to 3.9% for CY2017, from an earlier projection of 5.0%. Consumers are expected to remain cautious on consumption amidst higher cost of living and weakened purchasing power.

The average occupancy for Sunway REIT's retail assets remained stable for YTD 3Q FY2017. The average occupancy rate for Sunway Pyramid Shopping Mall was marginally higher at 97.9% for YTD 3Q FY2017 vis-à-vis 97.7% for YTD 2Q 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 of 821,204 sq.ft. was renewed for YTD 3Q FY2017 at a single-digit rental reversion rate over the renewed tenancy term.

Sunway Carnival Shopping Mall's average occupancy rate inched higher to 97.3% for YTD 3Q FY2017 compared to 97.1% for YTD 2Q FY2017. Based on the total NLA of 326,895 sq.ft. which is due for renewal in this financial year, a total of 229,846 sq.ft. was renewed at a double digit rental reversion rate over the renewed tenancy term.

Likewise, the average occupancy rate for Sunway Putra Mall improved marginally to 86.0% for YTD 3Q FY2017, from 85.5% for YTD 2Q FY2017.

The Manager remains cautious on the outlook for the retail segment for the remaining quarter of FY2017 in the absence of catalyst to drive consumers spending. Amidst subdued consumer sentiment, the Manager maintains a modest growth expectation for Sunway REIT's retail segment in FY2017, supported by resilient performance from Sunway Pyramid Shopping Mall and Sunway Carnival Shopping Mall as well as gradually higher occupancy rate at Sunway Putra Mall.

Review of hotel market

Malaysia has achieved higher tourist arrival of 26.8 million tourists in CY2016, from 25.7 million tourists a year ago. This represents a growth of 4.0%, however, it is still below the official target of 30.5 million. The Tourism and Culture Ministry aims to record 31.8 million tourist arrivals to Malaysia in CY2017, turning Malaysia as the most preferred tourism hub for ASEAN region.

On 6 April 2017, the Dewan Rakyat has approved the Tourism Tax Bill which allow the government to impose a levy on tourists staying at any accommodation premises made available by an operator at a rate fixed by the Tourism and Culture Ministry. The collection is aimed to further develop the tourism sector in the country.

The newly introduced tourism tax will likely to be passed on to consumers. Notwithstanding that, certain customer segment may not be able to absorb the higher cost and hence, may potentially affect margins.

The average occupancy rate for Sunway Resort Hotel & Spa softened to 79.5% in 3Q FY2017 compared to 82.2% in 3Q FY2016, due to lower corporate and leisure demand in a traditionally low quarter.

For Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East), a total of 395 fully refurbished rooms were progressively re-opened as at 31 March 2017. The average occupancy rate stood at 43.0% based on the re-opened rooms inventory. The Manager expects the refurbishment of the hotel to be completed by 4Q FY2017.

Sunway Putra Hotel's average occupancy rate improved to 67.0% in 3Q FY2017 compared to 58.3% in the same quarter last year as the hotel gains traction through its ongoing marketing and promotional rates campaign to regain market share across all customer segments.

B4. Commentary on Prospects (Cont'd)

Review of hotel market (Cont'd)

In 3Q FY2017, Sunway Hotel Seberang Jaya's average occupancy rate inched higher to 63.9%, from 61.9% in 3Q FY2016. Meanwhile, Sunway Hotel Georgetown has enjoyed a surge in average occupancy rate from 70.7% in 3Q FY2016 to 86.4% in 3Q FY2017, benefitting from the ongoing tactical strategy employed.

The Manager maintains a lower contribution expectation 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 a refurbishment which is expected to be completed by 4Q2017.

Review of office market

The existing stock of office space in the Klang Valley stood at approximately 118 million sq.ft. in 2016. The future supply of office space is expected to continue to grow with an estimate of approximately 9.5 million sq.ft. to be completed by 2018.

The oversupply property market condition continues to weigh down occupancy rates and rental rates of offices in Kuala Lumpur. Grade A office rents are under pressure as there are abundant supply of these office space going forward. New office buildings within integrated developments and Transit Oriented Developments (TOC) will continue to perform well.

Menara Sunway has registered higher average occupancy rate of 91.1% for YTD 3Q FY2017 compared to 89.8% for YTD 2Q FY2017. The occupancy rate stood at 93.6% as at 31 March 2017.

In Sunway Tower, the average occupancy rate for YTD 3Q FY2017 was unchanged at 20.7% compared to YTD 2Q FY2017. The occupancy rate as at 31 March 2017 also stood at 20.7%.

Sunway Putra Tower has reported an improvement in average occupancy rate following commencement of new tenants in 2Q FY2017 and 3Q FY2017. The average occupancy rate increased further to 34.8% for YTD 3Q FY2017 in comparison with 31.2% for YTD 2Q FY2017. The occupancy rate for Sunway Putra Tower stood at 41.8% as at 31 March 2017.

The average occupancy rate for Wisma Sunway remained unchanged at 87.6% for YTD 3Q FY2017, same level as achieved for YTD 2Q FY2017.

Taking cognizant of the highly challenging office segment, the Manager is cautious on the overall office market 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 on the back of the low base in occupancy rate in FY2016.

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 31.03.2017	Year ended 30.06.2016
a) Management expense ratio *	0.86%	0.88%
b) Total returns *	9.0%	13.3%
c) Average annual returns (5 years) *	10.6%	14.4%
d) Distribution yield *	5.4%	5.5%
e) NAV per unit (after income distribution)(RM)	1.3556	1.3549

* The performance indicators for the period ended 31 March 2017 was based on annualised results.

- a) The ratio of expenses incurred in operating Sunway REIT to the NAV of Sunway REIT.
- b) Total return represents the change in unit price from beginning of financial year plus annualised distribution yield for the year.
- c) 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.
- d) Based on annualised DPU of 9.03 sen divided by its closing price as at 31 March 2017 of RM1.72 (30 June 2016 - DPU: 9.18 sen; Closing price: RM1.66).
- e) 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:

- a) Base fee of 0.3% per annum on the total assets value;
- b) 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;
- c) 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
- d) 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).

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.

B8. Manager's Fee (Cont'd)

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 March 2017 were RM7.9 million and RM23.8 million ((Total base and performance fee of RM23.6 million and acquisition fee of RM0.2 million) respectively compared to the preceding year corresponding quarter and cumulative quarter ended 31 March 2016 of RM7.7 million and RM23.2 million respectively. The acquisition fee of RM0.2 million was paid to the Manager in 2Q2017 for the acquisition of Sunway Carnival expansion land (please refer to Note A16(a)) and this fee was capitalised as part of the acquisition costs.

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 March 2017 was RM0.3 million and RM0.9 million respectively, similar to the fees for the preceding year corresponding quarter and cumulative quarter ended 31 March 2016.

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 Acquisition as disclosed in Note A16b).

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 by the Manager and Trustee's lawyer that this case is closed.

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 hearing for the trial on liability commenced on 13 April 2017 and is to be continued on 4 and 5 May 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 31.03.2017	Immediate preceding quarter ended 31.12.2016	% change
Number of units in issue (units)	2,945,078,000	2,945,078,000	0.0%
Realised net income (RM'000)	69,906	67,130	4.1%
Realised earnings per unit (EPU) (sen)	2.37	2.31	2.6%
Income distribution (RM'000)	69,798	67,148	3.9%
Distribution per unit (DPU) (sen)	2.37	2.28	3.9%
Net Asset Value (NAV) (After income distribution) (RM'000)	3,992,427	3,991,394	0.0%
NAV per unit (After income distribution) (RM)	1.3556	1.3553	0.0%
Market price per unit (RM)	1.72	1.72	0.0%

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 31.03.2017	As at 30.06.2016	As at 31.03.2017	As at 30.06.2016
	RM'000	RM'000	RM'000	RM'000
a) Interest rate swap				
- Less than 1 year	922,000	-	(1,590)	
- 1 year to 3 years	150,000	1,072,000	(345)	(3,732)
	1,072,000	1,072,000	(1,935)	(3,732)
b) Cross currency swap				
- Less than 1 year	422,000	-	20,562	-
- Less than 2 years	-	422,000	-	(18,457)
	1,494,000	1,494,000	18,627	(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 3Q2017 and YTD 3Q2017 amounted to a gain of RM0.4 million (3Q2016: loss of RM2.8 million) and RM1.8 million (YTD 3Q2016: loss of RM1.0 million) respectively. This brings the cumulative total fair value loss of the IRS to RM1.9 million as at 31 March 2017 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 loss of the CCS recognised in the statement of comprehensive income for 3Q2017 and fair value gain for YTD 3Q2017 amounted to RM5.8 million (3Q2016: RM42.5 million) and RM39.0 million (YTD 3Q2016: RM10.7 million) respectively. This brings the cumulative total fair value gain of the CCS to RM20.6 million as at 31 March 2017 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 March 2017 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 31.03.2017 RM'000	As at end of previous financial year RM'000
Total retained profits/undistributed income		
- realised	2,671	(4,685)
- unrealised	1,331,728	1,329,985
	<u>1,334,399</u>	<u>1,325,300</u>
Less: Consolidation adjustments	(3)	(3)
Total retained profits/undistributed income	<u>1,334,396</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 March 2017 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 3 May 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: 3 May 2017