

SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	First Quarter ended			Cumulative Quarter ended		
	30.09.2017	30.09.2016	Change	30.09.2017	30.09.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Rental income	137,704	125,091	10.1%	137,704	125,091	10.1%
Other operating income	3,465	3,788	-8.5%	3,465	3,788	-8.5%
<b>Gross revenue</b>	<b>141,169</b>	<b>128,879</b>	<b>9.5%</b>	<b>141,169</b>	<b>128,879</b>	<b>9.5%</b>
Quit rent, assessment and insurance	(3,723)	(3,437)	8.3%	(3,723)	(3,437)	8.3%
Other property operating expenses	(26,460)	(29,377)	-9.9%	(26,460)	(29,377)	-9.9%
<b>Property operating expenses</b>	<b>(30,183)</b>	<b>(32,814)</b>	<b>-8.0%</b>	<b>(30,183)</b>	<b>(32,814)</b>	<b>-8.0%</b>
<b>Net property income</b>	<b>110,986</b>	<b>96,065</b>	<b>15.5%</b>	<b>110,986</b>	<b>96,065</b>	<b>15.5%</b>
Other income	1,626	921	76.5%	1,626	921	76.5%
<b>Net investment income</b>	<b>112,612</b>	<b>96,986</b>	<b>16.1%</b>	<b>112,612</b>	<b>96,986</b>	<b>16.1%</b>
Manager's fee	(8,644)	(7,845)	10.2%	(8,644)	(7,845)	10.2%
Trustee's fee	(321)	(307)	4.6%	(321)	(307)	4.6%
Other trust expenses	(265)	(2,934)	-91.0%	(265)	(2,934)	-91.0%
Finance costs	(24,153)	(21,757)	11.0%	(24,153)	(21,757)	11.0%
	(33,383)	(32,843)	1.6%	(33,383)	(32,843)	1.6%
<b>Profit before tax</b>	<b>79,229</b>	<b>64,143</b>	<b>23.5%</b>	<b>79,229</b>	<b>64,143</b>	<b>23.5%</b>
Income tax expense	-	-	-	-	-	-
<b>Profit for the period</b>	<b>79,229</b>	<b>64,143</b>	<b>23.5%</b>	<b>79,229</b>	<b>64,143</b>	<b>23.5%</b>
<b>Profit for the period comprise the following:</b>						
Realised	78,736	66,732	18.0%	78,736	66,732	18.0%
Unrealised	493	(2,589)	119.0%	493	(2,589)	119.0%
	79,229	64,143	23.5%	79,229	64,143	23.5%
Earnings per unit (sen)						
- realised	2.67	2.24	19.2%	2.67	2.24	19.2%
- unrealised	0.02	(0.09)	122.2%	0.02	(0.09)	122.2%
	2.69	2.15	25.1%	2.69	2.15	25.1%
Proposed/declared distribution per unit (sen)	2.67	2.27	17.6%	2.67	2.27	17.6%

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)

	First Quarter ended			Cumulative Quarter ended		
	30.09.2017	30.09.2016	Change	30.09.2017	30.09.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
<b>Profit for the period</b>	<b>79,229</b>	<b>64,143</b>	<b>23.5%</b>	<b>79,229</b>	<b>64,143</b>	<b>23.5%</b>
<b>Other comprehensive income</b>						
Cash flow hedge - fair value of derivative <sup>1</sup>	(7,662)	12,130	-163.2%	(7,662)	12,130	-163.2%
Cash flow hedge reserve recycled to profit or loss <sup>2</sup>	7,200	(10,400)	169.2%	7,200	(10,400)	169.2%
<b>Total comprehensive income for the period</b>	<b>78,767</b>	<b>65,873</b>	<b>19.6%</b>	<b>78,767</b>	<b>65,873</b>	<b>19.6%</b>

<sup>1</sup> Please refer to Note B15b) for details.

<sup>2</sup> Please refer to Note A14 for details.

Income distribution

	First Quarter ended			Cumulative Quarter ended		
	30.09.2017	30.09.2016	Change	30.09.2017	30.09.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Realised total comprehensive income/ Total available for income distribution for the period	78,736	66,732	18.0%	78,736	66,732	18.0%
Brought forward undistributed income available for distribution	447	513	-12.9%	447	513	-12.9%
Total available for income distribution	79,183	67,245	17.8%	79,183	67,245	17.8%
Less: Proposed/declared income distribution	(78,634)	(66,853)	17.6%	(78,634)	(66,853)	17.6%
Balance undistributed arising from rounding difference	549	392	40.1%	549	392	40.1%

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 FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**FINANCIAL REVIEW FOR CURRENT QUARTER COMPARED WITH IMMEDIATE PRECEDING QUARTER**

	CURRENT	IMMEDIATE	Change
	QUARTER	PRECEDING QUARTER	
	30.09.2017	30.06.2017	
	RM'000	RM'000	%
Rental income	137,704	129,050	6.7%
Other operating income	3,465	3,486	-0.6%
<b>Gross revenue</b>	<b>141,169</b>	<b>132,536</b>	<b>6.5%</b>
Quit rent, assessment and insurance	(3,723)	(3,838)	-3.0%
Other property operating expenses	(26,460)	(30,182)	-12.3%
<b>Property operating expenses</b>	<b>(30,183)</b>	<b>(34,020)</b>	<b>-11.3%</b>
<b>Net property income</b>	<b>110,986</b>	<b>98,516</b>	<b>12.7%</b>
Other income	1,626	906	79.5%
Change in fair value of investment properties	-	152,073	-100.0%
<b>Net investment income</b>	<b>112,612</b>	<b>251,495</b>	<b>-55.2%</b>
Manager's fee	(8,644)	(8,062)	7.2%
Trustee's fee	(321)	(309)	3.9%
Other trust expenses	(265)	(1,327)	-80.0%
Finance costs	(24,153)	(22,955)	5.2%
	(33,383)	(32,653)	2.2%
<b>Profit before tax</b>	<b>79,229</b>	<b>218,842</b>	<b>-63.8%</b>
Income tax expense	-	-	-
<b>Profit for the period</b>	<b>79,229</b>	<b>218,842</b>	<b>-63.8%</b>
<b>Profit for the period comprise the following:</b>			
Realised	78,736	66,818	17.8%
Unrealised	493	152,024	-99.7%
	79,229	218,842	-63.8%
Earnings per unit (sen)			
- realised	2.67	2.27	17.6%
- unrealised	0.02	5.16	-99.6%
	2.69	7.43	-63.8%
Proposed/declared distribution per unit (sen)	2.67	2.27	17.6%

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

**FINANCIAL REVIEW FOR CURRENT QUARTER COMPARED WITH IMMEDIATE PRECEDING QUARTER (CONT'D)**

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER	Change
	30.09.2017	30.06.2017	
	RM'000	RM'000	%
<b>Profit for the period</b>	<b>79,229</b>	<b>218,842</b>	<b>-63.8%</b>
<b>Other comprehensive income</b>			
Cash flow hedge - fair value of derivative	(7,662)	(12,450)	-38.5%
Cash flow hedge reserve recycled to profit or loss	7,200	12,900	-44.2%
<b>Total comprehensive income for the period</b>	<b>78,767</b>	<b>219,292</b>	<b>-64.1%</b>

**Income distribution**

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER	Change
	30.09.2017	30.06.2017	
	RM'000	RM'000	%
Realised total comprehensive income/ Total available for income distribution for the period	78,736	66,818	17.8%
Brought forward undistributed income available for distribution	447	482	-7.3%
Total available for income distribution	79,183	67,300	17.7%
Less: Proposed/declared income distribution	(78,634)	(66,853)	17.6%
Balance undistributed arising from rounding difference	549	447	22.8%

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 FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	As At 30.09.2017 (Unaudited)	As At 30.06.2017 (Unaudited)
	RM'000	RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment properties	6,786,281	6,689,200
Plant and equipment	8,831	9,063
	<u>6,795,112</u>	<u>6,698,263</u>
<b>Current assets</b>		
Trade receivables	25,860	16,821
Other receivables	47,283	16,153
Derivatives	451	8,112
Short term investment	111,763	-
Cash and bank balances	45,680	100,544
	<u>231,037</u>	<u>141,630</u>
	<u>7,026,149</u>	<u>6,839,893</u>
<b>FINANCED BY:</b>		
<b>Unitholders' funds</b>		
Unitholders' capital	2,727,829	2,727,829
Undistributed income	1,495,805	1,483,891
Total Unitholders' funds	<u>4,223,634</u>	<u>4,211,720</u>
<b>Non-current liabilities</b>		
Long term liabilities	62,552	65,724
Deferred tax liability	5,896	5,896
Derivatives	510	529
	<u>68,958</u>	<u>72,149</u>
<b>Current liabilities</b>		
Borrowings	2,522,051	2,343,759
Trade payables	1,186	3,366
Other payables	209,299	207,422
Derivatives	1,021	1,477
	<u>2,733,557</u>	<u>2,556,024</u>
	<u>7,026,149</u>	<u>6,839,893</u>
Number of units in circulation ('000 units)	2,945,078	2,945,078
<b>NET ASSET VALUE ("NAV")</b>		
- Before income distribution	4,223,634	4,211,720
- After income distribution	4,145,000	4,144,867
<b>NET ASSET VALUE PER UNIT (RM)</b>		
- Before income distribution <sup>1</sup>	1.4341	1.4301
- After income distribution <sup>2</sup>	1.4074	1.4074

<sup>1</sup> Before the 1Q2018 proposed income distribution of 2.67 sen per unit (4Q2017: 2.27 sen per unit).

<sup>2</sup> After the 1Q2018 proposed income distribution of 2.67 sen per unit (4Q2017: 2.27 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 FIRST QUARTER ENDED 30 SEPTEMBER 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
<b>As at 1 July 2017</b>	2,727,829	(312)	1,484,203	4,211,720
<b>Total comprehensive income</b>				
Profit for the period	-	78,736	493	79,229
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	(7,662)	(7,662)
- Cash flow hedge reserve recycled to profit or loss	-	-	7,200	7,200
Total comprehensive income, representing the increase in net assets resulting from operations	2,727,829	78,424	1,484,234	4,290,487
<b>Unitholders' transactions</b>				
Distribution to unitholders				
- Income distribution declared and paid in current period	-	-	-	-
- Income distribution proposed in prior year but paid in current period	-	(66,853)	-	(66,853)
Increase/(decrease) in net assets resulting from unitholders' transactions	-	(66,853)	-	(66,853)
<b>As at 30 September 2017 (Unaudited)</b>	2,727,829	11,571	1,484,234	4,223,634

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised RM'000	RM'000
<b>As at 1 July 2016</b>	2,725,933	(4,688)	1,329,985	4,051,230
<b>Total comprehensive income</b>				
Profit for the year	-	270,586	153,898	424,484
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	26,570	26,570
- Cash flow hedge reserve recycled to profit or loss	-	-	(26,250)	(26,250)
Total comprehensive income, representing the increase in net assets resulting from operations	2,725,933	265,898	1,484,203	4,476,034
<b>Unitholders' transactions</b>				
Creation of units <sup>1</sup>				
- Manager's fee paid in units	1,896	-	-	1,896
Distribution to unitholders				
- Income distribution declared and paid in current year	-	(203,799)	-	(203,799)
- Income distribution proposed in prior year but paid in current year	-	(62,411)	-	(62,411)
Increase/(decrease) in net assets resulting from unitholders' transactions	1,896	(266,210)	-	(264,314)
<b>As at 30 June 2017 (Unaudited)</b>	2,727,829	(312)	1,484,203	4,211,720

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 FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

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

<sup>1</sup> Issue of new units comprise the following:

	<b>30.06.2017</b>	
	<b>Units</b>	<b>Amount</b>
	<b>'000</b>	<b>RM'000</b>
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>

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 FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Cumulative Quarter ended</b>	
	<b>30.09.2017</b>	<b>30.09.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	151,767	139,105
Refundable security deposits from customers	318	1,481
Cash paid for operating expenses	(67,974)	(59,718)
Net cash generated from operating activities	<u>84,111</u>	<u>80,868</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of plant and equipment	(153)	(823)
Deposit for acquisition of investment property	(34,000)	-
Balance payment for acquisition of investment property	(82,350)	-
Subsequent expenditure of investment properties	(6,309)	(13,994)
Incidental costs on acquisition of investment property	(1,140)	-
Investment in money market instrument	(112,000)	-
Interest received	1,457	780
Net cash used in investing activities	<u>(234,495)</u>	<u>(14,037)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of commercial papers	185,600	-
Drawdown of revolving loans	2,939,200	1,635,800
Repayment of commercial papers	(149,000)	-
Repayment of revolving loans	(2,790,200)	(1,610,800)
Interest paid	(23,227)	(18,761)
Distribution paid	(66,853)	(62,411)
Net cash used in financing activities	<u>95,520</u>	<u>(56,172)</u>
Net (decrease)/increase in cash and bank balances	(54,864)	10,659
Cash and bank balances at beginning of year	100,544	69,719
Cash and bank balances at end of period	<u>45,680</u>	<u>80,378</u>
Cash and bank balances at end of period comprise:		
Cash on hand and at banks	40,680	80,378
Deposits placed with licensed financial institutions	5,000	-
Cash and bank balances	<u>45,680</u>	<u>80,378</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 FIRST QUARTER ENDED 30 SEPTEMBER 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 30 September 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 2017 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 2017 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 2017.

**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 30 September 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 30 September 2017.

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

There was no change to Sunway REIT's fund size of 2,945.1 million for the current quarter and cumulative quarter ended 30 September 2017.

**SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**A8. Segmental Reporting**

Segmental results for the quarter ended 30 September 2017 are as follows:

	First/Cumulative Quarter ended 30.09.2017					First/Cumulative Quarter ended 30.09.2016				
	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
<b>BY BUSINESS SEGMENTS</b>										
REVENUE AND EXPENSES										
Gross revenue	103,559	23,085	8,032	6,493	141,169	99,694	16,381	7,427	5,377	128,879
Net property income	78,290	22,151	4,052	6,493	110,986	71,532	15,420	3,736	5,377	96,065
Other income					1,626					921
Trust and other expenses					(9,230)					(11,086)
Finance costs					(24,153)					(21,757)
Profit before tax					79,229					64,143
Income tax expense					-					-
Profit for the period					79,229					64,143

**SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**A8. Segmental Reporting (Cont'd)**

Segmental assets and liabilities as at 30 September 2017 and 30 June 2017 are as follows:

	As at 30.09.2017					As at 30.06.2017				
	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
<b>BY BUSINESS SEGMENTS</b>										
ASSETS										
Segment assets	4,559,400	1,367,579	475,134	430,465	6,832,578	4,547,758	1,361,467	475,743	337,966	6,722,934
Unallocated assets					193,571					116,959
Total assets					<u>7,026,149</u>					<u>6,839,893</u>
LIABILITIES										
Segment liabilities	196,315	44,498	8,220	-	249,033	195,242	49,542	9,541	-	254,325
Unallocated liabilities					2,553,482					2,373,848
Total liabilities					<u>2,802,515</u>					<u>2,628,173</u>

**A8. Segmental Reporting (Cont'd)**

By property

Properties	Gross Revenue			Net Property Income		
	First/Cumulative Quarter			First/Cumulative Quarter		
	30.09.2017	30.09.2016	Change	30.09.2017	30.09.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
<b>Retail</b>						
Sunway Pyramid Shopping Mall	77,183	74,366	3.8%	62,123	56,637	9.7%
Sunway Carnival Shopping Mall	11,865	11,725	1.2%	8,168	7,382	10.6%
SunCity Ipoh Hypermarket	1,121	1,250	-10.3%	1,068	1,195	-10.6%
Sunway Putra Mall	13,390	12,353	8.4%	6,931	6,318	9.7%
	103,559	99,694	3.9%	78,290	71,532	9.4%
<b>Hotel</b>						
Sunway Resort Hotel & Spa	11,467	11,909	-3.7%	11,078	11,533	-3.9%
Sunway Pyramid Hotel	4,511	49	9106.1%	4,396	(56)	7950.0%
Sunway Hotel Seberang Jaya	727	816	-10.9%	681	764	-10.9%
Sunway Putra Hotel	4,797	2,477	93.7%	4,458	2,102	112.1%
Sunway Hotel Georgetown	1,583	1,130	40.1%	1,538	1,077	42.8%
	23,085	16,381	40.9%	22,151	15,420	43.7%
<b>Office</b>						
Menara Sunway	4,228	4,014	5.3%	2,784	2,732	1.9%
Sunway Tower	838	827	1.3%	(190)	(199)	4.5%
Sunway Putra Tower	1,453	928	56.6%	605	204	196.6%
Wisma Sunway	1,513	1,658	-8.7%	853	999	-14.6%
	8,032	7,427	8.1%	4,052	3,736	8.5%
<b>Others</b>						
Sunway Medical Centre	5,565	5,377	3.5%	5,565	5,377	3.5%
Sunway REIT Industrial - Shah Alam 1 *	928	-	N/A	928	-	N/A
	6,493	5,377	20.8%	6,493	5,377	20.8%
<b>TOTAL PORTFOLIO</b>	<b>141,169</b>	<b>128,879</b>	<b>9.5%</b>	<b>110,986</b>	<b>96,065</b>	<b>15.5%</b>

\* Acquired on 1 August 2017

N/A - Not applicable

**SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**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 other types of premises on long term leases

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/Cumulative Quarter Results**

Retail segment

The retail segment reported a gross revenue of RM103.6 million for the current quarter ended 30 September 2017 (1Q2018), an increase of 3.9% or RM3.9 million compared to the preceding year corresponding quarter (1Q2017). The increase was mainly attributable to Sunway Pyramid Shopping Mall due to higher average gross rent per sq. ft. and Sunway Putra Mall on the back of higher average occupancy rate.

Gross revenue for Sunway Carnival Shopping Mall increased marginally by 1.2% to RM11.9 million for 1Q2018 whilst SunCity Ipoh Hypermarket registered a decline in gross revenue by 10.3% or RM0.1 million due to lower rental reversion upon renewal of the tenancy in 4Q2017.

Property operating expenses of the retail segment for 1Q2018 was RM25.3 million, lower by 10.3% or RM2.9 million mainly due to lower maintenance expenses for Sunway Pyramid Shopping Mall.

Net property income of the retail segment for 1Q2018 was RM78.3 million, higher by 9.4% or RM6.8 million compared to 1Q2017.

Hotel segment

The hotel segment achieved gross revenue of RM23.1 million for 1Q2018, an increase of 40.9% or RM6.7 million compared to 1Q2017, mainly contributed by Sunway Pyramid Hotel with gross revenue of RM4.5 million following the completion of its refurbishment in June 2017.

Sunway Putra Hotel registered higher gross revenue in the current quarter by RM2.3 million on the back of both higher average occupancy and average daily rate, with one-off contribution from the SEA Games and ASEAN PARA Games events held in August and September 2017 respectively.

Similarly, Sunway Hotel Georgetown recorded higher gross revenue in the current quarter by RM0.5 million due to both higher average occupancy and average daily rate with stronger demand from the leisure segment.

Gross revenue for Sunway Resort Hotel & Spa was lower by RM0.4 million for 1Q2018 mainly due to both lower average occupancy and average daily rate attributable to a softer pace of the Middle Eastern season as compared to 1Q2017. However, this was mitigated by higher F&B revenue (mainly from meetings and functions).

Sunway Hotel Seberang Jaya recorded a marginally lower gross revenue of RM0.1 million for the same period.

Net property income of the hotel segment for 1Q2018 was RM22.2 million, higher by 43.7% or RM6.7 million, as compared to 1Q2017, 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/Cumulative Quarter Results (Cont'd)**

#### Office segment

Gross revenue for the office segment increased by 8.1% or RM0.6 million in 1Q2018 compared to the preceding year corresponding quarter contributed by Menara Sunway and Sunway Putra Tower.

Gross revenue for Menara Sunway and Sunway Putra Tower were higher by RM0.2 million and RM0.5 million respectively in 1Q2018 attributable to higher average occupancy compared to 1Q2017.

Sunway Tower maintained its gross revenue of RM0.8 million for the same period whilst Wisma Sunway recorded a marginal decrease in gross revenue by RM0.1 million due to downsizing of a tenant in the previous quarter.

Property operating expenses of the office segment for 1Q2018 was higher by 7.8% or RM0.3 million mainly due to Menara Sunway and Sunway Putra Tower on the back of higher average occupancy rate.

Net property income of the office segment in 1Q2018 was RM4.1 million, an increase of 8.5% or RM0.3 million compared to the preceding year corresponding quarter.

#### Others

Gross revenue for the others segment increased by 20.8% or RM1.1 million in 1Q2018 compared to the preceding year corresponding quarter mainly attributable to the new contribution by Sunway REIT Industrial - Shah Alam 1 of RM0.9 million (acquisition completed on 1 August 2017).

Sunway Medical Centre contributed RM5.6 million to revenue and net property income for 1Q2018, an increase of 3.5% compared to 1Q2017 due to rental reversion in accordance with the master lease agreement.

Note: The lease and rental structure of the above properties are available in Sunway REIT's Annual Report 2017.

#### Profit before tax

Finance costs for 1Q2018 was RM24.2 million, higher by 11.0% or RM2.4 million compared to 1Q2017 due to a higher principal loan amount mainly to fund investing activities as described in Note B1c).

Net profit for 1Q2018 was RM79.2 million (1Q2017: RM64.1 million) comprising realised profit of RM78.7 million (1Q2017: RM66.7 million) and unrealised profit of RM0.5 million (1Q2017: unrealised loss of RM2.6 million).

The higher realised profit by 18.0% or RM12.0 million in the current quarter was mainly due to higher net property income but partially offset by higher finance costs.

The unrealised profit in 1Q2018 was mainly attributable to fair value gain from interest rate swap of RM0.5 million (1Q2017: fair value loss of RM2.6 million).

## **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:

	First Quarter ended		Cumulative Quarter ended	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
Interest Income	(1,135)	(903)	(1,135)	(903)
Net changes in fair value of long term liabilities	(18)	(18)	(18)	(18)
Unrealised foreign exchange (gain) / loss - hedged item	(7,200)	10,400	(7,200)	10,400
Cash flow hedge reserve recycled to profit or loss	7,200	(10,400)	7,200	(10,400)
Net changes in fair value of derivative financial instrument	(475)	2,607	(475)	2,607
Allowance for impairment of trade receivables	460	1,216	460	1,216
Depreciation of plant and equipment	404	362	404	362

**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 2018.

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 30 September 2017, the Manager proposed an interim income distribution of approximately 100% of the realised distributable income amounting to RM78.634 million or 2.67 sen per unit, comprising taxable and non-taxable/tax exempt amount of 2.31 sen per unit and 0.36 sen per unit respectively.

The book closure and payment dates in respect of the proposed interim income distribution will be fixed on 15 November 2017 and 29 November 2017 respectively.

**A13. Valuation of Investment properties**

Investment properties are valued by an independent registered valuer, C H Williams Talhar & Wong Sdn Bhd. 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. Trade receivables

	<b>As at 30.09.2017 RM'000</b>	<b>As at 30.06.2017 RM'000</b>
Third parties	17,307	13,334
Amount due from parties related to the Manager	10,454	4,972
	<u>27,761</u>	<u>18,306</u>
Less: Allowance for impairment	(1,901)	(1,485)
Total trade receivables	<u>25,860</u>	<u>16,821</u>

The ageing analysis of Sunway REIT's trade receivables is as follows:

	<b>As at 30.09.2017 RM'000</b>	<b>As at 30.06.2017 RM'000</b>
Neither past due nor impaired	10,098	9,343
Past due but not impaired		
1 to 30 days	3,795	2,922
31 to 60 days	4,021	2,378
61 to 90 days	1,900	271
91 to 120 days	1,178	1,144
More than 120 days	4,868	763
	<u>15,762</u>	<u>7,478</u>
Impaired	1,901	1,485
	<u>27,761</u>	<u>18,306</u>

The trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	<b>As at 30.09.2017 RM'000</b>	<b>As at 30.06.2017 RM'000</b>
At beginning of financial year	1,485	3,942
Charge/(Reversal) for the period/year	460	(905)
Written off	(44)	(1,552)
At end of financial period/year	<u>1,901</u>	<u>1,485</u>

#### A15. Borrowings and Debt Securities

	<b>As at 30.09.2017 RM'000</b>	<b>As at 30.09.2016 RM'000</b>
<u>Short term borrowings</u>		
Secured		
- Commercial papers	70,600	-
- Term loan (USD100 million)	422,200	-
- Unrated medium term notes	1,000,000	-
	<u>1,492,800</u>	<u>-</u>
Unsecured		
- Revolving loan	1,029,400	797,400
Total gross short term borrowings	<u>2,522,200</u>	<u>797,400</u>
Less: Discount on commercial papers	(149)	-
Total short term borrowings	<u>2,522,051</u>	<u>797,400</u>
<u>Long term borrowings</u>		
Secured		
- Term loan (USD100 million)	-	413,550
- Unrated medium term notes	-	1,000,000
Total long term borrowings	<u>-</u>	<u>1,413,550</u>
Total borrowings	<u>2,522,051</u>	<u>2,210,950</u>



### A15. Borrowings and Debt Securities (Cont'd)

Included in the short term borrowings for 30 September 2017 is a secured 3-year term loan of USD100 million (equivalent to RM422.0 million), fully hedged with a cross currency swap contract to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation.

The above USD100 million term loan was translated at an average interest rate of 4.2220 as at 30 September 2017 (30.9.2016 : 4.1355).

Hence, the cumulative unrealised foreign exchange loss arising from this translation amounted to RM0.2 million (30.9.2016: unrealised gain of RM8.5 million). The unrealised foreign exchange gain reflected in the statement of comprehensive income for 1Q2018 was RM7.2 million (1Q2017: unrealised loss of RM10.4 million).

Total borrowings stood at RM2.5 billion as at 30 September 2017, all due within 1 year and disclosed as short-term, which is an increase of RM0.3 billion from RM2.2 billion as at 30 September 2016. The additional borrowings was mainly for the purpose of funding investing activities.

The weighted average interest rate of borrowings as at 30 September 2017 was 3.94% (30.9.2016: 3.91%) and the percentage proportion of debt that is based on fixed interest rate and floating interest rate was 82:18 (30.9.2016: 93:7).

### A16. 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.

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

	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total RM'000</b>
<b>At 30 September 2017</b>				
<b>Financial assets</b>				
Investment properties	-	-	6,786,281	6,786,281
Derivative	-	451	-	451
<hr/>				
<b>Financial liability</b>				
Derivatives	-	(1,531)	-	(1,531)
<hr/>				
<b>At 30 September 2016</b>				
<b>Financial assets</b>				
Investment properties	-	-	6,458,982	6,458,982
<hr/>				
<b>Financial liability</b>				
Derivatives	-	(12,665)	-	(12,665)
<hr/>				

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

#### A17. Material Events

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

##### Proposed acquisition of Sunway Clio Property

On 3 August 2017, RHB Investment Bank Berhad announced on behalf of the Board of Directors of Sunway REIT Management Sdn Bhd, the Manager for Sunway REIT ("SunREIT"), that RHB Trustees Berhad, as the trustee of SunREIT ("Trustee"), entered into a conditional sale and purchase agreement ("SPA") with Sunway Forum Hotel Sdn. Bhd. ("Vendor"), a wholly-owned subsidiary of Sunway Berhad, for the proposed acquisition of the Sunway Clio Property (as defined below) for a total purchase consideration of RM340 million to be entirely satisfied in cash ("Proposed Acquisition").

The Proposed Acquisition entails the acquisition of a parcel of leasehold land held under H.S. (D) 259881, Lot No. PT 1333, Bandar Sunway, District of Petaling, Selangor Darul Ehsan together with a 27-storey building with a lower ground floor (and all services infrastructure, fixtures and fittings affixed or located or used in the property) comprising:

- (i) a 19-storey 4-star rated hotel with 401 hotel rooms and facilities including a swimming pool, an exercise area, a dining area and meeting rooms known as Sunway Clio Hotel ("Hotel Property");
  - (ii) 3-storey (including 1 storey at lower ground floor) retail lots known as Sunway Pyramid West ("Retail Space"); and
  - (iii) a 6-storey podium car park ("Podium Car Park") and 4-storey basement car park (collectively, "Multi-storey Car Park"),
- (collectively, the "Sunway Clio Property").

The SPA and the completion of the Proposed Acquisition is conditional upon the following conditions

- (i) the approval of the unitholders of Sunway REIT at a unitholders' meeting to be convened for the Proposed Acquisition;
- (ii) the approval or consent of any other party which has entered into any subsisting arrangement, contract or undertaking with the Vendor in relation to the Sunway Clio Property, if required;
- (iii) the approval or consent of the financiers of the Vendor, if required;
- (iv) the approval of the State Authority for the transfer of the Sunway Clio Property; and
- (v) any other approvals of any authorities as may be deemed necessary by the Trustee and the Vendor.

The status of the Proposed Acquisition is as disclosed in Note B10.

#### A18. Material Events Subsequent to the end of the Current Quarter

There were no material events subsequent to the quarter ended 30 September 2017.

#### A19. Capital Commitments

The amount of commitments for investment properties not provided for in the unaudited condensed consolidated interim financial statements as at 30 September 2017 were as follows:

	<b>As at 30.09.2017 RM'000</b>
Approved and contracted for	31,334
Approved but not contracted for	427,100
	<u>458,434</u>

The capital commitment approved and contracted for as well as not contracted for mainly relate to the expansion of Sunway Carnival Shopping Mall which is expected to commence in 3Q FY2018.

**A20. Contingent Liabilities and Assets**

There were no contingent liabilities or contingent assets as at 30 September 2017.

**A21. 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 30 September 2017 and 30 September 2016 as well as the balances with the parties related to the Manager as at 30 September 2017 and 30 June 2017:

	First Quarter ended		Cumulative Quarter ended	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
<u>(Sales to)/purchases from parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Sales	(39,688)	(32,578)	(39,688)	(32,578)
- Purchases	15,890	32,094	15,890	32,094
(b) Sunway Technology Sdn. Bhd. Group ("STSB Group")				
- Sales	(137)	(121)	(137)	(121)
<u>Other transactions with parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Subscription of commercial paper	112,000	-	112,000	-
- Deposit for acquisition of investment property	34,000	-	34,000	-

Subscription to the 1-month commercial paper with nominal value of RM60 million and RM52 million, announced on 12 and 29 September 2017 respectively, issued by Sunway Berhad, a substantial unitholder of SunREIT. The rationale for this Investment in money market instrument is that it offers the most competitive discount rate in line with SunREIT's active capital management strategy.

The deposit for acquisition of investment property relates to the proposed acquisition of Sunway Clio Property, as disclosed in Note A17, and is based on 10% of the purchase consideration.

	As at 30.09.2017 RM'000	As at 30.06.2017 RM'000
<u>Amount owed by parties related to the Manager:</u>		
(a) Sunway Berhad Group	10,991	5,928
<u>Amount owed to parties related to the Manager:</u>		
(a) Sunway Berhad Group	23,873	25,942

**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**

**a) Statement of Comprehensive Income**

Explanatory comments are provided in Note A8.

**b) Statement of Financial Position**

Investment properties increased to RM6.8 billion as at 30 September 2017 compared to RM6.7 billion as at 30 June 2017 mainly due to the acquisition of Sunway REIT Industrial - Shah Alam 1 of RM92.5 million, including incidental costs related to the acquisition.

Other receivables stood at RM47.3 million as at the end of the current quarter, higher by RM31.1 million compared to RM16.2 million as at 30 June 2017 primarily attributable to the RM34.0 million deposit paid for the proposed acquisition of Sunway Clio Property.

Short term investment as at 30 September 2017 relates to an investment in money market instrument comprising 1-month commercial paper (CP) issued by Sunway Berhad (nominal value of RM112.0 million less discount on CP of RM0.2 million), as announced on 12 and 29 September 2017.

Total borrowings was higher by RM178.3 million as at the end of the current quarter mainly due to higher drawdown of RM185.6 million to fund investing activities but partially offset by movement in unrealised foreign exchange of RM7.2 million relating to the USD100 million loan.

**c) Statement of Cash Flows**

Net cash generated from operating activities for 1Q2018 was RM84.1 million, which was higher by RM3.2 million compared to 1Q2017, primarily attributed to higher net property income but partially offset by payment of accrued expenses.

During the current quarter, RM234.5 million was used for investing activities mainly related to the acquisition of Sunway REIT Industrial - Shah Alam 1, the proposed acquisition of Sunway Clio Property and the investment in money market instrument as mentioned above. In the preceding year corresponding quarter, net cash used for investing activities was RM14.0 million mainly for the refurbishment of Sunway Pyramid Hotel.

Additional borrowings of RM185.6 million was drawdown in 1Q2018 to fund investing activities compared to RM25.0 million drawn in 1Q2017.

Interest paid in the current quarter was RM23.2 million (1Q2017 : RM18.8 million), an increase of RM4.4 million, in tandem with the higher outstanding borrowings balance as at 30 September 2017.

Distribution paid in 1Q2018 was RM66.9 million compared to RM62.4 million in 1Q2017.

The cash and cash equivalent balance as at 30 September 2017 was RM45.7 million, lower by RM34.7 million from RM80.4 million as at 30 September 2016.

**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 RM4.6 million for 1Q2018 mainly due to minor asset enhancement works at Sunway Pyramid Shopping Mall and some of the other properties.

### B3. Material Changes in Quarterly Results

	<b>Current Quarter Ended 30.09.2017 RM'000</b>	<b>Immediate Preceding Quarter Ended 30.06.2017 RM'000</b>	<b>Change %</b>
Realised profit	78,736	66,818	17.8%
Unrealised profit	493	152,024	-99.7%
Profit for the quarter	<u>79,229</u>	<u>218,842</u>	<u>-63.8%</u>

Sunway REIT achieved a realised profit of RM78.7 million for 1Q2018, which was RM11.9 million higher compared to the immediate preceding quarter (4Q2017) of RM66.8 million, contributed by higher net property income from all segments but partially offset by higher finance costs.

Unrealised profit for the current quarter of RM0.5 million was mainly due to fair value gain from the derivative financial instrument. Unrealised profit for the immediate preceding quarter was primarily attributable to fair value gain from the annual revaluation of investment properties amounting to RM152.1 million.

### B4. Commentary on Prospects

The International Monetary Fund (IMF) stated that the world's economic growth in CY2017 thus far has been stronger than expected, with an upswing under way across nearly all the major economies. In its World Economic Outlook report in October 2017, the IMF raised the growth forecast to 3.6% in CY2017 and 3.7% in CY2018, an acceleration from the 3.2% growth recorded in CY2016. However, downside risks to global growth include persistently low inflation in advanced economies, financial stability risks in emerging markets, geopolitical tensions and protectionist pressures.

On the domestic front, the Malaysian economy grew at a faster pace of 5.8% in 2Q CY2017 underpinned by the services and manufacturing sectors, exceeding economists' forecast of a 5.4% expansion. Bank Negara Malaysia (BNM) stated that the economy is expected to expand by more than 4.8% in CY2017 given the strong growth in 1H CY2017 at 5.7%. It further added that domestic demand is projected to underpin the expansion, while on the external front, exports are estimated to benefit from the stronger-than-expected improvement in global growth.

Headline inflation was expected to moderate further in the second half of CY2017, reflecting the waning effect of global cost factors. In September 2017, the Consumer Price Index (CPI) rose to 4.3% y-o-y mainly due to higher transport, food and non-alcoholic costs. This brings 9M CY2017 CPI to 4.0%. BNM expects inflation to average within the forecast range of 3.0% - 4.0% for CY2017 as a whole.

On 7 September 2017, the Monetary Policy Committee (MPC) of BNM left the Overnight Policy Rate (OPR) unchanged at 3.00%. The MPC has cited that at the current level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity, while they continue to assess the balance of risks surrounding the outlook for domestic growth and inflation. Economists' consensus based on Bloomberg survey expects OPR to be maintained at 3.00% in CY2017 followed by an average upward revision of 25bps in CY2018.

Barring any unforeseen circumstances and after taking into account of potential higher average cost of debt, the Manager expects the prospect for FY2018 to improve with a moderate growth in DPU, underpinned by:

- (i) Resumption in income contribution from Sunway Pyramid Hotel following the full completion of its refurbishment in June 2017
- (ii) Moderate growth in the retail segment amidst gradual recovery in consumer sentiment
- (iii) New income contribution from the acquisition of Sunway REIT Industrial – Shah Alam 1 (completed in August 2017) and Sunway Clio Property (expected completion in 3Q FY2018)
- (iv) Gradual improvement in the overall occupancy of the office segment

The Manager is committed to distribute 100% of its distributable net income for FY2018.

#### **B4. Commentary on Prospects (Cont'd)**

##### Review of retail market

The Malaysian retail industry recorded an encouraging growth of 4.9% y-o-y in 2Q CY2017, after a contraction of 1.2% y-o-y in 1Q CY2017. Independent retail research firm Retail Group Malaysia (RGM) revised its annual growth forecast downwards from 3.9% to 3.7% for the Malaysia retail industry in CY2017 on the back of lower purchasing power. It further stated that full recovery of the Malaysian retail market is highly dependent on external economic demand and ringgit performance for the rest of the year. Despite the downward revision in forecast, it is still a stronger growth momentum compared to CY2016's retail sales growth of 1.7%.

Notably, a gradual recovery in consumer sentiment in 1H CY2017 coupled with improvement in macro-economic landscape are expected to bode well for the retail industry. However, the abundance of retail supply in the market with anticipated 7.6 million sq.ft. incoming supply in Kuala Lumpur and Selangor, coupled with continuous growth in online retailing will continue to pose challenges to mall owners and operators.

Sunway Pyramid Shopping Mall's average occupancy rate increased to 98.8% in 1Q FY2018 compared to 98.0% in FY2017. Based on the total net lettable area (NLA) of 651,428 sq.ft. which was due for renewal in FY2018, a total of 82,185 sq.ft. was renewed / replaced at a single-digit rental reversion rate.

Sunway Carnival Shopping Mall's average occupancy rate contracted marginally to 95.1% in 1Q FY2018, from 97.6% in FY2017 due to transition arising from the change of tenancy for a mini anchor tenant. Based on the total NLA of 149,787 sq.ft. which was due for renewal in FY2018, a total of 16,707 sq.ft. was renewed / replaced at single-digit rental reversion rate.

The average occupancy rate for Sunway Putra Mall increased marginally to 86.9% in 1Q FY2018, from 86.3% in FY2017 due to commencement of new tenants. Secured occupancy for the mall stood at 93.6% as at 30 September 2017. Based on the total NLA of 323,383 sq.ft. which was due for renewal in FY2018, a total of 3,626 sq.ft. was renewed / replaced at negative rental reversion rate.

The Manager is encouraged by the recovery in consumer sentiment in recent months (as indicated in consumer sentiment survey)<sup>1</sup> which augur well for Sunway REIT's retail assets. The Manager expects the retail segment to register a moderate growth for FY2018, supported by strong occupancy rates and overall modest rental reversion growth.

<sup>1</sup> Source: Malaysian Institute of Economic Research

##### Review of hotel market

The Ministry of Tourism targets tourist arrivals of 31.8 million with tourist receipts of RM118 billion in CY2017. Tourist arrivals for the first 5 months of CY2017 recorded 10.8 million which is below the target set by the Ministry of Tourism. However, tourist arrivals is expected to accelerate on the back of major events such as SEA and ASEAN PARA Games 2017 in 2H CY2017.

Gradual improvement in business sentiment is expected to benefit hotel businesses especially for the meetings, incentives, conferences and events (MICE) segment.

Sunway Resort Hotel & Spa registered an average occupancy rate of 90.4% in 1Q FY2018, vis-à-vis 94.3% in 1Q FY2017, mainly attributable to softer pace in Middle Eastern tourist arrivals compared to the same period in the preceding year.

Following the completion of the refurbishment, Sunway Pyramid Hotel recorded an average occupancy rate of 71.0%. There was no comparative occupancy as the hotel was closed for refurbishment during the same period in the preceding year. The average occupancy rate was comparable to pre-closure occupancy in FY2016.

Sunway Putra Hotel continues to register improvement in its average occupancy rates. The average occupancy rate improved to 78.6% in 1Q FY2018 compared to 69.0% in 1Q FY2017, being one of the beneficiaries of the SEA Games 2017 and ASEAN PARA Games 2017.

In Penang, average occupancy rates improved further for both hotels. Sunway Hotel Seberang Jaya and Sunway Hotel Georgetown registered higher average occupancy rates of 75.3% and 93.3% in 1Q FY2018, up from 70.2% and 87.3% respectively in 1Q FY2017, benefitting from the fruition of the ongoing tactical strategy.

The Manager expects a modest growth from the hotel segment, largely contributed by resumption of full rooms inventory at Sunway Pyramid Hotel and new income contribution from Sunway Clio Hotel upon completion of the acquisition expected in 3Q FY2018. Against the backdrop of improving operating environment, the hotel operator continues to explore new market opportunities to capture a larger market share.

#### B4. Commentary on Prospects (Cont'd)

##### Review of office market

The total stock of office space in Kuala Lumpur and Selangor stood at 130.8 million sq.ft. in 1Q CY2017, with an estimated new supply of 11.9 million sq.ft. coming on stream. The glut in the office sub-sector is expected to persist in the short to medium term with pressure on occupancy and rental rates.

The average occupancy rate for Menara Sunway climbed higher to 95.1% in 1Q FY2018, from 92.1% in FY2017 following the commencement of new tenancies since 4Q FY2017.

There was no material movement in the average occupancy rate of Sunway Tower during the quarter. The average occupancy rate stood at 21.0% in 1Q FY2018.

Following commencement of tenancies in FY2017, the average occupancy rate for Sunway Putra Tower improved to 42.4% in 1Q FY2018 compared to 36.6% in FY2017. The Manager expects the occupancy to improve further in FY2018, supported by the synergy from Sunway Putra and comprehensive infrastructure and connectivity.

The average occupancy rate for Wisma Sunway stood at 83.6% in 1Q FY2018 versus 86.9% in FY2017 due to downsizing of a tenant in 4Q FY2017. Meanwhile, an existing tenant has committed to additional space of 23% of total NLA commencing in 4Q FY2018. This will boost the occupancy rate for Wisma Sunway to 99% by 4Q FY2018.

The Manager expects the performance of Sunway REIT's office segment to gradually improve in FY2018 on the back of a low base.

#### 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 30.09.2017	Year ended 30.06.2017
a) Management expense ratio *	0.88%	0.85%
b) Total returns *	2.8%	12.4%
c) Average annual total returns (5 years) *	8.1%	11.3%
d) Distribution yield *	6.2%	5.2%
e) NAV per unit (after income distribution)(RM)	1.4074	1.4074

- 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 total 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 10.59 sen divided by its closing price as at 30 September 2017 of RM1.72 (30 June 2017 - DPU: 9.19 sen; Closing price: RM1.78).
- 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. The Manager's fee is fully paid in cash since FY2017.

Total Manager's fee for the current/cumulative quarter ended 30 September 2017 was RM9.5 million (Total base and performance fee of RM8.6 million and acquisition fee of RM0.9 million) compared to the preceding year corresponding quarter/cumulative quarter of RM7.8 million. The acquisition fee of RM0.9 million was paid to the Manager in 1Q2018 for the acquisition of Sunway REIT Industrial - Shah Alam 1 (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 a fee of 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/cumulative quarter ended 30 September 2017 was RM0.3 million, similar to the fees for the preceding year corresponding quarter/cumulative quarter ended 30 September 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 A17.

On 25 October 2017, approval from the unitholders of Sunway REIT was obtained for the Proposed Acquisition during the unitholders's meeting held on even date. This approval is one of the conditions precedent to be met, as disclosed in Note A17.



**B11. Material Litigation**

1. Sunway Putra (formerly known as Putra Place) - 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 concluded on 5 June 2017. The matter was fixed for oral submission on facts of the case, arguments and evidence from both lawyers on 25 August 2017 and 12 September 2017 and the Learned High Court Judge has fixed the date for his decision on 3 November 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 30.09.2017	Immediate preceding quarter ended 30.06.2017	% change
Number of units in issue (units)	2,945,078,000	2,945,078,000	0.0%
Realised net income (RM'000)	78,736	66,818	17.8%
Realised earnings per unit (EPU) (sen)	2.67	2.27	17.6%
Income distribution(RM'000)	78,634	66,853	17.6%
Distribution per unit (DPU)(sen)	2.67	2.27	17.6%
Net Asset Value (NAV) (After income distribution) (RM'000)	4,145,000	4,144,867	0.0%
NAV per unit (After income distribution) (RM)	1.4074	1.4074	0.0%
Market price per unit (RM)	1.72	1.78	-3.4%

**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 Derivative Asset/(Liability)	
	As at 30.09.2017	As at 30.06.2017	As at 30.09.2017	As at 30.06.2017
	RM'000	RM'000	RM'000	RM'000
a) <b>Interest rate swap</b>				
- Less than 1 year	922,000	922,000	(1,021)	(1,477)
- 1 year to 3 years	150,000	150,000	(510)	(529)
	1,072,000	1,072,000	(1,531)	(2,006)
b) <b>Cross currency swap</b>				
- Less than 1 year	422,000	422,000	451	8,112
	1,494,000	1,494,000	(1,080)	6,106

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 1Q2018 amounted to a gain of RM0.5 million (1Q2017: loss of RM2.6 million). This brings the cumulative total fair value loss of the IRS to RM1.5 million as at 30 September 2017 and reflected as a derivative liability in the balance sheet.

b) Cross currency swap

Sunway REIT had entered into 2-year cross currency swap ("CCS") contracts 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 of the CCS recognised in the statement of comprehensive income for 1Q2018 was a loss of RM7.6 million (1Q2017: gain of RM12.1 million). This brings the cumulative total fair value gain of the CCS to RM0.5 million as at 30 September 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 2017 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 30 September 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.

	<b>Period ended 30.09.2017 RM'000</b>	<b>As at end of previous financial year RM'000</b>
Total retained profits/undistributed income		
- realised	11,574	(309)
- unrealised	1,484,234	1,484,203
	<u>1,495,808</u>	<u>1,483,894</u>
Less: Consolidation adjustments	(3)	(3)
Total retained profits/undistributed income	<u>1,495,805</u>	<u>1,483,891</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 30 September 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 31 October 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 Lee Chin (MAICSA No.: 7012347)**  
**Company Secretaries**

**Bandar Sunway**  
**Date: 31 October 2017**