

SUNWAY BERHAD (“SUNWAY” OR “COMPANY”)

- I PROPOSED DISPOSAL OF THE SUNWAY CLIO PROPERTY (AS DEFINED BELOW) BY SUNWAY FORUM HOTEL SDN. BHD. (“VENDOR”) FOR A CASH CONSIDERATION OF RM340 MILLION (“PROPOSED DISPOSAL”)**
- II PROPOSED LEASE BY SUNWAY RESORT HOTEL SDN. BHD. (“LESSEE”) OF THE HOTEL PROPERTY (AS DEFINED BELOW) FOR AN INITIAL TERM OF 10 YEARS (“PROPOSED LEASE OF HOTEL”)**
- III PROPOSED TENANCY BY SUNWAY LEISURE SDN. BHD. (“TENANT”) OF THE MULTI-STOREY CAR PARK IN THE SUNWAY CLIO PROPERTY (“PROPOSED TENANCY OF CAR PARK”)**

(COLLECTIVELY REFERRED TO AS THE “PROPOSALS”)

1. INTRODUCTION

On behalf of the board of directors of Sunway (“**Board**”), RHB Investment Bank Berhad (“**RHB Investment Bank**”) wishes to announce that the following parties had entered into the following agreements on 3 August 2017:

No.	Proposals	Description
(i)	Proposed Disposal	<p>A conditional sale and purchase agreement entered into between:</p> <p>(a) Vendor (a wholly-owned subsidiary of Sunway); and</p> <p>(b) RHB Trustees Berhad (as the trustee of Sunway Real Estate Investment Trust (“Sunway REIT”)) (“Trustee”),</p> <p>for the proposed disposal of the Sunway Clio Property (as defined below), for a cash consideration of RM340 million (“Disposal Consideration”) (“SPA”)</p>
(ii)	Proposed Lease of Hotel	<p>A conditional hotel lease agreement entered into between:</p> <p>(a) Lessee (a wholly-owned subsidiary of Sunway);</p> <p>(b) Trustee; and</p> <p>(c) Sunway REIT Management Sdn. Bhd. (as the manager of Sunway REIT) (“Manager”),</p> <p>for the lease of the Hotel Property (as defined in Paragraph 2.1(i) below) for an initial term of 10 years commencing from the day immediately after the completion of the SPA¹ (“Completion Date”) with an option to renew for a further term of 10 years (“HLA”)</p>
(iii)	Proposed Tenancy of Car Park	<p>A conditional car park tenancy agreement entered into between:</p> <p>(a) Tenant (a wholly-owned subsidiary of Sunway); and</p> <p>(b) Trustee,</p> <p>for the tenancy of the Multi-storey Car Park (as defined in Paragraph 2.1(iii) below) for a period of 3 years commencing from the day immediately after the Completion Date with an option to renew for a further term of 3 years (“CTA”)</p>

¹ being a day to be mutually agreed between the Trustee and the Vendor within a period of 3 months after all the conditions precedent stated in Paragraph 2.2(d) of this announcement have been fulfilled, obtained or waived or such other date as may be mutually agreed upon by the parties

2. DETAILS OF THE PROPOSALS

2.1 Description of the Sunway Clio Property

The Proposed Disposal entails the disposal 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 Sunway Clio Property was developed as a long term investment asset by the Vendor on a parcel of land it owned since 2001. It is located at Jalan PJS 11/15, Bandar Sunway, 47500 Subang Jaya and is strategically located within Sunway City, a 324-hectare (800-acre) “Resort-within-a-City” integrated development. Sunway City is also a renowned self-contained township which showcases the best of education, entertainment, recreation, leisure, shopping, medical, hospitality and commercial facilities.

In addition to having a convenient connection to the adjacent Sunway Pyramid Shopping Mall, the Retail Space features a mixture of international and national chain retailers such as Starbucks, The Parenthood, Hokkaido Ramen and Sanook as at 30 June 2017, being the latest practicable date of this announcement (“**LPD**”).

Other information on the Sunway Clio Property is provided below:

Title details	: H.S. (D) 259881, Lot No. PT 1333, Bandar Sunway, District of Petaling, Selangor Darul Ehsan
Tenure	: Leasehold interest for a term of 99 years, expiring on 16 November 2108
Land area	: 77,403 square feet (7,191 square metres)
Age of building	: 1.5 years
Gross floor area (including the Multi-storey Car Park area)	: 798,762 square feet (74,207 square metres)
Net lettable area (Retail Space)	: 88,384 square feet (8,211 square metres)
No. of hotel rooms	: 401 rooms
No. of car park bays	: 732 bays ⁽¹⁾
% of occupancy for hotel	: 71.6% ⁽²⁾
% of occupancy for Retail Space	: 88.2% ⁽³⁾
Market value	: RM340.0 million ⁽⁴⁾

Net book value as at 31 December 2016	:	RM293.1 million ⁽⁵⁾
Rental income for Retail Space	:	RM1.06 million ⁽⁶⁾
Rental income for hotel	:	RM14.00 million ⁽⁷⁾
Category of use	:	Building
Express Condition	:	Commercial building
Chargee	:	Great Eastern Life Assurance (Malaysia) Berhad (Company No. 93745-A) of Tingkat 20, Menara Great Eastern, 303, Jalan Ampang, 50450 Wilayah Persekutuan Kuala Lumpur (“ Chargee ”)
Encumbrances	:	A charge granted in favour of the Chargee dated 28 December 2015 vide presentation no. 137972/2015 (“ Charge ”)
Restriction in interest	:	The land can be transferred, leased or charged after approval from the State Authority is obtained

Notes:

- (1) *Comprising 358 basement car park bays and 374 podium car park bays*
- (2) *Average occupancy rate from date of commencement of 19 February 2016 to the LPD*
- (3) *Secured occupancy as at the LPD*
- (4) *As appraised by C H Williams Talhar & Wong Sdn Bhd (“**Valuer**”), being the independent registered valuer appointed by Sunway, in its valuation certificate dated 13 July 2017 (“**Valuation Certificate**”). The material date of inspection for the valuation is 13 July 2017. In arriving at the market value of the Sunway Clio Property, the Valuer has adopted the Income Approach and Comparison Approach. It should be noted that the Valuation Certificate does not contain all the necessary data and information included in the valuation report*
- (5) *Derived from the audited consolidated financial statements of Sunway*
- (6) *Total rental amount billed to tenants between 1 April 2016 and the LPD. Billing has not commenced for a major tenant that has been secured but have not commenced operations as at the LPD*
- (7) *Total rental amount billed between the date of commencement of 19 February 2016 and the LPD*

2.2 Salient terms of the SPA

(a) Agreement for sale and purchase

At the request of the Manager (on behalf of Sunway REIT), the Vendor agrees to sell and the Trustee agrees to purchase the Sunway Clio Property at the Disposal Consideration.

(b) Manner of payment of the Disposal Consideration

- (i) The Trustee has paid the deposit sum of RM34 million (“**Deposit**”) upon entering into the SPA.

- (ii) The balance of the Disposal Consideration of RM306 million (“**Balance Consideration**”) comprising:
- the redemption sum (being the amount payable to the Chargee (as defined in Paragraph 2.1 of this announcement) prior to Completion Date to redeem the Charge and obtain the relevant documents relating to the discharge of the Charge (“**Discharge Documents**”)); and
 - the remaining balance to the Vendor on the Completion Date.

(c) **Adjustment of the Disposal Consideration**

- (i) If the assessed market value of the Sunway Clio Property shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the valuation report and the variation/adjustment to the market value is equal to or less than 5%, the Balance Consideration and the Disposal Consideration shall be adjusted upwards or downwards accordingly by the same quantum of variation/adjustment.
- (ii) The adjusted Disposal Consideration to be paid by the Trustee to the Vendor pursuant to Paragraph 2.2 of this announcement shall be deemed to be the sum as adjusted under Paragraph 2.2(c)(i) above.
- (iii) When the variation/adjustment to the assessed market value of the Sunway Clio Property pursuant to any comments provided by the relevant authorities on the valuation report is more than 5%, the parties shall in good faith discuss and negotiate on an appropriate adjustment to the Disposal Consideration and mutually agree on an adjusted Disposal Consideration which is acceptable to both parties. If the parties are unable to reach mutual agreement on the adjusted Disposal Consideration within a period of 30 days or any mutually agreed extension period either party shall be entitled to terminate the sale and purchase of the Sunway Clio Property and the SPA by notice in writing.

(d) **Conditions precedent**

The SPA and the completion of the Proposed Disposal is conditional upon the following conditions precedent being fulfilled or obtained within 6 months after the date of the SPA, or such other extended date as the Trustee and the Vendor may mutually agree upon in writing, unless the condition(s) precedent are being waived by the Trustee:

- (i) the approval of the unitholders of Sunway REIT at a unitholders’ meeting to be convened for its proposed acquisition of the Sunway Clio Property;
- (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.

(e) Termination and breach

(i) Vendor's right to terminate

If the Trustee defaults in the satisfaction of the Disposal Consideration (including any variation/adjustment to the Disposal Consideration), the Vendor will be entitled to terminate the SPA by notice in writing to the Trustee if the Trustee fails within 14 days of receipt of a notice from the Vendor to remedy the breach or the matter.

(ii) Trustee's right to terminate

The Trustee will be entitled to, at any time after any default on the part of the Vendor arises (such as a breach of any term or condition of the SPA, or failure or neglect or refusal to complete the sale), give notice to the Vendor to terminate the SPA if the Vendor fails within 14 days of receipt of a notice from the Trustee to remedy the breach or the matter. For the other events of default as set out in the SPA such as when a petition or an order is made against the Vendor for winding up or when a receiver and manager is appointed, no remedy period is given.

(iii) Consequences of termination by the Vendor

If a notice terminating the SPA is given by the Vendor as referred to under Paragraph 2.2(e)(i) above, then within 14 days of that notice, the Vendor must return all moneys paid to it (excluding the Deposit which will be absolutely forfeited by the Vendor as agreed liquidated damages) to the Trustee free of interest. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and the Discharge Documents (as defined in Paragraph 2.2(b)(ii) above) which are in their possession with the Vendor's interest intact and to re-deliver to the Vendor possession of the Sunway Clio Property, if the same has been delivered to the Trustee.

(iv) Consequences of termination by the Trustee

If a notice terminating the SPA is given by the Trustee as referred to under Paragraph 2.2(e)(ii) above, then within 14 days of that notice, the Vendor must return all moneys received as part of the Disposal Consideration to the Trustee, free of interest.

If the Trustee elects not to pursue the remedy of specific performance as referred to under Paragraph 2.2(e)(vii) below, the Vendor must pay an additional sum equivalent to 10% of the Disposal Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact. The Trustee shall then re-deliver to the Vendor possession of the Sunway Clio Property, if the same has been delivered to the Trustee.

(v) Mitigation of risk of non-registration of Transfer

If, as at the Completion Date, after the Vendor's receipt of the Balance Consideration, the memorandum of transfer for the Sunway Clio Property ("Transfer") is not registered with the land registry, the Vendor acknowledges that it holds the Sunway Clio Property relating to such Transfer as bare trustee for and on behalf of the Trustee and it will immediately execute in favour of the Trustee an irrevocable and unconditional Power of Attorney reasonably acceptable to the Trustee, granting to the Trustee the power to fully deal with the Sunway Clio Property as if it was the true and rightful owner of the Sunway Clio Property. In addition, the Vendor will do all such acts and things as may be reasonably required by the Trustee so that the Trustee may effectively deal with the Sunway Clio Property.

(vi) Non-registration of Transfer or Discharge Documents

If the registration of the transfer documents or the Discharge Documents are not or cannot be effected for any reason whatsoever not due to any fault of either the Trustee or the Vendor, the Trustee shall be entitled to terminate the SPA by notice in writing to the Vendor.

(vii) Specific performance

Notwithstanding the foregoing provisions, the Vendor or the Trustee, as the case may be, will be entitled to the remedy of specific performance to compel the party in default to complete the sale or purchase of the Sunway Clio Property and to claim damages for breach of the SPA.

(f) Real property gains tax

Payment of real property gains tax for chargeable gains accruing on the disposal of any chargeable asset to a Real Estate Investment Trust or a Real Property Trust Fund is exempted pursuant to the Real Property Gains Tax (Exemption) (No. 4) Order 2003. The Trustee's solicitors have been authorised by the Trustee and the Vendor not to retain any retention sum payable to the Inland Revenue Board.

(g) Vendor's obligations under existing tenancies, existing license agreements and service contracts

The Vendor covenant and undertake with the Trustee that they will novate, assign and transfer validly to the Trustee all title rights and interests of the Vendor under the existing tenancies, existing license agreements, service contracts, agreements or any other letters to the Trustee and/or to terminate the existing tenancies, existing license agreements, service contracts, agreements or any other letters (as the case may be).

(h) Application of remaining Disposal Consideration

At any time after unconditional date of the SPA, the Trustee or the Trustee's solicitors (who shall utilise the moneys received by them) will make the payment of the Balance Consideration (as defined in Paragraph 2.2(b)(ii) above) in the following order of priority:

- (i) firstly, towards payment of the redemption sum before Completion Date;
- (ii) secondly, towards settlement of fees, charges, expenses and other payments, if any, payable by the Vendor on or before Completion Date; and
- (iii) to release the remaining balance to the Vendor on Completion Date.

(i) **Delivery of legal possession of the Sunway Clio Property**

Legal possession of the Sunway Clio Property, free from all encumbrances and claims whatsoever, will be deemed delivered to the Trustee by the Vendor on the Completion Date

(j) **Conditions of Disposal**

The Sunway Clio Property is sold on “as is where is” basis and is subject to, *inter-alia*, the following:

- (i) entering into the HLA simultaneously with the execution of the SPA; and
- (ii) entering into the CTA simultaneously with the execution of the SPA.

2.3 Basis and justification of arriving at the Disposal Consideration

The Disposal Consideration for the Sunway Clio Property of RM340 million was arrived at on a willing buyer-willing seller basis, after taking into consideration the following:

- (i) the market value of the Sunway Clio Property as stated in Paragraph 2.1 above;
- (ii) the net book value of the Sunway Clio Property as stated in Paragraph 2.1 above;
- (iii) the prospects of the Sunway Clio Property; and
- (iv) the original cost of investment of the Sunway Clio Property as stated in Paragraph 2.7 below.

2.4 Proposed utilisation of proceeds

The Vendor is expected to use the gross proceeds from the Proposed Disposal of RM340 million to repay the Vendor’s existing borrowings and to defray the expenses for the Proposals. The proceeds may also be utilised to finance the working capital of Sunway and its subsidiaries (including the Vendor) (“Sunway Group”).

The details of the utilisation of proceeds are set out below:

<u>Utilisation of proceeds</u>	<u>Expected timeframe for utilisation of proceeds</u>	<u>Amount of proceeds</u> <i>RM’ million</i>
Repayment of borrowings ⁽¹⁾	Refer to Note (1)	275.26
Working capital ⁽²⁾	within 6 months from the Completion Date	64.60
Estimated expenses in relation to the Proposals ⁽³⁾	within 1 month from the Completion Date	0.14
Total proceeds from the Proposed Disposal		340.00

Notes:

- (1) Sunway intends to utilise approximately RM275.26 million of the proceeds from the Proposed Disposal to repay the Vendor’s entire borrowings as at 30 June 2017. This comprises the settlement of redemption sum to Great Eastern Life Assurance (Malaysia) Berhad that is to be made prior to the Completion Date and the repayment of other borrowings within 1 month from the Completion Date. The repayment of borrowings will result in finance expense savings of approximately RM10.9 million per annum.

If the Vendor's entire borrowings to be repaid exceeds the proceeds allocated for the repayment of borrowings, such shortfall will be adjusted against the proceeds allocated for working capital.

- (2) *Working capital is for Sunway Group's day-to-day operations including but not limited to purchase of inventories, payment to suppliers and contractors and payment of staff related expenses.*
- (3) *The amount allocated for estimated expenses in relation to the Proposals will be utilised for the payment of professional fees. If the actual expenses incurred are higher than the budgeted amount, the deficit will be funded from the portion allocated for working capital. Conversely, any surplus of funds following defrayment of expenses in relation to the Proposals will be utilised for working capital purposes.*

Any variation to the amount of proceeds raised from the Proposed Disposal will be adjusted against the proceeds allocated for working capital.

2.5 Salient terms of the HLA

<u>Term</u>	<u>Details</u>
Lessor	: RHB Trustees Berhad (as the trustee of Sunway REIT)
Lessee	: Sunway Resort Hotel Sdn. Bhd.
Commencement date	: The day immediately after the Completion Date
Property	: Hotel Property (as defined in Paragraph 2.1 above)
Conditions precedent	: The obligations of Lessor, Lessee and the Manager under the HLA are conditional upon the following conditions being fulfilled or obtained within 6 months after the date of the HLA or such other extended date as the parties may mutually agree upon in writing: <ol style="list-style-type: none"> (a) The State Authority's approval for the lease of the Hotel Property; (b) The approval or consent from any party which has entered into any subsisting arrangement, contract or undertaking with the Vendor; and (c) Completion of the SPA.
Lease and renewal	: <ol style="list-style-type: none"> 1. The initial term of the lease shall be 10 years ("Initial Term") from the commencement date with an option to renew granted to the Lessee to lease the Hotel Property for a further term of 10 years ("Renewal Term"). 2. The option to renew shall be on the same terms and conditions, except as provided in the HLA, at a revised rent based on the prevailing market rate as agreed between the Trustee and the Lessee. If the Trustee and the Lessee are unable to agree to the new rental before the expiry of one month preceding the date of expiration of the Initial Term, the rental for the first 12 months of the Renewal Term shall be the same amount of the rent for the last year of the Initial Term and the Trustee and the Lessee shall use their best efforts during this 12 months period to agree on the rental for the remaining period of the Renewal Term.
Rental	: The total rent is calculated based on the higher of the minimum rent or the variable rent for a fiscal year (" Fiscal Year "). The minimum rent is RM10,968,618 per annum for the first 2 Fiscal Years and RM8,226,464 per annum for each subsequent Fiscal Year for the Initial Term. The variable rent with respect to a Fiscal Year is computed based on the following formula: $P + (70 \text{ per cent} \times (Q-R))$ Where: P = base rent of the Hotel Property, being 20% of the revenue for that Fiscal Year

Term	Details
	Q = gross operating profit of the business; and
	R = lease expenses

The total rent formula in the HLA was mutually agreed between the parties wherein the parties have agreed to adopt the existing total rent formula of the lease agreement for the lease of the Sunway Resort Hotel & Spa, and Sunway Pyramid Hotel as all these hotels (including the Hotel Property) are located within Sunway City and are/will be operated by the Lessee.

The minimum rent amount was mutually agreed between the parties after taking into consideration the income reasonably expected to be derived from the Lessee's hotel operations at the Hotel Property throughout the 10-year tenure of the HLA.

2.6 Salient terms of the CTA

Term	Details
Landlord	: RHB Trustees Berhad (as the trustee of Sunway REIT)
Tenant	: Sunway Leisure Sdn. Bhd.
Commencement date	: The day immediately after the Completion Date
Property	: Multi-storey Car Park (as defined in Paragraph 2.1 above)
Condition precedent	: The obligations of the Landlord and Tenant under the CTA are conditional upon the completion of SPA within 6 months after the date of the CTA or such other extended date as the parties may mutually agree upon in writing
Tenure	: 3 years with an option to renew for a further term of 3 years
Rental	: An amount equivalent to (i) 20% of the gross operating revenue ⁽¹⁾ (" Base Rent ") and (ii) 95% of the gross operating profit ⁽²⁾ payable monthly

Notes:

(1) *Gross operating revenue refers to the monthly aggregate parking fees and charges (excluding goods and services tax) payable to or collected by the Tenant from the operations of the Multi-storey Car Park as a commercial car park for the relevant month for that financial year*

(2) *Gross operating profit refers to the gross operating revenue less the operating costs and the Base Rent*

The rental formula in the CTA was mutually agreed between the parties wherein the parties have agreed to adopt the existing rental formula of the various car park tenancy agreements for the tenancy of car parks in Sunway Resort Hotel & Spa, Sunway Pyramid Hotel, Menara Sunway and Sunway Pyramid Shopping Mall (the "**Said Car Parks**") as the Multi-storey Car Park and the Said Car Parks are all located within Sunway City and are/will be operated by the Tenant.

2.7 Original cost and date of investment

The land on which the Sunway Clio Property sits was acquired by the Vendor for a cash consideration of RM10.9 million pursuant to a deed of assignment dated 25 September 2001 entered into between Sunway Pyramid Sdn. Bhd. and the Vendor for the assignment of all the rights, interests, benefits and obligations under a sale and purchase agreement dated 11 June 2001 entered into between Kanchil Jaya Sdn. Bhd. and Sunway Pyramid Sdn. Bhd.

The construction of the Sunway Clio Property was completed on 12 February 2016. The estimated total cost to develop Sunway Clio Property (including land cost) as at 31 December 2016 is RM303.2 million.

2.8 Top up undertaking

Simultaneously with the execution of the SPA, HLA and CTA, Sunway City Sdn. Bhd. (“SunCity”) (a wholly-owned subsidiary of Sunway, and the holding company of the Vendor, the Lessee and the Tenant) had entered into a deed of undertaking (“Deed of Undertaking”) with the Trustee and undertakes to pay annually the difference between:

- (a) the total annual property income received in any fiscal year by the Trustee in relation to the Sunway Clio Property (excluding the Podium Car Park) minus all relevant outgoings and other costs to be incurred by the Trustee (excluding all outgoings and other costs attributable to the Podium Car Park); and
- (b) aggregate amount of RM20.23 million,

for a period of 4 years commencing from the day immediately after the Completion Date.

3. INFORMATION ON TRUSTEE

The Trustee was incorporated in Malaysia under the Companies Act, 1965 on 6 March 2002. It is registered as a trust company under the Trust Companies Act, 1949. The principal activity of the Trustee is providing professional retail trustee services (will writing, estate planning and private trust) and corporate trustee services (collective investment schemes).

As at the LPD:

- (i) the Trustee has an issued share capital of RM6,000,000 comprising 1,200,000 ordinary shares;
- (ii) the directors of the Trustee are (i) Foo San Kan, (ii) Syed Ahmad Taufik Albar and (iii) Tony Chieng Siong Ung;
- (iii) the shareholders of the Trustee and their shareholdings in the Trustee are as follows:

Shareholder	Direct		Indirect	
	No. of shares	%	No. of shares	%
RHB Bank Berhad	240,000	20.0	960,000 ⁽¹⁾	80.0
RHB Investment Bank Berhad	240,000	20.0	720,000 ⁽²⁾	60.0
RHB Nominees (Tempatan) Sdn. Bhd.	240,000	20.0	-	-
RHB Nominees (Asing) Sdn. Bhd.	240,000	20.0	-	-
RHB Futures and Options Sdn. Bhd. (formerly known as OSK Futures and Options Sdn. Bhd.)	240,000	20.0	-	-

Notes:

- (1) Deemed interest by virtue of Section 8 of the Companies Act, 2016 (“Act”) held through RHB Investment Bank Berhad, RHB Nominees (Tempatan) Sdn. Bhd., RHB Nominees (Asing) Sdn. Bhd. and RHB Futures and Options Sdn. Bhd. (formerly known as OSK Futures and Options Sdn. Bhd.)
- (2) Deemed interest by virtue of Section 8 of the Act held through RHB Nominees (Tempatan) Sdn. Bhd., RHB Nominees (Asing) Sdn. Bhd. and RHB Futures and Options Sdn. Bhd. (formerly known as OSK Futures and Options Sdn. Bhd.)

There are no contingent liabilities and guarantees to be assumed by Sunway REIT arising from the Proposals.

4. RATIONALE FOR THE PROPOSALS

The Sunway Clio Property is located within the township of Sunway City, in close proximity to Sunway Resort Hotel & Spa and Sunway Pyramid Hotel which are owned by Sunway REIT. The Hotel Property is currently leased to Sunway Resort Hotel Sdn Bhd, which is also the lessee of Sunway Resort Hotel & Spa and Sunway Pyramid Hotel. Although the Sunway Clio Property was developed as a long term investment asset by the Vendor on a parcel of land it owned since 2001, in view of the circumstances above, the Proposed Disposal was undertaken to eliminate any potential conflict of interests situations or any perceived conflict of interests.

On the other hand, the Proposed Lease of Hotel and Proposed Tenancy of Car Park will ensure that the on-going hotel and car park operations respectively in the Sunway Clio Property are not disrupted.

5. RISK FACTORS

Sunway may be subject to certain specific risks associated with the Proposals. The specific risks, which may not be exhaustive, are as follows:

5.1 Risks relating to the Proposed Disposal

5.1.1 Risk relating to the non-completion of the SPA

The SPA is conditional upon the various conditions precedent as set out in Paragraph 2.2(d) of this announcement and there can be no assurance that all such conditions precedent will be fulfilled or obtained in a timely manner or at all. Notwithstanding this, the Vendor will use its best endeavor to ensure that all the conditions precedent are fulfilled to facilitate the completion of the Proposed Disposal.

Nonetheless, if the Proposed Disposal is not completed for any reason, the Vendor will continue to own the Sunway Clio Property and benefit from such ownership.

5.1.2 Loss of potentially higher capital value of the Sunway Clio Property

The Disposal Consideration was arrived at on a willing buyer-willing seller basis as elaborated in Paragraph 2.3 above. The timing of the Proposed Disposal at this juncture could result in Sunway Group not realising a potentially higher value if the Sunway Clio Property was disposed at a later date. Nonetheless, the Proposed Disposal will still result in a net gain on disposal of RM29.4 million for Sunway Group.

5.2 Risks relating to the Proposed Lease of Hotel and Proposed Tenancy of Car Park

5.2.1 Payment of lease rental

Under the HLA and CTA, the Lessee and the Tenant shall pay rental to the Trustee for an initial term of 10 years and 3 years respectively from the day immediately after the Completion Date. There is no assurance that the Lessee and the Tenant will be able to meet their rental obligation in the future without incurring a loss.

However, based on the financial performance and past growth rate of the Lessee and the Tenant, Sunway reasonably believes that the Lessee and the Tenant will be able to pay the rental under the HLA and CTA.

5.2.2 Renewal of HLA

Based on the HLA, the Lessee agrees to take a lease of the Hotel Property for the Initial Term commencing from the day immediately after the Completion Date with an option to renew granted to the Lessee to lease the Hotel Property for the Renewal Term. The option to renew shall be on the same terms and conditions, except as provided in the HLA, at a revised rent based on the prevailing market rate as agreed between the Trustee and the Lessee. There is no assurance that a revised rent for the Renewal Term could be mutually agreed amongst the Trustee and the Lessee. If the Trustee and the Lessee are unable to agree on the new rental before the expiry of one month preceding the date of expiration of the Initial Term, the rental for the first 12 months of the Renewal Term shall be the same amount of the rent for the last year of the Initial Term and the Trustee and the Lessee shall use their best efforts during this 12 months period to agree on the rental for the remaining period of the Renewal Term.

Further, upon expiry of the Renewal Term, the Lessee may not be able to conclude a new lease agreement with the Trustee or when applicable, with any subsequent purchaser of the Sunway Clio Property, on mutually agreed terms and conditions. The failure to enter into the new lease agreement may materially affect the Lessee's financial performance but will not cause any material interruptions to the Lessee's business operations as the Lessee will continue operating Sunway Resort Hotel & Spa and Sunway Pyramid Hotel.

5.2.3 Renewal of CTA

Based on the CTA, the Tenant agrees to take a tenancy of the Multi-storey Car Park for an initial term of 3 years commencing from the day immediately after the Completion Date with an option to renew granted to the Tenant to rent the Multi-storey Car Park for a further 3 years. The option to renew shall be on the same terms and conditions as per the initial term of 3 years of the CTA. However, upon expiry of the subsequent term of the CTA, the Tenant may not be able to conclude a new tenancy agreement with the Trustee or when applicable, with any subsequent purchaser of the Sunway Clio Property, on mutually agreed terms and conditions. The failure to enter into a new tenancy agreement may materially affect the Tenant's financial performance but will not cause any material interruptions to the Tenant's business operations as the Tenant will continue operating the car parks in Sunway Resort Hotel & Spa, Sunway Pyramid Hotel, Menara Sunway and Sunway Pyramid Shopping Mall.

6. EFFECTS OF THE PROPOSALS

6.1 Share capital and substantial shareholders' shareholdings

The Proposals will not have any effect on the issued share capital and substantial shareholders' shareholdings of the Company as the Proposals do not involve any issuance of new securities by the Company.

6.2 Earnings and earnings per share

The estimated net gain on disposal to Sunway Group arising from the Proposed Disposal is approximately RM29.4 million after taking into consideration the net book value of the Sunway Clio Property as at 31 December 2016 of RM293.1 million and the 37.34% effective interest Sunway retains in the Sunway Clio Property after the Proposed Disposal (via its interest in Sunway REIT, held through its wholly-owned subsidiary, Sunway REIT Holdings Sdn. Bhd.). The estimated gain will result in an improvement in the earnings per share of the Company by approximately 1.4 sen based on 2,078.33 million ordinary shares in Sunway ("Sunway Shares") in issue as at the LPD.

The Lessee is expected to incur rental expenses of approximately RM11.0 million per annum for the first 2 Fiscal Years and RM8.2 million for remaining 8 Fiscal Years thereafter pursuant to the HLA. Likewise, the Tenant is also expected to incur rental expenses pursuant to the CTA. However, the impact of the annual rental expenses is expected to be partially offset by the finance expense savings of RM10.9 million per annum arising from the repayment of Sunway Group's existing borrowings from the proceeds of the Proposed Disposal.

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6.3 Net assets (“NA”), NA per share and gearing

For illustrative purposes only, the proforma effects of the Proposals on Sunway Group’s NA, NA per share and gearing as set out below have been illustrated based on the following assumptions:

Minimum Scenario : None of the 43,327,069 outstanding share options under Sunway’s employee share option scheme (“**ESOS Options**”) are exercised into new Sunway Shares prior to the entitlement date for the Proposed Bonus Issue (as defined in note (2)(a), Paragraph 6.3 of this announcement).

Maximum Scenario : All the 43,327,069 ESOS Options are exercised into new Sunway Shares prior to the entitlement date for the Proposed Bonus Issue.

Minimum Scenario

	Audited as at 31 December 2016	After subsequent event adjustment ⁽¹⁾	Proforma I After the Proposed Issuance ⁽²⁾	Proforma II After Proforma I and the Proposals	Proforma III After Proforma II and the full exercise of Warrants ⁽³⁾
	<i>RM’000</i>	<i>RM’000</i>	<i>RM’000</i>	<i>RM’000</i>	<i>RM’000</i>
Share capital	2,063,067	2,114,922	4,861,624	4,861,624	5,899,877
Treasury shares	(120,532)	(57,437)	(57,437)	(57,437)	(57,437)
Share premium	3,118,802	3,119,185	371,853 ⁽⁴⁾	371,853	371,853
Equity contribution	51,654	51,654	51,654	51,654	51,654
Merger reserve	(1,192,040)	(1,192,040)	(1,192,040)	(1,192,040)	(1,192,040)
Reserves	3,548,771	3,391,365	3,391,365	3,420,624 ⁽⁵⁾	3,420,624
Shareholders’ funds	7,469,722	7,427,649	7,427,019	7,456,278	8,494,531
Non-controlling interests	763,508	763,508	763,508	763,508	763,508
Total equity	8,233,230	8,191,157	8,190,527	8,219,786	9,258,039
Number of Sunway Shares in issue (⁶ 000)	2,063,067	2,078,333	4,825,035	4,825,035	5,443,043
NA per share ⁽⁶⁾ (RM)	3.62	3.57	1.54	1.55	1.56
Total borrowings ⁽⁷⁾	7,413,167	7,413,167	7,413,167	7,137,907 ⁽⁸⁾	7,137,907
Gross gearing (times) ⁽⁹⁾	0.99	1.00	1.00	0.96	0.84
Net gearing (times) ⁽¹⁰⁾	0.45	0.45	0.45	0.41	0.24

Notes:

- (1) *Subsequent event comprises the following:*
 - (a) *issuance of 15,265,820 Sunway Shares arising from the exercise of 15,265,820 ESOS Options at the relevant exercise price per Sunway Share from 1 January 2017 up to and including the LPD;*
 - (b) *repurchase of 191,900 Sunway Shares at an average price of RM3.03 per share from 1 January 2017 up to and including the LPD; and*
 - (c) *second single tier interim dividend for the financial year ended 31 December 2016 comprising a cash dividend of 4 sen per Sunway Share and share dividend distribution of 20,295,338 treasury shares. The total estimated dividend payable amounts to approximately RM144.83 million*
- (2) *After incorporating the effects of the following corporate proposals announced by the Company on 14 June 2017 (collectively, the “Proposed Issuance”):*
 - (a) *proposed bonus issue of Sunway Shares on the basis of 4 new Sunway Shares for every 3 existing Sunway Shares held by the shareholders of Sunway on an entitlement date to be determined later (“Proposed Bonus Issue”); and*
 - (b) *proposed bonus issue of free warrants in Sunway (“Warrants”) on the basis of 3 Warrants for every 10 existing Sunway Shares held by the shareholders of Sunway on the same entitlement date as the Proposed Bonus Issue*
- (3) *Based on an illustrative exercise price of RM1.68 per Warrant*
- (4) *After capitalising approximately RM2,746.70 million for the Proposed Bonus Issue and deducting the estimated expenses relating to the Proposed Issuance of approximately RM0.63 million*
- (5) *After deducting the estimated expenses relating to the Proposals of approximately RM0.14 million and including net gain on disposal of RM29.4 million*
- (6) *Computed using the shareholders’ funds divided by the number of Sunway Shares in issue*
- (7) *Total borrowings include the finance leases and hire purchases of Sunway Group*
- (8) *Assuming that the repayment of borrowings of approximately RM275.26 million had been effected on 31 December 2016*
- (9) *Computed using the total borrowings of Sunway Group divided by the shareholders’ fund*
- (10) *Computed using the total borrowings of Sunway Group less cash and cash equivalents divided by the shareholders’ fund*

Maximum Scenario

	Audited as at 31 December 2016	After subsequent event adjustment ⁽¹⁾	After full exercise of outstanding ESOS options ⁽²⁾	Proforma I After the Proposed Issuance ⁽³⁾	Proforma II After Proforma I and the Proposals	Proforma III After Proforma II and the full exercise of Warrants ⁽⁴⁾
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Share capital	2,063,067	2,114,922	2,283,194	5,087,665	5,087,665	6,147,755
Treasury shares	(120,532)	(57,437)	(57,437)	(57,437)	(57,437)	(57,437)
Share premium	3,118,802	3,119,185	3,119,185	314,084 ⁽⁵⁾	314,084	314,084
Equity contribution	51,654	51,654	51,654	51,654	51,654	51,654
Merger reserve	(1,192,040)	(1,192,040)	(1,192,040)	(1,192,040)	(1,192,040)	(1,192,040)
Reserves	3,548,771	3,391,365	3,339,957	3,339,957	3,369,216 ⁽⁶⁾	3,369,216
Shareholders' funds	7,469,722	7,427,649	7,544,513	7,543,883	7,573,142	8,633,232
Non-controlling interests	763,508	763,508	763,508	763,508	763,508	763,508
Total equity	8,233,230	8,191,157	8,308,021	8,307,391	8,336,650	9,396,740
Number of Sunway Shares in issue ('000)	2,063,067	2,078,333	2,121,660	4,926,131	4,926,131	5,557,137
NA per share ⁽⁷⁾ (RM)	3.62	3.57	3.56	1.53	1.54	1.55
Total borrowings ⁽⁸⁾	7,413,167	7,413,167	7,413,167	7,413,167	7,137,907 ⁽⁹⁾	7,137,907
Gross gearing (times) ⁽¹⁰⁾	0.99	1.00	0.98	0.98	0.94	0.83
Net gearing (times) ⁽¹¹⁾	0.45	0.45	0.43	0.43	0.39	0.22

Notes:

(1) *Subsequent event comprises the following:*

- (a) *issuance of 15,265,820 Sunway Shares arising from the exercise of 15,265,820 ESOS Options at the relevant exercise price per Sunway Share from 1 January 2017 up to and including the LPD;*
- (b) *repurchase of 191,900 Sunway Shares at an average price of RM3.03 per share from 1 January 2017 up to and including the LPD; and*
- (c) *second single tier interim dividend for the financial year ended 31 December 2016 comprising a cash dividend of 4 sen per Sunway Share and share dividend distribution of 20,295,338 treasury shares. The total estimated dividend payable amounts to approximately RM144.83 million*

(2) *Assuming all 43,327,069 ESOS Options that are outstanding as at the LPD are fully exercised at their respective exercise price*

(3) *After incorporating the effects of the Proposed Issuance*

- (4) *Based on an illustrative exercise price of RM1.68 per Warrant*
- (5) *After capitalising approximately RM2,804.47 million for the Proposed Bonus Issue and deducting the estimated expenses relating to the Proposed Issuance of approximately RM0.63 million*
- (6) *After deducting the estimated expenses relating to the Proposals of approximately RM0.14 million and including net gain on disposal of RM29.4 million*
- (7) *Computed using the shareholders' funds divided by the number of Sunway Shares in issue*
- (8) *Total borrowings include the finance leases and hire purchases of Sunway Group*
- (9) *Assuming that the repayment of borrowings of approximately RM275.26 million had been effected on 31 December 2016*
- (10) *Computed using the total borrowings of Sunway Group divided by the shareholders' fund*
- (11) *Computed using the total borrowings of Sunway Group less cash and cash equivalents divided by the shareholders' fund*

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7. HIGHEST PERCENTAGE RATIO APPLICABLE TO THE PROPOSALS

The highest percentage ratio applicable to the Proposals is pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Listing Requirements**”), being the aggregate value of the consideration for the Proposals compared with the net assets of Sunway as at 31 December 2016 which amounts to approximately 5.73%.

8. APPROVALS REQUIRED

The Proposals are subject to the following approvals and consents being obtained:

- (i) Consent of the Trustee, which was obtained on 17 January 2017;
- (ii) the approval or no objection from the State Authority for the transfer of the Sunway Clio Property from the Vendor to the Trustee;
- (iii) the unitholders of Sunway REIT for its proposed acquisition of the Sunway Clio Property at its unitholders’ meeting to be convened;
- (iv) the approval or consent of the financiers of the Vendor, if required; and
- (v) any other relevant authority and/or party, if required.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the directors, major shareholders or persons connected with them has any interest, whether direct or indirect, in the Proposals.

Further, the Board wishes to highlight that Sarena Cheah Yean Tih (“**Sarena Cheah**”) is a director of Sunway and the Manager. However, Sarena Cheah does not have any direct interest in the Vendor, the Lessee, the Tenant, the Manager and Sunway REIT (save for her indirect interest in Sunway REIT via Sunway and Tan Sri Dato’ Seri Dr Jeffrey Cheah Fook Ling’s direct interest in Sunway REIT of less than 5%). As such, pursuant to paragraph 10.08(11)(c) of the Listing Requirements, the common directorship of Sarena Cheah in Sunway and the Manager does not render the Proposals as related party transactions.

Premised on the above, none of the directors of Sunway, major shareholders of Sunway or persons connected with them has any interest, whether direct or indirect, in the Proposals.

10. STATEMENT BY THE BOARD

The Board, after having considered the rationale and all aspects of the Proposals, and after careful deliberation, is of the opinion that the Proposals are in the best interest of the Company and its shareholders.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all approvals/consents being obtained, the Proposals are expected to be completed in the fourth quarter of 2017.

12. DOCUMENTS AVAILABLE FOR INSPECTION

The SPA, HLA, CTA, Deed of Undertaking and the Valuation Certificate are available for inspection at the registered office of the Company at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan during normal business hours from Mondays to Fridays (except public holidays) for a period of three months from the date of this announcement.

This announcement is dated 3 August 2017.