

SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2018 (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	First Quarter ended			Cumulative Quarter ended		
	30.09.2018	30.09.2017	Change	30.09.2018	30.09.2017	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Rental income	135,611	137,704	-1.5%	135,611	137,704	-1.5%
Other operating income	8,130	3,465	> 100%	8,130	3,465	> 100%
<b>Gross revenue</b>	<b>143,741</b>	<b>141,169</b>	<b>1.8%</b>	<b>143,741</b>	<b>141,169</b>	<b>1.8%</b>
Quit rent, assessment and insurance	(3,389)	(3,723)	-9.0%	(3,389)	(3,723)	-9.0%
Other property operating expenses	(29,838)	(26,460)	12.8%	(29,838)	(26,460)	12.8%
<b>Property operating expenses</b>	<b>(33,227)</b>	<b>(30,183)</b>	<b>10.1%</b>	<b>(33,227)</b>	<b>(30,183)</b>	<b>10.1%</b>
<b>Net property income</b>	<b>110,514</b>	<b>110,986</b>	<b>-0.4%</b>	<b>110,514</b>	<b>110,986</b>	<b>-0.4%</b>
Interest income	2,194	1,135	93.3%	2,194	1,135	93.3%
Other income	25	491	> -100%	25	491	> -100%
<b>Net investment income</b>	<b>112,733</b>	<b>112,612</b>	<b>0.1%</b>	<b>112,733</b>	<b>112,612</b>	<b>0.1%</b>
Manager's fee	(9,020)	(8,644)	4.3%	(9,020)	(8,644)	4.3%
Trustee's fee	(166)	(321)	-48.3%	(166)	(321)	-48.3%
Other trust expenses	(909)	(265)	> 100%	(909)	(265)	> 100%
Finance costs	(29,629)	(24,153)	22.7%	(29,629)	(24,153)	22.7%
	(39,724)	(33,383)	19.0%	(39,724)	(33,383)	19.0%
<b>Profit before tax</b>	<b>73,009</b>	<b>79,229</b>	<b>-7.9%</b>	<b>73,009</b>	<b>79,229</b>	<b>-7.9%</b>
Income tax expense	-	-	-	-	-	-
<b>Profit for the period</b>	<b>73,009</b>	<b>79,229</b>	<b>-7.9%</b>	<b>73,009</b>	<b>79,229</b>	<b>-7.9%</b>
<b>Profit for the period comprise the following:</b>						
Realised	72,984	78,736	-7.3%	72,984	78,736	-7.3%
Unrealised	25	493	-94.9%	25	493	-94.9%
	73,009	79,229	-7.9%	73,009	79,229	-7.9%
Earnings per unit (sen)						
- realised	2.48	2.67	-7.1%	2.48	2.67	-7.1%
- unrealised	-	0.02	N/A	-	0.02	N/A
	2.48	2.69	-7.8%	2.48	2.69	-7.8%
Proposed/declared distribution per unit (sen)	2.48	2.67	-7.1%	2.48	2.67	-7.1%

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	First Quarter ended			Cumulative Quarter ended		
	30.09.2018	30.09.2017	Change	30.09.2018	30.09.2017	Change
	RM'000	RM'000	%	RM'000	RM'000	%
<b>Profit for the period</b>	<b>73,009</b>	<b>79,229</b>	<b>-7.9%</b>	<b>73,009</b>	<b>79,229</b>	<b>-7.9%</b>
<b>Other comprehensive income</b>						
Cash flow hedge - fair value of derivative <sup>1</sup>	9,221	(7,662)	> 100%	9,221	(7,662)	> 100%
Cash flow hedge reserve recycled to profit or loss <sup>2</sup>	(9,150)	7,200	> -100%	(9,150)	7,200	> -100%
<b>Total comprehensive income for the period</b>	<b>73,080</b>	<b>78,767</b>	<b>-7.2%</b>	<b>73,080</b>	<b>78,767</b>	<b>-7.2%</b>

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

<sup>2</sup> Please refer to Note A16 for details.

STATEMENT OF INCOME DISTRIBUTION

	First Quarter ended			Cumulative Quarter ended		
	30.09.2018	30.09.2017	Change	30.09.2018	30.09.2017	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Rental income	135,611	137,704	-1.5%	135,611	137,704	-1.5%
Interest income	2,194	1,135	93.3%	2,194	1,135	93.3%
Other income *	8,130	3,463	> 100%	8,130	3,463	> 100%
	145,935	142,302	2.6%	145,935	142,302	2.6%
Less: Expenses	(72,951)	(63,566)	14.8%	(72,951)	(63,566)	14.8%
Realised income for the period	72,984	78,736	-7.3%	72,984	78,736	-7.3%
Previous period/year's undistributed realised income	550	447	23.0%	550	447	23.0%
Total realised income available for distribution	73,534	79,183	-7.1%	73,534	79,183	-7.1%
Less: Proposed/declared income distribution	(73,038)	(78,634)	-7.1%	(73,038)	(78,634)	-7.1%
Balance undistributed realised income	496	549	-9.7%	496	549	-9.7%
Distribution per unit (sen)	2.48	2.67	-7.1%	2.48	2.67	-7.1%

\* Included in other income above is other operating income

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 2018 (UNAUDITED)**

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

	CURRENT	IMMEDIATE	Change
	QUARTER	PRECEDING	
	30.09.2018	30.06.2018	
	RM'000	RM'000	%
Rental income	135,611	133,695	1.4%
Other operating income	8,130	2,557	> 100%
<b>Gross revenue</b>	<b>143,741</b>	<b>136,252</b>	<b>5.5%</b>
Quit rent, assessment and insurance	(3,389)	(3,736)	-9.3%
Other property operating expenses	(29,838)	(32,242)	-7.5%
<b>Property operating expenses</b>	<b>(33,227)</b>	<b>(35,978)</b>	<b>-7.6%</b>
<b>Net property income</b>	<b>110,514</b>	<b>100,274</b>	<b>10.2%</b>
Interest income	2,194	1,833	19.7%
Other income	25	101	> -100%
Change in fair value of investment properties	-	144,701	N/A
<b>Net investment income</b>	<b>112,733</b>	<b>246,909</b>	<b>-54.3%</b>
Manager's fee	(9,020)	(8,637)	4.4%
Trustee's fee	(166)	(17)	> 100%
Other trust expenses	(909)	(1,137)	-20.0%
Finance costs	(29,629)	(29,005)	2.2%
	(39,724)	(38,796)	2.4%
<b>Profit before tax</b>	<b>73,009</b>	<b>208,113</b>	<b>-64.9%</b>
Income tax expense	-	(1,000)	N/A
<b>Profit for the period</b>	<b>73,009</b>	<b>207,113</b>	<b>-64.7%</b>
<b>Profit for the period comprise the following:</b>			
Realised	72,984	63,314	15.3%
Unrealised	25	143,799	> -100%
	73,009	207,113	-64.7%
Earnings per unit (sen)			
- realised	2.48	2.15	15.3%
- unrealised	-	4.89	N/A
	2.48	7.04	-64.8%
Proposed/declared distribution per unit (sen)	2.48	2.15	15.3%

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
	30.09.2018	30.06.2018	
	RM'000	RM'000	%
<b>Profit for the period</b>	<b>73,009</b>	<b>207,113</b>	<b>&gt; -100%</b>
<b>Other comprehensive income</b>			
Cash flow hedge - fair value of derivative	9,221	17,682	-47.9%
Cash flow hedge reserve recycled to profit or loss	(9,150)	(17,450)	-47.6%
<b>Total comprehensive income for the period</b>	<b>73,080</b>	<b>207,345</b>	<b>-64.8%</b>

**STATEMENT OF INCOME DISTRIBUTION**

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER	Change
	30.09.2018	30.06.2018	
	RM'000	RM'000	%
Rental income	135,611	133,695	1.4%
Interest income	2,194	1,833	19.7%
Other income *	8,130	2,560	> 100%
	145,935	138,088	5.7%
Less: Expenses	(72,951)	(74,774)	-2.4%
Realised income for the period	72,984	63,314	15.3%
Previous period's undistributed realised income	550	555	-0.9%
Total realised income available for distribution	73,534	63,869	15.1%
Less: Proposed/declared income distribution	(73,038)	(63,319)	15.3%
Balance undistributed realised income	496	550	-9.9%
Distribution per unit (sen)	2.48	2.15	15.3%

\* Included in other income above is other operating income

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 2018 (UNAUDITED)**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<b>As At 30.09.2018 (Unaudited)</b>	<b>As At 30.06.2018 (Audited)</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment properties	7,300,440	7,280,225
Plant and equipment	13,606	13,591
	<u>7,314,046</u>	<u>7,293,816</u>
<b>Current assets</b>		
Trade receivables	20,197	21,423
Other receivables	18,044	10,669
Derivatives	9,138	10,766
Short term investment	119,667	129,625
Cash and bank balances	61,447	57,559
	<u>228,493</u>	<u>230,042</u>
	<u>7,542,539</u>	<u>7,523,858</u>
<b>FINANCED BY:</b>		
<b>Unitholders' funds</b>		
Unitholders' capital	2,727,829	2,727,829
Undistributed income	1,635,168	1,625,407
Total Unitholders' funds	<u>4,362,997</u>	<u>4,353,236</u>
<b>Non-current liabilities</b>		
Borrowings	-	299,750
Long term liabilities	68,726	77,519
Deferred tax liability	6,896	6,896
	<u>75,622</u>	<u>384,165</u>
<b>Current liabilities</b>		
Borrowings	2,913,650	2,602,750
Trade payables	2,497	2,096
Other payables	187,750	181,583
Derivatives	23	28
	<u>3,103,920</u>	<u>2,786,457</u>
	<u>7,542,539</u>	<u>7,523,858</u>
Number of units in circulation ('000 units)	2,945,078	2,945,078
<b>NET ASSET VALUE ("NAV")</b>		
- Before income distribution	4,362,997	4,353,236
- After income distribution	4,289,959	4,289,917
<b>NET ASSET VALUE PER UNIT (RM)</b>		
- Before income distribution <sup>1</sup>	1.4815	1.4781
- After income distribution <sup>2</sup>	1.4567	1.4566

<sup>1</sup> Before the 1Q2019 proposed income distribution of 2.48 sen per unit (4Q2018: 2.15 sen per unit).

<sup>2</sup> After the 1Q2019 proposed income distribution of 2.48 sen per unit (4Q2018: 2.15 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 2018 (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 2018</b>	2,727,829	(3,743)	1,629,150	4,353,236
<b>Total comprehensive income</b>				
Profit for the period	-	72,984	25	73,009
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	9,221	9,221
- Cash flow hedge reserve recycled to profit or loss	-	-	(9,150)	(9,150)
Total comprehensive income, representing the increase in net assets resulting from operations	2,727,829	69,241	1,629,246	4,426,316
<b>Unitholders' transactions</b>				
Distribution to unitholders				
- Income distribution proposed in prior year but paid in current period	-	(63,319)	-	(63,319)
Decrease in net assets resulting from unitholders' transactions	-	(63,319)	-	(63,319)
<b>As at 30 September 2018 (Unaudited)</b>	2,727,829	5,922	1,629,246	4,362,997

	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 year	-	281,947	145,744	427,691
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	(29,497)	(29,497)
- Cash flow hedge reserve recycled to profit or loss	-	-	28,700	28,700
Total comprehensive income, representing the increase in net assets resulting from operations	2,727,829	281,635	1,629,150	4,638,614
<b>Unitholders' transactions</b>				
Distribution to unitholders				
- Income distribution declared and paid in current year	-	(218,525)	-	(218,525)
- Income distribution proposed in prior year but paid in current year	-	(66,853)	-	(66,853)
Decrease in net assets resulting from unitholders' transactions	-	(285,378)	-	(285,378)
<b>As at 30 June 2018 (Audited)</b>	2,727,829	(3,743)	1,629,150	4,353,236

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 2018 (UNAUDITED)**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Cumulative Quarter ended</b>	
	<b>30.09.2018</b>	<b>30.09.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	149,722	151,767
Refundable security deposits from customers	1,596	318
Cash paid for operating expenses	(63,046)	(67,974)
Net cash from operating activities	<u>88,272</u>	<u>84,111</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of plant and equipment	(374)	(153)
Deposit for acquisition of investment property	-	(34,000)
Acquisition of investment properties	-	(82,350)
Incidental costs on acquisition of investment properties	-	(1,140)
Subsequent expenditure of investment properties	(14,214)	(6,309)
Expenditure of investment property under construction	(6,795)	-
Investment in short term money market instrument	(345,000)	(112,000)
Redemption of short term money market instrument	355,000	-
Interest received	1,880	1,457
Net cash used in investing activities	<u>(9,503)</u>	<u>(234,495)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of commercial papers	301,000	185,600
Drawdown of revolving loans	4,302,500	2,939,200
Repayment of commercial papers	(301,000)	(149,000)
Repayment of unrated medium term notes	(300,000)	-
Repayment of revolving loans	(3,989,900)	(2,790,200)
Interest paid	(24,162)	(23,227)
Distribution paid	(63,319)	(66,853)
Net cash (used in)/from financing activities	<u>(74,881)</u>	<u>95,520</u>
Net increase/(decrease) in cash and bank balances	3,888	(54,864)
Cash and bank balances at beginning of year	57,559	100,544
Cash and bank balances at end of period	<u>61,447</u>	<u>45,680</u>
Cash and bank balances at end of period comprise:		
Cash on hand and at banks	26,147	40,680
Deposits placed with licensed financial institutions	35,300	5,000
Cash and bank balances	<u>61,447</u>	<u>45,680</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 2018 (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 deeds dated 10 June 2010 and 18 September 2018 (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 2018 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 Listed Real Estate Investment Trusts ("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 2018 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 2018 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 preceding financial year ended 30 June 2018.

**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 2018.

**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 2018, except as disclosed in Note A16.

**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 2018.



**SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2018 (UNAUDITED)**

**A8. Segmental Reporting**

Segmental results for the quarter ended 30 September 2018 are as follows:

	First Quarter ended 30.09.2018					First Quarter ended 30.09.2017				
	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>										
REVENUE AND EXPENSES										
Gross revenue	104,941	22,567	9,073	7,160	143,741	103,559	23,085	8,032	6,493	141,169
Net property income	77,710	20,520	5,124	7,160	110,514	78,290	22,151	4,052	6,493	110,986
Interest income					2,194					1,135
Other income					25					491
Trust and other expenses					(10,095)					(9,230)
Finance costs					(29,629)					(24,153)
Profit before tax					73,009					79,229
Income tax expense					-					-
Profit for the period					73,009					79,229

**SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2018 (UNAUDITED)**

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

Segmental assets and liabilities as at 30 September 2018 and 30 June 2018 are as follows:

	As at 30.09.2018					As at 30.06.2018				
	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	4,718,359	1,726,764	480,173	433,920	7,359,216	4,699,399	1,719,715	476,318	433,920	7,329,352
Unallocated assets					183,323					194,506
Total assets					7,542,539					7,523,858
LIABILITIES										
Segment liabilities	199,240	23,569	10,742	-	233,551	202,721	26,135	10,730	-	239,586
Unallocated liabilities					2,945,991					2,931,036
Total liabilities					3,179,542					3,170,622

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

By property

Properties	Gross Revenue			Net Property Income		
	First/Cumulative Quarter			First/Cumulative Quarter		
	30.09.2018	30.09.2017	Change	30.09.2018	30.09.2017	Change
	RM'000	RM'000	%	RM'000	RM'000	%
<b>Retail</b>						
Sunway Pyramid Shopping Mall	80,329	77,183	4.1%	64,168	62,123	3.3%
Sunway Carnival Shopping Mall	11,294	11,865	-4.8%	6,812	8,168	-16.6%
SunCity Ipoh Hypermarket	1,100	1,121	-1.9%	1,050	1,068	-1.7%
Sunway Putra Mall	12,218	13,390	-8.8%	5,680	6,931	-18.0%
	104,941	103,559	1.3%	77,710	78,290	-0.7%
<b>Hotel</b>						
Sunway Resort Hotel & Spa	4,027	11,467	-64.9%	3,663	11,078	-66.9%
Sunway Pyramid Hotel	4,542	4,511	0.7%	4,324	4,396	-1.6%
Sunway Hotel Seberang Jaya	745	727	2.5%	698	681	2.5%
Sunway Putra Hotel	3,343	4,797	-30.3%	2,977	4,458	-33.2%
Sunway Hotel Georgetown	1,453	1,583	-8.2%	1,401	1,538	-8.9%
Sunway Clio Property <sup>1</sup>	8,457	-	N/A	7,457	-	N/A
	22,567	23,085	-2.2%	20,520	22,151	-7.4%
<b>Office</b>						
Menara Sunway	4,243	4,228	0.4%	2,872	2,784	3.2%
Sunway Tower	749	838	-10.6%	93	(190)	> 100%
Sunway Putra Tower	2,759	1,453	89.9%	1,604	605	> 100%
Wisma Sunway	1,322	1,513	-12.6%	555	853	-34.9%
	9,073	8,032	13.0%	5,124	4,052	26.5%
<b>Others</b>						
Sunway Medical Centre	5,760	5,565	3.5%	5,760	5,565	3.5%
Sunway REIT Industrial - Shah Alam 1 <sup>2</sup>	1,400	928	50.9%	1,400	928	50.9%
	7,160	6,493	10.3%	7,160	6,493	10.3%
<b>TOTAL PORTFOLIO</b>	<b>143,741</b>	<b>141,169</b>	<b>1.8%</b>	<b>110,514</b>	<b>110,986</b>	<b>-0.4%</b>

<sup>1</sup> Acquired on 9 February 2018

<sup>2</sup> Acquired on 1 August 2017

N/A - Not applicable

**SUNWAY REAL ESTATE INVESTMENT TRUST  
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2018 (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 recorded gross revenue of RM104.9 million for the current quarter ended 30 September 2018 (1Q2019), an increase of 1.3% or RM1.4 million compared to the preceding year corresponding quarter (1Q2018), mainly contributed by Sunway Pyramid Shopping Mall but partially offset by the other malls.

Sunway Pyramid Shopping Mall registered higher gross revenue by RM3.1 million for 1Q2019 mainly due to higher average gross rent per sq. ft. mainly contributed by better turnover rent in the current quarter.

Gross revenue for Sunway Carnival Shopping Mall was lower in the current quarter by RM0.6 million compared to the preceding year corresponding quarter mainly due to lower other income whilst the lower gross revenue for Sunway Putra Mall by RM1.2 million was mainly due to lower average gross rent per sq. ft. attributable to attractive rental packages offered on a selective basis as a strategy to maintain vibrancy of the mall.

Property operating expenses of the retail segment for 1Q2019 was RM27.2 million, an increase of 7.8% or RM2.0 million mainly attributable to higher fit-out cost and maintenance expenses.

Correspondingly, net property income of the retail segment for 1Q2019 stood at RM77.7 million, lower by 0.7% or RM0.6 million compared to 1Q2018.

Hotel segment

Gross revenue for the hotel segment for 1Q2019 was RM22.6 million, lower by 2.2% or RM0.5 million compared to 1Q2018 with an overall average occupancy of 75% (1Q2018: 81%) due to the soft market condition within the hospitality industry.

The cluster hotels in Sunway City (Sunway Resort Hotel & Spa, Sunway Pyramid Hotel and Sunway Clio Property) contributed gross revenue of RM17.0 million in the current quarter, which includes a provision for partial income support<sup>1</sup> of RM4.4 million for Sunway Clio Property. The new contribution from Sunway Clio Property in 1Q2019 was largely offset by lower rental from Sunway Resort Hotel & Spa due to disruption in income from the closure of the grand ballroom, meeting and function rooms for refurbishment, whilst Sunway Pyramid Hotel maintained its gross revenue of RM4.5 million.

Sunway Putra Hotel recorded gross revenue of RM3.3 million for 1Q2019, lower by RM1.5 million primarily due to higher average occupancy rate in the preceding year corresponding quarter on the back of one-off contribution from the SEA Games and ASEAN Para Games held in August and September 2017 respectively.

Sunway Hotel Seberang Jaya maintained gross revenue of RM0.7 million and Sunway Hotel Georgetown reported marginally lower gross revenue by RM0.1 million for the same period.

Net property income of the hotel segment for 1Q2019 stood at RM20.5 million, lower by RM1.6 million as compared to 1Q2018, for reasons similar to the above.

Note 1: 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.

Note 2: The gross revenue and net property income of Sunway Clio Property includes the contribution from the retail component in addition to the hotel lease rental income.

<sup>1</sup> Estimated based on the difference between total annual net property income and guaranteed net property income of RM20.23 million.

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

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

#### Office segment

The office segment recorded gross revenue of RM9.1 million for 1Q2019, an increase of 13.0% or RM1.0 million compared to the preceding year corresponding quarter, mainly contributed by improved performance from Sunway Putra Tower.

Sunway Putra Tower registered higher gross revenue of RM1.3 million on the back of higher average occupancy following commencement of new tenancies.

Gross revenue for Sunway Tower and Wisma Sunway were lower by RM0.1 million and RM0.2 million respectively for 1Q2019 due to non-renewal of tenants and in addition for Wisma Sunway, also attributable to downsizing of a tenant in 4Q2017. However, the average occupancy rate for Wisma Sunway is expected to improve in the current financial year with the expansion of an existing tenant requiring additional space.

Gross revenue for Menara Sunway was maintained at RM4.2 million in the current quarter.

Net property income of the office segment in 1Q2019 was RM5.1 million, higher by RM1.1 million compared to the preceding year corresponding quarter.

#### Others

Gross revenue and net property income for the others segment increased by 10.3% or RM0.7 million in 1Q2019 compared to the preceding year corresponding quarter mainly attributable to the full quarter contribution from Sunway REIT Industrial - Shah Alam 1 of RM1.4 million (acquisition completed on 1 August 2017).

Sunway Medical Centre contributed RM5.8 million to revenue and net property income for 1Q2019, an increase of 3.5% compared to 1Q2018 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 2018.

#### Profit before tax

Interest income for 1Q2019 increased by RM1.1 million compared to 1Q2018 mainly contributed by higher investment in money market instrument compared to the preceding year corresponding quarter.

Other trust expenses for 1Q2019 was higher by RM0.6 million in 1Q2019 mainly due to allocation of legal fees for Sunway Putra's litigation cases and for debt facilities.

Trustee fee was lower in the current quarter as explained in Note B9.

Finance costs for 1Q2019 was RM29.6 million, higher by 22.7% or RM5.5 million compared to 1Q2018 due to a higher principal loan amount mainly to fund investing activities, as described in Note B1c), and higher average cost of debt following the increase in overnight policy rate by 25bps on 25 January 2018.

Net profit for 1Q2019 was RM73.0 million (1Q2018: RM79.2 million) mainly comprising realised profit of RM73.0 million (1Q2018: realised profit of RM78.7 million and unrealised profit of RM0.5 million).

The realised profit was lower by RM5.7 million in the current quarter compared to 1Q2018 mainly due to higher finance costs.

The unrealised profit in 1Q2019 was lower by RM0.5 million compared to the preceding year corresponding quarter mainly attributable to lower fair value gain from interest rate swap.

## **A9. Seasonality of Operations**

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

#### A10. Profit Before Tax

Included in the profit before tax are the following items:

	First Quarter ended		Cumulative Quarter ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Interest income	(2,194)	(1,135)	(2,194)	(1,135)
Net changes in fair value of long term liabilities	(20)	(18)	(20)	(18)
Unrealised foreign exchange gain - hedged item	(1,700)	(7,200)	(1,700)	(7,200)
Cash flow hedge reserve recycled to profit or loss	1,700	7,200	1,700	7,200
Net changes in fair value of derivative financial instrument	(5)	(475)	(5)	(475)
Allowance of impairment on trade receivables	499	460	499	460
Depreciation of plant and equipment	456	404	456	404

#### 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 2019.

##### 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 2018, the Manager proposed an interim income distribution of approximately 100% of the realised distributable income amounting to RM73.038 million or 2.48 sen per unit, comprising taxable and non-taxable/tax exempt amount of 1.98 sen per unit and 0.50 sen per unit respectively.

The book closure and payment dates in respect of the proposed interim income distribution will be fixed on 19 November 2018 and 4 December 2018 respectively.

### A13. Investment properties

	<b>As at 30.09.2018 RM'000</b>	<b>As at 30.06.2018 RM'000</b>
Investment properties	7,266,356	7,253,000
Investment property under construction	34,084	27,225
	<u>7,300,440</u>	<u>7,280,225</u>

Investment property under construction relates to the property development activities for the expansion of Sunway Carnival Shopping Mall which includes the land cost of RM17.2 million and the property development costs incurred to-date of RM16.9 million. The on-going piling works is expected to be completed by 2Q2019.

### A14. Valuation of Investment properties

Investment properties are valued by independent registered valuers, C H Williams Talhar & Wong Sdn Bhd. and Knight Frank Malaysia 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.

### A15. Trade receivables

	<b>As at 30.09.2018 RM'000</b>	<b>As at 30.06.2018 RM'000</b>
Third parties	19,965	15,785
Amount due from parties related to the Manager	2,970	7,909
	<u>22,935</u>	<u>23,694</u>
Less: Allowance for impairment	(2,738)	(2,271)
Total trade receivables	<u>20,197</u>	<u>21,423</u>

Trade receivables, before allowance for impairment, reduced by RM0.8 million as at 30 September 2018 mainly attributable to lower lease rental from Sunway Resort Hotel & Spa, as explained in Note A8a), but partially offset by timing of receipts for the retail segment.

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

	<b>As at 30.09.2018 RM'000</b>	<b>As at 30.06.2018 RM'000</b>
Neither past due nor impaired	6,253	6,625
Past due but not impaired		
1 to 30 days	4,357	5,699
31 to 60 days	3,318	3,654
61 to 90 days	1,655	1,668
91 to 120 days	1,162	145
More than 120 days	3,452	3,632
	<u>13,944</u>	<u>14,798</u>
Impaired	2,738	2,271
	<u>22,935</u>	<u>23,694</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 30.09.2018 RM'000</b>	<b>As at 30.06.2018 RM'000</b>
At beginning of financial year	2,271	1,485
Charge for the period/year	499	900
Written off	(32)	(114)
At end of financial period/year	<u>2,738</u>	<u>2,271</u>

## A16. Borrowings and Debt Securities

	As at 30.09.2018 RM'000	As at 30.09.2017 RM'000
<u>Short term borrowings</u>		
Secured		
- Commercial papers	-	70,600
- Revolving loan (USD100 million)	413,650	-
- Term loan (USD100 million)	-	422,200
- Unrated medium term notes	1,000,000	1,000,000
	<hr/> 1,413,650	<hr/> 1,492,800
Unsecured		
- Revolving loan	1,500,000	1,029,400
Total gross short term borrowings	<hr/> 2,913,650	<hr/> 2,522,200
Less: Discount on commercial papers	-	(149)
Total short term borrowings	<hr/> <hr/> 2,913,650	<hr/> <hr/> 2,522,051

In February 2018, a secured 1-year revolving loan of USD100 million (equivalent to RM392.9 million) was used to refinance the USD100 million term loan (equivalent to RM422.0 million) upon its maturity and is hedged with a 6-month cross currency swap ("CCS") contract to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation.

A new 6-month CCS contract was used to refinance the above CCS contract upon its maturity in July 2018 with a corresponding update to the USD100 million revolving loan (equivalent to RM404.5 million).

The above USD100 million revolving loan was translated at an exchange rate of 4.1365 as at 30 September 2018 (30.09.2017 : USD100 million term loan at an exchange rate of 4.2220).

Hence, the unrealised foreign exchange loss arising from this translation amounted to RM9.2 million (30.09.2017: cumulative unrealised foreign exchange loss of RM0.2 million). The unrealised foreign exchange loss reflected in the statement of comprehensive income for 1Q2019 was RM9.2 million (1Q2018: unrealised foreign exchange gain of RM7.2 million).

Total borrowings stood at RM2.9 billion as at 30 September 2018, all due within 1 year and disclosed as short-term, with the drawdown of RM312.6 million revolving loan during the current quarter mainly for repayment of RM300 million unrated medium term notes.

The increase in total borrowings by RM0.4 billion from 30 September 2017 to RM2.9 billion as at 30 September 2018 was mainly for the purpose of funding investing activities.

The weighted average interest rate of borrowings as at 30 September 2018 was 4.03% (30.09.2017: 3.94%) and the percentage proportion of debt that is based on fixed interest rate and floating interest rate was 54:46 (30.09.2017 - 82:18).



### A17. 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</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At 30 September 2018</b>				
<b>Financial assets</b>				
Investment properties	-	-	7,300,440	7,300,440
Derivatives	-	9,138	-	9,138
<hr/>				
<b>Financial liability</b>				
Derivatives	-	(23)	-	(23)
<hr/>				
<b>At 30 September 2017</b>				
<b>Financial assets</b>				
Investment properties	-	-	6,786,281	6,786,281
Derivatives	-	451	-	451
<hr/>				
<b>Financial liability</b>				
Derivatives	-	(1,531)	-	(1,531)
<hr/>				

No transfers between any levels of the fair value hierarchy took place during the current financial period and the preceding financial period.

### A18. Material Events

There were no material events since the end of the last annual reporting period.

### A19. Material Events Subsequent to the end of the Current Quarter

There were no material events subsequent to the quarter ended 30 September 2018.

### A20. Capital Commitments

The amount of commitments for investment properties not provided for in the unaudited condensed consolidated interim financial statements as at 30 September 2018 were as follows:

	<b>As at</b>
	<b>30.09.2018</b>
	<b>RM'000</b>
Approved and contracted for	345,994
Approved but not contracted for	213,512
	<hr/>
	559,506
	<hr/>

The capital commitment approved and contracted for mainly relates to the expansion of Sunway Carnival Shopping Mall and Sunway Resort Hotel & Spa's refurbishment activities for the grand ballroom, meeting and function room facilities.

The capital commitment approved but not contracted for mainly relates to future refurbishment of the existing Sunway Carnival Shopping Mall.

**A21. Contingent Liabilities and Assets**

There were no contingent liabilities or contingent assets as at 30 September 2018.

**A22. 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 2018 and 30 September 2017 as well as the balances with the parties related to the Manager as at 30 September 2018 and 30 June 2018:

	First Quarter ended		Cumulative Quarter ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<u>(Sales to)/purchases from parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Sales	(32,876)	(39,688)	(32,876)	(39,688)
- Purchases	35,499	15,890	35,499	15,890
(b) Sunway Technology Sdn. Bhd. Group ("STSB Group")				
- Sales	(139)	(137)	(139)	(137)
- Purchases	(83)	-	(83)	-
<u>Other transactions with parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Subscription of commercial paper	120,000	112,000	120,000	112,000
- Acquisition of investment property	-	34,000	-	34,000

Subscription to the 1-month commercial paper during the quarter, with nominal value of RM120 million (1Q2018: RM112 million), was issued by Sunway Berhad, a substantial unitholder of SunREIT. The rationale for this investment in money market instrument was that it offered the most competitive discount rate in line with SunREIT's active capital management strategy.

The deposit for acquisition of investment property for the period ended 30 September 2017 relates to the proposed acquisition of Sunway Clio Property and is based on 10% of the purchase consideration.

	As at 30.09.2018 RM'000	As at 30.06.2018 RM'000
<u>Amount owed by parties related to the Manager:</u>		
(a) Sunway Berhad Group	4,001	10,286
<u>Amount owed to parties related to the Manager:</u>		
(a) Sunway Berhad Group	24,966	24,494

**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 by RM20.2 million as at 30 September 2018 largely attributed to the ongoing works for the refurbishment of grand ballroom, meeting and function rooms of Sunway Resort Hotel & Spa and the expansion of Sunway Carnival Shopping Mall.

The decrease in trade receivables by RM1.2 million from the last financial year-end to 30 September 2018 is explained in Note A15.

Other receivables as at 30 September 2018 was RM18.0 million, higher by RM7.4 million compared to 30 June 2018, mainly due to a provision for partial income support of RM4.4 million for Sunway Clio Property and goods and service tax ("GST") refundable of RM2.6 million.

Short term investment as at 30 September 2018 relates to an investment in money market instrument comprising 1-month commercial paper (CP) issued by Sunway Berhad (nominal value of RM120.0 million, as disclosed in Note A22 above, less discount on CP of RM0.3 million).

Total borrowings was higher by RM11.1 million as at 30 September 2018 mainly due to refinancing of the 6-month cross currency swap ("CCS") contract of RM392.9 million, in relation to the USD100 million revolving loan, with a new 6-month CCS contract of RM404.5 million upon its maturity in July 2018.

The movements in derivatives is explained in Note B15.

Total net asset value as at 30 September 2018 was RM4,363.0 million, higher by RM9.8 million in the undistributed income as compared to the last financial year, which comprised unrealised income of RM0.1 million and net realised income of RM9.7 million. The net realised income was mainly due to the higher realised profit for 1Q2019 of RM73.0 million less the timing difference of 4Q2018 proposed income distribution of RM63.3 million, which was only distributed out of realised income in the current quarter.

Correspondingly, net asset value per unit as at 30 September 2018, before proposed/declared income distribution for the current quarter, stood at RM1.4815 compared to RM1.4781 as at 30 June 2018.

**c) Statement of Cash Flows**

Net cash from operating activities for 1Q2019 was RM88.3 million, higher by RM4.2 million compared to 1Q2018, mainly due to timing of payment of operating expenses.

During the financial year, RM9.5 million was used for investing activities mainly related to the refurbishment of Sunway Resort Hotel & Spa's grand ballroom, meeting and function rooms and expansion of Sunway Carnival Shopping Mall but partially offset by net redemption in money market instrument. In the preceding year, net cash used for investing activities was RM234.5 million mainly related to the acquisition of Sunway REIT Industrial - Shah Alam 1 and Sunway Clio Property as well as investment in money market instrument.

The net increase in drawdown of borrowings of RM12.6 million for 1Q2019 was primarily attributable to the refinancing of the 6-month CCS contract in relation to the USD100 million revolving loan, as explained in b) above, compared to RM185.6 million additional borrowings drawn in 1Q2018 to fund investing activities.

Interest paid in the current quarter was RM24.2 million (1Q2018: RM23.2 million), an increase of RM0.9 million, in line with the higher outstanding borrowings and higher average cost of debt.

Distribution paid in 1Q2019 was RM63.3 million compared to RM66.9 million in 1Q2018.

The cash and cash equivalents balance as at 30 September 2018 was RM61.4 million, higher by RM15.8 million from RM45.6 million as at 30 September 2018 mainly due to lower net cash used in investing activities as explained above.

## B2. Maintenance Costs and Major Capital Expenditure

There was no unusual nor material maintenance costs during the quarter under review. Sunway REIT incurred capital expenditure of RM20.2 million for 1Q2019, of which approximately RM6.9 million relates to the property development costs incurred for the expansion of Sunway Carnival Shopping Mall, details as disclosed in Note A13.

## B3. Material Changes in Quarterly Results

	<b>Current Quarter Ended 30.09.2018 RM'000</b>	<b>Immediate Preceding Quarter Ended 30.06.2018 RM'000</b>	<b>Change %</b>
Realised profit	72,984	63,314	15.3%
Unrealised profit	25	143,799	> -100%
Profit for the quarter	<u>73,009</u>	<u>207,113</u>	<u>&gt; -100%</u>

Realised profit for 1Q2019 was RM73.0 million, an increase of RM9.7 million compared to the immediate preceding quarter (4Q2018) of RM63.3 million, mainly due to higher contribution from the retail and hotel segment by RM7.0 million and RM3.5 million respectively, but partially offset by higher finance costs of RM0.6 million.

The increase in contribution for the retail segment was mainly attributable to the tax holiday period and over-provision of operating expenses during the current quarter. The higher contribution from the hotel segment was mainly due to RM4.4 million provision for partial income support relating to Sunway Clio Property but partially offset by the disruption in income for Sunway Resort Hotel & Spa due to closure of the grand ballroom, meeting and function rooms for refurbishment.

Unrealised profit for the current quarter was mainly contributed by changes in fair value of long term liabilities whilst unrealised profit for the immediate preceding quarter of RM143.8 million was largely due to the gain from the annual revaluation of investment properties of RM144.7 million.

## B4. Commentary on Prospects

Global growth has become less rigorous and less synchronised. In the latest World Economic Outlook (WEO), the International Monetary Fund (IMF) has trimmed its CY2018 and CY2019 global growth to 3.7%, from 3.9% projected in April 2018. The downward revision was to reflect the suppressed activities in early CY2018 in some major advanced economies, the negative effects of trade measures, weaker outlook for some emerging market coupled with expected normalisation of monetary policy.

The domestic economy continued to show signs of moderation in the second quarter of 2018 (2Q CY2018). In 2Q CY2018, Malaysia's gross domestic products (GDP) moderated further to 4.5%, from 5.4% in 1Q CY2018, mainly due to disruption in commodity production, lower public investment and net export growth. For the first half of 2018 (1H CY2018), the Malaysian economy expanded by 4.9% (1H CY2017: 5.7%), in line with the revised projection of 4.5% to 5.5% (Previous projection of CY2018 GDP: 5.5% - 6.0%) for the period of CY2018 to CY2020.

On 5 September 2018, the Monetary Policy Committee (MPC), has maintained the Overnight Policy Rate at 3.25%. Bank Negara Malaysia (BNM) opined that the degree of monetary accommodativeness is consistent with the intended policy stance and will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation. In our opinion, BNM's decision to raise interest rate depends on global interest rate trend, strength of the domestic economy and inflationary pressure to ensure that the economy is able to withstand higher interest rate pressure. Economists' consensus surveyed by Bloomberg expects the OPR to remain unchanged for the remaining CY2018 and 1H CY2019.

Headline inflation receded further to 0.2% y-o-y in August 2018 to the lowest level in more than 3 years, benefitting from tax holiday and lower transport costs. Headline inflation is projected to remain benign, averaging between 2% to 3% annually, despite the expected moderate rise in global oil and commodity prices.

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

Taking into guidance from 1Q FY2019's financial performance and interest cost, the Manager maintains a cautious outlook for the remaining FY2019 in view of the general market uncertainties. DPU is expected to dip in FY2019 on the back of the following:

- i) Flattish growth in the retail segment contributed by higher income from Sunway Pyramid Shopping Mall, however partially offset by Sunway Putra Mall which remains challenging. The Manager continuously enhances the tenancy mix to cater to the market demographics.
- ii) Income contribution from the hotel segment will be affected primarily due to soft market environment impacting the hospitality industry with the expectation of lower tourist arrivals and including income disruption in the MICE and corporate segments due to the refurbishment activities at Sunway Resort Hotel & Spa.
- iii) Gradual improvement in the overall occupancy rate for the office segment, mainly attributable to continued improvement at Sunway Putra Tower and Wisma Sunway.

The Manager is committed to distribute 100% of its distributable net income for FY2019.

#### Review of retail market

Retail research firm Retail Group Malaysia (RGM) has revised its 2018 retail sales growth rate forecast for Malaysia's retail industry for the second time this year to 4.1%, from its June's projection of 5.3%, following a slower than expected retail sales growth of 2.1% in 2Q CY2018. That translated into 1H CY2018 retail sales growth of 2.3%.

The Malaysian Institute of Economic Research's (MIER) Consumer Sentiment Index (CSI) retreated to 107.5 points in 3Q CY2018 after a spike to a 21-year high of 132.9 points in 2Q CY2018. The trend implies that consumers are still optimistic however remain cautious and selective in spending plans.

According to NAPIC's statistics, national retail space in the 1H CY2018 stood at 169.0 million sq.ft. of which 42% of the retail spaces are located in the Klang Valley. It is estimated a total of 6.6 million sq.ft. of retail space from 11 malls to commence operation in the 2H CY2018. In an oversupply situation, the retail segment is expected to remain highly competitive with longer gestation period for newer malls.

In a climate of softening economic growth amidst Government's endeavor to rationalise national budget, consumers are likely to be cautiously optimistic in prioritizing on essential goods and services despite the improvement in consumer sentiment. In addition, consumer spending is not expected to spike in the short to medium term post the tax holiday period in the absence of a meaningful improvement in disposable income.

The average occupancy rate at Sunway Pyramid Shopping Mall was stable at 98.2% in 1Q FY2019 (FY2018: 98.9%). The marginal difference in the average occupancy rate was due to fit-out period for new tenants. Based on the total net lettable area (NLA) of 382,646 sq.ft. which was due for renewal in FY2019, a total of 129,864 sq.ft. equivalent to 33.9% of total space due for renewal, was renewed or replaced at a single-digit rental reversion rate.

Sunway Clio Retail recorded higher average occupancy rate in 1Q FY2019 on the back of commencement of new tenants. The average occupancy rate increased from 88.6% in FY2018 to 89.6% in 1Q FY2019. There was no renewal due in view that the property was opened in 4Q FY2016.

Sunway Carnival Shopping Mall's average occupancy rate inched higher to 98.2% in 1Q FY2019, from 97.3% in FY2018. Based on the total NLA of 126,558 sq.ft. which was due for renewal in FY2019, a total of 34,713 sq.ft. equivalent to 27.4% of total space due for renewal, was renewed or replaced at a double-digit rental reversion rate. Meanwhile, the construction of the mall's new wing has achieved 90% completion of piling works and is on track to be completed in CY2020.

Sunway Putra Mall maintained its average occupancy rate at 90.8% in 1Q FY2019 (FY2018: 90.7%). Based on the total NLA of 174,793 sq.ft. which was due for renewal in FY2019, a total of 106,387 sq.ft. equivalent to 60.9% of total space due for renewal, was renewed or replaced with attractive rental package as a strategy to maintain high occupancy rate.

The Manager expects the retail segment to register a flattish growth for FY2019, in view of the cautious market condition.

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

##### Review of hotel market

Pursuant to the shortfall in meeting the targeted tourist arrivals in the past 3 years, the new Government, in September 2018, had revised the target acknowledging that the previous targets were far fetched. The tourist arrivals target has been revised downward by 20.2% from 33.1 million to 26.4 million in CY2018. Extrapolating the YTD 4M CY2018 tourist arrivals, the revised target appeared to be more realistic and potentially achievable.

Whilst reviving tourism activities in the country is definitely the new Government's agenda in view that tourism is the third highest contributor to Malaysia's foreign exchange receipts, the results of the revival will be over the medium term horizon. In the immediate term, large supply of hotels coupled with mushrooming of alternative accommodation options in a dwindling tourism activities environment, pose challenges to the hotel segment. Moreover, moderating economic growth is expected to impact on the MICE segment.

The cluster hotels in Sunway City, consisting of Sunway Resort Hotel & Spa, Sunway Pyramid Hotel and Sunway Clio Hotel, recorded a combined average occupancy rate of 70% in 1Q FY2019 compared to 79% in 1Q FY2018. It was primarily attributable to reduction in Middle Eastern tourist arrivals and lower MICE and corporate group contribution on the back of on-going refurbishment of the grand ballroom and function rooms at Sunway Resort Hotel & Spa. The average occupancy rate for Sunway Resort Hotel & Spa performed correspondingly to 67.6% in 1Q FY2019 versus 90.4% in 1Q FY2018. The refurbishment is expected to complete and reopen for business in November 2018.

The average occupancy rate for Sunway Pyramid Hotel eased to 66.5% in 1Q FY2019 compared to 71.0% during the corresponding period in the preceding year. In addition to the softening of Middle Eastern tourist arrivals, the average occupancy rate was also affected by transitioning of airline crew to Sunway Clio Hotel due to on-going refurbishment at an adjoining F&B precinct, formerly known as Taste Enclave. Correspondingly, Sunway Clio Hotel recorded a marginally higher average occupancy rate of 77.4% in 1Q FY2019 (1Q FY2018: 77.0%).

After Sunway Putra Hotel's performance upsurge in the preceding year, the average occupancy rate eased to 66.2% in 1Q FY2019 (1Q FY2018: 78.6%), mainly due to softer demand from government and corporate groups. This is in addition to one-off business boosted by the SEA Games and ASEAN Para Games in 1Q FY2018.

In Penang, the average occupancy rate at Sunway Hotel Georgetown remained high at 91.2% in 1Q FY2019 (1Q FY2018: 93.3%). Meanwhile, Sunway Hotel Seberang Jaya achieved higher average occupancy rate in 1Q FY2019 to 80.6% (1Q FY2018: 75.3%), benefitted from stronger demand from corporate groups and government.

The Manager expects the hotel segment to record flattish growth due to the market condition and disruption of Sunway Resort Hotel & Spa's income base arising from the ongoing refurbishment activities.

##### Review of office market

In the latest NAPIC report, the office supply in the country stood at 174.0 million sq.ft. in 1H CY2018. Out of the total office space supply, 75% are located in the Klang Valley, amounting to 130.8 million sq.ft. The outlook for the office segment remains highly challenging in the absence of major catalysts and foreign direct investments into the country.

Menara Sunway reported marginally higher average occupancy rate of 94.8% in 1Q FY2019, from 93.8% in FY2018. Based on the total NLA of 223,847 sq.ft. which was due for renewal in FY2019, a total of 21,226 sq.ft. equivalent to 9.5% of total space due for renewal, was renewed or replaced at current rental.

In Kuala Lumpur, Sunway Putra Tower's average occupancy rate improved further to 78.2% in 1Q FY2019 versus 56.0% in FY2018 following commencement of new tenants.

In view of the prolonged low occupancy at Sunway Tower, the Manager will be embarking on a partial redevelopment of the office tower into mixed-use concept encompassing co-working and service suites.

Wisma Sunway recorded an average occupancy rate of 76.4% in 1Q FY2019 compared to 78.3% in FY2018. The lower average occupancy rate was due to downsizing and non-renewal of 2 tenants. That said, the occupancy rate is expected to achieve full occupancy in FY2019 with the expansion of an existing tenant.

The Manager expects gradual improvement in the overall occupancy of the office segment, mainly attributable to continued improvement at Sunway Putra Tower and Wisma Sunway.

**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 REITs 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 30.09.2018	Year ended 30.06.2018
a) Management expense ratio *	0.93%	0.89%
b) Total return *	1.3%	4.8%
c) Average annual total return (5 years) *	8.9%	8.5%
d) Distribution yield *	5.8%	5.4%
e) NAV per unit (after income distribution)(RM)	1.4567	1.4566

\* The performance indicators for the period ended 30 September 2018 was based on annualised results.

- a) The ratio of expenses incurred in operating Sunway REIT to the NAV of Sunway REIT.
- b) Total return represents the change in unit price from beginning of financial year plus annualised distribution yield for the year.
- c) Average annual total return is the sum of the return rates of Sunway REIT over a given number of years divided by that number of years.
- d) Based on annualised DPU of 9.84 sen divided by its closing price as at 30 September 2018 of RM1.69 (30 June 2018 - DPU: 9.57 sen; Closing price: RM1.77).
- e) NAV of Sunway REIT as determined by deducting the value of all Sunway REIT's liabilities from the total asset value, divided by total issued units.

**B7. Strategies and Policies**

The Manager's strategies can be broadly categorised as:

- a) active asset management strategy
- b) acquisition growth strategy
- c) capital and risk management strategy
- d) asset enhancement initiatives, including property development activities

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 2018 was RM9.0 million compared to the preceding year corresponding quarter/cumulative quarter of RM9.5 million, which includes the acquisition fee of RM0.9 million for Sunway REIT Industrial - Shah Alam 1 in 1Q2018 and this fee was capitalised as part of the acquisition costs.

#### **B9. Trustee's Fee**

Pursuant to the Deed constituting Sunway REIT, the fee payable to the Trustee was revised from up to 0.03% per annum to up to 0.015% per annum of the net asset value of Sunway REIT, subject to a maximum of RM700,000 per annum, 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 revision is applied for the computation of Trustee fee for year 2018 and onwards.

The total Trustee's fee for the current/cumulative quarter ended 30 September 2018 was RM0.2 million as compared to RM0.3 million for the preceding year corresponding quarter/cumulative quarter ended 30 September 2017.

#### **B10. Status of Corporate Proposals**

There was no corporate proposal that has been announced but not completed as at the date of this report.

#### **B11. Material Litigation**

1. Sunway Putra (formerly known as Putra Place) - Claim for chattels and movable items (Kuala Lumpur High Court Civil Suit No. 22NCVC-523-09/2015)

Metroplex Holdings Sdn Bhd ("MHSB") had filed writ of summons and a statement of claim dated 28 September 2015 against the Trustee and the Manager, respectively, 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 movable items were worth in excess of RM80 million as at September 2011.

The trial for liability took place on 5 and 6 June 2017. The decision of the High Court of Malaya at Kuala Lumpur was delivered on 3 November 2017, in favour of MHSB and costs of RM20,000.00 was awarded to MHSB.

The Trustee and Manager had filed a stay application for the trial for assessment of damages which was dismissed by the Court on 21 May 2018 with no order as to costs. The Court fixed the next case management on 11 December 2018, pending the decision at the Court of Appeal as stated below.



**B11. Material Litigation (Cont'd)**

2. Sunway Putra (formerly known as Putra Place) - Appeal to the Court of Appeal against the decision of 3 November 2017 above  
Mahkamah Rayuan Sivil No. 1 - 02(NCVC)(W)-2284-11/2017

The Trustee and the Manager filed an appeal to the Court of Appeal on liability on 6 November 2017. The trial for the appeal was held on 29 June 2018 but was adjourned to 3 September 2018.

On 3 September 2018, both counsels submitted their verbal submissions before the learned Court of Appeal judges. The learned judges requested for further written submissions to be submitted by both parties, and these were submitted on 18 September 2018. The decision by the Court of Appeal is still pending.

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 30.09.2018	Immediate preceding quarter ended 30.06.2018	% change
Number of units in issue (units)	2,945,078,000	2,945,078,000	0.0%
Realised net income (RM'000)	72,984	63,314	15.3%
Realised earnings per unit (EPU) (sen)	2.48	2.15	15.3%
Income distribution (RM'000)	73,038	63,319	15.3%
Distribution per unit (DPU) (sen)	2.48	2.15	15.3%
Net Asset Value (NAV) (After income distribution) (RM'000)	4,289,959	4,289,917	0.0% *
NAV per unit (After income distribution) (RM)	1.4567	1.4566	0.0% *
Market price per unit (RM)	1.69	1.77	-4.5%

\* Denotes < 0.01%

**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 30.09.2018	As at 30.06.2018	As at 30.09.2018	As at 30.06.2018
	RM'000	RM'000	RM'000	RM'000
a) <b>Interest rate swap</b> - Less than 1 year	150,000	150,000	(23)	(28)
b) <b>Cross currency swap</b> - Less than 1 year	404,500	392,900	9,138	10,766
	554,500	542,900	9,115	10,738

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 RM150 million. 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 approximately RM5,000 (1Q2018: RM0.5 million). This brings the cumulative total fair value loss of the IRS to RM0.02 million as at 30 September 2018 and reflected as a derivative liability in the balance sheet.

b) Cross currency swap

During the previous financial years, Sunway REIT had entered into several cross currency swap ("CCS") to manage its exposure in foreign currency risk arising from foreign currency borrowings. In July 2018, Sunway REIT had entered into a new 6-month CCS contract upon maturity of the earlier 6-month CCS contract to hedge against the foreign currency exposure 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 1Q2019 was a gain of RM9.2 million (1Q2018: loss of RM7.7 million). The amount recognised in the current quarter comprises the net fair value gain of the CCS which matured in July 2018 of RM0.1 million and the fair value gain of the new CCS of RM9.1 million. This brings the cumulative total fair value gain of the CCS to RM9.1 million as at 30 September 2018 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.

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 2018 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. 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 2018 and of its financial performance and cash flows for the period ended on that date and duly authorised for release by the Board of the Manager on 1 November 2018.

**BY ORDER OF THE BOARD**

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

**Tan Kim Aun (MAICSA No.: 7002988)**  
**Ong Wei Leng (MAICSA No.: 7053539)**  
**Company Secretaries**

**Bandar Sunway**  
**Date: 1 November 2018**