

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Rental income	129,125	111,379	246,824	222,405
Other operating income	2,742	2,617	6,259	5,403
Gross revenue	131,867	113,996	253,083	227,808
Quit rent, assessment and insurance	(3,472)	(2,143)	(7,048)	(3,911)
Other property operating expenses	(31,341)	(25,116)	(59,039)	(50,668)
Property operating expenses	(34,813)	(27,259)	(66,087)	(54,579)
Net property income	97,054	86,737	186,996	173,229
Other income	4,793	1,161	9,734	1,899
Net investment income	101,847	87,898	196,730	175,128
Manager's fee	(7,842)	(6,985)	(15,472)	(13,878)
Trustee's fee	(304)	(281)	(607)	(561)
Finance costs	(21,618)	(16,810)	(43,103)	(33,152)
Other expenses	(563)	(554)	(1,515)	(818)
	(30,327)	(24,630)	(60,697)	(48,409)
Profit before tax	71,520	63,268	136,033	126,719
Income tax expense	-	-	-	-
Profit for the period	71,520	63,268	136,033	126,719
Profit for the period comprise the following:				
Realised	73,576	62,994	134,141	126,429
Unrealised	(2,056)	274	1,892	290
	71,520	63,268	136,033	126,719
Earnings per unit (sen)				
- realised	2.48	2.15	4.54	4.32
- unrealised	(0.07)	0.01	0.06	0.01
	2.41	2.16	4.60	4.33
Proposed/declared distribution per unit (sen)	2.57	2.27	4.69	4.55

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Profit for the period	71,520	63,268	136,033	126,719
Other comprehensive income				
Cash flow hedge - fair value of derivative ¹	(9,461)	21,135	53,218	26,559
Cash flow hedge reserve recycled to profit or loss ²	10,200	(22,350)	(50,800)	(28,450)
Total comprehensive income for the period	72,259	62,053	138,451	124,828

¹ Please refer to Note B15 for details.

² Please refer to Note A14 for details.

Income distribution

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Realised total comprehensive income for the period	73,576	62,994	134,141	126,429
Add: Surplus cash arising from 25% Manager's fee paid/payable in Units (2Q2015: 50%)	1,961	3,493	3,869	6,939
Total available for income distribution for the period	75,537	66,487	138,010	133,368
Brought forward undistributed income available for distribution	557	539	414	484
Total available for income distribution	76,094	67,026	138,424	133,852
Less: Proposed/declared income distribution	(75,592)	(66,585)	(137,922)	(133,411)
Balance undistributed arising from rounding difference	502	441	502	441

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As At 31.12.2015 (Unaudited)	As At 30.6.2015 (Unaudited)
	RM'000	RM'000
ASSETS		
Non-current assets		
Plant and equipment	7,568	5,268
Investment properties	6,333,412	6,324,000
	<u>6,340,980</u>	<u>6,329,268</u>
Current assets		
Receivables, deposits and prepayments	26,646	20,174
Derivatives	67,918	14,358
Cash and bank balances	82,299	66,218
	<u>176,863</u>	<u>100,750</u>
	<u>6,517,843</u>	<u>6,430,018</u>
FINANCED BY:		
Unitholders' funds		
Unitholders' capital	2,722,035	2,716,456
Undistributed income	1,281,701	1,265,804
Total Unitholders' funds	<u>4,003,736</u>	<u>3,982,260</u>
Non-current liabilities		
Borrowings	1,429,350	1,378,550
Long term liabilities	56,812	75,585
Deferred tax liability	5,896	5,896
Derivatives	-	1,513
	<u>1,492,058</u>	<u>1,461,544</u>
Current liabilities		
Trade and other payables	211,955	222,826
Borrowings	810,094	763,388
	<u>1,022,049</u>	<u>986,214</u>
	<u>6,517,843</u>	<u>6,430,018</u>
Number of units in circulation ('000 units)	2,941,335	2,937,777
NET ASSET VALUE ("NAV")		
- Before income distribution	4,003,736	3,982,260
- After income distribution	3,928,144	3,922,036
NET ASSET VALUE PER UNIT (RM)		
- Before income distribution ¹	1.3612	1.3555
- After income distribution ²	1.3355	1.3350

¹ Before the 2Q 2016 proposed income distribution of 2.57 sen per unit (4Q 2015: 2.05 sen per unit).

² After the 2Q 2016 proposed income distribution of 2.57 sen per unit (4Q 2015: 2.05 sen per unit).

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised RM'000	RM'000
As at 1 July 2015	2,716,456	727	1,265,077	3,982,260
Total comprehensive income				
Profit for the period	-	134,141	1,892	136,033
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	53,218	53,218
- Cash flow hedge reserve recycled to profit or loss	-	-	(50,800)	(50,800)
Total comprehensive income, representing the increase in net assets resulting from operations	2,716,456	134,868	1,269,387	4,120,711
Unitholders' transactions				
Creation of units ¹				
- Manager's fee paid in units	5,579	-	-	5,579
Distribution to unitholders				
- Income distribution declared and paid in current period	-	(62,330)	-	(62,330)
- Income distribution proposed in prior year but paid in current period	-	(60,224)	-	(60,224)
Increase/(decrease) in net assets resulting from unitholders' transactions	5,579	(122,554)	-	(116,975)
As at 31 December 2015 (Unaudited)	2,722,035	12,314	1,269,387	4,003,736

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised RM'000	RM'000
As at 1 July 2014	2,702,788	14,087	971,196	3,688,071
Total comprehensive income				
Profit for the year	-	242,032	299,412	541,444
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	53,419	53,419
- Cash flow hedge reserve recycled to profit or loss	-	-	(58,950)	(58,950)
Total comprehensive income, representing the increase in net assets resulting from operations	2,702,788	256,119	1,265,077	4,223,984
Unitholders' transactions				
Creation of units ¹				
- Manager's fee paid in units	13,668	-	-	13,668
Distribution to unitholders				
- Income distribution declared and paid in current year	-	(195,939)	-	(195,939)
- Income distribution proposed in prior year but paid in current year	-	(59,453)	-	(59,453)
Increase/(decrease) in net assets resulting from unitholders' transactions	13,668	(255,392)	-	(241,724)
As at 30 June 2015 (Unaudited)	2,716,456	727	1,265,077	3,982,260

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)**

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

¹ Issue of new units comprise the following:

	31.12.2015	
	Units	Amount
	'000	RM'000
Issuance of new units pursuant to 50% Manager's fee paid in units:		
- at RM1.5953 per unit for the quarter ended 30 June 2015	2,302	3,672
Issuance of new units pursuant to 25% Manager's fee paid in units:		
- at RM1.5178 per unit for the quarter ended 30 September 2015	1,257	1,907
Total Manager's fee paid in units	<u>3,559</u>	<u>5,579</u>
	30.6.2015	
	Units	Amount
	'000	RM'000
Issuance of new units pursuant to 50% Manager's fee paid in units:		
- at RM1.4461 per unit for the quarter ended 30 June 2014	2,268	3,280
- at RM1.5253 per unit for the quarter ended 30 September 2014	2,260	3,446
- at RM1.5007 per unit for the quarter ended 31 December 2014	2,327	3,493
- at RM1.5627 per unit for the quarter ended 31 March 2015	2,207	3,449
Total Manager's fee paid in units	<u>9,062</u>	<u>13,668</u>

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative Quarter ended	
	31.12.2015	31.12.2014
	RM'000	RM'000
OPERATING ACTIVITIES		
Cash receipts from customers	276,838	228,592
Refundable security deposits from customers	8,369	12,755
Cash paid for operating expenses	(119,087)	(73,652)
Net cash generated from operating activities	<u>166,120</u>	<u>167,695</u>
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(2,903)	(943)
Acquisition of investment properties	-	(13,400)
Subsequent expenditure of investment properties	(30,427)	(137,675)
Incidental costs on acquisition of investment properties	-	(491)
Interest received	1,420	1,400
Net cash used in investing activities	<u>(31,910)</u>	<u>(151,109)</u>
FINANCING ACTIVITIES		
Issuance of commercial papers	1,344,000	153,800
Drawdown of revolving loans	3,287,400	2,870,800
Repayment of commercial papers	(969,000)	(124,000)
Repayment of revolving loans	(3,613,400)	(2,746,800)
Interest paid	(44,575)	(34,075)
Distribution paid	(122,554)	(126,279)
Net cash used in financing activities	<u>(118,129)</u>	<u>(6,554)</u>
Net increase in cash and bank balances	16,081	10,032
Cash and bank balances at beginning of year	66,218	54,607
Cash and bank balances at end of period	<u>82,299</u>	<u>64,639</u>
Cash and bank balances at end of period comprise:		
Cash on hand and at banks	23,299	64,635
Deposits placed with licensed financial institutions	59,000	4
Cash and bank balances	<u>82,299</u>	<u>64,639</u>

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)**

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

A1. Corporate Information

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

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

A2. Significant Accounting Policies and Basis of Preparation

The condensed consolidated interim financial statements of the Group for the financial period ended 31 December 2015 have been prepared in accordance with MFRS 134: *Interim Financial Reporting*, paragraph 9.44 of the Bursa Malaysia Securities Berhad Listing Requirements, the Deed and the Securities Commission's Guidelines on Real Estate Investment Trust ("the REITs Guidelines"). These condensed consolidated interim financial statements also comply with IAS 34: *Interim Financial Reporting* issued by the International Accounting Standards Board.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2015 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 2015 which were prepared under MFRS are available upon request from the management company's registered office at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway 47500, Subang Jaya, Selangor Darul Ehsan.

A3. Audit Report of Preceding Financial Year

The auditors have expressed an unqualified opinion on Sunway REIT's financial statements for the financial year ended 30 June 2015.

A4. Changes in Estimates

This is not applicable as no estimates were previously reported.

A5. Unusual Items

There were no material unusual items affecting the amounts reported for the current quarter ended 31 December 2015, except for the recognition of RM6.189 million included in other income, being the court award for loss of income in relation to the litigation as mentioned in Note B11(2). The impact of this non-recurring item to DPU amounted to 0.21 sen.

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

Sunway REIT has issued 1,256,700 new units at RM1.5178* per unit on 18 November 2015, being 25% payment of the Manager's fee for the quarter ended 30 September 2015. The units were listed on the Main Market of Bursa Malaysia Securities Berhad on 19 November 2015.

* Based on the 10-day volume weighted average price ("VWAP") of the units up to 30 September 2015.

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

Sunway REIT's fund size increased from 2,940.1 million units as at 30 September 2015 to 2,941.3 million units with the issuance of new units as mentioned in Note A6.

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)

A8. Segmental Reporting

By segment

Segmental results for the quarter ended 31 December 2015 are as follows:

Second Quarter

	Second Quarter ended 31.12.2015					Second Quarter ended 31.12.2014				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
REVENUE AND EXPENSES										
Gross revenue	97,453	21,731	7,489	5,194	131,867	81,345	17,436	10,197	5,018	113,996
Net property income	67,317	20,779	3,764	5,194	97,054	58,351	16,720	6,648	5,018	86,737
Other income					4,793					1,161
Trust and other expenses					(8,709)					(7,820)
Finance costs					(21,618)					(16,810)
Profit before tax					71,520					63,268
Income tax expense					-					-
Profit for the period					71,520					63,268

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)

A8. Segmental Reporting (Cont'd)

By segment (Cont'd)

Cumulative Quarter

	Cumulative Quarter ended 31.12.2015					Cumulative Quarter ended 31.12.2014				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
REVENUE AND EXPENSES										
Gross revenue	184,532	42,332	15,831	10,388	253,083	162,513	34,410	20,890	9,995	227,808
Net property income	128,320	40,425	7,863	10,388	186,996	115,772	33,523	13,939	9,995	173,229
Other income					9,734					1,899
Trust and other expenses					(17,594)					(15,257)
Finance costs					(43,103)					(33,152)
Profit before tax					136,033					126,719
Income tax expense					-					-
Profit for the period					136,033					126,719

A8. Segmental Reporting (Cont'd)
By property

Properties	Gross Revenue			Net Property Income			Gross Revenue			Net Property Income		
	Second Quarter			Second Quarter			Cumulative Quarter ended			Cumulative Quarter ended		
	31.12.2015	31.12.2014	Change	31.12.2015	31.12.2014	Change	31.12.2015	31.12.2014	Change	31.12.2015	31.12.2014	Change
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Retail												
Sunway Pyramid Shopping Mall	72,384	69,756	3.8%	52,130	51,654	0.9%	144,355	138,865	4.0%	106,533	101,929	4.5%
Sunway Carnival Shopping Mall	10,744	10,316	4.1%	6,818	6,682	2.0%	21,260	20,944	1.5%	13,599	13,343	1.9%
Suncity Ipoh Hypermarket	1,250	1,251	-0.1%	1,168	1,166	0.2%	2,500	2,501	0.0%	2,366	2,354	0.5%
Sunway Putra Mall	13,075	22	59331.8%	7,201	(1,151)	725.6%	16,417	203	7987.2%	5,822	(1,854)	414.0%
	97,453	81,345	19.8%	67,317	58,351	15.4%	184,532	162,513	13.5%	128,320	115,772	10.8%
Hotel												
Sunway Resort Hotel & Spa	11,530	9,545	20.8%	11,167	9,094	22.8%	22,947	18,610	23.3%	22,211	17,881	24.2%
Pyramid Tower East (formerly known as Pyramid Tower Hotel)	5,713	5,100	12.0%	5,596	5,009	11.7%	11,810	10,603	11.4%	11,577	10,419	11.1%
Sunway Hotel Seberang Jaya	921	1,441	-36.1%	869	1,387	-37.3%	1,816	2,662	-31.8%	1,712	2,554	-33.0%
Sunway Putra Hotel	2,433	1,350	80.2%	2,058	1,230	67.3%	3,800	2,535	49.9%	3,068	2,669	14.9%
Sunway Hotel Georgetown	1,134	-	100.0%	1,089	-	100.0%	1,959	-	100.0%	1,857	-	100.0%
	21,731	17,436	24.6%	20,779	16,720	24.3%	42,332	34,410	23.0%	40,425	33,523	20.6%
Office												
Menara Sunway	4,289	4,465	-3.9%	2,963	3,189	-7.1%	8,683	8,966	-3.2%	6,110	6,355	-3.9%
Sunway Tower	599	3,216	-81.4%	(597)	1,981	-130.1%	2,007	6,851	-70.7%	(376)	4,325	-108.7%
Sunway Putra Tower	895	2,516	-64.4%	307	1,478	-79.2%	1,788	5,073	-64.8%	25	3,259	-99.2%
Wisma Sunway	1,706	-	100.0%	1,091	-	100.0%	3,353	-	100.0%	2,104	-	100.0%
	7,489	10,197	-26.6%	3,764	6,648	-43.4%	15,831	20,890	-24.2%	7,863	13,939	-43.6%
Others												
Sunway Medical Centre	5,194	5,018	3.5%	5,194	5,018	3.5%	10,388	9,995	3.9%	10,388	9,995	3.9%
	5,194	5,018	3.5%	5,194	5,018	3.5%	10,388	9,995	3.9%	10,388	9,995	3.9%
TOTAL PORTFOLIO	131,867	113,996	15.7%	97,054	86,737	11.9%	253,083	227,808	11.1%	186,996	173,229	7.9%

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

The Group comprises the following major business segments:

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

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

a) Review of Current Quarter Results

Retail segment

The retail segment achieved gross revenue of RM97.5 million for the current quarter ended 31 December 2015 (2Q 2016), an increase of 19.8% or RM16.1 million compared to the preceding year corresponding quarter (2Q 2015) mainly attributable to rental commencement from Sunway Putra Mall post its soft opening on 28 May 2015.

Sunway Pyramid Shopping Mall recorded gross revenue growth of 3.8% or RM2.6 million for 2Q 2016 compared to 2Q 2015 mainly due to higher average net rent per sq. ft.

Gross revenue for Sunway Carnival Shopping Mall was higher by 4.1% or RM0.4 million for 2Q 2016 compared to the preceding year corresponding quarter due to higher average net rent per sq. ft. but substantially offset by lower average occupancy arising from remodelling of the 2nd floor area of approximately 21,000 sq ft (equivalent to 4% of NLA) into food and beverage ("F&B") area which is targeted to commence operation in 4Q 2016.

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

Sunway Putra Mall achieved gross revenue of RM13.1 million for 2Q 2016, with a secured occupancy as at 31 December 2015 of 84.9%.

Property operating expenses of the retail segment for 2Q 2016 was RM30.1 million, an increase of 31.1% or RM7.1 million primarily attributable to Sunway Putra Mall, which re-opened on 28 May 2015 after a 2-year closure for major refurbishment.

Net property income of the retail segment for 2Q 2016 was RM67.3 million, higher by 15.4% or RM9.0 million compared to 2Q 2015.

Hotel segment

The hotel segment registered gross revenue of RM21.7 million for 2Q 2016, reflecting a growth of 24.6% or RM4.3 million compared to 2Q 2015 contributed by all the hotels, with the exception of Sunway Hotel Seberang Jaya, and new contribution from Sunway Hotel Georgetown (acquired in January 2015).

Gross revenue for Sunway Resort Hotel & Spa was higher by 20.8% or RM2.0 million attributable to both higher average daily rate and average occupancy rate as a result of the year-end holiday season. Pyramid Tower East (formerly known as Pyramid Tower Hotel) recorded a marginally higher gross revenue of RM0.6 million in 2Q 2016 despite a lower average occupancy rate in the current quarter, mainly due to lower operating expenses.

Sunway Putra Hotel achieved higher gross revenue by RM1.1 million in 2Q 2016 compared to 2Q 2015 with the completion of refurbishment of the hotel and seasonal demand during the quarter.

Sunway Hotel Seberang Jaya recorded lower gross revenue by RM0.5 million in 2Q 2016 compared to the preceding year corresponding quarter attributed to softer demand from the corporate segment and increased competition from new hotels in Penang.

A8. Segmental Reporting (Cont'd)

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

Hotel segment (Cont'd)

Net property income of the hotel segment for 2Q 2016 was RM20.8 million, a growth of 24.3% or RM4.1 million, in line with revenue.

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

Office segment

Gross revenue for the office segment declined by 26.6% or RM2.7 million for 2Q 2016 compared to 2Q 2015 due to lower average occupancy of all office properties, but partially mitigated by new contribution from Wisma Sunway which was acquired in March 2015.

Menara Sunway registered lower gross revenue of RM4.3 million, a decrease of 3.9% or RM0.2 million in the current quarter due to non-renewal of a tenant. A new tenant has been secured for approximately 8,000 sq ft (3% of total NLA) to commence from March 2016 and the asset manager continues to seek for more replacement tenants for the remaining vacant space.

The lower occupancy at Sunway Tower ("ST") and Sunway Putra Tower ("SPT") were attributable to the non-renewal by the anchor tenants at both the offices since July 2015 and December 2014 respectively, resulting in a decrease in gross revenue by RM2.6 million for ST and RM1.6 million for SPT in 2Q 2016 compared to 2Q 2015. The asset manager managed to secure tenancy for ST of approximately 29,500 sq ft (11% of total NLA) to commence from 3Q 2016.

Property operating expenses of the office segment for 2Q 2016 stood at RM3.7 million, slightly higher by 5.0% or RM0.2 million compared to 2Q 2015, contributed by Wisma Sunway which was acquired in March 2015, and partially reduced by lower operating expenses at ST and SPT.

Net property income of the office segment for 2Q 2016 was RM3.8 million, a decrease of 43.4% or RM2.9 million compared to the preceding year corresponding quarter.

Others

Sunway Medical Centre contributed RM5.2 million revenue and net property income for 2Q 2016, an increase of 3.5% compared to 2Q 2015 mainly due to rental reversion in accordance with the Master Lease Agreement.

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

Profit before tax

Finance costs for 2Q 2016 was RM21.6 million, higher by 28.6% or RM4.8 million compared to 2Q 2015 primarily attributable to a higher principal loan amount to fund capital expenditure and acquisition of Sunway Hotel Georgetown and Wisma Sunway in FY2015, as well as the cessation of interest capitalisation on completion of refurbishment for Sunway Putra Mall in May 2015.

During the quarter, Sunway REIT recognised the court award of RM6.189 million (please see further explanation in Note B11(2)) under other income, which is non-recurring.

Net profit for 2Q 2016 was RM71.5 million (2Q 2015: RM63.3 million) comprising realised profit of RM73.6 million (2Q 2015: RM63.0 million) and unrealised loss of RM2.1 million (2Q 2015: unrealised profit of RM0.3 million). The increase in realised profit of 16.8% or RM10.6 million in the current quarter was largely due to higher net property income from the retail and hotel segment and the other income mentioned above, but partially offset by higher finance costs and lower contribution from the office segment. The unrealised loss in 2Q 2016 was attributable to fair value loss from the derivative financial instrument as explained in Note B15.

A8. Segmental Reporting (Cont'd)

b) Review of Cumulative Quarter Results

Retail segment

The retail segment registered gross revenue of RM184.5 million for the cumulative quarter ended 31 December 2015 (YTD 2Q 2016), an increase of 13.5% or RM22.0 million compared to the preceding year corresponding cumulative quarter (YTD 2Q 2015) primarily contributed by rental commencement from Sunway Putra Mall post its soft opening on 28 May 2015 and Sunway Pyramid Shopping Mall as mentioned in Note A8(a) above.

Property operating expenses of the retail segment for YTD 2Q 2016 was RM56.2 million, higher by 20.3% or RM9.5 million primarily contributed by Sunway Putra Mall, which re-opened on 28 May 2015 after a 2-year closure for major refurbishment.

Net property income of the retail segment for YTD 2Q 2016 was RM128.3 million, higher by 10.8% or RM12.5 million compared to YTD 2Q 2015.

Hotel segment

The hotel segment achieved gross revenue of RM42.3 million for YTD 2Q 2016, a growth of 23.0% or RM7.9 million compared to YTD 2Q 2015 attributable to better performance of all the hotels, with the exception of Sunway Hotel Seberang Jaya, and new contribution from Sunway Hotel Georgetown which was acquired in January 2015, as mentioned in Note A8(a) above.

Net property income of the hotel segment for YTD 2Q 2016 was RM40.4 million, an increase of 20.6% or RM6.9 million, in line with revenue.

Office segment

Gross revenue for the office segment stood at RM15.8 million for YTD 2Q 2016, a decline of 24.2% or RM5.1 million compared to YTD 2Q 2015 due to the reasons mentioned in Note A8(a).

Property operating expenses of the office segment for YTD 2Q 2016 was RM8.0 million higher by 14.6% or RM1.0 million compared to YTD 2Q 2015, mainly contributed by Wisma Sunway which was acquired in March 2015.

Correspondingly, net property income of the office segment for YTD 2Q 2016 was RM7.9 million, decreased by 43.6% or RM6.1 million.

Others

Sunway Medical Centre contributed RM10.4 million of revenue and net property income for YTD 2Q 2016, an increase of 3.9% compared to YTD 2Q 2015 due to the reason mentioned in Note A8(a).

Profit before tax

Finance costs for YTD 2Q 2016 was RM43.1 million, increased by 30.0% or RM10.0 million compared to YTD 2Q 2015 mainly due to the reasons mentioned in Note A8(a).

Net profit for YTD 2Q 2016 was RM136.0 million (YTD 2Q 2015: RM126.7 million) comprising realised profit of RM134.1 million (YTD 2Q 2015: RM126.4 million) and unrealised profit of RM1.9 million (YTD 2Q 2015: RM0.3 million). Realised profit for YTD 2Q 2016 grew by 6.1% or RM7.7 million compared to YTD 2Q 2015 due to the reasons mentioned in Note A8(a).

The unrealised profit for YTD 2Q 2016 was RM1.9 million, higher by RM1.6 million compared to RM0.3 million for YTD 2Q 2015 mainly attributable to net fair value gain from the derivative financial instrument.

A9. Seasonality of Operations

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

A10. Profit Before Tax

Included in the profit before tax are the following items:

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Interest Income	(661)	(888)	(1,654)	(1,586)
Net changes in fair value of long term liabilities	(19)	(18)	(37)	(34)
Unrealised foreign exchange (gain)/loss - hedged item	(10,200)	22,350	50,800	28,450
Cash flow hedge reserve recycled to profit or loss	10,200	(22,350)	(50,800)	(28,450)
Net changes in fair value of derivative financial instrument	2,075	(256)	(1,855)	(256)
Allowance for impairment of trade receivables	37	287	226	1,040
Bad debts written off	8	343	242	375
Depreciation of plant and equipment	215	141	432	267

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 2016.

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	25%

Resident corporate investors are required to report the distributions in their normal corporate tax return and subject to the normal corporate tax rate of 25%.

Further to our announcement dated 28 October 2015 for the tax treatment on Industrial Building Allowance ("IBA") claims for hotel properties and the affected distributions (for the period from 1 January 2013 to 30 June 2015) in respect of resident and non-resident individual unitholders and institutional investors, the Manager is still liaising with IRB for confirmation on the manner of refund to the unitholders as a result of withholding tax overpaid to IRB in relation to the affected distributions.

A12. Income Distribution

For the quarter ended 31 December 2015, the Manager proposed an interim income distribution of approximately 100% of the realised distributable income amounting to RM75.592 million or 2.57 sen per unit, comprising taxable and non-taxable/tax exempt amount of 2.12 sen per unit and 0.45 sen per unit respectively. This amount includes surplus cash arising from 25% Manager's fee payable in units of RM1.960 million.

The book closure and payment dates in respect of the proposed interim income distribution will be fixed on 15 February 2016 and 1 March 2016 respectively.

A13. Valuation of Investment properties

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

A14. Borrowings and Debt Securities

	As at 31.12.2015 RM'000	As at 30.6.2015 RM'000
<u>Short term borrowings</u>		
Secured		
- Commercial papers	812,400	20,000
Unsecured		
- Revolving loan	-	743,400
Total gross short term borrowings	<u>812,400</u>	<u>763,400</u>
Less: Discount on commercial papers	(2,306)	(12)
Total short term borrowings	<u>810,094</u>	<u>763,388</u>
<u>Long term borrowings</u>		
Secured		
- Term loans	429,350	378,550
- Unrated medium term notes	1,000,000	1,000,000
Total long term borrowings	<u>1,429,350</u>	<u>1,378,550</u>
Total borrowings	<u>2,239,444</u>	<u>2,141,938</u>

Included in the long term borrowings for 31 December 2015 is a secured 3-year term loan of USD100 million, hedged with a 1-year cross currency swap contract to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation.

As at 31 December 2015, the cumulative unrealised foreign exchange loss from the translation of the USD100 million loan amounted to RM68.5 million (30.6.2015: RM17.7 million). For 2Q 2016 and YTD 2Q 2016, the unrealised foreign exchange reflected in the statement of comprehensive income were a gain of RM10.2 million (2Q 2015: loss of RM22.4 million) and loss of RM50.8 million (YTD 2Q 2015: RM28.5 million) respectively.

A15. Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 31 December 2015				
Financial assets				
Investment properties	-	-	6,333,412	6,333,412
Derivative	-	67,918	-	67,918
<hr/>				
At 30 June 2015				
Financial assets				
Investment properties	-	-	6,324,000	6,324,000
Derivative	-	14,358	-	14,358
<hr/>				
Financial liability				
Derivative	-	(1,513)	-	(1,513)
<hr/>				

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

A16. Material Event

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

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

There were no material events subsequent to the quarter ended 31 December 2015.

A18. Capital Commitments

The amount of commitments for investment properties not provided for in the unaudited condensed consolidated interim financial statements as at 31 December 2015 were as follows:

	As at 31.12.2015 RM'000
Approved and contracted for	38,730
Approved but not contracted for	28,684
	<hr/>
	67,414
	<hr/>

The capital commitment approved and contracted for is mainly in relation to the major refurbishment of Sunway Putra Hotel. The amount approved but not contracted for relates to various minor asset enhancement works for most of the properties.

A19. Contingent Liabilities and Assets

There were no contingent liabilities or contingent assets as at 31 December 2015.

A20. Transactions with Parties Related to the Manager

The following table provides information on the transactions which have been entered into with parties related to the Manager during the period ended 31 December 2015 and 31 December 2014 as well as the balances with the parties related to the Manager as at 31 December 2015 and 30 June 2015:

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
<u>(Sales to)/purchases from parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Sales	(38,373)	(33,540)	(73,892)	(66,071)
- Purchases	22,294	93,637	45,582	145,172
(b) Sunway Technology Sdn. Bhd. Group ("STSB Group")				
- Sales	(140)	(136)	(275)	(274)
			As at	As at
			31.12.2015	30.6.2015
			RM'000	RM'000
<u>Amount owed by parties related to Manager:</u>				
(a) Sunway Berhad Group			11,741	4,584
(b) Sunway Technology Sdn. Bhd. Group			-	3
			As at	As at
			31.12.2015	30.6.2015
			RM'000	RM'000
<u>Amount owed to parties related to Manager:</u>				
(a) Sunway Berhad Group			17,078	36,670

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

B1. Review of Performance

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

B2. Maintenance Costs and Major Capital Expenditure

There was no unusual maintenance costs during the quarter under review. Sunway REIT incurred capital expenditure of approximately RM7.8 million for 2Q 2016 and RM9.4 million for YTD 2Q 2016 mainly involving major refurbishment at Sunway Putra Hotel. □

B3. Material Changes in Quarterly Results

	Current Quarter Ended 31.12.2015 RM'000	Immediate Preceding Quarter Ended 30.09.2015 RM'000
Realised profit	73,576	60,565
Unrealised (loss)/profit	(2,056)	3,948
Profit for the quarter	<u>71,520</u>	<u>64,513</u>

Sunway REIT achieved a realised profit of RM73.6 million, higher by RM13.0 million or 21.5% compared to the immediate preceding quarter of RM60.6 million mainly due to higher net property income contribution from the retail and hotel segment, as well as the other income mentioned in Note A5, but partially mitigated by lower office segment and higher finance costs as explained in Note A8(a).

Unrealised loss for the current quarter of RM2.1 million was mainly due to fair value loss from the derivative financial instrument.

B4. Commentary on Prospects

The global economy expanded at a moderate pace in the third quarter of CY2015, reflecting a modest growth in the US and further slowdown in the emerging economies. Downside risks to global growth remain elevated arising from moderation of growth momentum, volatile commodity prices and possibility of policy shifts in major economies. The International Monetary Fund ("IMF") has revised its forecast for the world economy to expand by 3.6% in CY2016, from 3.8% previously.

In Asia, the epicenter of growth lies in China on its balancing act to avoid a possible hard landing. From softening trades to weakening currencies, fear of China moving into a hard landing and volatility in commodity prices, the Asian economy will be vulnerable to high level of uncertainties in CY2016.

The Malaysian economy continued to soften in the third quarter of CY2015 to 4.7% (1Q CY2015: 5.6% , 2Q CY2015: 4.9%). The growth was driven by domestic demand, mainly by private sector activities and public sector expenditure. Bank Negara Malaysia ("BNM") is projecting the Malaysian economy to expand by 4% to 5% in CY 2016. Domestic demand remains as the key growth driver, supported mainly by private sector activity while the external sector is expected to be modest.

Inflationary pressure trended lower since its recent peak in July 2015 to 2.6% in November 2015, bringing the first eleven months of CY2015 consumer price index ("CPI") to 2.0%. The increase was primarily led by higher food, electricity and fuel costs but mitigated by lower commodity prices. This is in line with BNM's CPI forecast of between 2.0% to 3.0% in CY2015. BNM expects the inflation rate to remain manageable, between 2.0% and 3.0% in CY2016. We expect GST impact to normalise moving into CY2016.

On 5 November 2015, BNM has maintained the Overnight Policy Rate ("OPR") at 3.25%. BNM remains accommodative and supportive of economic activity in view of heightened risks in the global economic and financial environment. Economists' expect the OPR to be maintained in CY2016.

Source: Based on International Monetary Fund and Bank Negara Malaysia.

B4. Commentary on Prospects (Cont'd)

The Manager maintains a flattish DPU growth expectation and remains cautious on the growth prospects for FY2016 for the reasons mentioned in 1QFY2016.

The Manager is committed to distribute 100% of its distributable net income for FY2016.

Review of retail market

Retail Group Malaysia ("RGM") has trimmed its forecast for CY2015 retail sales for the 5th consecutive time due to lacklustre retail figures achieved in the 2Q and 3Q of CY2015. RGM anticipates retail sales growth of 2.0% for CY2015, down from an earlier estimate of 3.1%. The downward revision was prompted by weak domestic currency which has resulted in higher import cost and affected consumer spending.

Going forward, consumer spending is expected to recover albeit at a modest pace especially on non-discretionary goods. RGM is projecting the Malaysian retail industry to expand by 4% in CY2016, equivalent to sales value of RM100.6 billion.

Rental and occupancy rates are pressured to decrease with the continuous entry of new supply, however demand for retail space for selective retail malls is expected to prevail amidst growing competition. Leading retail malls which are strategically located and suitably positioned to meet the needs of its primary market catchment are expected to be more resilient.

Sunway Pyramid Shopping Mall's average occupancy rate remained high at 98.2% for YTD 2QFY2016, largely unchanged from the 98.6% in 1QFY2016. A total of 246,822 sq.ft. of net lettable area ("NLA") was renewed for YTD 2QFY2016 at a single-digit rental reversion rate over the three-year tenancy term.

The average occupancy rate for Sunway Carnival Shopping Mall was largely unchanged at 94.0% for YTD 2QFY2016 (1QFY2016: 94.3%) due to remodeling of 2nd floor area of approximately 21,000 sq.ft. (equivalent to 4% of total NLA) into food and beverage ("F&B") area which is targeted to commence operation in 4QFY2016. A total of 38,984 sq.ft. of NLA was renewed at a double-digit rental reversion rate over the three-year tenancy term for YTD 2QFY2016.

Sunway Putra Mall has achieved a gradual improvement in average occupancy rate since its soft opening in May 2015. The secured occupancy rate has increased from 83.9% as at 30 September 2015 to 84.9% as at 31 December 2015.

The Manager maintains a modest growth expectation for the retail segment for FY2016, supported by high occupancy of the malls with locked in rentals and new income contribution from Sunway Putra Mall. The Manager expects GST and weak domestic currency are temporary headwinds which will dissipate over time supported by recovery in consumer spending in a low unemployment environment.

Review of hotel market

Following a 9.4% decline in tourists arrivals in 1HCY2015, we believe that Tourism Malaysia is behind its targets of achieving 29 million tourist arrivals for CY2015. The Malaysian government has further forecasted that tourist arrivals will reach 30.5 million in CY2016 contributing RM103 billion revenue to the country.

The government is intensifying its effort in pump priming the tourism industry. In the Budget 2016 announcement, the Government has announced a RM1.2 billion allocation for the tourism industry for CY2016 and beyond. Amongst the initiatives include marketing and promotion activities globally, tax exemption to tour operators which is extended to 2018 and implementation of online visa applications for China, India, Myanmar, Nepal, Sri Lanka, the U.S. and Canada.

Sunway Resort Hotel & Spa recorded a marginal improvement in the average occupancy rate of 81.8% in 2QFY2016 compared to 81.1% in 2QFY2015 due to higher tourist arrivals for the year-end holiday season.

The average occupancy for Pyramid Tower East (Formerly known as Pyramid Tower Hotel) has decreased from 92.0% in 2QFY2015 to 80.3% in 2QFY2016 mainly due to lower demand from the corporate sector. The high average occupancy rate in 2QFY2015 was attributable to stronger corporate and MICE business.

B4. Commentary on Prospects (Cont'd)

Review of hotel market (cont'd)

In view of the intensifying competition for corporate business, The Manager will be embarking on the refurbishment of Pyramid Tower East in order to ensure that the hotel remains competitive. The refurbishment of the hotel is expected to commence in 2HFY2016 with a progressive closure commencing in 3QFY2016 and full closure of the hotel by 4QFY2016 for approximately 12 months.

The average occupancy rate for Sunway Putra Hotel rebounded to 45.0% in 2QFY2016, from 31.6% in 2QFY2015 upon completion of refurbishment of the hotel in December 2015 and boosted by seasonal demand during the quarter. Following the completion of the 3-in-1 mixed use Sunway Putra, the asset managers are accelerating joint marketing and promotional initiatives to offer the synergies of these assets to consumers.

In Penang, the hotels in Sunway REIT's assets portfolio were affected by intense competition arising from supply of new hotels and softer demand from the corporate and leisure (for Sunway Hotel Georgetown) sector. The average occupancy rate for Sunway Hotel Seberang Jaya and Sunway Hotel Georgetown reported lower average occupancy rate of 64.1% and 74.1% in 2QFY2016 respectively, compared to 75.7% and 76.2%¹ respectively in 2QFY2015.

The Manager maintains that the hotel segment to register a stable growth in FY2016 mainly contributed by Sunway Putra Hotel following the completion of refurbishment in December 2015 and full year income contribution from Sunway Hotel Georgetown.

Review of office market

The office segment in the Klang Valley continued to be swamped by new supply of office space despite the oversupply environment. In 3QCY2015, Klang Valley's office stock increased marginally from 108.47 million sq.ft. in 2QCY2015 to 108.97 million sq.ft. Office stock is expected to increase further by the end of 2017 taking into account the expected additional 12.5 million sq.ft. of office space coming on stream.

In a tenants' market environment, landlords are facing challenges in managing attrition rates as well as leasing out new spaces. Occupancy and rentals rates are expected to decline amidst the demand and supply disequilibrium. The continuous supply is not absorbed by the deteriorating demand amidst slower business growth and consolidation of businesses in certain sectors (eg. Oil and gas, financial institution, MNCs).

The average occupancy rate at Menara Sunway was stable at 95.1% in 2QFY2015 compared to 1QFY2016. During the quarter, the asset manager has secured a new tenant of approximately 8,000 sq. ft. (3% of total NLA) which will commence in March 2016.

Sunway Tower recorded lower average occupancy rate of 20.9% in 2QFY2016 as the anchor tenant has progressively terminated a total of 129,706 sq. ft. (48.3% of total NLA). The asset manager has secured replacement tenants totaling approximately 29,500 sq. ft. (11% of total NLA) commencing in 3QFY2016 and is actively seeking replacement tenants for the remaining vacant space.

The average occupancy rate for Sunway Putra Tower was maintained at 26.7% in 2QFY2016 compared to 1QFY2016. The asset manager continues to proactively seek new tenants in order to improve the occupancy of the office tower.

Wisma Sunway continued to demonstrate improvement in 2QFY2016. The average occupancy rate increased to 91.3% in 2QFY2016, from 89.8% in 1QFY2016.

The Manager maintains that income contribution from the office segment to be lower in FY2016 on the back of high vacancy rate, anticipated longer time and higher cost to secure new tenancies in an oversupply and weak market environment.

¹ The historical information for 2QFY2015 is provided by the vendor, Sunway Berhad.

B5. Investment Objectives

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

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

B6. Performance Benchmark

Performance indicators	Period ended 31.12.2015	Year ended 30.06.2015
a) Management expense ratio *	0.89%	0.80%
b) Total returns *	1.2%	12.6%
c) Average annual returns (5 years) *	11.9%	17.6%
d) Distribution yield *	6.4%	5.7%
e) NAV per unit (after income distribution)(RM)	1.3355	1.3350

* The performance indicators for the period ended 31 December 2015 was based on annualised results.

- a) The ratio of expenses incurred in operating Sunway REIT to the NAV of Sunway REIT.
- b) Total return represents the change in unit price from beginning of financial year plus annualised distribution yield for the year.
- c) Average annual return is the sum of the return rates of Sunway REIT over a given number of years divided by that number of years.
- d) Based on annualised DPU of 9.30 sen divided by its closing price as at 31 December 2015 of RM1.46 (30 June 2015 - DPU: 8.73 sen; Closing price: RM1.54).
- e) NAV of Sunway REIT as determined by deducting the value of all Sunway REIT's liabilities from the total asset value, divided by total issued units.

B7. Strategies and Policies

The Manager's strategies can be broadly categorised as:

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

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

B8. Manager's Fee

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

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

B8. Manager's Fee (Cont'd)

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

The applicable proportion, with effect from FY2016, is 75% in the form of cash and 25% in the form of new Units. In the previous financial years, the proportion of Manager's fee was 50% in the form of cash and 50% in the form of new Units.

Total fees accrued to the Manager for the current quarter and cumulative quarter ended 31 December 2015 were RM7.8 million and RM15.5 million respectively compared to the preceding year corresponding quarter and cumulative quarter ended 31 December 2014 of RM7.0 million and RM13.9 million respectively.

B9. Trustee Fee

Pursuant to the Deed constituting Sunway REIT, the Trustee is entitled to receive up to 0.03% per annum of the net asset value of Sunway REIT, net of all applicable taxes, duties and levies imposed by the relevant authorities in Malaysia, is calculated on a monthly accrual basis, based on a year of 12 months. The total Trustee's fee for the current quarter and cumulative quarter ended 31 December 2015 were RM0.3 million and RM0.6 million respectively, similar to the fees for the preceding year corresponding quarter and cumulative quarter ended 31 December 2014.

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

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

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

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

MHSB had proceeded to file an appeal to the judge in chambers on the decision given above. A decision was delivered by the learned judge on 22 December 2014 in favour of the Trustee and the REIT Manager as the appeal was dismissed with costs. MHSB had on 9 January 2015 filed a notice of appeal in the Court of Appeal to appeal against the decision delivered on 22 December 2014. On 25 June 2015, the judge dismissed the appeal with costs, in favour of the Manager and the Trustee. MHSB proceeded to file a leave for appeal at the Federal Court.

The Manager and Trustee have filed a winding up petition against MHSB for non-payment of the damages awarded by the court amounting to RM3,189,071.67 (including costs of RM5,000) and have proceeded with the winding up procedures. MHSB then filed for a stay of the winding up petition, which was heard on 23 October 2015, and the court allowed the stay until the hearing of the leave of appeal in the Federal Court on 3 November 2015. The court also ordered that the RM3.184 million be placed in a joint stakeholders' account within 14 days of the order.

At the Federal Court hearing for the motion for leave to appeal, the judges dismissed the appeal unanimously. Therefore, the hearing for the winding up application is now fixed on 15 February 2016.

B11. Material Litigation (Cont'd)

2. Sunway Putra (formerly known as Putra Place) - Loss of Actual Income (High Court Originating Summons No. 28NCC-994-12/2012, Court of Appeal Civil No. W-02(IM)(MCC)-622-03/2013 and High Court Companies (Winding Up) No. 28NCC-994-12/2012)

The solicitors for the Trustee and the Manager had on 2 August 2012, issued a section 218 Companies Act notice (winding up) to Metroplex Holdings Sdn Bhd ("MHSB") pursuant to one of the High Court Orders dated 28 June 2011 where MHSB is required to provide all accounting records and a true account of all income and receipts derived or received by it from Putra Place since 19 April 2011 together with all supporting documents and to pay all such income and receipts to Sunway REIT.

On 2 August 2013, the Kuala Lumpur High Court decided that a joint stakeholder account be opened and RM6,189,000 be deposited in the joint stakeholder account and the amount is to be released pending the outcome of the case on assessment of damages mentioned in Note B11(1) above and committal proceedings.

As such, upon the decision of the court of appeal in Note B11(1) above, the Manager and the Trustee had instructed their lawyers to proceed with a notice of motion to the winding up court to release the money held in the joint stakeholders account. On 14 July 2015, the judge ordered that the amount of RM6,189,000 (without interest) held in the joint stakeholder account with MHSB be released to the Trustee and the REIT Manager within 14 days from the order.

MHSB filed for an appeal at the Court of Appeal on 20 July 2015 against the order made on 14 July 2015 and a stay of the said Order. However, the money in the joint stakeholder account was released to the REIT Manager on 28 July 2015 based on the said Order. The hearing for the stay application for the release of the money to the REIT Manager was dismissed on 20 August 2015. On 3 September 2015, the Court of Appeal judges fixed the hearing for the appeal on 12 November 2015.

The Court of Appeal dismissed the appeal and there was no appeal filed to the Federal Court within the appeal period. This case is now closed.

B12. Soft commission

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

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

	Current quarter ended 31.12.2015	Immediate preceding quarter ended 30.09.2015	% change
Number of units in issue (units)	2,941,335,300	2,940,078,600	0.0%
Realised net income (RM'000)	73,576	60,565	21.5%
Realised earnings per unit (EPU) (sen)	2.48	2.06	20.4%
Income distribution(RM'000)	75,592	62,330	21.3%
Distribution per unit (DPU)(sen)	2.57	2.12	21.2%
Net Asset Value (NAV) (After income distribution) (RM'000)	3,928,144	3,929,570	0.0%
NAV per unit (After income distribution) (RM)	1.3355	1.3366	-0.1%
Market price per unit (RM)	1.46	1.55	-5.8%

B14. Income Distribution

Please refer to Note A12 for details .

B15. Disclosure of Nature of Outstanding Derivative Financial Instruments

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

Type of Derivatives	Contract/Notional Value		Fair value at reporting date	
	As at 31.12.2015	As at 30.6.2015	As at 31.12.2015	As at 30.6.2015
	RM'000	RM'000	RM'000	RM'000
Interest rate swap - Less than 3 years	500,000	-	342	(1,513)
Cross currency swap contract - Less than 1 year	360,900	360,900	67,576	14,358
	860,900	360,900	67,918	12,845

Interest rate swap contracts

During the previous financial year, Sunway REIT had entered into several interest rate swap ("IRS") contracts to manage its exposure of the floating rate borrowings and cumulative IRS contracts to-date amounted to RM500 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 interest rate swap recognised in the income statement for 2Q 2016 and YTD 2Q 2016 amounted to a loss of RM2.1 million (2Q 2015: gain of RM0.3 million) and a gain of RM1.9 million (YTD 2Q 2015: RM0.3 million) respectively. This brings the cumulative total fair value gain to RM0.3 million as at 31 December 2015.

Cross currency swap contract

Sunway REIT had entered into a 1-year cross currency swap contract in February 2015, upon maturity of the previous 3-year cross currency swap, to manage its exposure in foreign currency risk arising from foreign currency borrowings, which was entered to minimize borrowing cost. 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 cross currency swap recognised in the statement of comprehensive income for 2Q 2016 and YTD 2Q 2016 amounted to a loss of RM9.5 million (2Q 2015: gain of RM21.1 million) and a gain of RM53.2 million (YTD 2Q 2015: RM26.6 million) respectively, bringing the cumulative total to RM67.6 million as at 31 December 2015.

B16. Risks and Policies of Derivatives

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

The overall risks and policies relating to the management of derivative financial instrument are similar to those disclosed in the annual financial statements for the financial year ended 30 June 2015 except the IRS contracts do not qualify as cash flow hedge and consequently, the fair value gains or losses on remeasuring the fair value of the IRS contracts are recognised immediately in the income statement as an unrealised item.

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

Please refer to Note A10 for details .

B18. Realised and Unrealised Retained Profits/Undistributed Income

The breakdown of the retained profits/undistributed income of the Group as at 31 December 2015 into realised and unrealised profits/undistributed income is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Period ended 31.12.2015 RM'000	As at end of previous financial year RM'000
Total retained profits/undistributed income		
- realised	12,317	730
- unrealised	1,269,387	1,265,077
	<u>1,281,704</u>	<u>1,265,807</u>
Less: Consolidation adjustments	(3)	(3)
Total retained profits/undistributed income	<u>1,281,701</u>	<u>1,265,804</u>

B19. Directors' Declaration

In the opinion of the Manager, this quarterly report has been prepared in accordance with MFRS 134: Interim Financial Reporting and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of Sunway REIT as at 31 December 2015 and of its financial performance and cash flows for the quarter ended on that date and duly authorised for release by the Board of the Manager on 27 January 2016.

BY ORDER OF THE BOARD

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

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

Bandar Sunway
Date: 27 January 2016