

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

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# **SUNWAY**<sup>®</sup>

## **REIT**

### **SUNWAY REAL ESTATE INVESTMENT TRUST**

*(Established in Malaysia under a deed dated 20 May 2010, a supplemental deed dated 10 June 2010 and an amended and restated deed dated 18 September 2018 entered into between Sunway REIT Management Sdn. Bhd. and RHB Trustees Berhad, both companies incorporated in Malaysia)*

### **CIRCULAR TO UNITHOLDERS**

#### **IN RELATION TO**

#### **PART A**

**PROPOSED ACQUISITION BY RHB TRUSTEES BERHAD, ON BEHALF OF SUNWAY REAL ESTATE INVESTMENT TRUST (“SUNWAY REIT”), OF THE SUBJECT LANDS AND BUILDINGS (AS DEFINED HEREIN) FROM SUNWAY DESTINY SDN. BHD., A WHOLLY-OWNED SUBSIDIARY OF SUNWAY BERHAD, FOR A CASH CONSIDERATION OF RM550 MILLION (“PROPOSED ACQUISITION”)**

#### **PART B**

**INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED UNITHOLDERS OF SUNWAY REIT IN RELATION TO THE PROPOSED ACQUISITION**

#### **AND**

#### **NOTICE OF UNITHOLDERS’ MEETING**

Principal Adviser for Part A

Independent Adviser for Part B



**RHB Investment Bank Berhad**

*(Company No. 19663-P)*

*(A Participating Organisation of Bursa Malaysia Securities Berhad)*



**AmInvestment Bank**

**AmInvestment Bank Berhad**

*(Company No. 23742-V)*

*(A Participating Organisation of Bursa Malaysia Securities Berhad)*

The notice of unitholders’ meeting of Sunway REIT (“**Unitholders’ Meeting**”) is enclosed together with the Proxy Form in this Circular. The Unitholders’ Meeting will be held as follows:

Venue : Grand Forum, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia

Date and time : Monday, 8 April 2019 at 3.00 p.m. or at any adjournment thereof

Last date and time for lodging the Proxy Form : Sunday, 7 April 2019 at 3.00 p.m. or at any adjournment thereof

Should you be unable to attend the Unitholders’ Meeting, you are entitled to appoint a proxy or not more than two proxies to attend and vote on your behalf. You should complete and deposit the Proxy Form at the registered office of Sunway REIT Management Sdn. Bhd. at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia no later than 24 hours before the date and time fixed for the Unitholders’ Meeting or any adjournment thereof. The lodging of the Proxy Form will not preclude you from attending and voting in person at the Unitholders’ Meeting should you subsequently wish to do so.

This Circular is dated 22 March 2019

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## DEFINITIONS

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Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

Act	- Companies Act, 2016
Active Equity	- Active Equity Sdn. Bhd.
Adrian Cheah	- Adrian Cheah Yean Sun
AmInvestment Bank or Independent Adviser	- AmInvestment Bank Berhad
Balance Consideration	- RM495 million, being the Purchase Consideration less the Deposit
Board	- Board of Directors of the Manager
Buildings	- Collectively, the South Building, North Building, New University Block and Hostel
Bursa Securities	- Bursa Malaysia Securities Berhad
Charge	- A charge over the Subject Lands and Buildings granted in favour of the Chargee dated 22 April 2014 vide charge presentation no. 42878/2014
Chargee	- DBS Bank Ltd, Labuan Branch
Circular	- This circular in relation to the Proposed Acquisition
Completion Date	- A day to be mutually agreed between the Trustee and the Vendor within a period of 3 months after the Unconditional Date, or such other date as may be mutually agreed upon by the Trustee and Vendor upon which the completion of the SPA is to take place
Conditions Precedent	- Conditions precedent of the SPA as set out in Section 2.7(e) of this Circular
Deposit	- RM55 million, being the deposit sum forming part of the Purchase Consideration paid by the Trustee to the Vendor upon the execution of the SPA
Director(s)	- The director(s) of the Manager as at the LPD
Discharge Documents	- Documents relating to the discharge of the Charge
DPU	- Distribution per unit
East Building	- A 3-storey academic block
EPU	- Earnings per unit
Evan Cheah	- Evan Cheah Yean Shin
Excluded Buildings	- Collectively, the South Annex Building, Graduate Centre, East Building and International School
FYE	- Financial year ended
Graduate Centre	- A 2-storey academic block along with a sub-basement level for education facilities
Hostel	- 4 blocks of 5-storey walk up hostel apartment

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**DEFINITIONS (CONT'D)**

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IAL	- Independent advice letter from the Independent Adviser to the non-interested unitholders of Sunway REIT in relation to the Proposed Acquisition
International School	- A 3-storey academic block along with 1 1/2 sub-basement level for housing an international school
Land 1	- A parcel of leasehold land held under H.S.(D) 118326 Lot No. PT 1905 situated in the Town of Sunway, District of Petaling, State of Selangor
Land 2	- A parcel of leasehold land held under H.S.(D) 118325 Lot No. PT 1904 situated in the Town of Sunway, District of Petaling, State of Selangor
Land 3	- A parcel of leasehold land held under H.S.(D) 118332 Lot No. PT 28 situated in the Town of Sunway, District of Petaling, State of Selangor
Lands	- Collectively, Land 1, Land 2 and Land 3
Lease Agreements	- The various lease agreements dated 3 December 2018 entered into between the Vendor and the Lessees for the leases of the Buildings, Sports Facilities and Leased Lands
Leased Lands	- A portion of Land 2 and a portion of Land 3 upon which the Excluded Buildings are erected
Lessees	- SEG and/or its relevant subsidiaries
LPD	- 28 February 2019, being the latest practicable date before the printing of this Circular
Manager	- Sunway REIT Management Sdn. Bhd., being the manager of Sunway REIT
NAV	- Net assets value
New University Block	- A 13-storey academic block together with a 2-storey basement car park
North Building	- A 6-storey academic block together with a lower ground level
Proposed Acquisition	- Proposed acquisition of the Subject Lands and Buildings by the Trustee, on behalf of Sunway REIT, from the Vendor for the Purchase Consideration
PSSC	- Puan Sri Datin Seri (Dr) Susan Cheah Seok Cheng
Purchase Consideration	- The purchase consideration for the Subject Lands and Buildings of RM550 million which is to be entirely satisfied in cash
REIT Guidelines	- Guidelines on Listed Real Estate Investment Trusts issued by the Securities Commission Malaysia
RHB Investment Bank or Principal Adviser	- RHB Investment Bank Berhad
RM and sen	- Ringgit Malaysia and sen respectively
Sarena Cheah	- Sarena Cheah Yean Tih
SEG	- Sunway Education Group Sdn. Bhd.

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**DEFINITIONS (CONT'D)**

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South Annex Building	- A 2-storey office administrative block
South Building	- A 5-storey academic block together with a lower ground level
SPA	- Conditional sale and purchase agreement dated 24 December 2018 entered into between the Vendor and the Trustee, on behalf of Sunway REIT, in relation to the Proposed Acquisition
Sports Facilities	- Sports facilities which comprise a football field, basketball court, netball court and tennis court
State Authority	- The relevant governmental authority, body or agency empowered and having jurisdiction to grant the approval (if required) for the transfer of the Subject Lands and Buildings
Subject Lands and Buildings	- Collectively, the Lands, Buildings and Sports Facilities
SunCity	- Sunway City Sdn. Bhd.
Sungei Way	- Sungei Way Corporation Sdn. Bhd.
Sunway	- Sunway Berhad
Sunway REIT	- Sunway Real Estate Investment Trust
Sunway REIT Holdings	- Sunway REIT Holdings Sdn. Bhd.
Transfer	- Memorandum of transfer for the Subject Lands and Buildings in the form prescribed under the National Land Code 1965
Trustee	- RHB Trustees Berhad, as trustee for Sunway REIT
TSJC	- Tan Sri Dato' Seri Dr Jeffrey Cheah Fook Ling AO
Unconditional Date	- The date when all the Conditions Precedent have been obtained, fulfilled or waived
Unitholders' Meeting	- Meeting of unitholders of Sunway REIT
Valuation Certificate	- The valuation certificate issued by the Valuer dated 9 January 2019 for the valuation of the Subject Lands and Buildings pursuant to the Proposed Acquisition
Valuation Report	- The valuation report issued by the Valuer dated 9 January 2019 for the valuation of the Subject Lands and Buildings pursuant to the Proposed Acquisition
Valuer	- Knight Frank Malaysia Sdn. Bhd., being the independent registered valuer jointly appointed by Sunway and the Trustee
Vendor or Sunway Destiny	- Sunway Destiny Sdn. Bhd.
WALE	- Weighted average lease expiry

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## PRESENTATION OF INFORMATION

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All references to “**you**” and “**your**” in this Circular are to the unitholders of Sunway REIT.

Unless specifically referred to, words denoting the singular shall, if applicable, include the plural and *vice versa* and words denoting the masculine gender shall, if applicable, include the feminine and/or neuter genders, and *vice versa*. References to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to the provisions of any enactment, statute, rules, regulation, rules of stock exchange or guidelines (when the context admits) shall be construed as a reference to the provisions of such enactment, statute, rules, regulation, rules of stock exchange or guidelines (as the case may be) as modified by any written law or (if applicable) amendments to the enactment, statute, rules, regulation, rules of stock exchange or guidelines for the time being in force.

Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Any discrepancies in the tables included in this Circular between the amounts listed, actual figures and the totals thereof, are due to rounding differences.

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by the Board after due inquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that the Manager’s plans and objectives will be achieved.

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**PART A**

**LETTER TO THE UNITHOLDERS OF SUNWAY REIT IN RELATION  
TO THE PROPOSED ACQUISITION**

# **SUNWAY<sup>®</sup>**

## **REIT**

### **SUNWAY REAL ESTATE INVESTMENT TRUST**

*(Established in Malaysia under a deed dated 20 May 2010, a supplemental deed dated 10 June 2010 and an amended and restated deed dated 18 September 2018 entered into between Sunway REIT Management Sdn. Bhd. and RHB Trustees Berhad, both companies incorporated in Malaysia)*

#### **Registered office of the Manager**

Level 16, Menara Sunway  
Jalan Lagoon Timur  
Bandar Sunway  
47500 Subang Jaya  
Selangor Darul Ehsan

22 March 2019

#### **Board of Directors:**

Tan Sri Ahmad Bin Mohd Don  
Dato' Ng Tiong Lip

*Chairman and Independent Non-Executive Director  
Chief Executive Officer and Non-Independent Executive  
Director*

Elvin A/L Bertly Luke Fernandez  
Sarena Cheah

*Senior Independent Non-Executive Director  
Non-Independent Non-Executive Director*

Ng Sing Hwa

*Non-Independent Non-Executive Director*

Tengku Nurul Azian Binti Tengku Shahriman

*Independent Non-Executive Director*

Yeo Kar Peng

*Independent Non-Executive Director*

#### **TO: UNITHOLDERS OF SUNWAY REIT**

Dear Sir / Madam,

#### **PROPOSED ACQUISITION**

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##### **1. INTRODUCTION**

On 24 December 2018, RHB Investment Bank announced, on behalf of the Board, that the Trustee had on 24 December 2018 entered into the SPA with the Vendor, a wholly-owned subsidiary of SunCity, which is in turn a wholly-owned subsidiary of Sunway, for its proposed acquisition of the Subject Lands and Buildings for a total cash consideration of RM550 million.

In view of the interests of a director and major shareholders of the Manager, major unitholders of Sunway REIT, and persons connected with them as set out in Section 8 of this Circular, the Proposed Acquisition is deemed a related party transaction. Accordingly, AmInvestment Bank has been appointed as the Independent Adviser to advise the non-interested directors of the Manager and the non-interested unitholders of Sunway REIT on the Proposed Acquisition, and whether the non-interested unitholders of Sunway REIT should vote in favour of the Proposed Acquisition.

**THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION IN RELATION TO THE PROPOSED ACQUISITION AND TO SEEK YOUR APPROVAL FOR THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING UNITHOLDERS' MEETING. THE NOTICE OF THE UNITHOLDERS' MEETING AND THE FORM OF PROXY ARE ENCLOSED WITH THIS CIRCULAR.**



**YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR INCLUDING THE IAL (AS SET OUT IN PART B OF THIS CIRCULAR) TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING UNITHOLDERS' MEETING.**

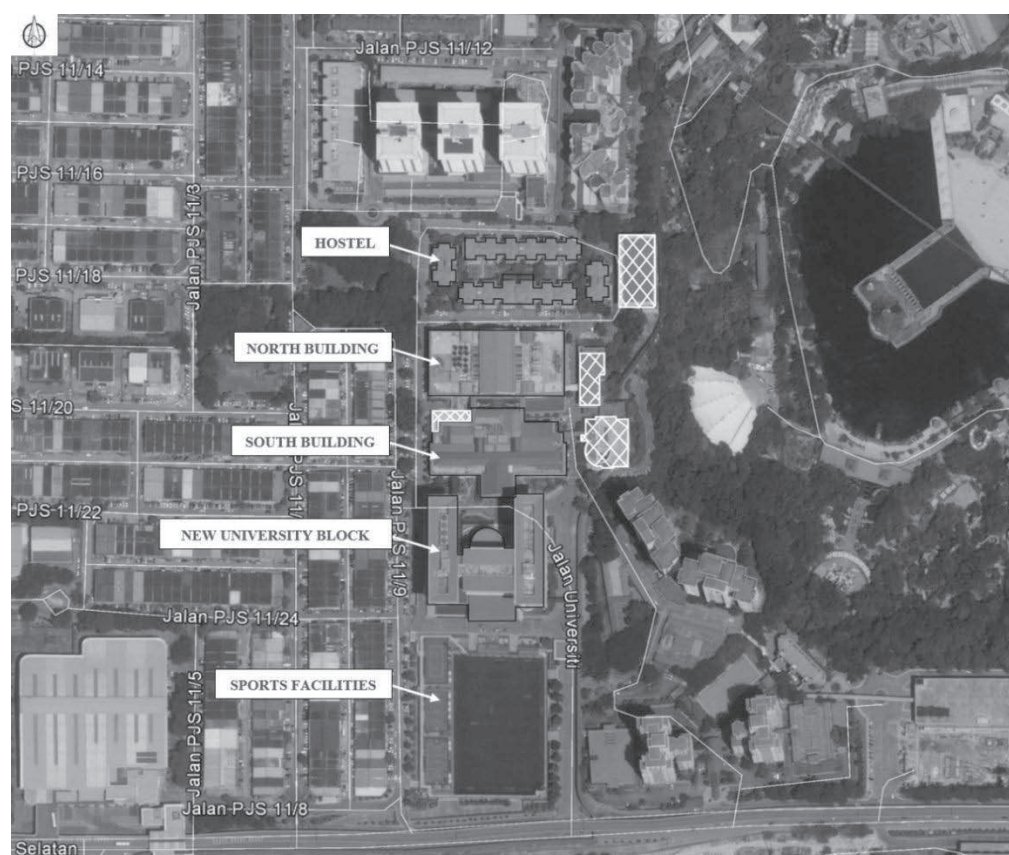
## **2. DETAILS OF THE PROPOSED ACQUISITION**

### **2.1 Description of the Subject Lands and Buildings**

The Proposed Acquisition entails the acquisition of the Lands together with the Buildings (including all fixtures and fittings, services infrastructure and systems located or used in the buildings) comprising the South Building, North Building, New University Block and Hostel as well as the Sports Facilities.

The Subject Lands and Buildings located at No. 5, Jalan Universiti, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, are strategically located within Sunway City, a 324-hectare (800-acre) integrated development. Sunway City is also a renowned self-contained township which showcases the best of entertainment, recreation, leisure, shopping, medical, hospitality, commercial facilities, residential units and education.

Please refer to the diagram below for the location of the Subject Lands and Buildings:



*(Source: Valuation Report)*

Other details on the Subject Lands and Buildings are as follows:

**Information on the Lands**

- Title details : Land 1: H.S.(D) 118326 Lot No. PT 1905  
Land 2: H.S.(D) 118325 Lot No. PT 1904  
Land 3: H.S.(D) 118332 Lot No. PT 28  
  
All of the above lands are located in the Town of Sunway,  
District of Petaling, State of Selangor
- Land area : Approximately 68,120.0 sq. metres (approximately 733,237 sq. feet) comprising the following:
  - (i) approximately 17,806.2 sq. metres (approximately 191,664 sq. feet) for Land 1
  - (ii) approximately 24,494.9 sq. metres (approximately 263,661 sq. feet) for Land 2
  - (iii) approximately 25,818.9 sq. metres (approximately 277,912 sq. feet) for Land 3
- Tenure : Leasehold interest for a term of 99 years, expiring on 1 April 2097 (“**Expiry Date**”)
- Category of use : Building
- Express conditions : Institution
- Restriction in interest : The land shall not be transferred, leased or charged except with the consent of the State Authority.

**Information on the Buildings**

- Gross floor area <sup>(1)</sup> : Approximately 174,689.28 sq. metres (approximately 1,880,245 sq. feet) comprising the following:
  - (i) approximately 25,620.66 sq. metres (approximately 275,778 sq. feet) for South Building
  - (ii) approximately 33,200.00 sq. metres (approximately 357,362 sq. feet) for North Building
  - (iii) approximately 97,232.92 sq. metres (approximately 1,046,512 sq. feet) for New University Block (including 2-storey basement car park)
  - (iv) approximately 18,635.70 sq. metres (approximately 200,593 sq. feet) for Hostel
- Occupancy rate : Jointly leased and fully occupied by Lessees
- Age of buildings <sup>(2)</sup> : (i) South Building: 25 years  
(ii) North Building: 22 years  
(iii) New University Block: 3 years  
(iv) Hostel: 25 years
- Basement car park : 1,053 bays

**Other information on the Subject Lands and Buildings**

- Net book value as at 31 December 2017 <sup>(3)</sup> : RM486.0 million
- Market value <sup>(4)</sup> : RM550.0 million
- Sports Facilities : Comprise football field, basketball court, netball court and tennis court
- Encumbrances : A charge granted in favour of the Chargee dated 22 April 2014 vide presentation no. 42878/2014
- Chargee : DBS Bank Ltd, Labuan Branch [Company No. LF 00330] of Tingkat 10(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Wilayah Persekutuan Labuan

**Notes:**

- (1) *Based on the Valuation Certificate.*
- (2) *Based on the date of valuation of 5 December 2018.*
- (3) *Based on the consolidated audited financial statements of Sunway as at 31 December 2017.*
- (4) *As ascribed by the Valuer in its Valuation Certificate.*

The Proposed Acquisition excludes the acquisition of the Excluded Buildings erected on the Leased Lands comprising the South Annex Building, Graduate Centre, East Building and International School. The Vendor has leased the Leased Lands to SEG and granted SEG full permission to occupy and construct the Excluded Buildings. The size of the Leased Lands is 4,830 sq. metres (approximately 51,990 sq. feet).

Pursuant to the terms of the SPA, the Lease Agreements entered into between the Vendor, and the Lessees for the leases of the Buildings, Sports Facilities and Leased Lands will be novated to the Trustee upon the completion of the Proposed Acquisition for the Lessees to continue their operations under similar terms as per the Lease Agreements. The novation agreement shall be executed within 7 days from Unconditional Date and shall be effective on Completion Date. Please refer to Section 2.7 of this Circular for the salient terms of the SPA.

Information on the rental for the leases and salient terms of the Lease Agreements are as shown below:

**Rental of the leases** : 1. **Buildings** (including usage of Sports Facilities): Aggregate monthly rental of approximately RM1.50 per square foot (“psf”) over the total gross floor area including car park. This amounts to approximately RM2.82 million per month for the first year with an increment of 2.3% annually for the initial term of the leases.

2. **Leased Lands**: Aggregate monthly rental of approximately RM0.50 psf over the size of the Leased Lands. This amount to approximately RM0.03 million per month for the first year with an increment of 2.3% annually for the initial term of the lease.

**Salient terms of the Lease Agreements** : 1. The initial term of the leases shall be 30 years from the commencement date with an option to renew granted to the Lessees for a second term of 30 years (at the expiry of the first term) and a third term of 18 years and 4 months up to 31 March 2097, being the day before the Expiry Date (at the expiry of the second term).

2. The commencement date of the Lease Agreements is 1 December 2018.

3. The option to renew shall be on the same terms and conditions, except at a revised rent at a rate as agreed and based on the prevailing market rate at the expiry of the second term and third term respectively.
4. Prevailing market rate of the Buildings and Leased Lands shall be determined via an independent rental assessment of the Buildings and Leased Lands by a jointly appointed independent licensed property valuer.
5. Lessees have first right of refusal to renew the lease if the lessor successfully secures an extension of the leasehold tenure beyond 1 April 2097, where the revised terms shall be similar to the existing terms of the respective Lease Agreements save and except for the terms which will be mutually agreed upon.
6. For the right to purchase Excluded Buildings, SEG shall grant the lessor a first right of refusal to purchase the Excluded Buildings by way of issuance of a written notice in writing to the lessor setting out the terms for the sale of the Excluded Buildings.
7. The lessor may terminate the Lease Agreements by way of written notice to the Lessees if there is any breach by the Lessees of any terms of the Lease Agreements and such breach is not remedied within the stipulated time period pursuant to the terms of the Lease Agreements.
8. Upon termination by the lessor, the Lessees are to compensate the lessor for any damages or losses suffered by the lessor during the lease tenure and yield up vacant possession of the Subject Lands and Buildings and/or Leased Lands to the lessor.

Information on the proposed terms of the novation agreements are as follows:

- Proposed salient terms of novation agreements** :
1. At the expiry of each lease term, Lessees may:
    - (i) renew the respective leases, provided that there are no breaches in rental payment by the Lessees which have not been remedied and subject to an undertaking by the Lessees that the Lessees have adequate financial standing and capacity to continue to pay the lease rental throughout the lease extension period; or
    - (ii) exercise the right to purchase the Leased Land and/or Subject Lands and Buildings (together with the Sports Facilities) at a purchase consideration to be agreed between the parties based on the prevailing market value. The prevailing market value will be determined by the independent registered property valuer to be appointed by each party.
  2. Lessees shall have first right of refusal to purchase the Leased Land and/or Subject Lands and Buildings (together with the Sports Facilities), if the lessor successfully secures an extension of the leasehold tenure beyond 1 April 2097, upon terms which shall be substantially similar to the provisions of item 1(ii) above.

The Manager believes that the right of the Lessees to purchase the Leased Land and Subject Lands and Buildings is reasonable as at the earliest, the Lessees are only able to exercise their right to purchase at the end of 30 years from 1 December 2018. By then, Sunway REIT is expected to have enjoyed an average rental yield of 8.8% per annum. Further, the disposal consideration would be based on the prevailing market value of the Leased Lands and Subject Lands and Buildings at the point of the transaction and not determined at the onset.

## 2.2 Basis and justification for the Purchase Consideration

The Purchase Consideration for the Subject Lands and Buildings of RM550 million is derived based on the market value of the Subject Lands and Buildings, as ascribed by the Valuer in its valuation certificate dated 7 December 2018 that was issued before the announcement of the Proposed Acquisition. Subsequently, the Valuer, had on 9 January 2019, issued the Valuation Certificate for the purpose of inclusion in Appendix II of this Circular. The material date of inspection for the valuation is 5 December 2018.

In arriving at the market value of the Subject Lands and Buildings, the Valuer has adopted the Income Approach by Investment Method and supported by the Cost Approach.

The summary of the valuation approaches adopted by the Valuer are as follows:

<u>Valuation approaches</u>	<u>Methodology explanation</u>	<u>Derived value</u>
(a) Income Approach by Investment Method	Capitalisation of net annual income that is expected to be generated from the asset after deducting annual expenses incidental to the property with allowance for unoccupancy, using an appropriate market derived capitalisation rate.	RM550 million
(b) Cost Approach	The cost of acquiring similar land in the area and constructing a similar property on the land, adjusted for depreciation based on physical deterioration, functional obsolescence and economic obsolescence.	RM555 million

Taking into consideration that the Subject Lands and Buildings are commercial and income generating, the Valuer has adopted the market value derived from the Income Approach by Investment Method as fair representation of the market value of the Subject Lands and Buildings, supported by the market value derived from the Cost Approach.

The market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing seller and a willing buyer in an arm's length transaction after proper marketing with the assumption that the parties had each acted knowledgeably, prudently and without compulsion.

## 2.3 Method of financing and liabilities to be assumed

The Purchase Consideration will be funded via a combination of Sunway REIT's existing debt and future financing facilities as follows:

- (a) the existing debt programmes which include a 35-year RM10.0 billion unrated bond programme and a 7-year RM3.0 billion commercial paper programme (collectively, "**Existing Debt Programmes**"). As at the LPD, the Existing Debt Programmes have a combined amount available for use of approximately RM0.3 billion; and
- (b) the future financing facilities which include a perpetual note programme with a limit of RM10 billion in nominal value ("**Perpetual Note Programme**"). The Perpetual Note Programme has been lodged with the Securities Commission Malaysia on 21 March 2019 and the first issuance of the notes under the Perpetual Note Programme shall be within 60 business days from the date of lodgement.

Under Malaysian Financial Reporting Standards 132 *Financial instruments: Presentation*, the Perpetual Note Programme will be classified as an equity when there is no obligation by Sunway REIT to:

- (i) deliver cash or another financial assets to the note subscriber; or
- (ii) exchange financial assets or liabilities with the note subscriber under conditions that are potentially unfavourable to Sunway REIT.

There are no contingent liabilities and/or guarantees to be assumed by Sunway REIT arising from the Proposed Acquisition.

## 2.4 Additional financial commitment

There is no additional financial commitment required of Sunway REIT in putting the Subject Lands and Buildings on-stream.

## 2.5 Date and original cost of investment of the Vendor

The Vendor acquired the Lands together with the South Building, North Building and Hostel in 1999 and completed the construction of the New University Block in 2015. The total cost of investment (including other costs for refurbishments and renovations of the Subject Lands and Buildings) up to 31 December 2017 was RM382.8 million.

## 2.6 Information on the Vendor

The Vendor was incorporated in Malaysia under the Companies Act, 1965 on 18 August 1997 as a private limited company. The principal activities of the Vendor are management and letting out of properties.

As at the LPD, the directors of the Vendor are:

- (a) Goh Hai Thun @ Ng Hai Thun;
- (b) Chong Chang Choong; and
- (c) Cheng Jew Keng.

As at the LPD, the issued share capital of the Vendor is RM3,310,000 comprising 3,210,002 ordinary shares and 99,998 irredeemable non-cumulative preference shares. The shareholders of the Vendor and their shareholdings in the Vendor are as follows:

Shareholder	Direct		Indirect	
	No. of shares	%	No. of shares	%
SunCity	3,310,000	100	-	-
TSJC	-	-	3,310,000 <sup>(1)</sup>	100
PSSC	-	-	3,310,000 <sup>(2)</sup>	100
Sarena Cheah	-	-	3,310,000 <sup>(3)</sup>	100
Evan Cheah	-	-	3,310,000 <sup>(4)</sup>	100
Adrian Cheah	-	-	3,310,000 <sup>(4)</sup>	100
Active Equity	-	-	3,310,000 <sup>(5)</sup>	100
Sungei Way	-	-	3,310,000 <sup>(6)</sup>	100
Sunway	-	-	3,310,000 <sup>(7)</sup>	100

### Notes:

- (1) Deemed interest by virtue of Section 8 of the Act, held through Active Equity, Sungei Way, Sunway, SunCity and children.
- (2) Deemed interest held through spouse and children.
- (3) Deemed interest by virtue of Section 8 of the Act, held through Active Equity, Sungei Way, Sunway, SunCity, spouse and parent.
- (4) Deemed interest by virtue of Section 8 of the Act, held through Active Equity, Sungei Way, Sunway, SunCity and parent.

- (5) *Deemed interest by virtue of Section 8 of the Act, held through Sungei Way, Sunway and SunCity.*
- (6) *Deemed interest by virtue of Section 8 of the Act, held through Sunway and SunCity.*
- (7) *Deemed interest by virtue of Section 8 of the Act, held through SunCity.*

## **2.7 Salient terms of the SPA**

### **(a) Agreement for sale and purchase**

The Vendor (as registered and beneficial owner) agreed to sell and the Trustee agreed to purchase the Subject Lands and Buildings at the Purchase Consideration.

### **(b) Manner of payment of the Purchase Consideration**

- (i) The Trustee has paid the Deposit to the Vendor upon execution of the SPA.
- (ii) The Balance Consideration shall be paid by the Trustee to the Vendor by the Completion Date.

### **(c) Adjustment of the Purchase Consideration**

- (i) If the assessed market value of the Subject Lands and Buildings shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the Valuation Report and the variation/adjustment to the market value is equal to or less than 5%, the Balance Consideration and the Purchase Consideration shall be adjusted upwards or downwards accordingly by the same quantum of variation/adjustment.
- (ii) The adjusted Purchase Consideration to be paid by the Trustee to the Vendor shall be deemed to be the sum as adjusted under Section 2.7(c)(i) above.
- (iii) When the variation/adjustment to the assessed market value of the Subject Lands and Buildings pursuant to any comments provided by the relevant authorities on the Valuation Report is more than 5%, the Vendor and the Trustee shall in good faith discuss and negotiate on an appropriate adjustment to the Purchase Consideration and mutually agree on an adjusted Purchase Consideration which is acceptable to the Vendor and the Trustee. If the Vendor and the Trustee are unable to reach mutual agreement on the adjusted Purchase Consideration within a period of 30 days or any mutually agreed extension period, either the Vendor or the Trustee shall be entitled to terminate the sale and purchase of the Subject Lands and Buildings, and the SPA by notice in writing.

### **(d) Extended Completion Date**

If the Trustee fails to pay the Balance Consideration by the Completion Date, the Vendor shall automatically grant to the Trustee an extension of 1 month from the Completion Date to pay the Balance Consideration provided that the Trustee pays to the Vendor interest at the rate of 8% per annum on the Balance Consideration or any part thereof remaining unpaid (“**Outstanding Amount**”), calculated on a daily basis, from the next day following the Completion Date until the date of actual payment of the Outstanding Amount.

**(e) Conditions precedent**

The SPA and the completion of the Proposed Acquisition are conditional upon the following conditions precedent being fulfilled or obtained within 6 months after the date of the SPA, or such other extended date as the Vendor and the Trustee may mutually agree upon:

- (i) your approval to be obtained at the forthcoming Unitholders' Meeting;
- (ii) the confirmation from the Vendor that the relevant Discharge Documents have been obtained from the Chargee and the Discharge Documents are deposited with the Trustee's solicitors;
- (iii) the approval of the State Authority has been obtained by the Vendor for the transfer of the Subject Lands and Buildings; and
- (iv) any other approvals of any authorities as may be deemed necessary by the Trustee and the Vendor.

**(f) Termination and breach**

**(i) Vendor's right to terminate**

If the Trustee defaults in the satisfaction of the Purchase Consideration, the Vendor will be entitled to terminate the SPA by notice in writing to the Trustee if the Trustee fails to remedy the breach or the matter within 14 days of receipt of a notice from the Vendor.

**(ii) Trustee's right to terminate**

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

**(iii) Consequences of termination by the Vendor**

If a notice terminating the SPA is given by the Vendor as referred to under Section 2.7(f)(i) above, then within 14 days of that notice, the Vendor must return all moneys paid to it (excluding the Deposit which will be absolutely forfeited by the Vendor as agreed liquidated damages) to the Trustee, free of interest. In exchange, the Trustee must return or cause to be returned to the Vendor all the transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact and to re-deliver to the Vendor possession of the Subject Lands and Buildings, if the same has been delivered to the Trustee.

**(iv) Consequences of termination by the Trustee**

If a notice terminating the SPA is given by the Trustee as referred to under Section 2.7(f)(ii) above, then within 14 days of that notice, the Vendor must return all moneys received as part of the Purchase Consideration to the Trustee, free of interest.



If the Trustee elects not to pursue the remedy of specific performance as referred to under Section 2.7(f)(vii) below, the Vendor must pay an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact. The Trustee shall then re-deliver to the Vendor possession of the Subject Lands and Buildings, if the same has been delivered to the Trustee.

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

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

**(vi) Non-registration of Transfer or Discharge Documents**

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

**(vii) Specific performance**

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

**(g) Real property gains tax**

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

**(h) Vendor's obligations under service contracts**

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

The service contracts and agreements for the Subject Lands and Buildings to be terminated, novated, assigned and/or transferred under the terms of the SPA include cleaning services agreements and services and systems maintenance agreements.

**(i) Application of remaining Purchase Consideration**

On the Completion Date, the Trustee or the Trustee's solicitors, as the case may be, shall utilise the moneys received by them to make payment of the Balance Consideration in the following order of priority:

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

**(j) Delivery of legal possession of the Subject Lands and Buildings**

Legal possession of the Subject Lands and Buildings free from all encumbrances and claims whatsoever, will be delivered to the Trustee by the Vendor on the Completion Date.

**(k) Conditions of acquisition**

The Subject Lands and Buildings are sold on an "as is where is" basis and free from encumbrances (save for the Vendor's existing charge, which will be discharged upon completion), with legal possession, and that all the rights, benefits, interest, obligations and liabilities of the Vendor pursuant to the Lease Agreements are novated to the Trustee following the terms and conditions stipulated in the novation agreements to be entered into between the Vendor, the Trustee and the respective Lessees in relation to the Lease Agreements effective on Completion Date, subject to all applicable valid and subsisting licenses, certifications and permits affecting the Subject Lands and Buildings.

**(l) Indemnity by the Vendor**

The Vendor agrees to indemnify and keep the Trustee indemnified at all times from and against any and all losses, damages, claims, demands, proceedings, actions, costs, expenses and penalties including legal expenses (on a full indemnity basis) suffered or incurred by the Trustee arising from any claim, demand, proceeding or action arising from:

- (i) the negligent act or omission of the Vendor or the Vendor's agent, employee, officer, servant, contractor's licensee, contractor and invitee on the Subject Lands and Buildings, and Excluded Buildings;
- (ii) any breach or default of the Vendor's obligations pursuant to the terms of the SPA;
- (iii) any legal proceedings or suits, notices or requisitions whatsoever by any person or appropriate authorities relating to the Subject Lands and Buildings, and Excluded Buildings;
- (iv) any encroachment or trespass of any of the Subject Lands and Buildings or Excluded Buildings (including the erection of the Buildings, Sports Facilities or Excluded Buildings), with or without the Vendor and/or any of the Lessees' knowledge, on any adjoining/ adjacent land without the prior consent in writing of the owner of the adjoining or adjacent land;

- (v) any failure on the part of the Vendor or any previous owner(s) of the Lands, with or without the Vendor and/or any of the Lessees' knowledge, to obtain necessary building approvals or consents or certificates of fitness for occupation or certificates of completion and compliance for any part of the Subject Lands and Buildings, Excluded Buildings or any other buildings or structures erected on the Lands or any alterations to such Subject Lands and Buildings, Excluded Buildings or other buildings or structures or any other breach of or non-compliance with building/planning laws, regulations or by-laws relating thereto; and/or
- (vi) any breach by the Vendor of any lease, tenancy or licence between the Vendor and the Lessees and/or tenants on the Subject Lands and Buildings, and Excluded Buildings,

for the period before and up to the Completion Date, suffered or incurred by the Trustee after the signing of the SPA and extending beyond the Completion Date.

### 3. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the key investment objective of the Manager to continuously pursue an acquisition strategy to acquire and invest in properties that are yield accretive with the potential to contribute to the long-term growth in Sunway REIT's DPU and/or NAV per unit.

The rationale for the Proposed Acquisition is further elaborated below:

**(a) Accretion to earnings and DPU**

The Subject Lands and Buildings are income-generating and are fully occupied. As such, the Manager believes that the Proposed Acquisition will immediately improve the earnings and the DPU upon completion of the Proposed Acquisition. For further details of the earnings and DPU upon completion of the Proposed Acquisition, please refer to Section 6.4 of this Circular.

**(b) Increased income stability through the Lease Agreements and increased WALE of Sunway REIT's portfolio**

The Proposed Acquisition will be beneficial to Sunway REIT as the leases of the Subject Lands and Buildings are expected to provide Sunway REIT with stable and sustainable income stream over the next 30 years.

With the Proposed Acquisition, Sunway REIT will benefit from the increase in the enlarged portfolio's WALE based on secured gross rental income. The WALE of Sunway REIT's enlarged portfolio will increase as follows after the completion of the Proposed Acquisition:

	<u>As at 30 June 2018</u>	<b>After the Proposed Acquisition</b>
WALE (years)	1.99	4.39

**(c) Enhances the size of Sunway REIT’s portfolio**

Sunway REIT’s property portfolio size will increase from approximately RM7.3 billion as at 30 June 2018 to RM7.8 billion after the Proposed Acquisition, as shown in the table below. This increase in portfolio size further strengthens Sunway REIT’s current position as one of the larger real estate investment trust in Malaysia by property market value.

	<u>As at 30 June 2018<sup>(1)</sup></u>	<u>Subject Lands and Buildings</u>	<u>After the Proposed Acquisition</u>
Value of investment properties (RM’mil)	7,280	556 <sup>(2)</sup>	7,836
No. of properties	16	1	17
Gross floor area (‘000 sq. ft.)	13,854	1,880	15,734

**Notes:**

- (1) *There are no properties acquired between 30 June 2018 and the LPD.*
- (2) *Including estimated expenses relating to the Proposed Acquisition that are allowed to be capitalised as part of investment properties amounting to RM5.7 million.*

**(d) Consistent with continued strategy of harnessing synergy amongst Sunway REIT’s assets within the integrated township of Sunway City, and diversification of property portfolio**

The Subject Lands and Buildings are strategically located within the master-planned integrated township development of Sunway City. With an area of over 800 acres, Sunway City is Malaysia’s first fully integrated green township to be certified with Green Building Index (“**GBI**”). It benefits from the population catchment area and synergies of entertainment, recreation, leisure, shopping, medical, hospitality, commercial facilities, residential units and education that form part of the township. Further, the commercial assets in Sunway City are integrated through various infrastructures and elevated pedestrian walkways.

The Proposed Acquisition is consistent with one of the Manager’s strategies, which is to acquire properties in Sunway City to maximise operating synergies between Sunway REIT’s properties located within Sunway City. The Proposed Acquisition also represents an opportunity for Sunway REIT to further diversify its current property portfolio by acquiring properties used in the education industry which may not be exposed with the same economic cycle with its current property portfolio in the retail, hospitality, office, industrial and medical industries. Investments in new industries may minimise the volatility in earnings fluctuations and are less susceptible to economic cycles of any particular industry.

Currently, the property portfolio of Sunway REIT consists of 16 properties comprising 4 retail malls (namely, Sunway Pyramid Shopping Mall, Sunway Putra Mall, SunCity Ipoh Hypermarket and Sunway Carnival Shopping Mall), 6 hotels (namely, Sunway Resort Hotel & Spa, Sunway Pyramid Hotel, Sunway Putra Hotel, Sunway Clio Property, Sunway Hotel Seberang Jaya and Sunway Hotel Georgetown), 4 offices (namely, Menara Sunway, Sunway Tower, Sunway Putra Tower and Wisma Sunway in Shah Alam, Selangor), a medical centre (Sunway Medical Centre) and an industrial property (being industrial land and buildings located in Shah Alam, Selangor). The Proposed Acquisition continues Sunway REIT’s push in the direction of acquiring properties which complement its existing portfolio of property assets.

## 4. INDUSTRY OVERVIEW AND OUTLOOK

### 4.1 Overview and outlook of the Malaysian economy

The Malaysian economy grew by 4.7% in the 4<sup>th</sup> quarter of 2018 (3<sup>rd</sup> quarter of 2018: 4.4%), supported by continued expansion in domestic demand and a positive growth in net exports. Private sector expenditure remained the main driver of domestic demand, while a rebound in real exports of goods and services (+1.3%; 3<sup>rd</sup> quarter of 2018: -0.8%) contributed towards the positive growth of net exports. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.4% (3<sup>rd</sup> quarter of 2018: 1.6%). For 2018 as a whole, the economy expanded by 4.7% (2017: 5.9%).

Domestic demand expanded at a more moderate pace of 5.6% (3<sup>rd</sup> quarter of 2018: 6.9%) during the quarter. Growth was weighed down by a moderation in gross fixed capital formation. Private consumption growth remained robust at 8.5% (3<sup>rd</sup> quarter of 2018: 9.0%), despite the frontloading of purchases during the tax holiday period in the previous quarter. Income and employment growth continued to drive household spending. Government measures to alleviate cost of living, such as special payments to civil servants and pensioners, also provided some support to consumer spending.

Private investment growth moderated to 4.4% (3<sup>rd</sup> quarter of 2018: 6.9%), attributed to slower capital spending across major economic sectors. However, ongoing multi-year projects particularly in the manufacturing sector continued to provide support to overall growth.

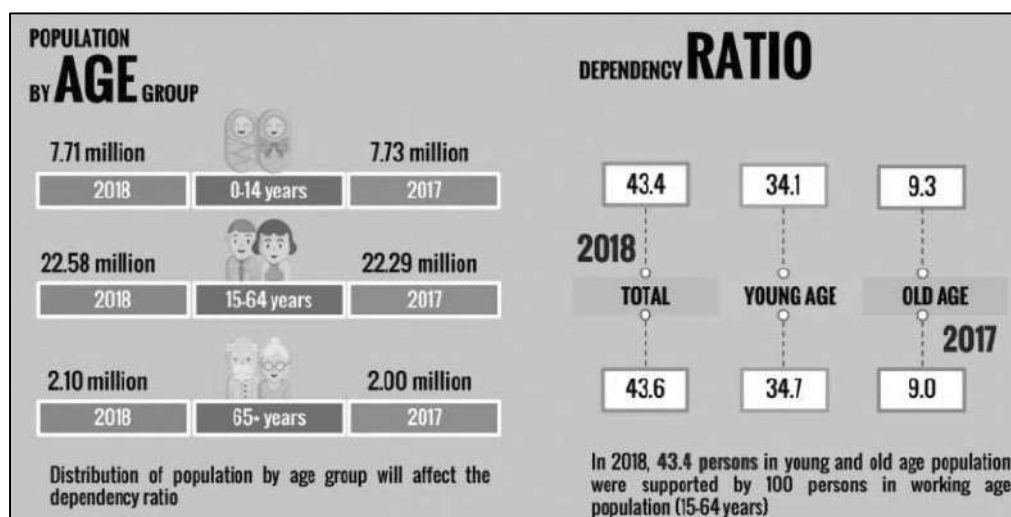
Headline inflation, as measured by the annual percentage change in the Consumer Price Index (“CPI”), declined to 0.3% in the 4<sup>th</sup> quarter of 2018 (3<sup>rd</sup> quarter of 2018: 0.5%). For 2018 as a whole, headline inflation averaged at 1.0% (2017: 3.7%), its lowest level since 2009. The decline in headline inflation was due mainly to transport inflation turning negative (4<sup>th</sup> quarter of 2018: -1.2%; 3<sup>rd</sup> quarter of 2018: 3.0%), reflecting the fixed domestic RON95 petrol and diesel prices during the quarter compared to the higher fuel prices in the base period of 4<sup>th</sup> quarter of 2017. The combined outcome of the zerorisation of the Goods and Services Tax and the implementation of the Sales and Services Tax continued to exert an overall downward impact to headline inflation during the quarter. The percentage of items in the CPI basket that had inflation of more than 2% remained low at around 9% in 4<sup>th</sup> quarter of 2018 (3<sup>rd</sup> quarter of 2018: 9%). Core inflation, excluding the impact of consumption tax policy changes, edged up to 1.6% (3<sup>rd</sup> quarter of 2018: 1.4%). Demand-driven inflationary pressures in the economy remained contained in the absence of excessive wage pressure and some degree of spare capacity in the capital stock.

During the 4<sup>th</sup> quarter, labour market conditions remained supportive of economic activity. Employment continued to expand albeit at a more moderate pace (2.4%, 3<sup>rd</sup> quarter of 2018: 2.6%), amid stable unemployment rate (3.3%; 3<sup>rd</sup> quarter of 2018: 3.4%). Stronger net employment gains were recorded in the services sector. Manufacturing sector wage growth remained firm at 9.8% (3<sup>rd</sup> quarter of 2018: 9.6%). Wage growth in export-oriented industries (10.8%; 3<sup>rd</sup> quarter of 2018: 10.9%) continued to outpace that of domestic-oriented industries (6.6%; 3<sup>rd</sup> quarter of 2018: 6.1%).

For 2019, as the supply disruptions recede and new production facilities commence, the Malaysian economy is expected to continue to expand at a steady pace. Private sector demand is expected to remain the main driver of growth amid fiscal rationalisation while the external sector would be weighed down by weaker global demand. Although sentiments have moderated from recent highs, private sector expenditure will continue to be supported by fundamental factors such as continued income and employment growth.

*(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2018)*

The statistics for Malaysia's growing population by age group from 2017 to 2018 extracted from Department of Statistics Malaysia is as follows:



(Source: Department of Statistics, Malaysia, Selected Demographic Indicators Malaysia 2018, 15 August 2018)

#### 4.2 Overview and outlook of the Malaysian education industry

According to Budget 2019, the Ministry of Education (“**Education Ministry**”) remains the single largest recipient of budget allocation at RM60.2 billion or 19.1% of the total Government of Malaysia (“**Government**”) expenditure for 2019.

The Government is deeply committed to higher education, and the annual total expenditure on higher education is equivalent to 7.7% of annual Government expenditure in 2015 (where the Education Ministry expenditure on higher education alone is 5.5% of annual Government expenditure). This is, according to the United Nations Educational, Scientific and Cultural Organization benchmarking, the highest among Malaysia's peers – developed Asian economies (Hong Kong, Singapore, South Korea, Japan), Association of Southeast Asian Nations (“**ASEAN**”) neighbors (Indonesia, Thailand, Singapore), and countries with comparable gross domestic product per capita (Chile, Mexico).

Further, the projected annual growth of student enrollment from 2012 to 2025 for private higher learning institutions (“**HLLs**”) is 5.1%, public universities is 2.6%, technical and vocational education and training (“**TVET**”) institutions is 7.8% and other ministry institutions is 1.4%. By 2025, the Education Ministry aspires to increase access to and enrolment in higher education. If Malaysia were to successfully improve tertiary enrolment rates from 36% currently to 53% (and higher education enrolment from 48% to 70%), this will bring Malaysia on par with the highest enrolment levels in ASEAN today. This growth scenario will require an additional 1.1 million places by 2025, mainly through growth in TVET, private HLLs and online learning. The exact pace and nature of the expansion plan will be determined in close collaboration with industry to ensure supply matches demand.

(Source: Malaysia Education Blueprint 2015 – 2025)

### 4.3 Prospects of the Subject Lands and Buildings

With its strategic location within the master-planned integrated township development of Sunway City, the Subject Lands and Buildings benefit from the population catchment area and synergies of entertainment, recreation, leisure, shopping, medical, hospitality, commercial facilities, residential units and education. With 42 million visits every year and a population of 200,000, Sunway City is one of Malaysia's premier holiday destinations and a fully integrated green township certified by GBI Malaysia. Sunway City is served by Malaysia's first elevated bus rapid transit ("BRT") system that benefits more than 500,000 commuters. The BRT links with Keretapi Tanah Melayu ("KTM") and Kuala Lumpur Light Rail Transit ("LRT") stations with direct access to the Kuala Lumpur City Centre and the Kuala Lumpur International Airport. Sunway City is also well connected to Kuala Lumpur, Shah Alam and Petaling Jaya by roads and expressways such as the Federal Highway, Shah Alam Expressway (KESAS), New Klang Valley Expressway (NKVE) and Damansara – Puchong Expressway (LDP).

With the Government's initiatives to increase access to higher education based on Section 4.2 of this Circular and the upward trend in the population growth and desire for tertiary education, we believe that the outlook of Malaysia's private higher education industry will remain positive. Hence, we are of the view that the Subject Lands and Buildings are well-equipped to leverage on this opportunity and that in turn will provide a sustainable income to Sunway REIT.

*(Source: The Manager)*

## 5. RISK FACTORS

You should consider the following risk factors (which may not be exhaustive) pertaining to the Proposed Acquisition:

### (a) Susceptibility of the education industry to external factors outside the control of the Manager

The education industry is generally sensitive to changes in the global, regional or domestic economy. A global, regional or domestic downturn could have a material adverse effect on the operating performance of the Lessees and in turn Sunway REIT.

Other factors outside the control of Sunway REIT and the Manager include political or civil unrest, natural disasters, outbreaks of disease increases in energy costs and changes in law which, if they occur in Malaysia or elsewhere in the world, may have a negative impact on the education industry in Malaysia. The occurrence of one or more of these events may have an adverse effect on Sunway REIT.

### (b) Inability of the Lessees to pay rental to Sunway REIT

The Lessees manage and operate the business conducted in the Buildings. The ability of the Lessees to make rental payments to Sunway REIT during the tenure of the leases of the Buildings and Leased Lands will be affected by increased competition, changes in statutory laws, regulations or government policies, and inability of the Lessees to attract and retain human capital. The risk of inability of the Lessees to pay rental to Sunway REIT is mitigated by the year-on-year growth in number of student enrollment of the Lessees over the past 5 years and the fact that the Lessees have historically been able to make rental payments to the Vendor.

Further, the Lessees will only be allowed to renew the leases if there are no breaches in rental payment by the Lessees and subject to the Lessees providing an undertaking that they have adequate financial standing and capacity to continue to pay the lease rental throughout the lease extension period.

**(c) Inability and limitation of the Manager**

The Manager is unable to ensure that the Lessees will at all times fulfil their obligations under the Lease Agreements which will be novated upon completion of the Proposed Acquisition as the Manager has limited rights with regards to the respective management and operations of the Buildings. If the Lessees do not fulfil their obligations under the Lease Agreements, the financial performance of Sunway REIT may be affected. Notwithstanding this, the Manager will monitor the performances of the respective Lessees under the Lease Agreements.

**(d) Non-renewal of the Lease Agreements**

No assurance can be given that the respective Lessees will exercise their options to renew the Lease Agreements upon the expiry of the initial lease term under the Lease Agreements. If any of the Lessees terminates or does not renew the Lease Agreements on expiry, the ability of Sunway REIT to continue to pay distributions may be adversely affected if locating a replacement of any of the Lessees on satisfactory terms and in a timely manner is not possible. However, the Manager will use its best endeavours to secure new lessees to lease the Subject Lands and Buildings if the Lessees do not renew the Lease Agreements or exercise the right to purchase the Leased Land and/or the Subject Lands and Buildings. If the Lessees do not exercise their rights under the novated Leased Agreements upon expiry of the initial term under the Lease Agreements, the Manager is expected to be able to locate a replacement for the Lessees in view of the strategic location of the Subject Lands and Buildings which is within the master-planned integrated township development of Sunway City. Please refer to Section 4.3 of the Circular for further information on the strategic location of the Subject Lands and Buildings.

**(e) Risks of external financing**

As Sunway REIT will depend on external financing to finance the Proposed Acquisition, it will be subjected to the following risks:

- (i) increases in the cost of financing, less favourable terms, adverse interest rates fluctuation and higher security coverage for borrowings, due to, amongst others, global and local economic conditions, credit and capital markets dynamics or political instability;
- (ii) Sunway REIT may not be able to fulfill its payment obligations if it could not generate sufficient revenue and income during, for example, periods of weak business conditions or economic downturns;
- (iii) breach of covenants which could lead to events of default resulting in lenders foreclosing on pledged assets; and
- (iv) due to items (i) and (ii) above, there may be insufficient cash balances remaining for Sunway REIT to fund its capital expenditures requirements, daily operations or distributions to the unitholders.

Notwithstanding the above, the Manager will take all reasonable steps to prevent the failure of Sunway REIT to fulfil its payment obligations and thereby mitigating the risk of breaching covenants which could lead to events of default resulting in foreclosure of Sunway REIT's properties.

**(f) Changes in laws and regulations**

The Subject Lands and Buildings are subject to laws, building by-laws, codes and regulations issued by the relevant regulatory bodies. There is no assurance that there will be no changes in such laws, building by-laws, codes and regulations issued by the relevant regulatory bodies that may require extensive renovation or reconfiguration of the Subject Lands and Buildings in ensuring compliance with such changes. Nonetheless, the Manager will endeavour to ensure compliance with any changes in the regulatory environment.



**(g) Sunway REIT may suffer material losses in excess of insurance proceeds**

The Subject Lands and Buildings may suffer physical damage caused by fire, flood, earthquakes or other causes which may cause Sunway REIT to suffer public liability claims, thereby resulting in losses (including loss of rental income) and Sunway REIT may not be sufficiently compensated or covered by insurance. In addition, certain types of risks (such as war risk and terrorist acts) may be uninsurable or the cost of insurance may be prohibitive when compared to the risk.

Should an uninsured loss or a loss in excess of insured limits occur, Sunway REIT could suffer a loss of capital invested in the Subject Lands and Buildings as well as anticipated future revenue from the Subject Lands and Buildings. Sunway REIT would also remain liable for any debt or other financial obligation in relation to the Subject Lands and Buildings. No assurance can be given that material losses in excess of insurance proceeds (if any) will not occur in the future. If that an uninsured loss or a loss in excess of insured limits occurs, this may adversely affect Sunway REIT's financial condition and results of operations.

Nonetheless, the Manager will continue to review its insurance policy to ensure that the Subject Lands and Buildings are adequately insured.

**(h) The valuation of the Subject Lands and Buildings is based on certain assumptions**

The valuation of the Subject Lands and Buildings by the Valuer is based on certain assumptions, which are subjective and uncertain and may differ materially from actual measures of the market. Further, property valuations generally include subjective determination of certain factors relating to the Subject Lands and Buildings, such as its location, relative market position and physical condition. The market value of the Subject Lands and Buildings as appraised by the Valuer is not an indication of, and does not guarantee, an equivalent or greater sale price either at the present time or at any time in the future.

**(i) Delays in the registration of transfer of the title of the Subject Lands and Buildings**

The Land, which forms part of the Subject Lands and Buildings, is currently charged to the Chargee via the Charge and the Discharge Documents together with the statutory instrument of transfer will be presented for registration at the relevant land office upon full settlement of the Purchase Consideration. The Trustee will only become the registered and legal owner of the Subject Lands and Buildings upon the endorsement of the name of the Trustee as the registered owner on the title to the Subject Lands and Buildings.

Given the current practices of the land offices in Malaysia, it is not uncommon that the period between the date of presentation of instruments relating to dealing in a land transaction and the registration thereof could take several months. Nevertheless, upon registration, the date of registration will be the date of presentation of the instruments of dealing. The potential delay and therefore, uncertainty, in the registration of the Trustee as the registered owner of the Property is not unique.

Nonetheless, before the execution of the SPA, the Trustee has taken all necessary action to ensure that the instruments of transfer are in a registrable form. This includes conducting searches at the relevant land office to ascertain the absence of caveats or encumbrances, which would prevent the registration of the Trustee as the registered owner of the Subject Lands and Buildings and other necessary transfer documents at the relevant land office.

**(j) Compulsory acquisition by the Government of Malaysia**

The Government of Malaysia has the power to compulsorily acquire any land in Malaysia pursuant to the provisions of the applicable legislation including the Land Acquisition Act, 1960 for certain purposes where the compensation to be awarded is based on the fair market value of a property assessed on the basis prescribed in the Land Acquisition Act, 1960 and other relevant laws.

Compulsory acquisition by the Government of Malaysia could adversely affect the value of the Subject Lands and Buildings, which could impair Sunway REIT's financial condition and results of operations.

As at the LPD, to the best of the Manager's knowledge, the Manager is not aware of any notice of acquisition or notice of intended acquisition having been received by the Vendor in relation to the Subject Lands and Buildings or any part thereof.

**(k) Delay or non-completion of the Proposed Acquisition**

The completion of the Proposed Acquisition is conditional upon the Conditions Precedent of the SPA as set out in Section 2.7(e) of this Circular being met. The delay in fulfilment of the Conditions Precedent may also cause registration of transfer of the title of the Subject Lands and Buildings in favour of the Trustee to be delayed. The non-fulfilment of the Conditions Precedent unless waived may result in the non-completion of the SPA. There is no assurance that the Proposed Acquisition can be completed within the timeframe permitted under the SPA. Nevertheless, the Trustee will ensure that all reasonable steps will be taken to ensure that the Conditions Precedent are met within the stipulated timeframe and that every effort is made to obtain all necessary approvals or consents and confirmations to give effect to the completion of the Proposed Acquisition within the timeframe permitted by the SPA.

**6. EFFECTS OF THE PROPOSED ACQUISITION**

**6.1 Unitholders' capital and substantial unitholders' unitholdings**

The Proposed Acquisition will not have any effect on Sunway REIT's unitholders' capital and substantial unitholders' unitholdings as no new units of Sunway REIT will be issued in connection with the Proposed Acquisition.

**6.2 NAV and NAV per unit**

*For illustrative purposes*, assuming that the Proposed Acquisition was completed on 30 June 2018, the proforma effects of the Proposed Acquisition on the NAV and NAV per unit of Sunway REIT are as follows:

	<b>Audited as at 30 June 2018 (RM'000)</b>	<b>After the Proposed Acquisition (RM'000)</b>
Unitholders' capital	2,727,829	2,727,829
Undistributed income	1,625,407	1,624,999 <sup>(1)</sup>
Net asset value attributable to unitholders	4,353,236	4,352,828
Perpetual note	-	357,500 <sup>(2)</sup>
<b>NAV</b>	<b>4,353,236</b>	<b>4,710,328</b>
No. of units in circulation ('000)	2,945,078	2,945,078
NAV per unit attributable to unitholders (RM)	1.4781	1.4780

**Notes:**

(1) *After taking into consideration the estimated expenses in relation to the Proposed Acquisition which are not allowed to be capitalised amounting to RM0.4 million.*

(2) *On the assumption that the Purchase Consideration is to be funded fully by 35% Existing Debt Programmes and 65% Perpetual Note Programme - this is subject to change as the Manager deems fit, taking into consideration the gearing level of Sunway REIT.*

### 6.3 Gearing

For illustrative purposes, assuming that the Proposed Acquisition was completed on 30 June 2018, the proforma effects of the Proposed Acquisition on the gearing level of Sunway REIT are as follows:

	<b>Audited as at 30 June 2018</b>	<b>After the Proposed Acquisition</b>
	<b>(RM'000)</b>	<b>(RM'000)</b>
Total asset value	7,523,858	8,079,587 <sup>(1)</sup>
Total gross borrowings	2,902,750	3,101,387 <sup>(2) (3)</sup>
Gearing (total gross borrowings/total assets value)	38.6%	38.4% <sup>(3)</sup>

**Notes:**

- (1) Including estimated expenses relating to the Proposed Acquisition that are allowed to be capitalised as part of investment properties amounting to RM5.7 million.
- (2) Including estimated expenses relating to the Proposed Acquisition amounting to RM6.1 million comprising the Manager's acquisition fee of RM5.5 million and other professional fees of RM0.6 million, which are to be funded via debt.
- (3) On the assumption that the Purchase Consideration is to be funded fully by 35% Existing Debt Programmes and 65% Perpetual Note Programme - this is subject to change as the Manager deems fit, taking into consideration the gearing level of Sunway REIT.

### 6.4 Earnings, EPU and DPU

The Proposed Acquisition is not expected to have any material effect on the earnings, EPU and DPU of Sunway REIT for the financial year ending 30 June 2019 since the Proposed Acquisition is only expected to be completed in the second quarter of calendar year 2019 (being the fourth quarter of financial year ending 30 June 2019). Nevertheless, the Proposed Acquisition is expected to contribute positively to the future earnings, EPU and DPU of Sunway REIT.

For illustrative purposes, assuming that the Proposed Acquisition was completed on 1 July 2017 (being the beginning of the FYE 30 June 2018), the pro forma effects on the distributable net income of Sunway REIT and DPU of Sunway REIT for the FYE 30 June 2018 are set out below. The pro forma financial information is not necessarily indicative of the results of the operations that would have been attained had the Proposed Acquisition actually occurred in the aforesaid period.

	<b>Audited for the FYE 30 June 2018</b>	<b>After the Proposed Acquisition</b>
	<b>(RM'000)</b>	<b>(RM'000)</b>
Audited distributable income <sup>(1)</sup>	281,947	281,947
Add: Annual incremental net distributable income contribution from the Proposed Acquisition <sup>(2)</sup>	-	2,517
<b>Pro forma distributable income</b>	<b>281,947</b>	<b>284,464</b>
Units in circulation ('000)	2,945,078	2,945,078
Pro forma DPU (sen)	9.57	9.66

**Notes:**

- (1) Based on Sunway REIT's realised income.

- (2) *Computation in arriving at the annual incremental net distributable income contribution from the Proposed Acquisition is as follows:*

<u>Description</u>	<u>Basis of computation</u>	<u>RM'000</u>
<i>Net property income</i>	<i>Annual net property income from the Subject Lands and Buildings</i>	<i>34,203</i>
<i>Manager and Trustee fees</i>	<i>Manager fees are computed at a base rate of 0.30% per annum of the incremental total asset value plus a further 3.00% of the incremental net property income. Trustee fee is computed based on 0.015% of the incremental net asset value</i>	<i>(2,747)</i>
<i>Cost of financing</i>	<i>Assumed an average cost of approximately 5.21% per annum</i>	<i>(28,939)</i>
		<u><u>2,517</u></u>

## 7. APPROVALS REQUIRED FOR THE PROPOSED ACQUISITION

The implementation of the Proposed Acquisition is subject to the following approvals and consents being obtained:

- (a) the approval or no objection from the State Authority for the transfer of the Subject Lands and Buildings from the Vendor to the Trustee;
- (b) the unitholders of Sunway REIT at the forthcoming Unitholders' Meeting; and
- (c) any other relevant authority and/or party, if required.

The approval from the State Authority for the transfer of the Subject Lands and Buildings from the Vendor to the Trustee was obtained on 24 January 2019. There are no conditions imposed on the approval from the State Authority.

## 8. INTERESTS OF A DIRECTOR AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS OF SUNWAY REIT, AND PERSONS CONNECTED WITH THEM

The Manager and its interested related parties will not vote on the resolution pertaining to the Proposed Acquisition at the Unitholders' Meeting as it is prohibited under Paragraphs 13.26<sup>1</sup> and 13.28<sup>2</sup> of the REIT Guidelines.

Save as disclosed below, the Manager is not aware of any other directors and/or major shareholders of the Manager and/or major unitholders of Sunway REIT and/or persons connected with them who have any interest, direct or indirect, in the Proposed Acquisition.

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<sup>1</sup> 13.26 A management company must not exercise the voting rights for the units it holds or its nominees hold in any unit holders' meeting, regardless of the party who requested for the meeting and the matter or matters that are laid before the meeting.

<sup>2</sup> 13.28 Related parties of the management company must not vote or be counted in the quorum at a meeting if they have interest in the outcome of a transaction tabled for approval which is different from the interests of other unit holders.

## 8.1 Interested major unitholders of Sunway REIT

The details of the unitholdings of the interested major unitholders of Sunway REIT as at the LPD (collectively, the “Interested Major Unitholders”) are as follows:

Unitholder	Direct		Indirect	
	No. of units	%	No. of units	%
Sunway REIT Holdings	1,204,078,565	40.9	-	-
TSJC	-	-	1,204,078,565 <sup>(1)</sup>	40.9
PSSC	-	-	1,204,078,565 <sup>(2)</sup>	40.9
Sarena Cheah	-	-	1,204,081,565 <sup>(3)</sup>	40.9
Evan Cheah	-	-	1,204,078,565 <sup>(4)</sup>	40.9
Adrian Cheah	-	-	1,204,078,565 <sup>(4)</sup>	40.9
Active Equity	-	-	1,204,078,565 <sup>(5)</sup>	40.9
Sungei Way	-	-	1,204,078,565 <sup>(6)</sup>	40.9
Sunway	-	-	1,204,078,565 <sup>(7)</sup>	40.9

### Notes:

- (1) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway and Sunway REIT Holdings.
- (2) Deemed interest held through spouse.
- (3) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway, Sunway REIT Holdings, spouse and parent.
- (4) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway, Sunway REIT Holdings and parent.
- (5) Deemed interest by virtue of Section 8 of the Act held through Sungei Way, Sunway and Sunway REIT Holdings.
- (6) Deemed interest by virtue of Section 8 of the Act held through Sunway and Sunway REIT Holdings.
- (7) Deemed interest by virtue of Section 8 of the Act held through Sunway REIT Holdings.

As at the LPD, Sunway has a 100% direct interest in Sunway REIT Holdings (which in turn has a 40.9% indirect interest in Sunway REIT) and a 100% indirect interest in the Vendor (via its wholly-owned subsidiary, namely SunCity). Accordingly, the Interested Major Unitholders are deemed interested in the Proposed Acquisition.

The Interested Major Unitholders will abstain from voting on the resolution pertaining to the Proposed Acquisition for their direct and/or indirect unitholdings in Sunway REIT at the Unitholders’ Meeting. They have also undertaken to ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders’ Meeting.

## 8.2 Interested director of the Manager

Sarena Cheah is a non-independent non-executive director of the Manager as well as a non-independent executive director of Sunway. Please refer to Section 8.1 of this Circular for Sarena Cheah’s unitholdings in Sunway REIT.

Accordingly, Sarena Cheah is deemed interested in the Proposed Acquisition. Sarena Cheah has abstained and will continue to abstain from Board deliberations and voting for the Proposed Acquisition. She will also abstain from voting on the resolution pertaining to the Proposed Acquisition for her direct and/or indirect unitholdings in Sunway REIT at the Unitholders' Meeting. She has also undertaken to ensure that persons connected with her will abstain from voting on the resolution pertaining to the Proposed Acquisition for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting.

### 8.3 Interested major shareholders of the Manager

The details of the shareholdings of the interested major shareholders of the Manager as at the LPD (collectively, the “Interested Major Shareholders”) are as follows:

Shareholder	Direct		Indirect	
	No. of shares	%	No. of shares	%
Sunway	800,000	80.0	-	-
TSJC	-	-	800,000 <sup>(1)</sup>	80.0
PSSC	-	-	800,000 <sup>(2)</sup>	80.0
Sarena Cheah	-	-	800,000 <sup>(3)</sup>	80.0
Evan Cheah	-	-	800,000 <sup>(4)</sup>	80.0
Adrian Cheah	-	-	800,000 <sup>(4)</sup>	80.0
Active Equity	-	-	800,000 <sup>(5)</sup>	80.0
Sungei Way	-	-	800,000 <sup>(6)</sup>	80.0

**Notes:**

- (1) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way and Sunway.
- (2) Deemed interest held through spouse.
- (3) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway, spouse and parent.
- (4) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway and parent.
- (5) Deemed interest by virtue of Section 8 of the Act held through Sungei Way and Sunway.
- (6) Deemed interest by virtue of Section 8 of the Act held through Sunway.

As at the LPD, Sunway has an 80% direct interest in the Manager and a 100% indirect interest in the Vendor. Accordingly, the Interested Major Shareholders are deemed interested in the Proposed Acquisition.

The Interested Major Shareholders will abstain from voting on the resolution pertaining to the Proposed Acquisition for their direct and/or indirect unitholdings in Sunway REIT at the Unitholders' Meeting. They have also undertaken to ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting.

**9. RELATED PARTY TRANSACTIONS**

The aggregate total amount transacted between Sunway REIT on the one hand and Sunway and its group of companies on the other in the 12 months preceding 31 December 2018 is approximately RM665.4 million.

**10. RECOMMENDATION BY THE MANAGER'S AUDIT COMMITTEE**

The Audit Committee of the Manager, having considered the rationale and all aspects of the Proposed Acquisition and the evaluation and recommendation by the Independent Adviser, and after careful deliberation, is of the opinion that the Proposed Acquisition is:

- (a) in the best interest of Sunway REIT;
- (b) fair, reasonable and on normal commercial terms; and
- (c) not detrimental to the non-interested unitholders of Sunway REIT.

**11. RECOMMENDATION BY DIRECTORS**

The Board (save for Sarena Cheah), having considered the rationale and all aspects of the Proposed Acquisition, and the evaluation and recommendation by the Independent Adviser:

- (a) is of the opinion that the Proposed Acquisition is in the best interests of Sunway REIT and its unitholders; and
- (b) recommends that you vote in favour of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.

**12. INDEPENDENT ADVISER**

In view of the interests of the interested parties in the Proposed Acquisition, the Board had, on 26 November 2018, appointed AmInvestment Bank to act as the Independent Adviser to undertake the following:

- (a) comment as to whether the Proposed Acquisition is:
  - (i) fair and reasonable so far as the unitholders of Sunway REIT are concerned; and
  - (ii) to the detriment of the non-interested unitholders of Sunway REIT, and set out the reasons for such opinion, the key assumptions made and the factors taken into consideration in forming that opinion;
- (b) advise the non-interested directors of the Manager and the non-interested unitholders of Sunway REIT on the Proposed Acquisition, and whether the non-interested unitholders of Sunway REIT should vote in favour of the Proposed Acquisition; and
- (c) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (a) and (b) above.

Please refer to the IAL as set out in Part B of this Circular.

### 13. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Acquisition, there are no other corporate exercises which have been announced by the Manager and which are pending completion as at the LPD.

The Proposed Acquisition is not conditional upon any other corporate proposals undertaken or to be undertaken by Sunway REIT.

### 14. TENTATIVE TIMETABLE

The estimated timeframe for the Proposed Acquisition is as follows:

<u>Date</u>	<u>Events</u>
8 April 2019	: Unitholders' Meeting to approve the Proposed Acquisition
Second quarter of 2019	: Completion of the Proposed Acquisition

### 15. UNITHOLDERS' MEETING

The Unitholders' Meeting, the Notice of which is enclosed with this Circular, will be held at Grand Forum, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia on Monday, 8 April 2019 at 3.00 p.m. or at any adjournment thereof, for the purpose of considering and, if thought fit, passing the resolution, with or without any modifications, to give effect to the Proposed Acquisition.

If you are unable to attend and vote in person at the Unitholders' Meeting, you may appoint a proxy to attend and vote on your behalf by completing, signing and returning the enclosed Form of Proxy following the instructions contained therein as soon as possible, so as to arrive at the registered office of the Manager at Level 16, Menara Sunway, Jalan Lagoon Timur, 47500 Subang Jaya, Selangor Darul Ehsan, not less than 24 hours before the time set for holding the Unitholders' Meeting or any adjournment thereof. The completion and lodgment of the Form of Proxy shall not preclude you from attending and voting in person at the Unitholders' Meeting should you subsequently wish to do so and in such an event, your Form of Proxy shall be deemed to have been revoked.

### 16. FURTHER INFORMATION

You are requested to refer to the enclosed appendices of this Circular for further information.

Yours faithfully,  
For and on behalf of the Board of  
**SUNWAY REIT MANAGEMENT SDN. BHD.**  
(Manager for Sunway REIT)

**TAN SRI AHMAD BIN MOHD DON**  
Chairman and Independent Non-Executive Director



**PART B**

**INDEPENDENT ADVICE LETTER FROM AMINVESTMENT BANK  
TO THE NON-INTERESTED UNITHOLDERS OF SUNWAY REIT IN  
RELATION TO THE PROPOSED ACQUISITION**

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## EXECUTIVE SUMMARY

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*All definitions used in this Executive Summary shall have the same meaning as the words and expressions defined in the “Definitions” section of the Circular, except where the context otherwise requires or is otherwise defined in the IAL. All references to “we”, “us” or “our” are to AmInvestment Bank, being the Independent Adviser for the Proposed Acquisition. All references to “you” are to the Non-Interested Unitholders (as defined herein).*

*This Executive Summary is intended to be a brief summary of the IAL to provide you with an independent evaluation of the Proposed Acquisition and to express our recommendation thereon.*

### 1. INTRODUCTION

On 24 December 2018, on behalf of the Board, RHB Investment Bank announced that the Trustee, had on even date, entered into the SPA with the Vendor for the Proposed Acquisition of the Subject Lands and Buildings for a total cash consideration of RM550 million.

In view of the interests of the Interested Parties (as defined herein) as set out in Section 8 of Part A of the Circular, the Board had on 26 November 2018 appointed AmInvestment Bank to act as the Independent Adviser in relation to the Proposed Acquisition.

### 2. EVALUATION OF THE PROPOSED ACQUISITION

In evaluating the Proposed Acquisition, we have taken into consideration the following factors in forming our opinion:-

Evaluation	Reference	Our evaluation
Basis and justification for the Purchase Consideration	Section 5.1	<p>We have relied on the Valuation Report prepared by the Valuer to consider the fairness of the Purchase Consideration.</p> <p>We take note that in arriving at the market value of the Subject Lands and Buildings, the Valuer adopted the Income Approach as the principal valuation methodology and used the Cost Approach to cross-check the valuation derived from the Income Approach.</p> <p>Based on the Valuation Report, a market value of RM550 million had been ascribed to the Subject Lands and Buildings.</p> <p>We have reviewed and are satisfied with the assumptions adopted by the Valuer in deriving the market value of the Subject Lands and Buildings. Accordingly, we consider the Purchase Consideration for the Subjects Lands and Buildings as fair.</p>
Rationale for the Proposed Acquisition	Section 5.2	<p>We are of the opinion that the rationale for the Proposed Acquisition is reasonable on the basis that the Proposed Acquisition is expected to be earnings accretive to Sunway REIT.</p> <p>The Proposed Acquisition is also expected to provide Sunway REIT with a stable and sustainable income stream across an increased WALE period from 1.99 years to 4.39 years.</p>

<b>Evaluation</b>	<b>Reference</b>	<b>Our evaluation</b>
		<p>We note that the Proposed Acquisition will help to strengthen Sunway REIT's current position as one of the largest real estate investment trusts in Malaysia by property market value.</p> <p>We further note that the Proposed Acquisition is part of Sunway REIT's continued strategy to harness synergies between its properties located in Sunway City.</p> <p>The Proposed Acquisition also provides Sunway REIT an opportunity to diversify its current portfolio to include assets used in the education sector.</p> <p>The Subject Lands and Buildings, being in the education sector will broaden Sunway REIT's existing portfolio of retail, hospitality, office, medical and industrial sub-sector and possibly reduce the volatility in earnings fluctuations on Sunway REIT.</p>
Industry outlook and future prospects	Section 5.3	<p>We note that the Malaysian economy recorded a slight growth in the fourth quarter of 2018. The growth was supported by the expansion in domestic demand where the private sector expenditure remained the key driver of growth and private consumption growth remained robust.</p> <p>It was also reported that headline inflation averaged at 1.0% (2017: 3.7%), its lowest level since 2009. This decline was due mainly to lower domestic RON95 petrol and diesel prices during the current quarter as compared to the higher fuel prices in the corresponding 4th quarter of 2017. The combined outcome of the zerorisation of the GST in July 2018 and the implementation of the Sales and Services Tax also exerted an overall downward impact on headline inflation during the quarter.</p> <p>Notwithstanding that the Malaysian economy faced challenges due to escalating trade tensions, tighter global financial conditions and unanticipated supply disruptions in the commodity-related sectors in 2018, the Malaysian economy is expected to continue to expand at a steady pace in 2019.</p> <p>For the education sector, the Government projected annual growth from 2012 to 2025 for private higher learning institution of 5.1%. We note that Government's initiative to improve tertiary enrolments rates from 36% to 53% to be on par with the highest enrolment levels in ASEAN.</p> <p>The Subject Lands and Buildings are located within the Sunway City, a well-integrated township which is well connected to nearby cities via an extensive network of roads, expressways and public transportation.</p>

Evaluation	Reference	Our evaluation
Effects of the Proposed Acquisition	Section 5.4	<p>The Subject Lands and Buildings house mainly the Sunway College and Sunway University, both are reputable established educational higher learning institutions. Sunway College and Sunway University were established in 1987 and 2004 respectively.</p> <p>Premised on the general positive outlook of the Malaysian economy, the growing private education industry, the location of the Subject Lands and Buildings as well as the established reputation and operations of Sunway College and Sunway University, we believe that going forward, barring any unforeseen circumstances, the overall prospects of the Subject Lands and Buildings should be generally positive.</p> <p>The Proposed Acquisition will not have any effect on the unitholders' capital and substantial unitholders' interest in Sunway REIT as the Proposed Acquisition will be satisfied entirely in cash.</p> <p>Upon completion, the Proposed Acquisition is expected to contribute to the future earnings of Sunway REIT by approximately RM2.52 million or DPU of 0.09 sen per annum.</p> <p>The Proposed Acquisition is not expected to have any material effect on the earnings, EPU, DPU, NAV and NAV per unit of Sunway REIT for the FYE 30 June 2019.</p> <p>On the assumption the Purchase Consideration is to be funded via 65% equity (Perpetual Note Programme) and the remaining 35% via debt, the gearing of Sunway REIT will decrease from 38.6% to 38.4% upon completion of the Proposed Acquisition.</p> <p>Premised on the above, going forward, the Proposed Acquisition should contribute positively to the financials of Sunway REIT.</p>
Risk factors relating to the Proposed Acquisition	Section 5.5	<p>We note that the risks associated with the Proposed Acquisition are the typical risks associated with the business of leasing/ownership of real estate and similar with some of the risks undertaken by other real estate investment trusts.</p> <p>We wish to highlight that although the Trustee/Manager can take reasonable steps to manage the risks associated with the Proposed Acquisition, no assurance can be given that any or all of the risk factors will not crystallise and give rise to a material and adverse impact on the financial performance, position or prospects of Sunway REIT.</p>
Salient terms of the SPA, Lease Agreements and Novation Agreements	Section 5.6	<p>Based on our review of the salient terms of the SPA, Lease Agreements and Novation Agreements, we are of the opinion that the overall terms of the SPA, Lease Agreements and Novation Agreements are reasonable and not detrimental to the interest of the Non-Interested Unitholders.</p>

**3. CONCLUSION AND RECOMMENDATION**

We have assessed and evaluated the Proposed Acquisition after taking into consideration the various factors as discussed above. Based on our evaluation and on the basis of the information available to us, we are of the opinion that the Proposed Acquisition is **fair and reasonable** and **not detrimental** to your interest.

**Accordingly, we recommend that you vote in favour of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.**

**YOU ARE ADVISED TO READ BOTH THIS INDEPENDENT ADVICE LETTER AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES ENCLOSED THEREIN THOROUGHLY FOR MORE INFORMATION AND NOT TO RELY SOLELY ON THIS EXECUTIVE SUMMARY BEFORE FORMING AN OPINION ON THE PROPOSED ACQUISITION.**

**YOU ARE ADVISED TO CONSIDER CAREFULLY THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION AT THE FORTHCOMING UNITHOLDERS' MEETING.**



**AmInvestment Bank**

**Registered Office:**  
22<sup>nd</sup> Floor  
Bangunan AmBank Group  
55, Jalan Raja Chulan  
50200 Kuala Lumpur

22 March 2019

**To: The Non-Interested Unitholders of Sunway Real Estate Investment Trust (“Sunway REIT”)**

Dear Sir / Madam,

**INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED UNITHOLDERS OF SUNWAY REIT IN RELATION TO THE PROPOSED ACQUISITION**

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*This IAL is prepared for inclusion in the circular to the unitholders of Sunway REIT dated 22 March 2019 in relation to the Proposed Acquisition and should be read in conjunction with the same. All definitions used in this IAL shall have the same meaning as the words and expressions provided in the “Definitions” section of the Circular, except where the context otherwise requires or where otherwise defined herein.*

**1. INTRODUCTION**

On 24 December 2018, on behalf of the Board, RHB Investment Bank announced that the Trustee, had on even date, entered into the SPA with the Vendor, Sunway Destiny for the proposed acquisition of the Subject Lands and Buildings for a total cash consideration of RM550 million.

In view of the interests of the Interested Parties (as defined herein) as set out in Section 8 of Part A of the Circular, the Board had on 26 November 2018 appointed AmInvestment Bank to act as the Independent Adviser in relation to the Proposed Acquisition.

The purpose of this IAL is to provide the non-interested unitholders of Sunway REIT (“**Non-Interested Unitholders**”) with an independent evaluation of the Proposed Acquisition, together with the opinions and recommendations contained herein, subject to the scope and limitations set out herein. This IAL is prepared solely for the purpose of assisting the non-interested Directors and advising the Non-Interested Unitholders to evaluate the fairness and reasonableness of the Proposed Acquisition. You, as the Non-Interested Unitholder, should nonetheless rely on your own examination of the merits of the Proposed Acquisition before making a decision in connection with the resolution pertaining to the Proposed Acquisition at the forthcoming Unitholders’ Meeting.

**YOU ARE ADVISED TO READ BOTH THIS INDEPENDENT ADVICE LETTER AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES ENCLOSED THEREIN THOROUGHLY, AND TO CONSIDER CAREFULLY THE RECOMMENDATIONS CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION AT THE FORTHCOMING UNITHOLDERS’ MEETING.**

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**AmInvestment Bank Berhad** (23742-V)

*A member of the AmBank Group*

*(A Participating Organisation of Bursa Malaysia Securities Berhad)*

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**W:** [ambankgroup.com](http://ambankgroup.com)

**IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

## **2. SCOPE, LIMITATIONS AND ASSUMPTIONS TO THE EVALUATION AND OPINION**

AmInvestment Bank is not involved in the formulation of or any of the deliberations and negotiations on the terms and conditions of the Proposed Acquisition. In performing our evaluation, we have relied on the following:-

- (a) information contained in the SPA, Lease Agreements and Novation Agreements;
- (b) information contained in Part A of the Circular and the accompanying appendices in the Circular;
- (c) information contained in the Valuation Report and the Valuation Certificate in relation to the Subject Lands and Buildings;
- (d) discussions with and relevant information furnished to us by the Manager and the Valuer (both orally and in writing); and
- (e) other publicly available information which we deemed relevant.

We have relied on the accuracy of the information and documents furnished to us by the Manager and the Valuer and have not independently verified such information and documents for their validity, reliability, accuracy and/or completeness.

The Board confirmed that they had read this IAL and collectively and individually accept full responsibility for the information on Sunway REIT, the Subject Lands and Buildings and the Proposed Acquisition as disclosed in this IAL and/or documents provided to us, which are essential to our evaluation, and confirmed that after making all reasonable enquiries, and to the best of their knowledge and belief, there is no omission of any material fact which would make any information and statement disclosed to us incomplete, inaccurate, false or misleading.

It is not within our terms of reference to express any opinion on the commercial benefits of the Proposed Acquisition and this remains the responsibility of the Board. In preparing this IAL, we have considered various factors which we believe are important in enabling us to form an opinion on the fairness and reasonableness of the Proposed Acquisition so far as the Non-Interested Unitholders are concerned, and whether it is to the detriment of the Non-Interested Unitholders. We are not in possession of information relating to, and have not given any consideration to, separate specific investment objectives, financial situations and particular needs of any individual unitholder or any specific group of unitholders.

The scope of AmInvestment Bank's responsibility with regard to its evaluation and recommendation is based on the considerations set out in the ensuing sections of this IAL, and where comments or points of consideration are included on matters which may be commercially oriented, these are incidental to our overall evaluation and concern matters which we may deem material for disclosure.

We shall not be liable for any damage or loss of any kind sustained or suffered by any individual Unitholder or group of unitholders in reliance on our opinion stated herein for any purpose whatsoever which is particular to such unitholder or group of unitholders.

Our opinion as set out in this IAL is, amongst others, based on prevailing market, economic, industry and other conditions (if applicable), and the information and/or documents made available to us as at the LPD. Such conditions may change significantly over a short period of time. It should be noted that our evaluation and opinions expressed in this IAL do not take into account the information, events or conditions arising after the LPD or such other period as specified herein, as the case may be.

### **3. DECLARATION OF CONFLICT OF INTEREST AND OUR CREDENTIALS, EXPERIENCE AND EXPERTISE**

#### **3.1 CONFLICT OF INTEREST**

AmInvestment Bank and/or its related and associated companies (“**AmBank Group**”) form a diversified financial group and are engaged in a wide range of transactions relating to, amongst others, investment banking, commercial banking, private banking, brokerage, securities trading and investment, asset and funds management and credit transaction services businesses. AmBank Group’s securities business is primarily in the areas of debt and equity securities underwriting and investment, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of the AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of Sunway REIT.

As at the LPD, the AmBank Group has extended credit facilities of RM100.1 million to Sunway Berhad and its group of companies (“**Sunway Group**”). We are of the view that the aforementioned credit facilities do not result in any conflict of interest situation in respect of our capacity as the Independent Adviser for the Proposed Acquisition as the aforementioned credit facilities have been extended by the AmBank Group in the ordinary course of its banking business, and the terms and conditions of such credit facilities are offered on an arm’s length basis. In addition, the operation of AmBank Group is regulated by the Financial Services Act, 2013 and its internal Chinese Wall Policy. For information, the credit facilities extended by AmBank Group to Sunway Group represents less than 1% of AmBank Group’s net loans, advances and financing for the financial year ended 31 March 2018.

Save for the Proposed Acquisition and the acquisition of Sunway Clio Property as set out in Section 3.2(e), we have not advised Sunway REIT in the capacity of principal adviser or independent adviser for any corporate exercise within the past two (2) years preceding the LPD.

Premised on the above, we confirm that no conflict of interest situation exists or is likely to exist in relation to our role as the Independent Adviser to Sunway REIT in respect of the Proposed Acquisition.



### 3.2 CREDENTIALS, EXPERIENCE AND EXPERTISE

AmInvestment Bank is an approved corporate finance adviser within the meaning of the Principal Adviser Guidelines issued by the Securities Commission Malaysia. We provide a range of advisory services including, amongst others, mergers and acquisitions, take-overs/general offers, restructuring, equity fund raisings, asset and investment valuations as well as initial public offerings.

The credentials and experience of AmInvestment Bank as an independent adviser in the past two (2) years prior to the date of the SPA include, amongst others, the following:-

- (a) voluntary withdrawal of Hovid Berhad's listing from the Main Market of Bursa Malaysia, which was announced on 14 September 2018;
- (b) conditional voluntary take-over by Fajar Astoria Sdn Bhd and David Ho through CIMB Investment Bank Berhad, to acquire all the remaining securities in Hovid Berhad (excluding treasury shares) not already held by them, which was announced on 14 September 2018;
- (c) conditional voluntary take-over by Jacobs Douwe Egberts Holdings Asia NL B.V to acquire all the issued ordinary shares of OldTown, which was announced on 11 December 2017;
- (d) conditional voluntary take-over by Fajar Astoria Sdn Bhd and David Ho through CIMB Investment Bank Berhad, to acquire all the remaining securities in Hovid Berhad (excluding treasury shares) not already held by them, which was announced on 9 October 2017;
- (e) acquisition by RHB Trustees Berhad (trustee of Sunway REIT) of Sunway Clio Property from Sunway Forum Hotel Sdn. Bhd., a wholly owned subsidiary of Sunway Berhad for a purchase consideration of RM340 million, which was announced on 3 August 2017;
- (f) selective capital reduction and repayment exercise of Hwang Capital (Malaysia) Berhad pursuant to Section 117 of the Companies Act, 2016, which was announced on 30 June 2017; and
- (g) unconditional mandatory take-over offer by Actis Stark (Mauritius) Limited ("Actis") through CIMB Investment Bank Berhad, to acquire all the remaining ordinary shares in GHL Systems Berhad (excluding treasury shares) not already held by Actis, which was announced on 31 March 2017.

Premised on the foregoing, we are capable and competent and have the relevant experience to carry out our role and responsibilities as the Independent Adviser to advise the Non-Interested Unitholders in relation to the Proposed Acquisition.

### 4. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS OF SUNWAY REIT, AND/OR PERSON CONNECTED WITH THEM

The interests of the interested major unitholders of Sunway REIT and a Director and major shareholders of the Manager (collectively, referred to as "**Interested Parties**") are set out in Section 8 of Part A of the Circular.

Sarena Cheah, being the Non-Independent Non-Executive Director, indirect major shareholder of the Manager and indirect major unitholder of Sunway REIT, had abstained and will continue to abstain from all deliberations and voting at the relevant Board meetings of Sunway REIT pertaining to the Proposed Acquisition. The Interested Parties will also abstain from voting for their direct and/or indirect unitholdings in Sunway REIT, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.

The Interested Parties have also undertaken to ensure that persons connected with them will abstain from voting for their direct and/or indirect unitholdings in Sunway REIT, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.

Save as disclosed in Section 8 of Part A of the Circular, none of the other Directors of the Manager, major unitholders of Sunway REIT and/or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition.

## **5. EVALUATION OF THE PROPOSED ACQUISITION**

The Proposed Acquisition entails the acquisition of the Lands together with all the buildings (including all fixtures and fittings, services infrastructure and systems located or used in the buildings) but excludes the Excluded Buildings i.e. South Annex Building, Graduate Centre, East Building and International School. The Vendor had leased the Leased Lands to SEG and granted SEG full permission to occupy and construct the Excluded Buildings.

The Lease Agreements entered into between the Vendor, and the Lessees for the leases of the Buildings, Sports Facilities and Leased Lands will be novated to the Trustee upon the completion of the Proposed Acquisition for the Lessees to continue their operations under similar terms as per the Lease Agreements. The novation agreements shall be executed within 7 days from Unconditional Date and shall be effective on Completion Date.

In evaluating the Proposed Acquisition, we have considered the following factors:-

- (a) basis and justification for the Purchase Consideration;
- (b) rationale for the Proposed Acquisition;
- (c) industry outlook and future prospects;
- (d) effects of the Proposed Acquisition;
- (e) risk factors relating to the Proposed Acquisition; and
- (f) salient terms of the SPA, Lease Agreements and Novation Agreements.

## 5.1 BASIS AND JUSTIFICATION FOR THE PURCHASE CONSIDERATION

The Purchase Consideration for the Subject Lands and Buildings of RM550 million is derived based on the market value of the Subject Lands and Buildings as ascribed by the Valuer.

For the purpose of evaluating the fairness of the Purchase Consideration, we have relied on the Valuation Report. Non-Interested Unitholders are advised to read our comments below and refer to the Valuation Certificate as enclosed in **Appendix II** of this Circular.

We note that the Valuer adopted the Income Approach by Investment Method as the principal valuation methodology to derive the market value of the Subject Lands and Buildings. The Cost Approach was also used to cross check the RM550 million valuation for the Subject Lands and Buildings derived from the Income Approach.

A summary of the values derived from the two valuation methodologies is as follow:-

<b>Valuation approach</b>	<b>Derived value</b>	<b>Section</b>
Income Approach	RM550 million	5.1.1
Cost Approach	RM555 million	5.1.2

We are of the opinion that the Income Approach is appropriate to be used as the principal valuation methodology as the Income Approach takes into consideration the following:-

- (i) that the Subject Lands and Buildings are commercial income generating assets; and
- (ii) the net income is capitalised into market value at a capitalisation rate which reflects the expected return on the investment in the Subject Lands and Buildings over the lease term.

Further details of the valuation methodologies and parameters are set out below.

### 5.1.1 Income Approach

The Income Approach involves capitalisation of the net annual income stream that is expected to be received from the Subject Lands and Buildings after deducting the annual outgoings and other operating expenses incidental to the Subject Lands and Buildings with allowance of void by using the appropriate market derived capitalisation rate.

The following parameters were adopted by the Valuer in undertaking their assessment:-

#### (a) Buildings

- **Term**

The Valuer benchmarked the lease rental against the current rental rates payable by various institutional educational assets within the Klang Valley.

The lease rental of RM1.94 per square foot (“**psf**”) per month over the total gross floor area excluding basement car park area is within the range of the current rental payable (after being adjusted for location, size, age of buildings and facilities) of RM1.47 psf to RM2.50 psf per month.

The abovementioned lease rental with an increment of 2.3% annually for the initial term of the leases is expected to give a rental yield of 6.75% to 8.75% which is similar to the range existing yields of selected institutional / educational assets transactions within the Klang Valley (6.50% to 7.20%).

Thus, we are of the opinion that the lease rental over the lease term is fair.

- **Reversion**

The Valuer adopted an average adjusted rental of RM1.95 psf per month over the total gross floor area excluding basement car park area.

We note that the unadjusted market rent of other selected buildings located within the Klang Valley ranges between RM1.55 psf to RM3.13 psf. Based on due enquiry with the Valuer, we note that the Valuer had adjusted market rent of these selected buildings and have derived a market rent ranging from RM1.47 to RM2.50 after taking into consideration of the location/catchment area, size, age of building and facilities. A summary of the rationale for the said adjustments is as follow:-

<b>Adjustments</b>	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
Location/Catchment Area /Accessibility	An upward adjustment is made as the Buildings are part of the Sunway City which has a larger catchment area. Further adjustment is made as the Buildings are a mature education hub	An upward adjustment is made as the Buildings are part of the Sunway City which has a larger catchment area	An upward adjustment is made as the Buildings are part of the Sunway City which has a larger catchment area
Size	A further downward adjustment is made as the Buildings are much larger in size (1,619,268 sf bigger than the comparable)	A downward adjustment is made as the Buildings are larger in size	A downward adjustment is made as the Buildings are larger in size
Condition/Specification of Building	A downward adjustment is made as the Comparable is having a better building condition / specification as compared to the Buildings	A downward adjustment is made as the Comparable is having a better building condition / specification as compared to the Buildings	A downward adjustment is made as the Comparable is having a better building condition / specification as compared to the Buildings

<b>Adjustments</b>	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
Facilities	An upward adjustment is made as the Buildings are a university and college that incorporated better/more facilities for academic / administrative use	An upward adjustment is made as the Buildings are a university and college that incorporated better/more facilities for academic / administrative use	An upward adjustment is made as the Buildings have better facilities for academic / administrative use
<b>Effective Adjustment</b>	<b>-20%</b>	<b>-5%</b>	<b>-10%</b>
<b>Adjusted market rent</b>	<b>RM2.50 psf</b>	<b>RM1.47 psf</b>	<b>RM1.87</b>

Thus, we are of opinion that the average adjusted rental of RM1.95 psf per month over the total gross floor area excluding basement car park area is fair.

- **Void Allowance**

A void allowance is provided to reflect unforeseen vacancies, possible rent-free periods, fitting-out periods and possibility of bad debts. Typically, the void allowance is usually in the region of 3.00% to 5.00% to reflect the lower void risk from multiple tenancies. Factors such as the tenant profile as well as the occupancy rate achieved are taken into consideration when determining the void allowance.

Taking into consideration that the Lessees, being Sunway University Sdn. Bhd, Sunway College (KL) Sdn. Bhd. and SEG are considered as a single operator, the Valuer adopted a void allowance of 10.00% of the annual income. Thus, we are of the opinion that the void allowance of 10.00% of the annual income is fair.

- **Allowance of Outgoings**

(a) Term

The current rental payable to Sunway Destiny is based on a triple net basis whereby the Lessees will undertake to pay all real estate taxes, building insurance, and maintenance; save and except for structural repairs. Based on past years' records made available to the Valuer, the Valuer noted there were no expenses relating to structural repairs and it would be fair and adequate to adopt a provisional outgoing rate of 2.00% of gross income.

Based on due enquiry with the Valuer, we note that the provisional outgoing rate of 2.00% of gross income is consistent with other lease arrangements of similar buildings whereby the provisional outgoing rate ranges between 2.00% to 3.00%. The Valuer had adopted the minimum of 2.00% as the Valuer noted there were no expenses relating to structural repairs. Thus, we are of the opinion that the provisional outgoing rate of 2.00% of gross income is fair.

(b) Reversion

Taking into consideration typical replacement or reserve fund allocation allocated to similar class assets, the Valuer adopted an outgoing rate of 3.00% of gross income as the projected allocation for miscellaneous expenses which includes provision for structural works and excludes all quit rent, assessment, fire insurance charges as well as other rates imposed.

Based on due enquiry with the Valuer, we note that the provisional outgoing rate of 3.00% of gross income is consistent with other lease arrangements of similar buildings whereby the provisional outgoing rate is between to 2.00% to 3.00%. The Valuer had adopted the maximum of 3.00% for future incremental cost. Thus, we are of the opinion that the reversion provisional outgoing rate of 3.00% of gross income is fair.

- **Capitalisation Rate**

(a) Term

The Valuer adopted a capitalisation rate of 6.75% to 8.75% after benchmarking against prevailing market rates and after adjustment of +/-0.25 basis point for every RM0.20 psf difference in the rate psf against the market rent. For every 10% increase in the lease rentals, the capitalisation rate is increased by 0.25 basis points up to a maximum of 8.75%.

The applied capitalisation rate of 6.75% to 8.75% is higher than Sunway REIT's weighted average cost of capital of 6.60%. (*Source: Bloomberg @ 24 December 2018*)

Based on the above, we are of the opinion that the applied capitalisation rate of 6.75% to 8.75% is fair.

(b) Reversion

The Valuer noted that the existing yields of institutional / educational assets transactions within the Klang Valley ranged between 6.50% to 7.20%.

After taking into consideration the prevailing market conditions, location, concept and design of the Buildings as well as the committed lease arrangement, the Valuer considered it was fair representation to adopt a reversionary capitalisation rate of 6.75%.

Based on due enquiry with the Valuer, we note that the Valuer had adopted two comparables which were recently transacted with yields ranging between 6.50% and 7.00%. Thus, the Valuer had adopted the average of these yields being 6.75%.

Thus, we are of the opinion that the reversionary capitalisation rate of 6.75% is fair.

**(b) Leased Lands**

- **Term**

The Valuer benchmarked the lease rental of the Leased Lands against the current rental rates payable by other selected leased lands within the Klang Valley which ranged between RM0.21 psf to RM1.06 psf per month payable (after being adjusted for location, catchment area, size and accessibility). The size of the Leased Lands is 4,830 sq. metres (approximately 51,990 sq. feet).

The lease rental of RM0.50 psf per month over the leased area is within the range of the aforementioned leased rentals.

The abovementioned lease rental with an increment of 2.3% annually for the initial term of the leases is expected to give a rental yield of 3.5% to 4.75% which is similar to the existing yields of 3.0% to 4.0% selected leased lands within the Klang Valley.

Thus, we are of the opinion that the lease rental over the lease term is fair.

- **Reversion**

The Valuer assessed the market rental based on the market rental payable of other selected leased lands situated within the Klang Valley. The market rental of the other leased lands ranged between RM0.21 psf to RM1.06 psf over the respective land area.

The Valuer adopted a revision of RM0.50 psf per month over the delineated land area. Based on due enquiry with the Valuer, we note that the comparables considered by the Valuer consist of 3 leased lands situated within the Klang Valley. We further note that the Valuer had adopted the leased land with least dissimilarities as the comparable after making adjustments for differences in location/catchment area (+5%), size (-10%) and accessibility (-15%). The other two leased lands were not considered appropriate to be used as a reference.

Based on the above, we have taken note the assumptions and are of the opinion that the revision of RM0.50 psf per month over the delineated land area is fair.

- **Void allowance**

The Valuer considered factors such as unforeseen vacancies, possible rent-free periods, fitting out periods and possibility of bad debts and adopted a void allowance of 5.00% of the annual income in reversionary period as a fair representation.

We are of the opinion that the void allowance of 5.00% of the annual income in reversionary period is fair as this is also consistent with similar lease agreements.

- **Allowance of Outgoings**

- (i) Term

Based on the Lease Agreements, the rental payable to Sunway Destiny is based on triple net basis, where the SEG will undertake to pay all cost of expenses relating to the Leased Lands. Thus, the Valuer did not adopt any provision for outgoing.

Based on the above, we are of the opinion that the nil provision for outgoing is fair.

- (ii) Reversion

The Valuer allocated 5.00% of gross income as projected allocation for expenses relating to land tax (quit rent) as fair after having considered the current quit rent payable levied to the Leased Lands. We note that quit rent per annum over the gross income is 5%.

Based on the above, we are of the opinion that the reversion provisional outgoing rate of 5.00% of gross income is fair.

- **Capitalisation Rate**

- (i) Term

The Valuer adopted a capitalisation rate of 3.50% to 4.75% after benchmarking against prevailing market rates and after adjustment of +/-0.25 basis point for every 10% differences in the rate psf against the market rent.

Based on due enquiry with the Valuer, we note that the Valuer had adopted yields of 3.50% to 4.75% based on industry practice.

Based on the above, we are of the opinion that the capitalisation rate of 3.50% to 4.75% is fair as this is consistent with prevailing yields of leased lands.

- (ii) Reversion

The Valuer noted that it was difficult to assess the yields for the Leased Lands due to the lack of land transactions for investment asset in the market. The Valuer investigated and performed an informal survey from land owners and noted that the most probable expected return was in the region of 3.00% - 4.00%. Accordingly, the Valuer adopted a reversionary rate of 3.50%, being the average of 3.00% - 4.00%.

Based on the above, we are of the opinion that the reversionary capitalisation rate of 3.50% is fair as this is consistent with the probable expected returns of leased lands .

Based on the Income Approach by Investment Method and the above parameters, the Valuer ascribed a valuation of RM550 million to the Subject Lands and Buildings. Accordingly, we consider the valuation of RM550 million for the Subject Lands and Buildings as fair.



## 5.1.2 Cost Approach

The Valuer adopted the Cost Approach as a counter-check for the Income Approach detailed in Section 5.1.1.

The Cost Approach is derived principally by considering the cost of acquiring similar land in the area, replacement cost of a similar property on the land, and adjusting for the required depreciation based on physical deterioration, functional obsolescence and economic obsolescence.

### (a) Depreciated value of the Buildings

In assessing the depreciated value of the Buildings, the Valuer considered the awarded contract sum (in relation to New University Block) as well as the industry average costing as derived from the analysis of other awarded contracts of similar development and the average building costs of similar type of properties published by JUBM and Arcadis Construction Cost Handbook Malaysia 2018, as detailed below.

#### (i) Awarded costing for selected educational assets

<b>Buildings</b>	<b>Average Building Cost (RM per sq ft)</b>
An international school campus located in Pekan Sungai Buloh, Selangor Darul Ehsan	RM232 (over total floor area of 418,084 sf)
An international school campus located in Mukim Tanjong Duabelas, Selangor Darul Ehsan	RM210 (over total floor area of 137,496 sf)
A university campus located in Pekan Sungai Buloh, Selangor Darul Ehsan	RM203 (over total floor area of 644,575 sf)
An international school campus located in Pekan Kajang, Selangor Darul Ehsan	RM178 (over total floor area of 142,971 sf)

#### (ii) Construction cost of selected educational assets

<b>Kuala Lumpur</b>	<b>RM/ sq m (RM/sq ft)</b>		
	<b>Building</b>	<b>Services</b>	<b>Total</b>
<b>Others</b>			
Primary and Secondary School	840 – 970 (78 – 90)	200 – 230 (19 – 21)	1,040 – 1,200 (97 – 111)
Student Hostels	975 – 1,050 (91 – 98)	255 – 305 (23 – 28)	1,230 - 1,355 (114 – 126)
Sports Clubs inclusive Furniture, Fittings and Equipment	1,880 – 2,165 (175 – 201)	550 – 675 (51 – 63)	2,430 – 2,840 (226 – 264)

(iii) Development cost of New University Block and Sport Facilities

The Valuer noted and considered the total development cost of the New University Block and Sport Facilities of RM258,616,682, which works out to be RM247 per sq ft (over total floor area of 1,046,512 sf).

The Valuer adopted the following basis in their assessment of the value of the Buildings:-

<b>Buildings</b>	<b>Average Building Cost (RM per sq ft)</b>	<b>Age of building</b>	<b>Accumulated Depreciation Rate @ 1.5% per annum</b>
New University Block	RM260 <sup>(1)</sup>	3 years	4.5% <sup>(4)</sup>
North Building	RM220 <sup>(2)</sup>	22 years	33.0% <sup>(4)</sup>
South Building	RM220 <sup>(2)</sup>	25 years	37.5% <sup>(4)</sup>
Hostel	RM130 <sup>(3)</sup>	25 years	37.5% <sup>(4)</sup>

**Notes:-**

- (1) Computed based on the development cost of NUB which was completed in 2016 and adjusted to reflect current building cost.
- (2) Computed based on the development cost of NUB and adjusted for the physical condition and functionality of the buildings.
- (3) This is adopted from the construction cost of student hostels as set out in the abovementioned Section 5.1.2(ii) which is extracted from JUBM and Arcadis construction Cost Handbook Malaysia 2018.
- (4) The accumulated depreciation rate is computed based on the age of buildings multiplied 1.5% per annum.

A rate of 1.5% depreciation rate per annum (which translates to a building lifespan of 66.7 years) is applied after taking into consideration the type, design, usage and specifications/ finishes the buildings. Upon inspection by the Valuer, the Valuer had confirmed that the Buildings are in good condition and with regular upkeep and maintenance.

Premised on the above, the average building cost, age of the building as well as the assumed 66.7 years building lifespan and depreciation rate of 1.5%, we consider the basis adopted by the Valuer as fair.

**(b) Lands**

The value of the Lands using the Cost Approach is arrived principally using the Comparison Approach; whereby it considered the sales of similar or substitute properties and related market data, and established an estimate value by comparison.

The Valuer noted that there were limited recorded transactions of similar land transactions in the immediate and surrounding localities that were similar to the Lands. For the purpose of the valuation, the Valuer identified the following 3 properties as comparables whereby they were of the view that the lands had similar attributes in terms of terrain and plot ratio when compared to the Lands. The Valuer made appropriate adjustments to reflect the differences between the following comparables and the Lands.

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Legal description	Lot 72024 and Lot 72025 held under Title No. GRN 321057 and GRN 321058, held under Title Nos. GRN 321057 and GRN 321058 respectively, Pekan Country Height, District of Petaling, Selangor Darul Ehsan	Lot PT 9, PT 10, PT 11 and PT 12 held under Title Nos. HSD 120169, HSD 120170, HSD 120171 and HSD 120172, located within Bandar Petaling Jaya Selatan, District of Petaling, Selangor Darul Ehsan	Lot 526, Lot 527, Lot 528 and Lot 62506 held under Title Nos. Geran Mukim 85, Geran Mukim 84, Geran Mukim 83 and Geran Mukim 319 respectively, Locality of Sungei Penaga, Mukim of Damansara, District of Petaling, Selangor Darul Ehsan
Type of Property	Two (2) contiguous parcels of vacant commercial land	Four (4) parcels of commercial land	Four (4) contiguous parcels of industrial land with redevelopment potential
Locality	Located within Tropicana Metropark, Subang Jaya	Located along the New Pantai Expressway (NPE)	Located along Persiaran Subang Permai, USJ 1, Subang Jaya
Transaction Date	13 April 2018	11 September 2017	1 August 2017
Transaction Price	RM143,000,000	RM37,442,928	RM167,589,760
Analysis (RM per square foot)	360	220	260
Adjustments made by the Valuer	<ul style="list-style-type: none"><li>• Location (+5%)</li><li>• Accessibility (+5%)</li><li>• Tenure (-15%)</li><li>• Land area (-15%)</li><li>• Planning (-10%)</li></ul>	<ul style="list-style-type: none"><li>• Location (+15%)</li><li>• Accessibility (+10%)</li><li>• Land area (-20%)</li><li>• Shape (+15%)</li><li>• Planning (-10%)</li></ul>	<ul style="list-style-type: none"><li>• Location (+10%)</li><li>• Accessibility (+5%)</li><li>• Tenure (-15%)</li><li>• Category of land use (+5%)</li><li>• Planning (-10%)</li></ul>
Adjusted Value (RM per square foot)	252 <sup>(a)</sup>	242 <sup>(a)</sup>	247 <sup>(a)</sup>

**Notes:-**

We note that the Valuer had made net adjustments of -30% for Comparable 1, +10% for Comparable 2 and -5% for Comparable 3. A summary of the rationale for the said adjustments is as follow:-

	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
<i>Location/ Establishment</i>	<i>An upward adjustment is made as the Lands is being part of the Sunway City which having a larger catchment area and is a mature educational hub</i>	<i>An upward adjustment is made as the Lands is being part of the Sunway City which having a larger catchment area and is a mature educational hub; further adjustment is made as the comparable is situated in the vicinity of PJS 5 which is located within an area predominantly occupied by industrial premises</i>	<i>An upward adjustment is made as the Lands is being part of the Sunway City which having a larger catchment area and is a mature educational hub; further adjustment is made as the comparable is situated in Subang Permai which detached from the densely populated neighbourhoods in the vicinity</i>
<i>Accessibility</i>	<i>An upward adjustment is made as the Lands is with better accessibility and public transportation connectivity</i>	<i>An upward adjustment is made as the Lands is with better accessibility and public transportation connectivity. Further adjustment is made in relation to the unfavorable accessibility (accessible via internal roads) of the Comparable</i>	<i>An upward adjustment is made as the Lands is with better accessibility and public transportation connectivity</i>
<i>Tenure</i>	<i>A downward adjustment is made as the Lands conveys a leasehold interest</i>	<i>Comparable to Lands</i>	<i>A downward adjustment is made as the Lands conveys a leasehold interest</i>
<i>Land Area</i>	<i>A downward adjustment is made as the Comparable having a smaller land area</i>	<i>A downward adjustment is made as the Comparable having a smaller land area</i>	<i>Comparable to Lands</i>
<i>Shape</i>	<i>Comparable to Lands</i>	<i>An upward adjustment is made as the Comparable is irregular in shape</i>	<i>Comparable to Lands</i>
<i>Terrain</i>	<i>Comparable to Lands</i>	<i>Comparable to Lands</i>	<i>Comparable to Lands</i>
<i>Category of Land Use</i>	<i>Comparable to Lands</i>	<i>Comparable to Lands</i>	<i>An upward adjustment is made as the Comparable are industrial land</i>
<i>Planning</i>	<i>A downward adjustment is made as the Lands convey a limitation usage for institution</i>	<i>A downward adjustment is made as the Lands convey a limitation usage for institution</i>	<i>A downward adjustment is made as the Lands convey a limitation usage for institution</i>
<i>Plot Ratio</i>	<i>Comparable to Lands</i>	<i>Comparable to Lands</i>	<i>Comparable to Lands</i>

(Source: Valuation Report)

After adjusting for various dissimilarities, amongst others, the location, establishment, accessibility, tenure, category of land use and planning provision, the Valuer placed greater reliance on Comparable 3 with a base land value of RM247 psf and site improvement of about RM10 psf as it was the least adjusted comparable.

Based on due enquiry with the Valuer, we have taken note on the adjustments made to the comparables by the Valuer and consider these adjustments reasonable. We are of the opinion that Comparable 3 is more appropriate as it is the least adjusted as compared to Comparable 1 and Comparable 2.

Set out below is the total value of the Subject Lands and Buildings using the Cost Approach.

<b>Summary of Parameters</b>	<b>RM'000</b>
Depreciated Building Value	RM367,000
Improved Land Value	RM188,000
<b>Total Value using Cost Approach</b>	<b>RM555,000</b>

Based on the Valuation Report, we are satisfied with the bases and assumptions used by the Valuer in arriving at the valuation of the Subjects Lands and Buildings. Accordingly, we consider the Purchase Consideration for the Subjects Lands and Buildings as fair.

## 5.2 RATIONALE FOR THE PROPOSED ACQUISITION

We take cognisance of the rationale for the Proposed Acquisition as set out in Section 3, Part A of this Circular:-

### (a) Accretion to earnings and distribution per unit (“DPU”)

Based on the assumption that the Purchase Consideration is to be financed via a combination of 35% Existing Debt Programmes and 65% Perpetual Note Programme, the Proposed Acquisition is expected to have an incremental earnings of 0.09 sen computed as follow:-

	<b>Net property income<sup>(i)</sup></b>	<b>Management &amp; Trustee Fees<sup>(ii)</sup></b>	<b>Cost of Financing<sup>(iii)</sup></b>	<b>Annual incremental earnings<sup>(iv)</sup></b>	<b>Incremental earnings per unit<sup>(v)</sup></b>
Subject Lands and Buildings	RM34.20 million	RM2.74 million	RM28.94 million	RM2.52 million	0.09 sen

#### Notes:-

- (i) Based on the rental of the Subject Lands and Buildings.
- (ii) RM2.74 million refers to management fees payable to the Manager as well as trustee fees payable to the Trustee. Management fees are computed at a base rate of 0.30% per annum of the gross asset value plus a further 3% of the net property income. These rates are consistent with other Sunway REIT's properties. Trustee fees are computed based on 0.015% of RM357.1 million, being part of the Purchase Consideration funded via equity. The Trustee fees are consistent with other Sunway REIT's properties.
- (iii) Assuming the Proposed Acquisition is to be financed via a combination of debt and equity to be sourced via the Existing Debt Programmes and Perpetual Note Programme at an average cost of 5.21% per annum.
- (iv) Incremental earnings are derived from net property income after deducting management and trustee fees and cost of financing.
- (v) Computed based on 2,945,078,000 units of Sunway REIT in issue as at the LPD.

The Subject Lands and Buildings are income generating assets with existing leases which will be novated to the Trustee upon completion of the Proposed Acquisition. The Proposed Acquisition is expected to be immediately earnings accretive to Sunway REIT post completion.

Despite having an income distribution policy of at least 90%, Sunway REIT maintained a 100% income distribution track record from FYE 30 June 2011 to FYE 30 June 2018. Assuming Sunway REIT maintains an income distribution 100%, the Proposed Acquisition is expected to increase the DPU as it is earnings accretive.

**(b) Increased income stability through the Lease Agreements and increased WALE of Sunway REIT's portfolio**

As at 30 June 2018, Sunway REIT has a WALE of 1.99 years.

As set out in Section 3(b) of Part A of this Circular, the term of the leases of the Subject Lands and Buildings are for 30 years. The Proposed Acquisition will increase the WALE of Sunway REIT's enlarged portfolio from 1.99 years to 4.39 years upon completion. Any increase in the WALE is expected to provide Sunway REIT with more stable and sustainable income stream over the increased period.

**(c) Enhances the size of Sunway REIT's portfolio**

The Proposed Acquisition will increase Sunway REIT's value of investment properties by RM556 million (including estimated expenses that are allowed to be capitalised in relation to the Proposed Acquisition) to approximately RM7.8 billion. The Proposed Acquisition will help to strengthen Sunway REIT's current position as one of the largest real estate investment trusts in Malaysia by property market value.

No.	Listed REITs in Malaysia	Investment properties RM'billion <sup>(a)</sup>
1.	KLCC Properties Stapled Group Berhad	15.71
2.	Sunway Real Estate Investment Trust	7.84 <sup>(1)</sup>
3.	Pavilion Real Estate Investment Trust	5.89
4.	IGB Real Estate Investment Trust	4.96

*(Source: Bloomberg as at 14 March 2019 and latest available audited annual report of the respective REITs)*

**Note:-**

*(1) Assuming the Proposed Acquisition has been completed.*

**(d) Consistent with continued strategy of harnessing synergy amongst Sunway REIT's assets within the integrated township of Sunway City, and diversification of property portfolio**

Acquiring properties in Sunway City is amongst the Manager's strategies to maximize operating synergies with Sunway REIT's other properties located within Sunway City. The Proposed Acquisition is Sunway REIT's first foray into the education sector and it allows Sunway REIT to further diversify its current portfolio of retail, hospitality, office, medical and industrial sub-sector. As the education sector is susceptible to different risks exposure as compared to Sunway REIT's existing portfolio, the Proposed Acquisition may allow Sunway REIT to be more resilient during downturns in the economic cycles and possibly reduce the volatility in earnings fluctuations on Sunway REIT.

Premised on the above, we are of the opinion that the rationale for the Proposed Acquisition is reasonable.

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## 5.3 INDUSTRY OUTLOOK AND FUTURE PROSPECTS

In evaluating the prospects of Sunway REIT, we have considered the overview and prospects of the Malaysian economy which are relevant to the investment portfolio of Sunway REIT.

### 5.3.1 OVERVIEW AND OUTLOOK OF THE MALAYSIAN ECONOMY

As extracted from Section 4.1 of Part A of the Circular, the overview and outlook of the Malaysian economy are as below.

*“The Malaysian economy grew by 4.7% in the 4th quarter of 2018 (3rd quarter of 2018: 4.4%), supported by continued expansion in domestic demand and a positive growth in net exports. Private sector expenditure remained the main driver of domestic demand, while a rebound in real exports of goods and services (+1.3%; 3rd quarter of 2018: -0.8%) contributed towards the positive growth of net exports. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.4% (3rd quarter of 2018: 1.6%). For 2018 as a whole, the economy expanded by 4.7% (2017: 5.9%).*

*Domestic demand expanded at a more moderate pace of 5.6% (3rd quarter of 2018: 6.9%) during the quarter. Growth was weighed down by a moderation in gross fixed capital formation. Private consumption growth remained robust at 8.5% (3rd quarter of 2018: 9.0%), despite the frontloading of purchases during the tax holiday period in the previous quarter. Income and employment growth continued to drive household spending. Government measures to alleviate cost of living, such as special payments to civil servants and pensioners, also provided some support to consumer spending.*

*Private investment growth moderated to 4.4% (3rd quarter of 2018: 6.9%), attributed to slower capital spending across major economic sectors. However, ongoing multi-year projects particularly in the manufacturing sector continued to provide support to overall growth.*

*Headline inflation, as measured by the annual percentage change in the Consumer Price Index (“CPI”), declined to 0.3% in the 4th quarter of 2018 (3rd quarter of 2018: 0.5%). For 2018 as a whole, headline inflation averaged at 1.0% (2017: 3.7%), its lowest level since 2009. The decline in headline inflation was due mainly to transport inflation turning negative (4th quarter of 2018: -1.2%; 3rd quarter of 2018: 3.0%), reflecting the fixed domestic RON95 petrol and diesel prices during the quarter compared to the higher fuel prices in the base period of 4th quarter of 2017. The combined outcome of the zerorisation of the Goods and Services Tax and the implementation of the Sales and Services Tax continued to exert an overall downward impact to headline inflation during the quarter. The percentage of items in the CPI basket that had inflation of more than 2% remained low at around 9% in 4th quarter of 2018 (3rd quarter of 2018: 9%). Core inflation, excluding the impact of consumption tax policy changes, edged up to 1.6% (3rd quarter of 2018: 1.4%). Demand-driven inflationary pressures in the economy remained contained in the absence of excessive wage pressure and some degree of spare capacity in the capital stock.*

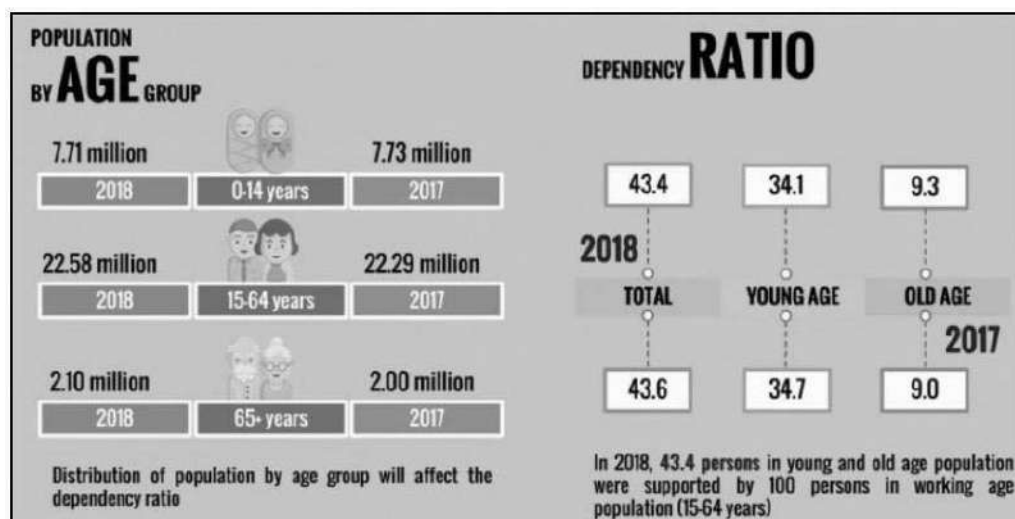
*During the 4th quarter, labour market conditions remained supportive of economic activity. Employment continued to expand albeit at a more moderate pace (2.4%, 3rd quarter of 2018: 2.6%), amid stable unemployment rate (3.3%; 3rd quarter of 2018: 3.4%). Stronger net employment gains were recorded in the services sector. Manufacturing sector wage growth remained firm at 9.8% (3rd quarter of 2018: 9.6%). Wage growth in export oriented industries (10.8%; 3rd quarter of 2018: 10.9%) continued to outpace that of domestic-oriented industries (6.6%; 3rd quarter of 2018: 6.1%).*



For 2019, as the supply disruptions recede and new production facilities commence, the Malaysian economy is expected to continue to expand at a steady pace. Private sector demand is expected to remain the main driver of growth amid fiscal rationalisation while the external sector would be weighed down by weaker global demand. Although sentiments have moderated from recent highs, private sector expenditure will continue to be supported by fundamental factors such as continued income and employment growth.

(Source: Bank Negara Malaysia, *Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2018*)

The statistics for Malaysia's growing population by age group from 2017 to 2018 extracted from Department of Statistics Malaysia is as follows:



(Source: Department of Statistics, Malaysia, *Selected demographic indicators Malaysia, 2018, 15 August 2018*)”

### Our comments:-

We note that the Malaysian economy recorded a slight growth in the fourth quarter of 2018. The growth was supported by the expansion in domestic demand where the private sector expenditure remained the key driver of growth and private consumption growth remained robust.

It was also reported that headline inflation averaged at 1.0% (2017: 3.7%), its lowest level since 2009. This decline was due mainly to lower domestic RON95 petrol and diesel prices during the current quarter as compared to the higher fuel prices in the corresponding 4th quarter of 2017. The combined outcome of the zerorisation of the GST in July 2018 and the implementation of the Sales and Services Tax also exerted an overall downward impact on headline inflation during the quarter.

We note that it has been reported that notwithstanding escalating trade tensions and tighter global financial conditions as well as unanticipated supply disruptions in the commodity-related sectors, the Malaysian economy had recorded a growth of 4.7% in 2018.

For 2019, as the supply disruptions recede and new production facilities commence, the Malaysian economy is expected to continue to expand at a steady pace. Private sector demand is expected to remain the main driver of growth amid fiscal rationalisation while the external sector would be weighed down by weaker global demand. Although sentiments have moderated from recent highs, private sector expenditure will continue to be supported by fundamental factors such as continued income and employment growth.

*(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2018)*

Based on the statistics extracted from the Department of Statistics Malaysia, there are 22.58 million people which falls in the age group of 15 years old to 64 years old (“**Working Age Population**”) in Malaysia in 2018 which equates to a dependency ratio of 43.4 persons in young and old age population were supported by 100 persons in the Working Age Population.

### **5.3.2 OVERVIEW AND OUTLOOK OF THE MALAYSIAN EDUCATION INDUSTRY**

As extracted from Section 4.2 of Part A of the Circular, the overview and outlook of the Malaysian education industry are as below.

*“According to Budget 2019, the Ministry of Education (“**Education Ministry**”) remains the single largest recipient of budget allocation at RM60.2 billion or 19.1% of the total Government of Malaysia (“**Government**”) expenditure for 2019.*

*The Government is deeply committed to higher education, and the annual total expenditure on higher education is equivalent to 7.7% of annual Government expenditure in 2015 (where the Education Ministry expenditure on higher education alone is 5.5% of annual Government expenditure). This is, according to the United Nations Educational, Scientific and Cultural Organization benchmarking, the highest among Malaysia’s peers – developed Asian economies (Hong Kong, Singapore, South Korea, Japan), Association of Southeast Asian Nations (“**ASEAN**”) neighbours (Indonesia, Thailand, Singapore), and countries with comparable gross domestic product per capita (Chile, Mexico).*

*Further, the projected annual growth of student enrolment from 2012 to 2025 for private higher learning institutions (“**HLLs**”) is 5.1%, public universities are 2.6%, technical and vocational education and training (“**TVET**”) institutions is 7.8% and other ministry institutions is 1.4%. By 2025, the Education Ministry aspires to increase access to and enrolment in higher education. If Malaysia were to successfully improve tertiary enrolment rates from 36% currently to 53% (and higher education enrolment from 48% to 70%), this will bring Malaysia on par with the highest enrolment levels in ASEAN today. This growth scenario will require an additional 1.1 million places by 2025, mainly through growth in TVET, private HLLs and online learning. The exact pace and nature of the expansion plan will be determined in close collaboration with industry to ensure supply matches demand.*

*(Source: Malaysia Education Blueprint 2015 – 2025)”*

#### **Our comments:-**

Based on the above, the Government projected annual growth from 2012 to 2025 for private higher learning institution of 5.1%. We note the Government’s initiative to improve tertiary enrolments rates from 36% to 53% to be on par with the highest enrolment levels in ASEAN. This growth scenario will require an additional 1.1 million places by 2025, mainly through growth in TVET, private HLLs and online learning.

In view of the above, Sunway REIT should be able to benefit from the growing private education industry and benefit from the Government's commitment to improve tertiary enrolment rates in higher and tertiary education.

### 5.3.3 PROSPECTS OF THE SUBJECT LANDS AND BUILDINGS

As extracted from Section 4.3 of Part A of the Circular, the prospects of the Subject Lands and Buildings are as below.

*“With its strategic location within the master-planned integrated township development of Sunway City, the Subject Lands and Buildings benefit from the population catchment area and synergies of entertainment, recreation, leisure, shopping, medical, hospitality, commercial facilities, residential units and education. With 42 million visits every year and a population of 200,000, Sunway City is one of Malaysia's premier holiday destinations and a fully integrated green township certified by GBI Malaysia. Sunway City is served by Malaysia's first elevated bus rapid transit (“BRT”) system that benefits more than 500,000 commuters. The BRT links with Keretapi Tanah Melayu (“KTM”) and Kuala Lumpur Light Rail Transit (“LRT”) stations with direct access to the Kuala Lumpur City Centre and the Kuala Lumpur International Airport. Sunway City is also well connected to Kuala Lumpur, Shah Alam and Petaling Jaya by roads and expressways such as the Federal Highway, Shah Alam Expressway (KESAS), New Klang Valley Expressway (NKVE) and Damansara – Puchong Expressway (LDP).*

*With the Government's initiatives to increase access to higher education based on Section 4.2 of this Circular and the upward trend in the population growth and desire for tertiary education, we believe that the outlook of Malaysia's private higher education industry will remain positive. Hence, we are of the view that the Subject Lands and Buildings are well-equipped to leverage on this opportunity and that in turn will provide a sustainable income to Sunway REIT. .*

*(Source: The Manager)”*

#### **Our comments:-**

The Subject Lands and Buildings are located within the Sunway City, a well-integrated township in Petaling Jaya which is well connected through an extensive network of roads, expressways and public transportation to nearby cities such as Kuala Lumpur and Shah Alam. The Subject Lands and Buildings house mainly the Sunway College and Sunway University, both are reputable established educational higher learning institutions. Sunway College and Sunway University College were established in 1987 and 2004 respectively.

Based on the Sunway University's Annual Review 2017, Sunway University has over 7000 enrolled students. The university offers a variety of courses from diploma to post graduates programmes to its students. Sunway University also has more than 10 affiliations with universities and professional bodies around the world. Such positive factors are expected to continue to bode well for the university and in turn, SEG.

*(Source: [www.university.sunway.edu.my](http://www.university.sunway.edu.my))*

Based on Sunway College's website, Sunway College offers pre-university programmes such as Cambridge GCE A-Level programme, Australian Matriculation, Canadian International Matriculation Programme, Monash University Foundation Year and many other foundations to prepare students to university. Sunway College had achieved several innovative and pioneering initiatives as Sunway College played an important part in contributing to the development of private higher education in Malaysia.

*(Source: [www.college.sunway.edu.my](http://www.college.sunway.edu.my))*

Premised on the general positive outlook of the Malaysian economy, the growing private education industry, the location of the Subject Lands and Buildings as well as the established reputation and operations of Sunway College and Sunway University, we believe that moving forward, barring any unforeseen circumstances, the overall prospects of the Subject Lands and Buildings should be generally positive.

#### **5.4 EFFECTS OF THE PROPOSED ACQUISITION**

In our evaluation, we have also considered the financial effects arising from the Proposed Acquisition as set out in Section 6 of Part A of this Circular.

**(a) Unitholders' capital and substantial unitholders' interest in Sunway REIT**

The Proposed Acquisition will not have any effect on Sunway REIT's unitholders' capital and substantial unitholders' interest in Sunway REIT based on the audited statement of financial position of Sunway REIT as at 30 June 2018.

**(b) NAV and NAV per unit**

The Proposed Acquisition is not expected to have a material impact on the NAV and NAV per unit of Sunway REIT on the assumption that the Purchase Consideration is to be fully funded by 35% Existing Debt Programmes and 65% Perpetual Note Programme.

**(c) Gearing**

Based on the audited statement of financial position of Sunway REIT as at 30 June 2018, Sunway REIT's total borrowings are RM2.9 billion, representing a gearing level of 38.6% against its total asset value.

We note that the estimated expenses of RM6.1 million are intended to be funded via debt. On the assumption that the Purchase Consideration is to be fully funded via a combination of 35% Existing Debt Programmes and 65% Perpetual Note Programme, the gross borrowings will increase to RM3.1 billion which represents a gearing level of 38.4% against its total asset value.

**(d) Earnings, EPU and DPU**

We note that the Proposed Acquisition is not expected to have any material impact on the earnings, EPU and DPU of Sunway REIT for the FYE 30 June 2019 as the Proposed Acquisition is only expected to be completed in the second quarter of calendar year 2019 (being the fourth quarter of financial year ending 30 June 2019).

We further note that the Subject Lands and Buildings are currently an income generating property therefore the Proposed Acquisition is expected to be immediately accretive to Sunway REIT and contribute to the future earnings of Sunway REIT by approximately RM2.52 million or DPU of 0.09 sen per annum.

Nevertheless, unitholders should note that the actual effect of the Proposed Acquisition on the future earnings of Sunway REIT is dependent on, amongst others, the rental income to be derived from Lessees, cost of operating the Subject Lands and Buildings as well as the borrowing costs incurred for the Proposed Acquisition.

Premised on the above, going forward, the Proposed Acquisition should contribute positively to the financials of Sunway REIT.

## 5.5 RISK FACTORS RELATING TO THE PROPOSED ACQUISITION

In evaluating the Proposed Acquisition, you should carefully consider the potential risk factors disclosed under Section 5, Part A of the Circular before voting on the resolution pertaining to the Proposed Acquisition at the forthcoming Unitholders' Meeting.

We note that the risks associated with the Proposed Acquisition are the typical risks associated with the business of leasing/ownership of real estate and similar with some of the risks undertaken by other real estate investment trusts. We take cognisance of the risk factors in Section 5, Part A of the Circular pertaining to the Proposed Acquisition and have categorised them as follows:-

### (a) Risk relating to the completion of the Proposed Acquisition

The Proposed Acquisition is conditional upon the Conditions Precedent of the SPA being met/waived as well as the transfer of the titles of the Subjects Lands and Buildings from the Chargee (i.e. DBS Bank Ltd, Labuan branch) to the Trustee. Any risk due to the delay or failure to meet/waive the Conditions Precedent and/or procure the approval of State Authority for the transfer of the Subjects Lands and Buildings may result in the non-completion of the Proposed Acquisition.

Notwithstanding that the Trustee can take reasonable steps to help facilitate the fulfilment of the Conditions Precedent and the transfer of titles of the Subjects Lands and Buildings to the Trustee, there can be no assurance that the Proposed Acquisition will be completed within the stipulated timeframe.

### (b) Risk relating to additional financing

The Purchase Consideration for the Proposed Acquisition is to be funded by external financing. Sunway REIT will be subject to a number of financing risks which include, amongst others, increased cost of financing, less favourable terms of borrowing, adverse interest rate fluctuations, higher security coverage for borrowings, non-fulfilment of its payment obligations and breach of loan covenants. As such, Sunway REIT may face insufficient cash for its capital expenditure requirements, daily operations or distributions to the unitholders.

Whilst the Manager can take reasonable steps to mitigate the risk of Sunway REIT failing to meet its payment obligations, there can be no assurance that the occurrence of one or combination or all the above financing risk will not lead to events of default and resulting in the foreclosure of Sunway REIT's properties.

### (c) Business risks relating to the Proposed Acquisition

Upon completion of the Proposed Acquisition, Sunway REIT will be exposed to business risks associated to the Subject Lands and Buildings which include, amongst others, the following:-

- (i) External factors outside the control of the Manager which affect the education sector and Sunway REIT as set out in the Section 5(a) of Part A of the Circular. In addition, the Proposed Acquisition will subject Sunway REIT to specific risks associated with the education sector. These include, amongst others, increase in competition, ability to maintain tie-ups/associations with affiliated universities and ability to maintain the necessary approvals/license to operate the university/college;
- (ii) Failure on the part of any of the Lessees to fulfil their obligations (including payment of lease rentals) under the Lease Agreements would have an adverse impact on Sunway REIT's financial performance; and

- (iii) The non-renewal of the Lease Agreements upon expiry, the termination of the Lease Agreements by the Lessees, or Sunway REIT's inability to find a replacement for the Lessees on satisfactory terms and in a timely manner could have an adverse impact on Sunway REIT's financial performance.

There can be no assurance that the occurrence of one or combination or all the above business risks will not have a material adverse effect on Sunway REIT's operations and financial performance.

**(d) Risks caused by external factors**

The Subject Lands and Buildings may be subjected to risks from external factors which are beyond the control of the Trustee and/or Manager. These risks include but are not limited to, amongst others, the following:-

- (i) The value of the lands and buildings are generally subject to, amongst others, factors such as location, economic outlook, market sentiment, interest rates, development of the surrounding areas, population and demographics and the physical condition of the assets.

There can be no assurance that the value of the Subject Lands and Buildings will be maintained or increased. There can also be no assurance that there will not be the occurrence of any events that would have a material adverse impact on the NAV and the future earnings of the Subject Lands and Buildings;

- (ii) Material losses suffered due to physical damage caused by fire, flood, earthquake or other causes that are not sufficiently compensated or covered by insurance may result in Sunway REIT having to suffer losses (including loss of rental income) and public liability claims;
- (iii) Changes in law and regulations which might result in Sunway REIT having to undergo extensive renovation and reconfiguration of the Subject Lands and Buildings in ensuring compliance with such changes; and
- (iv) Any compulsory acquisition by the Government of Malaysia of the Land(s) could have material adverse effect on the value of the Subject Lands and Buildings and Sunway REIT's financial position.

There can be no assurance that one or a combination or all of the aforementioned risk factors will not occur and adversely impact the Proposed Acquisition.

5.6

**SALIENT TERMS OF THE SPA, LEASE AGREEMENTS AND NOVATION AGREEMENTS**

The SPA was entered into to facilitate the Proposed Acquisition. The Lease Agreements and the Novation Agreements were entered into to facilitate the operations of the Subject Lands and Buildings upon the completion of the Proposed Acquisition. Please refer to Section 2.7 of Part A of this Circular for a summary of the salient terms of the SPA in relation to the Proposed Acquisition.

The salient terms of the SPA, Lease Agreements and Novation Agreements are mutually agreed and negotiated between both parties.

We have taken note of the salient terms of the SPA stated therein and our comments are as follows:-

<b>Salient terms of the SPA</b>	<b>Comments</b>
<p><b>Manner of payment of the Purchase Consideration</b></p> <p>(i) The Trustee has paid the Deposit to the Vendor upon execution of the SPA.</p> <p>(ii) The Balance Consideration shall be paid by the Trustee to the Vendor by the Completion Date.</p>	<p>The Deposit serves as a safeguard of the Vendor’s interest in the event the Trustee fails to satisfy the Balance Consideration or breach the terms of the SPA. In such event, the Vendor has the right to terminate the SPA and forfeit the Deposit free of interest. We wish to highlight that if the Conditions Precedent are not fulfilled or waived within 6 months of the SPA date, the Trustee has the right to terminate the SPA and receive a refund of the Deposit or moneys paid towards the Purchase Consideration free of interest.</p> <p>We note that the Balance Consideration will be paid to the Vendor on the Completion Date.</p> <p>We note that the 10% Deposit paid by the Trustee upon entering into the SPA is reasonable and acceptable for transactions of similar nature.</p> <p>We further note that the Purchase Consideration will be funded via a combination of 35% via Existing Debt Programmes and 65% Perpetual Note Programme. We wish to highlight that based on paragraph 8.32 of the REIT Guidelines, the total borrowings of a fund (including borrowings through issuance of debt securities) should not exceed 50% of the total asset value of the fund at the time the borrowings are incurred. Based on the audited total asset value of Sunway REIT for the FYE 30 June 2018 and as illustrated in Section 6.3 of Part A of this Circular, the proforma gearing ratio of Sunway REIT after the Proposed Acquisition will decrease from 38.6% to 38.4%.</p>

Salient terms of the SPA	Comments
<p><b>Adjustment of the Purchase Consideration</b></p> <p>(i) If the assessed market value of the Subject Lands and Buildings shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the Valuation Report and the variation/adjustment to the market value is equal to or less than 5%, the Balance Consideration and the Purchase Consideration shall be adjusted upwards or downwards accordingly by the same quantum of variation/adjustment.</p> <p>(ii) The adjusted Purchase Consideration to be paid by the Trustee to the Vendor shall be deemed to be the sum as adjusted under Section 2.7(c)(i) of Part A of this Circular.</p> <p>(iii) Where the variation/adjustment to the assessed market value of the Subject Lands and Buildings pursuant to any comments provided by the relevant authorities on the Valuation Report is more than 5%, the Vendor and the Trustee shall in good faith discuss and negotiate on an appropriate adjustment to the Purchase Consideration and mutually agree on an adjusted Purchase Consideration which is acceptable to the Vendor and the Trustee. If the Vendor and the Trustee are unable to reach mutual agreement on the adjusted Purchase Consideration within a period of 30 days or any mutually agreed extension period, either the Vendor and the Trustee shall be entitled to terminate the sale and purchase of the Subject Lands and Buildings and the SPA by notice in writing.</p>	<p>We take note of the adjustment clauses in the SPA as a result of any variation to the assessed market value of the Subject Lands and Buildings. We further note that any variation/adjustment to the market value affecting equal to or less than 5% of the Balance Consideration pursuant to any comments provided by relevant authorities, the Purchase Consideration will be adjusted accordingly based on the market value at the material point in time and hence, it is fair to both the Trustee and the Vendor.</p> <p>We note that the SPA allows for further discussion and negotiations between the Vendor and the Trustee in the event of any comments provided by relevant authorities which results in any variation/adjustment to the market value is more than 5% of the Balance Consideration.</p> <p>Based on the above, we are of the opinion that the terms for the adjustments to the Purchase Consideration are fair and reasonable.</p>
<p><b>Extended Completion Date</b></p> <p>If the Trustee fails to pay the Balance Consideration by the Completion Date, the Vendor shall automatically grant to the Trustee an extension of 1 month from the Completion Date to pay the Balance Consideration provided that the Trustee pays to the Vendor interest at the rate of 8% per annum on the Balance Consideration or any part thereof remaining unpaid (“<b>Outstanding Amount</b>”), calculated on a daily basis, from the next day following the Completion Date until the date of actual payment of the Outstanding Amount.</p>	<p>We note from the SPA that in the event that the Vendor fails to pay any moneys required to be refunded or paid to the purchaser within the time stipulated for refund or payment, the Vendor shall be liable to pay to the Trustee interest at the rate of 8% per annum calculated on a daily basis from the due date for refund or payment.</p> <p>This is consistent with the interest rate of 8% charged by Vendor to Trustee in the event Trustee fails to pay the Balance Consideration by the Completion Date.</p> <p>We are of the opinion that the terms and interest for the extended Completion Date are fair and reasonable.</p>



<b>Salient terms of the SPA</b>	<b>Comments</b>
<p><b>Conditions Precedent</b></p> <p>The SPA and the completion of the Proposed Acquisition are conditional upon the following conditions precedent being fulfilled or obtained within 6 months after the date of the SPA, or such other extended date as the Vendor and the Trustee may mutually agree upon:</p> <ul style="list-style-type: none"> <li>(i) your approval to be obtained at the forthcoming Unitholders' Meeting;</li> <li>(ii) the confirmation from the Vendor that the relevant Discharge Documents have been obtained from the Chargee and the Discharge Documents are deposited with the Trustee's solicitors;</li> <li>(iii) the approval of the State Authority has been obtained by the Vendor for the transfer of the Subject Lands and Buildings; and</li> <li>(iv) any other approvals of any authorities as may be deemed necessary by the Trustee and the Vendor.</li> </ul>	<p>The Conditions Precedent are reasonable as the terms herein are mainly for approvals required from the relevant parties to give effect to the Proposed Acquisition.</p> <p>We wish to highlight that if the Conditions Precedent are not fulfilled or waived within 6 months of the SPA date, the Trustee has the right to terminate the SPA and obtain a refund of the Deposit free of interest in the event of a breach/non-fulfillment by the Vendor.</p>
<p><b>Termination and breach</b></p> <ul style="list-style-type: none"> <li>(i) Vendor's right to terminate</li> </ul> <p>If the Trustee defaults in the satisfaction of the Purchase Consideration, the Vendor will be entitled to terminate the SPA by notice in writing to the Trustee if the Trustee fails to remedy the breach or the matter within 14 days of receipt of a notice from the Vendor.</p> <ul style="list-style-type: none"> <li>(ii) Trustee's right to terminate</li> </ul> <p>The Trustee will be entitled to, at any time after any default on the part of the Vendor arises before the Completion Date, give notice to the Vendor to terminate the SPA if the Vendor fails to remedy the breach or the matter within 14 days of receipt of a notice from the Trustee. For the other events of default as set out in the SPA such as when a petition or an order is made against the Vendor for winding up or when a receiver and manager is appointed over any assets of the Vendor, no remedy period is given.</p>	<p>In the event of termination of the SPA by the Vendor, the Vendor has the right to forfeit the Deposit free of interest. We note that the Vendor only has the right to terminate the SPA either in the event of default by the Trustee or if the parties are unable to come to an agreement to the Purchase Consideration where variation/adjustment to the market value is more than 5% of the Balance Consideration.</p> <p>Conversely, in the event of default by the Vendor, we note that the Trustee has the right to request for specific performance by the Vendor. In the event the Trustee chooses not to seek specific performance by the Vendor and terminate the SPA, the Vendor is required to return all moneys received as part of the Purchase Consideration to the Trustee, free of interest plus an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages. This clause serves to safeguard the interest of the Trustee.</p> <p>Based on the above, we are of the opinion that the overall terms for termination and breach are reasonable.</p>

**Salient terms of the SPA**

**Comments**

(iii) Consequences of termination by the Vendor

If a notice terminating the SPA is given by the Vendor as referred to under Section 2.7(f)(i) of Part A of this Circular, then within 14 days of that notice, the Vendor must return all moneys paid to it (excluding the Deposit which will be absolutely forfeited by the Vendor as agreed liquidated damages) to the Trustee, free of interest. In exchange, the Trustee must return or cause to be returned to the Vendor all the transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact and to re-deliver to the Vendor possession of the Subject Lands and Buildings, if the same has been delivered to the Trustee.

(iv) Consequences of termination by the Trustee

If a notice terminating the SPA is given by the Trustee as referred to under Section 2.7(f)(ii) of Part A of this Circular, then within 14 days of that notice, the Vendor must return all moneys received as part of the Purchase Consideration to the Trustee, free of interest.

If the Trustee elects not to pursue the remedy of specific performance as referred to under Section 2.7(f)(vii) of Part A of this Circular, the Vendor must pay an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact. The Trustee shall then re-deliver to the Vendor possession of the Subject Lands and Buildings, if the same has been delivered to the Trustee.

Salient terms of the SPA	Comments
<p>(v) Mitigation of risk of non-registration of Transfer</p> <p>If, as at the Completion Date and after the Vendor's receipt of the Balance Consideration, the Transfer is not registered with the land registry, the Vendor acknowledges that it holds the Subject Lands and Buildings relating to such Transfer as bare trustee for and on behalf of the Trustee and the Vendor will immediately execute in favour of the Trustee an irrevocable and unconditional power of attorney reasonably acceptable to the Trustee, granting to the Trustee the power to fully deal with the Subject Lands and Buildings as if it was the true and rightful owner of the Subject Lands and Buildings. In addition, the Vendor will do all such acts and things as may be reasonably required by the Trustee so that the Trustee may effectively deal with the Subject Lands and Buildings.</p> <p>(vi) Non-registration of Transfer or Discharge Documents</p> <p>If the registration of the Transfer or the Discharge Documents are not or cannot be effected for any reason whatsoever not due to any fault of either the Trustee or the Vendor, the Trustee shall be entitled to terminate the SPA by notice in writing to the Vendor.</p> <p>(vii) Specific performance</p> <p>Notwithstanding the above provisions, the Vendor or the Trustee, as the case may be, will be entitled to the remedy of specific performance to compel the party in default to complete the sale or purchase of the Subject Lands and Buildings, and to claim damages for breach of the SPA.</p>	
<p><b>Real property gains tax</b></p> <p>Payment of real property gains tax for chargeable gains accruing on the disposal of any chargeable asset to a real estate investment trust or a real property trust fund is exempted pursuant to the Real Property Gains Tax (Exemption) (No. 4) Order 2003. The Trustee's solicitors have been authorised by the Trustee and the Vendor not to retain any retention sum payable to the Inland Revenue Board.</p>	<p>This term serves to comply with the requirements of the governing tax laws and hence, is deemed reasonable.</p>

Salient terms of the SPA	Comments
<p><b>Vendor's obligations under service contracts</b></p> <p>The Vendor covenants and undertakes with the Trustee that it will novate, assign and transfer validly to the Trustee all title, rights and interests of the Vendor under the service contracts, agreements or any other letters to the Trustee and/or to terminate the service contracts, agreements or any other letters (as the case may be).</p> <p>The service contracts and agreements for the Subject Lands and Buildings to be terminated, novated, assigned and/or transferred under the terms of the SPA include cleaning services agreements and services and systems maintenance agreements.</p>	<p>This term serves to safeguard the interest of Sunway REIT pursuant to the Proposed Acquisition and hence, is deemed reasonable. The valid novation, assignment and transfers or termination (where applicable) of the title rights and interests of the Vendor under the respective contracts, agreements or any other letters the Trustee is necessary to appropriately complete the Proposed Acquisition.</p>
<p><b>Application of remaining Purchase Consideration</b></p> <p>On the Completion Date, the Trustee or the Trustee's solicitors, as the case may be, shall utilise the moneys received by them to make payment of the Balance Consideration in the following order of priority:</p> <ul style="list-style-type: none"> <li>(i) firstly, towards settlement of fees, charges, expenses and other payments, if any, payable by the Vendor on the Completion Date; and</li> <li>(iii) secondly, to release the remaining balance to the Vendor on Completion Date.</li> </ul>	<p>We note the order of payment of the Balance Consideration upon the SPA becoming unconditional. The payment of the Balance Consideration is firstly to settle fees, charges, expenses and other payments, if any, payable by the Vendor on Completion Date. This helps to ensure that the Subject Lands and Buildings will be acquired free from encumbrances.</p> <p>Based on the above, we are of the opinion that these terms are reasonable.</p>
<p><b>Delivery of legal possession of the Subject Lands and Buildings</b></p> <p>Legal possession of the Subject Lands and Buildings, free from all encumbrances and claims whatsoever, will be delivered to the Trustee by the Vendor on the Completion Date.</p>	<p>This term is customary in transactions of similar nature and hence, is deemed reasonable.</p>

<b>Salient terms of the SPA</b>	<b>Comments</b>
<p><b>Conditions of acquisition</b></p> <p>The Subject Lands and Buildings are sold on an “as is where is” basis and free from encumbrances (save for the Vendor’s existing charge, which will be discharged upon completion), with legal possession, and that all the rights, benefits, interest, obligations and liabilities of the Vendor pursuant to the Lease Agreements are novated to the Trustee following the terms and conditions stipulated in the novation agreements to be entered into between the Vendor, the Trustee and the respective Lessees in relation to the Lease Agreements effective on Completion Date, subject to all applicable valid and subsisting licenses, certifications and permits affecting the Subject Lands and Buildings.</p>	<p>We note that the execution of the Novation Agreements is necessary to facilitate the operations of the Subject Lands and Buildings post completion of the Proposed Acquisition.</p> <p>Our comments on the Lease Agreements are set out below.</p>
<p><b>Indemnity by the Vendor</b></p> <p>The Vendor agrees to indemnify and keep the Trustee indemnified at all times from and against any and all losses, damages, claims, demands, proceedings, actions, costs, expenses and penalties including legal expenses (on a full indemnity basis) suffered or incurred by the Trustee arising from any claim, demand, proceeding or action arising from:</p> <ul style="list-style-type: none"> <li>(i) the negligent act or omission of the Vendor or the Vendor’s agent, employee, officer, servant, contractor’s licensee, contractor and invitee on the Subject Lands and Buildings, and Excluded Buildings;</li> <li>(ii) any breach or default of the Vendor’s obligations pursuant to the terms of the SPA;</li> <li>(iii) any legal proceedings or suits, notices or requisitions whatsoever by any person or appropriate authorities relating to the Subject Lands and Buildings, and Excluded Buildings;</li> <li>(iv) any encroachment or trespass of any of the Subject Lands and Buildings or Excluded Buildings (including the erection of the Buildings, sports facilities or Excluded Buildings), with or without the Vendor and/or any of the Lessees’ knowledge, on any adjoining/ adjacent land without the prior consent in writing of the owner of the adjoining or adjacent land;</li> </ul>	<p>These terms are customary in transactions of similar nature and hence, is deemed reasonable.</p>

Salient terms of the SPA	Comments
<p>(v) any failure on the part of the Vendor or any previous owner(s) of the Lands, with or without the Vendor and/or any of the Lessees' knowledge, to obtain necessary building approvals or consents or certificates of fitness for occupation or certificates of completion and compliance for any part of the Subject Lands and Buildings, Excluded Buildings or any other buildings or structures erected on the Lands or any alterations to such Subject Lands and Buildings, Excluded Buildings or other buildings or structures or any other breach of or non-compliance with building/planning laws, regulations or by-laws relating thereto; and/or</p> <p>(vi) any breach by the Vendor of any lease, tenancy or licence between the Vendor and the Lessees and/or tenants on the Subject Lands and Buildings, and Excluded Buildings,</p> <p>for the period before and up to the Completion Date, suffered or incurred by the Trustee after the signing of the SPA and extending beyond the Completion Date.</p>	

We have taken note of the salient terms of the Lease Agreements stated therein and our comments are as follow:-

Salient terms of the Lease Agreements	Comments
<p><b>Rental</b></p> <ol style="list-style-type: none"> <li><b>Buildings (including usage of Sports Facilities):</b> Aggregate monthly rental of approximately RM1.50 psf over the total gross floor area including car park. This amounts to approximately RM2.82 million per month for the first year with an increment of 2.3% annually for the initial term of the leases.</li> <li><b>Leased Lands:</b> Aggregate monthly rental of approximately RM0.50 psf over the size of the Leased Lands. This amounts to approximately RM0.03 million per month for the first year with an increment of 2.3% annually for the initial term of the lease.</li> </ol>	<p>We note that the rent in the Lease Agreements were mutually agreed between the parties.</p> <p>The rent is subject to an increment of 2.3% per annum throughout the unexpired principal lease period of 30 years. As set out in Section 5.1.1(a) and 5.1.1(b) of this IAL, the lease rental with an increment of 2.3% annually for the initial term of the leases is expected to give a rental yield of 6.75% to 8.75% for the Buildings and 3.5% to 4.75% for the Leased Lands. The expected yield is similar to the existing yields of selected institutional / educational assets transactions or selected leased land, as the case may be, within the Klang Valley.</p> <p>Based on the above, we are of the opinion that the Purchase Consideration is fair and reasonable.</p>
<p><b>Lease and renewal</b></p> <ol style="list-style-type: none"> <li>The initial term of the lease shall be 30 years from the commencement date with an option to renew granted to the Lessees for a second term of 30 years (at the expiry of the first term) and a third term of 18 years and 4 months up to 31 March 2097, being the day before the Expiry Date (at the expiry of the second term).</li> <li>The option to renew shall be on the same terms and conditions, except at a revised rent at a rate as agreed and based on the prevailing market rate at the expiry of the second term and third term respectively.</li> <li>The prevailing market rate of the Buildings and Leased Lands shall be determined via an independent rental assessment of the Buildings and Leased Lands by a jointly appointed independent licensed property valuer.</li> <li>The Lessees have first right of refusal to renew the lease if the Lessor successfully secures an extension of the leasehold tenure beyond 1 April 2097, where the revised terms shall be similar to the existing terms of the respective Lease Agreements save and except for the terms which will be mutually agreed upon.</li> </ol>	<p>We note that the lease term and renewal have been mutually agreed between the parties and are deemed reasonable for transactions of similar nature.</p>

Salient terms of the Lease Agreements	Comments
<p><b>Right to Purchase Excluded Buildings</b></p> <p>For the right to purchase Excluded Buildings, SEG shall grant the lessor first right of refusal to purchase the Excluded Buildings by way of issuance of a written notice in writing to the lessor setting out the terms for the sale of the Excluded Buildings.</p>	<p>We note that in the event SEG intends to sell the Excluded Buildings, SEG shall grant the Trustee the first right of refusal for the purchase of the Excluded Buildings.</p> <p>Should the Trustee decide to acquire the Excluded Buildings, the fairness of the consideration and the potential lease rental income to be generated from the Excluded Buildings will have to be evaluated at that material point in time.</p> <p>In the event the Excluded Buildings are sold to parties other than the Trustee, the existing leases of Leased Lands shall be novated to the new owner of the Excluded Buildings and the Trustee will continue to enjoy the lease rentals from the Leased Lands.</p> <p>Based on the above, we are of the opinion that the right to purchase the Excluded Buildings is reasonable.</p>
<p><b>Lessor's entitlement to damages</b></p> <p>The lessor may terminate the Lease Agreements by way of written notice to the Lessees if of any breach by the Lessees of any terms of the Lease Agreements and such breach is not remedied within the stipulated time period pursuant to the terms of the Lease Agreements.</p>	<p>This term is customary in transactions of similar nature and hence, is deemed reasonable.</p>
<p><b>Lessee's Obligations on termination</b></p> <p>Upon termination by the lessor, the Lessees are to compensate the lessor for any damages or losses suffered by the lessor during the lease tenure and yield up vacant possession of the Subject Lands and Buildings and/or Leased Lands to the lessor.</p>	<p>This term is customary in transactions of similar nature and hence, is deemed reasonable.</p>



We have taken note of the proposed salient terms of the Novation Agreements stated therein and our comments are as follows:-

Proposed salient terms of the Novation Agreements	Comments
<p><b>Renewal and Right to Purchase Leased Land and/or Subject Lands and Buildings</b></p> <p>1. At the expiry of each lease term, Lessees may:</p> <ul style="list-style-type: none"> <li>(i) renew the respective leases, provided that there are no breaches in rental payment by the Lessees which have not been remedied and subject to an undertaking by the Lessees that the Lessees have adequate financial standing and capacity to continue to pay the lease rental throughout the lease extension period; or</li> <li>(ii) exercise the right to purchase the Leased Land and/or Subject Lands and Buildings (together with the Sports Facilities) at a purchase consideration to be agreed between the parties based on the prevailing market value. The prevailing market value will be determined by the independent registered property valuer to be appointed by each party.</li> </ul> <p>2. Lessees shall have first right of refusal to purchase the Leased Land and/or Subject Lands and Buildings (together with the Sports Facilities), if the lessor successfully secures an extension of the leasehold tenure beyond 1 April 2097, upon terms which shall be substantially similar to the provisions of item 1 above.</p>	<p>We note that at the end of each lease term, the Lessees have the option to either renew the lease term or exercise the right to purchase the Leased Land and/or Subject Land and Buildings.</p> <p>We further note that the Lease Agreements allow for the Trustee to sell the Leased Land and/or Subject Lands and Buildings at any time during the lease term provided that the Lessees have been given the first right of refusal to purchase the Leased Land and/or Subject Lands and Buildings.</p> <p>This allows the Trustee to retain the right to unlock the value of its investment in the Leased Lands and/or Subject Lands and Buildings at any time during the lease term.</p> <p>We note that in the event the Lessees opt to continue with the lease and the Trustee does not intend to sell the Leased Lands/or Subject Lands and Buildings, Sunway REIT will continue to enjoy the agreed lease rentals from the Lessees.</p>

**Comments:-**

Premised on the above, we are of the opinion that the overall terms of the SPA, Lease Agreements and Novation Agreements are reasonable and not detrimental to your interest.

## 6. CONCLUSION AND RECOMMENDATION

Our opinion and recommendation contained in this IAL are addressed to the Non-Interested Unitholders at large and not to any particular Non-Interested Unitholder. Accordingly, we have not taken into consideration any specific investment objectives of any individual Non-Interested Unitholder or any specific group of Non-Interested Unitholders. We recommend that any individual Non-Interested Unitholder or any specific group of Non-Interested Unitholders who may require advice in the context of their objectives, financial situation and particular needs should consult their respective professional advisers immediately.

We have assessed and evaluated the Proposed Acquisition after taking into consideration the various factors set out below and you should also carefully consider these factors before voting on the resolution pertaining to the Proposed Acquisition at the forthcoming Unitholders' Meeting:-

### (a) Basis and justification for the Purchase Consideration (Section 5.1 of this IAL)

In arriving at the market value of RM550 million for the Subject Lands and Buildings, the Valuer adopted the Income Approach and supported by the Cost Approach. We have reviewed and are satisfied with the assumptions adopted by the Valuer in deriving the RM550 million market value for the Subject Lands and Buildings. Accordingly, we consider the Purchase Consideration for the Subjects Lands and Buildings as fair.

### (b) Rationale for the Proposed Acquisition (Section 5.2 of this IAL)

The Proposed Acquisition is expected to be earnings accretive to Sunway REIT and provide Sunway REIT with a more stable and sustainable income stream across an increased WALE period. We note the Proposed Acquisition will help to strengthen Sunway REIT's current position as one of the largest real estate investment trusts in Malaysia by property market value. We note that the Subject Lands and Buildings, being in the education sector will broaden Sunway REIT's existing portfolio of retail, hospitality, office, medical and industrial sub-sector and possibly reduce the volatility in earnings fluctuations on Sunway REIT.

Accordingly, we are of the opinion that the rationale for the Proposed Acquisition is reasonable.

### (c) Industry outlook and future prospects (Section 5.3 of this IAL)

Premised on the general positive outlook of the Malaysian economy, the growing private education industry, the location of the Subject Lands and Buildings as well as the established reputation and operations of Sunway College and Sunway University, we believe that moving forward, barring any unforeseen circumstances, the overall prospects of the Subject Lands and Buildings should be generally positive.

### (d) Effects of the Proposed Acquisition (Section 5.4 of this IAL)

The Proposed Acquisition will not have any effect on the unitholders' capital and substantial unitholders' interest in Sunway REIT.

The Proposed Acquisition is not expected to have any material effect on the earnings, EPU, DPU, NAV and NAV per unit of Sunway REIT for the FYE 30 June 2019. On the assumption, the Purchase Consideration is funded via 65% equity (Perpetual Note Programme) and the remaining 35% via debt, the gearing of Sunway REIT is expected to decrease to 38.4% upon completion of the Proposed Acquisition.

Upon completion, the Proposed Acquisition is expected to contribute to the future earnings of Sunway REIT by approximately RM2.52 million or DPU of 0.09 sen per annum.

Premised on the above, going forward, the Proposed Acquisition should contribute positively to the financials of Sunway REIT.

**(e) Risk factors relating to the Proposed Acquisition (Section 5.5 of this IAL)**

We note that the risks associated with the Proposed Acquisition are the typical risks associated with the business of leasing/ownership of real estate and are similar with some of the risks undertaken by other real estate investment trusts.

We wish to highlight that although the Trustee/Manager can take reasonable steps to manage the risks associated with the Proposed Acquisition, no assurance can be given that any or all of the risk factors will not crystallise and give rise to a material and adverse impact on the financial performance, position or prospects of Sunway REIT.

**(f) Salient Terms of the SPA, Lease Agreements and Novation Agreements (Section 5.6 of this IAL)**

Based on our review of the salient terms of the SPA, Lease Agreements and Novation Agreements, we are of the opinion that the overall terms of the SPA, Lease Agreements and Novation Agreements are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

Premised on the above, we are of the opinion that the Proposed Acquisition is **fair and reasonable** and **not detrimental** to your interest.

**Accordingly, we recommend that you vote in favour of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.**

Yours faithfully,  
For and on behalf of  
**AmInvestment Bank Berhad**

**TAN KENG LIN**  
Senior Vice President  
Corporate Finance

**LAW KIM FATT**  
Senior Vice President  
Corporate Finance

**1. RESPONSIBILITY STATEMENT**

This Circular has been reviewed and approved by the Board and the Directors collectively and individually accept full responsibility for the accuracy and correctness of the information given in this Circular and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other material facts, the omission of which would make any statement in this Circular false or misleading.

All information relating to the Vendor in this Circular have been extracted from information provided by the management of the Vendor. Therefore, the sole responsibility of the Board is restricted to ensuring that such information is accurately reproduced in this Circular.

**2. CONSENT AND CONFLICT OF INTEREST****2.1 RHB Investment Bank**

RHB Investment Bank, being the Principal Adviser for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent for the inclusion of its name and all references thereto in the form and context in which it appears in this Circular.

Employees Provident Fund Board (“**EPF**”) is a major unitholder of Sunway REIT and a major shareholder of RHB Bank Berhad (“**RHB Bank**”) (being the holding company of RHB Investment Bank). Nevertheless, EPF is not involved in the day-to-day operations of RHB Bank, and the subsidiaries and associated companies of RHB Bank (“**RHB Banking Group**”).

In addition, Tan Sri Dr Rebecca Fatima Sta Maria, an Independent Non-Executive Director of RHB Bank and RHB Investment Bank, is also an Independent Non-Executive Director of Sunway, which is a major unitholder of Sunway REIT. Nevertheless, in view of her role as a non-executive director, she is not involved in the day-to-day operations of RHB Banking Group and Sunway.

RHB Banking Group forms a diversified financial group and may extend credit facilities or engage in private banking, commercial banking and investment banking transactions including, amongst others, brokerage, securities trading, asset and fund management and credit transaction service businesses. RHB Banking Group has engaged and may in the future, engage in transactions with and perform services for Sunway REIT, the Manager and/or its affiliates (“**Group**”), in addition to the roles set out in this Circular. Furthermore, in the ordinary course of business, any member of RHB Banking Group may at any time offer or provide its services to or engage in any transactions (whether on its own account or otherwise) with any member of the Group, hold long or short positions in the securities offered by any member of the Group, make investment recommendations and/or publish or express independent research views on such securities and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of the Group.

As at the LPD, RHB Banking Group has extended a credit facility amounting to RM25.0 million to Sunway REIT (“**Credit Facility**”) which is in RHB Banking Group’s ordinary course of business and there is no amount outstanding. Further, the Trustee, which is a company within RHB Banking Group, provides trustee services to Sunway REIT.

Notwithstanding the above, as at the LPD, RHB Investment Bank, as part of the RHB Banking Group is not aware of any conflict of interests which exists or is likely to exist in its capacity as the Principal Adviser to the Manager for the Proposed Acquisition on the basis that:

- (a) the Credit Facility was provided on arm’s length basis and is not material when compared to the audited consolidated net assets of RHB Bank of approximately RM23.1 billion as at 31 December 2017;

- (b) the Trustee is a registered trust company under the Trust Companies Act, 1949 and also registered with the Securities Commission Malaysia and its appointment as the trustee to Sunway REIT is in the ordinary course of its business;
- (c) RHB Investment Bank is a licensed investment bank and its appointment as the Principal Adviser for the Proposed Acquisition is in the ordinary course of its business and RHB Investment Bank does not receive or derive any financial interest or benefits save for the professional fees received in relation to its appointment as the Principal Adviser for the Proposed Acquisition;
- (d) the Corporate Finance division of RHB Investment Bank is required under its investment banking license to comply with strict policies and guidelines issued by Securities Commission Malaysia, Bursa Securities and Bank Negara Malaysia governing its advisory operations. These guidelines require, amongst others, the establishment of Chinese wall policies, clear segregation between dealing and advisory activities and the formation of an independent committee to review its business operations; and
- (e) the conduct of the RHB Banking Group in its banking business is strictly regulated by the Financial Services Act 2013, Capital Markets and Services Act 2007 and RHB Banking Group's own internal controls which includes, segregation of reporting structures, in that its activities are monitored and reviewed by independent parties and committees.

## **2.2 AmInvestment Bank**

AmInvestment Bank, being the Independent Adviser to the non-interested unitholders of Sunway REIT for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent for the inclusion of its name, letter and all references thereto in the form and context in which it appears in this Circular.

AmInvestment Bank and/or its related and associated companies (“**AmBank Group**”) form a diversified financial group and are engaged in a wide range of transactions relating to, amongst others, investment banking, commercial banking, private banking, brokerage, securities trading and investment, asset and funds management and credit transaction services businesses. AmBank Group's securities business is primarily in the areas of debt and equity securities underwriting and investment, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of the AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of Sunway REIT.

As at the LPD, the AmBank Group has extended credit facilities of RM100.1 million to Sunway Berhad and its group of companies (“**Sunway Group**”). AmBank Group is of the view that the aforementioned credit facilities do not result in any conflict of interest situation in respect of its capacity as the Independent Adviser for the Proposed Acquisition as the aforementioned credit facilities have been extended by the AmBank Group in the ordinary course of its banking business, and the terms and conditions of such credit facilities are offered on an arm's length basis. In addition, the operation of AmBank Group is regulated by the Financial Services Act, 2013 and its internal Chinese Wall Policy. For information, the credit facilities extended by AmBank Group to Sunway Group represents less than 1% of AmBank Group's net loans, advances and financing for the FYE 31 March 2018.

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**APPENDIX I – FURTHER INFORMATION (CONT'D)**

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Save for the Proposed Acquisition and the acquisition of Sunway Clio Property as set out in Section 3.2(e) of Part B of this Circular, Ambank Group has not advised Sunway REIT in the capacity of principal adviser or independent adviser for any corporate exercise within the past 2 years preceding the LPD.

Premised on the above, Ambank Group confirms that no conflict of interest situation exists or is likely to exist in relation to its role as the Independent Adviser to Sunway REIT in respect of the Proposed Acquisition.

**2.3 Knight Frank Malaysia Sdn. Bhd.**

Knight Frank Malaysia Sdn. Bhd., being the Valuer for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent for the inclusion of its name, Valuation Certificate and all references thereto in the form and context in which it appears in this Circular.

The Valuer is not aware of any existing or potential interest or any circumstance which would give rise to a conflict of interest by virtue of its role as the independent registered valuer for the Proposed Acquisition.

**2.4 BDO PLT**

BDO PLT, being the reporting accountants for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent for the inclusion of its name, letter on the proforma statement of financial position of Sunway REIT and all references thereto in the form and context in which it appears in this Circular.

BDO PLT is not aware of any existing or potential interest or any circumstance which would give rise to a conflict of interest by virtue of its role as the reporting accountants for the Proposed Acquisition.

**3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES****3.1 Material commitments**

Save as disclosed below, as at 31 December 2018, being the latest practicable date at which such amount could be calculated before the printing of this Circular, the Board is not aware of any other material commitments incurred or known to be incurred by Sunway REIT which may have a material impact on the financial position of Sunway REIT:

<b>Capital expenditure for existing properties</b>	<b>RM '000</b>
Approved and contracted for	313,275
Approved but not contracted for	221,100
<b>Total</b>	<b>534,375</b>

**3.2 Contingent liabilities**

As at 31 December 2018, being the latest practicable date at which such amount could be calculated before the printing of this Circular, the Board is not aware of any contingent liabilities incurred or known to be incurred by Sunway REIT which, upon becoming enforceable, may have a material impact on the financial position of Sunway REIT.

**4. MATERIAL LITIGATION, CLAIM OR ARBITRATION**

As at the LPD and as warranted by the Vendor under the terms of the SPA, there is no material litigation, claim or arbitration involving the Subject Lands and Buildings.

**5. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for your inspection at the registered office of the Manager at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan during normal business hours from Monday to Friday (except public holidays) following the date of this Circular up to and including the date of the Unitholders' Meeting:

- (i) the deed dated 20 May 2010, supplemental deed dated 10 June 2010, and amended and restated deed dated 18 September 2018 entered into between the Manager and the Trustee;
- (ii) the audited financial statements of Sunway REIT for the past 2 FYE 30 June 2017 and 30 June 2018 as well as the latest unaudited financial statements of Sunway REIT for the 6-month financial period ended 31 December 2018;
- (iii) the letters of consent referred to in Section 2 of Appendix I of this Circular;
- (iv) the SPA;
- (v) the Lease Agreements attached as an appendix to the Valuation Report;
- (vi) the valuation certificate dated 7 December 2018 referred to in Section 2.2 of this Circular, Valuation Certificate attached as Appendix II of this Circular and Valuation Report; and
- (vii) the Reporting Accountants' letter on the proforma statement of financial position attached as Appendix III of this Circular.



**PRIVATE & CONFIDENTIAL**

**RHB Trustees Berhad**  
**(as Trustee for Sunway REIT)**  
Level 11, Tower Three  
RHB Centre, Jalan Tun Razak  
50400 Kuala Lumpur

Date: 9<sup>th</sup> January 2019

Reference No.: V/COR/18/0102/kmy

Dear Sir / Madam,

**VALUATION CERTIFICATE FOR A PURPOSE-BUILT CAMPUS BEARING POSTAL ADDRESS NO. 5, JALAN UNIVERSITI, BANDAR SUNWAY, 47500 SUBANG JAYA, SELANGOR DARUL EHSAN (HEREINAFTER REFERRED TO AS THE "SUBJECT PROPERTY")**

We were jointly instructed by RHB Trustees Berhad (as Trustee for Sunway Real Estate Investment Trust ("Sunway REIT")) and Sunway Berhad (on behalf of Sunway Destiny Sdn Bhd) (hereinafter collectively referred to as the Client) for our firm to ascertain the Market Value of the legal interest in the Subject Property stated herein.

This Valuation Certificate is prepared for the submission to Bursa Malaysia Securities Berhad for inclusion in the Circular to unitholders of Sunway Real Estate Investment Trust (Sunway REIT) in relation to the proposed acquisition of the Subject Property by RHB Trustees Berhad on behalf of Sunway REIT.

The Valuation was prepared in conformity with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and the Malaysian Valuation Standards published by the Board of Valuers, Appraisers, Estate Agents and Property Managers, Malaysia.

This Valuation Certificate is prepared in accordance with the general principles adopted and limiting conditions as enclosed at the end of our formal valuation report. For all intents and purposes, this Valuation Certificate should be read in conjunction with our formal Valuation Report.

The basis of valuation adopted is the Market Value which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Accordingly, we have conducted the site inspection on various occasions; being the latest on 5<sup>th</sup> December 2018. As such, we have adopted 5<sup>th</sup> December 2018 as the material date of valuation.

Brief description of the Subject Property is attached overleaf.

**Knight Frank Malaysia Sdn Bhd (Co. No. 585479-A) (VE (1) 0141)**

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T + 603 228 99 688 F + 603 228 99 788 www.knightfrank.com







**IDENTIFICATION OF PROPERTY**

**Interest Valued / Type of Property** / Legal interest in a purpose-built campus comprising a 13-storey academic block along with two (2) basement levels (“**New University Block**”), a 6-storey academic block along with a lower ground level (“**North Building**”), a 5-storey academic block along with a lower ground level (“**South Building**”), four (4) blocks of 5-storey walk-up hostel apartment (“**Hostel**”) together with commercial / retail space(s) and other supporting amenities and sports facilities attached thereto; constructed on part of Lot PT 28, PT 1904 and PT 1905 held under Title No. HSD 118332, HSD 118325 and HSD 118326 respectively, Bandar Sunway, District of Petaling, Selangor Darul Ehsan (collectively identified as the “**Buildings**”) together with portion of lands measuring approximately 4,830 square metres (51,990 square feet) on which four (4) buildings namely Graduate Centre, East Building, International School and South Annex Building being constructed by Sunway Education Group Sdn Bhd sited thereon (collectively identified as “**Excluded Buildings**” where the value(s) of the buildings / structures are excluded from our valuation) held under part of Lot PT 28 and PT 1904, Title No. HSD 118332 and HSD 118325 respectively, Bandar Sunway, District of Petaling, Selangor Darul Ehsan (“**Leased Land**”) (hereinafter collectively referred to as the “**Subject Property**”).

**Address** No. 5, Jalan Universiti, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan.

**Title Particulars** The following table outlines the title particulars of the Subject Property: -

Summary of Title Particulars of the Subject Property			
Lot No.	Title No.	Land Area	Quit Rent (Land Tax) (RM Per annum)
PT 28	HSD 118332	25,818.9413 sq m / 6.38 acres	RM85,384.00
PT 1904	HSD 118325	24,494.8501 sq m / 6.05 acres	RM81,005.00
PT 1905	HSD 118326	17,806.1664 sq m / 4.40 acres	RM58,885.00

The following particulars are common to the above titles unless otherwise stated:-

- Mukim / District / State** : Bandar Sunway / District of Petaling / Selangor Darul Ehsan.
- Tenure** : Leasehold interest for a term of 99 years, expiring on 1<sup>st</sup> April 2097 (remaining unexpired term of approximately 78 years).
- Registered Proprietor** : Sunway Destiny Sdn Bhd.
- Category of Land Use** : Building.
- Express Condition** : ‘Institusi’.
- Restriction-In-Interest** : ‘Tanah yang diberi milik ini tidak boleh dipindah milik, dipajak atau digadai melainkan dengan kebenaran Pihak Berkuasa Negeri’.
- Encumbrance** : Charged to DBS Bank Ltd, Labuan Branch vide Presentation No. 42878/2014, registered on 22<sup>nd</sup> April 2014.



**PROPERTY DESCRIPTION**

**Location** Strategically located within Bandar Sunway, forms part of a 324-hectare (800-acre) integrated development of Sunway City; and is well connected to all parts of Klang Valley through major highways including the Federal Highway, Lebuhraya Damansara – Puchong (LDP), Lebuhraya Shah Alam (KESAS Highway), New Pantai Expressway (NPE), North-South Expressway Central Link (ELITE) and the New Klang Valley Expressway (NKVE).

**Property Description** The Buildings is sited on three (3) contiguous parcels of commercial (institutional) land, when combined, forms a regular shaped parcel of land with a total provisional land area of about 68,119.9578 square metres (16.83 acres); bounded by Jalan University to its east, Jalan Lagoon Timur to its south, Jalan PJS 11/9 to its west and Jalan PJS 11/7 to its north. The subject site is generally flat in terrain and lies at about the same level as the street elevations and neighbouring lots.

**General Building Description**

Structures	:	Reinforce concrete framework.
Roofs	:	Pitched roof laid over with roof tiles / reinforced concrete flat roof.
Ceilings	:	Plaster ceiling, plaster ceiling incorporating downlights, ceiling boards incorporating downlights and / or recessed lightings and cement plaster.
Wall Finishes	:	Cement plaster / timber / ceramic tiles / gypsum board / padded wall panel.
Floor Finishes	:	Wall-to-wall carpet / ceramic tiles / cement rendered / timber / broken marble.
Windows	:	Aluminium framed incorporating glass panels / top hung units / adjustable glass louvres.
Doors	:	Aluminium framed incorporating glass panels / frameless single and double leaf glass panels / fire-rated / panelled / flushed timber

**Floor Area** 174,689.28 square metres (1,880,245 square feet).

Buildings	Floor Area	
	Square Metres	Square Feet
NUB	* 97,269.20 (97,232.92)	* 1,043,696 *(1,046,512)
North Building	33,200.00	357,362
South Building	25,620.66	275,778
Hostel	18,635.70	200,593
<b>Total</b>	<b>174,689.28</b>	<b>1,880,245</b>

Source: Approved Building Plans ("ABP") bearing Plan Nos. MPSJ/BGN/KW/A-19/9 dated 19<sup>th</sup> January 2015 (New University Block) and MPSJ/BGN/600-1/11/1(BP1-3) dated 5<sup>th</sup> February 2016 (North Building, South Building & Hostel)

Notes: \* Summation and computation error based on the ABP  
\* Based on ABP conversion rate of 1 square metre : 10.76294 square feet  
(1) Floor Area of Basement Levels (designated for car park) = 39,130.54 square metres (421,111 square feet)



**PROPERTY DESCRIPTION (CONT'D)**

<b>Car Parking Bays</b>	1,053 bays located within basement levels of New University Block.										
<b>Age of Buildings</b>	<p>The Buildings was constructed and completed in two (2) phases; of which Phase 1 (South Building, Hostel and North Building) being developed back in the Year 1993 and Year 1996; whilst Phase 2 (New University Block) being the latest in Year 2015; with additional improvement / enhancement works have been carried out and completed in Year 2016 in relation to North Building.</p> <ul style="list-style-type: none"> <li>➤ About 3 years old from the issuance date of the Certificate of Completion and Compliance (“CCC”) dated 5<sup>th</sup> March 2015, in respect of New University Block and sport facilities attached thereto;</li> <li>➤ About 22 years old from the original issuance date of the Certificate of Fitness for Occupation (“CFO”) dated 14<sup>th</sup> December 1996 with additional improvement works have been carried out and completed in Year 2016, in respect of North Building; and</li> <li>➤ About 25 years old from the original issuance date of the CFO dated 6<sup>th</sup> April 1993; in respect of South Building and Hostel.</li> </ul>										
<b>State of Repair</b>	The Buildings appears to be in good condition and commensurate with its age and use.										
<b>Occupancy Status</b>	The Buildings is jointly leased and fully occupied by Sunway University Sdn Bhd, Sunway College (KL) Sdn Bhd and Sunway Education Group Sdn Bhd together with portion of lands measuring approximately 4,830 square metres (51,990 square feet) are currently being leased to Sunway Education Group Sdn Bhd (on which the Excluded Buildings are constructed thereon); all for a principal lease period of 30 years commencing from 1 <sup>st</sup> December 2018 with options to renew thereafter; subject to the terms and conditions stated in the respective lease agreement(s).										
<b>Planning</b>	Designated for commercial (institutional) use; and issued with CFO(s) vide Certificate No. 10274 and 10275 dated 6 <sup>th</sup> April 1993 for South Building and Hostel, Certificate No. 9414 dated 14 <sup>th</sup> December 1996 and a CCC vide Certificate No. LAM / S / No. 17281 dated 25 <sup>th</sup> February 2016 for North Building and additional improvement works respectively; and a CCC vide Certificate No. LAM / S / No. 14631 dated 5 <sup>th</sup> March 2015 for New University Block and sport facilities attached thereto.										
<b>Lease Agreements</b>	<p>Key salient terms and conditions of the Lease Agreement(s) are scheduled here below:-</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="background-color: #333; color: white;">Common terms</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Date of Agreement</td> <td style="padding: 5px;">: 3<sup>rd</sup> December 2018.</td> </tr> <tr> <td style="padding: 5px;">Term</td> <td style="padding: 5px;">: Principal lease period of 30 years, with an option to renew for a secondary lease period of 30 years and a further renewal of third lease period of 18 years and 4 months.</td> </tr> <tr> <td style="padding: 5px;">Commencement Date</td> <td style="padding: 5px;">: 1<sup>st</sup> December 2018.</td> </tr> <tr> <td style="padding: 5px;">Lessor</td> <td style="padding: 5px;">: Sunway Destiny Sdn Bhd.</td> </tr> </tbody> </table>	Common terms		Date of Agreement	: 3 <sup>rd</sup> December 2018.	Term	: Principal lease period of 30 years, with an option to renew for a secondary lease period of 30 years and a further renewal of third lease period of 18 years and 4 months.	Commencement Date	: 1 <sup>st</sup> December 2018.	Lessor	: Sunway Destiny Sdn Bhd.
Common terms											
Date of Agreement	: 3 <sup>rd</sup> December 2018.										
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Commencement Date	: 1 <sup>st</sup> December 2018.										
Lessor	: Sunway Destiny Sdn Bhd.										



**PROPERTY DESCRIPTION (CONT'D)**

**NUB, North Building, South Building & Hostel**

Lessee	:	Sunway University Sdn Bhd / Sunway College (KL) Sdn Bhd, Sunway Education Group Sdn Bhd.
Leased Area <sup>(1)</sup>	:	1,459,134 square feet.
Monthly Rental <sup>(2)</sup>	:	RM1.94 per square foot over floor area excluding basement car park area; with an increment of 2.30% per annum throughout the principal lease period.

Notes: <sup>(1)</sup> Floor area excluding basement car park area of 421,111 square feet.

<sup>(2)</sup> Monthly rental is based on triple net basis whereby the Lessee will undertake to pay all cost of outgoings / property expenses; save and except for structural repairs.

**Leased Land**

Lessee	:	Sunway Education Group Sdn Bhd.
Leased Area	:	4,830 square metres (51,990 square feet).
Monthly Rental	:	RM25,995.00; with an increment of 2.30% per annum throughout the principal lease period.

**Sport Facilities**

Facilities	:	Football field, basketball / netball / tennis court.
Lessees	:	Sunway Education Group Sdn Bhd, Sunway College (KL) Sdn Bhd and Sunway University Sdn Bhd.
Leased Area	:	8,529.15 square metres (91,807 square feet).
Monthly Rental	:	Included in the monthly rental payable under the three (3) Lease Agreements in relation to the Buildings.

**MARKET VALUE**

**Valuation Methodology a) Income Approach by Investment Method**

This approach involves capitalization of the net annual income stream that is expected to be received from the property after deducting the annual outgoings and other operating expenses incidental to the property with allowance for void by using an appropriate market derived capitalization rate.



Summary of Parameters – the Buildings					
Term	<p><b>Year 1: RM2,824,255 per month to Year 30: RM5,461,316 per month.</b> (Year 1: RM1.94 psf to Year 30: RM3.74 psf over floor area excluding basement car park area) (Year 1: RM1.50 psf to Year 30: RM2.90 psf over total floor area)</p> <p>This is based on the committed monthly rental (on triple net basis), with an increment of 2.3% per annum throughout, for the unexpired principal lease period for 30 years in accordance to Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway University Sdn Bhd, Sunway College (KL) Sdn Bhd and Sunway Education Group Sdn Bhd (the "Lessees") dated 3<sup>rd</sup> December 2018.</p>				
Reversionary	<p><b>RM1.95 psf</b> over floor area excluding basement car park area / <b>RM1.51 psf</b> per month over total floor area</p> <p>Our assessment of the market rent of the Buildings is based on the market rental payable (with master lease arrangement) of other selected institutional / educational assets located within Klang Valley (ranging from RM1.55 psf to RM3.13 psf over the respective floor area). Our investigation revealed that the above rentals payable is based on triple net basis whereby the Lessee is responsible for all property related expenses including levies and taxes. In our assessment, we have adopted an average adjusted rental of <b>RM1.95 psf (RM1.51 psf)</b> after having considered and made diligent adjustment for differences including but not limited to the location and catchment area, size, building condition / specification and facilities.</p>				
Void Allowance (Reversionary)	<p><b>10.00%.</b></p> <p>We have adopted a void allowance of 10.00% of the annual income in reversionary period as fair representation for allowance of void, unforeseen vacancies, possible rent-free periods, fitting out periods and possibility of bad debts.</p> <p>Typically for multiple tenancies, a void allowance of 3.00% - 5.00% (depending on the occupancy rate achieved along with its tenant profile) are adopted to reflect unforeseen vacancies, possible rent-free periods, fitting out periods and possibility of bad debts. However, for properties which are committed and secure with a single operator, a higher provision for void allowance will be allowed for risk of unforeseen vacancy etc.</p>				
Allowance of Outgoings	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; vertical-align: top;">Term:</td> <td> <p><b>2.00% of Gross Income.</b></p> <p>Based on the Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway University Sdn Bhd, Sunway College (KL) Sdn Bhd and Sunway Education Group Sdn Bhd (the "Lessees") dated 3<sup>rd</sup> December 2018, we note that the rental payable to the Lessor is based on triple net basis whereby the Lessee will undertake to pay all cost of outgoings / property expenses; save and except for structural repairs; where no related expenses in relation to structural repairs (on yearly basis) was incurred based on past years' records made available to us. Thus, a mere 2.00% provisional projection for outgoings are allowed under the term valuation as fair and adequate.</p> </td> </tr> <tr> <td style="vertical-align: top;">Reversionary:</td> <td> <p><b>3.00% of Gross Income.</b></p> <p>We have allocated a 3.00% of gross income as the projected allocation for miscellaneous expenses (which include provision for structural works (limited to RC Works only); excluding all quit rent, assessment, fire insurance charges and other rates imposed) as fair representation after having benchmarked against any typical replacement / reserve fund allocation (approx. 2.0% - 3.0% of annual income) that will be set aside for similar and / or comparable asset class.</p> </td> </tr> </table>	Term:	<p><b>2.00% of Gross Income.</b></p> <p>Based on the Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway University Sdn Bhd, Sunway College (KL) Sdn Bhd and Sunway Education Group Sdn Bhd (the "Lessees") dated 3<sup>rd</sup> December 2018, we note that the rental payable to the Lessor is based on triple net basis whereby the Lessee will undertake to pay all cost of outgoings / property expenses; save and except for structural repairs; where no related expenses in relation to structural repairs (on yearly basis) was incurred based on past years' records made available to us. Thus, a mere 2.00% provisional projection for outgoings are allowed under the term valuation as fair and adequate.</p>	Reversionary:	<p><b>3.00% of Gross Income.</b></p> <p>We have allocated a 3.00% of gross income as the projected allocation for miscellaneous expenses (which include provision for structural works (limited to RC Works only); excluding all quit rent, assessment, fire insurance charges and other rates imposed) as fair representation after having benchmarked against any typical replacement / reserve fund allocation (approx. 2.0% - 3.0% of annual income) that will be set aside for similar and / or comparable asset class.</p>
Term:	<p><b>2.00% of Gross Income.</b></p> <p>Based on the Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway University Sdn Bhd, Sunway College (KL) Sdn Bhd and Sunway Education Group Sdn Bhd (the "Lessees") dated 3<sup>rd</sup> December 2018, we note that the rental payable to the Lessor is based on triple net basis whereby the Lessee will undertake to pay all cost of outgoings / property expenses; save and except for structural repairs; where no related expenses in relation to structural repairs (on yearly basis) was incurred based on past years' records made available to us. Thus, a mere 2.00% provisional projection for outgoings are allowed under the term valuation as fair and adequate.</p>				
Reversionary:	<p><b>3.00% of Gross Income.</b></p> <p>We have allocated a 3.00% of gross income as the projected allocation for miscellaneous expenses (which include provision for structural works (limited to RC Works only); excluding all quit rent, assessment, fire insurance charges and other rates imposed) as fair representation after having benchmarked against any typical replacement / reserve fund allocation (approx. 2.0% - 3.0% of annual income) that will be set aside for similar and / or comparable asset class.</p>				

Notes: Total Floor Area = 1,880,425 square feet  
Floor Area excluding basement car park area = 1,459,134 square feet



Summary of Parameters – the Buildings (Cont'd)		
Capitalisation Rate	Term:	<b>6.75% to 8.75%.</b> A range of yield adopted under Term are benchmarked against prevailing market rate and adjusted +/-0.25 basis point for every RM0.20 psf differences from market rent (analysed to be about 10% variance from Market Rent of RM1.95 psf) to reflect whether committed rental rates are under, over or at market rent.
	Reversionary:	<b>6.75%.</b> Reversionary yield is adopted at fair market rate and they are market derived. We have benchmarked against the existing yields of institutional / educational assets transactions in Klang Valley reflecting current market conditions are in the region of about 6.50% to 7.20%. We have thus adopted a capitalisation rate of 6.75% as fair after having considered the prevailing market condition, location, concept and design of the building along with its committed lease arrangement.

Summary of Parameters – Leased Land		
Term	<b>Year 1: RM25,995 per month to Year 30: RM50,267 per month.</b> (Year 1: RM0.50 psf / leased area to Year 30: RM0.97 psf / leased area) This is based on the committed monthly rental (on triple net basis), with an increment of 2.3% per annum throughout, for the unexpired principal lease period for 30 years in accordance to Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway Education Group Sdn Bhd (the "Lessee") dated 3 <sup>rd</sup> December 2018.	
Reversionary	<b>RM0.50 psf per month over the delineated land area.</b> Our assessment of market rental is based on the market rental payable of other selected leased lands located within Klang Valley (ranging from RM0.21 psf to RM1.06 psf over the respective land area); and we have adopted <b>RM0.50 psf</b> in our assessment as fair representation after having considered and made diligent adjustment for differences including but not limited to the location and catchment area, size and accessibility.	
Void Allowance (Reversionary)	<b>5.00%.</b> We have adopted a void allowance of 5.00% of the annual income in reversionary as fair representation for allowance of void, unforeseen vacancies, possible rent-free periods, fitting out periods and possibility of bad debts.	
Allowance of Outgoings	<b>Nil.</b> Based on the Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway Education Group Sdn Bhd (the "Lessee") dated 3 <sup>rd</sup> December 2018, we note that the rental payable to the Lessor is based on triple net basis whereby the Lessee will undertake to pay all cost of expenses relating to the Leased Land.	
Allowance of Outgoings	Term:	<b>Nil.</b> Based on the Lease Agreements entered between Sunway Destiny Sdn Bhd (the "Lessor") and Sunway Education Group Sdn Bhd (the "Lessee") dated 3 <sup>rd</sup> December 2018, we note that the rental payable to the Lessor is based on triple net basis whereby the Lessee will undertake to pay all cost of expenses relating to the Leased Land.



Summary of Parameters – Leased Land (Cont'd)		
Allowance of Outgoings (Cont'd)	Reversionary:	<b>5.00% of Gross Income.</b> We have allocated a 5.00% of gross income as the projected allocation for expenses relating to land tax (quit rent) as fair and adequate after having considered the current quit rent payable levied to Lot PT 28 and PT 1904.
Capitalisation Rate	Term:	<b>3.50% to 4.75%.</b> A range of yield adopted under Term are benchmarked against prevailing market rate and adjusted +/-0.25 basis point for every 10% differences in the rate psf from the market rent (to reflect whether committed rental rates are under, over or at market rent).
	Reversionary:	<b>3.50%.</b> The lack of land transactions (as investment asset) in the market has resulted in continued difficulties in assessing a benchmark for yields. From our investigation and informal survey from land owners, the most probable expected return would be in the region of 3.00% - 4.00%; and thus we have adopted 3.50% as fair representation.

**b) Cost Approach**

This comparative approach considers the possibility that, as a substitute for the purchase of a given property, one could construct another property that is either a replica of the original or one that could furnish equal utility. In real estate context, one would normally not be justified in paying more for a given property than the cost of acquiring equivalent land and constructing an alternative structure, unless undue time, inconvenience, and risks are involved. In practice, the approach also involves an estimate of depreciation for older and / or less functional properties where an estimate of cost new unreasonably exceeds the likely price that would be paid for the appraised property.

The estimate of the land value component in the Cost Approach is arrived at principally by Comparison Approach; whereby it considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. In general, a property being valued is compared with sales of similar properties that have been transacted in the open market. Listings and offerings may also be considered.

The building value component is arrived at by Depreciated Replacement Cost Method; whereby an estimate is made of the replacement cost new and then allowing for depreciation based on physical deterioration, functional obsolescence and economic obsolescence. In arriving at the replacement cost new, we have referred to the total awarded contract sum as well as the industry average costing as derived from analysis of other awarded contracts of similar development and the average building costs of similar type of properties published by JUBM and Arcadis Construction Cost Handbook Malaysia 2018.

We have identified and analyzed the selected recent transactions of vacant land sales in the immediate and surrounding vicinity of the Subject Property and summarized the details in the table attached overleaf.

**APPENDIX II – VALUATION CERTIFICATE FOR THE SUBJECT LANDS AND BUILDINGS  
(CONT'D)**



<b>Sales Comparison and Analysis of Vacant Land Transactions</b>			
	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
<b>Legal Description</b>	Lot 72024 and Lot 72025 held under Title No. GRN 321057 and GRN 321058, held under Title Nos. GRN 321057 and GRN 321058 respectively, Pekan Country Height, District of Petaling, Selangor Darul Ehsan	Lot PT 9, PT 10, PT 11 and PT 12 held under Title Nos. HSD 120169, HSD 120170, HSD 120171 and HSD 120172, located within Bandar Petaling Jaya Selatan, District of Petaling, Selangor Darul Ehsan	Lot 526, Lot 527, Lot 528 and Lot 62506 held under Title Nos. Geran Mukim 85, Geran Mukim 84, Geran Mukim 83 and Geran Mukim 319 respectively, Locality of Sungei Penaga, Mukim of Damansara, District of Petaling, Selangor Darul Ehsan
<b>Locality</b>	Located within Tropicana Metropark, Subang Jaya	Located along the New Pantai Expressway (NPE).	Located along Persiaran Subang Permai, Subang Jaya
<b>Property Type</b>	Two (2) contiguous parcels of vacant commercial land	Four (4) parcels of commercial land	Four (4) contiguous parcels of industrial land with redevelopment potential
<b>Tenure</b>	Interest in perpetuity	Leasehold interest for a term of 99 years, expiring on 6 <sup>th</sup> October 2097	Interest in perpetuity
<b>Land Area</b>	36,912.00 square metres (397,317 square feet)	15,811.66 square metres (170,195 square feet).	59,883.00 square metres (644,575 square feet)
<b>Consideration</b>	RM143,000,000	RM37,442,928	RM167,589,760
<b>Analysis</b>	RM360 per square foot	RM220 per square foot	RM260 per square foot
<b>Date of Transaction</b>	13 <sup>th</sup> April 2018	11 <sup>th</sup> September 2017	1 <sup>st</sup> August 2017
<b>Vendor</b>	Tropicana Metropark Sdn Bhd, a wholly-owned subsidiary of Tropicana Corporation Berhad.	Milan Sanctuary Sdn Bhd and Jurapat Sdn Bhd	Premier Place Property Sdn Bhd, a wholly-owned subsidiary of JAKS Resources Berhad
<b>Purchaser</b>	Next Delta Sdn Bhd, a wholly-owned subsidiary of MCT Consortium Bhd, which is a wholly-owned subsidiary of MCT Berhad.	Ibraco Berhad	Sunway Supply Chain Enterprise Sdn Bhd, a wholly-owned subsidiary of Sunway Holdings Sdn Bhd
<b>Source</b>	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad
<b>Planning</b>	Located within an area zoned for commercial use, for a permissible plot ratio of 1:4	Located within an area zoned for commercial use, for a permissible plot ratio of 1:4	Located within an area zoned for commercial use with permissible plot ratio of 1:4
<b>Adjustments</b>	General adjustments are made for accessibility, tenure, land area and planning provision	General adjustments are made for location / establishment, accessibility, land area, shape and planning provision	General adjustments are made for location / establishment, accessibility, tenure, category of land use and planning provision
<b>Adjusted Value</b>	RM252 per square foot	RM242 per square foot	RM247 per square foot

**Valuation Rationale**

Based on our analysis of the data obtained from the sources listed herein before, we note that the land value derived ranged from RM242 psf to RM252 psf.

In view of limited recorded transactions of similar land transactions in the immediate and surrounding localities, we have resorted to adopt the selected comparable(s) in our assessment by Comparison Approach; as it is not possible to identify exactly alike properties to make reference to, hence appropriate adjustments are made to reflect the differences of the comparable(s) and the property being valued.





**MARKET VALUE (CONT'D)**

**Valuation Rationale**

Based on our analysis of the data obtained from the sources listed herein before, we note that the land value derived ranged from RM242 psf to RM252 psf.

In view of limited recorded transactions of similar land transactions in the immediate and surrounding localities, we have resorted to adopt the selected comparable(s) in our assessment by Comparison Approach; as it is not possible to identify exactly alike properties to make reference to, hence appropriate adjustments are made to reflect the differences of the comparable(s) and the property being valued.

Although total adjustments (in excess of 45%) were considered and made in our assessment, we are of the view that the selected comparable(s) adopted are considered relevant by virtue of the fact that most of the selected comparable(s) are considered to have relatively similar attributes (in terms of terrain and planning provision (plot ratio)) as compared to the Subject Property. With total effective adjustments made for all Comparable(s), we have placed greater reliance on Comparable 3 (being the least adjusted comparable) after having considered and made diligent adjustments for various dissimilarities including but not limited to location / establishment, accessibility, tenure, category of land use and planning provision (zoning). Having considered all relevant factors, we are of the opinion that the base land value of the Subject Property should be RM247 psf + site improvement of about RM10 psf (allocation for site preparation + landscape + roads + infrastructure etc) within the site as fair after having considered costing as derived from analysis of the other awarded contracts (typically ranging from RM9.00 psf to RM14.00 psf).

In assessing the depreciated building value of the properties constructed thereon, we have made reference to the awarded contract sum (in relation to New University Block) (about RM247 psf over floor area of New Building Block) as well as the industry average costing as derived from analysis of other awarded contracts of similar development (ranging from RM178 psf to RM232 psf over the total floor area respectively) and the average building costs of similar type of properties published by JUBM & Arcadis Construction Cost Handbook Malaysia 2018.

In our assessment, we have adopted an average replacement cost new for New University Block at RM260 psf; RM220 psf for North and South Building and RM130 psf for Hostel; after having after taking into consideration the contingencies and inflation arisen as well as the type, design, building specifications and finishes of the respective buildings.

Buildings	Average Building Cost (RM per sq ft)	Accumulated Depreciation Rate
New University Block	RM260 psf	4.5%
North Building	RM220 psf	33.0%
South Building	RM220 psf	37.5%
Hostel	RM130 psf	37.5%



**MARKET VALUE (CONT'D)**

**Valuation Rationale  
(Cont'd)**

Generally, the buildings depreciated rate adopted are based on 50 - 70 years building lifespan. In our assessment of building value(s), we have adopted an annual depreciation rate of about 1.5% per annum as fair and reflective of the existing building condition of the buildings.

**Summary of Parameters**

Improved Land Value	RM188,000,000
Depreciated Building Value	RM367,000,000
Depreciation Rate	1.5% per annum

**Reconciliation of Values**

Method of Valuation	Derivation of Values
Income Approach by Investment Method	RM550,000,000
Cost Approach	RM555,000,000

Taking into consideration that the Subject Property is a commercial and income generating property, we have adopted the Market Value as derived from the Income Approach by Investment Method as a fair representation for the Subject Property supported by the Market Value derived from the Cost Approach.

The Cost Approach provides a good guide to Market Value of specialised properties; however, the underlying reason to Cost Approach not being considered an accurate representation in determining the market value of the Subject property was due to the difficulty in estimating the depreciation and the cost of replacing improvements as they exist in their present form.

In a valuation of a homogeneous real estate such as vacant lands and residential homes, the Comparison Approach is an appropriate method of valuation as there are less adjustments and analysis on comparable(s). However, in the case of more complex real estate such as institutional / educational assets and other income generating or investment properties, qualitative and quantitative adjustments are more difficult to be computed or gauged to reflect the differences of the comparables and the property being valued. Therefore, we have not considered Comparison Approach in our valuation assessment. Nonetheless, the Comparison Approach can (with relevant and reliable comparative sets of recorded transaction), broadly act as a secondary check / guide to value.

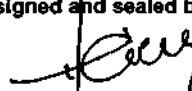


**MARKET VALUE (CONT'D)**

We wish to draw to attention that the titles of the Subject Property carry a restriction-in-interest which stipulates that "Tanah yang diberi milik ini tidak boleh dipindah milik, dipajak atau diganti melainkan dengan kebenaran Pihak Berkuasa Negeri". In this regard, our valuation is on the basis that written consent from the State Authority in respect of the aforesaid restriction-in-interest will not be unreasonably withheld.

Having regard to the foregoing, our opinion of the **Market Value** of the unexpired 99-year leasehold interest (remaining unexpired terms of approximately 78 years) in the Subject Property; as a purpose-built campus comprising a 13-storey academic block along with two (2) basement levels ("**New University Block**"), a 6-storey academic block along with a lower ground level ("**North Building**"), a 5-storey academic block along with a lower ground level ("**South Building**"), four (4) blocks of 5-storey walk-up hostel apartment ("**Hostel**" together with commercial / retail space(s) and other supporting amenities and sports facilities attached thereto; constructed on part of Lot PT 28, PT 1904 and PT 1905 held under Title No. HSD 118332, HSD 118325 and HSD 118326 respectively, Bandar Sunway, District of Petaling, Selangor Darul Ehsan (collectively identified as the "**Buildings**" together with portion of lands measuring approximately 4,830 square metres (51,990 square feet) on which four (4) buildings namely Graduate Centre, East Building, International School and South Annex Building being constructed by Sunway Education Group Sdn Bhd sited thereon (collectively identified as "**Excluded Buildings**" where the value(s) of the buildings / structures are excluded from our valuation) held under part of Lot PT 28 and PT 1904, Title No. HSD 118332 and HSD 118325 respectively, Bandar Sunway, District of Petaling, Selangor Darul Ehsan ("**Leased Land**"); with CFO(s) and / or CCC(s) issued, subject to lease agreements committed to-date and the titles being free from all encumbrances, good, marketable and registrable, as at 5<sup>th</sup> December 2018 is **RM550,000,000 (Ringgit Malaysia Five Hundred And Fifty Million Only)**.

For and on behalf of  
**KNIGHT FRANK MALAYSIA SDN BHD**  
(signed and sealed by)

  
**OOI HSIEN YU**  
Registered Valuer, V-692685479-A  
MRISM, MRICS, MPEPS



Date: 9<sup>th</sup> January 2019

**Notes:-**

- i) Please note that this certificate shall only be valid provided always that a signature of our authorised signatory and an official seal have been affixed hereto.
- ii) The above valuation is peer reviewed by Knight Frank Malaysia Sdn Bhd (Head Office), Mr. Chong Teck Seng (Registered Valuer, V-331)



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Malaysia

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SUNWAY REAL ESTATE INVESTMENT TRUST AND ITS SUBSIDIARIES AS AT 30 JUNE 2018 TOGETHER WITH THE REPORTING ACCOUNTANTS’ LETTER**

(Prepared for inclusion in the Circular to Unitholders)

**RHB Trustees Berhad**  
**(As Trustee for Sunway Real Estate Investment Trust)**  
Level 11, Tower Three  
RHB Centre, Jalan Tun Razak  
50400 Kuala Lumpur

**Board of Directors**  
**Sunway REIT Management Sdn. Bhd.**  
Level 15, Menara Sunway  
Jalan Lagoon Timur  
Bandar Sunway  
47500 Subang Jaya  
Selangor Darul Ehsan

13 March 2019

Dear Sirs

**SUNWAY REAL ESTATE INVESTMENT TRUST (“SUNWAY REIT” or the “TRUST”)  
REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

1. We have completed our assurance engagement to report on the compilation of Pro Forma Consolidated Statement of Financial Position of Sunway REIT and its subsidiaries (“Sunway REIT Group” or the “Group”) as at 30 June 2018 (“Pro Forma Consolidated Statement of Financial Position”) together with the notes thereon. The Pro Forma Consolidated Statement of Financial Position as set out in Appendix I (which we have stamped for purposes of identification) has been compiled by the Directors of Sunway REIT Management Sdn. Bhd. (the “Manager”) for inclusion in the Circular to Unitholders of the Trust to be issued in connection with the proposed acquisition of the Subject Lands and Buildings (as defined in the Circular to Unitholders) for a total cash consideration of RM550 million (“Proposed Acquisition”).
2. The applicable criteria on the basis of which the Directors of the Manager have compiled the Pro Forma Consolidated Statement of Financial Position are described in Note 2 of Appendix I.
3. The Pro Forma Consolidated Statement of Financial Position has been compiled by the Directors of the Manager for illustrative purposes only to show the effects on the Consolidated Statement of Financial Position presented had the Proposed Acquisition been effected as at 30 June 2018. As part of this process, information in the Pro Forma Consolidated Statement of Financial Position has been extracted from Sunway REIT’s audited Consolidated Statement of Financial Position as at 30 June 2018.

**DIRECTORS’ RESPONSIBILITIES FOR THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

4. The Directors of the Manager are responsible for compiling the Pro Forma Consolidated Statement of Financial Position on the basis set out in Note 2 of Appendix I.

BDO PLT (LLP0018825-LCA & AF 0206), Chartered Accountants, a Limited Liability Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO PLT (LLP0018825-LCA & AF 0206), was registered on 2 January 2019 and with effect from that date, BDO (AF 0206), a conventional partnership was converted to a limited liability partnership.



## OUR RESPONSIBILITIES

5. Our responsibility is to express an opinion about whether the Pro Forma Consolidated Statement of Financial Position has been compiled in all material aspects by the Directors of the Manager on the basis set out in Note 2 of Appendix I and report our opinion to you based on our work.
6. We conducted our engagement in accordance with International Standard on Assurance Engagements (“ISAE”) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements, and plan and perform procedures to obtain reasonable assurance about whether the Directors of the Manager have compiled, in all material respects, the Pro Forma Consolidated Statement of Financial Position in accordance with the basis set out in Note 2 of Appendix I.
7. For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statement of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information or any adjustments made in compiling the Pro Forma Consolidated Statement of Financial Position.
8. The purpose of Pro Forma Consolidated Statement of Financial Position included in the Circular to Unitholders of the Trust is solely to illustrate the impact of the Proposed Acquisition on the audited Consolidated Statement of Financial Position of the Group as at 30 June 2018 as if the Proposed Acquisition had been effected as at 30 June 2018. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented.
9. A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, involves performing procedures to assess whether the applicable criteria used by the Directors of the Manager in the compilation of the Pro Forma Consolidated Statement of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:
  - The related pro forma adjustments give appropriate effect to those criteria; and
  - The Pro Forma Consolidated Statement of Financial Position reflects the proper application of those adjustments to the audited Consolidated Statement of Financial Position as at 30 June 2018.
10. The procedures selected depend on our judgement, having regard to our understanding of the nature of Sunway REIT, the Proposed Acquisition in respect of which the Pro Forma Consolidated Statement of Financial Position has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.
11. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion:

12. The Pro Forma Consolidated Statement of Financial Position, which have been prepared by the Board of Directors of the Manager, have been properly prepared on the basis stated in the accompanying Note 2 of Appendix I using the financial statements prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group; and
13. Each material adjustment made to the information (extracted from the Sunway REIT’s audited Consolidated Statement of Financial Position as at 30 June 2018) used in the preparation of the Pro Forma Consolidated Statement of Financial Position is appropriate for the purposes of preparing the Pro Forma Consolidated Statement of Financial Position.

**OTHER MATTERS**

14. The report has been prepared solely for the purpose of inclusion in the Circular to Unitholders of Sunway REIT in connection with the Proposed Acquisition and, as such, this report should not be used for any other purpose. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary of the aforesaid purpose.

Yours faithfully,

A handwritten signature in black ink that reads 'BDO PLT'.

BDO PLT  
LLP0018825-LCA & AF 0206

**APPENDIX III – REPORTING ACCOUNTANTS’ LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT’D)**

SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Appendix I

	Note	Audited Consolidated Statement of Financial Position as at 30.6.2018 RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma After the Proposed Acquisition RM'000
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Investment properties	4.1	7,280,225	555,729	7,835,954
Plant and equipment		13,591		13,591
<b>Total non-current assets</b>		<b>7,293,816</b>		<b>7,849,545</b>
<b>CURRENT ASSETS</b>				
Trade receivables		21,423		21,423
Other receivables		10,669		10,669
Derivatives		10,766		10,766
Short term investment		129,625		129,625
Cash and bank balances		57,559		57,559
<b>Total current assets</b>		<b>230,042</b>		<b>230,042</b>
<b>TOTAL ASSETS</b>		<b>7,523,858</b>		<b>8,079,587</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Unitholders’ funds</b>				
Unitholders’ capital		2,727,829		2,727,829
Undistributed income	4.4	1,625,407	(408)	1,624,999
<b>Equity attributable to unitholders</b>		<b>4,353,236</b>		<b>4,352,828</b>
Perpetual notes issued by subsidiary		-	357,500	357,500
<b>Total Equity</b>	4.3	<b>4,353,236</b>		<b>4,710,328</b>



**APPENDIX III – REPORTING ACCOUNTANTS’ LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT’D)**

SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Appendix I

(Continued)	Note	Audited Consolidated Statement of Financial Position as at 30.6.2018 RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma After the Proposed Acquisition RM'000
<b>NON-CURRENT LIABILITIES</b>				
Borrowings	4.2	299,750		299,750
Long term liabilities		77,519		77,519
Deferred tax liability		6,896		6,896
Derivatives		-		-
<b>Total non-current liabilities</b>		<b>384,165</b>		<b>384,165</b>
<b>CURRENT LIABILITIES</b>				
Borrowings	4.2	2,602,750	198,637	2,801,387
Trade payables		2,096		2,096
Other payables		181,583		181,583
Derivatives		28		28
<b>Total current liabilities</b>		<b>2,786,457</b>		<b>2,985,094</b>
<b>TOTAL LIABILITIES</b>		<b>3,170,622</b>		<b>3,369,259</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,523,858</b>		<b>8,079,587</b>
Total assets (RM'000)		7,523,858		8,079,587
Total gross borrowings ('000)	4.2	2,902,750		3,101,387
Gearing (total gross borrowings/ total asset value)		38.6%		38.4%
Units in circulation ('000)		2,945,078		2,945,078
Net assets value attributable to unitholders (RM'000)		4,353,236		4,352,828
Net assets value per unit attributable to unitholders (RM)		1.4781		1.4780





**1. INTRODUCTION**

This Pro Forma Consolidated Statement of Financial Position of Sunway Real Estate Investment Trust (“Sunway REIT” or the “Trust”) and its subsidiaries (“Sunway REIT Group” or the “Group”) as at 30 June 2018 (“Pro Forma Consolidated Statement of Financial Position”) has been prepared for illustrative purpose only for inclusion in the Circular to Unitholders of the Trust (“Circular”) to be issued in connection with the proposed acquisition of the Subject Lands and Buildings (as defined in the Circular to Unitholders) for a total purchase consideration of RM550 million (“Proposed Acquisition”).

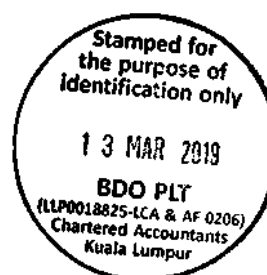
The Pro Forma Consolidated Statement of Financial Position is prepared for illustrative purposes only, to show the effects of the Proposed Acquisition, as set out on Notes 3 and 4, on the audited Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2018, had the Proposed Acquisition been effected as at 30 June 2018.

As the Pro Forma Consolidated Statement of Financial Position is prepared for illustrative purposes only, such information, because of its nature, does not give a true picture of the effects of the Proposed Acquisition on the financial position of Sunway REIT Group presented had the transactions or event occurred on 30 June 2018. Furthermore, such information does not purport to predict Sunway REIT Group’s future financial position.

**2. BASIS OF PREPARATION**

The Pro Forma Consolidated Statement of Financial Position, for which the Board of Directors of Sunway REIT Management Sdn. Bhd. (the “Manager”) is solely responsible, are for illustrative purposes only and have been prepared based on:

- a) The audited consolidated statement of financial position of Sunway REIT Group as at 30 June 2018, which were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards;
- b) The accounting policies and bases, which are consistent with those previously adopted in the preparation of the audited financial statements of Sunway REIT Group for the financial year ended 30 June 2018, to show the effects of the Proposed Acquisition on the assumption that the Proposed Acquisition stated in Note 1 had been effected as at 30 June 2018; and
- c) The historical financial information of Sunway REIT is presented in Ringgit Malaysia (“RM”), which is also Sunway REIT’s functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.



**APPENDIX III – REPORTING ACCOUNTANTS’ LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT’D)**

SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Appendix I

**3. EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 AFTER INCORPORATING THE EFFECTS OF THE PROPOSED ACQUISITION**

**Pro Forma I**

Pro Forma I is stated after incorporating the effect of the Proposed Acquisition as follows:

Adjustment for the Proposed Acquisition

The adjustment for the Proposed Acquisition illustrates the effect of the Proposed Acquisition on the audited Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2018.

For illustrative purposes, the purchase consideration of RM550,000,000 for the Proposed Acquisition is to be satisfied in cash drawdown via a combination of 35% from Sunway REIT’s existing debt programme and 65% from a perpetual note programme.

Correspondingly, the Proposed Acquisition would give rise to the following:

- i. increase in investment properties by RM550,000,000, borrowings by RM192,500,000 and equity by RM357,500,000; and
- ii. expenses for the Proposed Acquisition are estimated at RM6,137,000, of which RM5,729,000 of expenses are directly related to the Proposed Acquisition and will be capitalised as part of investment properties, while the remaining balance of RM408,000 of other expenses will be expensed off to statement of profit or loss of Sunway REIT Group. The estimated expenses of RM6,137,000 will be settled in cash drawdown from existing debt programme.

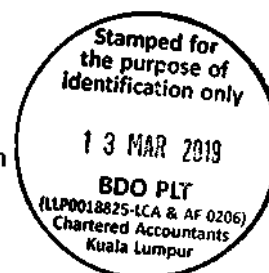
**4. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 AFTER INCORPORATING THE EFFECTS OF THE PROPOSED ACQUISITION**

**4.1 Investment properties**

	RM’000
As per audited consolidated statement of financial position (“CSOFP”) of the Group as at 30 June 2018	7,280,225
Adjustment for Proposed Acquisition	
- acquisition of Subject Lands and Buildings	550,000
- estimated expenses directly in relation to the Proposed Acquisition	5,729
As per Pro Forma	7,835,954

**4.2 Borrowings and total gross borrowings**

	RM’000
As per audited CSOFP of the Group as at 30 June 2018	2,902,500
Adjustment for Proposed Acquisition	
- acquisition of Subject Lands and Buildings	192,500
- estimated expenses in relation to the Proposed Acquisition	6,137
As per Pro Forma	3,101,137



**APPENDIX III – REPORTING ACCOUNTANTS’ LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT’D)**

SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Appendix I

**4. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 AFTER INCORPORATING THE EFFECTS OF THE PROPOSED ACQUISITION (CONTINUED)**

**4.2 Borrowings and total gross borrowings (continued)**

*Reconciliation of the audited carrying amount of borrowings to total gross borrowings as at 30 June 2018:*

	RM'000
As per audited CSOFP of the Group as at 30 June 2018	2,902,500
Add: Unamortised transaction costs	250
Total gross borrowings of the Group as at 30 June 2018	<u>2,902,750</u>
Adjustment for Proposed Acquisition	
- acquisition of Subject Lands and Buildings	192,500
- estimated expenses in relation to the Proposed Acquisition	<u>6,137</u>
As per Pro Forma	<u><u>3,101,387</u></u>

**4.3 Equity**

	RM'000
As per audited CSOFP of the Group as at 30 June 2018	4,353,236
Adjustment for Proposed Acquisition	
- acquisition of Subject Lands and Buildings	357,500
- estimated other expenses in relation to the Proposed Acquisition	<u>(408)</u>
As per Pro Forma	<u><u>4,710,328</u></u>

**4.4 Undistributed income**

	RM'000
As per audited CSOFP of the Group as at 30 June 2018	1,625,407
Adjustment for Proposed Acquisition	
- estimated other expenses in relation to the Proposed Acquisition	<u>(408)</u>
As per Pro Forma	<u><u>1,624,999</u></u>



# **SUNWAY<sup>®</sup>**

## **REIT**

### **SUNWAY REAL ESTATE INVESTMENT TRUST**

*(Established in Malaysia under a deed dated 20 May 2010, a supplemental deed dated 10 June 2010 and an amended and restated deed dated 18 September 2018 entered into between Sunway REIT Management Sdn. Bhd. and RHB Trustees Berhad, both companies incorporated in Malaysia)*

#### **NOTICE OF UNITHOLDERS' MEETING**

**NOTICE IS HEREBY GIVEN THAT** a meeting of unitholders ("**Unitholders' Meeting**") of Sunway Real Estate Investment Trust ("**Sunway REIT**") will be held at Grand Forum, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia on 8 April 2019 at 3.00 p.m. or at any adjournment thereof, for the purpose of considering and if thought fit, passing the following resolution with or without modifications:

#### **ORDINARY RESOLUTION**

#### **PROPOSED ACQUISITION BY RHB TRUSTEES BERHAD, ON BEHALF OF SUNWAY REIT, OF THE SUBJECT LANDS AND BUILDINGS (AS DEFINED HEREIN) FROM SUNWAY DESTINY SDN. BHD., A WHOLLY-OWNED SUBSIDIARY OF SUNWAY BERHAD, FOR A CASH CONSIDERATION OF RM550 MILLION**

"**THAT** contingent upon the fulfilment of all other conditions precedent under the conditional Sale and Purchase Agreement dated 24 December 2018 ("**SPA**") between Sunway Destiny Sdn. Bhd. ("**Vendor**") and RHB Trustees Berhad ("**Trustee**" or "**Purchaser**"), on behalf of Sunway REIT, and subject to all approvals being obtained from the relevant authorities and parties (if required), approval be and is hereby given for the Trustee to acquire the Subject Lands and Buildings from the Vendor for a purchase consideration of RM550 million upon such terms and conditions as set out in the SPA, which entails the acquisition of 3 parcels of leasehold land held under H.S.(D) 118326 Lot No. PT 1905 ("**Land 1**"), H.S.(D) 118325 Lot No. PT 1904 ("**Land 2**") and H.S.(D) 118332 Lot No. PT 28 ("**Land 3**"), all in the Town of Sunway, District of Petaling, State of Selangor (collectively, the "**Lands**") together with buildings (including all fixtures and fittings, services infrastructure and systems located or used in the buildings) which comprise of the following:

- (a) a 5-storey academic block together with a lower ground level;
- (b) a 6-storey academic block together with a lower ground level;
- (c) a 13-storey academic block together with a 2-storey basement car park; and
- (d) 4 blocks of 5-storey walk up hostel apartment

(collectively, the "**Buildings**"), and sports facilities which comprise a football field, basketball court, netball court and tennis court ("**Sports Facilities**") ("**Proposed Acquisition**"). The Lands, Buildings and Sports Facilities are collectively referred to as "**Subject Lands and Buildings**".

The Proposed Acquisition excludes the acquisition of buildings erected on a portion of Land 2 and a portion of Land 3 which comprise of a 2-storey office administrative block, a 2-storey academic block along with a sub-basement level for education facilities, a 3-storey academic block, and a 3-storey academic block along with 1 1/2 sub-basement level for housing an international school.

**THAT** the execution by the Trustee of the SPA and the performance of its obligations under the SPA be and is hereby approved and ratified.

**AND THAT** the Trustee and directors of Sunway REIT Management Sdn. Bhd., being the manager of Sunway REIT (“**Manager**”), be and are hereby authorised to give full effect to the Proposed Acquisition with full powers to negotiate, approve, agree and/or assent to any conditions, variations, revaluations, modifications and/or amendments in any manner as may be required / permitted by the relevant authorities or deemed necessary by the Trustee and directors of the Manager, and to deal with all matters incidental, ancillary to and/or relating thereto, and to take such steps and to do such acts (including to execute such documents, agreements, undertakings and confirmations as may be required), deeds, things and matters as they may deem necessary or expedient to implement, finalise, to give full effect to and complete the Proposed Acquisition.”

**By Order of the Board of Directors of  
SUNWAY REIT MANAGEMENT SDN. BHD.**  
(Manager for Sunway REIT)

**TAN KIM AUN (MAICSA 7002988)**  
**ONG WEI LENG (MAICSA 7053539)**  
Company Secretaries

Bandar Sunway  
22 March 2019

**Notes:**

1. *A unitholder of Sunway REIT (“**Unitholder**”) who is entitled to attend and vote at the meeting may appoint a proxy or proxies (not more than 2 proxies) to attend and vote on his/her behalf. A proxy may but need not be a unitholder of Sunway REIT.*
2. *Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (“**SICDA**”), it may appoint not more than 2 proxies in respect of each securities account it holds with units standing to the credit of the said securities account.*
3. *Where a member is an exempt authorised nominee as defined under the SICDA, who holds units in Sunway REIT for multiple beneficial owners in one securities account (“**Omnibus Account**”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds with units standing to the credit of the said Omnibus Account.*
4. *Where a unitholder or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointments shall be invalid unless he or it specifies the proportions of his or its holdings to be represented by each proxy.*
5. *If a unitholder has appointed a proxy or proxies (not more than 2 proxies) to attend the Unitholders’ Meeting and subsequently he attends the meeting in person, the appointment of such proxy shall be null and void, and his proxy shall not be entitled to attend the Unitholders’ Meeting.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if such appointer is a corporation, either under its common seal or under the hand of its officer or attorney duly authorised.*
7. *The instrument for the appointment of a proxy must be completed and deposited at the registered office of the Manager, Sunway REIT Management Sdn Bhd at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia, not less than 24 hours before the time appointed for holding the Unitholders’ Meeting or any adjournment thereof, either by hand, post, electronic mail or fax to (603) 5639 9507, and in default, the instrument of proxy shall not be treated as valid. In the case where the unitholder is a corporation and the proxy form is delivered by fax or electronic mail, the original proxy form shall also be deposited at the registered office of the Manager, either by hand or post not less than 24 hours before the time appointed for holding the Unitholders’ Meeting or any adjournment thereof.*
8. *If no name is inserted in the space for the name of your proxy, the Chairman of the meeting will act as your proxy.*

9. *Only a depositor whose name appears in the Record of Depositors of Sunway REIT as at 29 March 2019 shall be regarded as a unitholder and entitled to attend, speak and vote at the Unitholders' Meeting or appoint proxies to attend and/or vote on his or its behalf.*

**Personal Data Privacy**

*By lodging of a completed Proxy Form to Sunway REIT for appointing a proxy(ies) and/or representative(s) to attend and vote in person at the Unitholders' Meeting and any adjournment thereof, the unitholder is hereby:*

- (i) consenting to the collection, use and disclosure of the member's personal data by Sunway REIT (or its agents) for the purpose of the processing and administration by Sunway REIT (or its agents) of proxies and representatives appointed for the Unitholders' Meeting (including any adjournment thereof) and the preparation and compilation of the attendance list, minutes and other documents relating to the Unitholders' Meeting (including any adjournment thereof), and in order for Sunway REIT (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**");*
- (ii) warranting that where the member discloses the personal data of the unitholder's proxy(ies) and/or representative(s) to Sunway REIT (or its agents), the unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by Sunway REIT (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes ("**Warranty**"); and*
- (iii) agreeing that the member will indemnify Sunway REIT in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the unitholder's breach of the Warranty.*

*For the purposes of this paragraph, "personal data" shall have the same meaning given in section 4 of the Personal Data Protection Act 2010.*

# **SUNWAY<sup>®</sup>**

## **REIT**

### **SUNWAY REAL ESTATE INVESTMENT TRUST**

*(Established in Malaysia under a deed dated 20 May 2010, a supplemental deed dated 10 June 2010 and an amended and restated deed dated 18 September 2018 entered into between Sunway REIT Management Sdn. Bhd. and RHB Trustees Berhad, both companies incorporated in Malaysia)*

## **PROXY FORM**

### **UNITHOLDERS' MEETING**

**SUNWAY REIT MANAGEMENT SDN. BHD.**  
**(Company No. 806330-X)**  
 Manager of Sunway Real Estate Investment Trust

Number of units held	
CDS Account No.	

Registered office:  
 Level 16, Menara Sunway, Jalan Lagoon Timur  
 Bandar Sunway, 47500 Subang Jaya  
 Selangor Darul Ehsan, Malaysia  
 Tel: (603) 5639 8889 / 5639 8841  
 Fax: (603) 5639 9507

\*I/We (*Full Name*) ..... \*NRIC No./Passport No./Company No.....  
 Tel./Mobile No.....of.....

..... being a  
 Unitholder of SUNWAY REAL ESTATE INVESTMENT TRUST ("**Sunway REIT**") and entitled to vote  
 hereby appoint:-

#### **1<sup>ST</sup> PROXY 'A'**

Full Name	Tel./Mobile No.	Proportion of unitholdings represented	
Address	NRIC No./Passport No.	No. of Units	%

and/or failing \*him/her,

#### **2<sup>ND</sup> PROXY 'B'**

Full Name	Tel./Mobile No.	Proportion of unitholdings represented	
Address	NRIC No./Passport No.	No. of Units	%

100%

or failing \*him/her, the Chairman of the Meeting as \*my/our proxy to attend and vote for \*me/us on \*my/our behalf at the Unitholders' Meeting of Sunway REIT to be held at Grand Forum, Level 10, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia, on 8 April 2019 at 3.00 p.m. or at any adjournment thereof.

*\*strike out whichever not applicable*

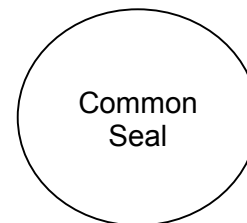


My/our proxy/proxies shall vote as follows:-

Please indicate with an “X” in the space below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting on the resolution at his/her/their discretion.

NO.	ORDINARY RESOLUTION	1 <sup>ST</sup> PROXY ‘A’		2 <sup>ND</sup> PROXY ‘B’	
		FOR	AGAINST	FOR	AGAINST
1.	Proposed Acquisition				

Dated this..... day of.....2019



Signature of Unitholder.....

**Notes:**

1. A unitholder of Sunway REIT (“**Unitholder**”) who is entitled to attend and vote at the meeting may appoint a proxy or proxies (not more than 2 proxies) to attend and vote on his/her behalf. A proxy may but need not be a unitholder of Sunway REIT.
2. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (“**SICDA**”), it may appoint not more than 2 proxies in respect of each securities account it holds with units standing to the credit of the said securities account.
3. Where a member is an exempt authorised nominee as defined under the SICDA, who holds units in Sunway REIT for multiple beneficial owners in one securities account (“**Omnibus Account**”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds with units standing to the credit of the said Omnibus Account.
4. Where a unitholder or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointments shall be invalid unless he or it specifies the proportions of his or its holdings to be represented by each proxy.
5. If a unitholder has appointed a proxy or proxies (not more than 2 proxies) to attend the Unitholders’ Meeting and subsequently he attends the meeting in person, the appointment of such proxy shall be null and void, and his proxy shall not be entitled to attend the Unitholders’ Meeting.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if such appointer is a corporation, either under its common seal or under the hand of its officer or attorney duly authorised.
7. The instrument for the appointment of a proxy must be completed and deposited at the registered office of the Manager, Sunway REIT Management Sdn Bhd at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia, not less than 24 hours before the time appointed for holding the Unitholders’ Meeting or any adjournment thereof, either by hand, post, electronic mail or fax to (603) 5639 9507, and in default, the instrument of proxy shall not be treated as valid. In the case where the unitholder is a corporation and the proxy form is delivered by fax or electronic mail, the original proxy form shall also be deposited at the registered office of the Manager, either by hand or post not less than 24 hours before the time appointed for holding the Unitholders’ Meeting or any adjournment thereof.
8. If no name is inserted in the space for the name of your proxy, the Chairman of the meeting will act as your proxy.
9. Only a depositor whose name appears in the Record of Depositors of Sunway REIT as at 29 March 2019 shall be regarded as a unitholder and entitled to attend, speak and vote at the Unitholders’ Meeting or appoint proxies to attend and/or vote on his or its behalf.



Fold this flap for sealing

**Personal Data Privacy**

By lodging of a completed Proxy Form to Sunway REIT for appointing a proxy(ies) and/or representative(s) to attend and vote in person at the Unitholders' Meeting and any adjournment thereof, the unitholder is hereby:

- (i) consenting to the collection, use and disclosure of the member's personal data by Sunway REIT (or its agents) for the purpose of the processing and administration by Sunway REIT (or its agents) of proxies and representatives appointed for the Unitholders' Meeting (including any adjournment thereof) and the preparation and compilation of the attendance list, minutes and other documents relating to the Unitholders' Meeting (including any adjournment thereof), and in order for Sunway REIT (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**");
- (ii) warranting that where the member discloses the personal data of the unitholder's proxy(ies) and/or representative(s) to Sunway REIT (or its agents), the unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by Sunway REIT (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes ("**Warranty**"); and
- (iii) agreeing that the member will indemnify Sunway REIT in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the unitholder's breach of the Warranty.

For the purposes of this paragraph, "personal data" shall have the same meaning given in section 4 of the Personal Data Protection Act 2010.

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AFFIX  
STAMP

THE UNIT REGISTRAR  
**SUNWAY REAL ESTATE INVESTMENT TRUST**  
LEVEL 16, MENARA SUNWAY  
JALAN LAGOON TIMUR  
BANDAR SUNWAY  
47500 SUBANG JAYA  
SELANGOR DARUL EHSAN  
MALAYSIA

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