

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

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SUNWAY®

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)

Managed by

SUNWAY REIT MANAGEMENT SDN. BHD.

(Company Registration No.: 200801005046)

CIRCULAR TO UNITHOLDERS IN RELATION TO

PART A

- (I) **PROPOSED ACQUISITION OF THE PINNACLE SUNWAY (AS DEFINED HEREIN) BY RHB TRUSTEES BERHAD, ON BEHALF OF SUNWAY REAL ESTATE INVESTMENT TRUST (“SUNWAY REIT”) FOR A CASH CONSIDERATION OF RM450.0 MILLION;**
- (II) **PROPOSED PRIVATE PLACEMENT OF UP TO 589,015,600 NEW UNITS IN SUNWAY REIT (“PLACEMENT UNITS”), REPRESENTING UP TO 20.0% OF THE TOTAL NUMBER OF ISSUED UNITS OF SUNWAY REIT OF 2,945,078,000 UNITS, TO RAISE GROSS PROCEEDS OF UP TO RM710.0 MILLION, THE ACTUAL AMOUNT OF PLACEMENT UNITS AND PLACEMENT ISSUE PRICE FOR WHICH SHALL BE DETERMINED BY WAY OF BOOKBUILDING (“PROPOSED PRIVATE PLACEMENT”);**
- (III) **PROPOSED ALLOCATION OF UP TO 294,507,800 PLACEMENT UNITS TO SUNWAY REIT HOLDINGS SDN. BHD. PURSUANT TO THE BOOKBUILDING EXERCISE; AND**
- (IV) **PROPOSED ALLOCATION OF UP TO 140,000,000 PLACEMENT UNITS TO EMPLOYEES PROVIDENT FUND BOARD AND/OR PERSONS CONNECTED WITH THEM PURSUANT TO THE BOOKBUILDING EXERCISE.**

PART B

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

AND

NOTICE OF UNITHOLDERS’ MEETING

Sole Principal Adviser for Part A and Placement Agent



RHB Investment Bank Berhad

(Registration No. 197401002693 (19663-P))

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Placement Agents

Independent Adviser for Part B



Credit Suisse (Singapore) Limited

(Registration No.: 197702363D)



Maybank Investment Bank Berhad

(Registration No. 197301002412 (15938-H))

(A Participating Organisation of Bursa Malaysia Securities Berhad)



AmInvestment Bank

AmInvestment Bank Berhad

(Registration No. 197501002220 (23742-V))

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The notice of the unitholders’ meeting of Sunway REIT (“**Unitholders’ Meeting**”) is enclosed together with the Proxy Form in this Circular and are available on Sunway REIT’s website link at www.sunwayreit.com/investor-relations/unitholders-meeting. The details of the forthcoming Unitholders’ Meeting, which will be held on a fully virtual basis, are as follows:

Broadcast venue of the Unitholders’ Meeting	:	Penthouse, Level 20, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia
Date and time of the Unitholders’ Meeting	:	Friday, 2 October 2020 at 4.30 p.m. or within 20 minutes after the conclusion of the 8 th Annual General Meeting which is scheduled to be held at 3.30 p.m. on the same day, whichever is later, or at any adjournment thereof
Last date and time for lodging of the Proxy Form	:	Thursday, 1 October 2020 at 4.30 p.m. or at any adjournment thereof

You are encouraged to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders’ Meeting using the Remote Participation and Voting (“**RPV**”) Facility. Please refer to the administrative details for the procedures to register, participate and vote remotely using the RPV Facility at the Unitholders’ Meeting. If you are unable to participate in the Unitholders’ Meeting, you may appoint a proxy or proxies to participate and vote on your behalf. In such event, you should complete and deposit the Proxy Form at the registered office of Sunway REIT Management Sdn. Bhd. located at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia, or submit it via email to sunwaymanagement@sunway.com.my, or via fax to (603) 5639 9507, not less than 24 hours before the date and time fixed for the Unitholders’ Meeting or at any adjournment thereof. The lodging of the Proxy Form shall not preclude you from participating in the Unitholders’ Meeting should you subsequently wish to do so.

This Circular is dated 17 September 2020

DEFINITIONS

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
AGM	:	Annual general meeting
AmInvestment Bank or Independent Adviser	:	AmInvestment Bank Berhad
Balance Purchase Consideration	:	RM405.0 million, being the Purchase Consideration less the Deposit
Board	:	Board of Directors of the Manager
Buildings	:	A building comprising a 24-storey office building with three-storey mezzanine floors and six levels of basement car park, and all fixtures and fittings fixed to or located or used therein and services infrastructure and systems and facilities (including without limitation, safety, heating, lighting, plumbing, sanitation, air conditioning, ventilation, fire protection safety facilities, elevators, escalators and broadband computer facilities)
Bursa Securities	:	Bursa Malaysia Securities Berhad
Charge	:	Charge dated 28 March 2018 over the Land in favour of Malaysian Trustees Berhad, presented vide charge presentation no. 27909/2018
Circular	:	This circular in relation to the Proposals
CMCO	:	Conditional MCO which was imposed by the Government on 4 May 2020 up to 9 June 2020
CMSA	:	Capital Markets and Services Act 2007
Conditions Precedent	:	Conditions precedent of the SPA as set out in Section (ii)(a) of Appendix II
COVID-19	:	Coronavirus disease 2019
Credit Suisse	:	Credit Suisse (Singapore) Limited
Deed	:	The amended and restated deed dated 18 September 2018 entered into between the Manager and the Trustee
Deposit	:	RM45.0 million, being the deposit sum forming part of the Purchase Consideration paid by the Trustee to the Vendors upon the execution of the SPA
Director(s)	:	The directors of the Manager as at the LPD
Discharge Documents	:	Documents relating to the discharge of the Charge
DPU	:	Distribution per unit

DEFINITIONS (CONT'D)

Encumbrances	: Any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, right of title retention, preferential right or trust arrangement or other security arrangement or agreement conferring a right to a priority of payment
EPF	: Employees Provident Fund Board
EPU	: Earnings per unit
Evan Cheah	: Evan Cheah Yean Shin
FYE	: Financial year ended / ending, as the case may be
GBI	: Green building index
Government	: Government of Malaysia
IAL	: Independent advice letter from the Independent Adviser to the non-interested Unitholders in relation to the Proposed Acquisition
Land	: A piece of leasehold land held under PN 17103, Lot No. 61759, Town of Sunway, District of Petaling, State of Selangor
LCD	: 30 June 2020, being the latest practicable date before the printing of this Circular at which a particular matter referred to in this Circular could be calculated
Listing Requirements	: Main Market Listing Requirements of Bursa Securities
LPD	: 28 August 2020, being the latest practicable date before the printing of this Circular
Major Unitholder	: A person who has an interest or interests in Sunway REIT of 10.0% or more of the total number of issued units in Sunway REIT, or 5.0% or more of the total number of issued units in Sunway REIT if such person is the largest Unitholder
Manager	: Sunway REIT Management Sdn. Bhd., being the manager of Sunway REIT
Material Date of Valuation	: The material date of inspection of The Pinnacle Sunway, being 1 June 2020
Maybank Investment	: Maybank Investment Bank Berhad
MCO	: A movement control order which was imposed by the Government under the Prevention and Control of Infectious Diseases Act 1988 and the Police Act 1967 which took effect from 18 March 2020
MSC	: Multimedia super corridor
NAV	: Net asset value
NLA	: Net lettable area
Placement Agents	: Collectively, RHB Investment Bank, Credit Suisse and Maybank Investment
Placement Issue Price	: Issue price of the Placement Units to be determined by the Board after the close of the bookbuilding exercise

DEFINITIONS (CONT'D)

Placement Units	:	New units in Sunway REIT to be issued pursuant to the Proposed Private Placement
Proposals	:	Collectively, the Proposed Acquisition, Proposed Private Placement, Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF
Proposed Acquisition	:	Proposed acquisition of The Pinnacle Sunway by the Trustee, on behalf of Sunway REIT, from the Vendors for the Purchase Consideration
Proposed DRS	:	Proposed establishment of a distribution reinvestment scheme that provides Unitholders with an option to elect to reinvest, in whole or in part, their cash income distribution in new units in Sunway REIT
Proposed Private Placement	:	Proposed private placement of up to 589,015,600 Placement Units, representing up to 20.0% of the total number of issued units of Sunway REIT of 2,945,078,000 units, to raise gross proceeds of up to RM710.0 million, the actual amount of Placement Units and Placement Issue Price for which shall be determined by way of bookbuilding
Proposed Specific Allotment to EPF	:	Proposed allocation of up to 140,000,000 Placement Units to EPF and/or persons connected with them pursuant to the bookbuilding exercise
Proposed Specific Allotment to Sunway REIT Holdings	:	Proposed allocation of up to 294,507,800 Placement Units to Sunway REIT Holdings pursuant to the bookbuilding exercise
PSSC	:	Puan Sri Datin Seri (Dr.) Susan Cheah Seok Cheng
Purchase Consideration	:	The purchase consideration of RM450.0 million for the Proposed Acquisition which is to be entirely satisfied in cash
Record of Depositors	:	A record of securities holders established and maintained by Bursa Depository under the Rules of Bursa Depository as issued pursuant to the Securities Industry (Central Depositories) Act 1991
RHB Investment Bank or Sole Principal Adviser	:	RHB Investment Bank Berhad
RM and sen	:	Ringgit Malaysia and sen respectively
RMCO	:	Recovery MCO which was imposed by the Government on 10 June 2020
Rules	:	Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by the SC
Sarena Cheah	:	Sarena Cheah Yean Tih, <i>s.m.s.</i>
SC	:	Securities Commission Malaysia
Securities Act	:	US Securities Act of 1933
SPA	:	Conditional sale and purchase agreement dated 29 June 2020 entered into between the Vendors and the Trustee, on behalf of Sunway REIT, in relation to the Proposed Acquisition, as amended by a supplemental letter dated 11 September 2020

DEFINITIONS (CONT'D)

State Authority	:	The relevant governmental authority, body or agency empowered and having jurisdiction to grant the approval (if required) for the transfer of the Land
Substantial Unitholders	:	Unitholders with unitholding of 5.0% or more of the total issued units in Sunway REIT
SunCity	:	Sunway City Sdn. Bhd.
Sungei Way	:	Sungei Way Corporation Sdn. Bhd.
Sunway	:	Sunway Berhad
Sunway Integrated Properties	:	Sunway Integrated Properties Sdn. Bhd.
Sunway Pinnacle	:	Sunway Pinnacle Sdn. Bhd.
Sunway REIT	:	Sunway Real Estate Investment Trust
Sunway REIT Holdings	:	Sunway REIT Holdings Sdn. Bhd.
Tenancy Agreements	:	Various tenancy agreements entered into between Sunway Pinnacle and the respective tenants for the tenancies of office and commercial units in the Buildings
The Pinnacle Sunway	:	Collectively, the Land and the Buildings
Trustee	:	RHB Trustees Berhad, as trustee for Sunway REIT
TSJC	:	Tan Sri Dato' Seri Dr. Jeffrey Cheah Fook Ling AO
Unitholders	:	Unitholders of Sunway REIT
Unitholders' Meeting	:	Meeting of Unitholders
US	:	United States of America
Valuation Certificate	:	The valuation certificate issued by the Valuer dated 6 July 2020 for the valuation of The Pinnacle Sunway pursuant to the Proposed Acquisition
Valuation Report	:	The valuation report issued by the Valuer dated 6 July 2020 for the valuation of The Pinnacle Sunway pursuant to the Proposed Acquisition
Valuer	:	Knight Frank Malaysia Sdn. Bhd., being the independent registered valuer jointly appointed by Sunway and the Trustee
Vendors	:	Collectively, Sunway Integrated Properties and Sunway Pinnacle
VWAP	:	Volume-weighted average market price

PRESENTATION OF INFORMATION

All references to “**you**” and “**your**” in this Circular are to the Unitholders.

Unless specifically referred to, words denoting the singular shall, where 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 (where the context admits) 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 and date in this Circular shall be a reference to Malaysian time and date respectively, unless otherwise specified.

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Any discrepancy 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. Because 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 IN RELATION TO THE
PROPOSALS**

SUNWAY®

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
Malaysia

17 September 2020

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 Berty Luke Fernandez
Sarena Cheah Yean Tih, *S.M.S.*
Ng Sing Hwa
Tengku Nurul Azian Binti Tengku Shahrman
Yeo Kar Peng

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

TO: UNITHOLDERS

Dear Sir / Madam,

- (I) **PROPOSED ACQUISITION**
- (II) **PROPOSED PRIVATE PLACEMENT**
- (III) **PROPOSED SPECIFIC ALLOTMENT TO SUNWAY REIT HOLDINGS**
- (IV) **PROPOSED SPECIFIC ALLOTMENT TO EPF**

1. INTRODUCTION

On 29 June 2020, RHB Investment Bank announced, on behalf of the Board, that the Trustee had on 29 June 2020 entered into the SPA with the Vendors for the proposed acquisition of The Pinnacle Sunway for a total cash consideration of RM450.0 million. Further, RHB Investment Bank also announced on the same day that the Trustee, on the recommendation of the Manager, is proposing to undertake the following transactions:

- (i) a proposed private placement to raise gross proceeds of up to RM710.0 million at the Placement Issue Price which is to be undertaken under a new general mandate for the allotment and issuance of new units in Sunway REIT that is to be sought at the forthcoming 8th AGM of Sunway REIT ("**New Mandate**"); and
- (ii) the proposed establishment of a distribution reinvestment scheme that provides Unitholders with an option to elect to reinvest, in whole or in part, their cash income distribution in new units in Sunway REIT.

The Board has subsequently elected to table a specific resolution for the Proposed Private Placement (being ordinary resolution 2 as set out in the notice of Unitholders' Meeting and the proxy form enclosed with this Circular) at the forthcoming Unitholders' Meeting, instead of undertaking the Proposed Private Placement under the New Mandate. Hence, the Vendors and the Trustee, on behalf of Sunway REIT, had entered into a supplemental letter dated 11 September 2020 to remove reference to the New Mandate being obtained in the relevant condition precedent in the SPA.

The relevant resolutions pertaining to the Proposed DRS have been included in the notice of the forthcoming 8th AGM that is enclosed in Sunway REIT's integrated report 2020, and it is the subject matter of a separate circular to Unitholders which is available on Sunway REIT's website link at www.sunwayreit.com/investor-relations/agm.

On 14 September 2020, RHB Investment Bank had, on behalf of the Board, announced that Bursa Securities had vide its letter dated 11 September 2020, approved the listing and quotation of up to 589,015,600 Placement Units, subject to the conditions as set out in Section 7 of this Circular.

The Proposed Acquisition is deemed related party transaction in view of the interests of a director of the Manager, major shareholders of the Manager, Major Unitholders, and/or persons connected with them as set out in Section 8 of this Circular. Accordingly, AmInvestment Bank has been appointed as the Independent Adviser to advise the non-interested directors of the Manager and the non-interested Unitholders on the Proposed Acquisition, and whether the non-interested Unitholders should vote in favour of the Proposed Acquisition. Further, since the Proposed Acquisition is conditional upon the Proposed Private Placement, the Independent Adviser will also be providing its comments on the Proposed Private Placement in the IAL.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION IN RELATION TO THE PROPOSALS AND TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS WHICH WILL BE TABLED AT THE FORTHCOMING UNITHOLDERS' MEETING. THE NOTICE OF UNITHOLDERS' MEETING AND THE PROXY FORM 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 RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING UNITHOLDERS' MEETING.

2. DETAILS OF THE PROPOSALS

2.1. Proposed Acquisition

2.1.1. Description of The Pinnacle Sunway

The Proposed Acquisition entails the acquisition of the Land from Sunway Integrated Properties and the Buildings from Sunway Pinnacle, which are collectively known as "**The Pinnacle Sunway**" for a cash consideration of RM450.0 million. Please refer to Appendix II of this Circular for the salient terms of the SPA.

The Pinnacle Sunway, which is GBI certified and has MSC status is located at Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan. It is strategically situated in the enclave of Sunway Pyramid Shopping Mall, Sunway Resort Hotel and Menara Sunway, all of which are located within Sunway City. Sunway City, Malaysia's model smart sustainable city, is one of Malaysia's must-visit destinations with a vast array of entertainment, leisure and lifestyle attractions seamlessly integrated across 324 hectares (800 acres) offering all-inclusive convenience.

Further, Sunway Pinnacle will novate or assign the Tenancy Agreements it has entered into to the Trustee under similar terms as those set out in the Tenancy Agreements upon the completion of the Proposed Acquisition for the tenants to continue their existing tenancies.

The car park agreement between Sunway Pinnacle and the car park operator has expired as at the LPD, and the car park operator is currently operating the car parks on a month-to-month basis without any material agreements. The Trustee intends to enter into a new car park agreement with the car park operator upon the completion of the Proposed Acquisition.

2.1.2. Basis and justification in arriving at the Purchase Consideration

The Purchase Consideration for The Pinnacle Sunway of RM450.0 million is derived based on the market value of The Pinnacle Sunway, as ascribed in the valuation certificate dated 19 June 2020 issued by the Valuer before the announcement of the Proposals. Subsequently, the Valuer had on 6 July 2020 issued the Valuation Certificate for the purpose of inclusion in Appendix III of this Circular. The market value of The Pinnacle Sunway ascribed in the Valuation Certificate is RM450.0 million.

The Material Date of Valuation for both Valuation Certificates was on 1 June 2020. In arriving at the market value of The Pinnacle Sunway, the Valuer has adopted the Income Approach by Discounted Cash Flow Method (“**DCF Method**”), supported by the Comparison Approach.

The following is a summary of the valuation approaches adopted by the Valuer in arriving at its assessment of the market value of The Pinnacle Sunway:

Valuation approaches	Methodology explanation
Income Approach by DCF Method	The estimation of future annual cash flows over a 10-year investment horizon from the valuation date by reference to expected revenue growth rates, operating expenses and terminal value. The present value of future cash flow is then determined by the application of an appropriate discount rate to derive a net present value of the property.
Comparison Approach	This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, a property being valued is compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered.

Taking into consideration that The Pinnacle Sunway is a commercial and income generating property, the Valuer has adopted the market value derived from the Income Approach by DCF Method as fair representation of the market value of The Pinnacle Sunway, supported by the market value derived from the Comparison 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 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.

2.1.3. Method of financing the Purchase Consideration

The Purchase Consideration will be funded via the following:

- (i) RM45.0 million, being the Deposit, was satisfied via Sunway REIT's existing debt programme, which entails a 7-year RM3.0 billion commercial paper programme; and
- (ii) the remaining balance of RM405.0 million, being the Balance Purchase Consideration, is to be satisfied via cash proceeds to be raised from the Proposed Private Placement.

If the Proposed Private Placement is not completed, as provided under the terms of the SPA, the Trustee and the Vendors will not proceed with the Proposed Acquisition, and the Deposit paid will be refunded free of interest within 14 days of termination of the SPA.

2.1.4. Liabilities to be assumed

There are no contingent liabilities and/or guarantees to be assumed by the Trustee for the Proposed Acquisition.

2.1.5. Date and original cost of investment of the Vendors

Sunway Integrated Properties acquired the Land on 16 August 2011 and Sunway Pinnacle completed the construction of the Buildings in December 2013. The total cost of investment of The Pinnacle Sunway (including other costs for refurbishments and renovations) up to the LCD was RM280.3 million.

2.1.6. Information on the Vendors

(i) Details on Sunway Integrated Properties

Sunway Integrated Properties was incorporated in Malaysia under the Companies Act 1965 on 4 January 1984 as a private limited company. The principal activities of Sunway Integrated Properties are property development and property investment.

As at the LPD, the directors of Sunway Integrated Properties are:

- (a) TSJC;
- (b) Tan Sri Dato' (Dr.) Chew Chee Kin;
- (c) Sarena Cheah;
- (d) Lum Tuck Ming; and
- (e) Wai Sow Fun.

As at the LPD, the issued share capital of Sunway Integrated Properties is RM94,550,000.20 comprising 2,818,182 ordinary shares and 9,155 non-cumulative redeemable preference shares, and Sunway Integrated Properties is wholly-owned by SunCity, which in turn is a wholly-owned subsidiary of Sunway.

(ii) Details on Sunway Pinnacle

Sunway Pinnacle was incorporated in Malaysia under the Companies Act 1965 on 26 March 2010 as a private limited company. The principal activity of Sunway Pinnacle is property investment.

As at the LPD, the directors of Sunway Pinnacle are:

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

As at the LPD, the issued share capital of the Sunway Pinnacle is RM2,500,010.59 comprising 2,500,001 ordinary shares and Sunway Pinnacle is wholly-owned by SunCity, which in turn is a wholly-owned subsidiary of Sunway.

2.1.7. Further information on The Pinnacle Sunway

Unless otherwise stated, all information set out below is as at the Material Date of Valuation.

Information on the Land	
Title details	: PN 17103, Lot No. 61759, Town of Sunway, District of Petaling, State of Selangor
Land area	: 7,285 square metres
Tenure	: Leasehold for a term of 99 years, expiring on 1 April 2097 (unexpired term of 77 years)
Category of land use	: Building
Express condition	: Commercial building
Restriction in interest	: The Land shall not be transferred, leased or charged except with the consent of the State Authority
Information on the Buildings	
Postal address	: The Pinnacle Sunway, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan
Strata title	: Not applicable
Age of buildings	: Approximately 6.5 years from its original issuance date of certificate of completion and compliance dated 31 December 2013
Commencement of operations ⁽¹⁾	: 1 January 2014
Gross floor area	: 1,145,554 square feet (including 444,752 square feet for basement car park)
NLA ⁽²⁾	: 576,864 square feet
NLA occupied by tenants related/affiliated with Sunway	: 35,371 square feet
Occupancy rate based on NLA	: Fully occupied (100% occupancy) based on committed and/or commenced tenancies

Gross rental income for the FYE 31 December 2019	: RM36.4 million
Other information	
Net book value as at 31 December 2019 ⁽³⁾	: RM410.0 million
Market value	: RM450.0 million
Encumbrances	: The Land is charged to Malaysian Trustees Berhad
Chargee	: Malaysian Trustees Berhad (Registration No. 197501000080 (21666-V)) at Level 9, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur (as security trustee for Sunway Treasury Sukuk Sdn. Bhd.'s Islamic medium term note programme of up to RM10.0 billion in nominal amount)

Notes:

- (1) Based on the date of commencement of rental income reported in the tax return of Sunway Pinnacle for the year of assessment 2014.
- (2) Excluding storage areas measuring approximately 6,458 square feet located on basement levels.
- (3) Based on the consolidated audited financial statements of Sunway as at 31 December 2019.

2.1.8. Additional financial commitment

There is no additional financial commitment required by Sunway REIT in putting The Pinnacle Sunway on-stream.

2.2. Proposed Private Placement

2.2.1. Size of Proposed Private Placement

The Proposed Private Placement entails the issuance of Placement Units to raise gross proceeds of up to RM710.0 million at the Placement Issue Price. The actual number of Placement Units to be issued cannot be determined at this juncture and would depend on the Placement Issue Price to be determined upon completion of the bookbuilding exercise. The maximum number of Placement Units to be issued is 589,015,600 Placement Units, representing 20.0% of the total number of issued units of Sunway REIT of 2,945,078,000 units as at the LPD.

RHB Investment Bank, Credit Suisse and Maybank Investment have been appointed as Placement Agents to procure prospective placees for the Placement Units. The Placement Units will be placed out by way of bookbuilding exercise to investors that will be identified at a later stage. The Placement Agents will work with the Manager to determine the most appropriate time to launch the Proposed Private Placement so as to ensure the success of the Proposed Private Placement, having considered the then prevailing market conditions and other factors that the Manager and the Placement Agents may consider relevant.

2.2.2. Basis of determining the Placement Issue price

The Placement Issue Price will be determined by the Board after the close of the bookbuilding exercise and announced at a later date by the Board.

The Placement Issue Price shall be fixed at a discount of not more than 10.0% to the 5-day VWAP of Sunway REIT before the price-fixing date.

2.2.3. Placement arrangement

The Placement Units are intended to be placed out to local and foreign investors who fall within the ambit of Schedules 6 and 7 of the CMSA, which will be identified at a later date. However, the Proposed Private Placement will not be an offer of securities for sale into the US. The Placement Units have not been and will not be registered under the Securities Act. The Placement Units are being offered and sold pursuant to an exemption from the registration requirements of the Securities Act, outside the US to non-US persons in offshore transactions, in reliance on, and in compliance with Regulation S under the Securities Act. **This Circular does not constitute an offer to any person in the US. Distribution of this Circular to any person within the US is unauthorised.**

Pursuant to the bookbuilding exercise, the Placement Units may be allocated to the Major Unitholders and/or persons connected with them. As at the LPD, the Major Unitholders are as follows:

- (i) Sunway REIT Holdings, which holds a 40.9% direct interest in Sunway REIT. Further, as at the LPD:
 - (a) the directors of Sunway REIT Holdings are Sarena Cheah, Chong Chang Choong and Tan Poh Chan; and
 - (b) the issued share capital of Sunway REIT Holdings is RM2 comprising 2 ordinary shares. The direct and indirect shareholders of Sunway REIT Holdings are as follows:

Shareholders	Direct	Indirect
	%	%
SunCity	100.0	-
TSJC	-	100.0 ⁽¹⁾
PSSC	-	100.0 ⁽²⁾
Sarena Cheah	-	100.0 ⁽³⁾
Evan Cheah	-	100.0 ⁽¹⁾
Adrian Cheah	-	100.0 ⁽¹⁾
Active Equity	-	100.0 ⁽⁴⁾
Sungei Way	-	100.0 ⁽⁵⁾
Sunway	-	100.0 ⁽⁶⁾

Notes:

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

- (3) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway, SunCity and spouse.
 - (4) Deemed interest by virtue of Section 8 of the Act held through Sungei Way, Sunway and SunCity.
 - (5) Deemed interest by virtue of Section 8 of the Act held through Sunway and SunCity.
 - (6) Deemed interest by virtue of Section 8 of the Act held through SunCity.
- (ii) EPF, which holds a 15.7% direct interest in Sunway REIT as at the LPD. Please refer to www.kwsp.gov.my/home for further information on EPF, being a statutory institution managing funds belonging to the public.

Therefore, the Trustee and/or the Manager will seek the approval of the Unitholders at a Unitholders' Meeting for the Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF in compliance with Paragraph 6.06(1) of the Listing Requirements. If the bookbuilding exercise for the Proposed Private Placement is successful, the maximum number of Placement Units that may be allocated to:

- (i) Sunway REIT Holdings is 294,507,800 Placement Units. The Proposed Specific Allotment to Sunway REIT Holdings shall not result in an increase of the unitholdings of Sunway REIT Holdings and/or persons connected with them by more than 2.0% within a period of six months upon the allotment of the Placement Units so as to not trigger the mandatory take-over offer obligation under the Rules; and
- (ii) EPF and/or persons connected with them is 140,000,000 Placement Units. The Proposed Specific Allotment to EPF shall not result in an increase of the unitholdings of EPF and/or persons connected with them to 33.0% or more of the total issued units in Sunway REIT upon the allotment of the Placement Units so as to not trigger the mandatory take-over offer obligation under the Rules.

2.2.4. Ranking of the Placement Units

The Placement Units shall, upon allotment and issuance, rank equally in all respects with the then existing issued units in Sunway REIT, save and except that the Placement Units shall not be entitled to the Advance Distribution (as defined in Section 2.2.7 of this Circular) and any other distributable income, rights, benefits, entitlements and/or any other distributions that may be effected before the date of allotment and issuance of the Placement Units.

2.2.5. Listing and quotation of the Placement Units

The Placement Units will be listed and quoted on the Main Market of Bursa Securities.

2.2.6. Utilisation of proceeds

The exact amount of proceeds to be raised from the Proposed Private Placement cannot be determined at this juncture as the amount would depend on the actual number of Placement Units to be issued and the Placement Issue Price.

For illustrative purposes only, the intended gross proceeds of up to RM710.0 million is proposed to be utilised in the following manner:

Utilisation	Note	Timeframe for utilisation*	Amount	
			RM'million	%
Settlement of Balance Purchase Consideration	(1)	Immediately	405.0	57.0
Capital expenditure for expansion of Sunway Carnival Mall	(2)	Within 36 months	295.4	41.6
Defray estimated expenses for the Proposals	(3)	Immediately	9.6	1.4
Total			710.0	100.0

Notes:

* After completion of the Proposed Private Placement.

(1) Settlement of the Balance Purchase Consideration

The Manager intends to use part of the proceeds to fund the Balance Purchase Consideration as provided in Section 2.1.3 of this Circular.

If the Proposed Acquisition is not completed, the earmarked proceeds to settle the Balance Purchase Consideration shall be reallocated to fund Sunway REIT's (i) acquisitions of other assets, and/or (ii) cost of development (including redevelopment) of Sunway REIT's existing and future assets. The assets to be acquired and/or developed are targeted in the emerging sub-sectors such as education, healthcare, e-commerce and logistics assets/warehouses and data centres. In this regard, it will allow the Manager to capitalise on suitable and viable investment opportunities as and when it arises, which will contribute positively to its future earnings and DPU. As at the date of this Circular, the Manager has not identified any other assets to acquire and develop.

(2) Capital expenditure for expansion of Sunway Carnival Mall

The total estimated project cost for the expansion plan of Sunway Carnival Mall is estimated at approximately RM353.3 million, of which the estimated outstanding cost as at the LCD is approximately RM245.4 million. The gross proceeds of RM295.4 million from the Proposed Private Placement will enable the Manager to partially fund the expansion plan in the following manner:

- (i) repay borrowings of approximately RM50.0 million taken to fund the incurred cost of the expansion plan of Sunway Carnival Mall as at the LCD. Such repayment is expected to result in interest savings of RM1.8 million per annum computed based on the weighted average interest rate of the borrowings of Sunway REIT for the FYE 30 June 2020 of 3.66%; and
- (ii) balance of RM245.4 million of the gross proceeds will be used to fund the remaining expansion cost of Sunway Carnival Mall to be incurred which includes payments to contractors and consultants, purchase of plant and equipment, fixtures and fittings, and payments to the relevant authorities for the permits as well as approvals required.

For clarity, if any such capital expenditure need should arise before the completion of the Proposed Private Placement, the Manager may advance Sunway REIT's funds required from its internally generated cash and/or its existing borrowings. In such case, the balance of RM245.4 million received after completion of the Proposed Private Placement would be allocated in such manner to reimburse Sunway REIT and/or to repay the bank borrowings taken, as necessary.

The Sunway Carnival Mall is a shopping mall strategically located near the iconic Penang Bridge in Penang, Malaysia. It is easily accessible from the North-South Highway and Butterworth-Kulim Expressway. The first phase of the expansion of Sunway Carnival Mall started since 2018 and such expansion plan is expected to be completed by 2021. The expansion is expected to enhance tenancy mix of international and regional retailers, and will increase the gross floor area of the mall by approximately 525,815 square feet from 769,546 square feet to approximately 1,295,364 square feet. As at LCD, the piling works have been completed while structural works are still on-going.

(3) **Defray estimated expenses for the Proposals**

The Manager intends to use part of the proceeds to defray expenses relating to the Proposals. The estimated expenses comprise, amongst others, professional fees, placement fees, fees payable to the relevant authorities, expenses to convene the Unitholders' Meeting as well as other incidental expenses incurred in relation to the Proposals.

If the actual expenses are lower or higher than estimated, any shortfall or surplus will be adjusted against the amount allocated for capital expenditure for the expansion of Sunway Carnival Mall.

For the avoidance of doubt, if the actual gross proceeds to be raised from the Proposed Private Placement is lower than the intended gross proceeds of up to RM710.0 million, such variance shall be adjusted from the gross proceeds allocated for capital expenditure for the expansion of Sunway Carnival Mall and if there are excess gross proceeds beyond the amount required for the expansion of Sunway Carnival Mall, such excess will then be allocated for capital expenditure for other asset enhancement initiatives of Sunway REIT to be identified.

Pending the full utilisation of the gross proceeds received, the Manager will place the proceeds raised from the Proposed Private Placement (including accrued interest, if any) or the balance thereof in deposits or short-term money market instruments, or placements in money-market unit trust funds and/or cash unit trust funds in Malaysia with bank backed-fund management companies licensed under the CMSA.

2.2.7. Advance Distribution

Pursuant to the terms of the Deed, the Manager shall, with the approval of the Trustee, distribute the distributable income of Sunway REIT at the quantum and intervals to be determined in its absolute discretion. The Board intends to declare an advance distribution of Sunway REIT's distributable income ("**Advance Distribution**") for the period from the beginning of the FYE 30 June 2021 up to such date to be determined by the Board which is before the date on which the Placement Units will be allotted to identified investors pursuant to the Proposed Private Placement ("**Advance Distribution Period**"). The Placement Units will not be entitled to the Advance Distribution and hence the entitlement date for the Advance Distribution will be before the date of allotment of the Placement Units.

The Advance Distribution is being proposed as a means to ensure fairness to the existing Unitholders and is intended to be implemented to ensure that the distributable income accrued during the Advance Distribution Period is only distributed to existing Unitholders. For the avoidance of doubt, the Advance Distribution will not be undertaken if the Proposed Private Placement is not approved by Unitholders at the forthcoming Unitholders' Meeting.

The next distribution after the Advance Distribution will comprise Sunway REIT's distributable income for the period from the day immediately after the Advance Distribution Period until the end of the relevant semi-annual period determined by the Board. Semi-annual distribution will resume thereafter.

3. RATIONALE FOR THE PROPOSALS

3.1. Rationale and benefits for 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 able to contribute to the long-term growth in Sunway REIT's DPU and/or NAV per unit.

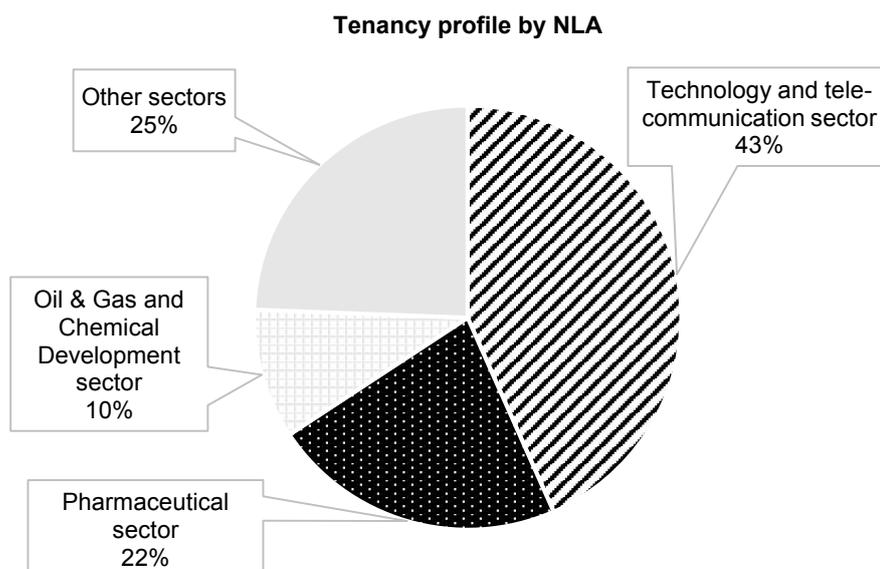
The rationale for the Proposed Acquisition is further elaborated below:

(i) **Quality addition of a Grade A office asset with reputable tenants to Sunway REIT's portfolio**

The Pinnacle Sunway is a 24-storey Grade A, GBI-certified and MSC-status office building with three-storey mezzanine floors and six levels of basement car park. It is strategically located within the master-planned integrated township development of Sunway City with excellent connectivity to various major transportation links and good access to major roads and expressways.

The Pinnacle Sunway has managed to achieve an average occupancy rate of over 96% over the past three years from 2017 to 2019. The Pinnacle Sunway is presently 100% occupied (based on committed and/or commenced tenancies) and has a diverse tenant mix as at the Material Date of Valuation.

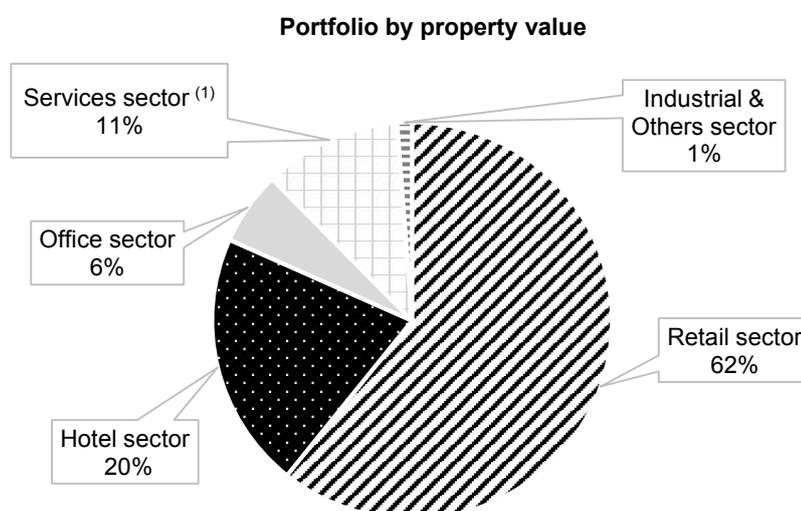
These tenants include Johnson & Johnson Sdn. Bhd., Evonik Malaysia, Hitachi Sunway, Regus Malaysia, Linde Malaysia and Roche Services. The tenancy profile by NLA of The Pinnacle Sunway is shown below:



(Source: Manager and Valuation Certificate)

(ii) **Increase property portfolio strength through further diversification**

The Proposed Acquisition increases the strength of Sunway REIT's portfolio as it improves the diversity of the overall property portfolio mix of Sunway REIT with lesser reliance on any single asset or sector. As at the LCD, Sunway REIT's portfolio by property value is as follows:



Note:

- (1) Services sector refers to the properties that are providing medical (Sunway Medical Centre (Tower A & B)) and education (Sunway university & college campus) services

(Source: Sunway REIT's integrated report 2020)

In addition, through the Proposed Acquisition, Sunway REIT would have acquired its 10th asset and grown its asset under management since its initial public offering on Bursa Securities in 2010. Further, the Proposed Acquisition will also strengthen Sunway REIT's current position as the 2nd largest listed Malaysian REIT based on property value as at 30 June 2020. Upon completion of the Proposed Acquisition, Sunway REIT's property portfolio size will increase from approximately RM8.0 billion as at 30 June 2020 to approximately RM8.5 billion, as shown in the table below.

	As at 30 June 2020	The Pinnacle Sunway	After the Proposed Acquisition
Value of investment properties (RM'million)	8,020	455 ⁽¹⁾	8,475
No. of properties	17	1	18
Gross floor area ('000 square feet)	15,739	1,145	16,884

Note:

- (1) After taking into consideration the estimated expenses for the Proposed Acquisition which are allowed to be capitalised as part of investment properties, amounting to approximately RM4.7 million.

(iii) Enhances scale and synergies within the Sunway City eco-system

The Pinnacle Sunway will be the 8th asset which the Trustee owns within Sunway City. The Proposed Acquisition will allow Sunway REIT to enhance scale and maximise operational and business synergies between The Pinnacle Sunway and its existing properties located within Sunway City.

The Pinnacle Sunway acquisition also reaffirms the Manager's strong conviction of the longer term sustainable growth of the Sunway City ecosystem, especially due to the complementary business support from the traffic generated from the various components of Sunway City. Please refer to Section 4.7 of this Circular for further details on the prospects of The Pinnacle Sunway.

(iv) Earnings and DPU accretive to Unitholders

The Pinnacle Sunway is income-generating and is 100% occupied based on committed and/or commenced tenancies as at the Material Date of Valuation. As such, the Manager believes that the Proposed Acquisition will help to improve the earnings and the DPU to Unitholders upon the completion of the Proposed Acquisition. Please refer to Section 6.3 of this Circular for further details.

3.2. Rationale for the Proposed Private Placement

The Proposed Private Placement will enable the Manager to raise funds and channel them towards the proposed utilisation as set out in Section 2.2.6 of this Circular, which is expected to improve the earnings and the DPU to the Unitholders when the benefits from the utilisation of proceeds from the Proposed Private Placement as set out in Section 2.2.6 of this Circular are realised.

Additionally, the Proposed Private Placement will also provide the following:

(i) Strengthen the financial position and capital base of Sunway REIT

The Proposed Private Placement is expected to reduce the gearing level of Sunway REIT, which provides Sunway REIT with greater financial flexibility and may allow Sunway REIT to obtain further financing facilities as and when required in the future.

(ii) Expand Unitholder base

The Proposed Private Placement allows Sunway REIT to attract more local and international investors to invest in Sunway REIT, thereby enlarging its Unitholder base and serves as a testament to investors' confidence in the future prospects of Sunway REIT.

(iii) Improve trading liquidity

The Proposed Private Placement will increase the total number of issued units in Sunway REIT, and hence, may improve the trading liquidity of units in Sunway REIT.

Further, after due consideration of the various funding options available to Sunway REIT, the Board is of the opinion that the Proposed Private Placement is the most appropriate avenue to raise funds for Sunway REIT as it allows the Manager to raise funds expeditiously and cost effectively (i.e. able to implement immediately upon obtaining Unitholders' approval) as compared with other fundraising exercises involving pro-rata issuance of securities such as rights issue, which would typically entail a longer implementation time and generally require a higher discount to the prevailing market price. This would mitigate any risks associated with market movements and investors' sentiments.

There are no other equity fund-raising exercises undertaken by the Manager and/or the Trustee on behalf of Sunway REIT in the 12 months before 29 June 2020, being the date of announcement of the Proposed Private Placement.

4. INDUSTRY OVERVIEW AND OUTLOOK

Sunway REIT is a diversified listed real estate investment trust in Malaysia with assets in various sectors. The main contributors to the total realised net property income of Sunway REIT for FYE 30 June 2020 are retail (62.2%), hotel (15.6%) and services (14.7%) sectors. As such, Sunway REIT's financial performance is largely driven by the economic growth of the Malaysian economy and these sectors.

4.1. Overview and outlook of the Malaysian economy

The Malaysian economy was confronted by concurrent supply and demand shocks arising from weak external demand conditions and strict containment measures in the 2nd quarter of 2020. As a result, the economy registered its first contraction since the Global Financial Crisis (2nd quarter of 2020: -17.1%, 3rd quarter of 2009: -1.1%).

On the supply side, this was reflected in a contraction across most sectors. From the expenditure side, domestic demand declined, while exports of goods and services registered a sharper contraction. On quarter-on-quarter seasonally-adjusted basis, the economy declined by 16.5% (1st quarter of 2020: -2.0%).

A contraction was recorded in most economic sectors amidst the imposition of the MCO, followed by the CMCO and RMCO. The services sector contracted by 16.2% (1st quarter of 2020: 3.1%). The sector was affected by the implementation of a nationwide restrictive MCO, with only essential services such as food-related retail, utilities, banking, transportation as well as information and communication entities allowed to operate with very limited capacity. The subsequent transition to CMCO in May 2020 and RMCO in June 2020 provided some relief to businesses in the sector. The lockdown had substantially affected consumer spending and tourism activity, as shown by the significant decline in the wholesale and retail trade, as well as food and beverages and accommodation sub-sectors. The transport and storage sub-sector was impacted by a sudden stop in tourist arrivals due to travel restrictions imposed domestically as well as the international border closures. Growth in the finance and insurance sub-sector was weighed down by lower net interest income, and lower fee-based income amidst subdued capital market activity. Meanwhile, growth in the information and communication sub-sector was relatively sustained by the continued high demand for data communication services especially during this period of remote working arrangements.

Domestic demand declined by 18.7% in the 2nd quarter of 2020 (1st quarter of 2020: 3.7%), mainly due to weaker private sector expenditure. Spending by the private sector was impacted by lower income, movement restrictions and subdued consumer and business sentiments. While net exports continued to decline, the contribution of the external sector to the economy improved mainly due to the larger contraction in imports vis-à-vis the previous quarter.

Private consumption growth declined by 18.5% in the 2nd quarter of 2020 (1st quarter of 2020: 6.7%). Household spending was particularly impacted by the strict movement restrictions in the early part of the quarter and income losses amidst weak economic conditions. As movement restrictions were gradually relaxed towards the end of the quarter, retail and financing data indicated some improvement in spending, albeit remaining subdued. During this challenging period, stimulus measures such as the disbursement of Bantuan Prihatin Nasional cash transfers, EPF i-Lestari withdrawals and the implementation of the loan moratorium helped to cushion consumption spending.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index, declined to -2.6% during the quarter (1st quarter of 2020: 0.9%). The lower headline inflation was primarily due to the substantial decline in retail fuel prices (average RON95 petrol price per litre in 2nd quarter of 2020: RM1.37, 1st quarter of 2020: RM1.96) and the implementation of the tiered electricity tariff rebate beginning the month of April 2020.

Labour market conditions weakened as containment measures and weak demand led firms to undertake cost-cutting actions. Measures such as retrenchments, pay-cuts and unpaid leave weighed on employment and income conditions. Employment declined by 1.3% (1st quarter of 2020: 1.6%). Job losses were concentrated in the tourism-related industries as demand weakened considerably amidst border closures. As a result, the unemployment rate rose to 5.1% (1st quarter of 2020: 3.5%). In addition to the job losses, shorter working hours and pay-cuts among those who remained in employment resulted in a contraction in sector wage growth in the 2nd quarter of 2020 of -5.6% (1st quarter of 2020: 2.1%). The contraction in private services wage growth in the 2nd quarter of 2020 of -6.4% (1st quarter of 2020: 1.4%) was driven mainly by tourism related services, such as wholesale and retail trade, food and beverage, and accommodation (2nd quarter of 2020: -3.5%, 1st quarter of 2020: 1.9%) as well as transportation and storage (2nd quarter of 2020: -29.7%, 1st quarter of 2020: -3.5%) sub-sectors. In the manufacturing sector, wages contracted by 4.0% (1st quarter of 2020: 3.4%). This was mainly due to a contraction in the transport equipment and other manufactures sub-sector (2nd quarter of 2020: -13.3%; 1st quarter of 2020: 1.3%) and the textiles, wearing apparel, leather and footwear sub-sector (2nd quarter of 2020: -15.3%; 1st quarter of 2020: 2.4%) that were unable to operate during the MCO period.

Economic activity in Malaysia contracted sharply in the 1st half of the year (-8.3%) as the measures introduced to contain the pandemic globally and domestically resulted in a concurrent supply and demand shock to the economy. However, growth is expected to have troughed in the 2nd quarter of 2020. Economic activity has resumed significantly since the economy began to reopen in early May. Monthly indicators such as wholesale and retail trade, industrial production, electricity generation, and gross exports all rebounded in June after the contractions in the period between March and May. The rebound in growth in the 2nd half of 2020 will also be supported by the recovery in global growth and continued policy support. In particular, consumption and investment activities are expected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. Growth could potentially be lifted by a larger-than-expected impact from stimulus measures.

While there is upside potential to growth, the pace and strength of the recovery remain susceptible to downside risks emanating from domestic and external factors. The prospect of secondary COVID-19 outbreaks leading to the re-imposition of containment measures, more persistent weakness in labour market conditions, and a weaker-than-expected recovery in global growth pose downside risks to growth.

(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020)

4.2. Overview and outlook of the retail sector in Malaysia

The overall retail performance has been below market expectation in 2019. Supermarket and hypermarket segments had reported a contraction in growth in 2019, which led to closure of some department stores in Malaysia. Shopping complexes will be at risk of oversupply as more new shopping complexes will be entering into the market in the next two to five years. The average occupancy rate is expected to soften if no new branded tenants enter into the market and the complex owners have to compete for the same tenants. Meanwhile, the impact of COVID-19 pandemic coupled with increasing popularity of online shopping also pose challenges to retail storefront.

The retail sub-sector recorded a stable performance, recording an overall occupancy rate of 79.2%, a slight decrease from 79.3% recorded in 2018. Kuala Lumpur recorded an encouraging performance, securing more than 83.0% occupancy rate whereas Selangor slightly dropped to 82%. Johor and Pulau Pinang managed to secure an average occupancy of 75.3% and 73.7% respectively. These four states recorded higher available space (vacancy), led by Selangor (0.65 million square metres), Johor (0.59 million square metres), Kuala Lumpur (0.54 million square metres), and Pulau Pinang (0.48 million square metres).

(Source: Property Market Report 2019, Ministry of Finance Malaysia)

In the 4th quarter of 2019, Malaysia's retail sales grew 3.8% year-on-year, as expected by Retail Group Malaysia (“RGM”), and better than Malaysia Retailers Association members' projection of 2.7%. The growth is due to the year-end festivals, school holidays and aggressive promotions undertaken by retailers. In contrast, the 4th quarter of 2018 recorded a 2.7% growth rate. This brings the retail sales growth in 2019 to 3.7%, as compared with the retail sales growth in 2018 of 3.9%.

(Source: Article titled “Malaysia’s retail sector expected to contract 3.9% in 1Q2020”, extracted from The Edge Markets published on 17 March 2020)

The Malaysian retail sales contracted by 30.9% during the 2nd quarter of 2020 as compared to the same period last year. The nationwide lockdown affected the retail performance of all retail sub-sectors during the 2nd quarter of 2020, which reported double digit contraction except for the supermarket and hypermarket sub-sector which reported a contraction of 9.9% during this period. The worst performing sub-sector was the department store sub-sector which contracted by 62.3%, followed by the fashion and fashion accessories sub-sector (-44.2%), specialty stores sub-sector (-40.9%), department store cum supermarket sub-sector (-34.6%), and pharmacy and personal care sub-sector (26.2%).

Moving forward, the business outlook among members of the retailers' association for the 3rd quarter of 2020 is mixed with an estimated average decline of 3.4%. RGM said that with the RMCQ being extended until the end of 2020, shopping centres and retailers will not be able to operate at full capacity compared to pre COVID-19 period due to continued implementation of strict social distancing measures. Furthermore, consumers are expected to tighten their spending during the last three months of the year when the six months moratorium ends at the end of September 2020.

(Source: Article titled “Retail industry suffers worst decline in 33 years”, extracted from The Malaysian Reserve published on 3 September 2020)

4.3. Overview and outlook of the services sector in Malaysia

Provision of quality healthcare services is one of the main priorities of the Government. The main challenge in achieving this object is the escalating cost of healthcare vis-à-vis constraint on Government finance. To further elevate healthcare quality, the Government will strengthen its services by providing a comfortable environment for the people while receiving treatment in public hospitals and clinics. An allocation will be provided to upgrade healthcare infrastructure, as well as enhance the capacity and capability of healthcare personnel. Concurrently, the Government will promote a healthy lifestyle and extend preventive care programmes nationwide. Meanwhile, the private healthcare segment will be supported by the Malaysia Year of Healthcare Travel 2020 campaign which seeks to reinforce Malaysia as a reputable and global healthcare travel destination, especially in the areas of cardiology, oncology, fertility, orthopaedics and cosmetic surgery.

The health tourism industry is growing rapidly, and Malaysia is recognised as one of the five best in the world (Patient Beyond Borders, 2018). In 2018, the number of healthcare travellers surged 15% to 1.2 million with revenue increasing 13% to RM1.4 billion, particularly from China, India and Indonesia. The quality of healthcare system, international qualified medical professionals and accredited medical facilities, competitive cost, availability of latest procedures and treatment technologies, as well as accessibility through air and land routes are the factors contributing to the growth of this industry.

In conjunction with the Malaysian Year of Healthcare Travel 2020 campaign to establish Malaysia as a leading global destination for healthcare, the Government is targeting total revenue of RM2.2 billion in 2020. This campaign is targeting several new ASEAN markets and the Middle East, especially in the areas of cardiology, oncology and fertility.

The Government's development expenditure during these two years will remain high and are mostly concentrated in the economic and social sectors. Investment in economic sector are mainly channelled into transportation system, energy and public utilities, as well as trade and industry. Meanwhile, the bulk of expenditure in the social sector is channelled into education and healthcare. Moving forward, the other services sub-sector is projected to grow by 5.3% in 2019 and 5.1% in 2020 driven by strong demand for private education and healthcare services.

(Source: Economic Outlook 2020, Ministry of Finance Malaysia)

According to Budget 2020, the Ministry of Education ("**Education Ministry**") remains the largest recipient with an allocation of RM64.1 billion, an increase from 2019's RM60.2 billion.

The Government is deeply committed to higher education, and the annual total expenditure on higher education is equivalent to 7.7% of the annual Government expenditure in 2015 (where the Education Ministry expenditure on higher education alone is 5.5% of the annual Government expenditure). This is, according to the United Nations Educational, Scientific and Cultural Organization benchmarking, the highest among Malaysia's peers, such as 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 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: Budget 2020, Ministry of Finance Malaysia, and Malaysia Education Blueprint 2015 – 2025)

4.4. Overview and outlook of the hotel sector in Malaysia

The COVID-19 pandemic and the measures taken to contain it is adversely impacting tourism-related and manufacturing sectors. Broad-based restrictions and aversion to travel activities will have a sizeable impact on Malaysia's tourism sector, which accounts for 11.8% of Malaysia's gross domestic product. Airport passenger traffic declined by 8.2% in the 1st two months of 2020, just as COVID-19 started to escalate and some economies began to take precautionary measures, such as travel bans and quarantines. These measures have since become more widespread and a sharp decline in tourist arrivals is expected. This will significantly impact spending in the tourism-related sectors, particularly hotels, retail trade, food and beverage and transport services.

(Source: Economic & Monetary Review 2019, Bank Negara Malaysia)

Malaysia recorded 4,252,997 tourist arrivals for the first half of 2020. This marks a decrease of 68.2% compared to the same period in 2019. The tourist expenditure for the first half of 2020 recorded a total of RM12.5 billion, a decrease of 69.8% compared to RM41.6 billion registered for the same period in 2019. Per capita expenditure also showed a decline of 5.3% from RM3,121.6 in 2019 to RM2,956.1 this year.

(Source: Article titled "Negative growth of 68.2% for tourist arrivals in the first half of 2020", extracted from Malaysia Tourism Promotion Board publication published on 8 September 2020)

The Government had introduced several incentives which help cushion the impact of COVID-19 on the tourism sector namely:

- (i) tourism tax exemption from 1 July 2020 to 30 June 2021;
- (ii) extension of service tax exemption for hotels to 30 June 2021;
- (iii) extension of period for income tax relief of RM1,000 for tourism expenses to 31 December 2021; and
- (iv) extension of period for deferment of tax instalment payment for tourism industry to 31 December 2020.

(Source: Pelan Jana Semula Ekonomi Negara)

4.5. Overview and outlook of the office sector in Malaysia

The overall performance of office sub-sector was less promising as the overall occupancy rate declined to 80.6% in 2019, down from 82.4% in 2018. The private office buildings recorded average occupancy rate at 74.8%, Wilayah Persekutuan Kuala Lumpur and Pulau Pinang secured higher occupancy rate at 76.9% and 76.5% respectively, whereas Selangor and Johor lower than national level at 70.0% and 65.7% respectively. Private office buildings in Putrajaya recorded the lowest occupancy rate at 37.6%.

As at the end of 2019, there was a total of 22.59 million square metres existing office space from 2,549 buildings, while another 51 buildings with 2.38 million square metres in the incoming supply and 15 buildings with nearly 0.4 million square metres in the planned supply. Wilayah Persekutuan Kuala Lumpur dominated all three categories of supplies.

The office segment is forecasted to remain under pressure in 2020. If all 11 of the office buildings under construction in Klang Valley were to be completed in 2020 as scheduled, around 0.5 million square metres of net lettable office space will be released into the market in the near term, which will likely lead to lower occupancy rates and further downward rental pressure. As a result, some of the older buildings with high vacancy rate might be closed down for upgrading, refurbishment, conversion to other usage or redevelopment.

(Source: Property Market Report 2019, Ministry of Finance Malaysia)

The rental rates and occupancy levels of office buildings in Malaysia, especially in the Klang Valley where there is an imbalance in supply and demand, will experience further downward pressure in the near term as a result of the COVID-19 pandemic. The unprecedented crisis has led to a sense of uncertainty and this will result in lower level of leasing/transactional activity as businesses and occupiers delay or put on hold their real estate decisions.

On a positive note, the Government had launched a few economic stimulus packages to cushion the impact of COVID-19 which include granting landlords who provide rental reduction (at least 30.0% reduction) to tenants who are small and medium enterprises, a further tax deduction equivalent to the amount of rental reduction from April 2020 to June 2020.

(Source: Valuation Report)

4.6. Impact of COVID-19 on Sunway REIT's property portfolio

COVID-19 was officially declared a pandemic by the Director General of the World Health Organisation on 11 March 2020. On 16 March 2020, the Government announced that the MCO be imposed in an effort to contain the COVID-19 pandemic in Malaysia, which required the closure of all government and private premises except those involved in providing essential services during the period of the enforcement of the MCO, which took effect from 18 March 2020 to 3 May 2020. During the MCO, Sunway REIT's lessees'/tenants' business operations in non-essential services were temporarily suspended.

However, the MCO was gradually eased and relaxed, and extended under a CMCO from 4 May 2020 to 9 June 2020 and thereafter a RMCO which took effect from 10 June 2020 onwards. Under the CMCO, most of Sunway REIT's lessees'/tenants' business operations were allowed to recommence whilst observing the standard operating procedures imposed by the Government.

In line with the directives issued by the Government, the Manager has put in place measures across its properties ("**Sunway REIT Properties**") to safeguard the health of visitors and the community. The Manager has implemented the following procedures:

- (i) lessees'/tenants' employees, customers and visitors of the Sunway REIT Properties are allowed to enter the Sunway REIT Properties upon them registering/recording their details upon entry or filling up the self-declaration form or the quick response code-generated form before their entry to Sunway REIT Properties;
- (ii) employees, customers and visitors to Sunway REIT Properties are required to wear face masks, undergo temperature measurement, register their attendance and sanitise their hands before entering the Sunway REIT Properties; and

- (iii) safe distancing measures across Sunway REIT Properties such as queue management system, floor markers and signages to remind lessees'/tenants' employees, customers and visitors to maintain physical distance.

The impact of the COVID-19 pandemic and the introduction of the MCO, CMCO and RMCO on Sunway REIT's financials, occupancy rate and financial liquidity are detailed below.

Impact on the financials of Sunway REIT

The impact of the MCO on Sunway REIT's rental income from office properties has not been material. However, rental income from malls and hotels has been adversely impacted since the implementation of the MCO as Sunway REIT's lessees'/tenants' offering non-essential products and services were prohibited from operating, and hotel operations were suspended during the MCO period.

Due to the suspension of hotel operations during the MCO period and lower occupancy rates during the CMCO and RMCO period, Sunway REIT's rental income from hotels was impacted as under the terms of its master lease agreements with the hotel operators, Sunway REIT has a variable rental component which is computed after taking into account the gross operating profit of the hotel business.

During such temporary closure of the malls and suspension of hotel operations, the Manager has provided rental rebates and/or rental deferment on a case to case basis to eligible lessees'/tenants' ("**Rental Support**"), in efforts to mitigate the adverse impact of the current COVID-19 on the lessees'/tenants' business operations. Besides the Rental Support, Sunway REIT also passed on the 15.0% electricity discount announced by the Government to eligible lessees/tenants, upon receipt of such discount from Tenaga Nasional Berhad.

Sunway REIT has experienced a decrease in revenue by 14.5% and 12.8% from the retail (FYE 30 June 2020: RM364.7 million, FYE 30 June 2019: RM426.7 million) and hotel (FYE 30 June 2020: RM68.5 million, FYE 30 June 2019: RM78.6 million) sectors respectively, as compared to revenue recorded in FYE 30 June 2019 in view of the Rental Support provided and decrease in the variable rental component of its income from hotels due to suspension of hotel operations during the MCO, CMCO and RMCO period.

The Manager believes that by providing the Rental Support, this will further strengthen its relationship with the lessees/tenants and enable it to maintain a higher retention rate for the Sunway REIT Properties, defending occupancy rate in the near term and paving the way for recovery in the medium term.

The Manager has also invested in marketing programmes to provide adequate support to its tenants in retail properties such as online order and collection drive-through stations. The Manager believes that this provides these tenants which offer non-essential products and services a way to sustain their cash flows and ensure the sustainability of its relationships with such tenants.

The Manager has also put in place strict standard operating procedures such as installing thermal scanners, sanitising stations, frequent fogging disinfection at public areas and maintaining social distancing protocols for all the Sunway REIT Properties, particularly in Sunway REIT's retail properties as they are necessary to build retail confidence. Nevertheless, the Manager expects its retail properties to continue facing challenges in the short term due to reduction of footfall, reduced tourist arrivals and reduction in demand for non-essential retail trade. The costs incurred to implement the standard operating procedures in all the Sunway REIT Properties were not material as compared to the net property income generated by the Sunway REIT Properties.

Impact to occupancy rate of the Sunway REIT Properties

During the initial stages of the COVID-19 pandemic, travelling bans were imposed on certain countries and this has led to cancellations of tour and hotel bookings. Furthermore, the implementation of MCO resulted in suspension of hotel operations. As a result, Sunway REIT's hotel registered average occupancy rate of 53.0% in FYE 30 June 2020, a decrease of 16.4% as compared to the average occupancy rate recorded in FYE 30 June 2019. Despite such suspension of operations, certain hotels under Sunway REIT's portfolio remained open as quarantine centres to support the Government's precautionary measures of ensuring all Malaysians returning from overseas countries are quarantined.

Following the implementation of CMCO, hotels were allowed to resume operations with limited amenities. On 1 July 2020, restrictions on hotel amenities were uplifted which allowed hotels to operate at full capacity.

The retail sector registered average occupancy rate of 95.0% in FYE 30 June 2020, a decrease of 1.5% as compared to the average occupancy rate recorded in FYE 30 June 2019. As at LPD, all tenants in the retail sector have resumed business under the RMCO. Following this resumption, shoppers' traffic has also shown encouraging recovery.

For expiring tenancies in retail and office sectors which are due in FYE 30 June 2020, approximately 92.0% have been renewed as at 30 June 2020 with positive low single-digit rental reversionary rate. Other sectors (services, industrial and others) remain relatively stable in terms of occupancy rate despite the COVID-19 pandemic, MCO, CMCO and RMCO.

Impact on the liquidity of Sunway REIT

The Manager has implemented certain cost containment initiatives such as reducing, cancelling and/or deferring non-essential operational and capital spending during the MCO, CMCO and RMCO period to preserve its cash flow and liquidity in view of the Rental Support granted to eligible lessees/tenants and slower collection pace.

In addition, the Manager has taken pre-emptive measures to increase the liquidity position of Sunway REIT via borrowings, both for ongoing business needs as well as for the purposes of averting any liquidity crunch in the credit market that could potentially arise. As at the LCD, Sunway REIT recorded higher cash and short term investments of RM281.5 million (30 June 2019: RM67.3 million) and despite a higher gearing of 40.7% (30 June 2019: 37.9%), interest service coverage ratio remains healthy at 3.1 times.

With the gearing limit of not more than 50.0% under the Guidelines on Listed Real Estate Investment Trusts issued by the SC, Sunway REIT is potentially able to further leverage on a debt headroom of approximately RM780.0 million to manage its obligations. On 12 August 2020, the SC announced that it will temporarily increase the gearing limit for Malaysian real estate investment trusts from 50.0% to 60.0%, effective immediately until 31 December 2022. This temporary increase in gearing limit provides Sunway REIT with greater cash flow flexibility in light of the challenging operating environment during the COVID-19 pandemic.

4.7. Prospects of The Pinnacle Sunway

The Pinnacle Sunway, a 24-storey office building with three-storey mezzanine floors and six levels of basement car park, is a Grade A, GBI-certified and MSC-status office building, located strategically within the master-planned integrated township development of Sunway City, Malaysia's first sustainable township as certified by GBI and the country's first low carbon city, as certified by the Malaysian Institute of Planners (MIP). The Pinnacle Sunway was completed in 2013 with a total gross floor area of 1,145,554 square feet (including 444,752 square feet for car park) of high quality specifications including large floor plates with total NLA of 576,864 square feet as at the Material Date of Valuation.

The Pinnacle Sunway, which is located next to Menara Sunway and Sunway Resort Hotel, is well positioned to benefit from the broader ecosystem components of Sunway City, including the retail, commercial, hospitality, healthcare, education and car park facilities through a series of interconnected bridges and covered walkways. The benefit from the broader ecosystem components of Sunway City will promote work-life-balance for the tenants and visitors of The Pinnacle Sunway.

With over 42 million visits every year to Sunway City, this wasteland-turned-wonderland city is also home to "Asia's Best Attraction", Sunway Lagoon theme park as well as Sunway REIT's properties such as the Sunway Pyramid Shopping Mall, Menara Sunway, Sunway Medical Centre, Sunway university & college campus, and Sunway Resort Hotel, Sunway Pyramid Hotel and Sunway Clio Hotel with over 1,400 rooms (as at 30 June 2020). Notwithstanding that the outlook of the office sector in Malaysia is challenging due to the upcoming supply of office buildings as explained in Section 4.5 of this Circular, the Manager believes that The Pinnacle Sunway is able to attract and retain a wide variety of reputable tenants due to a combination of its strategic location and connectivity to the broader Sunway City ecosystem.

As at the Material Date of Valuation, The Pinnacle Sunway is 100% occupied based on committed and/or commenced tenancies, and its tenants include multinational corporations and companies that are in technology and tele-communication sectors, and pharmaceutical sector (please refer to Section 3.1(i) of this Circular for further details of tenancy profile of The Pinnacle Sunway).

The Manager believes that The Pinnacle Sunway will add value to the Unitholders in the form of enhancing scale, and maximising operational and business synergies to the existing Sunway REIT portfolio, and adding to the seven assets Sunway REIT already presently owned within Sunway City. Further, the addition of a quality asset and income stream from strong tenants will enhance the strength and resilience of Sunway REIT's portfolio.

The Proposed Acquisition also reaffirms the Manager's strong conviction of the longer term sustainable growth of the Sunway City ecosystem as it is supported by:

- (i) growing and affluent residential catchment within the vicinity, as well as the broader Klang Valley region;
- (ii) excellent connectivity to various major transportation links, with good access to major roads and expressways like Federal Highway, Shah Alam Expressway (KESAS), New Klang Valley Expressway (NKVE) and Damansara-Puchong Expressway (LDP). Sunway City is also served by Malaysia's first elevated bus rapid transit (BRT) system which also 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;
- (iii) a robust talent pool supported by Sunway university and college campus and Monash University Malaysia, and other higher learning institutions within the vicinity such as Subang Jaya; and

- (iv) complementary business support from the traffic generated from the various components of Sunway City.

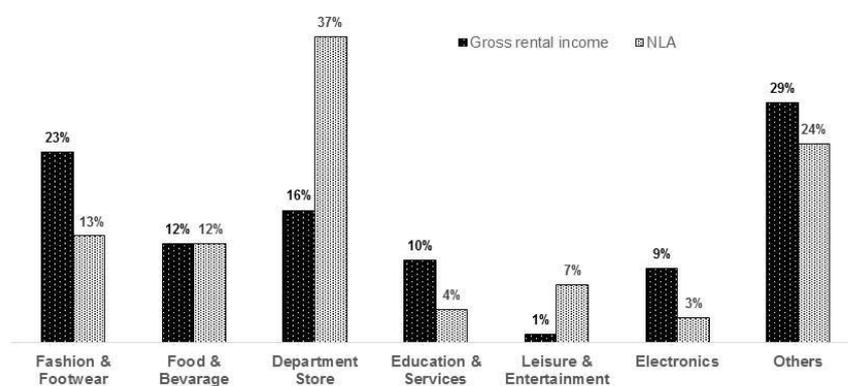
(Source: The Manager, Sunway REIT’s integrated report 2020 and Valuation Certificate)

4.8. Prospects of Sunway Carnival Mall

The Sunway Carnival Mall is strategically located near the iconic Penang Bridge in Penang, Malaysia, and is easily accessible from the North-South Highway and Butterworth-Kulim Expressway. As at the LPD, the gross floor area of the mall is 769,546 square feet, and the mall currently houses various types of international and local retailers which are in various retail trade sectors such as food and beverage, department store, and fashion and footwear.

As at the LCD, the occupancy rate of the Sunway Carnival Mall is 96.2%, and its tenancy profile based on 30 June 2020 gross rental income and NLA is as follows:

Tenancy profile by gross rental income and NLA



Note:

- * Others mainly consists of tenants in the sectors of supermarket, home & living, jewellery & timepiece and a convention hall.

The Manager noted that most of the tenants of Sunway Carnival Mall which are in the sectors detailed above had been adversely impacted due to the COVID-19 pandemic and the imposition of MCO as explained in Section 4.2 of this Circular. However, the Manager believes that the diverse tenancy mix of the Sunway Carnival Mall is able to cushion the overall low performance of the retail sector in Malaysia. Furthermore, Sunway Carnival Mall was able to achieve an occupancy rate of 96.2% as at the LCD, which is above the average occupancy rate in Penang of 73.7% reported in the Property Market Report 2019, despite the after effect of the MCO period.

The expansion of the Sunway Carnival Mall has been ongoing since 2018 and it comprises of two phases. The gross proceeds which have been allocated is to partially fund the phase 1 expansion of the mall. Phase 1 entails the construction of an additional new wing that is expected to increase the overall gross floor area of the mall to approximately 1,295,364 square feet, as well as to improve the infrastructure and connectively surrounding the development. Upon the completion of such expansion, the Manager believes that it may be able to (i) enhance the diversity of the mall’s tenancy mix by introducing more international and regional brands and better food and beverage offerings for the shoppers and (ii) reach out to a larger market catchment and be an exciting new addition to the retail landscape in Penang.

Meanwhile, Phase 2 is expected to commence after the completion of Phase 1 which includes the refurbishment of the current existing wing in the mall to ensure uniformity in architectural design with the new wing.

(Source: The Manager, and Sunway REIT's integrated report 2020)

5. RISK FACTORS

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

(i) Inability of the tenants to pay rental to Sunway REIT

The tenants manage and operate the businesses conducted in the Buildings. The ability of the tenants to make rental payments to Sunway REIT during the tenure of the tenancies of the Buildings may be affected due to, amongst others, the following reasons that could have an adverse effect on the tenants' operations and financial performance:

- (a) outbreak of infectious diseases which include the COVID-19 pandemic;
- (b) MCO, CMCO and RMCO;
- (c) general downturn in the global and Malaysian economy; and
- (d) changes in statutory laws, regulations or government policies.

Sunway REIT will closely monitor and assess any decline in rental payment conditions caused by the above factors. Furthermore, upon completion of the Proposed Acquisition, Sunway REIT will work closely with the relevant parties to take appropriate and timely measures to solve the issues arising from the above factors such as active engagement with tenants as well as reviewing operational costs and expenses.

(ii) The Pinnacle Sunway operates in a highly competitive environment

The office property market in Malaysia is highly competitive. Sunway REIT competes for tenants with numerous developers, owners and operators of office properties, many of which own properties similar to those of Sunway REIT.

In addition, based on the Valuation Report, it is expected that a bulk of incoming office supply in Selangor is expected to come on-stream by 2021, which will also result in additional competition for tenants. This new supply is expected to include approximately 1.9 million square feet of additional office space, mainly concentrated in the locality of Petaling Jaya.

An inability to compete effectively could reduce Sunway REIT's total revenue and thus adversely affect Sunway REIT's business, financial condition and results of operations. Nevertheless, The Pinnacle Sunway is relatively new and is strategically located within the master-planned integrated township development of Sunway City with excellent connectivity to various major transportation links. Please refer to Section 4.7 of this Circular for details on the prospects of The Pinnacle Sunway.

(iii) Non-renewal of the Tenancy Agreements

No assurance can be given that the respective tenants will exercise their options to renew the Tenancy Agreements upon the expiry of the initial tenancy term under the Tenancy Agreements. If any of the tenants terminate or do not renew the Tenancy 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 tenants on satisfactory terms and in a timely manner is not possible. However, the Manager will use its best endeavour and leverage on the positive attributes of The Pinnacle Sunway to secure new tenants to rent available space in The Pinnacle Sunway if the tenants do not renew the Tenancy Agreements. Please refer to Section 4.7 of this Circular for details on the prospects of The Pinnacle Sunway.

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

The Pinnacle Sunway may suffer physical damage caused by fire and flood, earthquake 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 Pinnacle Sunway as well as anticipated future revenue from The Pinnacle Sunway. Sunway REIT would also remain liable for any debt or other financial obligation in relation to The Pinnacle Sunway. No assurance can be given that material losses in excess of insurance proceeds (if any) will not occur in the future. If 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 policies to ensure that The Pinnacle Sunway is adequately insured.

(v) Changes in laws and regulations

The Pinnacle Sunway 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 that may require extensive renovation or reconfiguration of The Pinnacle Sunway in ensuring compliance with such changes. Nonetheless, the Manager will endeavour to ensure compliance with any changes in the regulatory environment.

(vi) Delays in the registration of transfer of the title of The Pinnacle Sunway

The Land, which forms part of The Pinnacle Sunway, is currently charged to Malaysian Trustees Berhad 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 Pinnacle Sunway upon the endorsement of the name of the Trustee as the registered owner on the title to The Pinnacle Sunway.

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 Land is not unique.

Nonetheless, before the execution of the SPA, a land search has been conducted at the relevant land office. Save for the Charge and the the lien-holder's caveat which may prevent the Trustee to be registered as the registered owner of The Pinnacle Sunway, the Pinnacle Sunway is free from Encumbrances. Apart from that, Sunway Integrated Properties has also deposited with the Trustee's solicitors a valid and registrable instrument of transfer.

(vii) Compulsory acquisition by the Malaysian government

The Malaysian government 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 Malaysian government could adversely affect the value of The Pinnacle Sunway, 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 Vendors in relation to The Pinnacle Sunway or any part thereof.

(viii) The valuation of The Pinnacle Sunway is based on certain assumptions

The valuation of The Pinnacle Sunway 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 and they include location, relative market position and physical condition. The market value of The Pinnacle Sunway 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.

(ix) Delay or non-completion of the Proposed Acquisition

The completion of the Proposed Acquisition is conditional upon the Conditions Precedent as set out in Section (ii)(a) of Appendix II of this Circular being met. For example, the completion of the Proposed Acquisition is subject to, amongst others, the completion of the Proposed Private Placement, which in turn, is subject to market sentiments and volatility as well as the effects of COVID-19, the MCO, CMCO and RMCO. The delay in fulfilment of the Conditions Precedent may also cause registration of transfer of the title of The Pinnacle Sunway 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.

(x) Sunway REIT's proforma income distribution and DPU included herein may not reflect actual financial results

Sunway REIT's proforma income distribution and DPU included in Section 6.3 of this Circular show the effects when the benefits from utilisation of proceeds from the Proposed Private Placement as set out in Section 2.2.6 of this Circular are realised (i.e. as if such benefits have been realised on 1 July 2019 being the beginning of the FYE 30 June 2020) and are prepared based on certain assumptions of the Manager.

Such proforma figures are not necessarily indicative of the results of the operations of Sunway REIT that could have been attained and do not purport to predict Sunway REIT's results. No assurance is given that the assumptions used by the Manager will be realised and the actual DPU will be as projected.

6. EFFECTS OF THE PROPOSALS

For illustration purposes only, the proforma effects of the Proposals have been prepared based on the following assumptions:

- (i) the Placement Issue Price is assumed at RM1.52 per unit, being approximately 5.0% discount to the 5-day VWAP of Sunway REIT up to and including the LPD of RM1.59;
- (ii) the number of Placement Units to be issued is 467,105,200, representing approximately 15.9% of the total number of issued units in Sunway REIT of 2,945,078,000 units as at LPD to raise gross proceeds of RM709,999,904; and
- (iii) the Major Unitholders, namely Sunway REIT Holdings and EPF, subscribe for such number of Placement Units to maintain their unitholdings in Sunway REIT after completion of the Proposed Private Placement. In this regard, the illustrative number of Placement Units to be subscribed by them is as follows:
 - (a) Sunway REIT Holdings subscribes for 190,973,332 Placement Units to maintain its unitholding in Sunway REIT of 40.9% as at the LPD; and
 - (b) EPF subscribes for 73,487,009 Placement Units to maintain its unitholding in Sunway REIT of 15.7% as at the LPD.

For the avoidance of doubt, the illustrative number of Placement Units stated above may not represent the actual number of Placement Units to be subscribed by the Major Unitholders after the completion of the bookbuilding exercise. No assurance is given that the assumptions used by the Manager to illustrate the effects of the Substantial Unitholders' unitholdings will materialise after the completion of the Proposed Private Placement and they do not represent a commitment by both Sunway REIT Holdings and EPF to subscribe for the Placement Units. Please refer to Section 2.2.3 of this Circular for the maximum number of Placement Units that may be allocated to Sunway REIT Holdings, and EPF and/or persons connected with them.

6.1. Unitholders' capital

For illustration purposes only, the proforma effects of the Proposals on the Unitholders' capital of Sunway REIT are as follows:

	No. of units	RM
As at the LPD	2,945,078,000	2,727,828,488
Issuance of Placement Units	467,105,200	705,499,904 ⁽¹⁾
Enlarged Unitholders' capital	3,412,183,200	3,433,328,392

Note:

- (1) After taking into consideration the estimated expenses for the Proposed Private Placement which are allowed to be capitalised from Unitholders' capital amounting to approximately RM4.5 million.

6.2. Substantial Unitholders' unitholdings

For illustration purposes only, the proforma effects of the Proposals on the unitholdings of the Substantial Unitholders as at the LPD are as follows:

Substantial Unitholders	As at the LPD			After the Proposals			
	Direct		Indirect	Direct		Indirect	
	No. of units	%	No. of units	%	No. of units	%	
Sunway REIT Holdings	1,204,078,565	40.9	-	-	1,395,051,897	40.9	-
EPF	463,332,400	15.7	-	-	536,819,409	15.7	-
Kumpulan Wang Persaraan (Diperbadankan)	174,880,900	5.9	27,222,800 ⁽¹⁾	0.9	174,880,900	5.1	27,222,800 ⁽¹⁾
TSJC	-	-	1,204,078,565 ⁽²⁾	40.9	-	-	1,395,051,897 ⁽²⁾
PSSC	-	-	1,204,078,565 ⁽³⁾	40.9	-	-	1,395,051,897 ⁽³⁾
Sarena Cheah	-	-	1,204,081,565 ⁽⁴⁾	40.9	-	-	1,395,054,897 ⁽⁴⁾
Evan Cheah	-	-	1,204,078,565 ⁽²⁾	40.9	-	-	1,395,051,897 ⁽²⁾
Adrian Cheah	-	-	1,204,078,565 ⁽²⁾	40.9	-	-	1,395,051,897 ⁽²⁾
Active Equity	-	-	1,204,078,565 ⁽⁵⁾	40.9	-	-	1,395,051,897 ⁽⁵⁾
Sungei Way	-	-	1,204,078,565 ⁽⁶⁾	40.9	-	-	1,395,051,897 ⁽⁶⁾
Sunway	-	-	1,204,078,565 ⁽⁷⁾	40.9	-	-	1,395,051,897 ⁽⁷⁾

Notes:

- (1) Deemed interest held by fund managers of Kumpulan Wang Persaraan (Diperbadankan).
- (2) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway and Sunway REIT Holdings.
- (3) Deemed interest held through spouse.
- (4) Deemed interest by virtue of Section 8 of the Act held through Active Equity, Sungei Way, Sunway, Sunway REIT Holdings and spouse.
- (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.

6.3. Earnings, EPU and DPU

The Proposals are not expected to have any material effect on the earnings, EPU and DPU of Sunway REIT for the FYE 30 June 2021 since the transactions are only expected to be completed in the 4th quarter of 2020 (being the 2nd quarter of FYE 30 June 2021). Nevertheless, the Manager believes that when the benefits from the utilisation of proceeds from the Proposed Private Placement as set out in Section 2.2.6 of this Circular are realised, they will contribute positively to the future earnings, EPU and DPU of Sunway REIT.

For illustrative purposes only, assuming that the Proposals were completed on 1 July 2019 (being the beginning of the FYE 30 June 2020), the proforma effects of the Proposals on the distributable net income and DPU of Sunway REIT for the FYE 30 June 2020 are set out below:

	Audited for the FYE 30 June 2020	Proforma after the Proposals
	RM'000	RM'000
Income distribution ⁽¹⁾	215,874 ⁽¹⁾	215,874 ⁽¹⁾
Add: Annual incremental net distributable income ⁽²⁾	-	43,185
Proforma income distribution	215,874	259,059
Units in circulation ('000)	2,945,078	3,412,183
DPU (sen)	7.33	7.59

Notes:

- (1) Based on Sunway REIT's declared income distribution attributable to Unitholders.
- (2) Computation in arriving at the annual incremental net distributable income is as follows:

Description	Basis of computation	RM'000
Net property income ("NPI")	The NPI is derived after taking into consideration the following: <ol style="list-style-type: none"> (i) annual NPI from The Pinnacle Sunway for the FYE 31 December 2019 of approximately RM27.9 million (after adjusting for land rental paid by Sunway Pinnacle to Sunway Integrated Properties and quit rent paid by Sunway Integrated Properties); and (ii) expected annual incremental NPI of Sunway Carnival Mall of approximately RM20.5 million (assuming the expansion was completed on 1 July 2019). The expected annual incremental NPI is computed based on the capital expenditure allocated for expansion of Sunway Carnival Mall of RM295.4 million multiplied with the average historical yield of Sunway Carnival Mall for FYEs 30 June 2016 to 30 June 2020 of approximately 6.95%. 	48,430

Description	Basis of computation	RM'000
Manager fees	Incremental Manager fees computed at (a) a base rate of 0.30% per annum of the incremental total asset value and (b) a further 3.00% of the incremental net property income.	(3,624)
Trustee fee	Incremental trustee fee computed based on 0.015% per annum of the incremental net asset value (resulting in a fee of approximately RM109,000) and subject to a maximum fee of RM700,000 per annum. For the FYE 30 June 2020, the total Trustee fee paid is RM672,000. As such, for the purpose of this illustration, the incremental trustee fee payable is RM28,000.	(28)
Cost of financing	Finance cost of 2.65% for the 10% deposit payable upon the execution of the SPA.	(1,193)
Expenses of Proposals	Estimated expenses of the Proposals which are not allowed to be capitalised such as certain professional fees and fees payable to the relevant authorities.	(400)
		43,185

The Manager wishes to highlight that the computation above is merely for illustration purposes and have been prepared based on certain assumptions of the Manager. The above illustration is not necessarily indicative of the results of the operations of Sunway REIT that would have been attained had the Proposals actually occurred in the aforesaid period. Further, the Manager cannot provide assurance that the assumptions used by them will be realised and the actual DPU will be as projected.

6.4. NAV and NAV per unit

For illustration purposes only, the proforma effects of the Proposals on the NAV of Sunway REIT per unit as at 30 June 2020 are as follows:

	Audited as at 30 June 2020	Proforma after the Proposals
	RM'000	RM'000
Unitholders' capital	2,727,829	3,433,329 ⁽¹⁾
Undistributed income	1,702,228	1,701,828 ⁽²⁾
Total Unitholders' fund / NAV	4,430,057	5,135,157
Perpetual note holders' fund	339,717	339,717
Total equity	4,769,774	5,474,874
No. of Sunway REIT units in circulation ('000)	2,945,078	3,412,183
NAV per Sunway REIT unit (RM)	1.50	1.50

Notes:

- (1) After taking into consideration the following:
- (a) the gross proceeds raised from the Proposed Private Placement of approximately RM709,999,904; and

- (b) estimated expenses for the Proposed Private Placement which are allowed to be capitalised from Unitholders' capital amounting to approximately RM4.5 million (please refer to footnote 2(a)(ii) in Section 6.5 of this Circular for the breakdown and the treatment of estimated expenses of the Proposals).
- (2) After taking into consideration the other estimated expenses of the Proposals which are not allowed to be capitalised for the Proposals amounting to approximately RM0.4 million.

Please refer to Appendix IV, of this Circular for the reporting accountants' letter on the proforma statement of financial position for further details.

6.5. Gearing

For illustration purposes only, the proforma effects of the Proposals on the gearing level of Sunway REIT as at 30 June 2020 are as follows:

	Audited as at 30 June 2020	Movement	Proforma after the Proposals
	RM'000	RM'000	RM'000
Total gross borrowings	3,445,941	(5,000) ⁽¹⁾	3,440,941
Total asset value	8,460,245	700,100 ⁽²⁾	9,160,345
Gearing (%) ⁽³⁾	40.7		37.6

Notes:

- (1) Net decrease in total borrowings after taking into consideration the following:
- (a) repayment of borrowings of approximately RM50.0 million taken to fund the incurred cost of the expansion plan of Sunway Carnival Mall as at the LCD ("**Repayment of Borrowings**"); and
 - (b) payment of the Deposit of RM45.0 million by the Trustee which was funded via Sunway REIT's existing debt programme, which entails a 7-year RM3.0 billion commercial paper programme;
- (2) Increase in total asset value after taking into consideration the following:
- (a) Net increase in cash and bank balances by RM245.4 million:
 - (i) inflow of gross proceeds raised from the Proposed Private Placement of approximately RM709,999,904;
 - (ii) outflow of total estimated expenses of the Proposals of approximately RM9.6 million, which consists of the following:
 1. RM4.533 million for the Proposed Private Placement (out of which RM4.5 million is allowed to be capitalised from Unitholders' capital, comprising Placement Agents' fees and other professional fees); and
 2. RM5.067 million for the Proposed Acquisition, comprising mainly the Manager's acquisition fee and other expenses;
 - (iii) outflows for Repayment of Borrowings of RM50.0 million, and settlement of Balance Purchase Consideration of RM405.0 million.

- (b) Increase in investment properties by RM454.7 million:
 - (i) addition of The Pinnacle Sunway of RM450.0 million; and
 - (ii) capitalisation of the estimated expenses of the Proposals as part of investment properties amounting to RM4.7 million that comprise the Manager's acquisition fee and other professional fees.

(3) Gearing is calculated as total gross borrowings divided by total asset value.

Please refer to Appendix IV of this Circular for the reporting accountants' letter on the proforma statement of financial position for further details.

6.6. Convertible securities

As at the LPD, Sunway REIT does not have any outstanding convertible securities.

7. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:

- (i) Bursa Securities for the listing and quotation of up to 589,015,600 Placement Units on the Main Market of Bursa Securities, which was obtained vide its letter dated 11 September 2020, subject to the following conditions:
 - (a) Sunway REIT and RHB Investment Bank must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Private Placement;
 - (b) Sunway REIT and RHB Investment Bank to inform Bursa Securities upon the completion of the Proposed Private Placement;
 - (c) Sunway REIT to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval letter once the Proposed Private Placement is completed; and
 - (d) Sunway REIT/RHB Investment Bank to furnish Bursa Securities with a certified true copy of the resolutions passed by Unitholders in approving the Proposed Private Placement, Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF respectively;
- (ii) the approval of the Unitholders for the Proposed Acquisition, Proposed Private Placement (which includes the allotment and issuance of the Placement Units), Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF at the forthcoming Unitholders' Meeting;
- (iii) the approval or no objection from the State Authority for the transfer of the Land from Sunway Integrated Properties to the Trustee, which was obtained on 28 August 2020; and
- (iv) any other relevant authority and/or party, if required.

8. INTERESTS OF A DIRECTOR, MAJOR SHAREHOLDERS AND CHIEF EXECUTIVE OF THE MANAGER AND/OR MAJOR UNITHOLDERS AND/OR PERSONS CONNECTED WITH THEM

Saved as disclosed below, none of the directors, major shareholders and chief executive of the Manager and/or Major Unitholders and/or persons connected with them have any interest, direct or indirect, in the Proposals.

8.1. Interested Major Unitholders

The details of the unitholdings of the interested Major Unitholders as at the LPD are as follows:

Unitholder	Direct		Indirect	
	No. of units	%	No. of units	%
Sunway REIT Holdings	1,204,078,565	40.9	-	-
EPF	463,332,400	15.7	-	-
TSJC	-	-	1,204,078,565 ⁽¹⁾	40.9
PSSC	-	-	1,204,078,565 ⁽²⁾	40.9
Sarena Cheah	-	-	1,204,081,565 ⁽³⁾	40.9
Evan Cheah	-	-	1,204,078,565 ⁽¹⁾	40.9
Adrian Cheah	-	-	1,204,078,565 ⁽¹⁾	40.9
Active Equity	-	-	1,204,078,565 ⁽⁴⁾	40.9
Sungei Way	-	-	1,204,078,565 ⁽⁵⁾	40.9
Sunway	-	-	1,204,078,565 ⁽⁶⁾	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 and spouse.
- (4) Deemed interest by virtue of Section 8 of the Act held through Sungei Way, Sunway and Sunway REIT Holdings.
- (5) Deemed interest by virtue of Section 8 of the Act held through Sunway and Sunway REIT Holdings.
- (6) Deemed interest by virtue of Section 8 of the Act held through Sunway REIT Holdings.

As at the LPD, Sunway has a 100% indirect interest in Sunway REIT Holdings (which has a 40.9% direct interest in Sunway REIT) and a 100% indirect interest in the Vendors (via its wholly-owned subsidiary, namely SunCity). Furthermore, the Placement Units may be offered to Sunway REIT Holdings and the proceeds raised from the Proposed Private Placement will be partially utilised to fund the Purchase Consideration. Accordingly, Sunway REIT Holdings, TSJC, PSSC, Sarena Cheah, Evan Cheah, Adrian Cheah, Active Equity, Sungei Way, and Sunway (collectively, "**Interested Major Unitholders of Sunway REIT**") are deemed interested in the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings.

The Interested Major Unitholders of Sunway REIT will abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting. They will also ensure that persons connected with them will abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting.

As at the LPD, EPF has a 15.7% direct interest in Sunway REIT. Furthermore, the Placement Units may be offered to EPF and/or persons connected with them. Accordingly, EPF is deemed interested in the Proposed Specific Allotment to EPF.

EPF will abstain from voting on the resolution pertaining to the Proposed Specific Allotment to EPF for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting. They will also ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Specific Allotment to EPF 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 also 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, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings. Sarena Cheah has abstained and will continue to abstain from the Board's deliberations and voting for the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings. She will also abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for her direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting. She has also undertaken to ensure that persons connected with her will abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings 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 ⁽¹⁾	80.0
PSSC	-	-	800,000 ⁽²⁾	80.0
Sarena Cheah	-	-	800,000 ⁽³⁾	80.0
Evan Cheah	-	-	800,000 ⁽⁴⁾	80.0
Adrian Cheah	-	-	800,000 ⁽⁴⁾	80.0
Active Equity	-	-	800,000 ⁽⁵⁾	80.0
Sungei Way	-	-	800,000 ⁽⁶⁾	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 Vendors. Accordingly, in view of such interests and the interests described in Section 8.1 of this Circular, the Interested Major Shareholders are deemed interested in the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings.

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

9. PERCENTAGE RATIO

The percentage ratio applicable for the Proposed Acquisition pursuant to Paragraph 10.02(g)(vi) of the Listing Requirements is approximately 5.5%, computed based on the Purchase Consideration compared with the total asset value of Sunway REIT as at 30 June 2019, being the audited total asset value of Sunway REIT at the point of execution of the SPA.

10. RELATED PARTY TRANSACTIONS

The aggregate total amount transacted between Sunway REIT and Sunway and its group of companies in the 12 months preceding the LCD is approximately RM470.4 million.

11. RECOMMENDATION BY THE DIRECTORS

The Board (save for Sarena Cheah being an interested director of the Manager who has abstained and will continue to abstain from deliberating and voting on the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings), having considered the rationale, proforma effects and all aspects of the Proposals, and the evaluation and recommendation by the Independent Adviser:

- (i) is of the opinion that the Proposals are in the best interest of Sunway REIT and its Unitholders; and
- (ii) recommends that you vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming Unitholders' Meeting.

12. RECOMMENDATION BY THE MANAGER'S AUDIT COMMITTEE

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

- (i) in the best interest of Sunway REIT;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interest of the non-interested Unitholders.

13. INDEPENDENT ADVISER

In view of the interests of the interested parties in the Proposed Acquisition, the Board has appointed AmlInvestment Bank to act as the Independent Adviser to undertake the following:

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

Further, since the Proposed Acquisition is conditional upon the Proposed Private Placement, the Independent Adviser has also provided its comments on the Proposed Private Placement in the IAL. Please refer to the IAL as set out in Part B of this Circular.

14. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals and the Proposed DRS as set out below, there are no other corporate exercises/schemes which have been announced by the Manager that are pending completion as at the LPD.

On 29 June 2020, RHB Investment Bank announced, on behalf of the Board, that the Trustee, on the recommendation of the Manager, is proposing to undertake the Proposed DRS. On 7 August 2020, RHB Investment Bank had submitted the draft circular for the Proposed DRS to Bursa Securities for their clearance which was obtained on 21 August 2020. As at the LPD, the circular to the Unitholders in relation to the Proposed DRS is available on Sunway REIT's website. The Proposed DRS is to be completed on 2 October 2020.

The Proposed Acquisition is conditional upon the completion of the Proposed Private Placement. The Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF are conditional upon the approval of the Unitholders at the forthcoming Unitholders' Meeting for the Proposed Private Placement (which includes the allotment and issuance of the Placement Units).

The Proposals are not conditional upon the Proposed DRS and/or any other corporate exercises.

15. TENTATIVE TIMETABLE

The estimated timeframe for the Proposals is as follows:

<u>Date</u>	<u>Events</u>
2 October 2020	Unitholders' Meeting to approve the Proposals
Early October 2020	Announcement of the fixing of Placement Issue Price
End October 2020	Allotment and issuance of the Placement Units
End October 2020	Listing and quotation of the Placement Units on the Main Market of Bursa Securities
End October 2020	Fulfilment of the Conditions Precedent
Mid November 2020	Completion of the Proposals

16. UNITHOLDERS' MEETING

The Unitholders' Meeting, the Notice of which is enclosed with this Circular, will be held as a fully virtual meeting through live streaming and online remote voting from the broadcast venue at the Penthouse, Level 20, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia on Friday, 2 October 2020 at 4.30 p.m., or within 20 minutes after the conclusion of the 8th AGM which is scheduled to be held at 3.30 p.m. on the same day, whichever is later, or at any adjournment thereof, to consider and, if thought fit, to pass the resolutions, with or without any modifications, to give effect to the Proposals.

You are encouraged to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders' Meeting using the RPV Facility. Please refer to the administrative details for the procedures to register, participate and vote remotely using the RPV Facility at the Unitholders' Meeting. If you are unable to participate in the Unitholders' Meeting, you may appoint a proxy or proxies to participate and vote on your behalf. In such event, you should complete and deposit the Proxy Form at the registered office of the Manager located at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia, or submit it via email to sunwaymanagement@sunway.com.my, or via fax to (603) 5639 9507, not less than 24 hours before the date and time fixed for the Unitholders' Meeting or at any adjournment thereof. The lodging of the Proxy Form shall not preclude you from participating in the Unitholders' Meeting should you subsequently wish to do so.

17. FURTHER INFORMATION

You are advised to refer to the attached appendices 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 IN RELATION TO THE
PROPOSED ACQUISITION**

EXECUTIVE SUMMARY

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 of Sunway REIT.

YOU ARE ADVISED TO READ CAREFULLY AND UNDERSTAND FULLY THE CONTENTS OF THIS IAL, WHICH IS TO BE READ IN CONJUNCTION WITH PART A OF THIS CIRCULAR AND THE ACCOMPANYING APPENDICES FOR OTHER RELEVANT INFORMATION. YOU SHOULD NOT RELY SOLELY ON THIS EXECUTIVE SUMMARY IN FORMING YOUR OPINION ON THE PROPOSED ACQUISITION.

YOU ARE ALSO ADVISED TO CAREFULLY CONSIDER THE RECOMMENDATIONS CONTAINED IN BOTH THIS IAL AND PART A OF THIS CIRCULAR BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT SUNWAY REIT’S FORTHCOMING UNITHOLDERS’ MEETING.

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

1. INTRODUCTION

On 29 June 2020, on behalf of the Board, RHB Investment Bank announced that the Trustee, proposes to, amongst others, undertake the following proposals:-

- (i) the proposed acquisition of The Pinnacle Sunway by Sunway REIT for a total cash consideration of RM450.0 million (“**Proposed Acquisition**”); and
- (ii) the proposed private placement to raise gross proceeds of up to RM710.0 million at an issue price to be determined which is to be undertaken under a general mandate for the allotment and issuance of new units in Sunway REIT to be sought at Sunway REIT’s forthcoming extraordinary general meeting (“**EGM**”).

The Trustee had on even date, entered into a SPA with Sunway Integrated Properties and Sunway Pinnacle (collectively, the “**Vendors**”) for the Proposed Acquisition.

The Board had subsequently elected to table a specific resolution for the Proposed Private Placement at the forthcoming Unitholders’ Meeting, instead of undertaking the Proposed Private Placement under a general mandate. Hence, the Vendors and the Trustee, on behalf of Sunway REIT, had entered into a supplemental letter dated 11 September 2020 to remove reference to the New Mandate being obtained in the relevant condition precedent in the SPA.

The Proposed Acquisition is conditional upon the completion of the Proposed Private Placement.

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 Proposed Acquisition is a related party transaction. Accordingly, the Board had on 23 June 2020 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 Pinnacle Sunway, the Valuer had ascribed a market value of RM450 million using the Income Approach (as defined herein). The market value of RM450 million is supported by a valuation of RM461 million derived using the Comparison Approach.</p> <p>Accordingly, we consider the Purchase Consideration for The Pinnacle Sunway as fair.</p>
Proposed Private Placement	Section 5.2	<p>We note that the proceeds raised from the Proposed Private Placement is to be utilised for, amongst others, the settlement of the RM405.0 million Balance Consideration.</p> <p>We note that the new units to be issued pursuant to the Proposed Private Placement shall be up to 20% of the total number of issued units of Sunway REIT and the issue price shall be fixed at a discount of not more than 10.0% to the 5-day VWAP of Sunway REIT before the price fixing date. The number of units and basis of setting the Placement Issue Price is akin to that of a placement undertaken through a general mandate under the Listing Requirements.</p> <p>Accordingly, we are of the opinion that the Proposed Private Placement is reasonable.</p>
Rationale for the Proposed Acquisition	Section 5.3	<p>We are of the opinion that the rationale for the Proposed Acquisition is reasonable on the following basis:-</p> <ul style="list-style-type: none"> (i) the Proposed Acquisition is expected to be earnings accretive to Sunway REIT; (ii) the Proposed Acquisition is also expected to provide Sunway REIT with a stable and sustainable income stream; (iii) 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; (iv) the Proposed Acquisition is part of Sunway REIT's continued strategy to enhances scale and synergies of its properties within the Sunway City eco-system; (v) the Proposed Acquisition also provides Sunway REIT an opportunity to increase its property portfolio strength through further diversification; and

EXECUTIVE SUMMARY (CONT'D)

Evaluation	Reference	Our evaluation
		(vi) The Pinnacle Sunway, being a Grade A office asset will broaden and be a quality addition to Sunway REIT's existing assets portfolio.
Industry outlook and future prospects	Section 5.4	<p>We note the current uncertainties of the Malaysian economy along the Covid-19 pandemic that continues to disrupt lives, economies and societies globally, we take cognisance that rental rates and occupancy levels of office buildings in Malaysia, especially within Klang Valley may experience downwards pressure in the near term.</p> <p>We also note that such near term factors could be mitigated with the recent cut in overnight policy rate to 1.75% in July 2020 and the economic stimulus packages launched by the Government.</p> <p>At the Material Date of Valuation, The Pinnacle Sunway is fully tenanted. The Pinnacle Sunway is a Grade A, GBI-certified and MSC-status office building, located strategically within the integrated township development of Sunway City.</p> <p>As Sunway REIT's is granted the right of first refusal to acquire The Pinnacle Sunway, which is earning accretive and is in line with the REIT's deed, the Proposed Acquisition presents a long term benefit to Sunway REIT. Barring any unforeseen circumstances, the prospects of The Pinnacle Sunway to Sunway REIT should be generally positive.</p>
Effects of the Proposed Acquisition	Section 5.5	<p>The Proposed Acquisition is conditional upon the completion of the Proposed Private Placement. The effects of the Proposed Acquisition together with the basis and assumptions are detailed in Section 5.5 of this IAL.</p> <p>The Proposed Acquisition will not have any effect on the unitholders' capital and their equity in Sunway REIT. The Proposed Acquisition is not expected to have a material effect on the earnings, EPU, DPU, NAV and NAV per unit of Sunway REIT for the FYE 30 June 2021.</p> <p>The Proposed Private Placement will increase Sunway REIT's unitholders' capital from the existing RM2.73 billion (2.95 billion units) to RM3.43 billion (3.4 billion units). The gearing of the Sunway REIT will also reduce from 40.7% as at 30 June 2020 to 37.6% upon completion of the Proposed Private Placement and Proposed Acquisition. Sunway REIT's unit holders who do not participate in the placement will have their percentage equity interest diluted accordingly. The Proposed Private placement is expected to increase Sunway REIT's NAV to RM5.14 billion from RM4.43 billion.</p>

EXECUTIVE SUMMARY (CONT'D)

Evaluation	Reference	Our evaluation
		<p>Based on the funding parameters as set out in Section 2.1.3 Part A of this Circular, the Proposed Acquisition and the expected incremental income arising from the expansion of the Sunway Carnival Mall are expected to contribute to the earnings of Sunway REIT by an additional approximately RM43.19 million or DPU of 0.26 sen per annum.</p> <p>Premised on the above, the Proposed Acquisition should contribute positively to the financials of Sunway REIT going forward.</p>
Risk factors relating to the Proposed Acquisition	Section 5.6	<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	Section 5.7	<p>Based on our review of the salient terms of the SPA, we are of the opinion that the overall terms of the SPA 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 Sunway REIT's 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 SUNWAY REIT'S FORTHCOMING UNITHOLDERS' MEETING.



17 September 2020

To: The Non-Interested Unitholders of Sunway Real Estate Investment Trust

Dear Sir / Madam,

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED UNITHOLDERS OF SUNWAY REAL ESTATE INVESTMENT TRUST (“SUNWAY REIT”) IN RELATION TO THE PROPOSED ACQUISITION

This IAL is prepared for inclusion in the circular to the unitholders of Sunway REIT dated 17 September 2020 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 29 June 2020, on behalf of the Board, RHB Investment Bank announced that the Trustee, proposes to, amongst others, undertake the following proposals:-

- (i) the proposed acquisition of The Pinnacle Sunway by Sunway REIT for a total cash consideration of RM450.0 million (“**Proposed Acquisition**”); and
- (ii) the proposed private placement to raise gross proceeds of up to RM710.0 million at an issue price to be determined which is to be undertaken under a general mandate for the allotment and issuance of new units in Sunway REIT to be sought at Sunway REIT’s forthcoming EGM.

The Trustee had on even date, entered into a SPA with Sunway Integrated Properties and Sunway Pinnacle (collectively, the “**Vendors**”) for the Proposed Acquisition.

The Board had subsequently elected to table a specific resolution for the Proposed Private Placement at the forthcoming Unitholders’ Meeting, instead of undertaking the Proposed Private Placement under a general mandate. Hence, the Vendors and the Trustee, on behalf of Sunway REIT, had entered into a supplemental letter dated 11 September 2020 to remove reference to the New Mandate being obtained in the relevant condition precedent in the SPA.

The Pinnacle Sunway is a 24-storey Grade A, GBI-certified and MSC-status office building with three-storey of mezzanine floors and six levels of basement car park located within the integrated township development of Sunway City. Please refer to Section 2.1.1, Part A of this Circular for further information on The Pinnacle Sunway.

The Proposed Acquisition is conditional upon the completion of the Proposed Private Placement.

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 Proposed Acquisition is a related party transaction. Accordingly, the Board had on 23 June 2020 appointed AmInvestment Bank to act as the Independent Adviser in relation to the Proposed Acquisition.

The purposes of this IAL are to provide the 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 and should not be used or relied upon by any other party for any other purpose whatsoever. 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 Sunway REIT's 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 SUNWAY REIT'S FORTHCOMING UNITHOLDERS' MEETING.

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 was not involved in any negotiation, discussion or formulation of the Proposed Acquisition and/or any deliberations and negotiations pertaining to the terms and conditions of the Proposed Acquisition. Our terms of reference as an independent adviser is limited to expressing an independent evaluation of the Proposed Acquisition as per the requirements of Paragraph 16.06(d) of the Listing Requirements.

In performing our evaluation, we have relied on the following:-

- (a) information contained in the SPA;
- (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 Pinnacle Sunway;
- (d) discussions with and other relevant information, furnished to us by the Manager and the Valuer (both orally and in writing); and
- (e) other publicly available information which we are aware of and deemed relevant.

We have also relied on the Manager's Directors and its management to take due care in ensuring the aforementioned information, documents and representations provided to us in facilitating our evaluation are accurate, valid and complete in all material respects. We have performed reasonableness check through review on the aforementioned information provided to us and where possible, corroborating such information with independent sources. We wish to highlight that we have not undertaken an investigation and/or audit on the aforementioned information provided to us. As at the date of this IAL, we have no reason to believe that the aforesaid information/documents provided to us are unreliable, incomplete, misleading and/or inaccurate. As at the date of this IAL, we believe that the aforesaid information/documents provided to us are accurate, complete and free from material omission.

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

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 date of this IAL. Thus, our opinion expressed herein shall hold only in so far as the information supplied to us or which are available to us as at the date hereof remain accurate and consistent. It should be noted that conditions may change significantly over a short period of time; and that our evaluation and opinion expressed in this IAL do not take into account the information, events or conditions arising after the date of this IAL or such other period as specified herein, as the case may be.

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 (as set out in the ensuing sections of this IAL) which we believe are important in enabling us to form an opinion on the fairness and reasonableness of the Proposed Acquisition so far as Sunway REIT's unitholders are concerned, and whether it is to the detriment of Sunway REIT's unitholders. We wish to emphasise that our role as Independent Adviser does not extend to rendering an expert opinion on legal, accounting and tax positions and/or any particular needs of any individual unitholder or any specific group of 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.

Accordingly, 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. We advise any individual unitholder or group of unitholders who has any doubt about the Proposed Acquisition to consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers immediately.

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

3.1 CONFLICT OF INTEREST

AmInvestment Bank, our related and associated companies, as well as our holding company, AMMB Holdings Berhad and the subsidiaries and associated companies of our holding company ("**AmBank Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses.

In the ordinary course of AmBank Group's businesses, any member of 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 our own account or the account of our 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 our clients now have or in the future, may have interests or take actions that may conflict with the interests of Sunway REIT.

As at 28 August 2020, being the latest practicable date ("LPD") prior to the date of this IAL, AmBank Group has extended credit facilities of RM725.0 million to Sunway Berhad and its group of companies ("Sunway Group").

Save for the Proposed Acquisition and the acquisition of land and buildings from Sunway Destiny Sdn. Bhd. as set out in Section 3.2(d), we have not acted as Principal Adviser and Independent Adviser to or having any professional relationship with Sunway REIT in the past two (2) years up to LPD.

AmInvestment Bank is of the view that our role as the Independent Adviser for the Proposed Acquisition is not likely to result in a conflict of interest or potential conflict of interest situation for the following reasons:-

- (a) AmInvestment Bank's role in the Proposed Acquisition is undertaken in the ordinary course of business; and
- (b) AmInvestment Bank undertakes each of our roles on an arm's length basis and our conduct is regulated by Bank Negara Malaysia and the Securities Commission Malaysia and governed under, inter alia, the Financial Services Act 2013, the Capital Markets and Services Act 2007, and AmBank Group's Chinese Wall policy and internal controls and checks.

Premised on the above, AmInvestment Bank confirms that we are not aware of any conflict of interest which exist or is likely to exist in our capacity as the Independent Adviser 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.

Our credentials and experience as an independent adviser in the past two (2) years prior to the date of the Proposed Acquisition, amongst others, the following:-

- (i) withdrawal of SIG Gases Berhad from the Official List of Bursa Securities, which was announced on 9 July 2020;
- (ii) unconditional voluntary take-over by YTL Cement Berhad through Maybank Investment Bank Berhad, to acquire all the remaining ordinary shares in Lafarge Malaysia Berhad not already owned by YTL Cement Berhad, which was announced on 2 May 2019;
- (ii) utilisation of transponder capacity on the MEASAT-3d Satellite by Measat Broadcast Network Systems Sdn Bhd, a wholly-owned subsidiary of Astro Malaysia Holdings Berhad and early termination of the M3b 2018 agreement for a total consideration USD360.0 million, which was announced on 18 April 2019;

- (iii) acquisition by RHB Trustees Berhad for Sunway REIT of 3 parcels of leasehold land in the Town of Sunway, District of Petaling, State of Selangor, 3 academic blocks, 4 blocks of hostel apartment, and a sport facility from Sunway Destiny Sdn. Bhd., an indirect wholly-owned subsidiary of Sunway Berhad for a purchase consideration of RM550.0 million, which was announced on 24 December 2018;
- (iv) voluntary withdrawal of Hovid Berhad's listing from the Main Market of Bursa Malaysia; which was announced on 14 September 2018; and
- (v) conditional voluntary take-over by Fajar Astoria Sdn Bhd and David Ho Sue San 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.

Premised on the foregoing, we are capable and competent and have the relevant experience in carrying 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, MAJOR SHAREHOLDERS AND CHIEF EXECUTIVE OF THE MANAGER AND/OR MAJOR UNITHOLDERS AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the directors, major shareholders and chief executive of the Manager and/or Major Unitholders, and/or persons connected with them ("**Interested Parties**") have any interest, direct or indirect, in the Proposed Acquisition, Proposed Private Placement and allocation of placement units under the Proposed Private Placement to Interested Parties.

(i) Interested Major Unitholders

As at the LPD, Sunway has a 100% indirect interest in Sunway REIT Holdings (which has a 40.9% direct interest in Sunway REIT) and a 100% indirect interest in the Vendors (via its wholly-owned subsidiary, namely SunCity). Furthermore, the Placement Units may be offered to Sunway REIT Holdings. Accordingly, Sunway REIT Holdings, TSJC, PSSC, Sarena Cheah, Evan Cheah, Adrian Cheah, Active Equity, Sungei Way, and Sunway (collectively, "**Interested Major Unitholders of Sunway REIT**") are deemed interested in the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings.

The details of the unitholdings of the Interested Major Unitholders of Sunway REIT as at the LPD are as follows:-

<u>Unitholder</u>	<u>Direct</u>		<u>Indirect</u>	
	<u>No. of units</u>	<u>%</u>	<u>No. of units</u>	<u>%</u>
Sunway REIT Holdings	1,204,078,565	40.9	-	-
Employees Provident Fund Board (" EPF ")	463,332,400	15.7	-	-
TSJC	-	-	1,204,078,565 ⁽¹⁾	40.9
PSSC	-	-	1,204,078,565 ⁽²⁾	40.9
Sarena Cheah	-	-	1,204,081,565 ⁽³⁾	40.9
Evan Cheah	-	-	1,204,078,565 ⁽¹⁾	40.9
Adrian Cheah	-	-	1,204,078,565 ⁽¹⁾	40.9
Active Equity	-	-	1,204,078,565 ⁽⁴⁾	40.9
Sungei Way	-	-	1,204,078,565 ⁽⁵⁾	40.9
Sunway	-	-	1,204,078,565 ⁽⁶⁾	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 and spouse.
- (4) Deemed interest by virtue of Section 8 of the Act held through Sungei Way, Sunway and Sunway REIT Holdings.
- (5) Deemed interest by virtue of Section 8 of the Act held through Sunway and Sunway REIT Holdings.
- (6) Deemed interested by virtue of Section 8 of the Act held through Sunway REIT Holdings.

The Interested Major Unitholders of Sunway REIT will abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for their direct and/or indirect unitholdings in Sunway REIT at the Unitholders' Meeting. They will also ensure that persons connected with them will abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting.

As at the LPD, EPF has a 15.7% direct interest in Sunway REIT. Furthermore, the Placement Units may be offered to EPF and/or persons connected with them. Accordingly, EPF is deemed interested in the Proposed Specific Allotment to EPF.

EPF will abstain from voting on the resolution pertaining to the Proposed Specific Allotment to EPF for their direct unitholdings in Sunway REIT at the Unitholders' Meeting. They will also ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Specific Allotment to EPF for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting.

(ii) 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.

Accordingly, Sarena Cheah is deemed interested in the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings. Sarena Cheah has abstained and will continue to abstain from the Board's deliberations and voting for the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings. She will also abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings 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 resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders' Meeting.

(iii) 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 ⁽¹⁾	80.0
PSSC	-	-	800,000 ⁽²⁾	80.0
Sarena Cheah	-	-	800,000 ⁽³⁾	80.0
Evan Cheah	-	-	800,000 ⁽⁴⁾	80.0
Adrian Cheah	-	-	800,000 ⁽⁴⁾	80.0
Active Equity	-	-	800,000 ⁽⁵⁾	80.0
Sungei Way	-	-	800,000 ⁽⁶⁾	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 Vendors. Accordingly, in view of such interests and the interests described in Section 8.1 of this Circular, the Interested Major Shareholders are deemed interested in the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings.

The Interested Major Shareholders will abstain from voting on the resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings 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 resolutions pertaining to the Proposed Acquisition, Proposed Private Placement and Proposed Specific Allotment to Sunway REIT Holdings for their direct and/or indirect unitholdings (if any) in Sunway REIT at the Unitholders’ Meeting.

The information set out herein is extracted from the main Circular. We have not verified the letters from Interested Major Unitholders, Interested Director of the Manager and Interest Major Shareholders of the Manager.

5. EVALUATION OF THE PROPOSED ACQUISITION

The Proposed Acquisition entails the acquisition of the Land from Sunway Integrated Properties and the Building from Sunway Pinnacle.

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.

5.1 BASIS AND JUSTIFICATION FOR THE PURCHASE CONSIDERATION

The Purchase Consideration for The Pinnacle Sunway of RM450.0 million is derived based on the market value of The Pinnacle Sunway as ascribed by Knight Frank Malaysia Sdn. Bhd., being the independent registered valuer jointly appointed by Sunway and the Trustee. For the Proposed Acquisition, the Valuer has issued its valuation report dated 6 July 2020 of which the findings are summarised in the Valuation Certificate enclosed in **Appendix III** of this Circular.

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.

We note that the Valuer had used the Income Approach by Discounted Cash Flow Method (“**Income Approach**”) as the principal valuation methodology to derive the market value of The Pinnacle Sunway. The Comparison Approach was also used to cross check the RM450.0 million valuation for The Pinnacle Sunway derived from the Income Approach.

The Valuer had adopted the following stance:-

- (a) the Covid-19 pandemic has caused market uncertainty at the material date of valuation, 1 June 2020 (“**Material Date of Valuation**”), with no guiding evidence to reflect the current market circumstances;
- (b) key drivers (parameters affecting valuation such as capitalisation rate, discount rate, revenue and expenses growth rates) to commercial property values typically reflect a medium to long-term outlook and in the Valuer’s opinion, the impact of the pandemic will be transitory; and
- (c) with no evidence to the contrary, for the valuation, the Valuer had retained the core market value drivers indicated by the pre-March 2020 market evidences and made capital value adjustments (not in perpetuity) to reflect anticipated circumstances, such as longer letting up periods.

The valuation of The Pinnacle Sunway derived from the two valuation methodologies is summarised as follow:-

Valuation approach	Valuation	Section
Income Approach	RM450.0 million	5.1.1
Comparison Approach	RM461.0 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:-

- (a) that The Pinnacle Sunway is an income generating asset with relatively consistent income stream based on its existing tenancies and lease agreements; and
- (b) the resultant net income is capitalised into market value at a capitalisation rate which reflects the expected return on the investment and commensurate with the risk exposure of The Pinnacle Sunway.

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

5.1.1 Income Approach

The Income Approach by discounted cash flows method entails the estimation of future annual cash flows over a 10-year investment horizon from the valuation date by reference to expected revenue growth rates, operating expenses and The Pinnacle Sunway is sold at the commencement of the terminal year of the cash flow. The present value of future cash flow is then determined by the application of an appropriate discount rate to derive a net present value of The Pinnacle Sunway.

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

(a) Office Building

- **Projected Gross Rental Revenue**

The Pinnacle Sunway has 576,864 square feet of net lettable area. The Valuer had used a starting rental rate (at year 0) of RM5.20 per square feet (“**psf**”) after considering:-

- (i) the actual average concluded office and retail rental rates of The Pinnacle Sunway from the respective committed tenancy agreement(s) are approximately at RM5.21 psf and RM5.57 psf respectively;
- (ii) asking rental of The Pinnacle Sunway of approximately RM6.00 psf; and
- (iii) other concluded and asking rentals of selected comparative office building(s) ranging between RM4.80 to RM6.00 psf.

Historically and up to the Material Date of Valuation, the Valuer noted The Pinnacle Sunway is 100% occupied and has a good tenancy profile had not given any rent rebates, and opined that The Pinnacle Sunway will remain resilient moving forward. Notwithstanding this, the Valuer opined that the rental growth to be flat for one year and rental growth to return beginning FYE 2022. As such, the Valuer had inputted no increment growth for year one and 2.0% in year two (2.5% in year three, 3.0% in year four, 3.5% in year 5, 4.0% in year six onwards).

The Valuer had also considered rental rebates and abatement to cater for the impact of the Covid-19 pandemic. The Valuer had imputed a 1 month rent rebate for year 1 and 2 for existing committed tenancies. The Valuer further used rent rebates of 3.00% for years 1 to 5, and rent rebates 1.50% for years 6 to 10.

The Valuer had used a gross rental growth rate representing a 9-year CAGR of 2.82% per annum over the course of the holding period. In arriving the growth rate, the Valuer had amongst others, considered the current market condition affected by the Covid-19 pandemic, The Pinnacle Sunway's actual historical growth trend at a 3-year compounding annual growth rate ("CAGR") of 2.60% and upward rental revision of tenancies renewals in March 2020 to May 2020 at 8.70%. The Valuer had also benchmarked against other selected office buildings in the surrounding locality with a CAGR of 2.50% over a 2-year period up to 2019.

Thus, we are of the opinion that the projected gross rental revenue is fair.

- **Projected Other Incomes**

Other incomes include rental receivable from storage area, automated teller machine ("ATM"), antenna and provision of maintenance / repair works on The Pinnacle Sunway. At the date of valuation, 3 of 10 storage areas have been let out with tenancies expiring in 2nd half of 2021.

The Valuer had considered a staggered letting up of storage area across the holding period with a starting rental (at year 0) of RM1.50 psf. Based on Sunway Pinnacle's existing tenancy agreements entered, storage area is currently rented at RM3.00 psf and above.

Due to the Covid-19 impact, the Valuer opined that the growth projections for other income is in tandem with the rental growth projections for The Pinnacle Sunway's office and retail segment, as such the Valuer had not included other income increment for the immediate term (year one), however, from year two onwards, the Valuer had projected a gradual increment in anticipation of a gradual market recovery (2.0% in year 2, 2.5% in year 3, 3.0% in year 4, 3.5% in year 5, 4.0% in year 6 onwards).

The Valuer had used a projected other income growth rate representing a 9-year CAGR of 3.02% per annum after having considered the current market condition coupled by The Pinnacle Sunway actual historical CAGR of 3.39%.

Thus, we are of the opinion that the projected other incomes are fair.

- **Occupancy Rate**

As at the Material Date of Valuation, The Pinnacle Sunway is 100% occupied.

Nonetheless, the Valuer had considered a potential rent loss (occupancy drop-off during upcoming renewals from the existing tenancies expiring in FYE2020, FYE2021 and FYE2022 due to current market uncertainties). The Valuer had projected lower occupancy rates of 96.5% at year 1, 91.89% at year 2 and 95.23% at year 3. Thereafter, the occupancy rate increases to 100% from year 4 onwards.

Thus, we are of the opinion that the projected occupancy rates over the lease term are fair.

- **Projected Outgoings**

The Valuer had relied on the historical outgoings of The Pinnacle Sunway from FYE2017 to the financial period ended 30 April 2020 ranging from RM1.10 psf to RM1.18 psf. The Valuer had also considered outgoings of other selected office buildings in Klang Valley which ranged from RM1.04 psf to RM1.74 psf. The Valuer had used a projected outgoing of RM1.25 psf.

The Valuer projected outgoings to grow at 2.39% per annum over the course of the holding period after considering the outgoings inflation rate of 0.9% in the 1st quarter of 2020.

Thus, we are of the opinion that the projected outgoings is fair.

- **Void Allowance**

For the past 4 years up to the Material Date of Valuation, The Pinnacle Sunway had achieved more than 95% occupancy rate. Nonetheless, the Valuer considered factors such as unforeseen vacancies, possible rent-free periods, fitting out periods and possibility of bad debts, and opined that a void allowance of 5.00% of the projected annual income as a fair representation.

Based on The Pinnacle Sunway's past records, we are of the opinion that the projected void allowance is fair.

- **Terminal Yield / Capitalisation Rate**

The Valuer used a terminal yield / capitalisation rate of 6.25% after considering the current low interest rate environment. Historically, transacted yields of office assets in Klang Valley were in the region of about 4.66% to 6.00%.

Based on the above, we are of the opinion that the applied terminal yield / capitalisation rate of 6.25% is fair.

- **Discount Rate (Present Value)**

The Valuer had opined a discount rate of 8.00% after considering the prevailing 10-year risk free interest as well additional risk premiums associated with the asset class which included amongst others, perceived risk of market uncertainty and lack of liquidity associated with the property which is in line with the Malaysian Valuation Standards.

We note that the discount rate of 8.00% is higher than Sunway REIT's weighted average cost of capital ("WACC") of 4.6% as at LPD (*Source: Bloomberg*). Accordingly, we are of the opinion that the adopted discount rate is fair.

(b) Car Park

- **Revenue**

As at 1 June 2020, The Pinnacle Sunway has 855 car park bays. The Valuer had used a monthly collectable income per car park bay of RM210 in year 1. Historically, The Pinnacle Sunway had averaged a monthly carpark revenue per bay of RM188 (FYE2017), RM211 (FYE2018) and RM230 (FYE2019). The Valuer had benchmarked the average car park revenue of other car parks in other selected commercial building(s) in Bandar Sunway which ranges from RM165 per bay/month to RM290 per bay/month.

The Valuer had used a car park revenue growth rate of 7.75% per annum up to year 10 after considering the current market condition (no increment in year one, 5.0% per annum from year two to year five and thereafter 10.0% per annum throughout the holding period) coupled with its actual historical growth trend of 10.66% for the past five years (FYE 2015 – FYE 2019).

Due to the Covid-19 impact, the Valuer opined that the growth projections for Car Park is in tandem with the rental growth projections for The Pinnacle Sunway's office and retail segment. The Valuer had also opined that the outlook for revenue growth projection of Car Park to be resilient and stable throughout the holding period.

Thus, we are of the opinion that the projected carpark revenue is fair.

- **Operating Expenses**

The Valuer had assumed car park operating expenses of 25% of the gross revenue after benchmarking the operating expenses of other selected office buildings located within Klang Valley which ranges from 15% to 40% of revenue.

Thus, we are of the opinion that the operating expense is fair.

- **Void Allowance**

Similar to the Office Building, the Valuer had assumed a 5% void allowance of the projected annual income. We are of the opinion that the void allowance is fair.

- **Terminal Yield / Capitalisation Rate**

We note that the Valuer had used a terminal yield / capitalisation rate of 6.25% which is similar to those adopted for the Office Building. This is fair given that the risk profile for the Car Park is similar to the Office Building.

- **Discount Rate (Present Value)**

The Valuer had used the same discount rate of 8.00% for the Car park as used for the Office Building. This is fair given that the risk profile for the Car Park is similar to the Office Building.

Based on the Income Approach and the above parameters, the Valuer ascribed a valuation of RM450.0 million to The Pinnacle Sunway. Accordingly, we consider the valuation of RM450.0 million for The Pinnacle Sunway as fair.

5.1.2 Comparison Approach

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

The Comparison Approach entails the comparison of The Pinnacle Sunway with similar properties that were sold and rented recently. The characteristics, merits and demerits of these properties are noted and appropriate adjustments thereof are then made to arrive at the value of the subject property. Based on discussions with the Valuer on their basis and rationale of such adjustments, we are of the opinion that they are reasonable.

Set out below are information of sale evidences used in the Comparison Approach for valuing The Pinnacle Sunway's offices and car parks.

(a) **Comparable office buildings**

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Address	Menara Guoco, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	Tower 7, Avenue 3, The Horizon Phase 1, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	The Ascent @ Paradigm, No.1, Jalan SS7/26A, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan
Description	A stratified 19-storey office building	A stratified 11-storey office building with a lower ground floor (formerly known as “Nexgram Tower”)	A stratified 32-storey corporate office tower which include retail lots, a concourse level and office space together with elevated car park which comprises 865 car park bays
Tenure	Interest in perpetuity	Leasehold interest for a term of 99 years, expiring on 16 August 2106	Leasehold interest for a term of 99 years, expiring on 9 February 2111
Aged of Property	Approximately 2 years	Approximately 10 years	Approximately 2 years
Net Lettable Area	232,133 sq ft	79,347 sq ft	516,633 sq ft
Date of Announcement / Transaction	2 March 2020	3 January 2019	23 February 2017
Consideration	RM242,100,000 or RM1,042.94 psf	RM67,000,000 or RM844.39 psf	RM321,000,000 * or RM621.33 psf
Adjustments made by the Valuer (see below for details)	<ul style="list-style-type: none">• Prevailing market condition (-5%)• Location (-5%)• Net lettable area (-5%)• Tenure (-10%)• Condition/Age of building (-10%)• Strata (+5%)	<ul style="list-style-type: none">• Prevailing market condition (-5%)• Net lettable area (-30%)• Occupancy (+10%)• Tenure (-5%)• Layout (+5%)• Condition/Age of building (+5%)• Strata (+5%)• MSC accreditation/grade classification (+5%)	<ul style="list-style-type: none">• Prevailing market condition (-5%)• Location (+10%)• Accessibility (+10%)• Occupancy (+10%)• Tenure (-5%)• Layout (+5%)• Condition/Age of building (-10%)• Strata (+5%)• Sale and leaseback arrangement (-5%)• MSC accreditation/grade classification (+5%)
Adjusted Value	RM743.09 psf	RM762.06 psf	RM737.83 psf

Note:-

* Excluding car park value of approximately RM30,058 per bay.

Valuation adjustments for comparable office buildings

We note that the Valuer had made net adjustments of -25% for Comparable 1, -5% for Comparable 2 and +25% for Comparable 3. A summary of the rationale of the said adjustments is as follows:-

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Prevailing market condition	The Valuer considered Comparable 1 to be a recent transaction (March 2020), however, in view of the current market uncertainty due to the pandemic, a downward adjustment is made for prevailing market condition	The Valuer considered Comparable 2 to be a relatively recent sale transaction, however, in view of the current market uncertainty due to the pandemic, a downward adjustment is made for prevailing market condition	The Valuer considered Comparable 3 to be a dated sale transaction, thus, an upward adjustment should have been considered for improved market condition since year 2017, however, in view of the current market uncertainty due to the pandemic, a further downward adjustment is made for prevailing market condition
Location	A downward adjustment is made as Comparable 1 is located in an arguably more superior location with better location characteristics as compared to The Pinnacle Sunway	Comparable to The Pinnacle Sunway	An upward adjustment is made as The Pinnacle Sunway is situated in an area arguably more superior with better location characteristics as compared to Comparable 3
Accessibility	Comparable to The Pinnacle Sunway	Comparable to The Pinnacle Sunway	An upward adjustment is made as The Pinnacle Sunway is located in an establishment with better road and public transportation connectivity and supporting amenities as compared to Comparable 3
Net Lettable Area	A downward adjustment is made as Comparable 1 has a smaller net lettable area	A downward adjustment is made as Comparable 2 has a much smaller net lettable area	Comparable to The Pinnacle Sunway
Occupancy	Comparable to The Pinnacle Sunway	An upward adjustment is made as Comparable 2 commands a lower occupancy compared to The Pinnacle Sunway which is fully occupied	An upward adjustment is made as Comparable 3 commands a lower occupancy compared to The Pinnacle Sunway which is fully occupied
Tenure	A downward adjustment is made as Comparable 1 conveys interest in perpetuity	A downward adjustment is made as The Pinnacle Sunway conveys a shorter term of unexpired leasehold interest	A downward adjustment is made as The Pinnacle Sunway conveys a shorter term of unexpired leasehold interest

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Layout	Comparable to The Pinnacle Sunway	An upward adjustment is made as The Pinnacle Sunway is considered to be of better quality and design and well equipped supporting facilities as compared to Comparable 2	An upward adjustment is made as The Pinnacle Sunway is considered to be of better quality and design and well equipped supporting facilities as compared to the Comparable 3
Condition/Age of Building	A downward adjustment is made as Comparable 1 is of a newer building (2 years of age) with relatively similar condition as compared to The Pinnacle Sunway (6.5 years of age)	An upward adjustment is made as Comparable 2 is an older building (10 years of age) with relatively similar condition as compared to The Pinnacle Sunway (6.5 years of age)	A downward adjustment is made as Comparable 3 is of a newer building (2 years of age) with relatively similar condition as compared to The Pinnacle Sunway (6.5 years of age)
Strata	An upward adjustment is made as The Pinnacle Sunway is a standalone office building with individual title as compared to Comparable 1 of being a stratified enbloc office building	An upward adjustment is made as The Pinnacle Sunway is a standalone office building with individual title as compared to Comparable 2 of being a stratified enbloc office building	An upward adjustment is made as The Pinnacle Sunway is a standalone office building with individual title as compared to Comparable 3 of being a stratified enbloc office building
Sale and Leaseback Arrangement	Comparable to The Pinnacle Sunway	Comparable to The Pinnacle Sunway	A downward adjustment is made as Comparable 3 is transacted with sale and leaseback arrangement for 15 years based on a guaranteed investment yield of 6% -7% per annum
MSC Accreditation/Grade Classification	Comparable to Pinnacle Sunway	An upward adjustment is made as The Pinnacle Sunway is a dual compliant (GBI and MSC) accredited building as compared to Comparable 2 of having MSC status only	An upward adjustment is made as The Pinnacle Sunway is a dual compliant (GBI and MSC) accredited building as compared to Comparable 3 of having MSC status only

(Source: Valuation Report)

The Valuer had placed greater reliance on Comparable 1 after taking into consideration various factors, amongst others, when the transaction took place, the location, occupancy, condition/age of the building, layout, MSC accreditation/grade classifications; after which, the Valuer noted Comparable 1 is the latest transaction with the least dissimilarities and considered Comparable 1's adjusted value of RM743.09 psf as fair representation of the Office Building. The Valuer had derived a value of RM429 million for its valuation of the Office Building by multiplying The Pinnacle Sunway's net lettable area of 576,864 square feet with the abovementioned adjusted value of RM743.09 psf.

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

(b) Comparable car parks

	Comparable CP 1	Comparable CP 2	Comparable CP 3
Type of Property	1,216 car parking bays located within Pacific Towers, Jalan 13/6, Section 13, 46200 Petaling Jaya, Selangor Darul Ehsan	865 designated car parking bays located within The Ascent @ Paradigm, No. 1, Jalan SS7/26A, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan	1,638 designated car parking bays located within da:mén USJ Shopping Mall, No. 1, Persiaran Kewajipan, USJ 1, Subang Jaya, Selangor Darul Ehsan
Tenure	Leasehold interest for a term of 99 years, expiring on 21 May 2112	Leasehold interest for a term of 99 years, expiring on 9 February 2111	Interest in perpetuity
Date of Announcement / Transaction	15 October 2019	23 February 2017	17 September 2015
Estimated Consideration	RM44,161 per bay	RM30,058 per bay	RM34,000 per bay
Adjustments made by the Valuer (see below for details)	<ul style="list-style-type: none"> • Prevailing market condition (-5%) • Location (-10%) • Integrated development/ establishment (+5%) • Tenure (-5%) 	<ul style="list-style-type: none"> • Prevailing market condition (-5%) • Location (+10%) • Integrated development/ establishment (+10%) • Tenure (-5%) 	<ul style="list-style-type: none"> • Prevailing market condition (-5%) • Location (+10%) • Integrated development/ establishment (+10%) • Tenure (-10%)
Adjusted Value	RM37,758 per bay	RM32,838 per bay	RM35,530 per bay

Valuation adjustments for car parks

We note that the Valuer had made net adjustments of -10% for Comparable CP 1, +15% for Comparable CP 2 and +10% for Comparable CP 3. A summary of the rationale of the said adjustments is as follows:-

	<u>Comparable CP 1</u>	<u>Comparable CP 2</u>	<u>Comparable CP 3</u>
Prevailing market condition	That Valuer considered Comparable 1 to be a recent transaction (October 2019), however, in view of the current market uncertainty due to the pandemic, a further downward adjustment is made for prevailing market condition	The Valuer considered Comparable 2 to be a dated sale transaction, thus, an upward adjustment should have been considered for improved market condition since year 2017, however, in view of the current market uncertainty due to the pandemic, a further downward adjustment is made for prevailing market condition	The Valuer considered Comparable 3 to be a dated sale transaction, thus, an upward adjustment should have been considered for improved market condition since year 2015, however, in view of the current market uncertainty due to the pandemic, a further downward adjustment is made for prevailing market condition
Location	A downward adjustment is made as Comparable CP 1 is situated in an area arguably more superior with better locational characteristics as compared to The Pinnacle Sunway	An upward adjustment is made as The Pinnacle Sunway is situated in an area arguably more superior with better locational characteristics as compared to Comparable CP 2	An upward adjustment is made as The Pinnacle Sunway is situated in an area arguably more superior with better locational characteristics as compared to Comparable CP 3
Integrated Development / Establishment	An upward adjustment is made as The Pinnacle Sunway forms part of an establishment arguably more matured and well patronised as compared to Comparable CP 1	An upward adjustment is made as The Pinnacle Sunway forms part of an establishment arguably more matured and well patronised as compared to Comparable CP 2	An upward adjustment is made as The Pinnacle Sunway forms part of an establishment arguably more matured and well patronised as compared to Comparable CP 3
Tenure	A downward adjustment is made as The Pinnacle Sunway conveys a shorter term of unexpired leasehold interest	A downward adjustment is made as The Pinnacle Sunway conveys a shorter term of unexpired leasehold interest	A downward adjustment is made as Comparable CP 3 conveys interest in perpetuity

(Source: Valuation Report)

The Valuer had placed greater reliance on Comparable CP 1 after taking into consideration various factors, amongst others, when the transaction took place, the location, prevailing market conditions, tenure; after which, the Valuer noted that Comparable CP1 is the latest transaction with the least dissimilarities and considers Comparable CP 1's adjusted value of RM37,758 per bay as fair representation of the Car park. The Valuer had derived a value of RM32 million for its valuation of the Car Park by multiplying The Pinnacle Sunway's 855 bays with the abovementioned adjusted value of RM37,758 per bay.

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

Set out below is the total value of the Office Building and Car Park using the Comparison Approach.

	<u>Amount</u>
Office Building	RM429 million
Car Park	RM32 million
Total valuation using Comparison Approach	<u>RM461 million</u>

5.1.3 Summary

<u>Valuation approach for The Pinnacle Sunway</u>	<u>Derived value</u>
Income Approach	RM450 million
Comparison Approach	RM461 million

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

5.2 PROPOSED PRIVATE PLACEMENT

We take cognisance of the details of the Proposed Private Placement as set out in Section 2.2, Part A of this Circular, and that the Proposed Acquisition is conditional upon the completion of the Proposed Private Placement.

We note that the Sunway REIT proposes to seek unitholders' approval for the Proposed Private Placement at its forthcoming EGM. The Proposed Private Placement is also to be carried out via a bookbuilding exercise at a later stage. We also note that the Placement Units may be allocated to some major unitholders and/or persons connected with them as detailed in Section 2.2.3 Part A of this Circular.

We note that the proceeds raised from the Proposed Private Placement is to be utilised for, amongst others, the settlement of the RM405.0 million Balance Consideration in relation to the Proposed Acquisition; and for capital expenditure for the expansion of Sunway REIT's Sunway Carnival Mall.

We note that the new units to be issued pursuant to the Proposed Private Placement will be dependent on the Placement Issue Price to be determined after the bookbuilding exercise. We further note that new units to be issued pursuant to the Proposed Private Placement shall be up to 20% of the total number of issued units of Sunway REIT and the Placement Issue Price shall be fixed at a discount of not more than 10.0% to the 5-day VWAP of Sunway REIT before the price fixing date. The number of units and basis of setting the Placement Issue Price is akin to that of a placement undertaken through a general mandate under the Listing Requirements.

We also note that Sunway REIT will be seeking its unitholders' approval for the proposed allocation of Placement Units to its major shareholders and connected persons including Sunway REIT Holdings and EPF.

Premised on the above, we are of the opinion that the Proposed Private Placement is reasonable.

5.3 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) Quality addition of a Grade A office asset with reputable tenants to Sunway REIT's portfolio

The Pinnacle Sunway as at the Material Date of Valuation is 100% occupied and is rented to tenants operating in a diverse mix of sectors such as, technology and telecommunication, oil & gas and chemical development and pharmaceutical. We note that the diverse tenant sector mix may assist Sunway REIT's cash flow stability by mitigating the effect from exposure to any particular sector.

We wish to highlight that the weighted average lease expiry ("WALE") for The Pinnacle Sunway is 1.34 years. Sunway REIT will have to ensure that tenancies, when expired, are renewed or leased out on terms that are at least equivalent to the existing leases in order to sustain the existing WALE of 1.34 years.

(b) Increase property portfolio strength through further diversification

The Proposed Acquisition will increase Sunway REIT's value of investment properties by RM450.0 million to approximately RM8.48 billion. The Proposed Acquisition helps strengthen Sunway REIT's current position as one of the larger real estate investment trusts in Malaysia by property market value.

The Proposed Acquisition will allow Sunway REIT to enhance its portfolio in the commercial office properties which stands at 6% of its total portfolio as at 30 June 2020. Upon completion of the Proposed Acquisition, Sunway REIT's office sector portfolio will increase to 11% of its total asset portfolio.

(c) Enhances scale and synergies within the Sunway City eco-system

Acquiring properties in Sunway City is amongst the Manager's continued strategies to maximise operating synergies with Sunway REIT's other properties located within Sunway City. The Proposed Acquisition presents an opportunity for Sunway REIT to acquire The Pinnacle Sunway which is located within the vicinity of Sunway City and is integrated with Sunway REIT's existing assets, such as Sunway Pyramid, Sunway Pyramid Hotel and Sunway Resort Hotel. Sunway REIT could immediately reap the benefits from the population catchment area and synergies within the matured township of Sunway City.

(d) DPU accretive to Unitholders

Based on Sunway REIT's funding costs as detailed in the notes below, the Proposed Acquisition of The Pinnacle Sunway is expected to contribute positively to the future DPU of Sunway REIT as illustrated below.

	<u>Net property income</u>	<u>Management & Trustee Fees</u>	^(a) <u>Cost of Financing</u>	<u>Incremental DPU per unit</u>
	<i>RM' million</i>	<i>RM' million</i>	<i>RM' million</i>	<i>sen</i>
The Pinnacle Sunway	27.90	2.25	1.19	^(b) 0.15

Notes:-

(a) The Deposit of RM45.0 million is funded by Sunway REIT's existing debt programme. Management has assumed a financing cost of 2.65% p.a., based on Sunway REIT existing revolving loan facility as at LPD.

- (b) *Based on the 5-day VWAP of Sunway REIT units up to LPD of RM1.59 less a 5% discount, the illustrative issue price for the Placement Units is RM1.52. The maximum number of units to be issued pursuant to the Proposed Private Placement is 467.1 million units, of which 266.45 million units are to raise proceeds for the Balance Purchase Consideration of RM405.0 million. The Proposed Acquisition and the expected incremental income arising from the expansion of the Sunway Carnival Mall are expected to contribute to the earnings of Sunway REIT by an additional approximately RM43.19 million or DPU 0.26 sen per annum.*

The incremental earnings per unit will vary according to the actual number of units issued at the material point in time.

The Pinnacle Sunway is an income generating asset with existing leases which will be novated to the Trustee upon completion of the Proposed Acquisition. As illustrated above, the Proposed Acquisition is expected to be earnings accretive to Sunway REIT.

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

5.4 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.

5.4.1 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 was confronted by concurrent supply and demand shocks arising from weak external demand conditions and strict containment measures in the 2nd quarter of 2020. As a result, the economy registered its first contraction since the Global Financial Crisis (2nd quarter of 2020: -17.1%, 3rd quarter of 2009: -1.1%).

On the supply side, this was reflected in a contraction across most sectors. From the expenditure side, domestic demand declined, while exports of goods and services registered a sharper contraction. On quarter-on-quarter seasonally-adjusted basis, the economy declined by 16.5% (1st quarter of 2020: -2.0%).

A contraction was recorded in most economic sectors amidst the imposition of the MCO, followed by the CMCO and RMCO. The services sector contracted by 16.2% (1st quarter of 2020: 3.1%). The sector was affected by the implementation of a nationwide restrictive MCO, with only essential services such as food-related retail, utilities, banking, transportation as well as information and communication entities allowed to operate with very limited capacity. The subsequent transition to CMCO in May 2020 and RMCO in June 2020 provided some relief to businesses in the sector. The lockdown had substantially affected consumer spending and tourism activity, as shown by the significant decline in the wholesale and retail trade, as well as food and beverages and accommodation sub-sectors. The transport and storage sub-sector was impacted by a sudden stop in tourist arrivals due to travel restrictions imposed domestically as well as the international border closures. Growth in the finance and insurance sub-sector was weighed down by lower net interest income, and lower fee-based income amidst subdued capital market activity. Meanwhile, growth in the information and communication sub-sector was relatively sustained by the continued high demand for data communication services especially during this period of remote working arrangements.

Domestic demand declined by 18.7% in the 2nd quarter of 2020 (1st quarter of 2020: 3.7%), mainly due to weaker private sector expenditure. Spending by the private sector was impacted by lower income, movement restrictions and subdued consumer and business sentiments. While net exports continued to decline, the contribution of the external sector to the economy improved mainly due to the larger contraction in imports vis-à-vis the previous quarter.

Private consumption growth declined by 18.5% in the 2nd quarter of 2020 (1st quarter of 2020: 6.7%). Household spending was particularly impacted by the strict movement restrictions in the early part of the quarter and income losses amidst weak economic conditions. As movement restrictions were gradually relaxed towards the end of the quarter, retail and financing data indicated some improvement in spending, albeit remaining subdued. During this challenging period, stimulus measures such as the disbursement of Bantuan Prihatin Nasional cash transfers, EPF i-Lestari withdrawals and the implementation of the loan moratorium helped to cushion consumption spending.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index, declined to -2.6% during the quarter (1st quarter of 2020: 0.9%). The lower headline inflation was primarily due to the substantial decline in retail fuel prices (average RON95 petrol price per litre in 2nd quarter of 2020: RM1.37, 1st quarter of 2020: RM1.96) and the implementation of the tiered electricity tariff rebate beginning the month of April 2020.

Labour market conditions weakened as containment measures and weak demand led firms to undertake cost-cutting actions. Measures such as retrenchments, pay-cuts and unpaid leave weighed on employment and income conditions. Employment declined by 1.3% (1st quarter of 2020: 1.6%). Job losses were concentrated in the tourism-related industries as demand weakened considerably amidst border closures. As a result, the unemployment rate rose to 5.1% (1st quarter of 2020: 3.5%). In addition to the job losses, shorter working hours and pay-cuts among those who remained in employment resulted in a contraction in sector wage growth in the 2nd quarter of 2020 of -5.6% (1st quarter of 2020: 2.1%). The contraction in private services wage growth in the 2nd quarter of 2020 of -6.4% (1st quarter of 2020: 1.4%) was driven mainly by tourism related services, such as wholesale and retail trade, food and beverage, and accommodation (2nd quarter of 2020: -3.5%, 1st quarter of 2020: 1.9%) as well as transportation and storage (2nd quarter of 2020: -29.7%, 1st quarter of 2020: -3.5%) sub-sectors. In the manufacturing sector, wages contracted by 4.0% (1st quarter of 2020: 3.4%). This was mainly due to a contraction in the transport equipment and other manufactures sub-sector (2nd quarter of 2020: -13.3%; 1st quarter of 2020: 1.3%) and the textiles, wearing apparel, leather and footwear sub-sector (2nd quarter of 2020: -15.3%; 1st quarter of 2020: 2.4%) that were unable to operate during the MCO period.

Economic activity in Malaysia contracted sharply in the 1st half of the year (-8.3%) as the measures introduced to contain the pandemic globally and domestically resulted in a concurrent supply and demand shock to the economy. However, growth is expected to have troughed in the 2nd quarter of 2020. Economic activity has resumed significantly since the economy began to reopen in early May 2020. Monthly indicators such as wholesale and retail trade, industrial production, electricity generation, and gross exports all grew faster in June 2020 than in the period between March 2020 and May 2020. The improvement in growth in the 2nd half of 2020 will also be supported by the recovery in global growth and continued policy support. In particular, consumption and investment activities are expected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. Growth could potentially be lifted by a larger-than-expected impact from stimulus measures.

While there is upside potential to growth, the pace and strength of the recovery remain susceptible to downside risks emanating from domestic and external factors. The prospect of secondary COVID-19 outbreaks leading to the re-imposition of containment measures, more persistent weakness in labour market conditions, and a weaker-than-expected recovery in global growth pose downside risks to growth.

(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020)”

Our comments:-

The economic impact of COVID-19 is, however, expected to be partly mitigated by the significant monetary and fiscal stimulus measures introduced by authorities across the world. Globally, fiscal spending has been promptly increased, with funds primarily channelled towards containing COVID-19, supporting affected households against income and employment losses and providing liquidity support for firms. These measures are complemented by monetary policy responses to provide further liquidity support for households, businesses and the banking sector, as well as to ensure continued smooth provision of credit to the real economy. The unprecedented nature and scale of policy intervention across economies is expected to cushion the economic disruptions caused by COVID-19 and support a gradual recovery in real economic activity upon the successful containment of the pandemic.

The monetary policy responses and economic stimulus measures undertaken in the first half of the year will provide additional support to growth. The economy is subsequently expected to normalise in 2021, in line with the projected recovery in the global economy.

The Malaysian economy is expected to benefit from the projected improvement in global demand towards the end of the year, which will aid to lift growth in the export-oriented sectors. As risks from the pandemic subside, consumer sentiments can also be expected to gradually improve when travel restrictions are eased and tourism activities resume.

(Source: Economic and Monetary Review 2019, Bank Negara Malaysia)

Economic activity has resumed since the economy began to reopen in early May 2020. Consequently, growth is expected to have troughed in the second quarter of 2020, with a gradual recovery in the second half. This outlook is underpinned by the rebound of key indicators such as wholesale and retail trade, industrial production, gross exports, and electricity generation.

This improvement in growth will also be supported by the recovery in global growth and continued domestic policy support. In particular, consumption and investment activity is projected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. With the reopening of economic activities, a concurrent improvement in labour market conditions is expected. Overall, the Malaysian economy is therefore forecasted to grow within the range of -5.5% to -3.5% in 2020, before staging a rebound within a growth range of 5.5% to 8.0% in 2021.

(Source: Press Release Economic and Financial Developments in Malaysia in the Second Quarter of 2020, Bank Negara Malaysia)

5.4.2 OVERVIEW AND OUTLOOK OF MALAYSIA’S RETAIL INDUSTRY

As extracted from Section 4.2 of Part A of the Circular, the overview and outlook of Malaysia’s retail industry are as below.

“The overall retail performance has been below market expectation in 2019. Supermarket and hypermarket segments had reported a contraction in growth in 2019, which led to closure of some department stores in Malaysia. Shopping complexes will be at risk of oversupply as more new shopping complexes will be entering into the market in the next two to five years. The average occupancy rate is expected to soften if no new branded tenants enter into the market and the complex owners have to compete for the same tenants. Meanwhile, the impact of COVID-19 pandemic coupled with increasing popularity of online shopping also pose challenges to retail storefront.

The retail sub-sector recorded a stable performance, recording an overall occupancy rate of 79.2%, a slight decrease from 79.3% recorded in 2018. Kuala Lumpur recorded an encouraging performance, securing more than 83.0% occupancy rate whereas Selangor slightly dropped to 82%. Johor and Pulau Pinang managed to secure an average occupancy of 75.3% and 73.7% respectively. These four states recorded higher available space (vacancy), led by Selangor (0.65 million square metres), Johor (0.59 million square metres), Kuala Lumpur (0.54 million square metres), and Pulau Pinang (0.48 million square metres).

(Source: Property Market Report 2019, Ministry of Finance Malaysia)

In the 4th quarter of 2019, Malaysia's retail sales grew 3.8% year-on-year, as expected by Retail Group Malaysia (“RGM”). The growth is due to the year-end festivals, school holidays and aggressive promotions undertaken by retailers. In contrast, the 4th quarter of 2018 recorded a 2.7% growth rate. This brings the retail sales growth in 2019 to 3.7%, as compared to 3.9% in 2018.

(Source: Article titled “Malaysia’s retail sector expected to contract 3.9% in 1Q2020”, extracted from The Edge Markets published on 17 March 2020)

The Malaysian retail sales contracted by 30.9% during the 2nd quarter of 2020 as compared to the same period last year. The nationwide lockdown affected the retail performance of all retail sub-sectors during the 2nd quarter of 2020, which reported double digit contraction except for the supermarket and hypermarket sub-sectors which reported a contraction of 9.9% during this period. The worst performing sub-sector was the department store sub-sector which contracted by 62.3%, followed by the fashion and fashion accessories sub-sector (-44.2%), specialty stores sub-sector (-40.9%), department store cum supermarket (-34.6%), and pharmacy and personal care sub-sector (26.2%).

Moving forward, the business outlook among members of the retailers’ association for the 3rd quarter of 2020 is mixed with an estimated average decline of 3.4%. RGM said that with the RMCO being extended until the end of 2020, shopping centres and retailers will not be able to operate at full capacity compared to pre COVID-19 period due to continued implementation of strict social distancing measures. Furthermore, consumers are expected to tighten their spending during the last three months of the year when the six months moratorium ends at the end of September 2020.

(Source: Article titled “Retail industry suffers worst decline in 33 years”, extracted from The Malaysian Reserve published on 3 September 2020)”

Our comments:-

The lockdown had substantially affected consumer spending and tourism activity, as shown by the significant declines in the wholesale and retail trade, as well as food and beverages and accommodation sub-sectors.

Private consumption growth declined by 18.5% in 2Q 2020 (1Q 2020: 6.7%). Household spending was particularly impacted by the strict movement restrictions in the early part of the quarter and income losses amid weak economic conditions. As movement restrictions were gradually relaxed towards the end of the quarter, retail and financing data indicated some improvement in spending, albeit remaining subdued. During this challenging period, stimulus measures such as the disbursement of Bantuan Prihatin Nasional cash transfers, EPF i-Lestari withdrawals and the implementation of the loan moratorium helped to cushion consumption spending.

Public consumption continued to expand, albeit at a more moderate pace of 2.3% (1Q 2020: 5.0%). Growth was supported by continued increase in emoluments amid lower spending on supplies and services.

(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020, Bank Negara Malaysia)

5.4.3 OVERVIEW AND OUTLOOK OF MALAYSIA'S SERVICES INDUSTRY

As extracted from Section 4.3 of Part A of the Circular, the overview and outlook of Malaysia's services industry are as below.

“Provision of quality healthcare services is one of the main priorities of the Government. The main challenge in achieving this object is the escalating cost of healthcare vis-à-vis constraint on Government finance. To further elevate healthcare quality, the Government will strengthen its services by providing a comfortable environment for the people while receiving treatment in public hospitals and clinics. An allocation will be provided to upgrade healthcare infrastructure, as well as enhance the capacity and capability of healthcare personnel. Concurrently, the Government will promote a healthy lifestyle and extend preventive care programmes nationwide. Meanwhile, the private healthcare segment will be supported by the Malaysia Year of Healthcare Travel 2020 campaign which seeks to reinforce Malaysia as a reputable and global healthcare travel destination, especially in the areas of cardiology, oncology, fertility, orthopaedics and cosmetic surgery.

The health tourism industry is growing rapidly, and Malaysia is recognised as one of the five best in the world (Patient Beyond Borders, 2018). In 2018, the number of healthcare travellers surged 15% to 1.2 million with revenue increasing 13% to RM1.4 billion, particularly from China, India and Indonesia. The quality of healthcare system, international qualified medical professionals and accredited medical facilities, competitive cost, availability of latest procedures and treatment technologies, as well as accessibility through air and land routes are the factors contributing to the growth of this industry. In conjunction with the Malaysian Year of Healthcare Travel 2020 campaign to establish Malaysia as a leading global destination for healthcare, the Government is targeting total revenue of RM2.2 billion in 2020. This campaign is targeting several new ASEAN markets and the Middle East, especially in the areas of cardiology, oncology and fertility.

The Government's development expenditure during these two years will remain high and are mostly concentrated in the economic and social sectors. Investment in economic sector are mainly channelled into transportation system, energy and public utilities, as well as trade and industry. Meanwhile, the bulk of expenditure in the social sector is channelled into education and healthcare. Moving forward, the other services sub-sector is projected to grow by 5.3% in 2019 and 5.1% in 2020 driven by strong demand for private education and healthcare services.

(Source: Economic Outlook 2020, Ministry of Finance Malaysia)

*According to Budget 2020, the Ministry of Education ("**Education Ministry**") remains the largest recipient with an allocation of RM64.1 billion, an increase from 2019's RM60.2 billion.*

*The Government is deeply committed to higher education, and the annual total expenditure on higher education is equivalent to 7.7% of the annual Government expenditure in 2015 (where the Education Ministry expenditure on higher education alone is 5.5% of the annual Government expenditure). This is, according to the United Nations Educational, Scientific and Cultural Organization benchmarking, the highest among Malaysia's peers such as 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 ("**HLIs**") 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 HLIs 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: Budget 2020, Ministry of Finance Malaysia, and Malaysia Education Blueprint 2015 – 2025)"

Our comments:-

The services sector contracted by 16.2% (1Q 2020: 3.1%). The sector was affected by the implementation of a nationwide restrictive movement control order (MCO), with only essential services such as food-related retail, utilities, banking, transportation as well as information and communication entities allowed to operate with very limited capacity. The subsequent transition to Conditional MCO in May and Recovery MCO in June provided some relief to businesses in the sector. The lockdown had substantially affected consumer spending and tourism activity, as shown by the significant declines in the wholesale and retail trade, as well as food and beverages and accommodation sub-sectors. The transport and storage sub-sector was impacted by a sudden stop in tourist arrivals due to travel restrictions imposed domestically as well as the international border closures. Growth in the finance and insurance sub-sector was weighed down by lower net interest income, and lower fee-based income amid subdued capital market activity. Meanwhile, growth in the information and communication sub-sector was relatively sustained by the continued high demand for data communication services especially during this period of remote working arrangements.

(Source: Quarterly Bulletin – Second Quarter 2020, Bank Negara Malaysia)

5.4.4 OVERVIEW AND OUTLOOK OF MALAYSIA'S HOTEL INDUSTRY

As extracted from Section 4.4 of Part A of the Circular, the overview and outlook of Malaysia's hotel industry are as below.

“The COVID-19 pandemic and the measures taken to contain it is adversely impacting tourism-related and manufacturing sectors. Broad-based restrictions and aversion to travel activities will have a sizeable impact on Malaysia's tourism sector, which accounts for 11.8% of Malaysia's gross domestic product. Airport passenger traffic declined by 8.2% in the first two months of 2020, just as COVID-19 started to escalate and some economies began to take precautionary measures, such as travel bans and quarantines. These measures have since become more widespread and a sharp decline in tourist arrivals is expected. This will significantly impact spending in the tourism-related sectors, particularly hotels, retail trade, food and beverage and transport services.

(Source: Economic & Monetary Review 2019, Bank Negara Malaysia)

Malaysia recorded 4,252,997 tourist arrivals for the first half of 2020. This marks a decrease of 68.2% compared to the same period in 2019. The tourist expenditure for the first half of 2020 recorded a total of RM12.5 billion, a decrease of 69.8% compared to RM41.6 billion registered for the same period in 2019. Per capita expenditure also showed a decline of 5.3% from RM3,121.6 in 2019 to RM2,956.1 this year.

(Source: Article titled “Negative growth of 68.2% for tourist arrivals in the first half of 2020”, extracted from Malaysia Tourism Promotion Board publication published on 8 September 2020)

The Government had introduced several incentives which help cushion the impact of COVID-19 on the tourism sector namely:

- (i) tourism tax exemption from 1 July 2020 to 30 June 2021;*
- (ii) extension of service tax exemption for hotels to 30 June 2021;*
- (iii) extension of period for income tax relief of RM1,000 for tourism expenses to 31 December 2021; and*
- (iv) extension of period for deferment of tax instalment payment for tourism industry to 31 December 2020.*

(Source: Pelan Jana Semula Ekonomi Negara)”

Our comments:-

The tourism industry is an important sector in the Malaysian economy, with tourism-related activity contributing 15% to Malaysia's GDP, employing more than 20% of the workforce and providing a source of external income to the economy. The tourism sector also brings spillovers to other sectors in the economy.

The Covid-19 pandemic has adversely affected the tourism sector, as tourist arrivals declined significantly following lockdown measures by a number of countries. In Malaysia, the gradual uplifting of restrictions has allowed the resumption of domestic interstate travel, which will pave the way for the industry to recover. Moving forward, the tourism sector needs to adjust to the post pandemic new normal, chiefly to address hygiene, safety, and ultimately consumer and business confidence in line with the United Nations World Tourism Organisation's (UNWTO) Global Guidelines to Restart Tourism 2020.

In this light, the PENJANA Tourism Financing (PTF) is introduced as part of the Government's efforts to aid the tourism sector. The purpose of the PTF is to support Malaysian small and medium-sized enterprises (SMEs) in the tourism sector, by preserving their capacity and assisting them to adjust and remain viable post Covid-19. Based on engagements with associations from the tourism sector, some examples of adjustments to the new normal include enhancing business models, deploying new practices (e.g. refurbishments to align with SOP, contactless check-in, hygiene procedures) and digitalisation (e.g. online payment gateways, digital presence, digital marketing).

Malaysian SMEs in the eligible core tourism and tourism-related sectors which are either SMEs as defined by SME Corp Malaysia; or SMEs licensed by / registered with Ministry of Tourism, Arts and Culture Malaysia (MoTAC) may apply for the PTF by contacting the participating financial institutions.

(Source: PENJANA Tourism Financing, Ministry of Tourism, Arts and Culture Malaysia – 3 September 2020)

5.4.5 OVERVIEW AND OUTLOOK OF MALAYSIA'S OFFICE INDUSTRY

As extracted from Section 4.5 of Part A of the Circular, the overview and outlook of the Malaysia's office industry are as below.

"The overall performance of office sub-sector was less promising as the overall occupancy rate declined to 80.6% in 2019, down from 82.4% in 2018. The private office buildings recorded average occupancy rate at 74.8%, Wilayah Persekutuan Kuala Lumpur and Pulau Pinang secured higher occupancy rate at 76.9% and 76.5% respectively, whereas Selangor and Johor lower than national level at 70.0% and 65.7% respectively. Private office buildings in Putrajaya recorded the lowest occupancy rate at 37.6%.

As at the end of 2019, there was a total of 22.59 million square metres existing office space from 2,549 buildings, while another 51 buildings with 2.38 million square metres in the incoming supply and 15 buildings with nearly 0.4 million square metres in the planned supply. Wilayah Persekutuan Kuala Lumpur dominated all three categories of supplies.

The office segment is forecasted to remain under pressure in 2020. If all 11 of the office building under construction in Klang Valley were to be completed in 2020 as scheduled, around 0.5 million square metres of net lettable office space will be released into the market in the near term, which will likely lead to lower occupancy rates, and further downward rental pressure. As a result, some of the older buildings with high vacancy rate might be closed down for upgrading, refurbishment, conversion to other usage or redevelopment.

(Source: Property Market Report 2019, Ministry of Finance Malaysia)

The rental rates and occupancy levels of office buildings in Malaysia, especially in the Klang Valley where there is an imbalance in supply and demand, will experience further downward pressure in the near term as a result of the COVID-19 pandemic. The unprecedented crisis has led to a sense of uncertainty and this will result in lower level of leasing/transactional activity as businesses and occupiers delay or put on hold their real estate decisions.

On a positive note, the Government had launched a few economic stimulus packages to cushion the impact of COVID-19 which include granting landlords who provide rental reduction (at least 30.0% reduction) to tenants who are small and medium enterprises, a further tax deduction equivalent to the amount of rental reduction from April 2020 to June 2020."

(Source: Valuation Report)

Our comments:-

The existing supply of selected Grade A and Grade B purpose-built office space in the state of Selangor and the locality of Subang Jaya stood at approximately 23.2 million sq ft and 3.0 million sq ft respectively as at 1Q2020. The cumulative supply has grown steadily since 2010, reflecting a Compound Annual Growth Rate (“CAGR”) of approximately 6.0% and 5.7% per annum for the state and locality respectively.

The majority of prime and secondary office space in Selangor are concentrated in the locality of Petaling Jaya; accounting for approximately 5.6 million sq ft (approximately 24.1%) and 7.0 million sq ft (approximately 30.3%) of total office space in the state respectively.

Within Subang Jaya, there are five (5) Grade A office buildings with combined NLA of approximately 1.3 million sq ft and nine (9) Grade B office buildings totaled approximately 1.7 million sq ft under review.

Office buildings with MSC Malaysia Status are MCT Tower, Puchong Financial Corporate Centre (PFCC) – Tower 2, Towers 4 and Tower 5, The Pinnacle Sunway and SunGeo Tower. Collectively, these six (6) buildings have combined NLA of approximately 15 million sq ft.

The bulk of incoming office supply in Selangor, amounting to approximately 1.9 million sq ft, is expected to come on-stream by 2021. The buildings are mainly concentrated in the locality of Petaling Jaya while there is no new supply in the locality of Subang Jaya.

The overall occupancy rates for the localities of Petaling Jaya and Shah Alam declined by 1.2% and 0.9% to 78.3% and 87.9% respectively in 1Q2020 (2019: Petaling Jaya – 79.5% and Shah Alam – 88.8%).

In the locality of Subang Jaya, the overall occupancy was marginally higher at 81.5% in 1Q2020 (2019: 81.3%) while in Cyberjaya, it declined to 76.1% (2019: 76.5%).

With the exception of the Shah Alam locality where the average achievable rental rate remained stable at 2019’ level, the average rental rates for other localities in Selangor showed marginal movements in 1Q2020.

In the localities of Petaling Jaya and Subang Jaya, the average achievable monthly rental rates improved to RM4.55 psf and RM4.37 psf respectively while in Cyberjaya, the rate was marginally lower at RM4.09 psf per month.

(Source: Valuation Report)

5.4.6 IMPACT OF COVID-19 ON SUNWAY REIT’S PROPERTIES PORTFOLIO

As extracted from Section 4.6 of Part A of the Circular, the impact of Covid-19 on Sunway REIT’s properties portfolio are as below.

“COVID-19 was officially declared a pandemic by the Director General of the World Health Organisation on 11 March 2020. On 16 March 2020, the Government announced that the MCO be imposed in an effort to contain the COVID-19 pandemic in Malaysia, which required the closure of all government and private premises except those involved in providing essential services during the period of the enforcement of the MCO, which took effect from 18 March 2020 to 3 May 2020. During the MCO, Sunway REIT’s lessees’/tenants’ business operations in non-essential services were temporarily suspended.

However, the MCO was gradually eased and relaxed, and extended under a CMCO from 4 May 2020 to 9 June 2020 and thereafter a RMCO which took effect from 10 June 2020 onwards. Under the CMCO, most of Sunway REIT's lessees'/tenants' business operations were allowed to recommence whilst observing the standard operating procedures imposed by the Government.

In line with the directives issued by the Government, the Manager has put in place measures across its properties ("Sunway REIT Properties") to safeguard the health of visitors and the community. The Manager has implemented the following procedures:

- (i) lessees'/tenants' employees, customers and visitors of the Sunway REIT Properties are allowed to enter the Sunway REIT Properties upon them registering/recording their details upon entry or filling up the self-declaration form or the quick response code-generated form prior to their entry to Sunway REIT Properties;
- (ii) employees, customers and visitors to Sunway REIT Properties are required to wear face masks, undergo temperature measurement, register their attendance and sanitise their hands before entering the Sunway REIT Properties; and
- (iii) safe distancing measures across Sunway REIT Properties such as queue management system, floor markers and signages to remind lessees'/tenants' employees, customers and visitors to maintain physical distance.

The impact of the COVID-19 pandemic and the introduction of the MCO, CMCO and RMCO on Sunway REIT's financials, occupancy rate and financial liquidity are detailed below.

Impact on the financials of Sunway REIT

The impact of the MCO on Sunway REIT's rental income from office properties has not been material. However, rental income from malls and hotels has been adversely impacted since the implementation of the MCO as Sunway REIT's lessees'/tenants' offering non-essential products and services were prohibited from operating, and hotel operations were suspended during the MCO period.

Due to the suspension of hotel operations during the MCO period and lower occupancy rates during the CMCO and RMCO period, Sunway REIT's rental income from hotels was impacted as under the terms of its master agreement with the hotel operators, Sunway REIT has a variable rental component which is computed after taking into account the gross operating profit of the hotel business.

During such temporary closure of the malls and suspension of hotel operations, the Manager has provided rental rebates and/or rental deferment on a case to case basis to eligible lessees'/tenants' ("**Rental Support**"), in efforts to mitigate the adverse impact of the current COVID-19 on the lessees'/tenants' business operations. Besides the Rental Support, Sunway REIT also passed on the 15.0% electricity discount announced by the Government to eligible lessees/tenants, upon receipt of such discount from Tenaga Nasional Berhad.

Sunway REIT has experienced a decrease in revenue by 14.5% and 12.8% from the retail (FYE 30 June 2020: RM364.7 million, FYE 30 June 2019: RM426.7 million) and hotel (FYE 30 June 2020: RM68.5 million, FYE 30 June 2019: RM78.6 million) sectors respectively, as compared to revenue recorded in FYE 30 June 2019 in view of the Rental Support provided and decrease in the variable rental component of its income from hotels due to suspension of hotel operations during the MCO, CMCO and RMCO period.

The Manager believes that by providing the Rental Support, this will further strengthen its relationship with the lessees/tenants and enable it to maintain a higher retention rate for the Sunway REIT Properties, defending occupancy rate in the near term and paving the way for recovery in the medium term.

The Manager has also invested in marketing programmes to provide adequate support to its tenants in retail properties such as online order and collection drive-through stations. The Manager believes that this provides these tenants which offer non-essential products and services a way to sustain their cash flows and ensure the sustainability of its relationships with such tenants.

The Manager has also put in place strict standard operating procedures such as installing thermal scanners, sanitising stations, frequent fogging disinfection at public areas and maintaining social distancing protocols for all the Sunway REIT Properties particularly in Sunway REIT's retail properties as they are necessary to build retail confidence. Nevertheless, the Manager expects its retail properties to continue facing challenges in the short term due to reduction of footfall, reduced tourist arrivals and reduction in demand for non-essential retail trade. The cost incurred to implement the standard operating procedures in all the Sunway REIT Properties were not material as compared to the net property income generated by the Sunway REIT Properties.

Impact to occupancy rate of the Sunway REIT Properties

During the initial stages of the COVID-19 pandemic, travelling bans were imposed on certain countries and this has led to cancellations of tour and hotel bookings. Furthermore, the implementation of MCO resulted in suspension of hotel operations. As a result, Sunway REIT's hotel registered average occupancy rate of 53.0% in FYE 30 June 2020, a decrease of 16.4% as compared to the average occupancy rate recorded in FYE 30 June 2019. Despite such suspension of operations, certain hotels under Sunway REIT's portfolio remained open as quarantine centres to support the Government's precautionary measures of ensuring all Malaysians returning from overseas countries are quarantined.

Following the implementation of CMCO, hotels were allowed to resume operations with limited amenities. On 1 July 2020, restrictions on hotel amenities were uplifted which allowed hotels to operate at full capacity.

The retail sector registered average occupancy rate of 95.0% in FYE 30 June 2020, a decrease of 1.5%, as compared to the average occupancy rate recorded in FYE 30 June 2019. As at LPD, all tenants in the retail sector have resumed business under the RMCO. Following this resumption shoppers' traffic has also shown encouraging recovery.

For expiring tenancies in retail and office sectors which are due in FYE 30 June 2020, approximately 92.0% have been renewed as at 30 June 2020 with positive low single-digit rental reversionary rate. Other sectors (services, industrial and others) remain relatively stable in terms of occupancy rate despite the COVID-19 pandemic, MCO, CMCO and RMCO.

Impact on the liquidity of Sunway REIT

The Manager has implemented certain cost containment initiatives such as reducing, cancelling and/or deferring non-essential operational and capital spending during the MCO, CMCO and RMCO period to preserve its cash flow and liquidity in view of the Rental Support granted to eligible lessees/tenants and slower collection pace.

In addition, the Manager has taken pre-emptive measures to increase the liquidity position of Sunway REIT via borrowings, both for ongoing business needs as well as for the purposes of averting any liquidity crunch in the credit market that could potentially arise. As at the LCD, Sunway REIT recorded higher cash and short term investments of RM281.5 million (30 June 2019: RM67.3 million) and despite a higher gearing of 40.7% (30 June 2019: 37.9%), interest service coverage ratio remains healthy at 3.1 times.

With the gearing limit of not more than 50% under the Guidelines on Listed Real Estate Investment Trusts issued by the SC, Sunway REIT is potentially able to further leverage on a debt headroom of approximately RM780.0 million to manage its obligations. On 12 August 2020, the SC announced that it will temporarily increase the gearing limit for Malaysian real estate investment trusts from 50.0% to 60.0%, effective immediately until 31 December 2022. This temporary increase in gearing limit provides Sunway REIT with greater cash flow flexibility in light of the challenging operating environment during the COVID-19 pandemic.

Our comments:-

The COVID-19 outbreak has a significant impact on the global economy and Malaysia. On 27 March 2020, the Government announced PRIHATIN Rakyat Economic Stimulus Package worth RM250 billion which will benefit everyone. Additional measures announced are aimed at ensuring the continuity of economic activities especially with the cash disbursements. Further, the Government will focus on domestic investment activities that have high multiplier effects and preserve jobs.

(Source: PRIHATIN Rakyat Economic Stimulus Package, Speech By YAB Tan Sri Dato' Haji Muhyiddin Bin Haji Mohd Yassin, Prime Minister Of Malaysia, 27 March 2020)

On 6 April 2020, the Government announced an additional PRIHATIN SME Economic Stimulus Package valued at RM10 billion to ease the financial burden of SMEs and subsequently assure two thirds of the workforce will remain employed.

(Source: Additional PRIHATIN SME Economic Stimulus Package, Speech By YAB Tan Sri Dato' Haji Muhyiddin Bin Haji Mohd Yassin, Prime Minister Of Malaysia, 6 April 2020)

Additionally, on 29 July 2020, the Government announced a three month extension to the loan repayment moratorium to individuals who lost their jobs in 2020 and are still unemployed. The Government are also assisting those individuals that faced salary cuts due to the Covid-19 outbreak by lowering their loan instalment for at least 6 months. Malaysian banks had also provided commitment to assists individual borrowers and SMEs that are affected by the Covid-19 outbreak. The latest assistant is expected to benefit 3 million individuals and SMEs.

(Source: Extension of loan moratorium and targeted bank assistance, Speech By YAB Tan Sri Dato' Haji Muhyiddin Bin Haji Mohd Yassin, Prime Minister Of Malaysia, 29 July 2020)

The Government's stimulus packages will help to cushion the economic fallout and together with banks' financial measures, will provide sizable support to households and businesses. These measures are expected to add 2.8 % to 2020 GDP growth. Also supporting growth are the ongoing large-scale infrastructure projects, which are expected to provide an additional 1% lift to growth in 2020.

The factors that have enabled Malaysia to weather past episodes of shocks are expected to continue to serve the Malaysian economy well. Malaysia will continue to benefit from having diversified sources of growth, economic flexibility, adequate buffers, a strong financial system and robust policy frameworks that have been built over the years.

(Source: Press Statement By Bank Negara Malaysia, 3 April 2020)

5.4.7 PROSPECTS OF THE PINNACLE SUNWAY

As extracted from Section 4.7 of Part A of the Circular, the prospects of The Pinnacle Sunway are as below.

“The Pinnacle Sunway, a 24-storey office building with three-storey mezzanine floors and six levels of basement car park, is a Grade A, GBI-certified and MSC-status office building, located strategically within the master-planned integrated township development of Sunway City, Malaysia’s first sustainable township as certified by GBI and the country’s first low carbon city, as certified by the Malaysian Institute of Planners (MIP). The Pinnacle Sunway was completed in 2013 with a total gross floor area of 1,145,554 square feet (including 444,752 square feet for car park) of high quality specifications including large floor plates with total NLA of 576,864 square feet as at the Material Date of Valuation.

The Pinnacle Sunway, which is located next to Menara Sunway and Sunway Resort Hotel, is well positioned to benefit from the broader ecosystem components of Sunway City, including the retail, commercial, hospitality, healthcare, education and car park facilities through a series of interconnected bridges and covered walkways. The benefit from the broader ecosystem components of Sunway City will promote work-life-balance for the tenants and visitors of The Pinnacle Sunway.

With over 42 million visits every year to Sunway City, this wasteland-turned-wonderland city is also home to “Asia’s Best Attraction”, Sunway Lagoon theme park as well as Sunway REIT’s properties such as the Sunway Pyramid Shopping Mall, Menara Sunway, Sunway Medical Centre, Sunway university & college campus, and Sunway Resort Hotel, Sunway Pyramid Hotel and Sunway Clio Hotel with over 1,400 rooms (as at 30 June 2019). Notwithstanding that the outlook of the office sector in Malaysia is challenging due to the upcoming supply of office buildings as explained in Section 4.5 of the Circular, the Manager believes that The Pinnacle Sunway is able to attract and retain a wide variety of reputable tenants due to a combination of its strategic location and connectivity to the broader Sunway City ecosystem.

As at the Material Date of Valuation, The Pinnacle Sunway is 100% occupied based on committed and/or commenced tenancies, and its tenants include multinational corporations and companies that are in technology and tele-communication sectors, and pharmaceutical sector (please refer to Section 3.1(i) of this Circular for further details of tenancy profile of The Pinnacle Sunway).

The Manager believes that The Pinnacle Sunway will add value to the Unitholders in the form of enhancing scale, and maximising operational and business synergies to the existing Sunway REIT portfolio, and adding to the seven assets Sunway REIT already presently owned within Sunway City. Further, the addition of a quality asset and income stream from strong tenants will enhance the strength and resilience of Sunway REIT’s portfolio.

The Proposed Acquisition also reaffirms the Manager’s strong conviction of the longer term sustainable growth of the Sunway City ecosystem as it is supported by:

- (i) growing and affluent residential catchment within the vicinity, as well as the broader Klang Valley region;*

- (ii) *excellent connectivity to various major transportation links, with good access to major roads and expressways like Federal Highway, Shah Alam Expressway (KESAS), New Klang Valley Expressway (NKVE) and Damansara-Puchong Expressway (LDP). Sunway City is also served by Malaysia's first elevated bus rapid transit (BRT) system which also 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;*
- (iii) *a robust talent pool supported by Sunway university and college campus and Monash University Malaysia, and other higher learning institutions within the vicinity such as Subang Jaya; and*
- (iv) *complementary business support from the traffic generated from the various components of Sunway City.*

(Source: The Manager, Sunway REIT's integrated report 2020 and Valuation Certificate)"

Our comments:-

We note that at the Material Date of Valuation, The Pinnacle Sunway is fully tenanted. The Pinnacle Sunway is a Grade A, GBI-certified and MSC-status office building, located strategically within the integrated township development of 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 location of the Pinnacle Sunway provides connectivity allowing tenants to enjoy a total working, shopping, leisure and residential environment that provides added value well beyond the offices.

The acquisition of The Pinnacle Sunway should further strengthen and diversify Sunway REIT's existing assets portfolio and enhance business synergies within Sunway City.

Due to the uncertainties of the Malaysian economy along the Covid-19 pandemic that continues to disrupt lives, economies and societies globally, we take cognisance that rental rates and occupancy levels of office buildings in Malaysia, especially within Klang Valley may experience downwards pressure in the near term. We also note that such near term factors could be mitigated with the recent cut in overnight policy rate to 1.75% in July 2020 and the economic stimulus packages launched by the Government.

We understand Sunway REIT's sponsor, Sunway City Berhad ("**Sponsor**") has granted the right of first refusal to Sunway REIT to acquire the Sponsor's assets, and the right of first refusal shall remain effective and binding on Sunway City Berhad for so long as:-

- (a) The sponsor holds an interest of 20% or more of the Sunway REIT units;
- (b) The Manager is a subsidiary of the Sponsor; and
- (c) Sunway REIT remains listed on Bursa Securities.

Given Sunway REIT is provided an opportunity to acquire The Pinnacle Sunway, which is earning accretive and is in line with the REIT's deed, we note that the Proposed Acquisition could present a long term benefit to Sunway REIT. We believe that moving forward, barring any unforeseen circumstances, the prospects of The Pinnacle Sunway to Sunway REIT should be generally positive.

5.5 EFFECTS OF THE PROPOSED ACQUISITION

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

The Proposed Acquisition is conditional upon the completion of the Proposed Private Placement. We understand that the Proposed Private Placement will be undertaken via a bookbuilding exercise. Accordingly, the number and issue price will be determined at a later stage.

For illustration purposes only, our evaluation of the proforma effects for the Proposed Acquisition and Proposed Private Placement have been computed based on the following assumptions:-

- (i) Placement Units issued are priced at RM1.52 per unit, being a 5% discount to the 5-day VWAP of Sunway REIT up to and including the LPD of RM1.59; and
- (ii) the number of Placement Units to be issued under the Proposed Private Placement to raise gross proceeds of RM710.0 million is 467.1 million units, representing 15.9% of Sunway REIT's total number of issued units of Sunway REIT as at LPD.

We note that the effect of the Proposed Private Placement on Sunway REIT's unitholders' capital, substantial unitholders' unitholdings, EPU, DPU and NAV per unit is dependent on the actual number issued and the issue price of the placement shares at the material time.

(a) Unitholders' capital interest in Sunway REIT

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

The Proposed Private Placement will increase Sunway REIT's unitholders' capital from RM2.73 billion consisting of 2,945,078,000 units to RM3.43 billion (after considering estimated expenses of RM4.5 million relating to the proposals) consisting of 3,412,183,200 units.

(b) Substantial unitholders' interest in Sunway REIT

The Proposed Acquisition will not have any impact on Sunway REIT's substantial unitholders' unitholdings.

The Proposed Private Placement is expected to reduce the percentage unitholdings of Sunway REIT's substantial unitholders that do not participate in the Proposed Private Placement.

We note the Placement Units may be allocated to Sunway REIT Holdings. In the event Sunway REIT Holdings does not participate in the Proposed Private Placement, its percentage unitholdings in Sunway REIT will decrease from 40.88% as at the LPD to 35.29%.

(c) 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 as the Purchase Consideration will be settled in cash.

We note that based on Sunway REIT's audited NAV as at 30 June 2020, the Proposed Private Placement will increase Sunway REIT's NAV to RM5.14 billion from RM4.43 billion.

The impact of the Proposed Private Placement on the NAV and NAV per unit will vary according to the issue price and the total number of Placement Units issued. If the placement issue price is above the existing NAV per unit, the NAV per unit post placement will increase. The NAV per unit post placement will reduce if the units are placed at an issue price lower than the existing NAV per unit.

(d) Gearing

We note that based on the audited statement of financial position of Sunway REIT as at 30 June 2020, Sunway REIT's total borrowings are RM3.45 billion, representing a gearing level of 40.73% against its total asset value.

We note Sunway REIT will fund the Deposit of RM45.0 million via its existing debt programme and repay RM50.0 million of its existing borrowing using proceeds from the Proposed Private Placement. Upon completion of the Proposed Private Placement and Proposed Acquisition, Sunway REIT's total asset value will increase by RM0.7 billion with its gearing reduced from 40.7% as at 30 June 2020 to 37.6%.

(e) Earnings, EPU and DPU

We note that the Proposed Private Placement and Proposed Acquisition are not expected to have a material effect on the earnings and DPU of Sunway REIT for FYE 30 June 2021 as the Proposals are expected to be completed in the 4th quarter of the calendar year 2020.

We note the assumptions used to derive the RM43.19 million annual incremental net distributable income contribution arising from the Proposed Acquisition are based on The Pinnacle Sunway's annual net property income for the FYE 31 December 2019 (after adjusting for land rental paid by Sunway Pinnacle to Sunway Integrated Properties and the quit rent paid by Sunway Integrated Properties) less of expenses such as management fees, trustee fees and interest expenses the basis of which is similar to previous Sunway REIT transactions which we deem reasonable. This coupled with the expected incremental income arising from the expansion of the Sunway Carnival Mall should give rise to a total incremental net distributable income of RM43.19 million which may result in an increase of Sunway REIT's DPU from 7.33 sen (based on audited FYE 30 June 2020) to an illustrative DPU of 7.59 sen.

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

However, we wish to highlight that the Manager had taken into consideration the valuation report and the financials of Sunway Carnival Mall up to 30 June 2020 in deriving the above RM43.19 million annual incremental net distributable income contribution. There is thus no assurance that the illustrative results can be indication of the results of the operations of Sunway REIT going forward.

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5.6 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 Sunway REIT's 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 to 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) Business risks relating to the Proposed Acquisition

Upon completion of the Proposed Acquisition, Sunway REIT will be exposed to business risks associated to The Pinnacle Sunway which include, amongst others, the following:-

- (i) External factors outside the control of the Manager which affect the office sector and Sunway REIT as set out in the Section 5 of Part A of the Circular. In addition, the Proposed Acquisition will subject Sunway REIT to specific risks associated with the office sector. These include, amongst others, oversupply in office space in Malaysia and increased competition from other office properties resulting in termination of tenancies, non-renewal of expired tenancies, or existing tenancies being renewed or new tenancies being entered into on less favourable rental rates and terms; and
- (ii) Failure on the part of any of the Lessees to fulfil their obligations (including payment of lease rentals) during the tenure of the tenancies due to, amongst others, outbreak of infectious diseases which include the coronavirus disease 2019, a movement control order implemented by the Government and changes in statutory laws, regulations or government policies.

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.

(b) Risks caused by external factors

The Pinnacle Sunway 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 Pinnacle Sunway is 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 Pinnacle Sunway 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 Pinnacle Sunway;

- (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 Pinnacle Sunway in ensuring compliance with such changes; and

- (iv) Any compulsory acquisition by the Government of the Land(s) could have material adverse effect on the value of the Subject Lands and Buildings and Sunway REIT's financial position.

(c) 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 Pinnacle Sunway from the chargee (Malaysian Trustees Berhad) 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 Pinnacle Sunway may result in the non-completion of the Proposed Acquisition.

The Proposed Acquisition is also conditional upon the completion of the Proposed Private Placement. Any risk due to the delay or failure to complete or to raise the required gross proceeds from the Proposed Private Placement 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 Proposed Private Placement, there can be no assurance that the Proposed Acquisition will be completed within the stipulated timeframe. We further note a clause within the SPA whereby after the receipt of the Balance Consideration, the Vendors will acknowledge Sunway REIT as the rightful owner of The Pinnacle Sunway and will hold Sunway Pinnacle as bare trustee for Sunway REIT.

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.

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5.7

SALIENT TERMS OF THE SPA

The SPA was entered into to facilitate the Proposed Acquisition. Please refer to Appendix II 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 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:-

Salient terms of the SPA	Comments
<p>Conditions of the disposal and purchase</p> <p>The Pinnacle Sunway (together with all the fixtures and fittings fixed to or located or used in The Pinnacle Sunway and the services infrastructure and systems and facilities) are disposed on an “as is where is” basis and free from any Encumbrances, save for the Charge and the lien-holder’s caveat, which will be discharged upon the Completion Date (as defined below), with legal possession, and that all the rights, benefits, interest, obligations and liabilities of Sunway Pinnacle pursuant to the Tenancy Agreements are novated to the Trustee and subject to all applicable licenses, certificates and permits affecting The Pinnacle Sunway.</p>	<p>We note that the novation of the Tenancy Agreements upon completion of the Proposed Acquisition is necessary to ensure that Tenants can continue their existing tenancies under similar terms as per the Tenancy Agreements.</p>
<p>Conditions precedent</p> <p>(a) The SPA is conditional upon the following Conditions Precedent being fulfilled or obtained by the date falling six months after the date of the SPA, or such other extended date as the parties may mutually agree upon in writing (“Cut-Off Date”):-</p> <ul style="list-style-type: none"> (i) the Trustee obtains the following approvals from the unitholders at a Unitholders’ Meeting, which includes:- <ul style="list-style-type: none"> (A) the Proposed Acquisition; and (B) the Proposed Private Placement (which includes the allotment and issuance of the Placement Units); (ii) the approval of Bursa Securities for the listing of the Placement Units; 	<p>The Conditions Precedent are reasonable due to the following:-</p> <ul style="list-style-type: none"> (a) Conditions Precedent (i), (iv) and (v) are required from relevant parties to give effect to the Proposed Acquisition; and (b) Conditions Precedent (ii) and (iii) are required to facilitate the raising of funds by placement for the Proposed Acquisition. <p>We note that the Proposed Acquisition is conditional upon, amongst others, the completion of the Proposed Private Placement. If the Proposed Private Placement is not completed, the Trustee and the Vendors will not proceed with the Proposed Acquisition.</p> <p>If the Conditions Precedent are not fulfilled or waived within 6 months of the Agreement date, the Purchaser has the right to terminate the Agreement and obtain a full refund of the Deposit (as defined herein) free of interest.</p>

Salient terms of the SPA	Comments
<p>(iii) the completion of the Proposed Private Placement (including the receipt of net proceeds raised from the Proposed Private Placement by the Trustee);</p> <p>(iv) the Vendors obtain the approval of the State Authority for the transfer of The Pinnacle Sunway to the Trustee; and</p> <p>(v) any other approvals of any authorities as may be deemed necessary by the parties and agreed in writing.</p> <p>(b) If any approval or consent referred to in (ii), (iv) or (v) above, is given upon terms and conditions that are unacceptable to the Trustee, the Trustee may within a period of 21 days after being notified on such terms and conditions, submit or require that an appeal be submitted, if avenues for such appeal exist.</p> <p>(c) The Trustee shall be entitled to waive in whole or in part and conditionally or unconditionally, to the extent permitted by law or applicable regulations, the requirement to satisfy the conditions set out in (a) above.</p> <p>(d) If the Conditions Precedent set out in (a) above are granted or obtained by the Cut-Off Date, either unconditionally or subject to conditions acceptable by the Trustee, then the SPA will become unconditional in the following manner (“Unconditional Date”):-</p> <p>(i) if the Conditions Precedent are granted unconditionally, on the business day after the day upon which the Conditions Precedent set out in (a) above have been fulfilled/obtained; or</p> <p>(ii) if any approval or consent is granted subject to any condition, on the business day after the day upon which the Trustee accepts such condition.</p>	

Salient terms of the SPA	Comments
<p>Manner of payment of the Purchase Consideration</p> <p>(a) The Trustee has paid the Deposit of RM45.0 million in cash upon the execution of the SPA.</p> <p>(b) The Balance Purchase Consideration of RM405.0 million shall be paid by the Trustee to the Vendors in cash on or before the period of three months after the Unconditional Date or such other date as may be mutually agreed upon by the parties (“Completion Date”) or the Extended Completion Date (as defined below).</p> <p>(c) If the Trustee shall fail to pay the Balance Purchase Consideration by the Completion Date, the Vendors shall automatically grant to the Trustee an extension of one month from the Completion Date to pay the Balance Purchase Consideration provided that the Trustee shall pay to the Vendors in cash interest at the rate of 6.0% per annum on the Balance Purchase Consideration or any part thereof remaining unpaid, calculated on a daily basis, from the next day following the Completion Date until the date of actual payment of the Balance Purchase Consideration and which interest shall be paid together with the Balance Purchase Consideration or any part thereof remaining unpaid (“Extended Completion Date”).</p> <p>(d) The Trustee or the Trustee’s solicitors shall authorise the moneys received forming part of the Balance Purchase Consideration (including all interest accrued thereon) in the following order of priority:-</p> <ol style="list-style-type: none"> (i) firstly, to pay the redemption sum to the sukuk facility agent directly to discharge The Pinnacle Sunway; (ii) secondly, towards settlement of all fees, charges, expenses and other payments, if any, payable by the Vendors under the SPA; and (iii) thirdly, to release the remaining balance to the Vendors. 	<p>The Deposit serves as a safeguard of the Vendors’ interest in the event the Trustee fails to satisfy the Balance Consideration or breach the terms of the SPA. In such event, the Vendors’ has the right to terminate the SPA and forfeit the Deposit free of interest. We wish to highlight that if the Condition Precedents 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 Vendors on the Completion Date.</p> <p>We note that the Deposit paid by the Trustee upon entering into the Agreement is reasonable as it is consistent with transactions of similar nature.</p> <p>We further note that the Purchase Consideration will be funded via a combination of 10% via Existing Debt Programmes and 90% from funds raised from the Proposed Private Placement.</p> <p>We note that the authorise and issue price of the Proposed Private Placement will be determined at a later date via a bookbuilding exercise. We note from Section 2.2 of Part A of this Circular that the new units to be issued pursuant to the Proposed Private Placement shall be up to 20% of the total number of issued units of Sunway REIT and issue price will be fixed at the material point in time based on a discount of equal to or less than 10% to the 5-day VWAP of Sunway REIT units. We note that the basis of determining the number of units and basis of setting the issue price is akin to that of a placement undertaken under a general mandate under the Listing Requirements.</p> <p>We wish to highlight that based on paragraph 8.32 of the Guidelines on Listed Real Estate Investment Trust issued by the Securities Commission Malaysia, 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. The SC had on 12 August 2020 temporarily increase the gearing limit for Malaysian real estate investment trusts from 50% to 60%, effective 12 August 2020 until 31 December 2022.</p>

Salient terms of the SPA	Comments
<p>Adjustment of the Purchase Consideration</p> <p>(a) If the assessed market value of The Pinnacle Sunway shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the Valuation Report and the variation/adjustment to market value is equal to or less than 5.0%, the Balance Purchase Consideration and the Purchase Consideration shall be adjusted upwards or downwards accordingly (“Price Adjustment”) by the same quantum of variation/adjustment.</p> <p>(b) The adjusted Purchase Consideration to be paid by the Trustee to the Vendors pursuant to the manner of payment of the Purchase Consideration shall be deemed to be the sum as adjusted in accordance with (a) above.</p> <p>(c) Where the variation/adjustment to the assessed market value of The Pinnacle Sunway pursuant to any comments provided by the relevant authorities on the Valuation Report is more than 5.0%, the parties shall in good faith discuss and negotiate on an appropriate adjustment to the Purchase Consideration and mutually agree on an adjusted Purchase Consideration and (where appropriate, an adjusted manner of payment of the Purchase Consideration) which is acceptable to all parties. If the parties are unable to reach mutual agreement on the adjusted Purchase Consideration within a period of 30 days or any mutually agreed extension period, either party shall be entitled to terminate the SPA by notice in writing.</p>	<p>Based on the audited total asset value of Sunway REIT for the FYE 30 June 2020 and as illustrated in Section 6.5 of Part A of this Circular, the proforma gearing ratio of Sunway REIT after the Proposed Acquisition will improve to 37.6% from 40.7%.</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 Pinnacle Sunway. 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 Vendors.</p> <p>We note that the SPA allows for further discussion and negotiations between the Vendors 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>

Salient terms of the SPA	Comments
<p>Termination and breach</p> <p>(a) Trustee's default</p> <p>If the Trustee defaults in the satisfaction of the Purchase Consideration, the Vendors will be entitled to terminate the SPA by notice in writing to the Trustee if the Trustee fails within 21 days of receipt of a notice from the Vendors to remedy the breach or the matter.</p> <p>(b) Vendor's default</p> <p>The Trustee will be entitled to, at any time after any such default arises and before the Completion Date, give notice to the Vendors terminating the SPA if:-</p> <ul style="list-style-type: none"> (i) the Vendor(s) breaches any term or condition of the SPA (including the warranties) or if fail to perform or observe any undertaking, obligation or agreement expressed in the SPA; (ii) the Vendor(s) fails, neglects or refuses to complete the disposal of The Pinnacle Sunway under the terms of SPA; (iii) a petition is presented (and such petition is not stayed or struck-out within 30 business days of the petition being served) or an order is made or a resolution is passed for the winding up of the Vendor(s); (iv) an administrator or receiver or receiver and manager is appointed over or distress, attachment or execution is levied or enforced upon, any part of the assets or undertakings of the Vendor(s); (v) the Vendor(s) becomes insolvent or is unable to pay its debts or admits in writing its inability to pay its debts as and when they fall due or enter into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors; 	<p>In the event of termination of the SPA by the Vendor(s), the Vendor(s) has the right to forfeit the Deposit free of interest. We note that the Vendor(s) only have 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 revised Purchase Consideration if the variation/adjustment of the market value is more than 5% of the Balance Consideration.</p> <p>Conversely, in the event of default by the Vendor(s), we note that the Trustee has the right to request for specific performance by the Vendor(s). In the event the Trustee chooses not to seek specific performance by the Vendor(s) and terminate the SPA, the Vendor(s) 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
<p>(vi) the Vendor(s) ceases or threatens to cease to carry on the whole or any substantial part of its business (except for the purpose of a bona fide reconstruction or amalgamation which would not result or cause any failure or inability to duly perform or fulfil any obligation under the SPA); or</p> <p>(vii) the Transfer Documents (as defined below) or Discharge Documents (as defined below) cannot be presented or registered for any reasons whatsoever other than by reasons caused by or attributable to any act, default or omission of the Trustee,</p> <p>provided that for any breach referred to under (i), (ii) and (vii) above, the Vendors shall be given a period of 14 days from its receipt of a notice from the Trustee to remedy the breach or the matter. For the avoidance of doubt, no remedy period is to be given to the Vendors for any breach referred to under (iii), (iv), (v) and (vi) above.</p> <p>(c) Consequences of termination by the Vendors</p> <p>If a notice terminating the SPA is given by the Vendors, then within 14 days of that notice, the Vendors must return all moneys received free of interest (excluding the Deposit which will be absolutely forfeited by the Vendors as agreed liquidated damages) to the Trustee. In exchange, the Trustee and the Trustee’s solicitors must return or cause to be returned to the Vendors all the Transfer Documents and Discharge Documents which are in their possession with the Vendors’ interest intact and to re-deliver to the Vendors possession of The Pinnacle Sunway, if the same has been delivered to the Trustee.</p> <p>(d) Consequences of termination by the Trustee</p> <p>If a notice terminating the SPA is given by the Trustee, then within 14 days of that notice, the Vendors must return all moneys received as part of the Purchase Consideration (including the Deposit), free of interest to the Trustee.</p>	

Salient terms of the SPA	Comments
<p>If the Trustee elects not to pursue the remedy of specific performance as referred as below, the Vendors must pay an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee and the Trustee's solicitors must return or cause to be returned to the Vendors all Transfer Documents and Discharge Documents which are in their possession with the Vendors' interest intact and to re-deliver to the Vendors possession of The Pinnacle Sunway, if the same has been delivered to the Trustee.</p> <p>(e) Mitigation of risk of non-registration of Transfer</p> <p>As at the Completion Date after the Vendors' receipt of the Balance Purchase Consideration and thereafter:-</p> <p>(i) the Vendors acknowledge that the Trustee is the rightful beneficial owner of The Pinnacle Sunway for valuable consideration and that it has no further rights, title and benefit in and to The Pinnacle Sunway;</p> <p>(ii) to the extent that any of the valid and registrable memorandum of transfer in Form 14A of the National Land Code 1965 or such other prescribed statutory form for the Land, duly completed and executed by Sunway Integrated Properties in favour of the Trustee ("Transfer") is not registered, the Vendors further acknowledge that they hold The Pinnacle Sunway relating to such Transfer as bare trustee for and on behalf of the Trustee;</p> <p>(iii) the Vendors will immediately if required by the Trustee execute in favour of the Trustee an irrevocable and unconditional power of attorney upon such terms reasonably acceptable to the Trustee granting to the Trustee the power to fully deal with The Pinnacle Sunway (including the power to dispose, transfer, charge and dispose The Pinnacle Sunway in accordance with applicable laws including the right to receive the disposal proceeds for itself) as if it was the true and rightful owner of The Pinnacle Sunway;</p> <p>(iv) to the extent any of the Transfer Documents is not registered, the Vendors will do all such acts and things as may be reasonable required by the Trustee in order that the Trustee may effectively deal with The Pinnacle Sunway in its capacity as the sole unencumbered beneficial owner; and</p>	

Salient terms of the SPA

Comments

(v) the Vendors covenant not to deal with The Pinnacle Sunway (including dispose, lease, charge, encumber or otherwise) without the prior written consent of the Trustee save as envisaged by (iii) above.

(f) Non-registration of Transfer Documents or Discharge Documents

If the registration of the Transfer, the quit rent and assessment receipts for The Pinnacle Sunway for the current year, and all other documents which it is incumbent upon the Vendors to produce as documents necessary to enable registration of the Transfer to be effected in favour of the Trustee free from Encumbrances under the terms of SPA, save for the Discharge Documents (collectively "**Transfer Documents**") or the Discharge Documents is not or cannot be effected for any reason whatsoever not due to any fault of either of the parties (except minor defects which can be remedied in which event the relevant party shall forthwith proceed to rectify the defect), the Trustee shall be entitled to terminate the SPA by notice in writing to the Vendors, whereupon within 14 days of the giving of the notice:-

(i) the Vendors must return all moneys received by it pursuant to the provisions of the SPA free of interest to the Trustee;

(ii) the Trustee's solicitors must and are hereby authorised to return all moneys received by them as part of the Purchase Consideration (including the Deposit) and held by them as at the date, together with any late payment interest paid by the Trustee, to the Trustee;

(iii) in exchange for the Vendors' compliance with (i) above:-

(A) the Trustee and the Trustee's solicitors must return to the Vendors the Transfer, the original issue document of title of The Pinnacle Sunway and such of the Transfer Documents and Discharge Documents which are as that date in their possession with the Vendors' interest intact; and

(B) the Trustee shall re-deliver to the Vendors possession of The Pinnacle Sunway, if the same has been delivered to the Trustee.

Salient terms of the SPA	Comments
<p>(g) Specific Performance</p> <p>Vendors and the Trustee, as the case may be, will be entitled to the remedy of specific performance to compel the other party in default to complete the Proposed Acquisition, and to claim damages for breach of the SPA.</p>	
<p>Real property gains tax</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 Vendors and the Trustee not to retain any retention sum payable to the Inland Revenue Board.</p>	<p>The term serves to comply with the requirements of the governing tax laws and hence, is deemed reasonable.</p>
<p>Sunway Pinnacle's obligations for the service contracts</p> <p>Sunway Pinnacle covenants and undertakes with the Trustee that it will execute, act and/or do such assignments, novations, documents and/or things as may be necessary to novate, assign and transfer validly to the Trustee all title, rights and interests of Sunway Pinnacle for several operation and maintenance contracts for The Pinnacle Sunway ("Service Contracts"), agreements or any other letters to the Trustee and/or to terminate the Service Contracts, agreements or any other letters.</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>Delivery of legal possession of The Pinnacle Sunway</p> <p>Legal possession of The Pinnacle Sunway free from all Encumbrances and claims whatsoever, will be delivered to the Trustee by the Vendors on the Completion Date.</p>	<p>This term is customary in transactions of similar nature and hence, is deemed reasonable.</p>

Salient terms of the SPA	Comments
<p>Indemnity by the Vendors</p> <p>The Vendors indemnify and agree to keep the Trustee indemnified against all losses, damages, costs, expenses and outgoings which the Trustee may incur or be liable for any claim, demand, liability, action, proceedings or suits arising out of or in connection with:</p> <ul style="list-style-type: none"> (a) breach of a warranty; (b) any warranty not being true and correct in all material respects; or (c) any warranty being misleading in any material respect. 	<p>These terms are customary in transactions of similar nature and hence, is deemed reasonable.</p>

Comments:-

Premised on the above, we are of the opinion that the overall terms of the SPA 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. You should also carefully consider these factors before voting on the resolution pertaining to the Proposed Acquisition at Sunway REIT's forthcoming Unitholders' Meeting:-

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

In arriving at the market value of RM450.0 million for The Pinnacle Sunway, the Valuer had ascribed a market value of RM450 million using the Income Approach. The market value of RM450 million is supported by a valuation of RM461 million derived using the Comparison Approach. Accordingly, we consider the Purchase Consideration for The Pinnacle Sunway as fair.

(b) Proposed Private Placement

We note that the proceeds raised from the Proposed Private Placement is to be utilised for, amongst others, the settlement of the RM405.0 million Balance Consideration.

We note that the new units to be issued pursuant to the Proposed Private Placement shall be up to 20% of the total number of issued units of Sunway REIT and the issue price shall be fixed at a discount of not more than 10.0% to the 5-day VWAP of Sunway REIT before the price fixing date. The number of units and the basis of setting the Placement Issue Price is akin to that of a placement undertaken through a general mandate under the Listing Requirements.

Accordingly, we are of the opinion that the Proposed Private Placement is reasonable.

(c) Rationale for the Proposed Acquisition (Section 5.3 of this IAL)

The Proposed Acquisition is expected to be earnings accretive to Sunway REIT and provides Sunway REIT with a more stable and sustainable income stream. 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 Pinnacle Sunway, being a Grade A office building will diversify Sunway REIT's existing assets portfolio 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.

(d) Industry outlook and future prospects (Section 5.4 of this IAL)

We note the current uncertainties of the Malaysian economy along the Covid-19 pandemic that continues to disrupt lives, economies and societies globally, we take cognizance that rental rates and occupancy levels of office buildings in Malaysia, especially within Klang Valley may experience downwards pressure in the near term.

We also note that such near term factors could be mitigated with the recent cut in overnight policy rate to 1.75% in July 2020 and the economic stimulus packages launched by the Government.

At the Material Date of Valuation, The Pinnacle Sunway is fully tenanted. The Pinnacle Sunway is a Grade A, GBI-certified and MSC-status office building, located strategically within the integrated township development of Sunway City.

As Sunway REIT's is granted the right of first refusal to acquire The Pinnacle Sunway, which is earning accretive and is in line with the REIT's deed, the Proposed Acquisition presents a long term benefit to Sunway REIT. Barring any unforeseen circumstances, the prospects of The Pinnacle Sunway to Sunway REIT should be generally positive.

(e) Effects of the Proposed Acquisition (Section 5.5 of this IAL)

The Proposed Acquisition is conditional upon the completion of the Proposed Private Placement. The effects of the Proposed Acquisition together with the basis and assumptions are detailed in Section 5.5 of this IAL.

The Proposed Acquisition will not have any effect on the unitholders' capital and their equity in Sunway REIT. The Proposed Acquisition is not expected to have a material effect on the earnings, EPU, DPU, NAV and NAV per unit of Sunway REIT for the FYE 30 June 2021.

The Proposed Private Placement will increase Sunway REIT's unitholders' capital from the existing RM2.73 billion (2.95 billion units) to RM3.43 billion (3.4 billion units). The gearing of the Sunway REIT will also reduce from 40.7% as at 30 June 2020 to 37.6% upon completion of the Proposed Private Placement and Proposed Acquisition. Sunway REIT's unit holders who do not participate in the placement will have their percentage equity interest diluted accordingly. The Proposed Private Placement is expected to increase Sunway REIT's NAV to RM5.14 billion from RM4.43 billion.

Based on the funding parameters as set out in section 2.1.3 Part A of this Circular, the Proposed Acquisition and the expected incremental income arising from the expansion of the Sunway Carnival Mall are expected to contribute to the earnings of Sunway REIT by an additional approximately RM43.19 million or DPU of 0.26 sen per annum.

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

(f) Risk factors relating to the Proposed Acquisition (Section 5.6 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 estates 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.

(g) Salient Terms of the SPA (Section 5.7 of this IAL)

Based on our review of the salient terms of the SPA, we are of the opinion that the overall terms of the SPA 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 Sunway REIT's 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 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 Vendors, Sunway REIT Holdings and EPF in this Circular have been provided by the Vendors, Sunway REIT Holdings and EPF, and the Board's responsibility is restricted to ensuring that such information is accurately reproduced in this Circular.

2. CONSENTS AND CONFLICTS OF INTEREST**2.1. RHB Investment Bank**

RHB Investment Bank, being the Sole Principal Adviser and Placement Agent for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all reference thereto in the form and context in which it appears in this Circular.

RHB Investment Bank, its subsidiaries and associated companies, as well as its holding company, RHB Bank Berhad, and the subsidiaries and associated companies of RHB Bank Berhad ("**RHB Banking Group**") form 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 in its ordinary course of business with Sunway REIT and its subsidiaries ("**Sunway REIT Group**"). RHB Banking Group has engaged and may in the future, engage in transactions with and perform services for Sunway REIT 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 Sunway REIT Group, hold long or short positions in the securities offered by any member of Sunway REIT 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 Sunway REIT Group.

EPF is a substantial shareholder and substantial unitholder of RHB Bank Berhad and Sunway REIT respectively. However, EPF is not involved in the day-to-day operations of RHB Banking Group and Sunway REIT Group.

In addition, Tan Sri Dr Rebecca Fatima Sta Maria, an Independent Non-Executive Director of RHB Bank Berhad and RHB Investment Bank, is also an Independent Non-Executive Director of Sunway Berhad, 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 Berhad.

The Trustee, which is a company within RHB Banking Group, provides trustee services to Sunway REIT. Notwithstanding the above and as at the LPD, RHB Investment Bank, as part of RHB Banking Group is not aware of any conflict of interests which exists or is likely to exist in its capacity as the Sole Principal Adviser and Placement Agent for the Proposals on the basis that:

- (a) RHB Investment Bank is a licensed investment bank and its appointment as the Sole Principal Adviser and Placement Agent for the Proposals is in the ordinary course of its business. RHB Investment Bank does not have any interest in the Proposals other than as the Sole Principal Adviser and Placement Agent based on the terms of engagement which are mutually agreed between both parties. Further, RHB Investment Bank does not receive or derive any financial interest or benefit save for the professional fees received in relation to its appointment as the Sole Principal Adviser and Placement Agent for the Proposals;
- (b) the Trustee is a registered trust company under the Trust Companies Act, 1949 and also registered with the SC and its appointment as the Trustee to Sunway REIT is in the ordinary course of its business;
- (c) the corporate finance division of RHB Investment Bank ("**RHB CF**") is required under its investment banking license to comply with strict policies and guidelines issued by the SC, Bursa Securities and Bank Negara Malaysia governing its advisory operations. These guidelines require, among 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
- (d) the conduct of RHB Banking Group's business is regulated strictly by the Financial Services Act, 2013 ("**FSA**"), the CMSA and RHB Banking Group's own internal controls and checks which includes, segregation of reporting structures, in that its activities are monitored and reviewed by independent parties and committees.

Save for the above, RHB Investment Bank is not aware of any existing or potential interest or any circumstances which would give rise to a conflict of interest by virtue of its role as the Sole Principal Adviser and Placement Agent for the Proposals.

2.2. Credit Suisse

Credit Suisse, being the Placement Agent, 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.

Credit Suisse 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 Placement Agent for the Proposed Private Placement.

2.3. Maybank Investment

Maybank Investment, being the Placement Agent, 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.

Maybank Investment and its related and associated businesses ("**Maybank Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and fund management and credit transaction service businesses.

The Maybank Group has engaged and may in the future, engage in transactions with and perform services for Sunway REIT and its subsidiaries (“**Sunway REIT Group**”) and /or any of its affiliates, in addition to the role set out in this Circular. In addition, in the ordinary course of business, any member of the Maybank Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with any member of Sunway REIT Group, its shareholders, and/or their affiliates and/or any other entity or person, hold long or short positions in securities issued by Sunway REIT and/or its affiliates, 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 any member of Sunway REIT Group and/or its affiliates. This is a result of the businesses of the Maybank Group generally acting independently of each other and accordingly, there may be situations where parts of the Maybank Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interest of Sunway REIT Group. Nonetheless, the Maybank Group is required to comply with the applicable laws and regulations issued by the relevant authorities governing its advisory business, which require, among others, segregation between dealing and advisory activities and Chinese wall between different business divisions.

As at LPD, the Maybank Group has extended credit facilities to Sunway REIT Group in its ordinary course of business. Notwithstanding, Maybank Investment is of the view that the aforesaid lending relationship will not give rise to a conflict of interest situation in its capacity as Placement Agent for the Proposed Private Placement as:

- (i) the extension of credit facilities arose in the ordinary course of business of the Maybank Group;
- (ii) the conduct of the Maybank Group in its banking business is strictly regulated by the FSA, Islamic Financial Services Act 2013, and the Maybank Group’s internal controls and checks; and
- (iii) the total outstanding amount owed by Sunway REIT Group to the Maybank Group is not material when compared to the audited net assets of the Maybank Group as at 31 December 2019 of RM81.6 billion.

Maybank Investment is not aware of any circumstance that exists or is likely to exist which would give rise to a conflict of interest situation by virtue of its role as the Placement Agent for the Proposed Private Placement.

2.4. AmInvestment Bank

AmInvestment Bank, being the Independent Adviser 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, its related and associated companies, as well as its holding company, AMMB Holdings Berhad and the subsidiaries and associated companies of its holding company (“**AmBank Group**”) form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses.

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.

APPENDIX I – FURTHER INFORMATION (CONT'D)

As at the LPD, AmBank Group has extended credit facilities of RM725.0 million to Sunway Berhad and its group of companies (“**Sunway Group**”).

AmInvestment Bank is of the view that their role as Independent Adviser for the Proposed Acquisition is not likely to result in a conflict of interest or potential conflict of interest situation for the following reasons:-

- (i) their role in the Proposed Acquisition is undertaken in the ordinary course of business; and
- (ii) they undertake their role on an arm’s length basis and their conduct is regulated by Bank Negara Malaysia and the SC and governed under, inter alia, the FSA, the CMSA and AmBank Group’s Chinese Wall policy and internal controls and checks.

Premised on the above, AmInvestment Bank is not aware of any conflict of interest which exist or is likely to exist by virtue of its role as the Independent Adviser for the Proposed Acquisition.

2.5. 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, Valuation Report 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.

2.6. BDO PLT

BDO PLT, being the reporting accountants, 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.

3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

3.1. Material commitments

Save as disclosed below, as at the LCD, 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:

	<u>RM'000</u>
Approved and contracted for	329,682
Approved but not contracted for	<u>304,114</u>
	<u>633,796</u>

3.2. Contingent liabilities

As at the LCD, 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.

APPENDIX I – FURTHER INFORMATION (CONT'D)

4. HISTORICAL SHARE PRICES

The monthly highest and lowest closing market prices of Sunway REIT units as transacted on Bursa Securities for the past 12 months preceding the date of this Circular are as follows:

<u>Month</u>	<u>Highest</u>	<u>Lowest</u>
	<u>RM</u>	<u>RM</u>
2019		
September	1.95	1.89
October	1.95	1.81
November	1.90	1.81
December	1.86	1.79
2020		
January	1.85	1.80
February	1.90	1.78
March	1.90	1.55
April	1.63	1.53
May	1.63	1.57
June	1.68	1.57
July	1.63	1.54
August	1.60	1.50

Last transacted market price on 26 June 2020, being the last Market Day immediately before the first announcement of the Proposed Acquisition and Proposed Private Placement on 29 June 2020 1.60

Last transacted market price as at the LPD 1.60

(Source: Bloomberg)

5. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As warranted by the Vendors under the terms of the SPA, there is no material litigation, claim or arbitration involving The Pinnacle Sunway.

Save as disclosed below, as at the LPD, neither Sunway REIT and its subsidiaries are engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which has or would have a material and adverse effect on the financial position or business of Sunway REIT and its subsidiaries and, to the best of the Board's knowledge and belief, the Board confirmed that there are no proceedings pending or threatened against Sunway REIT and its subsidiaries or any facts likely to give rise to any proceedings which materially and adversely affect the financial position or business of Sunway REIT and its subsidiaries:

Metroplex Holdings Sdn. Bhd. ("Metroplex") v Trustee and Manager (collectively, the "Defendants")

On 28 September 2015, Metroplex filed a writ of summons and a statement of claim against the Defendants to claim, amongst others, damages for various chattels and movable items (i.e. furniture and office equipment, decorations, cutlery, kitchen equipment, bar equipment, concierge and reception tables, blinds and curtains) ("**Chattels and Movable Items**") which Metroplex alleged the Chattels and Movable Items were acquired and owned by them and were not removed when the Defendants took possession of the hotel at Sunway Putra on 27 September 2011. Metroplex has in its statement of claim alleged that the Chattels and Movable Items were worth in excess of RM80 million as at September 2011.

On 3 November 2017, the High Court allowed Metroplex's claim on liability in which the damages to be awarded to Metroplex shall be assessed ("**High Court's Decision**").

APPENDIX I – FURTHER INFORMATION (CONT'D)

Subsequently, the Defendants appealed to the Court of Appeal against the High Court's Decision on 6 November 2017. The Court of Appeal allowed the Defendants' Appeal and set aside the High Court's Decision on 22 January 2019 ("**Court of Appeal's Decision**").

On 20 February 2019, Metroplex filed motion for leave to appeal to the Federal Court against the Court of Appeal's Decision ("**Motion**"). The Motion was allowed on 25 November 2019. Subsequently, Metroplex filed a notice of appeal to appeal against the Court of Appeal's Decision on 2 December 2019 ("**Appeal**"). The hearing of the Appeal which was to take place on 7 September 2020 was adjourned to 31 March 2021.

The solicitors acting for the Defendants are of the view that the Defendants have a reasonably fair chance of successfully resisting the Appeal.

6. 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, Malaysia 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;
- (ii) the audited financial statements of Sunway REIT for the past two FYEs 30 June 2019 and 30 June 2020;
- (iii) the letters of consent referred to in Section 2 of Appendix I of this Circular;
- (iv) the SPA;
- (v) the valuation certificate dated 19 June 2020, Valuation Certificate attached as Appendix III of this Circular, and Valuation Report;
- (vi) the relevant cause papers on the material litigation referred to in Section 5 of the Appendix I of this Circular; and
- (vii) the Reporting Accountants' letter on the proforma statement of financial position attached as Appendix IV of this Circular.

APPENDIX II – SALIENT TERMS OF THE SPA

The salient terms of the SPA are as follows:

(i) Conditions of the disposal and purchase

The Pinnacle Sunway (together with all the fixtures and fittings fixed to or located or used in The Pinnacle Sunway and the services infrastructure and systems and facilities) are disposed on an “as is where is” basis and free from any Encumbrances, save for the Charge and the lien-holder’s caveat, which will be discharged upon the Completion Date (as defined in Section (iii)(b) below), with legal possession, and that all the rights, benefits, interest, obligations and liabilities of Sunway Pinnacle pursuant to the Tenancy Agreements are novated to the Trustee and subject to all applicable licenses, certificates and permits affecting The Pinnacle Sunway.

(ii) Conditions precedent

(a) The SPA is conditional upon the following Conditions Precedent being fulfilled or obtained by the date failing six months after the date of the SPA, or such other extended date as the parties may mutually agree upon in writing (“**Cut-Off Date**”):

(A) the Trustee obtains the following approvals from the Unitholders at a Unitholders’ Meeting, which includes:

1. the Proposed Acquisition; and
2. the Proposed Private Placement (which includes the allotment and issuance of the Placement Units);

(B) the approval of Bursa Securities for the listing of the Placement Units;

(C) the completion of the Proposed Private Placement (including the receipt of net proceeds raised from the Proposed Private Placement by the Trustee);

(D) the Vendors obtain the approval of the State Authority for the transfer of The Pinnacle Sunway to the Trustee; and

(E) any other approvals of any authorities as may be deemed necessary by the parties and agreed in writing.

(b) If any approval or consent referred to in Sections (ii)(a) (B), (D) or (E) above, is given upon terms and conditions that are unacceptable to the Trustee, the Trustee may within a period of 21 days after being notified on such terms and conditions, submit or require that an appeal be submitted, if avenues for such appeal exist.

(c) The Trustee shall be entitled to waive in whole or in part and conditionally or unconditionally, to the extent permitted by law or applicable regulations, the requirement to satisfy the conditions set out in Section (ii)(a) above.

(d) If the Conditions Precedent set out in Section (ii)(a) above are granted or obtained by the Cut-Off Date, either unconditionally or subject to conditions acceptable by the Trustee, then the SPA will become unconditional in the following manner (“**Unconditional Date**”):

(A) if the Conditions Precedent are granted unconditionally, on the business day after the day upon which the Conditions Precedent set out in Section (ii)(a) above have been fulfilled/obtained; or

(B) if any approval or consent is granted subject to any condition, on the business day after the day upon which the Trustee accepts such condition.

APPENDIX II – SALIENT TERMS OF THE SPA (CONT'D)

(iii) Manner of payment of the Purchase Consideration

- (a) The Trustee has paid the Deposit of RM45.0 million in cash upon the execution of the SPA.
- (b) The Balance Purchase Consideration of RM405.0 million shall be paid by the Trustee to the Vendors in cash on or before the period of three months after the Unconditional Date or such other date as may be mutually agreed upon by the parties ("**Completion Date**") or the Extended Completion Date (as defined in Section (iii)(c) below).
- (c) If the Trustee shall fail to pay the Balance Purchase Consideration by the Completion Date, the Vendors shall automatically grant to the Trustee an extension of one month from the Completion Date to pay the Balance Purchase Consideration provided that the Trustee shall pay to the Vendors in cash interest at the rate of 6.0% per annum on the Balance Purchase Consideration or any part thereof remaining unpaid, calculated on a daily basis, from the next day following the Completion Date until the date of actual payment of the Balance Purchase Consideration and which interest shall be paid together with the Balance Purchase Consideration or any part thereof remaining unpaid ("**Extended Completion Date**").
- (d) The Trustee or the Trustee's solicitors shall utilise the moneys received forming part of the Balance Purchase Consideration (including all interest accrued thereon) in the following order of priority:
 - (A) firstly, to pay the redemption sum to the sukuk facility agent directly to discharge The Pinnacle Sunway;
 - (B) secondly, towards settlement of all fees, charges, expenses and other payments, if any, payable by the Vendors under the SPA; and
 - (C) thirdly, to release the remaining balance to the Vendors.

(iv) Adjustment of the Purchase Consideration

- (a) If the assessed market value of The Pinnacle Sunway shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the valuation report and the variation/adjustment to market value is equal to or less than 5.0%, the Balance Purchase Consideration and the Purchase Consideration shall be adjusted upwards or downwards accordingly ("**Price Adjustment**") by the same quantum of variation/adjustment.
- (b) The adjusted Purchase Consideration to be paid by the Trustee to the Vendors pursuant to Section (iii) above shall be deemed to be the sum as adjusted in accordance with Section (iv)(a) above.
- (c) Where the variation/adjustment to the assessed market value of The Pinnacle Sunway pursuant to any comments provided by the relevant authorities on the valuation report is more than 5.0%, the parties shall in good faith discuss and negotiate on an appropriate adjustment to the Purchase Consideration and mutually agree on an adjusted Purchase Consideration and (where appropriate, an adjusted manner of payment of the Purchase Consideration) which is acceptable to all parties. If the parties are unable to reach mutual agreement on the adjusted Purchase Consideration within a period of 30 days or any mutually agreed extension period, either party shall be entitled to terminate the SPA by notice in writing.

(v) Termination and breach**(a) Trustee's default**

If the Trustee defaults in the satisfaction of the Purchase Consideration, the Vendors will be entitled to terminate the SPA by notice in writing to the Trustee if the Trustee fails within 21 days of receipt of a notice from the Vendors to remedy the breach or the matter.

(b) Vendor's default

The Trustee will be entitled to, at any time after any such default arises and before the Completion Date, give notice to the Vendors terminating the SPA if:

- (A) the Vendor(s) breaches any term or condition of the SPA (including the warranties) or if fail to perform or observe any undertaking, obligation or agreement expressed in the SPA; or
- (B) the Vendor(s) fails, neglects or refuses to complete the disposal of The Pinnacle Sunway under the terms of SPA;
- (C) a petition is presented (and such petition is not stayed or struck-out within 30 business days of the petition being served) or an order is made or a resolution is passed for the winding up of the Vendor(s);
- (D) an administrator or receiver or receiver and manager is appointed over or distress, attachment or execution is levied or enforced upon, any part of the assets or undertakings of the Vendor(s);
- (E) the Vendor(s) becomes insolvent or is unable to pay its debts or admits in writing its inability to pay its debts as and when they fall due or enter into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors;
- (F) the Vendor(s) ceases or threatens to cease to carry on the whole or any substantial part of its business (except for the purposes of a bona fide reconstruction or amalgamation which would not result or cause any failure or inability to duly perform or fulfil any obligation under the SPA); or
- (G) the Transfer Documents (as defined in Section (v)(f) below) or Discharge Documents cannot be presented or registered for any reasons whatsoever other than by reasons caused by or attributable to any act, default or omission of the Trustee,

provided that for any breach referred to under Sections (v)(b)(A), (B) and (G) above, the Vendors shall be given a period of 14 days from its receipt of a notice from the Trustee to remedy the breach or the matter. For the avoidance of doubt, no remedy period is to be given to the Vendors for any breach referred to under Sections (v)(b)(C), (D), (E) and (F) above.

(c) Consequences of termination by the Vendors

If a notice terminating the SPA is given by the Vendors, then within 14 days of that notice, the Vendors must return all moneys received free of interest (excluding the Deposit which will be absolutely forfeited by the Vendors as agreed liquidated damages) to the Trustee. In exchange, the Trustee and the Trustee's solicitors must return or cause to be returned to the Vendors all the Transfer Documents and Discharge Documents which are in their possession with the Vendors' interest intact and to re-deliver to the Vendors possession of The Pinnacle Sunway, if the same has been delivered to the Trustee.

(d) Consequences of termination by the Trustee

If a notice terminating the SPA is given by the Trustee, then within 14 days of that notice, the Vendors must return all moneys received as part of the Purchase Consideration (including the Deposit), free of interest to the Trustee.

If the Trustee elects not to pursue the remedy of specific performance as referred to under Section (v)(g) below, the Vendors must pay an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee and the Trustee's solicitors must return or cause to be returned to the Vendors all Transfer Documents and Discharge Documents which are in their possession with the Vendors' interest intact and to re-deliver to the Vendors possession of The Pinnacle Sunway, if the same has been delivered to the Trustee.

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

As at the Completion Date after the Vendors' receipt of the Balance Purchase Consideration and thereafter:

- (A) the Vendors acknowledge that the Trustee is the rightful beneficial owner of The Pinnacle Sunway for valuable consideration and that it has no further rights, title and benefit in and to The Pinnacle Sunway;
- (B) to the extent that any of the valid and registrable memorandum of transfer in Form 14A of the National Land Code 1965 or such other prescribed statutory form for the Land, duly completed and executed by Sunway Integrated Properties in favour of the Trustee ("**Transfer**") is not registered, the Vendors further acknowledge that they hold The Pinnacle Sunway relating to such Transfer as bare trustee for and on behalf of the Trustee;
- (C) the Vendors will immediately if required by the Trustee execute in favour of the Trustee an irrevocable and unconditional power of attorney upon such terms reasonably acceptable to the Trustee granting to the Trustee the power to fully deal with The Pinnacle Sunway (including the power to dispose, transfer, charge and dispose The Pinnacle Sunway in accordance with applicable laws including the right to receive the disposal proceeds for itself) as if it was the true and rightful owner of The Pinnacle Sunway;
- (D) to the extent any of the Transfer Documents is not registered, the Vendors will do all such acts and things as may be reasonably required by the Trustee in order that the Trustee may effectively deal with The Pinnacle Sunway in its capacity as the sole unencumbered beneficial owner; and
- (E) the Vendors covenant not to deal with The Pinnacle Sunway (including dispose, lease, charge, encumber or otherwise) without the prior written consent of the Trustee save as envisaged by Section (v)(e)(C) above.

(f) Non-registration of Transfer Documents or Discharge Documents

If the registration of the Transfer, the quit rent and assessment receipts for The Pinnacle Sunway for the current year, and all other documents which it is incumbent upon the Vendors to produce as documents necessary to enable registration of the Transfer to be effected in favour of the Trustee free from Encumbrances under the terms of SPA, save for the Discharge Documents (collectively "**Transfer Documents**") or the Discharge Documents is not or cannot be effected for any reason whatsoever not due to any fault of either of the parties (except minor defects which can be remedied in which event the relevant party shall forthwith proceed to rectify the defect), the Trustee shall be entitled to terminate the SPA by notice in writing to the Vendors, whereupon within 14 days of the giving of the notice:

APPENDIX II – SALIENT TERMS OF THE SPA (CONT'D)

- (A) the Vendors must return all moneys received by it pursuant to the provisions of the SPA free of interest to the Trustee;
- (B) the Trustee's solicitors must and are hereby authorised to return all moneys received by them as part of the Purchase Consideration (including the Deposit) and held by them as at the date, together with any late payment interest paid by the Trustee, to the Trustee;
- (C) in exchange for the Vendors' compliance with Section (v)(f)(A) above:
 - (1) the Trustee and the Trustee's solicitors must return to the Vendors the Transfer, the original issue document of title of The Pinnacle Sunway and such of the Transfer Documents and Discharge Documents which are as that date in their possession with the Vendors' interest intact; and
 - (2) the Trustee shall re-deliver to the Vendors possession of The Pinnacle Sunway, if the same has been delivered to the Trustee.

(g) Specific Performance

Vendors and the Trustee, as the case may be, will be entitled to the remedy of specific performance to compel the other party in default to complete the Proposed Acquisition, and to claim damages for breach of the SPA.

(vi) 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 Vendors and the Trustee not to retain any retention sum payable to the Inland Revenue Board.

(vii) Sunway Pinnacle's obligations for the service contracts

Sunway Pinnacle covenants and undertakes with the Trustee that it will execute, act and/or do such assignments, novations, documents and/or things as may be necessary to novate, assign and transfer validly to the Trustee all title, rights and interests of Sunway Pinnacle for several operation and maintenance contracts for The Pinnacle Sunway ("**Service Contracts**"), agreements or any other letters to the Trustee and/or to terminate the Service Contracts, agreements or any other letters.

(viii) Delivery of legal possession of The Pinnacle Sunway

Legal possession of The Pinnacle Sunway free from all Encumbrances and claims whatsoever, will be delivered to the Trustee by the Vendors on the Completion Date.

(ix) Indemnity by the Vendors

The Vendors indemnify and agree to keep the Trustee indemnified against all losses, damages, costs, expenses and outgoings which the Trustee may incur or be liable for any claim, demand, liability, action, proceedings or suits arising out of or in connection with:

- (a) a breach of a warranty;
- (b) any warranty not being true and correct in all material respects; or
- (c) any warranty being misleading in any material respect.



PRIVATE & CONFIDENTIAL

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

Date: 6th July 2020

Reference No.: V/COR/20/0036/ljh

Dear Sir / Madam,

VALUATION CERTIFICATE FOR THE PINNACLE SUNWAY, PERSIARAN LAGOON, BANDAR SUNWAY, 47500 SUBANG JAYA, SELANGOR DARUL EHSAN HELD UNDER TITLE NO. PN 17103, LOT NO. 61759, TOWN OF SUNWAY, DISTRICT OF PETALING, STATE OF 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 Integrated Properties Sdn Bhd and Sunway Pinnacle 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 REIT in relation to the proposed acquisition of the Subject Property by RHB Trustees Berhad on behalf of Sunway REIT.

This Valuation Certificate is 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 1st June 2020. As such, we have adopted **1st June 2020** as the material date of valuation.

Brief description of the Subject Property is attached overleaf.

Knight Frank Malaysia Sdn Bhd Co Reg. No. 200201017816 (585479-A) (VE (1) 0141)

Suite 10.01, Level 10, Centrepoint South, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.
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IDENTIFICATION OF PROPERTY

Interest Valued / Type of Property Legal interest in a parcel of leasehold land (remaining unexpired term of 77 years) held under Title No. PN 17103, Lot No. 61759, Town of Sunway, District of Petaling, State of Selangor (“Land”) owned by Sunway Integrated Properties Sdn Bhd; together with a building constructed thereon comprising a 24-storey dual compliant [Multimedia Super Corridor (“MSC”) + Green Building Index (“GBI”)] accredited office building with 3-storey mezzanine floors and 6 levels of basement car park along with all fixtures, fittings and supporting services infrastructure, systems and facilities attached thereto (“Building”) owned by Sunway Pinnacle Sdn Bhd (the Land and Building are collectively identified as “The Pinnacle Sunway” or “Subject Property”).

Address The Pinnacle Sunway, Persiaran Lagoon, 47500 Subang Jaya, Selangor Darul Ehsan.

Locality 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), New Pantai Expressway (NPE), North-South Expressway Central Link (ELITE) and the New Klang Valley Expressway (NKVE).

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

Summary of Title Particulars of the Subject Property

Legal Description	: Lot No. 61759 held under Title No. PN 17103, Town of Sunway, District of Petaling, State of Selangor.
Land Area	: 7,285 square metres.
Tenure	: Leasehold interest for a term of 99 years, expiring on 1 st April 2097 (remaining unexpired term of about 77 years).
Registered Proprietor	: Sunway Integrated Properties Sdn Bhd.
Quit Rent (Land Tax)	: RM24,092.00 per annum.
Category of Land Use	: ‘Bangunan’ (Building).
Express Condition	: ‘Bangunan Perniagaan’ (Commercial Building).
Restriction-In-Interest	: ‘Tanah yang diberi milik ini tidak boleh dipindah milik, dipajak atau digadai melainkan dengan kebenaran Pihak Berkuasa Negeri’ (The land shall not be transferred, leased or charged except with the consent of the State Authority).
Encumbrance	: Charged to Malaysian Trustees Berhad vide Presentation No 27909/2018 registered on 28 th March 2018.
Endorsement	: A lien holder’s caveat has been lodged in favour of Malaysian Trustees Berhad vide Presentation No. 61078/2017, registered on 21 st December 2017.

Note: Based on the renewal of Tenancy for the Land dated 30th August 2019 with references to its original Tenancy Agreement dated 25th March 2011 along with all related preceding agreements made thereto, we note that the registered proprietor of the Land, Sunway Integrated Properties Sdn Bhd (the Landlord) had granted a tenancy of the said Land to Sunway Pinnacle Sdn Bhd (the Tenant) (both of which are wholly-owned indirect subsidiaries of Sunway Berhad) for the purpose of developing and constructing a building thereon (the Building) and thereafter operating the same as an office building or such other use as may be agreed by the Landlord for a period of three (3) years commencing from 1st June 2019 to 31st May 2022 (expiry date); with further extended six (6) terms of three (3) years each commencing from the date immediately following the expiry date, subject to terms and conditions stated therein. For the purpose of this Report and Valuation, we were made to understand that both parties have mutually agreed to terminate the aforesaid tenancy upon completion of the sale of the Land and Building referred herein.



PROPERTY DESCRIPTION

Property Description

The Pinnacle Sunway is a twenty-four (24)-storey Grade A dual compliant (MSC + GBI) accredited office building with 3-storey mezzanine floors and 6 levels of basement car park along with all fixtures, fittings and supporting services infrastructure, systems and facilities attached thereto; constructed on a parcel of flat prime commercial land, near regular in shape with a surveyed land area of 7,285 square metres (78,415 square feet | 1.800 acres); having a primary frontage / access from Persiaran Lagoon and a return secondary frontage / access from Jalan Lagoon Timur; with its site boundaries bordered by Menara Sunway to its immediate south and Pinnacle Annexe Sunway to its immediate north-west (both interconnected to The Pinnacle Sunway via overhead pedestrian link bridges); and broadly bounded by Sunway Resort Hotel & Spa to its west and Sunway Pyramid Shopping Mall to its north-west.

General Building Description

Structures	:	Reinforced concrete frame with brick infills clad with aluminium composite panel and glazed curtain wall system.
Roofs	:	Reinforced concrete pitched metal roof.
Ceilings	:	Plastered ceiling incorporating downlights, mineral fibre boards incorporating downlights and cement plaster.
Wall Finishes	:	Marble slabs, homogeneous tiles, ceramic tiles, gypsum board and cement plaster.
Floor Finishes	:	Marble slabs, homogeneous tiles, ceramic tiles, wall-to-wall carpet, timber strips, raised timber fibre board and cement screed.
Windows	:	Aluminium framed glass panel and top hung unit.
Doors	:	Frameless glass panel, aluminium / timber framed glass panel, solid timber, flushed timber and fire-rated doors.

Outlined below is the general building specifications for the Building.

Building Specifications

Height	Floor Height	:	3.8 metres
	Ceiling Height	:	2.8 metres
Flooring System	Under-floor trunking system.		
Typical Floor Plate	25,100 square feet – 25,500 square feet.		
Lift System	Descriptions	No of Lifts	Lift Speed
	Low Zone	6 units	4.0 m/s
	High Zone	6 units	4.0 m/s
	Car Park Lift(s)	4 units	4.0 m/s
	Service Lift	1 unit	3.0 m/s
Air Conditioning System	Centralised chilled water system; coupled with Volume Air Variable control system connected to AHU ducts.		
Building Electrical Generator / Building Genset Capacity	Generator set (1,500kVA).		
Building System	Building Automation System (BAS).		
Telecommunication System	Fibre-optic backbone instruction.		



PROPERTY DESCRIPTION (CONT'D)

Building Specifications (Cont'd)

Fire Protection System	Fire detection and protection system (addressable fire alarm and monitoring system, automatic sprinkler system, fireman's intercom system, portable fire extinguishers and public address system).
Security / Maintenance System	24 hours security with CCTV surveillance and security guards, smart access card system, turnstile system and high-speed lifts floor destination control system.

Source: Sunway Pinnacle Sdn Bhd

Note: We were made to understand from Sunway Pinnacle Sdn Bhd that relevant certificates of fitness for elevators / passenger lifts installed and / or used in the Building are currently in the process of being renewed and such certificates are expected to be renewed before the completion of the sale to Sunway REIT. From our understanding, the relevant certificates were approved and issued upon completion of the Building and the renewal of the same certificates were delayed due to the Movement Control Order (MCO), and as such we are of the opinion that there will be no impact to our valuation.

Gross Floor Area

Level	Gross Floor Area	
	(sq m)	(sq ft)
Basement Car Park [Lower Ground Floor, Basement Level B1 to B5 (inclusive)]	41,318.85	444,752
Office Building (Ground Floor to Lift Motor Room)	65,106.60	700,802
Grand Total	106,425.45	1,145,554

Net Lettable Area 53,592.42 square metres (576,864 square feet); excluding storage area(s) measuring approximately 6,458 square feet located on Basement Level B1, B3 to B5 (inclusive).

Car Parking Bays 855 bays (inclusive of basement and surface car parking bays).

Age of Building Approximately 6.5 years of age from its original issuance date of Certificate of Completion and Compliance dated 31st December 2013; with upgrading works carried out on Level 14 and 15 and completed in Year 2019.

State of Repair The Building appears to be in good condition that commensurate with its age and use.

Occupancy Status Fully occupied (100% occupancy) based on committed and / or commenced tenancies.

Planning Designated for commercial use; and issued with Certificate(s) of Completion and Compliance bearing Certificate No. LAM/S/No. 11974 dated 31st December 2013 and Certificate No. LAM/S/No. 24330 dated 5th April 2019.

Current Operating Performance

Component	Current Operating Performance
Office	Gross rent ranging from RM3.00 psf / month – RM6.72 psf / month depending on occupied floor area across various tenants (with an average gross rental rate of RM5.21 psf / month over NLA of office space). The above rental range include an office area occupied by a tenant for the use as a separate storage and working area of about RM3.00 psf / month.



PROPERTY DESCRIPTION (CONT'D)

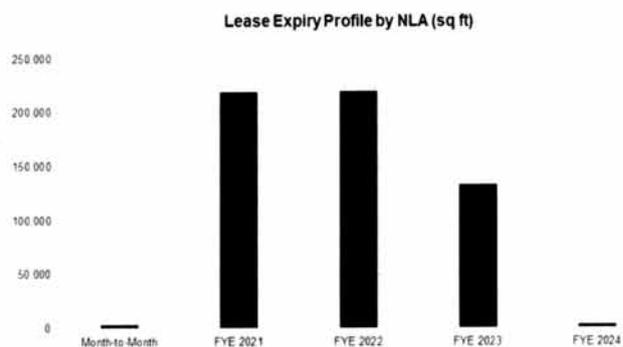
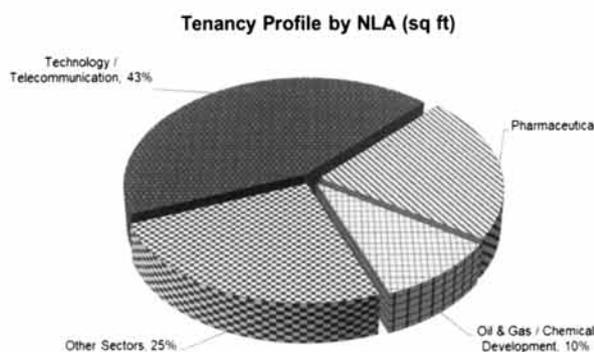
Current Operating Performance (Cont'd)

Component	Current Operating Performance
Retail	Gross base rent (excluding income generated from gross sales turnover arrangement for selected tenants) ranging from RM2.04 psf / month – RM9.00 psf / month depending on occupied floor area across various tenants (with an average gross rental rate of RM5.57 psf / month over NLA of retail space).
Other Income	Other income includes income generated from storage area in the basement (RM3.00 psf / month – RM3.24 psf / month), ATM (RM150 per month), antenna (RM1,000 per month) and maintenance / repair works (RM5,860 across 4 months) (this represents an average gross revenue of RM0.01 psf / month over total NLA).
Car Park Revenue	Car park collection by operator amounting to RM2,792,772 for FYE 29 th December 2019 (this represents an average of RM230 per bay / month).
Outgoings	RM2,651,756 for FPE 30 th April 2020 [this represents an average of RM1.15 psf / month over total NLA (annualised)].

Source: Tenancy schedule dated 31st May 2020 / Car park operator's account for the FYE 29th December 2019 / Management accounts for FPE 30th April 2020

Tenancy Profile & Lease Expiry Profile

The Building houses various tenants from an array of sectors with most tenancies committed for two (2) years – three (3) years terms with option to renew thereafter; of which technology / telecommunication being the largest sector occupying about 43.4% of the office space in the tower (occupied NLA of about 249,840 square feet); followed by the pharmaceutical sector occupying about 22.3% (occupied NLA of about 128,556 square feet); with the remaining area(s) occupied by other sectors. We note that tenants related / affiliated with Sunway Berhad are occupying about 6% of the total occupied NLA, whilst the remaining are external tenants. Based on the tenancy schedule dated 31st May 2020 made available to us, we note that The Pinnacle Sunway is currently fully occupied (100% occupancy) as of the material date of valuation; with weighted average lease expiry (WALE) of 1.34 years (by NLA).



Note: FYE = Financial Year Ended (for the period from 1st June to 31st May)



MARKET VALUE

Valuation Methodology In arriving at our opinion of the Market Value of the Subject Property, we have adopted the **Income Approach by Discounted Cash Flow (DCF) Method** supported by the **Comparison Approach**.

The COVID-19 pandemic has caused market uncertainty at the material date of valuation with no guiding evidence to reflect the current market circumstances. Key drivers to commercial property values typically reflect a medium to long term outlook and in our opinion, the impact of the pandemic to the real estate market itself will be transitory. It will take time for the empirical data to be available to more accurately measure the overall impact at this point in time.

With no evidence to the contrary, our valuation approach is to retain the core Market Value drivers indicated by pre-March 2020 market evidence and make capital value adjustments (not in perpetuity) to reflect anticipated circumstances, amongst others, such as longer letting up periods, temporary income hiatus or abatement and higher incentives, applied as appropriate, on a case by case basis by referencing updated market data and knowledge, information and evidences made available to us as at the material date of valuation.

As a result, any valuation reported during this period will need to be reassessed closely from time to time.

Historical Performance

Historical Operating Performance of the Subject Property
(Extracted from the Audited Management Account for Financial Year Ended ("FYE") 29th December 2017 to FYE 29th December 2019 and Unaudited Management Accounts for Financial Period Ended ("FPE") 30th April 2020)

	FYE 29 th December 2017	FYE 29 th December 2018	FYE 29 th December 2019	FPE 30 th April 2020
Average Occupancy	96.5%	98.8%	98.8%	100.0% *
NLA	557,522 sq. ft.	557,522 sq. ft.	576,864 sq. ft.	576,864 sq. ft.
Total Gross Income **	RM32,890,710	RM34,646,728	RM36,410,452	RM12,398,806
Operating Expenses ***	RM7,571,593	RM7,372,287	RM8,160,814	RM2,651,756
Net Property Income	RM25,319,117	RM27,274,441	RM28,249,638	RM9,747,050

Source: Sunway Pinnacle Sdn Bhd

Notes: * Occupancy status as of 31st May 2020

** Total gross income consists of rental income, car park income and other related incomes including incomes generated from storage area, antenna, ATM, maintenance / repair works and etc

*** Operating expenses referred herein includes utilities, contract & maintenance, staff costs, property management fees, administration expenses, insurance, assessment and quit rent; and excludes costings relating to depreciation on fixed asset, ground lease rental and other internal related party management expenses

Income Approach by DCF Method

In our assessment, we have carried out a discounted cash flow analysis over a ten (10)-year investment horizon for the Subject Property in which we have assumed that the property is sold at the commencement of the terminal year of the cash flow. This form of analysis allows an investor or owner to make an assessment of the long-term return that is likely to be derived from a property in such a manner as to attain the desired level of investment return to commensurate with the risk of that asset class.



MARKET VALUE (CONT'D)

Income Approach by DCF Method (Cont'd)

In undertaking this analysis, we have used a wide range of assumptions for the property including the growth of gross rental revenue together with other potential receivable income along with the expected property expenses during the holding period, projected occupancy and other related expenses. No guarantee can be given that these anticipated results will be achieved. The projections are however based on Knight Frank Malaysia's experience with similar projects.

Summary of Parameters – Income Approach by DCF Method

Common Parameters

Void Allowance	5.00%. We have adopted a void allowance of 5.00% of the projected annual income as fair representation for allowance of void, unforeseen vacancies, possible rent-free periods, fitting out periods and possibility of bad debts.
Terminal Yield / Capitalisation Rate	6.25%. The lack of office asset transactions in the market has resulted in continued difficulties in assessing a benchmark for yields. The yields of office assets are dependent on many factors including prevailing market condition, concept and design of the building along with its tenancy profile and building accreditation. From our yield analysis, we have noted that historical transacted yields of office assets in Klang Valley are in the region of about 4.66% to 6.00%. In view of limited recorded yield transactions of office assets in the current market condition and it is not possible to identify exactly alike properties to benchmark and / or reference to, we have resorted to adopt the most probable expected rate of return of 6.25% (reflecting the current low interest rate environment; with reduction of overnight policy rate (OPR) by 100 bps this year to cushion the economic impact of the COVID-19 pandemic) as fair after having considered factors relating to the tenure and prevailing market condition with fiscal stimulus measures alongside monetary and financial measures support announced by the Government of Malaysia. The recent cut in Overnight Policy Rate (OPR) to 2.00% in May 2020, however, is expected to have a positive impact to support property yields.

Building	Menara Guoco	The Ascent @ Paradigm	Integra Tower
Address	No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur	No. 1, Jalan SS7/26A, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan	The Intermark, No. 348, Jalan Tun Razak, Kuala Lumpur
Tenure	Interest in perpetuity	Leasehold interest for a term of 99 years, expiring on 9 th February 2111	Interest in perpetuity
Consideration	RM242,100,000	RM347,000,000	RM1,065,000,000
Annual Gross Rental	RM15,600,000	-	-
Annual Net Rental	⁽¹⁾ RM11,279,333	RM20,800,000	-
Announcement	2020	2017	2015
Source	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad	The Star Business News Article dated 2 nd April 2015 / Jabatan Penilaian dan Perkhidmatan Harta (JPPH)



MARKET VALUE (CONT'D)

Building	Menara Guoco	The Ascent @ Paradigm	Integra Tower
Analysed Yield	4.66%	5.99%	⁽²⁾ 6.00%
Commentary	<p>We have considered Menara Guoco as a recent sale and thus no adjustment should have been made for prevailing market condition; however, in view of the current market uncertainty caused by COVID-19 pandemic which has disrupted economic activity across most economies, a 25-basis point higher adjustment was considered in our assessment.</p> <p>An additional 50 basis point higher adjustment was considered as the Subject Property conveys a leasehold interest whilst Menara Guoco conveys an interest in perpetuity.</p>	<p>We have considered The Ascent @ Paradigm a dated sale and the transacted yield should have been compressed for improved market condition since year 2017; however, due to the current market uncertainty caused by the COVID-19 pandemic which has disrupted economic activity across most economies, only an upward adjustment of 25 basis point was adjusted to reflect the differences in market expectations during the year of transaction of the comparable and the property being valued now.</p> <p>An additional 25 basis point higher adjustment was considered as the Subject Property conveys a shorter term of unexpired leasehold interest as compared to The Ascent @ Paradigm.</p>	<p>We have considered Integra Tower a dated sale and the transacted yield should have been compressed for improved market condition since year 2015; however, due to the current market uncertainty caused by the COVID-19 pandemic which has disrupted economic activity across most economies, only an upward adjustment of 25 basis point was adjusted to reflect the differences in market expectations during the year of transaction of the comparable and the property being valued now.</p> <p>An additional 50 basis point higher adjustment was considered as the Subject Property conveys a leasehold interest whilst Integra Tower conveys interest in perpetuity.</p>
Adjusted Yield	5.41%	6.49%	6.75%
Adjusted Average Yield	6.22% (Adopt: 6.25%)		

- Notes: (1) Average annual net income computed from the reported net income of Menara Guoco for the six (6)-month FPE 30 June 2018 and the financial year ended 30 June 2019 [eighteen (18)-month] extracted from the announcement.
 (2) The reported yield is extracted from news article.

Summary of Parameters – Income Approach by DCF Method

Common Parameters (Cont'd)

Discount Rate (Present Value)	<p>8.00%.</p> <p>Our interpretation of discount rate is based on our perceived risk versus the return required, looking at the rates of return of similar asset classes. A general way of determining the discount rate is to adopt the ten (10)-year risk free interest (about 3%) (source: Bank Negara Malaysia) plus additional anticipated risk premium (4% - 6%) associated with the asset class. The anticipated risk involved factors relating to perceived risk of market uncertainty and lack of liquidity associated with the property (typically relates to extra return demanded by market participants in an investment above the risk-free rate).</p> <p>With the current low interest rate environment, a discount rate of 8.00% is adopted for the Subject Property; which is about 1.75% higher than the expected rate of return. The discount rate is usually higher than the long-term capitalisation rate to reflect the additional risk premium of the asset.</p> <p>Discount rate is a risk-weighted factor used to calculate the net present value of the future cash flow from the asset till the time of exit. It is a measure of risk associated in the asset class and is determined typically by the market.</p>
Discount Period	10 years.

APPENDIX III – VALUATION CERTIFICATE (CONT'D)



MARKET VALUE (CONT'D)

Office + Retail

NLA 576,864 square feet.

Projected Occupancy Year 1: 96.50% to Year 10: 100.00%.

Based on the latest Tenancy Schedule provided to us, we note that The Pinnacle Sunway is presently fully occupied with WALE of 1.34 years. In our projection, we have considered a potential rent loss (occupancy drop-off during upcoming renewals from the existing tenancies expiring in FYE 2020, FYE 2021 and FYE 2022 due to current market uncertainties). In assessing the projected occupancy for the property, we have also benchmarked against the current occupancy of other selected office buildings (ranging from 82% to 100%) in the immediate and surrounding localities.

Tenancies Expiry Date	Period	Type	NLA (sq. ft.)	Projected Average Occupancy / Projected Average Gross Rental analysed over prevailing occupied area									
				Year 1 (FYE 2021)		Year 2 (FYE 2022)		Year 3 (FYE 2023)		Year 4 (FYE 2024)			
				1H Y1	2H Y1	1H Y2	2H Y2	1H Y3	2H Y3	1H Y4	2H Y4		
(1) Tenancies expiring during date of valuation (1 st June 2020)		Retail	2,849	13.86%	13.86%	100%	100%	100%	100%	100%	100%		
				13.86% / RM6.50 psf		100.00% / RM5.29 psf		100.00% / RM5.29 psf		100.00% / RM5.36 psf			
Tenancies expiring in June 2020 – May 2021 (FYE 2021)	(2) 1H FYE 2021 (June 2020 – November 2020)	Office	118,075	100%	70%	70%	85%	85%	100%	100%	100%	100%	
				85.00% / RM5.13 psf		77.50% / RM5.21 psf		92.50% / RM5.24 psf		100.00% / RM5.39 psf			
	(3) 2H FYE 2021 (December 2020 – May 2021)	Retail	1,435	100%	100%	100%	100%	100%	100%	100%	100%	100%	
		Office	99,002	100%	100%	85%	85%	100%	100%	100%	100%	100%	100%
		Total	100,437	100.00% / RM5.36 psf		85.21% / RM5.36 psf		100.00% / RM5.37 psf		100.00% / RM5.37 psf			
Tenancies expiring in June 2021 – May 2022 (FYE 2022)	(4) 1H FYE 2022 (June 2021 – November 2021)	Office	107,524	100%	100%	100%	90%	90%	100%	100%	100%	100%	
				100.00% / RM5.25 psf		95.00% / RM5.28 psf		95.00% / RM5.31 psf		100.00% / RM5.32 psf			
	(5) 2H FYE 2022 (December 2021 – May 2022)	Retail	3,602	100%	100%	100%	100%	100%	100%	100%	100%	100%	
		Office	132,566	100%	100%	100%	100%	90%	90%	100%	100%	100%	100%
		Total	136,168	100.00% / RM5.22 psf		100.00% / RM5.22 psf		90.26% / RM5.43 psf		100.00% / RM5.45 psf			
Tenancies expiring in June 2023 (FYE 2023) and onwards	FYE 2023 onwards	Overall	111,811	100.00% / RM5.27 psf		100.00% / RM5.27 psf		100.00% / RM5.35 psf		100.00% / RM5.61 psf			
Total			576,864	96.50% / RM5.24 psf		91.89% / RM5.26 psf		95.23% / RM5.34 psf		100.00% / RM5.43 psf			

Notes:

- Tenancy for Lot M-02 (approx. 395 square feet) is projected to be renewed in Year 1; whilst Lot M-05 (approx. 2,454 square feet) is expected to be leased out in Year 2
- Occupancy is projected to decrease to 70% in 2H FYE 2021 due to potential non-renewal of tenancies which expired in 1H FYE 2021; whilst the remaining balance shortfall in area(s) to be fully leased up equally by 2H FYE 2022 and 2H FYE 2023 respectively
- Projected a full take-up renewal for retail area(s) whilst occupancy of office is projected to decrease to 85% in 1H FYE 2022 due to potential non-renewal of tenancies. The balance shortfall area(s) to be fully leased-up by 1H FYE 2023
- Occupancy is projected to decrease to 90% in 2H FYE 2022 due to potential non-renewal of tenancies; with the balance shortfall in area(s) of about 10% to be fully leased up by 2H FYE 2023
- Projected a full take-up renewal for retail area(s) whilst occupancy of office is projected to decrease to 90% in 1H FYE 2023 due to potential non-renewal of tenancies. The balance shortfall area(s) to be fully leased-up by 1H FYE 2024



MARKET VALUE (CONT'D)

Office + Retail (Cont'd)

Projected Gross Rental Revenue

Year 1: RM5.24 psf to Year 10: RM6.73 psf; over prevailing occupied NLA.

The actual average concluded rental rates (monthly base rental + monthly service charge) (approximately RM5.22 psf as per Tenancy Schedule dated 31st May 2020) for the remaining unexpired term(s) as stipulated under the respective committed tenancy agreement(s).

Upon expiry, we have adopted the fair market rental of the Subject Property (Year 0 at RM5.20 psf) after having considered (i) the current committed rental rate (RM5.22 psf), (ii) asking rental of the Subject Property (approximately RM6.00 psf) along with (iii) other concluded and asking rentals of the selected comparative office building(s) ranging from RM4.80 psf to RM6.00 psf. We have also adopted a typical tenancy term of three (3) years in our projection.

Based on the parameters above, the growth of gross rental represents a nine (9)-year CAGR of 2.82% over the course of holding period; which we deemed fair after having considered the current market condition (no increment in Y1, 2.0% in Y2, 2.5% in Y3, 3.0% in Y4, 3.5% in Y5, 4.0% in Y6 onwards) coupled with its actual historical growth trend at a three (3)-year CAGR of 2.60% (FYE 2016 – FYE 2019) as well as its actual current upside rental revision for tenancies that have been renewed at approximately 8.70% between March 2020 and May 2020 along with the historical growth trend of gross rental by other selected office buildings in the locality of Subang Jaya [two (2)-year CAGR of about 2.50%] (FYE 2017 – FYE 2019). Based on our assessment of the Subject Property, we expect the outlook of the Subject Property, which is currently commanding 100.00% occupancy with good tenancy profile, to remain resilient moving forward amidst the current market uncertainty. We anticipate the market rental growth to be flat in the immediate term for one year (up to FYE 2021) due to the sense of uncertainty in the immediate term preceding the lifting of the MCO. We expect the flat growth transition period to last for about a year from our material date of valuation after taking into account the various assistance programs, economic stimulus packages and measures announced by the Malaysian Government to support market recovery pursuant to the COVID-19 pandemic. The anticipated recovery after one year is also supported by the recent gradual improvement of economic performance in anticipation of market recovery in FYE 2022.

The property market is cyclical in nature and the impact of the COVID-19 pandemic to the real estate market is expected to be transitory. As such, we expect market rental growth returning in FYE 2022: (i) in anticipation of a gradual market recovery as stated above; and (ii) supported by strong underlying fundamentals of the Subject Property (being fully occupied with stable rental growth despite the current market uncertainty). Further, the projected CAGR of 2.82% for the Subject Property over the course of holding period for gross rental revenue in the medium to long term is: (i) expected to remain resilient underpinned by its historical track record; and (ii) is in line with National Property Information Centre (NAPIC)'s 10-year historical (Year 2009 – Year 2019) overall market rental growth within Klang Valley (CAGR of 2.93%). Thus, we did not project any increment for office + retail rents, other income and car park revenue given the current market uncertainty in the immediate term (Year 1 FYE 2021). Thereafter from Y2 FYE 2022 onwards, we have projected a gradual increment in anticipation of a gradual market recovery.

Projected Other Income (including income receivable from storage area, ATM, antenna and maintenance / repair works)

Year 1: RM0.03 psf to Year 10: RM0.04 psf over total NLA.

In our assessment, we have considered the current average committed rental for storage area, ATM and antenna which we deemed fair in our assessment. As at the date of valuation, there are 10 storage areas within the Building, of which 3 storage areas have been let out and the tenancies will be expiring by 2H 2021. Upon expiry, we have adopted the fair market rental for the storage area (Y0 at RM1.50 psf) and considered a staggered letting up period (2 stores for each year starting from Year 3 to Year 5 totalling to 6 stores; with remaining 4 stores vacant throughout the course of holding period; and a full take-up upon renewal for ATM and antenna. In our DCF assessment, we have also considered other related incomes comprising revenue receivable from maintenance / repair works for tenants in our projection. We expect the growth projections for other income component to grow in tandem with the gross rental revenue projections of office and retail component as the income deriving from other income is solely dependent on the performance of the office and retail segment. Over the course of holding period, the growth of projected other income represents a nine (9)-year CAGR of 3.02%; which we deemed fair after having considered the current market condition (no increment in Y1, 2.0% in Y2, 2.5% in Y3, 3.0% in Y4, 3.5% in Y5, 4.0% in Y6 onwards) coupled with its actual historical growth trend at 3.39% [three (3)-year CAGR] (FYE 2016 – FYE 2019).



MARKET VALUE (CONT'D)

Office + Retail (Cont'd)

Provisional Rent Rebates	<p>Year 1 to Year 5: 3.00% and Year 6 to Year 10: 1.50%; with additional rent rebates of one (1)-month over the existing committed tenancies during Year 1 and Year 2 respectively.</p> <p>Historically, there is no rent rebates granted to the tenant(s) within The Pinnacle Sunway. Due to the onset of COVID-19 outbreak which had caused market uncertainties, we have allowed a provisional sum for rent rebates of one (1)-month of the rental revenue receivable during the immediate two (2) years term (Year 1 and Year 2 respectively) after having considered rent rebates offered and granted to non-SME tenants by landlord of selected office buildings located within Klang Valley in current market condition (rent rebates ranging from 5% to 30% of the gross monthly rental up to 3 months period) and allocated a further staggered provisional rent abatement / rebates of 3.00% (Year 1 to Year 5) and 1.50% (Year 6 to Year 10) of the projected revenue over the course of the holding period as fair representation.</p>
Projected Outgoings	<p>Year 1: RM1.25 psf to Year 10: RM1.55 psf, with a projected CAGR of 2.39%.</p> <p>In our assessment, we have primarily relied on the current and historical outgoings of the Subject Property as well as other selected office buildings in Klang Valley (ranging from RM1.04 psf to RM1.74 psf; subject to floor area, occupancy, building infrastructure and services, design and concept of the building etc). The lower outgoings achieved by The Pinnacle Sunway throughout the years in comparison with other selected prime offices are generally due to amongst others, include efficiency of the building and its design (being a green building with low E-glass used for façade that resulted in low heat gain in the building), with smart centralised automated building controls and systems in place along with implementation and adoption of energy-efficient lightings throughout the building. Notwithstanding the above, we have generally adopted RM1.25 psf as the projected outgoings with a projected nine (9)-year CAGR of 2.39% (in comparison to inflation rate of 0.9% in 1Q2020) over the course of the holding period as fair and adequate.</p>

Car Park Income

Total Number of Bays	855 bays.
Projected Gross Revenue	<p>Year 1: RM210 per bay / month to Year 10: RM411 per bay / month.</p> <p>We have benchmarked against the historical and current collectable car park revenue from the Subject Property as well as the current receivable car park revenue of other selected commercial building(s) in Bandar Sunway ranging from RM165 per bay / month to RM290 per bay / month. We expect the growth projections for car park revenue component to grow in tandem with the gross rental revenue projections of office and retail component as the income deriving from car park revenue component is solely dependent on the performance of the office and retail segment. For the month of July 2020, the Subject Property has reported a recovery rate of 66% in car park revenue as compared to the monthly average revenue reported in January and February 2020. This is in line with the recovery in traffic volume of 48% for the month of July 2020 as compared to the monthly average traffic volume reported in January and February 2020. This is a result of the workforce gradually returning to the workplace following the gradual easing of our country's movement curb after the lockdown. Due to the COVID-19 pandemic, the preferred option for commuting is via private vehicles instead of public transportation, which further contributed to the pace of recovery in traffic volume and car park revenue. As such, we anticipate the outlook for revenue growth projection of car park to be resilient and stable throughout the holding period. Over the course of holding period, we have projected a revenue growth of 7.75% [nine (9)-year CAGR] which we deemed fair after having considered the current market condition (no increment in Y1, 5.0% per annum from Y2 to Y5 and thereafter 10.0% per annum throughout the holding period) coupled with its actual historical growth trend of 10.66% over the past five (5) years period (FYE 2015 – FYE 2019).</p>
Projected Operating Expenses	<p>25.00% of the projected Gross Revenue.</p> <p>In our assessment for the car park expenses, we have benchmarked against the average car park expenses (ratio from 15% to 40% of Gross Revenue) of other selected office buildings located within Klang Valley. In our assessment, we have allocated 25% of the projected gross revenue as the projected operating expenses for car park as adequate.</p>



MARKET VALUE (CONT'D)

Summary of Projected Occupancy and Gross Revenue			
Year	Projected Office + Retail Occupancy	Projected Monthly Gross Revenue (including office + retail rental and other incomes)	Projected Monthly Gross Car Park Revenue
Y1	96.50%	RM5.27 psf	RM210 per bay
Y2	91.89%	RM5.28 psf	RM221 per bay
Y3	95.23%	RM5.36 psf	RM232 per bay
Y4	100.00%	RM5.45 psf	RM243 per bay
Y5	100.00%	RM5.61 psf	RM255 per bay
Y6	100.00%	RM5.84 psf	RM281 per bay
Y7	100.00%	RM6.02 psf	RM309 per bay
Y8	100.00%	RM6.26 psf	RM340 per bay
Y9	100.00%	RM6.56 psf	RM374 per bay
Y10 / Terminal	100.00%	RM6.77 psf	RM411 per bay

Comparison Approach

This approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by adjustments made for differences in factors that affect value. In general, a property being valued (Subject Property) is compared with sales of similar properties that have been transacted in the open market. Listings and offers may also be considered.

Office

We have identified and analysed the selected recent transactions of similar office building sales in the immediate and surrounding vicinity of the Subject Property and summarized the details in the tables attached below and overleaf.

Sales Comparison and Analysis of Office Building Transactions

	Comparable 1	Comparable 2	Comparable 3
Legal Description	Parent Lot 58303 held under Master Title No. Geran 74955, Mukim and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	Parent Lot 58190 held under Master Title No. PN 46338, Mukim and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	Parent Lot 72658 Section 40 held under Master Title No. PN 107088, Town and District of Petaling Jaya, State of Selangor
Address	Menara Guoco, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	Tower 7, Avenue 3, The Horizon Phase 1, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	The Ascent @ Paradigm, No. 1, Jalan SS7/26A, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan
Type of Property	A nineteen (19)-storey office building	A stratified eleven (11)-storey office building with a lower ground floor (formerly known as "Nexgram Tower")	A thirty-two (32)-storey corporate office tower which includes retail lots, a concourse level and office space together with elevated car park which comprises 865 car park bays



MARKET VALUE (CONT'D)

Sales Comparison and Analysis of Office Building Transactions (Cont'd)

	Comparable 1	Comparable 2	Comparable 3
Tenure	Interest in perpetuity	Leasehold interest for a term of 99 years, expiring on 16th August 2106	Leasehold interest for a term of 99 years, expiring on 9th February 2111
Age of Property	Approximately 2 years	Approximately 10 years	Approximately 2 years
Net Lettable Area	21,565.86 square metres (232,133 square feet)	7,371.58 square metres (79,347 square feet)	47,996.78 square metres (516,633 square feet)
Date of Announcement / Transaction	2nd March 2020	3rd January 2019	23rd February 2017
Consideration	RM242,100,000	RM67,000,000	RM347,000,000
Analysis	RM1,042.94 psf	RM844.39 psf	RM671.66 psf
Adjusted Analysis	N/A (transaction does not comprise car parking bays)	N/A (transaction does not comprise car parking bays)	RM621.33 psf (excluding car park value of approx. RM30,058 per bay)
Vendor	DC Offices Sdn Bhd	Coconut Three Sdn Bhd, a wholly-owned subsidiary of Nexgram Holdings Berhad	Jelas Puri Sdn Bhd, a 70%-owned jointly controlled entity of WCT Holdings Berhad
Purchaser	MTrustee Berhad, as the trustee of Tower REIT	IMS Development Sdn Bhd	Employees Provident Fund Board
Source	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad / Circular dated 8 th August 2019	Bursa Malaysia Securities Berhad
Adjustments	General adjustments are made for prevailing market condition (due to the current market uncertainty caused by the COVID-19 pandemic), location / establishment, net lettable area, tenure, condition / age of building and individual strata / en bloc basis	General adjustments are made for prevailing market condition (due to the current market uncertainty caused by the COVID-19 pandemic), net lettable area, occupancy, tenure, building specifications / quality / design / layout, condition / age of building, individual strata / en bloc basis and MSC accreditation / grade classification	General adjustments are made for prevailing market condition (due to the current market uncertainty caused by the COVID-19 pandemic), location / establishment, accessibility, occupancy, tenure, building specifications / quality / design / layout, condition / age of building, individual strata / en bloc basis, sale and leaseback arrangement and MSC accreditation / grade classification
Adjusted Value	RM743.09 psf	RM762.06 psf	RM737.83 psf

Valuation Rationale (Office)

From the above adjusted values, we note that the derived values ranged between RM737.83 psf to RM762.06 psf. In view of limited recorded transactions of identical office buildings in the immediate and surrounding localities and it is not possible to identify exactly alike properties to make reference to, we have resorted to adopt the selected comparable(s) in our assessment by Comparison Approach and appropriate adjustments are made to reflect the differences of the comparable(s) and the property being valued.



MARKET VALUE (CONT'D)

Valuation Rationale (Office) (Cont'd)

Although total adjustments (on selected comparable(s) are in excess of 50%) were considered and made in our assessment, we are of the view that the selected comparable(s) adopted are still considered relevant by virtue of the fact that most of the selected comparable(s) are considered to have relatively similar attributes as compared to the Subject Property. With total effective adjustments made for all Comparable(s); we have placed greater reliance on Comparable 1 (being the latest transaction with least dissimilarities) after having considered and made diligent adjustments for prevailing market condition, location, tenure and NLA. Based on the foregoing, we have thus adopted a round up value (excluding car parking bays) of RM429,000,000 (analysed to be RM743.68 psf) in our valuation as a fair representation by using Comparison Approach.

Car Parking Bays

We have also identified and analysed the selected recent transactions of similar car park sales in the immediate and surrounding vicinity of the Subject Property and summarized the details in the table attached overleaf.

Sales Comparison and Analysis of Car Park Transactions			
	Comparable CP 1	Comparable CP 2	Comparable CP 3
Type of Property	1,216 car parking bays located within Pacific Towers, Jalan 13/6, Section 13, 46200 Petaling Jaya, Selangor Darul Ehsan	865 designated car parking bays located within The Ascent @ Paradigm, No. 1, Jalan SS7/26A, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan	1,638 designated car parking bays located within da:mén USJ Shopping Mall, No. 1, Persiaran Kewajipan, USJ 1, Subang Jaya, Selangor Darul Ehsan
Tenure	Leasehold interest for a term of 99 years, expiring on 21 st May 2112	Leasehold interest for a term of 99 years, expiring on 9 th February 2111	Interest in perpetuity
Date of Announcement / Transaction	15 th October 2019	23 rd February 2017	17 th September 2015
Analysed Consideration	RM44,161 per bay	RM30,058 per bay	RM34,000 per bay
Vendor	JAKS Island Circle Sdn Bhd	Jelas Puri Sdn Bhd, a 70%-owned jointly controlled entity of WCT Holdings Berhad	Equine Park Country Resort Sdn Bhd
Purchaser	JAKS Sdn Bhd, a wholly-owned subsidiary of JAKS Resources Berhad	Employees Provident Fund Board	MTrustee Berhad, on behalf of Pavilion REIT
Source	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad / Circular dated 17 th September 2015 and 18 th March 2016
Adjustments	General adjustments are made for prevailing market condition (due to the current market uncertainty caused by the COVID-19 pandemic), location, integrated development / establishment and tenure	General adjustments are made for prevailing market condition (due to the current market uncertainty caused by the COVID-19 pandemic), location, integrated development / establishment and tenure	General adjustments are made for prevailing market condition (due to the current market uncertainty caused by the COVID-19 pandemic), location, integrated development / establishment and tenure
Adjusted Value	RM37,758 per bay	RM32,838 per bay	RM35,530 per bay



MARKET VALUE (CONT'D)

**Valuation Rationale
(Car Parking Bays)**

From the above adjusted values, we note that the derived values ranged between RM32,838 per bay to RM37,758 per bay. In view of limited recorded transactions of identical car park transactions in the immediate and surrounding localities and it is not possible to identify exactly alike properties to make reference to, we have resorted to adopt the selected comparable(s) in our assessment by Comparison Approach and appropriate adjustments are made to reflect the differences of the comparable(s) and the property being valued.

Although total adjustments (in excess of 20%) were considered and made in our assessment, we are of the view that the selected comparable(s) adopted are still considered relevant by virtue of the fact that most of the selected comparable(s) are considered to have relatively similar attributes as compared to the Subject Property. With total effective adjustments made for all Comparable(s); we have placed greater reliance on Comparable CP 1 (being the latest transaction with least dissimilarities) after having considered and made diligent adjustments for prevailing market condition, location, tenure and establishment. Based on the foregoing, we have thus adopted a round up value for the car parking bays to be RM32,000,000 (analysed to be RM37,427 per bay) in our valuation as a fair representation by using Comparison Approach.

**Reconciliation of
Values**

Method of Valuation	Derivation of Values
Income Approach by DCF Method	RM450,000,000
Comparison Approach	RM461,000,000

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

In a valuation of a homogeneous real estate such as vacant lands and residential homes, the Comparison Method is the most 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 shopping complexes, hotels, office buildings 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 comparable(s) and the property being valued. Therefore, we have considered the Income Approach by DCF Method as the preferred method of valuation in our final opinion of Market Value for the Subject Property.

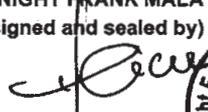


MARKET VALUE (CONT'D)

We wish to draw to attention that the title of the Subject Property carries 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 legal interest in the Subject Property; as a parcel of leasehold land (remaining unexpired term of 77 years) held under Title No. PN 17103, Lot No. 61759, Town of Sunway, District of Petaling, State of Selangor owned by Sunway Integrated Properties Sdn Bhd; together with a building constructed thereon comprising a 24-storey dual compliant (MSC + GBI) accredited office building with 3-storey mezzanine floors and 6 levels of basement car park along with all fixtures, fittings and supporting services infrastructure, systems and facilities attached thereto owned by Sunway Pinnacle Sdn Bhd (collectively identified as **The Pinnacle Sunway**); bearing postal address **The Pinnacle Sunway, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan**; with Certificate(s) of Completion and Compliance issued, subject to the existing committed tenancies and the title being free from all encumbrances, good, marketable and registrable, as at 1st June 2020 is **RM450,000,000 (Ringgit Malaysia Four 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-692
MRISM, MRICS, MPEPS



Date: 6th July 2020

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)

APPENDIX IV – REPORTING ACCOUNTANTS’ LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION



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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SUNWAY REAL ESTATE INVESTMENT TRUST AND ITS SUBSIDIARIES AS AT 30 JUNE 2020 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

17 September 2020

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 2020 (“**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 Sunway REIT to be issued in connection with:
 - (a) the proposed acquisition of The Pinnacle Sunway by RHB Trustees Berhad, on behalf of Sunway REIT for a total cash consideration of RM450.0 million (“**Proposed Acquisition**”); and
 - (b) the proposed private placement of up to 589,015,600 new units in Sunway REIT (“**Placement Units**”), representing up to 20.0% of the total number of issued units of Sunway REIT of 2,945,078,000 units, to raise gross proceeds of up to RM710.0 million, the actual amount of Placement Units and Placement Issue Price for which shall be determined by way of bookbuilding (“**Proposed Private Placement**”).

Pursuant to the bookbuilding exercise, the placement units may be allocated to the major unitholders of Sunway REIT and/or persons connected with them. If the bookbuilding exercise is a success, the maximum number of placement units that may be allocated to:

- (a) Sunway REIT Holdings Sdn. Bhd. (“**Sunway REIT Holdings**”) is 294,507,800 Placement Units (“**Proposed Specific Allotment to Sunway REIT Holdings**”); and
- (b) Employees Provident Fund Board (“**EPF**”) and/or persons connected with them is 140,000,000 Placement Units (“**Proposed Specific Allotment to EPF**”).

The Proposed Acquisition, Proposed Private Placement, Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF are collectively referred to as the “**Proposals**”.



2. The applicable criteria on the basis of which the Board of 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 Proposals been effected as at 30 June 2020. 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 2020.

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

4. The Board of 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.

OUR INDEPENDENCE AND QUALITY CONTROL

5. We are independent of the Group in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

The firm applies International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITIES

6. 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 Board of 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.
7. 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 Board of 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.
8. 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.



OUR RESPONSIBILITIES (continued)

9. The purpose of Pro Forma Consolidated Statement of Financial Position included in the Circular to Unitholders of Sunway REIT is solely to illustrate the impact of the Proposed Private Placement and Proposed Acquisition on the audited Consolidated Statement of Financial Position of the Group as at 30 June 2020 as if the Proposed Private Placement and Proposed Acquisition had been effected as at 30 June 2020. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented.
10. 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 Board of 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 Private Placement and 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 2020.
11. The procedures selected depend on our judgement, having regard to our understanding of the nature of Sunway REIT, the Proposed Private Placement and Proposed Acquisition for which the Pro Forma Consolidated Statement of Financial Position have been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.
12. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

13. The Pro Forma Consolidated Statement of Financial Position, which has been prepared by the Board of Directors of the Manager, has 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
14. Each material adjustment made to the information (extracted from the Sunway REIT Group’s audited Consolidated Statement of Financial Position as at 30 June 2020) used in the preparation of the Pro Forma Consolidated Statement of Financial Position is appropriate for the purpose of preparing the Pro Forma Consolidated Statement of Financial Position.



OTHER MATTERS

15. The report has been prepared solely for the purpose of inclusion in the Circular to Unitholders of Sunway REIT in connection with the Proposed Private Placement and 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,

BDO PLT
BDO PLT
LLP0018825-LCA & AF 0206

APPENDIX IV – REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT'D)

**SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

Appendix I

	Audited Consolidated Statement of Financial Position As at 30.6.2020 RM'000	Note	Adjustments for Proposed Private Placement RM'000	Pro Forma I After the Proposed Private Placement RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma II After the Proposed Acquisition RM'000
ASSETS						
Non-current assets						
Investment properties	8,020,233	4.1		8,020,233	454,700	8,474,933
Investment properties - accrued lease income	16,930			16,930		16,930
Plant and equipment	12,902			12,902		12,902
	8,050,065			8,050,065		8,504,765
Current assets						
Trade receivables	53,266			53,266		53,266
Other receivables	55,349			55,349		55,349
Derivatives	20,039			20,039		20,039
Short term investment	179,710			179,710		179,710
Cash and bank balances	101,816	4.2	655,467	757,283	(410,067)	347,216
	410,180			1,065,647		655,580
TOTAL ASSETS	8,460,245			9,115,712		9,160,345

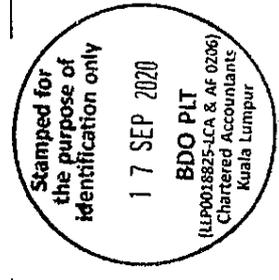
**Stamped for
the purpose of
identification only**
17 SEP 2020
BDO PLT
 (LLP001825-LCA & AF 0206)
 Chartered Accountants
 Kuala Lumpur

APPENDIX IV – REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT'D)

SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Appendix I

(continued)	Note	Audited Consolidated Statement of Financial Position As at 30.6.2020 RM'000	Adjustments for Proposed Private Placement RM'000	Pro Forma I After the Proposed Private Placement RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma II After the Proposed Acquisition RM'000
EQUITY AND LIABILITIES						
Equity						
Unitholders' capital	4.4	2,727,829	705,500	3,433,329		3,433,329
Undistributed income	4.5	1,702,228	(33)	1,702,195	(367)	1,701,828
Total Unitholders' funds		4,430,057		5,135,524		5,135,157
Perpetual note holders' funds		339,717		339,717		339,717
Total equity		4,769,774		5,475,241		5,474,874
Non-current liabilities						
Borrowings	4.3	200,000		200,000		200,000
Long term liabilities		78,524		78,524		78,524
Deferred tax liability		13,941		13,941		13,941
		292,465		292,465		292,465



APPENDIX IV – REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT'D)

SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Appendix I

(continued)	Note	Audited Consolidated Statement of Financial Position As at 30.6.2020 RM'000	Adjustments for Proposed Private Placement RM'000	Pro Forma I After the Proposed Private Placement RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma II After the Proposed Acquisition RM'000
Current liabilities						
Borrowings	4.3	3,245,418	(50,000)	3,195,418	45,000	3,240,418
Trade payables		1,698		1,698		1,698
Other payables		150,890		150,890		150,890
		3,398,006		3,348,006		3,393,006
Total liabilities		3,690,471		3,640,471		3,685,471
TOTAL EQUITY AND LIABILITIES		8,460,245		9,115,712		9,160,345

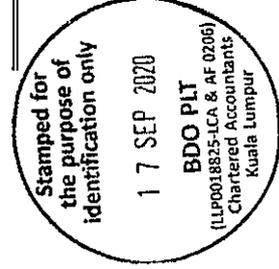


APPENDIX IV – REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT'D)

**SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

Appendix I

(continued)	Note	Audited Consolidated Statement of Financial Position As at 30.6.2020 RM'000	Adjustments for Proposed Private Placement RM'000	Pro Forma I After the Proposed Private Placement RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma II After the Proposed Acquisition RM'000
Total assets (RM'000)		8,460,245	655,467	9,115,712	44,633	9,160,345
Total gross borrowings (‘000)	4.3	3,445,941	(50,000)	3,395,941	45,000	3,440,941
Gearing (total gross borrowings/total asset value)		40.7%		37.3%		37.6%
Units in circulation (‘000)		2,945,078	467,105	3,412,183		3,412,183
Net asset value attributable to unitholders (RM'000)		4,430,057	705,467	5,135,524	(367)	5,135,157
Net asset value per unit attributable to unitholders (RM)		1.50		1.51		1.50



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

**SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

Appendix I

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 2020 (“Pro Forma Consolidated Statement of Financial Position”) has been prepared for illustrative purpose only for inclusion in the Circular to Unitholders of Sunway REIT (“Circular”) to be issued in connection with:

- (a) the proposed acquisition of The Pinnacle Sunway by RHB Trustees Berhad, on behalf of Sunway REIT for a total cash consideration of RM450.0 million (“Proposed Acquisition”); and
- (b) the proposed private placement of up to 589,015,600 new units in Sunway REIT (“Placement Units”), representing up to 20.0% of the total number of issued units of Sunway REIT of 2,945,078,000 units, to raise gross proceeds of up to RM710.0 million, the actual amount of Placement Units and Placement Issue Price for which shall be determined by way of bookbuilding (“Proposed Private Placement”).

Pursuant to the bookbuilding exercise, the placement units may be allocated to the major unitholders of Sunway REIT and/or persons connected with them. If the bookbuilding exercise is a success, the maximum number of placement units that may be allocated to:

- (a) Sunway REIT Holdings Sdn. Bhd. (“Sunway REIT Holdings”) is 294,507,800 Placement Units (“Proposed Specific Allotment to Sunway REIT Holdings”); and
- (b) Employees Provident Fund Board (“EPF”) and/or persons connected with them is 140,000,000 Placement Units (“Proposed Specific Allotment to EPF”).

The Proposed Acquisition, Proposed Private Placement, Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF are collectively referred to as the “Proposals”.

The Pro Forma Consolidated Statement of Financial Position is prepared for illustrative purposes only, to show the effects of the Proposals, as set out on Notes 3 and 4, on the audited Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2020, had the Proposals been effected as at 30 June 2020.

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 Proposals on the financial position of Sunway REIT Group presented had the transactions or events occurred on 30 June 2020. Furthermore, such information does not purport to predict Sunway REIT Group’s future financial position.

2. BASIS OF PREPARATION

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 2020, which has been 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 2020, to show the effects of the Proposals on the assumption that the Proposals stated in Note 1 had been effected as at 30 June 2020; and
- c) The historical financial information of Sunway REIT Group is presented in Ringgit Malaysia (“RM”), which is also Sunway REIT Group’s functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.



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

SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Appendix I

3. PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020 AFTER INCORPORATING THE EFFECTS OF THE PROPOSALS

Pro Forma I

Pro Forma I is stated after incorporating the effect of the Proposed Private Placement (which includes Proposed Specific Allotment to Sunway REIT Holdings and Proposed Specific Allotment to EPF) as follows:

Adjustment for the Proposed Private Placement

The adjustment for the Proposed Private Placement illustrates the effect of the Proposed Private Placement on the audited Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2020.

For illustrative purposes, the gross proceeds of up to RM709,999,904 for the Proposed Private Placement is to be raised via the Placement Issue Price of RM1.52 per unit, being approximately 5% discount to the 5-day VWAP of Sunway REIT up to and including 28 August 2020 of RM1.59. The number of Placement Units to be issued under the Proposed Private Placement is 467,105,200, representing approximately 15.9% of the total number of issued units of 2,945,078,000 as at 28 August 2020.

Correspondingly, the Proposed Private Placement would give rise to the following:

- i. increase in cash and bank balances and equity by RM709,999,904
- ii. expenses for the Proposed Private Placement are estimated at RM4,533,000, of which RM4,500,000 of expenses are directly related to the Proposed Private Placement and will be capitalised from Unitholders’ capital, while the remaining balance of RM33,000 of other expenses will be expensed off to statement of profit or loss of Sunway REIT Group. The estimated expenses of RM4,533,000 will be settled in cash from proceeds to be raised from Proposed Private Placement; and
- iii. estimated gross proceeds of RM295,400,000 from Proposed Private Placement will be used to partially fund the capital expenditure for expansion of Sunway Carnival Mall, of which RM50,000,000 will be used to partially repay borrowings taken to fund the incurred cost of the expansion plan of Sunway Carnival Mall, while the balance of RM245,400,000 will be used to fund the remaining expansion cost of Sunway Carnival Mall.



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

SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Appendix I

3. PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020 AFTER INCORPORATING THE EFFECTS OF THE PROPOSALS (continued)

Pro Forma II

Pro Forma II is stated after Pro Forma I and 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 2020.

For illustrative purposes, the purchase consideration of RM450,000,000 for the Proposed Acquisition is to be satisfied in cash via a combination of 90% from proceeds to be raised from the Proposed Private Placement and 10% from Sunway REIT’s existing debt programme.

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

- i. increase in investment properties by RM450,000,000 and borrowings by RM45,000,000;
- ii. decrease in cash and bank balances by RM405,000,000; and
- iii. expenses for the Proposed Acquisition are estimated at RM5,067,000, of which RM4,700,000 of expenses are directly related to the Proposed Acquisition and will be capitalised as part of investment properties, while the remaining balance of RM367,000 of other expenses will be expensed off to statement of profit or loss of Sunway REIT Group. The estimated expenses of RM5,067,000 will be settled in cash from proceeds to be raised from Proposed Private Placement.

4. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

4.1 Investment properties

	RM’000
As per audited consolidated statement of financial position (“CSOFP”) of the Group as at 30 June 2020	8,020,233
Acquisition of The Pinnacle Sunway	450,000
Estimated expenses directly in relation to the Proposed Acquisition	4,700
As per Pro Forma II	8,474,933



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

SUNWAY REAL ESTATE INVESTMENT TRUST GROUP Appendix I
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

4. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020 (continued)

4.2 Cash and bank balances

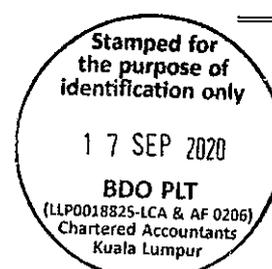
	RM’000
As per audited CSOFP of the Group as at 30 June 2020	101,816
Cash proceeds from Proposed Private Placement	710,000
Estimated expenses in relation to the Proposed Private Placement	(4,533)
Repayment of borrowings	(50,000)
As per Pro Forma I	757,283
Cash payment on acquisition of The Pinnacle Sunway	(405,000)
Estimated expenses in relation to the Proposed Acquisition	(5,067)
As per Pro Forma II	347,216

4.3 Borrowings and total gross borrowings

	RM’000
As per audited CSOFP of the Group as at 30 June 2020	3,445,418
Repayment of borrowings	(50,000)
As per Pro Forma I	3,395,418
Acquisition of The Pinnacle Sunway	45,000
As per Pro Forma II	3,440,418

Reconciliation of the audited carrying amount of borrowings to total gross borrowings as at 30 June 2020:

	RM’000
As per audited CSOFP of the Group as at 30 June 2020	3,445,418
Discount on commercial papers	105
Unamortised transaction costs	418
Total gross borrowings of the Group as at 30 June 2020	3,445,941
Repayment of borrowings	(50,000)
As per Pro Forma I	3,395,941
Acquisition of The Pinnacle Sunway	45,000
As per Pro Forma II	3,440,941



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

SUNWAY REAL ESTATE INVESTMENT TRUST GROUP
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Appendix I

4. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020 (continued)

4.4 Unitholders’ capital

	RM’000
As per audited CSOFP of the Group as at 30 June 2020	2,727,829
Cash proceeds from Proposed Private Placement	710,000
Estimated expenses directly in relation to the Proposed Private Placement	(4,500)
	3,433,329
As per Pro Forma I and Pro Forma II	3,433,329

4.5 Undistributed income

	RM’000
As per audited CSOFP of the Group as at 30 June 2020	1,702,228
Estimated other expenses in relation to the Proposed Private Placement	(33)
	1,702,195
As per Pro Forma I	1,702,195
Estimated other expenses in relation to the Proposed Acquisition	(367)
	1,701,828
As per Pro Forma II	1,701,828



SUNWAY[®]

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**") which will be held as a fully virtual meeting through live streaming and online remote voting from the broadcast venue at the Penthouse, Level 20, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia on Friday, 2 October 2020 at 4.30 p.m., or within 20 minutes after the conclusion of the 8th Annual General Meeting which is scheduled to be held at 3.30 p.m. on the same day, whichever is later, or at any adjournment thereof, to consider and, if thought fit, to pass the following resolutions with or without any modifications:

ORDINARY RESOLUTION 1

PROPOSED ACQUISITION BY RHB TRUSTEES BERHAD, ON BEHALF OF SUNWAY REIT, OF THE PINNACLE SUNWAY (AS DEFINED HEREIN) FROM SUNWAY INTEGRATED PROPERTIES SDN. BHD. AND SUNWAY PINNACLE SDN. BHD., THE WHOLLY-OWNED INDIRECT SUBSIDIARIES OF SUNWAY BERHAD, FOR A CASH CONSIDERATION OF RM450.0 MILLION ("PROPOSED ACQUISITION")

"THAT contingent upon the fulfilment of all other conditions precedent under the conditional Sale and Purchase Agreement dated 29 June 2020 between Sunway Integrated Properties Sdn. Bhd. ("**Sunway Integrated Properties**") and Sunway Pinnacle Sdn. Bhd. ("**Sunway Pinnacle**") (collectively, the "**Vendors**") and RHB Trustees Berhad ("**Trustee**" or "**Purchaser**"), as amended by a supplemental letter dated 11 September 2020 ("**SPA**"), 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 Pinnacle Sunway from the Vendors for a purchase consideration of RM450.0 million upon such terms and conditions as set out in the SPA, which entails the acquisition of a piece of leasehold land held under PN 17103, Lot No. 61759, Town of Sunway, District of Petaling, State of Selangor ("**Land**") from Sunway Integrated Properties and a building comprising a 24-storey office building with three-storey mezzanine floors and six levels of basement car park, and all fixtures and fittings fixed to or located or used therein and services infrastructure and systems and facilities (including without limitation, safety, heating, lighting, plumbing, sanitation, air conditioning, ventilation, fire protection safety facilities, elevators, escalators and broadband computer facilities) (collectively, the "**Buildings**") from Sunway Pinnacle. The Land and Buildings are collectively referred to as "**The Pinnacle Sunway**".

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. ("**Board**") (save for Sarena Cheah Yean Tih, *S.M.S.*), 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 the Board, 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."

ORDINARY RESOLUTION 2

PROPOSED PRIVATE PLACEMENT OF UP TO 589,015,600 NEW UNITS IN SUNWAY REIT (“PLACEMENT UNITS”), REPRESENTING UP TO 20.0% OF THE TOTAL NUMBER OF ISSUED UNITS OF SUNWAY REIT OF 2,945,078,000 UNITS, TO RAISE GROSS PROCEEDS OF UP TO RM710.0 MILLION, THE ACTUAL AMOUNT OF PLACEMENT UNITS AND PLACEMENT ISSUE PRICE FOR WHICH SHALL BE DETERMINED BY WAY OF BOOKBUILDING (“PROPOSED PRIVATE PLACEMENT”)

“**THAT** subject to the approvals of all relevant authorities being obtained, approval be and is given to the Manager to place, and pursuant thereto for the Board to allot and issue up to 589,015,600 Placement Units, representing up to 20.0% of the total number of issued units of Sunway REIT of 2,945,078,000 units, to raise gross proceeds of up to RM710.0 million, the actual amount of Placement Units and Placement Issue Price for which shall be determined by way of bookbuilding.

THAT the Placement Units shall, upon allotment and issuance, rank equally in all respects with the then existing issued units in Sunway REIT, save and except that the Placement Units shall not be entitled to the Advance Distribution (as defined in Section 2.2.7 of the circular to unitholders in relation to the Proposed Acquisition, Proposed Private Placement, Proposed Specific Allotment to Sunway REIT Holdings (as defined below) and Proposed Specific Allotment to EPF (as defined below) dated 17 September 2020 (“**Circular**”)), and any other distributable income, rights, benefits, entitlements and/or any other distributions that may be effected before the date of allotment and issuance of the Placement Units.

THAT approval be and is hereby given to the Board and the Trustee to utilise the proceeds of the Proposed Private Placement for the purposes as set out in the Circular, and the Board and the Trustee be and are hereby authorised with full powers to vary the manner and/or purpose of the utilisation of such proceeds in such manner as the Board and the Trustee shall in their absolute discretion deem fit, necessary, expedient and/or appropriate in the best interest of Sunway REIT.

AND THAT the Board (save for Sarena Cheah Yean Tih, *S.M.S.*) and the Trustee be and are hereby authorised to do all such acts and things as they may consider necessary or expedient in the best interest of Sunway REIT with full power to assent to any condition, modification, variation and/or amendment that may be required, or that may be imposed by any regulatory authority, and to issue and execute all declarations, confirmations, agreements, instruments and such other documents and arrangements as may be necessary or expedient to give full effect to, implement and complete the Proposed Private Placement.”

ORDINARY RESOLUTION 3

PROPOSED ALLOCATION OF UP TO 294,507,800 PLACEMENT UNITS TO SUNWAY REIT HOLDINGS SDN. BHD. (“SUNWAY REIT HOLDINGS”) PURSUANT TO THE BOOKBUILDING EXERCISE (“PROPOSED SPECIFIC ALLOTMENT TO SUNWAY REIT HOLDINGS”)

“**THAT** subject to the passing of Ordinary Resolution 2, and all other approvals of relevant authorities being obtained, approval be and is given to the Manager to place, and pursuant thereto for the Board to allot and issue up to 294,507,800 Placement Units to Sunway REIT Holdings at an issue price to be determined later by way of bookbuilding exercise. The Proposed Specific Allotment to Sunway REIT Holdings shall not result in an increase in the unitholdings of Sunway REIT Holdings and/or persons connected with them by more than 2.0% within a period of six months upon the allotment of the Placement Units so as to not trigger the mandatory take-over offer obligation under the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia.

THAT the Placement Units shall, upon allotment and issuance, rank equally in all respects with the then existing units in Sunway REIT, save and except that the Placement Units shall not be entitled to the Advance Distribution (as defined in Section 2.2.7 of the Circular) and any other distributable income, rights, benefits, entitlements and/or any other distributions that may be effected before the date of allotment and issuance of the Placement Units.

AND THAT the Board (save for Sarena Cheah Yean Tih, *S.M.S.*) and the Trustee be and are hereby authorised to do all such acts and things as they may consider necessary or expedient in the best interest of Sunway REIT with full power to assent to any condition, modification, variation and/or amendment that may be required, or that may be imposed by any regulatory authority, and to issue and execute all declarations, confirmations, agreements, instruments and such other documents and arrangements as may be necessary or expedient to give full effect to, implement and complete the Proposed Specific Allotment to Sunway REIT Holdings.”

ORDINARY RESOLUTION 4

PROPOSED ALLOCATION OF UP TO 140,000,000 PLACEMENT UNITS TO EMPLOYEES PROVIDENT FUND BOARD (“EPF”) AND/OR PERSONS CONNECTED WITH THEM PURSUANT TO THE BOOKBUILDING EXERCISE (“PROPOSED SPECIFIC ALLOTMENT TO EPF”)

“**THAT** subject to the passing of Ordinary Resolution 2, and all other approvals of relevant authorities being obtained, approval be and is given to the Manager to place, and pursuant thereto for the Board to allot and issue up to 140,000,000 Placement Units to EPF and/or persons connected with them at an issue price to be determined later by way of bookbuilding exercise. The Proposed Specific Allotment to EPF shall not result in an increase in the unitholdings of EPF and/or persons connected with them to 33.0% or more of the total issued units in Sunway REIT upon the allotment of the Placement Units so as to not trigger the mandatory take-over offer obligation under the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia.

AND THAT the Placement Units shall, upon allotment and issuance, rank equally in all respects with the then existing units in Sunway REIT, save and except that the Placement Units shall not be entitled to the Advance Distribution (as defined in Section 2.2.7 of the Circular) and any other distributable income, rights, benefits, entitlements and/or any other distributions that may be effected before the date of allotment and issuance of the Placement Units.

AND FURTHER THAT the Board and the Trustee be and are hereby authorised to do all such acts and things as they may consider necessary or expedient in the best interest of Sunway REIT with full power to assent to any condition, modification, variation and/or amendment that may be required, or that may be imposed by any regulatory authority, and to issue and execute all declarations, confirmations, agreements, instruments and such other documents and arrangements as may be necessary or expedient to give full effect to, implement and complete the Proposed Specific Allotment to EPF.”

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

**TAN KIM AUN (MAICSA 7002988) (SSM PC NO. 202008001249)
ONG WEI LENG (MAICSA 7053539) (SSM PC NO. 202008001016)**
Company Secretaries

Bandar Sunway
17 September 2020

Notes:

1. *As part of the safety measures to curb the spread of COVID-19 and taking into consideration the paramount safety and well-being of unitholders of Sunway REIT (“**Unitholders**”) as well as the Board and employees of the Manager, the Unitholders’ Meeting will be held as a fully virtual meeting through live streaming and online remote voting using the Remote Participation and Voting (“**RPV**”) Facility. This is also in line with the Guidance and FAQs on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia on 18 April 2020, as revised or amended from time to time.*
2. **NO UNITHOLDERS/PROXIES/CORPORATE REPRESENTATIVES/ATTORNEYS** from the public shall be physically present nor admitted at the broadcast venue on the day of the Unitholders’ Meeting.
3. *Unitholders are to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders’ Meeting using the RPV Facility provided by Sunway REIT’s Share Registrar via its website at **www.sunwaymanagement.com.my**. Please follow the procedures for RPV Facility provided in the Administrative Details for the Unitholders’ Meeting.*

4. *A Unitholder who is entitled to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders' Meeting using the RPV Facility may appoint a proxy or proxies (not more than 2 proxies) to participate and vote on his/her behalf. A proxy may but need not be a Unitholder.*
5. *Unitholders may use the Q&A platform in Zoom Cloud Meetings App to submit questions in real-time during the Unitholders' Meeting. Unitholders may also submit questions to the Manager prior to the Unitholders' Meeting by emailing to irsunreit@sunway.com.my no later than 3.30 p.m. on 1 October 2020 or via the Q&A platform in www.sunwaymanagement.com.my from 12.00 p.m. on 25 September 2020 up to 3.00 p.m. on 2 October 2020.*
6. *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.*
7. *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.*
8. *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/she or it specifies the proportions of his/her or its holdings to be represented by each proxy.*
9. *If a Unitholder has appointed a proxy or proxies (not more than 2 proxies) to participate in the Unitholders' Meeting and subsequently he/she participates in the Unitholders' Meeting using the RPV Facility, the appointment of such proxy shall be null and void, and his/her proxy shall not be entitled to participate in the Unitholders' Meeting.*
10. *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her 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.*
11. *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 to sunwaymanagement@sunway.com.my 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.*
12. *If no name is inserted in the space for the name of your proxy, the Chairman of the Unitholders' Meeting will act as your proxy.*
13. *Only a depositor whose name appears in the Record of Depositors of Sunway REIT as at 24 September 2020 shall be regarded as a Unitholder and entitled to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders' Meeting using the RPV Facility or appoint proxies to participate and/or vote on his/her or its behalf.*

Personal Data Privacy

By lodging of a completed Proxy Form to the Manager of Sunway REIT for appointing a proxy(ies) and/or representative(s) to participate and vote remotely at the Unitholders' Meeting and any adjournment thereof using the RPV Facility, a 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®

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.

(Registration No. 200801005046)

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./ Registration No
.....Tel./Mobile No.....of.....
being a Unitholder of SUNWAY REAL ESTATE INVESTMENT TRUST ("**Sunway REIT**") and entitled to
vote hereby appoint:-

1ST PROXY 'A'

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

and/or failing *him/her,

2ND PROXY 'B'

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

100%

or failing *him/her, the Chairman of the Meeting as *my/our proxy to participate and vote for *me/us on *my/our behalf at the Unitholders' Meeting of Sunway REIT to be held as a fully virtual meeting through live streaming and online remote voting from the broadcast venue at the Penthouse, Level 20, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia on Friday, 2 October 2020 at 4.30 p.m., or within 20 minutes after the conclusion of the 8th Annual General Meeting which is scheduled to be held at 3.30 p.m. on the same day, whichever is later, or at any adjournment thereof.

**strike out whichever not applicable*

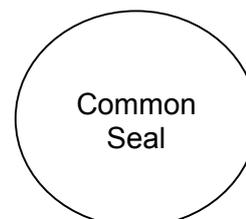


My/our proxy/proxies shall vote as follows:-

Please indicate with an "X" in the space below to show 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 RESOLUTIONS	FOR	AGAINST
1.	Proposed Acquisition		
2.	Proposed Private Placement		
3.	Proposed Specific Allotment to Sunway REIT Holdings		
4.	Proposed Specific Allotment to EPF		

Dated this..... day of.....2020



Signature of Unitholder.....

Notes:

1. As part of the safety measures to curb the spread of COVID-19 and taking into consideration the paramount safety and well-being of unitholders of Sunway REIT ("**Unitholders**") as well as the Board and employees of the Manager, the Unitholders' Meeting will be held as a fully virtual meeting through live streaming and online remote voting using the Remote Participation and Voting ("**RPV**") Facility. This is also in line with the Guidance and FAQs on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia on 18 April 2020, as revised or amended from time to time.
2. **NO UNITHOLDERS/PROXIES/CORPORATE REPRESENTATIVES/ATTORNEYS** from the public shall be physically present nor admitted at the broadcast venue on the day of the Unitholders' Meeting.
3. Unitholders are to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders' Meeting using the RPV Facility provided by Sunway REIT's Share Registrar via its website at www.sunwaymanagement.com.my. Please follow the procedures for RPV Facility provided in the Administrative Details for the Unitholders' Meeting.
4. A Unitholder who is entitled to participate, speak (in the form of real-time submission of typed texts) and vote remotely at the Unitholders' Meeting using the RPV Facility may appoint a proxy or proxies (not more than 2 proxies) to participate and vote on his/her behalf. A proxy may but need not be a Unitholder.
5. Unitholders may use the Q&A platform in Zoom Cloud Meetings App to submit questions in real-time during the Unitholders' Meeting. Unitholders may also submit questions to the Manager prior to the Unitholders' Meeting by emailing to irsunreit@sunway.com.my no later than 3.30 p.m. on 1 October 2020 or via the Q&A platform in www.sunwaymanagement.com.my from 12.00 p.m. on 25 September 2020 up to 3.00 p.m. on 2 October 2020.
6. 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.
7. 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.
8. 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/she or it specifies the proportions of his/her or its holdings to be represented by each proxy.
9. If a Unitholder has appointed a proxy or proxies (not more than 2 proxies) to participate in the Unitholders' Meeting and subsequently he/she participates in the Unitholders' Meeting using the RPV Facility, the appointment of such proxy shall be null and void, and his/her proxy shall not be entitled to participate in the Unitholders' Meeting.
10. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her 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.

11. *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 to sunwaymanagement@sunway.com.my 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.*
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- (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*
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Fold this flap for sealing

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AFFIX
STAMP

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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