

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

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# **SUNWAY<sup>®</sup>**

## **REIT**

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

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

### **CIRCULAR TO UNITHOLDERS**

#### **IN RELATION TO**

#### **PART A**

**PROPOSED ACQUISITION BY RHB TRUSTEES BERHAD, ON BEHALF OF SUNWAY REAL ESTATE INVESTMENT TRUST (“SUNWAY REIT”), OF THE SUNWAY CLIO PROPERTY (AS DEFINED HEREIN) FROM SUNWAY FORUM HOTEL SDN. BHD., A WHOLLY-OWNED SUBSIDIARY OF SUNWAY BERHAD, FOR A PURCHASE CONSIDERATION OF RM340 MILLION (“PROPOSED ACQUISITION”)**

#### **PART B**

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

#### **AND**

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

Principal Adviser for Part A

Independent Adviser for Part B

**RHB Investment Bank**

**RHB Investment Bank Berhad**

*(Company No. 19663-P)*

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



**AmInvestment Bank**

**AmInvestment Bank Berhad**

*(Company No. 23742-V)*

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

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

Venue of the Unitholders’ Meeting : Grand Bahamas, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan

Date and time of the Unitholders’ Meeting : Wednesday, 25 October 2017 at 3.30 p.m. or immediately following the conclusion or adjournment (as the case may be) of our fifth annual general meeting which will be held at 3.00 p.m. on the same day and at the same venue, whichever is later, or at any adjournment thereof

Last date and time for lodging the Form of Proxy : Monday, 23 October 2017 at 3.30 p.m., or any adjournment thereof

You are entitled to vote at the Unitholders’ Meeting. Should you be unable to attend the Unitholders’ Meeting, you are entitled to appoint a proxy or not more than two proxies to attend and vote on your behalf. You should complete and deposit the Form of Proxy at the registered office of Sunway REIT Management Sdn. Bhd. at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia no later than 48 hours before the date and time fixed for the Unitholders’ Meeting or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the Unitholders’ Meeting should you subsequently wish to do so.

This Circular is dated 10 October 2017

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## DEFINITIONS

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

Act	- Companies Act, 2016
Active Equity	- Active Equity Sdn. Bhd.
AmInvestment Bank or Independent Adviser	- AmInvestment Bank Berhad
Balance Consideration	- RM306 million, being the Purchase Consideration less the Deposit
Board	- Board of Directors of the Manager
Bursa Securities	- Bursa Malaysia Securities Berhad
Charge	- A charge over the Sunway Clio Property granted in favour of the Chargee dated 28 December 2015 vide charge presentation no. 137972/2015
Chargee	- Great Eastern Life Assurance (Malaysia) Berhad (Company No. 93745-A) of Tingkat 20, Menara Great Eastern, 303, Jalan Ampang, 50450 Wilayah Persekutuan Kuala Lumpur
Circular	- This circular dated 10 October 2017 in relation to the Proposed Acquisition
Completion Date	- A day to be mutually agreed between the Trustee and the Vendor within a period of 3 months after the Unconditional Date, or such other date as may be mutually agreed upon by the Trustee and Vendor upon which the completion of the SPA is to take place
Conditions Precedent	- Conditions precedent of the SPA as set out in Section 2.6(d) of this Circular
CTA	- Conditional car park tenancy agreement dated 3 August 2017 entered into between the Trustee and the Tenant for the tenancy of the Multi-storey Car Park
Deed of Undertaking	- A deed of undertaking entered into between the Trustee, the Manager and SunCity on 3 August 2017 as described in Section 2.9 of this Circular
Deposit	- RM34 million, being the deposit sum forming part of the Purchase Consideration paid by the Trustee to the Vendor upon the execution of the SPA
Director(s)	- The director(s) of the Manager as at the LPD
Discharge Documents	- Documents relating to the discharge of the Charge
DPU	- Distribution per unit
Evan Cheah	- Evan Cheah Yean Shin
FFE	- Furniture, fixtures, furnishings and equipment used, or held in storage for use in the operation of a hotel business carried out or to be carried out from the Hotel Property by the Lessee or sub-tenant(s) or sub-lessee(s)
FYE	- Financial year ended or, when the context requires, ending

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**DEFINITIONS (CONT'D)**

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HLA	- Conditional hotel lease agreement dated 3 August 2017 entered into between the Trustee, Manager and Lessee for the lease of the Hotel Property to the Lessee which shall commence the day immediately after the Completion Date
Hotel Property	- A 19-storey 4-star rated hotel with 401 hotel rooms and facilities including a swimming pool, an exercise area, a dining area and meeting rooms known as 'Sunway Clio Hotel', which forms part of the Sunway Clio Property
IAL	- Independent advice letter from the Independent Adviser to the non-interested unitholders of Sunway REIT in relation to the Proposed Acquisition
Land	- Parcel of leasehold land held under H.S. (D) 259881 for Lot No. PT 1333 situated in Bandar Sunway, District of Petaling, Selangor Darul Ehsan
Lessee	- Sunway Resort Hotel Sdn. Bhd., a wholly-owned subsidiary of Sunway
LPD	- 15 September 2017, being the latest practicable date before the printing of this Circular
Manager	- Sunway REIT Management Sdn. Bhd., being the manager of Sunway REIT
Multi-storey Car Park	- A 4-storey basement car park comprising 358 basement car park bays and the Podium Car Park, totalling 732 bays at the Sunway Clio Property
NAV	- Net assets value
Podium Car Park	- A 6-storey podium car park comprising 374 podium car park bays
Proposed Acquisition	- Proposed acquisition of the Sunway Clio Property by the Trustee, on behalf of Sunway REIT, from the Vendor for the Purchase Consideration
PSSC	- Puan Sri Datin Seri (Dr) Susan Cheah Seok Cheng
Purchase Consideration	- The purchase consideration for the Sunway Clio Property of RM340 million to be entirely satisfied in cash
REIT Guidelines	- Guidelines on Real Estate Investment Trusts (effective 21 August 2008) issued by the Securities Commission Malaysia
Retail Space	- 3-storey retail lots, including 1 storey at lower ground floor, which form part of the Sunway Clio Property
RHB Investment Bank or Principal Adviser	- RHB Investment Bank Berhad
RM and sen	- Ringgit Malaysia and sen respectively
Sarena Cheah	- Sarena Cheah Yean Tih
SPA	- Conditional sale and purchase agreement dated 3 August 2017 entered into between the Vendor and the Trustee, on behalf of Sunway REIT, in relation to the Proposed Acquisition
SunCity	- Sunway City Sdn. Bhd.
Sungei Way	- Sungei Way Corporation Sdn. Bhd.

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**DEFINITIONS (CONT'D)**

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Sunway	- Sunway Berhad
Sunway Clio Property	- Collectively, the Land together with a 27-storey building with a lower ground floor (and all services infrastructure, fixtures and fittings affixed or located or used in the Sunway Clio Property) comprising the Hotel Property, the Multi-storey Car Park and Retail Space
Sunway REIT	- Sunway Real Estate Investment Trust
Sunway REIT Holdings	- Sunway REIT Holdings Sdn. Bhd.
Tenant	- Sunway Leisure Sdn. Bhd., a wholly-owned subsidiary of Sunway
Transfer	- Memorandum of transfer for the Sunway Clio Property in the form prescribed under the National Land Code 1965
Trustee	- RHB Trustees Berhad, as trustee for Sunway REIT
TSJC	- Tan Sri Dato' Seri Dr Jeffrey Cheah Fook Ling, AO
Unconditional Date	- The date when all the Conditions Precedent have been obtained, fulfilled or waived
Unitholders' Meeting	- Meeting of unitholders of Sunway REIT
Valuation Certificate	- The valuation certificate issued by the Valuer dated 13 June 2017 for the valuation of the Sunway Clio Property pursuant to the Proposed Acquisition
Valuation Report	- The valuation report issued by the Valuer dated 13 June 2017 for the valuation of the Sunway Clio Property pursuant to the Proposed Acquisition
Valuer	- Knight Frank Malaysia Sdn. Bhd., being the independent registered valuer appointed by the Trustee on behalf of Sunway REIT
Vendor or Sunway Forum Hotel	- Sunway Forum Hotel Sdn. Bhd., a wholly-owned subsidiary of Sunway
VWAP	- Volume weighted average market price
WALE	- Weighted average lease expiry

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## PRESENTATION OF INFORMATION

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

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

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

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

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

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

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**PART A**

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

# SUNWAY®

## REIT

SUNWAY REIT MANAGEMENT SDN. BHD.

(Company No. 806330-X)  
(Incorporated in Malaysia)

**Registered office**

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

10 October 2017

**Board of Directors:**

Tan Sri Ahmad Bin Mohd Don  
Dato' Jeffrey Ng Tiong Lip

Elvin A/L Berty Luke Fernandez  
Tengku Nurul Azian Binti Tengku Shahrman  
Chan Hoi Choy  
Sarena Cheah Yean Tih  
Ng Sing Hwa

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

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

**TO: UNITHOLDERS OF SUNWAY REIT**

Dear Sir / Madam,

**PROPOSED ACQUISITION**

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**1. INTRODUCTION**

On 3 August 2017, RHB Investment Bank announced, on behalf of the Board, that the Trustee had on 3 August 2017 entered into the SPA with the Vendor for the proposed acquisition of the Sunway Clio Property for a total purchase consideration of RM340 million to be entirely satisfied in cash.

On the same date, the HLA and CTA were entered into by the following parties:

No.	Agreement	Description
(a)	HLA	A HLA entered into between:  (i) Trustee;  (ii) Manager; and  (iii) Lessee,  for the lease of the Hotel Property for an initial term of 10 years commencing from the day immediately after the Completion Date with an option to renew for a further term of 10 years.



No.	Agreement	Description
(b)	CTA	<p>A CTA entered into between:</p> <p>(i) Trustee; and</p> <p>(ii) Tenant</p> <p>for the tenancy of the Multi-storey Car Park for a period of 3 years commencing from the day immediately after the Completion Date with an option to renew for a further term of 3 years.</p>

In view of the interests of directors and major shareholders of the Manager, major unitholders of Sunway REIT, and persons connected with them as set out in Section 8 of this Circular, the Proposed Acquisition is deemed a related party transaction. In this regard, on 19 September 2017, RHB Investment Bank announced, on behalf of the Board, that AmInvestment Bank has been appointed as the Independent Adviser to advise the non-interested directors of the Manager and the non-interested unitholders of Sunway REIT on the Proposed Acquisition.

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

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

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

### **2.1 Description of the Sunway Clio Property**

The Proposed Acquisition entails the acquisition of the Land together with a 27-storey building with a lower ground floor (and all services infrastructure, fixtures and fittings affixed or located or used in the Sunway Clio Property) comprising:

- (a) the Hotel Property;
- (b) Retail Space; and
- (c) the Multi-storey Car Park.

The Sunway Clio Property is located at Jalan PJS 11/15, Bandar Sunway, 47500 Subang Jaya and is strategically located within Sunway City, a 324-hectare (800-acre) "Resort-within-a-City" integrated development. Sunway City is also a renowned self-contained township which showcases the best of education, entertainment, recreation, leisure, shopping, medical, hospitality and commercial facilities.

In addition to having a convenient connection to the adjacent Sunway Pyramid Shopping Mall, the Retail Space features a mixture of international and national chain retailers such as Starbucks, The Parenthood, Hokkaido Ramen and Sanook as at the LPD.

Other information on the Sunway Clio Property is provided below:

<b>Title details</b>	: H.S. (D) 259881 Lot No. PT 1333, Bandar Sunway, District of Petaling, Selangor Darul Ehsan
<b>Tenure</b>	: Leasehold interest for a term of 99 years, expiring on 16 November 2108
<b>Land area</b>	: 77,403 square feet (7,191 square metres)
<b>Age of building</b>	: 1.5 years
<b>Gross floor area (including Multi-storey Car Park area)</b>	: 798,762 square feet (74,207 square metres)
<b>Net lettable area (Retail Space)</b>	: 88,384 square feet (8,211 square metres)
<b>No. of hotel rooms</b>	: 401 rooms
<b>No. of car park bays</b>	: 732 bays <sup>(1)</sup>
<b>% of occupancy for hotel</b>	: 72.6% <sup>(2)</sup>
<b>% of occupancy for Retail Space</b>	: 88.2% <sup>(3)</sup>
<b>Market value</b>	: RM340.0 million <sup>(4)</sup>
<b>Net book value as at 31 December 2016</b>	: RM293.1 million <sup>(5)</sup>
<b>Rental income for hotel</b>	: RM16.69 million <sup>(6)</sup>
<b>Rental income for Retail Space</b>	: RM1.19 million <sup>(7)</sup>
<b>Income for Multi-storey Car Park</b>	: RM0.99 million <sup>(8)</sup>
<b>Category of use</b>	: Building
<b>Express Condition</b>	: Commercial building
<b>Chargee</b>	: Great Eastern Life Assurance (Malaysia) Berhad (Company No. 93745-A) of Tingkat 20, Menara Great Eastern, 303, Jalan Ampang, 50450 Wilayah Persekutuan Kuala Lumpur
<b>Encumbrances</b>	: A charge granted in favour of the Chargee dated 28 December 2015 vide presentation no. 137972/2015
<b>Restriction in interest</b>	: The land can be transferred, leased or charged after approval from the State Authority is obtained

**Notes:**

- (1) *Comprising 358 basement car park bays and 374 podium car park bays.*
- (2) *Average occupancy rate from date of commencement of 19 February 2016 to 31 August 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular.*
- (3) *Secured occupancy as at the LPD.*
- (4) *As appraised by the Valuer in its Valuation Certificate which is set out in Appendix II of this Circular. The material date of inspection for the valuation is 17 April 2017. For the purpose of the Valuation Certificate, the Valuer has summarised the relevant facts and information in its Valuation Report and outlined the key factors which have been considered in arriving at the Valuer's opinion of the market value of the Sunway Clio Property.*
- (5) *Derived from the audited consolidated financial statements of Sunway.*
- (6) *Total rental amount billed between the date of commencement of 19 February 2016 and 31 August 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular.*
- (7) *Total rental amount billed to tenants between 1 April 2016 and 31 August 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular. Billing has not commenced for a major tenant that has been secured but have not commenced operations as at the LPD.*
- (8) *Total income from date of commencement of 3 May 2016 to 31 August 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular.*

## 2.2 Basis and justification for the Purchase Consideration

The Purchase Consideration for the Sunway Clio Property of RM340 million is derived based on the market value of the Sunway Clio Property, as ascribed in the Valuation Certificate pursuant to the Proposed Acquisition. The Valuation Certificate is set out in Appendix II of this Circular. In arriving at the market value of the Sunway Clio Property, the Valuer has adopted the Income Approach by Discounted Cash Flows ("DCF") method and supported by the Comparison Approach.

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

<b>Valuation approaches</b>	<b>Methodology explanation</b>	<b>Derived value</b>
(a) 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.	RM340 million <sup>^</sup>
(b) Comparison Approach	Considers the sales of similar or substitute properties and related market data, and establishes a value estimate by making adjustments 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.	RM352 million

<sup>^</sup> *In arriving at this value, the Valuer did not take into account the impact of the top up undertaking arising from the Deed of Undertaking*

Taking into consideration that the Sunway Clio Property is a newly completed commercial and an 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 Sunway Clio Property, 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 seller and a willing buyer in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## 2.3 Method of financing and liabilities to be assumed

The Purchase Consideration will be funded via Sunway REIT's existing debt programmes which entail a 35-year RM10 billion unrated bond programme and a 7-year RM1.6 billion commercial paper programme ("Existing Debt Programmes"). The Existing Debt Programmes have a combined amount available for use (based on the allowed loan-to-value ratio of 45%) of approximately RM0.6 billion as at 31 August 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular. There are no contingent liabilities and/or guarantees to be assumed by Sunway REIT arising from the Proposed Acquisition.

## 2.4 Additional financial commitment

There is no additional financial commitment required of Sunway REIT in putting the Sunway Clio Property on-stream.

## 2.5 Information on the Vendor, the Lessee and the Tenant

### 2.5.1 Information on the Vendor

The Vendor was incorporated in Malaysia under the Companies Act, 1965 on 28 November 1997 as a private limited company. The principal activities of the Vendor are letting out of property, retail and car park operators. The Vendor has owned the land on which the Sunway Clio Property is situated since 2001.

As at the LPD, the directors of the Vendor are (i) Cheong Hoay Wai, (ii) Kelly Leong Wai Keong and (iii) Irene Sin May Lin @ Irene Wong May Lin.

The issued share capital of the Vendor is RM2,500,028.68 comprising 2,500,001 ordinary shares and 2,768 Non-Cumulative Redeemable Preference Shares ("NCRPS"), as at the LPD. The sole holder of the 2,768 NCRPS is SunCity, whilst the shareholders of the Vendor and their shareholdings in the Vendor are as follows:

Shareholder	Direct		Indirect	
	No. of shares	%	No. of shares	%
SunCity	2,500,001	100	-	-
TSJC	-	-	2,500,001 <sup>(1)</sup>	100
PSSC	-	-	2,500,001 <sup>(2)</sup>	100
Sarena Cheah	-	-	2,500,001 <sup>(3)</sup>	100
Evan Cheah	-	-	2,500,001 <sup>(4)</sup>	100
Active Equity	-	-	2,500,001 <sup>(5)</sup>	100
Sungei Way	-	-	2,500,001 <sup>(6)</sup>	100
Sunway	-	-	2,500,001 <sup>(7)</sup>	100

#### Notes:

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

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

## 2.5.2 Information on the Lessee

The Lessee was incorporated in Malaysia under the Companies Act, 1965 on 23 May 1989 as a private limited company. The principal activity of the Lessee is being a hotelier, whereby it manages day-to-day operations of hotels including management of hotel staff, and upkeep and maintenance of hotel facilities. The hotels that are currently being managed by the Lessee include Sunway Resort Hotel & Spa and Sunway Pyramid Hotel, which are both located within Sunway City and owned by Sunway REIT.

In addition, the hotels operated by the Lessee have received numerous industry and trade awards, and the Lessee is a hotel operator with a proven track record as disclosed in Section 3(f) of this Circular.

As at the LPD, the directors of the Lessee are (i) Cheong Hoay Wai, (ii) Kelly Leong Wai Keong and (iii) Irene Sin May Lin @ Irene Wong May Lin.

The issued share capital of the Lessee is RM20,000,000, comprising 20,000,000 ordinary shares, as at the LPD. The shareholders of the Lessee and their shareholdings in the Lessee are as follows:

Shareholder	Direct		Indirect	
	No. of shares	%	No. of shares	%
SunCity	20,000,000	100	-	-
TSJC	-	-	20,000,000 <sup>(1)</sup>	100
PSSC	-	-	20,000,000 <sup>(2)</sup>	100
Sarena Cheah	-	-	20,000,000 <sup>(3)</sup>	100
Evan Cheah	-	-	20,000,000 <sup>(4)</sup>	100
Active Equity	-	-	20,000,000 <sup>(5)</sup>	100
Sungei Way	-	-	20,000,000 <sup>(6)</sup>	100
Sunway	-	-	20,000,000 <sup>(7)</sup>	100

### Notes:

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

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### 2.5.3 Information on the Tenant

The Tenant was incorporated in Malaysia under the Companies Act, 1965 on 14 January 2010 as a private limited company. The principal activities of the Tenant are ice rink operation and car park management.

As at the LPD, the directors of the Tenant are (i) Tan Gar Peng, (ii) Chan Hoi Choy and (iii) Wai Sow Fun.

The Tenant has a share capital of RM2, comprising 2 ordinary shares, as at the LPD. The shareholders of the Tenant and their shareholdings in the Tenant are as follows:

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

**Notes:**

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

## 2.6 Salient terms of the SPA

### (a) Agreement for sale and purchase

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

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

- (i) The Trustee has paid the Deposit upon entering into the SPA.
- (ii) The Balance Consideration comprising:
  - the redemption sum (being the amount payable to the Chargee prior to Completion Date to redeem the Charge and obtain the relevant Discharge Documents). The redemption sum as at the LPD is estimated at RM251.4 million (including interests payable up to the LPD); and
  - the remaining balance to the Vendor on the Completion Date.

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

- (i) If the assessed market value of the Sunway Clio Property shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the Valuation Report and the variation/adjustment to the market value is equal to or less than 5%, the Balance Consideration and the Purchase Consideration shall be adjusted upwards or downwards accordingly by the same quantum of variation/adjustment.
- (ii) The adjusted Purchase Consideration to be paid by the Trustee to the Vendor shall be deemed to be the sum as adjusted under Section 2.6(c)(i) of this Circular.
- (iii) Where the variation/adjustment to the assessed market value of the Sunway Clio Property pursuant to any comments provided by the relevant authorities on the Valuation Report is more than 5%, the parties shall in good faith discuss and negotiate on an appropriate adjustment to the Purchase Consideration and mutually agree on an adjusted Purchase Consideration which is acceptable to both 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 sale and purchase of the Sunway Clio Property and the SPA by notice in writing.

**(d) Conditions precedent**

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

- (i) your approval to be obtained at the forthcoming Unitholders' Meeting;
- (ii) the approval or consent of any other party which has entered into any subsisting arrangement, contract or undertaking with the Vendor in relation to the Sunway Clio Property, if required;
- (iii) the approval or consent of the financiers of the Vendor, if required;
- (iv) the approval of the State Authority for the transfer of the Sunway Clio Property; and
- (v) any other approvals of any authorities as may be deemed necessary by the Trustee and the Vendor.

For information purposes, as at the LPD, Sunway REIT does not anticipate that the approval or consent in Section 2.6(d)(ii) of this Circular is required. As at the LPD, none of the other conditions precedent have been fulfilled.

**(e) Termination and breach**

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

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

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

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

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

If a notice terminating the SPA is given by the Vendor as referred to under Section 2.6(e)(i) of this Circular, then within 14 days of that notice, the Vendor must return all moneys paid to it (excluding the Deposit which will be absolutely forfeited by the Vendor as agreed liquidated damages) to the Trustee free of interest. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and the Discharge Documents which are in their possession with the Vendor's interest intact and to re-deliver to the Vendor possession of the Sunway Clio Property, if the same has been delivered to the Trustee.

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

If a notice terminating the SPA is given by the Trustee as referred to under Section 2.6(e)(ii) of this Circular, then within 14 days of that notice, the Vendor must return all moneys received as part of the Purchase Consideration to the Trustee, free of interest.

If the Trustee elects not to pursue the remedy of specific performance as referred to under Section 2.6(e)(vii) of this Circular, the Vendor must pay an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact. The Trustee shall then re-deliver to the Vendor possession of the Sunway Clio Property, if the same has been delivered to the Trustee.



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

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

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

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

**(vii) Specific performance**

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

**(f) Real property gains tax**

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

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

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

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

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

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

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

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

(j) **Conditions of acquisition**

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

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

**2.7 Salient terms of the HLA**

<b>Term</b>	<b>Details</b>
Lessor	: RHB Trustees Berhad (as the trustee of Sunway REIT)
Lessee	: Sunway Resort Hotel Sdn. Bhd.
Commencement date	: The day immediately after the Completion Date
Property	: Hotel Property
Conditions precedent	: The obligations of Lessor, Lessee and the Manager under the HLA are conditional upon the following conditions being fulfilled or obtained within 6 months after the date of the HLA or such other extended date as the parties may mutually agree upon in writing: <ul style="list-style-type: none"><li>(a) The State Authority’s approval for the lease of the Hotel Property;</li><li>(b) The approval or consent from any party which has entered into any subsisting arrangement, contract or undertaking with the Vendor; and</li><li>(c) Completion of the SPA.</li></ul>
Lease and renewal	: <ol style="list-style-type: none"><li>1. The initial term of the lease shall be 10 years (“<b>Initial Term</b>”) from the commencement date with an option to renew granted to the Lessee to lease the Hotel Property for a further term of 10 years (“<b>Renewal Term</b>”).</li><li>2. The option to renew shall be on the same terms and conditions, except as provided in the HLA, at a revised rent based on the prevailing market rate as agreed between the Trustee and the Lessee. If the Trustee and the Lessee are unable to agree to the new rental before the expiry of one month preceding the date of expiration of the Initial Term, the rental for the first 12 months of the Renewal Term shall be the same amount of the rent for the last year of the Initial Term and the Trustee and the Lessee shall use their best efforts during this 12 months period to agree on the rental for the remaining period of the Renewal Term.</li></ol>

Term	Details
Rental	<p>: The total rent is calculated based on the higher of the minimum rent or the variable rent for a fiscal year (“<b>Fiscal Year</b>”). The minimum rent is RM10,968,618 per annum for the first 2 Fiscal Years and RM8,226,464 per annum for each subsequent Fiscal Year for the Initial Term. The variable rent with respect to a Fiscal Year is computed based on the following formula:</p> $P + (70 \text{ per cent} \times (Q-R))$ <p>Where:</p> <p>P = base rent of the Hotel Property, being 20% of the revenue for that Fiscal Year</p> <p>Q = gross operating profit of the business; and</p> <p>R = lease expenses<sup>1</sup></p>

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

The total rent formula was structured to safeguard the interests of Sunway REIT, whereby Sunway REIT will be able to share the upside potential when the Hotel Property performs well whilst the downside risk is protected via the minimum rent. In determining the minimum rent amount, the business risks of the hotel was taken into consideration, whereby the Hotel Property only has a short operating history (commencement date of operations is on February 2016) and the initial years of a hotel after a change in ownership is considered to be of higher business risk. Therefore, the minimum rent for the first 2 Fiscal Years was set at a higher rate to compensate Sunway REIT for the higher risk. As the performance of the Hotel Property is expected to improve over the years (i.e. with increase in occupancy and room rates), the downside risk is reduced and hence the minimum rent is correspondingly lower.

The minimum rent amount was mutually agreed between the parties after taking into consideration the income reasonably expected to be derived from the Lessee’s hotel operations at the Hotel Property throughout the 10-year tenure of the HLA and expected net property income from the Hotel Property that will in turn contribute to the prospective distribution of Sunway REIT.

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<sup>1</sup> Comprising (i) base rent of the Hotel Property (equivalent to P), (ii) FFE reserve (equivalent to 2.5% of revenue for that Fiscal Year) and (iii) management fee payable to the hotel operator (equivalent to 7.5% of Q)

## 2.8 Salient terms of the CTA

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

### Notes:

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

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

## 2.9 Top up undertaking

Simultaneously with the execution of the SPA, HLA and CTA, SunCity (a wholly-owned subsidiary of Sunway and the holding company of the Vendor, the Lessee and the Tenant), had entered into a Deed of Undertaking with the Trustee and the Manager, and undertakes to pay annually the difference between –

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

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

The top up undertaking of RM20.23 million together with the expected rental income from the Podium Car Park is expected to generate a property yield of more than 6%, which is accretive to Sunway REIT. The Sunway Clio Property only commenced its operations in February 2016 and hence, it is technically still under a gestation period. It is usual for a new business to take 3 to 4 years to achieve stabilisation. As such, the Manager has negotiated for a 4-year top up undertaking to cover the gestation period and in view that the property has a short operating history.

### 3. RATIONALE 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 yield accretive with the potential to contribute to the long-term growth in Sunway REIT's DPU and/or NAV per unit.

The rationale for the Proposed Acquisition is further elaborated below:

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

The Sunway Clio Property is an income-generating property that currently enjoys occupancy rates of 72.6% for hotel operations and 88.2% for the Retail Space as at the LPD. As such, the Manager believes that the Proposed Acquisition will have an incremental improvement in Sunway REIT's earnings by approximately RM5.0 million and DPU by approximately 0.17 sen upon completion of the Proposed Acquisition. For further details, please refer to Section 6.4 of this Circular.

#### (b) Increased income stability through the HLA and increased WALE of Sunway REIT's portfolio

The Proposed Acquisition, through the HLA, will be beneficial to Sunway REIT as the Hotel Property is expected to provide Sunway REIT with stable and sustainable income stream over the next 10 years.

With the Proposed Acquisition, Sunway REIT will benefit from the increase in the enlarged portfolio's WALE based on secured gross rental income. The WALE of Sunway REIT's enlarged portfolio will increase as follows after the completion of the acquisition of Sunway REIT Industrial – Shah Alam 1 (as defined hereinafter) and the Proposed Acquisition:

	As at 30 June 2017	After the completion of the acquisition of Sunway REIT Industrial – Shah Alam 1 <sup>(1)</sup>	After the Proposed Acquisition
WALE (years)	1.81	1.99	2.13

**Note:**

(1) On 11 January 2017, the Trustee entered into a sale and purchase agreement with Champion Edge Sdn. Bhd. to acquire an industrial property for RM91.5 million ("**Sunway REIT Industrial – Shah Alam 1**"). The acquisition was completed on 1 August 2017.

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

Sunway REIT's property portfolio size will increase from approximately RM6.7 billion as at 30 June 2017 to RM7.1 billion after Sunway REIT's acquisition of Sunway REIT Industrial – Shah Alam 1 and the Proposed Acquisition, as shown in the table below. This increase in portfolio size further strengthens Sunway REIT's current position as one of the larger real estate investment trusts in Malaysia by property market value.

	As at 30 June 2017	Sunway REIT Industrial – Shah Alam 1 (1)	The Sunway Clio Property	Enlarged portfolio
Value of investment properties (RM'mil)	6,689	92 <sup>(2)</sup>	344 <sup>(3)</sup>	7,125
No. of properties	14	1	1	16
Gross floor area (‘000 sq. ft.)	12,416	387	799	13,602

**Notes:**

- (1) On 11 January 2017, the Trustee entered into a sale and purchase agreement with Champion Edge Sdn. Bhd. to acquire Sunway REIT Industrial – Shah Alam 1. The acquisition was completed on 1 August 2017.
- (2) Including expenses relating to the acquisition of Sunway REIT Industrial – Shah Alam 1 amounting to RM1.0 million, which has been capitalised as part of investment properties.
- (3) Including estimated expenses relating to the Proposed Acquisition that are allowed to be capitalised as part of investment properties amounting to RM3.6 million.

**(d) Harness synergy amongst Sunway REIT's assets within the integrated township of Sunway City**

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

The Proposed Acquisition is also consistent with one of the Manager's strategies, which is to acquire properties in Sunway City to maximise operating synergies between the Sunway Clio Property and Sunway REIT's other properties located within Sunway City.

**(e) Elimination of potential or perceived conflict of interest**

The Sunway Clio Property is located within the township of Sunway City, in close proximity to Sunway Resort Hotel & Spa and Sunway Pyramid Hotel which are owned by Sunway REIT. The Hotel Property is currently leased to Sunway Resort Hotel Sdn Bhd, which is also the lessee of Sunway Resort Hotel & Spa and Sunway Pyramid Hotel.

In view of the circumstances above, the Proposed Acquisition will eliminate any potential conflict of interest situations or any perceived conflict of interests.

**(f) The Lessee is a reputable and experienced hotel operator**

The Lessee is a hotel operator with a 20-year proven track record and expertise to deliver profitable returns, and generate growth potential across all market segments. The Lessee has consistently delivered satisfactory performance since the inception of Sunway REIT. In addition to the Hotel Property, it operates Sunway Resort Hotel & Spa (a 5-star rated hotel) and Sunway Pyramid Hotel (a deluxe international 4-star rated hotel) which are located within Sunway City and are owned by Sunway REIT.

The core executive team of the Lessee adopts an approach which focuses on hands-on execution to continually improve asset value for hotel owners. As a result, the hotels operated by the Lessee have received numerous industry and trade awards. Sunway Resort Hotel & Spa received TripAdvisor's Travellers' Choice Award for Top 25 Luxury Hotels in Malaysia (2012) and Top 10 Hotels for Families in Malaysia (2015, 2016 & 2017), Holidays with Kids Award for Australia's Top 10 Family Resorts (2011, 2013 & 2015), Hospitality Asia Platinum Awards (HAPA) 2013-2015 Series as winner for Exceptional Experience for The Club at Sunway Resort Hotel & Spa, World Luxury Hotel Awards 2014 as the Global Winner in the Luxury Family All-Inclusive Hotel category and the National Excellence Occupational Safety and Health (OSH) Award 2016 as Winner in the Hotels and Restaurants category.

## **4. INDUSTRY OVERVIEW AND OUTLOOK**

### **4.1 Overview and outlook of the Malaysian economy**

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the second quarter of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%).

Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the quarter, consumer sentiments continued to improve, providing further impetus to household spending. Private investment expanded by 7.4% in the second quarter (1Q 2017: 12.9%), mainly in the services and manufacturing sectors. In line with the recovery in demand, manufacturers undertook capacity expansions, machinery and equipment (M&E) acquisitions and replacements to cater for new orders. This was evident across both the export and domestic-oriented manufacturing sub-sectors. In the services sector, investment was supported mainly by expansions in the utilities, healthcare and food & beverage and accommodation sub-sectors. During the quarter, business sentiments continued to improve in tandem with better external and domestic conditions amid lower financial market volatility.

Public consumption growth moderated to 3.3% (1Q 2017: 7.5%) following slower growth in the spending on emoluments, and supplies and services. Public investment declined by 5.0% in the second quarter (1Q 2017: 3.2%). This was attributable to the lower spending on fixed assets by public corporations, which more than offset the higher expenditure by the Federal Government.

Headline inflation<sup>2</sup> moderated to 4.0% in the second quarter of 2017 (1Q 2017: 4.3%) due mainly to lower transport inflation of 13.4% (1Q 2017: 16.2%). During the quarter, prices of RON95 petrol averaged RM2.07 per litre, lower than the average of RM2.23 per litre in 1Q 2017. The lower domestic fuel prices were due mainly to the lower global oil prices amid a stronger ringgit exchange rate during the quarter.

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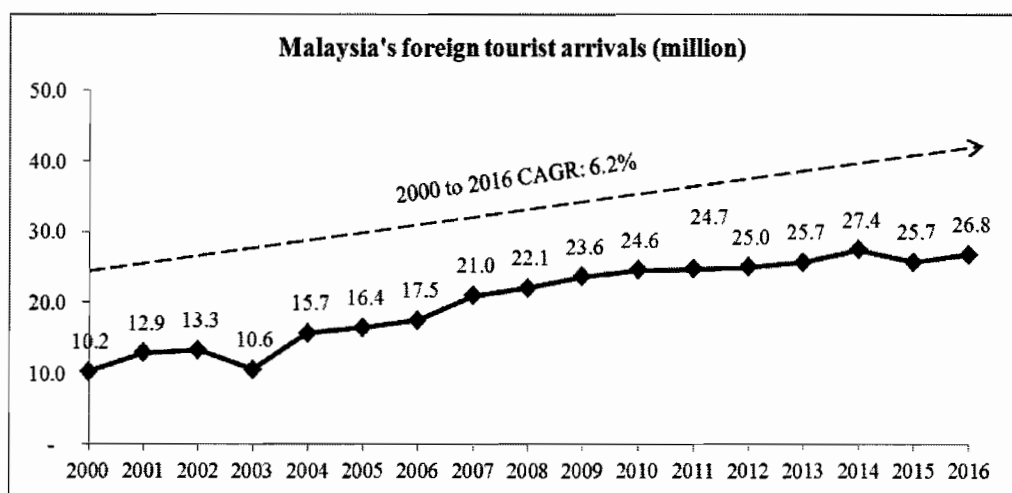
<sup>2</sup> As measured by the annual change in the Consumer Price Index (CPI)

Labour market conditions showed tentative signs of improvements in the second quarter of 2017, as the labour force expansion of 56,300 persons was exceeded slightly by stronger net employment gain of 58,900 people. As such, the unemployment rate decreased to 3.4% of the labour force (1Q 2017: 3.5%). The labour force participation rate was sustained at 67.7% of the working age population (1Q 2017: 67.7%). Higher vacancies posted on a major job search website, at 65,478 positions, indicate increased demand for new hires (1Q 2017: 61,760 positions).

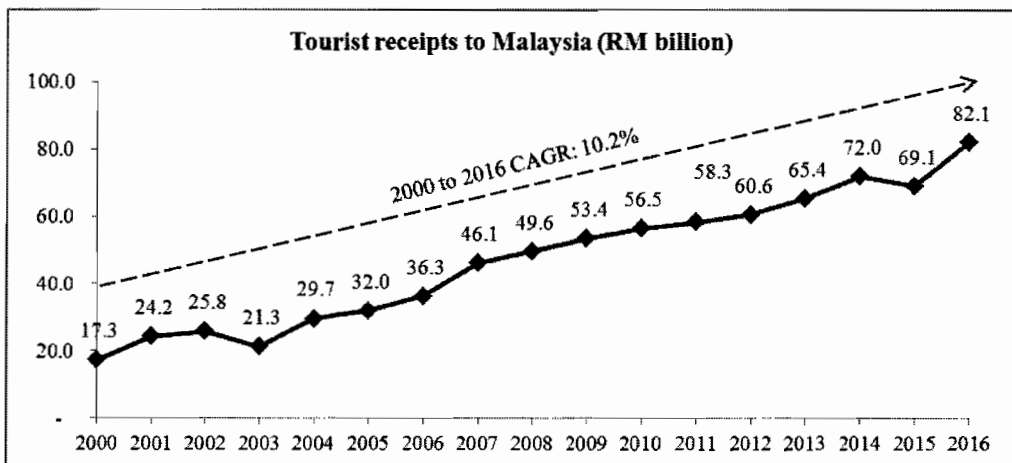
(Source: Bank Negara Malaysia, *Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017*)

## 4.2 Overview and outlook of the Malaysian tourism industry

Foreign tourist arrivals to Malaysia and tourist receipts to Malaysia is on an upward trend (as depicted in the charts below) with a positive compounded annual growth rate (CAGR) of 6.2% for tourist arrivals and 10.2% for tourist receipts over a 17-year duration from year 2000 to 2016.



(Source: Malaysia Tourism Promotion Board)



(Source: Malaysia Tourism Promotion Board)

Malaysia's tourism industry is indicating signs of recovery in 2016 with latest figures showing more tourists visiting the country after the slowdown in 2015. Tourist arrivals to Malaysia for 2016 registered a hike of 4.0% compared to the same period in 2015. The country received 26.8 million tourists compared to 25.7 million tourists in 2015.



Correspondingly, tourist receipts rose by 18.8%, contributing RM82.1 billion to the country's revenue against RM69.1 billion in 2015, which translates to an average per capita expenditure of RM3,068. Total receipts in shopping also recorded positive growth, with RM26 billion in 2016 compared to RM21.6 billion in 2015, an increase of 20.3%.

*(Source: Malaysia Tourism Promotion Board, Press Release dated 7 March 2017)*

The services sector recorded a higher growth of 5.6% in 2016 (2015: 5.1%). Growth was supported by expansion across all sub-sectors. The retail and food, and beverage and accommodation sub-sectors recorded higher growth, supported by continued wage and employment growth, and a recovery in tourist arrivals.

The services sector is projected to expand, albeit at a more moderate pace. In particular, the performance of consumption-related services such as retail trade, food & beverages and accommodation will be underpinned by stable labour market conditions and continued wage growth.

Services exports are also expected to improve, supported by a larger travel account surplus amidst the expected increase in tourist arrivals and tourist spending. The increased coverage of countries from which Chinese and Indian tourists are eligible to apply for e-Visa and the intensified promotional endeavours to target specific tourism industries such as medical and sports tourism are expected to attract more tourists to Malaysia.

*(Source: Bank Negara Malaysia, Annual Report 2016)*

#### **4.3 Prospects of the Sunway Clio Property**

The Sunway Clio Property is a newly-completed building with a 4-star rated hotel and facilities including a swimming pool, an exercise area, a dining area and meeting rooms. It is also conveniently connected to the West precinct of the iconic Sunway Pyramid Shopping Mall, thus providing guests with direct access to over 900 retail stores, 170 food and beverage outlets, and extensive business and leisure facilities within Sunway City. In addition, the Sunway Clio Property is situated in close proximity to Sunway Lagoon, a multi-award winning theme park destination that offers more than 90 rides spread across 5 uniquely themed parks and home to Asia's first Nickelodeon-themed attraction.

As highlighted in Section 4.2 of this Circular, there is an upward trend in Malaysia's foreign tourist arrivals and tourist receipts, and the outlook of Malaysia's tourism industry is expected to remain positive in the medium to long term. In addition, the Government has also announced measures in Budget 2017 to spur Malaysia's tourism industry. The Board believes that the positive environment of the Malaysian tourism industry will augur well for the Sunway Clio Property.

Being strategically located in the self-contained township of Sunway City, the Sunway Clio Property is also well-positioned to capitalise on the business synergy of the commercial activities in Sunway City and its surrounding neighbourhood of Petaling Jaya and Subang Jaya. Sunway City, a township with established commercial facilities, attracts approximately 42 million visitations a year whilst shoppers' traffic at the neighbouring Sunway Pyramid Shopping Mall increased from more than 36 million in the FYE 30 June 2016 to more than 37 million in the FYE 30 June 2017.

Further, the Hotel Property complements Sunway REIT's existing cluster of hotels within Sunway City, namely the 5-star Sunway Resort Hotel & Spa and the deluxe 4-star international class Sunway Pyramid Hotel. This accords Sunway REIT the opportunity to offer a wide range of hotel accommodation choices at various price points. In addition, as Sunway Clio Hotel is located in close proximity to these 2 hotels, guests at Sunway Clio Hotel will be able to take advantage of the extensive business facilities located in Sunway Resort Hotel & Spa and Sunway Pyramid Hotel.

*(Source: The Manager)*

## 5. RISK FACTORS

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

**(a) Susceptibility of the tourism and retail industries to external factors outside the control of the Manager**

The tourism and retail industries are generally sensitive to changes in the global, regional or domestic economy. A global, regional or domestic downturn could have a material adverse effect on the operating performance of the Lessee and in turn Sunway REIT.

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

**(b) Inability of the Lessee to pay rental to Sunway REIT**

The Lessee manages and operates the Hotel Property. The ability of the Lessee to make rental payments to Sunway REIT during the tenure of the HLA will be affected by factors that will adversely affect the operations of the Hotel Property. Such factors that may affect the operations of the Hotel Property include outbreak of infectious diseases which may affect tourism businesses, increased competition from other hotel properties, and changes in statutory laws, regulations or government policies.

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

Although the Manager will monitor the respective performances of the Lessee under the HLA and the Tenant under the CTA, the Manager has limited rights in regard to the respective management and operations of Hotel Property and the Multi-storey Car Park. Further, the Manager is unable to ensure that the Lessee and the Tenant will at all times fulfill their obligations under the HLA and the CTA. In the event that the Lessee and the Tenant do not fulfill their obligations under the HLA and the CTA, the financial performance of Sunway REIT may be affected.

**(d) Non-renewal of the HLA and CTA**

No assurance can be given that both the Lessee and the Tenant will exercise their respective options to renew the HLA and CTA upon the expiry of the initial lease/tenancy terms under the HLA and CTA. If the Lessee and/or the Tenant terminates or does not renew the HLA and/or CTA on expiry, the ability of Sunway REIT to continue to pay distributions may be adversely affected if locating a replacement lessee or tenant on satisfactory terms and in a timely manner is not possible.

**(e) Retail operations may be adversely affected**

Factors that may affect the retail operations of the Sunway Clio Property include increased competition from other retail properties, vacancies following expiry or termination of tenancies that lead to a decrease in the occupancy rates and gross rental income, the property manager's ability to collect rents from tenants on a timely basis, non-payment of rent by tenants and tenancies renewed on less favourable rental rates and terms compared with existing tenancies. The occurrence of one or more of these events may have an adverse effect on the financial performance of Sunway REIT.

**(f) Risks of external financing**

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

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

**(g) Increase in gearing level of Sunway REIT**

The current gearing level of 34.3%, based on Sunway REIT's latest audited financial statements for FYE 30 June 2017, will increase to 38.1% after Sunway REIT's acquisition of Sunway REIT Industrial – Shah Alam 1 and the Proposed Acquisition. Sunway REIT's ability to incur further borrowings may be affected and it may become more vulnerable to interest rate increases if its gearing level continues to increase.

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

The Sunway Clio Property is subject to laws, building by-laws, codes and regulations issued by the relevant regulatory bodies. There is no assurance that there will be no changes in such laws, building by-laws, codes and regulations issued by the relevant regulatory bodies that may require extensive renovation to the Sunway Clio Property in ensuring compliance with such changes.

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

The Sunway Clio Property may suffer physical damage caused by fire, flood, earthquakes or other causes which may cause Sunway REIT to suffer public liability claim 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 risk (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 Sunway Clio Property as well as anticipated future revenue from the Sunway Clio Property. Sunway REIT would also remain liable for any debt or other financial obligation relation to the Sunway Clio Property. No assurance can be given that material losses in excess of insurance proceeds (if any) will not occur in the future. In the event that an uninsured loss or a loss in excess of insured limits occurs, this may adversely affect Sunway REIT's financial condition and results of operations.

- (j) The valuation of the Sunway Clio Property is based on certain assumptions and the price at which the Trustee is able to sell the Sunway Clio Property may be different from the initial acquisition value of the Sunway Clio Property**

The valuation of the Sunway Clio Property by the Valuer is based on certain assumptions, which are subjective and uncertain and may differ materially from actual measures of the market. Further, property valuations generally include subjective determination of certain factors relating to the Sunway Clio Property, such as its location, relative market position and physical condition. The market value of the Sunway Clio Property 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. Accordingly, there can be no assurance that the price at which the Trustee is able to sell the Sunway Clio Property in the future would not be lower than the present valuation of Sunway Clio Property or the Purchase Consideration.

- (k) Delays in the registration of transfer of the title of the Sunway Clio Property**

The Land, which forms part of the Sunway Clio Property, is currently charged to the Chargee via the Charge. The discharge of the Charge 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 Sunway Clio Property upon the endorsement of the name of the Trustee as the registered owner on the title to the Sunway Clio Property.

Prior to the execution of the SPA, the Trustee has taken all necessary action to ensure that the instruments of transfer are in a registrable form. This includes conducting searches at the relevant land office to ascertain the absence of caveats or encumbrances, which would prevent the registration of the Trustee as the registered owner of the Sunway Clio Property prior to the presentation of the instrument of transfer and other necessary transfer documents at the relevant land office.

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

- (l) Compulsory acquisition by the Government of Malaysia**

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

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

As at LPD, to the best of the Manager's knowledge, the Manager is not aware that the Vendor has received any notice of acquisition or notice of intended acquisition in relation to the Sunway Clio Property or any part thereof.

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

The completion of the Proposed Acquisition is conditional upon the Conditions Precedent of the SPA as set out in Section 2.6(d) of this Circular being met. The delay in fulfilment of the Conditions Precedent may also cause registration of transfer of the title of the Sunway Clio Property in favour of the Trustee to be delayed. The non-fulfilment of the Conditions Precedent unless waived may result in the SPA being terminated. There is no assurance that the Proposed Acquisition can be completed within the timeframe permitted under the SPA.

**(n) Limitation to top up undertaking**

Pursuant to the terms of the Deed of Undertaking, SunCity undertakes to annually pay to the Trustee the difference between the Total Annual Property Income (as defined in Section 2.9 of this Circular) and the aggregate amount of RM20.23 million for a period of 4 years commencing from the day immediately after the Completion Date. The difference to be paid to the Trustee is dependent on the income received in relation to the Sunway Clio Property in every Fiscal Year, which may result in either a large difference, small or no difference to be paid.

Further, the Manager is unable to ensure that SunCity will at all times fulfill their obligations under the Deed of Undertaking. In the event that SunCity does not fulfill their obligations under the Deed of Undertaking, the financial performance of Sunway REIT may be affected.

**6. EFFECTS OF THE PROPOSED ACQUISITION**

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

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

**6.2 NAV and NAV per unit**

The proforma effects of the Proposed Acquisition on the NAV and NAV per unit of Sunway REIT are as follows:

	<b>Audited as at 30 June 2017 (RM'000)</b>	<b>After subsequent events adjustment<sup>(1)</sup> (RM'000)</b>	<b>After the Proposed Acquisition (RM'000)</b>
Unitholders' capital	2,727,829	2,727,829	2,727,829
Undistributed income	1,483,891	1,483,891	1,483,486 <sup>(2)</sup>
<b>NAV</b>	<b>4,211,720</b>	<b>4,211,720</b>	<b>4,211,315</b>
No. of units in circulation ('000)	2,945,078	2,945,078	2,945,078
NAV per unit (RM)	1.4301	1.4301	1.4300

**Notes:**

- (1) On 11 January 2017, the Trustee entered into a sale and purchase agreement with Champion Edge Sdn. Bhd. to acquire Sunway REIT Industrial – Shah Alam 1 for RM91.5 million.
- (2) After taking into consideration the estimated expenses in relation to the Proposed Acquisition which are not allowed to be capitalised amounting to RM0.4 million.

### 6.3 Gearing

The proforma effects of the Proposed Acquisition on the gearing level of Sunway REIT are as follows:

	<b>Audited as at 30 June 2017</b>	<b>After subsequent events adjustment<sup>(1)</sup></b>	<b>After the Proposed Acquisition</b>
	<b>(RM'000)</b>	<b>(RM'000)</b>	<b>(RM'000)</b>
Total asset value	6,839,893	6,923,242 <sup>(2)</sup>	7,266,882 <sup>(3)</sup>
Total borrowings	2,343,759	2,427,108 <sup>(2)</sup>	2,771,153 <sup>(4)</sup>
Gearing (total borrowings/total asset value)	34.3%	35.1%	38.1%

**Notes:**

- (1) On 11 January 2017, the Trustee entered into a sale and purchase agreement with Champion Edge Sdn. Bhd. to acquire Sunway REIT Industrial – Shah Alam 1 for RM91.5 million. The acquisition was completed on 1 August 2017 and was funded via debt.
- (2) Including expenses relating to the subsequent events amounting to RM1.0 million, which are funded via debt and capitalised as part of investment properties.
- (3) Including estimated expenses relating to the Proposed Acquisition that are allowed to be capitalised as part of investment properties amounting to RM3.6 million.
- (4) Including estimated expenses relating to the Proposed Acquisition amounting to RM4.0 million, which are to be funded via debt.

### 6.4 Earnings and DPU

The Proposed Acquisition is not expected to have any material effect on the earnings and DPU of Sunway REIT for the FYE 30 June 2018 since the Proposed Acquisition is only expected to be completed in the first quarter of 2018 (being the third quarter of the FYE 30 June 2018). Nevertheless, the Proposed Acquisition is expected to contribute positively to the future earnings and DPU of Sunway REIT.

For illustrative purposes, assuming that the Proposed Acquisition was completed on 1 July 2016 (being the beginning of the FYE 30 June 2017), the pro forma effects on the distributable net income of Sunway REIT and DPU for the FYE 30 June 2017 are set out below. The pro forma financial information is not necessarily indicative of the results of the operations that would have been attained had the Proposed Acquisition actually occurred in the aforesaid period.

	<b>Audited for the FYE 30 June 2017</b>	<b>After the Proposed Acquisition</b>
	<b>(RM'000)</b>	<b>(RM'000)</b>
Audited distributable income <sup>(1)</sup>	270,586	270,586
Add: Incremental net distributable income contribution from the Proposed Acquisition <sup>(2)</sup>	-	5,022
<b>Pro forma distributable income</b>	<b>270,586</b>	<b>275,608</b>
Units in circulation ('000)	2,945,078	2,945,078
Pro forma DPU (sen)	9.19	9.36

**Notes:**

(1) *Based on Sunway REIT's realised income*

(2) *Arrived at after taking into account the top up undertaking and income from the podium car park for the past 12 months up to 31 August 2017 and estimates of (i) finance cost in respect of borrowings to fund the Proposed Acquisition and estimated expenses relating to the Proposed Acquisition, (ii) Manager's fees and (iii) Trustee's fees*

**7. APPROVALS REQUIRED FOR THE PROPOSED ACQUISITION**

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

- (a) consent of the Trustee, which was obtained on 17 January 2017;
- (b) the approval or no objection from the State Authority for the transfer of the Sunway Clio Property from the Vendor to the Trustee;
- (c) the unitholders of Sunway REIT at the forthcoming Unitholders' Meeting;
- (d) the approval or consent of the financiers of the Vendor, if required; and
- (e) any other relevant authority and/or party, if required.

As at the LPD, save for item 7(a), no other approvals/consents have been obtained.

**8. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS OF SUNWAY REIT, AND PERSONS CONNECTED WITH THEM**

The Manager and its interested related parties will not vote on the resolution pertaining to the Proposed Acquisition at the Unitholders' Meeting as such voting is prohibited under Clauses 15.48<sup>3</sup> and 15.49<sup>4</sup> of the REIT Guidelines.

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

**8.1 Interested Director**

Sarena Cheah is a Non-Independent Non-Executive Director of the Manager as well as a Non-Independent Executive Director of Sunway. Please refer to Section 8.2 of this Circular for Sarena Cheah's unitholdings in Sunway REIT.

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<sup>3</sup> 15.48 A management company must not exercise the voting rights for the units it or its nominees hold in any unit holders' meeting, regardless of the party who requested for the meeting and the matter or matters that are laid before the meeting.

<sup>4</sup> 15.49 Related parties of the management company should not vote or be counted in the quorum at a meeting if they have interest in the outcome of a transaction tabled for approval which is different from the interests of other unit holders.

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

## 8.2 Interested Major Unitholders of Sunway REIT

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

Unitholder	Direct		Indirect	
	No. of units	%	No. of units	%
Sunway REIT Holdings	1,099,578,565	37.3	-	-
TSJC	66,987,540	2.3	1,099,578,565 <sup>(1)</sup>	37.3
PSSC	-	-	1,166,566,105 <sup>(2)</sup>	39.6
Sarena Cheah	-	-	1,166,569,105 <sup>(3)</sup>	39.6
Evan Cheah	-	-	1,166,566,105 <sup>(4)</sup>	39.6
Active Equity	-	-	1,099,578,565 <sup>(5)</sup>	37.3
Sungei Way	-	-	1,099,578,565 <sup>(6)</sup>	37.3
Sunway	-	-	1,099,578,565 <sup>(7)</sup>	37.3

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

As at the LPD, Sunway, through its 100% shareholding in SunCity, has a 100% indirect interest in the Vendor. Accordingly, the Interested Major Unitholders are deemed interested in the Proposed Acquisition.

The Interested Major Unitholders will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings in Sunway REIT at the Unitholders’ Meeting. They have also undertaken to ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to 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 of the Manager”) are as follows:

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

**Notes:**

- (1) Deemed interest by virtue of Section 8 of the Act, held through Active Equity, Sungei Way and Sunway
- (2) Deemed interest by virtue of Section 8 of the Act 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 a 80% direct interest in the Manager. Accordingly, the Interested Major Shareholders of the Manager are deemed interested in the Proposed Acquisition.

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

## 9. RELATED PARTY TRANSACTION

In the 12 months preceding 30 June 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular, Sunway REIT’s total transaction value with Sunway and its group of companies amounted to RM5.75 million.

## 10. THE MANAGER’S AUDIT COMMITTEE’S RECOMMENDATION

The Audit Committee of the Manager, having considered the rationale and all aspects of the Proposed Acquisition, and the evaluation and recommendation by the Independent Adviser as contained in the IAL (as set out in Part B of this Circular), and after careful deliberation, is of the opinion that the Proposed Acquisition is in the best interest of Sunway REIT and is not detrimental to the non-interested unitholders of Sunway REIT. The Audit Committee of the Manager is also of the view that the Proposed Acquisition is fair and reasonable, and on normal commercial terms.

## **11. DIRECTORS' RECOMMENDATION**

After having considered the rationale and effects of the Proposed Acquisition, the Board (save for the Interested Director as set out in Section 8.1 of this Circular):

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

## **12. TRUSTEE'S APPROVAL AND CONFIRMATION**

The Trustee has approved the Proposed Acquisition and the Trustee has confirmed that the said transaction is at arm's length, transacted at a price that is equivalent to the value assessed in the Valuation Report and in the best interest of Sunway REIT's unitholders.

## **13. INDEPENDENT ADVISER**

In view of the interests of the Interested Parties in the Proposed Acquisition, AmInvestment Bank has been appointed by the Board on 19 September 2017 to act as the Independent Adviser to undertake the following:

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

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

## **14. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION**

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

## **15. TENTATIVE TIMETABLE**

The estimated timeframe for the Proposed Acquisition is as follows:

<b>Date</b>	<b>Events</b>
End October 2017	: Unitholders' Meeting to approve the Proposed Acquisition
First quarter of 2018	: Completion of the Proposed Acquisition

## **16. UNITHOLDERS' MEETING**

The Unitholders' Meeting, the Notice of which is enclosed with this Circular, will be held at Grand Bahamas, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 25 October 2017 at 3.30 p.m. or immediately following the conclusion or adjournment (as the case may be) of the fifth annual general meeting of Sunway REIT which will be held at 3.00 p.m. on the same day and at the same venue, whichever is later, or at any adjournment thereof, for the purpose of considering and, if thought fit, passing the resolution, with or without any modifications, to give effect to the Proposed Acquisition.

If you are unable to attend and vote in person at the Unitholders' Meeting, you may appoint a proxy to attend and vote on your behalf by completing, signing and returning the enclosed Form of Proxy in accordance with the instructions contained therein as soon as possible, so as to arrive at the registered office of the Manager at Level 16, Menara Sunway, Jalan Lagoon Timur, 47500 Subang Jaya, Selangor Darul Ehsan, not less than 48 hours before the time set for holding the Unitholders' Meeting or any adjournment thereof. The completion and lodgment of the Form of Proxy shall not preclude you from attending and voting in person at the Unitholders' Meeting should you subsequently wish to do so and in such an event, your Form of Proxy shall be deemed to have been revoked.

## **17. FURTHER INFORMATION**

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

Yours faithfully,  
For and on behalf of the Board of  
**SUNWAY REIT MANAGEMENT SDN. BHD.**

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

**PART B**

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

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## EXECUTIVE SUMMARY

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

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

### 1. INTRODUCTION

On 3 August 2017, on behalf of the Board of Directors of the Manager, RHB Investment Bank Berhad announced that the Trustee, had on even date, entered into the SPA with the Vendor for the proposed acquisition of the Sunway Clio Property for a total purchase consideration of RM340 million.

In view of the interests of the Interested Parties (as defined herein) as set out in Section 8 Part A of the Circular, the Board of the Manager had on 19 September 2017 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:-

Section of evaluation	Section in this IAL	Our evaluation
Basis and justification for the Purchase Consideration	Section 5.1	<p>We have relied on the Valuation Report prepared by Knight Frank Malaysia Sdn. Bhd. to consider the fairness of the Purchase Consideration.</p> <p>We take note that in arriving at the market value of the Sunway Clio Property, the Valuer adopted the Income Approach and supported by the Comparison Approach.</p> <p>We have reviewed and are satisfied with the assumptions adopted by the Valuer in deriving the market value of the Sunway Clio Property.</p> <p>Based on the Valuation Report, the market value of the Sunway Clio Property is RM340 million.</p>

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**EXECUTIVE SUMMARY (CONT'D)**

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<b>Section of evaluation</b>	<b>Section in this IAL</b>	<b>Our evaluation</b>
Rationale for the Proposed Acquisition	Section 5.2	<p>We are of the opinion that the rationale for the Proposed Acquisition is reasonable on the basis that the Proposed Acquisition is expected to be earnings accretive to Sunway REIT.</p> <p>The Proposed Acquisition is also expected to increase income stability and weighted average lease expiry of Sunway REIT's portfolio.</p> <p>We note that the Proposed Acquisition will help to strengthen Sunway REIT's current position as one of the larger real estate investment trusts in Malaysia by property market value.</p>
Industry outlook and future prospects	Section 5.3	<p>We note that the Malaysian economy is expected to be resilient in continuing its growth, albeit moderating. Domestic demand is expected to be the driver of the Malaysian economy, supported by the private sector and the recent turnaround of the public sector spending.</p> <p>In addition, the tourism industry is expected to remain positive in the immediate future with the support of various government initiatives.</p> <p>Sunway City is an established self-contained township located near the Kuala Lumpur city centre and is well connected to nearby cities via an extensive network of road and expressways.</p> <p>We believe that going forward, barring any unforeseen circumstances, the overall prospects of the Sunway Clio Property, with its strategic location within Sunway City should be generally positive.</p>
Effects of the Proposed Acquisition	Section 5.4	<p>The Proposed Acquisition will not have any effect on the unitholders' capital and substantial unitholders' unitholdings of Sunway REIT.</p> <p>The Proposed Acquisition is not expected to have any material effect on the earnings, DPU and gearing of Sunway REIT for the FYE 30 June 2018.</p> <p>Upon completion, the Proposed Acquisition is expected to contribute positively to the future earnings of Sunway REIT.</p>

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**EXECUTIVE SUMMARY (CONT'D)**

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<b>Section of evaluation</b>	<b>Section in this IAL</b>	<b>Our evaluation</b>
Risk factors relating to the Proposed Acquisition	Section 5.5	<p>We take note that the risks associated with the Proposed Acquisition are common aspects of leasing/ownership of real estates and consistent with risks undertaken by real estate investment trusts.</p> <p>Further, the Proposed Acquisition will not result in Sunway REIT being exposed to a new portfolio segment but rather an increased exposure to its existing hotel and retail segments. Accordingly, the Proposed Acquisition is not expected to materially change the risk profile of Sunway REIT.</p>
Salient terms of the agreements	Section 5.6	<p>Based on our review of the salient terms of the SPA, HLA, CTA and Deed of Undertaking, we are of the opinion that the overall terms of the mentioned agreements are reasonable and not detrimental to the interest of the Non-Interested Unitholders.</p>

### **3. CONCLUSION AND RECOMMENDATION**

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

**Accordingly, we recommend that you VOTE IN FAVOUR of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.**

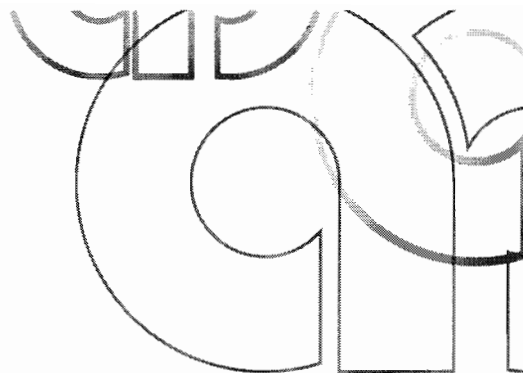
**YOU ARE ADVISED TO READ BOTH THIS INDEPENDENT ADVICE LETTER AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES ENCLOSED THEREIN THOROUGHLY FOR MORE INFORMATION AND NOT TO RELY SOLELY ON THIS EXECUTIVE SUMMARY BEFORE FORMING AN OPINION ON THE PROPOSED ACQUISITION.**

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



**AmInvestment Bank**

**Your Bank. Malaysia's Bank. AmInvestment Bank.**



**Registered Office:**

22<sup>nd</sup> Floor  
Bangunan AmBank Group  
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50200 Kuala Lumpur

10 October 2017

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

Dear Sir / Madam,

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

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*This IAL is prepared for inclusion in the circular to the unitholders of Sunway REIT dated 10 October 2017 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 3 August 2017, on behalf of the Board of Directors of the Manager, RHB Investment Bank Berhad announced that the Trustee, had on even date, entered into the SPA with the Vendor for the proposed acquisition of the Sunway Clio Property for a total purchase consideration of RM340 million.

In view of the interests of the Interested Parties (as defined herein) as set out in Section 8 Part A of the Circular, the Board of the Manager had on 19 September 2017 appointed AmInvestment Bank to act as the Independent Adviser in relation to the Proposed Acquisition.

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

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

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

A member of the AmBank Group

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**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 the formulation of or any of the deliberations and negotiations on the terms and conditions of the Proposed Acquisition and the SPA. In performing our evaluation, we have relied on the following:-

- (a) information contained in the agreements (i.e. SPA, HLA, CTA and Deed of Undertaking);
- (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 prepared by the Valuer dated 13 June 2017 in relation to the Sunway Clio Property;
- (d) other relevant information, documents, confirmation and/or representations provided by the Board and the Manager, or obtained in or derived from the discussions with the Manager; and
- (e) other publicly available information which we are aware of and deemed relevant.

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

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

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

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

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

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

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

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

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

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

As at the LPD, the AmBank Group has extended credit facilities of RM106.5 million to Sunway Berhad and its group of companies (“**Sunway Group**”). We are of the view that the aforementioned credit facilities do not result in any conflict of interest situation in respect of our capacity as the Independent Adviser for the Proposed Acquisition as the aforementioned credit facilities have been extended by the AmBank Group in the ordinary course of its banking business, and the terms and conditions of such credit facilities are offered on an arm’s length basis. In addition, the operation of AmBank Group is regulated by the Financial Services Act, 2013 and its internal Chinese Wall Policy. For information, the credit facilities extended by AmBank Group to Sunway Group represents less than 1% of AmBank Group’s net loans, advances and financing for the financial year ended 31 March 2017.

Save for the Proposed Acquisition, which is the subject matter of the Circular, we have not advised Sunway REIT in the capacity of principal adviser or independent adviser for any corporate exercise within the past two (2) years preceding the LPD.

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

### 3.2 CREDENTIALS, EXPERIENCE AND EXPERTISE

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

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

- (a) selective capital reduction and repayment exercise of Hwang Capital (Malaysia) Berhad pursuant to Section 117 of the Companies Act, 2016, which was announced on 30 June 2017;
- (b) unconditional mandatory take-over offer by Actis Stark (Mauritius) Limited (“**Actis**”) through CIMB Investment Bank Berhad, to acquire all the remaining ordinary shares in GHL Systems Berhad (excluding treasury shares) not already held by Actis, which was announced on 31 March 2017;
- (c) unconditional take-over offer by Malaysia Hengyuan International Limited (“**Hengyuan**”) through RHB Investment Bank Berhad to acquire all the remaining ordinary shares of RM1.00 in Shell Refining Company (Federation of Malaya) Berhad not already held by Hengyuan, which was announced on 19 December 2016;
- (d) acquisition by Maybank Trustees Berhad (trustee of MRCB-Quill REIT) of an office tower known as Menara Shell from 348 Sentral Sdn Bhd for a purchase consideration of RM640 million and placement of up to 406,666,667 placement units, representing up to 38.1% of the enlarged units in circulation of MRCB-Quill REIT, which was announced on 30 June 2016;
- (e) unconditional mandatory take-over offer by Dato’ Sri Ng Ah Chai (“**Dato’ Sri Ng**”) through RHB Investment Bank Berhad to acquire all the remaining ordinary shares of RM1.00 in Mieco Chipboard Berhad not already held by Dato’ Sri Ng, which was announced on 30 June 2016;
- (f) acquisition by MISC Berhad of the remaining 50% equity interest in Gumusut-Kakap Semi-Floating Production System (L) Limited from E&P Venture Solutions Co Sdn. Bhd., a wholly-owned subsidiary of Petronas Carigali Sdn. Bhd., for a cash consideration of USD445.0 million (approximately RM1,849.0 million), which was announced on 24 February 2016; and
- (g) selective capital reduction and repayment exercise of Kulim (Malaysia) Berhad pursuant to Section 64 of the Companies Act, 1965, which was announced on 18 November 2015.

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 UNITHOLDERS AND/OR PERSON CONNECTED TO THEM**

The interest of the interested major unitholders of Sunway REIT and the Directors and major shareholders of the Manager (collectively, referred to as “**Interested Parties**”) is set out in Section 8 of Part A of the Circular.

The Interested Parties have abstained and will continue to abstain from all deliberations and voting at the relevant Board meetings of Sunway REIT pertaining to the Proposed Acquisition. The Interested Parties will also abstain from voting in respect of their direct and/or indirect unitholdings in Sunway REIT, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders’ Meeting.

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

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

**5. EVALUATION OF THE PROPOSED ACQUISITION**

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 agreements (i.e. SPA, HLA, CTA and Deed of Undertaking).

## 5.1 BASIS AND JUSTIFICATION FOR THE PURCHASE CONSIDERATION

As set out in Section 2.2, Part A of this Circular, the Purchase Consideration for the Sunway Clio Property of RM340 million is derived based on the market value of the Sunway Clio Property, as ascribed by the Valuer. The Valuation Certificate is set out in Appendix II of this Circular.

In arriving at the market value of the Sunway Clio Property, the Valuer has adopted the Income Approach and supported by the Comparison Approach.

### **Our comments:-**

We note that the Valuer has adopted the Income Approach as the principal valuation methodology to arrive at the market value of the Sunway Clio Property, whilst the Comparison Approach was used to cross check against the market value of the Sunway Clio Property derived from the Income Approach. We are of the opinion that the Income Approach is an appropriate valuation methodology as the Income Approach takes into consideration: (i) that Sunway Clio Property is an income generating asset with relatively predictable income stream based on its existing tenancies and lease agreements; and (ii) the resultant net income (net of expenses incurred) is capitalised into market value using a capitalisation rate which reflects the expected return on investment and commensurate with the risk exposure of the Sunway Clio Property.

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

In arriving at the market value of the Sunway Clio Property, the Valuer has adopted two (2) valuation methodologies, namely the Income Approach as the primary method and Comparison Approach as a counter-check method. A summary of the values derived from the valuation methodologies is as follows:-

<b>Valuation approach</b>	<b>Derived value</b>	<b>Section</b>
Income Approach	RM340 million <sup>(i)</sup>	5.1.1
Comparison Approach	RM352 million	5.1.2

### **Note:-**

- (i) *In arriving at this value, the Valuer did not take into account the impact of the top up undertaking arising from the Deed of Undertaking.*

### **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 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 Sunway Clio Property.

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

**(a) Hotel Property**

- **Average Room Rate (“ARR”)**

The Hotel Property has 401 rooms. The Valuer has benchmarked against the average room rate (“ARR”) of RM269 per room for the period since the commencement date of the Hotel Property in February 2016 up to 31 March 2017. After taking into consideration of the Hotel Property’s ARR of RM269 per room and the ARR of competing hotels within Klang Valley ranging from RM234 per room to RM459 per room, the Valuer has adopted an ARR of RM295 per room for year 1.

The Valuer projected the ARR to increase by 4.05% per annum (10-year CAGR) to RM400 per room at year 10;

- **Average Occupancy Rate**

Since 19 February 2016, being the date of commencement of business, to 31 August 2017, the average occupancy rate was 72.6%. The Valuer projected the average occupancy rate of 73.0% at year 1 to increase by 2% per annum up to year 5. Thereafter, the average occupancy rate stabilises at 82% from year 6 to year 10.

The average occupancy rate of Sunway Resort Hotel & Spa for the FYE 30 June 2017 was 81.5%.

- **Gross Operating Profit**

Based on the Vendor’s unaudited management account for the financial period ended 31 March 2017, the gross operating profit represents 35.8% of the gross operating revenue. Accordingly, the Valuer had assumed the gross operating profit of 35.8% of the gross operating revenue from year 1 to year 5 and to increase by 1.9% to 37.7% for year 6 to year 10. This is due to lower increase in marketing and general expenses as the average occupancy rate stabilises at 82% from year 6 to year 10.

- **Net Receivable Income**

Pursuant to the HLA, Sunway REIT will receive an amount equivalent to (i) base rent equivalent to 20% of the gross revenue (“**Hotel Base Rent**”) and (ii) 70% of the gross operating profit less Hotel Base Rent, hotel management fee and FFE reserve.

The hotel management fee is computed based on 7.5% of the gross operating profit and the FFE reserve is computed based on 2.5% of the gross operating revenue.

- **Capitalisation Rate**

The Valuer had adopted a capitalisation rate of 6.75% after taking into consideration the existing yield of selected hotel buildings in Klang Valley which are in the region of 5.90% to 6.60%.

**(b) Retail space**

- **Average Monthly Gross Rental**

The Sunway Clio Property has 88,384 square feet of retail space. Based on the committed tenancy agreements, the average monthly gross rental is RM4.61 per square feet ("psf"). After taking into consideration the average monthly gross rental of selected shopping malls, the Valuer projected the average monthly gross rental for year 1, year 2 and year 3 to be RM5.54 psf, RM6.22 psf and RM6.61 psf respectively and thereafter to increase by 10% per annum in Year 4 onwards to RM12.87 psf at year 10.

- **Average Occupancy Rate**

The existing average occupancy rate of selected shopping malls ranges from 92.0% to 98.0%. We noted that the Valuer projected the average occupancy rate of 100% from year 1 to year 10. However, the Valuer also projected a 5% void allowance to account for vacancy periods between rent reviews which include the rent free, fitting our periods and possibility of bad debts.

As at 31 March 2017, the secured occupancy rate was 88.2% and the remaining unoccupied lots are in the sourcing stage.

- **Operating Expenses**

Based on the Vendor's unaudited management account for the financial period ended 31 March 2017, the current operating expenses is RM1.57 psf. Accordingly, the Valuer had assumed the operating expenses of RM2.40 psf from year 1 and to increase by 5% per annum from year 2 to year 10 thereafter.

- **Capitalisation Rate**

The Valuer had adopted a capitalisation rate of 6.75% after taking into consideration the existing yield of selected shopping malls in the Klang Valley which are in the region of 5.78% to 6.23%.

**(c) Multi-storey Car Park**

- **Revenue**

Sunway Clio Hotel has 732 car park bays. Currently, the monthly collectable income per car park bay is RM80. The Valuer projected the monthly collectable income per car park bay of RM180 in Year 1 and to increase by 10% per annum up to year 5 and thereafter to increase by 5% from year 6 to year 10.

The Valuer had benchmarked the rental per car park bay to the monthly rental per car park bay of the Multi-storey Car Park and other car parking bays from other selected shopping malls in the Klang Valley which ranges from RM200 to RM260.

The Valuer had also assumed a 5% void allowance to account for vacancy periods between rent reviews which include the rent free fitting out periods.

- **Operating Expenses**

The Valuer had assumed operating expenses of 25% of the gross revenue which is consistent with the Vendor's unaudited management account for the financial period ended 31 March 2017.

- **Net Receivable Income**

Pursuant to the CTA, Sunway REIT will receive an amount equivalent to (i) ) base rent equivalent to 20% of the gross revenue (“**Car Park Base Rent**”) and (ii) 95% of the gross operating profit less Car Park Base Rent.

- **Capitalisation Rate**

We note that the Valuer has adopted capitalisation rate of 6.75% which is similar to those adopted for the Hotel Property. This is reasonable given that the risk profile for the Multi-storey Car Park is similar to the hotel.

**(d) Discount Rate**

The Valuer had adopted a discount rate of 9.00% in the Income Approach which is higher than Sunway REIT’s weighted average cost of capital (“**WACC**”) of 5.7% (*Source: Bloomberg*). We note that the higher discount rate adopted reflects the risks associated with the projected gross rental income and tenancy uncertainties for the said future terms.

### 5.1.2 Comparison Approach

The Comparison Approach entails the comparison of the subject property 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. The Valuer has adopted the Comparison Approach as a counter-check for the Income Approach detailed in Section 5.1.1.

<b>Subject property</b>	<b>Derived value</b>	<b>Section</b>
	RM’ million	
Hotel Property	245	5.1.2 (a)
Retail Space	86	5.1.2 (b)
Multi-storey Car Park	21	5.1.2 (c)
<b>Total</b>	<b>352</b>	

Set out below is a summary of the sale evidences for Sunway Clio Property which comprises the Hotel Property, Retail Space and Multi-storey Car Park.

**(a) Hotel Property**

	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
Name & Address	Renaissance Hotel Kuala Lumpur, Jalan Sultan Ismail, 50450 Kuala Lumpur	Aloft Kuala Lumpur Sentral Hotel, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, Kuala Lumpur	DoubleTree by Hilton Kuala Lumpur, The Intermark, No. 348, Jalan Tun Razak, 50400 Kuala Lumpur
Description	A 910-room five (5)-star international hotel together with other supporting facilities/amenities	A 482-room four (4)-star hotel together with other supporting facilities/amenities	A 540 room four (4)-star hotel together with other supporting facilities/amenities
Occupancy	73.53%	79.00%	75.00%



	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Transaction Date	15 August 2016	30 March 2016	9 April 2015
Transaction Price	RM765,700,000	RM418,700,000	RM388,000,000
Analysis (RM per room)	791,428.57	868,672.20	678,518.52
Adjustments made by the Valuer	<u>Upward</u> <ul style="list-style-type: none"> <li>• Establishment of the development</li> <li>• Condition/age of building</li> </ul> <u>Downward</u> <ul style="list-style-type: none"> <li>• Location</li> <li>• Accessibility</li> <li>• Tenure</li> <li>• Building quality/design/finishes</li> <li>• Hotel operator</li> <li>• Star rating</li> </ul>	<u>Upward</u> <ul style="list-style-type: none"> <li>• Establishment of the development</li> <li>• Condition/age of building</li> <li>• Ownership Status (individual title/strata block basis)</li> </ul> <u>Downward</u> <ul style="list-style-type: none"> <li>• Location</li> <li>• Accessibility</li> <li>• Occupancy</li> <li>• Tenure</li> <li>• Building quality/design/finishes</li> <li>• Hotel operator</li> </ul>	<u>Upward</u> <ul style="list-style-type: none"> <li>• Establishment of the development</li> <li>• Condition/age of building</li> <li>• Ownership Status (individual title/strata block basis)</li> </ul> <u>Downward</u> <ul style="list-style-type: none"> <li>• Location</li> <li>• Accessibility</li> <li>• Tenure</li> <li>• Hotel operator</li> </ul>
Adjusted Value (RM per room)	672,714.29	651,504.15	644,592.59

*(Source: Valuation Report)*

The Valuer has adopted the adjusted value of RM644,592.59 per room as the Valuer opines Comparable 3 to be a fair representation of the Hotel Property as it has insignificant dissimilarities between them. In this respect, the Valuer has adopted a value of RM245,000,000 in its valuation of the Hotel Property after taking into consideration the amounts payable stipulated in the HLA.

**(b) Retail Space**

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Name & Address	Empire Subang Gallery, Jalan SS16/1, 47500 Subang Jaya, Selangor Darul Ehsan	Da Men Mall, Persiaran Kewajipan, UEP Subang Jaya, Selangor Darul Ehsan	Tropicana City Mall, No. 3, Jalan SS20/27, Petaling Jaya, Selangor Darul Ehsan
Description / Type of Property	A five (5)-storey retail mall together with 4 basement car park comprising 1,414 car parks	A five (5)-storey retail mall together with a lower ground floor and two (2)-level of basement car parks	A four (4)-storey shopping mall together with four (4) levels of car parks (part of lower ground, Basement 1, Basement 2, and part of Basement 3 comprising 1,759 car parking bays which are designated for the exclusive use of the retail mall and office tower)

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Occupancy	99.00%	70.00%	89.20%
Transaction Date	19 January 2017	17 September 2015	26 January 2015
Transaction Price	RM571,900,000	RM486,844,000	RM472,982,143
Net Lettable Area (sq. ft.)	333,749	420,920	448,248
Analysis (RM per sq. ft.)	1,565.28	1,024.31	922.74
Adjustments made by the Valuer	<u>Upward</u> <ul style="list-style-type: none"> <li>• Condition/age of building</li> <li>• Ownership Status (individual title/strata block basis)</li> </ul> <u>Downward</u> <ul style="list-style-type: none"> <li>• Committed Occupancy</li> <li>• Tenure</li> <li>• Floor Area/Parcel Area/Net Lettable Area</li> <li>• Tenant Mix/Market Positioning/Store Concept</li> </ul>	<u>Upward</u> <ul style="list-style-type: none"> <li>• Committed Occupancy</li> <li>• Ownership Status (individual title/strata block basis)</li> </ul> <u>Downward</u> <ul style="list-style-type: none"> <li>• Tenure</li> <li>• Floor Area/Parcel Area/Net Lettable Area</li> </ul>	<u>Upward</u> <ul style="list-style-type: none"> <li>• Accessibility</li> <li>• Condition/age of building</li> <li>• Ownership Status (individual title/strata block basis)</li> </ul> <u>Downward</u> <ul style="list-style-type: none"> <li>• Tenure</li> <li>• Floor Area/Parcel Area/Net Lettable Area</li> </ul>
Adjusted Value (RM per sq. ft.)	1,173.96	973.09	922.74

*(Source: Valuation Report)*

The Valuer has adopted the adjusted value of RM973.09 psf as the Valuer opines Comparable 2 to be a fair representation of the Retail Space as it has insignificant dissimilarities between them. In this respect, the Valuer has adopted a value of RM86,000,000 in its valuation of the Retail Space.

(c) **Multi-storey Car Park**

	<u>Comparable 1</u>	<u>Comparable 2</u>	<u>Comparable 3</u>
Address	Car parking bays located within Da Men Mall	Car parking bays located within Tropicana City Mall	Car parking bays located within V Square
No. of bay	1,638	1,759	964
Transaction Date	17 September 2015	26 January 2015	10 May 2013
Transaction Price	RM34,000 per bay	RM33,750 per bay	RM30,000 per bay
Analysis (RM per bay)	34,000	33,750	30,000
Adjustments made by the Valuer	<u>Downward</u> <ul style="list-style-type: none"><li>• Tenure</li></ul>	<u>Downward</u> <ul style="list-style-type: none"><li>• Tenure</li></ul>	<u>Upward</u> <ul style="list-style-type: none"><li>• Time adjustment</li></ul> <u>Downward</u> <ul style="list-style-type: none"><li>• Establishment of the development</li></ul>
Adjusted Value (RM per bay)	30,600	30,375	29,700

(Source: Valuation Report)

The Valuer has adopted the adjusted value of RM30,225 per bay as the Valuer opines all comparables have insignificant dissimilarities between them. In this respect, the Valuer has adopted a value of RM21,000,000 (RM28,689 per bay) in its valuation of the Multi-storey Car Park after taking into consideration the amounts payable stipulated in the CTA.

**5.1.3 Summary**

<u>Valuation approach</u>	<u>Derived value</u>
Income Approach	RM340 million
Comparison Approach	RM352 million

In arriving at the final value of the Sunway Clio Property, the Valuer has adopted the Income Approach of which the value of the Sunway Clio Property based on this method is RM340 million which is a more appropriate method as the Valuer is of the opinion that the Sunway Clio Property is an income generating property.

Based on the Valuation Report, we are satisfied with the bases and assumptions used by the Valuer in arriving at the valuation of the Sunway Clio Property. Premised on the above, the Purchase Consideration of the Sunway Clio Property is fair.

## 5.2 RATIONALE FOR THE PROPOSED ACQUISITION

The rationale of the Proposed Acquisition is set out in Section 3, Part A of this Circular.

### Our comments:-

We take cognisance of the rationale for the Proposed Acquisition and summarised below are our opinions on the Proposed Acquisition:-

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

The Sunway Clio Property has been in operation since February 2016. From commencement of its operations till 31 August 2017, the Sunway Clio Property has enjoyed an average occupancy rate of 72.6% for its hotel operations and had secured 88.2% occupancy for its Retail Space.

The Purchase Consideration will be funded via Sunway REIT's Existing Debt Programmes (as defined herein). Based on the net property income and the cost of financing as set out below, the Proposed Acquisition is expected to be earnings accretive to Sunway REIT upon completion of the Proposed Acquisition.

	<u>Net property income</u> <sup>(i)</sup>	<u>Management &amp; Trustee Fees</u> <sup>(ii)</sup>	<u>Cost of Financing</u> <sup>(iii)</sup>	<u>Incremental earnings</u> <sup>(iv)</sup>	<u>Incremental earnings per unit</u> <sup>(v)</sup>
Sunway Clio Property	RM20.43 million	RM1.64 million	RM13.76 million	RM5.02 million	0.17 sen

### Notes:-

- (i) *Based on the minimum undertaking to be received as set out in Section 2.9 of Part A of this Circular and estimated RM0.20 million net income from Podium Car Park.*
- (ii) *RM1.64 million refers to management fees payable to the Manager as well as trustee fees payable to the Trustee. Management fees are computed based on 0.30% of the asset value (RM344 million) and 3% of the net property income (RM20.43 million). Trustee fees are computed based on 0.03% of the NAV of the property of RM0.4 million as mentioned in Section 6.2 of Part A of this Circular.*
- (iii) *Assuming the Proposed Acquisition is to be financed via debt at a rate of 4.00% per annum. For information, the average cost of financing for the FYE 30 June 2017 was 3.95%.*
- (iv) *Incremental earnings are derived from net property income after deducting management and Trustee fees and cost of financing.*
- (v) *Based on 2,945,078,000 units in issue as at the LPD*

As Sunway REIT has maintained a 100% income distribution track record up to the FYE 30 June 2017 and a distribution policy of at least 90% for each subsequent financial year, the Proposed Acquisition is expected to also increase the DPU.

**(b) Increased income stability through the HLA and increased weighted average lease expiry (“WALE”) of Sunway REIT’s portfolio**

As at 30 June 2017, Sunway REIT has a WALE of 1.81 years. We note that Sunway REIT had on 1 August 2017 completed the acquisition of Sunway REIT Industrial – Shah Alam 1. Pursuant thereto, its WALE increased to 1.99 years.

As set out in Section 3(b) of Part A of this Circular, the initial term of the HLA is for 10 years. This will increase the WALE of Sunway REIT’s enlarged portfolio from 1.99 years to 2.13 years upon completion of the Proposed Acquisition.

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

The Proposed Acquisition will increase Sunway REIT’s value of investment properties by RM344 million (including estimated expenses that are allowed to be capitalised in relation to the Proposed Acquisition) to approximately RM7.1 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.

As Sunway REIT’s portfolio grows, operating and management efficiencies may increase leading to lower costs and potentially higher earnings. This is particularly so, given that the Sunway Clio Property is connected to Sunway Pyramid Shopping Mall and is located within the vicinity of Sunway REIT’s other properties located in Sunway City.

Additionally, a larger asset portfolio may allow Sunway REIT to obtain cheaper access to capital and thus decreasing its overall cost of capital.

**(d) Harness synergy amongst Sunway REIT’s assets within the integrated township of Sunway City**

Acquiring properties in Sunway City is amongst the Manager’s strategies to maximize operating synergies with Sunway REIT’s other properties located within Sunway City. The Proposed Acquisition presents an opportunity for Sunway REIT to acquire the Sunway Clio Property which is able to immediately reap the benefits from the population catchment area and synergies within the matured township of Sunway City.

**(e) Elimination of potential or perceived conflict of interest**

Sunway REIT’s portfolio includes the following hotels which are within close proximity to Sunway Clio Property:-

- (i) Sunway Resort Hotel & Spa; and
- (ii) Sunway Pyramid Hotel.

The Hotel Property is currently leased to Sunway Resort Hotel Sdn Bhd, which is also the lessee of the aforementioned hotels. Should the Hotel Property be operated by the same lessee outside Sunway REIT’s portfolio, such circumstances may give rise to a potential conflict of interest situation or any perceived conflict of interests.

We concur that the Proposed Acquisition will eliminate such potential conflict of interest situation or any perceived conflict of interests.

**(f) The Lessee is a reputable and experienced hotel operator**

The Lessee is a hotel operator with an extensive track record spanning 20 years. Particularly, the Lessee, being also the lessee for Sunway Resort Hotel & Spa and Sunway Pyramid Hotel, is familiar with Sunway City, having witnessed the transformation of the township over the past 20 years.

Since the inception of Sunway REIT, the Lessee has been consistently delivering satisfactory performance. For the last five (5) financial years, the hotels operated by the Lessee had consistently recorded an average occupancy rate of above 70%, save for Sunway Pyramid Hotel which recorded a lower average occupancy rate for the FYE 30 June 2017. Sunway Pyramid Hotel was closed for refurbishment since April 2016 and re-opened in November 2016, on a progressive basis with full re-opening in June 2017. This is above the reported national average occupancy rate of 65.2% in 2016. The numerous industry and trade awards received by the hotels operated by the Lessee further add testament to the approach and practice adopted by the Lessee.

Based on the foregoing, we believe the Lessee is well positioned to leverage on its experience and familiarity with Sunway City to operate and improve the value of the Hotel Property.

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

### **5.3 INDUSTRY OUTLOOK AND FUTURE PROSPECTS**

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

#### **5.3.1 OVERVIEW AND OUTLOOK OF THE MALAYSIAN ECONOMY**

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the second quarter of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%).

Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the quarter, consumer sentiments continued to improve, providing further impetus to household spending. Private investment expanded by 7.4% in the second quarter (1Q 2017: 12.9%), mainly in the services and manufacturing sectors. In line with the recovery in demand, manufacturers undertook capacity expansions, machinery and equipment (M&E) acquisitions and replacements to cater for new orders. This was evident across both the export and domestic-oriented manufacturing sub-sectors. In the services sector, investment was supported mainly by expansions in the utilities, healthcare and food & beverage and accommodation sub-sectors. During the quarter, business sentiments continued to improve in tandem with better external and domestic conditions amid lower financial market volatility.

Public consumption growth moderated to 3.3% (1Q 2017: 7.5%) following slower growth in the spending on emoluments, and supplies and services. Public investment declined by 5.0% in the second quarter (1Q 2017: 3.2%). This was attributable to the lower spending on fixed assets by public corporations, which more than offset the higher expenditure by the Federal Government.

Headline inflation moderated to 4.0% in the second quarter of 2017 (1Q 2017: 4.3%) due mainly to lower transport inflation of 13.4% (1Q 2017: 16.2%). During the quarter, prices of RON95 petrol averaged RM2.07 per litre, lower than the average of RM2.23 per litre in 1Q 2017. The lower domestic fuel prices were due mainly to the lower global oil prices amid a stronger ringgit exchange rate during the quarter.

Labour market conditions showed tentative signs of improvements in the second quarter of 2017, as the labour force expansion of 56,300 persons was exceeded slightly by stronger net employment gain of 58,900 people. As such, the unemployment rate decreased to 3.4% of the labour force (1Q 2017: 3.5%). The labour force participation rate was sustained at 67.7% of the working age population (1Q 2017: 67.7%). Higher vacancies posted on a major job search website, at 65,478 positions, indicate increased demand for new hires (1Q 2017: 61,760 positions).

*(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017)*

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

Based on the above, we note that the Malaysian economy is expected to be resilient in continuing its growth, albeit moderating. Domestic demand is expected to be the driver of the Malaysian economy, supported by the private sector and the recent turnaround of the public sector spending. Nevertheless, Malaysia is not immune to the challenges and uncertainty that might be faced in the global economy. Any adverse development in the global economy may impact the overall growth and prospects of the Malaysian economy.

Despite recent economic indicators suggesting that the global economy is expected to continue to expand, the growth outlook is still subject to numerous risks. These arise mainly from the pace of monetary policy tightening in major economies, protectionist policies, and political uncertainty in parts of Europe. Geopolitical tensions and swings in oil price also pose risks to global growth prospects. *(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017)*

### **5.3.2 OVERVIEW AND OUTLOOK OF THE TOURISM INDUSTRY IN MALAYSIA**

Foreign tourist arrivals to Malaysia and tourist receipts to Malaysia is on an upward trend (as depicted in the charts below) with a positive compounded annual growth rate (CAGR) of 6.2% for tourist arrivals and 10.2% for tourist receipts over a 17-year duration from year 2000 to 2016.

Malaysia's tourism industry is indicating signs of recovery in 2016 with latest figures showing more tourists visiting the country after the slowdown in 2015. Tourist arrivals to Malaysia for 2016 registered a hike of 4.0% compared to the same period in 2015. The country received 26.8 million tourists compared to 25.7 million tourists in 2015.

Correspondingly, tourist receipts rose by 18.8%, contributing RM82.1 billion to the country's revenue against RM69.1 billion in 2015, which translates to an average per capita expenditure of RM3,068. Total receipts in shopping also recorded positive growth, with RM26 billion in 2016 compared to RM21.6 billion in 2015, an increase of 20.3%.

*(Source: Malaysia Tourism Promotion Board, Press Release dated 7 March 2017)*

The services sector recorded a higher growth of 5.6% in 2016 (2015: 5.1%). Growth was supported by expansion across all sub-sectors. The retail and food, and beverage and accommodation sub-sectors recorded higher growth, supported by continued wage and employment growth, and a recovery in tourist arrivals.

The services sector is projected to expand, albeit at a more moderate pace. In particular, the performance of consumption-related services such as retail trade, food & beverages and accommodation will be underpinned by stable labour market conditions and continued wage growth.

Services exports are also expected to improve, supported by a larger travel account surplus amidst the expected increase in tourist arrivals and tourist spending. The increased coverage of countries from which Chinese and Indian tourists are eligible to apply for e-Visa and the intensified promotional endeavours to target specific tourism industries such as medical and sports tourism are expected to attract more tourists to Malaysia.

*(Source: Bank Negara Malaysia, Annual Report 2016)*

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

Based on the above, we note that the Malaysian tourism industry is recovering and moving on an upward trend. The tourism industry is expected to remain positive in the immediate future with the support of various government initiatives, which includes the permission of Chinese and Indian tourists to be eligible to apply for e-Visa and the increasing effort of promoting the medical and sports tourism. In addition, the Government has also announced measures in Budget 2017 to further drive the growth of the Malaysian tourism industry. To top it up, with the weakened Malaysian Ringgit, it encourages an influx of international tourist as the country becomes a cheaper destination for foreign tourists.

Nevertheless, in view of the risk associated with the global economy stated in Section 5.3.1 above, any adverse development of the global economy could directly affect the growth in the Malaysian tourism industry. In addition, increased competition from neighboring countries, namely Indonesia, Thailand and Singapore, will continue to exert pressure on Malaysia.

### **5.3.3 PROSPECTS OF THE SUNWAY CLIO PROPERTY**

The Sunway Clio Property is a newly-completed building with a 4-star rated hotel and facilities including a swimming pool, an exercise area, a dining area and meeting rooms. It is also conveniently connected to the West precinct of the iconic Sunway Pyramid Shopping Mall, thus providing guests with direct access to over 900 retail stores, 170 food and beverage outlets, and extensive business and leisure facilities within Sunway City. In addition, the Sunway Clio Property is situated in close proximity to Sunway Lagoon, a multi-award winning theme park destination that offers more than 90 rides spread across 5 uniquely themed parks and home to Asia's first Nickelodeon-themed attraction.

As highlighted in Section 5.3.2 above, there is an upward trend in Malaysia's foreign tourist arrivals and tourist receipts, and the outlook of Malaysia's tourism industry is expected to remain positive in the medium to long term. In addition, the Government has also announced measures in Budget 2017 to spur Malaysia's tourism industry. The Board believes that the positive environment of the Malaysian tourism industry will augur well for the Sunway Clio Property.



Being strategically located in the self-contained township of Sunway City, the Sunway Clio Property is also well-positioned to capitalise on the business synergy of the commercial activities in Sunway City and its surrounding neighbourhood of Petaling Jaya and Subang Jaya. Sunway City, a township with established commercial facilities, attracts approximately 42 million visitations a year whilst shoppers' traffic at the neighbouring Sunway Pyramid Shopping Mall increased from more than 36 million in the FYE 30 June 2016 to more than 37 million in the FYE 30 June 2017.

Further, the Hotel Property complements Sunway REIT's existing cluster of hotels within Sunway City, namely the 5-star Sunway Resort Hotel & Spa and the deluxe 4-star international class Sunway Pyramid Hotel. This accords Sunway REIT the opportunity to offer a wide range of hotel accommodation choices at various price points. In addition, as Sunway Clio Hotel is located in close proximity to these 2 hotels, guests at Sunway Clio Hotel will be able to take advantage of the extensive business facilities located in Sunway Resort Hotel & Spa and Sunway Pyramid Hotel.

*(Source: The Manager)*

**Our comments:-**

Given Sunway REIT's current list of properties under its portfolio, the acquisition of the Sunway Clio Property would further strengthen Sunway REIT's diversified assets portfolio and capitalise on the business synergies within Sunway City. Sunway City is located approximately 20 minutes from the Kuala Lumpur city centre and well connected to the cities of Shah Alam, Petaling Jaya and Klang via an extensive network of road and expressways such as the Federal Highway, the Shah Alam Expressway, the New Klang Valley Expressway, the North-South Expressway Central Link and the Damansara-Puchong Expressway. Further, it is noted that with its existing cluster of hotels within Sunway City, Sunway REIT will be able to offer a complete suite of hotels ranging from 4 to 5-star hotels within the same vicinity. In view of the above, coupled with the positive outlook of the Malaysian tourist industry, we believe that going forward, barring any unforeseen circumstances, the overall prospects of the Sunway Clio Property, with its strategic location within Sunway City should be generally positive.

Nevertheless, similar to all other properties in Malaysia, Sunway Clio Property will remain exposed to the Malaysian macroeconomic environment. There is no assurance that any material adverse development in the regional or global economy will not affect the Malaysian economy, and in turn have an adverse impact on the Sunway Clio Property.

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

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

**(a) Unitholders' capital and substantial unitholders' unitholdings**

The Proposed Acquisition will not have an impact on Sunway REIT's unitholders' capital and substantial unitholders' unitholdings as the Proposed Acquisition does not involve the issuance of new units in Sunway REIT.

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

On a proforma basis, we note that the Proposed Acquisition is not expected to have a material impact on the NAV and NAV per unit of Sunway REIT based on the audited statement of financial position of Sunway REIT as at 30 June 2017.

**(c) Gearing**

We note that the Proposed Acquisition is intended to be funded via Sunway existing debt programmes which entail a 35-year RM10 billion unrated bond programme and a 7-year RM1.6 billion commercial paper programme (“**Existing Debt Programmes**”). The Existing Debt Programmes have a combined amount available for use (based on the allowed loan-to-value ratio of 45%) of approximately RM0.6 billion as at 31 August 2017.

Based on the audited statement of financial position of Sunway REIT as at 30 June 2017 and after accounting for the acquisition of Sunway REIT Industrial – Shah Alam I of RM91.5 million, Sunway REIT’s total borrowings increased to RM2,427.1 million, representing a gearing level of 0.35 times against its total asset value. After accounting for the Proposed Acquisition of RM340.0 million as well as estimated expenses of RM3.9 million which are/to be funded via debt, Sunway REIT’s total borrowings will increase to RM2,771 million which represents a gearing level of 0.38 times against its total asset value.

We note that the abovementioned increase in borrowings is not expected to materially affect the gearing ratios of Sunway REIT and is also within the stipulated loan covenants of its Existing Debt Programmes and within the borrowing thresholds stipulated in the REIT Guidelines.

**(d) Earnings and DPU**

We note that the Proposed Acquisition is not expected to have a material impact on the earnings and DPU of Sunway REIT for the FYE 30 June 2018 as the Proposed Acquisition is only expected to be completed in the 3<sup>rd</sup> quarter of the FYE 30 June 2018.

We further note that the Sunway Clio Property is currently an income generating property with an average occupancy rate of 72.6% for its hotel operations and 88.2% for the Retail Space. Upon completion of the Proposed Acquisition, the rental/tenancy income from Sunway Resort Hotel Sdn. Bhd., Sunway Leisure Sdn. Bhd. and individual tenants of the Retail Space will be immediately accretive to Sunway REIT and is expected to contribute positively to the future earnings of Sunway REIT.

Nevertheless, unitholders should note that the actual effect of the Proposed Acquisition on the future earnings of Sunway REIT will be dependent on, amongst others, the rental income to be derived from tenants, cost of operating the Sunway Clio Property, the average occupancy rate moving forward as well as the borrowing costs incurred for the Proposed Acquisition.

## **5.5 RISK FACTORS RELATING TO THE PROPOSED ACQUISITION**

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

We note the risk factors in Section 5, Part A of the Circular pertaining to the Proposed Acquisition and have categorised them as follows:-

### **(a) Risk of non-fulfilment of the terms of the SPA, HLA, CTA and Deed of Undertaking**

The Proposed Acquisition is governed by the terms in the SPA, HLA, CTA and Deed of Undertaking. There can be no assurance that the parties will be able to fulfil the terms of these agreements. Risks such as inability of the Lessee to pay rental to Sunway REIT, performance risk due to Manager's limitation in managing the operations of the Sunway Clio Property, non-fulfilment of top up undertaking, delay in the transfer of title of the Sunway Clio Property and non-completion of the Proposed Acquisition are common uncertainties associated with acquisition and leasing of real estates.

We note that the HLA is for an initial term of 10 years and renewable for a further 10 years whilst the CTA is for an initial term 3 years and renewable for a further 3 years. There is no assurance that the lease/tenancy under HLA and CTA will be renewed upon expiry of the initial terms.

We are of the opinion that aforementioned risks are acceptable as they are common across the real estate market and that recourse is available to Sunway REIT via the Trustee in the event of any default under the agreements.

### **(b) Risk relating to additional financing**

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

Following completion of Sunway REIT's acquisition of Sunway REIT Industrial – Shah Alam 1, the gearing level of Sunway REIT will increase to 0.35 times from 0.34 times as at 30 June 2017.

We note that Sunway REIT's increased exposure to financial risks is manageable on the basis that its gearing is expected to increase from the abovementioned 0.35 times to 0.38 times upon completion of the Proposed Acquisition. We also note that the Proposed Acquisition will not result in Sunway REIT breaching its current loan covenants and the REIT Guidelines.

**(c) Inherent and business risks relating to the tourism and retail industry**

For FYE 30 June 2017, Sunway REIT's investment portfolio recorded net property income of 75% and 15% from its retail and hotel segments respectively.

Sunway REIT is currently exposed to the inherent and business risk related to the hotel and retail industries such as increased competition, decrease in occupancy rate, adverse fluctuations in hotel room rates and less favourable tenancy terms. The Proposed Acquisition will not result in Sunway REIT being exposed to a new portfolio segment but rather an increased exposure to its existing hotel and retail segments.

We are of the opinion that the Proposed Acquisition is not expected to materially change the risk profile of Sunway REIT.

**(d) External factors**

Sunway REIT is in the business of investing in investment properties and will be subject to external factors which include, amongst others, adverse changes in laws and regulations, general economic downturn in the global and Malaysian economy, compulsory acquisition of the Sunway Clio Property by the Government of Malaysia and damages beyond insurance coverage.

The market value of investment properties is also subject to external factors such as economic condition locally and globally, development of the area and surroundings and rental yields within the vicinity. There can be no assurance that Sunway REIT's investment in the Sunway Clio Property can be realised at or above the market value ascribed by the Valuer.

In addition, Sunway REIT is required to review its investment value in the Sunway Clio Property periodically. There can be no assurance that occurrence of any adverse event would not give rise to an impairment in the value of Sunway Clio Property which in turn could have an adverse effect on the earnings and NAV of Sunway REIT.

We wish to highlight that there can be no assurance that one or a combination of the aforementioned risk factors will not occur and adversely impact the Proposed Acquisition and/or Sunway REIT, notwithstanding that Sunway REIT may undertake measures to manage and/or limit the risks associated with the Proposed Acquisition.

## 5.6 SALIENT TERMS OF THE AGREEMENTS

The SPA was entered into to facilitate the Proposed Acquisition. The HLA, CTA and Deed of Undertaking were entered into to facilitate the operations of the Sunway Clio Property post completion of the Proposed Acquisition. Please refer to Section 2.6 to 2.9 of Part A of this Circular for a summary of the salient terms of the SPA, HLA, CTA and Deed of Undertaking in relation to the Proposed Acquisition.

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><b>Manner of payment of the Purchase Consideration</b></p> <p>(i) The Trustee has paid the Deposit upon entering into the SPA.</p> <p>(ii) The Balance Consideration comprising:</p> <ul style="list-style-type: none"> <li>the redemption sum (being the amount payable to the Chargee prior to Completion Date to redeem the Charge and obtain the relevant Discharge Documents); and</li> <li>the remaining balance to the Vendor on the Completion Date.</li> </ul>	<p>The Deposit serves as a safeguard of the Vendor's interest in the event the Trustee fails to satisfy the Balance Consideration or breach the terms of the SPA. In such event, the Vendor has the right to terminate the SPA and forfeit the Deposit free of interest. We wish to highlight that if the Conditions Precedent are not fulfilled or waived within 6 months of the SPA date, the Trustee has the right to terminate the SPA and receive a refund of the Deposit or monies paid towards the Purchase Consideration free of interest.</p> <p>We note that the Balance Consideration will first have to be utilised to redeem the Charge in favour of Great Eastern Life Assurance (Malaysia) Berhad prior to the Completion Date before releasing the balance to the Vendor on the Completion Date.</p> <p>We note that the 10% Deposit paid by the Trustee upon entering into the SPA is reasonable and is acceptable for transactions of similar nature.</p> <p>We further note that the Purchase Consideration will be fully funded via debt. We wish to highlight that based on paragraph 8.37 of the REIT Guidelines, unless with the approval of unitholders by way of an ordinary resolution, the total borrowings of a fund (including borrowings through issuance of debt securities) should not exceed 50% of the total asset value of the fund at the time the borrowings are incurred. Based on the audited total asset value of Sunway REIT for the FYE 30 June 2017 and as illustrated in Section 6.3 of Part A of this Circular, the proforma gearing ratio of Sunway REIT after the Proposed Acquisition will increase to 0.38 times. The increase in debt pursuant to the Proposed Acquisition will not result in Sunway REIT breaching the aforementioned REIT Guidelines as well as the loan covenants under its Existing Debt Programmes.</p>

Salient terms of the SPA	Comments
<p><b>Adjustment of the Purchase Consideration</b></p> <p>(i) If the assessed market value of the Sunway Clio Property shall be varied/adjusted pursuant to any comments provided by the relevant authorities on the Valuation Report and the variation/adjustment to the market value is equal to or less than 5%, the Balance Consideration and the Purchase Consideration shall be adjusted upwards or downwards accordingly by the same quantum of variation/adjustment.</p> <p>(ii) The adjusted Purchase Consideration to be paid by the Trustee to the Vendor shall be deemed to be the sum as adjusted under Section 2.6(c)(i) of Part A of this Circular.</p> <p>(iii) Where the variation/adjustment to the assessed market value of the Sunway Clio Property pursuant to any comments provided by the relevant authorities on the Valuation Report is more than 5%, the parties shall in good faith discuss and negotiate on an appropriate adjustment to the Purchase Consideration and mutually agree on an adjusted Purchase Consideration which is acceptable to both 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 sale and purchase of the Sunway Clio Property and the SPA by notice in writing.</p>	<p>We take note of the adjustment clauses in the SPA as a result of any variation to the assessed market value of the Sunway Clio Property. We further note that any variation/adjustment to the market value affecting equal to or less than 5% of the Balance Consideration will be adjusted accordingly based on the market value at the material point in time and hence, it is fair to both the Trustee and the Vendor.</p> <p>We note that the SPA allows for further discussion and negotiations between the parties in the event of any variation/adjustment to the market value is more than 5% of the Balance Consideration.</p> <p>Based on the above, we are of the opinion that the terms for the adjustments to the Purchase Consideration are fair and reasonable.</p>
<p><b>Conditions Precedent</b></p> <p>The SPA and the completion of the Proposed Acquisition is conditional upon the following conditions precedent being fulfilled or obtained within 6 months after the date of the SPA, or such other extended date as the Trustee and the Vendor may mutually agree upon in writing, unless the condition(s) precedent are being waived by the Trustee:</p> <p>(i) the approval of the unitholders of Sunway REIT at a Unitholders' Meeting to be convened for the Proposed Acquisition;</p> <p>(ii) the approval or consent of any other party which has entered into any subsisting arrangement, contract or undertaking with the Vendor in relation to the Sunway Clio Property, if required;</p>	<p>The Conditions Precedent are reasonable as the terms herein are mainly for approvals required from the relevant parties to give effect to the Proposed Acquisition.</p> <p>We wish to highlight that in the Conditions Precedent are not fulfilled or waived within 6 months of the SPA date, the Purchaser has the right to terminate the SPA and obtain a refund of the Deposit free of interest in the event of a breach/non-fulfillment by the Vendor.</p>

Salient terms of the SPA	Comments
<p>(iii) the approval or consent of the financiers of the Vendor, if required;</p> <p>(iv) the approval of the State Authority for the transfer of the Sunway Clio Property; and</p> <p>(v) any other approvals of any authorities as may be deemed necessary by the Trustee and the Vendor.</p>	<p>In the event of termination of the SPA by the Vendor, the Vendor has the right to forfeit the Deposit free of interest. We note that the Vendor only has the right to terminate the SPA either in the event of default by the Trustee or if the parties are unable to come to an agreement to the Purchase Consideration where variation/adjustment to the market value is more than 5% of the Balance Consideration.</p> <p>Conversely, in the event of default by the Vendor, we note that the Trustee has the right to request for specific performance by the Vendor. In the event the Trustee chooses not to seek specific performance by the Vendor and terminate the SPA, the Vendor is required to return all moneys received as part of the Purchase Consideration to the Trustee, free of interest plus an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages. This clause serves to safeguard the interest of the Trustee.</p> <p>Based on the above, we are of the opinion that the overall terms for termination and breach are fair and reasonable.</p>
<p><b>Termination and breach</b></p> <p>(i) Vendor's right to terminate</p> <p>If the Trustee defaults in the satisfaction of the Purchase Consideration (including any variation/adjustment to the Purchase Consideration), the Vendor will be entitled to terminate the SPA by notice in writing to the Trustee if the Trustee fails within 14 days of receipt of a notice from the Vendor to remedy the breach or the matter.</p> <p>(ii) Trustee's right to terminate</p> <p>The Trustee will be entitled to, at any time after any default on the part of the Vendor arises (such as a breach of any term or condition of the SPA, or failure or neglect or refusal to complete the sale), give notice to the Vendor to terminate the SPA if the Vendor fails within 14 days of receipt of a notice from the Trustee to remedy the breach or the matter. For the other events of default as set out in the SPA such as when a petition or an order is made against the Vendor for winding up or when a receiver and manager is appointed, no remedy period is given.</p> <p>(iii) Consequences of termination by the Vendor</p> <p>If a notice terminating the SPA is given by the Vendor as referred to under Section 2.6(e)(i) of Part A of this Circular, then within 14 days of that notice, the Vendor must return all moneys paid to it (excluding the Deposit which will be absolutely forfeited by the Vendor as agreed liquidated damages) to the Trustee free of interest. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and the Discharge Documents which are in their possession with the Vendor's interest intact and to re-deliver to the Vendor possession of the Sunway Clio Property, if the same has been delivered to the Trustee.</p>	

Salient terms of the SPA	Comments
<p>(iv) Consequences of termination by the Trustee</p> <p>If a notice terminating the SPA is given by the Trustee as referred to under Section 2.6(e)(ii) of Part A of this Circular, then within 14 days of that notice, the Vendor must return all moneys received as part of the Purchase Consideration to the Trustee, free of interest.</p> <p>If the Trustee elects not to pursue the remedy of specific performance as referred to under Section 2.6(e)(vii) of Part A of this Circular, the Vendor must pay an additional sum equivalent to 10% of the Purchase Consideration as agreed liquidated damages to the Trustee. In exchange, the Trustee must return or cause to be returned to the Vendor all transfer documents and Discharge Documents which are in their possession with the Vendor's interest intact. The Trustee shall then re-deliver to the Vendor possession of the Sunway Clio Property, if the same has been delivered to the Trustee.</p>	
<p>(v) Mitigation of risk of non-registration of Transfer</p> <p>If, as at the Completion Date, after the Vendor's receipt of the Balance Consideration, the Transfer is not registered with the land registry, the Vendor acknowledges that it holds the Sunway Clio Property relating to such Transfer as bare trustee for and on behalf of the Trustee and it will immediately execute in favour of the Trustee an irrevocable and unconditional Power of Attorney reasonably acceptable to the Trustee, granting to the Trustee the power to fully deal with the Sunway Clio Property as if it was the true and rightful owner of the Sunway Clio Property. In addition, the Vendor will do all such acts and things as may be reasonably required by the Trustee so that the Trustee may effectively deal with the Sunway Clio Property.</p>	
<p>(vi) Non-registration of Transfer or Discharge Documents</p> <p>If the registration of the transfer documents or the Discharge Documents are not or cannot be effected for any reason whatsoever not due to any fault of either the Trustee or the Vendor, the Trustee shall be entitled to terminate the SPA by notice in writing to the Vendor.</p>	



<b>Salient terms of the SPA</b>	<b>Comments</b>
<p>(vii) Specific performance</p> <p>Notwithstanding the foregoing provisions, the Vendor or the Trustee, as the case may be, will be entitled to the remedy of specific performance to compel the party in default to complete the sale or purchase of the Sunway Clio Property and to claim damages for breach of the SPA.</p>	<p>This term is deemed reasonable as it serves to comply with the requirements of the governing tax laws.</p>
<p><b>Real property gains tax</b></p> <p>Payment of real property gains tax for chargeable gains accruing on the disposal of any chargeable asset to a Real Estate Investment Trust or a Real Property Trust Fund is exempted pursuant to the Real Property Gains Tax (Exemption) (No. 4) Order 2003. The Trustee's solicitors have been authorised by the Trustee and the Vendor not to retain any retention sum payable to the Inland Revenue Board.</p>	<p>This term is deemed reasonable as it serves to safeguard the interest of Sunway REIT pursuant to the Proposed Acquisition. The valid novation, assignment and transfers or termination (where applicable) of the title rights and interests of the Vendor under the respective tenancies, agreements, contracts or letters agreements the Trustee is necessary to appropriately complete the Proposed Acquisition.</p>
<p><b>Vendor's obligations under existing tenancies, existing license agreements and service contracts</b></p> <p>The Vendor covenant and undertake with the Trustee that they will novate, assign and transfer validly to the Trustee all title rights and interests of the Vendor under the existing tenancies, existing license agreements, service contracts, agreements or any other letters to the Trustee and/or to terminate the existing tenancies, existing license agreements, service contracts, agreements or any other letters (as the case may be).</p>	<p>We note the order of payment of the Balance Consideration upon the SPA becoming unconditional. The payment of the Balance Consideration firstly towards the redemption sum is beneficial to the Trustee as it will allow for the Sunway Clio Property to be acquired free from encumbrances.</p> <p>Based on the above, we are of the opinion that these terms are reasonable.</p>
<p><b>Application of remaining Purchase Consideration</b></p> <p>At any time after unconditional date of the SPA, the Trustee or the Trustee's solicitors (who shall utilise the moneys received by them) will make the payment of the Balance Consideration in the following order of priority:-</p> <ul style="list-style-type: none"> <li>(i) firstly, towards payment of the redemption sum before Completion Date;</li> <li>(ii) secondly, towards settlement of fees, charges, expenses and other payments, if any, payable by the Vendor on or before Completion Date; and</li> <li>(iii) to release the remaining balance to the Vendor on Completion Date.</li> </ul>	

<b>Salient terms of the SPA</b>	<b>Comments</b>
<b>Delivery of legal possession of the Sunway Clio Property</b>  Legal possession of the Sunway Clio Property, free from all encumbrances and claims whatsoever, will be deemed delivered to the Trustee by the Vendor on the Completion Date.	This term is reasonable and is deemed customary in transactions of similar nature.
<b>Conditions of acquisition</b>  The Sunway Clio Property is sold on "as is where is" basis and is subject to, inter-alia, the following:  (i) entering into the HLA simultaneously with the execution of the SPA; and  (ii) entering into the CTA simultaneously with the execution of the SPA.	We note that the execution of the HLA and CTA are necessary to facilitate the operations of the Sunway Clio Property post completion of the Proposed Acquisition.  Our comments on the HLA and CTA are set out below.

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

<b>Salient terms of the HLA</b>	<b>Comments</b>
<b>Conditions precedent</b>  The obligations of Lessor, Lessee and the Manager under the HLA are conditional upon the following conditions being fulfilled or obtained within 6 months after the date of the HLA or such other extended date as the parties may mutually agree upon in writing:  (a) The State Authority's approval for the lease of the Hotel Property; (b) The approval or consent from any party which has entered into any subsisting arrangement, contract or undertaking with the Vendor; and (c) Completion of the SPA.	The conditions precedent to the HLA are reasonable as the terms herein are only applicable if the Proposed Acquisition is completed. The remaining terms herein are mainly for approvals required from the relevant parties to give effect to the lease.

<b>Salient terms of the HLA</b>	<b>Comments</b>
<p><b>Lease and renewal</b></p> <ol style="list-style-type: none"> <li>1. The initial term of the lease shall be 10 years ("Initial Term") from the commencement date with an option to renew granted to the Lessee to lease the Hotel Property for a further term of 10 years ("Renewal Term").</li> <li>2. The option to renew shall be on the same terms and conditions, except as provided in the HLA, at a revised rent based on the prevailing market rate as agreed between the Trustee and the Lessee. If the Trustee and the Lessee are unable to agree to the new rental before the expiry of one month preceding the date of expiration of the Initial Term, the rental for the first 12 months of the Renewal Term shall be the same amount of the rent for the last year of the Initial Term and the Trustee and the Lessee shall use their best efforts during this 12 months period to agree on the rental for the remaining period of the Renewal Term.</li> </ol>	<p>We note that the lease term and renewal have been mutually agreed between the parties and are deemed reasonable for transactions of similar nature.</p>
<p><b>Rental</b></p> <p>The total rent is calculated based on the higher of the minimum rent or the variable rent for a fiscal year ("Fiscal Year"). The minimum rent is RM10,968,618 per annum for the first 2 Fiscal Years and RM8,226,464 per annum for each subsequent Fiscal Year for the Initial Term. The variable rent with respect to a Fiscal Year is computed based on the following formula:</p> $P + (70 \text{ per cent} \times (Q-R))$ <p>Where: P = Hotel Base Rent, being 20% of the revenue for that Fiscal Year  Q = gross operating profit of the business; and  R = Sum of Hotel Base Rent, hotel management fee and FFE reserve</p>	<p>We note that the total rent formula in the HLA was mutually agreed between the parties.</p> <p>We further note that the parties have agreed to adopt the existing total rent formula of the lease agreement for the lease of the Sunway Resort Hotel &amp; Spa, and Sunway Pyramid Hotel as all these hotels (including the Hotel Property) are located within Sunway City and are/will be operated by the Lessee.</p> <p>We wish to highlight that the rental yield of the Hotel Property shall be dependent on amongst others, the total revenue for the Fiscal year as well as the operating profit and lease expenses. Nonetheless, the Trustee's interest is secured by a minimum rent as well as the Lessee's best interest to ensure the overall profitability of the Hotel Property.</p> <p>We understand that the higher minimum rent for the first 2 Fiscal Years will ensure that the Hotel Property will contribute to the prospective distribution of Sunway REIT. We note that the minimum rent decreased to RM8,226,464 per annum as the Hotel Property is expected to achieve the intended occupancy levels from Fiscal Year 3 onwards.</p> <p>Based on the above, we deem this term of the rental as fair and reasonable.</p>

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

Salient terms of the CTA	Comments
<p><b>Conditions precedent</b></p> <p>The obligations of the Landlord and Tenant under the CTA are conditional upon the completion of SPA within 6 months after the date of the CTA or such other extended date as the parties may mutually agree upon in writing.</p>	<p>This term is reasonable it is only applicable if the Proposed Acquisition is completed within the stipulated timeframe.</p>
<p>Tenure is for 3 years with an option to renew for a further term of 3 years</p>	<p>We note that the lease term and renewal have been mutually agreed between the parties and are deemed reasonable for transactions of similar nature.</p>
<p><b>Rental</b></p> <p>An amount equivalent to (i) Car Park Base Rent, being 20% of the gross operating revenue and (ii) 95% of the gross operating profit less Car Park Base Rent</p>	<p>We note that the rental formula in the CTA was mutually agreed between the parties.</p> <p>We further note that the parties have agreed to adopt the existing total rent formula of the various car park tenancy agreements for the tenancy of car parks in Sunway Resort Hotel &amp; Spa, Sunway Pyramid Hotel, Menara Sunway and Sunway Pyramid Shopping Mall (the “<b>Said Car Parks</b>”) as the Multi-storey Car Park and the Said Car Parks are all located within Sunway City and are/will be operated by the Tenant.</p> <p>On this basis, we deem the terms of the rental as reasonable.</p>

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

Salient terms of the Deed of Undertaking	Comments
<p><b>Top up undertaking</b></p> <p>Simultaneously with the execution of the SPA, HLA and CTA, SunCity (a wholly-owned subsidiary of Sunway and the holding company of the Vendor, the Lessee and the Tenant), had entered into a Deed of Undertaking with the Trustee and undertakes to pay annually the difference between:-</p> <p>(a) the total annual property income received in any fiscal year by the Trustee in relation to the Sunway Clio Property (excluding the Podium Car Park) minus all relevant outgoings and other costs to be incurred by the Trustee (excluding all outgoings and other costs attributable to the Podium Car Park); and</p> <p>(b) aggregate amount of RM20.23 million,</p> <p>for a period of 4 years commencing from the day immediately after the Completion Date.</p>	<p>Based on the Valuation Report, the annual net property income received from the Sunway Clio Property for Year 1 to Year 4 ranges from RM15.4 million to RM20.0 million. We note that the minimum annual net property income of RM20.23 million as stipulated in this term serves to safeguard Sunway REIT as it guarantees this said amount for the first 4 years from the Completion Date. As this amount is above the annual net property income received from the Sunway Clio Property for Year 1 to Year 4, we are of the opinion that this term is reasonable.</p>

**Comments:-**

Premised on the above, we are of the opinion that the overall terms of the SPA, HLA, CTA and Deed of Undertaking are reasonable and not detrimental to your interest.

## **6. CONCLUSION AND RECOMMENDATION**

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

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

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

We take note that in arriving at the market value of the Sunway Clio Property, the Valuer adopted the Income Approach and supported by the Comparison Approach. We have reviewed and are satisfied with the assumptions adopted by the Valuer in deriving the market value of the Sunway Clio Property of RM340 million.

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

The Proposed Acquisition is expected to be earnings accretive to Sunway REIT and is also expected to increase the income stability and weighted average lease expiry of Sunway REIT's portfolio. We note the Proposed Acquisition will help to strengthen Sunway REIT's current position as one of the larger real estate investment trusts in Malaysia by property market value.

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

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

Premised on the prospects of the Malaysian economy and tourism industry, we believe that going forward, barring any unforeseen circumstances, the overall prospects of the Sunway Clio Property, with its strategic location within Sunway City should be generally positive.

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

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

The Proposed Acquisition is not expected to have any material effect on the earnings, DPU and gearing of Sunway REIT for the FYE 30 June 2018.

Upon completion, the Proposed Acquisition is expected to contribute positively to the future earnings of Sunway REIT.

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

We take note that the risks associated with the Proposed Acquisition are common aspects of leasing/ownership of real estates and consistent with risks undertaken by real estate investment trust.

Further, the Proposed Acquisition will not result in Sunway REIT being exposed to a new portfolio segment but rather an increased exposure to its existing hotel and retail segments. Accordingly, the Proposed Acquisition is not expected to materially change the risk profile of Sunway REIT.

(f) **Salient Terms of the agreements (Section 5.6 of this IAL)**

Based on our review of the salient terms of the SPA, HLA, CTA and Deed of Undertaking, we are of the opinion that the overall terms of the mentioned agreements are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

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

**Accordingly, we recommend that you VOTE IN FAVOUR of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming Unitholders' Meeting.**

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

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

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

**1. RESPONSIBILITY STATEMENT**

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

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

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

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

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

As at the LPD, no loans have been extended by RHB Banking Group to Sunway REIT.

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 Principal Adviser to the Manager for the Proposed Acquisition on the basis that:

- (a) RHB Investment Bank is a licensed investment bank and its appointment as Principal Adviser to the Manager for the Proposed Acquisition is in the ordinary course of its business;
- (b) The Trustee is a registered trust company under the Trust Companies Act, 1949 and also registered with the Securities Commission Malaysia and its appointment as the trustee to Sunway REIT is in the ordinary course of its business;
- (c) RHB Group maintains a strict physical separation of the divisions/departments pursuant to its Chinese Wall Policy to avoid the sharing of sensitive information. The advisory work carried by RHB Investment Bank’s Corporate Finance Department is separated from other departments within RHB Banking Group, whereby the departments within RHB Banking Group function as independent business units and perform their respective duties on separate processes and procedures; and



- (d) The conduct of RHB Banking Group in its banking business is strictly regulated by the Financial Services Act 2013, the Capital Markets and Services Act 2007 and RHB Banking Group's own internal controls and checks.

## **2.2 AmInvestment Bank**

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

The Independent Adviser 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 Adviser for the Proposed Acquisition.

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

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

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

## **2.4 BDO**

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

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

# **3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**

## **3.1 Material commitments**

Save as disclosed below, as at 30 June 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular, the Board is not aware of any other material commitments incurred or known to be incurred by Sunway REIT which may have a material impact on the financial position of Sunway REIT:

<b>Capital expenditure for existing properties</b>	<b>RM '000</b>
Approved and contracted for	21,086
Approved but not contracted for	445,104
<b>Total</b>	<b>466,190</b>

**3.2 Contingent liabilities**

As at 30 June 2017, being the latest practicable date at which such amount could be calculated prior to the printing of this Circular, the Board is not aware of any contingent liabilities incurred or known to be incurred by Sunway REIT which, upon becoming enforceable, may have a material impact on the financial position of Sunway REIT.

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

As at the LPD, there is no material litigation, claim or arbitration involving the Property.

**5. DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (i) the deed dated 20 May 2010 and a supplemental deed dated 10 June 2010 entered into between the Manager and the Trustee;
- (ii) audited financial statements of Sunway REIT for the past 2 FYEs 30 June 2016 and 2017;
- (iii) the letters of consent referred to in Section 2 of Appendix I of this Circular;
- (iv) the SPA;
- (v) the HLA;
- (vi) the CTA;
- (vii) the Deed of Undertaking;
- (viii) the Valuation Certificate referred to in Appendix II of this Circular; and
- (ix) the Reporting Accountants' letter on the proforma statement of financial position referred to in Appendix III of this Circular.



**PRIVATE & CONFIDENTIAL**

**RHB Trustees Berhad, as the Trustee of Sunway REIT**  
Level 11, Tower One  
RHB Centre, Jalan Tun Razak  
50400 Kuala Lumpur

Date: **13 JUN 2017**

Reference: V/16/0255/kmy

Dear Sir / Madam,

**VALUATION CERTIFICATE FOR SUNWAY CLIO HOTEL, JALAN PJS 11/15, BANDAR SUNWAY, 47500 SUBANG JAYA, SELANGOR DARUL EHSAN  
(HEREINAFTER REFERRED TO AS THE SUBJECT PROPERTY)**

We were instructed by RHB Trustees Berhad, as the Trustee of Sunway REIT (hereinafter referred to as the Client) to ascertain the Market Value of the legal interest in the subject property.

This Valuation Certificate is prepared for inclusion in the Circular to unitholders of Sunway Real Estate Investment Trust (Sunway REIT) pursuant to the Submission to Bursa Malaysia Securities Berhad in relation to the proposed acquisition of the subject property by Sunway REIT.

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

Sunway Clio Hotel is valued on a going concern basis as a fully operational hotel and the valuation hereby given comprises the value attributed to the real estate, goodwill and the furniture, fittings and equipment used in the operation of the hotel business. We have not separately assessed the transferable value of the goodwill nor made an inventory or separately assessed the value of furniture, fittings and equipment. The valuation excludes the value of stock or credits for payment thereof and assumes all items are unencumbered unless stated to the contrary.

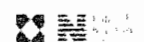
Our valuation assumes the subject property is open for business and trades to date of sale and has the benefit of and conforms to all necessary permits, licenses, certificates etc. unless stated to the contrary.

Accordingly, we have inspected the subject property on 30<sup>th</sup> September 2016, 15<sup>th</sup> December 2016 and 17<sup>th</sup> April 2017. We have adopted **17<sup>th</sup> April 2017** as the material date of valuation.

Brief description of the subject property is as attached overleaf.

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

Suite 10.01, Level 10, Centrepont South, Mid Valley City, Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia  
T + 603 228 99 688 F + 603 228 99 788 [www.knightfrank.com](http://www.knightfrank.com)





**IDENTIFICATION OF PROPERTY**

**Name and Address** Sunway Clio Hotel, Jalan PJS 11/15, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan.

**Type of Property** An operational 4-star rated 401-room hotel tower sited atop a podium comprising three (3) levels of retail space (including a pedestrian link bridge located on Level 1 interconnecting the West precinct of the iconic Sunway Pyramid Shopping Mall) and six (6) levels of elevated car park along with four (4) basement car park levels together with other supporting facilities / amenities attached thereto.

**Title Particulars** The following table outlines the parent title particulars of the subject property.

**Summary of Title Particulars**

Lot No.	: Lot PT 1333 held under Title No. HSD 259881, Bandar Sunway, District of Petaling, Selangor Darul Ehsan.
Land Area	: 7,191 square metres (1.777 acres). (Note 1)
Tenure	: Leasehold interest for a term of 99 years, expiring on 16 <sup>th</sup> November 2108 (remaining unexpired term of about 91 years).
Registered Proprietor	: Sunway Forum Hotel Sdn Bhd. (Note 2)
Category of Land Use	: 'Bangunan'.
Express Condition	: 'Bangunan Perniagaan'.
Restriction-of-Interest	: 'Tanah ini boleh dipindahmilik, dipajak atau digadai setelah mendapat kebenaran Pihak Berkuasa Negeri'. (Note 3)
Encumbrance	: Charged to Great Eastern Life Assurance (Malaysia) Berhad vide Presentation No. 137972/2015, registered on 28 <sup>th</sup> December 2015.

**Note 1** Based on a Certified Plan PA 207023, we note that PT 1333 will be re-designated as Lot 86259; with a surveyed land area of 7,186 square metres.

**Note 2** Pursuant to the key salient terms of the draft Sale and Purchase Agreements (SPA) made between Sunway Forum Hotel Sdn Bhd (the "Vendor") and RHB Trustees Berhad, as the Trustee of Sunway Real Estate Investment Trust (the "Purchaser"), we note that the Purchaser will acquire from the Vendor the Property for a total purchase consideration of RM340,000,000, subject to the terms and condition stated therein.

**Note 3** We wish to draw attention that the title carries a restriction-in-interest which stipulates that "Tanah ini boleh dipindahmilik, dipajak atau digadai setelah mendapat 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.



**PROPERTY DESCRIPTION**

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

**Property Description** Sunway Clio Hotel (formerly known as Sunway Pyramid Hotel West) is an operational 4-star rated 401-room hotel; which offers well-equipped contemporary functional designed rooms / suites (ranges from 29 square metres to 32 square metres in space with options of having views of Sunway Lagoon theme park or the city's skyline); complemented by 3 levels of retail space (including a pedestrian link bridge located on Level 1 interconnecting the West precinct of the iconic Sunway Pyramid Shopping Mall) and multi-storey carpark along with other supporting facilities and amenities comprising a restaurant (Café West), function / meeting rooms, a swimming pool and a fitness centre. Presently, the sole access to the multi-storey carpark area of Sunway Clio is via the elevated car park entrance of Sunway Pyramid Shopping Mall.

Sunway Clio Hotel is sited on Lot PT 1333, which is a commercial land, near trapezoidal in shape with a provisional land area of about 7,191 square metres (1.777 acres); broadly bounded by New Pantai Expressway to its north (separated by a strip of land designated as buffer / green area), the iconic Sunway Pyramid Shopping Mall to its west and Sunway Lagoon Theme Park to its south. The subject site is generally flat in terrain and lies at about the same level as the street elevations.

Brief building specification of the building is tabulated below:-

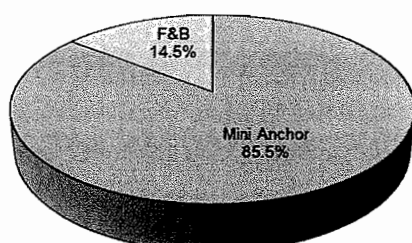
<b>Building Specification</b>	
Structure	Reinforce concrete framework.
Roof	Flat roof concealed behind a parapet wall together with a mild steel pitched roof.
Elevation / Façade	The elevation of the building Incorporates powder coated aluminium frame casement window with fixed glass panels and the façade of the building is finished with textures spray.
Ceiling	Acoustic suspended boards, plaster boards incorporating downlights, suspended mineral fibre boards with recessed lightings, ceiling boards and cement plaster.
Wall Finishes	Granite claddings, timber strips, ceramic tiles, gypsum boards and cement plaster.
Floor Finishes	Granite and / or marble slabs, ceramic tiles, homogeneous tiles, timber strips, wall-to-wall carpet and cement screed.
Windows	Aluminium casements incorporating glass panels, adjustable glass louvres and top hung units.
Doors	Frameless single and double leaf glass panels, fire-rated, decorative, panelled and flushed timber and PVC doors.



**PROPERTY DESCRIPTION (CONT'D)**

<b>No. of Room</b>	401 guest rooms (Level 10 to Level 26).
<b>Gross Floor Area</b> (Including Car Park Areas)	74,207.42 square metres (798,762 square feet).
<b>Net Lettable Area</b> (Retail Space)	8,211.14 square metres (88,384 square feet). (Being the net lettable area of retail space including seating area + alfresco area)
<b>Occupancy Status</b>	<ul style="list-style-type: none"> <li>➤ Approximately 73.8% in respect of Hotel. (being the average occupancy rate from February 2016 till March 2017)</li> <li>➤ Approximately 88.2% in respect of retail space. (Committed occupancy is referred herein as signed tenancies and / or letter of offer)</li> </ul>
<b>Car Parking Bays</b>	732 bays; comprising 358 basement car parks and 374 elevated car parks.
<b>Age of Building</b>	Approximately 13-month old from the issuance date of the Certificate of Completion and Compliance dated 12 <sup>th</sup> February 2016.
<b>State of Repair</b>	Sunway Clio Hotel is in good state of decorative repair.
<b>Planning</b>	Designated for commercial use; and issued with a Certificate of Completion and Compliance (CCC) by Lembaga Arkitek Malaysia vide Certificate No. 15234 dated 12 <sup>th</sup> February 2016.
<b>Tenancy Profile</b> (Retail Space)	Based on Tenancy Schedule made available to us, we note that the retail space currently houses 3 major trade mix, namely entertainment, home and living as well as food & beverage (F&B); with committed occupancy rate of about 88.2%.

**Tenancy Profile by Trade**



**Lease Expiry Profile by NLA**



<b>Historical Performance</b>	The table attached overleaf outlines the historical operating performance (extracted from the unaudited management account) of Sunway Clio Hotel as furnished to us by Sunway Forum Hotel Sdn Bhd.
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**Historical Operating Performance of Sunway Clio Hotel for period ended March 2017  
(Extracted from Unaudited Management Account)**

**Hotel (From February 2016 to March 2017)**

Occupancy	73.8%	
Average Room Rate	RM269	
Hotel Revenue		
Gross Room Revenue	RM33,159,000	(80.13% of GOR)
Food & Beverage	RM8,146,000	(19.68% of GOR)
Other Income	RM77,000	(0.19% of GOR)
Gross Operating Revenue (GOR)	RM41,382,000	
Hotel Cost of Sales	RM11,907,000	(28.77% of GOR)
Undistributed Operating Expenses <sup>Note 1</sup>	RM14,319,385	(34.60% of GOR)
Gross Operating Profit (GOP)	RM15,155,615	(36.62% of GOR)
Overhead Expenses <sup>Note 2</sup>	RM2,568,094	(6.21% of GOR)
Net Operating Profit (Hotel)	RM12,587,521	(30.42% of GOR)

**Retail Space (From April 2016 to March 2017)**

Average Occupancy	88.2%	
Retail Gross Revenue (inclusive of rental rebate)	RM1,641,000	(RM1.75 psf / month over prevailing occupied NLA)
Retail Outgoings	RM1,661,000	(RM1.57 psf / month over total NLA)
Retail Net Income	-RM20,000	(-RM0.02 psf / month over prevailing occupied NLA)

**Car Park (From May 2016 to March 2017)**

Car Park Gross Revenue	RM647,000	(RM80.35 per bay / month)
Car Park Operating Expenses	RM306,000	(RM38.00 per bay / month)
Car Park Net Income	RM341,000	(RM42.35 per bay / month)

Source: Sunway Forum Hotel Sdn Bhd

Note 1: Including Group Service Fee and overheads shared with the other 2 hotels within the vicinity of Sunway City during the closure of Sunway Pyramid Hotel for refurbishment since April 2016 and was only reopened on a progressive basis in November 2016.

Note 2: Including Hotel Incentive Management Fees and FF&E Reserve



MARKET VALUE

Valuation Methodology

a) Income Approach by Discounted Cash Flow Method

DCF incorporates the estimation of future annual cash flows over a ten (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 as at the valuation date. We have assumed that the property is sold at the commencement of the eleventh year of the cash flow at the expected rate of return of similar asset classes.

In undertaking this analysis, we have used a wide range of assumptions for the property including the growth of revenues during the holding period and other related property expenses.

These projections are based on assumptions and events expected to occur in the future. Therefore, no guarantee can be given that these results will be achieved. The projections are however based on Knight Frank Malaysia Sdn Bhd's experience with similar projects. The following table outlines the common salient valuation assumptions to our projection unless otherwise stated:-

Summary of Parameters	
Common Parameters	
Discount Rate (PV)	<p>9.00%.</p> <p>The discount rate is based on the 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 10-year risk free interest (4.00%) plus additional risk premium (4.00% to 6.00%) associated with the asset class. Discount rate is usually higher than the long term capitalisation rate (expected rate of return). As such, a discount rate of 9.00% is adopted for the subject property, which is about 2.00% to 3.00% higher than the expected rate of return to reflect additional risk premium of the asset.</p>
Discount Period	10.0 years.
Void	5.00%.
Hotel	
Projected Occupancy	<p>Year 1: 73.00% to Year 10: 82.00%.</p> <p>After studying the 14-month historical occupancy trend of the subject property and comparing it with the occupancy of the existing hotel developments (Sunway Pyramid Hotel East: 71.80% and Sunway Resort Hotel and Spa: 81.20%; Year 2016), it is evident that the subject property has achieved a relatively high average occupancy rate of 73.80%. We have thus adopted a commencement occupancy of 73.00% on Year 1; with an estimated growth of 2.00% per annum for the next 5 years and stabilised at 82.00% on Year 6 throughout.</p>
Projected Average Room Rate (ARR)	<p>Year 1: RM295 to Year 10: RM400.</p> <p>With reference to the 14-month historical average ARR at RM269 per room as well as the average ARR of competing hotels within Klang Valley (ranging from RM234 per room to RM459 per room), we have thus adopted an average ARR at RM295 per room as fair representation on Year 1. The ARR is then increased RM15 per annum for the next 3 years and followed by an increase of RM10 per annum for the remaining years. Over the course of the holding period, the projected ARR grew at 4.05% per annum (10-year CAGR).</p>



## APPENDIX II – VALUATION CERTIFICATE FOR THE SUNWAY CLIO PROPERTY (CONT'D)



### MARKET VALUE (CONT'D)

Summary of Parameters (Cont'd)	
Group Service Fee	1.50% of Gross Room Revenue; in accordance with the Group Service Agreement.
Incentive Management Fee	7.50% of Gross Operating Profit; in accordance with the Hotel Management Agreement.
FF&E Reserve	2.50% of Gross Operating Revenue; in accordance with the Hotel Management Agreement.
Retail Space	
Projected Occupancy	<p>Year 0: 88.2%; Year 1: 100% to Year 10: 100.0%.</p> <p>We have projected 100% in Year 1 after taking into consideration (i) the current committed occupancy which is relatively high at 88.2%, (ii) that there were only three unoccupied vacant lots and were in sourcing stage and (iii) a high occupancy rate of 98% at Sunway Pyramid Shopping Mall, and thus of the opinion that a projected full take-up is reasonably expected to be achieved from Year 1 onwards (over the course of 12 months period from our date of valuation).</p>
Projected Revenue	<p>Year 0: RM4.61 psf; Year 1: RM5.54 psf to Year 10: RM12.87 psf.</p> <p>The estimated fair rent for Year 1 -3 has been derived based on the actual rental rates as stipulated under the respective committed tenancy agreements (for lots with committed tenancy) along with proposed market rents (applicable for lots without committed tenancy depending on location + floor area). From Year 4 onwards, we have projected an annual growth rate of 10.00% as fair after having considered the historical growth trend of the gross revenue of Sunway Pyramid Shopping Mall with a 9-year CAGR of 15.41% and its actual committed growth trend (based on committed step-up rentals of tenancies) for the next 3 years (Year 0 – Year 3) at CAGR of 12.76%.</p>
Projected Outgoings	<p>Year 1: RM2.40 psf; with a projected annual growth rate of 5.00% per annum.</p> <p>In our assessment to derive at the estimated fair outgoings for the property, we have relied on current outgoings of the subject property as well as other selected shopping malls in Klang Valley ranging from RM2.00 psf to RM3.60 psf; Year 2016; subject to floor area, building services, design and concept of the building, etc. A 5.00% is adopted as the projected annual growth rate for the property outgoings after having considered the current and future market condition.</p>
Car Park	
Projected Revenue	<p>Year 1: RM180 per bay / month; with a projected annual growth rate of 10.00% for the first 5 years and 5.00% for the remaining 5 years</p> <p>We have benchmarked against the current receivable car park revenue and the projection provided to us by Sunway Forum Hotel Sdn Bhd as well as the average current asking gross rental of other car parking bays (ranging from RM 200 per bay / month to RM 260 per bay / month) located within other selected shopping malls in Klang Valley.</p>
Projected Operating Expenses	<p>25% of the Gross Revenue.</p> <p>In our assessment for car park operating expense, we have considered the current car park expenses and the projection provided by Sunway Forum Hotel Sdn Bhd as well as the average car park expenses (ratio ranging from 15% to 30% of Gross Revenue) of other selected shopping malls in Klang Valley.</p>



**MARKET VALUE (CONT'D)**

<b>Summary of Forecast Operating Performance</b>					
<b>Year</b>	<b>Hotel</b>		<b>Retail Space</b>		<b>Car Park</b>
	<b>ARR</b>	<b>Occupancy</b>	<b>Average Monthly Gross Rental</b>	<b>Occupancy</b>	<b>Average Monthly Gross Revenue</b>
Year 1	RM295	73.0%	RM5.54 psf	100.0%	RM180 per bay
Year 2	RM310	75.0%	RM6.22 psf	100.0%	RM198 per bay
Year 3	RM325	77.0%	RM6.61 psf	100.0%	RM218 per bay
Year 4	RM340	79.0%	RM7.27 psf	100.0%	RM240 per bay
Year 5	RM350	81.0%	RM7.99 psf	100.0%	RM264 per bay
Year 6	RM360	82.0%	RM8.79 psf	100.0%	RM277 per bay
Year 7	RM370	82.0%	RM9.67 psf	100.0%	RM291 per bay
Year 8	RM380	82.0%	RM10.64 psf	100.0%	RM305 per bay
Year 9	RM390	82.0%	RM11.70 psf	100.0%	RM320 per bay
Year 10 / Terminal	RM400	82.0%	RM12.87 psf	100.0%	RM336 per bay

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MARKET VALUE (CONT'D)

Summary of Forecast Operating Performance – Year 1		
Hotel		
Description	Total	Ratio %
<b>Projected Revenue</b>	<b>RM38,958,353</b>	<b>100%</b>
Gross Room Revenue	RM31,519,703	80.9%
Food & Beverage Revenue	RM7,249,532	18.6%
Minor Operating Department Revenue	RM189,118	0.5%
<b>Projected Expenses</b>	<b>RM25,422,044</b>	<b>65.3%</b>
Departmental Cost & Expenses <sup>(Note 1)</sup>	RM10,842,778	27.8%
Undistributed Operating Expenses <sup>(Note 2)</sup> (inclusive of Group Service Fee)	RM11,965,510	30.7%
Overhead Expenses (inclusive of Incentive Management Fee and FFE Reserve)	RM2,185,214	5.6%
<b>Net Operating Profit</b>	<b>RM13,964,852</b>	<b>35.8%</b>
Retail Space		
Description	Total	Analysis (RM psf / month)
* Total Gross Effective Revenue	RM5,583,967	RM5.26 psf
Total Outgoings	RM2,545,459	RM2.40 psf
Total Net Income	RM3,038,508	RM2.86 psf
Car Park		
Description	Total	Analysis (RM per bay / month)
* Total Gross Effective Revenue	RM1,502,064	RM171 per bay
Total Operating Expenses	RM395,280	RM45 per bay
Total Net Revenue	RM1,106,784	RM126 per bay

Note: \* Reflected of void allowance of 5.00%

Note 1: For the allocation of departmental cost and undistributed expenses, we have generally referred to the historical data of the subject property and expenses of existing hotels development located within Sunway City (ranging from 25% - 35% of GOR). Thus, the estimation of 27.8% of GOR in our computation is a fair representation.

Note 2: The actual Undistributed Operating Expenses (UOE) rate of 34.6% recorded from February 2016 to March 2017 was not representative of the UOE moving forward as Sunway Clio Hotel has absorbed a higher portion of overheads shared with the other 2 hotels within the vicinity of Sunway City during the closure of Sunway Pyramid Hotel for refurbishment since April 2016 and was only reopened on a progressive basis in November 2016.

We have benchmarked the projections of UOE against (i) the 14-month historical UOE of the subject property and (ii) industry's average cost as derived from analysis of other competing hotels in its surrounding vicinity (ranging from 22% - 29% of GOR depending on star-rating and specification of hotels) published in the HTL 2016 Report.

Thus, the estimation of 30.7% of GOR for UOE (including group service fee) is a fair representation after having considered the above reasons.

UOE referred to in the HTL 2016 Report include Administrative & General, Marketing, Utilities and Property Operations & Maintenance.



**MARKET VALUE (CONT'D)**

**Lease Arrangement**

The following table outlines the salient valuation assumptions adopted in undertaking our assessment:-

Summary of Parameters	
Capitalisation Rate	<p>6.75%.</p> <p>A capitalisation rate / all risk yield of 6.75% is adopted as in our opinion and having considered it is the most probable expected rate of return achievable at current moment for the subject property after having considered the nature of the asset class (hotel + retail + car park).</p> <p>We have generally benchmarked against existing yield of selected hotel buildings in Klang Valley which are in the region of 5.90% to 6.60%.</p> <p>For retail space, we have benchmarked against selected shopping mall in Klang Valley which are in the region of 5.78% to 6.23%. A similar rate is adopted for car park to reflect the similar risk factor of the asset class.</p>
Discount Rate (PV)	<p>9.00%.</p> <p>A discount rate of 9.00% is adopted for the subject property, which is about 2.00% to 3.00% higher than the expected rate of return to reflect additional risk premium of the asset.</p>
Discount Period	10.0 years.

Summary of Forecast Operating Performance – Year 1 (Hotel + Retail + Car Park)	
Description	Total
Hotel Income (Base Rent + Turnover Rent)	
Base Rent (20% from Gross Revenue)	RM7,791,671
Turnover Rent [70% from (Net operating Profit less Base Rent)]	RM4,321,227
Sub total	RM12,112,897
Retail Income	RM3,038,508
Basement Car Park Income (358 bays) (Base Rent + Turnover Rent)	RM521,964
Elevated Car Park Income (374 bays) (Base Rent + Turnover Rent)	RM545,292
Total Gross Rent	RM16,218,661
Less: Operating Expenses (Landlord's Obligation)	RM807,011
<b>Total Net Rent</b>	<b>RM15,411,650</b>

**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.



Using the Comparison Approach, the following sale evidences, amongst others, were noted:-

<b>Sales Comparison and Analysis of Hotel Transactions</b>			
	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
<b>Legal Description</b>	Lot 186 Section 44, held under Geran No. 54728, Town and District of Kuala Lumpur Wilayah Persekutuan Kuala Lumpur	Lot 385 Section 72, held under GRN No. 73358, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	Lot 20000 Seksyen 43, held under Master Title No Geran 75638, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
<b>Property / Location</b>	Renaissance Hotel Kuala Lumpur Jalan Sultan Ismail, 50450 Kuala Lumpur	Aloft Kuala Lumpur Sentral Hotel, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, Kuala Lumpur	DoubleTree by Hilton Hotel Kuala Lumpur, The Intermark, No. 348, Jalan Tun Razak, 50400 Kuala Lumpur
<b>Tenure</b>	Interest in perpetuity	Interest in perpetuity	Interest In perpetuity
<b>No. of Room</b>	910-room	482-room	540-room
<b>Star Rating</b>	5 star	4 star	4 star
<b>Age of Building</b>	Approximately 20 years	Approximately 3 years	Approximately 6 years
<b>Consideration</b>	RM765,700,000	RM418,700,000	RM388,000,000
<b>Date of Transaction</b>	15 <sup>th</sup> August 2016	30 <sup>th</sup> March 2016	9 <sup>th</sup> April 2015
<b>Vendor</b>	Great Union Properties Sdn Bhd, wholly-owned subsidiary of IGB	Aseana Properties Limited	A Real Estate PE Fund managed by BlackRock Inc
<b>Purchaser</b>	Ventura International Sdn Bhd	Prosper Group Holdings Limited	Royal Group Holdings
<b>Source</b>	Bursa Malaysia Securities Berhad / Circular dated 15 <sup>th</sup> August 2016	London Stock Exchange / Circular dated 30 <sup>th</sup> March 2016 and 23 <sup>rd</sup> June 2016	Knight Frank Research / The Edge News Article dated 9 <sup>th</sup> April 2015
<b>Remarks</b>	-	No ownership of car parking bays	-
<b>Analysis</b>	RM841,429 per room	RM868,672 per room	RM718,519 per room
<b>Estimated Car Park Per Bay</b>	RM50,000 per bay	N/A	RM40,000 per bay
<b>Total Car Park Value</b>	RM45,500,000	N/A	RM21,600,000
<b>Estimated Consideration of the Main Building</b>	RM720,200,000	RM418,700,000	RM366,400,000
<b>Adjusted Analysis</b>	RM791,428.57 per room	RM868,672.20 per room	RM678,518.52 per room
<b>Adjustments</b>	General adjustments are made for location, accessibility, tenure, establishment of development, building quality / design / finishes, condition / age of building, hotel operator and star rating	General adjustments are made for location, accessibility, occupancy, tenure, establishment of development, building quality / design / finishes, condition / age of building, hotel operator and ownership status	General adjustments are made for location, accessibility, tenure, establishment of development, building quality / design / finishes, hotel operator and ownership status
<b>Adjusted Value</b>	RM672,714.29 per room	RM651,504.15 per room	RM644,592.59 per room

## APPENDIX II – VALUATION CERTIFICATE FOR THE SUNWAY CLIO PROPERTY (CONT'D)



### Valuation Rational

From the above adjusted values, we note that the derived values ranged between RM644,593 to RM672,714 per room.

In reconciling our opinion of Market Value of the Hotel, we have placed greater emphasis on Comparable 3 as it has the least dissimilarities after having made diligent adjustments for differences, amongst others including location, accessibility, occupancy, tenure, establishment of development, building quality / design / finishes, hotel operator and individual strata / strata block basis.

Having regards to the foregoing, we have thus adopted a value of RM245,000,000 (analysed to be RM610,973 per room) in our valuation as a fair presentation of the Market Value of the Subject Property (Hotel) after having considered the lease arrangement in our computation of Comparison Approach by deducting RM13,000,000 from the initial market value derived using Comparison Approach. The amount of RM13,000,000 represented the difference between (i) value of the property after taking into consideration lease arrangement and (ii) value of the property without taking into consideration lease arrangement, both derived using Income Approach.

Sales Comparison and Analysis of Retail Mall Transactions			
	Comparable 1	Comparable 2	Comparable 3
<b>Legal Description</b>	Parent Lot 62011 held under Master Title No. GRN 238145, Bandar Subang Jaya, District of Petaling, Selangor Darul Ehsan	Parent Lot 91576 held under Master Title No. Geran 320023, Pekan Subang Jaya, District of Petaling, Selangor Darul Ehsan	Parent Lot 45821 Seksyen 39 held under Master Title No. Geran 54431, Bandar Petaling Jaya, District of Petaling, Selangor Darul Ehsan
<b>Property / Location</b>	Empire Subang Gallery Jalan SS16/1, SS 16, 47500 Subang Jaya, Selangor Darul Ehsan	Da Men Mall Persiaran Kewajipan, UEP Subang Jaya, Selangor Darul Ehsan	Tropicana City Mall No. 3, Jalan SS 20/27, Petaling Jaya, Selangor Darul Ehsan
<b>Tenure</b>	Interest in perpetuity	Interest in perpetuity	Interest in perpetuity
<b>Net Lettable Area</b>	333,749 sq ft	420,920 sq ft	448,248 sq ft
<b>No. of Car Park</b>	1,414 bays	1,638 bays	1,759 bays
<b>Age of Building</b>	Approximately 7 years	Valuation is based on completed basis	Approximately 6 years
<b>Consideration</b>	RM571,900,000	RM486,844,000	RM472,982,143
<b>Date of Transaction</b>	19 <sup>th</sup> January 2017	17 <sup>th</sup> September 2015	26 <sup>th</sup> January 2015
<b>Vendor</b>	Couture Homes Sdn Bhd	Equine Park Country Resort Sdn Bhd, a wholly owned subsidiary of Taman Equine (M) Sdn Bhd with its ultimate holding company as Global Oriental Berhad	Tropicana City, a wholly-owned subsidiary of Bakat Rampai Sdn Bhd, which in turn is a wholly-owned subsidiary of Tropicana Corporation Berhad
<b>Purchaser</b>	Pelaburan Hartanah Berhad	MTrustee Berhad, on behalf of Pavilion REIT	AmTrustee Berhad, acting solely in capacity as Trustee for CapitaMalls Malaysia Trust
<b>Source</b>	News Article dated 19 <sup>th</sup> January 2017 / PHB Website / Knight Frank Research	Bursa Malaysia Securities Berhad / Circular dated 17 <sup>th</sup> September 2015 and 18 <sup>th</sup> March 2016	Bursa Malaysia Securities Berhad / Circular dated 10 <sup>th</sup> June 2015
<b>Analysis</b>	RM1,713.56 psf	RM1,156.62 psf	RM1,055.18 psf

**APPENDIX II – VALUATION CERTIFICATE FOR THE SUNWAY CLIO PROPERTY (CONT'D)**



<b>Estimated Car Park Per Bay</b>	RM35,000 per bay	RM34,000 per bay	RM33,750 per bay
<b>Total Car Park Value</b>	RM49,490,000	RM55,692,000	RM59,366,250
<b>Estimated Consideration of the Main Building</b>	RM522,410,000	RM431,152,000	RM413,615,893
<b>Adjusted Analysis</b>	RM1,565.28 psf	RM1,024.31 psf	RM922.74 psf
<b>Adjustments</b>	General adjustments are made for committed occupancy, tenure, floor area / parcel area / net lettable area, tenant mix, condition / age of building and ownership status	General adjustments are made for committed occupancy, tenure, floor area / parcel area / net lettable area and ownership status	General adjustments are made for accessibility, tenure, floor area / parcel area / net lettable area, condition / age of building and ownership status
<b>Adjusted Value</b>	RM1,173.96 psf	RM973.09 psf	RM922.74 psf

**Valuation Rational**

From the above adjusted values, we note that the derived values ranged between RM922.74 per square foot to RM1,173.96 per square foot.

In reconciling our opinion of Market Value of the Mall, we have adopted the adjusted value of RM973.09 psf (Comparable 2) as fair representation since the Comparable adopted have insignificant dissimilarities between them after diligent adjustments have been made for differences, amongst others, including occupancy, tenure, floor area / parcel area / net lettable area, tenant mix, condition / age of building and strata status.

Having regards to the foregoing, we have thus adopted a value of RM86,000,000 (analysed to be RM973.03 psf) in our valuation as a fair presentation of the Market Value of the Subject Property (Mall).

<b>Sales Comparison and Analysis of Car Parking Bay Transactions</b>			
	<b>Comparable 1</b>	<b>Comparable 2</b>	<b>Comparable 3</b>
<b>Legal Description / Address</b>	Da Men Mall, USJ 1, Subang Jaya	Tropicana City Mall, Petaling Jaya	V Square @ PJ City Centre
<b>Tenure</b>	Interest in perpetuity	Interest in perpetuity	Leasehold interest, expiring on 14 <sup>th</sup> December 2105
<b>No. of Bay</b>	1,638 bays	1,759 bays	964 bays
<b>Consideration</b>	RM34,000 per bay	RM33,750 per bay	RM30,000 per bay
<b>Date of Transaction</b>	17 <sup>th</sup> September 2015	26 <sup>th</sup> January 2015	10 <sup>th</sup> May 2013
<b>Vendor</b>	Equine Park Country Resort Sdn Bhd, a wholly owned subsidiary of Taman Equine (M) Sdn Bhd with its ultimate holding company as Global Oriental Berhad	Tropicana City, a wholly-owned subsidiary of Bakat Rampai Sdn Bhd, which in turn is a wholly-owned subsidiary of Tropicana Corporation Berhad	Khuan Choo Property Management Sdn Bhd, a wholly-owned subsidiary of Malton Berhad
<b>Purchaser</b>	MTrustee Berhad, on behalf of Pavilion REIT	AmTrustee Berhad, acting solely in capacity as Trustee for CapitaMalls Malaysia Trust	Bukit Damansara Development Sdn Bhd
<b>Source</b>	Bursa Malaysia Securities Berhad / Circular dated 17 <sup>th</sup> September 2015 and 18 <sup>th</sup> March 2016	Bursa Malaysia Securities Berhad / Circular dated 10 <sup>th</sup> June 2015	Bursa Malaysia Securities Berhad / Circular dated 28 <sup>th</sup> August 2013

**APPENDIX II – VALUATION CERTIFICATE FOR THE SUNWAY CLIO PROPERTY (CONT'D)**



<b>Remarks</b>	-	The 1,759 car parking bays was transacted along with Tropicana City Mall and Tropicana City Office Tower for a total consideration of RM540,000,000 (a discount of 3.57% from the valuation appraised by Henry Butcher Malaysia Sdn Bhd). No detailed breakdown of the purchase consideration was reported; thus our analysis for the Car Park was derived based on the appraised value(s) reported at RM35,000 per bay less the analysed discount granted as shown in the final consideration	The 964 car parking bays was transacted along Block 1, V Square for a total consideration of RM140,000,000. No detailed breakdown of the purchase consideration was reported; thus our analysis for the Car Park was derived based on the appraised value(s) reported at RM30,000; by CH Williams Talhar & Wong Sdn Bhd
<b>Analysis</b>	RM34,000 per bay	RM33,750 per bay	RM30,000 per bay
<b>Adjustments</b>	General adjustments are made for prevailing market condition, status of development establishment and tenure		
<b>Adjusted Value</b>	RM30,600 per bay	RM30,375 per bay	RM29,700 per bay

**Valuation Rational**

From the adjusted values, we note that the values derived range between RM29,700 per bay to RM30,600 per bay.

In reconciling our opinion of Market Value of the Car Parking Bays, we have adopted the average adjusted values of RM30,225 per bay as fair representation since all the Comparables adopted have insignificant dissimilarities between them after diligent adjustments have been made for differences, amongst others, including status of development establishment and tenure.

Having regards to the foregoing, we have thus adopted a value of RM21,000,000 (analysed to be RM28,689 per bay) in our valuation as a fair presentation of the Market Value of the Subject Property (Car Parking Bay) after having considered the lease arrangement in our computation of Comparison Approach by deducting RM1,000,000 from the initial market value derived using Comparison Approach. The amount of RM1,000,000 represented the difference between (i) value of the property after taking into consideration lease arrangement and (ii) value of the property without taking into consideration lease arrangement, both derived using Income Approach.

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**MARKET VALUE (CONT'D)**

**Reconciliation of Value**

Method of Valuation	Derivation of Values
Income Approach by DCF Method	RM340,000,000
Comparison Approach	RM352,000,000

Taking into consideration that the subject property is a newly completed commercial and 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 Approach 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 relied upon the Income Approach by DCF Method as the preferred method of valuation in our final opinion of Market Value for the subject property.

In arriving at the Market Value of the subject property, we have **EXCLUDED** the impact of the top-up undertaking arrangement for a fixed tenure post-acquisition by the Sunway REIT (Fiscal Year 1 – Year 4; amounting to RM20,230,000 per annum) as defined under the Deed of Undertaking to be made between RHB Trustees Berhad (as Trustee for Sunway Real Estate Investment Trust) (the Trustee), Sunway City Sdn Bhd (the “Covenantor”) and Sunway REIT Management Sdn Bhd (the Manager).

Having regard to the foregoing, our opinion of the **Market Value** of the 99-year leasehold interest (unexpired term of about 91 years) in the subject property; an operational 4-star rated 401-room hotel tower sited atop a podium comprising three (3) levels of retail space (including a pedestrian link bridge located on Level 1 interconnecting the West precinct of the iconic Sunway Pyramid Shopping Mall) and six (6) levels of elevated car park along with four (4) basement car park levels together with other supporting facilities / amenities attached thereto (collectively identified as Sunway Clio Hotel), with Certificate of Completion and Compliance (CCC) issued, as a going concern and fully operational hotel, subject to the existing tenancies and agreements committed to-date and the title being free from all encumbrances, good, marketable and registrable, as at 17<sup>th</sup> April 2017 is **RM340,000,000 (Ringgit Malaysia Three Hundred And Forty Million Only).**

For and on behalf of  
**KNIGHT FRANK MALAYSIA SDN BHD**

**OOI HSIEN YU**

Registered Valuer,

MRISM, MRICS, MPERS



Date: 13<sup>th</sup> June 2017

Note: The above valuation is peer reviewed by Knight Frank Malaysia Sdn Bhd (Head Office), Mr. Chong Teck Seng (Registered Valuer, V-331)

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

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Malaysia

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SUNWAY REAL ESTATE INVESTMENT TRUST AND ITS SUBSIDIARIES AS AT 30 JUNE 2017 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 1  
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

Date: 10 October 2017

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 2017 (“Pro Forma Consolidated Statement of Financial Position”) together with the notes thereon. The Pro Forma Consolidated Statement of Financial Position as set out in Appendix I (which we have stamped for purposes of identification) has been compiled by the Directors of Sunway REIT Management Sdn. Bhd. (the “Manager”) for inclusion in the Circular to Unitholders of the Trust to be issued in connection with the proposed acquisition of the Sunway Clio Property (as defined in the Circular to Unitholders) for a total purchase consideration of RM340 million (“Proposed Acquisition”).
2. The applicable criteria on the basis of which the Directors of the Manager have compiled the Pro Forma Consolidated Statement of Financial Position are described in Note 2 of Appendix I.
3. The Pro Forma Consolidated Statement of Financial Position has been compiled by the Directors of the Manager for illustrative purposes only to show the effects on the Consolidated Statement of Financial Position presented had the Proposed Acquisition been effected as at the date stated. As part of this process, information about the Pro Forma Consolidated Statement of Financial Position has been extracted from the Sunway REIT’s audited Consolidated Statement of Financial Position as at 30 June 2017.

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

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

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



#### OUR RESPONSIBILITIES

5. Our responsibility is to express an opinion about whether the Pro Forma Consolidated Statement of Financial Position has been compiled in all material aspects, by the Directors of the Manager on the basis set out in Note 2 of Appendix I and report our opinion to you based on our work.
6. We conducted our engagement in accordance with International Standard on Assurance Engagements (“ISAE”) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements, and plan and perform procedures to obtain reasonable assurance about whether the Directors of the Manager have compiled, in all material respects, the Pro Forma Consolidated Statement of Financial Position in accordance with the basis set out in Note 2 of Appendix I.
7. For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statement of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information or any adjustments made in compiling the Pro Forma Consolidated Statement of Financial Position.
8. The purpose of Pro Forma Consolidated Statement of Financial Position included in the Circular to Unitholders of the Trust is solely to illustrate the impact of the Proposed Acquisition on the audited Consolidated Statement of Financial Position of the Group as at 30 June 2017 as if the Proposed Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented.
9. A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, involves performing procedures to assess whether the applicable criteria used by the Directors of the Manager in the compilation of the Pro Forma Consolidated Statement of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:
  - The related pro forma adjustments give appropriate effect to those criteria; and
  - The Pro Forma Consolidated Statement of Financial Position reflects the proper application of those adjustments to the audited Consolidated Statement of Financial Position as at 30 June 2017.
10. The procedures selected depend on our judgement, having regard to our understanding of the nature of Sunway REIT, the Proposed Acquisition in respect of which the Pro Forma Consolidated Statement of Financial Position has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.
11. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion:

12. The Pro Forma Consolidated Statement of Financial Position, which have been prepared by the Board of Directors of the Manager, have been properly prepared on the basis stated in the accompanying Note 2 of Appendix I using the financial statements prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group; and
13. Each material adjustment made to the information (extracted from the Sunway REIT’s audited Consolidated Statement of Financial Position as at 30 June 2017) used in the preparation of the Pro Forma Consolidated Statement of Financial Position is appropriate for the purposes of preparing the Pro Forma Consolidated Statement of Financial Position.

**OTHER MATTERS**

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

Yours faithfully,

A handwritten signature in black ink, appearing to be 'BDO'.

**BDO**

AF : 0206

Chartered Accountants

Kuala Lumpur

10 October 2017

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

SUNWAY REAL ESTATE INVESTMENT TRUST

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Appendix I

	Audited Consolidated Statement of Financial Position as at 30.6.2017 RM'000	Adjustments for subsequent event as stated in Note 2.1 RM'000	Adjusted Consolidated Statement of Financial Position as at 30.6.2017 RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma I After the Proposed Acquisition RM'000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Investment properties	6,689,200	92,499	6,781,699	343,640	7,125,339
Property, plant and equipment	9,063		9,063		9,063
<b>Total non-current assets</b>	<b>6,698,263</b>		<b>6,790,762</b>		<b>7,134,402</b>
<b>CURRENT ASSETS</b>					
Trade receivables	16,821		16,821		16,821
Other receivables	16,153	(9,150)	7,003		7,003
Derivatives	8,112		8,112		8,112
Cash and bank balances	100,544		100,544		100,544
<b>Total current assets</b>	<b>141,630</b>		<b>132,480</b>		<b>132,480</b>
<b>TOTAL ASSETS</b>	<b>6,839,893</b>		<b>6,923,242</b>		<b>7,266,882</b>
<b>EQUITY AND LIABILITIES</b>					
Unitholders' funds					
Unitholders' capital	2,727,829		2,727,829		2,727,829
Undistributed income	1,483,891		1,483,891	(405)	1,483,486
	<b>4,211,720</b>		<b>4,211,720</b>		<b>4,211,315</b>

Stamped for  
the purpose of  
identification only.

10 OCT 2017

BDO (AF0206)  
Chartered Accountants  
Kuala Lumpur

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

SUNWAY REAL ESTATE INVESTMENT TRUST  
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Appendix I

(Continued)	Audited Consolidated Statement of Financial Position as at 30.6.2017 RM'000	Adjustments for subsequent event as stated in Note 2.1 RM'000	Adjusted Consolidated Statement of Financial Position as at 30.6.2017 RM'000	Adjustments for Proposed Acquisition RM'000	Pro Forma I After the Proposed Acquisition RM'000
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	-		-	344,045	344,045
Long term liabilities	65,724		65,724		65,724
Deferred tax liability	5,896		5,896		5,896
Derivatives	529		529		529
<b>Total non-current liabilities</b>	<b>72,149</b>		<b>72,149</b>		<b>416,194</b>
<b>CURRENT LIABILITIES</b>					
Borrowings	2,343,759	83,349	2,427,108		2,427,108
Trade payables	3,366		3,366		3,366
Other payables	207,422		207,422		207,422
Derivatives	1,477		1,477		1,477
<b>Total current liabilities</b>	<b>2,556,024</b>		<b>2,639,373</b>		<b>2,639,373</b>
<b>TOTAL LIABILITIES</b>	<b>2,628,173</b>		<b>2,711,522</b>		<b>3,055,567</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,839,893</b>		<b>6,923,242</b>		<b>7,266,882</b>
Total assets (RM'000)	6,839,893		6,923,242		7,266,882
Total borrowings ('000)	2,343,759		2,427,108		2,771,153
Gearing (total borrowings/ total asset value)	0.34		0.35		0.38
Units in circulation ('000)	2,945,078		2,945,078		2,945,078
Net assets value (RM'000)	4,211,720		4,211,720		4,211,315
Net assets value per unit (RM)	1.4301		1.4301		1.4300

ii



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

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SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

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 2017 (“Pro Forma Consolidated Statement of Financial Position”) has been prepared for illustrative purpose only for inclusion in the Circular to Unitholders of the Trust (“Circular”) to be issued in connection with the proposed acquisition of the Sunway Clio Property (as defined in the Circular to Unitholders) for a total purchase consideration of RM340 million (“Proposed Acquisition”).

The Pro Forma Consolidated Statement of Financial Position is prepared for illustrative purposes only, to show the effects of the Proposed Acquisition, as set out on Notes 3 and 4, on the adjusted audited Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2017, had the transaction been effected on 30 June 2017. The audited Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2017 has been adjusted for the effects of subsequent event as stated in Note 2.1 before incorporating the effects of the Proposed Acquisition.

As the Pro Forma Consolidated Statement of Financial Position is prepared for illustrative purposes only, such information, because of its nature, does not give a true picture of the effects of the Proposed Acquisition on the financial position of Sunway REIT Group presented had the transactions or event occurred on 30 June 2017. Furthermore, such information does not purport to predict Sunway REIT Group’s future financial position.

**2. BASIS OF PREPARATION**

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

- a) The audited consolidated statement of financial position of Sunway REIT Group as at 30 June 2017 (after adjusting for the effects of subsequent event stated in Note 2.1), which were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards;
- b) The accounting policies and bases, which are consistent with those previously adopted in the preparation of the audited financial statements of Sunway REIT Group for the financial year ended 30 June 2017, to show the effects of the Proposed Acquisition on the assumption that the Proposed Acquisition stated in Note 1 had been effected on 30 June 2017; and
- c) The historical financial information of Sunway REIT is presented in Ringgit Malaysia (“RM”), which is also Sunway REIT’s functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.



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

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SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Appendix I

**2. BASIS OF PREPARATION (CONTINUED)**

**2.1 ADJUSTMENTS ON SUBSEQUENT EVENT AFTER THE END OF THE REPORTING PERIOD FOR FINANCIAL YEAR ENDED 30 JUNE 2017**

The audited Consolidated Statement of Financial Position as at 30 June 2017 has been adjusted to take into consideration the effects of the subsequent event after the end of the reporting period for the financial year ended 30 June 2017 as follows:

- (i) On 11 January 2017, the Trustee on behalf of Sunway REIT entered into a sale and purchase agreement with Champion Edge Sdn. Bhd. to acquire an industrial property for RM91,500,000. The acquisition was completed on 1 August 2017 and was funded via debt. Therefore, investment properties increased by RM91,500,000 and borrowings increased by RM82,350,000 (excluding 10% earnest deposit paid amounted to RM9,150,000 in financial year ended 30 June 2017).
- (ii) Expenses directly in relation to the above subsequent event are estimated at RM999,000 and will be capitalised as part of investment properties. The estimated expenses of RM999,000 will be settled via debt.

**3. EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017 AFTER INCORPORATING THE EFFECTS OF THE PROPOSAL**

**Pro Forma I**

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

Adjustment for the Proposed Acquisition

The adjustment for the Proposed Acquisition illustrates the effect of the Proposed Acquisition on the adjusted Consolidated Statement of Financial Position of Sunway REIT Group as at 30 June 2017.

The purchase consideration of RM340,000,000 for the Proposed Acquisition is to be entirely satisfied in cash drawdown from Sunway REIT’s existing debt programme.

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

- i. increase in investment properties and borrowings by RM340,000,000 respectively; and
- ii. expenses for the Proposed Acquisition are estimated at RM4,045,000, of which RM3,640,000 of expenses are directly related to the Proposed Acquisition and will be capitalised as part of investment properties, while the remaining balance of RM405,000 of other expenses will be expensed off to statement of profit or loss of Sunway REIT Group. The estimated expenses of RM4,045,000 will be settled in cash drawdown from existing debt programme.





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

SUNWAY REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Appendix I

**4. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION AS AT 30 JUNE 2017 AFTER INCORPORATING THE EFFECTS OF THE PROPOSAL**

**4.1 Investment properties**

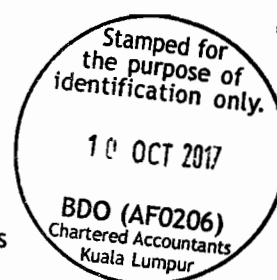
	RM’000
As per audited consolidated statement of financial position (“CSOFP”) of the Group as at 30 June 2017	6,689,200
Adjustments for subsequent event in Note 2.1	
- acquisition of industrial property	91,500
- estimated expenses directly in relation to the acquisition of industrial property	999
As per adjusted CSOFP of the Group as at 30 June 2017	6,781,699
Adjustment for Proposed Acquisition	
- acquisition of Sunway Clio Property	340,000
- estimated expenses directly in relation to the Proposed Acquisition	3,640
As per Pro Forma I	<u>7,125,339</u>

**4.2 Borrowings**

	RM’000
As per audited CSOFP of the Group as at 30 June 2017	2,343,759
Adjustments for subsequent event in Note 2.1	
- acquisition of industrial property	82,350
- estimated expenses in relation to the acquisition of industrial property	999
As per adjusted CSOFP of the Group as at 30 June 2017	2,427,108
Adjustment for Proposed Acquisition	
- acquisition of Sunway Clio Property	340,000
- estimated expenses in relation to the Proposed Acquisition	4,045
As per Pro Forma I	<u>2,771,153</u>

**4.3 Other receivables**

	RM’000
As per audited CSOFP of the Group as at 30 June 2017	16,153
Adjustment for subsequent event in Note 2.1	
- reclassification of earnest deposit to investment properties	(9,150)
As per adjusted CSOFP of the Group as at 30 June 2017/ As per Pro Forma I	<u>7,003</u>



**4.4 Undistributed income**

	RM’000
As per audited CSOFP/Adjusted CSOFP of the Group as at 30 June 2017	1,483,891
Adjustment for Proposed Acquisition	
- estimated other expenses in relation to the Proposed Acquisition	(405)
As per Pro Forma I	<u>1,483,486</u>

# **SUNWAY®**

## **REIT**

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

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

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

**NOTICE IS HEREBY GIVEN THAT** a meeting of unitholders ("**Unitholders' Meeting**") of Sunway Real Estate Investment Trust ("**Sunway REIT**") will be held at Grand Bahamas, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 25 October 2017 at 3.30 p.m. or immediately following the conclusion or adjournment (as the case may be) of our fifth annual general meeting ("**AGM**") which will be held at 3.00 p.m. on the same day and at the same venue, whichever is later, or at any adjournment thereof, for the purpose of considering and if thought fit, passing the following resolution with or without modifications:

#### **ORDINARY RESOLUTION**

**PROPOSED ACQUISITION BY RHB TRUSTEES BERHAD, ON BEHALF OF SUNWAY REIT, OF THE SUNWAY CLIO PROPERTY (AS DEFINED HEREIN) FROM SUNWAY FORUM HOTEL SDN. BHD., A WHOLLY-OWNED SUBSIDIARY OF SUNWAY BERHAD, FOR A PURCHASE CONSIDERATION OF RM340 MILLION**

**"THAT** contingent upon the fulfilment of all other conditions precedent under the conditional Sale and Purchase Agreement dated 3 August 2017 between RHB Trustees Berhad ("**Trustee**" or "**Purchaser**"), on behalf of Sunway REIT, and Sunway Forum Hotel Sdn. Bhd. ("**Vendor**") ("**SPA**") 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 Sunway Clio Property from the Vendor for a purchase consideration of RM340 million upon such terms and conditions as set out in the SPA, which entails the acquisition of a parcel of leasehold land held under H.S. (D) 259881 Lot No. PT 1333, Bandar Sunway, District of Petaling, Selangor Darul Ehsan together with a 27-storey building with a lower ground floor (and all services infrastructure, fixtures and fittings affixed or located or used in the Sunway Clio Property) comprising –

- (a) a 19-storey 4-star rated hotel with 401 hotel rooms and facilities including a swimming pool, an exercise area, a dining area and meeting rooms known as 'Sunway Clio Hotel';
- (b) 3-storey (including 1 storey at lower ground floor) retail lots; and
- (c) a 6-storey podium car park and 4-storey basement car park

(collectively, "**Sunway Clio Property**") ("**Proposed Acquisition**").

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

**AND THAT** the Trustees and directors of Sunway REIT Management Sdn. Bhd., being the manager of Sunway REIT ("**Manager**"), be and are hereby authorised to give full effect to the Proposed Acquisition with full powers to negotiate, approve, agree and/or assent to any conditions, variations, revaluations, modifications and/or amendments in any manner as may be required / permitted by the relevant authorities or deemed necessary by the Trustee and directors of the Manager, 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, undertakings and confirmations as may be required), deeds, things and matters as they may deem necessary or expedient to implement, finalise, to give full effect to and complete the Proposed Acquisition."

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

**TAN KIM AUN (MAICSA 7002988)**  
**CHIN SOO CHING (MAICSA 7042265)**  
Company Secretaries

Bandar Sunway  
10 October 2017

*Notes:*

1. *A unitholder of Sunway REIT ("Unitholder") who is entitled to attend and vote at the Unitholders' Meeting, may appoint not more than 2 proxies to attend and vote instead of the Unitholder at the Unitholders' Meeting. A proxy may but need not be a Unitholder.*
2. *If a Unitholder has appointed a proxy to attend the Unitholders' Meeting and subsequently he attends the Unitholders' Meeting in person, the appointment of such proxy shall be null and void, and his proxy shall not be entitled to attend the Unitholders' Meeting.*
3. *Where a Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account.*
4. *Where a Unitholder is an exempt authorised nominee which holds units for multiple beneficial owners in 1 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.*
5. *Where a Unitholder or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointment shall be invalid unless the proportion of unitholdings to be represented by each proxy is specified in the instrument appointing the proxies.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if such appointer is a corporation, either under its common seal or under the hand of its officer or attorney duly authorised.*
7. *The instrument appointing a proxy must be deposited at the registered office of the Manager at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia not less than 48 hours before the time appointed for holding the Unitholders' Meeting or any adjournment thereof either by hand, post, electronic mail or fax to (603) 5639 9507. 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, either by hand or post not less than 48 hours before the time appointed for holding the Unitholders' Meeting or any adjournment thereof.*
8. *In respect of deposited securities, only Unitholders whose names appear in the Record of Depositors of Sunway REIT on 16 October 2017 shall be entitled to attend, speak and vote at the Unitholders' Meeting.*

**Personal Data Notice**

The Personal Data Protection Act 2010 ("Act") which regulates the processing of personal data in commercial transactions, applies to us, Sunway REIT Management Sdn. Bhd., being the Manager of Sunway REIT.

The personal data processed by us may include your name, contact details, mailing address and any other personal data derived from any documentation.

We may use or disclose your personal data to any person engaged for the purposes of issuing the above notice of meeting and convening the meeting.

Subject to the requirement under the Act, if you would like to make any enquiries of your personal data, please contact us:

Address: Sunway REIT Management Sdn. Bhd.  
Level 16, Menara Sunway  
Jalan Lagoon Timur, Bandar Sunway  
47500 Subang Jaya  
Selangor Darul Ehsan  
Tel No: (603) 5639 8889  
Fax No: (603) 5639 9507

# SUNWAY®

## REIT

### SUNWAY REAL ESTATE INVESTMENT TRUST

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

## PROXY FORM

### UNITHOLDERS' MEETING 2017

Number of units held	
CDS Account No.	

#### SUNWAY REIT MANAGEMENT SDN. BHD.

(Company No. 806330-X)

Manager of Sunway Real Estate Investment

Registered office:

Level 16, Menara Sunway, Jalan Lagoon Timur

Bandar Sunway, 47500 Subang Jaya

Selangor Darul Ehsan, Malaysia

Tel: (603) 5639 8889 / 5639 8841

Fax: (603) 5639 9507

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

Tel./Mobile No.....of.....

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

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

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

and/or failing \*him/her,

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

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

100%



or failing \*him/her, THE CHAIRMAN OF THE MEETING as \*my/our proxy to attend and vote for \*me/us on \*my/our behalf at the Unitholders' Meeting of Sunway REIT to be held at Grand Bahamas, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, on Wednesday, 25 October 2017 at 3.30 p.m. or immediately following the conclusion or adjournment (as the case may be) of the our fifth AGM which will be held at 3.00 p.m. on the same day and at the same venue, whichever is later, or at any adjournment thereof.

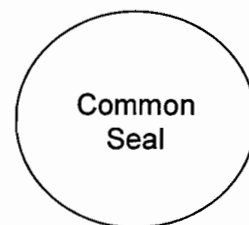
*\*strike out whichever not applicable*

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

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

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

Dated this..... day of.....2017



Signature of Unitholder.....

**Notes:**

1. A unitholder of Sunway REIT ("**Unitholder**") who is entitled to attend and vote at the Unitholders' Meeting, may appoint not more than 2 proxies to attend and vote instead of the Unitholder at the Unitholders' Meeting. A proxy may but need not be a Unitholder.
2. If a Unitholder has appointed a proxy to attend the Unitholders' Meeting and subsequently he attends the Unitholders' Meeting in person, the appointment of such proxy shall be null and void, and his proxy shall not be entitled to attend the Unitholders' Meeting.
3. Where a Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account.
4. Where a Unitholder is an exempt authorised nominee which holds units for multiple beneficial owners in 1 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.
5. Where a Unitholder or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointment shall be invalid unless the proportion of unitholdings to be represented by each proxy is specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if such appointer is a corporation, either under its common seal or under the hand of its officer or attorney duly authorised.
7. The instrument appointing a proxy must be deposited at the registered office of Sunway REIT Management Sdn. Bhd. at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia not less than 48 hours before the time appointed for holding the Unitholders' Meeting or any adjournment thereof either by hand, post, electronic mail or fax to (603) 5639 9507. 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, either by hand or post not less than 48 hours before the time appointed for holding the Unitholders' Meeting or any adjournment thereof.
8. In respect of deposited securities, only Unitholders whose names appear in the Record of Depositors of Sunway REIT on 16 October 2017 shall be entitled to attend, speak and vote at the Unitholders' Meeting.

Fold this flap for sealing

Then fold here

AFFIX  
STAMP

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

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