

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Second Quarter ended			Cumulative Quarter ended		
	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Rental income	138,024	123,923	11.4%	275,728	249,014	10.7%
Other operating income	3,446	2,957	16.5%	6,911	6,745	2.5%
Gross revenue	141,470	126,880	11.5%	282,639	255,759	10.5%
Quit rent, assessment and insurance	(3,779)	(3,384)	11.7%	(7,502)	(6,821)	10.0%
Other property operating expenses	(34,324)	(29,441)	16.6%	(60,784)	(58,818)	3.3%
Property operating expenses	(38,103)	(32,825)	16.1%	(68,286)	(65,639)	4.0%
Net property income	103,367	94,055	9.9%	214,353	190,120	12.7%
Other income	2,569	5,191	-50.5%	4,195	6,112	-31.4%
Net investment income	105,936	99,246	6.7%	218,548	196,232	11.4%
Manager's fee	(8,634)	(7,805)	10.6%	(17,278)	(15,650)	10.4%
Trustee's fee	(321)	(308)	4.2%	(642)	(615)	4.4%
Other trust expenses	(892)	2,086	-142.8%	(1,157)	(848)	36.4%
Finance costs	(25,092)	(22,076)	13.7%	(49,245)	(43,833)	12.3%
	(34,939)	(28,103)	24.3%	(68,322)	(60,946)	12.1%
Profit before tax	70,997	71,143	-0.2%	150,226	135,286	11.0%
Income tax expense	-	-	-	-	-	-
Profit for the period	70,997	71,143	-0.2%	150,226	135,286	11.0%
Profit for the period comprise the following:						
Realised	70,045	67,130	4.3%	148,781	133,862	11.1%
Unrealised	952	4,013	-76.3%	1,445	1,424	1.5%
	70,997	71,143	-0.2%	150,226	135,286	11.0%
Earnings per unit (sen)						
- realised	2.37	2.31	2.6%	5.04	4.55	10.8%
- unrealised	0.03	0.14	-78.6%	0.05	0.05	0.0%
	2.40	2.45	-2.0%	5.09	4.60	10.7%
Proposed/declared distribution per unit (sen)	2.38	2.28	4.4%	5.05	4.55	11.0%

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	Second Quarter ended			Cumulative Quarter ended		
	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Profit for the period	70,997	71,143	-0.2%	150,226	135,286	11.0%
Other comprehensive income						
Cash flow hedge - fair value of derivative ¹	(17,310)	32,714	-152.9%	(24,972)	44,844	-155.7%
Cash flow hedge reserve recycled to profit or loss ²	17,450	(35,050)	149.8%	24,650	(45,450)	154.2%
Total comprehensive income for the period	71,137	68,807	3.4%	149,904	134,680	11.3%

¹ Please refer to Note B15b) for details.

² Please refer to Note A15 for details.

Income distribution

	Second Quarter ended			Cumulative Quarter ended		
	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%
Realised total comprehensive income/ Total available for income distribution for the period	70,045	67,130	4.3%	148,781	133,862	11.1%
Brought forward undistributed income available for distribution	549	392	40.1%	447	513	-12.9%
Total available for income distribution	70,594	67,522	4.5%	149,228	134,375	11.1%
Less: Proposed/declared income distribution	(70,093)	(67,148)	4.4%	(148,727)	(134,001)	11.0%
Balance undistributed arising from rounding difference	501	374	34.0%	501	374	34.0%

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

FINANCIAL REVIEW FOR CURRENT QUARTER COMPARED WITH IMMEDIATE PRECEDING QUARTER

	CURRENT	IMMEDIATE	Change
	QUARTER	PRECEDING	
	31.12.2017	30.09.2017	
	RM'000	RM'000	%
Rental income	138,024	137,704	0.2%
Other operating income	3,446	3,465	-0.5%
Gross revenue	141,470	141,169	0.2%
Quit rent, assessment and insurance	(3,779)	(3,723)	1.5%
Other property operating expenses	(34,324)	(26,460)	29.7%
Property operating expenses	(38,103)	(30,183)	26.2%
Net property income	103,367	110,986	-6.9%
Other income	2,569	1,626	58.0%
Net investment income	105,936	112,612	-5.9%
Manager's fee	(8,634)	(8,644)	-0.1%
Trustee's fee	(321)	(321)	0.0%
Other trust expenses	(892)	(265)	236.6%
Finance costs	(25,092)	(24,153)	3.9%
	(34,939)	(33,383)	4.7%
Profit before tax	70,997	79,229	-10.4%
Income tax expense	-	-	-
Profit for the period	70,997	79,229	-10.4%
Profit for the period comprise the following:			
Realised	70,045	78,736	-11.0%
Unrealised	952	493	93.1%
	70,997	79,229	-10.4%
Earnings per unit (sen)			
- realised	2.37	2.67	-11.2%
- unrealised	0.03	0.02	50.0%
	2.40	2.69	-10.8%
Proposed/declared distribution per unit (sen)	2.38	2.67	-10.9%

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

FINANCIAL REVIEW FOR CURRENT QUARTER COMPARED WITH IMMEDIATE PRECEDING QUARTER (CONT'D)

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER	Change
	31.12.2017	30.09.2017	
	RM'000	RM'000	%
Profit for the period	70,997	79,229	-10.4%
Other comprehensive income			
Cash flow hedge - fair value of derivative	(17,310)	(7,662)	125.9%
Cash flow hedge reserve recycled to profit or loss	17,450	7,200	142.4%
Total comprehensive income for the period	71,137	78,767	-9.7%

Income distribution

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER	Change
	31.12.2017	30.09.2017	
	RM'000	RM'000	%
Realised total comprehensive income/ Total available for income distribution for the period	70,045	78,736	-11.0%
Brought forward undistributed income available for distribution	549	447	22.8%
Total available for income distribution	70,594	79,183	-10.8%
Less: Proposed/declared income distribution	(70,093)	(78,634)	-10.9%
Balance undistributed arising from rounding difference	501	549	-8.7%

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As At 31.12.2017 (Unaudited)	As At 30.06.2017 (Unaudited)
	RM'000	RM'000
ASSETS		
Non-current assets		
Investment properties	6,796,012	6,689,200
Plant and equipment	9,201	9,063
	<u>6,805,213</u>	<u>6,698,263</u>
Current assets		
Trade receivables	26,697	16,821
Other receivables	37,855	16,153
Derivatives	-	8,112
Short term investment	84,828	-
Cash and bank balances	361,209	100,544
	<u>510,589</u>	<u>141,630</u>
	<u>7,315,802</u>	<u>6,839,893</u>
FINANCED BY:		
Unitholders' funds		
Unitholders' capital	2,727,829	2,727,829
Undistributed income	1,488,308	1,483,891
Total Unitholders' funds	<u>4,216,137</u>	<u>4,211,720</u>
Non-current liabilities		
Borrowings	300,000	-
Long term liabilities	65,483	65,724
Deferred tax liability	5,896	5,896
Derivatives	112	529
	<u>371,491</u>	<u>72,149</u>
Current liabilities		
Borrowings	2,504,750	2,343,759
Trade payables	2,230	3,366
Other payables	203,852	207,422
Derivatives	17,342	1,477
	<u>2,728,174</u>	<u>2,556,024</u>
	<u>7,315,802</u>	<u>6,839,893</u>
Number of units in circulation ('000 units)	2,945,078	2,945,078
NET ASSET VALUE ("NAV")		
- Before income distribution	4,216,137	4,211,720
- After income distribution	4,146,044	4,144,867
NET ASSET VALUE PER UNIT (RM)		
- Before income distribution ¹	1.4316	1.4301
- After income distribution ²	1.4078	1.4074

¹ Before the 2Q2018 proposed income distribution of 2.38 sen per unit (4Q2017: 2.27 sen per unit).

² After the 2Q2018 proposed income distribution of 2.38 sen per unit (4Q2017: 2.27 sen per unit).

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised RM'000	RM'000
As at 1 July 2017	2,727,829	(312)	1,484,203	4,211,720
Total comprehensive income				
Profit for the period	-	148,781	1,445	150,226
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	(24,972)	(24,972)
- Cash flow hedge reserve recycled to profit or loss	-	-	24,650	24,650
Total comprehensive income, representing the increase in net assets resulting from operations	<u>2,727,829</u>	<u>148,469</u>	<u>1,485,326</u>	<u>4,361,624</u>
Unitholders' transactions				
Distribution to unitholders				
- Income distribution declared and paid in current period	-	(78,634)	-	(78,634)
- Income distribution proposed in prior year but paid in current period	-	(66,853)	-	(66,853)
Increase/(decrease) in net assets resulting from unitholders' transactions	-	(145,487)	-	(145,487)
As at 31 December 2017 (Unaudited)	<u>2,727,829</u>	<u>2,982</u>	<u>1,485,326</u>	<u>4,216,137</u>

	Unitholders' Capital	<-- Undistributed Income -->		Total Unitholders' Funds
	RM'000	Realised RM'000	Unrealised RM'000	RM'000
As at 1 July 2016	2,725,933	(4,688)	1,329,985	4,051,230
Total comprehensive income				
Profit for the year	-	270,586	153,898	424,484
Other comprehensive income				
- Cash flow hedge - fair value of derivative	-	-	26,570	26,570
- Cash flow hedge reserve recycled to profit or loss	-	-	(26,250)	(26,250)
Total comprehensive income, representing the increase in net assets resulting from operations	<u>2,725,933</u>	<u>265,898</u>	<u>1,484,203</u>	<u>4,476,034</u>
Unitholders' transactions				
Creation of units ¹				
- Manager's fee paid in units	1,896	-	-	1,896
Distribution to unitholders				
- Income distribution declared and paid in current year	-	(203,799)	-	(203,799)
- Income distribution proposed in prior year but paid in current year	-	(62,411)	-	(62,411)
Increase/(decrease) in net assets resulting from unitholders' transactions	1,896	(266,210)	-	(264,314)
As at 30 June 2017 (Unaudited)	<u>2,727,829</u>	<u>(312)</u>	<u>1,484,203</u>	<u>4,211,720</u>

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

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

¹ Issue of new units comprise the following:

	30.06.2017	
	Units	Amount
	'000	RM'000
Issuance of new units pursuant to 25% Manager's fee paid in units:		
- at RM1.6348 per unit for the quarter ended 30 June 2016	1,160	1,896
Total Manager's fee paid in units	<u>1,160</u>	<u>1,896</u>

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative Quarter ended	
	31.12.2017	31.12.2016
	RM'000	RM'000
OPERATING ACTIVITIES		
Cash receipts from customers	309,935	288,927
Refundable security deposits from customers	86	800
Cash paid for operating expenses	(132,725)	(128,071)
Net cash generated from operating activities	<u>177,296</u>	<u>161,656</u>
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(1,803)	(1,298)
Deposit for acquisition of investment property	(34,000)	-
Balance payment for acquisition of investment property	(82,350)	(17,200)
Subsequent expenditure of investment properties	(8,079)	(53,242)
Incidental costs on acquisition of investment property	(1,140)	(82)
Investment in money market instrument	(85,000)	-
Interest received	2,923	1,464
Net cash used in investing activities	<u>(209,449)</u>	<u>(70,358)</u>
FINANCING ACTIVITIES		
Issuance of commercial papers	185,600	25,000
Issuance of unrated medium term notes	300,000	-
Drawdown of revolving loans	5,140,300	4,028,000
Repayment of commercial papers	(219,600)	-
Repayment of revolving loans	(4,920,700)	(4,003,000)
Interest paid	(47,295)	(40,316)
Distribution paid	(145,487)	(129,264)
Net cash generated from/(used in) financing activities	<u>292,818</u>	<u>(119,580)</u>
Net increase/(decrease) in cash and bank balances	260,665	(28,282)
Cash and bank balances at beginning of year	100,544	69,719
Cash and bank balances at end of period	<u>361,209</u>	<u>41,437</u>
Cash and bank balances at end of period comprise:		
Cash on hand and at banks	18,209	31,437
Deposits placed with licensed financial institutions	343,000	10,000
Cash and bank balances	<u>361,209</u>	<u>41,437</u>

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

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

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

A1. Corporate Information

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

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

A2. Significant Accounting Policies and Basis of Preparation

The condensed consolidated interim financial statements of the Group for the financial period ended 31 December 2017 have been prepared in accordance with MFRS 134: *Interim Financial Reporting*, paragraph 9.44 of the Bursa Malaysia Securities Berhad Listing Requirements, the Deed and the Securities Commission's Guidelines on Real Estate Investment Trust ("the REITs Guidelines"). These condensed consolidated interim financial statements also comply with IAS 34: *Interim Financial Reporting* issued by the International Accounting Standards Board.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2017 and the accompanying explanatory notes attached to the unaudited condensed consolidated interim financial statements.

The consolidated financial statements of the Group for the financial year ended 30 June 2017 which were prepared under MFRS are available upon request from the management company's registered office at Level 16, Menara Sunway, Jalan Lagoon Timur, Bandar Sunway 47500, Subang Jaya, Selangor Darul Ehsan.

A3. Audit Report of Preceding Financial Year

The auditors have expressed an unqualified opinion on Sunway REIT's financial statements for the financial year ended 30 June 2017.

A4. Changes in Estimates

This is not applicable as no estimates were previously reported.

A5. Unusual Items

There were no material unusual items affecting the amounts reported for the current quarter ended 31 December 2017.

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

There were no issuance, repurchases and repayments of debt and equity securities for the current quarter and cumulative quarter ended 31 December 2017.

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

There was no change to Sunway REIT's fund size of 2,945.1 million for the current quarter and cumulative quarter ended 31 December 2017.

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

A8. Segmental Reporting

Segmental results for the quarter ended 31 December 2017 are as follows:

	Second Quarter ended 31.12.2017					Second Quarter ended 31.12.2016				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
REVENUE AND EXPENSES										
Gross revenue	103,771	22,851	7,883	6,965	141,470	98,838	14,788	7,877	5,377	126,880
Net property income	70,946	21,869	3,587	6,965	103,367	70,779	13,903	3,996	5,377	94,055
Other income					2,569					5,191
Trust and other expenses					(9,847)					(6,027)
Finance costs					(25,092)					(22,076)
Profit before tax					70,997					71,143
Income tax expense					-					-
Profit for the period					70,997					71,143

SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)

A8. Segmental Reporting (Cont'd)

By segment (Cont'd)

Cumulative Quarter

	Cumulative Quarter ended 31.12.2017					Cumulative Quarter ended 31.12.2016				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
REVENUE AND EXPENSES										
Gross revenue	207,330	45,936	15,915	13,458	282,639	198,532	31,169	15,304	10,754	255,759
Net property income	149,236	44,020	7,639	13,458	214,353	142,311	29,323	7,732	10,754	190,120
Other income					4,195					6,112
Trust and other expenses					(19,077)					(17,113)
Finance costs					(49,245)					(43,833)
Profit before tax					150,226					135,286
Income tax expense					-					-
Profit for the period					150,226					135,286

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

A8. Segmental Reporting (Cont'd)

Segmental assets and liabilities as at 31 December 2017 and 30 June 2017 are as follows:

	As at 31.12.2017					As at 30.06.2017				
	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000	Retail RM'000	Hotel RM'000	Office RM'000	Others RM'000	Total RM'000
BY BUSINESS SEGMENTS										
ASSETS										
Segment assets	4,565,685	1,367,335	475,481	430,465	6,838,966	4,547,758	1,361,467	475,743	337,966	6,722,934
Unallocated assets					476,836					116,959
Total assets					7,315,802					6,839,893
LIABILITIES										
Segment liabilities	196,424	43,202	8,304	-	247,930	195,242	49,542	9,541	-	254,325
Unallocated liabilities					2,851,735					2,373,848
Total liabilities					3,099,665					2,628,173

A8. Segmental Reporting (Cont'd)
By property

Properties	Gross Revenue			Net Property Income			Gross Revenue			Net Property Income		
	Second Quarter			Second Quarter			Cumulative Quarter ended			Cumulative Quarter ended		
	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Retail												
Sunway Pyramid Shopping Mall	78,532	74,363	5.6%	56,650	55,225	2.6%	155,715	148,729	4.7%	118,773	111,862	6.2%
Sunway Carnival Shopping Mall	11,607	10,845	7.0%	6,966	7,079	-1.6%	23,472	22,570	4.0%	15,134	14,461	4.7%
SunCity Ipoh Hypermarket	1,065	1,251	-14.9%	973	1,165	-16.5%	2,186	2,501	-12.6%	2,041	2,360	-13.5%
Sunway Putra Mall	12,567	12,379	1.5%	6,357	7,310	-13.0%	25,957	24,732	5.0%	13,288	13,628	-2.5%
	103,771	98,838	5.0%	70,946	70,779	0.2%	207,330	198,532	4.4%	149,236	142,311	4.9%
Hotel												
Sunway Resort Hotel & Spa	11,882	8,116	46.4%	11,460	7,709	48.7%	23,349	20,025	16.6%	22,538	19,242	17.1%
Sunway Pyramid Hotel	3,646	750	386.1%	3,539	636	456.4%	8,157	799	920.9%	7,935	580	1268.1%
Sunway Hotel Seberang Jaya	752	921	-18.3%	703	869	-19.1%	1,479	1,737	-14.9%	1,384	1,633	-15.2%
Sunway Putra Hotel	5,243	3,701	41.7%	4,887	3,442	42.0%	10,040	6,178	62.5%	9,345	5,544	68.6%
Sunway Hotel Georgetown	1,328	1,300	2.2%	1,280	1,247	2.6%	2,911	2,430	19.8%	2,818	2,324	21.3%
	22,851	14,788	54.5%	21,869	13,903	57.3%	45,936	31,169	47.4%	44,020	29,323	50.1%
Office												
Menara Sunway	4,141	4,074	1.6%	2,509	2,638	-4.9%	8,369	8,088	3.5%	5,293	5,370	-1.4%
Sunway Tower	833	856	-2.7%	(292)	(309)	5.5%	1,671	1,683	-0.7%	(482)	(508)	5.1%
Sunway Putra Tower	1,510	1,286	17.4%	644	668	-3.6%	2,963	2,214	33.8%	1,249	872	43.2%
Wisma Sunway	1,399	1,661	-15.8%	726	999	-27.3%	2,912	3,319	-12.3%	1,579	1,998	-21.0%
	7,883	7,877	0.1%	3,587	3,996	-10.2%	15,915	15,304	4.0%	7,639	7,732	-1.2%
Others												
Sunway Medical Centre	5,565	5,377	3.5%	5,565	5,377	3.5%	11,130	10,754	3.5%	11,130	10,754	3.5%
Sunway REIT Industrial - Shah Alam 1 *	1,400	-	N/A	1,400	-	N/A	2,328	-	N/A	2,328	-	N/A
	6,965	5,377	29.5%	6,965	5,377	29.5%	13,458	10,754	25.1%	13,458	10,754	25.1%
TOTAL PORTFOLIO	141,470	126,880	11.5%	103,367	94,055	9.9%	282,639	255,759	10.5%	214,353	190,120	12.7%

* Acquired on 1 August 2017

N/A - Not applicable

**SUNWAY REAL ESTATE INVESTMENT TRUST
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

A8. Segmental Reporting (Cont'd)

The Group comprises the following major business segments:

- (i) Retail - renting of retail premises to tenants
- (ii) Hotel - leasing of hotel premises to hotel operators
- (iii) Office - renting of office premises to tenants
- (iv) Others - leasing of other types of premises on long term leases

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

a) Review of Current Quarter Results

Retail segment

The retail segment registered a gross revenue of RM103.8 million for the current quarter ended 31 December 2017 (2Q2018), an increase of 5.0% or RM4.9 million compared to the preceding year corresponding quarter (2Q2017), mainly contributed by Sunway Pyramid Shopping Mall and Sunway Carnival Shopping Mall due to higher average gross rent per sq. ft..

Gross revenue for Sunway Putra Mall increased by RM0.2 million to RM12.6 million for 2Q2018 mainly due to lower rental rebates given whilst SunCity Ipoh Hypermarket recorded a decline in revenue by RM0.2 million due to lower rental reversion upon renewal of the tenancy in 4Q2017.

Property operating expenses of the retail segment for 2Q2018 was RM32.8 million, an increase of 17.0% or RM4.8 million largely attributable to all malls, except for SunCity Ipoh Hypermarket. The increase was mainly due to higher maintenance expenses by RM2.1 million and allowance for doubtful debts during the current quarter of RM0.5 million (as compared to a reversal of allowance for doubtful debts of RM1.7 million in 2Q2017).

Net property income of the retail segment for 2Q2018 was RM70.9 million, marginally higher by 0.2% or RM0.2 million compared to 2Q2017.

Hotel segment

The hotel segment achieved gross revenue of RM22.9 million for 2Q2018, higher by 54.5% or RM8.1 million compared to 2Q2017, mainly contributed by all hotels with the exception of the hotels in Penang.

Gross revenue for Sunway Resort Hotel & Spa was higher by RM3.8 million for 2Q2018 contributed by higher F&B revenue (mainly from meetings and functions), but partially offset by lower average occupancy rate on the back of softer demand from the leisure segment and one-off large group events in the same period in the preceding year.

Sunway Pyramid Hotel reported higher gross revenue of RM3.6 million in the current quarter following the full completion of its refurbishment in June 2017. Sunway Putra Hotel recorded higher gross revenue by RM1.5 million for the same period mainly attributable to higher average daily rate ("ADR") with stronger demand from the corporate segment.

Gross revenue for Sunway Hotel Seberang Jaya was lower by RM0.2 million mainly due to lower F&B revenue with the cessation of operations upon termination of tenancy of the convention centre.

Sunway Hotel Georgetown maintained its gross revenue at RM1.3 million for 2Q2018. Although average occupancy rate was higher, this was largely offset by higher operating expenses.

Net property income of the hotel segment for 2Q2018 was RM21.9 million, an increase of 57.3% or RM8.0 million, as compared to 2Q2017, in line with gross revenue.

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

A8. Segmental Reporting (Cont'd)

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

Office segment

The office segment registered gross revenue of RM7.9 million for 2Q2018, similar to the preceding year corresponding quarter.

Gross revenue for Menara Sunway and Sunway Tower were maintained at RM4.1 million and RM0.8 million respectively in the current quarter with marginally higher occupancy but offset by lower average rental rate. A new tenant has been secured for Sunway Tower for 3,800 sq. ft. (1.4% of total NLA) to commence in 4Q2018.

Sunway Putra Tower reported higher gross revenue for 2Q2018 on the back of higher average occupancy and a new tenant has been secured for 11,800 sq. ft. (3.7% of total NLA) to commence in 3Q2018.

The lower gross revenue for Wisma Sunway in the current quarter was mainly attributable to downsizing of a tenant in 4Q2017. However, the average occupancy is expected to improve by 4Q2018 with the expansion of an existing tenant.

Property operating expenses of the office segment for 2Q2018 was higher by 10.7% or RM0.4 million mainly due to higher maintenance expenses for Menara Sunway and Sunway Putra Tower compared to 2Q2017.

Net property income of the office segment in 2Q2018 was RM3.6 million, lower by 10.2% or RM0.4 million compared to the preceding year corresponding quarter.

Others

Gross revenue for the others segment increased by 29.5% or RM1.6 million in 2Q2018 compared to the preceding year corresponding quarter mainly attributable to the new contribution from Sunway REIT Industrial - Shah Alam 1 of RM1.4 million (acquisition completed on 1 August 2017).

Sunway Medical Centre contributed RM5.6 million to revenue and net property income for 2Q2018, an increase of 3.5% compared to 2Q2017 due to rental reversion in accordance with the master lease agreement.

Note: The lease and rental structure of the above properties are available in Sunway REIT's Annual Report 2017.

Profit before tax

In the preceding year corresponding quarter, other trust expenses includes a reclassification of fair value loss on derivative financial instruments which arose in the previous quarter, amounting to RM2.6 million, to other income. The reclassification was done as the YTD 2Q2017 net fair value on derivative financial instruments was a net gain of RM1.4 million. Excluding this reclassification, other income and other trust expenses for 2Q2017 will be RM7.8 million and RM0.5 million respectively.

Other income for 2Q2018 stood at RM2.6 million mainly attributable to interest income and in addition to the reclassification mentioned above, other income was higher for 2Q2017 contributed by the recognition of a court award of RM3.2 million for assessment for damages in relation to the litigation for Sunway Putra.

Finance costs for 2Q2018 was RM25.1 million, higher by 13.7% or RM3.0 million compared to 2Q2017 due to a higher principal loan amount mainly to fund investing activities as described in Note B1c).

Net profit for 2Q2018 was RM71.0 million (2Q2017: RM71.1 million) comprising realised profit of RM70.0 million (2Q2017: RM67.1 million) and unrealised profit of RM1.0 million (2Q2017: RM4.0 million).

The higher realised profit by 4.3% or RM2.9 million in the current quarter was mainly due to higher net property income but partially offset by higher finance costs and lower other income as explained above.

The unrealised profit in 2Q2018 was mainly attributable to fair value gain from interest rate swap of RM0.9 million (2Q2017: RM4.0 million).

A8. Segmental Reporting (Cont'd)

b) Review of Cumulative Quarter Results

Retail segment

The retail segment achieved gross revenue of RM207.3 million for the cumulative quarter ended 31 December 2017 (YTD 2Q2018), an increase of 4.4% or RM8.8 million compared to the preceding year corresponding cumulative quarter (YTD 2Q2017), contributed by all malls except for SunCity Ipoh Hypermarket, for reasons as mentioned in Note A8a) above.

Property operating expenses of the retail segment for YTD 2Q2018 was RM58.1 million, an increase of 3.3% or RM1.9 million, primarily attributable to lower vacancy allowance for assessment and higher maintenance expenses for Sunway Putra Mall as well as higher maintenance expenses for Sunway Carnival Shopping Mall.

Net property income of the retail segment for YTD 2Q2018 was RM149.2 million, higher by 4.9% or RM6.9 million compared to YTD 2Q2017.

Hotel segment

The hotel segment registered gross revenue of RM45.9 million for YTD 2Q2018, an increase of 47.4% or RM14.8 million compared to YTD 2Q2017 mainly attributable to higher contribution from all hotels, with the exception of Sunway Hotel Seberang Jaya due to the reason mentioned in Note A8a).

Sunway Resort Hotel & Spa recorded an increase in gross revenue by RM3.3 million for YTD 2Q2018 contributed by higher F&B revenue (mainly from meetings and functions) but partially offset by both lower average occupancy rate and ADR. In addition to the reasons mentioned in Note A8a) for 2Q2018, 1Q2018 saw a softer pace of the Middle Eastern season.

Gross revenue for Sunway Pyramid Hotel was higher by RM7.4 million following the full completion of its refurbishment in June 2017.

The higher gross revenue reported for Sunway Putra Hotel by RM3.9 million was mainly attributable to both higher average occupancy rate and ADR with one-off contribution from the SEA Games and ASEAN PARA Games in 1Q2018, coupled with stronger corporate demand in 2Q2018.

Sunway Hotel Georgetown's gross revenue for the current period stood at RM2.9 million, higher by RM0.5 million or 19.8% compared to the preceding year corresponding cumulative quarter contributed by both higher average occupancy and ADR from the leisure segment.

Net property income of the hotel segment for YTD 2Q2018 was RM44.0 million, higher by 50.1% or RM14.7 million, in line with higher gross revenue.

Office segment

Gross revenue for the office segment was RM15.9 million for YTD 2Q2018, an increase of 4.0% or RM0.6 million compared to YTD 2Q2017 mainly contributed by Menara Sunway and Sunway Putra Tower with higher average occupancy rate but partially offset by Wisma Sunway as explained in Note A8a) above.

Property operating expenses of the office segment for YTD 2Q2018 was RM8.3 million, higher by 9.3% or RM0.7 million compared to YTD 2Q2017, mainly attributable to the reason as mentioned in Note A8a).

Correspondingly, net property income of the office segment for YTD 2Q2018 was RM7.6 million, marginally lower by 1.2% or RM0.1 million.

Others

Gross revenue for the others segment increased by 25.1% or RM2.7 million for YTD 2Q2018 compared to the preceding year corresponding cumulative quarter due to reasons mentioned in Note A8a).

Profit before tax

Finance costs for YTD 2Q2018 was RM49.2 million, higher by 12.3% or RM5.4 million compared to YTD 2Q2017 mainly due to the reason mentioned in Note A8a).

Net profit for YTD 2Q2018 was RM150.2 million (YTD 2Q2017: RM135.3 million) comprising realised profit of RM148.8 million (YTD 2Q2017: RM133.9 million) and unrealised profit of RM1.4 million (YTD 2Q2017: RM1.4 million).

Realised profit for YTD 2Q2018 was higher by 11.1% or RM14.9 million compared to YTD 2Q2017, due to higher net property income but affected by higher finance costs and lower other income as explained in Note A8a) above.

The unrealised profit for YTD 2Q2018 was mainly attributable to fair value gain from interest rate swap, similar to YTD 2Q2017.

A9. Seasonality of Operations

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

A10. Profit Before Tax

Included in the profit before tax are the following items:

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
Interest Income	(1,591)	(596)	(2,726)	(1,499)
Net changes in fair value of long term liabilities	(17)	(44)	(35)	(62)
Unrealised foreign exchange (gain) / loss - hedged item	(17,450)	35,050	(24,650)	45,450
Cash flow hedge reserve recycled to profit or loss	17,450	(35,050)	24,650	(45,450)
Net changes in fair value of derivative financial instrument	(935)	(3,969)	(1,410)	(1,362)
Allowance / (Reversal) of impairment on trade receivables	550	(1,719)	1,010	(503)
Bad debts written off	-	154	-	154
Depreciation of plant and equipment	435	366	839	728
Gain on disposal of plant and equipment	(2)	-	(2)	-

A11. Income Tax ExpenseTaxation of the REIT

The tax transparency system under Section 61A of the Malaysian Income Tax Act 1967, exempts the REIT from income tax in a year of assessment if the REIT distributes at least 90% of its total taxable income in the same year of assessment.

Since Sunway REIT shall be distributing 100% of its realised year-to-date income (which translates to more than 90% of its total taxable income), the REIT should not incur any tax expense for the financial year ending 30 June 2018.

Taxation of the Unitholders

Pursuant to Section 109D(2) of Income Tax Act, 1967, where 90% or more of the REIT's total taxable income is distributed by the REIT, distributions to unitholders (other than resident corporate investors) will be subject to tax based on a withholding tax mechanism at the following rates:

Unitholders	Withholding tax rate
Individuals & all other non-corporate investors such as institutional investors	10%
Non-resident corporate investors	24%

Resident corporate investors are required to report the distributions in their normal corporate tax return and subject to the prevailing corporate tax rate of 24%.

A12. Income Distribution

For the quarter ended 31 December 2017, the Manager proposed an interim income distribution of approximately 100% of the realised distributable income amounting to RM70.093 million or 2.38 sen per unit, comprising taxable and non-taxable/tax exempt amount of 1.94 sen per unit and 0.44 sen per unit respectively.

The book closure and payment dates in respect of the proposed interim income distribution will be fixed on 22 February 2018 and 8 March 2018 respectively.

A13. Valuation of Investment properties

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

A14. Trade receivables

	As at 31.12.2017 RM'000	As at 30.06.2017 RM'000
Third parties	17,940	13,334
Amount due from parties related to the Manager	11,203	4,972
	<u>29,143</u>	<u>18,306</u>
Less: Allowance for impairment	(2,446)	(1,485)
Total trade receivables	<u>26,697</u>	<u>16,821</u>

The amount due from third parties was higher by RM4.6 million as at the current period end mainly due to higher turnover rent receivable from the retail segment.

The increase in amount due from parties related to the Manager by RM6.2 million as at 31 December 2017 was mainly attributable to timing difference for the hotel lease rentals which were received after the end of the period.

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

	As at 31.12.2017 RM'000	As at 30.06.2017 RM'000
Neither past due nor impaired	7,809	9,343
Past due but not impaired		
1 to 30 days	5,778	2,922
31 to 60 days	4,036	2,378
61 to 90 days	1,591	271
91 to 120 days	1,849	1,144
More than 120 days	5,634	763
	<u>18,888</u>	<u>7,478</u>
Impaired	2,446	1,485
	<u>29,143</u>	<u>18,306</u>

The trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	As at 31.12.2017 RM'000	As at 30.06.2017 RM'000
At beginning of financial year	1,485	3,942
Charge/(Reversal) for the period/year	1,010	(905)
Written off	(49)	(1,552)
At end of financial period/year	<u>2,446</u>	<u>1,485</u>

A15. Borrowings and Debt Securities

	As at 31.12.2017 RM'000	As at 31.12.2016 RM'000
<u>Short term borrowings</u>		
Secured		
- Commercial papers	-	25,000
- Term loan (USD100 million)	404,750	-
- Unrated medium term notes	1,000,000	400,000
	<hr/> 1,404,750	<hr/> 425,000
Unsecured		
- Revolving loan	1,100,000	797,400
Total gross short term borrowings	<hr/> 2,504,750	<hr/> 1,222,400
Less: Discount on commercial papers	-	(13)
Total short term borrowings	<hr/> 2,504,750	<hr/> 1,222,387
 <u>Long term borrowings</u>		
Secured		
- Term loan (USD100 million)	-	448,600
- Unrated medium term notes	300,000	600,000
Total long term borrowings	<hr/> 300,000	<hr/> 1,048,600
Total borrowings	<hr/> 2,804,750	<hr/> 2,270,987

Included in the short term borrowings for 31 December 2017 is a secured 3-year term loan of USD100 million (equivalent to RM422.0 million), fully hedged with a cross currency swap contract to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation.

The above USD100 million term loan was translated at an average interest rate of 4.0475 as at 31 December 2017 (31.12.2016 : 4.4860).

Hence, the cumulative unrealised foreign exchange gain arising from this translation amounted to RM17.3 million (31.12.2016: unrealised loss of RM26.6 million). The unrealised foreign exchange gain reflected in the statement of comprehensive income for 2Q2018 and YTD 2Q2018 were RM17.5 million (2Q2017: unrealised loss of RM35.1 million) and RM24.7 million (YTD 2Q2017: unrealised loss of RM45.5 million) respectively.

Total borrowings stood at RM2.8 billion as at 31 December 2017, of which 89% is due within 1 year and disclosed as short-term. The increase in total borrowings by RM0.5 billion from RM2.3 billion as at 31 December 2016 was mainly for the purpose of funding investing activities.

The weighted average interest rate of borrowings as at 31 December 2017 was 3.93% (31.12.2016: 3.92%) and the percentage proportion of debt that is based on fixed interest rate and floating interest rate was 66:34 (31.12.2016 - 92:8).

A16. Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

A16. Fair Value Hierarchy (Cont'd)

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 31 December 2017				
Financial assets				
Investment properties	-	-	6,796,012	6,796,012
Financial liability				
Derivatives	-	(17,454)	-	(17,454)
At 31 December 2016				
Financial assets				
Investment properties	-	-	6,502,892	6,502,892
Derivative	-	26,387	-	26,387
Financial liability				
Derivatives	-	(2,369)	-	(2,369)

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

A17. Material Events

There were no material events since the end of the last annual reporting period, except for the following:

Proposed acquisition of Sunway Clio Property

On 3 August 2017, RHB Investment Bank Berhad announced on behalf of the Board of Directors of Sunway REIT Management Sdn Bhd, the Manager for Sunway REIT ("SunREIT"), that RHB Trustees Berhad, as the trustee of SunREIT ("Trustee"), entered into a conditional sale and purchase agreement ("SPA") with Sunway Forum Hotel Sdn. Bhd. ("Vendor"), a wholly-owned subsidiary of Sunway Berhad, for the proposed acquisition of the Sunway Clio Property (as defined below) for a total purchase consideration of RM340 million to be entirely satisfied in cash ("Proposed Acquisition").

The Proposed Acquisition 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 property) comprising:

- (i) 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 ("Hotel Property");
 - (ii) 3-storey (including 1 storey at lower ground floor) retail lots known as Sunway Pyramid West ("Retail Space"); and
 - (iii) a 6-storey podium car park ("Podium Car Park") and 4-storey basement car park (collectively, "Multi-storey Car Park"),
- (collectively, the "Sunway Clio Property").

The SPA and the completion of the Proposed Acquisition is conditional upon the following conditions

- (i) the approval of the unitholders of Sunway REIT at a unitholders' meeting to be convened for the Proposed Acquisition;
- (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.

The status of the Proposed Acquisition is as disclosed in Note B10.

A18. Material Events Subsequent to the end of the Current Quarter

There were no material events subsequent to the quarter ended 31 December 2017.

A19. Capital Commitments

The amount of commitments for investment properties not provided for in the unaudited condensed consolidated interim financial statements as at 31 December 2017 were as follows:

	As at 31.12.2017 RM'000
Approved and contracted for	24,364
Approved but not contracted for	427,150
	<u>451,514</u>

The capital commitment approved and contracted for as well as not contracted for mainly relate to the expansion of Sunway Carnival Shopping Mall which is expected to commence in 3Q FY2018.

A20. Contingent Liabilities and Assets

There were no contingent liabilities or contingent assets as at 31 December 2017.

A21. Transactions with Parties Related to the Manager

The following table provides information on the transactions which have been entered into with parties related to the Manager during the period ended 31 December 2017 and 31 December 2016 as well as the balances with the parties related to the Manager as at 31 December 2017 and 30 June 2017:

	Second Quarter ended		Cumulative Quarter ended	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<u>(Sales to)/purchases from parties related to the Manager</u>				
(a) Sunway Berhad Group				
- Sales	(41,710)	(32,334)	(81,398)	(64,912)
- Purchases	13,147	50,821	29,037	82,915
(b) Sunway Technology Sdn. Bhd. Group ("STSB Group")				
- Sales	(141)	(133)	(278)	(254)
<u>Other transactions with parties related to the Manager</u>				
(a) Sunway Berhad Group				
- (Maturity) / Subscription of commercial paper	(27,000)	-	85,000	-
- Deposit for acquisition of investment property	-	-	34,000	-

Subscription to the 1-month commercial paper with nominal value of RM60 million and RM25 million was announced on 13 and 29 December 2017 respectively, issued by Sunway Berhad, a substantial unitholder of SunREIT, following the maturity of an earlier subscription. The rationale for this investment in money market instrument is that it offers the most competitive discount rate in line with SunREIT's active capital management strategy.

The deposit for acquisition of investment property relates to the proposed acquisition of Sunway Clio Property, as disclosed in Note A17, and is based on 10% of the purchase consideration.

	As at 31.12.2017 RM'000	As at 30.06.2017 RM'000
<u>Amount owed by parties related to the Manager:</u>		
(a) Sunway Berhad Group	7,410	5,928
<u>Amount owed to parties related to the Manager:</u>		
(a) Sunway Berhad Group	23,528	25,942

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

B1. Review of Performance

a) Statement of Comprehensive Income

Explanatory comments are provided in Note A8.

b) Statement of Financial Position

Investment properties increased to RM6.8 billion as at 31 December 2017 compared to RM6.7 billion as at 30 June 2017 mainly due to the acquisition of Sunway REIT Industrial - Shah Alam 1 of RM92.5 million, including incidental costs related to the acquisition.

The increase in trade receivables by RM9.9 million from the last financial year-end to 31 December 2017 is explained in Note A14.

Other receivables stood at RM27.9 million as at the end of the current period, higher by RM21.7 million compared to RM16.2 million as at 30 June 2017. This was primarily attributable to the RM34.0 million deposit paid for the proposed acquisition of Sunway Clio Property but partially offset by the reversal of the RM9.2 million deposit upon completion of the acquisition of Sunway REIT Industrial - Shah Alam 1 on 1 August 2017.

Short term investment as at 31 December 2017 relates to an investment in money market instrument comprising 1-month commercial paper (CP) issued by Sunway Berhad (nominal value of RM85.0 million less discount on CP of RM0.2 million), as announced on 13 and 29 December 2017.

The increase in cash and bank balances by RM260.7 million to RM361.2 million as at 31 December 2017 was mainly due to borrowings drawdown for the balance payment of Sunway Clio Property's proposed acquisition which is expected to be completed by 3Q2018.

Total borrowings was higher by RM461.0 million as at the end of the current period mainly due to higher drawdown of RM485.6 million to fund investing activities but partially offset by movement in unrealised foreign exchange of RM24.6 million relating to the USD100 million loan.

c) Statement of Cash Flows

Net cash generated from operating activities for YTD 2Q2018 was RM177.3 million, an increase of RM15.6 million compared to YTD 2Q2017, primarily attributed to higher net property income but partially offset by payment of accrued expenses.

During the current period, RM209.4 million was used for investing activities mainly related to the acquisition of Sunway REIT Industrial - Shah Alam 1, the proposed acquisition of Sunway Clio Property and the investment in money market instrument as mentioned above. In the preceding year corresponding period, net cash used for investing activities was RM70.0 million mainly for the refurbishment of Sunway Pyramid Hotel and the balance payment for the acquisition of Sunway Carnival land.

Additional borrowings of RM485.6 million was drawdown for YTD 2Q2018 to fund investing activities compared to RM50.0 million drawn for YTD 2Q2017.

Interest paid in the current period was RM47.3 million (YTD 2Q2017 : RM40.3 million), higher by RM7.0 million, in tandem with the higher outstanding borrowings as at 31 December 2017.

Distribution paid for YTD 2Q2018 was RM145.5 million compared to RM129.3 million for YTD 2Q2017.

The cash and cash equivalent balance as at 31 December 2017 was RM361.2 million, higher by RM319.8 million from RM41.4 million as at 31 December 2016 mainly due to the reason mentioned in Note B1b) above.

B2. Maintenance Costs and Major Capital Expenditure

There was no unusual maintenance costs during the quarter under review. Sunway REIT incurred capital expenditure of approximately RM9.7 million for 2Q2018 mainly relating to the expansion of Sunway Carnival Shopping Mall.

B3. Material Changes in Quarterly Results

	Current Quarter Ended 31.12.2017 RM'000	Immediate Preceding Quarter Ended 30.09.2017 RM'000	Change %
Realised profit	70,045	78,736	-11.0%
Unrealised profit	952	493	93.1%
Profit for the quarter	<u>70,997</u>	<u>79,229</u>	<u>-10.4%</u>

Realised profit for 2Q2018 stood at RM70.0 million, lower by RM8.7 million compared to the immediate preceding quarter (1Q2018) of RM78.7 million, mainly attributable to higher advertising & promotion and maintenance expenses for Sunway Pyramid Shopping Mall and Sunway Carnival Shopping Mall, coupled with higher finance costs but partially offset by higher revenue of RM0.3 million.

Unrealised profit for the current quarter and immediate preceding quarter of RM1.0 million and RM0.5 million respectively were mainly due to fair value gain from the derivative financial instrument.

B4. Commentary on Prospects

The global economy saw sustained growth momentum in the third quarter of CY2017 (3Q CY2017), supported by private consumption and investment. Moving into CY2018, the International Monetary Fund (IMF) expects a more synchronized global growth anchored by consumption with additional impetus from investments. The IMF has revised upward the global growth projection by 0.2% to 3.9% for CY2018 and CY2019.

Malaysia's economic growth in 3Q CY2017 was amongst the fastest in the Asian region. Malaysia registered a gross domestic demand (GDP) growth of 6.2% y-o-y in 3Q CY2017 (3Q CY2016: 1.8%), strongest quarterly GDP growth since 2Q CY2014. The stronger pace of growth was propelled by spillovers from the external sector to domestic economy as firms invest in productive capacity. Bank Negara Malaysia (BNM) has indicated that the economy is poised to register a strong growth that is close to the upper end of the official forecast range of 5.2% to 5.7% in CY2017. The Malaysian economy in CY2018 is projected to grow between 5.0% to 5.5%, driven by resilient domestic demand amid strengthening external sector.

Headline inflation averaged at 3.7% in CY2017. Going forward, headline inflation is projected to moderate between 2.5% - 3.5% in CY2018 on expectations of a smaller effect from global cost factors and stronger Ringgit to mitigate import costs. However, any unprecedented spike in oil prices will pose inflationary risk in CY2018.

On 25 January 2018, the Monetary Policy Committee (MPC) of BNM hiked the Overnight Policy Rate (OPR) by 25bps to 3.25%. The MPC has decided to normalise the degree of accommodation in view of the steady economic growth and recognises the need to pre-emptively ensure that the monetary policy stance is appropriate to prevent the build up of risks that potentially arise from prolonged low interest rate regime. Most economists expect only one interest rate hike in CY2018 however some expect up to 2 interest rate hike to 3.50%.

The Manager expects the prospect for FY2018 to improve with a moderate growth in DPU despite the expected higher average cost of debt affecting the floating rate borrowings. The growth in DPU is supported by:

- (i) Sunway Pyramid Hotel operating with full rooms inventory following the full completion of its refurbishment in June 2017
- (ii) Moderate growth in the retail segment underpinned by Sunway Pyramid Shopping Mall
- (iii) New income contribution from the acquisition of Sunway REIT Industrial – Shah Alam 1 and Sunway Clio Property which is expected to complete in 3Q FY2018
- (iv) Gradual improvement in the overall occupancy of the office segment due to low base effect.

The Manager is committed to distribute 100% of its distributable net income for FY2018.

B4. Commentary on Prospects (Cont'd)

Review of retail market

After recording an encouraging growth of 4.9% in 2Q CY2017, the Retail Group Malaysia (RGM) reported that Malaysia's retail sale contracted by 1.1% y-o-y in the 3Q CY2017. The softer growth was in line with the softening of the consumer sentiment index (CSI) in 3Q CY2017. The CSI was showing signs of recovery in 1H CY2017, however, the trend reversed in 3Q CY2017 whereby 3Q traditionally was a weak quarter for consumer sentiment.

Taking into consideration of the weaker than expected YTD 9M CY2017 retail sale of 1.9%, RGM has revised its annual growth forecast downwards for the third time from 3.7% to 2.2% for CY2017. RGM projected a 6.0% growth in retail sale for CY2018 however cautioned that the recovery is highly dependent on the state of domestic economy, external demand and the strength of domestic currency (MYR).

That said, the Manager is of the opinion that the slower than expected recovery in consumer sentiment may be a reflection of rising cost of living resulting in lower disposable income.

The average occupancy rate for Sunway Pyramid Shopping Mall was stable for YTD 2Q FY2018 at 98.4% (1Q FY2018: 98.8%). Based on the total net leasable area (NLA) of 651,428 sq.ft. which was due for renewal in FY2018, a total of 382,501 sq.ft. equivalent to 58.7% of total space due for renewal, was renewed or replaced at a single-digit rental reversion rate.

The average occupancy rate for Sunway Carnival Shopping Mall inched higher from 95.1% in 1Q FY2018 to 96.2% for YTD 2Q FY2018 following the commencement of new tenancy at the convention centre in August 2017. Based on the total NLA of 149,787 sq.ft. which was due for renewal in FY2018, a total of 38,852 sq.ft. equivalent to 25.9% of total space due for renewal, was renewed or replaced at a flattish reversionary rate to enhance tenancy mix as part of the strategy for the expansion of the new phase.

Sunway Putra Mall's average occupancy rate improved to 89.4% for YTD 2Q FY2018 compared to 86.9% in 1Q FY2018. As at 31 December 2017, the occupancy stood at 93.4% due to commencement of new tenants such as SSF, Dolly Dimsum, Max Fashion, Burger King amongst others. Based on the total NLA of 323,383 sq.ft. which was due for renewal in FY2018, a total of 93,976 sq.ft. equivalent to 29.1% of total space due for renewal, was renewed or replaced at negative rental reversion rate as a strategy to maintain high occupancy rate.

The Manager expects the retail segment to register a moderate growth for FY2018, underpinned by Sunway Pyramid Shopping Mall.

Review of hotel market

Tourism activities in the country remained subdued despite the ambitious target of 31.8 million tourist arrivals and tourist receipts of RM118 billion in CY2017. For the 8M CY2017, Malaysia has received 15.0 million tourists versus 17.6 million for the same period in the preceding year. The Tourism and Culture Ministry has set an ambitious tourist arrivals target of 33.1 million tourists in CY2018 where the Manager believes that this is a stretched target.

That said, Malaysia is likely to continuously attract more tourists over the medium-term on the back of Government's ongoing effort in promoting Malaysia's key attractions such as eco-tourism, heritage tourism, medical tourism amongst others.

Sunway Resort Hotel & Spa's average occupancy rate eased to 73.7% in 2Q FY2018 compared to 80.3% in 2Q FY2017 on the back of softer demand from the leisure segment and one-off large group event in the same period in the preceding year.

The average occupancy rate for Sunway Pyramid Hotel has picked up to 75.5% in 2Q FY2018, from 71.0% in 1Q FY2018. The performance in the preceding year was not comparable because the hotel was not operating with full room inventory in 2Q FY2017.

The average occupancy rates for Sunway Putra Hotel remained resilient in 2Q FY2018. For the quarter ended 31 December 2017, Sunway Putra Hotel recorded a marginally higher average occupancy rate of 72.0% (2Q FY2017: 71.7%) benefitting from higher corporate demand due to ongoing active marketing and promotional activities to regain market share across all customer segments.

The hotels in Penang have enjoyed stronger leisure demand during the year-end holiday season. The average occupancy rate for Sunway Hotel Seberang Jaya rose to 78.1% in 2Q FY2018 versus 2Q FY2017 of 73.9%. Meanwhile, Sunway Hotel Georgetown's average occupancy rate improved further from 88.7% in 2Q FY2017 to 91.4% in 2Q FY2018.

The acquisition of Sunway Clio Property is expected to complete in 3Q FY2018. The Manager expects a modest growth from the hotel segment, largely contributed by resumption of full rooms inventory at Sunway Pyramid Hotel and new income contribution from Sunway Clio Hotel.

B4. Commentary on Prospects (Cont'd)Review of office market

The outlook for the office sub-sector in Klang Valley remained challenging on the back of supply glut and to be worsened by expected incoming supply of 11.9 million sq.ft. over the next 2 to 3 years.

Menara Sunway reported a marginally lower average occupancy rate of 93.6% for YTD 2Q FY2018 compared to 95.1% in 1Q FY2018 due to downsizing of an existing tenant. Meanwhile, the average occupancy for Sunway Tower was largely unchanged at 21.2% for YTD 2Q FY2018.

The average occupancy rate for Sunway Putra Tower inched higher to 43.1% for YTD 2Q FY2018 from 42.4% in 1Q FY2018 due to commencement of new tenancies. The occupancy for the office tower stood at 46.0% as at 31 December 2017. A new tenant has been secured to occupy 11,800 sq.ft. equivalent to 3.7% of total NLA which will commence in 3Q FY2018.

The Manager expects the performance of Sunway REIT's office segment to improve marginally in FY2018 due to low base effect.

B5. Investment Objectives

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

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

B6. Performance Benchmark

Performance indicators	Period ended 31.12.2017	Year ended 30.06.2017
a) Management expense ratio *	0.91%	0.85%
b) Total returns *	12.0%	12.4%
c) Average annual total returns (5 years) *	9.9%	11.3%
d) Distribution yield *	5.3%	5.2%
e) NAV per unit (after income distribution)(RM)	1.4078	1.4074

- a) The ratio of expenses incurred in operating Sunway REIT to the NAV of Sunway REIT.
- b) Total return represents the change in unit price from beginning of financial year plus annualised distribution yield for the year.
- c) Average annual total return is the sum of the return rates of Sunway REIT over a given number of years divided by that number of years.
- d) Based on annualised DPU of 10.02 sen divided by its closing price as at 31 December 2017 of RM1.90 (30 June 2017 - DPU: 9.19 sen; Closing price: RM1.78).
- e) NAV of Sunway REIT as determined by deducting the value of all Sunway REIT's liabilities from the total asset value, divided by total issued units.

B7. Strategies and Policies

The Manager's strategies can be broadly categorised as:

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

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

B8. Manager's Fee

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

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

The Manager's fee shall be net of all applicable tax, duties and levies imposed by the relevant authorities in Malaysia. The Manager shall be paid the base fee and performance fee which may be in the forms of cash, new units or a combination thereof, such proportion which may be varied at the discretion of the Manager. The Manager's fee is fully paid in cash since FY2017.

Total Manager's fee for the current and cumulative quarter ended 31 December 2017 were RM8.6 million and RM18.2 million respectively (Total base and performance fee of RM17.3 million and acquisition fee of RM0.9 million) compared to the preceding year corresponding quarter and cumulative quarter of RM7.8 million and RM15.6 million respectively. The acquisition fee of RM0.9 million was paid to the Manager in 1Q2018 for the acquisition of Sunway REIT Industrial - Shah Alam 1 and this fee was capitalised as part of the acquisition costs.

B9. Trustee's Fee

Pursuant to the Deed constituting Sunway REIT, the Trustee is entitled to receive a fee of up to 0.03% per annum of the net asset value of Sunway REIT, net of all applicable taxes, duties and levies imposed by the relevant authorities in Malaysia, is calculated on a monthly accrual basis, based on a year of 12 months. The total Trustee's fee for the current and cumulative quarter ended 31 December 2017 were RM0.3 million and RM0.6 million respectively, similar to the fees for the preceding year corresponding quarter and cumulative quarter ended 31 December 2016.

B10. Status of Corporate Proposals

There was no corporate proposal that has been announced but not completed as at the date of this report except for the Proposed Acquisition as disclosed in Note A17.

On 2 January 2018, approval from the State Authority for the transfer of the Sunway Clio Property was obtained, being one of the conditions precedent to be met, as disclosed in Note A17. The parties agreed that the unconditional date of the SPA shall be on even date and the Proposed Acquisition is expected to be completed by 3Q FY2018.

B11. Material Litigation

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

Metroplex Holdings Sdn Bhd ("MHSB") had filed writ of summons and a statement of claim dated 28 September 2015 against the Trustee and the Manager, respectively, claiming for various chattels and movable items (e.g. furniture and office equipment, decorations, cutlery, kitchen equipment, bar equipment, concierge and reception tables, blinds and curtains) which were allegedly acquired and owned by MHSB but not removed by MHSB when the Manager took possession of the hotel at Sunway Putra on 27 September 2011. MHSB has in its statement of claim alleged that the various chattels and moveable items were worth in excess of RM80 million as at September 2011.

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

The case management for the assessment of damages is fixed on 9 February 2018.

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

The Trustee and the Manager filed an appeal to the Court of Appeal on liability on 6 November 2017. The next case management is fixed on 28 February 2018.

If the eventual outcome of this case is not in the Manager's favour, it would not have any impact on the distribution per unit and immaterial impact on the total asset value of Sunway REIT.

B12. Soft commission

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

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

	Current quarter ended 31.12.2017	Immediate preceding quarter ended 30.09.2017	% change
Number of units in issue (units)	2,945,078,000	2,945,078,000	0.0%
Realised net income (RM'000)	70,045	78,736	-11.0%
Realised earnings per unit (EPU) (sen)	2.37	2.67	-11.2%
Income distribution (RM'000)	70,093	78,634	-10.9%
Distribution per unit (DPU) (sen)	2.38	2.67	-10.9%
Net Asset Value (NAV) (After income distribution) (RM'000)	4,146,044	4,145,000	0.0%
NAV per unit (After income distribution) (RM)	1.4078	1.4074	0.0%
Market price per unit (RM)	1.90	1.72	10.5%

B14. Income Distribution

Please refer to Note A12 for details .

B15. Disclosure of Nature of Outstanding Derivative Financial Instruments

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

Type of Derivatives	Contract/Notional Value		Fair value at reporting date Derivative Asset/(Liability)	
	As at 31.12.2017	As at 30.06.2017	As at 31.12.2017	As at 30.06.2017
	RM'000	RM'000	RM'000	RM'000
a) Interest rate swap				
- Less than 1 year	722,000	922,000	(484)	(1,477)
- 1 year to 3 years	150,000	150,000	(112)	(529)
	872,000	1,072,000	(596)	(2,006)
b) Cross currency swap				
- Less than 1 year	422,000	422,000	(16,858)	8,112
	1,294,000	1,494,000	(17,454)	6,106

a) Interest rate swap

During the previous financial years, Sunway REIT had entered into several interest rate swap ("IRS") contracts to manage its exposure of the floating rate borrowings. The cumulative IRS contracts to-date amounted to RM0.9 billion. The IRS contracts were entered into to mitigate the risk of increase in interest rate over the hedging period on the floating rate borrowings. The fair value gains or losses on remeasuring the fair value of the IRS contracts are recognised immediately in the income statement as unrealised item as it does not qualify as a cash flow hedge.

The fair value of the IRS recognised in the income statement for 2Q2018 and YTD 2Q2018 amounted to a gain of RM0.9 million (2Q2017: RM4.0 million) and RM1.4 million (YTD 2Q2017: RM1.4 million) respectively. This brings the cumulative total fair value loss of the IRS to RM0.6 million as at 31 December 2017 and reflected as a derivative liability in the balance sheet.

b) Cross currency swap

Sunway REIT had entered into 2-year cross currency swap ("CCS") contracts in February 2016 to manage its exposure in foreign currency risk arising from foreign currency borrowings. The CCS contract was entered into to hedge against the foreign currency exposure for the remaining period of the foreign currency borrowings. Sunway REIT uses cash flow hedge to mitigate the risk of variability of future cash flows attributable to foreign currency and interest rate fluctuation over the hedging period on the foreign currency borrowings.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognized directly in other comprehensive income until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement.

The fair value of the CCS recognised in the statement of comprehensive income for 2Q2018 was a loss of RM17.3 million (2Q2017: gain of RM32.7 million) and for YTD 2Q2018, it was a loss of RM25.0 million (YTD 2Q2017: gain of RM44.8 million). This brings the cumulative total fair value loss of the CCS to RM16.9 million as at 31 December 2017 and reflected as a derivative liability in the balance sheet.

B16. Risks and Policies of Derivatives

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

The overall risks and policies relating to the management of derivative financial instrument are similar to those disclosed in the annual financial statements for the financial year ended 30 June 2017 except the IRS contracts do not qualify as cash flow hedge and consequently, the fair value gains or losses on remeasuring the fair value of the IRS contracts are recognised immediately in the income statement as an unrealised item.

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

Please refer to Note A10 for details.

B18. Realised and Unrealised Retained Profits/Undistributed Income

The breakdown of the retained profits/undistributed income of the Group as at 31 December 2017 into realised and unrealised profits/undistributed income is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1. Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Period ended 31.12.2017 RM'000	As at end of previous financial year RM'000
Total retained profits/undistributed income		
- realised	2,985	(309)
- unrealised	1,485,326	1,484,203
	<u>1,488,311</u>	<u>1,483,894</u>
Less: Consolidation adjustments	(3)	(3)
Total retained profits/undistributed income	<u>1,488,308</u>	<u>1,483,891</u>

B19. Directors' Declaration

In the opinion of the Manager, this quarterly report has been prepared in accordance with MFRS 134: Interim Financial Reporting and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of Sunway REIT as at 31 December 2017 and of its financial performance and cash flows for the period ended on that date and duly authorised for release by the Board of the Manager on 6 February 2018.

BY ORDER OF THE BOARD

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

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

Bandar Sunway
Date: 6 February 2018