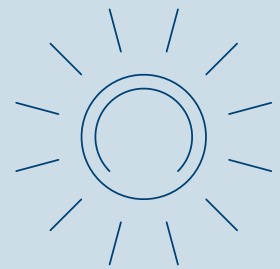


# CHANGE MAKERS, SUSTAINABLE LEADERS.

Integrated Annual Report 2023





**5 »** About This Report

**8 »** Corporate Profile

**6 »** Investment Case

**10 »** Salient Features



**12 »** Message from Our Chairman

**16 »** In Conversation with Our CEO



**24 »** Business Model



**FINANCIAL CAPITAL**

**27 »** Financial Highlights

**35 »** Value Added Statement

**36 »** Capital Management

**38 »** Fair Value of Investment Properties

**40 »** Trading Performance



**PORTFOLIO CAPITAL**

**45 »** Property Details

**64 »** Segmental Highlights

**66 »** Retail Segment

**74 »** Hotel Segment

**82 »** Office Segment

**86 »** Services Segment

**87 »** Industrial & Others Segment



**INTELLECTUAL CAPITAL**

**89 »** Directors' Profile

**94 »** Management Team

**96 »** Corporate Governance Overview Statement



**HUMAN CAPITAL**

**119 »** Organisation Structure and Trust Structure



**SOCIAL & RELATIONSHIP CAPITAL**

**121 »** Investor Relations Engagement



**NATURAL CAPITAL**

**125 »** Sustainability at a Glance



**127 »** Macroeconomic Highlights

**128 »** Property Market Insights

**142 »** Statement on Risk Management and Internal Control

**147 »** Key Business Risks



**157 »** Audited Financial Statements

**227 »** Additional Compliance Information

**228 »** Corporate Information

**229 »** Analysis of Unitholdings

**232 »** Notice of Eleventh Annual General Meeting Proxy Form



**IAR** INTEGRATED ANNUAL REPORT 2023

# CHANGE MAKERS, SUSTAINABLE LEADERS.

Sunway REIT's commitment to making a positive impact on society and the environment is aptly captured in this year's theme, "Change Makers, Sustainable Leaders". Sunway REIT highlights achievements made in the six capitals - financial, portfolio, intellectual, human, social & relationship, and natural - which befittingly demonstrates how Sunway REIT has become leaders and change makers in this industry.

By effectively managing resources and investments, and continuously investing in research and development, by empowering its workforce to make a difference and adopting sustainable practices that minimise environmental footprint - Sunway REIT demonstrates its commitment to protecting the planet, to sustainability and to the communities as a whole. Trusting in its ability to drive positive change is what sets Sunway REIT apart and strengthens its positions as change makers and sustainable leaders.



**SR** SUSTAINABILITY REPORT 2023

# TRANSFORMING REAL ESTATE & CREATING SUSTAINABLE VALUE.



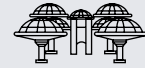
The report is available online at [www.sunwayreit.com/investor-relations](http://www.sunwayreit.com/investor-relations)

## Navigation icons

### Sunway REIT's Portfolio



Retail



Hotel



Office



Services



Industrial & Others

### Six Capitals



Financial Capital



Portfolio Capital



Intellectual Capital



Human Capital



Social & Relationship Capital



Natural Capital

### Cross References

⇒ Connect to more information in **Integrated Annual Report 2023 (IAR)**

⇒ Connect to more information in **Sustainability Report 2023 (SR)**

# OVERVIEW

About This Report

Investment Case

Corporate Profile

Salient Features

# 11<sup>th</sup>

Annual General Meeting  
("AGM")  
Sunway REIT

**25 April 2024**  
**Thursday**  
**3:00 p.m.**

AGM through livestreaming and  
online remote voting from the  
broadcast venue at:

Penthouse, Level 20,  
Menara Sunway,  
Jalan Lagoon Timur,  
Bandar Sunway,  
47500 Subang Jaya,  
Selangor Darul Ehsan,  
Malaysia.



## ABOUT THIS REPORT

This is Sunway REIT's Integrated Annual Report ("IAR") for the financial year 2023. This report outlines Sunway REIT's progress towards achieving its strategic objectives and emphasises its endeavors to generate value for the stakeholders. It illustrates how Sunway REIT's value creation journey are driven by the six capitals to achieve sustainable outcomes that go beyond financial performance. Sunway REIT has adopted an integrated reporting approach to promote integrated thinking and provide its stakeholders with a more comprehensive, balanced and detailed overview of the business operations and strategies. In line with integrated reporting process, this report communicates Sunway REIT's approach and progress in delivering sustainable value, managing risks and capitalising on emerging opportunities, with the aim of optimising the value creation process.

### Scope And Boundaries

This report presents information of Sunway REIT's financial and non-financial performance from 1 January 2023 to 31 December 2023 (FY2023) unless stated otherwise, for Sunway REIT's properties and operations, which include operations where it has full control, as well as its subsidiaries.

### Reporting Frameworks and Best Practices

- Securities Commission Guidelines on Listed Real Estate Investment Trusts ("Listed REIT Guidelines")
- Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Listing Requirements")
- Capital Markets and Services Act 2007
- Companies Act 2016
- Bursa Malaysia Corporate Governance Guide (4<sup>th</sup> edition)
- Securities Commission Licensing Handbook
- Malaysian Code on Corporate Governance 2021 ("MCCG")
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001
- Malaysian Financial Reporting Standards ("MFRS")
- IFRS Accounting Standards
- IFRS Foundation's International Integrated Reporting <IR> Framework
- United Nations Sustainable Development Goals ("UN SDGs")

### Board Statement Of Responsibility

The Board of Directors of the Manager of Sunway REIT acknowledges its responsibility to ensure the integrity of the Integrated Annual Report for the financial year ended 31 December 2023 and is of the opinion that it has been prepared in accordance with the IFRS Foundation's International <IR> Framework and other disclosure requirements.

### Feedback

For further information and feedback, please contact:

Ms Crystal Teh Lay Ling  
*Head of Investor Relations*

### Sunway REIT Management Sdn Bhd

Level 15, Menara Sunway,  
Jalan Lagoon Timur, Bandar Sunway,  
47500 Subang Jaya,  
Selangor Darul Ehsan,  
Malaysia.

**Tel** : +603 5639 9645

**Email** : [irsunreit@sunway.com.my](mailto:irsunreit@sunway.com.my)

## INVESTMENT CASE

# 1 One of the leading diversified REITs in Malaysia

Market Capitalisation

**RM5.3 billion** 

Property Value

**RM9.0 billion** 

No. of Assets

**19**

Total GFA

**> 18 million sq.ft.**

### Asset Portfolio Attribution (by property value)



Retail

**60%**



Hotel

**21%**



Office

**11%**



Services

**6%**



Industrial & Others

**2%**

# 2 Growth strategy

Guided by

**TRANSCEND  
2027 Roadmap** 

Property Value at IPO<sup>1</sup>

**RM3.5 billion**

Total Acquisition since IPO<sup>1</sup>

**RM2.5 billion**

Net Fair Value Gain, AEI and Property Development Activities since IPO

**RM3.0 billion**

<sup>1</sup> Including incidental costs on acquisition, i.e., acquisition fee, legal fee and valuation fee

### Proposed acquisitions in FY2023

**6 Hypermarkets**  
strategically located in Klang Valley and Johor

**1 Industrial Asset**  
strategically located in Prai, Penang

## 3 Robust financials

Revenue

**RM716** million

NPI

**RM527** million

Cost of Debt

**3.80%**

DPU

**9.30** sen

Distribution Yield

**6.0%**

Total Return

**11.5%**

Premium-to-NAV

**5.1%**

Property Yield

**5.7%**

## 5 Corporate governance

**43%** female directors  
on board

**Corporate Credit Rating AA2**  
(Rated by RAM Rating Services Berhad)

Attained **5** awards and recognitions  
in FY2023

## 4 Sustainability agenda

Pioneering effort in advancing sustainable finance in M-REITs industry:

Executed **RM200** million sustainability-linked cross-currency swap in April 2023

Converted **97.5%** of borrowings into sustainability-linked loans in FY2023

**MSCI rating of A** (Improved from BB)

**FTSE4Good Bursa Malaysia ESG Score 3.6**  
(Top 22% amongst the companies rated)

**GRESB 3-star rating**  
and awarded an "A" for public disclosure

## 5 Green buildings

- **GreenRE Platinum certification** for Sunway Resort Hotel
- **GreenRE Gold certification** for Sunway Putra Mall



The 8<sup>th</sup> Annual REITS Asia Pacific Best of The Breeds REITS Awards 2023

– **Platinum Award for the Best Diversified REITs in Malaysia**

Australasian Reporting Awards 2023

– **Gold Award for Distinguished Achievements in Reporting**

Australasian Reporting Awards 2023

– **Silver Award for Distinguished Achievements in Sustainability Reporting**

The Edge ESG Awards 2023

– **Silver Equity Awards under REIT Category**

National Annual Corporate Reporting Awards ("NACRA") 2023

– **Silver Award for companies with RM2 billion to RM10 billion**

## CORPORATE PROFILE

### Purpose

Empowering businesses  
Curating experiences  
Enriching lives

### Vision

To be a leading diversified REIT in Malaysia committed to enhancing stakeholder value – Sustainable Growth, Environmental Stewardship and Community Engagement

### Mission

To deliver sustainable income distribution over the long-term through responsible business strategies supported by adaptive innovation solutions, management and sustainability practices



# CORE VALUES

## INTEGRITY

We believe in doing the right thing at all times:

- » We conduct ourselves in an honest and trustworthy manner
- » We act professionally, ethically and honourably
- » We ensure our actions are consistent with our words

## HUMILITY

We believe in being humble, polite and respectful:

- » We never stop learning
- » We care for and respect the people and the environment
- » We seek first to understand, then to be understood

## EXCELLENCE

We take pride in all that we do:

- » We strive to deliver high quality products and services
- » We continuously innovate and improve for greater progress
- » We seek to inspire others to excel



## CORPORATE PROFILE

Sunway Real Estate Investment Trust ("Sunway REIT" or "Trust") is one of the largest diversified Real Estate Investment Trusts ("REITs") in Malaysia, with a diverse portfolio strategically located across award-winning integrated townships in key locations across Greater Kuala Lumpur, Penang and Perak.

Sunway REIT was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 8<sup>th</sup> July 2010. The market capitalisation of Sunway REIT stood at RM5.3 billion and a property value of RM9.0 billion as of 31<sup>st</sup> December 2023, with a property portfolio of 19 assets comprising of five retail properties, six hotels, five offices, two industrial properties and an education asset.



- Sunway Carnival Mall
- Sunway Hotel Georgetown
- Sunway Hotel Seberang Jaya



- SunCity Ipoh Hypermarket



**SELANGOR  
KUALA LUMPUR**

- Sunway Pyramid Mall
- Sunway Putra Mall
- Sunway Pier
- Sunway Resort Hotel
- Sunway Pyramid Hotel
- Sunway Lagoon Hotel
- Sunway Putra Hotel
- Menara Sunway
- Sunway Tower
- Sunway Putra Tower
- Wisma Sunway
- Sunway Pinnacle
- Sunway university & college campus
- Sunway REIT Industrial – Shah Alam 1
- Sunway REIT Industrial – Petaling Jaya 1

## SALIENT FEATURES

<b>Name of Fund</b>	<b>Sunway REIT</b>
<b>Type of Fund</b>	Income and Growth
<b>Category of Fund</b>	Real Estate Investment Trust
<b>Duration of Fund/ Termination Date</b>	The earlier of: <ul style="list-style-type: none"> <li>• the occurrence of the Termination Events as listed in the deed dated 20 May 2010, a supplemental deed dated 10 June 2010 and an amended and restated deed dated 18 September 2018 (collectively referred to as "Deed");</li> <li>• the 999 years after the date of the registration of the Deed; or</li> <li>• the date on which the Fund is terminated by the Manager in such circumstance as set out in the Deed</li> </ul>
<b>Investment Objective</b>	To provide the Unitholders with an exposure to a diversified portfolio of authorised investments that will provide stable cash distributions with the potential for sustainable growth of the net asset value per unit
<b>Investment Policy</b>	At least 75% of the Fund's total asset value must be invested in real estate and/or single purpose companies at all times, and not more than 25% of the total asset value is invested in non-real estate, cash, deposit and/or money market instruments
<b>Key Acquisition Criteria</b>	<ul style="list-style-type: none"> <li>• Diversified asset classes</li> <li>• High growth cities and townships in Malaysia</li> <li>• Compatibility and synergistic with asset portfolio</li> </ul>
<b>Distribution Policy</b>	<ul style="list-style-type: none"> <li>• 100% of distributable income in each financial year (at least 90% of distributable income in FY2020 and FP2021)</li> <li>• Semi-annual distribution</li> </ul>
<b>Revaluation Policy</b>	At least once a financial year by independent registered valuer
<b>Gearing Policy</b>	Not exceeding 50% of the Fund's total asset value
<b>Manager's Fees</b>	<ul style="list-style-type: none"> <li>• Base Fee: 0.3% per annum of total asset value</li> <li>• Performance Fee: 3% per annum of net property income, but before deduction of fees payable to the Property Manager pursuant to the Property Management Agreement</li> <li>• Acquisition Fee: 1% of acquisition price</li> <li>• Divestment Fee: 0.5% of sale price</li> </ul>
<b>Trustee's Fee</b>	Up to 0.015% per annum of the Fund's net asset value subject to a maximum limit of RM700,000 per annum
<b>Financial Year End</b>	31 December
<b>Board Lot</b>	100 units per board lot
<b>Listing</b>	Main Market of Bursa Malaysia Securities Berhad
<b>Stock Name</b>	SUNREIT
<b>Stock Code</b>	5176
<b>Date of Listing</b>	8 July 2010
<b>Initial Public Offering Price</b>	<ul style="list-style-type: none"> <li>• RM0.88 – retail</li> <li>• RM0.90 – institutional</li> </ul>

Message from Our  
Chairman

In Conversation with  
Our CEO

# STRATEGIC PROGRESS



## MESSAGE FROM OUR CHAIRMAN

### Dear Valued Stakeholders,

We stepped into 2023 with cautious optimism. Our vigilance has served us well as the world economy continues to be unprecedentedly volatile. Sunway REIT is pleased that, in spite of the gyrations in economic activities, we have continued to deliver sustainable results to our unitholders. Steered by our TRANSCEND 2027 roadmap, we will continue to embark on strategies that will lead Sunway REIT to sustained growth.



**TAN SRI AMIRSHAM BIN A AZIZ**  
Chairman  
Sunway REIT Management Sdn Bhd

### REFLECTING ON AN INCREASINGLY VOLATILE WORLD

In 2023, the global economy continued to face challenges following the aftermath of the COVID-19 pandemic. Coupled with heightened geopolitical tensions and strict monetary policies to tame inflation, these factors have contributed to the increased risk of a worldwide economic slowdown.

Forecast from the International Monetary Fund (“IMF”) indicates a slowdown in global economic growth, with growth rates expected to decline from 3.5% in 2022 to 3.0% in 2023 and further to 2.9% in 2024. This represents a notable deterioration from the historical average growth of 3.8% seen from 2000 to 2019. Meanwhile, global inflation is projected to finally moderate, influenced by stricter monetary policies and a drop in international commodity prices. The moderation has given central banks like the Federal Reserve confidence to hint at a pivot from their monetary policies moving forward.

Despite the global uncertainties, Malaysia’s economy remained resilient. The economy has been anchored by domestic consumption, well-managed inflation, favourable labour market conditions and a healthy current account surplus. Nonetheless, higher interest rates and a weak Ringgit have caused vulnerabilities in certain industries. Meanwhile, Malaysia’s advance Gross Domestic Product (“GDP”) expanded by 3.8% in 2023.

## M-REITS RECOVERY STILL A WORK IN PROGRESS

The Malaysian Real Estate Investment Trusts ("M-REITs") recovery in 2023 can be described as intermittent, mainly attributable to a climate of escalating interest rates. The year commenced strongly, with the M-REITs index rallying 7.5%, reaching its zenith in early February 2023. It was buoyed by the optimistic sentiment following China's reopening and a temporary halt in Malaysia's Overnight Policy Rate ("OPR") increases. However, as the year progressed, the narrative was again dominated by the continuation of global monetary tightening policies. The sentiment was further dampened by lower-than-expected tourist arrivals.

Despite the lacklustre M-REITs sentiment, market capitalisation expanded by 7.0% to RM41.8 billion in 2023 by active acquisition activities, which are mainly from the respective sponsors and equity fundraisings. For the year, M-REITs recorded a marginal contraction of 1.2%.

The distribution yield of M-REITs, which stood at 6.7% at the end of 2022, saw a compression in 2023 to 6.2%. Total returns for M-REITs improved marginally from the previous year's 4.5% to 5.0% in 2023, suggesting a cautious approach from investors amidst a higher interest rate environment. Furthermore, the average discount-to-Net Asset Value ("NAV") for M-REITs widened slightly from 22% (as of 31 December 2022) to 23% (as of 31 December 2023), illustrating the impact of declining unit prices.

### Trading Performance of M-REITs



Total Return (2023)

**5.0%**



Distribution Yield  
(31 December 2023)

**6.2%**

## SUNWAY REIT MAINTAINS SOLID RETURNS TO UNITHOLDERS

Sunway REIT's trading performance showed notable improvement in 2023. The unit price rebounded by 13.6% between the start of 2023 and early February, reaching a high of RM1.66, but closed the year at RM1.54, up 5.5% from RM1.46 at the end of 2022.

For the financial year ended 31 December 2023, Sunway REIT has maintained payment of 100% of its distributable realised profit for the year (excluding gain on disposal) and declared a dividend per unit of 9.30 sen. Even though dividend yield has declined marginally to 6.0% from 6.3% in FY2022, total return has nonetheless improved to 11.5% compared to 9.8% in the previous year. Meanwhile, Sunway REIT's premium-to-NAV also improved to 5.1% as of 31 December 2023, as opposed to a discount-to-NAV of 0.3% in the previous year.

The above is commendable, considering the subdued sentiment for M-REITs, persistently high interest rates, and Sunway REIT's exclusion from the FTSE Bursa Malaysia Emas Index and FTSE4 Good Bursa Malaysia Index. The exclusion of Sunway REIT from these indices was due to low trading liquidity, in line with decreased investor interest in M-REITs.

### Trading Performance of Sunway REIT



Total Return (FY2023)

**11.5%**



Distribution Yield  
(31 December 2023)

**6.0%**

## MESSAGE FROM OUR CHAIRMAN

### ACCELERATING SUSTAINABILITY AND INCLUSIVE GROWTH

The shift towards incorporating Environmental, Social, and Governance (“ESG”) criteria within investment and business decisions gained further traction in 2023. The movement is largely driven by institutional and international capital demands and, within the real estate space, is increasingly resonating with the requirements of occupiers and tenants. This trend is in line with Sunway REIT’s continuous effort to deepen and broaden its ESG best practices, emphasising sustainable strategies and responsible business activities.



The culmination of Sunway REIT’s efforts in ESG has resulted in various recognition and accreditation. Notably, in 2023, Sunway REIT had leapt from a “BB” to an “A” MSCI ESG rating in August 2023, achieving a two-notch improvement and underscoring its proactive management of financially relevant ESG risks and opportunities. MSCI ESG rating assessment is widely embraced as a critical decision support tool in capital markets worldwide and aims to measure a company’s resilience to long-term ESG risks.



In benchmarking our ESG practices to other international property players, Sunway REIT had also submitted for our inaugural Global Real Estate Sustainability Benchmark (“GRESB”) assessment and received a three-star rating in the category of Standing Investments and was rated “A” for our public disclosure. GRESB real estate assessment is the pre-eminent ESG benchmarking tool for real estate investments, providing standardised and validated data to the capital markets and investors. Sunway REIT is among the pioneers in the Malaysian real estate industry to submit for a GRESB assessment rating as we seek to break new ground in sustainability practices and bring Sunway REIT to match the ESG standards of worldwide peers.

➡ Please refer to the *In Conversation with Our CEO* section and the *Sustainability Report* for progress and details of Sunway REIT’s sustainability initiatives.

### PLANNING FOR A HIGHER-FOR-LONGER INTEREST RATE ENVIRONMENT

Challenges abound for the year ahead, chief of which will be the expected higher-for-longer interest rates, especially in Malaysia. Even as developed countries explore a potential reversal of the interest rate policy, loosening monetary policy may take place later rather than earlier in Malaysia as Bank Negara Malaysia (“BNM”) has been much more measured in hiking rates. Oversupply of office and retail space, especially in Klang Valley, may also potentially restrict growth in these two sectors.

Nonetheless, there are also reasons to be optimistic for the coming year. Malaysia’s robust economic fundamentals, reinforced by the strategies in Budget 2024, are expected to sustain economic growth within an estimated range of 4% to 5%. In particular, segments like retail trade, accommodation, restaurants and communications are expected to improve. At the same time, trade-related activities will likely boost the wholesale trade as well as transport and storage subsectors.

At a more granular level, initiatives by the government in reinstating flight frequency and connectivity, as well as granting the 30-day visa-free status for citizens of China and India, augur well for the continued recovery of the tourism sector. Efforts to improve relations and connectivity between Singapore and Johor are also bearing fruit as the state has attracted great investor interest over recent months, with more foreign direct investments anticipated across the country due to the improved bilateral relations.

### PURSuing SUSTAINABLE LONG-TERM GROWTH THROUGH TRANSCEND 2027

Consistent with the above macroeconomic outlook, Sunway REIT will remain opportunistic in looking out for assets that align with TRANSCEND 2027, increasing our exposure to industrial, services and logistics sub-sectors, which shall support the nation’s growth aspirations as well as provide us with resilient earnings moving forward. Given the volatile interest rate movements, there could also be arbitrage opportunities in overseas markets, and we will look to capitalise on any such opportunities, especially in the developed economies.

We will also maintain regular engagement with Sunway REIT’s sponsor to monitor the progress and readiness of pipeline assets to be injected into Sunway REIT as we aspire to achieve the long-term goal of at least RM14 billion of Assets Under Management (“AUM”). Organically, we are also monitoring our substantial Asset Enhancement Initiatives (“AEI”) and development works in progress. During the year, we have approved and commenced contract works of approximately RM1 billion to be undertaken over the next two to three years. These AEIs are expected to be yield-accretive to our portfolio of assets and shall provide the next level of growth for Sunway REIT.

## MESSAGE FROM OUR CHAIRMAN

### AWARDS AND RECOGNITION

Sunway REIT continues to maintain the highest standards, whether in delivering value to stakeholders or in carrying out our ESG responsibilities. Accordingly, during the year, we are humbled to have been recognised with several prestigious awards and accolades, highlighting our excellence and commitment across various aspects of our operations:



#### The 8<sup>th</sup> Annual REITs Asia Pacific Best Of The Breeds REITs Awards 2023

We garnered the Platinum Award for the Best Diversified REITs in Malaysia, a testament to our outstanding financial performance in the real estate investment sector.



#### Australasian Reporting Awards ("ARA") 2023

We were bestowed with a Gold Award for Distinguished Achievements in Reporting and a Silver Award for Distinguished Achievements in Sustainability Reporting, showcasing our excellence in transparency and sustainable business practices.



#### The Edge ESG Awards 2023

We were awarded the Silver Award for the REIT category at The Edge Malaysia ESG Awards – Equity Awards. These prestigious awards honour the best ESG performers among Malaysian corporates, feting their achievements in their respective industries and reaffirming Sunway REIT's dedication as well as leadership in sustainability practices among Malaysian REITs.



#### National Annual Corporate Reporting Awards ("NACRA") 2023

In November 2023, we emerged as the Silver Excellence Award recipient under the category of companies with RM2 billion to RM10 billion in market capitalisation at NACRA 2023, an award dedicated to recognising excellence in corporate and sustainability reporting. This accolade underscores Sunway REIT's commitment to transparent, timely and informative reporting practices, aligning with NACRA's objective of promoting effective corporate reporting and communication for Malaysian corporations. This is the 12<sup>th</sup> consecutive time that Sunway REIT has won an acknowledgement from NACRA.

### ACKNOWLEDGEMENTS

On behalf of the Board, I would like to extend our heartfelt appreciation to our valued stakeholders, including unitholders, our Trustee, the Property Manager, the management teams of various business units, our business partners, the investment community and members of the media. Your consistent support and trust in Sunway REIT are invaluable to us. With your continued partnership, we are excited about advancing Sunway REIT to new levels of success and achievement.

Yours sincerely,  
**Tan Sri Amirsham Bin A Aziz**  
 Chairman

## IN CONVERSATION WITH OUR CEO

### Dear Valued Stakeholders,

It gives me immense pleasure to present my inaugural CEO message in Sunway REIT's Integrated Annual Report for FY2023. It has been a great honour to be entrusted with the responsibility of leading Sunway REIT forward to our next phase of growth. Since my appointment in July 2023, I am delighted to share that Sunway REIT has continued to sustain its financial performance amidst a challenging economic backdrop and has pushed on with a number of strategic acquisitions and Asset Enhancement Initiatives ("AEI") which will certainly enhance our prospects moving forward.

#### **CLEMENT CHEN KOK PENG**

*Chief Executive Officer*

*Sunway REIT Management Sdn Bhd*

## NAVIGATING UNCERTAINTY IN THE FACE OF RISING TIDES

As we stepped into 2023 with trepidation, facing dual headwinds in the form of soaring inflation and persistent monetary tightening by key central banks across the world, Sunway REIT is relieved by the disciplined and pragmatic monetary policy adopted by Bank Negara Malaysia ("BNM"). While keeping up with general interest rate trends worldwide, BNM's gradual and measured approach to increasing rates ensured inflation was kept in check while businesses and households had time to manage the increase in financing costs. Coupled with strong policies by an increasingly stable government, Malaysia's economy remained resilient, anchored by strong domestic demand. This was crucial to Sunway REIT being able to sustain our performance as the world economy remains in a state of flux with new geopolitical risks emerging and the boost from a surge in tourist arrivals following the re-opening of China borders not quite materialising.



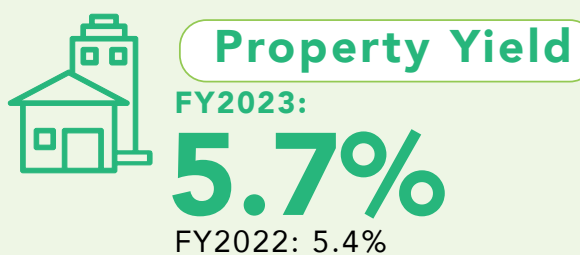
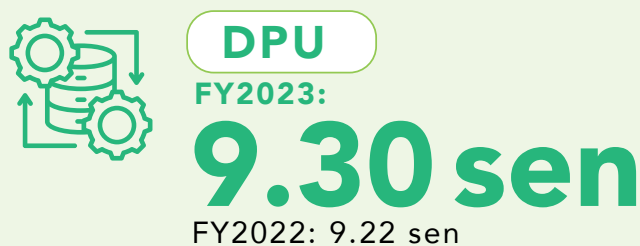
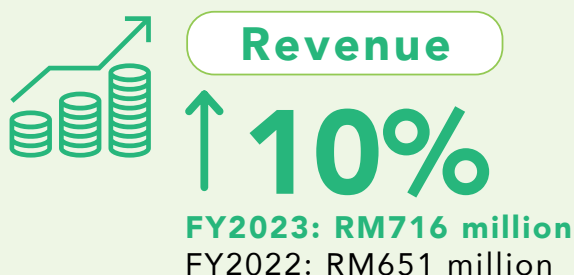
## IN CONVERSATION WITH OUR CEO

## RESILIENT FINANCIAL PERFORMANCE FOR FY2023

Amidst the abovementioned backdrop, Sunway REIT sustained its strong post-pandemic recovery in FY2023. The retail segment continued to grow commendably, anchored by the continuing increase in retail footfall, healthy retail sales, and boosted by Sunway Carnival Mall New Wing's full-year contribution. The hotel segment, while still not entirely recovered to its pre-pandemic level, continues to demonstrate improvement in performance. The average occupancy rate for the hotel segment increased from 54% in FY2022 to 64% in FY2023 (FY2019: 69%). Other segments remained relatively stable contributors to Net Property Income ("NPI").

For FY2023, Sunway REIT registered revenue of RM716 million, which is an improvement of 10% from RM651 million recorded in FY2022. However, NPI grew at a smaller rate of 5%, hampered by higher interest cost and a RM51 million increase in electricity charges following from the introduction of Imbalance Cost Pass Through ("ICPT") by Tenaga Nasional Berhad. This itself has a 1.5 sen impact on Distribution Per Unit ("DPU"). Despite that, the Manager still was able to increase DPU to 9.30 sen for FY2023 from 9.22 sen in the previous financial year. Moving forward, we anticipate the completion of the various AEs to drive DPU growth further.

➡ Please refer to the Financial Highlights and Portfolio Capital sections for the detailed explanation.



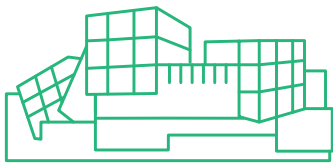
## IN CONVERSATION WITH OUR CEO

### ENHANCING VALUE THROUGH ACTIVE ASSET ENHANCEMENT INITIATIVES

Sunway REIT proactively identifies opportunities to improve the operational performance of our portfolio's existing assets. This is particularly important to maintain the relevance of our assets and preserve or enhance the property values in a fiercely competitive real estate market.

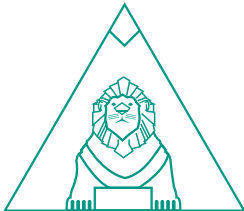
**Ongoing and pipeline AEIs and brownfield developments are as follows:**

#### Refreshing Sunway Carnival Mall's Existing Wing



Following the successful launch of Sunway Carnival Mall – New Wing in June 2022, Sunway REIT embarked on the refurbishment of the existing wing at Sunway Carnival Mall. We see enormous prospects in catering to the burgeoning demand from the growing population in Mainland Penang. The RM360 million refurbishment exercise encompasses optimising the layout, integrating the aesthetics of the external façade, and providing seamless connectivity for the enlarged mall. The AEI is being carried out in phases involving sectional closures from July 2023 through to third quarter 2025.

#### Curating Better Tenant Mix and Optimising Space at Sunway Pyramid Mall



Sunway Pyramid Mall, our jewel asset, has demonstrated resilience over the years due to its foresight to evolve in tandem with changing consumers trends and lifestyles. As the next phase of its evolution, the mall is reconfiguring 320,000 square feet of anchor tenant space, previously occupied by the AEON departmental store, into specialty stores. The reconfiguration aims to improve and revitalise the tenancy mix and further elevate shopping experience in the mall. We are optimistic that a well-curated tenancy mix would attract a broader range of shoppers, thus increasing retail footfall and revenue.

This AEI is essential for two purposes. Firstly, it serves to defend its position as one of the leading regional malls in the face of intensifying competition in the Klang Valley from new openings like The Exchange at TRX and Pavilion Damansara Heights. Secondly, the reconfigured retail space is expected to generate higher rents per square foot compared to the previous anchor tenant, thus, enhancing the asset yield of the property. The AEI at Sunway Pyramid Mall is expected to complete in the final quarter of 2024 with a budget of RM190 million.

#### Trailblazing Urban Rejuvenation at Sunway Pier



In line with previous stated plans to rejuvenate Sunway Pier, Sunway REIT has in FY2023, obtained development approvals for the redevelopment of the site into a tourist destination and a new seaside landmark in Selangor. With the ferry terminal connecting it to neighbouring countries and the adjacent KTM Komuter rail link to the heart of the city, this urban rejuvenation project aspires to bring unique offerings and experiences in retail, leisure, travel and gastronomy. The development project is expected to begin in 2024 at a cost of RM370 million and targeted for completion in 2027.

## IN CONVERSATION WITH OUR CEO

## ENJOYING THE RESURGENCE OF TOURISM AND FRUIT OF AEI EFFORTS

Sunway REIT fully completed the transformative refurbishment of the Sunway Resort Hotel in July 2023, after the phased reopening since May 2022. The brand-new flagship hotel offers an exhilarating combination of world-class facilities and gastronomical offerings to elevate guests' experience. Following the success of the first in Malaysia Gordon Ramsay Bar & Grill, the hotel welcomed another coveted New York City burger joint, Black Tap Craft Burgers & Shakes. The timely completion of the refurbishment of the 460 rooms and facilities also placed the hotel in strong position to capitalise on a recovery in leisure tourism and Meetings, Incentives, Conferences, and Exhibitions ("MICE") activities. As a result, Sunway Resort Hotel recorded a significant increase of 67% in its Average Daily Rate ("ADR") compared to pre-pandemic.

Equally significant was the halo effect created from the success of Sunway Resort Hotel for our two other hospitality assets in the vicinity, Sunway Lagoon Hotel and Sunway Pyramid Hotel. Both properties had also recorded strong occupancies above 70% for FY2023 and achieved an increase of 16% in ADR compared to pre-pandemic.

While Malaysia's tourism recovery has lagged those of its neighbouring countries, we nevertheless anticipate a steady upward trend in 2024. Measures to allow 30-day visa-free entry to Chinese and Indian nationals and improving flight connectivity and frequency augur well for the hospitality industry in Malaysia as a whole.

## PORTFOLIO REBALANCING TO DRIVE FUTURE GROWTH

In driving Sunway REIT towards higher future growth, we focused our key priorities on optimising the portfolio to build portfolio resilience and generating higher growth. In 2023, Sunway REIT implemented key measures in rebalancing our asset portfolio, namely, expanding our geographical presence within Malaysia, strengthening our industrial segment and completed one asset recycling.


**Asset recycling to redeploy cash for yield accretive acquisitions**

Sunway REIT completed the divestment of Sunway Medical Centre (Tower A & B) in August 2023 and in the process made realised gains of RM60 million and generated net cash of RM430 million. We are looking to redirect the proceeds towards assets that will enhance the portfolio yield and generate higher accretion to DPU.


**Expanding our geographical presence in Malaysia**

Sunway REIT announced the proposed acquisition of a portfolio of 6 hypermarkets in March 2023 for a total purchase consideration of RM520 million. These assets fortify our presence in the Klang Valley, as well as spread our foothold into Johor. Our maiden presence in Johor is expected to benefit from Johor's rapidly recovering economy and growing connectivity to Singapore. Geographical diversification aside, the proposed acquisition enhances income resilience and NPI yield of Sunway REIT's asset portfolio. A conditional approval was received from Economic Planning Unit of the Prime Minister's Office and the Board of Directors of the Manager is reviewing the said condition for the next course of action which will be updated in due course.

On 26 January 2024, Sunway REIT entered into a conditional Sale and Purchase Agreement ("SPA") with D'Kiara Place Sdn. Bhd., to acquire a shopping mall known as "163 Retail Park" that is strategically located in Mont Kiara, Kuala Lumpur for a cash consideration of RM215 million.


**Strengthening of the Industrial portfolio**

Sunway REIT continues to build up the strength of its industrial segment. During FY2023, Sunway REIT capitalised on an opportunity to acquire an asset in Bukit Tengah Industrial Park, Prai, Penang, a leading industrial hub in Malaysia. Sunway REIT signed a conditional SPA in December 2023 to acquire the industrial property for a purchase consideration of RM66.8 million. This move is in line with Sunway REIT's strategic vision to bolster our presence in the industrial segment.

This acquisition will mark the addition of a third industrial asset to Sunway REIT's asset portfolio, bringing the combined property value to approximately RM234 million. The Services, Industrial and Others segments will represent approximately 9.0% of Sunway REIT's asset portfolio upon the completion of the proposed acquisition. Sunway REIT Industrial - Petaling Jaya 1 has also been successfully partially leased with approximately 86,000 square feet or 27% of the space taken by ABB, a Swedish electrical technology company. The remaining space has continued to attract strong interest from prospective tenants and we foresee occupancy increasing further in FY2024.

## IN CONVERSATION WITH OUR CEO

### DYNAMIC CAPITAL MANAGEMENT STRATEGY

Faced with a rising interest rate environment, Sunway REIT was vigilant in monitoring interest rate movements and focused on optimising its financing costs and capital structure. Through a dynamic capital management strategy, Sunway REIT managed to maintain a healthy debt profile with a weighted debt expiry of 1.3 years while maintaining an optimal proportion of 34%:66% between fixed and floating rate borrowings. The average cost of debt increased from 2.98% in FY2022 to 3.80% in FY2023, reflecting the full impact of a 125 basis points interest rate increase since May 2022 and a “quasi tightening” in July and December 2023. Notwithstanding the higher interest rate landscape, Sunway REIT continued to have one of the lowest cost of debt amongst M-REITs.

As part of plans to further optimise its debt capital, Sunway REIT embarked on a rating process with RAM Rating Services Berhad in FY2023 and in September 2023, secured a corporate credit rating of AA2. This was a significant achievement in that Sunway REIT is the first in the M-REIT industry to obtain its own corporate credit rating. RAM Ratings had, concurrently, also ascribed an A1(s) rating for Sunway REIT’s Perpetual Note programme. These ratings are testament to Sunway REIT’s strong credit profile and will enable Sunway REIT to attract a wider pool of investors and potentially achieve better cost efficiency for debt issuances under its Medium Term Note and Perpetual Note programmes going forward.

➡ Please refer to the Capital Management section for the detailed explanation.

### RAISING THE BAR FOR SUSTAINABILITY INITIATIVES

With Sustainability or Environmental, Social and Governance (“ESG”) considerations gaining even greater prominence for stakeholders in FY2023, Sunway REIT is pleased that our industry leading efforts have been recognised by various bodies as we continue to trailblaze in terms of our sustainability initiatives.

# 1

#### First green Cross Currency Swap (“CCS”)

Partnering HSBC Bank, Sunway REIT continued to lead the way in green financing initiatives. Sunway REIT and HSBC inked the first sustainability linked Cross Currency Swap in Malaysia worth RM200 million in April 2023. The bespoke CCS offers direct sustainability-related incentives while hedging the currency and interest rate risks of Sunway REIT’s foreign currency loan with HSBC. As at end FY2023, 97.5% of Sunway REIT’s borrowings are on sustainable financing.

# 2

#### First GreenRE Platinum Hotel in Malaysia

Following the completion of the refurbishment of Sunway Resort Hotel in July 2023, the flagship hotel in Sunway REIT’s portfolio was officially accredited as a GreenRE Platinum Building, the highest recognition by GreenRE under their GreenRE Existing Non-Residential Building rating tool. Sunway Resort Hotel’s refurbishment, costing approximately RM300 million, incorporated green features like an intelligently designed building facade to reduce heat gains, energy-efficient air conditioning systems, optimised natural ventilation, and innovative water management strategies utilising alternative water source to reduce potable water for hotel operational use. As the first GreenRE Platinum - certified hotel in Malaysia, Sunway Resort Hotel solidifies its position as a pioneer in sustainable hospitality.

# 3

#### Green Building Roadmap

Besides the conferment of GreenRE Platinum status for Sunway Resort Hotel, Sunway REIT also obtained a GreenRE Gold status for Sunway Putra Mall. With this new certification, five Sunway REIT properties representing 35% of our total gross floor area managed is now green certified. Sunway REIT has laid out a 10-year roadmap with the intention to green certify all our buildings before 2034. The continued pursuit of green certifications for our buildings is dual purpose. Firstly, we aim to ensure the continued relevance of Sunway REIT properties for choice tenants as more corporations look to control their Scope 3 emissions. Secondly, we believe that energy audits and equipment enhancements during the certification process will lead to energy consumption savings and operational expenditure reduction.