5. INTRODUCTION TO REIT

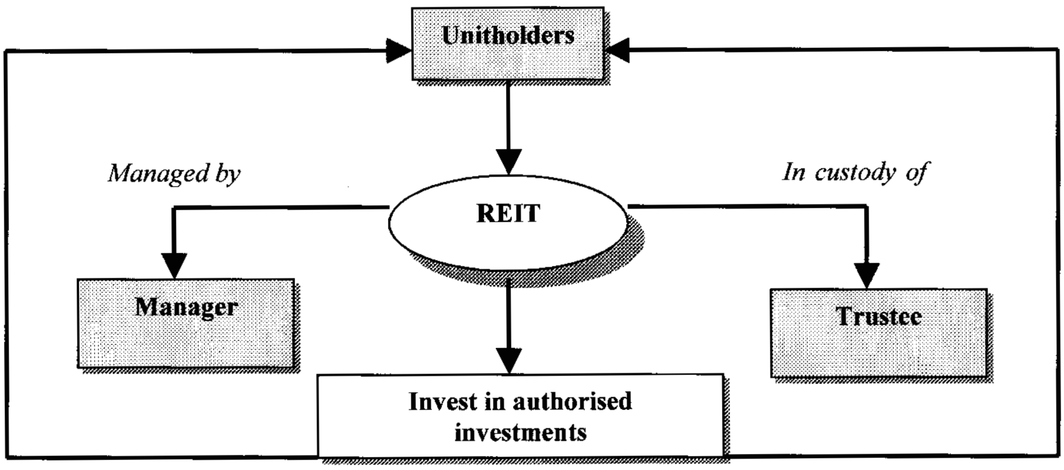
This section of the Prospectus represents only an introduction to REITs in general. This section does not purport to identify or suggest all REITs are associated with the same risks and benefits (which may not be exhaustive), as highlighted herein. Therefore, you should read and understand the full text of this Prospectus, in particular, Section 5.5 of this Prospectus before deciding to invest in the Offer Units.

5.1 Overview of REIT

A REIT is a collective investment scheme where funds from investors are pooled and invested towards a specified goal as set out in the investment objective of the fund. In addition, a REIT is a fund that invests (via funds raised from investors) in a portfolio of Real Estate Assets or real estate-related assets. These Real Estate Assets generate income from rent collected from tenants, which is then, net of expenses, distributed to investors at regular intervals.

A REIT is constituted by a deed entered into between the manager and the trustee. The deed sets out the manner in which the REIT or scheme is to be administered, the valuation and pricing of units, the keeping of proper accounts and records, the collection and distribution of income, the rights of unitholders, the duties and responsibilities of the manager and trustee with regard to the operations of the scheme, and the protection of unitholders' interests.

The tripartite relationship between the manager, the trustee and the unitholders in a REIT is illustrated below:



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A brief description of the parties in a REIT is as follows:

The manager:

The manager is appointed to manage and administer the REIT in accordance with the objectives and investment policy of the REIT. The manager is obliged to administer the REIT in accordance with the deed, the SCA and SC Guidelines on REITs, and to administer the REIT in an efficient and proper manner that will ensure high standards of integrity and fair dealing in managing the REIT to the interest of unitholders, to exercise due care, skill and diligence as well as effectively employ the resources and procedures necessary for the proper performance of the REIT.

The trustee:

The trustee is appointed for the unitholders and acts as the custodian for all the assets of the REIT. The trustee, therefore, must act to ensure that the manager adheres strictly to the provisions of the deed, particularly with regard to the creation of units, the exercise of investment powers of the REIT, collection and distribution of income, proper record keeping of administrative, investment and unitholders' transactions and in upholding unitholders' interests.

The unitholders:

The interest of a unitholder in the REIT is an equitable interest of a beneficiary of a trust, subject to the terms of the deed. Unitholders shall be entitled to receive the distributions of the fund and such other rights as provided in the deed.

Other relevant parties:

The property management company is appointed to manage the real estate assets of the REIT.

5.2 The Regulatory Framework

In Malaysia, REITs are governed and regulated by the SC. The SC is empowered to ensure compliance with the SCA and the SC Guidelines on REITs. The SCA and SC Guidelines on REITs govern the operation and administration of REITs and serve to protect the interest of unitholders and facilitate an orderly development of REITs. The trustee and the manager including its officers and directors, must comply with the SCA, SC Guidelines on REITs and all other relevant laws and requirements.

A REIT is also governed by the deed, which incorporates the covenants required under the SCA and the SC Guidelines on REITs.

The appointments of the manager, including its CEO and directors, and the trustee are subject to the approval of the SC.

5.3 Benefits Of Investing In REIT

(a) Diversification

In addition to other available investible securities and instruments, a REIT enables investors to further diversify their investments by providing them the opportunity to pool their resources for the purchase of a diversified portfolio of authorised investments in real estate or real estate related assets. Further, investors in a REIT can usually access a broader range of real estate than they could invest on their own.

(b) Liquidity

In a listed REIT, units are generally readily convertible into cash as they are traded on a stock exchange and investors may purchase additional units or dispose all or part of their units on any market day on the stock exchange.

(c) Affordability

REIT allows investors to participate in the real estate market via investment in units of the REIT, which requires a smaller capital outlay relative to purchasing similar real estate on their own.

(d) Long run inflation hedge

REIT may provide a hedge against inflation as when inflation rises, the value of real estate and real estate securities may increase.

(e) Stable returns

REIT typically has relatively stable cash flows since almost all of its revenue is generated by rentals under the terms of lease agreements with its tenants. These agreements are typically for specific durations, and may be subject to tenancy extensions.

(f) Professional management

REIT provides investors an opportunity to invest in real estate that is managed by experienced and professional persons.

(g) Potential capital appreciation

In addition to distributing income at regular intervals, REIT also provides an opportunity for capital appreciation via any increase in the values of real estate held in its portfolio. In the case of a listed REIT, the unit price may appreciate subject to macroeconomics conditions, stock exchange sentiments and fund performance.

(h) Ownership of large investment grade real estate

Subject to the quality of the real estate, investors in a REIT are essentially akin to holding stakes in large investment grade real estate, which may otherwise have been impossible for a retail investor.

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5.4 Risks Of Investing In REIT

REIT is exposed to a variety of risks associated with investments of, management of, and returns from the REITs.

(a) General risk

- **Economic, political and regulatory risks**

  The performance of the real estate industry is closely linked to the economic environment. Any adverse developments in the political and economic environment and uncertainties in Malaysia can materially and adversely affect the property industry and hence the financial performance of the REIT. These include the risks of war, global economic downturn and unfavourable changes in the Government's policy such as changes in laws, government incentives and taxation, introduction of new regulations, or changes in existing regulations.

- **Fund management risk**

  There is a risk that the manager may not adhere to the investment mandate of the REIT. Poor management of the REIT may jeopardise the investment of unitholders through loss of their capital invested.

  In addition, the selection of real estate, which makes up the assets of the REIT is a subjective process. Real estate selected by the manager may yield a higher or lower return than the overall real estate market.

- **Loans financing risk**

  Investors who take end-financing loans to finance the purchase of units in REITs must be prepared to accept risks, such as being forced to provide additional funds to top up their loan margin account when the price of units goes down, or suffer the higher cost of financing when interest rates trend upwards. In addition, the returns on REITs are not guaranteed and may not be earned evenly over time.

- **Risk of non-compliance**

  There is the risk that the manager and others associated with the fund will not comply with the deed of the fund, the law that governs the fund, or the internal policies, procedures and controls, all of which may affect the investment of unitholders.

(b) Investment risk

- **Dividend distribution not guaranteed**

  The net operating profit earned by a REIT depends on, amongst others, the amount of rental income received, and the level of property, operating and other expenses incurred. If real estate owned by a REIT does not generate sufficient net operating profit and cash flow, the REIT's ability to make dividend distributions will be adversely affected.

- **Capital market risk**

  The unit price of a listed REIT is subject to the volatility as well as the liquidity of the equity market. The equity market is influenced by many factors, such as economic conditions, interest rates, capital flows, market sentiment, as well as monetary and fiscal policies.

- **Risk associated with borrowings**

  Significant fluctuations in interest rates may have an adverse impact on the financial performance of REIT and may lower income distribution to unitholders. There is an inverse correlation between the interest rates and the distributable income to unitholders.

- **Insurance risk**

  Real estate held by REIT could suffer physical damage caused by fire, flood, earthquake or other causes, resulting in losses (including loss of rent), which may not be fully compensated by insurance. In addition, certain types of risks (such as war and terrorist acts) may be uninsurable or the cost of insurance may be prohibitive. There is no assurance that the proceeds from insurance will cover losses suffered adequately.

- **Risk relating to investments in real estate**

  The yields of the real estate may be adversely affected by a number of factors, such as:

  (a) vacancies following expiry or termination of leases that lead to reduced occupancy rates which reduce the REIT's income;
  (b) the manager's ability to provide adequate management and maintenance services;
  (c) inadequacy of insurance cover for the real estate;
  (d) the risk of tenants defaulting on their rental payments as well as any compensation for any early termination;
  (e) changes in tax regulations;
  (f) the terms on which lease renewals and new leases are agreed being less favourable than existing leases;
  (g) poor cost control resulting in higher operating and other expenses without a corresponding increase in revenue;
  (h) unexpected expenses incurred due to changes in statutory laws, regulations or government policies which increase the cost of compliance with such laws, regulations or policies and defects affecting the real estate which need to be rectified, leading to unforeseen capital expenditure;
  (i) amendment or revocation of the present tax incentives for REIT; and
  (j) competition for tenants from other real estate, which may affect rental levels and occupancy rates.

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- **Risk relating to investment in other authorised investments**

  Subject to the investment limits prescribed by the SC for the time being, apart from real estate, REIT is permitted to invest in any of the following:

  (a) single-purpose companies;
  (b) real estate related assets;
  (c) liquid assets;
  (d) non-real estate related assets; and
  (e) asset backed securities.

  Where REIT invests in stock market related investments, the following risks become key considerations:

  - **Market risks**

    Stock prices may fluctuate in response to activities of the individual companies, general market sentiment, economic conditions and political and social environment. Such fluctuations in the investment portfolio will cause the NAV of the REIT to fall as well as rise, and may similarly affect the price of units.

  - **Particular stock risk**

    Any major price fluctuations of a particular stock invested by the REIT may affect its NAV and thus impact (adversely or favourably) on its unit prices. This impact may, however, be minimised through the process of portfolio diversification by the manager.

  - **Liquidity risk**

    If a REIT has a large portfolio of stocks that are illiquid, such stocks may be sold at a discount to its fair value, hence affecting the value of the REIT. The liquidity risk may be minimised through the process of stock selection and portfolio diversification by the manager.

  Where REIT invests in debt-related investments, the following risks become key considerations:

  - **Interest rate risk**

    Generally bond prices and interest rates move inversely. If interest rate rise and bond (or bond fund) prices fall, the value of investment will be lower and the NAV of the REIT will be reduced.

  - **Credit risk**

    In the event the offeror of the debt instrument is unable to make timely payment of interest and principal, the value of the debt instrument may reduce accordingly, thereby reducing the NAV of the REIT.

5.5 Comparison With Other Forms Of Investments

All investments carry some form of risk-return trade-off. Some of the investment alternatives are as follows:

Cash and fixed deposits

Fixed deposits generally provide a fixed rate of return and can provide a stable stream of income. The range of deposit products available is quite extensive, ranging from simple overnight deposits at a cash rate, to more long term, structured deposits, like a two-year fixed deposit. Whilst deposits with a licensed financial institution can be considered almost risk free, there still exists a risk of default. Cash and fixed deposits do not present any opportunity for capital gain, and depending on the inflation rate, may not provide a positive real return.

Investment in bonds

Investment in bonds generally provides a fixed rate of return and can provide a stable stream of interest income. Bond prices move inversely to its yield to maturity. Bond investors are subject to a number of risks, including credit risk and interest rate risk. Bonds are generally less risky than shares but riskier than cash or fixed deposits.

Direct investment in real estate

Investments in real estate can provide a regular and stable stream of income and capital gains. However, such investment typically requires a large capital outlay, and is therefore generally available only to high net worth individuals, corporations or institutions. Movements in real estate prices can be cyclical and depending on the timing of the investment, can result in capital losses. Large capital outlays also limit the ability to diversify risk. Further, investments in real estate are generally less liquid than investments in marketable shares or bonds and may be difficult to exit in a timely manner.

Investment in shares

Investment in shares is subject to market risk and specific risks associated with a company or business and may result in either capital gains or losses. Share prices can be volatile and may not always reflect the fundamental value of a company. Investment in shares may or may not provide a regular stream of dividends. Shares are generally more risky than bonds or fixed deposits.

Financial derivative products

Financial derivative products are used to manage investors' exposure to unexpected price fluctuations in, amongst others, the commodity, equity and bond markets, and derives its value from an underlying instrument such as interest rates, indices and share prices. As these underlying instruments can be volatile at times, this form of investment has very high investment risks. Financial derivative products can also provide an avenue to earn very high returns (losses) without large capital outlays.

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In summary, risk and return comparison for the various investments may be summarised in the table below. Please note that the table is provided for illustrative purposes only and represents generalisations for each of the asset types. There may exist specific investments in each asset type which may provide for a different risk / return profile as suggested in this table.

Types of investment	Risk level	Expected return level
Cash	Low	Low
Fixed deposits	↓	↓
Bonds		
REITs		
Direct investment in real estate		
Investment in shares		
Financial derivative products	High	High

5.6 Investor Profile

Investment in REITs is generally less risky than direct investments in real estate, investments in shares and investments in financial derivates. Investments in REITs are generally riskier than investments in bonds or fixed deposits. REITs may appeal to a conservative to moderate investor with a long-term investment horizon who seeks regular distribution of income and long-term capital growth.

Hektar REIT is best suited for you if you are an investor that meets the following criteria:

(a) have funds but do not have the time or expertise to find, select, negotiate, purchase and manage profitable properties;

(b) have limited resources to finance the purchase of a whole property investment;

(c) intend to seek capital growth on a spread of real estate assets;

(d) wish to obtain higher yields investment compared to commercial fixed deposits;

(e) wish to diversify investment in a REIT which focuses on retail and/or shopping centres; and

(f) do not wish to hedge erosion of monetary value by inflation without some measure of capital appreciation whilst retaining reliable and ready access to capital.

5.7 Performance Indicators And Benchmarks

In general, the Kuala Lumpur Composite Index is the most widely followed and used for performance benchmarking for listed securities. The Kuala Lumpur Composite Index is deemed an appropriate indicator and benchmark for evaluating performance of listed REITs as it is readily available to most investors and generally the preferred benchmark for all Malaysian-centric equity funds. In addition, the EMAS Index, which indicates the overall performance of listed companies on the Main Board of Bursa Securities and property sector index, would also be practical for the same.

To obtain the latest information on the said indices, investors may refer to the Bursa Securities website, www.bursamalaysia.com under Market Information Section. Other pertinent information such as daily stocks performance by sectors and individual counter can also be obtained.

In addition, investors must consider and familiarise themselves with the following performance indicators of REITs:

(i) **Management expense ratio or MER**: the ratio of the fees related to the management of the REIT to the NAV of the fund. These expenses include the annual management fee, the annual trustee fee, valuation and auditor's fees and the costs of printing, stationery and postage but exclude property operating expenses such as quit rent and assessment, general property maintenance etc. The MER is an important factor to be considered in choosing a REIT for investment, as the annual expenses of managing the REIT would normally take up a substantial portion of its gross income. Hence, MER allows you to make comparisons on the expenses incurred by other REITs in assessing whether such expenses of a particular REIT are excessive.

(ii) **Distribution yield**: the ratio of the distribution paid to unitholders from the REIT's income to the price paid for the units of the REIT.

(iii) **NAV:** the net asset value of a company's assets, including but not limited to its properties, after subtracting all its liabilities and obligations.

(iv) **Total returns:** computed based on the actual gross income distribution and the net change in the weighted average market price for the year, over the weighted average market price of the REIT for the respective year.

5.8 Fees And Charges

5.8.1 Fees and charges payable by the unitholders

So long as the units are listed, an investor or unitholder would directly incur the usual costs related to the trading of units on Bursa Securities, such as brokerage fee, clearing fee and stamp duty.

For further information on the charges you may incur from the trading of units on Bursa Securities, you may refer to its website at www.bursamalaysia.com.

5.8.2 Fees and expenses that a REIT may incur

The table below describes the fees and expenses that a REIT would incur:-

Manager's fee	The REIT manager receives this fee for managing the REIT.
Trustee's fee	The trustee receives this fee for acting as trustee and for safeguarding the interests of the unitholders.
Property management company's fee	The property management company receives this fee for managing the REIT's properties. This fee is based on a certain graduated scale as provided in the VAEA Act.

Other fund expenses

The REIT will bear all property operating expenses, including auditors' fees and expenses, fees for the valuation of any investments, taxation, adviser's fees and expenses as well as administration expenses.

Administration expenses include costs incurred for the convening of any unitholder's meeting, as well as the preparation of the deed and any report pertaining to the REIT to the unitholders. A listed REIT also bears all expenses relating to the listing exercise, which includes the underwriting commission, placement fees, brokerage, stamp duty (if any) and registration fees in respect of units offered pursuant to the public offering.

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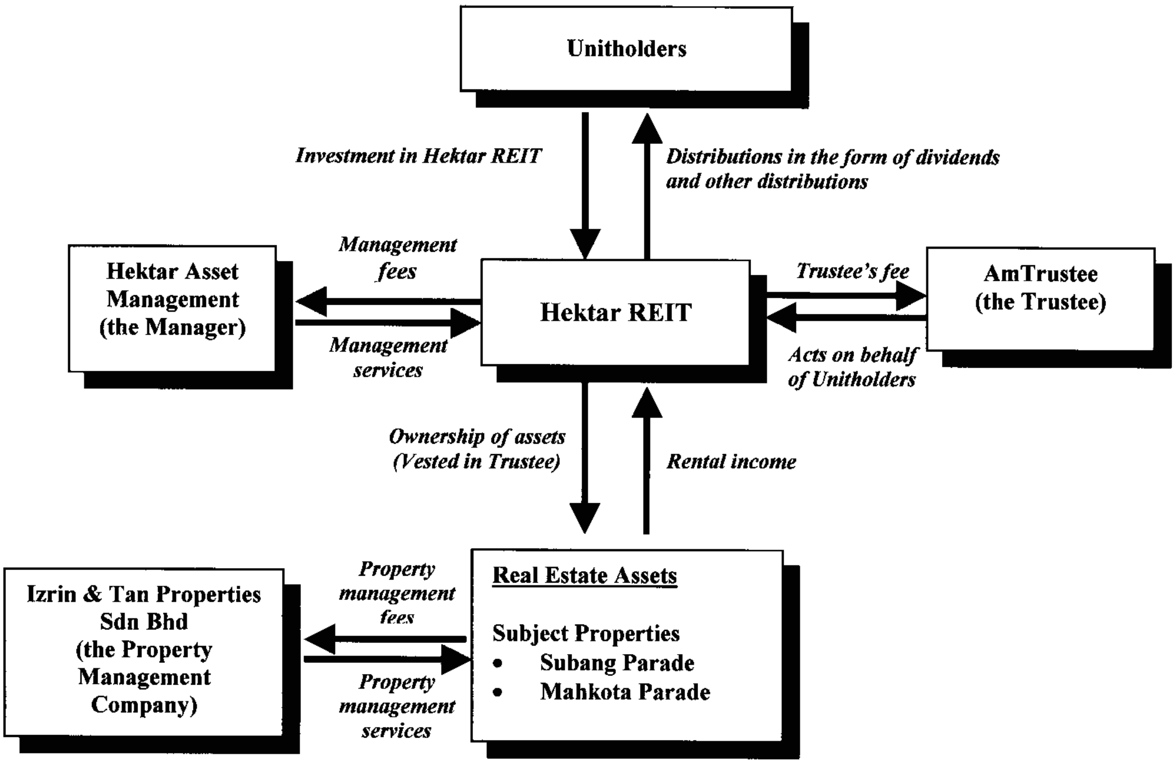
The following diagram illustrates the relationships between Hektar REIT, the Manager, the Property Management Company, the Trustee and the Unitholders:



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7. INVESTMENT STRATEGIES

7.1 Investment Objectives

Our principal investment objective is to invest in income-producing real estate in Malaysia, which is primarily used for retail purposes. We also intend to provide Unitholders with a secure income distribution and to enhance the long-term value of the Fund. Our mandate is to manage Hektar REIT under the following guidelines:

- Invest and manage real estate assets predominantly involved in retail and/or shopping centres;
- Acquire and manage future assets which are income-producing properties or possess significant potential for income growth;
- Focus on investing under a long-term investment horizon;
- Manage and continue to extract synergies and efficiencies from the existing portfolio; and
- Finance operations and investments under a conservative but conducive capital structure.

Should there be any material changes to the primary investment objectives of the Fund, the prior approval of the Unitholders is required by way of a resolution of not less than two-thirds (2/3) of all Unitholders, given (or such other majority as may be required under the SC Guidelines on REITs) at a meeting duly convened and held.

7.2 Investment And Business Strategies

We aim to achieve Hektar REIT's primary objectives of sustainable growth by seeking opportunities to acquire quality retail real estate to diversify the earnings base and to enjoy economies of scale.

In achieving our investment objectives, we have the following business strategies in place:

➢ Portfolio strategy;

➢ Investment strategy; and

➢ Capital Management strategy.

7.2.1 Portfolio strategy

Portfolio strategy or operating strategy, involves the optimization of the financial performance on the Subject Properties to achieve optimal returns through the combination of increasing gross revenue and minimizing operating expenses to generate organic or internal growth. Hektar Group has developed a framework known as the 'Hektar Retail Management System', which is benchmarked against international best practices and covers the activities as described below.

(a) Consumer-Focused Tenant Mix

- We will ensure the relevance of the Subject Properties tenant mix and amenities to its respective customer base. We will periodically perform studies of the consumers within the Subject Properties' surrounding trade area. The overall trade area can be segmented into primary, secondary and tertiary trade areas, where the primary trade area usually refers to the immediate population catchments within an arbitrarily defined commute and the latter trade areas refer to trade areas outside of this first area. The research of the trade area, or the catchment analysis, involves the study of demography and consumer trends within a five (5) to twenty (20) kilometres concentric radius of the Subject Properties and involves a variety of other surveys including exit surveys, household interviews and focus groups;

- We will periodically study and analyse the traffic Footfall report, competitive review of competing shopping centres and third-party market research on consumer trends, as they pertain to the Subject Properties' market position; and

- These studies and their various analyses allow us to review the respective Subject Properties' tenant, trade sector and diversity mix and assist us in refining the overall tenant mix strategy, including gap assessments, strength, weaknesses, opportunities and threats. The analysis also provide guidance to us on issues such as tenant selection or rejection, tenant re-zoning and relocation, marketing activities, asset enhancement initiatives and so on.

(b) Active Leasing

- We aim to maximise occupancy, minimise vacancy allowance, mitigate rent arrears risk and maintain occupancy rental rate growth;

- We will employ a leasing review system designed to assist management decision-making in leasing activities. The leasing review involves analysis of the tenants' credit-worthiness, business plan, projections review, concept and layout review, occupancy costs, history of turnover performance and so forth;

- We will also include input from the tenant mix review, market conditions and competition review to assist the leasing managers in determining rental rate pricing and other conditions, with a holistic perspective of the contribution of each tenant. In certain cases, tenants with multiple brands or in multiple locations are offered 'bulk' leasing arrangements or other mutually-beneficial provisions; and

- As per typical practices in Malaysia, tenancy rates are fixed in advance for the tenure of the tenancy term, with the typical term extending to three (3) years. We will ensure rent reviews and negotiations are opened prior to the expiry of the lease, or typically within six (6) months of tenancy expiry.

(c) Leasing Provisions – Step-Up and Turnover Rent

- As part of our tenancies, we will introduce and negotiate for step-up provisions, which include a negotiated fixed quantum base rent increase at specified periods over the tenancy term, usually every year. This can ensure that the tenant pays an increasing rent over the term of the tenancy agreement and overall, provides the Subject Properties with gradual increases in rental income; and

- In addition, we will introduce and negotiate for a Turnover Rent provision in the tenancy agreement in addition to the base rent. The Turnover Rent is typically fixing a percentage of a tenant's monthly or periodic sales turnover, usually with a specified sales threshold, also known as the break-even point. This will require that the tenant provide monthly turnover sales reports. Turnover rent reporting is an effective real-time management tool in gauging tenant performance, market conditions and future rent reviews. Turnover rent reports allow us to measure an individual retailer's performance across its category, against its peers or against the industry averages. It also aligns our interests with the interests of the tenant, as we are motivated to improve a tenant's turnover, which may lead to Turnover Rent being paid to the Fund. This may come in the form of various opportunities, including promotional and cross-promotional marketing events, which may increase sales of the target tenants. Implementing Turnover Rent may take many years, as it requires conversion of all existing tenancy agreements. The competitive advantage of Turnover Rent is that successful implementation allows us the opportunity of increasing our rental income without increasing base rental rates.

(d) Tenant Coordination Services

- We recognise tenants as partners and consider strong tenant relationships as a key attribute towards building a successful shopping centre in the long term;

- We will devise a set of tenant coordination strategies designed to promote tenants' interests and ultimately the Subject Properties, over the long term. These tenant support services include but are not necessarily limited to training, education on service standards and finance;

- The leasing process requires us to review the concept and business of the tenant. This may include reviewing the retailer's store layout, fixtures, lighting and overall ambience. Our engagement aims to ensure that the tenant concept and business is aligned with the overall shopping centre concept and that the tenant's offerings contribute synergistically to the tenant mix;

- We will continue to review the tenant's performance by site inspection and through the analysis of Turnover Rent reporting by the tenant, if applicable, which over a sustained period of time provides us with a trend perspective on a tenant's performance;

- From time to time, we will offer consultation and advice to tenants to improve their performance or we may adopt mutually-beneficial promotion and marketing campaigns which may tie in with the tenant's offerings; and

- In cases of an under performing tenant, we may negotiate to take back the retailer space and re-tenant it to new retailers.

(e) Retailer Relationships

- We recognise that refreshing the tenant mix is an important element in maintaining the consumer relevancy of our shopping centres over time. We will continue to establish relationships with over six hundred (600) national and international retailers and will constantly look for retailers, nationally and worldwide, with innovative and different retailing concepts; and

- We will maintain an open door policy to third parties and franchise agents to collaborate on new retailing concepts.

(f) Asset Enhancement

- We will adopt a policy of continuous improvement in the Subject Properties and actively assess opportunities for asset enhancement which may range from rehabilitation (restoration to original state) to refurbishment (modernization or reconfiguration to original plan);

- Typical asset enhancement projects include the creation of additional or new rental space from common areas, the reconfiguration of large, low-yielding lots and spaces into smaller, higher yielding lots or the refurbishment of lot space to provide for desired amenities. Asset enhancement also includes tenant relocation to facilitate improvements in customer traffic distribution throughout the property or sector re-zoning to increase the trade segment appeal within the Subject Properties; and

- In our periodic review of tenant mix, tenant performance and other analyses, we will assess tenant and consumer needs and look for areas within the Subject Properties with the potential for refurbishment. Our initiatives will be rationalised to include return-on-investment and sensitivity analysis to ensure a higher probability of financial benefit to the Subject Properties.

(g) Marketing

- We will plan and conduct a marketing campaign to improve the Subject Properties' profile, brand, customer traffic and tenant turnover;

- We will develop customised marketing plans for each of the Subject Properties to reflect the respective Subject Properties' trade area, tenant mix and specific market characteristics;

- These marketing plans may include promotional activities such as product exhibitions, prize competitions, live entertainment, community events, charitable campaigns and special events. These activities will be conducted at periodic and seasonal times during the year to capture consumer attention during key seasons such as the school holidays or during festive seasons; and

- Overall marketing and promotional activities are measured by consumer traffic and tenants' monthly turnover reports to gauge effectiveness. The analysis and experiences of these marketing activities will be shared between the Subject Properties to facilitate marketing cost efficiencies and further improve effectiveness.

(h) Facilities Management

- We will employ a preventive maintenance approach to facilities management of the Subject Properties with the aim of detecting potential maintenance issues early. We will conduct analysis on the facilities overhead and inspect the overall infrastructure periodically; and

- We are committed to maintaining low operating expenses without compromising the quality of services, while scheduling preventive maintenance to extend the life expectancy of the equipment. Decisions to replace equipment are also factored by equipment condition, age, maintenance charges, future capacity requirements and future operating expenses. We also benefit from economics of scale through bulk purchasing of supplies in aggregate for the Subject Properties.

7.2.2 Investment strategy

Our investment strategy is to study the external investment opportunities with the potential to generate overall growth prospects or improvements of the long-term value of the Fund.

(a) Acquisitions

- We will actively study acquisition opportunities for shopping centres and properties designed primarily for retail purposes. We seek to acquire assets, which provide for yield accretion potential and for increasing the overall growth prospects of the Fund. The preferred holding period for investment properties is for the long term;

- The process for acquiring acquisition candidates would include but not be limited to, the identification of value-creation opportunities for the target property (potential asset enhancements), the analysis of forecast financials, the overall risk assessment and the impact analysis on the existing portfolio. The criteria for acquisitions candidates would include, but not be limited to:

(i) Location characteristics and catchment potential;

(ii) Prospective net yield with the potential to exceed the Fund's weighted average cost of capital;

(iii) The facilities' condition and their specifications with respect to building and zoning codes as well as their value to replacement cost;

(iv) Occupancy and average rental rates relative to prevailing market conditions;

(v) Redevelopment potential and unutilised plot ratio;

(vi) Synergistic potential to the existing portfolio; and

(vii) Quality real estates, which are temporarily below, market value, which will result in NAV improvements within the medium to long-term periods.

- We will comply with the Deed and the SC Guidelines on REITs whereby the maximum level of debt of the Fund will not exceed 50% of the total asset value at the time the borrowing is incurred. Where required, we shall seek the approval of the Unitholders should the Fund require a level of debt which exceeds the maximum level as provided for under the SC Guidelines on REITs and the Deed; and

- We intend to use a combination of debt and/or equity to fund future acquisitions. If it is appropriate and in compliance with the SC Guidelines on REITs, we may also adopt a hedging strategy to manage the risks associated with changes in interest rates relating to its borrowing. Borrowings can be in the form of bank borrowing or through the issuance of commercial papers/bonds where the Fund would then be rated.

(b) Cooperative Ventures

- We will capitalise on our relationship with the Hektar Group, whose entities are engaged in the development, investment and management of retail shopping centres in Malaysia. At the point of the Listing, the Vendors will collectively own approximately 50.1% of the total Units. HPSB and HBSB have granted Hektar REIT a five (5) year right of refusal from the date of listing to purchase all and any of the properties which meet the acquisitions investment criteria as set out in 7.2.2 (a) above, which are owned or intended to be sold by HPSB and HBSB, provided that we remain as the Manager of the Hektar REIT during the entire five (5) year period after the date of Listing and HPSB and HBSB collectively hold a total unitholding of at least 50% in Hektar REIT.

- We may form cooperative arrangements with developers and asset management companies with interests in shopping centres and/or properties with retail components. Leveraging on our experiences in shopping centre investment, we will be in a position to provide guidance to developers or asset managers for new shopping centre development or redevelopment. This activity may result in additional acquisition deal flow or conditional rights for the Fund, but does not bind the Fund to acquire any property.

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(c) **Divestments**

- We intend to hold the Subject Properties and assets for the long-term. From time to time, we may contemplate divestment of an asset or property should we decide that a property has matured to a stage where growth prospects are limited and will consider a sale if the then present market condition are conducive;

- We will also take into consideration factors, including but not limited to, whether other compelling acquisition opportunities exist which provide the Fund with the potential for long-term growth or whether the divestment disbursements provide the most optimal cost of capital than other channels and whether the short-term impact of the divestment will be adversely affect the Fund; and

- If the event of a divestment, we may use the portion of the proceeds to invest in new real estate or other acquisitions with better yields and growth potential. The remaining portion of the proceeds attributable to the capital gains due to the disposal may be distributed to the Unitholders.

7.2.3 Capital Management Strategy

Our capital management Strategy is to provide funding for the Fund's operations and investments under an optimal structure and cost of capital.

(a) **Strategic Institutional Support**

- We will endeavour to solicit strategic institutional investors to participate as equity partners within the Fund;

- We will also identify strategic investors and related companies to be actively or passively involved in real estate investment in a manner which is complementary to us or the Group's activities, which may include financing activities throughout the lifecycle of property development such as mezzanine, project finance or private equity; and

- Strategic institutional investors may support development activities of the Hektar Group, which may ultimately benefit the Fund by providing potential acquisition opportunities to the fund.

(b) **Debt Gearing and Structure**

- We aim at creating a debt structure which provides flexibility for the Fund in terms of funding operations, acquisitions, future capital expenditures and other liquidity requirements;

- As prescribed by the REIT Guidelines published by the SC, we will adopt and maintain a debt gearing level within the specific limits (currently at 50% of gross asset value and if required and as long as it may be favourable for the Fund's debt structure, we shall seek the approval of the Unitholders for a debt gearing level for levels which are above the current specified limits); and

- We will strive to structure a majority of the debt under fixed rate terms at the best prevailing market rate for long tenures and where possible, optimise on the security collateral, restrictive covenants and conditions. We will seek to diversify funding resources to reduce dependency on a single vendor, which may improve cost competitiveness.

(c) **Risk Management**

- We will adopt a proactive risk management review system to monitor market conditions and manage risks associated with changes of interest rates and other economic factors over the short to long term. The review would also track variable and total debt exposure of the Fund and monitor its respective variable and fixed debt exposure with respect to market conditions and its relative cost competitiveness. As part of the review process and if required, we will engage domestic and internationally-recognised rating agencies to qualify the Fund's obligations and exposure; and

- Where foreign-denominated obligations are involved, we will adopt a conservative hedging strategy to minimise foreign exchange exposure and fluctuations in foreign exchange rates.

7.3 Investment Policies

7.3.1 Investment limits and restrictions

As prescribed by the SC Guidelines on REITs, Hektar REIT's investments are limited to the following:

(a) at least 75% of Hektar REIT's total assets shall be invested in real estate assets, real estate-related assets, single purpose companies or liquid assets;

(b) at least 50% of Hektar REIT's total assets shall be invested in real estate assets or single purpose companies; and

(c) the remaining 25% of Hektar REIT's total assets may be invested in other assets (i.e. real estate-related assets, non real estate-related assets or asset backed securities).

7.3.2 Authorised investments

Subject to the investments limits specified in Section 7.3.1 above, Hektar REIT may invest in any of the following:

(a) Real estate (which is physical land and those human made items which are attached to the land) and including real estate which is being developed (to the extent permitted by the SC Guidelines on REITs);

(b) Single-purpose companies being unlisted companies whose principal assets comprise real estate;

(c) Real estate-related assets which include units of other REITs, listed securities of and issued by property companies, listed or unlisted debt securities of and issued by property companies and mortgage-backed securities;

(d) Liquid assets which include cash, deposits with licensed institutions and/or other institutions licensed or approved to accept deposits, or any other instrument capable of being converted into cash within seven (7) days as approved by the Trustee;

(e) Non-real estate-related assets being listed shares issued by non-property companies;

(f) Asset-backed securities; and

(g) Any other investment not covered by items (a) to (f) above but specified as a permissible investment in the SC Guidelines on REITs or otherwise permitted by the SC.

Hektar REIT invests primarily in strategically located properties tenanted to retail companies and will continue to look for opportunities in these type of properties.

The Fund may explore the investment opportunities in debt/equity instruments so as to diversify its investment portfolio. A qualified investment manager will then be engaged, where applicable, subject to the Trustee's approval and within any relevant regulatory guidelines.

The Real Estate Assets shall be revalued at least once every three (3) years from the last valuation date or as the SC Guidelines on REITs or other accounting regulations may stipulate. All valuations will be conducted on the bases and methods, which are in accordance with Asset Valuation Guidelines issued by the SC.

Upon completion of the Public Offering, the investment portfolio of Hektar REIT shall only consist of the Subject Properties.

In the event Hektar REIT diversifies its investment portfolio to other authorised investments (other than Real Estate Assets), the bases of valuation for such investment shall be carried out in accordance with the provisions of the Deed and the SC Guidelines on REITs.

7.4 Our Policy On Gearing And Minimum Liquid Asset

In accordance with the Deed and the SC Guidelines on REITs, the total borrowings of the Fund shall not exceed 50% of the total asset value of the Fund (or such other level permitted under the SC Guidelines on REITs from time to time) at the time the borrowings are incurred. However, the Fund's total borrowings may exceed this limit with the prior approval of the Unitholders. Hektar REIT will have an initial gearing level of 34.79% of total asset value upon completion of the Acquisitions. Please refer to Section 10.4 of this Prospectus for details on Hektar REIT's borrowings.

Financing strategy employed by us to manage the financing risks of Hektar REIT is disclosed under Section 7.2.2. For risks associated with bank borrowings, please refer to Section 4.1(b) of this Prospectus.

We will adhere to the SC Guidelines on REITs on the permitted and restricted investments in relation to liquid assets. Liquid assets will be held in the form of cash, deposits with licensed institutions and/or other institutions licensed or approved to accept deposits, or any other instrument capable of being converted into cash within seven (7) days as may be approved by the Trustee.

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Distribution Policy

The distribution policy of Hektar REIT is to distribute at least 90% of the distributable income to Unitholders in cash within two (2) months after the Fund's book closure date. Hektar REIT will distribute such distributable income on at least a semi-annual basis (or such other intervals as we may determine) to Unitholders, except for the first distribution which will be for the period from the commencement of the operation of Hektar REIT to 30 June 2007 and the final distribution which shall be on the date of termination of Hektar REIT.

Based on the forecasted earnings before taxation of approximately RM30.810 million for the thirteen (13) months financial period ending 31 December 2007, our directors anticipate that, in the absence of unforeseen circumstances, we will be in a position to distribute either RM30.810 million or 90% of the distributable income of Hektar REIT, whichever is higher, for the thirteen (13) months from the commencement of operation of Hektar REIT to 31 December 2007.

Barring any unforeseen circumstances, for FYE 2008 and FYE 2009, we intend to distribute RM28.829 million and RM29.713 million respectively or 90% of the distributable income of Hektar REIT, whichever is higher.

Any monies payable to a Unitholder pursuant to its entitlement of the Fund's distribution which remain unclaimed after a period of one (1) year shall be accumulated in a special account and lodged with the Registrar of Unclaimed Monies by the Trustee or us. The Trustee shall maintain a record of all unclaimed monies at its principal place of business in accordance with the provisions of the Unclaimed Monies Act, 1965.

In addition to the above, we may, pursuant to the Deed, purchase, sell or otherwise dispose of, reconstruct, exchange, vary, modify or otherwise change any investment forming part of the assets of the Fund in the interest of the Unitholders and it shall have the discretion on whether to reinvest or distribute the proceeds from any disposal of any assets of the Fund.

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