

# HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	As at 30.6.2017 RM (Unaudited)	As at 31.12.2016 RM (Audited)
<b><u>NON-CURRENT ASSETS</u></b>		
Investment properties	1,092,450,000	1,092,450,000
Plant & Equipment	32,983	-
Capital work in progress	6,719,891	162,080
Fixed deposits with a licensed bank	665,369	665,369
	1,099,868,243	1,093,277,449
<b><u>CURRENT ASSETS</u></b>		
Trade receivables	8,444,936	5,750,826
Other receivables, deposits and prepayments	15,598,193	17,220,686
Cash and bank balances	10,753,119	14,560,249
	34,796,248	37,531,761
<b>TOTAL ASSETS</b>	<b>1,134,664,491</b>	<b>1,130,809,210</b>
<b><u>NON-CURRENT LIABILITIES</u></b>		
Tenancy deposits	10,676,425	12,279,861
Bank borrowings	498,035,696	493,200,372
Derivative financial instrument	387,327	814,013
	509,099,448	506,294,246
<b><u>CURRENT LIABILITIES</u></b>		
Trade payables	1,298,627	937,729
Other payables and accruals	4,538,886	5,596,625
Tenancy deposits	19,172,870	17,512,440
Bank borrowings	15,000,000	15,000,000
	40,010,383	39,046,794
<b>TOTAL LIABILITIES</b>	<b>549,109,831</b>	<b>545,341,040</b>
<b>NET ASSET VALUE</b>	<b>585,554,660</b>	<b>585,468,170</b>
<b><u>FINANCED BY:</u></b>		
Unitholders' capital	425,738,255	425,738,255
Undistributed income – realised	43,136,190	43,476,386
– unrealised	116,680,215	116,253,529
<b>TOTAL UNITHOLDERS' FUND</b>	<b>585,554,660</b>	<b>585,468,170</b>
<b>NET ASSET VALUE PER UNIT (RM)</b>		
-as at the date	1.4616	1.4614
-before distribution for the cumulative quarter	1.5116	1.5664
<b>NUMBER OF UNITS IN CIRCULATION</b>	400,634,117	400,634,117

Note: tenancy deposit includes RM1,702,031 (2016:RM1,939,395) which is discounted to present value in compliance with MFRS 139 as per note A14.

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE QUARTER ENDED 30 JUNE 2017 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.06.2017 RM	Preceding Year Corresponding Quarter 30.06.2016 RM	Current YTD 30.06.2017 RM	Preceding YTD 30.06.2016 RM
Revenue	30,786,881	30,941,129	61,644,126	62,544,193
Property operating expenses	(12,745,724)	(12,050,799)	(25,915,438)	(24,979,573)
<b>Net property income</b>	<b>18,041,157</b>	<b>18,890,330</b>	<b>35,728,688</b>	<b>37,564,620</b>
Interest income	64,868	79,946	112,408	124,140
Other income	105,441	1,526	107,001	90,308
Trust expenses	(2,355,364)	(2,647,108)	(5,133,005)	(5,078,125)
Borrowing costs	(5,486,302)	(5,896,050)	(11,123,582)	(11,565,841)
<b>Realised income before taxation</b>	<b>10,369,800</b>	<b>10,428,644</b>	<b>19,691,510</b>	<b>21,135,102</b>
Change in fair value of derivative financial instrument	126,859	-	426,686	-
<b>Income before taxation</b>	<b>10,496,659</b>	<b>10,428,644</b>	<b>20,118,196</b>	<b>21,135,102</b>
Taxation	-	-	-	-
<b>Net income</b>	<b>10,496,659</b>	<b>10,428,644</b>	<b>20,118,196</b>	<b>21,135,102</b>
Other comprehensive income after tax	-	-	-	-
<b>Total comprehensive income</b>	<b>10,496,659</b>	<b>10,428,644</b>	<b>20,118,196</b>	<b>21,135,102</b>
Earnings per unit (sen)	2.62	2.60	5.02	5.28
- realised (sen)	2.59	2.60	4.92	5.28
- unrealised (sen)	0.03	-	0.10	-

The Condensed Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached.

## HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

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### STATEMENT OF CHANGES IN NET ASSETS VALUE FOR THE CUMULATIVE QUARTER ENDED 30 JUNE 2017 (UNAUDITED)

	<b>Unitholders' Capital RM</b>	<b>Undistributed income</b>		<b>Unitholders' Fund RM</b>
		<b>Realised RM</b>	<b>Unrealised RM</b>	
<u>Balance at 1 January 2017</u>	425,738,255	43,476,386	116,253,529	585,468,170
<u>Operation for the cumulative quarter ended 30 June 2017</u>				
Total comprehensive income for the financial quarter	-	19,691,510	426,686	20,118,196
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(20,031,706)	-	(20,031,706)
Balance at 30 June 2017	<u>425,738,255</u>	<u>43,136,190</u>	<u>116,680,215</u>	<u>585,554,660</u>

### CUMULATIVE QUARTER ENDED 31 DECEMBER 2016 (AUDITED)

	<b>Unitholders' Capital RM</b>	<b>Undistributed income</b>		<b>Unitholders' Fund RM</b>
		<b>Realised RM</b>	<b>Unrealised RM</b>	
<u>Balance at 1 January 2016</u>	425,738,255	43,996,656	114,642,017	584,376,928
<u>Operation for the cumulative quarter ended 31 December 2016</u>				
Total comprehensive income for the financial year	-	41,546,312	1,611,512	43,157,824
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2016	<u>425,738,255</u>	<u>43,476,386</u>	<u>116,253,529</u>	<u>585,468,170</u>

The Condensed Statement of Changes in Net Assets Value should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes.

## HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

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### STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE CUMULATIVE QUARTER ENDED 30 JUNE 2017

	<b>Current YTD 30.6.2017 RM</b>	<b>Preceding YTD 30.6.2016 RM</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Income before taxation	20,118,196	21,135,102
Adjustments for :-		
Interest income	(112,408)	(124,140)
Interest expense	11,123,582	11,565,841
Rental under MFRS 117	135,927	176,335
Impairment loss on trade receivables	180,052	105,000
Fair value change on derivatives	(426,686)	-
Operating profit before working capital changes	31,018,663	32,858,138
Change in working capital :-		
Receivables	(960,908)	(10,080,633)
Payables	(1,066,535)	(3,123,463)
Net cash from operating activities	28,991,220	19,654,042
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of investment properties	-	(330,000)
Expenditure for refurbishment and enhancement of investment property incurred	(6,590,794)	(1,614,241)
Interest income	112,408	124,140
Net cash used in investing activities	(6,478,386)	(1,820,101)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Interest expense	(11,123,582)	(11,565,841)
Distribution to Unitholders	(20,031,706)	(21,233,608)
Borrowings	4,835,324	13,445,051
Net cash used in financing activities	(26,319,964)	(19,354,398)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,807,130)	(1,520,457)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	14,560,249	19,085,638
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	10,753,119	17,565,181

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached.

**A. EXPLANATORY NOTES FOR THE QUARTER ENDED 30 JUNE 2017 PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")**

**A1 BASIS OF PREPARATION**

The quarterly financial report is unaudited and has been prepared in compliance with MFRS 134: Interim Financial Reporting and Chapter 9, Paragraph 9.44 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). Hektar REIT had adopted Malaysian Financial Reporting Standard issued by Malaysian Accounting Standards Board for accounting period beginning 1 January 2012.

**A2 AUDIT REPORT OF PRECEDING FINANCIAL YEAR**

The auditors have expressed an unqualified opinion on Hektar REIT's financial statements for the year ended 31 December 2016 in their report dated 14 February 2017.

**A3 SEASONALITY OR CYCLICALITY OF OPERATIONS**

The business of Hektar REIT is not affected by material, seasonal or cyclical factors.

**A4 UNUSUAL ITEMS**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter.

**A5 CHANGES IN ESTIMATES**

There were no changes in estimates that have had material effect in the current quarter.

**A6 DEBT AND EQUITY SECURITIES**

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter.

**A7 INCOME DISTRIBUTION**

There will be a Second Interim Income Distribution for the Second Quarter ended 30 June 2017 together with an Advance Income Distribution for the period of July and August 2017 totalling 4.00 sen per unit amounting to RM16,025,365 to be made on 22 September 2017.

**A8 SEGMENT INFORMATION**

The principal activity of Hektar REIT is to invest in properties in Malaysia with the primary objective to derive rental income and medium-to-long term growth. Hence, no segmental reporting is presented.

**A9 VALUATION OF INVESTMENT PROPERTIES**

The Investment Properties for Subang Parade, Mahkota Parade, Wetex Parade, Central Square and Landmark Central were last valued on 27 December 2016.

**A10 MATERIAL SUBSEQUENT EVENTS TO THE END OF THE INTERIM PERIOD**

There were no material events subsequent to the end of the interim period.

**A11 CHANGES IN THE COMPOSITION OF THE TRUST**

There were no changes to the composition of Hektar REIT during the current quarter and the fund size stands at 400,634,117 units.

**A12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There were no contingent liabilities or contingent assets to be disclosed.

**A13 RENTAL INCOME FROM TENANCIES (MFRS 117)**

Rental income receivable under tenancy agreements is recognised on a straight-line basis over the term of the lease.

**A14 TENANCY DEPOSITS (MFRS 139)**

Included in the tenancy deposit received from tenants is RM1,702,031 representing the difference between the fair value and the amount of deposits carried in the statement of financial position as a result of the recognition of the said deposits at fair value in compliance with the requirements of MFRS 139 financial instruments.

**A15 CAPITAL COMMITMENT (MFRS 134)**

Capital commitment in respect of the following has not been provided for in the financial statement:-

Authorised and contracted for:-	<b><u>RM</u></b>
Refurbishment of investment properties	16,484,610
Acquisition of 1Segamat Shopping Centre	<u>93,600,000</u>
	<u>110,084,610</u>

**B. ADDITIONAL INFORMATION PURSUANT TO PARAGRAPH 9.44 OF BURSA MALAYSIA SECURITIES BHD'S MAIN MARKET OF LISTING REQUIREMENTS**

**B1 REVIEW OF PERFORMANCE**

For the cumulative quarter ended 30 June 2017, Hektar REIT generated total revenue of RM61,644,126 including interest and other income.

Revenue is lower than the preceeding cumulative quarter's corresponding period by 1%. Meanwhile, the cumulative realised net profit was lower by 7% mainly due to lower revenue from Subang Parade.

Property operating expenses increased by RM935,865.

**B2 VARIATION OF RESULTS AGAINST PRECEDING QUARTER**

	<b>Current Quarter Ended 30.6.2017 RM</b>	<b>Preceding Quarter Ended 30.6.2016 RM</b>
<b>Income before tax (RM)</b>	<b>10,496,659</b>	<b>10,428,644</b>
- Realised income before tax (RM)	<u>10,369,800</u>	<u>10,428,644</u>
- Unrealised income before tax (RM)	<u>126,859</u>	-

**B3 PROSPECTS**

Retail business in Malaysia continues to remain challenging in 2017. Hektar is expected to complete the acquisition of 1Segamat Shopping Centre in September 2017. The Asset Enhancement Initiative ("AEI") at Landmark Central in Kulim, Kedah is expected to complete by end September 2017. Both exercises are expected to contribute positively to Hektar.

**B4 VARIANCE OF PROFIT FORECAST OR PROFIT GUARANTEE**

Not applicable as there was no profit forecast or profit guarantee issued.

**B5 TAX EXPENSE**

Pursuant to the introduction of the new tax regime for Real Estate Investment Trust ("REIT"), a REIT will be fully exempted from income tax provided at least 90% of its income is distributed to unitholders with effect from the year of assessment 2007.

Barring unforeseen circumstances, there will be no tax payable as Hektar REIT intends to distribute at least 90% of the distributable income to unitholders for the year ending 31 December 2017.

**B6 SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There were no sales of unquoted investments or properties during the quarter.

**B7 QUOTED INVESTMENTS**

There were no purchases or disposal of quoted investments during the quarter.

**B8 CORPORATE PROPOSAL AND DEVELOPMENTS**

Acquisition of 1Segamat Shopping Centre & Proposed Rights Issue

Please refer to our announcements made to Bursa Malaysia Securities Berhad (“Bursa”) via the Bursa website:

[http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc-profile.html?stock\\_code=5121](http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc-profile.html?stock_code=5121)

**B9 BORROWINGS AND DEBT SECURITIES**

Hektar REIT’s total borrowings of RM513,035,696 are secured and comprise:

1. Current liability of RM15,000,000; and
2. Non-current liability of RM498,035,696.

**B10 UTILISATION OF PROCEEDS RAISED FROM ISSUANCE OF NEW UNITS**

There was no issuance of new units during the quarter under review.

**B11 OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There were no off balance sheet financial instruments as at date of reporting.

**B12 DERIVATIVES**

As at 30 June 2017, the Trust has the following Islamic Profit Rate Swap (“IPRS”) to hedge against the fluctuation of future movement in profit rate on its short term financing. The Trust is currently using the said IPRS to hedge against its other revolving credit financing and the unrealized profit of the derivatives had been recognized in the profit and loss:

	<b>Fair Value</b> <b>30 June 2017</b>	<b><u>Maturity</u></b>
	<b><u>RM</u></b>	
5-year IPRS - derivative liability	387,327	Less than 1 year



**B13 MATERIAL LITIGATION**

**Writ of Summons by Mahkota Parade JMB against Hektar REIT**

(Guaman Sivil No: 22 NCVC-66-11)

Further to our announcements dated 25 April 2016, 1 August 2016, 16 November 2016, 14 February 2017 and 22 May 2017, the Melaka High Court has heard the suit on 20 and 29 March and subsequently the hearing was concluded on 19 May 2017. At the conclusion of the hearing, the court directed parties to file in written submissions by 22 June 2017 and judgment is expected to be delivered on 11 August 2017.

**Strata Management Tribunal Claim against Mahkota Parade JMB**

(Tribunal Court Putrajaya Case No. TPS/M-2024-11/2016)

On 28 November 2016, Hektar REIT has filed a claim against the Mahkota Parade JMB and 8 other defendants at the Strata Management Tribunal to invalidate the previous annual general meeting held on 26 January 2016. The hearing of the claim was partially heard on 26 January 2017. On 18 April 2017, the Tribunal heard and dismissed Hektar REIT's interlocutory application to refrain the Mahkota Parade JMB and 8 other defendants from calling the 5th annual general meeting or any other annual general meeting until the disposal of Hektar REIT's claim in this case. The Tribunal also heard and dismissed the Mahkota Parade JMB's interlocutory application to strike out Hektar REIT's claim. The hearing of the 28 November 2016 claim, which was earlier fixed by the Tribunal to be held on 22 June 2016 was, at the request of the JMB's lawyer, postponed to a later date to be fixed and notified by the Tribunal. Parties are now awaiting the Tribunal to fix a new hearing date.

The management will continue to take all necessary action to fully defend Hektar REIT's rights and interest in this litigation matter and will provide further updates on the matter in due course.

**Writ of Summons against The Store**

(Guaman Sivil No: WA-22NCVC-394-07, BA-A52NCVC-45-02 and WA-24NCvC-266-02)

Hektar REIT is currently in the process of litigation with a major tenant, The Store (Malaysia) Sdn Bhd, regarding terms of their tenancies at three of its premises in Central Square in Sungai Petani, Landmark Central in Kulim and Wetex Parade in Muar. The litigation is ongoing and updates will be provided once there is greater clarity on the outcome of these cases.

**B14 SOFT COMMISSION**

For the quarter ended 30 June 2017, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

**B15 INCOME DISTRIBUTION**

The Board of Directors of Hektar Asset Management Sdn Bhd has recommended and the Trustee has approved a Second Interim Income Distribution for the Second Quarter ended 30 June 2017 together with an Advance Income Distribution for the period of July and August 2017 totalling 4.00 sen per unit amounting to RM16,025,365 to be made on 22 September 2017. The withholding tax rate imposed on the recipients of income distribution is as follows:

Non-corporate investor	Withholding tax at 10%
Foreign institutional investors	Withholding tax at 10%
Resident companies	Subject to tax at the prevailing tax rate at 24%
Non-resident companies	Withholding tax at the prevailing tax rate at 24%

**B16 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT**

	<b>Current Quarter Ended 30.6.2017</b>	<b>Preceding Quarter Ended 30.6.2016</b>
Income before tax (RM)	10,496,659	10,428,644
Provision for income distribution (RM)	16,025,365	10,416,487
Number of units in issue	400,634,117	400,634,117
Basic earnings per unit (sen)	2.62	2.60
- realised (sen)	2.59	2.60
Distribution per unit (sen)	4.00	2.60
Market Price (RM)	1.36	1.51
Dividend yield (%)	6.95	6.89

**B17 RESPONSIBILITY STATEMENT**

In the opinion of the Directors of the Manager, the quarterly report has been prepared in accordance with MFRSs 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 Hektar REIT as at 30 June 2017 and of its financial performance and cash flows for the quarter/period ended on that date and duly authorised for release by the Board of the Manager on 8 August 2017.

By Order of the Board  
**HEKTAR ASSET MANAGEMENT SDN BHD**  
 (as the Manager of Hektar Real Estate Investment Trust)

**Dato' Muhammad Hafidz Nuruddin (MAICSA 7005820)**  
**Lim Seck Wah (MAICSA 0799845)**  
 Joint Company Secretaries  
 Kuala Lumpur  
 8 August 2017