

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

	As at 30.9.2017 RM (Unaudited)	As at 31.12.2016 RM (Audited)
<u>NON-CURRENT ASSETS</u>		
Investment properties	1,194,568,739	1,092,450,000
Plant & Equipment	68,922	-
Capital work in progress	8,317,522	162,080
Fixed deposits with a licensed bank	665,369	665,369
	1,203,620,552	1,093,277,449
<u>CURRENT ASSETS</u>		
Trade receivables	9,553,470	5,750,826
Other receivables, deposits and prepayments	2,273,162	17,220,686
Cash and bank balances	13,309,461	14,560,249
	25,136,093	37,531,761
TOTAL ASSETS	1,228,756,645	1,130,809,210
<u>NON-CURRENT LIABILITIES</u>		
Tenancy deposits	12,857,659	12,279,861
Bank borrowings	535,283,725	493,200,372
Derivative financial instrument	528,039	814,013
	548,669,423	506,294,246
<u>CURRENT LIABILITIES</u>		
Trade payables	1,588,082	937,729
Other payables and accruals	6,071,292	5,596,625
Tenancy deposits	20,641,598	17,512,440
Bank borrowings	15,000,000	15,000,000
	43,300,972	39,046,794
TOTAL LIABILITIES	591,970,395	545,341,040
NET ASSET VALUE	636,786,250	585,468,170
<u>FINANCED BY:</u>		
Unitholders' capital	492,500,449	425,738,255
Undistributed income – realised	35,732,769	43,476,386
– unrealised	108,553,032	116,253,529
TOTAL UNITHOLDERS' FUND	636,786,250	585,468,170
NET ASSET VALUE PER UNIT (RM)		
-as at the date	1.3784	1.4614
-before distribution for the cumulative quarter	1.4565	1.5664
NUMBER OF UNITS IN CIRCULATION	461,960,178	400,634,117

Note: tenancy deposit includes RM1,831,111 (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 SEPTEMBER 2017 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.09.2017 RM	Preceding Year Corresponding Quarter 30.09.2016 RM	Current YTD 30.09.2017 RM	Preceding YTD 30.09.2016 RM
Revenue	30,457,907	30,859,627	92,102,033	93,403,820
Property operating expenses	(13,361,733)	(12,818,525)	(39,277,171)	(37,798,098)
Net property income	17,096,174	18,041,102	52,824,862	55,605,722
Interest income	114,244	101,141	226,652	225,281
Other income	24,892	1,433	131,894	91,739
Trust expenses	(2,854,479)	(2,427,051)	(7,987,484)	(7,505,177)
Borrowing costs	(5,758,888)	(5,701,661)	(16,882,471)	(17,267,502)
Realised income before taxation	8,621,943	10,014,964	28,313,453	31,150,063
Change in fair value of investment properties	(7,986,471)	-	(7,986,471)	-
Change in fair value of derivative financial instrument	(140,713)	-	285,974	-
Income before taxation	494,759	10,014,964	20,612,956	31,150,063
Taxation	-	-	-	-
Net income	494,759	10,014,964	20,612,956	31,150,063
Other comprehensive income after tax	-	-	-	-
Total comprehensive income	494,759	10,014,964	20,612,956	31,150,063
Earnings per unit (sen)	0.12 ^a	2.44 ^c	5.11 ^b	7.60 ^c
- realised (sen)	2.11 ^a	2.44 ^c	7.02 ^b	7.60 ^c
- unrealised (sen)	(1.99) ^a	-	(1.91) ^b	-

Note: a. Earnings per unit for the current quarter ended 30 September 2017 was calculated based on a weighted average of 408,810,925 units
b. Earnings per unit for the cumulative quarter ended 30 September 2017 was calculated based on a weighted average of 403,359,720 units
c. Earnings per unit for the preceding quarter and cumulative preceding year to date is based on 409,808,944 unit after taking into consideration of the bonus element in respect of the Rights Issue in accordance with the Malaysian Financial Reporting Standard 133.

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

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

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised RM	
<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 September 2017</u>				
Total comprehensive income for the financial quarter	-	28,313,453	(7,700,497)	20,612,956
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(36,057,070)	-	(36,057,070)
Unitholders' capital	68,143,927	-	-	68,143,927
Unit issuance expenses	(1,381,733)	-	-	(1,381,733)
Balance at 30 September 2017	<u>492,500,449</u>	<u>35,732,769</u>	<u>108,553,032</u>	<u>636,786,250</u>

CUMULATIVE QUARTER ENDED 31 DECEMBER 2016 (AUDITED)

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised RM	
<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

**STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE CUMULATIVE QUARTER ENDED 30 SEPTEMBER 2017**

	Current YTD 30.9.2017 RM	Preceding YTD 30.9.2016 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxation	20,612,956	31,150,063
Adjustments for :-		
Interest income	(226,652)	(225,281)
Interest expense	16,882,471	17,267,502
Rental under MFRS 117	271,409	233,649
Impairment loss on trade receivables	596,659	312,819
Fair value change on derivatives	(285,974)	-
Fair value adjustment	7,986,471	-
Operating profit before working capital changes	<u>45,837,340</u>	<u>48,738,752</u>
Change in working capital :-		
Receivables	10,562,782	(12,925,106)
Payables	4,546,003	(2,584,707)
Net cash from operating activities	<u>60,946,125</u>	<u>33,228,939</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment properties/Acquisition of property	(110,174,131)	(330,000)
Expenditure for refurbishment and enhancement of investment property incurred	(8,155,441)	(1,893,940)
Interest income	226,652	225,281
Net cash used in investing activities	<u>(118,102,920)</u>	<u>(1,998,659)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of rights	68,143,927	-
Expenditure in relation to issuance of rights	(1,381,733)	-
Interest expense	(16,882,471)	(17,267,502)
Distribution to Unitholders	(36,057,070)	(31,650,096)
Borrowings	42,083,354	13,796,655
Net cash used in financing activities	<u>55,906,007</u>	<u>(35,120,943)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,250,788)	(3,890,663)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,560,249	19,085,638
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>13,309,461</u>	<u>15,194,975</u>

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 SEPTEMBER 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, except for the issuance of rights, details as follows:-

Rights	No. of units	Price (RM)	RM
Issuance to the public	60,966,061	1.11	67,672,328
Issuance to the manager	360,000	1.31	471,600
Total	61,326,061		68,143,928

A7 INCOME DISTRIBUTION

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 was paid on 21 September 2017. The Board of Directors of Hektar Asset Management Sdn Bhd intends to distribute the Income Distribution for the period of September 2017 together with the Final Income Distribution for the Fourth Quarter ending 31 December 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 Kulim Central were last valued on 30 September 2017. Meanwhile, One Segamat was last valued on 22 June 2017.

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

During the current quarter, Hektar REIT's fund size increased from 400,634,117 to 461,960,178 units arising from a rights issue exercise. The rights issue exercise was undertaken to part-finance the acquisition of Segamat Central in Johor.

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 RM1,831,111 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:-
Refurbishment of investment properties

RM
18,628,327

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 September 2017, Hektar REIT generated total revenue of RM92,460,579 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 9% mainly due to lower revenue from Subang Parade.

Property operating expenses increased by 4%.

B2 VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter Ended 30.9.2017 RM	Preceding Quarter Ended 30.9.2016 RM
Income before tax (RM)	494,759	10,014,964
- Realised income before tax (RM)	<u>8,621,943</u>	<u>10,014,964</u>
- Unrealised income before tax (RM)	<u>(8,127,184)</u>	-

B3 PROSPECTS

Retail business in Malaysia continues to remain challenging. However, measures are being taken to improve the performance. Hektar has completed the acquisition of One Segamat and is exploring Asset Enhancement Initiatives ("AEI") in this mall. In addition, Kulim Central is expected to complete its AEI by year end and this is expected to improve the mall's performance.

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 One Segamat & Issuance of Rights Issue

The acquisition of One Segamat was completed on 18 September 2017. For further details, 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

B9 BORROWINGS AND DEBT SECURITIES

Hektar REIT’s total borrowings of RM550,283,725 are secured and comprise of the following:

1. Current liability of RM15,000,000; and
2. Non-current liabilities of RM535,283,725.

B10 UTILISATION OF PROCEEDS RAISED FROM ISSUANCE OF NEW UNITS

On 29 August 2017, 60,966,061 units of rights were issued, which raised RM67,672,328. The utilisation of the proceeds were as follows:

	RM
Part-acquisition of One Segamat	64,520,000
Incidental costs:	
<u>Corporate Exercise</u>	
1. Professional fees	828,973
2. Underwriting commission	428,493
3. Fees payable to the authorities	42,459
4. Other Incidental cost	81,808
<u>Proposed Acquisition</u>	
1. Acquisition fee paid to Manager	568,400
2. Professional fees	279,808
3. Fees in relation to bank borrowing	538,931
4. Registration fee	210,000
Working capital	173,456
Total	67,672,328

B11 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

B12 DERIVATIVES

As at 30 September 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 unrealised profit of the derivatives had been recognised in the profit and loss:

	Fair Value 30 September 2017 <u>RM</u>	<u>Maturity</u>
5-year IPRS - derivative liability	528,039	Less than 1 year

B13 MATERIAL LITIGATION

Writ of Summons by Mahkota Parade JMB against Hektar REIT
(Guaman Sivil No: 22 NCVC-66-11)

On 21 August 2017, the Melaka High Court has decided that the Mahkota Parade JMB’s claims against Hektar REIT and Hektar REIT’s subsequent counterclaim against Mahkota Parade JMB be dismissed with each party to bear their own cost. Following the High Court decision, the Mahkota Parade JMB and Hektar REIT have since filed their respective appeals to the Court of Appeal on 7 September 2017 and 13 September 2017 respectively.

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. On 8 May 2017, the JMB lawyer’s interlocutory application to nullify his subpoena to appear as a witness was allowed by the Tribunal. 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. After several postponements, the Tribunal held a case management on 2 October 2017 and directed parties to file the relevant tribunal documents in preparation for the hearing.

On 13 November 2017, the hearing at the Tribunal commenced with the calling of Hektar REIT’s first witness. At the end of the session, the hearing was then adjourned to be continued at a later date to be fixed by the Tribunal.

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 (“The Store”), regarding terms of their tenancies at three of its premises in Central Square in Sungai Petani, Kulim Central in Kulim and Wetex Parade in Muar. On 16 October 2017, the Kuala Lumpur High Court allowed The Store’s application to continue their tenancies for the premises in Central Square in Sungai Petani and Landmark Central in Kulim and Hektar REIT has since filed a notice of appeal to the Court of Appeal on 27 October 2017 to appeal against the decision of the Kuala Lumpur High Court.

Meanwhile, the court case with The Store in relation to Wetex Parade is currently being litigated separately at the Shah Alam Sessions Court and updates will be provided once there is clarity on the outcome of the case.

B14 SOFT COMMISSION

For the quarter ended 30 September 2017, the Manager received a soft commission in the form of Hektar REIT units, amounting to 360,000 units (equivalent to RM471,600). This represents 45% of the total fee paid by Hektar REIT in relation to Hektar REIT’s acquisition of One Segamat in Johor.

B15 INCOME DISTRIBUTION

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 was distributed on 21 September 2017. The Board of Directors of Hektar Asset Management Sdn Bhd intends to distribute the Income Distribution for the period of September 2017 together with the Final Income Distribution for the Fourth Quarter ending 31 December 2017.

B16 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT

	Current Quarter Ended 30.9.2017	Preceding Quarter Ended 30.9.2016
Income before tax (RM)	494,759	10,014,964
- Realised income before tax (RM)	8,621,943	10,014,964
Provision for income distribution (RM)	-	10,416,487
Number of units in issue	408,810,925 ^a	400,634,117
Basic earnings per unit (sen)	0.12 ^a	2.44 ^b
- realised (sen)	2.11 ^a	2.44 ^b
Distribution per unit (sen)	-	2.60
Market Price (RM)	1.27	1.57
Distribution yield (%)	n/a	6.62

Note : a. Earnings per unit for the current quarter ended 30 September 2017 was calculated based on a weighted average of 408,810,925 units.
 b. Earnings per unit for the preceding quarter and cumulative preceding year to date is based on 409,808,944 unit after taking into consideration of the bonus element in respect of the Rights Issue in accordance with the Malaysian Financial Reporting Standard 133.

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 September 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 24 November 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
 24 November 2017