

HEKTAR REAL ESTATE INVESTMENT TRUST

**Interim Financial Report
for the quarter ended 31 December 2022**



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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	As at 31.12.2022 RM (Unaudited)	As at 31.12.2021 RM (Audited)
<u>NON-CURRENT ASSETS</u>		
Investment properties	1,206,080,000	1,164,500,000
Plant & Equipment	45,538	68,059
Capital work in progress	-	62,724
Fixed deposits with a licensed bank	-	1,583,933
	1,206,125,538	1,166,214,716
<u>CURRENT ASSETS</u>		
Trade receivables	4,491,594	2,682,412
Other receivables, deposits and prepayments	1,736,666	2,725,691
Cash and bank balances	23,152,897	59,084,688
	29,381,157	64,492,791
TOTAL ASSETS	1,235,506,695	1,230,707,507
<u>NON-CURRENT LIABILITIES</u>		
Tenancy deposits	25,581,891	9,185,005
Deferred tax liability	28,230,834	24,887,634
Bank borrowings	542,443,790	566,090,863
	596,256,515	600,163,502
<u>CURRENT LIABILITIES</u>		
Trade payables	5,652,838	16,623,843
Other payables and accruals	23,156,645	28,182,851
Tenancy deposits	3,479,129	22,774,490
Bank borrowings	9,000,000	15,000,000
	41,288,612	82,581,184
TOTAL LIABILITIES	637,545,127	682,744,686
NET ASSET VALUE	597,961,568	547,962,821
<u>FINANCED BY:</u>		
Unitholders' capital	496,731,949	496,731,949
Undistributed income – realised	66,967,629	55,225,682
– unrealised	34,261,990	(3,994,810)
TOTAL UNITHOLDERS' FUND	597,961,568	547,962,821
NET ASSET VALUE PER UNIT (RM)		
-as at the date	1.2689	1.1628
-after the Proposed final distribution	1.2159	1.1375
NUMBER OF UNITS IN CIRCULATION	471,260,178	471,260,178

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2021 and the accompanying explanatory notes attached.

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2022 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.12.2022 RM	Preceding Year Corresponding Quarter 31.12.2021 RM	Current Year-to-Date (YTD) 31.12.2022 RM	Preceding Year-to-Date (YTD) 31.12.2021 RM
Revenue	27,892,213	24,978,502	117,446,102	96,598,638
Property operating expenses	(17,849,730)	(12,599,853)	(58,759,205)	(49,580,569)
Net property income	10,042,483	12,378,649	58,686,897	47,018,069
Interest income	1,344,169	272,018	1,609,111	736,999
Other income	(576,092)	(130,915)	1,757,983	24,006
Trust expenses	(2,361,078)	(4,786,162)	(5,446,183)	(16,398,814)
Borrowing costs	(5,876,483)	(4,521,770)	(20,213,005)	(18,668,479)
Realised income before taxation	2,572,999	3,211,820	36,394,803	12,711,781
Change in fair value of investment property	41,600,000	(44,212,511)	41,600,000	(44,212,511)
Income/(loss) before taxation	44,172,999	(41,000,691)	77,994,803	(31,500,730)
Taxation	(3,349,150)	3,034,750	(3,349,150)	3,034,750
Net income/(loss)	40,823,849	(37,965,941)	74,645,653	(28,465,980)
Other comprehensive income after tax	-	-	-	-
Total comprehensive income	40,823,849	(37,965,941)	74,645,653	(28,465,980)
Earnings per unit (sen)				
- realised (sen)	0.54	0.69	7.72	2.75
- unrealised (sen)	8.12	(8.91)	8.12	(8.91)
Number of units	471,260,178	461,960,178	471,260,178	461,960,178

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 2021 and the accompanying explanatory notes attached.

**CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE QUARTER ENDED 31 DECEMBER 2022 (UNAUDITED)**

	Unitholders' Capital RM	<u>Undistributed income</u> Realised Unrealised RM RM		Unitholders' Fund RM
<u>Balance at 1 January 2022</u> As previously reported	496,731,949	55,225,682	(3,994,810)	547,962,821
<u>Operation for the year ended</u> <u>31 December 2022</u>				
Total comprehensive income for the financial year	-	36,388,853	38,256,800	74,645,653
<u>Unitholders' transactions</u>				
Distributions to unitholders	-	(24,646,906)	-	(24,646,906)
Balance at 31 December 2022	496,731,949	66,967,629	34,261,990	597,961,568

CUMULATIVE YEAR ENDED 31 DECEMBER 2021 (AUDITED)

	Unitholders' Capital RM	<u>Undistributed income</u> Realised Unrealised RM RM		Unitholders' Fund RM
<u>Balance at 1 January 2021</u> As previously reported	492,500,449	46,671,543	37,182,951	576,354,943
<u>Operation for the year ended 31</u> <u>December 2021</u>				
Total comprehensive loss for the financial year	-	12,711,781	(41,177,761)	(28,465,980)
<u>Unitholders' transaction</u>				
Unitholders' capital	4,231,500	-	-	4,231,500
Distributions to unitholders	-	(4,157,642)	-	(4,157,642)
Balance at 31 December 2021	496,731,949	55,225,682	(3,994,810)	547,962,821

The Condensed Statement of Changes in Net Asset Value should be read in conjunction with the audited financial statements for the year ended 31 December 2021 and the accompanying explanatory notes.

**CONDENSED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 DECEMBER 2022 (UNAUDITED)**

	Current Year-to-Date (YTD) 30.09.2022 RM	Preceding Year-to-Date (YTD) 31.12.2021 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Income/(Loss) before taxation	77,994,803	(31,500,730)
Adjustments for :-		
Change in Fair Value of Investment Properties	(41,600,000)	44,212,511
Depreciation of Property, plant and equipment	22,521	22,520
Interest income	(1,609,111)	(736,999)
Interest expense	20,213,005	18,668,479
Impairment loss on trade receivables	(8,779,287)	6,116,075
Operating profit before changes in working capital	46,241,931	36,781,856
Change in working capital:-		
Trade and other receivables	7,959,130	10,083,160
Trade and other payables	(18,818,912)	3,159,031
Net cash from operating activities	35,382,149	50,024,047
CASH FLOW FROM INVESTING ACTIVITIES		
Refurbishment and enhancement of investment property	-	(395,478)
Interest received	1,609,111	736,999
Withdrawal/(placement) of fixed deposits	1,583,933	(32,168)
Net cash generated from investing activities	3,193,044	309,353
CASH FLOW FROM FINANCING ACTIVITIES		
Interest paid	(20,213,005)	(18,668,479)
Distribution to Unitholders	(24,646,906)	(4,157,642)
Bank borrowings (net)	(29,647,073)	-
Proceeds from private placement	-	4,231,500
Net cash used in financing activities	(74,506,984)	(18,594,621)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(35,931,791)	31,738,779
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	59,084,688	27,345,909
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23,152,897	59,084,688
Cash and cash equivalents at end of the year	12,392,897	59,084,688
Short term funds with maturity period more than three months	10,760,000	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23,152,897	59,084,688

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2021 and the accompanying explanatory notes attached.

A. EXPLANATORY NOTES FOR THE QUARTER ENDED 31 DECEMBER 2022 PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134

A1 BASIS OF PREPARATION

The quarterly financial report is unaudited and has been prepared in compliance with MFRS 134: Interim Financial Reporting issued by Malaysian Accounting Standards Board and Securities Commission's Guidelines on the Listed Real Estate Investment Trusts ("REIT Guidelines").

A2 AUDIT REPORT OF PRECEDING FINANCIAL YEAR

The auditors' report for the financial year ended 31 December 2021 was not subject to any audit qualification.

A3 SEASONALITY OR CYCLICALITY OF OPERATIONS

Hektar REIT's operations were not significantly affected by material seasonal or cyclical factors.

A4 SIGNIFICANT UNUSUAL ITEMS

There were no significant unusual items that affected the assets, liabilities, equity, net property income or cash flows during the current quarter.

A5 CHANGES IN ESTIMATES

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

A6 DEBT AND EQUITY SECURITIES

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

A7 INCOME DISTRIBUTION

Subject to the financial performance of the REIT, the Manager intends to make distributions at least 90% of Hektar REIT's distributable income to the unitholders of Hektar REIT on a semi-annual basis for each six-month period ending 30 June and 31 December each year, unless otherwise determined and/or varied by the Manager at its sole discretion.

Distribution of 5.3 sen (gross) per unit for the fourth quarter ended 31 December 2022 ("2022 Final Income Distribution") was announced on 3 January 2023, taking our total distribution for the financial year 2022 to 8.0 sen per unit. An interim distribution of 2.70 sen per unit, amounting to RM12,724,025 for half year ended 30 June 2022 has been declared and paid on 26 September 2022.

The Board of Directors has also determined the income distribution reinvestment plan ("IDRP") shall apply to the entire 2022 Final Income Distribution, where the gross electable portion will be the entire 5.3 sen per unit (bound by the respective withholding tax rates) ("Electable Portion").

Accordingly, under the IDRP, unitholders would have the option to elect to invest, in whole or in part, the 2022 Final Income Distribution in new units instead of receiving them in cash. If a unitholder elects not to participate in the IDRP, then the Electable Portion will be paid wholly in cash.

The issue price of the new units to be issued pursuant to the 1st IDRP has been fixed at RM0.65 per new unit, after deducting for the 2022 Income Distribution and thereafter applying a discount of approximately 9.97%. Hektar REIT will issue new Units to Participating Unitholders who elect to exercise the reinvestment option under the IDRP. The new units arising from the IDRP are expected to be listed on the Main Market of Bursa Securities on 27 February 2023.

A8 SEGMENT INFORMATION

The segmental financial information by operating segments is not presented as Hektar REIT is a retail-focused REIT and the operation of its properties are all located in Malaysia.

A9 VALUATION OF INVESTMENT PROPERTIES

The Investment Properties for Subang Parade, Mahkota Parade, Wetex Parade, Central Square, Kulim Central and Segamat Central were valued on 31 December 2022.

A10 MATERIAL SUBSEQUENT EVENTS TO THE END OF THE INTERIM PERIOD

There were no material events subsequent to the current quarter under review up to the date of this Interim Financial Report that required disclosure.

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 471,260,178 units as of 31 December 2022.

A12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material contingent liabilities or contingent assets as of 31 December 2022.

A13 RENTAL INCOME FROM TENANCIES (MFRS 16)

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

A14 CAPITAL COMMITMENT (MFRS 134)

There were no material capital commitments as of 31 December 2022.

B. ADDITIONAL INFORMATION PURSUANT TO PARAGRAPH 9.44 OF BURSA MALAYSIA SECURITIES BERHAD'S MAIN MARKET LISTING REQUIREMENTS**B1 REVIEW OF PERFORMANCE**

	Quarter		
	31.12.2022 RM	31.12.2021 RM	Variance %
Total revenue	27,892,213	24,978,502	+11.7
Net property income ("NPI")	10,042,483	12,378,649	-18.9
NPI margin	36.0%	49.6%	-13.5%
Other income	768,077	141,103	>+100
Change in fair value (net of tax)	38,256,800	(41,177,761)	>+100
Profit after taxation	40,823,849	(37,965,941)	>+100

For the current quarter, Hektar REIT's total revenue was RM27.9 million, an increase of 11.7% against the corresponding quarter in 2021 of RM2.9 million. Net property income was RM10.0 million, a decrease of RM2.34 million compared with the corresponding quarter in 2021 of RM12.4 million. Higher malls upkeep, repair and maintenance expense was incurred during fourth quarter 2022, to cater improving domestic demands as economic activities normalized.

Profit after taxation was RM40.8 million was mainly resulted from the net fair valuation gain of Hektar REIT's investment properties. The carrying value of the Investment Properties as of 31 December 2022 of RM1,206,100,000 (2021: RM1,164,500,000) is based on the market value as per the valuation reports carried out by independent professional valuers registered with the Board of Valuers, Appraisers & Estate Agents Malaysia

The higher total revenue and NPI in the current quarter is primarily due to the recovery of the retail sector and reopening of borders for economic activities compared to 2021 whereby higher rental support was provided to tenants as the businesses were hit hard by the Covid-19 pandemic.

	Year-To-Date ("YTD") Cumulative Quarter ended		
	31.12.2022 RM	31.12.2021 RM	Variance %
Total revenue	117,446,102	96,598,638	+21.6
NPI	58,686,897	47,018,069	+24.8
NPI margin	50.0%	48.7%	+1.3
Other income	3,367,094	761,005	>+100
Change in fair value (net of tax)	38,256,800	(41,177,761)	>+100
Profit after taxation	74,645,653	(28,465,980)	>+100

For the current year financial year, Hektar REIT recorded a total revenue of RM117.4 million, an increase of 21.6% against the preceding year 2021 of RM96.6 million. Net property income was RM58.7 million, an increase of 24.8% compared with the preceding of RM47.0 million.

The current year's total revenue and NPI are higher, as the retail sector continue to recover especially as borders are now re-opened for economic activities. As for 2021, higher rental support was provided to tenants due to businesses being hit hard by the Covid-19 pandemic and with the implementation of various Movement Control Orders.

One off net fair valuation gain of Hektar REIT's investment properties of RM38.3 million (2021: loss of RM41.2 million) attributable to the easing of Covid-19 containment measures which led to improving domestic demands as economic activities normalized and the improved performance of our portfolio assets.

B2 PROSPECTS

The year 2022 heralded a new chapter for Malaysia as the country entered the transition to the COVID-19 endemic phase on April 1 after battling the virus outbreak for two years.

Economic activity has picked up as the whole country has transitioned into Phase 4 of the NRP in early January 2022 with less restrictive containment measures and most of the retail trades have been allowed to operate. The high rate of vaccination in the community has increased consumer confidence which has resulted in shoppers and patrons gradually returning to the shopping malls.

Despite strong recovery of country's economy, we remain cautious of the outlook for 2023 given the volatile economic landscape driven by hawkish monetary policy in response to inflationary pressure, uncertain consumer sentiments as well as lingering supply-chain and logistics issues stemming from geopolitical concerns. We will continue adopting prudent financial management, cost optimisation and enhancing our asset efficiencies to help cushion the impact.

Despite the concerns, Hektar REIT remains positive & resilient in achieving growth backed by an increasing trend in the occupancy rates for properties under the portfolio.

B3 VARIANCE OF PROFIT FORECAST OR PROFIT GUARANTEE

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

B4 TAX EXPENSE

Pursuant to Section 61A(1) of the Income Tax Act 1967, effective from the year of assessment 2017, a REIT is fully exempt from tax for a year of assessment if it distributes 90% or more of its total income to its Unitholders in the basis period for that year of assessment.

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 2022. A deferred tax expense of RM3.34 million (2021: tax credit of RM3.03 million) was provided for the deferred real property gains tax on investment property.

B5 SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

B6 QUOTED INVESTMENTS

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

B7 CORPORATE PROPOSAL AND DEVELOPMENTS

The Unitholders of Hektar REIT had on 15 December 2022 approved the establishment and implementation an Income distribution reinvestment plan that provides unitholders of Hektar REIT with an option to elect to reinvest, in whole or in part, their cash distribution declared by Hektar REIT (whether interim, final, special or any other types of cash distribution) in new units of Hektar REIT (“The IDRP”).

The Board of Directors had determined that the IDRP shall apply to the entire 2022 Final Income Distribution, where the gross electable portion will be the entire 5.3 sen per unit. The new units of 27,527,792 issued pursuant to the IDRP are expected to be listed on the Main Market of Bursa Securities on 27 February 2023.

B8 BORROWINGS AND DEBT SECURITIES

Hektar REIT’s total borrowings of RM551,443,790 are secured and comprise the following:

- Current borrowings of RM9,000,000; and
- Non-current borrowings of RM542,443,790.

B9 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

B10 MATERIAL LITIGATION

The Board of Directors of the Manager is not aware of any pending material litigation as at the date of this quarterly Financial Report other than disclosed below:

- i. **Writ of summons against 3 tenants & Tashima Development Sdn. Bhd** (Civil Suit No. JD-B52NCVC-01-01/2019; JD-B52NCVC-02-01/2019 and JD-B52NCVC-03-01/2019) (Civil Appeal No. JB-12BNCVC-10-07/2020; JB-12BNCVC-11-7/2020; and JB-12BNCVC-12-7/2020)

Further to our earlier announcements, during the case management on 29 January 2023, the Respondents’ solicitors informed the Court that they had applied to discharge themselves from representing the First Respondents in all three (3) appeals i.e., Dazzling Density Sdn Bhd, Tirai Prospektif Sdn Bhd and Agenda Fokus Sdn Bhd on the grounds that the solicitors are unable to obtain proper and further instructions from the First Respondents.

The Court has now fixed the solicitors’ discharge applications for hearing on 6 March 2023 and further direction with regards to the appeals will be given after the disposal of the discharge applications.

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

ii. **Writ of Summons by Eng Hiap Seng (Rengit) Sdn Bhd against Hektar REIT & Hektar Property Services Sdn Bhd** (Civil Suit No. JB-22NCvC-15-03/2019)

Further to our earlier announcements on this case, on 8 June 2022 during case management, the High Court gave the following directions:-

- a. both parties to file and exchange witness statements on 31 March 2023; and
- b. the trial is fixed for three (3) days from 10 April 2023 to 12 April 2023.

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

iii. **Writ of Summons against Mahkota Parade JMB & 5 Others**
(Civil Suit No. 22 NCvC-22-06/2020)

Further to our earlier announcement on this case, the trial for the Writ of Summons action was fixed for case management on 12 April 2022, and subsequently on 24 May 2022, 19 July 2022 and 11 October 2022 respectively.

The continuation of the trial for the Writ of Summons action proceeded on 16 and 17 January 2023 and the Defendants have closed their case. Thereafter, the High Court directed as follows:

- (i) that the notes of evidence be filed by 17 February 2023;
- (ii) that the parties file and exchange written submissions by 8 March 2023;
- (iii) that the parties file and exchange written submissions in reply by 29 March 2023; and
- (iv) that the hearing for oral submissions be fixed for 9 May 2023.

The Management will provide further updates on matter in due course.

B11 SOFT COMMISSION

For the year ended 31 December 2022, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

B12 INCOME DISTRIBUTION

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

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

Subject to the financial performance of the REIT, the Manager intends to make distributions at least 90% of Hektar REIT's distributable income to the unitholders of Hektar REIT on a semi-annual basis for each six-month period ending 30 June and 31 December each year, unless otherwise determined and/or varied by the Manager at its sole discretion.

A final income distribution of 5.3 sen (gross) per unit for the fourth quarter ended 31 December 2022 ("2022 Final Income Distribution") was announced on 3 January 2023, taking our total distribution for the financial year 2022 to 8.0 sen per unit. An interim distribution of 2.70 sen per unit, amounting to RM12,724,025 for half year ended 30 June 2022 has been declared and paid on 26 September 2022.

The Board of Directors has also determined the IDRPs shall apply to the entire 2022 Final Income Distribution, where the gross electable portion will be the entire 5.3 sen per unit (bound by the respective withholding tax rates) ("Electable Portion").

B13 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT

	CUMULATIVE QUARTER	
	Current Year-to-Date (YTD) 31.12.2022 RM	Preceding Year-to-Date (YTD) 31.12.2021 RM
Net property income	58,686,897	47,018,069
Interest income	1,609,111	736,999
Other income	1,757,983	24,006
Trust expenses	(5,452,133)	(18,668,479)
Borrowing costs	(20,213,005)	(16,398,814)
Realised income before taxation	36,388,853	12,711,781
Less: Loss/ (profit) not subject to distribution	20,440	(7,949)
Balance undistributed realized income	36,409,293	12,703,832
Gross provision for distribution		
- Interim *	12,724,025	-
- Final **	24,976,789	11,922,883
Number of units	471,260,178	461,960,178

* Distribution of 5.3 sen (gross) per unit for the fourth quarter ended 31 December 2022 ("2022 Final Income Distribution") was announced on 3 January 2023.

** An interim distribution of 2.70 sen per unit, amounting to RM12,724,025 for half year ended 30 June 2022 has been declared and paid on 26 September 2022.

B14 RESPONSIBILITY STATEMENT

In the opinion of the Directors of the Manager, this Interim Financial Report has been prepared in accordance with MFRS 134: Interim Financial Reporting, the MMLR and the REIT Guidelines so as to give a true and fair view of the financial position of Hektar REIT as at 31 December 2022 and of its financial performance and cash flows for the financial period ended on that date and duly authorized for release by the Board of the Manager on 23 February 2023.

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
23 February 2023