

# KIP REAL ESTATE INVESTMENT TRUST

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the 1st Quarter of 2018 Ended 30 September 2017

### A. DISCLOSURE REQUIREMENTS PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134

#### A1 BASIS OF PREPARATION

This Interim Financial Report is unaudited and has been prepared in accordance with MFRS 134 "Interim Financial Reporting" issued by Malaysian Accounting Standards Board, paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the Securities Commission's Guidelines on Real Estate Investment Trusts ("REIT Guidelines"). This Interim Financial Report should be read in conjunction with the proforma financial information in the Prospectus and the accompanying notes attached to this Interim Financial Report.

#### A2 AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENT

The Audited Financial Statement of KIP REIT for the financial period ended 30 June 2017 was not subject to any audit qualification.

#### A3 SEASONALITY AND CYCLICALITY OF OPERATIONS

KIP REIT's operations were not significantly affected by seasonal or cyclical factors for the period under review.

#### A4 UNUSUAL ITEMS AFFECTING THE FINANCIAL STATEMENTS

There were no significant unusual items that affect the financial statement of KIP REIT during the financial period under review.

#### A5 CHANGES IN ACCOUNTING ESTIMATES

There were no changes in accounting estimates arising from the adoption of the new and revised FRSS, that have had a material effect during the financial period under review.

#### A6 ISSUANCES, CANCELLATIONS, REPURCHASES AND REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities in the current financial period.

#### A7 INCOME DISTRIBUTION

Based on the Prospectus dated 30 December 2016, KIP REIT Management Sdn. Bhd. ("Manager"), the Manager shall distribute up to 100.0% of KIP REIT's Distributable Income on a half-yearly basis for the Financial Period Ending 30 June 2017 and Financial Year Ending 30 June 2018 and thereafter at least 90% of KIP REIT's Distributable Income.

The income distribution policy for KIP REIT has changed from half-yearly basis to quarterly basis with effect from 31 March 2017 onward, and has been approved by the Trustee and the Manager on 27 April 2017.

On 30 October 2017, the Manager has declared a 1<sup>st</sup> interim income distribution of RM7.58 million or 1.50 sen per unit (of which 1.46 sen per unit is subject to withholding tax and 0.04 sen per unit is tax exempt/non-taxable) for 1<sup>st</sup> quarter of 2018 ended 30 September 2017 (from 1 July 2017 to 30 September 2017). The 1<sup>st</sup> interim income distribution will be paid on 28

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November 2017 to the unitholders registered in the Record of Depositors on 13 November 2017 and has not been included as a liability in the current financial quarter under review.

### A8 SEGMENT REPORTING

Segmental result for the 1<sup>st</sup> quarter of 2018 ended 30 September 2017 is as follows:-

<u>1st Quarter</u>	<u>1st Quarter Ended 30.9.2017</u>		
	<u>KiP Mart</u> <u>RM'000</u>	<u>KiP Mail</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<b>By Business Segments</b>			
<b>Revenue and expenses</b>			
Gross revenue	11,655	3,645	15,301
Net property income	7,259	2,364	9,623
Interest income	160	46	206
Borrowing costs	(899)	(260)	(1,159)
Trust and other expenses	(833)	(227)	(1,059)
Profit before taxation	5,687	1,923	7,611
Taxation	-	-	-
Total comprehensive income attributable to unitholders	5,687	1,923	7,611

<u>Cumulative Quarter</u>	<u>Cumulative Quarter Ended 30.9.2017</u>		
	<u>KiP Mart</u> <u>RM'000</u>	<u>KiP Mail</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
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#### A8 SEGMENT REPORTING (Cont'd)

	Gross Revenue			Net Property Income			Gross Revenue			Net Property Income		
	1st Quarter			1st Quarter			Cumulative Quarter			Cumulative Quarter		
	30.9.2017	30.9.2016	Change	30.9.2017	30.9.2016	Change	30.9.2017	30.9.2016	Change	30.9.2017	30.9.2016	Change
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
<b>KIP Mart</b>												
Tampoi	3,951	-	-	2,784	-	-	3,951	-	-	2,784	-	-
Kota Tinggi	1,501	-	-	885	-	-	1,501	-	-	885	-	-
Mart Masai	4,135	-	-	3,028	-	-	4,135	-	-	3,028	-	-
Senawang	791	-	-	279	-	-	791	-	-	279	-	-
Melaka	1,277	-	-	283	-	-	1,277	-	-	283	-	-
	11,655	-	-	7,259	-	-	11,655	-	-	7,259	-	-
<b>KIP Mall</b>												
Bangi	3,645	-	-	2,364	-	-	3,645	-	-	2,364	-	-
	3,645	-	-	2,364	-	-	3,645	-	-	2,364	-	-
Total Segment	15,301	-	-	9,623	-	-	15,301	-	-	9,623	-	-

KIP REIT comprises the following two business segments:

- i) KIP Mart, and
- ii) KIP Mall

#### a) Review of 1st Quarter of 2018 and Cumulative Quarter Results

##### KIP Mart Segment

KIP Mart segment registered a total Revenue of RM11.65 million and Net Property Income of RM7.26 million for the period under review.

After taking the financing cost and other trust expenses totalling RM1.73 million and off-set with the interest income of RM0.16 million, the profit before taxation for the 1<sup>st</sup> quarter of 2018 ended 30 September 2017 was RM5.69 million.

##### KIP Mall Segment

KIP Mall segment registered a total Revenue of RM3.65 million and Net Property Income of RM2.36 million for the period under review.

After taking the financing cost and other trust expenses totalling RM0.5 million and off-set with the interest income of RM0.05million, the profit before taxation for the 1<sup>st</sup> quarter of 2018 ended 30 September 2017 was RM1.92 million.

#### A9 VALUATION OF INVESTMENT PROPERTIES

The valuation of investment properties have been brought forward without amendment from the previous audited financial statements for the period ended 30 June 2017.

#### A10 SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

There were no significant events during the 1<sup>st</sup> quarter of 2018 ended 30 September 2017.

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## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

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#### A11 SUBSEQUENT MATERIAL EVENTS

Besides A7, there is no other subsequent material events.

#### A12 CHANGES IN THE COMPOSITION OF THE TRUST

KIP REIT was listed on 6 February 2017 with an initial fund size of 505.3 million units. Since listing, there was no material change in composition of fund size for the current financial period under review.

#### A13 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

#### A14 CAPITAL COMMITMENT

There were no major capital commitment as at 30 September 2017.

# KIP REAL ESTATE INVESTMENT TRUST

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the 1<sup>ST</sup> Quarter FY 2018 Ended 30 September 2017

### B. ADDITIONAL INFORMATION PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S MAIN LISTING REQUIREMENTS

#### B1 REVIEW OF PERFORMANCE (CONTINUED)

##### Financial review for current quarter compared with immediate preceding quarter (Continued)

##### Gross Revenue

Gross revenue for Q1FY2018 was RM15.30 million compared to RM16.04 million for the immediate preceding quarter, a variance of RM0.74 million or 4.6% attributed to the marginal drop in average occupancy of 1.65% to 82.33% in the absence of festival seasons in the current quarter under review compared to the immediate preceding quarter which has the Ramadan and Hari Raya festivals.

##### Net Property Income

Net property income ("NPI") for Q1FY2018 was RM9.62 million compared to the immediate preceding quarter of RM10.86 million, a drop of RM1.24 million or 11.4% due to lower gross revenue for current quarter and despite lower expenses for property management for repair and maintenance, marketing and advertisement in last quarter.

##### Profit Before Interest and Taxation

Profit before interest and taxation was lower by RM1.50 million or 14.6% at RM8.77 million for Q1FY2018 when compared to the immediate preceding quarter of RM10.27 million. This was due to the waiver of quit rent and assessment expense by the promoters in the immediate preceding year FP 2017 and the reasons mentioned above.

##### Total Comprehensive Income Attributable to Unitholders

KIP REIT registered a lower total comprehensive income attributable to unitholders of RM7.61 million for the current quarter compared to RM9.13 million for the immediate preceding quarter resulting in a decrease of RM1.52 million or 16.7% mainly attributed to lower gross revenue for current quarter, waiver of quit rent & assessment and lower property expenses in the preceding quarter.

#### B2 MATERIAL CHANGES IN PROFIT BEFORE TAXATION FOR THE QUARTER AS COMPARED WITH THE IMMEDIATE PRECEDING QUARTER

	<u>Current Quarter Ended 30 September 2017 RM ('000)</u>	<u>Immediate Preceding Quarter Ended 30 Jun 2017 RM ('000)</u>
Profit before tax	<u>7,611</u>	<u>9,132</u>

The changes in profit before tax for the current quarter and the immediate preceding quarter are explained in B1 above.

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## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the 1<sup>ST</sup> Quarter FY 2018 Ended 30 September 2017

### B. ADDITIONAL INFORMATION PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S MAIN LISTING REQUIREMENTS

#### B1 REVIEW OF PERFORMANCE

For the 1<sup>st</sup> quarter FY 2018 ("Q1FY2018") ended 30 September 2017, the results as stated in the Statement of Comprehensive Income are from the period from 1 July 2017 to 30 September 2017.

##### Financial review for current quarter and financial year to date

	<u>Individual Period (1st quarter)</u>			<u>Cumulative Period</u>		
	<u>Current Year</u>	<u>Preceding Year</u>	<u>Changes</u>	<u>Current Year</u>	<u>Preceding Year</u>	<u>Changes</u>
	<u>Quarter</u>	<u>Corresponding</u>		<u>To Date</u>	<u>Corresponding</u>	
	<u>30.9.2017</u>	<u>30.9.2016</u>	<u>30.9.2017</u>	<u>30.9.2016</u>		
<u>RM'000</u>	<u>RM'000</u>	<u>(%)</u>	<u>RM'000</u>	<u>RM'000</u>	<u>(%)</u>	
Gross revenue	15,301	-	0.0%	15,301	-	0.0%
Net property income	9,623	-	0.0%	9,623	-	0.0%
Profit before interest and tax	8,770	-	0.0%	8,770	-	0.0%
Profit before taxation	7,611	-	0.0%	7,611	-	0.0%
Profit after taxation	7,611	-	0.0%	7,611	-	0.0%
Total comprehensive income attributable to unitholders	7,611	-	0.0%	7,611	-	0.0%

KIP REIT registered a total Revenue of RM15.30 million and Net Property Income of RM9.62 million for Q1FY2018. Total Comprehensive Income Attributable to Unitholders for Q1FY2018 and for the cumulative period ended 30 September 2017 was RM7.61 million.

There was no comparison financial performance for the preceding year corresponding quarter as the REIT was listed on Bursa Malaysia on 6 February 2017.

The Manager has declared a 1<sup>st</sup> interim income distribution of RM7.58 million or 1.50 sen per unit for Q1FY2018 which will be paid on 28 November 2017.

##### Financial review for current quarter compared with immediate preceding quarter

	<u>Current</u>	<u>Immediate</u>	<u>Changes</u>
	<u>Quarter</u>	<u>Preceding</u>	
	<u>30.9.2017</u>	<u>30.6.2017</u>	<u>(%)</u>
	<u>RM'000</u>	<u>RM'000</u>	
Gross revenue	15,301	16,042	-4.6%
Net property income	9,623	10,863	-11.4%
Profit before interest and tax	8,770	10,268	-14.6%
Profit before taxation	7,611	9,132	-16.7%
Profit after taxation	7,611	9,132	-16.7%
Total comprehensive income attributable to unitholders	7,611	9,132	-16.7%

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## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the 1<sup>ST</sup> Quarter FY 2018 Ended 30 September 2017

### **B. ADDITIONAL INFORMATION PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S MAIN LISTING REQUIREMENTS**

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#### **B3 PROSPECTS**

The retail business in Malaysia will continue to remain challenging for the remainder of 2017 as consumer confidence has yet to recover from the current sluggish economy.

KiP Marts and the KiP Mall are community-centric and neighbourhood retail centres, offering a variety of fresh and affordable daily necessity products. The Properties recorded an average occupancy of 82.33% as at 30 September 2017 and will be expected to maintain this occupancy rate despite the current challenging economic situation.

The Manager will continue to ensure that all the existing assets under the portfolio are well maintained and will continue to undertake assets enhancement initiatives ("AEI") to ensure stable rental income and income distribution for KIP REIT to create long term value for its unitholders. The Manager will prioritise and focus on leasing and marketing strategies to increase the occupancy for KiP Mart Lavender Senawang, KiP Mart Melaka as well as KiP Mall Bangi in order to further improve the net rental income from these properties to maximise returns to unitholders.

The Manager also intends to expand the asset portfolio of KIP REIT in the near future, through the acquisition of other properties from the promoters. The Trustee currently also holds Right of First Refusal ("ROFR") for the acquisition of KiP Mall Kota Warisan (completed and soft launched on 29 August 2017), KiP Mart Sendayan, KiP Mart Sungai Buloh, KiP Mart Kuantan and KiP Mart Sungai Pertani which are currently at different stages of completion.

The Manager may also explore the acquisition of properties developed by third parties should they meet the investment criteria and investment objective of KIP REIT.

The Manager is actively identifying suitable property assets as potential new acquisitions to continuously improve the net property income and to ensure stronger yields for KIP REIT.

#### **B4 INVESTMENT OBJECTIVES AND STRATEGIES**

The Manager's key objective for KIP REIT is to provide the unitholders with regular and stable distributions, sustainable long term unit price, distributable income and capital growth, while maintaining an appropriate capital structure. The Manager intends to increase the income and the value of the investment properties through active asset management, asset enhancement initiatives, acquisition growth as well as capital and risk management strategies.

#### **B5 PORTFOLIO COMPOSITON**

During the financial period under review, the portfolio of KIP REIT consists of six (6) investment properties, 5 community-centric retail centres and a neighbourhood shopping mall.

#### **B6 UTILISATION OF PROCEEDS RAISED FROM ANY ISSUANCE OF NEW UNITS**

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

#### **B7 TAXATION**

KIP REIT will be exempted from income tax provided that KIP REIT distributes 90% or more of its total income as defined in the Malaysian Income Tax Act, 1967 ("ITA") to its unitholders within 2 months from the close of its financial period which forms the basis period for the period of assessment of KIP REIT.

# KIP REAL ESTATE INVESTMENT TRUST

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the 1<sup>ST</sup> Quarter FY 2018 Ended 30 September 2017

### B. ADDITIONAL INFORMATION PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S MAIN LISTING REQUIREMENTS

#### B7 TAXATION (CONTINUE)

For the first interim income distribution, the Manager has declared more than 90% of the distributable income as defined in the Malaysian Income Tax Act, 1967 ("ITA") of KIP REIT to unitholders for the current quarter ended 30 September 2017, no provision for taxation has been made for the current quarter ended 30 September 2017.

#### B8 GAIN OR LOSS ON SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There was no disposal of unquoted securities or investment properties during Q1FY2018 ended 30 September 2017 under review.

#### B9 PURCHASE AND DISPOSAL OF QUOTED SECURITIES

There was no purchase or disposal of quoted securities during Q1FY2018 ended 30 September 2017 under review.

#### B10 STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED

There were no corporate proposals announced during the Q1FY2018 ended 30 September 2017 under review.

#### B11 BORROWINGS

	As at 30 September 2017 RM ('000)	As at 30 June 2017 RM ('000)
Secured Term Loan:-		
Current	616	616
Non-current	86,217	86,170
Total Borrowing	<u>86,833</u>	<u>86,786</u>

The Financing Facilities for KIP REIT comprise of a term loan of RM87.00 million to part finance the Acquisitions and, or working capital purposes, a revolving credit facility of RM7.00 million and letter of guarantee of RM3.00 million of which RM1.61 million had been utilised as utilities deposits.

#### B12 TRADE RECEIVABLES

	As at 30 September 2017 RM ('000)	As at 30 June 2017 RM ('000)
Trade Receivables	<u>2,158</u>	<u>2,533</u>

The average credit terms of trade receivables were seven (7) days.



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## B. ADDITIONAL INFORMATION PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S MAIN LISTING REQUIREMENTS

### B12 TRADE RECEIVABLES (CONTINUE)

As at 30 September 2017, the trade receivables has improved by 14.8% to RM2.16 million as compare to audited financial period ended 30 June 2017.

### B13 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instruments for the 1<sup>st</sup> quarter of FY 2018 ended 30 September 2017 under review.

### B14 MATERIAL LITIGATION

There was no pending material litigation as at the date of Interim Financial Report ended 30 September 2017.

### B15 SOFT COMMISSION RECEIVED

There was no soft commission received by the Manager during the 1<sup>st</sup> quarter of FY 2018 ended 30 September 2017 under review.

### B16 SUMMARY OF DPU, EPU AND NAV

	Current Quarter Ended 30 September 2017
Number of units in issue (units'000)	505,300
Earning per unit (EPU) - sen	1.51
Net income distribution to unitholders (RM'000)	7,580
Distribution per unit (DPU) – sen	1.50
Net Asset Value (NAV) – (RM'000)	502,367
NAV per unit (RM)	0.994
Market Value Per Unit (RM)	0.935

### B17 MANAGER FEE

Based on the Trust Deed dated on 2 November 2016, the Manager is entitled to receive the following fees from KIP REIT:-

- (i) Base fee of up to 1.0% per annum on the TAV;
- (ii) Performance fee of up to 5.0% per annum of net property income;
- (iii) Acquisition fee of 1.0% of the transaction value of real estate and real estate related assets directly or indirectly acquired from time to time by the Trustee; and
- (iv) Divestment fee of 0.5% of the transaction value of any real estate and real estate related assets directly or indirectly sold or divested from time to time by the Trustee.

The Manager fees for the 1<sup>st</sup> quarter FY 2018 ended 30 September 2017 totalling RM0.68mil consist of provision of base fee (0.4%) and performance fee (1%).

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### **B. ADDITIONAL INFORMATION PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD'S MAIN LISTING REQUIREMENTS**

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#### **B18 TRUSTEE FEE**

Based on the Deed dated on 2 November 2016, KIP REIT will pay the Trustee an annual trustee's fee of RM100,000.00 per annum payable upon the execution of the Deed for the first three (3) years and thereafter at such rate to be mutually agreed between the Manager and the Trustee. The annual trustee's fee in aggregate shall be up to maximum rate of 0.05% per annum of the NAV of KIP REIT.

#### **B19 RESPONSIBILITY STATEMENT**

This quarterly report has been prepared in accordance with FRS134: Interim Financial Reporting 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 KIP REIT as at 30 September 2017 and of its financial performance and cash flows for the period then ended.