

# HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	As at 30.6.2016 RM (Unaudited)	As at 31.12.2015 RM (Audited)
<b><u>NON-CURRENT ASSETS</u></b>		
Investment properties	1,086,910,000	1,086,580,000
Capital work in progress	1,949,298	335,057
Fixed deposits with a licensed bank	634,816	634,816
	1,089,494,114	1,087,549,873
<b><u>CURRENT ASSETS</u></b>		
Trade receivables	4,367,164	3,725,472
Other receivables, deposits and prepayments	15,841,907	5,953,842
Cash and bank balances	17,565,181	19,085,638
	37,774,252	28,764,952
<b>TOTAL ASSETS</b>	1,127,268,366	1,116,314,825
<b><u>NON-CURRENT LIABILITIES</u></b>		
Tenancy deposits	12,524,409	15,089,960
Bank borrowings	492,659,860	479,214,809
	505,184,269	494,304,769
<b><u>CURRENT LIABILITIES</u></b>		
Trade payables	1,204,421	902,924
Other payables and accruals	4,807,956	7,117,205
Tenancy deposits	16,793,298	14,612,999
Bank borrowings	15,000,000	15,000,000
	37,805,675	37,633,128
<b>TOTAL LIABILITIES</b>	542,989,944	531,937,897
<b>NET ASSET VALUE</b>	584,278,422	584,376,928
<b><u>FINANCED BY:</u></b>		
Unitholders' capital	425,738,255	425,738,255
Undistributed income – realised	43,898,150	43,996,656
– unrealised	114,642,017	114,642,017
<b>TOTAL UNITHOLDERS' FUND</b>	584,278,422	584,376,928
<b>NET ASSET VALUE PER UNIT (RM)</b>		
-as at the date	1.4584	1.4586
-before distribution for the cumulative quarter	1.5114	1.5636
<b>NUMBER OF UNITS IN CIRCULATION</b>	400,634,117	400,634,117

Note: tenancy deposit includes RM1,880,460 (2015:RM2,044,197) 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 2015 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 2016 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.6.2016 RM	Preceding Year Corresponding Quarter 30.6.2015 RM	Current YTD 30.6.2016 RM	Preceding YTD 30.6.2015 RM
Revenue	30,941,129	30,980,083	62,544,193	62,190,990
Property operating expenses	(12,050,799)	(11,327,383)	(24,979,573)	(23,917,621)
<b>Net property income</b>	<b>18,890,330</b>	<b>19,652,700</b>	<b>37,564,620</b>	<b>38,273,369</b>
Interest income	79,946	27,234	124,140	93,863
Other income	1,526	288,222	90,308	291,038
Trust expenses	(2,647,108)	(2,699,823)	(5,078,125)	(5,167,983)
Borrowing costs	(5,896,050)	(5,404,990)	(11,565,841)	(10,533,556)
<b>Income before taxation</b>	<b>10,428,644</b>	<b>11,863,843</b>	<b>21,135,102</b>	<b>22,956,731</b>
Taxation	-	-	-	-
<b>Net income</b>	<b>10,428,644</b>	<b>11,863,843</b>	<b>21,135,102</b>	<b>22,956,731</b>
Other comprehensive income after tax	-	-	-	-
<b>Total comprehensive income</b>	<b>10,428,644</b>	<b>11,863,843</b>	<b>21,135,102</b>	<b>22,956,731</b>
Earnings per unit (sen)	2.60	2.96	5.28	5.73

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 2015 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 2016 (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 2016</u>	425,738,255	43,996,656	114,642,017	584,376,928
<u>Operation for the cumulative quarter ended 30 June 2016</u>				
Total comprehensive income for the financial year	-	21,135,102	-	21,135,102
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(21,233,608)	-	(21,233,608)
Balance at 30 June 2016	<u>425,738,255</u>	<u>43,898,150</u>	<u>114,642,017</u>	<u>584,278,422</u>

### CUMULATIVE QUARTER ENDED 31 DECEMBER 2015 (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 2015</u>	425,738,255	41,369,917	154,576,003	621,684,175
<u>Operation for the cumulative quarter ended 31 December 2015</u>				
Total comprehensive income for the financial year	-	44,693,321	(39,933,986)	4,759,335
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2015	<u>425,738,255</u>	<u>43,996,656</u>	<u>114,642,017</u>	<u>584,376,928</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 2015 and the accompanying explanatory notes.

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**HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT**

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**STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE CUMULATIVE QUARTER ENDED 30 JUNE 2016**

	<b>Current YTD 30.6.2016 RM</b>	<b>Preceding YTD 30.6.2015 RM</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Income before taxation	21,135,102	22,296,731
Adjustments for :-		
Interest income	(124,140)	(93,863)
Interest expense	11,565,841	10,533,556
Rental under MFRS 117	176,335	103,482
Impairment loss on trade receivables	105,000	146,405
Operating profit before working capital changes	<u>32,858,138</u>	<u>33,646,311</u>
Change in working capital :-		
Receivables	(10,080,633)	(3,582,998)
Payables	(3,123,463)	600,715
Net cash from operating activities	<u>19,654,042</u>	<u>30,670,028</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of investment properties	(330,000)	-
Expenditure for refurbishment and enhancement of investment property incurred	(1,614,241)	(23,324,788)
Interest income	124,140	93,863
Placement of fixed deposits	-	(13,537)
Net cash used in investing activities	<u>(1,820,101)</u>	<u>(23,244,462)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Interest expense	(11,565,841)	(10,533,556)
Distribution to Unitholders	(21,233,608)	(21,233,608)
Borrowings	13,445,051	27,416,543
Net cash used in financing activities	<u>(19,354,398)</u>	<u>(4,350,621)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,520,457)</u>	<u>3,074,945</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>19,085,638</u>	<u>14,739,242</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>17,565,181</u></u>	<u><u>17,814,187</u></u>

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached.

**A. EXPLANATORY NOTES FOR THE QUARTER ENDED 30 JUNE 2016 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 Part K 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 2015 in their report dated 19 February 2016.

**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**

Based on the quarterly result ended 30 June 2016, there will be a Second Interim Income Distribution of 2.6 sen per unit, amounting to RM10,416,487 to be made on 2 September 2016.

**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 and Mahkota Parade were last valued on 31 December 2015. Meanwhile for Wetex Parade, Central Square and Landmark Central were last valued on 30 November 2015.

**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. Meanwhile, gross turnover rental is recognised as income in the accounting period on a receipt basis.

**A14 TENANCY DEPOSITS (MFRS 139)**

Included in the tenancy deposit received from tenants is RM1,880,460 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 expenditure in respect of the following has not been provided for in the financial statement: -

Authorised and contracted for:-  
Refurbishment of investment properties

**RM**  
**312,347**

**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 2016, Hektar REIT generated total revenue of RM62,758,641 including interest and other income.

Revenue is higher than the preceeding cumulative quarter's corresponding period by 0.3%. Meanwhile, the cumulative net profit was lower by 8% due mainly to increase in interest expenses and lower revenue from Subang Parade.

Property operating expenses increased by RM1,061,952 due mainly to increase in service charges arising from the acquisition of individual lots in Mahkota Parade and Central Square.

**B2 VARIATION OF RESULTS AGAINST PRECEDING QUARTER**

	<b>Current Quarter Ended 30.6.2016 RM</b>	<b>Preceding Quarter Ended 30.6.2015 RM</b>
<b>Income before tax (RM)</b>	10,428,644	11,863,843

Income before tax was lower by 12% due mainly to increase in interest expenses and lower revenue from Subang Parade.

**B3 PROSPECTS**

Retail business in Malaysia continues to remain a challenge in 2016, especially in light of the slowing economy. Following the completion of the Asset Enhancement Initiatives (AEI) in Central Square, positive contribution is expected in the foreseeable future. AEI for Landmark Central is currently underway.

**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 2016.

**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**

Hektar REIT had, on 10 June 2016 entered into a conditional sale and purchase agreement with Tashima Development Sdn Bhd, a wholly-owned subsidiary of EcoFirst Consolidated Bhd which is listed on Bursa Malaysia Securities Berhad, for the proposed acquisition of the 1Segamat Shopping Centre for a cash consideration of RM104.0 million (“Proposed Acquisition”).

In conjunction with the Proposed Acquisition, the Manager proposes to undertake the following:

1. renounceable rights issue of new units in Hektar REIT (“Units”) to the unitholders of Hektar REIT on an entitlement date to be determined later to raise gross proceeds of up to RM75.0 million to part-finance the Proposed Acquisition (“Proposed Rights Issue”); and
2. issuance of new Units to the Manager as part of the acquisition fee due to the Manager (“Proposed Issuance to Manager”).

The Manager also proposes to seek authority to allot and issue new Units for part payment of the management fee to the Manager in the form of new Units (“Proposed Authority”).

Pursuant to the foregoing, the Manager proposes to increase the existing approved fund size of Hektar REIT to facilitate the increase in the number of Units pursuant to the Proposed Rights Issue, Proposed Issuance to Manager and Proposed Authority (“Proposed Increase in Fund Size”).

**B9 BORROWINGS AND DEBT SECURITIES**

Hektar REIT’s total borrowings of RM507,659,860 comprise:

1. Current liability of RM15,000,000; and
2. Non-current liability of RM492,659,860

**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 MATERIAL LITIGATION**

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

Following our announcement on 25 April 2016, Hektar REIT has, on 16 June 2016, filed an application at the High Court of Malaya at Melaka to strike out the claim from Mahkota Parade JMB and the matter has been fixed for hearing on 5 August 2016. 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.

### **B13 SOFT COMMISSION**

For the quarter ended 30 June 2016, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

### **B14 INCOME DISTRIBUTION**

The Board of Directors of Hektar Asset Management Sdn Bhd has recommended and the Trustee has approved a second interim income distribution of 2.6 sen per unit, amounting to RM10,416,487 for the Second Quarter ended 30 June 2016. 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%

**B15 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT**

	<b>Current Quarter Ended 30.6.2016</b>	<b>Preceding Quarter Ended 30.6.2015</b>
Income before tax (RM)	<u>10,428,644</u>	<u>11,863,843</u>
Provision for income distribution (RM)	<u>10,416,487</u>	<u>10,416,487</u>
Number of units in issue	<u>400,634,117</u>	<u>400,634,117</u>
Basic earning per unit (sen)	<u>2.60</u>	<u>2.96</u>
Distribution per unit (sen)	<u>2.60</u>	<u>2.60</u>

**B16 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 2016 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 1 August 2016.

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  
1 August 2016