

HEKTAR REAL ESTATE INVESTMENT TRUST

**Interim Financial Report
for the period ended 30 June 2023**



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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	As at 30.06.2023 RM (Unaudited)	As at 31.12.2022 RM (Audited)
<u>NON-CURRENT ASSETS</u>		
Investment properties	1,206,080,000	1,206,080,000
Plant & Equipment	459,683	45,538
	1,206,539,683	1,206,125,538
<u>CURRENT ASSETS</u>		
Trade receivables	3,481,167	4,491,594
Other receivables, deposits and prepayments	4,293,668	1,736,666
Cash and bank balances	16,512,540	23,152,897
	24,287,375	29,381,157
TOTAL ASSETS	1,230,827,058	1,235,506,695
<u>NON-CURRENT LIABILITIES</u>		
Tenancy deposits	25,748,216	25,581,891
Deferred tax liability	28,230,834	28,230,834
Bank borrowings	540,239,081	542,443,790
	594,218,131	596,256,515
<u>CURRENT LIABILITIES</u>		
Trade payables	7,112,616	5,652,838
Other payables and accruals	17,183,764	23,156,645
Tenancy deposits	2,271,939	3,479,129
Bank borrowings	3,000,000	9,000,000
	29,568,319	41,288,612
TOTAL LIABILITIES	623,786,450	637,545,127
NET ASSET VALUE	607,040,608	597,961,568
<u>FINANCED BY:</u>		
Unitholders' capital	514,625,014	496,731,949
Undistributed income – realised	58,153,604	66,967,629
– unrealised	34,261,990	34,261,990
TOTAL UNITHOLDERS' FUND	607,040,608	597,961,568
<u>NET ASSET VALUE PER UNIT (RM)</u>		
-as at the date	1.2170	1.2689
-after distribution for the cumulative quarter	1.1900	1.2159
NUMBER OF UNITS IN CIRCULATION	498,787,970	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 2022 and the accompanying explanatory notes attached.

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 JUNE 2023 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.06.2023 RM	Preceding Year Corresponding Quarter 30.06.2022 RM	Current YTD 30.06.2023 RM	Preceding YTD 30.06.2022 RM
Revenue	27,206,593	29,371,896	56,151,639	58,488,364
Property operating expenses	(11,720,061)	(15,662,792)	(25,452,119)	(28,154,777)
Net property income	15,486,532	13,709,104	30,699,520	30,333,587
Interest income	198,331	67,418	214,580	137,692
Other income	600,724	570,465	1,233,025	2,122,367
Reversal of impairment loss	(639,313)	(884,531)	1,428,539	1,359,156
Trust expenses	(2,613,834)	(2,203,952)	(5,107,937)	(4,590,294)
Finance expenses	(6,076,669)	(4,682,633)	(12,304,962)	(9,044,533)
Realised income before taxation	6,955,771	6,575,871	16,162,765	20,317,975
Change in fair value of investment property	-	-	-	-
Income before taxation	6,955,771	6,575,871	16,162,765	20,317,975
Taxation	-	-	-	-
Net income	6,955,771	6,575,871	16,162,765	20,317,975
Other comprehensive income after tax	-	-	-	-
Total comprehensive income	6,955,771	6,575,871	16,162,765	20,317,975
Earnings per unit (sen)	1.39	1.40	3.36	4.31
- realised (sen)	1.39	1.40	3.36	4.31
- unrealised (sen)	-	-	-	-
Weighted average number of units	498,787,970	471,260,178	480,989,178	471,260,178

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 2022 and the accompanying explanatory notes attached.

**CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE QUARTER ENDED 30 JUNE 2023 (UNAUDITED)**

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised RM	
<u>Balance at 1 January 2023</u> As previously reported	496,731,949	66,967,629	34,261,990	597,961,568
<u>Operation for quarter ended 30 June 2023</u>				
Total comprehensive income for The financial quarter	-	16,162,765	-	16,162,765
<u>Unitholders' transactions</u>				
Unitholders' capital	17,893,065	-	-	17,893,065
Distribution to unitholders	-	(24,976,790)	-	(24,976,790)
Balance at 30 June 2023	514,625,014	58,153,604	34,261,990	607,040,608

CUMULATIVE YEAR ENDED 31 DECEMBER 2022 (AUDITED)

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised 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 year ended 31 December 2022</u>				
Total comprehensive income for the financial year	-	36,388,853	38,256,800	74,645,653
<u>Unitholders' transaction</u>				
Distribution 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

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 2022 and the accompanying explanatory notes attached.

**CONDENSED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 JUNE 2023 (UNAUDITED)**

	Current YTD 30.06.2023 RM	Preceding YTD 31.12.2022 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	16,162,765	77,994,803
Adjustments for :-		
Depreciation of PPE	11,023	22,521
Interest income	(214,580)	(1,609,111)
Finance Expenses	12,304,962	20,213,005
Impairment loss on trade receivables	(1,428,539)	(8,779,287)
Fair value adjustment on Investment Properties	-	(41,600,000)
Operating profit before working capital changes	26,835,631	46,241,931
Change in working capital :-		
Receivables	(5,553,968)	7,959,130
Payables	(118,036)	(18,818,912)
Net cash from operating activities	21,163,627	35,382,149
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	214,580	1,609,111
Fixed deposit	-	1,583,933
Purchase of PPE	(425,168)	-
Net cash generated from investing activities	(210,588)	3,193,044
CASH FLOW FROM FINANCING ACTIVITIES		
Finance expense	(12,304,962)	(20,213,005)
Distribution to Unitholders	(7,083,725)	(24,646,906)
Repayment of borrowings	(8,204,709)	(29,647,073)
Net cash used in financing activities	(27,593,396)	(74,506,984)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,640,357)	(35,931,791)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	23,152,897	59,084,688
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16,512,540	23,152,897
CASH AND BANK BALANCES	5,777,491	12,392,897
SHORT TERM FUNDS MORE THAN 3 MONTHS	10,735,049	10,760,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16,512,540	23,152,897

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2022 and the accompanying explanatory notes attached.

A. EXPLANATORY NOTES FOR THE QUARTER ENDED 30 JUNE 2023 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 2022 was not subjected 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 affect 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 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 Hektar REIT had on 28th June 2023, completed the drawdown of a ten (10) years term loan facilities, Commodity Murabahah Term Financing-i Facility of RM65 million ("CMTF-I Facility") granted from a local financial institution. The proceeds of the CMTF-I Facility were fully utilised to partly refinance the existing borrowings due on February 2024.

A7 INCOME DISTRIBUTION

The Board of Directors of Hektar Asset Management Sdn. Bhd. ("The Board") has recommended and the Trustee has approved an interim income distribution of 2.70 sen, amounting to RM13,467,275 for the Second Quarter ended 30 June 2023.

The Board had determined that the Income Distribution Reinvestment Plan ("IDRP") shall apply to the entire Income Distribution for the Second Quarter ended 30 June 2023, where the gross electable portion will be 2.7 sen per unit, amounting to RM13,467,275 for the Second Quarter ended 30 June 2023.

Hektar REIT will issue new units to Unitholders who elect to exercise the reinvestment option. The issue price, which will be determined and fixed by the Board on the price-fixing date, shall not be more than a 10% discount to the 5-day volume weighted average market price ("VWAMP") of the units immediately prior to the price-fixing date.

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 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 last 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

During the quarter, Hektar REIT's Unitholders' capital increased from RM496,731,949 to RM514,625,014.

Issued and fully paid	Number of Units	RM
Balance as at 1 January 2023	471,260,178	496,731,949
Addition arising from the IDRP	27,527,792	17,893,065
Balance as at 30 June 2023	498,787,970	514,625,014

A12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 30 June 2023.

A13 RENTAL INCOME FROM TENANCIES (MFRS 16)

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

A14 CAPITAL COMMITMENT (MFRS 134)

There were no major capital commitments as at 30 June 2023, other than an approved commitment of RM18.3 million for the replacement and modernisation of lifts and escalators at Subang Parade.

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

	Quarter		
	30.06.2023 RM	30.06.2022 RM	Variance %
Total Revenue	27,206,593	29,371,896	-7.4
Net Property Income ("NPI")	15,486,532	13,709,104	13.0
Net Realised Income	6,955,771	6,575,871	5.8
NPI Margin (%)	56.9	46.7	10.2

Hektar REIT recorded a total revenue of RM27.21 million and RM29.37 million for Q2'2023 and Q2'2022 respectively. For the current quarter, the NPI margin remains healthy at 56.9% or RM15.49 million, attributable to the continued effort in the group-wide cost optimisation programme implemented since the second half of 2022.

The performance of the current quarter's net realised income is affected by the higher finance cost by 29.8% or RM1.39 million resulting from the hike in the Overnight Policy Rate ("OPR").

In mitigating the impact of increasing costs of operations, we are actively strengthening the REIT's financial position and enhancing profitability through continued prudent and proactive capital management initiatives as follow:-

- i. Improving the REIT's overall gearing ratio through debt reduction programme to 44.1% in the current quarter as compared to 44.6% as of 31 December 2022, and
- ii. Adopting an aggressive & strategic leasing approach to increase the occupancy rate and improve the tenancy mix of our retail assets. The committed overall occupancy rate of our portfolio of retail assets for the first quarter of 2023 has improved to 85.7% and the revenue from the increase in occupancy rate is expected to materialise in subsequent quarters.

B2 MATERIAL CHANGES IN QUARTERLY RESULTS

	Q2'2023 RM	Q1'2023 RM	Variance %
Total Revenue	27,206,593	28,945,046	-6.0
Net Property Income ("NPI")	15,486,532	15,212,988	1.8
Net Realised Income	6,955,771	9,206,994	-24.5
NPI Margin (%)	56.9	52.6	4.3

For the current quarter, Hektar REIT's total revenue, decreased by 6.0% equivalent to RM1.74 million to RM27.21 million; and improved NPI to RM15.49 million as compared with Q1'2023.

However, the net realised income for the current quarter was affected by the net provision of impairment loss in trade receivables of RM0.64 million as compared to the reversal of an impairment loss in trade receivables in Q1'2023 of RM2.07 million.

B3 PROSPECTS

Malaysia's economic growth has slowed a bit recently due to weaker foreign demand. Nevertheless, higher retail activities were recorded in 2Q 2023, mainly contributed by the continued recovery in consumption spending. With a steady increase in tourist arrivals, the retail sector is expected to receive a boost.

Hektar REIT remains positive and resilient in achieving growth backed by an aggressive & strategic leasing approach to increase the occupancy rate. Moving forward, our focus will be on the repositioning and sweating of Assets Under Management to increase revenue and enhance operational efficiencies.

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 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.

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 2023.

B6 SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

B7 QUOTED INVESTMENTS

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

B8 CORPORATE PROPOSAL AND DEVELOPMENTS

There were no corporate proposals announced and pending completion as at the date of this report.

B9 BORROWINGS AND DEBT SECURITIES

Hektar REIT's total borrowings of RM543,239,081 are secured and comprise the following:

- Current borrowings of RM3,000,000; and
- Non-current borrowings of RM540,239,081.

B10 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

B11 MATERIAL LITIGATION

The Board is not aware of any pending material litigation as at the date of this quarterly Financial Report other than that 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)

As per our earlier announcements, the hearing of the appeals proceeded on 24 May 2023 and the High Court then fixed the appeals for clarification and decision on 31 July 2023.

Subsequently, the High Court had on 27 July 2023, notified the parties that the date of delivery of the High Court's decision has been rescheduled from 31 July 2023 to 4 September 2023.

The Management will continue to 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)

As per our earlier announcements on this case, the High Court has informed the parties that due to an impending administrative change in the High Court of Malaya at Muar, the trial dates which were earlier fixed for this matter have been vacated. The High Court has now fixed the matter for trial from 16 January 2024 to 18 January 2024.

The Management will continue to 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 announcements on this case, the High Court had on 28 July 2023, notified the parties that the date of delivery of the High Court's decision has been rescheduled from 31 July 2023 to 13 September 2023.

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

B12 SOFT COMMISSION

For the quarter ended 30 June 2023, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

B13 INCOME DISTRIBUTION

- i) 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%

The Manager intends to distribute at least 90% of Hektar REIT's distributable income for the financial year ending 31 December 2023. Moving forward, subject to the financial performance of the REIT, the Manager intends to make distribution 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.

- ii) The Unitholders had on 15 December 2022 approved for Hektar REIT to establish an IDRPs 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 Board had determined that the IDRPs shall apply to the entire Income Distribution the Second Quarter ended 30 June 2023, where the gross electable portion will be 2.7 sen per unit, amounting to RM13,467,275 for the Second Quarter ended 30 June 2023.

Hektar REIT will issue new units to Unitholders who elect to exercise the reinvestment option. The issue price, which will be determined and fixed by the Board on the price-fixing date, shall not be more than a 10% discount to the 5-day volume weighted average market price ("VWAMP") of the units immediately prior to the price-fixing date.

B14 DISTRIBUTABLE PER UNIT AND EARNINGS PER UNIT

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30.06.2023 RM	Preceding Year Corresponding Quarter 30.06.2022 RM	Current YTD 30.06.2023 RM	Preceding YTD 30.06.2022 RM
Net property income	15,486,532	13,709,104	30,699,520	30,333,587
Interest income	198,331	67,418	214,580	137,692
Other income	600,724	570,465	1,233,025	2,122,367
Reversal of impairment loss	(639,313)	(884,531)	1,428,539	1,359,156
Trust expenses	(2,613,834)	(2,203,952)	(5,107,937)	(4,590,294)
Finance Expenses	(6,076,669)	(4,682,633)	(12,304,962)	(9,044,533)
Realised income before taxation	6,955,771	6,575,871	16,162,765	20,317,975
Change in fair value of investment property	-	-	-	-
Income before taxation	6,955,771	6,575,871	16,162,765	20,317,975
Taxation	-	-	-	-
Distributable income	6,955,771	6,575,871	16,162,765	20,317,975
Less: Proposed/declared income distribution	-	-	-	-
Balance undistributed realized income	6,955,771	6,575,871	16,162,765	20,317,975
Weighted Average number of units	498,787,970	471,260,178	480,989,178	471,260,178
Earnings per unit (sen) - realised (sen)	1.39	1.40	3.36	4.31

B15 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 30 June 2023 and of its financial performance and cash flows for the financial period ended on that date and duly authorised for release by the Board of the Manager on 28 August 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

28 August 2023