

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON



**REPORTING ACCOUNTANTS' LETTER
ON THE PROFORMA STATEMENT OF FINANCIAL POSITION OF
HEKTAR REAL ESTATE INVESTMENT TRUST
(Prepared for inclusion in the Rights Issue Prospectus)**

The Board of Directors
Hektar Asset Management Sdn Bhd
(the Manager of Hektar REIT)
D1-U3-07 Solaris Dutamas
No. 1, Jalan Dutamas 1
50480 Kuala Lumpur
Malaysia

13 July 2017

Dear Sirs,

**HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
REPORTING ACCOUNTANTS' LETTER ON PROFORMA STATEMENT OF FINANCIAL
POSITION AS AT 31 DECEMBER 2016**

We have reviewed the presentation of the proforma statement of financial position of Hektar REIT as at 31 December 2016, together with the notes and assumptions thereto, as set out in the accompanying statements (which we have stamped for the purpose of identification), prepared for inclusion in the Rights Issue Prospectus to be dated 31 July 2017 in connection with the following:-

- i. Renounceable Rights Issue of 60,966,061 new units in Hektar REIT to raise gross proceeds of RM67,672,328 ("Rights Issue") to part-finance the proposed acquisition of a land measuring approximately 169,284 square feet/15,727 square meters on which a three (3)-storey retail mall building and one (1) basement car park with a total of four hundred and twelve (412) car park bays known as "1Segamat Shopping Centre" (including all relevant assets) erected hereon which forms part of two (2) pieces of leasehold land held under subdivided titles H.S.(D) 37321 No. PTD 1468 in Mukim Gemereh, Daerah Segamat, Negeri Johor and master title H.S.(D) 37323 No. PTB 1283 in Bandar and Daerah Segamat, Negeri Johor and car park rights ("Subject Property") for a purchase consideration of RM104,000,000 from Tashima Development Sdn Bhd, being a wholly-owned subsidiary of Ecofirst Consolidated Bhd ("Proposed Acquisition").
- ii. Issuance of 360,000 new units to Hektar Asset Management Sdn Bhd ("Manager") amounting to RM471,600 as part of the acquisition fee due to the Manager ("Issuance To Manager");
- iii. Authority to allot and issue up to 13,500,000 new units as part payment of the management fee to the Manager ("Authority"); and
- iv. Increase in the existing approved fund size of Hektar REIT from 400,634,117 units up to 475,494,117 units pursuant to the Rights Issue, Issuance To Manager and Authority.

The proceeds from the Rights Issue will be used for the purpose of part-financing the Proposed Acquisition as well as to defray the expenses relating to the Proposed Acquisition.

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PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)



The Board of Directors of the Manager Responsibility

It is the sole responsibility of the Board of Directors of the Manager to prepare the proforma statement of financial position for the purpose of complying with the Prospectus Guidelines (with modifications) and other relevant guidelines/requirements issued by the Securities Commission Malaysia (“Guidelines”).

Reporting Accountants’ Responsibilities

Our responsibility is to form an opinion as required by the Guidelines in conjunction with the proposals on the proforma statement of financial position and our report is given to you solely for this, and no other purpose. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, (*Assurance Engagements to Report on the Compilation of Proforma Financial Information included in a Prospectus*) issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors of the Manager has compiled the proforma statement of financial position on the basis of the applicable criteria.

In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the proforma statement of financial position, nor do we accept responsibility for such reports or opinions beyond that is owed to those to whom those reports or opinions were addressed by us at the date of their issue.

Our work, which involved no independent examination of any of the underlying financial information, is primarily to compare the proforma statement of financial position with the audited financial statements of Hektar REIT for the financial year ended 31 December 2016 and considering the evidence supporting the adjustments, and discussing the proforma statement of financial position with representatives of the Manager.

Reporting Accountants’ Opinion

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the proforma statement of financial position together with the accompanying notes which are provided solely for illustration purpose only,

- (a) have been properly prepared based on the audited financial statements of Hektar REIT as at 31 December 2016 which were prepared in accordance with the Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board and in a manner consistent with both the format of the statement of financial position and accounting policies of Hektar REIT; and
- (b) the adjustments made to the information used in the preparation of the proforma statement of financial position are appropriate for the purposes of the proforma statement of financial position.

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)



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Reporting Accountants' Opinion (Cont'd)

The accompanying proforma statement of financial position and this letter have been prepared solely for the purposes stated above in connection with the Proposals. This letter is not to be reproduced, referred to in any other document, or used or relied upon for any other purpose without our prior written consent.

Yours faithfully,

SJ GRANT THORNTON
NO. AF: 0737
CHARTERED ACCOUNTANTS

KISHAN NARENDRA JASANI
Approval Number: 3223/12/17(J)
Chartered Accountant

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)

Stamped for the purpose of identification on
13 JUN 2017
SJ Grant Thornton

HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
(Established in Malaysia)

PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

The proforma statement of financial position of the Hektar REIT as at 31 December 2016 as set out below are provided for illustrative purpose only to show the effects of the transactions and events as mentioned in Note 3 to the proforma statement of financial position on the assumption that these transactions were completed on that date and should be read in conjunction with the notes thereto.

		Audited	Proforma I	Proforma II	Proforma III
		As at 31		After	After
		December	Proposed	Proforma I	Proforma II
		2016	Rights Issue	and	and the
	Note	RM'000	RM'000	Proposed	Proposed
				Acquisition	Issuance to
				RM'000	Manager
					RM'000
ASSETS					
<u>Non-current assets</u>					
Investment properties	4	1,092,450	1,092,450	1,197,679	1,198,151
Capital work in progress		162	162	162	162
Fixed deposits with a licensed bank		665	665	665	665
Total non-current assets		1,093,277	1,093,277	1,198,506	1,198,978
<u>Current assets</u>					
Trade receivables		5,751	5,751	5,751	5,751
Other receivables, deposits and prepayments		17,221	17,221	17,221	17,221
Cash and bank balances	5	14,560	82,232	14,560	14,560
Total current assets		37,532	105,204	37,532	37,532
TOTAL ASSETS		1,130,809	1,198,481	1,236,038	1,236,510
UNITHOLDERS' FUNDS AND LIABILITIES					
<u>Unitholders' funds</u>					
Unitholders' capital	6	425,738	493,410	491,491	491,963
Undistributed income- realised		43,476	43,476	43,476	43,476
Undistributed income- unrealised		116,254	116,254	116,254	116,254
Total unitholders' funds		585,468	653,140	651,221	651,693

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)

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13 JUL 2017
SJ Grant Thornton

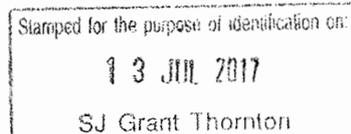
HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
(Established in Malaysia)

PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONT'D)

The proforma statement of financial position of the Hektar REIT as at 31 December 2016 as set out below are provided for illustrative purpose only to show the effects of the transactions and events as mentioned in Note 3 to the proforma statements of financial position on the assumption that these transactions were completed on that date and should be read in conjunction with the notes thereto (cont'd).

		Audited	Proforma I	Proforma II	Proforma III
		As at 31 December 2016 RM'000	Proposed Rights Issue RM'000	After Proforma I and Proposed Acquisition RM'000	After Proforma II and the Proposed Issuance to Manager RM'000
	Note				
<u>Non-current liabilities</u>					
Other payables and accruals		12,280	12,280	12,280	12,280
Bank borrowings	7	493,200	493,200	532,676	532,676
Derivative financial instrument		814	814	814	814
		506,294	506,294	545,770	545,770
<u>Current liabilities</u>					
Trade payables		938	938	938	938
Other payables and accruals		23,109	23,109	23,109	23,109
Bank borrowings		15,000	15,000	15,000	15,000
Total current liabilities		39,047	39,047	39,047	39,047
Total liabilities		545,341	545,341	584,817	584,817
TOTAL UNITHOLDERS' FUNDS AND LIABILITIES		1,130,809	1,198,481	1,236,038	1,236,510
NET ASSETS VALUE ("NAV")		585,468	653,140	651,221	651,693
Number of Units in issue ('000)	6	400,634	461,600	461,600	461,960
NAV per Unit (RM)		1.46	1.41	1.41	1.41
TOTAL BORROWINGS (RM'000)		508,200	508,200	547,676	547,676
GEARING RATIO (Times)		0.45	0.42	0.44	0.44

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)



HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
(Established in Malaysia)

PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONT'D)

NOTES TO THE PROFORMA STATEMENT OF FINANCIAL POSITION

1. BASIS OF PREPARATION

The proforma statement of financial position have been prepared solely to illustrate the effects of the Corporate Exercises (as defined herein) as if the Corporate Exercises had been undertaken as at 31 December 2016. The proforma statement of financial position have been prepared based on the audited financial statements of Hektar REIT for the financial year ended 31 December 2016 which were prepared in accordance with the Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board and in a manner consistent with both the format of the statement of financial position and accounting policies of Hektar REIT.

2. CORPORATE EXERCISES

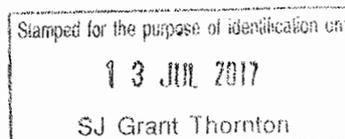
- (i) Renounceable rights issue of 60,966,061 new Hektar REIT units ("**Right Units**") to raise gross proceeds of RM67,672,328 ("**Rights Issue**") to part-finance the proposed acquisition of a land measuring approximately 169,284 square feet/15,727 square meters on which a three (3)-storey retail mall building and one (1) basement car park with a total of four hundred and twelve (412) car park bays known as "1Segamat Shopping Centre" (including all relevant assets) erected hereon which forms part of two (2) pieces of leasehold land held under subdivided titles H.S.(D) 37321 No. PTD 1468 in Mukim Gemereh, Daerah Segamat, Negeri Johor and master title H.S.(D) 37323 No. PTB 1283 in Bandar and Daerah Segamat, Negeri Johor and car park rights ("**Subject Property**") for a purchase consideration of RM104,000,000 from Tashima Development Sdn Bhd, being a wholly-owned subsidiary of Ecofirst Consolidated Bhd ("**Proposed Acquisition**").

The balance of the Proposed Acquisition of RM39,476,072 will be financed by a Cash Line-i/Murabahah Overdraft Facility from a financial institution by the virtue of a letter of offer (Note 7).

The proceeds from the Rights Issue will be used for the purpose of part-financing the Proposed Acquisition as well as to defray the expenses relating to the Corporate Exercises.

- (ii) Issuance of up to 360,000 new Hektar REIT units ("**Manager's Unit**") to Hektar Asset Management Sdn Bhd ("**Manager**" or "**HAMSB**") amounting to RM471,600 as part of the acquisition fee due to the Manager ("**Issuance to the Manager**");
- (iii) Authority to allot and issue up to 13,500,000 new Hektar REIT units as part payment of the management fee to the manager ("**Authority**"); and

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



**HEKTAR REAL ESTATE INVESTMENT TRUST (“HEKTAR REIT”)
(Established in Malaysia)**

**PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONT'D)**

**NOTES TO THE PROFORMA STATEMENT OF FINANCIAL POSITION
(CONT'D)**

2. PROPOSALS (CONT'D)

(iv) Increase in the existing approved fund size of Hektar REIT from 400,634,117 units up to 475,494,117 units pursuant to the Rights Issue, Issuance to the Manager and Authority.

(hereinafter referred to as the “Corporate Exercises”).

3. EFFECTS ON THE PROFORMA STATEMENT OF FINANCIAL POSITION

The proforma statement of financial position have been prepared solely for illustrative purposes and on the basis consistent with both format of the financial statements and accounting policies previously adopted and disclosed by Hektar REIT in its audited financial statements for the financial year ended 31 December 2016, based on the following assumptions:

It is assumed that 60,966,061 Rights Units are issued on the basis of 7 Rights Units for every 46 existing units held in Hektar REIT at 13 July 2017 at an issue price of RM1.11 per Rights Unit.

Total expenses for the Corporate Exercises are estimated at RM3,620,000 of which RM3,148,400 is to be settled in cash and RM471,600 is to be settled by the issuance of 360,000 Manager’s Units at the Theoretical Ex-Rights Price of RM1.31 per new unit, after taking into consideration 5-day Volume Weighted Average Price (“VWAP”) of Hektar REIT units up to 13 July 2017 of RM1.34 per unit, the resultant theoretical ex-rights price and the maximum number of units to be issued by Hektar REIT to maintain the distribution per unit after the Acquisition.

The Proforma effects under both scenarios have been prepared assuming all the following transactions had taken place on 31 December 2016:

3.1 Proforma I

Proforma I incorporates the effects of the Rights Issue of 60,966,061 Rights Units.

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)

Stamped for the purpose of identification on: 13 JUL 2017 SJ Grant Thornton

HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
(Established in Malaysia)

PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONT'D)

NOTES TO THE PROFORMA STATEMENT OF FINANCIAL POSITION
(CONT'D)

3. EFFECTS ON THE PROFORMA STATEMENT OF FINANCIAL POSITION (CONT'D)

3.2 Proforma II

Proforma II incorporates the effects of the Proforma I and the effects of the borrowings of RM39,476,072 to part finance the Proposed Acquisition, the effects of acquisition of the Subject Property totaling RM104,000,000 and expenses of RM3,148,400 to be netted off from the proceeds raised from the Rights Issue relating to the Corporate Exercises of which an estimated RM1,229,400 is to be capitalised.

3.3 Proforma III

Proforma III incorporates the effects of the Proforma II and the effects of issuance of 360,000 Manager's Units to the Manager for part settlement of acquisition fee to the Manager.

4. Investment Properties

	RM'000
Audited as at 31 December 2016/Proforma I	1,092,450
Purchase price for Subject Property	104,000
Estimated expenses for the Corporate Exercises (Note (b))	1,229
	<hr/>
As Per Proforma II	1,197,679
Acquisition fee due to the Manager (Note (a))	472
	<hr/>
As per Proforma III	<u>1,198,151</u>

- (a) Acquisition fee of RM1,040,000 represent 1% of the total purchase price of the Proposed Acquisition of RM104,000,000 due to the Manager out of which RM471,600 is to be settled by the issuance of 360,000 Manager's Units and the balance of RM568,400 is to be settled in cash from the proceeds of the Rights Issue.

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)

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HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
(Established in Malaysia)

PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONT'D)

NOTES TO THE PROFORMA STATEMENT OF FINANCIAL POSITION
(CONT'D)

4. Investment Properties (Cont'd)

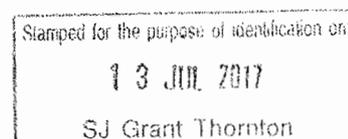
(b) The incidental expenses for the Proposed Acquisition comprise:-

	RM'000
(i) Part settlement of acquisition fee to the Manager	472
(ii) Incidental expenses capitalised into investment properties	1,229
(iii) Incidental expenses setoff against unitholders' capital	1,919
	<u>3,620</u>

5. Cash and Bank Balances

	RM'000
Audited as at 31 December 2016	14,560
Proceeds from Rights Issue	<u>67,672</u>
As per Proforma I	82,232
Debt funding from a financial institution to part finance the Proposed Acquisition	39,476
Settlement of incidental expenses for the Proposed Acquisition	(3,148)
Part settlement of purchase price of the Subject Property	<u>(104,000)</u>
As Per Proforma II/III	<u>14,560</u>

PRO FORMA STATEMENT OF FINANCIAL POSITION OF HEKTAR REIT AS AT 31 DECEMBER 2016 TOGETHER WITH THE NOTES AND REPORTING ACCOUNTANTS' LETTER THEREON
(Cont'd)



HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT")
(Established in Malaysia)

PROFORMA STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONT'D)

NOTES TO THE PROFORMA STATEMENT OF FINANCIAL POSITION
(CONT'D)

6. Unitholders' Capital

	Number of units	RM'000
Audited as at 31 December 2016	400,634	425,738
Rights Units to be issued pursuant to the Rights Issue	60,966	67,672
As per Proforma I	461,600	493,410
Incidental expenses for the Proposed Acquisition (Note 4(b))	-	(1,919)
As per Proforma II	461,600	491,491
Manager's units to be issued for the part settlement of the acquisition fee due to the Manager (Note 4(a))	360	472
As per Proforma III	461,960	491,963

The estimated expenses in the relation to the Corporate Exercises include the cash portion of the acquisition fee, professional fees, underwriting commission, fees payable to the authorities, printing costs and other incidental costs.

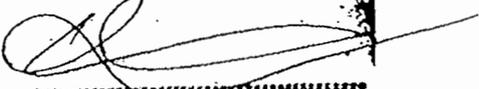
In the event the actual expenses is lower than this estimated amount, such excess shall be used by Hektar REIT for working capital purposes.

7. Bank Borrowings (Non-current)

	RM'000
Audited as at 31 December 2016/Proforma I	493,200
Cash Line-i/Murabahah Overdraft Facility to be obtained from a financial institution to part-finance the Proposed Acquisition	39,476
As per Proforma II/III	532,676

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON

CERTIFIED TRUE COPY


Authorized Signatory(s)

KISHAN NARENDRA JASANI
(NO: 3223/12/17(J))
CHARTERED ACCOUNTANT

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2016

SJ GRANT THORNTON
CHARTERED ACCOUNTANTS
Member of Grant Thornton International Ltd

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)**REPORTS AND FINANCIAL STATEMENTS****31 DECEMBER 2016**

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AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON *(Cont'd)*

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

CORPORATE INFORMATION

MANAGER	Hektar Asset Management Sdn. Bhd.
MANAGER'S PRINCIPAL PLACE OF BUSINESS	D1-U3-10, Block D1, Solaris Dutamas No. 1, Jalan Dutamas 1 50480 Kuala Lumpur
MANAGER'S REGISTERED OFFICE	Unit 419, Block A Kelana Business Centre No. 97, Jalan SS 7/2 Kelana Jaya 47301 Petaling Jaya Selangor
BOARD OF DIRECTORS OF THE MANAGER	Zalila Binti Mohd Toon Dr Chew Tuan Chiong Christopher Tang Kok Kai Michael Lim Hee Kiang Eng Heng Nee Philip Chia Soon Ren (Alternate Director to Dr Chew Tuan Chiong) Dato' Hisham bin Othman (Appointed on 1 May 2016) Tay Hwee Pio (Alternate Director to Christopher Tang Kok Kai) (Appointed on 29 November 2016) Mahusni Bin Hasnan (Appointed on 23 January 2017) Datuk Kamaruddin bin Awang (Appointed on 15 February 2016 and resigned on 23 January 2017) Dato' Syed Md Amin Bin Syed Jan Aljefri (Resigned on 15 February 2016) Shahril Bin Kassim (Resigned on 1 May 2016) Lam Juck Ngai (Alternate Director to Christopher Tang Kok Kai) (Resigned on 1 November 2016) Dato' Jaafar Bin Abdul Hamid (Demised on 24 January 2017)
SECRETARIES OF THE MANAGER	Dato' Muhammad Hafidz Bin Nuruddin Lim Seck Wah

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON *(Cont'd)*

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

CORPORATE INFORMATION (CONT'D)

TRUSTEE	MTrustee Berhad Level 15, Menara AmFIRST No.1 Jalan 19/3 46300 Petaling Jaya
PROPERTY MANAGER	Hektar Property Services Sdn. Bhd. Lot F36, First Floor Subang Parade No 5, Jalan SS 16/1 47500 Subang Jaya Selangor Darul Ehsan
PRINCIPAL BANKERS	Malayan Banking Berhad Maybank Islamic Berhad
AUDITORS	SJ Grant Thornton (Member firm of Grant Thornton International Ltd) Chartered Accountants Level 11, Sheraton Imperial Court Jalan Sultan Ismail 50250 Kuala Lumpur
REGISTRAR	Mega Corporate Services Sdn. Bhd. Level 15-2, Sheraton Imperial Court Jalan Sultan Ismail 50250 Kuala Lumpur
STOCK EXCHANGE LISTING	Bursa Malaysia Securities Berhad - Main Market

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

STATEMENT BY MANAGER

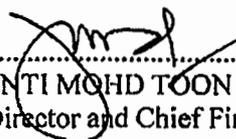
In the opinion of the Directors of Hektar Asset Management Sdn. Bhd., the financial statements set out on pages 12 to 53 are drawn up in accordance with the provisions of the Deed dated 5 October 2006 between Hektar Asset Management Sdn. Bhd. and MTrustee Berhad ("the Deed"), the Securities Commission's Guidelines on Real Estate Investment Trusts, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of Hektar Real Estate Investment Trust, ("Hektar REIT") as at 31 December 2016 and of its financial performance and cash flows for the financial year ended 31 December 2016.

In the opinion of the Directors of Hektar Asset Management Sdn. Bhd., the information set out on page 54 has been compiled in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profit or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors of the Manager in accordance with a resolution of the Board of Directors.



.....
DATU' HISHAM BIN OTHMAN
Executive Director and Chief Executive
Officer



.....
ZALILA BINTI MOHD TOON
Executive Director and Chief Financial Officer

Kuala Lumpur
14 February 2017

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

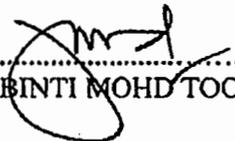
HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

STATUTORY DECLARATION

I, Zalila Binti Mohd Toon, being the Executive Director of Hektar Asset Management Sdn. Bhd. primarily responsible for the financial management of Hektar Real Estate Investment Trust, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 12 to 53 and the financial information set out on page 54 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed in Kuala Lumpur in
the Federal Territory this day of
14 February 2017

)
)
)
).....
ZALILA BINTI MOHD TOON

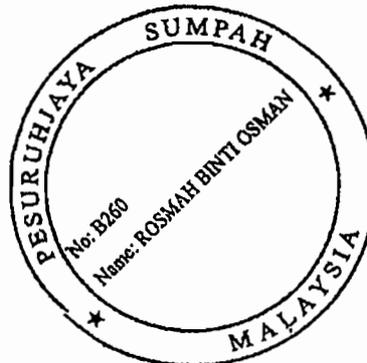


Before me:



Commissioner for Oaths

10-2, Jalan Opera 'C'
Taman TTDI Jaya,
40150 Shah Alam, Selangor.



AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON *(Cont'd)*

**Trustee's Report To The Unitholders Of
Hektar Real Estate Investment Trust**
(Established in Malaysia)

We have acted as Trustee of Hektar Real Estate Investment Trust ("Hektar REIT") for the financial year ended 31 December 2016. In our opinion and to the best of our knowledge, Hektar Asset Management Sdn. Bhd. ("the Manager"), has managed Hektar REIT in accordance with the following:

- (a) limitations imposed on the investment powers of the Manager and the Trustee under the Deeds, the Securities Commission's Guidelines on the Real Estate Investment Trust, the Capital Markets and Services Act 2007 and other applicable laws; and
- (b) the procedures and process employed by the Manager to value and price the units of Hektar REIT are adequate and that such valuation/pricing is carried out in accordance with the Deeds and relevant regulatory requirements.

We confirm that the income distribution declared and paid during the financial year ended 31 December 2016 are in line with and are reflective of the objectives of Hektar REIT.

For and on behalf of the Trustee,
MTrustee Berhad



Tan Kok Cheeng
Chief Executive Officer

Selangor, Malaysia
14 February 2017



**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
HEKTAR REAL ESTATE INVESTMENT TRUST**
(Established in Malaysia)

SJ Grant Thornton (AF:0737)

Level 11 Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia

T +603 2692 4022

F +603 2691 5229

www.grantthornton.com.my

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hektar Real Estate Investment Trust ("the Trust"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in net asset value and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 12 to 53.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Trust as of 31 December 2016, and of its financial performance and its cash flows for the financial year then ended in accordance with the Deed dated 5 October 2006, the Securities Commission Guidelines on Real Estate Investment Trusts, Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Trust in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

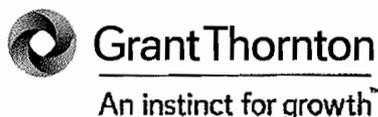
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Trust for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements of the Trust as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment loss on trade receivables

The risk

With reference to Note 7 to the financial statements. The Trust has a material amount of trade receivables that are past due but not impaired amounted to RM3,663,362. The key associate risk is the recoverability of the invoiced trade receivables as management judgement is required in determining the adequacy of the impairment loss made on trade receivables.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)



Key Audit Matters (cont'd)

Impairment loss on trade receivables (cont'd)

Our responses

We have assessed management's assumptions in calculating the impairment loss on trade receivables. This includes reviewing the ageing of the trade receivables, checking the bad debts written off and also reviewing the legal file to check any litigation cases demanding payment from the tenants. We have also checked the recoverability of outstanding trade receivables through the examination of subsequent year end receipts and tested the operating effectiveness of the relevant control procedures that management has in place.

The impairment loss on trade receivables has been provided in line with the Trust's policy and we found the estimates to be in line with our expectation.

Revenue recognition

The risk

The rental income as disclosed in the Note 14 to the financial statements amount to RM110,775,797 is material to the financial statements. The revenue of the Trust are mainly from rental income which is recognised on an accrual basis. Most of the tenancy agreements between the Trust and the tenant are with a term of 3 years and with rent rate increasing at 1%-2% every year. MFRS 117 Leases states that lease payments under an operating lease should be recognised as an income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. The key associated risk is the amount of rental income recognised.

Our responses

We have evaluated the computation on the rental income recognised and also the accuracy of the inputs involved in the calculation by vouching to a sample of agreements, recalculation on the average rental rate and the fair value adjustment arising from the difference between the average rental rate and the actual rental rate. We have also tested the operating effectiveness of the relevant control procedures that management has in place.

The revenue has been recognised in line with our expectation.

Valuation of investment properties

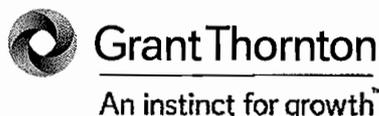
The risk

The investment properties as disclosed in Note 4 to the financial statements amount to RM1,092,450,000 are material to the financial statements. The investment properties have been valued by an independent professional valuer. There is inherent subjectivity and estimation involved in the valuation process.

Our responses

We have assessed the qualification and expertise of the valuers and have also obtained independent confirmation from the valuers. The valuation reports and also valuation workings have been obtained from the valuers. We have performed arithmetic checks on the workings and have assessed the inputs and assumptions involved in the calculation.

The valuation of the investment properties was found reasonable.

**AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)****Information Other than the Financial Statements and Auditors' Report thereon**

The Directors of the Manager of the Trust are responsible for the other information. The other information comprises of all information included in the annual report, but does not include the financial statements of the Trust and our auditors' report thereon.

Our opinion on the financial statements of the Trust does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Trust, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Trust or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors of the Manager for the Financial Statements

The Directors of the Manager of the Trust are responsible for the preparation of financial statements of the Trust that give a true and fair view in accordance with the Deed dated 5 October 2006, the Securities Commission's Guidelines on Real Estate Investment Trusts, MFRS and IFRS. The Directors are also responsible for such internal control as the Directors of the Manager of the Trust determine is necessary to enable the preparation of financial statements of the Trust that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Trust, the Directors of the Manager of the Trust are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Manager of the Trust either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements of the Trust

Our objectives of our audit are to obtain reasonable assurance about whether the financial statements of the Trust as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Trust, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

**AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)**



Auditors' Responsibilities for the Audit of the Financial Statements of the Trust (cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (cont'd):

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Manager of the Trust.
- Conclude on the appropriateness of the Directors of the Manager of the Trust use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Trust or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Trust, including the disclosures, and whether the financial statements of the Trust represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the Manager of the Trust regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provide the Directors of the Manager of the Trust with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors of the Manager of the Trust, we determine those matters that were of most significance in the audit of the financial statements of the Trust for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)



Other Reporting Responsibilities

The supplementary information set out in page 54 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the Unitholders of the Trust, as a body, in accordance with the Securities Commission's Guidelines on Real Estate Investment Trust in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

SJ GRANT THORNTON
(NO. AF: 0737)
CHARTERED ACCOUNTANTS

KISHAN NARENDRA JASANI
(NO: 3223/12/17(J))
CHARTERED ACCOUNTANT

Kuala Lumpur
14 February 2017

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM	2015 RM
ASSETS			
Non-current assets			
Investment properties	4	1,092,450,000	1,086,580,000
Capital work in progress	5	162,080	335,057
Fixed deposits with a licensed bank	6	665,369	634,816
Total non-current assets		<u>1,093,277,449</u>	<u>1,087,549,873</u>
Current assets			
Trade receivables	7	5,750,826	3,725,472
Other receivables, deposits and prepayments	8	17,220,686	5,953,842
Cash and bank balances		14,560,249	19,085,638
Total current assets		<u>37,531,761</u>	<u>28,764,952</u>
Total assets		<u>1,130,809,210</u>	<u>1,116,314,825</u>
Current liabilities			
Trade payables	9	937,729	902,924
Other payables and accruals	10	23,109,065	21,730,204
Bank borrowings	11	15,000,000	15,000,000
Total current liabilities		<u>39,046,794</u>	<u>37,633,128</u>
Non-current liabilities			
Other payables and accruals	10	12,279,861	15,089,960
Bank borrowings	11	493,200,372	479,214,809
Derivative financial instrument	12	814,013	-
Total non-current liabilities		<u>506,294,246</u>	<u>494,304,769</u>
Total liabilities		<u>545,341,040</u>	<u>531,937,897</u>
Net assets		<u>585,468,170</u>	<u>584,376,928</u>
Unitholders' funds and reserve			
Unitholders' capital	13	425,738,255	425,738,255
Undistributed income-realised		43,476,386	43,996,656
Undistributed income-unrealised		116,253,529	114,642,017
Total Unitholders' funds and reserve		<u>585,468,170</u>	<u>584,376,928</u>
Number of units in circulation	13	<u>400,634,117</u>	<u>400,634,117</u>
Net asset value ("NAV") per unit (RM)			
- As at 31 December		1.4614	1.4586
- Before income distribution during the financial year		<u>1.5664</u>	<u>1.5636</u>

The accompanying notes form an integral part of the financial statements.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM	2015 RM
Gross revenue	14	124,570,904	125,511,215
Property expenses	15	(50,235,768)	(49,028,498)
Net property income		74,335,136	76,482,717
Interest income		318,276	271,924
Other income		9,226	26,251
Sundry income		20	283,072
Change in fair value of investment properties		2,425,525	(39,933,986)
Allowance for doubtful debts no longer required		17,475	149,170
Total income		77,105,658	37,279,148
Manager's fees	16	7,791,596	7,927,254
Trustee's fee	17	474,304	504,568
Auditors' remuneration:			
- current year			
- statutory		88,000	88,000
- others		103,400	33,000
Valuation fees		66,522	52,887
Professional fees		207,750	1,156,990
Allowance for doubtful debts		501,535	208,155
Administration expenses		685,005	449,234
Interest expense		23,215,709	22,070,679
Change in fair value of derivative financial instrument		814,013	-
Bad debts written off		-	29,046
Total expenses		(33,947,834)	(32,519,813)
Income before tax		43,157,824	4,759,335
Tax expense	18	-	-
Income for the financial year		43,157,824	4,759,335
Other comprehensive income		-	-
Total comprehensive income for the financial year		43,157,824	4,759,335

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

	Note	2016 RM	2015 RM
Total comprehensive income for the financial year is made up as follows:-			
Realised		41,546,312	44,693,321
Unrealised - Change in fair value of investment properties		2,425,525	(39,933,986)
Unrealised - Change in fair value of derivative financial instrument		(814,013)	-
		<u>43,157,824</u>	<u>4,759,335</u>
Earnings per unit (Total)			
- After manager's fees (sen)	19(a)	10.77	1.19
- Before manager's fees (sen)	19(b)	<u>12.72</u>	<u>3.17</u>
Earnings per unit (Realised)			
- After manager's fees (sen)	19(c)	10.37	11.16
- Before manager's fees (sen)	19(d)	<u>12.31</u>	<u>13.13</u>
Net income distribution			
- Interim income distribution of 7.8 sen (2015: 7.8 sen) per unit		31,249,461	31,249,461
- Final income distribution of 2.7 sen in respect of financial year ended 31 December 2016 (31 December 2015: 2.7 sen)		<u>10,817,121</u>	<u>10,817,121</u>
		<u>42,066,582</u>	<u>42,066,582</u>
Interim income distribution per unit			
- Gross (sen)	20	7.80	7.80
- Net (sen)	20	<u>7.80</u>	<u>7.80</u>
Final income distribution per unit			
- Gross (sen)	20	2.70	2.70
- Net (sen)	20	<u>2.70</u>	<u>2.70</u>

The accompanying notes form an integral part of the financial statements.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia)

**STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	Unitholders' Capital RM	Undistributed Income Realised RM	Unrealised RM	Unitholders' Funds RM
At 1 January 2015		425,738,255	41,369,917	154,576,003	621,684,175
Operations for the financial year ended 31 December 2015					
Total comprehensive income for the financial year		-	44,693,321	(39,933,986)	4,759,335
Increase in net assets resulting from operations		-	44,693,321	(39,933,986)	4,759,335
Unitholders' transactions					
Distribution to Unitholders		-	(42,066,582)	-	(42,066,582)
Decrease in net assets resulting from Unitholders' transactions		-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2015		425,738,255	43,996,656	114,642,017	584,376,928
Operations for the financial year ended 31 December 2016					
Total comprehensive income for the financial year		-	41,546,312	1,611,512	43,157,824
Increase in net assets resulting from operations		-	41,546,312	1,611,512	43,157,824
Unitholders' transactions					
Distribution to Unitholders		-	(42,066,582)	-	(42,066,582)
Decrease in net assets resulting from Unitholders' transactions		-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2016		425,738,255	43,476,386	116,253,529	585,468,170

The accompanying notes form an integral part of the financial statements.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM	2015 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		43,157,824	4,759,335
Adjustments for:-			
Reversal of impairment loss on trade receivables		(17,475)	(149,170)
Bad debts written off		-	29,046
Change in fair value of investment properties		(2,425,525)	39,933,986
Interest expense		23,215,709	22,070,679
Interest income		(318,276)	(271,924)
Allowance for impairment loss		501,535	208,155
Change in fair value of derivative financial instrument		814,013	-
Operating profit before working capital changes		64,927,805	66,580,107
Changes in working capital:			
Payables		(1,396,433)	3,237,430
Receivables		(13,776,258)	(1,279,738)
Net cash from operating activities		<u>49,755,114</u>	<u>68,537,799</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment properties		(1,168,362)	(23,524,327)
Expenditure for refurbishment and enhancement of investment properties incurred		(2,103,136)	(20,913,771)
Interest received		318,276	271,924
(Placement)/Withdrawal of fixed deposits		(30,553)	3,773,551
Net cash used in investing activities		<u>(2,983,775)</u>	<u>(40,392,623)</u>

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)**

	2016 RM	2015 RM
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(23,215,709)	(22,070,679)
Drawdown of borrowings	13,985,563	40,338,481
Distribution to Unitholders	<u>(42,066,582)</u>	<u>(42,066,582)</u>
Net cash used in financing activities	<u>(51,296,728)</u>	<u>(23,798,780)</u>
CASH AND CASH EQUIVALENTS		
Net changes	(4,525,389)	4,346,396
Brought forward	<u>19,085,638</u>	<u>14,739,242</u>
Carried forward	<u><u>14,560,249</u></u>	<u><u>19,085,638</u></u>

NOTE TO STATEMENT OF CASH FLOWS

Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprises cash and bank balances.

Cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the end of reporting period are classified as non-current asset.

The accompanying notes form an integral part of the financial statements.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON *(Cont'd)*

HEKTAR REAL ESTATE INVESTMENT TRUST
(Established in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

1. GENERAL INFORMATION

Hektar Real Estate Investment Trust ("Hektar REIT" or "the Trust") was constituted on 5 October 2006 pursuant to the Deed.

Hektar REIT was listed on the Main Market of Bursa Malaysia Securities Berhad on 4 December 2006.

The principal activity of Hektar REIT is to acquire and invest in income-producing real-estate in Malaysia which is primarily used for retail purposes with a view to provide Unitholders with stable distribution of income and potential capital growth.

There have been no significant changes in the nature of these activities during the financial year.

The principal activities of the Manager consist of managing and administering the Fund for Hektar REIT and other management services. The Manager, incorporated in Malaysia, is a subsidiary of Hektar Klasik Sdn. Bhd..

The Manager's registered office is located at Unit 419, Block A, Kelana Business Centre, No. 97, Jalan SS 7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor. The principal place of business of the Manager is located at D1-U3-10, Block D1, Solaris Dutamas, No. 1, Jalan Dutamas 1, 50480 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of the Board of Directors on 14 February 2017.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of Compliance

The financial statements of the Trust have been prepared in accordance with the provisions of the Deed, the Securities Commission's Guidelines on Real Estate Investment Trust, Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

2.2 Basis of Measurement

The financial statements of the Trust are prepared under the historical cost convention, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of reporting period as indicated in the summary of significant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

**AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)****2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****2.2 Basis of Measurement (cont'd)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Trust.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial market takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Trust uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:

- Level 1 – Quoted (adjusted) market price is active market for identical asset or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Trust determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to their fair value measurement as a whole) at the end of each reporting period.

The Trust has established control frameworks in respect to the measurement of the fair values of financial instruments. This includes a certified independent valuer that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reporting directly to the Board of Directors of the Manager. The certified independent valuer will review significant unobservable inputs and valuation adjustments.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

2.2 Basis of Measurement (cont'd)

For the purpose of fair value disclosures, the Trust has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

2.3 Functional and Presentation Currency

The financial statements are presented in Ringgit Malaysia (RM), which is the Trust's functional currency and all values are rounded to the nearest RM except when otherwise stated.

2.4 MFRSs

2.4.1 Adoption of New and Revised MFRSs

The accounting policies adopted by the Trust are consistent with those of the prior financial year except for the new and revised MFRSs and IC Interpretations approved by Malaysian Accounting Standards Board ("MASB") and applicable for current financial year. Application of the new and revised MFRSs and interpretations has no material impact on financial statements of the Trust.

Several other amendments are effective for the first time in financial year ended 31 December 2016. However, they do not impact the annual financial statements of the Trust.

2.4.2 Standards Issued But Not Yet Effective

At the date of authorisation of these financial statements, MASB has approved certain new standards, amendments and interpretations to existing standards which are not yet effective, and have not been adopted by the Trust.

The management anticipates that all of the relevant pronouncements will be adopted in the Trust's accounting policies for the first period beginning after the effective date of the pronouncement. The initial application of the new standards, amendments and interpretations are not expected to have any material impacts to the financial statements of the Trust except as mentioned below:-

Amendments to MFRS 107 Disclosure Initiative

The amendment to MFRS 107 requires entity to provide disclosures on changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The adoption of these amendments is not expected to have any financial impact on the Trust.

Amendments to MFRS 140 Investment property

The amendments to MFRS 140 clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The adoption of these amendments is not expected to have any financial impact on the Trust.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

2.4 **MFRSs (cont'd)**

2.4.2 **Standards Issued But Not Yet Effective (cont'd)**

MFRS 9 Financial instruments

MFRS 9 replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous version of MFRS 9. The new standard introduces extensive requirements and guidance for classification and measurement of financial assets and financial liabilities which fall under the scope of MFRS 9, new "expected credit loss model" under the impairment of financial assets and greater flexibility has been allowed in hedge accounting transactions. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost. It is also expected that the Trust's investment in unquoted shares will be measured at fair value through other comprehensive income.

This standard will come into effect on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will result in a change in accounting policy. The Trust is currently assessing the financial impact of adopting MFRS 9.

MFRS 15 Revenue from contracts with customers

MFRS 15 replaces the guidance in MFRS 111, Construction Contracts, MFRS 118, Revenue, IC Interpretation 13, Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue — Barter Transactions Involving Advertising Services. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition might be different as compared with current practices.

This standard will come into effect on or after 1 January 2018 with early adoption permitted. The adoption of MFRS 15 will result in a change in accounting policy. The Trust is currently assessing the financial impact of adopting MFRS 15.

MFRS 16 Leases

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Trust is required to account for major part of their operating leases in the statement of financial position by recognising the "right-of-use" assets and these lease liability, thus increasing the assets and liabilities of the Trust. The financial effect arising from this standard is still being assessed by the Trust.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**2.5 Significant Accounting Estimates and Judgements****Key Sources of estimation uncertainties**

Key assumptions concerning the future and accounting estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

Impairment of loans and receivable

The Trust assesses at end of each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Trust considers factors such as the probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Trust's loans and receivables at the end of the reporting period is summarised in Notes 7 and 8 to the Financial Statements.

The Board of Directors of the Manager expects that the carrying amount of the Trust's loans and receivables at the end of the reporting date would not have material difference from their estimates and hence it would not result in material variance in the Trust's profit for the financial year.

Fair value of investment properties

Fair value is determined in accordance with the Deed, the Guidelines on Real Estate Investment Trusts and the Guidelines on Asset Valuation issued by the Securities Commission which require the investment properties to be valued by independent qualified valuers. In determining the fair value, the valuers used valuation techniques which involve certain estimates. In relying on the valuation reports, the Manager has exercised its judgement and is satisfied that the valuation methods and estimates reflect the current market conditions. The basis of valuation is disclosed in Note 4.

Significant management judgements

The following are significant management judgements in applying the accounting policies of the Trust that have the most significant effect on the financial statements.

Classification between investment properties and owner-occupied properties

The Trust determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Trust considers whether a property generates cash flows largely independently of the other assets held by the Trust.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

2.5 Significant Accounting Estimates and Judgements (cont'd)

Significant management judgements (cont'd)

Classification between investment properties and owner-occupied properties (cont'd)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. The Trust accounts for the portions separately if the portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Investment properties

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially measured at cost, including transaction cost. Cost includes expenditures that are directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Subsequent to initial recognition, investment properties are measured at fair value and are revalued annually and are included in the statement of financial position at their open market values. Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss in the period in which they arise. The fair values are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property and supported by market evidence. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Investment properties are derecognised when either they are disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the profit or loss in the financial year of retirement or disposal.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Investment properties (cont'd)

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change. When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

3.2 Capital work in progress

Capital work in progress represents refurbishment work undertaken to enhance the value of the properties which will be transferred to investment properties upon the completion of the work.

3.3 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss.

3.3.1 Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Current tax is recognised in the statement of financial position as a liability (or an asset) to the extent that it is unpaid (or refundable).

3.3.2 Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date, except for investment properties carried at fair value model. Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 3.1 to the Financial Statements, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Tax expense (cont'd)

3.3.2 Deferred tax (cont'd)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

3.4 Financial instruments

3.4.1 Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial instrument, except for financial instrument carried at fair value through profit or loss, which are measured initially at fair value.

3.4.2 Financial assets – Categories and subsequent measurement

The Trust categories and financial instruments as follows and all financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment:-

3.4.2.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process. The Trust's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Financial instruments (cont'd)

3.4.2 Financial assets – Categories and subsequent measurement (cont'd)

3.4.2.1 Loans and receivables (cont'd)

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the end of the reporting period which are classified as non-current.

Financial assets included in loans and receivables are cash and cash equivalents, trade and other receivables.

3.4.2.2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments (including separated embedded derivatives) which are acquired principally for the purpose of selling in the near term and contingent consideration in a business combination fall into this category, except for those that are financial guarantee contracts or those designated and effective as hedging instruments.

Subsequent to initial recognition, assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other expenses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

3.4.3 Financial liabilities – Categories and subsequent measurement

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

3.4.3.1 Other financial liabilities measured at amortised cost

Other financial liabilities including borrowings, trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Trust has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Financial instruments (cont'd)

3.4.3 Financial liabilities – Categories and subsequent measurement (cont'd)

3.4.3.2 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, contingent consideration in a business combination and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Trust that are not financial guarantee contracts or do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

3.4.4 Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset has expired or control of the asset is not retained or substantially all of the risk and rewards of the ownership of the financial asset are transferred to another party. If the Trust neither transfers nor retained substantially all the risks and rewards of ownership and continues to control the transferred asset, the Trust recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Trust retains substantially all the risks and rewards of ownership of a transferred assets, the Trust continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

The Trust derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.4.5 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Provisions

Provisions are recognised when there is a present legal or constructive obligation that can be estimate reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the Trust can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provision are discounted using a current pre tax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.6 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, bank balances, short-term demand deposits and bank overdraft which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown in current liabilities in the statement of financial position.

For the purpose of the financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the end of reporting period are classified as non-current asset.

3.7 Borrowing costs

Borrowing costs consist of interest and other costs incurred by the Trust in connection with the borrowing of funds. They are recognised as expenses in the profit or loss in the period they are incurred.

Borrowing costs directly attributable to finance the acquisition, construction or production of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets and it ceases or is suspended when the activities necessary to prepare the qualifying asset for its intended use is completed or interrupted.

Investment income earned from the temporary investment on specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON *(Cont'd)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.8 Impairment of assets

3.8.1 Non-financial assets

The Trust assesses at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Trust estimates the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell or value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Trust bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Trust's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Trust estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for asset in prior years. Such reversal is recognised in the profit or loss.

3.8.2 Financial assets

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

**AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**3.8 Impairment of assets (cont'd)****3.8.2.1 Trade and other receivables and other financial assets carried at amortised cost**

An impairment loss in respect of loans and receivables is recognised in profit or loss. The Trust considers factors such as significant delay in payment, default or the probability of insolvency of the loan and receivables to determine whether there is objective evidence that an impairment loss has occurred. If such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

When loan and receivables becomes uncollectible, it is written off against the allowance account. For certain categories of financial assets, such as trade receivables, assets not impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Trust's past experience with industry group, increase in cases of delayed payments and observable changes in economic conditions.

3.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. Any gains or losses arising from changes in the fair value of these contracts except for derivative designated as a hedging instrument are recognised in profit or loss. The Trust does not designate its derivatives as hedge accounting. The full fair value of a derivative is classified as a non-current asset or liability when the maturity of the hedged item is more than 12 months, and a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivatives are derecognised when the instrument is expired, sold or terminated. Upon derecognition, gains or losses arising from changes in the fair value that were previously recognised will be recognised in profit or loss.

3.10 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

3.10.1 Rental income

Rental income receivable under operating leases is recognised in the profit or loss on a straight-line basis over the term of lease, except where an alternative basis is more representative or pattern of benefits to be derived from the leased assets. Lease incentives granted are recognised as an integral part of the total rental to be received.

The aggregate cost of incentives provided to leasees is recognised as a reduction of rental income over the lease term on a straight-line basis. Contingent rent, which comprises gross turnover rental, is recognised as income in the accounting period on a receipt basis. No contingent rent is recognised if there are uncertainties that may result in the possible return of amount received.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON *(Cont'd)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.10 Revenue (cont'd)

3.10.2 Carpark income

Carpark income is recognised in the profit or loss on accrual basis.

3.10.3 Interest income

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the year to maturity, when it is determined that such income will be accrued.

3.11 Expenses

- (i) Property expenses consist of property management fees, quit rents and assessment, and other property outgoings in relation to investment properties where such expenses are the responsibility of the Trust. Property management fees are recognised on an accrual basis using the applicable formula as stated in Property Management Agreement.
- (ii) Manager's fees are recognised on an accrual basis using the applicable formula as stated in the Deed.
- (iii) Trustee's fee is recognised on an accrual basis using the applicable formula as stated in the Deed.
- (iv) Interest expense and other costs incurred in connection with borrowings are expensed as incurred.

3.12 Equity instruments

All equity instruments are stated at cost on initial recognition and are not remeasured subsequently. Income distributions to unitholders are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction which comprise only those incremental external costs directly attributable to the equity transaction are accounted for as deduction from equity, net of tax, from the proceeds.

3.13 Operating Segments

An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Trust's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 Related parties

A related party is a person or entity that is related to the Manager and they could be:-

- (a) A person or a close member of that person's family is related to the Manager if that person:
- (i) has control or joint control over the Manager;
 - (ii) has significant influence over the Manager; or
 - (iii) is a member of the key management personnel of the Manager.
- (b) An entity is related to the Manager if any of the following conditions applies:
- (i) The entity and the Manager are members of the same group.
 - (ii) The entity is an associate or joint venture of the other entity.
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) The entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefits of employees of either the Manager or an entity related to the Manager.
 - (vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
 - (vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity.
 - (viii) The entity, or any member of a group of which it is a part, provides key management services to the Manager or to the parent of the Manager.

A related party transaction is a transfer of resources, services or obligations between the Manager and its related party, regardless of whether a price is charged.

4. INVESTMENT PROPERTIES

	2016 RM	2015 RM
At fair value		
Freehold land and buildings	770,050,000	766,580,000
Leasehold land and building	322,400,000	320,000,000
	<u>1,092,450,000</u>	<u>1,086,580,000</u>

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

4. INVESTMENT PROPERTIES (CONT'D)

The movement of the investment properties is as follows:

	2016 RM	2015 RM
At 1 January	1,086,580,000	1,060,732,000
Additions	1,168,362	23,524,327
Transferred from capital work in progress (Note 5)	2,276,113	42,257,659
Change in fair value recognised in profit or loss	<u>2,425,525</u>	<u>(39,933,986)</u>
At 31 December	<u>1,092,450,000</u>	<u>1,086,580,000</u>

Details of the investment properties are as follows:

Description of property	Tenure of land	Location	Existing use	Cost of investment RM	Valuation as at 31 December 2016 RM	Percentage of valuation to net asset value %
1. Subang Parade	Freehold	Subang	Commercial	286,980,000	427,200,000	73
2. Mahkota Parade	Leasehold	Melaka	Commercial	257,538,630	322,400,000	55
3. Wetex Parade	Freehold	Muar	Commercial	117,500,000	135,150,000	23
4. Landmark Central	Freehold	Kedah	Commercial	98,000,000	112,000,000	19
5. Central Square	Freehold	Kedah	Commercial	83,330,000	<u>95,700,000</u>	16
					<u>1,092,450,000</u>	

The valuation reports of Subang Parade, Mahkota Parade and Wetex Parade were issued on 27 December 2016 by Messrs. Henry Butcher Malaysia Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation. The valuation reports of Landmark Central and Central Square were issued on 27 December 2016 by Messrs. Khong & Jaafar Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation. There have been no changes in the valuation method during the year.

The leasehold land for Mahkota Parade expires in year 2101.

Subang Parade, Mahkota Parade, Wetex Parade and Landmark Central have been pledged as security for borrowings as disclosed in Note 11 to the Financial Statements.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

4. INVESTMENT PROPERTIES (CONT'D)

The following is recognised in profit or loss in respect of investment properties:

	2016 RM	2015 RM
Rental income	111,597,353	113,519,059
Direct operating expenses:		
- Income generating investment properties	50,235,768	49,028,498
- Non-income generating investment properties	9,918,112	10,449,134

Fair value basis of investment properties

Fair value measurement of the investment properties were categorised as follows:

	Level 1 RM	2016 Level 2 RM	Level 3 RM
- Freehold land and buildings	-	-	770,050,000
- Leasehold land and building	-	-	322,400,000
	-	-	<u>1,092,450,000</u>
		2015	
	Level 1 RM	Level 2 RM	Level 3 RM
- Freehold land and buildings	-	-	766,580,000
- Leasehold land and building	-	-	320,000,000
	-	-	<u>1,086,580,000</u>

Level 3 fair value

The following table shows a reconciliation of Level 3 fair value of investment properties:

	2016 RM	2015 RM
At 1 January	1,086,580,000	1,060,732,000
Addition	3,444,475	65,781,986
Change in fair value recognised in profit or loss- unrealised	<u>2,425,525</u>	<u>(39,933,986)</u>
At 31 December	<u>1,092,450,000</u>	<u>1,086,580,000</u>

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4. INVESTMENT PROPERTIES (CONT'D)

Fair value basis of investment properties (cont'd)

Level 3 fair value (cont'd)

The following shows the valuation technique used in the determination of fair value within Level 3, as well as the key unobservable inputs used in the valuation model:-

Valuation technique

The investment method considers income and expense relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates to income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates). In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.

Significant unobservable inputs

Risk-adjusted capitalisation rates ranging from 6.25%-12.00% (2015: 7.00%-7.25%).

Inter-relationship between significant unobservable input and fair value measurement

The estimated fair value would increase (decrease) if risk-adjusted capitalisation rates were higher (lower).

5. CAPITAL WORK IN PROGRESS

	2016 RM	2015 RM
Capital work in progress	162,080	335,057

The movement of capital work in progress is as follows:

	2016 RM	2015 RM
At 1 January	335,057	21,678,945
Additions	2,103,136	20,913,771
Transferred to investment properties (Note 4)	(2,276,113)	(42,257,659)
At 31 December	162,080	335,057

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6. **FIXED DEPOSITS WITH A LICENSED BANK**

The weighted average interest rate of fixed deposits with a licensed bank of the Trust is 3.13% (2015: 3.23%) per annum.

The fixed deposits have been pledged to a licensed bank for bank guarantee facility granted to the Trust.

7. **TRADE RECEIVABLES**

	2016 RM	2015 RM
Trade receivables	6,733,708	4,325,031
Less: Impairment losses	<u>(982,882)</u>	<u>(599,559)</u>
	<u>5,750,826</u>	<u>3,725,472</u>

The movement of impairment losses during the financial year is as follows:

	2016 RM	2015 RM
At 1 January	(599,559)	(540,574)
Addition	(501,535)	(208,155)
Reversal	17,475	149,170
Written off	<u>100,737</u>	<u>-</u>
As 31 December	<u>(982,882)</u>	<u>(599,559)</u>

The normal credit terms granted by the Trust to the trade receivables are 7 days. Interest ranging from 12% to 18% (2015: 12% to 18%) per annum will be imposed on overdue amount.

Trade receivables that are past due and not impaired are creditworthy debtors with good payment records with the Trust. None of the Trust's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

The impairment loss on trade receivable was reversed during the financial year as a result of subsequent receipts of the amount.

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7. **TRADE RECEIVABLES (CONT'D)**

The ageing analysis of trade receivables is as follows:

	Gross RM	Individually Impaired RM	Net RM
2016			
Not past due	2,087,464	-	2,087,464
Past due 0-30 days	211,830	-	211,830
Past due 31-60 days	880,275	-	880,275
More than 60 days	3,554,139	(982,882)	2,571,257
	<u>6,733,708</u>	<u>(982,882)</u>	<u>5,750,826</u>
2015			
Not past due	2,556,623	-	2,556,623
Past due 0-30 days	70,419	-	70,419
Past due 31-60 days	426,791	-	426,791
More than 60 days	1,271,198	(599,559)	671,639
	<u>4,325,031</u>	<u>(599,559)</u>	<u>3,725,472</u>

The net carrying amount of trade receivables is considered a reasonable approximate of fair value.

The maximum exposure to credit risk is the carrying value of each class of receivables mentioned above. Trade receivables that are individually determined to be impaired at the end of the reporting period relate to receivables that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

8. **OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	2016 RM	2015 RM
Other receivables	14,732,029	4,293,221
Deposits	292,828	251,356
Prepayments	2,195,829	1,409,265
	<u>17,220,686</u>	<u>5,953,842</u>

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8. **OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONT'D)**

Included in other receivables is as follows:-

	2016 RM	2015 RM
Amount owing from Property Manager	2,654,483	4,101,004
Deposit on acquisition of 1Segamat Shopping Centre	10,400,000	-
Incidental expenditure for the acquisition of 1Segamat Shopping Centre	<u>864,990</u>	<u>-</u>

Amount owing from Property Manager is unsecured, interest free and repayable monthly in arrears.

9. **TRADE PAYABLES**

Trade payables are non-interest bearing and the normal credit term granted by trade payables to the Trust are generally from 30 to 60 (2015: 30 to 60) days.

10. **OTHER PAYABLES AND ACCRUALS**

	2016 RM	2015 RM
<u>Current liabilities</u>		
Other payables	280,567	48,970
Accruals	4,126,205	5,977,442
Advance received	826,671	889,746
Net output GST payable	363,182	201,047
Deposits received from tenants	<u>17,512,440</u>	<u>14,612,999</u>
	23,109,065	21,730,204
<u>Non-current liabilities</u>		
Deposit received from tenants	<u>12,279,861</u>	<u>15,089,960</u>
	<u>35,388,926</u>	<u>36,820,164</u>

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10. OTHER PAYABLES AND ACCRUALS (CONT'D)

Included in other payables and accruals are the following amounts:

	2016 RM	2015 RM
Amount owing to Manager	3,069	5,099
Amount owing to Property Manager	<u>255,853</u>	<u>-</u>

Amount owing to Manager and Property Manager are unsecured, interest free and repayable monthly in arrears.

Included in deposits received from tenants is RM1,936,830 (2015: RM2,044,197) representing the difference between the fair value and the amount of deposits received carried in the statement of financial position as a result of the initial recognition of the said deposits at fair value in compliance with the requirements of MFRS 139 Financial Instruments: Recognition and Measurement.

11. BANK BORROWINGS

	2016 RM	2015 RM
Secured		
Current liabilities:		
- Term loan 1		15,000,000
- Short term revolving credit	<u>15,000,000</u>	<u>-</u>
	<u>15,000,000</u>	<u>15,000,000</u>
Non-current liabilities:		
- MOD 1	184,000,000	184,000,000
- MOD 2	150,000,000	150,000,000
- MOD 3	54,300,000	54,300,000
- MOD 4	32,800,000	32,800,000
- MOD 5	52,275,275	39,307,640
- Term loan 2	<u>19,825,097</u>	<u>18,807,169</u>
	<u>493,200,372</u>	<u>479,214,809</u>
Total bank borrowings	<u>508,200,372</u>	<u>494,214,809</u>

The MOD 1, MOD 2, MOD 3, MOD 4 and MOD 5 are secured by way of fixed charge over Subang Parade, Mahkota Parade, Wetex Parade and Landmark Central respectively.

The MODs have tenure of 5 years from the first disbursement of which MOD 1 is due for repayment in 2011, MOD 2 is due for repayment in 2013, MOD 3 and MOD 4 are due for repayment in 2016, MOD 5 is due for repayment in 2018. However, extension period of 5 years was granted for MOD 1, MOD 2, MOD 3, MOD 4 and they are now due for repayment in 2019.

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11. **BANK BORROWINGS (CONT'D)**

MOD 1 and MOD 2 bear interest rate at cost of funds plus 75 basis points (2015: cost of fund plus 75 basis points), MOD 3 bears interest rate at cost of fund plus 75 basis points for first and second year and cost of fund plus 100 basis points for third year onwards, MOD 4 and MOD 5 bear interest rate at cost of fund plus 100 basis points (2015: cost of fund plus 100 basis points). The effective interest rate on MODs is 4.07%-4.90% (2015: 4.38%-4.88%) per annum.

The term loans 1 and 2 are secured by way of fixed charge over Mahkota Parade. The term loans 1 and 2 have a 5-year tenure whereby the principal amount is repayable via a bullet repayment at the end of the 5-year tenure in 2016 and 2018 respectively. These term loans bear interest rate at cost of funds plus 75 basis points and interest is to be serviced monthly in arrears. The effective interest rate on the term loans are 4.57%-4.83% (2015: 4.76%) per annum. Term loan 1 has been fully repaid during the financial year.

Short term revolving credit is secured by way of fixed charge over Mahkota Parade. This loan bears interest rate at cost of fund plus 100 basis points. The effective interest rate on short term revolving credit is 4.25%-4.79% (2015: Nil) per annum.

The carrying amount of the borrowings approximates their fair value.

12. **DERIVATIVE FINANCIAL INSTRUMENT**

	2016		2015	
	Contract/ Notional Amount RM	Liability RM	Contract/ Notional Amount RM	Liability RM
Non-current				
Interest rate swap	<u>150,000,000</u>	<u>814,013</u>	<u>-</u>	<u>-</u>

An interest rate swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flow. The Trust had entered into 4-year interest rate swap contract to exchange floating interest rates for fixed interest rates in order to minimise the exposure from fluctuation of interest rate. The interest rate swap contract receives floating interest rates equal to Kuala Lumpur Interbank Offered Rate ("KLIBOR") per annum, pays fixed rate of interest of 4.90% per annum. The fair value of the interest rate swap contract is determined by using the market rate at the end of financial year and changes in the fair value is recognised in the profit or loss. Accordingly, the Trust recognised an unrealised net loss of RM814,013 arising from changes in fair value of interest rate swap in the current financial year.

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13. UNITHOLDERS' CAPITAL

	2016 No. of units	2015 No. of units	2016 RM	2015 RM
Authorised unitholders' capital	<u>400,634,117</u>	<u>400,634,117</u>	<u>425,738,255</u>	<u>425,738,255</u>
The movement of the authorised unitholders' capital are as follows:				
At 1 January/31 December	<u>400,634,117</u>	<u>400,634,117</u>	<u>425,738,255</u>	<u>425,738,255</u>
Issued and fully paid unitholders' capital	<u>400,634,117</u>	<u>400,634,117</u>	<u>425,738,255</u>	<u>425,738,255</u>
The movement of the issued and fully paid unitholders' capital are as follows:				
At 1 January/31 December	<u>400,634,117</u>	<u>400,634,117</u>	<u>425,738,255</u>	<u>425,738,255</u>

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13. UNITHOLDERS' CAPITAL (CONT'D)

As at 31 December 2016, the Manager holds 632,867 (2015: 632,867) units in Hektar REIT. However, the Directors of the Manager and their related parties held units in Hektar REIT as follows:

	No. of units		% of total units	
	2016	2015	2016	2015
Substantial Unitholders' Direct Unitholdings in Hektar REIT:-				
1. HSBC Nominees (Asing) Sdn. Bhd. For Frasers Centrepoint Trust (As Trustee)	124,892,950	124,892,950	31.17	31.17
2. Hektar Black Sdn. Bhd. - Pledged securities account for Hektar Black Sdn. Bhd.	160,625,000	50,875,000	40.09	12.70
3. Hektar Premier Sdn. Bhd. - Pledged securities account for Hektar Premier Sdn. Bhd.	-	109,750,000	-	27.39
The Manager's related parties' Direct Unitholdings in Hektar REIT:-				
1. Hektar Premier Sdn. Bhd.	-	109,750,000	-	27.39
2. Hektar Black Sdn. Bhd.	160,625,000	50,875,000	40.09	12.70

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14. GROSS REVENUE

	2016 RM	2015 RM
Rental income	110,775,797	112,636,000
Carpark income	13,211,545	12,241,940
Other income	583,562	633,275
	<u>124,570,904</u>	<u>125,511,215</u>

15. PROPERTY EXPENSES

	2016 RM	2015 RM
Assessment and quit rent	3,959,317	3,910,227
Marketing and promotions	3,439,600	3,094,107
Property management fee	2,096,397	2,138,546
Property maintenance	35,080,707	34,173,231
Utilities	4,572,201	4,618,218
Insurance	1,087,546	1,094,169
	<u>50,235,768</u>	<u>49,028,498</u>

Property management fee of RM2,096,397 (2015: RM2,138,546) incurred is payable to Hektar Property Services Sdn. Bhd. in accordance to the Valuers, Appraisers and Estate Agents Act, 1981.

16. MANAGER'S FEES

Pursuant to the Deed, the Manager's annual fees consist of the following:

(i) Base fee

Up to 1.0% per annum of the Gross Asset Value ("GAV") of the Trust payable monthly in arrears.

For the financial year ended 31 December 2016, the base fee shall be 0.35% (2015: 0.35%) per annum of the GAV of the Trust.

(ii) Performance fee

Up to 5.0% per annum of the Net Property Income ("NPI"), before deducting the property management fee, payable monthly in arrears.

For the financial year ended 31 December 2016, the performance fee shall be 5.0% (2015: 5.0%) per annum of the NPI, before deducting the property management fee.

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17. TRUSTEE'S FEE

Pursuant to the Deed, the Trustee is entitled to receive a fee up to 0.1% per annum of the NAV of the Trust, including the Manager's fees, payable annually in arrears.

For the financial year ended 31 December 2016, the Trustee's fee shall be 0.08% (2015: 0.08%) per annum of the NAV of the Fund, including the Manager's fees.

18. TAX EXPENSE

Taxation of the Real Estate Investment Trust ("REIT")

The tax transparency system under Section 61A of the Income Tax Act 1967, exempts the REIT from income tax in a year of assessment if the REIT distributes at least 90% of its total taxable income in the same year of assessment.

Hektar REIT will not incur any tax exposure during the financial year as it distributed more than 90% of its realised income available for distribution for the financial year ended 31 December 2015 which translates to more than 90% of its total taxable income.

	2016 RM	2015 RM
Current financial year's provision	-	-
A reconciliation of income tax expense on income before tax for the REIT with the applicable statutory income tax rate is as follows:		
	2016 RM	2015 RM
Income before tax	43,157,824	4,759,335
Income tax at 24% (2015: 25%)	10,357,878	1,189,834
Tax effects in respect of:-		
Non-allowable expenses	428,211	10,303,248
Income not subject to tax	(582,126)	(37,293)
Effect of income distribution exempted from tax	(10,203,963)	(11,455,789)
	-	-

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18. TAX EXPENSE (CONT'D)

Taxation of the Unitholders

Pursuant to Section 109D(2) of Income Tax Act 1967, where 90% or more of the REIT's total taxable income is distributed by the REIT, distributions to unit holders (other than resident corporate investors) will be subject to tax based on a withholding tax mechanism at the following rates:

Unitholders	Tax rate
Individual and all other non-corporate investors such as institutional investors	10%
Non-resident corporate investors	24%

Resident corporate investors are required to report the distributions in their normal corporate tax return and subject to the normal corporate tax rate of 24%.

19. EARNINGS PER UNIT

Number of unitholders' capital

	2016 No. of units	2015 No. of units
At 1 January/31 December	<u>400,634,117</u>	<u>400,634,117</u>

- (a) The calculation of earnings per unit (total) after Manager's fee is based on net income for the financial year of RM43,157,824 (2015: RM4,759,335) to the number of units in circulation for 2016 and 2015 respectively of 400,634,117 (2015: 400,634,117).
- (b) The calculation of earnings per unit (total) before Manager's fee is based on net income for the financial year of RM50,949,420 (2015: RM12,686,589) after adding back Manager's fee and number of units in circulation for 2016 and 2015 respectively of 400,634,117 (2015: 400,634,117).
- (c) The calculation of earnings per unit (realised) after Manager's fee is based on realised net income for the financial year of RM41,546,312 (2015: RM44,693,321) to the number of units in circulation for 2016 and 2015 respectively of 400,634,117 (2015: 400,634,117).
- (d) The calculation of earnings per unit (realised) before Manager's fee is based on realised net income for the financial year of RM49,337,908 (2015: RM52,620,575) after adding back Manager's fees and the number of units in circulation for 2016 and 2015 respectively of 400,634,117 (2015: 400,634,117).

There is no diluted earnings per unit as the Trust has no dilutive potential unitholders' capital.

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20. INCOME DISTRIBUTION

Distribution to Unitholders are from the following sources:

	2016 RM	2015 RM
Net rental income	74,335,136	76,482,717
Other income	9,246	309,323
Interest income	318,276	271,924
Reversal of impairment loss on trade receivables	17,475	149,170
	<u>74,680,133</u>	<u>77,213,134</u>
Less: Expenses	<u>(33,133,821)</u>	<u>(32,519,813)</u>
	<u>41,546,312</u>	<u>44,693,321</u>
Gross provision for distribution per unit (sen):		
- Interim	7.80	7.80
- Final	2.70	2.70
	<u>10.50</u>	<u>10.50</u>
Net provision for distribution per unit (sen): *		
- Interim	7.80	7.80
- Final	2.70	2.70
	<u>10.50</u>	<u>10.50</u>

* Withholding tax will be deducted for distributions made to the following types of Unitholders:

	YA 2016	YA 2015
Resident individual	10%	10%
Non-resident individual	10%	10%
Resident institutional investors	10%	10%
Non-resident institutional investors	10%	10%
Non-resident companies	24%	25%

21. PORTFOLIO TURNOVER RATIO

	2016	2015
Portfolio Turnover Ratio ("PTR")(times)	<u>0.002</u>	<u>0.040</u>

The calculation of PTR is based on the average of total acquisitions and total disposals of investments in Hektar REIT to the average net asset value for the financial year calculated on a quarterly basis. Since the PTR is calculated on a quarterly basis, comparison of the PTR of Hektar REIT with other REITs which uses different basis of calculation may not be comparable.

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22. MANAGEMENT EXPENSE RATIO

	2016	2015
Management Expense Ratio ("MER")(%)	<u>1.69</u>	<u>1.79</u>

The calculation of MER is based on the total fees and expenses of Hektar REIT incurred, including Manager's fees, Trustee's fee, auditors' remuneration, tax agent's fees, allowance for impairment loss and administrative expenses, to the average NAV during the financial year. Since the NAV is calculated on a quarterly basis, comparison of the MER of Hektar REIT with other REITs which uses different basis of calculation may not be comparable.

23. TRANSACTION WITH A PARTY RELATED TO THE MANAGER

	2016 RM	2015 RM
Commission and service charges received from - Hektar Black Sdn. Bhd.	<u>211,185</u>	<u>214,724</u>

24. CATEGORIES OF FINANCIAL INSTRUMENTS

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables (L&R);
- (b) Other financial liabilities measured at amortised cost (AC); and
- (c) Financial liabilities at fair value through profit or loss (FVPL).

2016	Carrying amount RM	L&R RM	AC RM	FVPL RM
Financial assets				
Trade receivables	5,750,826	5,750,826	-	-
Other receivables and deposits	15,024,857	15,024,857	-	-
Fixed deposits with a licensed bank	665,369	665,369	-	-
Cash and bank balances	14,560,249	14,560,249	-	-
	<u>36,001,301</u>	<u>36,001,301</u>	-	-
Financial liabilities				
Trade payables	937,729	-	937,729	-
Other payables and accruals	35,388,926	-	35,388,926	-
Bank borrowings	508,200,372	-	508,200,372	-
Derivative financial instrument	814,013	-	-	814,013
	<u>545,341,040</u>	-	<u>544,527,027</u>	<u>814,013</u>

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24. CATEGORIES OF FINANCIAL INSTRUMENTS (CONT'D)

The table below provides an analysis of financial instruments categorised as follows (cont'd):

- (a) Loans and receivables (L&R);
(b) Other financial liabilities measured at amortised cost (AC); and
(c) Financial liabilities at fair value through profit or loss (FVPL).

2015	Carrying amount RM	L&R RM	AC RM	FVPL RM
Financial assets				
Trade receivables	3,725,472	3,725,472	-	-
Other receivables and deposits	4,544,577	4,544,577	-	-
Fixed deposits with a licensed bank	634,816	634,816	-	-
Cash and bank balances	19,085,638	19,085,638	-	-
	<u>27,990,503</u>	<u>27,990,503</u>	-	-
Financial liabilities				
Trade payables	902,924	-	902,924	-
Other payables and accruals	36,820,164	-	36,820,164	-
Bank borrowings	494,214,809	-	494,214,809	-
	<u>531,937,897</u>	-	<u>531,937,897</u>	-

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risks

Hektar REIT's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the REIT's business whilst managing its risks. Hektar REIT operates within clearly defined guidelines as set out in the Securities Commission's Guidelines on Real Estate Investment Trusts ("the Guidelines"). These Guidelines seek to provide a regulatory framework that would protect the interests of the investing public. Hektar REIT's risk management policies, which ensure compliance with the spirit of the Guidelines, are set out below. It is not the Trust's policy to engage in speculative transactions.

(a) **Interest rate risk**

Hektar REIT's exposure to changes in interest rates are primarily due to interest-earning financial assets and interest bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rate.

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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONT'D)

Financial risks (cont'd)

(a) Interest rate risk (cont'd)

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

	Within 1 year RM	2 to 5 years RM	Total RM	Effective annual interest rate during the financial year %
2016				
Financial asset				
Fixed deposits with a licensed bank	-	665,369	665,369	3.13
Financial liabilities				
Murabahah overdrafts	-	473,375,275	473,375,275	4.57
Term loan	-	19,825,097	19,825,097	4.70
Short term revolving credit	15,000,000	-	15,000,000	4.52
Derivative financial instrument	-	814,013	814,013	0.65
2015				
Financial asset				
Fixed deposits with a licensed bank	-	634,816	634,816	3.23
Financial liabilities				
Murabahah overdrafts	-	460,407,640	460,407,640	4.38
Term loan	15,000,000	18,807,169	33,807,169	4.10

Cash flow sensitivity analysis for variable rate instruments:

A change in 75 basis point (bp) in interest rates at the end of the reporting period would have increased/(decreased) profit for the year and equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit for the year		Equity	
	+ 75 bp RM	- 75 bp RM	+ 75 bp RM	- 75 bp RM
2016				
Floating rate instruments	(3,812,618)	3,812,618	(3,812,618)	3,812,618
2015				
Floating rate instruments	(3,701,850)	3,701,850	(3,701,850)	3,701,850

(b) Credit risk

The Trust controls credit risk by the application of credit approvals, limit and monitoring procedure.

The maximum credit risk associated with recognised financial assets is the carrying amounts shown in the statement of financial position.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

25. **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONT'D)**

Financial risks (cont'd)

(b) Credit risk (cont'd)

Hektar REIT has no significant concentration of credit risk with any single counterparty.

As at 31 December 2016, Hektar REIT had no significant credit risk associated with its exposure to potential counterparty failure to settle outstanding.

As at 31 December 2016, trade receivables of RM3,663,362 (2015: RM1,168,849) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default.

(c) Liquidity risks

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due.

In managing its exposures to liquidity risk arising principally from its various payables, loans and borrowings, the Trust maintains a level of cash and cash equivalents and bank facilities deemed adequate by the Manager to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below:

	Within 1 year RM	2 to 5 years RM	Total RM
2016			
Financial liabilities			
Secured:			
Term loan	-	19,825,097	19,825,097
Murabahah overdrafts	-	473,375,275	473,375,275
Short term revolving credit	15,000,000	-	15,000,000
Unsecured:			
Trade payables	937,729	-	937,729
Other payables and accruals	23,109,065	12,279,861	35,388,926
Total undiscounted financial liabilities	39,046,794	505,480,233	544,527,027
2015			
Financial liabilities			
Secured:			
Term loan	15,000,000	18,807,169	33,807,169
Murabahah overdrafts	-	460,407,640	460,407,640
Unsecured:			
Trade payables	902,924	-	902,924
Other payables and accruals	21,730,204	15,089,960	36,820,164
Total undiscounted financial liabilities	37,633,128	494,304,769	531,937,897

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

25. **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONT'D)**

Fair value of financial instruments

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their values and carrying amounts shown in the statement of financial position.

2016	Fair value of financial instruments not carried at fair value			Total fair value RM	Carrying amount RM
	Level 1	Level 2	Level 3		
	RM	RM	RM		
Financial liabilities					
Other payable and accruals	-	-	27,855,471	27,855,471	29,792,301
Derivative financial instrument	-	814,013	-	814,013	814,013
	-	814,013	27,855,471	28,669,484	30,606,314

2015	Fair value of financial instruments not carried at fair value			Total fair value RM	Carrying amount RM
	Level 1	Level 2	Level 3		
	RM	RM	RM		
Financial liabilities					
Other payable and accruals	-	-	27,658,762	27,658,762	29,702,959

There were no transfers between Level 1 and Level 2 during the financial year (2015: no transfer in either direction).

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 Fair Value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 Fair Value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Level 3 Fair Value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONT'D)

Fair value of financial instruments (cont'd)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

Description	Valuation	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Financial instruments not carried at fair value			
Other payable and accruals	Discounted cash flows	Discount rate (4.85%)	The estimated fair value would increase/(decrease) if discount rate is lower (higher)

26. CAPITAL MANAGEMENT

Hektar REIT's capital is represented by its unitholder's fund in the statement of financial position.

The Trust's objectives when managing capital is to maintain a strong capital base and safeguard the Trust's ability to continue as a going concern, so as to maintain stakeholders and market confidence and to sustain future development of the Trust.

The Manager monitors capital using a gearing ratio pursuant to the Securities Commission's Guidelines on Real Estate Investment Trusts ("SC Guideline"). As per the SC Guideline, the total borrowings of a trust should not exceed 50% of the total asset value of the trust at the time the borrowings are incurred. From the table below, the Trust's gearing ratio is within the permitted threshold per the SC Guideline.

	2016 RM	2015 RM
Non-current assets	1,093,277,449	1,087,549,873
Current assets	<u>37,531,761</u>	<u>28,764,952</u>
Total assets value	<u>1,130,809,210</u>	<u>1,116,314,825</u>
Total borrowings	<u>508,200,372</u>	<u>494,214,809</u>
Gearing ratio	<u>44.94%</u>	<u>44.27%</u>

No changes were made in the objectives, policies or processes during the financial year ended 31 December 2016.

AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)

27. CAPITAL COMMITMENT

Capital commitment in respect of the following has not been provided for in the financial statements:

	2016 RM	2015 RM
Authorised and contracted for:-		
Refurbishment of investment properties	20,476,680	2,121,360
Acquisition of 1Segamat Shopping Centre	93,600,000	-
	114,076,680	2,121,360

28. MATERIAL CONTRACT

On 10 June 2016, Hektar REIT entered into a contract to purchase 1Segamat Shopping Centre at RM104,000,000. A deposit has been placed at RM10,400,000. As at reporting date, the transaction has not been completed.

29. CONTINGENT LIABILITY

Litigation

On 27 November 2015, the Mahkota Parade Joint Management Body commenced an action against MTrustee Berhad, Hektar Asset Management Sdn Bhd and Hektar Property Services Sdn Bhd in respect of the ownership of the common area and car park bays. The legal suite is currently pending hearing.

In the opinion of the Directors, disclosure of any further information would be prejudice to the interest of the Trust.

30. OPERATING SEGMENTS

The principal activity of the Hektar REIT is to invest in properties in Malaysia with the primary objective to derive rental income and medium to long terms capital growth. Hence, no operating segments are presented.

**AUDITED FINANCIAL STATEMENTS OF HEKTAR REIT FOR THE FYE 31 DECEMBER 2016
TOGETHER WITH THE NOTES AND AUDITORS' REPORT THEREON (Cont'd)**

DISCLOSURE OF REALISED AND UNREALISED PROFIT/ (LOSSES)

Bursa Malaysia Securities Berhad had on 25 March 2010 and 20 December 2010, issued directives requiring all listed corporations to disclose the breakdown of unappropriated profits or accumulated losses into realised and unrealised of the Trust, as the case may be, in quarterly reports and annual audited financial statements.

The breakdown of unappropriated profits as at the reporting date that has been prepared by the Directors in accordance with the directives from Bursa Malaysia Securities Berhad stated above and Guidance on Special Matter No. 1 issued on 20 December 2010 by the Malaysian Institute of Accountants are as follows:

	2016 RM	2015 RM
Total undistributed income of the Trust		
- realised	43,476,386	43,996,656
- unrealised	<u>116,253,529</u>	<u>114,642,017</u>
	<u>159,729,915</u>	<u>158,638,673</u>

The disclosure of realised and unrealised profit or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES

CERTIFIED TRUE COPY

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

Secretary

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

LIM SECK WAH

MARCSA NO: 0799845

As at 17 JUL 2017

	As at 31.3.2017 RM (Unaudited)	As at 31.12.2016 RM (Audited)
<u>NON-CURRENT ASSETS</u>		
Investment properties	1,092,450,000	1,092,450,000
Capital work in progress	1,167,962	162,080
Fixed deposits with a licensed bank	665,369	665,369
	<u>1,094,283,331</u>	<u>1,093,277,449</u>
<u>CURRENT ASSETS</u>		
Trade receivables	6,844,056	5,750,826
Other receivables, deposits and prepayments	16,827,894	17,220,686
Cash and bank balances	10,148,219	14,560,249
	<u>33,820,169</u>	<u>37,531,761</u>
TOTAL ASSETS	<u>1,128,103,500</u>	<u>1,130,809,210</u>
<u>NON-CURRENT LIABILITIES</u>		
Tenancy deposits	13,543,739	12,279,861
Bank borrowings	493,370,302	493,200,372
Derivative financial instrument	514,186	814,013
	<u>507,428,227</u>	<u>506,294,246</u>
<u>CURRENT LIABILITIES</u>		
Trade payables	1,343,691	937,729
Other payables and accruals	3,937,639	5,596,625
Tenancy deposits	16,121,358	17,512,440
Bank borrowings	15,000,000	15,000,000
	<u>36,402,688</u>	<u>39,046,794</u>
TOTAL LIABILITIES	<u>543,830,915</u>	<u>545,341,040</u>
NET ASSET VALUE	<u>584,272,585</u>	<u>585,468,170</u>
<u>FINANCED BY:</u>		
Unitholders' capital	425,738,255	425,738,255
Undistributed income – realised	41,980,975	43,476,386
– unrealised	116,553,356	116,253,529
TOTAL UNITHOLDERS' FUND	<u>584,272,585</u>	<u>585,468,170</u>
NET ASSET VALUE PER UNIT (RM)		
-as at the date	1.4584	1.4614
-before distribution for the cumulative quarter	1.4854	1.5664
NUMBER OF UNITS IN CIRCULATION	400,634,117	400,634,117

Note: tenancy deposit includes RM1,892,659 (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.

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2017 RM	Preceding Year Corresponding Quarter 31.03.2016 RM	Current YTD 31.03.2017 RM	Preceding YTD 31.03.2016 RM
Revenue	30,857,245	31,603,064	30,857,245	31,603,064
Property operating expenses	(13,169,714)	(12,928,774)	(13,169,714)	(12,928,774)
Net property income	17,687,531	18,674,290	17,687,531	18,674,290
Interest income	47,540	44,194	47,540	44,194
Other income	1,560	88,783	1,560	88,783
Trust expenses	(2,777,641)	(2,431,018)	(2,777,641)	(2,431,018)
Borrowing costs	(5,637,280)	(5,669,791)	(5,637,280)	(5,669,791)
Realised income before taxation	9,321,710	10,706,458	9,321,710	10,706,458
Change in fair value of derivative financial instrument	299,827	-	299,827	-
Income before taxation	9,621,537	10,706,458	9,621,537	10,706,458
Taxation	-	-	-	-
Net income	9,621,537	10,706,458	9,621,537	10,706,458
Other comprehensive income after tax	-	-	-	-
Total comprehensive income	9,621,537	10,706,458	9,621,537	10,706,458
Earnings per unit (sen)	2.40	2.67	2.40	2.67
- realised (sen)	2.33	2.67	2.33	2.67
- unrealised (sen)	0.07	-	0.07	-

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.

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

**STATEMENT OF CHANGES IN NET ASSETS VALUE
FOR THE CUMULATIVE QUARTER ENDED 31 MARCH 2017 (UNAUDITED)**

	Unitholders' Capital RM	<u>Undistributed income</u> Realised Unrealised RM RM		Unitholders' Fund 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 31 March 2017</u>				
Total comprehensive income for the financial year	-	9,321,710	299,827	9,621,537
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(10,817,121)	-	(10,817,121)
Balance at 31 March 2017	425,738,255	41,980,975	116,553,356	584,272,585

CUMULATIVE QUARTER ENDED 31 DECEMBER 2016 (AUDITED)

	Unitholders' Capital RM	<u>Undistributed income</u> Realised Unrealised RM RM		Unitholders' Fund 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	425,738,255	43,476,386	116,253,529	585,468,170

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.

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

**STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE CUMULATIVE QUARTER ENDED 31 MARCH 2017**

	Current YTD 31.3.2017 RM	Preceding YTD 31.3.2016 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxation	9,621,537	10,706,458
Adjustments for :-		
Interest income	(47,540)	(44,194)
Interest expense	5,637,280	5,669,791
Rental under MFRS 117	76,430	111,992
Impairment loss on trade receivables	357,996	37,500
Bad debt written off	-	86,579
Fair value change on derivatives	(299,827)	-
Operating profit before working capital changes	<u>15,345,876</u>	<u>16,568,126</u>
Change in working capital :-		
Receivables	(835,037)	(1,808,007)
Payables	(1,680,056)	(1,281,609)
Net cash from operating activities	<u>12,830,783</u>	<u>13,478,510</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment properties		
Expenditure for refurbishment and enhancement of investment property incurred	(1,005,882)	(694,550)
Interest income	47,540	44,194
Net cash used in investing activities	<u>(958,342)</u>	<u>(650,356)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Interest expense	(5,637,280)	(5,669,791)
Distribution to Unitholders	(10,817,121)	(10,817,121)
Borrowings	169,930	2,918,741
Net cash used in financing activities	<u>(16,284,471)</u>	<u>(13,568,171)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,412,030)	(740,017)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,560,249	19,085,638
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>10,148,219</u>	<u>18,345,621</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.

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

A. EXPLANATORY NOTES FOR THE QUARTER ENDED 31 MARCH 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.

A7 INCOME DISTRIBUTION

Based on the quarterly result ended 31 March 2017, there will be a First Interim Income Distribution of 2.3 sen per unit, amounting to RM9,214,585 to be made on 22 June 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.

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

A9 VALUATION OF INVESTMENT PROPERTIES

The Investment Properties for Subang Parade, Mahkota Parade, Wetex Parade, Central Square and Landmark Central were last valued on 27 December 2016.

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.

A14 TENANCY DEPOSITS (MFRS 139)

Included in the tenancy deposit received from tenants is RM1,892,659 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:-	<u>RM</u>
Refurbishment of investment properties	20,050,144
Acquisition of 1Segamat Shopping Centre	<u>93,600,000</u>
	<u>113,650,144</u>

UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

B. ADDITIONAL INFORMATION PURSUANT TO PARAGRAPH 9.44 OF BURSA MALAYSIA SECURITIES BHD'S MAIN MARKET OF LISTING REQUIREMENT'S

B1 REVIEW OF PERFORMANCE

For the cumulative quarter ended 31 March 2017, Hektar REIT generated total revenue of RM30,857,245 including interest and other income.

Revenue is lower than the preceeding quarter by 2%. The realised net profit was lower by 13% due mainly to lower contribution from Subang Parade.

Property operating expenses increased by RM240,939.

B2 VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter Ended 31.3.2017 RM	Preceding Quarter Ended 31.3.2016 RM
Income/(loss) before tax (RM)	9,621,537	10,706,458
- Realised income before tax (RM)	<u>9,321,710</u>	<u>10,706,458</u>
- Unrealised income before tax (RM)	<u>299,827</u>	-

Realised income before tax was lower by 13% due mainly to lower contribution from Subang Parade due to the soft retail market and higher impairment loss on trade receivables.

B3 PROSPECT'S

Retail business in Malaysia continues to remain a challenge in 2017, especially in light of the sluggish economy. Hektar is in the process of completing the acquisition of 1Segamat Shopping Centre in addition to exploring Asset Enhancement Initiatives ("AEI") to improve its 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.

UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

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

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 RM508,370,302 are secured and comprise:

1. Current liability of RM15,000,000; and
2. Non-current liability of RM493,370,302.

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 DERIVATIVES

As at 31 March 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 31 March 2017 RM	<u>Maturity</u>
5-year IPRS – derivative liability	514,186	More than 1 year

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

B13 MATERIAL LITIGATION

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

Further to our announcements dated 25 April 2016, 1 August 2016, 16 November 2016 and 14 February 2017, the Melaka High Court had heard the suit on 20 and 29 March and subsequently the hearing was concluded on 19 May 2017. At the conclusion of the hearing, the court directed parties to file in written submissions by 22 June 2017 and judgment is expected to be delivered on 23 July 2017.

**Appeal on Application to Strike Out Guaman Sivil No: 22 NCVC-66-11/2015)
(Civil Appeal No. M-02(IM)(NCVC)-1955-10/2016)**

Further to our announcements dated 16 November 2016 and 14 February 2017, Hektar REIT has, on the advice of its solicitors, withdrew its appeal at the Court of Appeal on the decision of the High Court to dismiss the application to strike out the claim from Mahkota Parade JMB.

**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.

At the same time, on 18 April 2017, the Tribunal heard and dismissed Hektar REIT's interlocutory application to refrain the Mahkota Parade JMB from calling the 5th annual general meeting scheduled on 19 April 2017 until the disposal of Hektar REIT's claim in this case. At the same hearing, the Tribunal dismissed 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 Tribunal then set 23 May 2017 as the next case management date and 22 June 2017 for the hearing in relation to the 28 November 2016 claim.

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.

B14 SOFT COMMISSION

For the quarter ended 31 March 2017, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

B15 INCOME DISTRIBUTION

The Board of Directors of Hektar Asset Management Sdn Bhd has recommended and the Trustee has approved a First Interim Income Distribution of 2.3 sen per unit, amounting to RM9,214,585 for the First Quarter ended 31 March 2017. The withholding tax rate imposed on the recipients of income distribution is as follows:

**UNAUDITED QUARTERLY RESULTS OF HEKTAR REIT FOR THE 3-MONTH FPE 31 MARCH 2017
TOGETHER WITH THE EXPLANATORY NOTES (Cont'd)**

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

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%

B16 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT

	Current Quarter Ended 31.3.2017	Preceding Quarter Ended 31.3.2016
Income before tax (RM)	9,321,710	10,706,458
Provision for income distribution (RM)	9,214,585	10,416,487
Number of units in issue	400,634,117	400,634,117
Basic earnings per unit (sen)	2.40	2.67
- Realised	2.33	2.67
Distribution per unit (sen)	2.30	2.60
Market Price (RM)	1.63	1.51
Dividend Yield (%)	5.64	6.89

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 31 March 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 22 May 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
22 May 2017

CERTIFIED TRUE COPY


Secretary

LIM SECK WAH
MAICSA NO: 0799845

17 JUL 2017

DIRECTORS' REPORT



HEKTAR ASSET MANAGEMENT

Date: 19 JUL 2017

To : The Unitholders of Hektar Real Estate Investment Trust ("Hektar REIT")

Dear Sir/Madam,

On behalf of the Board of Directors of Hektar Asset Management Sdn Bhd ("**Board**"), the manager of Hektar REIT, I wish to report, after making due enquiries in relation to the period between 31 December 2016, being the date to which the last audited financial statements of Hektar REIT have been made up, and the date hereof, being a date not earlier than fourteen (14) days before the date of this Rights Issue Prospectus:

- (i) the business of Hektar REIT has, in the opinion of the Board, been satisfactorily maintained;
- (ii) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of Hektar REIT which have adversely affected the trading or the value of the assets of Hektar REIT;
- (iii) the current assets of Hektar REIT appear in the books at value which are believed to be realisable in the ordinary course of business;
- (iv) there is no contingent liability which have arisen by reason of any guarantee or indemnity given by Hektar REIT;
- (v) since the last audited financial statements of Hektar REIT, there has been no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings in which the Board is aware of; and
- (vi) there have been no material changes in the published reserves or any unusual factors affecting the incomes of Hektar REIT since the last audited financial statements of Hektar REIT.

Yours faithfully,
For and on behalf of the Board of
HEKTAR ASSET MANAGEMENT SDN BHD

DATO HISHAM BIN OTHMAN
Executive Director / Chief Executive Officer

HEKTAR ASSET MANAGEMENT SDN BHD (732261-T)
D1-U3-10, Block D1, Solaris Dutamas, No. 1, Jalan Dutamas 1, 50480 Kuala Lumpur, Malaysia.
Tel: +6 03-6205 5570 Fax: +6 03-6205 5571

ADDITIONAL INFORMATION

1. UNITS IN CIRCULATION

- (i) No securities of Hektar REIT will be allotted or issued on the basis of this Rights Issue Prospectus later than twelve (12) months after the date of issuance of this Rights Issue Prospectus.
- (ii) No person has been or is entitled to be given an option to subscribe for any securities of Hektar REIT as at the date of this Rights Issue Prospectus.

2. FEES AND CHARGES**(i) Manager**

Pursuant to the Deed, the Manager's annual fees consist of the following:

- (a) base fee of up to 1.0% per annum of the gross asset value of Hektar REIT, payable monthly in arrears; and
- (b) performance fee of up to 5.0% per annum of NPI, before deducting property management fees, payable monthly in arrears.

(ii) Trustee

In accordance with the Deed, the Trustee is entitled to receive a fee of up to 0.1% per annum of Hektar REIT's NAV, including the Manager's fees, payable monthly in arrears.

3. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts in the ordinary course of business) entered into by the Trustee and the Manager, on behalf of Hektar REIT, within the two (2) years immediately preceding the date of this Rights Issue Prospectus:

- (i) Conditional sale and purchase agreement dated 10 June 2016 between MTrustee and TDSB for the proposed acquisition by MTrustee, on behalf of Hektar REIT, of the Subject Property for a cash consideration of RM104.0 million; and
- (ii) Underwriting agreement dated 14 July 2017 between the Manager, the Trustee and the Joint Underwriters in relation to the underwriting of 17,517,678 Rights Units (representing 28.74% of the total Rights Units) amounting to RM19,444,622, at a managing underwriting commission and an underwriting commission of 0.25% and 1.50% of the value of the Underwritten Rights Units, respectively.

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ADDITIONAL INFORMATION (Cont'd)

4. MATERIAL LITIGATION

4.1 Hektar REIT

Save as disclosed below, as at the LPD, Hektar REIT is not engaged in any material litigation, claims and/or arbitration, either as plaintiff or defendant, and the Board is not aware of any proceedings, pending or threatened, against Hektar REIT or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of Hektar REIT:

Writ of summons by Mahkota Parade Joint Management Body ("MPJMB")

On 27 November 2015, MPJMB filed a writ of summons against the Trustee, the Manager and Hektar Property Services Sdn Bhd, the property manager of Hektar REIT (collectively referred to as "**Defendants**"), seeking, among others, the following:

- (i) a declaration for the determination of "common area" within Mahkota Parade as defined under the Strata Management Act 2013 ("**SMA**");
- (ii) a declaration that the areas such as, among others, the concourse, lobby, corridor, staircase and car parks are included in the definition of "common area" under the SMA;
- (iii) an order to compel the Defendants to surrender the Building Maintenance Account, the original approved as-built plan for Mahkota Parade, the original approved strata plan for Mahkota Parade, the list of names and details of the tenants occupying the disputed common areas, and the control and ownership of the common areas;
- (iv) an order to compel the Defendants to produce the audited statement of accounts showing the total revenue and rent collection from the movable and fixed kiosks at the main entrance, balcony, concourse, lobby, corridor, below the staircase and the parking fee collected from the car parks at Mahkota Parade for the period from 1 June 2012 to the date of judgment; and
- (v) an order to compel the Defendants to pay to MPJMB the total revenue and rent collection from the movable and fixed kiosks at the main entrance, balcony, concourse, lobby, corridor, below the staircase and the parking fee collected from the car parks at Mahkota Parade for the period from 1 June 2012 to the date of judgment.

In the event the High Court of Malaya in Melaka ("**Melaka High Court**") decides that the ownership of the movable and fixed kiosks at the main entrance, balcony, concourse, lobby, corridor, below the staircase and the car park bays at Mahkota Parade belongs to Hektar REIT, MPJMB is claiming for payment of alleged outstanding maintenance charges, sinking fund and late payment interest on the "disputed common areas" totaling a sum of RM12,148,962.12 as at 31 August 2015.

In addition, in the event the Melaka High Court decides that the car park bays (both at the basement level and the external open space) belong to Hektar REIT, MPJMB is also making an alternative claim of a monthly payment of RM428,395.20 in accordance with the monthly maintenance charge rate of RM1.20 per sqf commencing from 1 September 2015. The Melaka High Court had heard the case on 20 March 2017 and 29 March 2017, and subsequently the hearing was concluded on 19 May 2017. At the conclusion of the hearing, the court had directed parties to file in written submissions by 23 June 2017 and judgement is expected to be delivered on 11 August 2017.

ADDITIONAL INFORMATION (Cont'd)

On 28 November 2016, Hektar REIT has filed its claim against MPJMB and 8 other defendants at the Strata Management Tribunal ("**Tribunal**") to invalidate the previous annual general meeting held on 26 January 2016. On 18 April 2017, the Tribunal heard and dismissed Hektar REIT's interlocutory application to refrain MPJMB from calling the 5th annual general meeting scheduled on 19 April 2017 until the disposal of Hektar REIT's claim in the case. During the same hearing, the Tribunal dismissed MPJMB's lawyer's interlocutory application to strike out Hektar REIT's claim. On 8 May 2017, MPJMB's 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 2017 was, at the request of MPJMB's lawyer, postponed to a later date to be fixed and notified by the Tribunal.

Based on legal advice obtained from Hektar REIT's solicitors, the management of the Manager is of the view that MPJMB's claims are unjustified and will continue to take all necessary action to fully defend Hektar REIT's rights and interest in this litigation.

4.2 Manager

As at the LPD, the Manager is not engaged in any material litigation, claims and/or arbitration, either as plaintiff or defendant, and the Board is not aware of any proceedings, pending or threatened, against the Manager or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of the Manager.

4.3 MTrustee

As at the LPD, MTrustee is not engaged in any material litigation, claims and/or arbitration, either as plaintiff or defendant, and is not aware of any proceedings, pending or threatened, against MTrustee or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of MTrustee.

5. CONSENTS

The Trustee, Principal Adviser and Managing Underwriter, Joint Underwriters, Solicitors, Registrar, Joint Company Secretaries of the Manager, Auditors, Taxation Adviser, Principal Banker and Property Management Company have given before the issuance of this Rights Issue Prospectus and have not subsequently been withdrawn their written consents for the inclusion of its name and all references thereto in the form and context in which they appear in this Rights Issue Prospectus.

The independent market researcher, RNDC Retail Solutions Sdn Bhd, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which it appears in this Rights Issue Prospectus.

The reporting accountants, SJ Grant Thornton, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the Reporting Accountants' letter on the proforma statement of financial position of Hektar REIT as at 31 December 2016, the auditor's report for the audited financial statements of Hektar REIT for the FYE 31 December 2016 and all references thereto in the form and context in which they appear in this Rights Issue Prospectus.

The independent valuer, Henry Butcher, has given and has not subsequently withdrawn its written consent to the inclusion of its name, valuation certificate in respect of the 1Segamat Property and all references thereto in the form and context in which they appear in this Rights Issue Prospectus.

Bloomberg Finance L.P. has given and has not subsequently withdrawn its written consent to the inclusion of its name as the source of the historical prices of the Units and all references thereto in the form and context in which they appear in this Rights Issue Prospectus.

ADDITIONAL INFORMATION (Cont'd)**6. GENERAL**

Save as disclosed in this Rights Issue Prospectus, there are no:

- (a) known trends, demands, commitments, events or uncertainties that will or are likely to materially increase or decrease the liquidity of Hektar REIT;
- (b) material commitments for capital expenditure of Hektar REIT;
- (c) unusual, infrequent events or transactions or significant economic changes which materially affect the amount of reported income from the operations of Hektar REIT;
- (d) known trends or uncertainties which have had, or that the Manager reasonably expects to have, a material favourable or unfavourable impact on revenues or operating income of Hektar REIT;
- (e) substantial increase in revenue or operating income; and
- (f) material information, including any special trade factors or risks, which are unlikely to be known or anticipated by the general public and which could materially affect the profits of Hektar REIT.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Manager at D1-U3-10, Block D1, Solaris Dutamas, No. 1, Jalan Dutamas 1, 50480 Kuala Lumpur during normal business hours on any weekday (except public holidays) for a period of twelve (12) months from the date of this Rights Issue Prospectus:

- (i) the Deed;
- (ii) audited financial statements of Hektar REIT for the past 3 FYEs 31 December 2014 to 2016 and the unaudited quarterly results of Hektar REIT for the 3-month FPE 31 March 2017;
- (iii) certified true extract of the resolutions relating to the Corporate Exercises passed at the Meeting held on 13 June 2017 as set out in Appendix I of this Rights Issue Prospectus;
- (iv) valuation certificate and updated valuation certificate in respect of the valuation of the 1Segamat Property as set out in Appendix III(A), Appendix III(B) and Appendix III(C) of this Rights Issue Prospectus;
- (v) pro forma statement of financial position of Hektar REIT as at 31 December 2016 together with the notes and Reporting Accountants' letter thereon as set out in Appendix IV of this Rights Issue Prospectus;
- (vi) Directors' Report as set out in Appendix VI of this Rights Issue Prospectus;
- (vii) material contracts as referred to in Section 3 of this Appendix;
- (viii) relevant cause papers in respect of the material litigation referred to in Section 4 of this Appendix;
- (ix) consent letters as referred to in Section 5 of this Appendix;
- (x) the Undertakings; and
- (xi) independent market research report prepared by RNDC Retail Solutions Sdn Bhd.

ADDITIONAL INFORMATION (Cont'd)

8. RESPONSIBILITY STATEMENT

The Board has seen and approved the Documents. They collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make any statement in the Documents false or misleading.

Maybank IB, being the Principal Adviser for the Rights Issue, acknowledges that, based on all available information, and to the best of its knowledge and belief, this Rights Issue Prospectus constitutes a full and true disclosure of all material facts concerning the Rights Issue.

NOTICE OF PROVISIONAL ALLOTMENT

TERMS DEFINED IN THE RIGHTS ISSUE PROSPECTUS DATED 31 JULY 2017 ("RIGHTS ISSUE PROSPECTUS") SHALL HAVE THE SAME MEANINGS WHEN USED IN THIS NOTICE OF PROVISIONAL ALLOTMENT ("NPA") UNLESS OTHERWISE STATED. THE PROVISIONAL RIGHTS UNITS ARE PRESCRIBED SECURITIES PURSUANT TO SECTION 14(5) OF THE SECURITIES INDUSTRY (CENTRAL DEPOSITORIES) ACT, 1991, AS AMENDED FROM TIME TO TIME, INCLUDING SECURITIES INDUSTRY (CENTRAL DEPOSITORIES) AMENDMENT ACT, 1998 ("SICDA") AND THEREFORE, ALL DEALINGS IN THE PROVISIONAL RIGHTS UNITS WILL BE GOVERNED BY THE SICDA AND THE RULES OF BURSA DEPOSITORY.



HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the trust deed dated 5 October 2006 (as amended by the supplemental trust deed dated 20 March 2012 and the second supplemental trust deed dated 23 November 2016) entered into between Hektar Asset Management Sdn Bhd and MTrustee Berhad (formerly known as AmTrustee Berhad))

RENOUNCEABLE RIGHTS ISSUE OF 60,966,061 NEW UNITS IN HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT") ("RIGHTS UNITS") AT AN ISSUE PRICE OF RM1.11 PER RIGHTS UNIT ON THE BASIS OF 7 RIGHTS UNITS FOR EVERY 46 EXISTING UNITS HELD AT 5.00 P.M. ON 31 JULY 2017 ("ENTITLEMENT DATE")

Manager



Hektar Asset Management Sdn Bhd (732261-T)

(Incorporated in Malaysia under the Companies Act, 1965 and deemed registered under the Companies Act, 2016 ("Act"))

Principal Adviser, Managing Underwriter and Joint Underwriter



Maybank Investment Bank Berhad (15938-H)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Trustee

MTrustee Berhad (163032-V)

(formerly known as AmTrustee Berhad)
(Incorporated in Malaysia under the Companies Act, 1965 and deemed registered under the Act)

Joint Underwriter



Kenanga Investment Bank Berhad (15678-H)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

To: **The Entitled Unitholders**

Dear Sir/Madam,

The Board has provisionally allotted to you the number of Rights Units as indicated below in relation to the Rights Issue, subject to the terms and conditions stated in the Rights Issue Prospectus and the RSF issued by Hektar REIT.

We wish to advise that the Provisional Rights Units made to you in respect of the Rights Issue have been confirmed by Bursa Depository and upon acceptance will be credited into your CDS Account(s).

Bursa Securities has prescribed the securities of Hektar REIT listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, all dealings in the Provisional Rights Units are prescribed securities and as such, all dealings in the Provisional Rights Units will be by book entries through CDS Accounts and governed by the SICDA and the Rules of Bursa Depository.

ALL RIGHTS UNITS TO BE ISSUED PURSUANT TO THE RIGHTS ISSUE WILL BE ALLOTTED BY WAY OF CREDITING THE RIGHTS UNITS INTO THE CDS ACCOUNTS OF THE ENTITLED UNITHOLDERS AND/OR THEIR RENOUNCES/TRANSFEREES (IF APPLICABLE). NO PHYSICAL UNIT CERTIFICATE WILL BE ISSUED.

It is the intention of the Board to allot the Excess Rights Units, if any, in a fair and equitable manner in the following order of priority:

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, for allocation to the Entitled Unitholders who have applied for the Excess Rights Units on a pro-rata basis and in board lots, calculated based on their unitholdings as at the Entitlement Date;
- (iii) thirdly, for allocation to the Entitled Unitholders who have applied for the Excess Rights Units on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Units applied for; and
- (iv) fourthly, for allocation to the renounee(s) and/or transferee(s) of the Entitled Unitholders who have applied for the Excess Rights Units on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Units applied for.

In the event of any Excess Rights Units balance after steps (i), (ii), (iii) and (iv) are carried out, steps (ii), (iii) and (iv) will be repeated to allocate the balance Excess Rights Units until such balance is exhausted.

Nevertheless, the Board reserves the right to allot the Excess Rights Units applied for in such manner as the Board deems fit and expedient, and in the best interest of Hektar REIT, subject always to such allocation being made on a fair and equitable basis, and that the intention of the Board as set out in steps (i) to (iv) above is achieved.

NAME, ADDRESS AND CDS ACCOUNT NUMBER OF ENTITLED UNITHOLDER

--

NUMBER OF UNITS HELD AS AT 5.00 P.M. ON 31 JULY 2017	NUMBER OF RIGHTS UNITS PROVISIONALLY ALLOTTED TO YOU	AMOUNT PAYABLE IN FULL UPON ACCEPTANCE AT RM1.11 PER RIGHTS UNIT
		RM

IMPORTANT RELEVANT DATES AND TIMES:

Entitlement Date.....	Monday, 31 July 2017 at 5.00 p.m.
Last date and time for the sale of the Provisional Rights Units	Monday, 7 August 2017 at 5.00 p.m.
Last date and time for the transfer of the Provisional Rights Units	Thursday, 10 August 2017 at 4.00 p.m.
Last date and time for the acceptance of and payment for the Provisional Rights Units.....	Tuesday, 15 August 2017 at 5.00 p.m.
Last date and time for the application and payment for the Excess Rights Units.....	Tuesday, 15 August 2017 at 5.00 p.m.

BY ORDER OF THE BOARD
DATO' MUHAMMAD HAFIDZ BIN NURUDDIN (MAICSA 7005820)
LIM SECK WAH (MAICSA 0799845)
 Joint Company Secretaries

Registrar
Mega Corporate Services Sdn Bhd
 Level 15-2, Bangunan Faber Imperial Court
 Jalan Sultan Ismail
 50250 Kuala Lumpur
 Tel. No.: +603 2692 4271
 Fax. No.: +603 2732 5388

NOTES AND INSTRUCTIONS FOR COMPLETION OF THIS RSF

THIS RSF IS NOT A TRANSFERABLE OR NEGOTIABLE INSTRUMENT. IN ACCORDANCE WITH THE REQUIREMENTS OF THE CMSA, THIS RSF MUST NOT BE CIRCULATED UNLESS ACCOMPANIED BY THE RIGHTS ISSUE PROSPECTUS.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. All enquiries concerning the Rights Issue should be addressed to the Registrar, Mega Corporate Services Sdn Bhd at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.

YOU SHOULD READ AND UNDERSTAND THE CONTENTS OF THE RIGHTS ISSUE PROSPECTUS TO WHICH THIS RSF RELATES TO BEFORE COMPLETING AND SIGNING THIS RSF.

This RSF, together with the Rights Issue Prospectus and the NPA (collectively, the "Documents") are only despatched to the Unitholders whose names appear in the Record of Depositors of Hektar REIT at 5.00 p.m. on 31 July 2017 and who have a registered address in Malaysia or who have provided the Registrar with a registered address in Malaysia in writing on or before 5.00 p.m. on 31 July 2017. The Documents are not intended to be (and will not be) issued, circulated or distributed in any country or jurisdiction other than Malaysia and no action has been or will be taken to ensure that the Rights Issue or the Documents comply with the laws related to public offerings of any country or jurisdiction where action for such purpose is required, other than the laws of Malaysia. It shall be the sole responsibility of the Entitled Unitholders and/or their renounees/transferees (if applicable) who are resident in countries or jurisdictions other than Malaysia to immediately consult their legal advisers as to whether the acceptance or renunciation (as the case may be) of the Provisional Rights Units, application for Excess Rights Units or the subscription, offer, sale, resale, pledge or other transfer of the Provisional Rights Units would result in the contravention of any laws of such countries or jurisdictions. Such Entitled Unitholders and/or their renounees/transferees (if applicable) should note the additional terms and restrictions as set out in Section 12 of the Rights Issue Prospectus. The Manager, the Trustee and Maybank IB shall not accept any responsibility or liability in the event that any acceptance or renunciation (as the case may be) by any Entitled Unitholders and/or their renounees/transferees (if applicable) is or shall become illegal, unenforceable, voidable or void in such countries or jurisdictions in which the said Entitled Unitholders and/or their renounee(s) and/or transferees (if applicable) are residents.

Approval for the Rights Issue has been obtained at the Meeting held on 13 June 2017. Approval has also been obtained from Bursa Securities on 18 May 2017 for the listing and quotation of the Rights Units on the Main Market of Bursa Securities. However, this is not an indication that Bursa Securities recommends the Rights Issue. The listing and quotation of the Rights Units is in no way reflective of the merits of the Rights Issue. The listing and quotation of the Rights Units will commence after, among others, the receipt of confirmation from Bursa Depository that the Rights Units have been duly credited into the CDS Accounts of the successful Entitled Unitholders and/or their renounees/transferees (if applicable) and the notices of allotment have been despatched to them.

A copy of this Rights Issue Prospectus has been registered with the SC. The registration of this Rights Issue Prospectus should not be taken to indicate that the SC recommends the Rights Issue or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Rights Issue Prospectus. The SC has not, in any way, considered the merits of the securities being offered for investment. A copy of the Documents have also been lodged with the SC who takes no responsibility for the contents.

The Board has seen and approved the Documents. They collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable inquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make any statement in the Documents false or misleading.

Unless otherwise stated, the unit of currencies used in this RSF is RM and sen.

INSTRUCTIONS:

(I) LAST DATE AND TIME FOR ACCEPTANCE AND PAYMENT

The last date and time for acceptance of and payment for the Provisional Rights Units and the Excess Rights Units is **15 August 2017 at 5.00 p.m.**, being the Closing Date.

If acceptance of and payment for the Provisional Rights Units are not received by the Registrar, Mega Corporate Services Sdn Bhd, at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur by the Closing Date, the Provisional Rights Units allotted to you or remainder thereof (as the case may be) will be deemed to have been declined and will be cancelled. Proof of time of postage shall not constitute proof of time of receipt by the Registrar.

The Board will then have the right to allot such Rights Units to applicants applying for Excess Rights Units in the manner as set out in (III) below.

(II) FULL OR PART ACCEPTANCE AND PAYMENT

If you wish to accept the Provisional Rights Units, either in full or in part, please complete Parts I and II of this RSF and submit this RSF together with the appropriate remittance made in RM for the **FULL** and **EXACT** amount payable for the Provisional Rights Units accepted in the form of **banker's draft(s), cashier's order(s), money order(s) or postal order(s)** drawn on a bank or post office in Malaysia, crossed "**A/C PAYEE ONLY**" to "**HEKTAR REIT RIGHTS ISSUE ACCOUNT**" and endorsed on the reverse side with the name and address in block letters, contact number and CDS Account number of the applicant to be received by the Registrar together with this RSF by the Closing Date.

Any excess or insufficient payment may be rejected at the absolute discretion of the Board. Cheques or any other modes of payment not prescribed herein are not acceptable. Details of the remittances must be filled in the appropriate boxes provided in this RSF.

No acknowledgement of receipt of this RSF or application monies will be made by Hektar REIT or the Registrar in respect of the Provisional Rights Units. However, if your application is successful, a notice of allotment will be despatched to you by ordinary post to the address shown in the Record of Depositors of Hektar REIT at your own risk within eight (8) Market Days from the Closing Date. In respect of unsuccessful or partially successful applications, the full amount or the surplus application monies, as the case may be, will be refunded without interest by ordinary post to the address as shown in the Record of Depositors of Hektar REIT at your own risk within fifteen (15) Market Days from the Closing Date.

(III) APPLICATION FOR EXCESS RIGHTS UNITS

If you wish to apply for the Excess Units, you may so do by completing Parts I and II of this RSF and forward it (together with a **separate remittance** made in RM for the **FULL** and **EXACT** amount payable in respect of the Excess Rights Units applied for) using the envelope provided to the Registrar at the address set out in (I) above, so as to arrive by the Closing Date. Payment for the Excess Rights Units applied should be made in the same manner as described in (II) above, except that the **banker's draft(s), cashier's order(s), money order(s) or postal order(s)** drawn on a bank or post office in Malaysia, crossed "**A/C PAYEE ONLY**" to "**HEKTAR REIT EXCESS RIGHTS ISSUE ACCOUNT**" and endorsed on the reverse side with the name and address in block letters, contact number and CDS Account number of the applicant to be received by the Registrar together with this RSF by the Closing Date.

Any excess or insufficient payment may be rejected at the absolute discretion of the Board. Cheques or any other modes of payment not prescribed herein are not acceptable. Details of the remittances must be filled in the appropriate boxes provided in this RSF.

No acknowledgement of receipt of this RSF for the Excess Rights Units application or application monies will be made by Hektar REIT or the Registrar in respect of the Excess Rights Units. However, if your application is successful, a notice of allotment will be despatched to you by ordinary post to the address shown in the Record of Depositors of Hektar REIT at your own risk within eight (8) Market Days from the Closing Date. In respect of unsuccessful or partially successful Excess Rights Units applications, the full amount or the surplus application monies, as the case may be, will be refunded without interest by ordinary post to the address as shown in the Record of Depositors of Hektar REIT at your own risk within fifteen (15) Market Days from the Closing Date.

It is the intention of the Board to allot the Excess Rights Units, if any, in a fair and equitable manner in the following order of priority:

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, for allocation to the Entitled Unitholders who have applied for the Excess Rights Units on a pro-rata basis and in board lots, calculated based on their unitholdings as at the Entitlement Date;
- (iii) thirdly, for allocation to the Entitled Unitholders who have applied for the Excess Rights Units on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Units applied for; and
- (iv) fourthly, for allocation to the renounee(s) and/or transferee(s) of the Entitled Unitholders who have applied for the Excess Rights Units on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Units applied for.

In the event of any Excess Rights Units balance after steps (i), (ii), (iii) and (iv) are carried out, steps (ii), (iii) and (iv) will be repeated to allocate the balance Excess Rights Units until such balance is exhausted.

Nevertheless, the Board reserves the right to allot the Excess Rights Units applied for in such manner as the Board deems fit and expedient, and in the best interest of Hektar REIT, subject always to such allocation being made on a fair and equitable basis, and that the intention of the Board as set out in steps (i) to (iv) above is achieved.

(IV) SALE/TRANSFER OF PROVISIONAL RIGHTS UNITS

Should you wish to sell/transfer, all or part of your entitlements to the Provisional Rights Units to one (1) or more persons, you may do so through your stockbroker without first having to request for a split of the Provisional Rights Units standing to the credit of your CDS Account. You may sell such entitlement on Bursa Securities for the period up to the last date and time for the sale of the Provisional Rights Units (in accordance with the Rules of Bursa Depository) or transfer such entitlements to such persons as may be allowed pursuant to the Rules of Bursa Depository for the period up to the last date and time for the transfer of the Provisional Rights Units (in accordance with the Rules of Bursa Depository).

In selling/transferring all or part of your Provisional Rights Units, you are not required to deliver any document, including this RSF, to any stockbroker. However, you are advised to ensure that there are sufficient number of Provisional Rights Units standing to the credit of your CDS Account before selling/transferring.

If you have sold/transferred only part of your Provisional Rights Units, you may still accept the balance of your Provisional Rights Units by completing Parts I and II of this RSF and forwarding this RSF together with the **FULL** and **EXACT** amount payable for the balance of the Provisional Rights Units accepted to the Registrar in accordance with the instructions in (II) above.

(V) GENERAL INSTRUCTIONS

- (a) All applicants must sign on the front page of this RSF. All corporate bodies must affix their Common Seal.
- (b) The Rights Units applied by you will be credited into your CDS as stated in this RSF or the exact CDS Account appearing in the Record of Depositors of Hektar REIT.
- (c) Any interest or other benefit accruing on or arising from or in connection with any remittance shall be for the benefit of Hektar REIT and the Manager shall not be under any obligation to account for such interest or other benefit to you.
- (d) The contract arising from the acceptance of the Provisional Rights Units by you shall be governed by and construed in accordance with the laws of Malaysia and you shall be deemed to have irrevocably and unconditionally submitted to the exclusive jurisdiction of the courts of Malaysia in respect of any matter in connection with this RSF and the contract arising therefrom.
- (e) The Board reserves the right to accept or reject any acceptance and/or application (if applicable) if the instructions stated herein are not strictly adhered to, or which are illegible.
- (f) A Malaysian Revenue Stamp (NOT POSTAGE STAMP) of RM10.00 must be affixed on this RSF.
- (g) Entitled Unitholders and/or their renounees/transferees (if applicable) should note that this RSF and remittances so lodged with the Registrar shall be irrevocable and shall not be subsequently withdrawn.