

HEKTAR REAL ESTATE INVESTMENT TRUST (“HEKTAR REIT”)

PROPOSED PRIVATE PLACEMENT OF UP TO 23,098,000 NEW UNITS IN HEKTAR REIT, REPRESENTING UP TO 5% OF ITS TOTAL ISSUED UNITS (“PROPOSED PRIVATE PLACEMENT”)

1. INTRODUCTION

On behalf of the Board of Directors of Hektar Asset Management Sdn Bhd (“**Board**”), being the management company of Hektar REIT (“**Manager**”), KAF Investment Bank Berhad (“**KAF IB**”) wishes to announce that Hektar REIT proposes to undertake a private placement of up to 23,098,000 new units of Hektar REIT (“**Placement Units**”), representing up to 5% of its total issued units of 461,960,178 units as at 12 November 2021, being the latest practicable date prior to this announcement (“**LPD**”).

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

On 9 April 2021, the unitholders of Hektar REIT (“**Unitholder(s)**”) had at the 9th Annual General Meeting (“**AGM**”) of Hektar REIT (“**9th AGM**”), approved, among others, the authority to allot and issue new units of up to 20% of the issued fund size of Hektar REIT to facilitate Hektar REIT in raising funds (“**Authority**”). The Authority empowers the Board to allot and issue new units at any time to such persons and for such purposes as the Board may deem fit and in the best interest of Hektar REIT, provided that the aggregate number of new units to be issued pursuant to the Authority, when aggregated with the number of units issued during the preceding 12 months, does not exceed 20% of the issued fund size of Hektar REIT.

The Authority shall continue to be in force until:

- (i) the conclusion of the next AGM of Hektar REIT following the 9th AGM where the Authority was passed, at which time the Authority will lapse, unless such Authority is renewed by the Unitholders by a resolution passed at that AGM of Hektar REIT; or
- (ii) the expiration of the period within which the next AGM of the Unitholders is required by law to be held; or
- (ii) the Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders’ meeting,

whichever occurs first.

2.1 Placement size

The Proposed Private Placement involves an issuance of up to 23,098,000 new units, representing up to 5% of the total issued units of 461,960,178 units as at the LPD.

The actual number of Placement Units to be issued under the Proposed Private Placement will be determined at a later stage by the Manager, in consultation with the placement agent(s) to be appointed for the Proposed Private Placement (“**Placement Agent(s)**”), at a price-fixing date to be determined after the relevant approvals have been obtained. In any event, the number of Placement Units to be issued will not exceed 23,098,000 Placement Units.

2.2 Basis of arriving at the issue price of the Placement Units

The Proposed Private Placement may be implemented in a single tranche or in multiple tranches, within 6 months from the date of approval of Bursa Securities for the listing and quotation of the Placement Units on the Main Market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) or any extended period as may be approved by Bursa Securities, or until the conclusion of the next AGM of Hektar REIT unless the Authority is renewed by the Unitholders at that AGM of Hektar REIT. As such, there could potentially be several price-fixing dates depending on the number of tranches for the implementation of the Proposed Private Placement.

The implementation of the Proposed Private Placement in tranches will provide the Manager with flexibility to raise funds while in compliance with Paragraph 6.59(1A)(a) of the Main Market Listing Requirements of Bursa Securities (“**MMLR**”).

The issue price of each tranche of the Placement Units (“**Issue Price**”), where applicable, shall be determined separately and fixed by the Board at a later date after obtaining the relevant approvals for the Proposed Private Placement.

The Board will take into consideration amongst others, the prevailing market conditions and the provisions of Paragraph 6.04(a) of the MMLR, in determining the issue price of the Placement Units. The issue price shall not be priced at a discount of more than 10% to the 5-day volume weighted average market price (“**5D-VWAMP**”) of unit price of Hektar REIT immediately preceding the price fixing date(s). The mechanism to determine the issue price of the Placement Units is in accordance with market based principles.

For illustration purpose, the issue price of the Placement Units is assumed to be RM0.51 each (“**Indicative Issue Price**”). The Indicative Issue Price represents a discount of approximately 9.94% to the 5D-VWAMP of unit price of Hektar REIT for the 5 market days up to and including the LPD of RM0.5663.

2.3 Placement arrangement

The Placement Units are proposed to be placed out to independent third party investor(s) (“**Placee(s)**”) to be identified later. In accordance with Paragraph 6.04(c) of the MMLR, the Placement Units are not to be placed to the following parties:

- (i) a director, major shareholder, chief executive of the Manager or a major Unitholder (collectively “**Interested Person**”);
- (ii) a person connected with an Interested Person; and
- (iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

Additionally, the Placees shall also be person(s) or party(ies) who/which qualify under Schedules 6 and 7 of the Capital Markets and Services Act 2007.

2.4 Ranking of the Placement Units

The Placement Units shall, upon allotment and issuance, rank equally in all respects with the then existing units, save and except that the Placement Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid, the entitlement date of which is prior to the date of allotment of the Placement Units, as the case may be.

2.5 Listing of and quotation for the Placement Units

Hektar REIT shall make an application to Bursa Securities for the listing of and quotation for the Placement Units on the Main Market of Bursa Securities.

2.6 Utilisation of proceeds

For illustrative purposes, assuming 23,098,000 Placement Units are issued at the Indicative Issue Price, the gross proceeds raised are expected to be utilised in the following manner:

Details	RM	Notes	Expected time frame for utilisation of proceeds (from listing date)
Working capital and capital work in progress	11,529,980	(i)	Within 12 months
Estimated expenses for the Proposed Private Placement	250,000	(ii)	Immediately
Total estimated proceeds	11,779,980		

Notes:

(i) Working capital and capital work in progress

The total proceeds of RM11,529,980 shall be utilised to fund working capital and capital work in progress for Hektar REIT's existing business as follows:

Description	RM
Working capital comprising the following:	
(a) Property operating expenses ⁽ⁱ⁾	5,256,987
(b) Trust expenses ⁽ⁱⁱ⁾	1,022,993
Capital work in progress comprising the following:	
(c) Refurbishment and enhancement of investment properties ⁽ⁱⁱⁱ⁾	5,250,000
Total	11,529,980

Notes:

- (i) Property operating expenses includes property maintenance, utilities, marketing and promotion, insurance costs as well as property management fees. A further breakdown cannot be determined at this juncture.
- (ii) Trust expenses include Manager's fees and administration expenses.
- (iii) As part of Hektar REIT's ordinary course of business, it is always exploring the implementation of asset enhancement initiatives with the objective of enhancing the properties' yield. These initiatives include but is not limited to the refurbishment of the properties' air conditioning and mechanical ventilation and vertical transport systems (lifts & escalators) as well as implementation of energy-efficiency initiatives with the intended objective of promoting sustainability and reducing operating costs.

(ii) Estimated expenses for the Proposed Private Placement

This includes payment of fees to the relevant authorities, advisory fees and placement fees. If the actual expenses are higher than the amount budgeted, the deficit will be funded out of the amount earmarked for working capital. Conversely, if the actual expenses are lower than the amount budgeted, the excess will be utilised for the working capital. The breakdown of estimated expenses for the Proposed Private Placement is as follows:-

Description	RM
Advisory and placement fees	240,000
Others (fees to relevant authorities and miscellaneous)	10,000
Total	250,000

The actual proceeds to be raised from the Proposed Private Placement are dependent on the Issue Price and actual number of Placement Units issued. Any excess or shortfall of the actual proceeds raised will be adjusted to or from the amount earmarked for the working capital.

Pending full utilisation of the proceeds from the Proposed Private Placement for the abovementioned purposes, the proceeds will be placed in interest-bearing deposit accounts with licensed financial institution(s). The interest derived from such deposits will be used as additional working capital of Hektar REIT.

3. RATIONALE

The Proposed Private Placement will mainly allow Hektar REIT to raise the necessary funds for working capital and capital work in progress to fund the cost of Hektar REIT's existing day-to-day operations as a whole by providing more flexibility in terms of cash flow management.

The Proposed Private Placement will also strengthen the capital base of Hektar REIT and allow Hektar REIT to have greater focus on prioritizing its business strategy to overcome the economic and business challenges in light of the current economic situation brought about by the COVID-19 pandemic.

After having considered various fund raising options and challenges in obtaining bank borrowings from the financial institutions, the Board is of the opinion that the Proposed Private Placement is currently the best avenue of fund raising as it enables Hektar REIT to raise funds expeditiously without incurring interest cost as compared to bank borrowings.

4. INDUSTRY OVERVIEW AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy declined by 4.5% in the third quarter (2Q 2021: +16.1%)

The Malaysian economy contracted by 4.5% in the third quarter of 2021 (2Q 2021: +16.1%). This was largely attributable to the strict containment measures particularly in July, under Phase 1 of the National Recovery Plan (“NRP”). Economic activity subsequently picked up as more states transitioned into Phase 2 with less restrictive containment measures. On the supply side, all economic sectors registered a contraction. The construction sector contracted the most due to operating capacity limits.

On the expenditure side, domestic demand declined by 4.1% (2Q 2021: +12.4%), weighed down mainly by the contraction in private consumption and investment activities, while continued increase in public sector consumption spending provided support to growth. Governor Datuk Nor Shamsiah said "Progressive lifting of containment measures and continued improvements in the labour market will be key to support the recovery going forward". On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 3.6% (2Q 2021: -1.9%).

Headline inflation moderated to 2.2% during the quarter (2Q 2021: 4.1%). This was due mainly to the dissipation of the base effect from fuel prices, and the implementation of the three-month electricity bill discounts. Core inflation remained at 0.7% during the quarter (2Q 2021: 0.7%).

Financing conditions

Net financing to the private sector recorded an annual growth of 3.9% (2Q 2021: 4.4%), reflecting lower growth in both outstanding loans (2.9%; 2Q 2021: 3.6%) and outstanding corporate bonds (6.5%; 2Q 2021: 6.9%). Outstanding household loan growth moderated to 3.2% (2Q 2021: 5.3%), amid slower growth across all purposes. Loan applications and disbursements, however, improved in September given the relaxation of movement restrictions. For businesses, outstanding business loans grew by 2.4% (2Q 2021: 1.3%), supported by higher working capital loan growth. This expansion was also mainly driven by the wholesale and retail trade, restaurants and hotels, and manufacturing sectors, in line with the resumption of business activity amid the reopening of the economy.

The Malaysian economy is expected to improve following the normalisation of economic activities

For 2021, the domestic economy is on track to expand by 3.0% - 4.0%. Growth will be supported by the increase in economic activities as containment measures are progressively relaxed, amid continued policy support. The various relaxations of restrictions for fully vaccinated individuals including for interstate travel would also spur tourism-related activities. In addition, the strength in global demand will continue to support export growth.

Going forward into 2022, Governor Datuk Nor Shamsiah explained, "Malaysia's growth trajectory is expected to improve given resumption of economic activities, further improvement in the labour market, continued policy support and expansion in external demand. The progress and efficacy of vaccinations, compliance with Standard Operating Procedures (SOPs) as well as the ability to effectively contain outbreaks from any new COVID-19 variants of concern (VOCs) will be key to the expected recovery."

Year-to-date, headline inflation has averaged 2.3%, and is projected to average between 2.0% and 3.0% for 2021. Underlying inflation, as measured by core inflation, is expected to average below 1.0% for the year. In 2022, headline inflation is projected to remain moderate. As economic activity normalises, core inflation is expected to edge upwards but remain benign given the continued spare capacity in the economy and slack in the labour market. The outlook, however, continues to be subject to global commodity price developments and some risk from prolonged supply-related disruptions.

(Source: Economic and Financial Developments in the Malaysian Economy in the Third Quarter of 2021, Bank Negara Malaysia)

4.2 Overview and prospects of property sector in Malaysia

Property Market Activity

The property market performance recorded a significant increase in the first half of 2021, as compared to the same period last year. A total of 139,754 transactions worth RM62.01 billion were recorded, showing an increase of 21.0% in volume and 32.1% in value compared to the same period last year. Volume of transactions across the sub-sectors showed upward movements. Residential, commercial, industrial, agriculture and development land sub-sectors recorded year-on-year growths of 22.2%, 28.5%, 29.4%, 13.9% and 21.3% respectively.

Shopping Complex – Transaction

The review period recorded eight commercial complex transactions with an accumulative worth of RM0.88 billion; one each in Johor, Negeri Sembilan, Kedah and Sarawak, and four in Selangor.

Shopping Complex – Occupancy and Space Availability

The performance of shopping complex moderated in H1 2021, with the national occupancy rate showing a slight decline at 76.6% as compared to H1 2020 (78.6%). There were 16.93 million s.m. of existing retail space recorded, increased from 16.77 million s.m. as recorded in H1 2020. WP Kuala Lumpur and Selangor recorded 81.6% and 78.8% occupancy rate respectively, whereas Johor and Pulau Pinang managed to secure an average occupancy of 73.4% and 72.2% respectively. Meanwhile, Negeri Sembilan and Melaka recorded lowest occupancy rate at 66.3% and 63.3% respectively.

Shopping Complex – Rental

Rentals of retail space were generally stable. Suria KLCC continued to earn the highest monthly rentals, ranging from RM393 p.s.m. up to as high as RM2,302 p.s.m. At the concourse level, a slight increase between 3.6% to 5.8% were recorded. In Shaftsbury Putrajaya, some retail spaces experienced a rental decrease between 6.4% to 10.3%. In Selangor, rents of retail space were generally stable for most shopping complexes except for Subang Parade and Sunway Pyramid. Ground floor of Subang Parade and first floor of Sunway Pyramid recorded growth of 5.6% and 5.8% respectively with monthly rents between RM129 p.s.m. to RM251 s.m. and RM392 p.s.m. to RM631 p.s.m.

Conclusion

The acceleration of the National COVID-19 Immunisation Programme and the ability to achieve National Recovery Plan threshold across the states will see the reopening of more economic and social sectors in the fourth quarter of 2021. Supported by the implementation of various government initiatives and assistance, the property market is expected to be on the recovery path in line with the gradual economic recovery.

(Source: Property Market Report First Half 2021, Valuation and Property Services Department, Ministry of Finance Malaysia)

4.3 Prospects of Hektar REIT

The reimplementation of the Full Movement Control Order (FMCO) in June 2021 due to the resurgence of COVID-19 cases followed by the implementation of NRP is expected to weigh on economic growth. Bank Negara Malaysia has revised its full-year gross domestic product (GDP) growth forecast for Malaysia to between 3% and 4%, from the previous forecast of between 6% and 7.5% for 2021. Nevertheless, the recent reopening of most economic sectors and resumption of inter-state travel have helped to cushion the impact. Under the current phase of NRP, most of the retail trades have been allowed to operate. At the time of writing, Malaysia has also achieved a vaccination rate of 95% for adults. This is higher than the targeted vaccination of 90%, increasing consumer confidence and resulting in shoppers and patrons gradually returning to the shopping malls.

As the country transitions into an endemic phase, an overall economic recovery is expected to continue in 2022, barring any major new outbreaks. However, the retail market is expected to remain challenging given the prolonged disruption caused by the pandemic and uncertainties posed by the emergence of variants of concern, particularly the Delta Plus variant. Meantime, Hektar REIT maintains a cautious outlook for the coming quarters and will vigilantly monitor this evolving situation and remain focused on ensuring the safety and well-being of shoppers, tenants, employees and communities at all its properties.

Understanding the tenants' situation, Hektar REIT has also reached out to provide a supporting hand by providing rental assistance to eligible tenants. The REIT is negotiating with tenants on a case-by-case basis, with different retailers in different categories, according to their exposure as well, i.e., well-performing essential tenants, non-performing tenants and tenants who were prohibited from opening until recently. Hektar REIT observes their track record and potential future performance before deciding on an arrangement. The program was also structured to improve Hektar REIT's rental collection, which shows signs of gradual improvement in tandem with the reopening of the economy & retail sector.

Hektar REIT is also actively engaging with its shoppers through marketing promotions via physical and digital platforms to boost tenant sales and drive traffic back to the malls. Hektar REIT also remains committed to fulfill its obligation to ensure that all the business activities are performed to high standards of Environmental, Social and Governance (ESG). Various energy utilization and optimization initiatives since 2017 have been put in place for all of its shopping malls, resulting in a noteworthy reduction in greenhouse gas emissions (recorded as CO₂e) and energy usage over the last five years.

(Source: Management of the Manager)

5. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

5.1 Unitholders' capital

The proforma effects of the Proposed Private Placement based on the maximum number of Placement Units which may be issued by Hektar REIT, on the Unitholders' capital of Hektar REIT are as follows:

Details	No. of Units	RM
As at the LPD	461,960,178	492,500,449
To be issued pursuant to the Proposed Private Placement	23,098,000	⁽ⁱ⁾ 11,779,980
Enlarged Unitholders' capital	485,058,178	504,280,429

Note:

- (i) Assuming a maximum of 23,098,000 Placement Units, representing 5% of the total issued units as at the LPD, are issued at an issue price of RM0.51 per unit (representing a discount of approximately 9.94% to the 5D-VWAMP up to and including the LPD of RM0.5663 per unit).

5.2 Distributable income

The Proposed Private Placement is not expected to have any material effect on Hektar REIT's distributable income policy as determined by the Board. The decision to declare and pay distributable income in the future would depend on the financial performance and cash flow position of Hektar REIT and prevailing economic conditions.

5.3 Substantial Unitholders' unitholdings

Any issuance of the Placements Units to the Placees other than the substantial Unitholders will dilute the percentage of unitholdings of the substantial Unitholders and vice versa. As at the LPD, the proforma effects of the Proposed Private Placement on the substantial Unitholders' unitholdings in Hektar REIT are as follows:

As at LPD

Substantial Unitholders	Direct		Indirect	
	No. of Units	%	No. of Units	%
Hektar Black Sdn Bhd	141,774,666	30.69	⁽ⁱ⁾ 2,192,000	0.47
Frasers Centrepoint Trust	143,898,398	31.15	-	-

After Proposed Private Placement

Substantial Unitholders	Direct		Indirect	
	No. of Units	%	No. of Units	%
Hektar Black Sdn Bhd	141,774,666	29.23	⁽ⁱ⁾ 2,192,000	0.45
Frasers Centrepoint Trust	143,898,398	29.67	-	-

Note:

- (i) Deemed interest via shareholdings in Hektar Green Sdn Bhd pursuant to Section 8 of the Companies Act 2016

5.4 Earnings per Unit

Any issuance of the Placement Units will dilute the earnings per Unit, the quantum of which would depend on the number of Placement Units to be issued.

Moving forward, the Proposed Private Placement is expected to contribute positively to the earnings of Hektar REIT as and when the benefits of the proposed utilisation of proceeds as detailed in Section 2.6 above are realised.

5.5 Net asset value (“NAV”) per Unit and gearing

For illustrative purposes only, based on the audited statement of financial position of Hektar REIT as at 31 December 2020 and on the assumption that the Proposed Private Placement had been effected on that date, the proforma effects of the Proposed Private Placement on the NAV per unit and gearing of Hektar REIT are as follows:

	Audited as at 31 December 2020	After Proposed Private Placement
	RM	RM
Unitholders’ capital	492,500,449	(i) 504,280,429
Undistributed income - realized	46,671,543	(ii) 46,421,543
Undistributed income – unrealized	37,182,951	37,182,951
Unitholders’ fund / NAV	576,354,943	587,884,923
No. of Units in issue	461,960,178	(iii) 485,058,178
NAV per unit (RM)	1.25	1.21
Total borrowings (RM)	581,090,863	581,090,863
Total assets (RM)	1,258,975,348	(i)(ii) 1,270,505,328
Gearing ratio (%) ^(iv)	46.16	45.74

Notes:

- (i) Assuming a maximum of 23,098,000 Placement Units, representing 5% of the total issued units as at the LPD, are issued at an issue price of RM0.51 per unit (representing a discount of approximately 9.94% to the 5D-VWAMP up to and including the LPD of RM0.5663 per unit).
- (ii) After netting off estimated expenses for the Proposed Private Placement of about RM0.25 million.
- (iii) After taking into account the maximum of 23,098,000 Placement Units, which may be issued pursuant to the Proposed Private Placement.
- (iv) Gearing is calculated based on total borrowing divided by total assets multiplied by 100%.

5.6 Convertible securities

As at the LPD, Hektar REIT does not have any outstanding convertible securities.

6. APPROVALS REQUIRED

The Proposed Private Placement is subject to the following approvals:

- (i) MTrustee Berhad, being the Trustee of Hektar REIT which was obtained on 3 November 2021;
- (ii) Bursa Securities, for the listing of and quotation for the Placement Units on the Main Market of Bursa Securities; and
- (iii) any other relevant persons or authorities, if required.

The Proposed Private Placement is not conditional upon any other corporate proposals undertaken or to be undertaken by Hektar REIT.

In the event the Proposed Private Placement is not completed before the Authority lapses, the Proposed Private Placement will be conditional upon the Authority being renewed by a resolution passed by the Unitholders at the forthcoming AGM of Hektar REIT.

7. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDER OF THE MANAGER, MAJOR UNITHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors and/or major shareholders of the Manager, major Unitholders and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Private Placement.

8. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, after having considered all aspects of the Proposed Private Placement including, but not limited to the rationale as set out in Section 3 and the effects as set out in Section 5 of this announcement, is of the opinion that the Proposed Private Placement is in the best interest of Hektar REIT.

9. PRINCIPAL ADVISER AND PLACEMENT AGENT

KAF IB has been appointed as the Principal Adviser and Placement Agent to Hektar REIT for the Proposed Private Placement.

10. APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the application to Bursa Securities in relation to the listing of and quotation for the Placement Units on the Main Market of Bursa Securities is expected to be made within 1 month from the date of this announcement.

11. PREVIOUS PRIVATE PLACEMENT

On 28 May 2020, Hektar REIT had announced a proposed private placement of up to 23,098,000 new units in Hektar REIT, representing up to 5% of its total issued units ("**Previous Private Placement**"). Hektar REIT subsequently had on 8 December 2020 announced that the implementation of the Previous Private Placement has lapsed without issuance of any new units.

12. ESTIMATED TIMEFRAME FOR COMPLETION

The Proposed Private Placement is expected to be completed by the 1st half of 2022.

This announcement is dated 15 November 2021.