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**A DECADE OF STABILITY**  
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www.HektarREIT.com



HEKTAR REAL ESTATE INVESTMENT TRUST  
 ANNUAL REPORT 2016

SUSTAINABLE PERFORMANCE OVER THE DECADE

QUALITY ASSETS

Hektar's Portfolio consists of mainly **neighbourhood-focused** shopping centres throughout Malaysia.



**8.0%** Average Distribution Yield over 10 years

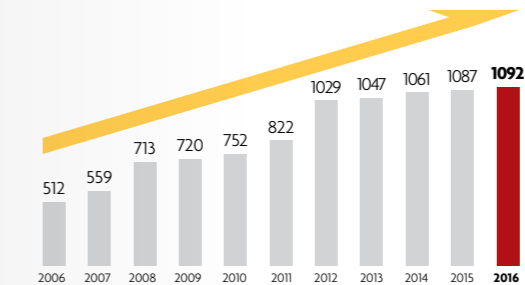
**96.0%** Average Portfolio Occupancy Rate over 10 years

**10 Years** Undisrupted Quarterly DPU since IPO

VALUE CREATION

Steady track record of **value creation** since IPO (RM million).

**CAGR of 7.8%**



Total Net Lettable Area  
**1,778,366**  
**944,900** <sup>↑</sup>  
 square feet

Gross Revenue  
**78.3** <sup>↑</sup> **124.6**  
 RM million

Asset Under Management  
**512** <sup>↑</sup> **1.092**  
 RM million RM billion

Number of Assets  
**2** <sup>↑</sup> **5**  
 shopping malls

Net Property Income  
**49.3** <sup>↑</sup> **74.3**  
 RM million

Net Asset Value per Unit  
**1.17** <sup>↑</sup> **1.46**  
 Ringgit Malaysia

**Hektar Real Estate Investment Trust** (Hektar REIT) is Malaysia's first retail focused REIT. Hektar REIT's principal objective is to provide its Unitholders with a defensible income distribution and to enhance the long-term value of the fund.

Hektar REIT invests in income-producing real estate primarily used for retail purposes. Hektar REIT's portfolio currently consists of quality shopping centres situated in Subang Jaya, Melaka, Muar, Sungai Petani and Kulim with a combined value of RM1.09 billion.

Hektar REIT was listed on the Main Board of Bursa Malaysia Securities Berhad on 4 December 2006 and has continuously recorded stable performance since its listing. The REIT's cornerstone investor is Frasers Centrepoint Trust, part of the Fraser & Neave Group, headquartered in Singapore.

Hektar REIT is managed by Hektar Asset Management Sdn Bhd, and was formed with a vision to develop world-class shopping centres for Malaysian consumers, based on international best practices.

\*13 months period for FY 2007 (since IPO 4 December 2006 to 31 December 2007)



# MILESTONES

Hektar maintained steady progress since 2002

- Emphasis on asset enhancement
- Constant lookout for yield-accretive acquisitions

## 2004

### Acquisition Phase

- Completed acquisition of Subang Parade in 2003 and Mahkota Parade in 2004



## 2007

### Entry of Frasers Centrepoint Trust (FCT) as Cornerstone Investor

- Frasers Centrepoint Trust acquired a 27% stake in Hektar REIT

## 2006

### Bursa Listing

- Hektar REIT listed on the main board of Bursa Malaysia Securities Berhad on 4 December 2006 as Malaysia's first retail-focused REIT. Portfolio valued at RM512 million

## 2008~2012

### 1<sup>st</sup> Expansion

- Completion of Wetex Parade acquisition for RM117.5 million

### 2<sup>nd</sup> Expansion

- Completed acquisition of Landmark Central Shopping Centre and Central Square Shopping Centre for RM181 million
- Total assets value after acquisition > RM1 billion



## 2016~2017

### 3<sup>rd</sup> Expansion

- Proposed acquisition of 1Segamat Shopping Mall

### Asset Enhancement Initiatives

- Post acquisition asset enhancement initiative at Landmark Central

## 2015

### Asset Enhancement Initiatives

- Central Square relaunched after an extensive RM23 million asset enhancement initiative
- Completion and re-launch of the cinema expansion at Mahkota Parade, from 4 screens to 10 screens



## 2002

### Feasibility & Conceptual Phase

- Formation of Hektar
- Feasibility studies on Subang Parade and Mahkota Parade

## 2005

### Asset Enhancement & Revitalisation

- Revitalised and enhanced Subang Parade and Mahkota Parade profiles to create delightful shoppers experience



## 2009

### Awards

- In 2008, Subang Parade won a Silver Award for Development & Design at the International Council of Shopping Centers' Asia Pacific Awards
- Mahkota Parade won a Silver Award in the Community Relations Category at the International Council of Shopping Centers' Asia Pacific Awards in 2009



## Tribute to our late Chairman

(Nov 1953 - Jan 2017)



**Dato' Jaafar bin Abdul Hamid** was the founder and principal shareholder of the Hektar Group of Companies. Serving as Chairman and Chief Executive Officer of Hektar Asset Management Sdn Bhd, the asset manager of Hektar REIT since 2006, he was the face of the REIT. Hektar REIT's portfolio

has grown from two to five shopping malls under his tenure and the REIT has continuously shown strong and sustainable performance. In May 2016, Dato' Jaafar retired as Chief Executive Officer, but remained as Non-Executive Chairman of Hektar Asset Management Sdn Bhd until his demise on 24 January 2017.







# A DECADE OF STABILITY

**2016** marks a milestone as Hektar REIT celebrates its **10-YEAR ANNIVERSARY**. Since its listing on 4 December 2006, Hektar REIT has shown stable and strong financial performance. The REIT will continue to strive for a solid and defensible portfolio, and to create sustainable value to its stakeholders.

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## 2 FINANCIAL HIGHLIGHTS

### PROFIT & LOSS

For Financial Year ended 31 December

RM'000	FY2016	FY2015	FY 2014	FY 2013	FY2012
Gross Revenue	<b>124,571</b>	125,511	121,991	120,235	103,232
Direct Cost & Property Expenses	<b>50,236</b>	49,028	48,714	46,120	39,485
Net Property Income (NPI)	<b>74,335</b>	76,483	73,277	74,115	63,747
Net Income	<b>43,158</b>	4,759	50,387	58,766	58,470
Earnings Per Unit*	<b>10.77</b>	1.19	12.58	14.67	17.19**
Net Income – Realised	<b>41,546</b>	44,693	44,261	46,134	39,758
Net Income Per Unit – Realised (sen)	<b>10.37</b>	11.16	11.05	11.52	11.69**
Income Distribution	<b>42,067</b>	42,067	42,067	42,067	35,777
Distribution Per Unit (DPU) (sen)	<b>10.5</b>	10.5	10.5	10.5	10.5
Change in Unit Price (sen)	<b>4.0</b>	3.0	(1.0)	4.0	18.0
Annual Total Return per Unit (sen)	<b>14.5</b>	13.5	9.5	14.5	28.5
Annual Total Return per Unit (%)***	<b>9.3</b>	8.9	6.4	9.7	19.5

\* Include unrealised income

\*\* Calculated based on Weighted Average No. of Units in Circulation of 340,159,279.

\*\*\* Calculated based on the Closing Price of each year

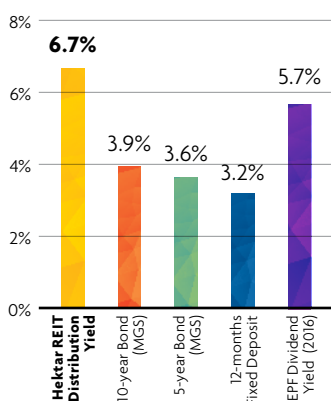
### BALANCE SHEET

As at 31 December

RM'000	FY2016	FY2015	FY 2014	FY 2013	FY2012
Total Assets	<b>1,130,809</b>	1,116,315	1,110,046	1,085,103	1,066,267
Total Liabilities	<b>545,341</b>	531,938	488,362	471,739	469,789
Total Borrowings	<b>508,200</b>	494,215	453,876	436,100	436,100
Gearing Ratio (%)	<b>44.9</b>	44.3	41.0	40.2	40.9
No. of Units in Circulation (Units)	<b>400,634</b>	400,634	400,634	400,634	400,634
Net Asset Value (NAV)	<b>585,468</b>	584,377	621,684	613,364	596,664
NAV per Unit (RM)	<b>1.46</b>	1.46	1.55	1.53	1.49
Lowest NAV during the period (RM)	<b>1.45</b>	1.46	1.52	1.48	1.43
Highest NAV during the period (RM)	<b>1.48</b>	1.57	1.55	1.53	1.50
Unit Price as at 31 December (RM)	<b>1.56</b>	1.52	1.49	1.50	1.46
Premium/(Discount) to NAV (%)	<b>6.8</b>	4.1	(3.9)	(2.0)	(2.0)

### COMPARATIVE YIELDS

FY2016



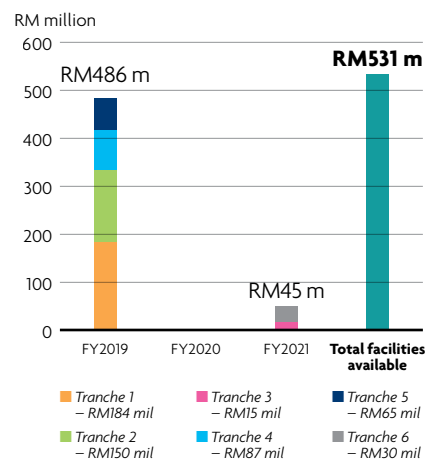
### UNIT PRICE PERFORMANCE

FY2016



### DEBT EXPIRY PROFILE

As at 31 December 2016





## PORTFOLIO HIGHLIGHTS 3

### INCOME DISTRIBUTIONS

FY2016

Interim 1 <sup>st</sup> Quarter DPU	2.60 sen
Interim 2 <sup>nd</sup> Quarter DPU	2.60 sen
Interim 3 <sup>rd</sup> Quarter DPU	2.60 sen
Final 4 <sup>th</sup> Quarter DPU	2.70 sen
Total DPU	10.50 sen
DPU Yield*	6.7%

\*Based on DPU of 10.50 sen and the Closing Unit Price of RM1.56 for FY2016. Source: Bloomberg

### UNIT PRICE STATISTICS

FY2016

High	RM1.70
Low	RM1.48
Opening Price (4 Jan 2016)	RM1.52
Closing Price (30 Dec 2016)	RM1.56
Change In Price	2.6%

### AVERAGE TOTAL RETURN\*

For 1 year (2016)	9.3%
For 3 years (2014–2016)	8.2%
For 5 years (2012–2016)	10.8%

\*Based on the Total Return and the Closing Price of each year.

### TOTAL RETURN\*

For 3 years (2014–2016)	24.0%
For 5 years (2012–2016)	51.6%

\*Based on the Total Return of each year and the Closing Price as at 30 December 2016.

### DEBT STRUCTURE

As at 31 December 2016

Al-Murabahah/Overdraft  
Fixed Term Loan, Annual Floating Rate and  
Fixed Term Loan, Annual Fixed Rate

Total Debt	RM508 million
Weighted Cost of Debt	4.6%
Gearing Ratio <sup>1</sup>	44.9%
Interest Cover	2.86

<sup>1</sup>Gearing ratio calculated by total borrowings over Gross Asset Value (GAV)

### PORTFOLIO HIGHLIGHTS

Geographically widespread, resilient and stable portfolio



<sup>1</sup> Source: Spectrum Research Asia Sdn Bhd, December 2012 (Independent Research)

<sup>2</sup> NLA Tenants only



## 4 CORPORATE VISION AND STRATEGY



### CORPORATE VISION

Hektar Real Estate Investment Trust (“Hektar REIT”) aims to be recognized as a leading real estate owner and investor in terms of asset management, asset size and returns to unitholders.

### CORPORATE MISSIONS

- To grow and manage Hektar REIT’s portfolio optimally
- To develop excellent employees
- To conduct business ethically
- To be customer-centric
- To create value for the communities we operate in
- To provide optimum and sustainable income distribution to Hektar REIT’s unitholders

### CORPORATE STRATEGY

Hektar REIT’s corporate strategy forms the course and path to achieve its vision and missions.

The REIT’s strategy is to focus on retail assets in monopolistic environment, in growing towns across Malaysia and to bring Hektar’s signature malls across Malaysia.

### GOALS

- To pay attractive Distribution Per Unit (“DPU”) relative to the market
- To form a solid and defensible portfolio to create stable and sustainable value to its stakeholders

### PORTFOLIO OPTIMISATION

Providing a portfolio with Sustainable Returns and Income Defensibility via:

- **Active Leasing:** aligning the tenancy mix to the needs of the target shoppers
- **Advertising & Promotion:** aggressive marketing to retain consumer interest and visitor traffic
- **Value Creation Initiatives:** improvements including asset enhancement and refurbishment designed to improve long-term yields

### YIELD-ACCRETIVE ACQUISITIONS

Enhancing the Long-Term Value and Growth of Hektar REIT by acquisition of:

- **Stable Properties:** assets with sustainable cash flow, requiring selective optimisation
- **Turnaround Properties:** assets with solid fundamentals which are underserving their current market, requiring intensive value creation initiatives to ‘turnaround’ the property, increasing yields in the long term

### CAPITAL MANAGEMENT

Optimising the capital structure to fund acquisitions and asset enhancements through a combination of debt and equity within a flexible framework providing a low cost of capital



## LETTER TO UNITHOLDERS

5

“2016 marked the 10<sup>th</sup> anniversary of Hektar REIT as a public listed real estate investment trust on Bursa Malaysia. Hektar REIT has shown a decade of stability, providing unitholders with solid performance and undisrupted quarterly income distributions.”

**MICHAEL LIM HEE KIANG**  
Independent Non-Executive Chairman



Dear Valued Unitholders

2016 has drawn to a close and I hereby present Hektar REIT's performance for the year.

### FINANCIAL REVIEW

2016 marked the 10<sup>th</sup> anniversary of Hektar REIT as a public listed real estate investment trust on Bursa Malaysia. Hektar REIT has shown a decade of stability, providing unitholders with solid performance and undisrupted quarterly income distributions. Hektar REIT has maintained its high distribution yield of approximately 7% since listing (10 years average distribution yield = 8%). However, as we cautioned in last year's annual report, 2016 has proven to be Hektar REIT's toughest year in its 10-year existence.

A combination of a weak economy and increased competition have resulted in Hektar REIT's realised net profit decreasing from RM44.7 million in 2015 to RM41.5 million in 2016, a reduction of 7%. Realised earnings per unit decreased from 11.16 sen to 10.37 sen. However, net income increased from RM4.8 million to RM43.2 million, as there were fair value loss recorded in FY2015, arising from revaluation of investment properties.

### OPERATING ENVIRONMENT AND MARKET UPDATE

Our flagship mall, Subang Parade, which has been our bedrock since Hektar REIT's listing on Bursa Malaysia in 2006, has taken the biggest hit from the soft retail sentiment and increased competition

from existing and new malls. Its revenue dipped by 5% from RM52 to RM49 million. For Subang Parade, we had to make a difficult choice of either allowing for rental reductions for selected retailers or face the reality of increased vacancies. On the bright side, occupancy remains high at 93%, consistent with historical trend and affirming that Subang Parade's position as a premier neighbourhood mall has not changed.

Retail space in Kuala Lumpur has doubled since last year from 7.6 square feet per capita to 16.7 square feet per capita, whilst retail space in Klang Valley has grown from 6.7 square feet per capita to 7.9 square feet per capita. This means that retailers now have better negotiating leverage. Coupled with a soft retail market where shoppers are more prudent in their spending, rental rate now is suppressed. Retail Group Malaysia had downgraded most of their quarterly forecast in 2015 and 2016, and has also indicated that 2017 will continue to be a challenging year as consumers contend with costlier goods and services amid a weaker ringgit.

Based on feedback we received from industry players, retailers now prefer to enter either new or refurbished malls rather than older but more stable malls. In view of this, we have decided to undertake a RM40 million asset enhancement initiative ("AEI") for Subang Parade, which will revitalise the mall, as well as increase its net lettable area by 5% (approximately 25,000 sq ft). The new wing will boast an array of new offerings, especially from the food and

“Hektar REIT has maintained its high distribution yield of approximately 7% since listing (10 years average distribution yield = 8%).”

“Hektar REIT has shown a decade of stability, providing unitholders with solid performance and undisrupted quarterly income distributions.”



## 6 LETTER TO UNITHOLDERS

“Hektar REIT executed a sale and purchase agreement to acquire 1Segamat, located in Segamat, Johor for RM104 million on 10 June 2016. At this price, the property yield is 7%.”

“Subang Parade’s occupancy remains high at 93%, consistent with historical trend and affirming its position as a premier neighbourhood mall has not changed.”

beverages (“F&B”) segment. Scheduled to complete by mid-2018, we are confident that this will provide Subang Parade with the much-needed boost .

We are pleased to report that in 2016, our malls in second-tier towns in Kedah and Johor have improved their respective revenues which served to mitigate the grey performance in Subang Parade. This validated our belief that malls in second-tier towns

are more resilient and the extent of the impact from the global economy is less felt in these areas.

Wetex Parade has achieved full occupancy in 2016 despite challenging retail conditions. Renewals and new tenants at the mall were secured for more than six months ahead of expiries. The mall has also continuously introduced new brands to its shoppers, which include Kenny Rogers Roasters, Jipangi, and Sushi World in 2016. The management is currently in the midst of exploring the recalibration of the retail and hotel area to maximise yield from the asset.

Moving forward, we have commenced the AEI for our mall in Kulim at a cost of RM23 million. Targeted to complete in August 2017, the revamped Landmark Central will have an additional 20,000 sq ft of net lettable area plus refurbished flooring, painting and

overall infrastructure improvement of the existing building. Landmark Central is the only purpose-built mall in Kulim and has been showing good reversion rates. The management hopes to bring the mall to new heights with the completion of its refurbishment.

“Wetex Parade has achieved full occupancy in 2016 despite challenging retail conditions.”

### ACQUISITION PLANS

As for inorganic growth, we executed a sale and purchase agreement to acquire 1Segamat, located in Segamat, Johor for RM104 million, on 10 June 2016. At this price, the property yield is 7%. We expect 1Segamat to be our positive story for the year as the mall has a lot of room for improvement. In the short term, we are looking at replacing single-store local retailers with national and international chains which can provide better rentals. Even as we speak, a few reputable international retailers have voiced interest in doing business in 1Segamat. This class of retailers used to be hesitant in coming to second-tier towns. However, our success in bringing retailers like Sushi King and Baskin Robbins to Wetex Parade in Muar, which continue to thrive after many years, has convinced the aforementioned retailers of the viability of doing business in malls in second-tier towns. This bodes well for Hektar REIT as a whole, as our focus now is acquiring more malls in the said second-tier growing towns. In the longer term, we are looking at increasing the lettable footprint of 1Segamat, as well as improving its aesthetics to increase its appeal, revenue and simultaneously, its value.

### UNDISRUPTED DISTRIBUTION

Hektar REIT maintains a policy of paying out at least 90% of our distributable net income in four quarterly distribution payments throughout the year. We should clarify that distributable net income is net income excluding non-cash items, such as fair value adjustments and items under MFRS 117, an accounting standard implemented in FY2010 (see notes to the accounts for more details). For FY2016,

net income is higher than the net distributable income.

Despite challenges in 2016, our Board has decided to continue distributing 10.5 sen per unit to you, our treasured unitholders, as a reward for your continued belief in us. We now ask for your patience and support in the coming year, as we expect it to be even more challenging than 2016, and the quantum of our future quarterly distribution payout may be affected.

## **TURBULENCE AHEAD**

We trust you appreciate that investment in a REIT is a long term game, and to date, the REIT has been providing uninterrupted stable distributions for a decade now. However, from now henceforth, we expect some turbulence coming our way as the global political and economic scene has become precarious; we are unsure as to how the macro-economic changes will affect investor sentiment and the resultant impact on retail sector. We are also keeping a close eye on the mushrooming of retail space, especially in Klang Valley and how this will affect us in the long term. However, rest assured that we are continuously monitoring the changes in the internal and external economic environment and will review and make adjustments which are necessary for us to adapt, survive and continue prospering.

Notwithstanding the above, we expect the economy to recover in 2018 and we remain committed to extract the best values from all our assets in our portfolio.

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**“Hektar REIT maintains a policy of paying out at least 90% of our distributable net income in four quarterly distribution payments throughout the year.”**

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## **ACKNOWLEDGEMENTS**

It is a great honour for me to pick up the baton from Dato’ Jaafar bin Abdul Hamid, our former Chairman and founder who passed on in January 2017. Having taken the role of Chief Executive Officer since listing of Hektar REIT until April 2016, he leaves us with a great legacy and a strong team, who will strive to continue the vision and missions that he had set for the company since the incorporation of Hektar Group. His presence and wise counsel will be deeply missed.

On behalf of the Board of Directors, I wish to also thank our management team and staff for their commitment and dedication to their work. Our sincere appreciation is also extended to our retailers, vendors and business partners. Your contributions and support shall ensure that Hektar REIT remains a defensible, safe and preferred investment for our investors.

### **MICHAEL LIM HEE KIANG**

*Independent Non-Executive Chairman*



## PERUTUSAN Pengerusi kepada Pemegang-Pemegang Unit



“2016 menandakan ulang tahun yang ke 10 Hektar REIT tersenarai di Bursa Malaysia sebagai sebuah tabung amanah pelaburan hartanah.”

### Pemegang-pemegang Unit yang Dihargai

2016 telah sampai ke penghujung dan dengan ini saya ingin mengulas prestasi Hektar REIT bagi tahun ini.

### ULASAN KEWANGAN

2016 menandakan ulang tahun yang ke-10 Hektar REIT tersenarai di Bursa Malaysia sebagai sebuah tabung amanah pelaburan hartanah. Hektar REIT telah membuktikan kestabilan selama satu dekad dengan prestasi yang kukuh dan pengagihan pendapatan tanpa gangguan pada setiap suku tahun. Hektar REIT telah mengekalkan kadar pengagihannya yang tinggi sebanyak lebih kurang 7% sejak penyenaaraiannya (pengagihan pendapatan purata sepanjang 10 tahun = 8%). Walaubagaimanapun, seperti yang telah kami ingatkan dalam laporan tahunan yang lepas, 2016 terbukti menjadi tahun yang paling sukar untuk Hektar REIT dalam tempoh 10 tahun kewujudannya.

Ditambah lagi dengan keadaan ekonomi yang lemah dan persaingan yang meningkat telah mengakibatkan keuntungan nyata Hektar REIT berkurangan daripada RM44.7 juta pada tahun 2015 kepada RM41.5 juta pada tahun 2016, pengurangan sebanyak 7%. Pendapatan nyata bagi setiap unit berkurangan daripada 11.16 sen kepada 10.37 sen. Walaubagaimanapun, pendapatan bersih meningkat daripada RM4.8 juta kepada RM43.2 juta disebabkan kerugian nilai saksama ekoran daripada penilaian semula hartanah pada tahun 2015.

### PERSEKITARAN OPERASI DAN PASARAN TERKINI

Pusat membeli-belah kami yang utama iaitu Subang Parade, yang merupakan tunjang kami sejak penyenaarai Hektar REIT di Bursa Malaysia pada tahun 2006, telah terkena tempas yang paling teruk hasil daripada sentimen peruncitan yang perlahan dan peningkatan persaingan daripada pusat-pusat membeli-belah yang sedia ada dan yang baru. Perolehannya merosot sebanyak 5% daripada RM52 juta kepada RM49 juta. Di Subang Parade, kami terpaksa membuat pilihan yang rumit samaada membenarkan pengurangan sewa bagi peruncit-peruncit terpilih atau menghadapi kenyataan peningkatan kekosongan. Sebaliknya, kadar penyewaan kekal tinggi pada 93%, selaras dengan prestasi selama ini dan mengesahkan bahawa kedudukan Subang Parade sebagai pusat membeli-belah kejiranan perdana tidak berubah.

Ruang runcit di Kuala Lumpur telah meningkat dua kali ganda sejak tahun lepas daripada 7.6 kaki persegi setiap kapita kepada 16.7 kaki persegi setiap kapita, manakala ruang runcit di Lembah Klang telah meningkat daripada 6.7 kaki persegi setiap kapita kepada 7.9 kaki persegi setiap kapita. Ini bermakna sekarang ini peruncit-peruncit mempunyai lebih kuasa perundingan berbanding dengan pemilik. Tambah pulak dengan pasaran runcit yang perlahan, di mana pembeli-pembeli lebih berhemah dalam perbelanjaan mereka, telah menyebabkan kadar sewa kini menjadi lebih tertekan. Retail Group Malaysia telah menurunkan kebanyakan daripada ramalan suku tahunannya pada 2015 dan 2016, dan telah juga menyatakan bahawa 2017 akan terus menjadi tahun yang mencabar apabila pengguna-pengguna berhadapan dengan barangan dan perkhidmatan yang lebih mahal ditambah dengan nilai ringgit yang lemah.

Berdasarkan maklum balas yang kami terima daripada pengusaha-pengusaha industri, peruncit-peruncit sekarang lebih suka untuk memasuki pusat-pusat membeli-belah yang baru atau yang telah di ubahsuai daripada yang lebih lama tetapi lebih stabil. Berlandaskan hakikat ini, kami telah memutuskan untuk mengambil inisiatif peningkatan aset (“AEI”) untuk Subang Parade, dengan kos sebanyak RM40 juta. Inisiatif ini akan memberi nafas baru kepada Subang Parade serta penambahan kawasan boleh disewa bersih sebanyak 5% (lebih kurang 25,000 kaki persegi). Kawasan baru ini akan menempatkan pelbagai tawaran-tawaran baru terutama sekali dari segmen makanan dan minuman (“F&B”). Dijadualkan siap menjelang pertengahan tahun 2018, kami yakin bahawa ini akan memberikan suntikan yang amat diperlukan kepada Subang Parade untuk memastikan pemulihan yang lancar.

Kami dengan sukacitanya ingin melaporkan bahawa pada tahun 2016, pusat-pusat membeli-belah kami di bandar-bandar tier kedua di Kedah dan Johor telah berjaya menambah baik perolehan masing-masing yang dapat membantu mengurangkan beban penurunan prestasi Subang Parade. Ini mengesahkan pendapat kami bahawa pusat-pusat membeli-belah di bandar-bandar tier kedua adalah lebih berdaya tahan dan tahap kesan daripada ekonomi global adalah kurang.

Wetex Parade telah mencapai tahap penyewaan penuh pada tahun 2016 disebalik keadaan peruncitan yang mencabar. Pembaharuan sewaan dan penyewa-penyewa baru telah diperolehi enam bulan lebih awal sebelum tamat tempoh. Pusat membeli-belah

ini juga sentiasa memperkenalkan jenama-jenama baru kepada pengunjung-pengunjungnya, termasuklah Kenny Rogers Roasters, Jipangi, dan Sushi World pada tahun 2016. Pihak pengurusan kini sedang merancang untuk penentukuran semula kawasan runcit dan hotel untuk memaksimumkan pendapatan daripada asset.

Bergerak ke hadapan, kami telah memulakan AEI bagi pusat membeli-belah kami di Kulim dengan kos sebanyak RM23 juta. Dijangka siap pada bulan Ogos 2017, Landmark Central yang diperbaharui akan mempunyai penambahan kawasan boleh disewa bersih sebanyak 20,000 kaki persegi beserta lantai baru, warna cat baru dan penambahbaikan infrastruktur keseluruhan bangunan. Landmark Central merupakan satu-satunya pusat membeli-belah khas di Kulim dan telah menunjukkan kadar peningkatan sewaan yang baik. Pihak pengurusan berhasrat untuk membawa Landmark Central ke tahap yang lebih tinggi selepas siapnya AEI nanti.

## **RANCANGAN-RANCANGAN PENGAMBILALIHAN**

Bagi pertumbuhan luaran, kami telah menandatangani satu perjanjian jual beli pada 10 Jun 2016 untuk mengambilalih pusat membeli-belah 1Segamat, yang terletak di Segamat, Johor dengan harga RM104 juta. Pada harga ini, kadar hasil pulangan adalah 7%. Kami menjangkakan 1Segamat akan menjadi berita positif bagi tahun ini memandangkan pusat membeli-belah ini mempunyai banyak ruang untuk penambahbaikan. Dalam jangkamasa pendek, kami berhasrat menggantikan peruncit-peruncit tempatan yang mempunyai satu kedai dengan rangkaian peruncit-peruncit nasional dan antarabangsa yang dapat membayar kadar sewaan yang lebih tinggi. Dalam masa kini pun, beberapa peruncit antarabangsa yang terkenal telah menyuarakan minat mereka untuk menjalankan perniagaan di 1Segamat. Sebelum ini, peruncit-peruncit kelas ini sering keberatan untuk pergi ke bandar-bandar tier kedua. Walaubagaimanapun, kejayaan kami dalam membawa peruncit-peruncit seperti Sushi King dan Baskin Robbins ke Wetex Parade di Muar, yang terus berjaya setelah beberapa tahun, telah meyakinkan peruncit-peruncit tersebut akan daya maju menjalankan perniagaan di pusat-pusat membeli-belah di bandar-bandar tier kedua. Ini merupakan petanda yang baik bagi Hektar REIT secara keseluruhan, memandangkan tumpuan kami sekarang adalah untuk mengambilalih lebih banyak pusat-pusat membeli-belah di bandar-bandar tier kedua yang semakin maju. Dalam jangka masa yang lebih panjang, kami juga merancang untuk menambah kawasan boleh disewa, serta menambah baik nilai estetikanya untuk meningkatkan perolehan dan pada masa yang sama, nilainya.

## **PENGAGIHAN TANPA GANGGUAN**

Hektar REIT mengekalkan polisinya membuat pengagihan pendapatan sekurang-kurangnya 90% daripada pendapatan bersih boleh diagih setiap suku tahun sebanyak empat kali sepanjang tahun. Kami ingin menjelaskan bahawa pendapatan bersih boleh diagih adalah pendapatan bersih tidak termasuk perkara-perkara bukan tunai, seperti pelarasan nilai saksama dan perkara-perkara di bawah MFRS 117, piawaian perakaunan yang dilaksanakan pada tahun 2010 (sila rujuk kepada nota-nota akaun bagi maklumat lebih lanjut).

Akibatnya, pendapatan bersih FY2016 adalah lebih tinggi daripada pendapatan bersih boleh agih pada tahun itu.

Di sebalik cabaran-cabaran yang kami hadapi pada tahun 2016, pihak Lembaga Pengarah telah memutuskan untuk terus mengagih 10.5 sen setiap satu unit kepada pemegang-pemegang unit kami yang amat dihargai, sebagai ganjaran bagi kepercayaan anda yang berterusan kepada kami. Kami ingin memohon kesabaran dan sokongan pada tahun 2017, di mana kami menjangkakan ianya akan menjadi lebih mencabar daripada tahun 2016, yang mungkin akan menjejaskan kuantum pengagihan suku tahunan pada masa hadapan.

## **PERGOLAKAN MENDATANG**

Kami percaya anda menghargai bahawa pelaburan di dalam Tabung Amanah Pelaburan Hartanah adalah untuk jangkamasa yang panjang, dan setakat ini, Hektar REIT telah membuat pengagihan yang stabil tanpa gangguan selama satu dekad. Walaubagaimanapun, mulai dari sekarang dan seterusnya, kami menjangkakan beberapa pergolakan yang akan dihadapi, disebabkan senario politik dan ekonomi global yang tidak menentu yang akan mempengaruhi sentimen pelabur dan kesan terhadap ekonomi. Kami juga tidak pasti bagaimana pertumbuhan ruang runcit, terutama sekali di Lembah Klang akan menjejaskan perniagaan kami pada jangkamasa yang panjang. Walau bagaimanapun, anda harus yakin yang kami akan sentiasa meneliti perubahan-perubahan dalam persekitaran ekonomi dalaman dan luaran dan akan pertimbang perubahan kepada model perniagaan kami yang perlu untuk kami menyesuaikan diri, berjaya dan terus makmur.

Walaubagaimanapun, kami menjangkakan ekonomi akan pulih pada tahun 2018 dan kami tetap komited untuk mendapatkan nilai yang terbaik daripada kesemua aset-aset di dalam portfolio kami.

## **PENGHARGAAN**

Ini adalah satu penghormatan yang amat besar bagi saya untuk mengambil alih sebagai Pengerusi daripada Allahyarham Dato' Jaafar bin Abdul Hamid, bekas Pengerusi dan Pengasas Hektar yang telah meninggal dunia pada bulan Januari 2017. Beliau telah menjadi Ketua Pegawai Eksekutif sejak penyenaian Hektar REIT sehinggalah bulan April 2016, dan beliau meninggalkan legasi yang cukup hebat dan pasukan yang kukuh yang akan terus merealisasikan wawasan dan misi yang beliau telah tetapkan bagi syarikat sejak penubuhan Kumpulan Hektar. Kehadiran beliau dan nasihat-nasihat yang bijaksana akan terasa kehilangannya.

Bagi pihak Lembaga Pengarah, saya juga ingin mengucapkan terima kasih kepada semua kakitangan kami di atas komitmen dan dedikasi mereka terhadap kerja-kerja mereka. Penghargaan kami juga diberikan kepada peruncit-peruncit, vendor-vendor dan rakan-rakaniaga kami. Sumbangan dan sokongan anda memastikan Hektar REIT kekal sebagai pelaburan yang boleh dipertahankan, selamat serta menjadi pilihan bagi pelabur-pelabur kami.

## **MICHAEL LIM HEE KIANG**

*Pengerusi Bebas Bukan Eksekutif*



## 致单位持有者函

年度报告



“2016年是贺达产托在马来西亚证券交易所公开上市为房地产投资信托基金的第10周年。”

尊贵的单位持有人，

2016年已经落幕，本人欣然报告贺达产地产投资信托基金（简称“贺达产托”）这一年来的表现。

### 财务表现检讨

2016年是贺达产托在马来西亚证券交易所公开上市为房地产投资信托基金的第10周年。贺达产托这十年来表现十分平稳，为单位持有人交出稳固可靠的业绩表现，并且无间断地分派每季收益分配。自上市以来，贺达产托保持约7%的高配息率（10年平均配息率为8%）。然而，正如在前一年常年报告中所提及，2016年确实是贺达产托十年来最艰辛的一年。

经济疲软适逢竞争加剧，导致贺达产托已实现净盈利减少7%，从2015年的4470万令吉，退减至2016年的4150万令吉。每单位已实现收益从11.16仙降至10.37仙。然而，公允价值变更，导致净收益从480万令吉增至4320万令吉。

### 营运环境与市场最新资讯

自从于2006年在马来西亚证券交易所上市以来一直是贺达产托旗舰广场的首邦百利广场，在面对零售消费情绪疲弱，以及现有与新加入商场激烈竞争下，受到最严峻的冲击。其收入挫跌5%，从5,200万令吉降至4,900万令吉。就首邦百利广场的情况而言，我们面对两难间的抉择：调低特定零售租户的租金或者面对空置率增加。从积极角度来说，租用率高达93%，保持以往的趋势，而且首邦百利广场作为社区商场的牢固地位毫无动摇。

吉隆坡的零售商场面积去年倍增，从人均面积7.6平方尺激增至人均面积16.7平方尺，而巴生河流域的零售商场从人均面积6.7平方尺增至人均面积7.9平方尺。这意味着零售商和业主

谈判租金时有更强的筹码。再加上购物者更谨慎地消费，导致零售市况低迷，如今的租金水平深受抑制。马来西亚零售集团于2015年与2016年调低大部分的季度预测数据，并表示2017年将继续面对严峻挑战，因为令吉汇价疲弱，商品与服务价格上升让消费者备感吃力。

根据我们从业者所得到的意见，零售商更喜欢进驻崭新或已翻新的商场，而不是较为悠久但相对稳定的商场。有鉴于此，我们已决定对首邦百利广场推行耗资4000万令吉的资产增值举措行动（简称“AEI”），这将会为此商场换上新装，并增加5%的净可出租面积（约2万5000平方尺）。新的楼翼将会提供一系列新商店，尤其是饮食部。此资产增值工程预计将于2018年中完成，我们有信心，此举将有助首邦百利广场脱胎换骨，注入殷切需要的新气息。

欣然的，我们在吉打州与柔佛州发展中城镇的各商场，于2016年成功改善收入，并协助抵消首邦百利广场逊色表现所带来的冲击。这印证了我们的信念，那就是发展中城镇商场表现更为坚韧，在面对全球经济冲击时，受影响程度较轻。

尽管面对艰难的零售环境，威德百利广场于2016年达到百分之百的租用率。广场在还有超过6个月期满前，即已取得续租与新租户的租约。此广场也不断向购物者推介新的品牌，其中包括于2016年引入的Kenny Rogers Roasters, Jipangi与Sushi World。管理层目前正探讨如何重新调整零售商场区与酒店区，以从这项资产获得最可观的收益。

放眼未来，我们已在居林的广场开始了耗资2300万令吉的资产增值举措行动。预计于2017年8月完成，翻新后的新世纪广场将可增加2万平方尺净出租面积，而且现有建筑物也将整修地板、粉刷油漆与改善整体基本设施。新世纪广场是居林城镇唯一专门建设的购物中心，至今获得良好的租金调升率。管理层期盼藉着完成翻新工程，让此广场再攀新高峰。



## 收购计划

在扩张收购计划下，我们于2016年6月10日以1亿400万令吉收购位于柔佛州昔加末1Segamat商场。按此收购价，此产业的收益是7%。我们确信1Segamat有许多改进的空间，并期望此商场今年为我们捎来佳音。短期而言，我们正探讨将只有单一商店的本地零售商更换为全国或国际连锁零售商，以取得更理想的租金。即使我们只是放话，已有数家声誉卓著的国际零售商已表明有意进驻1Segamat。这类等级的零售商一向来不太愿意进入二线市镇。然而，我们成功地将Sushi King与Baskin Robbins等零售商带入麻坡的威德百利广场，而且持续经营了多年，有助说服了前述的零售商在二线市镇商场营商是可行的。这对贺达产托整体而言是个有利趋势，因为我们目前的焦点是在上述欣欣向荣的二线市镇收购更多商场。长期而言，我们有意增加1Segamat的可出租面积，并改善此商场的外观，以增加收入，同时提升其价值。

## 配息不曾间断

贺达产托坚持在全年以四个季度派息支付至少90%的可分配净收益的政策。我们必须澄清可分配净收益是指不包括非现金项目，例如公允价值调整以及属于财务报告标准117的项目，财务报告标准117是于2010财政年度采纳的会计标准（详情请见账目注释）。有鉴于此，2016财政年度的净收益高于可分配净收益。

虽然我们在2016年面对艰巨挑战，然而董事部已决定继续分配每单位10.5仙给身为尊贵单位持有人的您，作为您持续信任我们的回报。我们恳请您来年继续支持我们，因为我们预期未来的道路比2016年更具挑战，可能会影响我们未来每季配息支出的分配量。

## 前路崎岖

我们相信您会欣赏房地产投资信托基金（REIT）是作为长期投资的产品，迄今为止，此REIT已连续十年不曾间断地提供稳定配息。然而，从现在开始，我们预期前路会有些崎岖，全球政治与经济环境更添变数。我们不确定世界经济会带来什么样的影响与如何影响投资者的情绪。我们也不确定如雨后春笋般冒起的零售商场（尤其在巴生河流域）长期而言将对我们产生什么样的影响。然而，您大可放心，我们会密切留意内在与外围的经济环境，并在必要时考虑改变现有的商业模式，以适应、生存并持续昌盛。

尽管如上所述的挑战，我们预期经济将于2018年里复苏，而我们承诺会从资产组合中粹取最理想的投资价值与回报。

## 鸣谢

前主席兼创办人Dato' Jaafar bin Abdul Hamid不幸于2017年1月离世。他自贺达产托上市就担任首席执行官的职位直至2016年4月，为我们留下美好记忆，工作方针与强大的专业团队，我们将继续努力完成他为贺达集团自创立以来就制定的愿景与使命。他在任期间所做的一切以及他的明智忠告，我们将牢记于心。

本人代表董事会感谢团队对工作尽责和献身的精神。我们也感谢零售商、供应商和业务伙伴。大家的贡献和支持确保贺达产托得以继续成为投资者一项具防御性和安全的投资首选。

主席

**MICHAEL LIM HEE KIANG**



# CREATING FAVOURITE MEETING PLACES









# PORTFOLIO PERFORMANCE

## PROPERTY PROFILES

Hektar REIT's portfolio consists of five well-established shopping centres in various states on the West Coast of Peninsular Malaysia.



Subang Parade, located in Subang Jaya, Selangor



Mahkota Parade, located in Bandar Melaka, Melaka



Wetex Parade located in Muar, Johor



Central Square Shopping Centre, located in Sungai Petani, Kedah



Landmark Central Shopping Centre, located in Kulim, Kedah

Net Lettable Area

**1.8**  
million<sup>sq ft</sup>

Occupancy

**96.2**  
percentage

Market Catchment<sup>1</sup>

**3.0**  
million  
residents

Visitor Traffic

**30.1**  
million  
per annum

Number of Tenancies<sup>2</sup>

**450**

Data current as at 31 December 2016.

<sup>1</sup> Spectrum Research Asia Sdn. Bhd., December 2012 (Independent Research), within 20-minutes drive.

<sup>2</sup> NLA Tenants only.

The portfolio provides a good geographical diversification to the REIT. The REIT is in the midst of acquiring another mall in Segamat, Johor. The acquisition is expected to complete in second half of 2017, where upon completion, the enlarged portfolio will be made up of six malls across Peninsular Malaysia, with approximately 2.0 million square feet of retail space.

The Manager aims to enhance the long-term value of the portfolio via key operating, investment and capital management strategies. The performance achieved by each centre in the financial year 2016 is set out in the following pages.



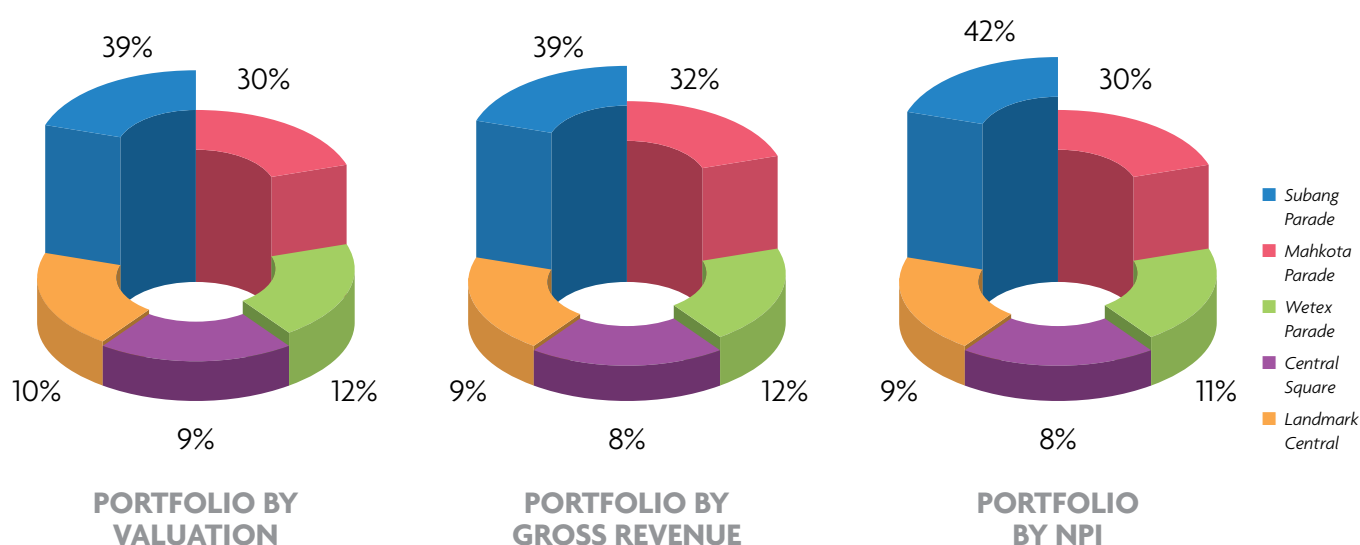
	Subang Parade	Mahkota Parade	Wetex Parade	Central Square	Landmark Central
State	Selangor	Melaka	Johor	Kedah	Kedah
Title	Freehold	Leasehold*	Freehold	Freehold	Freehold
Primary Trade Area <sup>1</sup>	1,834,000	382,200	201,600	406,870	181,195
NLA – Retail (sq ft)	507,150	519,542	159,153	311,230	281,388
Tenancies	122	115	76	70	67
Occupancy (%) <sup>2</sup>	93.0	96.4	100.0	96.6	98.9
Visitor Traffic FY2016 (million)	9.2	9.4	4.6	3.9	3.0
Purchase Price (RM million)	287.0	257.5	117.5	83.3	98.0
Valuation (RM million) <sup>2</sup>	427.2	322.4	135.2	95.7	112.0
Gross Revenue FY2016 (RM million)	49.0	40.2	13.6	10.3	11.5
Net Property Income (NPI) FY2016 (RM million)	31.5	22.2	8.1	5.8	6.7

<sup>1</sup> Spectrum Research Asia Sdn. Bhd., December 2012 (Independent Research)

<sup>2</sup> As at 31 December 2016

\* Until year 2101

## GEOGRAPHICALLY WIDESPREAD PORTFOLIO



## PORTFOLIO OCCUPANCY

Hektar's portfolio of assets have achieved an aggregate occupancy rate of 96.2% as at 31 December 2016. Despite tough retail environment, Wetex Parade has achieved full occupancy.

Property (Occupancy as at 31 December)	2016	2015	2014	2013	2012
Subang Parade	93.0%	94.7%	99.3%	100.0%	99.8%
Mahkota Parade	96.4%	95.5%	94.5%	97.8%	96.1%
Wetex Parade	100.0%	98.7%	98.3%	96.8%	97.8%
Central Square	96.6%	98.0%	80.5%	82.5%	89.8%
Landmark Central	98.9%	99.3%	97.8%	93.7%	96.9%
Overall*	96.2%	96.6%	94.3%	95.0%	96.3%

\* The weighted average occupancy rate is calculated based on NLA.

## 16 PORTFOLIO PERFORMANCE

### VISITOR TRAFFIC

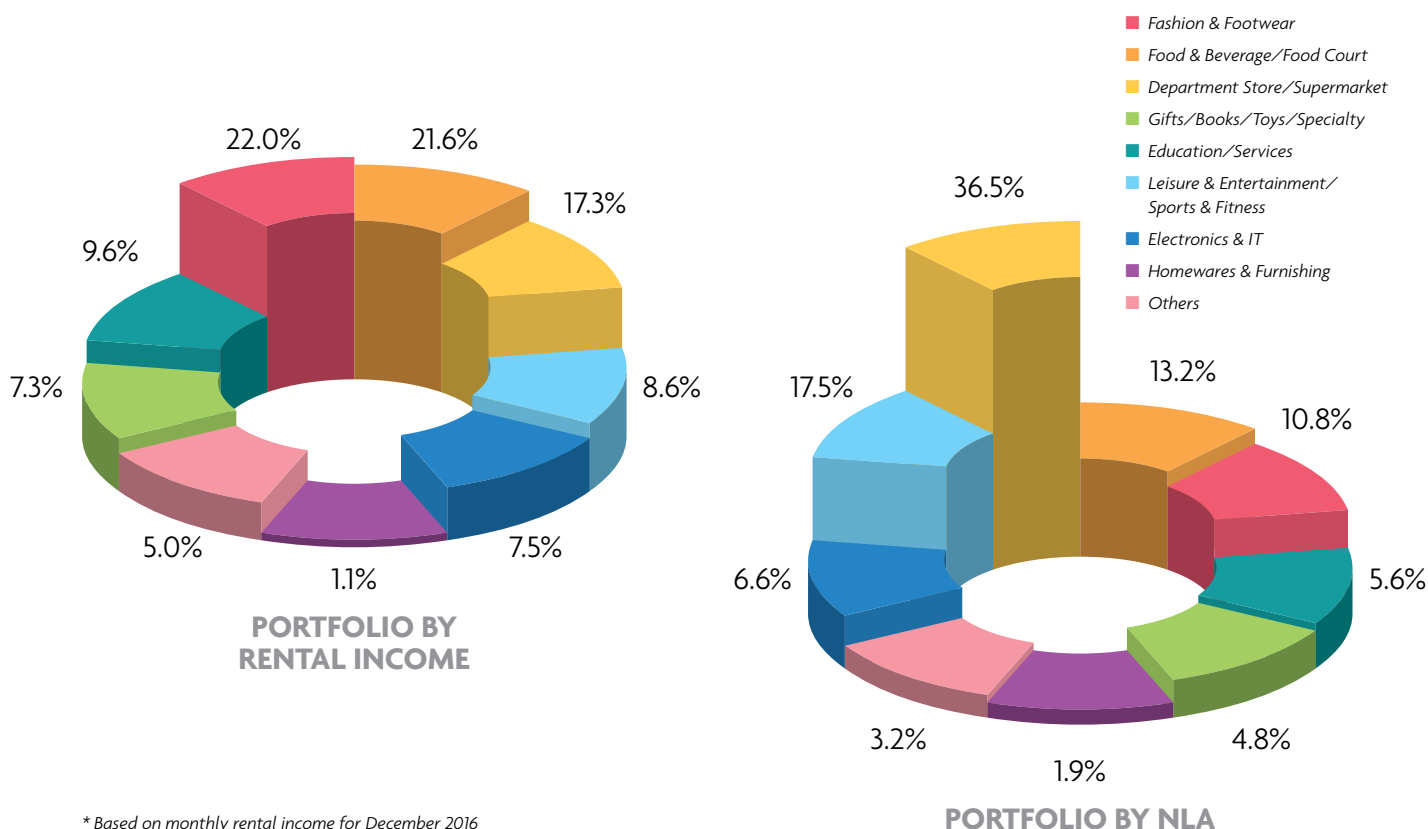
Visitor traffic is measured by FootFall, a computerised video-based traffic monitoring system. Visits to Mahkota Parade has increased slightly by 3.3% but Subang Parade and Landmark Central have decreased slightly. Both of the latter malls will be undergoing major asset enhancement initiatives in 2017. Shopper traffic at Wetex Parade and Central Square remained stable at 4.6 million and 3.9 million respectively.

Property (Number of Visits)	2016	2015	2014	2013	2012
Subang Parade (million)	9.2	9.8	9.5	8.5	7.7
Change in Traffic (%)	(6.1)	3.2	11.8	10.4	(2.5)
Mahkota Parade (million)	9.4	9.1	10.0	10.4	11.0
Change in Traffic (%)	3.3	(9.0)	(3.8)	(5.5)	34.1
Wetex Parade (million)	4.6	4.6	4.8	4.8	5.2
Change in Traffic (%)	—	(4.2)	—	(7.7)	(11.9)
Central Square (million)*	3.9	3.9	3.3	4.1	—
Change in Traffic (%)	—	18.2	(19.5)	—	—
Landmark Central (million)*	3.0	3.2	3.2	3.4	—
Change in Traffic (%)	(6.3)	—	(5.9)	—	—
Total (million)	30.1	30.6	30.8	31.2	23.9

\* FootFall system for Central Square and Landmark Central was installed only in late November 2012. FootFall for these two malls are reported from January 2013 onwards.

### PORTFOLIO TENANCY MIX

The portfolio tenancy mix is dominated by department stores and supermarkets, which are led by Parkson, The Store and Giant constitute 36.5% of total portfolio NLA. In terms of rental income, the largest segment remains fashion and footwear, which contributes 22.0% of monthly rental income. Food and beverage comes closely behind, constituting 21.6% of the portfolio monthly income.



\* Based on monthly rental income for December 2016

## PORTFOLIO'S TOP TEN TENANTS

The top ten tenants in the portfolio contributed 28.6% of total monthly rental income, providing a diversified revenue base. After the top tenant, Parkson, which contributed 9.7% monthly rental income, no other tenant contributed more than 6.0%.

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
Parkson	Department Store/Supermarket	254,009	14.3%	9.7%
The Store	Department Store/Supermarket	273,198	15.4%	5.9%
Seleria	Food & Beverage	35,468	2.0%	2.5%
Giant	Department Store/Supermarket	96,283	5.4%	1.7%
MBO Cinemas	Leisure & Entertainment/Sports & Fitness	83,705	4.7%	1.7%
Bata	Fashion & Footwear	7,322	0.4%	1.6%
McDonald's	Food & Beverage	14,124	0.8%	1.5%
KFC	Food & Beverage	17,431	1.0%	1.5%
Kenny Rogers Roasters	Food & Beverage	7,625	0.4%	1.3%
Watsons	Services	7,379	0.4%	1.2%
Top 10 Tenants (By Monthly Rental Income)		796,544	44.8%	28.6%
Other Tenants		981,823	55.2%	71.4%
Total		1,778,366	100.0%	100.0%

\* Based on monthly rental for December 2016

## PORTFOLIO RENTAL REVERSIONS

For the year ended 31 December 2016, the portfolio recorded 140 new and renewed tenancies, with an overall weighted average rental reversion of -9%. The negative reversion is generally caused by the tough retail and macro-economic environment.

Landmark Central maintains healthy reversion due to its monopolistic position in the market.

Full Year (12 months) (Ended 31 December)	No. of New Tenancies/ Renewals	NLA (sq ft)	% of Total NLA	% Increase/ (Decrease) Over Previous Rent Rates
Subang Parade	40	80,755	16%	(4%)
Mahkota Parade	43	132,788	26%	(18%)
Wetex Parade	21	18,030	11%	(6%)
Central Square	18	60,130	19%	(5%)
Landmark Central	18	50,302	18%	7%
Total/Average*	140	342,005	19%	(9%)

\* The weighted average is calculated based on NLA. Figures as at 31 December 2016



## 18 PORTFOLIO PERFORMANCE

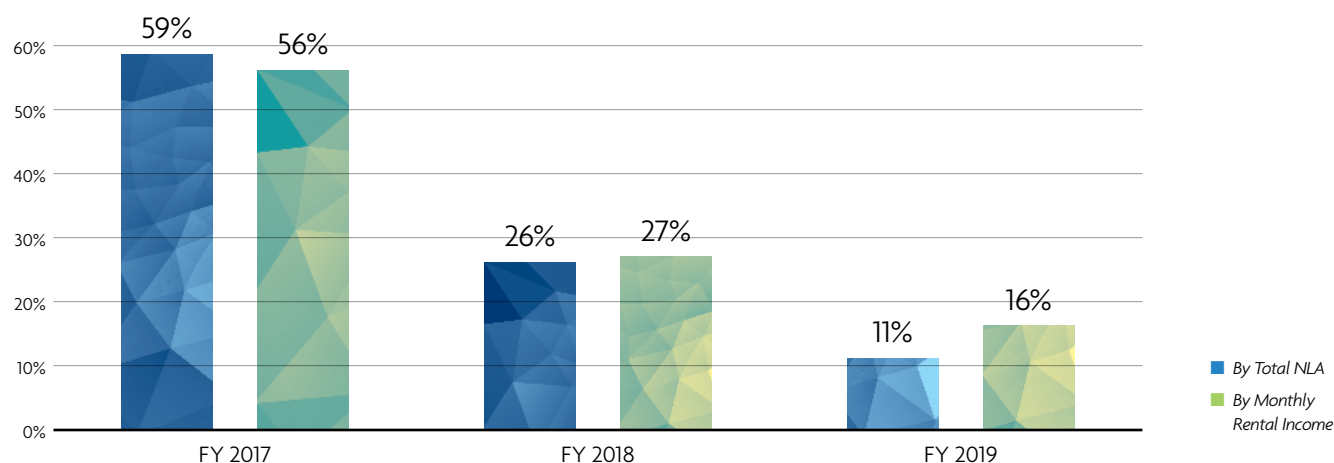


### PORTFOLIO TENANCY EXPIRY PROFILE

For the year 2017, a total of 207 tenancies will expire, representing approximately 59% of NLA and 56% of monthly rental income as at 31 December 2016. The expiries are slightly more concentrated in 2017 due to the expiry of several anchor tenants. However, the tenancies are secured with options-to-renew and are confirmed six months prior to their expiries.

Portfolio For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2017	207	1,046,347	59%	56%
FY 2018	108	470,026	26%	27%
FY 2019	73	187,174	11%	16%

\* Based on monthly rental income for December 2016





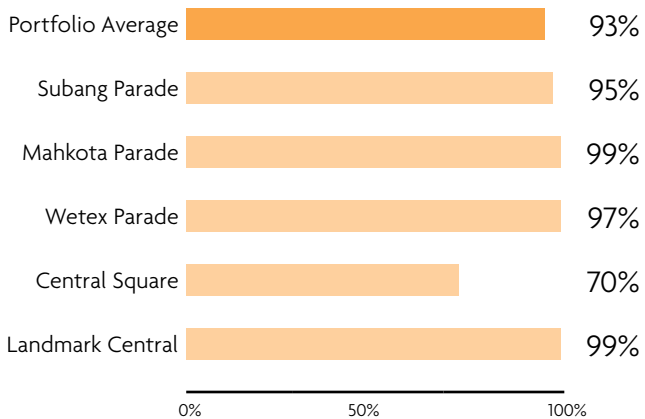
### PORTFOLIO TENANCY PROVISIONS

As at 31 December 2016, turnover rent provisions were present in approximately 93% of the tenancies in the portfolio. Step-up rent provisions were present in approximately 41% of tenancies within the portfolio.

A turnover rent provision allows for rent calculated as a proportion of annual turnover of the tenant’s business. Turnover rent is paid to the REIT if it exceeds the base rent specified in tenancy agreements on an annual basis. A step-up rent provision as specified in tenancy agreements is a pre-determined increase in rent at defined intervals during a tenancy agreement, typically each year and forms the base rent of any tenancy agreement.

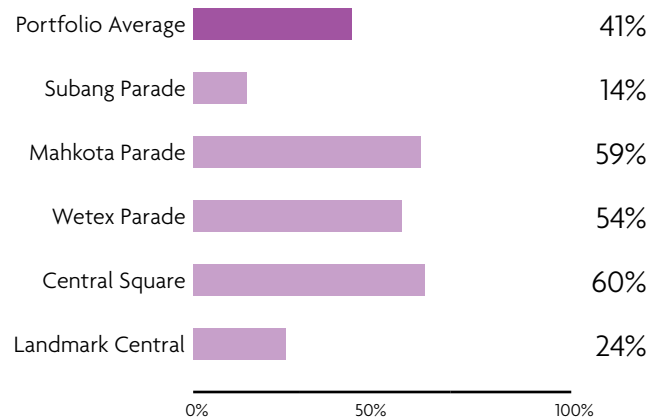
#### HEKTAR REIT TENANCY PROVISIONS

Turnover Rent



#### HEKTAR REIT TENANCY PROVISIONS

Step-up Rent



## 20 PORTFOLIO PERFORMANCE

## SUBANG PARADE

Subang Parade was the first 'regional' shopping centre in Selangor when it was opened in 1988. The centre is located in the heart of Subang Jaya's commercial district, a township which is 25 minutes drive from Kuala Lumpur.

Subang Parade's positioning strategy is neighbourhood-focused, with an emphasis on its primary trade area. This market focus provides the centre with a captive customer base, whose needs are met by a tenant mix offering value and convenience. In 2011, the introduction of a cinema has further enhanced the tenant mix of the centre, bringing us closer to our purpose in meeting customers' needs.

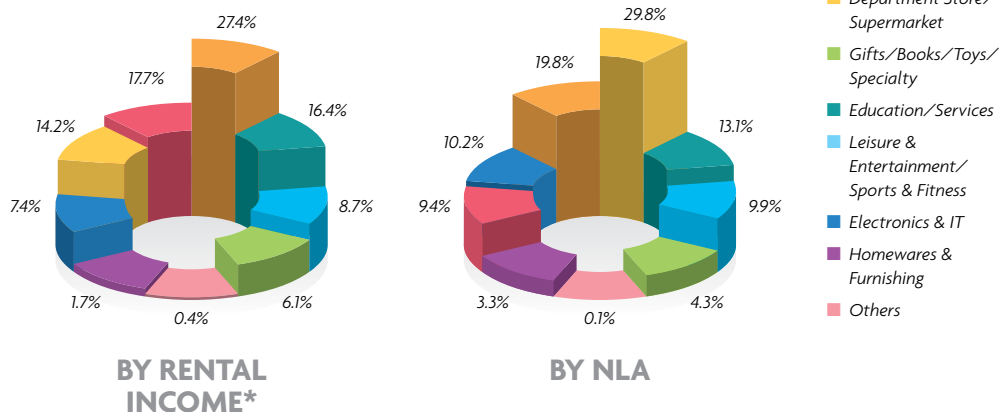
Subang Parade will undergo an asset enhancement initiative ("AEI") this year with creation of new net lettable area of 20,000 sq ft. The AEI is expected to complete in 2018.

<b>Location</b>	No. 5, Jalan SS 16/1, Subang Jaya 47500 Petaling Jaya, Selangor
<b>Title</b>	Freehold
<b>Primary Trade Area</b>	1,834,000 within 20-mins drive time
<b>Gross Floor Area</b>	1,169,038 sq ft
<b>Net Lettable Area</b>	507,150 sq ft
<b>Car Park</b>	1,288
<b>Valuation</b>	RM427.2 million
<b>Tenants*</b>	122
<b>Key Tenants</b>	Parkson, Celebrity Fitness, MBO Cinemas, Best Denki, Digital One, TGIF
<b>Occupancy</b>	93.0%
<b>Visitor Traffic</b>	9.2 million per annum
<b>Year Opened</b>	1988
<b>Year Acquired</b>	2006

Data as of 31 December 2016.

\* Only NLA Lots.

### SUBANG PARADE'S TENANCY MIX



### SUBANG PARADE'S EXPIRY PROFILE

For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2017	69	209,812	41%	54%
FY 2018	26	194,671	38%	29%
FY 2019	29	62,136	12%	17%

\* Based on monthly rental income for December 2016.





## SUBANG PARADE'S TOP TEN TENANTS

TENANT	TRADE SECTOR	NLA (SQ FT)	% OF TOTAL NLA	% OF MONTHLY RENTAL INCOME*
Parkson	Department Store/Supermarket	140,620	27.7%	14.2%
Digital One	Electronics & IT	21,361	4.2%	2.9%
Celebrity Fitness	Leisure & Entertainment/Sports & Fitness	21,646	4.3%	2.8%
Bata	Fashion & Footwear	4,597	0.9%	2.6%
Best Denki	Electronics & IT	24,739	4.9%	2.4%
TGI Friday's	Food & Beverage	5,655	1.1%	2.0%
Kenny Rogers Roasters	Food & Beverage	3,610	0.7%	2.0%
MBO Cinemas	Leisure & Entertainment/Sports & Fitness	25,293	5.0%	1.9%
The Reject Shop	Fashion & Footwear	9,192	1.8%	1.8%
MPH Bookstores	Gifts/Books/Toys/Specialty	14,908	2.9%	1.8%
Top 10 Tenants (by monthly rental income)		271,621	53.5%	34.4%
Other Tenants		235,529	46.5%	65.6%
<b>Total</b>		<b>507,150</b>	<b>100.0%</b>	<b>100.0%</b>

\* Based on monthly rental income for December 2016.



## 22 PORTFOLIO PERFORMANCE

### MAHKOTA PARADE

Mahkota Parade was the first 'regional' shopping centre located in the commercial and tourist centre situated in the heart of Melaka town.

Mahkota Parade is positioned as the leading shopping centre in the Melaka region. The centre also serves as a key destination for major community events and exhibitions.

Mahkota Parade was re-launched on May 1, 2010, following a complete refurbishment. The revitalised shopping centre improved the overall shopping experience for customers.

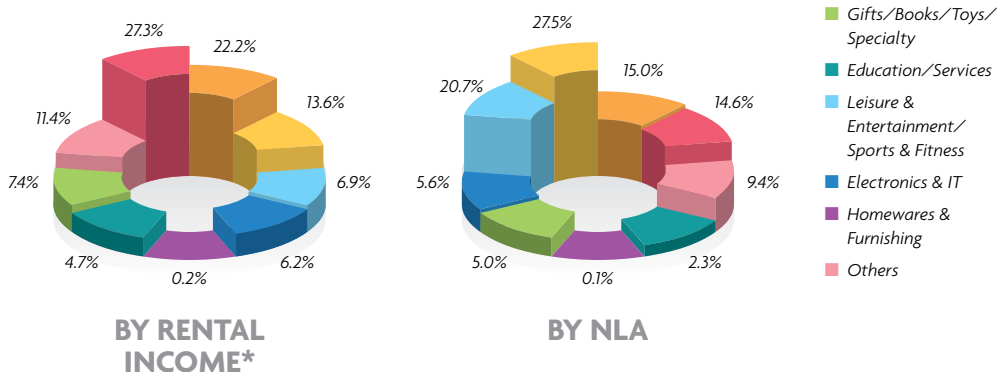
A further expansion at the cinema was completed in 2015, where the number of screens was increased from four to ten. These are part of Hektar's continuing efforts to invest in the Melaka market and maintain Mahkota Parade as the leading shopping centre in the state.

<b>Location</b>	No. 1, Jalan Merdeka 75000 Bandar Melaka, Melaka
<b>Title</b>	Leasehold (until 2101)
<b>Primary Trade Area</b>	382,200 within 20-mins drive time
<b>Gross Floor Area</b>	1,392,623 sq ft
<b>Net Lettable Area</b>	519,542 sq ft
<b>Car Park</b>	1,079
<b>Valuation</b>	RM322.4 million
<b>Tenants*</b>	106
<b>Key Tenants</b>	Parkson, Seleria, Giant, MIXX, LFS
<b>Occupancy</b>	96.4%
<b>Visitor Traffic</b>	9.4 million per annum
<b>Year Opened</b>	1994
<b>Year Acquired</b>	2006

Data as of 31 December 2016.

\* Only NLA Lots.

### MAHKOTA PARADE'S TENANCY MIX



### MAHKOTA PARADE'S EXPIRY PROFILE

For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2017	52	308,045	59%	60%
FY 2018	40	120,680	23%	21%
FY 2019	27	72,061	14%	19%

\* Based on monthly rental income for December 2016.





**MAHKOTA PARADE'S TOP TEN TENANTS**

<b>Tenant</b>	<b>Trade Sector</b>	<b>NLA (sq ft)</b>	<b>% of Total NLA</b>	<b>% of Monthly Rental Income*</b>
Parkson	Department Store/Supermarket	113,389	21.8%	12.3%
Seleria	Food & Beverage	35,468	6.8%	7.8%
Ampang Superbowl	Leisure & Entertainment/Sports & Fitness	36,717	7.1%	2.7%
LFS Cinemas	Leisure & Entertainment/Sports & Fitness	43,496	8.4%	2.6%
McDonald's	Food & Beverage	5,942	1.1%	2.2%
KFC	Food & Beverage	5,403	1.0%	2.1%
Darling	Fashion & Footwear	2,529	0.5%	2.0%
Guardian	Services	3,800	0.7%	1.7%
Kaison	Homewares & Furnishing	9,655	1.9%	1.6%
Reject Shop	Fashion & Footwear	5,748	1.1%	1.5%
Top 10 Tenants (by monthly rental income)		262,147	50.4%	36.5%
Other Tenants		257,395	49.6%	63.5%
<b>Total</b>		<b>519,542</b>	<b>100.0%</b>	<b>100.0%</b>

\* Based on monthly rental income for December 2016.



## 24 PORTFOLIO PERFORMANCE


**WETEX PARADE**

Wetex Parade is an integrated retail development located within the commercial district of Muar, Johor. Wetex Parade is the leading shopping centre in town and serves as the premier retail destination for the Muar area.

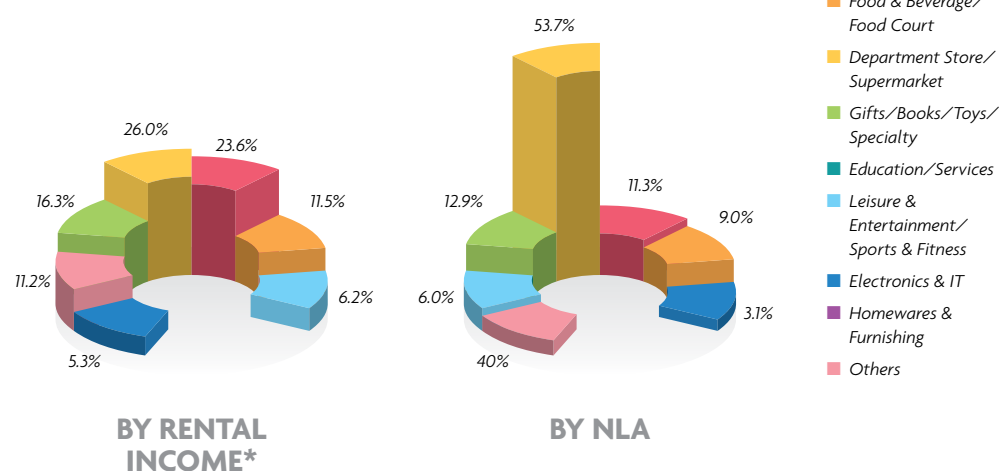
As part of the integrated development, Classic Hotel is situated on top of Wetex Parade and is one of the leading hotels in Muar. Hektar REIT has secured a 10-year net lease with the operator as part of the terms of the acquisition in May 2008.

<b>Location</b>	69 Jalan Ali, Off Jalan Sulaiman 84000 Muar, Johor
<b>Title</b>	Freehold
<b>Primary Trade Area</b>	201,600 within 20-mins drive time
<b>Gross Floor Area</b>	281,590 sq ft
<b>Net Lettable Area</b>	159,153 sq ft
<b>Classic Hotel GFA/NLA</b>	125,931 sq ft
<b>Car Park</b>	175
<b>Valuation**</b>	RM135.2 million
<b>Tenants*</b>	76
<b>Key Tenants</b>	The Store, McDonald's, Watsons, Popular
<b>Occupancy</b>	100.0%
<b>Visitor Traffic</b>	4.6 million per annum
<b>Year Opened</b>	1996
<b>Year Acquired</b>	2008

Data as of 31 December 2016.

\* Only NLA Lots.

### WETEX PARADE'S TENANCY MIX



### WETEX PARADE'S EXPIRY PROFILE

<b>For Year Ending 31 December</b>	<b>No. of Tenancies Expiring</b>	<b>NLA of Tenancies Expiring (sq ft)</b>	<b>NLA of Tenancies Expiring as % of Total NLA</b>	<b>% of Total Monthly Rental Income*</b>
FY 2017	19	109,868	69%	48%
FY 2018	37	32,203	20%	35%
FY 2019	6	16,985	11%	17%

\* Based on monthly rental income for December 2016.





## WETEX PARADE'S TOP TEN TENANTS

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
The Store	Department Store/Supermarket	85,413	53.7%	26.0%
Watsons	Services	2,027	1.3%	4.3%
Living Cabin	Gifts/Books/Toys/Specialty	2,949	1.9%	3.0%
McDonald's	Food & Beverage	2,489	1.6%	2.5%
Tanjongmas Bookcentre	Gifts/Books/Toys/Specialty	4,037	2.5%	2.3%
Popular	Gifts/Books/Toys/Specialty	7,190	4.5%	2.3%
Sukan Muara	Leisure & Entertainment/Sports & Fitness	1,356	0.9%	2.1%
Fabiano Ricco/Ecco	Fashion & Footwear	1,259	0.8%	2.0%
Baker House Confectionery	Food & Beverage	990	0.6%	1.8%
Pao Sing	Gifts/Books/Toys/Specialty	1,023	0.6%	1.8%
Top 10 Tenants (by monthly rental income)		108,733	68.4%	48.1%
Other Tenants		50,420	31.6%	51.9%
<b>Total</b>		<b>159,153</b>	<b>100.0%</b>	<b>100.0%</b>

\* Based on monthly rental income for December 2016.



## 26 PORTFOLIO PERFORMANCE



Completed in 1997, Central Square is the most established retail centre in Sungai Petani and is considered as one of the most recognisable landmarks in the area.

Strategically situated in the town centre, the Central Square property is well-positioned as a neighbourhood mall that caters to its immediate surrounding community. It houses an established mix of national and international brand retailers.

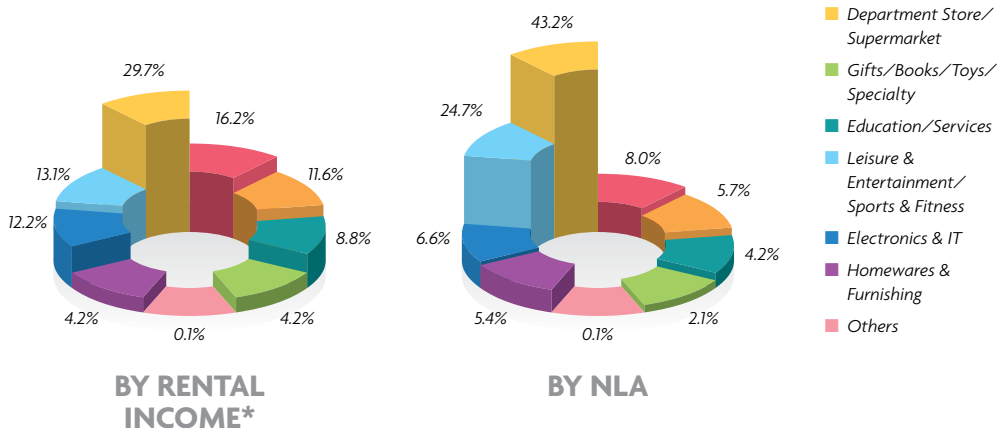
Central Square was relaunched in 2015 upon the completion of its extensive asset enhancement initiatives ("AEI"). The mall is now fitted with a modern facade, bright interior and a brand new cinema having eight screens.

<b>Location</b>	23, Jalan Kampung Baru 08000 Sungai Petani, Kedah
<b>Title</b>	Freehold
<b>Primary Trade Area</b>	406,870 within 20-mins drive time
<b>Gross Floor Area</b>	743,117 sq ft
<b>Net Lettable Area</b>	311,230 sq ft
<b>Car Park</b>	477
<b>Valuation</b>	RM95.7 million
<b>Tenants*</b>	70
<b>Key Tenants</b>	The Store, Perfect Mobile Village, MBO Cinemas, Popular Bookstore, Dave's Deli, Mr DIY
<b>Occupancy</b>	96.6%
<b>Visitor Traffic</b>	3.9 million per annum
<b>Year Opened</b>	1997
<b>Year Acquired</b>	2012

Data as of 31 December 2016.

\* Only NLA Lots.

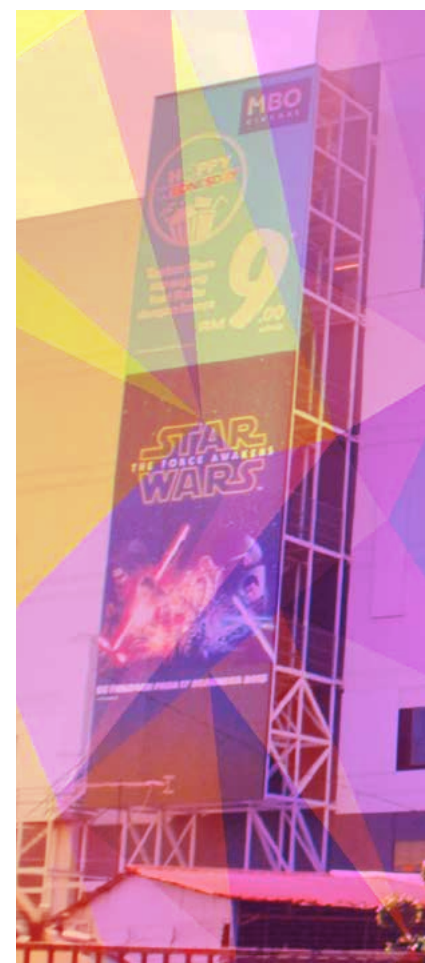
### CENTRAL SQUARE'S TENANCY MIX



### CENTRAL SQUARE'S EXPIRY PROFILE

For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2017	39	249,121	80%	72%
FY 2018	22	22,774	7%	18%
FY 2019	4	28,755	9.2%	10%

\* Based on monthly rental income for December 2016.





## CENTRAL SQUARE'S TOP TEN TENANTS

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
The Store	Department Store/Supermarket	130,000	41.8%	29.7%
Perfect Mobile Village	Electronics & IT	13,229	4.3%	5.7%
MBO Cinemas	Leisure & Entertainment/Sports & Fitness	34,412	11.1%	5.5%
Anjung Irama Services	Leisure & Entertainment/Sports & Fitness	13,452	4.3%	3.8%
KFC	Food & Beverage	3,619	1.2%	3.5%
Panbowling	Leisure & Entertainment/Sports & Fitness	25,000	8.0%	2.8%
Studio	Fashion & Footwear	6,901	2.2%	2.8%
Popular	Gifts/Books/Toys/Specialty	6,450	2.1%	2.6%
Mr DIY	Homewares & Furnishing	11,968	3.8%	2.4%
Food Karnival	Food & Beverage	6,887	2.2%	2.0%
Top 10 Tenants (by monthly rental income)		251,918	81.0%	60.8%
Other Tenants		59,312	19.0%	39.2%
<b>Total</b>		<b>311,230</b>	<b>100.0%</b>	<b>100.0%</b>

\* Based on monthly rental income for December 2016.



## 28 PORTFOLIO PERFORMANCE


**LANDMARK  
CENTRAL**

Landmark Central is the prime neighbourhood mall in Kulim.

It offers shoppers a plethora of retailers including Giant Superstore as well as a large variety of telecommunication stores.

Two of its anchor tenants – Big Cinemas and Ole Ole Superbowl, are the only cinema and bowling centre respectively in Kulim. This allows Landmark Central to capitalise on its unique selling proposition as an all-encompassing neighbourhood mall.

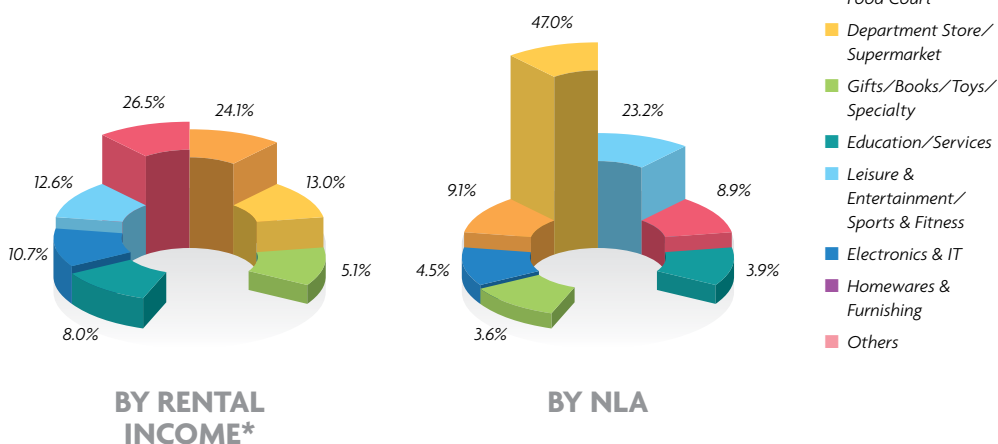
Landmark Central is currently undergoing an asset enhancement initiative ("AEI"), and is expected to complete by mid-2017.

<b>Location</b>	No. 1, Jalan KLC Satu (1) 08000 Kulim, Kedah
<b>Title</b>	Freehold
<b>Primary Trade Area</b>	181,195 within 20-mins drive time
<b>Gross Floor Area</b>	513,333 sq ft
<b>Net Lettable Area</b>	281,388 sq ft
<b>Car Park</b>	610
<b>Valuation</b>	RM112.0 million
<b>Tenants*</b>	67
<b>Key Tenants</b>	Giant, The Store, Big Cinemas, SEC, Pizza Hut, KFC
<b>Occupancy</b>	98.9%
<b>Visitor Traffic</b>	3.0 million per annum
<b>Year Opened</b>	2009
<b>Year Acquired</b>	2012

Data as of 31 December 2016.

\* Only NLA Lots.

### LANDMARK CENTRAL'S TENANCY MIX



### LANDMARK CENTRAL'S EXPIRY PROFILE

<b>For Year Ending 31 December</b>	<b>No. of Tenancies Expiring</b>	<b>NLA of Tenancies Expiring (sq ft)</b>	<b>NLA of Tenancies Expiring as % of Total NLA</b>	<b>% of Total Monthly Rental Income*</b>
FY 2017	28	169,501	60%	48%
FY 2018	28	99,698	35%	44%
FY 2019	7	7,237	3%	8%

\* Based on monthly rental income for December 2016.





## LANDMARK CENTRAL'S TOP TEN TENANTS

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
Giant Superstore	Department Store	72,140	25.6%	15.1%
The Store	Department Store	57,785	20.5%	9.3%
Big Cinemas	Leisure & Entertainment/Sports & Fitness	24,000	8.5%	5.2%
Ole Ole Superbowl	Leisure & Entertainment/Sports & Fitness	23,670	8.4%	3.5%
Hasani Books	Gifts/Books/Toys/Specialty	5,566	2.0%	3.5%
SEC	Electronics & IT	5,755	2.0%	2.8%
CYC Mega Leisure World	Leisure & Entertainment/Sports & Fitness	11,356	4.0%	2.6%
Pizza Hut	Food & Beverage	3,530	1.3%	2.3%
KFC	Food & Beverage	3,530	1.3%	2.3%
Hussain Nasi Kandar	Food & Beverage	3,530	1.3%	2.0%
Top 10 Tenants (by monthly rental income)		210,862	74.9%	48.6%
Other Tenants		70,526	25.1%	51.4%
<b>Total</b>		<b>281,388</b>	<b>100.0%</b>	<b>100.0%</b>

\* Based on monthly rental income for December 2016.





## 30 CORPORATE SOCIAL RESPONSIBILITY



*Chinese New Year event with Handicapped & Mentally Disabled Children Centre Melaka.*

Hektar REIT's sustained contribution in giving back to society over the years is a reflection of our identity, as a neighbourhood oriented shopping mall that cares for the community and environment in which it operates. Patrons are encouraged to bring in their loved ones to shop, dine and gather in many of our activities and events, prioritizing the involvement of family members and close ones. This attachment towards people of different cultures and background helps to nourish our corporate social responsibility efforts.

To stimulate the visitors to become avid readers, Hektar REIT shopping centres have created a designated reading corner in its centres. A book exchange program is incorporated whereby readers can exchange their used books for a preferred one shelved at the reading corner. Donations of books are encouraged as well.

After observing the good response when it was first initiated by Subang Parade, a collective action was executed on



*A designated reading corner for each of Hektar REIT shopping centres.*



*Christmas carolling at Subang Parade.*

Mahkota Parade, Wetex Parade, Central Square and at Landmark Central. This added service created an impactful solution for shoppers to unwind and create a reading community within.

The month of February in 2016 marked the arrival of the Lunar New Year. Our flagship mall Subang Parade took an initiative to contribute to those who are unfortunate in Subang Jaya. Donation of daily essential items, red packets, including a door to door medical service amounting to almost RM4,800 were given to individuals in need of proper health care. Mahkota Parade followed suit with a visit to a special needs home in Bukit Baru, Melaka. Donations worth RM3,000 were made in the form of daily essential items along with distribution of red packets.

Forging ahead with our practice of celebrating festive events with the underprivileged, the holy month of Ramadhan saw all five shopping centres under Hektar REIT, coming together to celebrate with society via their respective programs. Subang Parade's collaboration with Bersamamu TV3 was eventful, as provisions and scrumptious meals were served for impoverished families. Children were handed green packets and brand new traditional clothes by Dato' Hisham Bin Othman, Chief Executive Officer of Hektar Asset Management Sdn Bhd. Three poor families were identified by the Mahkota Parade team, and donations worth RM1,500 of household items and RM500 cash were given to each of them.

80 senior citizens from Warga Emas Bedong, Kedah were brought to Central Square to celebrate Hari Raya. They





80 senior citizens from Warga Emas Bedong, Kedah were brought to Central Square to celebrate Hari Raya.



Charity event at Mahkota Parade.



Spread The Joy of Christmas event with Malaysian Association for the Welfare of Mentally Challenged Children by Subang Parade and Firefly.

were entertained by traditional dance performances and goodie bags were distributed during this event. Wetex Parade treated 80 orphans from Pertubuhan Kebajikan Anak-Anak Yatim Islam Muar to a breaking-fast event held at Kenny Rogers Roasters and green packets were handed out after Maghrib prayers. At Landmark Central, a collaboration was made between the members of the centre’s Super Kids Squad and tenants there to celebrate with children from an orphanage nearby.

Market, a shopping spree for new clothes, and even a haircut at Maglio Hair Studio – in time for the season! Central Square and Landmark Central had activities for underprivileged children and members of Super Kids Squad respectively. Central Square held a sand art making event and distribution of goody bags for children at Penang Grace Home. Landmark Central wrapped up a successful year-end event that included a movie day out with Super Kids Squad members and children from a local orphanage.

The portfolio of shopping centres under Hektar REIT aims to create places where people love to shop and meet; and to promote sustainable values in the community in which we operate.

Towards the end of the year, when school holidays were in full swing and the excitement of Christmas breaming, the centres promoted the act of endowment – one of the hallmarks of Christmas. Subang Parade, in partnership with FireFly airlines organised a charity visit to Pusat Kebajikan Kanak-Kanak Terencat Akal Malaysia, situated in Petaling Jaya, Selangor. With attendance by Chief Financial Officer of HAMSMB, Puan Zalila Binti Mohd Toon and CEO of FireFlyz, Mr. Ignatius Ong, it was a delightful event. Children of special needs indulged in a dance performance with Santa Claus and the mascot of A&W, the meal sponsors for the event. Puan Zalila and Mr. Ignatius proceeded to offer wrapped presents under the Christmas tree and essential items that were donated by the team. 20 children were invited from Yayasan Sunbeam Home, Melaka to Mahkota Parade in the spirit of Christmas on 13 December 2016. The event began with lunch at Manhattan Fish

“Hektar REIT’s sustained contribution in giving back to society over the years is a reflection of our identity, as a neighbourhood oriented shopping mall that cares for the community and environment in which it operates.”



Breaking fast with orphans, at Wetex Parade.



# 32 CORPORATE ORGANISATION

## HEKTAR ASSET MANAGEMENT SDN BHD

Management Company

## UNITHOLDERS

Investment in REIT



Income distributions

Management services



Management fees



Trustee's fee



## MTRUSTEE BHD

Trustee

Acts on Unitholders' behalf

Owns assets



Rental income

## Portfolio



Property management fees



Property management services

## HEKTAR PROPERTY SERVICES SDN BHD

Property Manager



**BOARD OF DIRECTORS OF THE MANAGER**

Dato' Jaafar bin Abdul Hamid  
Non-Executive Chairman  
(Demised on 24 January 2017)

Michael Lim Hee Kiang  
Independent Non-Executive Chairman  
(Redesignated w.e.f. 14 February 2017)

Dato' Hisham bin Othman  
Executive Director and  
Chief Executive Officer  
(Appointed w.e.f. 1 May 2016)

Zalila binti Mohd Toon  
Executive Director and  
Chief Financial Officer

Dr Chew Tuan Chiong  
Non-Executive Director

Christopher Tang Kok Kai  
Non-Executive Director

Mahusni bin Hasnan  
Independent Non-Executive Director  
(Appointed w.e.f. 23 January 2017)

Philip Eng Heng Nee  
Independent Non-Executive Director

Rahanawati Ali Dawam  
Independent Non-Executive Director  
(Appointed w.e.f. 16 February 2017)

Datuk Kamaruddin bin Awang  
Independent Non-Executive Director  
(Resigned w.e.f. 23 January 2017)

Shahril Kassim  
Non-Executive Director  
(Resigned w.e.f. 1 May 2016)

Alex Chia Soon Ren  
Alternate Director to Dr Chew Tuan Chiong

Jack Lam Juck Ngai  
Alternate Director to Christopher Tang  
(Resigned w.e.f. 1 November 2016)

Tay Hwee Pio  
Alternate Director to Christopher Tang  
(Appointed w.e.f. 29 November 2016)

**EXECUTIVE COMMITTEE**

Dato' Hisham bin Othman

Zalila binti Mohd Toon

Dr Chew Tuan Chiong

**AUDIT COMMITTEE AND NOMINATION COMMITTEE**

Mahusni bin Hasnan  
(Chairman, Appointed w.e.f. 23 January 2017)

Philip Eng Heng Nee

Rahanawati Ali Dawam  
(Appointed w.e.f. 16 February 2017)

Michael Lim Hee Kiang  
(Redesignated, resigned from  
Audit Committee and Nomination  
Committee w.e.f. 14 February 2017)

Datuk Kamaruddin bin Awang  
(Resigned w.e.f. 23 January 2017)

**MANAGER**

Hektar Asset Management Sdn Bhd  
(Company No. 732261-T)

**Manager's Principal Place of Business**

D1-U3-10, Block D1  
Solaris Dutamas  
No. 1, Jalan Dutamas 1  
50480 Kuala Lumpur  
Tel: +6 03 6205 5570  
Fax: +6 03 6205 5571  
Web: www.HektarREIT.com

**Manager's Registered Office**

Unit 419, Block A  
Kelana Business Centre  
No. 97, Jalan SS 7/2, Kelana Jaya  
47301 Petaling Jaya, Selangor

**JOINT COMPANY SECRETARIES OF THE MANAGER**

Dato' Muhammad Hafidz  
bin Nuruddin (MAICSA 7005820)

Lim Seck Wah (MAICSA 0799845)

**TRUSTEE**

MTrustee Berhad  
(Formerly known as AmTrustee Berhad)  
(Company No. 163032-V)  
Level 15, Menara AmFIRST  
No. 1, Jalan 19/3  
46300 Petaling Jaya, Selangor

**PROPERTY MANAGER**

Hektar Property Services Sdn Bhd  
(Company No. 868376-K)  
F36, First Floor, Subang Parade  
No. 5, Jalan SS 16/1  
47500 Subang Jaya, Selangor

**PRINCIPAL BANKER OF THE FUND**

Malayan Banking Berhad  
(Company No. 3813-K)  
Menara Maybank  
100 Jalan Tun Perak  
50050 Kuala Lumpur

**AUDITOR (EXTERNAL)**

SJ Grant Thornton  
(Member firm of Grant Thornton  
International Ltd)  
Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail, 50250 Kuala Lumpur

**AUDITOR (INTERNAL)**

KPMG Management and Risk  
Consulting Sdn Bhd  
(Company No. 150059-H)  
Level 10, KPMG Tower  
8 First Avenue, Bandar Utama  
47800 Petaling Jaya, Selangor

**TAX AGENT**

SJ Grant Thornton (AF : 0737)  
Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail, 50250 Kuala Lumpur

**REGISTRAR**

Mega Corporate Services Sdn Bhd  
(Company No. 187984-H)  
Level 15-2, Faber Imperial Court  
Jalan Sultan Ismail, 50250 Kuala Lumpur  
Tel: +6 03 2692 4271  
Fax: +6 03 2732 5388

**STOCK EXCHANGE LISTING**

Bursa Malaysia Securities Berhad  
(Company No. 635998-W)  
Main Market  
Short Name: HEKTAR  
Stock Code: 5121

## 34 THE BOARD OF DIRECTORS



### **MICHAEL LIM HEE KIANG**

*Independent Non-Executive Chairman,  
Malaysian, Age 68*

Michael Lim graduated with a Bachelors of Laws with Honours in 1972 and Master of Laws with Distinction in 1973 from Victoria University of Wellington, New Zealand. He was admitted to practise law in the Supreme Court of New Zealand in 1973 and High Court of Borneo, Kuching and the High Court of Brunei in 1974. After one (1) year, he left to join the Law Faculty of University Malaya in KL in 1975 and took up a position as a lecturer. After his stint in University Malaya, he joined Messrs. Shearn Delamore & Co in 1978 and was made a partner of the firm in the next year. He has worked with the same firm for 31 years, specialising in company and securities law before retiring in 2010.

Mr Michael Lim sits on the Board of various public listed companies, including DKSH Holdings Bhd, Selangor Properties Bhd, Paragon Union Holdings Bhd, and Hektar Asset Management Sdn Bhd, the management company for Hektar REIT. In addition, he is presently a consultant with Messrs Jeff Leong, Poon & Wong.

Mr Michael Lim is also currently a Director of Hektar Premier Sdn Bhd, Hektar Black Sdn Bhd and Hektar Klasik Sdn. Bhd.

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).

### **DATO' HISHAM BIN OTHMAN**

*Executive Director & Chief Executive Officer,  
Member of the Executive Committee,  
Malaysian, Age 54*

Dato' Hisham is currently the Executive Director and Chief Executive Officer of Hektar Asset Management Sdn. Bhd. He was appointed as Executive Director and Chief Executive Officer on 1 May 2016.

Dato' Hisham has over 30 years of working experience in various industries. He has held many senior positions in the Renong/UEM

Group and in the DRB-Hicom Group. He has led many companies in various industries in his capacity as Chief Executive Officer and/or Chief Operating Officer including real estate. In the real estate sector, he has been involved in the areas of property development, asset management and construction.

Dato' Hisham holds a Bachelor of Civil Engineering degree from University of Western Australia and a Master in Business Administration (MBA) from University Putra Malaysia. He also holds a Senior Management Certificate from INSEAD of France.

He is a Qualified Risk Director and a member of the Institute of Enterprise Risk Practitioners ("IERP") based in the UK. He possesses a Capital Markets Services Representatives' License for REITs' as a Licensed Director for the asset management company of Hektar REIT to carry on regulated activities specified under the Capital Markets and Services Act ("CMSA").

Dato' Hisham is also a member of Malaysian Institute of Corporate Governance ("MICG") and Malaysian Directors Academy ("MINDA").

Dato' Hisham was recently elected Vice Chairman of the Malaysian REIT Managers Association ("MRMA"), an organisation aimed at representing the collective interests of the Malaysian real estate investment trusts sector and acts as a platform for the Malaysian REIT managers to engage with the regulatory bodies in proposing changes to the industry to promote its growth.

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).



### **ZALILA BINTI MOHD TOON**

*Executive Director & Chief Financial Officer,  
Member of the Executive Committee,  
Malaysian, Age 56*

Zalila is responsible for the financial matters of Hektar REIT and the overall financial performance. She was instrumental in listing Hektar REIT. She is the designated Licensed Director under the Capital Market Services Representatives' License granted to REIT Managers and her current portfolio in Hektar Asset Management includes Strategy, Finance, Legal, Investor Relations and Corporate Affairs. Prior to joining the Hektar Group in 2004, she was with the UEM Group for 23 years, out of which 20 years was with Cement Industries of Malaysia Berhad. Her primary achievements include spearheading various programmes which include the issuance of private debt securities and the acquisition of Negeri Sembilan Cement Industries Sdn Bhd. Subsequently, she was also involved in the reverse take-over exercise of Park May Berhad before leaving for a brief stint in UEM Environment Sdn Bhd, a holding company of Kualiti Alam Sdn Bhd.

Zalila holds a Master of Business Administration (Finance) from the University of Nottingham. She is a member of the Malaysian REIT Managers Association and Malaysian Institute of Corporate Governance (MICG).

She has not been convicted for any offences within the past 10 years (traffic offences not relevant).





**DR CHEW TUAN CHIONG**

*Non-Executive Director,  
Member of the Executive Committee,  
Singaporean, Age 59*

Dr Chew is Chief Executive Officer of Frasers Centrepoint Asset Management, the manager of Frasers Centrepoint Trust. Previously, Dr Chew was the Chief Executive of Science Centre Singapore, a government statutory board, from 1995 to 2009. He has also been an Associate Professor with the National University of Singapore, and a Research Scientist with Daimler Benz in Germany and British Gas PLC in the UK, and an Adjunct Professor with the Singapore Management University. Dr Chew is presently also a Director of CityNet Infrastructure Management Pte Ltd, the manager of Netlink Trust.

Dr Chew is a Chartered Engineer and a Fellow of the Institution of Engineers Singapore. A former government scholar, Dr Chew holds a doctorate from University of Cambridge, an M Eng from the National University of Singapore, and a B Eng (1st Class Hons) from Monash University. Dr Chew has been awarded the Sugden Award by the Combustion Institute (UK) and the Public Administration Medal (Silver) (Singapore).

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).

**CHRISTOPHER TANG KOK KAI**

*Non-Executive Director,  
Singaporean, Age 56*

Christopher Tang is the Chief Executive Officer of Frasers Centrepoint Singapore, a division under Frasers Centrepoint Limited ("FCL"). Mr Tang is responsible for FCL Singapore Residential and Commercial Properties businesses. He oversees FCL Singapore investment, development and management, fund and asset management. He is concurrently the Chief Executive Officer of Greater China, overseeing FCL's property interests in China.

He is presently a director of Frasers Centrepoint Asset Management Ltd, the manager of Frasers Centrepoint Trust and Frasers Centrepoint Asset Management (Commercial) Ltd, the manager of Frasers Commercial Trust. Mr Tang is also a member of Board of Governors, Republic Polytechnic.

Christopher holds a Masters in Business Administration and a Bachelor of Science Degree from the National University of Singapore.

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).

**MAHUSNI BIN HASNAN**

*Independent Non-Executive Director,  
Chairman of the Audit Committee  
and Nomination Committee,  
Malaysian, Age 52*

Mahusni holds a degree in Accounting & Finance and an MBA in Finance from University of Hull, England. He has more than 25 years of working experience in wide ranging fields notably in corporate finance including M&As and IPOs; investment analysis including cross border issues; corporate taxation and planning, business operations and management in several industries.

He was the CEO of Seaport Worldwide Sdn Bhd and CEO of JP Logistics Sdn Bhd – two wholly owned subsidiaries of Johor Port Berhad which in-turn is a wholly owned subsidiary of MMC Bhd.

Prior to joining the MMC Group of companies, he was the CFO for Scomi Engineering's India operations responsible for Scomi's oil & gas business and rail project in Mumbai. He was also in-charge of Scomi's production chemical business as Senior General Manager before being promoted to the India operation office.

His other past working experiences amongst others include being the Group General Manager for Terengganu Incorporated and First Vice President of Affin Merchant Bank Berhad. In 2005, he was appointed by the High Court as the co-Chairman for a Court Convened Meeting pursuant to a restructuring exercise of a PN17 Main Board company.

He now sits as an Independent and Non-Executive Director of two listed companies and consultant advisor for several business ventures.

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).



## 36 THE BOARD OF DIRECTORS

**PHILIP ENG HENG NEE**

*Independent Non-Executive Director,  
Member of the Audit Committee  
and Nomination Committee,  
Singaporean, Age 70*

Philip Eng was appointed Independent Chairman of Frasers Centrepoint Asset Management Ltd in April 2009 and has been a Board member since April 2006. He is Non-Executive Chairman of mDR Limited and was appointed on the Board of Frasers Centrepoint Limited in October 2013. He also holds other directorships in several local and regional companies. Philip is also Singapore Non-Resident High Commissioner to Canada. He spent 23 years with the Jardine Cycle & Carriage Group before retiring in February 2005 as Group Managing Director.

Philip graduated from the University of New South Wales with a Bachelor of Commerce in Accountancy and is a member of the Institute of Chartered Accountants in Singapore.

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).

**RAHANAWATI ALI DAWAM**

*Independent Non-Executive Director,  
Member of the Audit Committee  
and Nomination Committee,  
Malaysian, Age 64*

Rahanawati is a senior partner of Abu Talib Shahrom. She heads the Corporate Practice Group of the firm. She advises clients on mergers and acquisitions, corporate restructuring, cross border transactions, private equity deals, corporate finance related works as well as debt capital market. The clients are mainly public listed companies (PLCs) and government linked companies (GLCs). She also heads the Corporate Secretarial Division and has acted as company secretary of several PLCs and GLCs. She advises their board of directors, on inter alia, the corporate governance practices and compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and other relevant statutory requirements.

She presently sits on the board of Rhone Ma Holdings Berhad, a company listed on the Main Market of Bursa Securities Malaysia Berhad, as an independent non-executive director. She is also a member of the Audit and Risk Management Committee and Chairman of the Nominating Committee of the company.

Prior to joining practice, she served a public listed company, Sentosa Corporation Berhad as Group Legal Advisor and was a member of their senior management team.

She holds a Bachelor of Laws (Hons) from University of Buckingham, United Kingdom, Certificate of Legal Practice and Master of Laws from University of Malaya.

She has not been convicted for any offences within the past 10 years (traffic offences not relevant).

**ALEX CHIA SOON REN**

*Alternate Director to  
Dr Chew Tuan Chiong,  
Singaporean, Age 49*

Alex Chia is currently Head, Investment of Frasers Centrepoint Asset Management Ltd, which manages Frasers Centrepoint Trust listed in Singapore. Alex has over 9 years of business development experience in serviced residence industry covering the Pan Asia market. He also has more than 6 years of retail experience in areas of operations and project planning.

Alex holds a Bachelor Degree in Business Administration from National University of Singapore and an MBA from University of Hull, United Kingdom.

He has not been convicted for any offences within the past 10 years (traffic offences not relevant).

**TAY HWEI PIO**

*Alternate Director to  
Mr Christopher Tang Kok Kai,  
Singaporean, Age 48*

Hwei Pio is the Financial Controller of Frasers Centrepoint Asset Management, the manager of Frasers Centrepoint Trust ("FCT"). She is responsible for the financial, taxation, treasury and compliance functions of FCT. She has over 20 years of financial experience in the real estate industry.

Prior to joining FCT, Hwei Pio was based in Shanghai for 10 years, of which she was the financial controller for Frasers Centrepoint Limited's ("FCL") business operations in China since year 2006. Before joining FCL, Hwei Pio held financial positions at Keppel Land and Guocoland. She started her career as an external auditor with KPMG.

Hwei Pio is a Singapore Chartered Accountant (CA) with the Institute of Singapore Chartered Accountants and she is a Fellow with the Association of Chartered Certified Accountants.

She has not been convicted for any offences within the past 10 years (traffic offences not relevant).





# THE MANAGEMENT TEAM 37



Seated: Sabrina Halim\*\*, Pn Zalila Mohd Toon\*, Dato' Hisham bin Othman\* and Zarina Halim\*.  
 Standing: Jacky Tan\*\*, Martin Chen\*, Melaine Ong\*, Khairul Azizan bin Ahmad\* and Khairul Ariffin Ibrahim\*\*.

\* Trust Management Team  
 \*\* Property Management Team

## CORPORATE VALUES

### INTEGRITY

- Conduct business ethically
- Act morally
- Practice good governance

### EXCELLENCE

- Highly competent
- Very productive
- Produce quality work always
- Innovative
- Possess positive attitude

### DYNAMIC

- Work with energy
- Work with speed
- Resourceful
- Embrace change

### TEAMWORK

- Collaborate with other staff
- Foster/maintain team spirit
- Be accountable

## 38 TRUST MANAGEMENT TEAM

### **DATO' HISHAM BIN OTHMAN**

*Chief Executive Officer & Executive Director*

Please refer to Dato' Hisham's profile under the section on The Board of Directors.

### **ZALILA BINTI MOHD TOON**

*Chief Financial Officer & Executive Director*

Please refer to Zalila's profile under the section on The Board of Directors.

### **ZARINA HALIM**

*General Manager, Corporate Affairs*

Zarina has been with the Hektar Group of Companies since 2002 and was part of the management team responsible for the listing of Hektar REIT on Bursa Malaysia in December 2006. She is responsible for corporate affairs, of which legal and secretarial make up the main areas and provides support in the area of Finance. She is the designated Compliance Officer under the Capital Market Services Licence (CMSL) granted to REIT Managers. She was formerly with the United Engineers Malaysia Berhad ("UEM") Group of Companies for 9 years where she was initially involved in project management at Faber Hotels Holdings which culminated in the conversion of a series of Faber owned properties under the "Merlin" brand name to "Sheraton". She then became Head of Corporate Affairs and Business Development in Prolink Development Sdn Bhd, the UEM Group's subsidiary responsible for the development of Nusajaya. Her notable experience at Prolink included the implementation of corporate land sales to the value of over RM1 billion and the successful restructuring of Prolink's debt obligations under Danaharta. She then moved on to head the Business Development unit at OptixLab Sdn Bhd and was mainly responsible for strategic marketing and sourcing and implementation of ICT related investments.

Zarina holds two Honours degrees in separate disciplines. She graduated from the University of Manchester, United Kingdom with a Bachelor's degree in Accounting and Finance and also holds a Bachelor of Laws degree from the University of London.

### **MELAINE ONG**

*Senior Manager, Strategy*

Melaine Ong is responsible for Hektar REIT's investor relations, risk management and supports in areas of strategy and business development, which carries out research and analysis on Hektar REIT.

Melaine graduated from London School of Economics and Political Science, United Kingdom with a Bachelor of Science (BSc) degree in Accounting and Finance. She also holds a Certificate of Investor Relations from the IR Society (UK).

### **KHAIRUL AZIZAN BIN AHMAD**

*General Manager, Finance*

Khairul Azizan is responsible for the finances of Hektar REIT and provides support in areas of accounting, taxation, corporate finance and treasury. Prior to joining Hektar, he served MISC Berhad in various capacities from 2008. His last position was as Senior Manager, Finance Services where he took on the role of financial controller of its chemical tankers and tank terminals businesses leading the finance, planning, projects and joint venture (JV) management functions and activities supporting and advising these businesses. He was also part of the finance committee of its tank terminal JV that successfully constructed and commissioned an oil storage terminal in Johor which received its first cargo in 2012, refinanced its €500 million loan in 2013 and listed an international terminal company on the New York Stock Exchange as a master limited partnership in 2014. Subsequent to that, Khairul was with the Renong (now UEM) Group from 1996 primarily in the areas of finance and corporate services at its head office as well as at its group companies in varying industries. He was the Financial Controller of Dagang Net Technologies Sdn Bhd, an e-commerce service provider, until 2008. Khairul holds a Bachelor of Arts with Honours degree in Accounting and Financial Management from the University of Essex, United Kingdom. He is a Chartered Accountant with the Malaysian Institute of Accountants (MIA) and a Fellow of the Association of Chartered Certified Accountants (ACCA).

### **MARTIN CHEN**

*Senior Manager, Legal*

Martin Chen provides support in the areas of legal and secretarial compliance in relation to the portfolio of Hektar REIT.

Prior to joining the corporate world, Martin was in legal practice as an Advocate and Solicitor with the law firms Jeyaratnam & Chong and subsequently Zul Rafique & Partners, one of the largest law firms in Malaysia. At Zul Rafique & Partners, he was with the Property Practice Group and has advised local, multinational and international corporations in land and property matters, and joint land development agreements. In terms of banking matters, he has acted for both lenders as well as borrowers in respect of corporate and retail loans. Martin also has considerable knowledge and experience in strata management matters and has advised clients in the incorporation of joint management bodies and management corporations. He has previously served as a committee member in joint management bodies for commercial and residential strata buildings in Selangor, Kuala Lumpur and Melaka.

Martin graduated from the University of Sheffield, United Kingdom with a Bachelor of Laws (LLB) degree and holds a Certificate in Legal Practice (CLP) from the Legal Qualifying Board, Malaysia. He was admitted as an Advocate and Solicitor of the High Court of Malaya in 2002. Martin is currently a member of the Malaysian Corporate Counsel Association.



### **KHAIRUL ARIFFIN IBRAHIM**

#### *Chief Operating Officer*

Khairul Ariffin is currently the Chief Operating Officer of Hektar Property Services Sdn Bhd. He has 17 years of working experience in various aspects of change and quality management practices. He is passionate about continuous improvement and has had great success in deploying change and quality improvement programs at Airasia Bhd when he was the Regional Head of Performance Improvement. Prior to joining Hektar, he was with SapuraKencana Petroleum Bhd, holding several roles and positions in Quality and Risk Management with his last being the Senior Manager of the Transformation Program Office.

He graduated from Massey University, Palmerston North, New Zealand, with a Bachelor of Business Studies in Accounting.

### **JACKY TAN**

#### *Chief Leasing Officer*

Jacky Tan is responsible for the Leasing and Marketing activities for Hektar Group malls. He has been in the industry for the past 15 years and was involved in various retail projects from planning to leasing and tenant management starting with The Curve @ Mutiara Damansara in 2002 and Heritage Village @ The Mines in 2005, spearheading group leasing for Hektar Group (Mahkota Parade, Subang Parade and Wetex Parade) from 2009 to 2012, revamp and repositioning of Avenue K in 2012, planning and leasing for One City @ USJ 25 in 2015 and KSL City Mall in Klang in 2016. He holds a Bachelor Degree in Business Administration (Major in Marketing) from the University of Coventry, United Kingdom

### **SABRINA HALIM**

#### *General Manager, Business Development Group Leasing and Marketing*

Sabrina has been in the industry for 7 years in which she had gone through various departments in shopping center management. She plays a key role in the direction and implementation of leasing and marketing strategies of Hektar Reit. She also contributes to the concept and planning for several projects including revamping and expansion exercises as well as new projects. Sabrina graduated with a Bachelor's degree (BA, Hons) in Retail Management from LimKokWing University and completed Master of Science (MSc) in Management from University of Warwick, UK. She also holds a Diploma in Fashion and Retail from LimKokWing University.

## 40 INVESTOR COMMUNICATIONS

Hektar Asset Management is committed to building and nurturing relationships with long-term investors by ensuring transparent and timely disclosure to the investment community.

Hektar REIT's website contains information on the REIT's strategy, organisation, manager, portfolio and financials. The investor information section provides current and historical quarterly presentations, annual and interim reports, press releases and announcements, in downloadable Portable Document Format (PDF).

Hektar Asset Management continues to maintain regular communications to research houses, individual & institutional investors and the media. Hektar conducts one-to-one and group meetings, conference calls and continues to provide site visits to the portfolio. Since the IPO listing, Hektar has delivered presentations and papers in remisier briefings, equity roadshows, industry conferences & seminars and investor & media outreach programmes throughout Malaysia and Singapore.

Hektar Asset Management continues to improve the quality of investment disclosure for Hektar REIT.

Reports from analyst coverage may be accessed on Bursa Malaysia's website under the Research Report (CBRS) section. Over the past year, analyst coverage included RHB Research and CIMB.

For new and prospective investors, a brief guide, fact sheet and detailed Frequently Asked Questions are available on the website. For more information, please visit the website at [www.HektarREIT.com](http://www.HektarREIT.com), or contact:

### THE MANAGER

Investor Relations & Corporate Communications  
Hektar Asset Management Sdn Bhd  
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  
Email: [ir@HektarREIT.com](mailto:ir@HektarREIT.com)  
Web: [www.HektarREIT.com](http://www.HektarREIT.com)

### THE REGISTRAR

Mega Corporate Services Sdn Bhd  
Level 15-2 Faber Imperial Court  
Jalan Sultan Ismail  
P.O. Box 12337  
50774 Kuala Lumpur  
MALAYSIA  
Tel: +6 03 2692 4271  
Fax: +6 03 2732 5388

### FINANCIAL YEAR CALENDAR

	2017*	2016
Full Year Results Announcement	14 February 2017	16 February 2016
Annual Report	27 February 2017	26 February 2016
Final Distribution	16 March 2017	18 March 2016
First Quarter Results Announcement	May 2017	25 May 2016
First Quarter Distribution	June 2017	27 June 2016
Second Quarter Results Announcement	August 2017	1 August 2016
Second Quarter Distribution	September 2017	2 September 2016
Third Quarter Results Announcement	November 2017	16 November 2016
Third Quarter Distribution	December 2017	20 December 2016

*\*Dates are tentative and subject to change*



The Board of Directors of Hektar Asset Management Sdn Bhd, the Manager of Hektar REIT is pleased to submit their report to the Unitholders of Hektar REIT together with the audited financial statements of Hektar REIT for the year ended 31 December 2016.

## PRINCIPAL ACTIVITY

Hektar REIT was established on 5 October 2006 and listed on Bursa Malaysia Securities Berhad on 4 December 2006. The principal activity of Hektar REIT is to invest primarily in retail assets with the objective of achieving an attractive level of return from rental income as well as for long-term capital growth.

## REVIEW OF PERFORMANCE

		<b>As at 31 December 2016 RM</b>	<b>As at 31 December 2015 RM</b>
Total Net Asset Value		585,468,170	584,376,928
Units in Circulation	(Units)	400,634,117	400,634,117
Net Asset Value per unit		1.46	1.46
Market Value per Unit		1.56	1.52
Highest Traded Price		1.70	1.56
Lowest Traded Price		1.48	1.43

## OPERATING RESULTS

		<b>FYE 31 December 2016 RM</b>	<b>FYE 31 December 2015 RM</b>
Total Gross Income		124,915,901	126,241,632
Total Property Expenses		(50,235,768)	(49,028,498)
Fair Value Adjustment on Investment Properties		2,425,525	(39,933,986)
		77,105,658	37,279,148
Total Non-Property Expenses		(33,947,834)	(32,519,813)
Net Income before taxation		43,157,824	4,759,335
Net Income before taxation – realized		41,546,312	44,693,321
Net Income before taxation – unrealized		1,611,512	(39,933,986)
Net Income after taxation		43,157,824	4,759,335
Earnings per Unit after Tax	(sen)	10.77	1.19
Realised Earnings per Unit after Tax	(sen)	10.37	11.16
Distribution per Unit (“DPU”)	(sen)	10.50	10.50

The Manager is pleased to report that for the financial year ended 31 December 2016, the total revenue of Hektar REIT is RM124,915,901 comprising gross rental income of RM124,570,904, interest income of RM318,276 and other income of RM26,721. Gross rental income includes expense of RM237,994 which is due to the impact of FRS117 that took effect on 1 January 2010.

The realised net profit FYE 2016 of RM41,546,310 is lower than FYE 2015 by RM3,147,011. The decrease is mostly due to lower rental income from tenancies, as an impact of the soft retail market.

The Manager has recommended and MTrustee Berhad (“Trustee”) has approved a total income distribution of 10.5 sen per unit totaling RM42,066,582 for the year ended 31 December 2016.

The total income distribution of RM42,066,582 remains unchanged from the previous period.

42 **MANAGER'S REPORT****INCOME DISTRIBUTION**

The schedule of the income distributions is as follows:

<b>Distribution payment</b>	<b>Period covered</b>	<b>Income Distribution (RM)</b>	<b>Remarks</b>
First interim distribution	Jan 16 - Mar 16	10,416,487	Paid in May 2016
Second interim distribution	Apr 16 - Jun 16	10,416,487	Paid in September 2016
Third interim distribution	Jul 16 - Sep 16	10,416,487	Paid in December 2016
Final distribution	Oct 16 - Dec 16	10,817,121	To be paid in March 2017
<b>Total</b>		<b>42,066,582</b>	

**DIRECTORS OF THE MANAGER**

Directors who are currently serving on the Board of Hektar Asset Management Sdn Bhd are:

Mr. Michael Lim Hee Kiang (*Redesignated as Chairman on 14 February 2017*)

Dato' Hisham bin Othman (*Appointed w.e.f. 1 May 2016*)

Puan Zalila binti Mohd Toon

Dr. Chew Tuan Chiong

Mr. Christopher Tang Kok Kai

En. Mahusni bin Hasnan (*Appointed w.e.f. 23 January 2017*)

Mr. Philip Eng Heng Nee

Cik Rahanawati Ali Dawam (*Appointed w.e.f. 16 February 2017*)

Mr. Alex Chia Soon Ren (*Alternate Director to Dr Chew Tuan Chiong*)

Ms. Tay Hwee Pio (*Alternate Director to Mr. Christopher Tang*) (*Appointed w.e.f. 29 November 2016*)

**DIRECTORS' BENEFITS**

For the financial year ended 31 December 2016, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by Hektar REIT or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest save and except for Note 23 as explained under the Notes to the Financial Statements.

There were no arrangements during the financial year ended 2016, which had the objective of enabling Directors of the Manager to acquire benefits by means of the acquisition of units in, or debentures of the Hektar REIT or any other corporate body.

**MANAGER'S FEE**

For the financial year ended 31 December 2016, the Manager's fee comprised the following:

1. Base fee of RMRM3,938,055, which is calculated at 0.35% of Gross Asset Value
2. Performance fee of RM3,853,541, which is calculated at 5% of Net Property Income

The Manager's total management fee of RM7,791,596 represents 1.33% per annum of the Net Asset Value ("NAV") of Hektar REIT.

Save for the expenses incurred for the general overheads and costs of services which the Manager is expected to provide, or falling within the normal expertise of the Manager, the Manager has the right to be reimbursed the fees, costs, charges, expenses and outgoings incurred by it that are directly related and necessary to the business of Hektar REIT.



## **CORPORATE 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](http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc-profile.html?stock_code=5121).

## **GEARING**

### **DEBT FACILITIES**

Hektar REIT’s total borrowings of RM508,200,372 consist of short term, long term and secured loans.

### **GEARING CAPACITY**

As at 31 December 2016, Hektar REIT had a gearing ratio (external borrowings to total assets) of 44.9%. Based on the GAV of RM1,130,809,210 as at 31 December 2016, there is capacity to borrow an additional RM57,204,233 before reaching the 50% limit permitted under the SC Guidelines on REITs.

### **UNITS IN ISSUE**

The total number of units in issue of Hektar REIT as at 31 December 2016 is 400,634,117.

### **INVESTMENTS OF THE TRUST**

Total Investments as at 31 December 2016 was RM 1,092,450,000.

<b>Property</b>	<b>Audited Book Value 1 Jan 2016 RM ('000)</b>	<b>Acquisition/ (Divestment)/ Capital Expenditure in 2016 RM ('000)</b>	<b>Unaudited Book Value as at 31 Dec 2016 RM ('000)</b>	<b>Latest Market Valuation RM ('000)</b>	<b>Revaluation Surplus/ (Deficit) RM ('000)</b>
Subang Parade	426,380	916	427,296	427,200	(96)
Mahkota Parade	320,000	644	320,644	322,400	1,756
Wetex Parade	135,000	381	135,381	135,150	(231)
Central Square	94,000	1,310	95,310	95,700	390
Landmark Central	111,200	194	111,394	112,000	606
<b>Total</b>	<b>1,086,580</b>	<b>3,444</b>	<b>1,090,024</b>	<b>1,092,450</b>	<b>2,426</b>

## **NET ASSET VALUE OF HEKTAR REIT**

The Net Asset Value (“NAV”) of Hektar REIT as at 31 December 2016 is RM1.46 per unit.

This concludes the Manager’s Report with a resolution of the Board of Directors.

### **DATO’ HISHAM BIN OTHMAN**

Executive Director & Chief Executive Officer

### **ZALILA MOHD TOON**

Executive Director & Chief Financial Officer

Kuala Lumpur  
17 February 2017

## 44 CORPORATE GOVERNANCE

The management of Hektar REIT is governed by a Trust Deed executed on 5 October 2006 and as amended by two Supplemental Trust Deeds dated 20 March 2012 and 23 November 2016 respectively between the Manager and the Trustee. The Deed, inter alia, details out the roles, duties, obligations and power of the Manager and the Trustee. Essentially, the Trustee and the Manager play countervailing roles against each other to ensure that the REIT is managed with efficiency and integrity.

In addition to the Deed, the Board of the Manager is also governed by the Board Charter, which encompasses the principal role of the Board, establishing the functions, responsibilities and powers of the Board and its various Committees; and to set the policies and practices of the Board.

The Board of the Manager views corporate governance in accordance to four key concepts:

1. good performance
2. accountability
3. transparency
4. integrity

The Board has the responsibility to ensure that the abovementioned concepts were rigorously observed throughout the year ended 31 December 2016. To this end, the Manager applied the principles and best practices as set out in SC Malaysian Code on Corporate Governance 2012 and REIT Guidelines, Capital Market and Services Act 2007, Bursa Securities Listing Requirements and relevant corporate governance guidelines.

Changes to Hektar REIT's corporate governance practices will be updated on our website [www.hektarreit.com](http://www.hektarreit.com). The Board Charter is also available on the Corporate Governance section of our website.

### The Board of Directors

The Board of the Manager is responsible for the overall corporate governance of Hektar REIT, including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The role and function of the Board and its committees, as well as the differing roles of the Executive Directors and Non-Executive Directors, are clearly documented in the Board Charter.

### Board of Directors

The Board is responsible for the stewardship of Hektar REIT's business and affairs on behalf of shareholders of the Company and unit holders of the REIT with a view to enhancing long term shareholder/unit holder value whilst taking into account the interests of other stakeholders and maintaining high standards of transparency, accountability and integrity.

The principal responsibilities of the Board are:

- to review and adopt a strategic plan, addressing the sustainability of the Company's and REIT's business;
- to oversee the conduct of the Company's and REIT's businesses and evaluate whether or not the businesses are being properly managed;
- to identify principal business risks faced by the Company and REIT and ensure the implementation of appropriate systems to manage these risks;
- to consider and implement succession planning, including appointing, training, fixing the compensation of and, where appropriate, replacing members of the Board and Senior Management;
- to develop and implement an investor relations programme or shareholder communications policy for the REIT;
- to review the adequacy and the integrity of the Company's and REIT's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines; and
- to carry out the remunerating responsibilities in the absence of the Remuneration Committee.

### Executive Committee

An Executive Committee is delegated by the Board to, among other things :

- make decisions in relation to investments to be made or expenditure to be incurred by Hektar REIT;
- make decision in relation to operations and management of Hektar REIT; and
- carry out and undertake such other functions as may be determined by the Board by unanimous resolution and to act in accordance with the instructions of the Board

The committee comprises three directors, namely, Dato' Hisham bin Othman as chairman, Dr Chew Tuan Chiong and Puan Zalila binti Mohd Toon.



### Audit Committee

The Audit Committee assists and supports the Board's responsibility to oversee the Company's and REIT's operations by providing a means for review of the Company's and REIT's processes for producing financial data, its internal controls, risk management activities and independence of the REIT's external and internal auditors. The Audit Committee comprising the Independent Directors Mr. Philip Eng Heng Nee, Cik Rahanawati Ali Dawam and Encik Mahusni bin Hasnan as chairman, meets at least four (4) times annually and is delegated by the Board to take on the following functions :

- to review the quarterly and annual financial statements of the REIT, before the approval of the Board.
- to review any related party transaction and conflict of interest situation that may arise within the Manager and the REIT including any transaction, procedure or course of conduct that raises questions of management integrity.
- to review, on bi-annual basis, the principal risks identified by Management and the methodology employed in the identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner.
- to ensure that the system of internal control is soundly conceived and in place, effectively administered and regularly monitored.
- to review extent of compliance with established internal policies, standards, plans and procedures.
- to obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the organisation.
- to be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the REIT.
- to review with the External Auditors the nature and scope of their audit plan, their evaluation of the system of internal controls and report.
- to review any matters concerning the appointment and reappointment, audit fee and any questions of resignation or dismissal of the External Auditors and Internal Auditors.
- to review and evaluate factors related to the independence of the External Auditors and assist them in preserving their independence.
- to be advised of significant use of the External Auditors in performing non-audit services, considering both the types of services rendered and the fees, such that their independence and objectivity as External Auditors are not deemed to be compromised.
- to review the External Auditors' findings arising from audits, particularly any comments and responses in management letters as well as the assistance given by the employees of the Manager in order to be satisfied that appropriate action is being taken.
- to recommend to the Board steps to improve the system of internal control derived from the findings of the Internal and External Auditors and from the consultations of the Audit Committee itself.
- to prepare the annual Audit Committee Report to the Board which includes the composition of the Audit Committee, its terms of reference, number of meetings held, a summary of its activities for the financial year and the existence of an internal audit function and summary of the activities of that function for inclusion in the annual report.
- to review the Board's statements on compliance with the Malaysian Code of Corporate Governance for inclusion in the annual report.
- to review ordinary and extraordinary dividend payments.
- to review the assistance given by the employees of Manager to the External Auditors.
- to recommend the nomination of a person or persons as External Auditors.

During the financial year ended 31 December 2016, the Audit Committee has met four (4) times and have deliberated on all matters relating to their scope of function above.

### Nomination Committee

The Nomination Committee oversees matters relating to the nomination of new Directors, annually reviews the required mix of skills, experience, assessment of Independent Directors', reviews succession plans and, Board diversity; oversees training courses for Directors and other requisite qualities of Directors, as well as the annual assessment of the effectiveness of the Board as a whole, its Committees and the contribution of each individual Director.

## 46 CORPORATE GOVERNANCE

The Nominating Committee comprising Independent Directors Mr. Philip Eng Heng Nee, Cik Rahanawati Ali Dawam and Encik Mahusni bin Hasnan as chairman, meets at least once a year and is delegated with the following functions :-

- Identify and recommend candidates to the Board based on their skills, knowledge and experience, professionalism and integrity. In the case of Independent Non-Executive Directors (“INEDs”), the Committee shall evaluate the candidate’s ability to discharge such responsibilities as expected from INEDs.
- Assess on an annual basis, the effectiveness of the Board as a whole and its Board Committees, in the light of the needs of the Manager and the REIT and its operating environment.
- Assess on an annual basis, the contribution of each individual Director.
- Conduct a training needs analysis and recommend a continuous education program for Board members to enhance their effectiveness.
- Conduct an orientation/ induction training for new Directors of the Manager.
- Work together with the Board to develop an effective development and succession plan for Directors and Management members.
- Collaborate to share the results on the Directors assessment with Board for effective determination and deliberation of Directors’ remuneration packages.

### Board Balance

As at the print of this statement, the Board consists of eight (8) members, comprising one (1) Independent and Non-Executive Chairman, two (2) Executive Directors, two (2) Non-Executive, Non-Independent Directors and three (3) Independent Non-Executive Directors. 50% of Directors are considered independent which complies and exceeds the directors’ independence requirements set out under paragraph 15.02 of Bursa Malaysia’s LR which requires that at least one-third of the Board to be Independent Directors. A brief profile of each Director is presented in the Board of Directors section of this annual report.

The concept of independence adopted by the Board is in tandem with the definition of an Independent Director in Section 1.01 of Bursa Malaysia’s LR.

The Directors, with their varied backgrounds and areas of expertise, collectively bring with them a wide range of experience and expertise in areas such as strategy, finance, corporate affairs, legal, marketing and operations. The Executive Directors are responsible for implementing policies and decisions of the Board, overseeing operations as well as coordinating the development and implementation of business and corporate strategies. The Independent Directors bring objective and independent judgment to the decision making of the Board and provide a review and challenge on the performance of management. As such, there is proper balance in the Board because of the presence of Independent Directors of the calibre necessary to carry sufficient weight in Board decisions.

The Board recognises the importance of having a clearly accepted division of power and responsibilities at the head of the Company and REIT to promote accountability and facilitate the division of responsibility. Given the importance and nature of the Chairman’s role, the position of Chief Executive Officer (“CEO”) is separate from the Chairman as recommended by the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) and the position of Chairman is held by a Non-Executive Director. The Board also places importance on the appointment and participation of Independent Non-Executive Directors in order to provide a balanced and independent view on Board deliberations, where the Independent Non-Executive Directors are able to convey their concerns in relation to the Company and the REIT. The Board is of the view that the composition of the Independent Non-Executive Directors, coupled with the adoption of the Board Charter which formally sets out the schedule of matters reserved solely for the Board for decision making, provides the relevant check and balance to ensure no one person in the Board has unfettered powers to make major decisions for the Company and the REIT businesses unilaterally.

### Board Meetings

The Board ordinarily meets at least once a financial quarter with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. For the year ended 31 December 2016, the Board met on 4 occasions, where it deliberated upon and considered a variety of matters including Hektar REIT’s financial results and strategic and major investment decisions.

The Board receives documents on matters requiring its consideration prior to and in advance of each meeting. The Board papers are comprehensive and encompass both qualitative and quantitative factors so that informed decisions can be made. All proceedings from the Board meetings are minuted.

Below are the directors' attendance for the board meetings held in the financial year 2016 :-

	<b>Board Meeting</b>	<b>Audit Committee Meeting*</b>
Dato' Jaafar Bin Abdul Hamid (Demised on 24 January 2017)	3/4	N/A
Mr Michael Lim Hee Kiang (Redesignated as Chairman w.e.f. 14 February 2017)	4/4	4/4
Dato' Hisham bin Othman	2/2	N/A
Puan Zalila binti Mohd Toon	4/4	N/A
Dr Chew Tuan Chiong	4/4	N/A
Mr Christopher Tang Kok Kai	4/4	N/A
Datuk Kamaruddin bin Awang (Resigned w.e.f. 23 January 2017)	4/4	4/4
Mr Philip Eng Heng Nee	4/4	4/4
Mr Jack Lam Juck Ngai (Alternate Director to Mr Christopher Tang) (Resigned w.e.f. 1 November 2016)	-	N/A
Mr Alex Chia Soon Ren (Alternate Director to Dr Chew Tuan Chiong)	-	N/A
Ms. Tay Hwee Pio** (Alternate Director to Mr Christopher Tang) (Appointed w.e.f. 29 November 2016)	-	N/A

- denotes attendance not required

\* N/A denotes that the director is not a member of this committee.

\*\* No attendance recorded as there was no meeting within the financial year after her appointment

Note : Directors who are appointed after the financial year but before the date of print are not included here. Please refer to Corporate Directory for full list.

### Directors Training

During the financial period under review, the Directors attended various conferences / programmes to enhance their knowledge and expertise, and to keep up to date with the relevant changes in law, regulations and the business environment. The training programmes, conferences and seminars attended by the Directors during the year under review covered areas such as corporate governance, leadership, professional development, industry updates, financial and tax matters amongst others.

### Financial reporting

It is the Board's commitment to provide a balanced and meaningful assessment of Hektar REIT's financial performance and prospects at the end of the financial year, primarily through annual financial statements, quarterly and half yearly announcements of results to unitholders.

### Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of Hektar REIT as at the end of the accounting period and of their profit & loss and cash flows for the period ended. In preparing the financial statements, the Directors endeavour to ensure that applicable approved accounting standards issued by the Malaysian Accounting Standards Board and the provisions of the Companies Act, 1965 are applied.

In preparing the financial statements, the Directors endeavour to select and apply consistently suitable accounting policies and make reasonable and prudent judgments and estimates. The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of Hektar REIT and to prevent and detect fraud and other irregularities.

### Statement on Internal Control and Risk Management

The Board acknowledges its responsibilities for maintaining sound internal control systems to safeguard unitholders' interest and Hektar REIT's assets and for reviewing the adequacy and integrity of these systems.

The Board has adopted an enterprise-wide risk management framework ("ERM") to enhance its risk management controls. Key risks and controls are continually identified, reviewed and monitored as part of the ERM process. Under the ERM, a Risk Management Unit is set up and the main responsibilities of the Risk Management Unit are :

- i) Compliance of the ERM process and Methodology;
- ii) Flow through of ERM concept to the respective departments / business units and each process levels;
- iii) Continual risk assessment by each department using the methodology, assessing and monitoring management actions taken;
- iv) Timely identification, mitigation and management of key risks that may have a material impact on Hektar's profit and loss, balance sheet and corporate objectives;
- v) Communication and understanding of risk tolerance statements adopted by the relevant departments;
- vi) Periodic discussions of risks and risk issues with management and departmental level;
- vii) Ensuring that the ERM process is carried out by each department / business unit and is endorsed by the CEO;
- viii) Assurance to the CEO and CFO regarding the effectiveness of the ERM.

Risk assessment exercise is carried out every six (6) monthly by the Management where key risks are being reported to the Audit Committee. The main objective is to provide the Board of Directors and the management with a view of events that could impact the achievement of its business objectives.



## 48 CORPORATE GOVERNANCE

The Board has put in place an organizational structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provide for a documented and auditable trail of accountability. The procedures include the establishment of limits of authority coupled with the publication of an Employees Handbook. There are also established procedures for planning, capital expenditure and for monitoring Hektar REIT's business and performance.

These procedures provide for continuous assurance to be given at increasingly higher levels of management, and finally, the Board.

The Chief Executive Officer reports to the Board on significant changes in the business and external environment. The Chief Financial Officer provides the Board with quarterly financial information, which includes key financial indicators. This includes, among others, the monitoring of results against budget, with variances being followed up and management action taken, where necessary.

### Supply of Information

The Board recognizes that the decision making process is highly dependent on the quality of information furnished. As such, all Directors have full and unrestricted access to any information pertaining to Hektar REIT.

The Chairman plays a key role in ensuring that all Directors have full and timely access to information relevant to matters that will be deliberated at the Board meeting. The agenda and set of Board papers are circulated in advance of the Board meetings. A comprehensive balance of financial and non-financial information is encapsulated in the papers covering strategic, operational, financial, regulatory and marketing issues.

All Directors have access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making, that Board procedures are followed and the statutory and regulatory requirements are met. The Secretary also assists the Chairman in ensuring that all Directors are properly briefed on issues arising at Board meetings. The Board believes that the current Company Secretary is capable of carrying out the appropriate duties to ensure the effective functioning of the Board while the terms of appointment permit the removal and appointment by the Board as a whole.

Directors, whether acting as a full board or in their individual capacity, may obtain independent professional advice in the furtherance of their duties, at the Company's expense, so far as is practicable and that the cost is reasonable.

### Unitholders

The Manager recognizes the importance of being accountable to investors of Hektar REIT and as such maintained an active and constructive communication policy that enables the Board and Management to communicate effectively with Hektar REIT's investors, stakeholders and public generally. This is achieved principally through quarterly reports, interim reports and annual reports.

The Manager also holds periodic briefings for fund managers, analysts and institutional investors. Press conferences are held when required, to brief members of the media on Hektar REIT's strategic direction, performance and key events.

While the Manager endeavours to provide as much information possible to Hektar REIT's unitholders, it is mindful of the legal and regulatory frameworks governing the release of material and price-sensitive information.

### Additional Information

The information set out below is disclosed in compliance with the Securities Commission's Guidelines on Real Estate Investment Trusts :-

#### A. Sanctions and/or penalties

There are no public sanction and/or penalty imposed on Hektar REIT, its directors or management of the Manager, by relevant regulatory bodies during the financial year ended 31 December 2016.

#### B. Non-audit fees

The non-audit fees payable to the external auditors of Hektar REIT for the financial year ended 31 December 2016 amounts to RM 68,000.

#### C. Soft commission

There was no soft commission received by the Manager for during the financial year ended 31 December 2016.

#### D. Variation in results

There was no variance of 10% or more between the audited results for the financial year ended 31 December 2016 and the unaudited results previously announced during the quarter announcement. Hektar REIT did not release any profit estimate, forecast or projection for the financial year.

#### E. Material contracts involving the interests of directors and major unitholders

There were no material contracts entered into by Hektar REIT involving the interests of the Directors and major unitholders during the financial year ended 31 December 2016.

In the opinion of the Directors of Hektar Asset Management Sdn. Bhd., the financial statements set out on pages 56 to 92 are drawn up in accordance with the provisions of the Deed dated 5 October 2006 and as amended by two Supplemental Trust Deeds dated 20 March 2012 and 23 November 2016 respectively 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 93 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.

**DATO’ HISHAM BIN OTHMAN**

Executive Director &amp; Chief Executive Officer

**ZALILA BINTI MOHD TOON**

Executive Director &amp; Chief Financial Officer

Kuala Lumpur  
14 February 2017

## 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 56 to 92 and the financial information set out on page 93 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



**TRUSTEE'S REPORT**

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**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)

### 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 56 to 92.

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.

##### 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.

## **Key Audit Matters (cont'd)**

### *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 property*

#### 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 has 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.

## **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.



## INDEPENDENT AUDITORS' REPORT

### TO THE UNITHOLDERS OF HEKTAR REAL ESTATE INVESTMENT TRUST (ESTABLISHED IN MALAYSIA)

#### 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.
- 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.

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

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.

### **Other Reporting Responsibilities**

The supplementary information set out in page 93 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

# 56 STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2016

	Note	2016 RM	2015 RM
<b>ASSETS</b>			
<b>Non-current assets</b>			
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		1,093,277,449	1,087,549,873
<b>Current assets</b>			
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		37,531,761	28,764,952
Total assets		1,130,809,210	1,116,314,825
<b>Current liabilities</b>			
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		39,046,794	37,633,128
<b>Non-current liabilities</b>			
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		506,294,246	494,304,769
Total liabilities		545,341,040	531,937,897
Net assets		585,468,170	584,376,928
<b>Unitholders' funds and reserve</b>			
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		585,468,170	584,376,928
Number of units in circulation	13	400,634,117	400,634,117
Net asset value ("NAV") per unit (RM)			
- As at 31 December		1.4614	1.4586
- Before income distribution during the financial year		1.5664	1.5636

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



# 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

# 58 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	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)	-
		43,157,824	4,759,335
Earnings per unit (Total)			
- After manager's fees (sen)	19(a)	10.77	1.19
- Before manager's fees (sen)	19(b)	12.72	3.17
Earnings per unit (Realised)			
- After manager's fees (sen)	19(c)	10.37	11.16
- Before manager's fees (sen)	19(d)	12.31	13.13
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)		10,817,121	10,817,121
		42,066,582	42,066,582
Interim income distribution per unit			
- Gross (sen)	20	7.80	7.80
- Net (sen)	20	7.80	7.80
Final income distribution per unit			
- Gross (sen)	20	2.70	2.70
- Net (sen)	20	2.70	2.70

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

## STATEMENT OF CHANGES IN NET ASSET VALUE

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Unitholders' Capital RM	Undistributed Income		Unitholders' Funds RM
			Realised RM	Unrealised RM	
At 1 January 2015		425,738,255	41,369,917	154,576,003	621,684,175
<b>Operations for the financial year ended 31 December 2015</b>					
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
<b>Unitholders' transactions</b>					
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
<b>Operations for the financial year ended 31 December 2016</b>					
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
<b>Unitholders' transactions</b>					
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.



## STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM	2015 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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		49,755,114	68,537,799
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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		(2,983,775)	(40,392,623)

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

**NOTE TO STATEMENT OF CASH FLOW****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.

# 62 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.

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.



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

### **2.2 Basis of Measurement (cont'd)**

The Trust use 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.

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.

# 64 NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

## 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)

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.

##### **MFRS 9 Financial instruments**

MFRS 9 replaces MFRS139 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.

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.



# 66 NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

## 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.3 Tax expense (cont'd)

##### 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.

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.

# 68 NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

## 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.

##### 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **3.4 Financial instruments (cont'd)**

##### **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.

#### **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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 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.

#### 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.

###### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.8 Impairment of assets (cont'd)

##### 3.8.2 Financial assets (cont'd)

###### 3.8.2.1 Trade and other receivables and other financial assets carried at amortised cost (cont'd)

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.

##### 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.



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## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 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.

### 3.14 Contingent

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is not recognised in the statement of financial position and is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.15 Related parties (cont'd)

- (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) One 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
<b>At fair value</b>		
Freehold land and buildings	770,050,000	766,580,000
Leasehold land and building	322,400,000	320,000,000
	1,092,450,000	1,086,580,000

The movement of the investment properties are 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	2,425,525	(39,933,986)
At 31 December	1,092,450,000	1,086,580,000

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## 4. INVESTMENT PROPERTIES (CONT'D)

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	95,700,000	16
					1,092,450,000	

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.

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

#### 4. INVESTMENT PROPERTIES (CONT'D)

##### 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
	–	–	1,092,450,000
	Level 1 RM	2015 Level 2 RM	Level 3 RM
- Freehold land and buildings	–	–	766,580,000
- Leasehold land and building	–	–	320,000,000
	–	–	1,086,580,000

##### 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	2,425,525	(39,933,986)
At 31 December	1,092,450,000	1,086,580,000

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.



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## 4. INVESTMENT PROPERTIES (CONT'D)

### 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

## 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 granted to the Trust.

## 7. TRADE RECEIVABLES

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

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

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

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

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.

The ageing analysis of trade receivables is as follows:

	<b>Gross RM</b>	<b>Individually Impaired RM</b>	<b>Net RM</b>
<b>2016</b>			
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
	6,733,708	(982,882)	5,750,826
<b>2015</b>			
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
	4,325,031	(599,559)	3,725,472

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.

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## 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
	17,220,686	5,953,842

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	864,990	–

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	17,512,440	14,612,999
	23,109,065	21,730,204
<u>Non-current liabilities</u>		
Deposit received from tenants	12,279,861	15,089,960
	35,388,926	36,820,164

## 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	255,853	–

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
<b>Secured</b>		
Current liabilities:		
- Term loan 1	–	15,000,000
- Short term revolving credit	15,000,000	–
	15,000,000	15,000,000
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	19,825,097	18,807,169
	493,200,372	479,214,809
Total bank borrowings	508,200,372	494,214,809

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.

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 MOD is 4.07%-4.90% (2015: 4.38%-4.88%) per annum.



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## 11. BANK BORROWINGS (CONT'D)

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
<b>Non-current</b>				
Interest rate swap	150,000,000	814,013	–	–

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.

## 13. UNITHOLDERS' CAPITAL

	2016 No. of units	2015 No. of units	2016 RM	2015 RM
<b>Authorised unitholders' capital</b>	400,634,117	400,634,117	425,738,255	425,738,255

The movement of the authorised unitholders' capital are as follows:

	2016 No. of units	2015 No. of units	2016 RM	2015 RM
At 1 January/31 December	400,634,117	400,634,117	425,738,255	425,738,225

	2016 No. of units	2015 No. of units	2016 RM	2015 RM
<b>Issued and fully paid unitholders' capital</b>	400,634,117	400,634,117	425,738,255	425,738,255

**13. UNITHOLDERS' CAPITAL (CONT'D)**

The movement of the issued and fully paid unitholders' capital are as follows:

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>No. of units</b>	<b>No. of units</b>	<b>RM</b>	<b>RM</b>
At 1 January/31 December	400,634,117	400,634,117	425,738,255	425,738,255

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:

	<b>No. of units</b>		<b>% of total units</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
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

**14. GROSS REVENUE**

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

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## 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
	50,235,768	49,028,498

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.

## 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)
	–	–

### 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%.



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## 19. EARNINGS PER UNIT

### Number of unitholders' capital

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

- (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.

## 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
	74,680,133	77,213,134
Less: Expenses	(33,133,821)	(32,519,813)
	41,546,312	44,693,321
Gross provision for distribution per unit (sen):		
- Interim	7.80	7.80
- Final	2.70	2.70
	10.50	10.50

**20. INCOME DISTRIBUTION (CONT'D)**

Distribution to Unitholders are from the following sources (cont'd):

	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Net provision for distribution per unit (sen): *		
- Interim	7.80	7.80
- Final	2.70	2.70
	10.50	10.50

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

	<b>YA 2016</b>	<b>YA 2015</b>
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**

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

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.

**22. MANAGEMENT EXPENSE RATIO**

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

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.

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**23. TRANSACTION WITH A PARTY RELATED TO THE MANAGER**

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

**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).

<b>2016</b>	<b>Carrying amount RM</b>	<b>L&amp;R RM</b>	<b>AC RM</b>	<b>FVPL RM</b>
<b>Financial assets</b>				
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	–	–
	36,001,301	36,001,301	–	–
<b>Financial liabilities</b>				
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
	545,341,040	–	544,527,027	814,013
<b>2015</b>				
<b>Financial assets</b>				
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	–	–
	27,990,503	27,990,503	–	–
<b>Financial liabilities</b>				
Trade payables	902,924	–	902,924	–
Other payables and accruals	36,820,164	–	36,820,164	–
Bank borrowings	494,214,809	–	494,214,809	–
	531,937,897	–	531,937,897	–

## 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.

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 %
<b>2016</b>				
<b>Financial asset</b>				
Fixed deposits with a licensed bank	–	665,369	665,369	3.13
<b>Financial liabilities</b>				
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
<b>2015</b>				
<b>Financial asset</b>				
Fixed deposits with a licensed bank	–	634,816	634,816	3.23
<b>Financial liabilities</b>				
Murabahah overdrafts	–	460,407,640	460,407,640	4.38
Term loan	15,000,000	18,807,169	33,807,169	4.10



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

### (a) Interest rate risk (cont'd)

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
<b>2016</b>				
Floating rate instruments	(3,812,618)	3,812,618	(3,812,618)	3,812,618
<b>2015</b>				
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.

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.

**25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)****(c) Liquidity risks (cont'd)**

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

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

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## 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 RM	Level 2 RM	Level 3 RM		
<b>Financial liabilities</b>					
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 RM	Level 2 RM	Level 3 RM		
<b>Financial liabilities</b>					
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.

## 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
<b>Financial instruments not carried at fair value</b>			
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	37,531,761	28,764,952
Total assets value	1,130,809,210	1,116,314,825
Total borrowings	508,200,372	494,214,809
Gearing ratio	44.94%	44.27%

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



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## 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 ISegamat 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 ISegamat 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.

**DISCLOSURE OF REALISED AND UNREALISED PROFIT/(LOSSES)** 93

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:

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

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.

## ANALYSIS OF UNITHOLDERS

### TOP 30 DEPOSITORS AS AT 30 DECEMBER 2016

NO	NAME OF UNIT HOLDER	ACCOUNT QUALIFIER (BENEFICIAL OWNER)	NO OF UNITS	%
1	HSBC NOMINEES (ASING) SDN BHD	HSBC-FS FOR FRASERS CENTREPOINT TRUST	124,892,950	31.1738
2	KENANGA NOMINEES (TEMPATAN) SDN BHD	PLEDGED SECURITIES ACCOUNT FOR HEKTAR BLACK SDN BHD (001)	89,691,666	22.3874
3	TMF TRUSTEES MALAYSIA BERHAD	HEKTAR BLACK SDN BHD	70,933,334	17.7053
4	VALUECAP SDN BHD		11,134,600	2.7792
5	CITIGROUP NOMINEES (TEMPATAN) SDN BHD	EXEMPT AN FOR AIA BHD.	11,078,300	2.7652
6	ASCENTPAC SDN.BHD.		4,003,100	0.9992
7	CITIGROUP NOMINEES (TEMPATAN) SDN BHD	EMPLOYEES PROVIDENT FUND BOARD	2,818,400	0.7035
8	AFFIN HWANG INVESTMENT BANK BERHAD	IVT (JBD)	2,089,775	0.5216
9	HANG MEI LING		1,416,000	0.3534
10	RUZIAH BINTI MOHD AMIN		1,400,000	0.3494
11	LIM KOK HOW		1,384,600	0.3456
12	HSBC NOMINEES (ASING) SDN BHD	EXEMPT AN FOR MORGAN STANLEY & CO. INTERNATIONAL PLC (IPB CLIENT ACCT)	1,305,900	0.3260
13	CHIN THEN HEE		1,229,200	0.3068
14	KON CZE YAN @ KOON CZE YAN		1,212,500	0.3026
15	LIM SAN LEE		1,000,000	0.2496
16	MAYBANK NOMINEES (TEMPATAN) SDN BHD	PLEDGED SECURITIES ACCOUNT FOR JAZELAN FIRHAN B JAAFAR	928,000	0.2316
17	HSBC NOMINEES (TEMPATAN) SDN BHD	HSBC (M) TRUSTEE BHD FOR ZURICH INSURANCE MALAYSIA BERHAD (BALANCED FUND)	825,875	0.2061
18	LING THIK PING		800,000	0.1997
19	CHAN KIN YOONG		768,000	0.1917
20	DB (MALAYSIA) NOMINEE (ASING) SDN BHD	EXEMPT AN FOR BANK OF SINGAPORE LIMITED	738,625	0.1844

**TOP 30 DEPOSITORS AS AT 30 DECEMBER 2016 (CONT'D)**

<b>NO</b>	<b>NAME OF UNIT HOLDER</b>	<b>ACCOUNT QUALIFIER (BENEFICIAL OWNER)</b>	<b>NO OF UNITS</b>	<b>%</b>
21	HEKTAR ASSET MANAGEMENT SDN BHD		632,867	0.1580
22	TEO MEI CHING		625,000	0.1560
23	YEOH LAY ENG		625,000	0.1560
24	IAN NEVILLE JOHN PEACOCKE		600,000	0.1498
25	YAU AH PENG		600,000	0.1498
26	LIM PEK HOOI		573,000	0.1430
27	CHOW HON KEONG		559,000	0.1395
28	HO CHIN WEONG		543,000	0.1355
29	LIEW CHUI KHENG		528,400	0.1319
30	NG INN JWEE		525,000	0.1310
	TOTAL		335,462,092	83.7328

**BREAKDOWN OF UNITHOLDERS AS AT 30 DECEMBER 2016**

<b>UNIT CLASS</b>	<b>NO. OF UNITHOLDERS</b>	<b>% OF UNITHOLDERS</b>	<b>NO. OF UNIT HELD</b>	<b>% OF TOTAL UNITS</b>
LESS THAN 100	94	3.20	2,382	0.00
100 TO 1,000	334	11.38	227,028	0.06
1,001 TO 10,000	1,346	45.86	6,727,652	1.68
10,001 TO 100,000	993	33.83	30,563,125	7.63
100,001 TO LESS THAN 5% OF ISSUED UNITS	165	5.62	77,595,980	19.37
5% AND ABOVE OF ISSUED UNITS	3	0.11	285,517,950	71.26
TOTAL	2,935	100.00	400,634,117	100.00



## 96 ANALYSIS OF UNITHOLDERS

## REPORT AS AT 30 DECEMBER 2016 CATEGORY OF SHAREHOLDERS

Category of Unitholders	No. of Holders			No. of Units			%		
	Malaysian		Foreign	Malaysian		Foreign	Malaysian		Foreign
	Bumi	Non-Bumi		Bumi	Non-Bumi		Bumi	Non-Bumi	
1 Individual	45	2,200	49	1,835,325	58,973,788	2,134,000	0.4581	14.7201	0.5327
2 Body Corporate									
a. Bank/Finance Companies	1	1	–	11,134,600	2,089,775	–	2.7792	0.5216	–
b. Investments trusts/foundations/charities	–	3	–	–	51,050	–	–	0.0127	–
c. Other types of Companies	7	21	2	72,168,801	4,691,400	148,300	18.0136	1.1710	0.0370
3 Government agencies/Institutions	–	–	–	–	–	–	–	–	–
4 Nominees	11	568	27	90,866,616	28,563,112	127,977,350	22.6807	7.1295	31.9437
5 Others	–	–	–	–	–	–	–	–	–
<b>Sub Total</b>	<b>64</b>	<b>2,793</b>	<b>78</b>	<b>176,005,342</b>	<b>94,369,125</b>	<b>130,259,650</b>	<b>43.9316</b>	<b>23.5549</b>	<b>32.5134</b>
Malaysian Total		2,857			270,374,467			67.4866	
<b>Grand Total (Malaysian + Foreign)</b>		<b>2,935</b>			<b>400,634,117</b>			<b>100.0000</b>	

AEI	:	Asset Enhancement Initiatives
Bursa Securities / the Exchange	:	Bursa Malaysia Securities Berhad (Company No. 635998-W)
Deed	:	The Deed dated 5 October 2006 constituting Hektar REIT and as amended by two Supplemental Trust Deeds dated 20 March 2012 and 23 November 2016 respectively between the Manager and the Trustee
DPU	:	Distribution per Unit
GAV	:	Gross Asset Value
Gross Revenue	:	Gross rental income and other income earned from the properties including license fees, car park income, utilities and miscellaneous income
Hektar Klasik	:	Hektar Klasik Sdn Bhd (Company No. 557687-X), being the holding company of the Manager
Hektar / Hektar REIT / the Trust	:	Hektar Real Estate Investment Trust
IPO	:	Initial Public Offering. Hektar REIT's IPO was completed on 4 December 2006
MER	:	Management Expense Ratio
Manager	:	Hektar Asset Management Sdn Bhd (Company No. 732261-T), being the management company of Hektar REIT
NAV	:	Net Asset Value
NLA / Net Lettable Area	:	Consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
OMV	:	Open Market Value
PTR	:	Portfolio Turnover Ratio
Property Manager	:	Hektar Property Services Sdn Bhd (868376-K)
REIT(s)	:	Real Estate Investment Trust(s)
RM and sen	:	Ringgit Malaysia and sen, respectively
SC	:	Securities Commission
SCA	:	Securities Commission Act, 1993
SC Guidelines on REITs	:	Guidelines on Real Estate Investment Trusts issued by the SC in August 2008 and updated on 28 December 2012
Sq. ft. / sf	:	Square feet
Sqm	:	Square metres
Share Registrar	:	Mega Corporate Sdn Bhd (Company No. 187984-H)
Step-Up Rent Provision	:	Specified in tenancy agreement as a pre-determined increase in rent at defined intervals during a tenancy agreement, typically each year. Forms the base rent of any tenancy agreement.
Trustee	:	AmTrustee Berhad (Company No. 163032-V ) being the Trustee of Hektar REIT
Turnover Rent Provision	:	Rent calculated as a proportion of annual turnover of the tenant's business. For Hektar REIT, Turnover Rent is paid to the REIT if it exceeds the base rent specified in the tenancy agreement on an annual basis.
Unit(s)	:	Undivided interest(s) in Hektar REIT as constituted by the Deed
Unitholder(s)	:	Holder(s) of the Units