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HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the Trust Deed dated 5 October 2006 (as amended by the Supplemental Trust Deed dated 20 March 2012, Second Supplemental Deed to the Trust Deed dated 23 November 2016 and Amended and Restated Trust Deed dated 8 February 2021) entered into between Hektar Asset Management Sdn Bhd and MTrustee Berhad)

CIRCULAR TO UNITHOLDERS IN RELATION TO THE

PART A

- I. PROPOSED ACQUISITION BY MTRUSTEE BERHAD, BEING THE TRUSTEE OF HEKTAR REAL ESTATE INVESTMENT TRUST ("HEKTAR REIT") OF A SINGLE, 1 ½, 2 AND 3-STOREY BUILDINGS WHICH ARE CATEGORISED INTO ADMINISTRATION, ACADEMIC, RESIDENTIAL AND STUDENT FACILITIES FORMING PART OF THE FULLY RESIDENTIAL AND CO-EDUCATIONAL PRIVATE SCHOOL KNOWN AS 'KOLEJ YAYASAN SAAD' LOCATED AT AYER KEROH, MELAKA AND ERECTED ON PART OF THE LEASEHOLD LAND HELD UNDER PN 62892, LOT 9808, MUKIM OF DURIAN TUNGGAL, DISTRICT OF ALOR GAJAH, STATE OF MELAKA FROM KYS COLLEGE SDN BHD AT THE PURCHASE CONSIDERATION OF RM150 MILLION, TOGETHER WITH THE NOVATION OF THE LEASE AGREEMENT TO THE TRUSTEE ON THE COMPLETION OF THE ACQUISITION ("PROPOSED ACQUISITION AND LEASE");**
- II. PROPOSED PLACEMENT OF UP TO 145,353,768 NEW UNITS IN HEKTAR REIT, REPRESENTING UP TO 25% OF THE ISSUED UNITS TO THIRD PARTY INVESTORS ("PROPOSED PLACEMENT"); AND**
- III. PROPOSED AMENDMENT TO THE INVESTMENT OBJECTIVES OF HEKTAR REIT TO FACILITATE THE PROPOSED ACQUISITION AND LEASE ("PROPOSED AMENDMENT")**

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

PART B

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED UNITHOLDERS OF HEKTAR REIT IN RELATION TO THE PROPOSED ACQUISITION AND LEASE

AND

NOTICE OF UNITHOLDERS' MEETING

Principal Adviser and Placement Agent



UOB KAY HIAN SECURITIES (M) SDN BHD

Registration No. 199001003423 (194990-K)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Independent Adviser



ASIA EQUITY RESEARCH SDN BHD

Registration No. 201401027762 (1103848-M)

(Licensed to provide advisory in corporate finance and investment advice)

The notice of the Extraordinary General Meeting ("**EGM**") of Hektar REIT, which will be conducted on a fully virtual basis at the Broadcast Venue at The Boardroom of Hektar Asset Management Sdn Bhd, D1-U3-10, Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480 Kuala Lumpur, Wilayah Persekutuan on Monday, 15 January 2024 at 10.30 a.m., or at any adjournment thereof, together with the Proxy Form is enclosed herewith.

An unitholder entitled to attend and vote at the EGM is entitled to appoint a proxy/proxies to attend and vote on his/her behalf. The Proxy Form must be deposited at the Hektar REIT's Poll Administrator for the EGM, SS E Solutions Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan, not less than forty-eight (48) hours before the time set for holding the EGM. The lodging of the Proxy Form will not preclude you from attending and voting in person at the EGM if you subsequently wish to do so.

Last date and time for lodging the Proxy Form : Saturday, 13 January 2024 at 10.30 a.m.

Date and time of the EGM : Monday, 15 January 2024 at 10.30 a.m.

This Circular is dated 21 December 2023

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

"Act"	:	Companies Act 2016
"AER" or the "Independent Adviser"	:	Asia Equity Research Sdn Bhd, being the Independent Adviser for the Proposed Acquisition and Lease
"Board"	:	Board of Directors of the Manager
"Bursa Securities"	:	Bursa Malaysia Securities Berhad
"Circular"	:	This circular dated 21 December 2023 in relation to the Proposals
"Cut-Off Date"	:	Within 6 months from the date of SPA or such other extended date as the parties may mutually agree upon in writing
"Director(s)"	:	Directors of the Manager
"DPU"	:	Distribution per Unit
"EPU"	:	Earnings per Unit
"Existing Chargee"	:	Malaysia Building Society Berhad, being the existing chargee of the Subject Property
"FYE"	:	Financial year ended/ ending
"Hektar Black" or the "Interested Major Unitholder"	:	Hektar Black Sdn Bhd
"Hektar REIT"	:	Hektar Real Estate Investment Trust
"KCSB" or the "Vendor"	:	KYS College Sdn Bhd
"KESB" or the "Lessee"	:	KYSA Education Sdn Bhd
"KYS College" or the "Subject Property"	:	A single, 1 ½, 2 and 3-storey buildings which are categorised into administration, academic, residential and student facilities forming part of the fully residential and co-educational private school known as 'Kolej Yayasan Saad' located at Ayer Keroh, Melaka and erected on part of the leasehold land held under PN 62892, Lot 9808, Mukim of Durian Tunggal, District of Alor Gajah, State of Melaka
"Lease"	:	A 30-year lease arrangement between the Vendor and Lessee for the Subject Property, commencing on 22 June 2023
"Lease Agreement"	:	Lease agreement dated 11 September 2023 entered into between the Vendor and Lessee in relation to the Lease
"Letter of Variation"	:	Letter of variation dated 4 December 2023 to amend the terms of the SPA entered into between the Trustee and the Vendor in relation to the Proposed Acquisition and Lease
"Listing Requirements"	:	Main Market Listing Requirements of Bursa Securities

DEFINITIONS

"LPD"	: 18 December 2023, being the latest practicable date of this Circular
"Manager"	: Hektar Asset Management Sdn Bhd, being the management company of Hektar REIT
"NAV"	: Net asset value
"Placement Unit(s)"	: Up to 145,353,768 new Units to be issued pursuant to the Proposed Placement
"Private Placement I"	: Private placement of up to 75,836,000 new Units in Hektar REIT, representing up to 15% of the total number of issued units of Hektar REIT
"Proposals"	: Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment, collectively
"Proposed Acquisition and Lease"	: Proposed acquisition of the Subject Property by the Trustee, for and on behalf of Hektar REIT, from the Vendor at the Purchase Consideration, together with the novation of the Lease to the Trustee on the completion of the acquisition by way of a deed of novation to be entered between the Vendor, Trustee and Lessee
"Proposed Amendment"	: Proposed amendment to the investment objectives of Hektar REIT to facilitate the Proposed Acquisition and Lease
"Proposed Placement"	: Proposed issuance of up to 145,353,768 Placement Units, representing up to 25% of the issued units of Hektar REIT
"Purchase Consideration"	: Purchase consideration of RM150,000,000 as specified in the SPA
"RM" and "sen"	: Ringgit Malaysia and sen, respectively
"RPT"	: Related party transaction pursuant to Paragraph 10.08 of the Listing Requirements
"SC"	: Securities Commission Malaysia
"Settlement Arrangement"	: Partial settlement of the Purchase Consideration via the set-off with part of the advance rental and the full security deposit made for and on behalf of the Lessee under the Lease Agreement
"SPA"	: Conditional sale and purchase agreement dated 11 September 2023 entered into between the Trustee and the Vendor in relation to the Proposed Acquisition and Lease which was subsequently amended by the Letter of Variation
"Trust Deed"	: Trust Deed dated 5 October 2006 (as amended by the Supplemental Trust Deed dated 20 March 2012, Second Supplemental Deed to the Trust Deed dated 23 November 2016 and Amended and Restated Trust Deed dated 8 February 2021)
"Trustee"	: MTrustee Berhad, being the trustee of Hektar REIT
"Unit(s)"	: An undivided interest(s) in Hektar REIT

DEFINITIONS

"Unitholders' Meeting" : The forthcoming general meeting of the unitholders

"UOBKH", the "Principal Adviser" or the "Placement Agent" : UOB Kay Hian Securities (M) Sdn Bhd

"Valuer" : Jones Lang Wootton

"VWAP" : Volume weighted average market price

All references to "**we**", "**us**", "**our**" and "**ourselves**" are made to Hektar REIT and the Board.

All references to "**you**" or "**your(s)**" in this Circular are made to our unitholders, who are entitled to attend and vote at the Unitholders' Meeting.

Unless specifically referred to, words denoting incorporating the singular shall, where applicable include the plural and vice versa and words denoting incorporating the masculine gender shall where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day and date in this Circular shall be a reference to Malaysian time and date, respectively, unless otherwise specified. Any discrepancy in the figures included in this Circular between the amounts stated, actual figures and the totals thereof are due to rounding adjustments.

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PART A

LETTER TO THE UNITHOLDERS IN RELATION TO THE PROPOSALS

EXECUTIVE SUMMARY

This Executive Summary highlights only the salient information of the Proposals. You are advised to read this Circular in its entirety for further details and not to rely solely on this Executive Summary in arriving at a decision on the Proposals before voting at the Unitholders' Meeting.

Key information	Description	Reference to Part A of this Circular
Summary	<p>Proposed Acquisition and Lease</p> <p>Acquisition by the Trustee of a single 1 ½, 2 and 3-storey buildings which are categorised into administration, academic, residential and student facilities forming part of the fully residential and co-educational private school known as 'Kolej Yayasan Saad' located at Ayer Keroh, Melaka and erected on part of the leasehold land held under PN 62892, Lot 9808, Mukim of Durian Tunggal, District of Alor Gajah, State of Melaka at the purchase consideration of RM150 million.</p> <p>The Vendor had on 22 June 2023 leased the Subject Property to the Lessee for a period of 30 years. The said Lease will be novated to the Trustee upon the completion of the acquisition of the Subject Property.</p> <p>Proposed Placement</p> <p>Issuance of up to 145,353,768 Placement Units, representing up to 25% of Hektar REIT's issued unit capital of 581,415,073 Units to third party investors at an issue price to be determined and announced later.</p> <p>Proposed Amendment</p> <p>Amendment of Hektar REIT's investment objectives to facilitate the Proposed Acquisition and Lease.</p>	<p>Section 2</p> <p>Section 3</p> <p>Section 4</p>
Rationale and justifications	<p>Proposed Acquisition and Lease</p> <ul style="list-style-type: none"> i. Quality addition of asset to Hektar REIT's portfolio ii. Increased strength and geographical diversification iii. Accretion to earnings and DPU <p>Proposed Placement</p> <p>Partial settlement of the Purchase Consideration via the proceeds raised from the Proposed Placement will allow the Manager to maintain a healthy gearing ratio, while keeping a sufficient level of cash reserves.</p> <p>Proposed Amendment</p> <p>Broaden Hektar REIT's investment strategy to explore other asset classes beyond the retail sector.</p>	<p>Section 5.1</p> <p>Section 5.2</p> <p>Section 5.3</p>
Risk factors	<p>Unitholders should consider the following risk factors (which may not be exhaustive):</p> <ul style="list-style-type: none"> i. Inability of the Lessee to make timely rental payments ii. Funding risks iii. Delay or non-completion of the Proposed Acquisition and Lease iv. The proforma income distribution and DPU are not a guarantee of the actual financial results 	Section 7

EXECUTIVE SUMMARY

Key information	Description	Reference to Part A of this Circular
Approvals required	<p>The Proposals are subject to approvals being obtained from:</p> <ul style="list-style-type: none"> i. Unitholders of Hektar REIT, at the Unitholders' Meeting; ii. Bursa Securities, which was obtained on 18 December 2023; iii. Department of Director General of Lands and Mines, Malacca for the transfer and lease of the Subject Property by the Cut-Off Date; iv. Existing Chargee, for the sale of the Subject Property by the Cut-Off Date <p>The Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other.</p> <p>The Proposals are not conditional upon any other proposals undertaken or to be undertaken by Hektar REIT.</p>	Section 9
Interested parties	Save for Hektar Black (being the Interested Major Unitholder), none of the other Directors, major shareholders of the Manager, major unitholders of Hektar REIT and/ or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition and Lease.	Section 10
Board's recommendation	The Board recommends that you vote IN FAVOUR of the resolutions pertaining to the Proposals to be tabled at the Unitholders' Meeting.	Section 15
Independent Adviser's opinion	<p>AER is of the opinion that the Proposed Acquisition and Lease is FAIR and REASONABLE insofar as the non-interested unitholders are concerned and it is not detrimental to the minority unitholders. The Independent Adviser has considered the Proposals as a whole in its evaluation.</p> <p>Accordingly, the Independent Adviser recommends that you vote IN FAVOUR of the resolutions pertaining to the Proposals to be tabled at the Unitholders' Meeting.</p>	Part B



HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the Trust Deed dated 5 October 2006 (as amended by the Supplemental Trust Deed dated 20 March 2012, Second Supplemental Deed to the Trust Deed dated 23 November 2016 and Amended and Restated Trust Deed dated 8 February 2021) entered into between Hektar Asset Management Sdn Bhd and MTrustee Berhad)

Registered Office of the Manager

Unit 419, Block A
Kelana Business Centre
No. 97, Jalan SS7/2
Kelana Jaya
47301 Petaling Jaya
Selangor

21 December 2023

Board of Directors

Johari Shukri Bin Jamil
Wan Kamaruddin Bin Wan Mohamed Ali
Norliza Binti Suleiman

(Executive Director & Chief Executive Officer)
(Independent Non-Executive Director)
(Independent Non-Executive Director)

To: Our unitholders

Dear Sir/ Madam,

- I. PROPOSED ACQUISITION AND LEASE;
- II. PROPOSED PLACEMENT; AND
- III. PROPOSED AMENDMENT

1. INTRODUCTION

On 12 September 2023, UOBKH announced, on behalf of the Board, the following:

- i. the Trustee had on 11 September 2023 entered into the SPA with the Vendor for the acquisition of the Subject Property at the purchase consideration of RM150 million.

The Vendor had on 22 June 2023 leased the Subject Property to the Lessee for a period of 30 years and pursuant to the terms of the SPA, the said lease will be novated to the Trustee upon the completion of the acquisition of the Subject Property by way of a deed of novation to be entered between the Vendor, Trustee and the Lessee; and
- ii. the proposed placement of up to 99,757,594 Placement Units, representing up to 20% of the issued units of Hektar REIT, to partially finance the Purchase Consideration.

On 7 December 2023, UOBKH subsequently announced that the Vendor had acknowledged and accepted the variation of the mode of settlement of the Purchase Consideration as provided in the Letter of Variation. The Purchase Consideration was initially intended to be satisfied via cash payment, the Settlement Arrangement and issuance of Units to the Vendor (if required). Pursuant to the Letter of Variation, the parties have mutually agreed to amend the mode of settlement to comprise solely cash payment and the Settlement Arrangement.

On even date, UOBKH also announced that Hektar REIT proposes to undertake the following:

- i. to revise the structure of the Proposed Placement to entail an issuance of up to 145,353,983 Placement Units, representing up to 25% of the enlarged issued units of Hektar REIT to third party investors at an issue price to be determined later; and
- ii. the proposed amendment of Hektar REIT's investment objectives stipulated in the Trust Deed to facilitate the Proposed Acquisition and Lease.

On 19 December 2023, UOBKH announced that Bursa Securities had, vide its letter dated 18 December 2023, approved the listing of and quotation for up to 145,353,983 Placement Units, subject to the conditions set out in **Part A, Section 9** of this Circular.

The Proposed Acquisition and Lease is a RPT pursuant to Paragraph 10.08 of the Listing Requirements by virtue of the interest of Hektar Black, being the Interested Major Unitholder. Accordingly, AER had been appointed on 6 June 2023 as the Independent Adviser to advise the non-interested Directors and non-interested unitholders of Hektar REIT in relation to the Proposed Acquisition and Lease. In view that the Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other, the Independent Adviser has considered the Proposals as a whole in its evaluation.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSALS, AS WELL AS TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE UNITHOLDERS' MEETING. THE NOTICE OF UNITHOLDERS' MEETING AND THE PROXY FORM ARE ENCLOSED TOGETHER WITH THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR INCLUDING THE IAL BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSALS TO BE TABLED AT THE UNITHOLDERS' MEETING.

2. DETAILS OF THE PROPOSED ACQUISITION AND LEASE

2.1 Information on the Proposed Acquisition

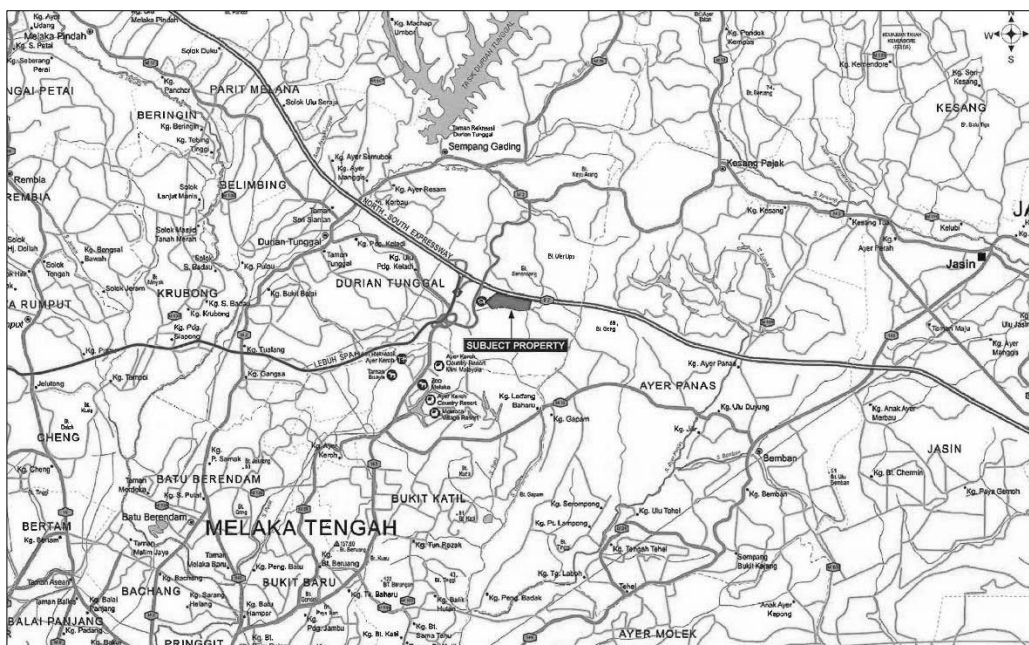
Pursuant to the SPA, the Vendor has agreed to sell and the Trustee, on behalf of Hektar REIT, has agreed to purchase the Subject Property and its building system on the basis there is no change to the existing state and condition (fair wear and tear excepted) and free from encumbrances at the Purchase Consideration.

Please refer to **Appendix I** of this Circular for the salient terms of the SPA.

2.2 Information on the Subject Property

Established in 1995, KYS College is a fully residential and co-educational private school which offers secondary school education under Malaysia's Kurikulum Bersepadu Sekolah Menengah (Integrated Curriculum for Secondary Schools or 'KBSM') for students from Form 1 to Form 5. KYS College is situated in the state of Melaka and within a locality known as Ayer Keroh. It is sited on the left side of the North-South Expressway heading northbound from Johor Bahru to Kuala Lumpur.

The location of KYS College is shown in the map below (highlighted in red):

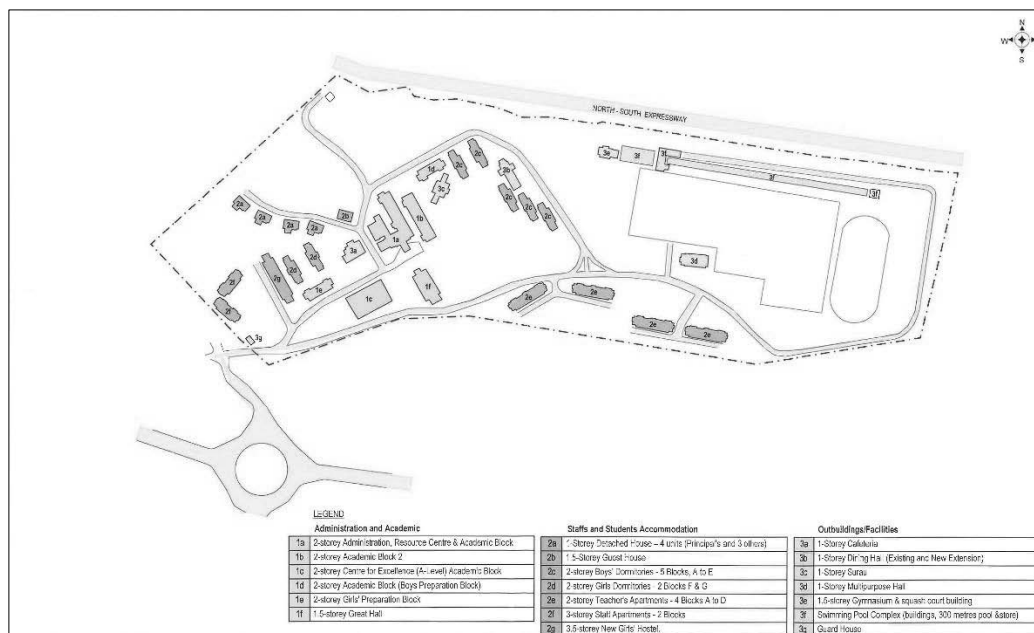


The KYS College accommodates the following:

Buildings	Gross floor area (sq ft)
1) Administration & Academic:	
a) 2-storey administration, resource centre & academic block	43,056
b) 2-storey academic block 2	21,933
c) 2-storey centre for excellence (A-Level) academic block	20,057
d) 2-storey academic block (boys' and girls' preparation block)	21,352
e) 1.5-storey great hall	16,138
2) Staffs & Students Accommodation:	
a) 4 units of 1-storey detached house	11,123
b) 1.5-storey guest house	7,750
c) 5 blocks of 2-storey boys' dormitories	38,246
d) 2 blocks of 2-storey girls' dormitories	14,958
e) 4 blocks of 2-storey teachers' apartments	81,391
f) 2 blocks of 3-storey staff apartments	41,866
e) 3.5-storey new girls' hostel	36,247
3) Outbuilding/ Facilities:	
a) 1-storey cafeteria	7,368
b) 1-storey dining hall	9,928
c) 1-storey surau	7,450
d) 1-storey multipurpose hall	8,324
e) 1.5-storey gymnasium & squash court building	3,904
f) Swimming pool complex	5,665
g) Guard house	118
Grand total	396,874

The Buildings are generally about 25 years of age (issued with a Certificate of Fitness for Occupation on 23 October 1999) with the exception of the A-Level academic block (item 1c) and the new girls' hostel (item 2e) which are about 8 years of age (issued with a Certificate of Completion and Compliance on 30 June 2015).

Other facilities located within the Subject Property are tennis court, football, rugby and hockey fields, and an amphitheatre. The layout plans of KYS College is shown below:



Further details of the Subject Property are set out as follows:

Identification	PN 62892, Lot 9808, Mukim of Durian Tunggal, District of Alor Gajah, State of Melaka
Registered owner	KCSB
Tenure	99-year leasehold interest expiring on 20.12.2098
Titled land area	49.18 hectares (121.526427 acres), inclusive of a lot measuring about 34.80741 hectares (86.011 acres) where the Subject Property is erected thereon. The said lot is to be sub-divided and issued with an individual title
Category of land use	<i>Bangunan</i>
Existing use	Occupied by KESB by virtue of the Lease
Express conditions	<i>Untuk tujuan mendirikan bangunan (Sekolah Yayasan Saad) sahaja</i>
Restriction of interest	<i>Tanah ini tidak boleh di pindahtanah atau dipajak kecuali dengan kebenaran Pihak Berkuasa Negeri</i>
Encumbrances	Charged to Malaysia Building Society Berhad, registered on 04.07.2012. In favour of the purchaser, KCSB has agreed to obtain the consent for sale and redemption statement from the Existing Chargee by the Cut-Off Date. As at LPD, the redemption amount is RM85 million
Endorsements	No. Pers 0400NB2019001256 Pembetulan 380-Maklumat Urusan, registered on 11.10.2018

Net lettable area ("NLA")	396,874 sq ft
Rental rate	RM1.70 per sq ft per month. Equivalent to RM674,685.80 per month/ RM8,096,229.60 per annum, and subject to a 2.5% yearly rental escalation
Audited net book value	RM139.8 million/ 31.12.2021*
Valuer	Jones Lang Wootton
Valuation Approach	Income Approach by way of Investment Method and cross-checked with Cost Approach
Market value/ Date of valuation	RM150 million/ 22.06.2023

* For information, the financial statements of KCSB for the FYE 31 December 2022 has yet to be audited as at the LPD, and therefore the audited net book value as at 31.12.2022 is not available.

2.3 Salient features of the valuation report

Jones Lang Wootton was instructed by the Manager to value the Subject Property on the assumptions that:

- i. an individual title for a land area of about 34.80741 hectares (86.011 acres) had been issued with 'Building' category of land use specifying institutional use, with a balance lease term of 75 years and with all relevant premiums, fees and charges to the effect paid; and
- ii. the 30-year Lease Agreement with the Lessee had been executed.

The basis of valuation adopted is the "**Market Value**" which is defined by the Malaysian Valuation Standards as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

No allowances are made in the valuation for any expense of realisation or for taxation that might arise in the event of a disposal, deemed or otherwise. The Valuer has considered the Subject Property as if it were free and clear of all charges, liens and all other encumbrances that may be secured thereon. The Valuer has also assumed that the Subject Property is free of all statutory notices and outgoings.

In arriving at the opinion of the Market Value, the Valuer has adopted the Income Approach by way of Investment Method and Cost Approach:

Income Approach by way of Investment Method	<p><i>Capitalization of net rental income from a property. Net rental income is the residue of gross annual rent less annual expenses (outgoings) required to sustain the rent with allowance for void and management fees.</i></p> <p>Market Value of the Subject Property: RM150 million</p>
Cost Approach	<p><i>Summation of the value of the land component in its improved existing state and the gross replacement fair value cost of the buildings and other ancillary improvements, after allowing for depreciation.</i></p> <p><i>The land value component is arrived by the Comparison Approach whereby comparison is made of the property under valuation with sales of other similar properties. Where dissimilarities exist, adjustments are made.</i></p> <p>Market Value of the Subject Property: RM143 million</p>

The Subject Property is an investment asset, therefore the appropriate methodology to arrive at the Market Value is the Investment Method. The Cost Approach is used as a check. The adopted Market Value of the Subject Property is RM150 million.

Further details of the valuation are set out in **Appendix III** of this Circular.

2.4 Information on the Vendor

i. Incorporation and business activities

KCSB was incorporated in Malaysia on 29 November 2007 as a private limited company under the Companies Act 1965 and is deemed registered under the Act. The company commenced its business operations on 29 November 2007 and was principally involved in the management of educational institution and subsequently shifted towards investment holding. Apart from KYS College, KCSB also holds the license to manage KYS KL East International School located in KL East, Kuala Lumpur.

ii. Share capital

As at the LPD, KCSB has a total issued share capital of RM25 million, comprising 25 million units of ordinary shares.

iii. Directors and shareholders

As at the LPD, the directors and substantial shareholders of KCSB together with their respective shareholdings are set out as follows:

Name	Designation	Nationality	<-----Direct----->	
			No. of shares	%
Aldela Puspa Binti Nordin ("Aldela")	Director	Malaysian	-	-
Dato' Muhammad Hafidz Bin Nuruddin ("Dato Muhd Hafidz")	Director/ Shareholder	Malaysian	24,999,999	>99.99
Meor Othman Bin Meor Lope ("Meor Othman")	Shareholder	Malaysian	1	<0.01

iv. Date and original cost of investment

Original cost of investment/ Date of investment : RM42.4 million/ May 1995

KYS College was originally established as a charity school and the original cost of investment was incurred by the school foundation, Yayasan Saad. KYS College was subsequently privatised and transferred to KCSB in late 2007.

2.5 Information on the Lease

KCSB has been the owner and operator of KYS College since the commencement of its business on 29 November 2007. In August 2020, the license to operate the school which was originally held by KCSB was transferred to KESB as part of the restructuring of KYS Group of Companies. Nevertheless, the whole transfer process was only completed in June 2023, due to delay as a result of the COVID-19 pandemic. Pursuant to the completion of the license transfer, KCSB as the asset owner had entered into the current Lease Agreement with KESB as the lessee to operate KYS College.

The Subject Property is leased to the Lessee for a period of 30 years commencing from 22 June 2023 ("Term") on a quadruple-net lease basis, whereby the Lessee shall be responsible for the operation, maintenance, replacement and repair (including structural repair) of the Subject Property at its own cost and expense.

In return for granting the Lease, the Vendor (as the asset owner and lessor) shall be entitled to a guaranteed rent of RM8.1 million for the first year of the Term (calculated at RM1.70 per sq ft per month on the NLA of 396,874 sq ft) ("**First Year Rental**"), followed by a 2.5% yearly rental escalation applicable throughout the 30 years lease period starting from year 2 until the expiry of the Term. The advance rental payable under the Lease Agreement (including the First Year Rental) shall be transferred in full to the purchaser upon completion of the Proposed Acquisition.

The 2.5% yearly rental escalation was mutually agreed between KCSB (as the lessor) and KESB (as the lessee) based on commercial terms and after factoring in the potential increment in the school fees over the 30 years lease period. Pursuant to the SPA, the Lease Agreement will be novated to the Trustee by KCSB upon the completion of the acquisition of the Subject Property. Under the Lease Agreement, the option to renew is granted for a secondary lease period of 30 years and a tertiary lease period of 15 years, 5 months, and 28 days commencing from the expiry of the secondary lease period, subject to lease rental to be mutually agreed between the parties.

For clarity purpose, notwithstanding the date of the Lease Agreement, the commencement date of the Lease was 22 June 2023 to enable the Vendor to "lock-in" the basis of valuation for the Subject Property at the material cut-off valuation date of 22 June 2023 as adopted by the Valuer. This formed the basis of valuation for the parties to progress forward with the negotiation, deliberation, and formulation of the deal structure, pricing and financing mechanism required to complete the SPA.

Please refer to **Appendix II** of this Circular for the salient terms of the Lease Agreement.

2.6 Information on the Lessee

i. Incorporation and business activities

KESB was incorporated in Malaysia on 17 December 2012 as a private limited company under the Companies Act 1965 and is deemed registered under the Act. The company commenced its business operations on 17 December 2012 and was principally involved in managing the educational activities aspect of KYS College as a subsidiary of KCSB until the restructuring of KYS Group of Companies when the education license held by KCSB was transferred to KESB as the operator and education service provider. The current principal activity of KESB is to engage in the education business under the name of 'Kolej Yayasan Saad'. KYS College is the only school under KESB's provision of educational institution activities.

ii. Share capital

As at the LPD, KESB has a total issued share capital of RM2.5 million, comprising 2.5 million units of ordinary shares.

iii. Directors and shareholders

As at the LPD, the directors and substantial shareholders of KESB together with their respective shareholdings are set out as follows:

Name	Designation	Nationality	<-----Direct----->	
			No. of shares	%
Aldela	Director	Malaysian	-	-
Dato Muhd Hafidz	Director/ Shareholder	Malaysian	2,499,999	>99.99
Meor Othman	Director/ Shareholder	Malaysian	1	<0.01

2.7 Basis and justification of arriving at the Purchase Consideration

The Purchase Consideration of RM150 million was arrived at, on a willing-buyer willing-seller basis, after taking into consideration the market value of the Subject Property of RM150 million using the Income Approach by way of Investment Method carried out by the Valuer as at the date of valuation of 22 June 2023.

Further, the Board has also taken into consideration the rationale and justification of the Proposed Acquisition and Lease as well as the prospects of the Subject Property as set out in **Part A, Sections 5.1 and 6.2** of this Circular.

2.8 Mode of settlement of the Purchase Consideration

Pursuant to the SPA (as amended by the Letter of Variation) and premised on the quadruple-net lease arrangement for the Lease, the basis and mode of settlement of the Purchase Consideration was arrived at between the parties based on commercially agreed terms:

Payment terms	Timing of settlement	RM'000	%
Cash Deposit	Upon execution of the SPA	7,500	5.0
Balance Sum:			
Defect Retention Sum ^{*2}	On or before the expiry of the completion period ^{*1}	1,500	1.0
Lease Retention Sum ^{*3}	On or before the expiry of the completion period ^{*1}	13,500	9.0
First Balance Sum	On or before the expiry of the completion period ^{*1}	92,500	61.7
Final Balance Sum ^{*4}	On or before the expiry of the completion period ^{*1} with an automatic extension of 3 months from the expiry of the completion period or such other extended period as may be mutually agreed between the parties	35,000	23.3
Total		150,000	100.0

Notes:

^{*1} Completion period means a period of 90 days after the unconditional date of the SPA, or such other date as may be mutually agreed upon by the parties.

^{*2} The Defect Retention Sum shall be paid directly to the Vendor's solicitors as stakeholders to hold and deal with whereby the sum shall only be released to the Vendor upon rectification of any defect to the satisfaction of Hektar REIT. In the event the Defect Retention Sum is insufficient to remedy the defects, such shortfall shall constitute a debt due and owing from the Vendor, which shall be payable by the Vendor to the purchaser within 14 days of receipt of a demand notice.

^{*3} Payment for the Lease Retention Sum shall be satisfied via the Settlement Arrangement which involves the set-off with part of the advance rental and the full security deposit. For information, the Lessee shall pay the lessor an advance rental of RM12,245,547.27 equivalent to the first 18 months' guaranteed rent ("Advance Rental") within 3 months of the date of the Lease Agreement. In addition, the Lessee shall pay to the lessor a security deposit of RM4,149,317.67 ("Security Deposit") in accordance with the provisions of the Lease Agreement.

The Advance Rental and Security Deposit shall be transferred in full to the purchaser upon completion of the Proposed Acquisition and Lease. Strictly for illustrative purpose, the Settlement Arrangement shall be implemented as such:

	RM'000
Advance Rental	12,246
Security Deposit	4,149
	16,395
(Less): Lease Retention Sum	(13,500)
Balance from the Advance Rental accrued to Hektar REIT	2,895

Notwithstanding the Settlement Agreement, the full Security Deposit is refundable to the Lessee at the end of the Lease. Any such amount shall be sourced from Hektar REIT's internal funds and can only be ascertained at the material point in time (if required).

^{*4} *Payable to the Vendor solely in cash. Pursuant to the terms of the SPA, the parties agreed that the acquisition of the Subject Property may deem completed upon settlement of the Balance Sum less the Final Balance Sum. If the RM35 million Final Balance Sum is not settled within the completion period, there will be an automatic extension of 3 months from the expiry of the completion period or such other extended period as may be mutually agreed between the parties.*

2.9 Source of funding

The Purchase Consideration will be satisfied via cash payment and the Settlement Arrangement. The cash payment is intended to be financed through a combination of borrowings, internal funds and/ or proceeds to be raised via the Proposed Placement, the exact breakdown of which cannot be determined at this juncture as it depends on the eventual proceeds raised from the Proposed Placement.

Strictly for illustrative purpose, based on the management's estimates at this juncture, the tentative quantum for the source of funding to satisfy the Purchase Consideration is set out in the following manner:

Source of funds	RM	%
• Cash deposit paid via internal funds of Hektar REIT	7,500,000	5.0
• Proceeds raised from the Proposed Placement	85,031,954 ^{*1}	56.7
• Settlement Agreement (set-off with part of the advance rental and the full security deposit)	15,000,000	10.0
• Bank borrowings	40,000,000	26.7
• Internal funds of Hektar REIT (Cash and bank balances of RM62.78 million as at the LPD)	2,468,046	1.6
Purchase Consideration	150,000,000	100.0

Note:

^{*1} *As set out in **Part A, Section 3.6** of this Circular, the proceeds raised from the Proposed Placement shall be utilised with priority to satisfy the First Balance Sum, followed by the Final Balance Sum. The actual gross proceeds to be raised from the Proposed Placement is dependent on the eventual issue price(s) and the number of Placement Units to be issued during the implementation stage which may be implemented in several tranches within 6 months from the date of approval of Bursa Securities. In the event of any shortfall from the Proposed Placement towards satisfying the First and Final Balance Sums as and when required, such balance shortfall shall be financed through a combination of borrowings and internal funds.*

2.10 Liabilities to be assumed

Save for the obligation and liabilities in and arising from, pursuant to or in connection with the SPA and Lease Agreement, there are no other liabilities including contingent liabilities and/ or guarantees to be assumed by Hektar REIT arising from the Proposed Acquisition and Lease.

For avoidance of doubt, Hektar REIT is not exposed to any contingent liabilities pertaining to the material litigations involving the Subject Property as disclosed in **Section 4 of Appendix IV** of this Circular, as the litigations are strictly between the Vendor and the Existing Chargee.

2.11 Additional financial commitment

Save for the Purchase Consideration, there is no additional financial commitment required by Hektar REIT to put the business of KYS College on-stream.

3. DETAILS OF THE PROPOSED PLACEMENT

3.1 Placement size

The Proposed Placement involves the issuance of up to 145,353,768 Placement Units, representing up to 25% of Hektar REIT's issued capital of 581,415,073 Units.

3.2 Basis and justification of determining the issue price(s) of the Placement Units

The issue price(s) of the Placement Units will be determined and fixed by the Board at a later date after receipt of all relevant approvals for the Proposed Placement.

The Proposed Placement may be implemented in several tranches within 6 months from the date of approval of Bursa Securities (i.e. valid until 17 June 2024) or any extended period as may be approved by Bursa Securities. This would provide Hektar REIT with the flexibility to procure interested investors to subscribe for the Placement Units from time to time.

The Placement Units will be issued at issue price(s) of not more than 10% discount to the 5-day VWAP of Hektar REIT Units immediately preceding the price-fixing date(s).

For illustrative purpose, the issue price is assumed at RM0.5850 per Placement Unit, which represents a discount of 9.97% to the 5-day VWAP of Hektar REIT Units up to and including the LPD of RM0.6498 per Unit.

3.3 Ranking of the Placement Units

The Placement Units will, upon allotment and issuance, rank equally in all respects with the existing Units, save and except that the holders of new Units shall not be entitled to any distributable income, rights, benefits, entitlements and/ or any other forms of distributions that may be declared, made or paid to unitholders where the entitlement date of such distributions precedes the relevant date of allotment and issuance of the Placement Units.

3.4 Listing and quotation for the Placement Units

The Placement Units to be issued will be listed on the Main Market of Bursa Securities. Approval for the listing of and quotation of the Placement Units have been obtained via Bursa Securities' approval letter dated 18 December 2023.

3.5 Allocation to placees

The Placement Units are intended to be placed out to third party investors to be identified where such investors will be persons falling under Schedules 6 and 7 of the Capital Markets and Services Act, 2007.

Additionally, the Placement Units will not be placed out to the following parties:

- (i) the interested director, interested major shareholder, interested chief executive of the Manager or a major unitholder of Hektar REIT ("**Interested Person**");
- (ii) a person connected with an Interested Person; and
- (iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

3.6 Utilisation of proceeds

Based on the indicative issue price of RM0.5850 per Placement Unit, the Proposed Placement is expected to raise gross proceeds of up to RM85.03 million. The proceeds are intended to be utilised by Hektar REIT in the manner set out below:

Details	Timeframe for utilisation	RM'000
Partial settlement of the Purchase Consideration ^{*1}	Within 12 months from unconditional date of the SPA	82,532
Estimated expenses ^{*2}	Upon completion	2,500
Total		85,032

Notes:

^{*1} *Partial settlement of the First and Final Balance Sums of the Purchase Consideration. The proceeds raised from the Proposed Placement shall be utilised with priority to satisfy the First Balance Sum over the Final Balance Sum. This is as the completion of the acquisition of the Subject Property is conditional on the full settlement of the First Balance Sum, whereas Hektar REIT has an automatic extension of 3 months from the completion period or such other extended period as may be mutually agreed between the parties to settle the Final Balance Sum. Please refer to **Part A, Section 2.8** of this Circular for further details on the mode of the settlement of the Purchase Consideration.*

Any shortfall from the Proposed Placement towards satisfying the First and Final Balance Sums shall be financed through a combination of borrowings and internal funds. For information, Hektar REIT has RM62.78 million in cash and bank balances as at the LPD.

^{*2} *The proceeds earmarked for estimated expenses will be utilised as set out below:-*

	RM'000
Professional fees	2,411
Regulatory fees	27
Other incidental expenses in relation to the Proposals	62
Total	2,500

The actual gross proceeds to be raised from the Proposed Placement is dependent on the eventual issue price(s) and the number of Placement Units to be issued.

Pending the actual utilisation of proceeds from the Proposed Placement, the proceeds would be placed as deposits with licensed financial institutions or short-term money market instruments, as the Board may deem fit. Any interest income earned from such deposits or instruments will be used as working capital of Hektar REIT.

Barring any unforeseen circumstances, the Proposed Placement is expected to be completed in conjunction with the Proposed Acquisition and Lease by June 2024. However, in the event that the Proposed Acquisition and Lease is not completed/materialised, Hektar REIT may make the necessary announcements and/ or seek the approval from its unitholders in accordance with Paragraph 8.22 of the Listing Requirements for the variation of the utilisation of proceeds raised, if any, from the Proposed Placement.

3.7 Other fundraising exercises in the past 12 months

UOBKH had on 7 November 2023 announced the Private Placement I, whereby the approval from Bursa Securities for the listing of and quotation for up to 75,836,860 new Units was obtained on 9 November 2023. Hektar REIT had completed the Private Placement I on 15 December 2023, in which it had placed out a total of 75,836,000 Units, thereby raising total gross proceeds of RM42.47 million.

The status of the utilisation of the said gross proceeds as at the LPD is set out below:

Details of utilisation	Expected timeframe for utilisation from receipt of funds	Amount allocated RM'000	Actual utilisation RM'000	Balance utilisation RM'000
Working capital requirements	Within 12 months	26,470	-	26,470
Repayment of bank borrowings	Within 12 months	15,000	15,000	-
Expenses	Upon completion	1,000	1,000	-
Total		42,470	16,000	26,470

Save for the Private Placement I and Proposed Placement (being the subject of this Circular), Hektar REIT has not undertaken any other fund-raising exercises in the 12 months prior to the date of this Circular.

3.8 Historical unit prices

The monthly highest and lowest market prices of Hektar REIT Units as traded on Bursa Securities for the past 12 months from December 2022 to November 2023 are as follows:

	High RM	Low RM
2022		
December	0.625	0.576
2023		
January	0.750	0.620
February	0.689	0.646
March	0.679	0.627
April	0.679	0.641
May	0.670	0.631
June	0.665	0.617
July	0.646	0.603
August	0.622	0.579
September	0.617	0.590
October	0.620	0.600
November	0.630	0.595

Last transacted market price as at 6 December 2023
(being the latest trading day prior to the announcement on the Proposals) 0.630

Last transacted market price on the LPD 0.650

(Source: Bloomberg)

4. DETAILS OF THE PROPOSED AMENDMENT

The Manager has proposed to amend the Trust Deed via a Supplemental Trust Deed in order to facilitate the Proposed Acquisition and Lease, as well as to expand the investment objectives of Hektar REIT as detailed below:

Existing provision	Proposed Amendment
<p><i>DIVISION 2.5 Investment Objectives</i></p> <p><i>2.5.1 The principal investment objective of the REIT is to invest in income-producing Real Estate in Malaysia which is primarily used for retail purposes. The REIT also intends to provide Unitholders with a secure income distribution and to enhance the long-term value of the REIT.</i></p>	<p><i>DIVISION 2.5 Investment Objectives</i></p> <p><i>2.5.1 The principal investment objective of the REIT is to invest in income-producing Real Estate in Malaysia which is primarily used for retail purposes. The REIT also intends <u>which aims to provide Unitholders with a secure income distribution and to enhance the long-term value of the REIT.</u></i></p>

Save for the Proposed Amendment and any other necessary amendments to update the Trust Deed, the remaining provisions of the Trust Deed shall remain the same.

5. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSALS

5.1 Proposed Acquisition and Lease

The Proposed Acquisition and Lease is in line with the key investment objectives of the Manager to continuously pursue assets that are income-producing and are able to contribute to the long-term growth of Hektar REIT:

i. Quality addition of asset to Hektar REIT's portfolio

The Lease Agreement which has a quadruple-net lease arrangement will provide Hektar REIT with fixed rental payments from the Lessee, whilst property-related expenses such as quit rent, insurance, upkeep and maintenance of KYS College are at the obligations of the Lessee. This will provide Hektar REIT with stable income over the 30 years tenure, and less influenced by the performance of the retail sector in Malaysia. The expected rental yield to be derived from the Subject Property upon completion of the Proposed Acquisition and Lease is 5.4% (calculated at RM8.1 million guaranteed rent for the first year over the RM150 million purchase consideration), and is anticipated to grow in tandem with the 2.5% yearly rental escalation throughout the 30-year lease term.

ii. Increased strength and geographical diversification

The Proposed Acquisition and Lease will improve the diversity of Hektar REIT's overall property mix with lesser reliance on the retail sector. This will enlarge the NLA of Hektar REIT by 396,874 sq ft or 20% from the existing NLA of 2 million sq ft. The total asset value of Hektar REIT will also increase by RM150 million or 12% from RM1,206 million as at 31 December 2022.

Hektar REIT's asset portfolio currently consists of 6 shopping centres, namely Subang Parade in Subang Jaya, Mahkota Parade in Melaka, Wetex Parade in Muar, Central Square in Sungai Petani, Kulim Central in Kulim and Segamat Central in Segamat. Besides shopping centres, Hektar REIT also owns Classic Hotel in Muar, which is adjoined to Wetex Parade as summarised in the table below:

No.	Asset	Location	NLA (sq ft)
1.	Subang Parade	Subang Jaya, Selangor	529,559
2.	Mahkota Parade	Malacca City, Malacca	521,142
3.	Wetex Parade	Muar, Johor	170,463
4.	Central Square	Sungai Petani, Kedah	310,564
5.	Kulim Central	Kulim, Kedah	299,781
6.	Segamat Central	Segamat, Johor	211,919
7.	Classic Hotel	Muar, Johor	125,931 (156 rooms)

iii. **Accretion to earnings and DPU**

Pursuant to the Proposed Acquisition and Lease, KYS College will provide Hektar REIT with a stable and sustainable income stream for a committed lease period of 30 years, with a guaranteed rent of RM8.1 million for the first year augmented by a rental escalation of 2.5% every year. Accordingly, the Board believes that the Proposed Acquisition and Lease will help to improve the earnings of Hektar REIT and DPU to unitholders over the long-term as and when the anticipated benefits are realised. For information, Hektar REIT distributed an interim income distribution of 2.7 sen on 16 October 2023, with annualised dividend yield of 8.3% based on the closing market price of Hektar REIT Units of RM0.650 at the LPD.

5.2 **Proposed Placement**

Despite the unit dilution on existing unitholders, the Board opines that the partial settlement of the Purchase Consideration via the proceed raised from the Proposed Placement is in the best interest of Hektar REIT, as it will allow the Manager to maintain a healthy gearing ratio, while keeping a sufficient level of cash reserves to navigate operational headwinds.

5.3 **Proposed Amendment**

The Proposed Amendment is undertaken with the intention to broaden Hektar REIT's investment strategy, which in turn, enables Hektar REIT to explore other asset classes beyond the retail sector with potential attractive yields and/ or capital appreciation to increase unitholders' long-term return.

6. **INDUSTRY OVERVIEW, OUTLOOK AND FUTURE PROSPECTS**

6.1 **Overview and outlook for the Malaysian economy**

The global gross domestic product ("GDP") growth in 2022 moderated to 3.4% reflecting the economic slowdown in advanced economies as well as emerging market and developing economies (EMDEs). Despite the softened global growth, Malaysia's economy recorded a strong growth of 8.7% in 2022, exceeding the initial projection of 6.5% - 7%, whereby real output value reached above the pre-pandemic level. The commendable performance was driven by domestic demand and improved labour market in line with the transition to endemic phase. These resulted from an increase in economic activities which include household spending, investment and tourism.

Subsequently, encouraging expansion in all economic sectors primarily the services and manufacturing have also provided continuous impetus to the significant economic growth in 2022. Furthermore, the growth was attributed to robust external demand, especially among Malaysia's major trading partners.

Notwithstanding the growth, the economy in 2022 experienced several challenges with escalating inflationary pressures due to high commodity and food prices as well as softened global economic growth and trade. Therefore, the Government has taken various holistic and comprehensive measures to help the rakyat and businesses in dealing with inflationary pressures and higher cost of living.

In 2023, global growth is expected to further soften at 2.9% on the back of persistent pressures such as inflation, tightening global financial conditions and economic deceleration among major economies. Meanwhile, Malaysia's economic growth is projected to moderate amid the signs of weakness in the global growth momentum. The growth will be mainly supported by steady domestic demand primarily private expenditure initiatives as well as initiatives under the Budget 2023 and development expenditure under the Twelfth Malaysia Plan, 2021 – 2025 (12MP). However, a slowdown in external demand is expected to moderate exports growth, particularly in the electrical and electronic products and major commodities.

On the supply side, all economic sectors are expected to remain in the positive growth trajectory in 2023, driven by the services and manufacturing sectors. Other sectors, namely agriculture, mining and construction are also expected to grow further in line with the improvement in economic activities. However, downside risks such as prolonged geopolitical conflict, climate-related disasters and persistently high inflation are expected to further hampering the global economic growth, hence, affecting Malaysia's performance. Overall, the nation's GDP is forecast to grow approximately 4.5% in 2023.

(Source: Economic & Fiscal Outlook and Federal Government Revenue Estimates 2023, Ministry of Finance Malaysia)

6.2 Overview and outlook for the private education sector in Malaysia vis-à-vis the future prospects of the Subject Property

Private education is offered in Malaysia on all levels from nursery schools up to tertiary education. The demand for private education has been increasing substantially during the last 15 years.

The private school education is also viewed as a platform for furtherance of education overseas as the syllabus for all the private schools are internationally structured to be globally competitive, especially in the last few years with the introduction of IB (International Baccalaureate) Diploma, an educational programme that has global recognition and provides a gateway qualification recognised and valued by top-ranking Universities worldwide. There are now 35 IB schools in Malaysia.

As demand grows resulting from the changing mind set of parents in term of placing their children in private schools, various international private education institutions have ventured into Malaysia to cater for this increasing demand. Accordingly, this has led to numerous private schools and colleges being established in various locations primarily focused in locations where the population based is within the middle to higher income bracket. Interesting to note that enrolments in public schools have fallen by 1% due to the growing importance of English Language.

KYS College is one of the very few private education institutions in Malaysia that offer KBSM syllabus and full-boarding facilities. Other private education institutions that offer KBSM syllabus include Sekolah Sri KDU Kota Damansara, Cempaka Cheras, Sekolah Sri Tenby Ipoh and Sekolah Sri Bestari Kuala Lumpur. However, these schools do not offer full-boarding facilities, or only offer them to students that take up international curriculum. Often ranked top-3 nationally among national full-boarding schools (Sekolah Berasrama Penuh (SBP) and Maktab Rendah Sains Mara (MRSM)) in Malaysia based on the analysis of School Grade Point Average by Bahagian Pengurusan Sekolah Berasrama Penuh under the Ministry of Education for consistent spectacular performance in Sijil Pelajaran Malaysia (SPM), KYS College is undoubtedly a preferred choice for parents.

This is evident from the number of applications received for the annual Form 1 intake, with more than 1,000 applications received on average, far surpassing the available 150 spots. KYS College currently has 715 registered students from Form 1 to Form 5.

KYS College is operated by KESB and is also presently owned by KCSB (collectively referred to as the "**KYS Group**"). KYS Group is unlocking this fixed real estate asset from its balance sheet and to focus primarily on education. The intended disposal is on sale and lease back with the purchaser and eventual lessor being the Trustee on behalf of Hektar REIT. KESB will be the lessee.

The new owner/ lessor as an investor will own an income generating asset yielding long term and sustainable rental income relative to other real estate investments such as retail and office sectors which are acutely in oversupply and facing challenges from virtual economy. Given the steady growth in quality educational need there is without doubt potential for capital gain moving forward. Based on kenresearch.com, private primary school market size is expected to grow at CAGR (compound annual growth rate) of ~ 7% and secondary schools by ~ 6.5%.

KYS Group as lessee cum school operator, relieving the asset off the balance sheet is then able to focus primarily on their core strength and improving their brand - the quality of education by investing on the staff, facilities, safety and compliance. The school only accepts scholars who demonstrate merit. Students are admitted based on stringent selection process factoring their academic standing, leadership potential and extracurricular engagements; in other words, an all-rounder. Being residential college with enabling facilities, the school prides itself in developing able independent learners and future leaders of industries.

(Source: The Manager of Hektar REIT & Jones Lang Wootton)

7. RISK FACTORS

Unitholders should consider the following risk factors (which may not be exhaustive) pertaining to the Proposals:

7.1 Inability of the Lessee to make timely rental payments

The ability of the Lessee to make timely rental payments to Hektar REIT may be affected due to, amongst others, the outbreak of infectious diseases, unfavourable changes in statutory laws, regulations or government policies, general downturn in the global and Malaysian economy, bankruptcy, insolvency or downturn in the operations of the Lessee. The Manager will closely monitor and assess any late or decline in rental payments caused by the above factors. If the Lessee fails to pay the rental payments under the Lease Agreement, Hektar REIT shall amongst others, be entitled to interest on any amount due and payable to Hektar REIT pursuant to the Lease Agreement, at the rate of 10% per annum on the basis of a year of 365 days, calculated from the due date until the full payment of such outstanding sum, with such interest to be paid together with the outstanding sum, and notwithstanding the lawful termination of Hektar REIT and Lessee.

As set out in **Part A, Section 2.8** of this Circular, part of the advance rental and the full security deposit made for and on behalf of the Lessee under the Lease Agreement will be used to partially set-off against the Purchase Consideration. Please refer to **Appendix II** of this Circular for the salient terms of the Lease Agreement.

7.2 Funding risks

There can be no assurance that Hektar REIT will be able to raise sufficient funds to finance the Proposed Acquisition and Lease and/ or on terms acceptable to Hektar REIT. Where Hektar REIT is unable to raise the required funds, the Proposed Acquisition and Lease will not be completed. In addition, a portion of the Purchase Consideration will be funded by borrowings and/ or internal funds. Therefore, Hektar REIT may be exposed to fluctuations in interest rates and repayment commitments. Any adverse movement in interest rates may lead to higher borrowing costs which consequently may adversely affect the cash flows of Hektar REIT. Notwithstanding that, the Manager will actively monitor Hektar REIT's debt portfolio, which includes gearing level, interest costs as well as cash flows to ensure that its debt portfolio remains at a sustainable and optimal level.

As at the LPD, Hektar REIT's debt portfolio is as follows:

	RM'mil
Total asset value	1,287.85
Total borrowings	562.28
Gearing ratio*	43.66%
Annual interest cost	25.80
Cash and bank balances	62.78

** Paragraph 8.32 of the Guidelines on Listed Real Estate Investment Trusts stipulates that the maximum allowable gearing level of a REIT is 50%.*

7.3 Delay or non-completion of the Proposed Acquisition and Lease

The completion of the Proposed Acquisition and Lease is conditional upon the fulfilment of the conditions precedent as set out in **Appendix I** of this Circular. There is no assurance that the Proposed Acquisition and Lease can be completed within the time period permitted under the SPA. If the conditions precedent are not fulfilled within the stipulated time period, the agreements may be terminated and the Proposed Acquisition and Lease will not proceed. The Manager will ensure that all reasonable steps will be taken to ensure that the conditions precedent within its responsibility are met, and that every effort is made to obtain all necessary approvals to give effect to the completion of the Proposed Acquisition and Lease.

7.4 The proforma income distribution and DPU are not a guarantee of the actual financial results

Hektar REIT's proforma income distribution and DPU as set out in **Part A, Section 8.3** of this Circular demonstrate the effects of the Proposals based on certain assumptions of the Manager including the assumption that the Proposals were completed on 22 June 2022 (being the commencement of the lease period under the Lease Agreement). No assurance is given that the assumptions used by the Manager will be realised. Further, the actual financial results of Hektar REIT may differ from the proforma results set out in this Circular.

8. EFFECTS OF THE PROPOSALS

8.1 Issued unit capital

The Proposed Acquisition and Lease as well as the Proposed Amendment will not have any effect on the unit capital of Hektar REIT, while the pro forma effects of the Proposed Placement are set out below:

	No. of Units	RM
As at the LPD	581,415,073	560,886,684
Proposed Placement	145,353,768	85,031,954 ^{*1}
Enlarged unit capital	726,768,841	645,918,638

Note:

^{*1} Based on the indicative issue price of RM0.5850 per Placement Unit.

For avoidance of doubt, Hektar REIT does not have any convertible units as at the date of this Circular.

8.2 Substantial unitholders' unitholdings

The Proposed Acquisition and Lease as well as the Proposed Amendment will not have any effect on the unitholdings of the substantial unitholders, while the pro forma effects of the Proposed Placement are set out below:

Unitholders	Unitholdings as at the LPD			
	<-----Direct----->		<-----Indirect----->	
	No. of Units	%	No. of Units	%
Hektar Black	124,013,854	21.33	448,653 ^{*1}	0.08
Hektar Rubber Sdn Bhd	101,100,000	17.39	-	-
Dato' Ong Choo Meng	42,798,398	7.36	101,100,000 ^{*2}	17.39

Unitholders	After the Proposed Placement ^{*3}			
	<-----Direct----->		<-----Indirect----->	
	No. of Units	%	No. of Units	%
Hektar Black	124,013,854	17.06	448,653 ^{*1}	0.06
Hektar Rubber Sdn Bhd	101,100,000	13.91	-	-
Dato' Ong Choo Meng	42,798,398	5.89	101,100,000 ^{*2}	13.91

Notes:

^{*1} Deemed interested pursuant to Section 8 of the Act via its interest in Hektar Green Sdn Bhd ("**Hektar Green**"). The directors and substantial shareholders of Hektar Green are as follows:-

Name	Designation
Shahril bin Kassim	Director
Nor Sabrina binti Halim	Director
Hektar Black	Shareholder

^{*2} Deemed interested pursuant to Section 8 of the Act via his interest in Hektar Rubber Sdn Bhd.

^{*3} Assuming that the Proposed Placement does not give rise to the emergence of any substantial unitholders.

8.3 Earnings and distributable income

The Proposals are not expected to have any material effect on the earnings and distributable income of Hektar REIT for the FYE 31 December 2023 since the transactions are only expected to be completed in the second quarter of 2024. The Manager believes that the income generated from the Lease is expected to contribute positively to the future earnings and distributable income of Hektar REIT as and when the Lease is officially novated to Hektar REIT.

The issuance of new Units pursuant to the Proposed Placement will initially dilute the EPU and DPU of Hektar REIT, given the enlarged number of Units in circulation. However, after taking into consideration the additional rental income from the Subject Property, the Proposals are expected to increase the EPU and DPU of Hektar REIT over the long-term.

Assuming that the Proposals were completed on 22 June 2022 (being the commencement of the lease period under the Lease Agreement):

	Audited FYE 31 December 2022 RM'000	2022 Final Income Distribution ¹ RM'000	Subsequent events up to the LPD-----> 2023 Interim Income Distribution ² RM'000	After the Private Placement I RM'000	After the Proposed Placement RM'000	After the Proposed Acquisition and Lease ⁴ RM'000
Realised profit/ distributable income	36,389	36,389	36,389	36,389	36,389	36,389
Add:						
Rental for the first year	-	-	-	-	-	4,048
(Less):						
Additional interest expense	-	-	-	-	-	(1,050)
Additional Manager and Trustee fees	-	-	-	-	-	(1,275)
Estimated expenses of the Proposals	-	-	-	-	-	(2,500)
Adjusted	36,389	36,389	36,389	36,389	36,389	35,612

Number of Units in issue ('000)	471,260	498,788	505,579	581,415	726,769	726,769
EPU/ DPU (sen)³	7.72	7.30	7.20	6.26	5.01	4.90

Notes:

¹ After adjusting for the issuance of 27,527,792 Units pursuant to the income distribution reinvestment plan applicable to the 2022 final income distribution.

² After adjusting for the issuance of 6,791,103 Units pursuant to the income distribution reinvestment plan applicable to the 2023 interim income distribution.

³ Assuming 100% of the net income before tax of Hektar REIT is distributed.

⁴

Set out below are the anticipated income and/or expenses to be recognized and/or incurred by Hektar REIT:

Rental for the first year	: Upon the novation of the Lease to the Trustee, Hektar REIT is entitled to a guaranteed rent of RM8.10 million for the first year of the Term. The said RM8.10 million was prorated by half to cater for the commencement of the Lease only in the second half of the financial year
Additional interest expense	: Assuming the drawdown of up to RM40 million borrowings to partly finance the Purchase Consideration at 5.25% interest per annum, Hektar REIT is expected to incur interest expense of up to RM2.10 million per annum. The said RM2.10 million was prorated by half assuming that the drawdown took place only in the second half of the financial year
Additional Manager and Trustee fees	: Pursuant to the Trust Deed, the Manager is entitled to the following additional fees (1) Acquisition Fee of up to 1% of the acquisition value; (2) Base Fee amounting to 0.35% of the asset value; and (3) Performance Fee amounting to 5% of the rental income, which sums up to a total Manager fee of RM2.43 million. The said RM2.43 million was prorated by half to cater for the completion of the Proposed Acquisition and Lease only in the second half of the financial year
Estimated expenses of the Proposals	: Further, the Trustee is also entitled to additional Trustee Fee amounting to 0.08% of the asset value, equivalent to RM0.12 million. The said RM0.12 million was prorated by half to cater for the completion of the Proposed Acquisition and Lease only in the second half of the financial year
	: One-off expenses of up to RM2.50 million to be fully incurred upon completion of the Proposals

8.4 NAV per Unit and gearing

The Proposed Amendment will not have any effect on the NAV per Unit and gearing level of Hektar REIT. Based on the latest audited statements of financial position of Hektar REIT as at 31 December 2022, the pro forma effects of the Proposed Acquisition and Lease and Proposed Placement on the NAV per Unit and gearing are set out as follows:

	Audited FYE 31 December 2022 RM'000	<-----Subsequent events up to the LPD----->				After the Proposed Acquisition and Lease RM'000
		2022 Final Income Distribution ¹ RM'000	2023 Interim Income Distribution ² RM'000	After the Private Placement I RM'000	After the Proposed Placement RM'000	
Unit capital	496,732	514,625	518,419	560,887	645,919	645,919
Undistributed income	101,230	76,253	62,786	62,786	62,786	60,286 ³
NAV	597,962	590,878	581,205	623,673	708,705	706,205
Number of Units in issue ('000)	471,260	498,788	505,579	581,415	726,769	726,769
NAV per Unit (RM)	1.27	1.18	1.15	1.07	0.98	0.97
Total borrowings	551,444	551,444	551,444	551,444	551,444	591,444 ⁴
Total asset value	1,235,507	1,228,423	1,218,750	1,218,750	1,218,750	1,368,750 ⁵
Gearing (times)	0.45	0.45	0.45	0.45	0.45	0.43

Notes:

^{*1} Pursuant to the 2022 final income distribution, the following adjustments were made:

Undistributed income : A total of RM24.98 million were distributed to the unitholders from the undistributed income reserve account
Unit capital : RM17.89 million were distributed in the form of new Units in lieu of cash pursuant to the income distribution reinvestment plan
Total asset value : RM7.09 million were distributed in the form of cash

^{*2} Pursuant to the 2023 interim income distribution, the following adjustments were made:

Undistributed income : A total of RM13.46 million were distributed to the unitholders from the undistributed income reserve account
Unit capital : RM3.79 million were distributed in the form of new Units in lieu of cash pursuant to the income distribution reinvestment plan
Total asset value : RM9.67 million were distributed in the form of cash

^{*3} After deducting estimated expenses of RM2.50 million in relation to the Proposals.

^{*4} Assuming the drawdown of up to RM40 million borrowings to partly finance the Purchase Consideration.

^{*5} After consolidating the market value of KYS College amounting to RM150 million.

9. APPROVALS REQUIRED

The Proposals are subject to approvals being obtained from:

- i. unitholders of Hektar REIT at the Unitholders' Meeting;
- ii. Bursa Securities for the listing of and quotation for up to 145,353,983 Placement Units on the Main Market, which was obtained vide its letter dated 18 December 2023 subject to the following conditions:

Conditions	Status of compliance
(a) Hektar REIT and UOBKH must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Placement	To be complied
(b) UOBKH is required to inform Bursa Securities upon the completion of the Proposed Placement	To be complied
(c) Hektar REIT or UOBKH is required to furnish Bursa Securities with a certificate true copy of the resolution passed by the unitholders approving the Proposed Acquisition and Lease and Proposed Placement	To be complied
(d) Hektar REIT and UOBKH are required to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Placement is completed	To be complied

- iii. Department of Director General of Lands and Mines, Malacca for the transfer of the Subject Property by the Vendor to the Trustee and for the lease of the Subject Property by the Trustee to the Lessee by the Cut-Off Date; and
- iv. Existing Chargee for the sale of the Subject Property to Hektar REIT by the Cut-Off Date.

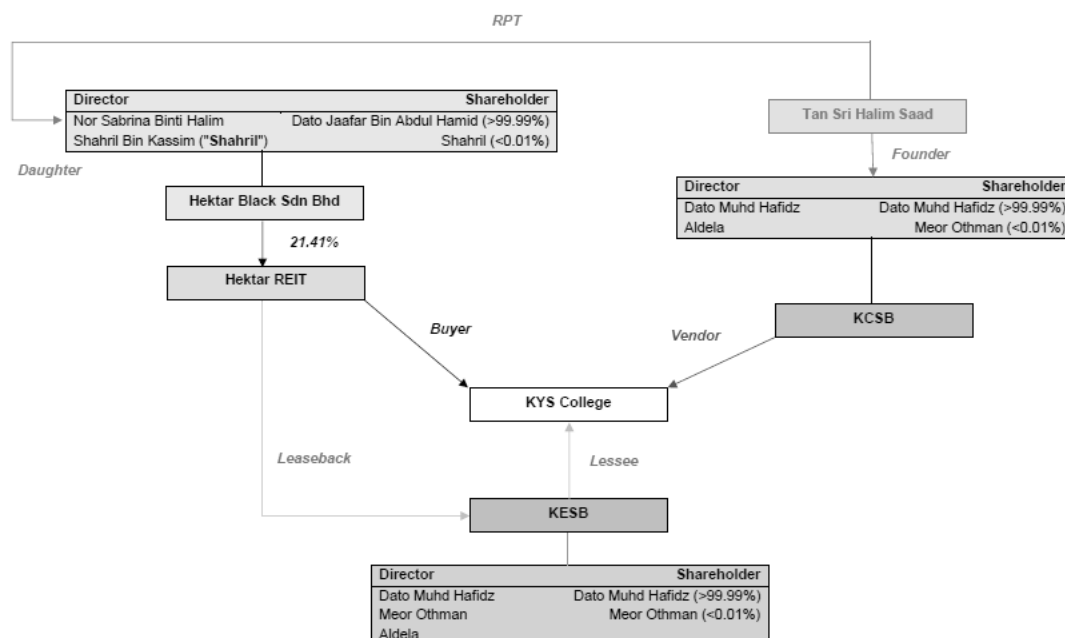
Upon obtaining the unitholders' approval for the Proposed Amendment, the Manager and the Trustee will enter into the Supplemental Trust Deed to formalise the Proposed Amendment, and the Supplemental Trust Deed will be submitted to the SC for registration and its lodgement thereafter. The Supplemental Trust Deed will be effective upon its registration with the SC.

The Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other. The Proposals are not conditional upon any other proposals undertaken or to be undertaken by Hektar REIT.

The highest percentage ratio applicable to the Proposed Acquisition and Lease pursuant to Paragraph 10.02(g) of the Listing Requirements is 12.1% of the total asset value of Hektar REIT as at 31 December 2022.

10. INTERESTS OF THE DIRECTORS, MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS AND/ OR PERSONS CONNECTED TO THEM

The Proposed Acquisition and Lease is a RPT pursuant to Paragraph 10.08 of the Listing Requirements by virtue of (i) Tan Sri Halim Saad being the founder of KYS College; and (ii) his daughter, Nor Sabrina Binti Halim's directorship in Hektar Black which in turn is a major unitholder of Hektar REIT, illustrated as follows:



For information, the directors and shareholders of KCSB and KESB have confirmed that they are not related to Tan Sri Halim Saad and/ or persons connected to him. Notwithstanding this, so as to void any presumption of conflict situation which may arise (particularly due to the affiliation of Tan Sri Halim Saad being recognised as the founder of KYS College) as well as to enhance greater element of independence and corporate governance for Hektar REIT, the Board had deliberated to treat the Proposed Acquisition and Lease as a RPT by virtue of the relationship between (Tan Sri Halim Saad and his daughter, Nor Sabrina Binti Halim as described above). This further accords more equitable voting rights and protection to the non-interested unitholders when deciding and voting on the merits of the Proposed Acquisition and Lease. As at the LPD, Tan Sri Halim Saad and Nor Sabrina Binti Halim do not have any direct or indirect shareholdings in Hektar Black and Hektar REIT.

Save for Hektar Black (being the Interested Major Unitholder), none of the other Directors, major shareholders of the Manager, major unitholders of Hektar REIT and/ or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition and Lease. As at the LPD, Hektar Black holds 21.33% direct interest and 0.08% indirect interest in Hektar REIT.

The Interested Major Unitholder will abstain from voting and will ensure that persons connected with it will also abstain from voting in respect of their direct and/ or indirect unitholdings on the resolutions pertaining to the Proposals at the Unitholders' Meeting.

The Manager is prohibited under the Paragraph 13.26 of the Guidelines on Listed Real Estate Investment Trusts from exercising the voting rights attached to the Units it holds or the Units held by its nominees in any Unitholders' Meeting. Hence, the Manager will abstain from voting on all resolutions in connection with the Proposals to be tabled at the Unitholders' Meeting.

11. TOTAL AMOUNT TRANSACTED WITH THE SAME RELATED PARTIES FOR THE PRECEDING 12 MONTHS

There has been no transaction entered into by Hektar REIT with the interested parties for the 12 months preceding the date of this Circular.

12. CORPORATE EXERCISE ANNOUNCED BUT PENDING COMPLETION

Save the Proposals (being the subject of this Circular), there is no other corporate exercise/scheme which has been announced by Hektar REIT but pending completion as at the LPD.

13. ADVISERS

UOBKH has been appointed as the Principal Adviser for the Proposals and the Placement Agent for the Proposed Placement.

14. INDEPENDENT ADVISER

The Proposed Acquisition and Lease is deemed as a RPT in view of the interest of the Interested Major Unitholder. As such, AER has been appointed by the Manager to act as the Independent Adviser to undertake the following in relation to the Proposed Acquisition and Lease:

- i. Comment as to:
 - a. whether the Proposed Acquisition and Lease is fair and reasonable in so far as the non-interested Directors and non-interested unitholders of Hektar REIT are concerned; and
 - b. whether the Proposed Acquisition and Lease is to the detriment of the non-interested unitholders of Hektar REIT,and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;
- ii. Advise the non-interested unitholders of Hektar REIT whether they should vote in favour of the Proposed Acquisition and Lease; and
- iii. Take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in paragraphs (i) and (ii) above.

In view that the Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other, the Independent Adviser has considered the Proposals as a whole in its evaluation.

15. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board having considered all aspects of the Proposals, including but not limited to the rationale and justifications, the terms and conditions of the SPA and Lease Agreement, the basis and justifications of arriving at the Purchase Consideration, the prospects of the Subject Property and the effects of the Proposals, is of the opinion that they are in the best interest of Hektar REIT and that the terms and conditions of the agreements are fair and reasonable.

The Board recommends that you vote **IN FAVOUR** of the resolutions pertaining to the Proposals to be tabled at the Unitholders' Meeting.

16. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of the Manager, after taking into consideration the Manager's investment objectives and having considered all aspects of the Proposals, including the market value of KYS College, rationale and financing effects and the opinion of the Independent Adviser, is of the opinion that the Proposed Acquisition and Lease is:

- i. in the best interest of Hektar REIT;
- ii. fair, reasonable and on normal commercial terms; and
- iii. not detrimental to the interest of the non-interested unitholders of Hektar REIT.

In forming its views, the Audit Committee has taken into consideration, amongst others, the following:

- i. the rationale and justifications for the Proposed Acquisition and Lease;
- ii. the terms and conditions of the SPA and Lease Agreement;
- iii. the basis and justifications of arriving at the Purchase Consideration;
- iv. the prospects of the Subject Property; and
- v. the effects of the Proposed Acquisition and Lease.

17. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposals are expected to be completed in the second quarter of 2024:

Events	Tentative timing
Convening of EGM	Mid January 2024
Registration of the Supplement Trust Deed with the SC	Early February 2024
Implementation of Proposed Placement*	End February 2024
Fulfilment of conditions precedent	Mid March 2024
Completion of the Proposals	Mid June 2024

* The Proposed Placement is expected to be implemented by February 2024, in several tranches within 6 months from the date of approval of Bursa Securities (i.e. valid until 17 June 2024).

18. UNITHOLDERS' MEETING

The Unitholders' Meeting, the notice of which is enclosed in this Circular, will be conducted on a fully virtual basis at the Broadcast Venue at The Boardroom of Hektar Asset Management Sdn Bhd, D1-U3-10, Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480 Kuala Lumpur, Wilayah Persekutuan on Monday, 15 January 2024 at 10.30 a.m., or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modification, the resolutions to give effect to the Proposals.

If you are unable to attend and vote in person at the Unitholder's Meeting, you should complete, sign and return the enclosed Proxy Form in accordance with the instructions provided thereon so as to arrive at Hektar REIT's Poll Administrator for the EGM, SS E Solutions Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan, not less than forty-eight (48) hours before the time set for holding the Unitholder's Meeting or any adjournment thereof. The lodging of the Proxy Form will not, however, preclude you from attending the Unitholder's Meeting and voting in person should you subsequently wish to do so.

19. FURTHER INFORMATION

You are advised to refer to the appendices set out in this Circular for further information.

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

JOHARI SHUKRI BIN JAMIL
Executive Director and Chief Executive Officer

PART B

**INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED UNITHOLDERS OF HEKTAR
REIT IN RELATION TO THE PROPOSED ACQUISITION AND LEASE**

EXECUTIVE SUMMARY

All definitions used in this IAL shall have the same meaning as the words and expressions provided in the “**Definitions**” section of this Circular and as defined in the IAL herein, except where the context herein requires otherwise. All references to “you” are references made to the non-interested unitholders of Hektar REIT (“**non-interested unitholders**”), whilst references to “we”, “us” or “our” are references to Asia Equity Research Sdn Bhd (“**AER**”), being the Independent Adviser for the Proposed Acquisition and Lease.

Set out hereunder is an executive summary which serves to highlight some of the salient points arising from AER’s independent evaluation of the Proposed Acquisition and Lease. The non-interested unitholders are advised to read and understand the contents of the IAL and the entire Part A of this Circular, including the appendices thereof, for more comprehensive information, evaluation, and recommendation on the Proposed Acquisition and Lease, before voting on the resolution pertaining to the Proposed Acquisition and Lease at the forthcoming Meeting.

1. INTRODUCTION

On 12 September 2023, UOBKH had on behalf of the Board, announced that the Trustee: -

- i. had on 11 September 2023, entered into a SPA with the KCSB (Vendor) for the proposed acquisition of KYS College for a purchase consideration of RM 150 million to be settled fully by cash or combination of cash and the Final Balance Sum of RM 35 million could be settled by Placement Units.

The Vendor had on 22 June 2023 leased KYS College to KESB (Lessee) for a period of 30 years and pursuant to the terms of the SPA, the said lease will be novated to the Trustee upon the completion of the acquisition of the Subject Property by way of a deed of novation to be entered between the Vendor, Trustee and the Lessee; and

- ii. the proposed placement of up to 99,757,594 Placement Units, representing up to 20% of the existing issued units of Hektar REIT, to partially finance the Purchase Consideration.

On 7 December 2023, UOBKH had subsequently, on behalf of the Board announced that the Vendor had acknowledged and accepted the variation of the mode of settlement of the Purchase Consideration as provided in the Letter of Variation.

On even date, UOBKH had on behalf of the Board, announced that Hektar REIT had proposed to undertake the following:-

- i. to revise the structure of the Proposed Placement to entail an issuance of up to 145,353,983 units, representing up to 25% of the total number of issued units of Hektar REIT to third party investors at an issue price to be determined later; and
- ii. the Proposed Amendment of Hektar REIT's investment objective stipulated in the Trust Deed to facilitate the Proposed Acquisition and Lease.

On 19 December 2023, UOBKH announced, on behalf of the Board, that Bursa Securities had, vide its letter dated 18 December 2023, approved the listing of and quotation for up to 145,353,983 Placement Units, subject to the conditions set out in Part A, Section 9 of this Circular.

The Proposed Acquisition and Lease, is a RPT under Paragraph 10.08 of the Listing Requirements by virtue of the interest of Hektar Black, being the interested major unitholder. Accordingly, the Manager had on 6 June 2023, appointed AER to act as an Independent Adviser to advise the non-interested Directors of the Manager and the non-interested unitholders of Hektar REIT on the Proposed Acquisition and Lease. As the Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other, we will also be commenting on the entire Proposals, to provide the non-interested unitholders with:

EXECUTIVE SUMMARY

- (i) comments as to: -
 - (a) whether the Proposals are fair and reasonable as far as the non-interested unitholders are concerned; and
 - (b) whether the Proposals are detrimental to the interest of the non-interested unitholders;and set out our opinion with reasons for the key assumptions made and the factors taken into consideration in forming our opinion.
- (ii) advise the non-interested unitholders on whether they should vote in favour of the Proposals; and
- (iii) take all reasonable steps to satisfy ourselves that we have a reasonable basis to make the comments and advise in (i) and (ii) above.

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EXECUTIVE SUMMARY

2. EVALUATION OF THE PROPOSALS

In evaluating the Proposals, we have taken into consideration the following:

Section in the IAL	Area of evaluation	AER's commentary
Section 6.1	Evaluation of the fairness and reasonableness of arriving at the Purchase Consideration	<p>The Independent Valuer has used the Income Approach (Investment Method) of valuation as the primary method and the Cost Approach as the secondary method to cross check the appraised results.</p> <p>The Purchase Consideration is based on the fair market value as appraised using the Investment Method without any discount or premium.</p> <p>The Purchase Consideration translates to a premium of 4.90% when compared with the appraised value using the Cost Approach which is a cross-check method.</p> <p>We are of the view that the Cost Approach should be regarded as a reference only and the Investment Method shall be the primary approach as the Cost Approach involves a higher degree of subjective inputs in the appraisal. In contrast, the Investment Method is supported by objective inputs such as the Lease Agreement.</p> <p>We have reviewed the Valuation Report prepared by the Independent Valuer, the workings, and calculations.</p> <p>We concur with the Independent Valuer that the Investment Method is a suitable and appropriate method as a primary method of valuation as the Subject Property is intended to be held as long-term investment.</p> <p>We have also examined each of the key basis and assumptions used by the Independent Valuer and we conclude that the Purchase Consideration is fair, reasonable and not detrimental to the interest of the non-interested unitholders.</p>

Section in the IAL	Area of evaluation	AER's commentary
Section 6.2	Evaluation of the reasonableness of the mode of settlement of the Purchase Consideration	<p>The timing and percentage of amount payable of the Purchase Consideration are normal commercial terms and hence is reasonable and not detrimental to the interest of the non-interested unitholders.</p>

EXECUTIVE SUMMARY

Section in the IAL	Area of evaluation	AER's commentary
Section 6.3	Rationale and benefits of the Proposed Acquisition and Lease	The Subject Property has a Principal Lease Period of 30 years with the Lessee and with an option to renew for the Secondary Lease Period and Tertiary Lease Period that covers the entire remaining tenure of the Subject Property for a period of 30 years and a tertiary lease period of 15 years, 5 months, and 28 days, respectively. Hence, we conclude the rationale and benefits as reasonable and not detrimental to the non-interested unitholders.

Section in the IAL	Area of evaluation	AER's commentary
Section 6.4	Evaluation of the Proposed Placement at an issue price to be determined later	<p>The issue price(s) of the Placement Units will be determined and fixed by the Board at a later date after receipt of all relevant approvals for the Proposed Placement.</p> <p>The Placement Units will be issued at issue price(s) of not more than 10% discount to the 5-day VWAP of Hektar REIT Units immediately preceding the price-fixing date(s).</p> <p>The issuance of the Placement Units at a price of <u>not more than 10% discount</u> of 5-Day VWAP of Hektar REIT to be determined on future price-fixing date(s) is common in commercial practice for companies issuing shares under a general mandate. The basis of determining the issue price for the Placement Units is consistent with market practice.</p> <p>Hence, we conclude that this is reasonable and not detrimental to the interest of the non-interested unitholders.</p>

Section in the IAL	Area of evaluation	AER's commentary
Section 6.5A	Evaluation of the salient terms of the SPA	<p>We reviewed the salient terms of the SPA such as clauses on conditions precedents and termination clauses.</p> <p>We conclude that the salient terms of the SPA are normal commercial terms and are reasonable and not detrimental to the non-interested unitholders.</p>

Section in the IAL	Area of evaluation	AER's commentary
Section 6.5B	Evaluation of the salient terms of the Lease Agreement	<p>We reviewed the salient terms of the Lease Agreement.</p> <p>We conclude that the salient terms of the Lease Agreement on areas such as its term, guaranteed rent, and the annual adjustment of guaranteed rent at the rate of two point five per centum (2.5%) of the preceding guaranteed rate are reasonable and not detrimental to the non-interested unitholders.</p>

EXECUTIVE SUMMARY

Section in the IAL	Area of evaluation	AER's commentary
Section 6.6	Issued unitholder's capital and substantial unitholders' holdings	<p>The Proposed Placement has a <u>dilutive effect</u> on each existing substantial unitholder's capital. The Proposed Placement, dilutive effect, is compensated by the following advantages: -</p> <p>(a) in that it shall improve the cash flow (as compared with borrowing which requires an obligation to repay the principal sum and interest on the amount borrowed).</p> <p>(b) It reduces the gearing computation. We noted that as at LPD, Hektar REIT's proforma gearing was 43.66% of its total asset value. It was marginally reduced to 43.21% of the total assets value upon completion of the Proposals.</p> <p>We conclude that considering both the dilutive and the advantages, the overall effects are reasonable and not detrimental to non-interested unitholders.</p>

Section in the IAL	Area of evaluation	AER's commentary
Section 6.6	<p>EPU/DPU¹</p> <p>Note: 1 Assuming 100% of the net income before tax of Hektar REIT is distributed.</p>	<p>We noted the EPU / DPU is marginally reduced to 5.01 sen after the Proposed Placement as compared to 6.26 sen before the Proposed Placement but after the subsequent events occurred up to LPD from audited FYE 31 December 2022.</p> <p>We noted that the proforma EPU / DPU decreases from 5.01 sen per Unit to 4.90 sen per Unit upon the completion of the Proposals after accounting for the incremental in revenue and expenses that was prorated to six months as the proforma computation is assumed to be completed in the second half of the financial year.</p> <p><u>Excluding the effects of the one-off expenses of the Proposals of RM 2.50 million, we noted the EPU / DPU shall increase from 5.01 sen to 5.24 sen per unit prepared on the same basis.</u></p> <p>The net incremental income shall increase in subsequent years as a result of the guaranteed rental increase of 2.5% annually and the exclusion of one-off estimated expenses of RM 2.5 million in the first year of acquisition.</p> <p>We conclude that this is reasonable and not detrimental to non-interested unitholders.</p>

EXECUTIVE SUMMARY

Section in the IAL	Area of evaluation	AER's commentary
Section 6.6	Gearing	<p>We noted that as at LPD, Hektar REIT's proforma gearing was 45% of its total asset value. We also noted the proforma gearing was <u>marginally reduced</u> to 43% of the total assets value immediately upon completion of the Proposals.</p> <p>The reduction is due to a larger amount that was raised by Proposed Placement as compared with the incremental borrowings to part finance the acquisition of the Subject Property.</p> <p>We conclude that this is reasonable and not detrimental to non-interested unitholders.</p>

Section in the IAL	Area of evaluation	AER's commentary
Section 6.6	NAV/Unit	<p>As at 31 December 2022, the NAV was RM 1.27 per unit. The NAV was diluted to RM 1.18 per Unit following the final dividend distribution of income for FYE 31 December 2022 to unitholders by a combination of new units being issued and cash payment. The NAV was diluted to RM 1.15 per Unit following the interim dividend distribution of income for FYE 31 December 2023 by a combination of new units being issued and cash payment.</p> <p>The NAV per Unit is <u>reduced</u> due to the dilutive effect of new units created for Private Placement I and Proposed Placement to RM 1.07 per Unit and RM 0.98 per Unit respectively.</p> <p>Upon completion of the Proposed Acquisition and Lease, the NAV per Unit is reduced to RM 0.97 per Unit.</p> <p>In subsequent years, the NAV per Unit is expected to progressively increase upon the realisation of the guaranteed quadruple-net rental to be realised from the Subject Property which is estimated to be RM 8.096 million in the first year and progressively increase upwards (step up) on an annual basis at the rate of two point five per centum (2.5%) of the preceding guaranteed rate.</p> <p>Hence, we considered the <u>step-up increase</u> of the projected NAV per Unit throughout the duration of the lease, as reasonable and not detrimental to non-interested unitholders.</p>

3. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposals and our evaluation is set out in Section 6 of the IAL. The non-interested unitholders should consider all the merits and demerits of the Proposals, based on all relevant pertinent factors including those which are set out in Part A of this Circular, the relevant appendices, this IAL and other publicly available information.

After having considered all the various factors included in our evaluation for the Proposed Acquisition and Lease, and based on the information made available to us, we are of the opinion that the Proposals are **fair** and **reasonable** insofar as the non-interested unitholders are concerned and they are **not detrimental** to the minority unitholders.

Accordingly, we recommend the non-interested unitholders to **vote in favour** of resolutions pertaining to the Proposals that is to be tabled at the forthcoming Meeting.



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21 December 2023

**To: The non-interested unitholders
HEKTAR Real Estate Investment Trust**

Dear Sir/Madam,

**INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED UNITHOLDERS OF HEKTAR REIT IN
RELATION TO THE PROPOSALS**

1. INTRODUCTION

On 12 September 2023, UOBKH had on behalf of the Board, announced that the Trustee: -

- i. had on 11 September 2023, entered into a SPA with the KCSB (Vendor) for the proposed acquisition of KYS College for a purchase consideration of RM150.0 million to be settled fully by cash or combination of cash and the Final Balance Sum of RM 35 million could be settled by Placement Units.

The Vendor had on 22 June 2023 leased KYS College to KESB (Lessee) for a period of 30 years and pursuant to the terms of the SPA, the said lease will be novated to the Trustee upon the completion of the acquisition of the Subject Property by way of a deed of novation to be entered between the Vendor, Trustee and the Lessee; and

- ii. the proposed placement of up to 99,757,594 Placement Units, representing up to 20% of the existing issued units of Hektar REIT, to partially finance the Purchase Consideration.

On 7 December 2023, UOBKH had subsequently, on behalf of the Board announced that the Vendor had acknowledged and accepted the variation of the mode of settlement of the Purchase Consideration as provided in the Letter of Variation.

On even date, UOBKH had on behalf of the Board, announced that Hektar REIT had proposed to undertake the following:-

- i. to revise the structure of the Proposed Placement to entail an issuance of up to 145,353,983 Units, representing up to 25% of the total number of issued units of Hektar REIT to third party investors at an issue price to be determined later; and
- ii. the Proposed Amendment of Hektar REIT's investment objective stipulated in the Trust Deed to facilitate the Proposed Acquisition and Lease.

On 19 December 2023, UOBKH announced, on behalf of the Board, that Bursa Securities had, vide its letter dated 18 December 2023 approved the listing of and quotation for up to 145,353,983 Placement Units, subject to the conditions set out in Part A, Section 9 of this Circular.

The Proposed Acquisition and Lease, is a RPT under Paragraph 10.08 of the Listing Requirements by virtue of the interest of Hektar Black, being the interested major unitholder. Accordingly, the Manager had on 6 June 2023, appointed AER to act as an Independent Adviser to advise the non-interested Directors of the Manager and the non-interested unitholders of Hektar REIT on the Proposed Acquisition and Lease. As the Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other, we will also be commenting on the entire Proposals, to provide the non-interested unitholders with:

a) comments as to: -

- i. whether the Proposals are fair and reasonable as far as the non-interested unitholders are concerned; and
- ii. whether the Proposals are detrimental to the interest of the non-interested unitholders;

and set out our opinion with reasons for the key assumptions made and the factors taken into consideration in forming our opinion.

- b) advise the non-interested unitholders on whether they should vote in favour of the Proposals; and
- c) take all reasonable steps to satisfy ourselves that we have a reasonable basis to make the comments and advise in (a) and (b) above.

The purpose of this IAL is to provide the non-interested unitholders with an independent evaluation of the Proposed Acquisition and Lease and our opinion and recommendation thereon subject to the scope and limitations specified herein. You should nonetheless rely on your own evaluation of the merits and demerits of the Proposed Acquisition and Lease before deciding on the course of action to be taken.

THIS IAL IS PREPARED SOLELY FOR THE USE OF THE NON-INTERESTED UNITHOLDERS FOR THE PURPOSE OF VOTING ON THE ORDINARY AND SPECIAL RESOLUTIONS PERTAINING TO THE PROPOSALS AT THE FORTHCOMING MEETING AND SHOULD NOT BE USED OR RELIED UPON BY ANY OTHER PARTY FOR ANY OTHER PURPOSES WHATSOEVER.

YOU ARE ADVISED TO READ AND FULLY UNDERSTAND BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES AND TO CONSIDER CAREFULLY OUR EVALUATION AND RECOMMENDATION BEFORE VOTING ON THE ORDINARY RESOLUTION 1 PERTAINING TO THE PROPOSED ACQUISITION AND LEASE, ORDINARY RESOLUTION 2 PERTAINING TO PROPOSED PLACEMENT AND SPECIAL RESOLUTION 1 PERTAINING TO THE PROPOSED AMENDMENT TO BE TABLED AT THE FORTHCOMING MEETING.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. CREDENTIALS, EXPERIENCE AND EXPERTISE OF AER

AER is licensed to provide two regulated activities by the Securities Commission Malaysia, namely advisory services in corporate finance and investment advice.

The past credentials, professional experiences, and expertise of AER where AER had been appointed as an Independent Adviser in the past two (2) years prior to the date of this IAL include, the following transactions:

- (a) proposed acquisition by Pacific Trustees Berhad acting as the trustee for and on behalf of KIP Real Estate Investment Trust of KIP Mall or a purchase consideration of RM 80,000,000 to be satisfied by cash where the independent advice letter was issued and dated 5 September 2023.
- (b) proposed business venture between Brilliant Forward Sdn Bhd, a wholly owned subsidiary of Land & General Berhad ("**L&G**") and a director of L&G, to develop a parcel of leasehold land where the independent advice letter was issued and dated 10 August 2023.
- (c) proposed acquisition by Matang Berhad of two semi-detached factory and warehouse, with a one and half storey office building for a purchase consideration of RM 33,000,000 to be satisfied by cash and newly issued shares of Matang, to seek the approval from the non-interested shareholders of Matang, where the independent advice letter was issued and dated 15 May 2023.
- (d) proposed debt settlement by Euro Holdings Bhd with creditors that involves the interest of interested directors in the proposed debt settlement, to seek the approval from the non-interested shareholders of Euro Holdings Bhd where the independent advice letter was issued and dated 13 April 2023.
- (e) proposed debt settlement by Nexgram Holdings Bhd with creditors that involves the interest of interested directors in the proposed debt settlement, to seek the approval from the non-interested shareholders of Nexgram Holdings Bhd where the independent advice letter was issued and dated 7 March 2023.
- (f) proposed debt settlement by Asdion Bhd with creditors that involves the interest of interested directors in the proposed debt settlement, to seek the approval from the non-interested shareholders of Asdion Bhd where the independent advice letter was issued and dated 20 December 2022.
- (g) proposed variation to seek the approval from the non-interested shareholders of Pertama Digital Berhad by removing a condition as set out in Clause 6A.1.3 of the disposal and supplemental share sale agreements for the company to procure an application to seek a waiver pursuant to paragraph 8.03A of the Listing Requirements where the independent advice letter was issued and dated 26 July 2022.
- (h) proposed acquisition by Gets Global Berhad of 38% equity interest in One Glove Venture Sdn Bhd from BT Capital Sdn Bhd for a purchase consideration of RM 89,356,233 to be satisfied entirely via the issuance 102,708,314 Irredeemable Convertible Preference Shares ("ICPS") in Gets Global Berhad at an issue price of RM 0.87 per ICPS of in a single transaction where the independent advice letter was issued and dated 22 June 2022.
- (i) proposed disposal by Sinmah Capital Berhad of the entire equity interest in SM Broilers Sdn Bhd to F.C.H Holdings Sdn Bhd for a disposal consideration of RM 2,900,000 to be satisfied entirely via cash in a single transaction where the independent advice letter was issued and dated 13 June 2022.
- (j) proposed disposal by LYC Medicare Sdn Bhd, a wholly owned subsidiary of LYC Healthcare Berhad of a 25% entire equity interest in LYC Medicare (Singapore) Pte Ltd to Kenanga Investors Berhad for a disposal consideration of SGD 12,918,466 to be satisfied entirely via cash in a single transaction where the independent advice letter was issued and dated 1 June 2022.
- (k) proposed disposal by PCCS Group Berhad for the entire equity interest in Mega Label (Malaysia) Sdn Bhd for a disposal consideration of RM 8,500,000 to be satisfied entirely via cash in a single transaction where the independent advice letter was issued and dated 10 February 2022.

Premised on the above, AER is capable and competent and has the relevant experience in carrying out its role and responsibilities as an Independent Adviser to advise the non-interested unitholders in relation to the Proposals.

3. DECLARATION OF CONFLICT OF INTEREST

We confirm that there is no existing or potential conflict of interest situation for us to carry out our role as the Independent Adviser in connection with the Proposals.

4. SCOPE AND LIMITATIONS TO OUR EVALUATION OF THE PROPOSED ACQUISITION AND LEASE

AER was not involved in the formulation and structuring of the Proposed Acquisition and Lease and/or any deliberations and negotiations pertaining to the terms and conditions of the Proposed Acquisition and Lease. In the past two (2) years prior to the date of this IAL, there is no professional relationship between the Manager and AER. AER's scope as the Independent Adviser is limited to expressing an opinion on the fairness and reasonableness of the Proposed Acquisition and Lease that involves the interest of the interested unitholders of Hektar REIT and whether the transaction is to the detriment of the non-interested unitholders, based on the following sources of information and documents:

- (a) information contained in Part A of the Circular, and the appendices enclosed therein;
- (b) other relevant information, documents, confirmations, and representations provided to us by the management of the Manager;
- (c) discussions and consultations with the Manager on 20 July 2023, 28 July 2023 and 11 October 2023;
- (d) Valuation Certificate and Valuation Report for the Subject Property prepared by the Valuer;
- (e) SPA and Letter of Variation;
- (f) Lease Agreement; and
- (g) other publicly available information that we consider relevant for our evaluation.

We have made all reasonable enquiries, performed reasonableness checks, and corroborated relevant information with independent sources, where possible. We are also guided by the Best Practice Guide in relation to Independent Advice Letters issued by Bursa Securities. In addition, the Board and management of the Manager have exercised due care to ensure that all information, data, documents, and representations provided to us to facilitate our evaluation are accurate, valid, complete, reasonable, and free from any material omission in all material respects. Accordingly, AER shall not assume any responsibility or liability whatsoever to any party for any inaccuracies, misstatements or omission of facts and information provided or represented by the Board and management of the Manager.

The directors of the Manager have collectively and individually accepted full responsibility for the accuracy, validity and completeness of the information, documents, data and statements provided to us and as contained herein in relation to the Proposals (save and except for the opinion expressed by AER which do not contain factual information provided by the Manager and information procured or developed by AER independently of the Manager) and confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant facts and information in relation to the Proposed Acquisition and Lease that are necessary for our evaluation have been completely and accurately disclosed to us and there is no omission of any material fact, the omission of which would render any such information provided to us false, incomplete, misleading and/or inaccurate.

We are satisfied with the information provided by the Board and management of the Manager and are not aware of any facts or matters not disclosed which may render any such information untrue,

inaccurate, or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this IAL. After making all reasonable enquiries and to the best of our knowledge and belief, the information used is reasonable, accurate, complete, and free from material omission.

The non-interested unitholders should note that the views expressed by AER herein are, amongst others, based on the current economic, market, industry, regulatory, monetary, social-political, and other conditions prevailing up to the LPD. Accordingly, our evaluation and opinion in this IAL do not consider information, events and conditions arising or may occur after the LPD. Our advice should be considered in the context of the entirety of this IAL.

In rendering our advice, we had taken note of pertinent issues which we believe are necessary and of importance to an assessment of the implications of the Proposed Acquisition and Lease that are of general concern to the non-interested unitholders.

As such:

- (a) our evaluation and recommendation contained herein are based on the assessment of the fairness and reasonableness of the Proposed Acquisition and Lease. Comments or points of consideration which may be commercially oriented such as the rationale, financial effects, potential benefits, and prospects of the Proposed Acquisition and Lease are included for our overall evaluation as we deem necessary for disclosure purposes to enable the non-interested unitholders to consider and form their views in a more holistic manner thereon. We do not express an opinion on legal, accounting and taxation issues relating to the Proposed Acquisition and Lease;
- (b) our views and advice as contained in this IAL only cater to the non-interested unitholders at large and not to any non-interested unitholder individually or any specific group of non-interested unitholders. Hence, in carrying out our evaluation, we have not given due consideration to the specific investment objectives, risk profiles, financials and tax situations and particular needs of any individual non-interested unitholder or any specific group of non-interested unitholders; and
- (c) we advise that any individual non-interested unitholder or any group of non-interested unitholders who are in doubt as to the action to be taken or require advice in relation to the Proposed Acquisition and Lease in the context of their individual investment objectives, risk profiles, financials and tax situations or needs, to consult their respective stockbrokers, bankers, solicitors, accountants, or other professional advisers immediately.

5. SUMMARY DETAILS OF THE PROPOSED ACQUISITION AND LEASE WHICH INVOLVE THE INTEREST OF THE INTERESTED MAJOR UNITHOLDER

5.1 Subject matter of the proposed acquisition

On 11 September 2023, the Trustee had entered into the SPA with the Vendor to acquire the Subject Property, on an 'as is where is' basis, free from all encumbrances together with the legal possession subject to the Lease, for a purchase consideration of RM150.0 million to be settled fully by cash or combination of cash and the Final Balance Sum of RM 35 million could be settled by Placement Units.

On 7 December 2023, UOBKH had subsequently, announced that the Vendor had acknowledged and accepted the variation of the mode of settlement of the Purchase Consideration as provided in the Letter of Variation. The Letter of Variation has the effect of amending the mode of settlement of the Purchase Consideration of the Final Balance Sum to be paid in full by way of cash only instead of the original SPA which allows the purchaser to pay the Final Balance Sum by issuance of new Hektar REIT's Units in lieu of cash.

On 7 December 2023 UOBKH also announced that Hektar REIT had proposed to revise the structure of the Proposed Placement to entail an issuance of up to 145,353,983 Placement Units, representing up to 25% of the enlarged number of issued units of Hektar REIT to third party investors at an issue price to be determined later and Proposed Amendment.

The Subject Property is single, 1½, 2 and 3-storey buildings, measuring approximately 34.80741 hectares (86.011 acres) in land area and total gross floor area of 396,874 square feet, which are categorised into administration, academic, residential and student facilities forming part of the fully residential and co-educational private school known as “Kolej Yayasan Saad” located at Ayer Keroh, Melaka.

The Subject Property is situated within a larger master land area of 49.18 hectares (121.526427 acres) (“**Master Land**”). The land of the Subject Property forms a part within the larger Master Land, of which the Master Land, is to be sub-divided and the separate title of the land occupied by Subject Property shall be issued to the Trustee.

“Established in 1995, KYS College is a fully residential and co-educational private school which offers secondary school education under Malaysia's New National School Curriculum (KBSM) for students from Form 1 to Form 5. KYS College is situated in the state of Melaka Negeri Bersejarah and within a locality known as Ayer Keroh. It is sited on the left side of Leboh Ayer Keroh travelling from Ayer Keroh towards Melaka city centre”

Source: **Part A, Section 2.2** of this Circular

The Master Land including the Subject Property is presently charged to Malaysia Building Society Berhad (“**MBSB**”) as security for a loan granted to the Vendor. In favour of the purchaser, the Vendor, has agreed to obtain the consent for sale and redemption statement from MBSB, pursuant to its obligation under the SPA. As at LPD, the redemption amount is RM85 million.

Source: **Part A, Section 2.2** of this Circular

5.2 Subject matter of the proposed lease

The Subject Property is under a 30 year lease arrangement between the Vendor and Lessee for a period of 30 years commencing on 22 June 2023.

Pursuant to the terms of the SPA, the Lease Agreement that was entered into between the Vendor and Lessee on 11 September 2023, will be novated to the Trustee by the Vendor upon the completion of the SPA.

The Subject Property will be leased to the Lessee for a period of 30 years commencing from 22 June 2023 on a quadruple-net lease basis, whereby the Lessee shall be responsible for the operation, maintenance, replacement and repair (including structural repair) of the Subject Property at its own cost and expense.

*In return for granting the Lease, the Vendor (as the asset owner and lessor) shall be entitled to a guaranteed rent of RM8.1 million for the first year of the Term (calculated at RM1.70 per sq ft per month on the NLA of 396,874 sq ft) (“**First Year Rental**”), followed by a 2.5% yearly rental escalation applicable throughout the 30 years lease period starting from year 2 until the expiry of the Term. The advance rental payable under the Lease Agreement (including the First Year Rental) shall be transferred in full to the purchaser upon completion of the Proposed Acquisition*

Source: **Part A, Sections 2.5 and 2.6** of this Circular

The Proposed Acquisition and Lease is a RPT pursuant to Paragraph 10.08 of the Listing Requirements by virtue of (i) Tan Sri Halim Saad being the founder of KYS College; and (ii) his daughter, Nor Sabrina Binti Halim's directorship in Hektar Black which in turn is a major unitholder of Hektar REIT.

Source: **Part A, Section 10** of this Circular

5.3 Basis and justification of arriving at the Purchase Consideration

The Purchase Consideration of RM150 million was arrived at, on a willing-buyer willing-seller basis, after taking into consideration the market value of the Subject Property of RM150 million using the Income Approach by way of Investment Method carried out by the Valuer as at the date of valuation of 22 June 2023.

Valuation Methodology	Market Value
<i>Income Approach by way of Investment Method</i>	<i>RM150,000,000</i>
<i>Cost Approach</i>	<i>RM143,000,000</i>

The Subject Property is an investment asset, therefore the appropriate methodology to arrive at the Market Value is the Investment Method. The Cost Approach is used as a check.

Source: **Part A, Sections 2.3 and 2.7** of this Circular

5.4 Date and original cost of investment of the Vendor

The Vendor acquired the Subject Property in May 1995, and the original cost of investment was RM 42.4 million.

Source: **Part A, Section 2.4** of this Circular

5.5 Terms of settlement of the Purchase Consideration

5% of the Purchase Consideration equivalent to RM 7,500,000 is payable upon execution of the SPA. 71.7% of the Purchase Consideration equivalent to an aggregate of RM 107,500,000 is payable on or before expiry of the completion period. The remaining 23.3% of the Purchase Consideration equivalent to RM 35,000,000 is payable on or before the expiry of the completion period with an automatic extension of 3 months from the expiry of the completion period or such other extended period as may be mutually agreed between the parties.

The details of the payment terms are elaborated in **Part A, Section 2.8** of this Circular and **Section 6.2 of this IAL**.

5.6 Inter-conditionality of the Proposals as extracted from Part A, Section 9 of this Circular

"The Proposed Acquisition and Lease, Proposed Placement and Proposed Amendment are inter-conditional upon each other. The Proposals are not conditional upon any other proposals undertaken or to be undertaken by Hektar REIT"

5.7 Resolutions tabled for approval by unitholders

Three resolutions were presented by your Board to seek your approval.

Ordinary Resolution 1

To seek your approval for the acquisition by the Trustee acting on behalf of Hektar REIT for the Proposed Acquisition and Lease.

If the Ordinary Resolution 1, Special Resolution 1 and Ordinary Resolution 2, are approved by you and all other condition precedents in the SPA is fulfilled, the Trustee shall be authorised to acquire the Subject Property in accordance to the terms and condition of the SPA and to enter into a deed of novation between the Vendor, Trustee and Lessee for the novation of the lease from the Vendor to the Trustee.

We have evaluated the Proposed Acquisition and Lease under various categories which are referenced in this IAL as appended below: -

Areas of Evaluation	Section reference in IAL
Evaluation of the fairness and reasonableness of arriving at the Purchase Consideration	6.1
Evaluation of the reasonableness of the mode of settlement of the Purchase Consideration	6.2
Rationale and benefits of the Proposed Acquisition and Lease	6.3
Evaluation of the Proposed Placement at an issue price to be determined later	6.4
Evaluation of the salient terms of the SPA	6.5A
Evaluation of the salient terms of the Lease Agreement	6.5B
Effects of the issued unitholder's capital and substantial unitholders' unitholdings, DPU and gearing	6.6
Future prospects	6.7
Risk factors of the Proposals	6.8

Ordinary Resolution 2

To seek your approval for the Proposed Placement of up to 145,353,768 Placement Units at an issue price to be determined later.

AER's Commentary

The Proposed Placement if fully subscribed, shall raise a gross amount of approximately up to RM 85.03¹ million, on assumption that 145,353,768 are fully subscribed based on an illustrative issue price of RM 0.5850.

"For illustrative purpose, the issue price is assumed at RM0.5850 per Placement Unit, which represents a discount of 9.97% to the 5-day VWAP of Hektar REIT Units up to and including the LPD of RM0.6498 per Unit"

Source: **Part A, Section 3.2** of this Circular

We have evaluated the Proposed Placement under Section 6.4 of this IAL by evaluating the rationale by your Board for the Proposed Placement.

Areas of Evaluation	Section reference in IAL
Proposed Placement at an issue price to be determined later, to raise approximately up to RM 85.03 million	6.4

Special Resolution 1

To seek your approval for the *Proposed Amendment is undertaken with the intention to broaden Hektar REIT's investment strategy, which in turn, enables Hektar REIT to explore other asset classes beyond the retail sector, with potential attractive yields and/ or capital appreciation to increase unitholders' long-term return.*

Source: **Part A, Section 5.3** of this Circular

Existing provision	Proposed Amendment
<p><i>DIVISION 2.5 Investment Objectives</i></p> <p><i>2.5.1 The principal investment objective of the REIT is to invest in income-producing Real Estate in Malaysia which is primarily used for retail purposes. The REIT also intends to provide Unitholders with a secure income distribution and to enhance the long-term value of the REIT.</i></p>	<p><i>DIVISION 2.5 Investment Objectives</i></p> <p><i>2.5.1 The principal investment objective of the REIT is to invest in income-producing Real Estate in Malaysia which is primarily used for retail purposes. The REIT also intends which aims to provide Unitholders with a secure income distribution and to enhance the long-term value of the REIT.</i></p>

Source: **Part A, Section 4** of this Circular

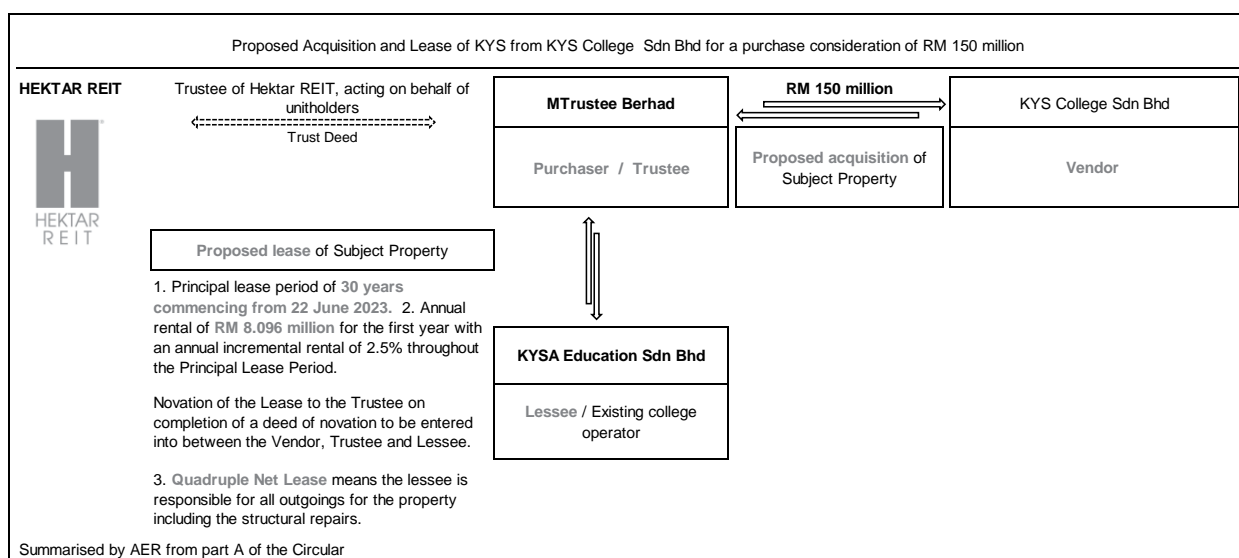
AER's Commentary

In view that the Proposed Amendment entails the amendment of Hektar REIT's investment objective to facilitate the Proposed Acquisition and Lease, it is **reasonable** and **not-detrimental** to the non-interested unitholders.

Summary

We have summarised the Proposed Acquisition and Lease as presented in Table 1 with the objective to facilitate the understanding but it is meant for illustration only and readers are advised to read Part A of the Circular, if any clarification is required.

Table 1 – Proposed Acquisition and Lease



Note

The Subject Property is presently charged to MBSB. Vendor shall obtain the consent for sale and redemption statement from the existing chargee pursuant to its obligation under the SPA.

EVALUATION OF THE PROPOSED ACQUISITION

6.1 Evaluation of the basis of arriving at the Purchase Consideration

As extracted from **Part A, Section 2.7** of this Circular, “*The Purchase Consideration of RM150 million was arrived at, on a willing-buyer willing-seller basis, after taking into consideration the market value of the Subject Property of RM150 million using the Income Approach by way of Investment Method carried out by the Valuer as at the date of valuation of 22 June 2023*”

The market value of the Subject Property was appraised by the Valuer based on the assumptions that:

- i. an individual title for a land area of about 34.80741 hectares (86.011 acres) had been issued with 'Building' category of land use specifying institutional use, with a balance lease term of 75 years and with all relevant premiums, fees and charges to the effect paid; and
- ii. the 30-year lease agreement with the Lessee had been executed.

AER's Commentary

We reviewed the Valuation Report prepared by the Valuer.

The Valuer has used two approaches to value the Subject Property.

Valuation Methodology	Market Value	Explanation and commentary of the approach by AER
Income Approach by way of Investment Method	RM150,000,000	<p>The Valuer had appraised the value of the Lease, commencing from date of valuation (22 June 2023) for the entire term of the Lease.</p> <p>We noted that pursuant to the terms of the SPA, the Lease Agreement that was entered into between the Vendor and Lessee on 11 September 2023, will be novated to the Trustee by the Vendor upon the completion of the SPA.</p> <p>The quarterly rentals from the Lessee is based on a 'Quadruplet Net' basis at a guaranteed rent of RM1.70 per square foot applied on the gross floor area, per month for the first year of the term and subject to an increase of 2.5% annually which shall be payable quarterly in advance.</p> <p>The first 1 year and 6 months rental are payable upfront by the Vendor to the Purchaser, on the commencement date of the Lease which is set aside to be offset with the amount payable by the Purchaser to the Vendor under the Lease Retention Sum, consistent with the terms of payment of the SPA.</p> <p>Following clarification, we were informed that the Purchaser and Vendor has agreed to set the commencement of the Lease as</p>

Valuation Methodology	Market Value	Explanation and commentary of the approach by AER
		<p>22 June 2023. This date is earlier than the SPA date which is 11 September 2023.</p> <p>We understood the rationale of having the commencement date of the Lease on 22 June 2023 is to be consistent with the commencement date of the projected net cash flows which is measured from 22 June 2023 onwards until the expiry of the Term Lease. As the SPA provides for the upfront payment of 1 year and 6 months to commence from 22 June 2023, which coincides with the commencement date of the Lease, this is reasonable.</p> <p>Upon the expiry of the Lease, the Valuer had appraised the reversionary phase, based on guaranteed rent of RM1.70 per square foot per month with an allowance of void of 5%. We noted that the Lease Agreement, provided for renewal for another two terms of 30 years ("Secondary Lease Period") and 15 years, 5 months and 28 days ("Tertiary Lease Period") and hence we concluded that the appraisal by the Valuer, <u>during the reversion period</u> of the Lease is reasonable.</p> <p>We reviewed and recomputed the computation of the Term Phase and Reversionary Phase as a cross-check with the valuation performed by the Valuer and concluded that the results are correctly computed.</p>
Cost Approach	RM143,000,000	<p>In this approach, the Subject Property was separately valued by determining the land component and the estimated depreciated replacement cost of the building and improvements.</p> <p>The land component is arrived by the Comparison Approach of comparable properties.</p> <p>We reviewed the computation by the Valuer and concluded that the assumptions and computations are reasonable.</p>

The Subject Property is an investment asset, therefore the appropriate methodology to arrive at the Market Value is the Investment Method. The Cost Approach is used as a check.

The Purchase Consideration equals the Investment Method, and hence, the Purchase Consideration is **fair, reasonable** and **not detrimental** to the non-interested unitholders.

AER's Commentary on the key basis and assumptions being used to appraise the fair market value of the Subject Property under Investment Approach

Item No.	Parameter	Assumption by Valuer		AER's Commentary on the key assumption by the Valuer and compared with the relevant terms of the Lease
		Term phase	Reversionary phase	
1	<p>Monthly rental rate on <u>quadruplet net basis</u> <small>Note a</small></p> <p>Note a Quadruplet net basis is a lease arrangement which lessee is responsible for all outgoings for the property including the structural repairs, during the period of lease.</p>	RM 1.70 to RM 3.48 psf	RM 1.70 psf	<p><u>Term Phase</u> We noted from the Lease provided for a rental in advance for first-year rent and first six (6) months of the second-year rent shall be payable in advance within 3 months upon the commencement of the Lease.</p> <p>The principal lease period of the Lease is for a period of thirty (30) years commencing from the commencement date (22 June 2023) ends on the expiry date i.e., 21 June 2053 ("Principal Lease Period").</p> <p>The Principal Lease Period is referred to as the "Term Phase" for purpose of appraising the projected net quarterly cash flows for the Term Phase.</p> <p>The monthly rental for the first year of the term phase is computed based on a monthly rental rate of RM 1.70 per square foot multiplied by 396,874 being the gross floor area ("Guaranteed Rent for the first year of the term").</p> <p>We also noted from the Valuation Report that the initial term monthly rental rate for Sri KDU International School Kota Damansara, Selangor, Sunway University, Bandar Sunway, Selangor and an undisclosed private institution in Johor were RM 1.57 per square foot (2017), RM 1.95 per square foot (2018) and RM2.25 per square foot (2021), with a range from RM 1.57 per square foot to RM 2.25 per square foot.</p> <p>Guaranteed Rent shall be revised upwards (step up) on an annual basis at the rate of 2.5% of the preceding Guaranteed Rent.</p> <p>To evaluate the reasonableness of the rental rate and the step-up rental adjustment of 2.5% annually on the preceding year, we have performed a cross-check by computing the annualised return of the Principal Lease Period which translate to approximately 6.91% annually. We noted annual return yield of 6.91% is higher than the average annual gross rental yield</p>

Item No.	Parameter	Assumption by Valuer		AER's Commentary on the key assumption by the Valuer and compared with the relevant terms of the Lease
		Term phase	Reversionary phase	
				<p>for investment in residential property of 5.16% in Quarter 2, 2023 as published by Global Property Guide. Hence, we conclude as a cross-check, the rental rate and the Guaranteed Rent with an annual increase of 2.5% during the Principal Lease Period, is reasonable.</p> <p><u>Reversionary Phase</u> Upon the expiry of the Principal Lease Period, the Lease provided for an option to renew for a Secondary Lease Period and an option to renew for Tertiary Lease Period commencing from the expiry of the Secondary Lease Period.</p> <p>The monthly rental for the entire of the Reversionary Phase is computed based on a monthly rental rate of RM 1.70 per square foot multiplied by 396,874 being the gross floor area.</p> <p>We reviewed on clause 7 of the Lease Agreement, which dealt with the rate of renewal the new lease shall be <u>subject to lease rental to be mutually agreed between the Lessor and the Lessee before the commencement of the Secondary Lease Period or the Tertiary Lease Period (as the case may be) of which the lease rental shall be based on the prevailing market rate not less than the last Guaranteed Rent payable failing which the lease rental shall be of the prevailing market rate and not more than ten per centum (10%) of the last Guaranteed Rent payable.</u></p> <p>In the appraisal, the Valuer had assumed the projected rental during the Reversionary Phase, based on a monthly rental rate of RM 1.70 per square foot for the entire Reversionary Phase.</p> <p>We have reviewed the Valuation Report and performed a <u>re-computation</u> using similar assumptions in the Valuation Report. The fair value attributable to the Term Phase and Reversionary Phase were RM 137.30 million and RM 13.01 million which translate to an aggregate of RM 150.31 million and rounded to RM 150.0 million by the Valuer. This shall mean that the Principal Lease Period shall make up 91.3% and the aggregate of the</p>

Item No.	Parameter	Assumption by Valuer		AER's Commentary on the key assumption by the Valuer and compared with the relevant terms of the Lease
		Term phase	Reversionary phase	
				<p>Secondary Lease Period and Tertiary Lease Period shall make up 8.7% of the fair value as appraised using the Investment Approach.</p> <p>We noted that the key assumptions that are being used to appraise the fair market value using Investment Approach for the Subject Property, is consistent with the salient terms of the Lease Agreement, and hence, we conclude that the assumptions of the monthly rental during the Term Phase and Reversionary Phase are reasonable and not detrimental to the non-interested unitholders.</p>

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Item No.	Parameter	Assumption by Valuer		AER's Commentary on the key assumption by the Valuer and compared with the relevant terms of the Lease
		Term phase	Reversionary phase	
2	Void allowance	<p>Nil</p> <p>No void period is provided for during the Principal Lease Period.</p>	<p>5%</p> <p>A void allowance of 5% is provided for during the Secondary Lease Period and Tertiary Lease Period.</p> <p>The void allowance is to accommodate for situations of vacancy.</p>	<p>The Lease coincides with the Term Phase. Hence, it is reasonable that no void is provided in the computation during the Term Phase.</p> <p>For the Reversionary Phase, the allowance for void is assumed at 5% annually.</p> <p>The Lease provides for an option to renew as extracted from clause 7 of the Lease Agreement, as extracted below:-</p> <p><i>Parties shall upon request made by either party, renew this Agreement upon the expiry of the Principal Lease Period or the Secondary Lease Period (as the case may be) provided always that –</i></p> <p>(a) <i>there shall not be any existing breach or non-observance of any of the covenants, provisions and stipulations on the part of the Lessee contained in this Agreement which remains unremedied as at the date of the notice or on the Expiry Date.</i></p> <p>(b) <i>either party may, not less than twelve (12) months before the date of expiration of the Principal Lease Period or the Secondary Lease Period (as the case may be), give to the other party notice in writing of such desire to renew and subject to the terms herein this Agreement being complied, the other party shall not refuse to such renewal</i></p> <p>We noted that though the Lease provides for continuing renewal, it is reasonable and prudent to include a 5% void allowance during the Reversionary Phase. Hence, we conclude that this assumption is reasonable and not detrimental to the non-interested unitholders.</p>

Item No.	Parameter	Assumption by Valuer		AER's Commentary
		Term phase	Reversionary phase	
3	Capitalisation rate	6.50% to 7.25%	7.25%	<p>Based on our analysis of the selected educational premises transactions, the yields range between 5.4% and 6.5%. A higher capitalisation rate was adopted given the profile of the Subject Property and taking into consideration that the Subject Property is located outside of the main cities.</p> <p>Source: Valuation Certificate</p> <p>We noted that the Valuer had selected past three transactions which involves the lease of properties for educational purposes, and the capitalisation rate (annual gross rental divided by the market value of the properties) were between 5.4% to 6.5%.</p> <p><u>Term Phase</u> We reviewed the computation performed and noted that the discount rate used were 6.50%, 6.75%, 7.00% and 7.25% for the first seven years, 8th to 16th year, 17th to 23rd year and 24th to 30th years, respectively.</p> <p>A higher capitalisation rate was adopted by the Valuer to take into consideration that the Subject Property is in Melaka, Ayer Keroh as compared to the two of comparable past transactions whereby the properties leased for educational purposes, were situated in Selangor and another in Johor, which is viewed to be of higher risk due to location.</p> <p>The adoption of a step increase in rate over the duration of the lease is <u>reasonable practise</u> to discount a distant net projected cash flow.</p> <p><u>Reversionary Phase</u> For the Reversionary Phase, the capitalisation rate used was 7.25%.</p> <p>We noted that though the capitalisation rate adopted by the Valuer is <u>higher</u> than the comparable properties for Term Phase and Reversionary Phase. A higher discount rate shall provide a prudent outcome and therefore we conclude that the capitalisation rates assumed by the Valuer, are reasonable and not detrimental to the non-interested unitholders.</p>

Evaluation of secondary cross-check Cost Approach

Item number	Description	Comparable 1	Comparable 2	Comparable 3
1	Location of land	Lots PT 4846 and PT 4847 located off Jalan Tun Kudu Ayer Molek, Melaka	Lots 2646 and 9 others located off Jalan Kemuning, off Jalan Pulau Sebang / Tampin, Melaka	Lot 16277, located off Jalan Pulau Sebang / Tampin, Melaka
2	Tenure	99-year leasehold interest (with unexpired term of about 98 years)	Interest in perpetuity in respect of all titles except for Lot 2646 which is 99-year leasehold interest (with unexpired term of about 13 years)	Perpetuity
3	Land Area	64.403 acres	281.820 acres	176.532 acres
4	Consideration (RM)	RM37,800,000	RM240,000,000	RM 148,320,480
5	Date of transaction	2 March 2022	30 October 2020	22 September 2020
6	Analysis (RM per sq. ft/lettable area)	RM 13.47 psf	RM19.55 psf	RM19.29 psf
7	Factors considered for adjustments	Zoning, planning requirements, title conversion, location, size, tenure, usage and matured development with all approval in place		
8	Adjusted Market Value (RM per sq. ft)	RM 22 psf	RM 26 psf	RM 24 psf

Source: Extracted from the Valuation Certificate

AER's commentary

1. We have reviewed the computation of the Cost Approach by the Valuer.
2. In this approach, the land component of the Subject Property was determined using a comparison approach which seeks to determine based on past comparable transactions, the transacted RM psf. The Valuer was of the view that land for Comparable 1 is most appropriate. We noted that Comparable 1 was a land situated in Ayer Keroh, Melaka and the Subject Property was situated at Alor Gajah, Melaka and both are leasehold. Upon converting the size of the land of the Subject Property at 86.011 acres into square feet by multiplying 43,560 and then with the adjusted market value of RM 22 psf for Comparable 1, shall translate to a value of RM 82.43 million being the fair market value of the land. Thereon, the Valuer had added the depreciated replacement cost on the improvements and assets of the Subject Property, shall translate to a fair market value of RM 143 million.
3. The Purchase Consideration represents a premium of RM 7 million or a premium of 4.90% on the fair market value using the cost approach. Though, the Purchase Consideration is a premium on the fair market value using the cost approach, we conclude that this is **reasonable and not detrimental** to the interest of the non-interested unitholders, as cost approach is a cross-check approach.

6.2 Evaluation of the mode of settlement of the Purchase Consideration

As extracted from **Part A, Section 2.8** and **Appendix 1, Section 3** of this Circular, we noted that the manner the Purchaser shall pay the Vendor the Purchase Consideration is as follows: -

Due Date	Nature of payment	Notes	Mode of payment	Percentage of Purchase Consideration	Amount, RM'000
Upon execution of SPA	Cash Deposit	Cash Deposit to be paid to Vendor's solicitors as stakeholders.	Cash	5.0%	7,500 ⁽¹⁾
On or before the expiry of the completion period	Defect Retention Sum	Defect Retention Sum to be paid to Vendor's Solicitors as stakeholders for the use of rectification by defects upon completion of due diligence by Purchaser, on the Subject Property.	Cash	1.0%	1,500 ⁽²⁾
	Lease Retention Sum	The Purchaser will pay the Lease Retention Sum by offset the advance rental and security deposit received from the Lessee under the Lease Agreement. The Vendor acknowledges that this payment is made on behalf of the Lessee.	Setoff	9.0%	13,500 ⁽³⁾
	First Balance Sum	First Balance Sum shall be paid to the existing chargee towards the redemption sum and remaining first balance sum (if any) shall be paid to the Vendor's solicitors as stakeholder.	Cash	61.7%	92,500 ⁽⁴⁾
On or before the expiry of the completion period with an automatic extension of 3 months from the expiry of the completion period or such other extended period as may be mutually agreed between the parties	Final Balance Sum	Pursuant to the Letter of Variation, the parties agreed that the Final Balance Sum shall be paid to the Vendor's Solicitors as stakeholder to hold and deal with in accordance with clause 4.11 failing which the Vendor shall grant the Purchaser an automatic extension of time of three (3) months from the expiry of the Completion Period or such other extended period as may be mutually agreed between the parties to pay the Final Balance Sum in full, free of interest.	Cash	23.3%	35,000 ⁽⁵⁾
		Total		100%	150,000

For illustrative purpose only, as extracted from **Part A, Section 2.9** of this Circular.

- (1) To be funded via internal funds
- (2) To be funded by internal funds
- (3) To be funded via Settlement Arrangement
- (4) Based on an illustration of 145,353,768 Placement Units at an issue price of RM 0.5850 shall raise a total sum of RM 85,031,954. A total borrowings of RM 7,468,046 is required to pay for the First Balance Sum.
- (5) For the Final Balance Sum, RM 32,531,954 shall be funded by bank borrowings and the remainder of RM 2,468,046 shall be funded by cash.

Commentary on Cash Deposit

- i. The Cash Deposit equivalent to RM 7,500,000 which is due upon the execution of the SPA has been paid by the Purchaser. Source: Clauses 4.2 of the SPA.

We conclude that the payment terms of Cash Deposit, the amount and timing is **reasonable and not detrimental** to the interest of the non-interested unitholders.

Commentary of the Defect Retention Sum

- ii. The Defect Retention Sum of RM 1,500,000 shall be paid to the Purchaser upon the SPA becomes unconditional. The Defect Retention Sum shall be held by the Vendor's solicitor to be used for rectification works required upon a joint inspection to be performed by the Purchaser and Vendor, is a reasonable commercial arrangement.

The Defect Retention Sum as provided for in the SPA allows the Vendor's Solicitors as stakeholders to hold and deal with in accordance with the provisions of clauses 4.4 and 9.2 respectively for making good the defect claims that are discovered and raised by the Purchaser during a "Defects Joint Inspection" as provided for under Clause 4.4 of the SPA.

In the event the Defect Retention Sum is insufficient to remedy the defects, such shortfall shall constitute a debt due and owing from the Vendor, which shall be payable by the Vendor to the purchaser within 14 days of receipt of a demand notice.

We conclude that the payment terms of Defect Retention Sum, the amount and timing is **reasonable and not detrimental** to the interest of the non-interested unitholders.

Commentary of the Lease Retention Sum

- iii. For illustrative purpose only on the mode of payment of the Lease Retention Sum.

Instead of the Purchaser makes a payment to the Vendor, the Vendor, pursuant to the Lease Agreement, acknowledges to make an advance rental and security deposit for and on behalf of the Lessee amounting to in aggregate sum of RM 16,394,864.94⁽¹⁾ and this aggregate shall be offset with the obligation by Purchaser to pay for the sum of RM 13,500,000 to the Vendor. Any remaining surplus from the offset shall be paid by the Vendor to the Purchaser.

Note 1- the Lessee shall pay the lessor an advance rental of RM12,245,547.27 equivalent to the first 18 months' guaranteed rent ("Advance Rental") within 3 months of the date of the Lease Agreement. In addition, the Lessee shall pay to the lessor a security deposit of RM4,149,317.67 ("Security Deposit") in accordance with the provisions of the Lease Agreement.

We conclude that the payment terms of Lease Retention Sum by the Purchaser and viewed together with advance rental and security deposit entitlement by the Purchaser pursuant to Vendor's obligation from the Lease Agreement is not a standard commercial arrangement. This manner of settlement relieves the Purchaser to actually raising cash to pay for the Lease Retention Sum. We viewed the receipt of the 18 months' Advance Rental and the use of the Security Deposit to "reduce" the amount required to be paid to the Vendor as **reasonable and not detrimental** to the interest of the non-interested unitholders, as Security Deposit is only required to be refunded to the Lessee at the end of the lease period.

Commentary of the First Balance Sum

- iv. As the Subject Property is presently charged to MBSB, the allocation of the First Balance Sum to be paid to the Vendor's solicitor is "set-aside" for the redemption sum and if not sufficient, the Vendor is required to pay for the Vendor's Differential Sum to the existing chargee to secure the discharge of the Subject Property.

Extracted clause 4.5 of the SPA on Vendor's Differential Sum

In the event the First Balance Sum is not sufficient to redeem the Property, the Vendor shall, within fourteen (14) Business Days of the date of notice from the Purchaser's Solicitors, make available the difference between the Redemption Sum and the First Balance Sum to be paid to the Existing Chargee ("Vendor's Differential Sum"). The Parties agree that such part of the Purchase

Consideration received by Vendor or Vendor's Solicitors less the Defect Retention Sum and Lease Retention Sum shall only be utilised by the Vendor and/or Vendor's Solicitors to redeem the Property from the Existing Chargee only if the Vendor and/or Vendor's Solicitors is able to pay and/or make available the Vendor's Differential Sum required pursuant to this Clause to the Existing Chargee.

If there arise any Vendor's Differential Sum, pursuant to clause 4.5 of the SPA, prior to release of any balance payment under Defect Retention Sum and Lease Retention Sum, towards the payment to the existing chargee, the Vendor has to pay the Vendor's Differential Sum to the existing chargee. Hence, this shall avoid the risk of the situation of the amount set-aside for First Balance Sum is not sufficient to redeem the amount owing by the Vendor to the existing chargee.

We conclude that the payment terms of the First Balance Sum and Vendor's Differential Sum are **reasonable** and **not detrimental** to the interest of the non-interested unitholders.

v. Commentary of the Final Balance Sum timing and mode of payment

Timing of payment

If the RM35 million Final Balance Sum is not settled within the completion period, it could be deferred to such other extended period as may be mutually agreed between the parties, free of interest, we conclude that the payment terms of the Final Balance Sum, the amount and timing is **reasonable and not detrimental** to the interest of the non-interested unitholders.

Mode of payment

Pursuant to Letter of Variation, it has the effect that the Final Balance Sum, has to be paid in cash and not as per the superseded clause 4.2(b)(iv) SPA that the Final Balance Sum could be either settled in cash or new Hektar REIT's Units.

As the amount remains the same, the mode of payment of the Final Balance Sum is **reasonable and not detrimental** to the interest of the non-interested unitholders.

Appended below is a table that reflects the variation of payment mode on the Final Balance Sum, pursuant to the Letter of Variation for easy reference.

<i>"a sum of Ringgit Malaysia Thirty Five Million (RM35,000,000.00) only ("Final Balance Sum") shall be paid to the Vendor's Solicitors as stakeholder to hold and deal with in accordance with clause 4.11 failing which the Vendor shall grant the Purchaser an automatic extension of time of three (3) months from the expiry of the Completion Period or such other extended period as may be mutually agreed between the parties to pay the Final Balance Sum free of interest by issuance of units of Hektar Real Estate Investment Trust to the Vendor in lieu of cash."</i>	<i>"a sum of Ringgit Malaysia Thirty Five Million (RM35,000,000.00) only ("Final Balance Sum") shall be paid to the Vendor's Solicitors as stakeholder to hold and deal with in accordance with clause 4.11 failing which the Vendor shall grant the Purchaser an automatic extension of time of three (3) months from the expiry of the Completion Period or such other extended period as may be mutually agreed between the parties to pay the Final Balance Sum, free of interest" by issuance of units of Hektar Real Estate Investment Trust to the Vendor in lieu of cash."</i>
Source: Clause 4.2(b)(iv) SPA	Source: Amended Clause 4.2(b)(iv) SPA pursuant to Letter of Variation

Commentary on the release of Final Balance Sum to the Vendor

The Final Balance Sum shall be released to the Vendor after the transfer of the Subject Property in favour of the Purchaser has been completed.

"Subject to clauses 4.2(b)(iv) and 8.2, the Vendor's Solicitors shall and are hereby authorised to release the remaining balance sum equivalent to the Balance Sum less the Defect Retention Sum, the Lease Retention Sum and the Redemption Sum to the Vendor fourteen (14) days after presentation of the Transfer at the relevant Land Office or Registry provided that the Land Office or Registry has not rejected the presentation of the Transfer prior to the expiry of the aforesaid period. In the event that the Land Office or Registry rejects the presentation of the Transfer on or before the expiry of the aforesaid fourteen (14) days by reason of any fault not attributable to the Purchaser or

the Purchaser's Financier, the Vendor's Solicitors is entitled to release such remaining balance sum to the Vendor fourteen (14) days after the same has been rectified and presented at the Land Office/Registry"

Source: Clause 4.11 of the SPA.

We conclude that the payment terms of the Balance Sum upon the completion of the transfer of the Subject Property in favour of the Purchaser are **reasonable and not detrimental** to the interest of the non-interested unitholders.

6.3 Rationale and benefits of the Proposed Acquisition and Lease

As extracted from Part A, Section 5.1 of this Circular	AER's commentary
<p>5.1 <i>Proposed Acquisition and Lease</i></p> <p><i>The Proposed Acquisition and Lease is in line with the key investment objective of the Manager to continuously pursue assets that are income-producing and are able to contribute to the long-term growth of Hektar REIT:</i></p> <p>i. <i>Quality addition of asset to Hektar REIT's portfolio</i></p> <p><i>The Lease Agreement which has a quadruple-net lease arrangement will provide Hektar REIT with fixed rental payments from the Lessee, whilst property-related expenses such as <u>quit rent, insurance, upkeep and maintenance</u> of KYS College are at the obligations of the Lessee. This will provide Hektar REIT with stable income over the 30 years tenure, and less influenced by the performance of the retail sector in Malaysia.</i></p> <p>ii. <i>Increased strength and geographical diversification</i></p> <p><i>The Proposed Acquisition and Lease will improve the <u>diversity of Hektar REIT's overall property mix with lesser reliance on the retail sector</u>. This will enlarge the net lettable area of Hektar REIT by 396,874 sq ft or 20% from the existing size of 2 million sq ft. The total asset value of Hektar REIT will also increase by RM150 million or 12% from RM1,206 million as at 31 December 2022.</i></p> <p>iii. <i>Accretion to earnings and DPU</i></p> <p><i>Pursuant to the Proposed Acquisition and Lease, KYS College will provide Hektar REIT with a <u>stable and sustainable income stream for a committed lease period of 30 years, with a guaranteed rent of RM8.1 million for the first year augmented by a rental escalation of 2.5% every year</u>. Accordingly, the Board believes that the Proposed Acquisition and Lease will help to improve the earnings of Hektar REIT and DPU to unitholders over the long-term as and when the anticipated benefits are realised. For information, Hektar REIT distributed an interim income distribution of 2.7 sen on 16 October 2023, with annualised dividend yield of 8.3% based on the closing market price of Hektar REIT Units of RM0.650 at the LPD.</i></p>	<p>We reviewed the rationale by the Manager on the Proposed Acquisition and Lease: -</p> <p>i. Quality addition of asset to Hektar REIT's portfolio</p> <p>The Subject Property has a Lease which provides for continuing renewal for the entire remaining lease period. Upon the expiry of the Principal Lease Period, the renewal option as provided for in the Lease Agreement provided for an option to renew for period of thirty (30) years commencing from the expiry of the Principal Lease Period and an option to renew for another period of fifteen (15) years, five (5) months, and twenty-eight (28) days commencing from the expiry of the Secondary Lease Period.</p> <p>The Lease Agreement which is based on a quadruple-net lease arrangement, will provide Hektar REIT with fixed rental payments from the Lessee whilst property-related expenses such as quit rent, insurance, upkeep and maintenance are the obligations of Lessee.</p> <p>ii. Increased strength and geographical diversification</p> <p>The existing portfolios of Hektar REIT are shopping mall such as Subang Parade in Selangor, Mahkota Parade in Melaka, Wetex Parade at Muar Johor, Kulim Central, Central Square in Kedah and Segamat Central in Johor.</p> <p>The Subject Property is leased for education purpose.</p>

	<p>Hence, it shall diversify Hektar REIT's earning stream, instead of concentrated to shopping malls.</p> <p>iii. Accretion to earnings and DPU</p> <p>The Principal Lease Period provides for stable and sustainable income stream for a committed lease period of 30 years, with a guaranteed rent of RM8.1 million for the first year augmented by a rental escalation of 2.5% every year.</p> <p>We are of the view that the rationale and benefits of the Proposed Acquisition and Lease are reasonable and not detrimental to the non-interested unitholders.</p>
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6.4 Proposed Placement at an issue price to be determined later

As extracted from **Part A, Section 3.0** of this Circular, we noted the Proposed Placement involves the issuance of up to 145,353,768 Placement Units, representing up to 25% of Hektar REIT's issued capital of 581,415,073 Units.

AER's commentary

1. *The issue price(s) of the Placement Units will be determined and fixed by the Board at a later date after receipt of all relevant approvals for the Proposed Placement. The Placement Units will be issued at issue price(s) of not more than 10% discount to the 5-day VWAP of Hektar REIT Units immediately preceding the price-fixing date(s).*

The issuance of the Placement Units at a price of not more than 10% discount of 5-Day VWAP of Hektar REIT to be determined on future price-fixing date(s) is common in commercial practice for companies issuing shares under a general mandate. The basis of determining the issue price for the Placement Units is consistent with market practice.

Hence, we conclude that the basis of determining the issue price, is **reasonable and not detrimental** to the interest of the non-interested unitholders.

2. From the above table, we noted that on assumption that the Proposed Placement is fully subscribed, and the issue price is RM 0.5850 shall raise a sum of RM 85.03 million.
3. The difference between Purchase Consideration and the aggregate sum of the Lease Retention Sum, the eventual amount raised from Proposed Placement and the amount that shall be funded by internal cash, shall equal to an amount to be funded by external borrowings, by analysis. Hence, the higher the amount raised by Proposed Placement shall result in a corresponding lesser amount required to be funded by borrowings, if the amount to be funded by cash remains the same.

We view the choice of capital structure whether to finance by private placement or external borrowings has its advantages and disadvantages.

Effects of financing by private placement

It shall translate to savings in interest cost, but shall result in more Hektar REIT Units in circulation which results in dilutive effects of NAV and DPU.

Effects of financing by external borrowings

It does not result in any dilution as the number of Hektar REIT Units in circulation remains the same but shall result in incremental increase in future interest cost and increase in gearing. The present annual average interest cost is approximately 5.25%.

There is a guideline that limits the gearing level of listed REIT to not exceeding 50% of total asset value.

Extract: Paragraph 8.32 of Chapter 8: Investments of the Real Estate Investment Trust of the Guidelines on Listed Real Estate Investment Trusts

The total borrowings or financing facilities, including borrowings or financing through issuance of debt securities or sukuk, and deferred payment arrangements of a REIT, must not exceed 50% of the total asset value of the REIT at the time the borrowings or financing facilities, or deferred payment arrangements are incurred.

4. As extracted from Part A, Section 7.2 of this Circular, we noted that as at LPD, the gearing ratio of Hektar REIT is 43.66%. Upon completion of the Proposals, we noted the proforma gearing ratio is reduced to 43.21%.

As extracted from Part A, Section 7.2 of this Circular, we noted as at LPD, the total borrowings of Hektar REIT is RM 562.28 million. Upon completion of the Proposals, we noted the proforma total borrowings is increased to RM 591.44 million.

6.5A Evaluation of the salient terms of the SPA

The salient terms of the SPA are set out in **Appendix I** of this Circular. Our comments on the salient terms are as follows:

Salient terms of the SPA	AER's Commentary
<p>6. Conditions Precedent</p> <p><i>The completion of the sale and purchase of the Subject Property pursuant to the terms and subject to the conditions set out in the SPA will in all respects be conditional upon the following conditions precedent being fulfilled/obtained or waived (as the case may be) by the cut-off date:</i></p> <p>(a) <i>the Vendor having obtained, at its own cost and expense, the following consents:</i></p> <p>i. <i>the consent of the state authority to transfer the Subject Property by the Vendor to the Trustee;</i></p> <p>ii. <i>the consent of the state authority for the lease of the Subject Property by the Trustee to the Lessee; and</i></p> <p>iii. <i>the consent of the state authority for the charge of the excluded land by the Vendor in favour of the Trustee (if any);</i></p> <p>(b) <i>the Vendor having obtained, the approval from its shareholders and board of directors for the disposal of the Subject Property by the Vendor to the Trustee and the creation of the charge of the excluded land by the Vendor in favour of the Trustee;</i></p> <p>(c) <i>the Vendor having obtained the consent from the existing chargee for the sale of the Subject Property by the Vendor in accordance with the terms of the SPA and that the existing chargee will not exercise any of its right under the Vendor's loan documents</i></p>	<p>The sale and purchase of the Subject Property will only be completed if the following conditions are met by the cut-off date:</p> <ul style="list-style-type: none">➤ The Vendor must obtain necessary consents from the state authority for the transfer of the Subject Property, the lease of the Subject Property, and the charge of the excluded land.➤ The Vendor must obtain necessary approvals from its shareholders and board of directors, and from the existing chargee.➤ The Vendor must procure and deliver to the Trustee a valid redemption statement and undertaking from the existing chargee, and a charge in favor of the Trustee over the excluded land.➤ The Vendor must and shall procure the Lessee to sign in escrow a deed of novation of the Lease Agreement and deposit the original copy of the Lease Agreement with the Trustee's solicitors.

Salient terms of the SPA	AER's Commentary
<p><i>that may impede the sale herein including foreclosure on the master land and the Subject Property;</i></p> <p>(d) <i>the Vendor shall have procured and delivered to the Trustee a valid redemption statement and undertaking in respect of the Subject Property from the existing chargee and addressed to the Trustee, setting out the amount payable for the full redemption of the Subject Property against the existing chargee's undertaking to release the original master title, the Vendor's loan documents and the discharge documents to the Trustee upon receipt of the redemption sum and to refund the redemption sum received in the event the discharge documents cannot be perfected for any reason whatsoever;</i></p> <p>(e) <i>the Vendor shall sign in escrow a charge in favour of the Trustee over the excluded land under section 242 of the National Land Code 1965 and upon terms acceptable to the Trustee and deposit the same with the Trustee's solicitors who shall have the right to release the same to the Trustee on the completion date to effect the charge;</i></p> <p>(f) <i>the Vendor shall and shall procure the Lessee to sign in escrow the deed of novation of the Lease Agreement upon terms acceptable to the Trustee for the purpose of novation of all the rights, benefits, interests, obligations and liabilities of the Vendor under the existing Lease and shall deposit the same together with the original copy of the Lease Agreement with the Trustee's solicitors who shall have the right to release them to the Trustee on the completion date to register the Lease;</i></p> <p>(g) <i>the Vendor shall have executed in escrow the master deed of assignment and notices upon terms acceptable to the Trustee for the purpose of assigning, novating, transferring all the rights, benefits, interests, obligations and liabilities of the Vendor under the existing tenancies (other than the security deposits and income revenue) and deposited the same together with the original copies of the tenancy agreements with the Trustee's solicitors who shall have the right to release them to the Trustee on the completion date;</i></p> <p>(h) <i>the Vendor shall have deposited with the Trustee all drawings pertaining to the Subject Property including as-built, civil and structural (C&S) and mechanical and electrical (M&E) plans and drawings as per the list as set out in the SPA;</i></p> <p>(i) <i>the Trustee shall have obtained Bursa Malaysia Securities Berhad's approval or clearance of the Purchase Consideration and the valuation report for the Subject Property in accordance with the Main Market Listings Requirements;</i></p> <p>(j) <i>the Trustee shall have obtained the approvals of the Board of Directors of Hektar Asset Management Sdn Bhd and unitholders of Hektar REIT in relation to the diversification of the investment objectives of Hektar REIT, the amendment to the Amended and Restated</i></p>	<ul style="list-style-type: none"> ➤ The Vendor shall have executed in escrow a master deed of assignment and notices and deposited the original copies of the tenancy agreements with the Trustee's solicitors. ➤ The Vendor shall have deposited with the Trustee all drawings pertaining to the Subject Property. ➤ The Trustee shall have obtained approval or clearance from Bursa Securities for the Purchase Consideration and the valuation report, and approval from the Board of Directors of the Manager and unitholders of Hektar REIT. ➤ The Trustee shall have carried out and completed a legal and financial due diligence review over the master land and the Subject Property. ➤ The parties must have obtained any other approvals as may be deemed necessary. ➤ The parties must have carried out and completed a joint inspection on the Subject Property. <p>We are of the opinion that this commercial arrangement is reasonable.</p>

Salient terms of the SPA	AER's Commentary
<p><i>Trust Deed of Hektar REIT, and the acquisition of the Subject Property and the Lease;</i></p> <p>(k) <i>the Trustee having carried out and completed the legal and financial due diligence review over the master land and the Subject Property as well as on the Lessee's and Vendor's financial capability to meet their obligations respectively under the SPA and the Lease Agreement and the results of the due diligence review are satisfactory to the Trustee;</i></p> <p>(l) <i>the parties having obtained any other approvals of any authorities as may be deemed necessary by the parties and agreed in writing; and</i></p> <p>(m) <i>the parties having carried out and completed the joint inspection on the Subject Property to identify the defects to be repaired and made good by the Vendor prior to the completion date.</i></p>	

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Salient terms of the SPA	AER's commentary
<p>8. Lease and Lease Agreement</p> <p>(a) <i>Simultaneously with the execution of the SPA, the Vendor shall and shall procure the Lessee to execute the deed of novation of the Lease Agreement and shall deposit the same together with the original copy of the Lease Agreement with the Purchaser's Solicitors as stakeholder who are authorised to deal with the same in accordance with the terms of the SPA.</i></p> <p>(b) <i>Where applicable, the Purchaser's Solicitors shall and are hereby authorised to effect registration of the Lease in favour of the Purchaser simultaneously with the registration of the Transfer (i.e. execution of Memorandum of Transfer in respect of the Subject Property in favour of the Purchaser) upon the completion of the SPA.</i></p>	<p>This clause in the SPA requires the Vendor to execute the deed of novation of the Lease Agreement executed between the Vendor and Lessee to be novated to Purchaser and Lessee under similar terms and conditions as the Lease Agreement. The term is reasonable and not detrimental to the non-interested unitholders.</p> <p>Upon the novation, the Subject Property which was under a 30-year lease arrangement between the Vendor and Lessee commencing on 22 June 2023 shall be substituted as though as the Lease Agreement was executed between the Purchaser and Lessee.</p>

Salient terms of the SPA	AER's commentary
<p>9. Termination and Breach</p> <p>(a) <i>Vendor's rights to terminate</i></p> <p><i>If the Trustee defaults in the satisfaction of any part of the Purchase Consideration as and when it becomes due in accordance with the provisions of the SPA, or there is any breach by the Trustee of any of its representations, warranties, covenants, undertakings or obligations under the SPA which is not capable of remedy or capable of remedy but is not remedied within fourteen (14) days from the date of receiving a written notice from the Vendor requiring the same to be remedied, the Vendor will be entitled at any time prior to completion, to terminate the SPA by notice in writing to the Trustee.</i></p> <p>(b) <i>Trustee's right to terminate</i></p> <p><i>If the Vendor fails, neglects or refuses to complete the sale in accordance with the provisions of this SPA, there is any breach by the Vendor of any of its representations, warranties, covenants, undertakings or obligations under the SPA which is not capable of remedy or capable of remedy but is not remedied within fourteen (14) days from the date of receiving a written notice from Trustee requiring the same to be remedied, the Trustee will be entitled at any time prior to completion, to terminate the SPA by notice in writing to the Vendor.</i></p> <p>(c) <i>Consequences of termination by Vendor</i></p> <p><i>If a notice terminating the SPA is duly given by the Vendor, then within fourteen (14) days of the giving of the notice, if the Vendor elects not to pursue the remedies set out in the SPA, the <u>deposit will be absolutely forfeited in favour of the Vendor and the Vendor must within seven (7) days thereof return all moneys received by them as part of the Purchase Consideration and held by them as at that date less the</u></i></p>	<p>The SPA may be terminated by either the Vendor or the Trustee if the other party materially breaches its obligations under the agreement. In the event of termination by the Vendor, the Vendor will forfeit the deposit and return the remaining Purchase Consideration to the Trustee. In the event of termination by the Trustee, the Vendor must return the entire Purchase Consideration and pay an additional sum equivalent to the deposit as liquidated damages. Both parties have the right to seek specific performance to compel the other party to complete the sale and purchase of the Subject Property.</p> <p>We are of the view that the Termination clause is reasonable, and it is not detrimental to the non-interested unitholders.</p>

Salient terms of the SPA	AER's commentary
<p>deposit, to the Trustee or to the Trustee's solicitors, free from interest, and in exchange with the Vendor's simultaneous compliance with the provisions of sub-paragraph (a), the Trustee shall re-deliver to the Vendor possession of the Subject Property and any documents delivered, if the same has been delivered to the Trustee.</p> <p>(d) Consequences of termination by Trustee</p> <p>If a notice terminating the SPA is duly given by the Trustee, then within fourteen (14) days of the giving of the notice, if the Trustee elects not to pursue the remedies set out in the SPA, the Vendor must within seven (7) days thereof <u>return all moneys received by them as part of the Purchase Consideration and held by them as at that date, to the Trustee or to the Trustee's solicitors, free from interest together with an additional sum equivalent to the deposit as agreed liquidated damages to the Trustee</u>, and in exchange with the Vendor's simultaneous compliance with the provisions of sub-paragraph (a), the Trustee shall re-deliver to the Trustee possession of the Subject Property and any documents delivered, if the same has been delivered to the Trustee.</p> <p>(e) Specific performance</p> <p>The Vendor and the Trustee will be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance to complete the sale and purchase of the Subject Property in accordance with the provisions of the SPA (in which respect the alternative remedy of monetary compensation will not be regarded as compensation or sufficient compensation for any default of the said party in the performance of the terms and conditions of the SPA) and for damages for the said party's breach of the SPA.</p>	

Salient terms of the SPA	AER's commentary
<p>10. Real Subject Property Gains Tax</p> <p>The parties hereby acknowledge that the Vendor is exempted from payment of real Subject Property gain tax in relation to the disposal of the Subject Property pursuant to Real Subject Property Gains Tax (Exemption) (No. 4) Order 2003. In the event that the Vendor is not exempted from payment of real Subject Property gain tax, the Vendor hereby agrees and undertakes to pay for the tax due and payable in respect of the disposition of the Subject Property in compliance with the Real Subject Property Gain Tax Act, 1976 within sixty (60) days from the date of the SPA and shall forward a copy of the receipt to the Trustee.</p>	<p>We are of the view that the clause is reasonable, and it is not detrimental to the non-interested unitholders.</p>

Based on our evaluation of the salient terms of the SPA, we are of the view that the salient terms of the SPA are general on normal commercial terms for transactions of such nature and the said terms are **reasonable** and **not detrimental** to the interests of the non-interested unitholders.

6.5B Evaluation of the salient terms of the Lease Agreement

Nature of Lease	<p>This Lease is a quadruple-net fixed term lease where the Lessee shall be responsible for the operation, maintenance, replacement and repair (including structural repair) of the Subject Property and the Lessor's Subject Property at its own cost and expense and pay for the outgoings. In return for granting the Lease, the Lessor shall be entitled to a guaranteed rent.</p> <p>AER's commentary</p> <p>As the Lease is a quadruple-net fixed term lease, the Trustee shall earned the future rental as a stream of income and do not need to set aside to cover for the cost associated with operation, maintenance, replacement and repair (including structural repair). The Lessee is responsible for all property-related expenses and is also obligated to pay a guaranteed rent. The Trustee, on the other hand, has minimal responsibilities and is guaranteed a steady stream of income.</p>
Term	<p>The Term begins on the commencement date of 22 June 2023 and ends on the expiry date i.e., 21 June 2053. Unless otherwise as specified, neither party shall have the right to terminate the Lease Agreement before the expiry of the Term created.</p> <p>AER's commentary</p> <p>This is a significant clause as it ensures that the Lessee has the right to occupy the property for the entire 30-year term, provided they fulfill their obligations under the Lease Agreement. Conversely, the Lessor is guaranteed a steady income stream from the rent payments for the duration of the Lease. The longer lease period is preferred as it provides stability and predictability for both the Lessor and the Lessee. In addition, as the Lease Agreement also provides for a renewable option for Secondary Lease Period, and Tertiary Lease Period, it provides certainty in renting out the Subject Property to the Lessee during the remaining tenure of the lease of the land.</p>
Guaranteed Rent	<p>In consideration of the Lessor granting the Lease to the Lessee, subject to rental in advance under the Lease Agreement, the Lessee shall pay the guaranteed rent to the Lessor on a quarterly payments in advance free of all deduction and offset, with the first payment of the rental in advance commencing on or before the commencement date and thereafter the guaranteed rent shall be payable on the first (1st) day of the nineteenth (19th) month of the Term and at each and every succeeding three (3) months after the nineteenth (19th) month of the Term (Rent Day). Where applicable, the final payment shall be prorated accordingly.</p> <p>AER's commentary</p> <p>The Lease Agreement provided for a rental in advance for a period of the first eighteen months, which the purchaser can use to offset the purchaser's obligation to pay for under the Lease Retention Sum. The Lessee shall pay the guaranteed rent to the purchaser in advance on a quarterly basis, starting on the first day of the nineteenth month of the Lease term and every three months thereafter. For the final payment, proration will apply based on the remaining Lease term.</p> <p>The Lessee's obligation to pay rent in advance provides the Lessor with financial security and predictability. We viewed the rental payment in advance for the first eighteen months and thereon the quarterly rental in advance thereafter in as a favourable term to the Trustee/Purchaser.</p>
Adjustment of the Guaranteed Rent	<p>The guaranteed rent shall be revised upwards (step up) on an annual basis at the rate of two point five per centum (2.5%) of the preceding guaranteed rate.</p> <p>The parties agreed to reflect the revision of guaranteed rate by way of an exchange of letter between the parties recording such revision.</p>

	<p>AER's commentary</p> <p>The step-up of 2.5% annually on a preceding guaranteed rate is reasonable as it translates to additional income stream annually from the rental proceeds and the major cost are borne by the Lessee under the quadruple-net lease arrangement.</p>
Other salient terms of the Lease Agreements	<p>The Principal Lease Period shall be 30 years from the commencement date, subject always to the provisions of the Lease Agreement, with an option to renew granted to both parties for a Secondary Lease Period of 30 years (at the expiry of the Principal Lease Period) and a Tertiary Lease Period of fifteen (15) years, five (5) months, and twenty eight (28) days commencing from the expiry of the Secondary Lease Period.</p> <p>The commencement date of the Lease Agreement is 22 June 2023.</p> <p>The option to renew shall be subject to lease rental to be mutually agreed between the Lessor and the Lessee before the commencement of the Secondary Lease Period or the Tertiary Lease Period (as the case may be) of which the lease rental shall be based on the prevailing market rate not less than the last guaranteed rent payable failing which the lease rental shall be of the prevailing market rate and not more than ten percentage (10%) of the last guaranteed rent payable.</p> <p>The Lessor may by a notice in writing to the Lessee or a forfeiture notice in writing pursuant to Section 235 of the National Land Code 1965 issued to the Lessee (as applicable) terminate the Lease Agreement as from the date of service of that notice after the Lessee defaults by serving a notice terminating the Lease Agreement on the Lessee, or instituting proceedings for possession of the Subject Property against the Lessee.</p> <p>Save and except for the force majeure and the compulsory acquisition as prescribed in the Lease Agreement, the Lessee shall, on the termination of the Lease Agreement arising from the default of the Lessee, pay to the Lessor an accelerated lump sum payment of all quarterly guaranteed rent payable by the Lessee for the unexpired Term.</p>
	<p>AER's commentary</p> <p>Long-term Stability: The land occupied by the Subject Property is a leasehold land of 99 years. As at the date of commencement on 22 June 2023 until the expiry of the lease of the land, the remaining life is 75 years, 5 months and 28 days. The renewable lease options provides the Purchaser with an option that the Subject Property shall have a tenancy for the remaining life of the lease period of the land.</p> <p>Renewal Flexibility: Renewal options offer flexibility to extend the lease relationship or adapt to changing market conditions.</p> <p>Market-based Rent Adjustments: Rental adjustments during renewals serves ensure that Lessee is entitled to a minimum rent of not less than the last guaranteed rent payable failing which the lease rental shall be of the prevailing market rate and not more than ten percentage (10%) of the last guaranteed rent payable.</p>

Based on our evaluation of the salient terms of the Lease Agreement, we are of the view that the salient terms of the Lease Agreement are general on normal commercial terms for transactions of such nature and the said terms are **reasonable** and **not detrimental** to the interests of the non-interested unitholders.

6.6 Effects of the issued unitholder's capital and substantial unitholders' unitholding, DPU and gearing

The effects of the Proposals are as set out in **Part A, Section 8.1** of this Circular.

Our comments on the effects of the Proposals are as follows:

Areas of Evaluation	AER's commentary		
	Number of Units as at LPD	Proposed Placement	Proposed Acquisition and Lease
Proforma issued unitholder's capital and substantial unitholders' unitholdings.	581,415,073	The Proposed Placement has the effect of <u>increasing</u> the number of units from 581,415,073 Units to 726,768,841 Units representing an addition of up to 25% increase in number of units as at LPD.	The Proposed Acquisition and Lease considered by itself, <u>does not have any effect</u> on the unitholder's capital. Hence, it <u>does not</u> have any dilution effects on unitholder's unitholding.

Hektar Black direct unitholding shall decrease from 21.33% to 17.06% as at LPD and upon completion of the Proposed Placement respectively.

Hektar Rubber Sdn Bhd direct unitholding shall decrease from 17.39% to 13.91% as at LPD and upon completion of the Proposed Placement respectively.

The Proposed Acquisition and Lease as well as the Proposed Amendment shall not have any effect on the unitholdings of the substantial unitholders

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Areas of Evaluation	AER's commentary	
	Proposed Placement	Proposed Acquisition and Lease
<p>Proforma EPU / DPU¹ (Based on the realised profit / distributable income for FYE 31 December 2022 and appropriate adjustments as illustrated in Part A, Section 8.3 of this Circular)</p> <p>Note: ¹ Assuming 100% of the net income before tax of Hektar REIT is distributed.</p>	<p>We noted the EPU / DPU is <u>reduced</u> to 5.01 sen after the Proposed Placement as compared to 6.26 sen before the Proposed Placement but after the subsequent events occurred up to LPD from audited FYE 31 December 2022.</p> <p>We noted that reduction in the EPU / DPU is attributable to dilutive effect of 145,353,768 new units representing 25% of units as at LPD.</p> <p>The new units created as a result of Proposed Placement was to partly fund the acquisition of the Subject Property to reduce the amount of borrowing needed. We conclude that this is reasonable and not detrimental to non-interested unitholders.</p>	<p>We noted that the EPU / DPU <u>decreases</u> from 5.01 sen per Unit to 4.90 sen per Unit</p> <p>For illustration purpose only for effects of six months:-</p> <ul style="list-style-type: none"> - Incremental in rental income of RM 4.05 million - Incremental in interest cost for an assumed borrowing of RM 40 million of RM 1.05 million - Incremental in Manager and Trustee Fees of RM 1.275 million - One-off expenses of RM 2.5 million. <p>Excluding the effects of the one-off expenses of the Proposals of RM 2.50 million, we noted the EPU / DPU shall increase from 5.01 sen to 5.24 sen per Unit prepared on the same basis.</p> <p>We conclude that this is reasonable and not detrimental to non-interested unitholders.</p>

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Areas of Evaluation	AER's commentary
	Proposed Placement, Proposed Acquisition and Lease considered as a whole
Proforma Gearing (Total borrowings divided by total asset value multiplied by 100%).	<p>Proposed Placement, Proposed Acquisition and Lease, would increase the amount of borrowing by RM 40,000,000 to part finance the acquisition of the Subject Property.</p> <p>Proposed Placement has the effect of increasing the capital base by RM 85,031,594 at an illustrative issue price of RM 0.5850 per Unit.</p> <p>As a combination, it has the effect of <u>reducing</u> the gearing level from 45% to 43% as the amount raised from Proposed Placement is greater than the proposed amount to be borrowed.</p> <p>A lower level of gearing is preferred over a higher level of gearing. As the gearing is reduced, it is reasonable and not detrimental to non-interested unitholders.</p>

Areas of Evaluation	AER's commentary
	Private Placement I / Proposed Placement and Proposed Acquisition and Lease considered as a whole
Proforma NAV per Unit	<p>The new issued Units pursuant to Private Placement I and Proposed Placement has an <u>immediate dilutive effect</u> on the NAV.</p> <p>As at 31 December 2022, the NAV was RM 1.27 per Unit. The NAV was diluted to RM 1.18 per Unit following the final dividend distribution of income for FYE 31 December 2022 to unitholders by new units being issued and cash payment. The NAV was diluted to RM 1.15 per Unit following the interim dividend distribution of income for FYE 31 December 2023 by new units being issued and cash payment.</p> <p>The NAV per Unit is <u>reduced</u> due to the dilutive effect of new units created for Private Placement I and Proposed Placement to RM 1.07 per Unit and RM 0.98 per Unit respectively.</p> <p>Upon completion of the Proposed Acquisition and Lease, the NAV per Unit is reduced to RM 0.97 per Unit.</p> <p>In subsequent years, the NAV per Unit is expected to progressively increase with all other assumptions remain status quo, as a result of the accretion of the net earnings per Unit from the realisation of the guaranteed quadruple-net rental to be realised from the Subject Property which is estimated to be RM 8.096 million in the first year and progressively increase upwards (step up) on an annual basis at the rate of two point five per centum (2.5%) of the preceding guaranteed rate.</p> <p>Hence, we considered the <u>step-up increase</u> of the projected NAV per Unit throughout the duration of the Lease, as reasonable and not detrimental to non-interested unitholders.</p>

Based on the above, taken as a whole, we are of the view that the overall effect of the Proposals is **reasonable** and **not detrimental** to the interests of the non-interested unitholders.

6.7 Future prospects

The future prospects of Subject Property are as set out in **Part A, Section 6.2** of this Circular.

Future Prospects	AER's commentary
<p><i>Private education is offered in Malaysia on all levels from nursery schools up to tertiary education. The demand for private education has been increasing substantially during the last 15 years.</i></p> <p><i>The private school education is also viewed as a platform for furtherance of education overseas as the syllabus for all the private schools are internationally structured to be globally competitive, especially in the last few years with the introduction of IB (International Baccalaureate) Diploma, an educational programme that has global recognition and provides a gateway qualification recognised and valued by Ivy League Universities worldwide. There are now 35 IB schools in Malaysia.</i></p> <p><i>As demand grows resulting from the changing mind set of parents in term of placing their children in private schools, various international private education institutions have ventured into Malaysia to cater for this increasing demand. Accordingly, this has led to numerous private schools and colleges being established in various locations primarily focused in locations where the population based is within the middle to higher income bracket. Interesting to note that enrolments in public schools have fallen by 1% due to the growing importance of English Language.</i></p> <p><i>KYS College is one of the very few private education institutions in Malaysia that offer KBSM syllabus and full-boarding facilities. Other private education institutions that offer KBSM syllabus include Sekolah Sri KDU Kota Damansara, Cempaka Cheras, Sekolah Sri Tenby Ipoh and Sekolah Sri Bestari Kuala Lumpur. However, these schools do not offer full-boarding facilities, or only offer them to students that take up international curriculum. Often ranked top-3 nationally among national full-boarding schools (Sekolah Berasrama Penuh (SBP) and Maktab Rendah Sains Mara (MRSM)) in Malaysia based on the analysis of School Grade Point Average by Bahagian Pengurusan Sekolah Berasrama Penuh under the Ministry of Education for consistent spectacular performance in Sijil Pelajaran Malaysia (SPM), KYS College is undoubtedly a preferred choice for parents.</i></p> <p><i>This is evident from the number of applications received for the annual Form 1 intake, with more than 1,000 applications received on average, far surpassing the available 150 spots. KYS College currently has 715 registered students from Form 1 to Form 5.</i></p> <p><i>KYS College is operated by KESB and is also presently owned by KCSB (collectively referred to as the "KYS Group"). KYS Group is unlocking this fixed real estate asset from its balance sheet and to focus primarily on education. The intended disposal is on sale and lease back with the purchaser and eventual lessor being the Trustee on behalf of Hektar REIT. KESB will be the lessee.</i></p> <p><i>The new owner/ lessor as an investor will own an income generating asset yielding long term and sustainable rental income relative to other real estate investments such as in</i></p>	<p>We noted that this section provides a comprehensive and informative overview of the private education landscape in Malaysia. It highlights the growing demand for private education, the factors driving this trend, and the benefits that private schools offer. It also provides a specific example of a successful private school, KYS College, and discusses the strategic move of selling and leasing back the school to Hektar REIT.</p> <p>KYS College, owned and operated by KYS Group, is being sold as part of a strategy to focus on education and unlock fixed real estate assets from the balance sheet. The college will be sold to Hektar REIT and leased back to KYS Group. This sale and leaseback arrangement will provide Hektar REIT with a long-term income-generating asset, while allowing KYS Group to focus on improving the quality of education at the college. It highlights the optimistic outlook for the future of private education in Malaysia.</p>

Future Prospects	AER's commentary
<p><i>retails and offices sectors which are acutely in oversupply and facing challenges from virtual economy. Given the steady growth in quality educational need there is without doubt potential for capital gain moving forward. Based on kenresearch.com, private primary school market size is expected to grow at CAGR (compound annual growth rate) of ~ 7% and secondary schools by ~ 6.5%.</i></p> <p><i>KYS Group as lessee cum school operator, relieving the asset off the balance sheet is then able to focus primarily on their core strength and improving their brand - the quality of education by investing on the staff, facilities, safety and compliance. The school only accepts scholars who demonstrate merit. Students are admitted based on stringent selection process factoring their academic standing, leadership potential and extracurricular engagements; in other words, an all-rounder. Being residential college with enabling facilities, the school prides itself in developing able independent learners and future leaders of industries.</i></p> <p><i>(Source: The Manager of Hektar REIT & Jones Lang Wootton)</i></p>	

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6.8 Risk Factors

The risk factors associated with the Proposed Acquisition are as set out in **Part A, Section 7** of this Circular.

Risk Factors	AER's commentary
<p>7.1 Inability of the Lessee to make timely rental payments</p> <p><i>The ability of the Lessee to make timely rental payments to Hektar REIT may be affected due to, amongst others, the outbreak of infectious diseases, unfavourable changes in statutory laws, regulations or government policies, general downturn in the global and Malaysian economy, bankruptcy, insolvency or downturn in the operations of the Lessee. The Manager will closely monitor and assess any late or decline in rental payments caused by the above factors. If the Lessee fails to pay the rental payments under the Lease Agreements, Hektar REIT shall amongst others, be entitled to interest on any amount due and payable to Hektar REIT pursuant to Lease Agreement, at the rate of 10% per annum on the basis of a year of 365 days, calculated from the due date until the full payment of such outstanding sum, with such interest to be paid together with the outstanding sum, and notwithstanding the lawful termination of Hektar REIT and Lessee.</i></p> <p><i>As set out in Part A, Section 2.8 of this Circular, part of the advance rental and the security deposit made for and on behalf of the Lessee under the Lease Agreement will be used to partially set-off against the Purchase Consideration. Please refer to Appendix II of this Circular for the salient terms of the Lease Agreement.</i></p> <p>7.2 Funding risks</p> <p><i>There can be no assurance that Hektar REIT will be able to raise sufficient funds to finance the Proposed Acquisition and Lease and/ or on terms acceptable to Hektar REIT. Where Hektar REIT is unable to raise the required funds, the Proposed Acquisition and Lease will not be completed. In addition, a portion of the Purchase Consideration will be funded by borrowings and/ or internal funds. Therefore, Hektar REIT may be exposed to fluctuations in interest rates and repayment commitments. Any adverse movement in interest rates may lead to higher borrowing costs which consequently may adversely affect the cash flows of Hektar REIT. Notwithstanding that, the Manager will actively monitor Hektar REIT's debt portfolio, which includes gearing level, interest costs as well as cash flows to ensure that its debt portfolio remains at a sustainable and optimal level.</i></p>	<p><u>Inability of the Lessee to make timely rental payments</u></p> <p>We noted that the Lease Agreement provided for Hektar REIT as a new lessor when the novation of the lease agreement takes into effect be entitled to a the rate of ten per centum (10%) per annum on the basis of a year of 365 days, calculated from the due date until the full payment of such outstanding sum, with such interest to be paid together with the outstanding sum, and notwithstanding the lawful termination of lessor and lessee relationship between the parties.</p> <p>For the month of September 2023, the annual Base Lending Rate (BLR) of commercial banks in Malaysia is 6.68%. As Hektar REIT is entitled to charge at a higher rate than the BLR, we considered this risk mitigation as reasonable and not detrimental to non-interested unitholders.</p> <p><u>Funding risk</u></p> <p>If Hektar REIT is unable to raise the required funds by Proposed Placement, Hektar REIT shall need to rely on the shortfall by external bank borrowings. This may increase its gearing percentage. We noted that the Manager will actively monitor its debt portfolio, which includes gearing level, interest costs as well as cash flows to ensure that its debt portfolio remains at a sustainable and optimal level and concluded that this measure is reasonable and not detrimental to non-interested unitholders.</p> <p><u>Delay or non-completion of the Proposed Acquisition and Lease</u></p> <p>The Manager will ensure that all reasonable steps will be taken to ensure that the Conditions Precedent within its responsibility are met, and that every effort is made to obtain all necessary approvals to give effect to the completion of the Proposed Acquisition and Lease and therefore conclude that this risk mitigation as</p>

Risk Factors	AER's commentary												
<p>As at the LPD, Hektar REIT's debt portfolio is as follows:</p> <table data-bbox="256 219 930 347"> <thead> <tr> <th></th><th>RM'mil</th></tr> </thead> <tbody> <tr> <td>Total asset value</td><td>1,287.85</td></tr> <tr> <td>Total borrowings</td><td>562.28</td></tr> <tr> <td>Gearing ratio*</td><td>43.66%</td></tr> <tr> <td>Annual interest cost</td><td>25.80</td></tr> <tr> <td>Cash and bank balances</td><td>62.78</td></tr> </tbody> </table> <p><small>* Paragraph 8.32 of the Guidelines on Listed Real Estate Investment Trusts stipulates that the maximum allowable gearing level of a REIT is 50%.</small></p> <p>7.3 Delay or non-completion of the Proposed Acquisition and Lease</p> <p><i>The completion of the Proposed Acquisition and Lease is conditional upon the fulfilment of the Conditions Precedent as set out in Appendix I of this Circular. There is no assurance that the Proposed Acquisition and Lease can be completed within the time period permitted under the SPA. If the Conditions Precedent are not fulfilled within the stipulated time period, the agreements may be terminated and the Proposed Acquisition and Lease will not proceed. The Manager will ensure that all reasonable steps will be taken to ensure that the Conditions Precedent within its responsibility are met, and that every effort is made to obtain all necessary approvals to give effect to the completion of the Proposed Acquisition and Lease.</i></p> <p>7.4 The proforma income distribution and DPU are not a guarantee of the actual financial results</p> <p><i>Hektar REIT's proforma income distribution and DPU as set out in Part A, Section 8.3 of this Circular demonstrate the effects of the Proposals based on certain assumptions of the Manager including the assumption that the Proposals were completed on 1 January 2022 (being the beginning of the FYE December 2022). No assurance is given that the assumptions used by the Manager will be realised. Further, the actual financial results of Hektar REIT may differ from the proforma results set out in this Circular.</i></p>		RM'mil	Total asset value	1,287.85	Total borrowings	562.28	Gearing ratio*	43.66%	Annual interest cost	25.80	Cash and bank balances	62.78	<p>reasonable and not detrimental to non-interested unitholders.</p> <p><u>The proforma income distribution and DPU are not a guarantee of the actual financial results</u></p> <p>We noted that the proforma income distribution by Hektar REIT is based on reasonable assumptions being used and the actual situation may differ from the assumptions being used due to factors outside the control of the Manager, which is inherent in any proforma computations. Hence, this cautionary statement is to create awareness to readers that the proforma income distribution is for illustration purpose only.</p> <p>We also consider the professional knowledge and past experience of the Manager in managing the existing other properties of Hektar REIT and as such, shall have the capability and experiences to address future business risk. Hence, we conclude that this is not detrimental to non-interested unitholders.</p>
	RM'mil												
Total asset value	1,287.85												
Total borrowings	562.28												
Gearing ratio*	43.66%												
Annual interest cost	25.80												
Cash and bank balances	62.78												

7. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposals and our evaluation is set out in Section 6 of the IAL. The non-interested unitholders should consider all the merits and demerits of the Proposals, based on all relevant pertinent factors including those which are set out in Part A of this Circular, the relevant appendices, this IAL and other publicly available information.

- (a) Basis of justification for the Purchase Consideration
- (b) Terms of payment of the Purchase Consideration
- (c) The rationale and benefits of the Proposed Acquisition and Lease
- (d) Evaluation of the Proposed Placement at an issue price to be determined later
- (e) Salient terms of the SPA and Lease Agreement

- (f) Effects on the substantial unitholder's unitholdings
- (g) Financial effects of the Proposals on the NA per Unit, gearing and EPU
- (h) Future prospects
- (i) Risk factors of the Proposals

After having considered all the various factors included in our evaluation for the Proposed Acquisition and Lease, and based on the information made available to us, we are of the opinion that the Proposals are **fair and reasonable** insofar as the non-interested unitholders are concerned and they are **not detrimental** to the minority unitholders.

Accordingly, we recommend the non-interested unitholders to **vote in favour** of the ordinary resolution pertaining to the Proposals which is to be tabled at Hektar REIT's forthcoming Meeting.

Yours faithfully,
For and on behalf of
ASIA EQUITY RESEARCH SDN. BHD.

ONG TEE CHIN, CFA, FRM, CAIA
Director

FARIS AZMI ABDUL RAHMAN
Director

APPENDIX I – SALIENT TERMS OF THE SPA (AS AMENDED BY THE LETTER OF VARIATION)

The salient terms of the SPA are as follows:

1. Agreement for Sale and Purchase

Subject to the terms and conditions contained in the SPA, the Vendor agreed to sell and the Trustee agreed to purchase the Subject Property together with the building system at the Purchase Consideration.

2. Conditions of Sale and Purchase

The Subject Property together with the building system are sold:

- (a) free from any encumbrances;
- (b) with legal possession subject to the Lease and the tenancies continuing;
- (c) with all attached or accrued rights and benefits which the Vendor enjoys in relation to the Subject Property as an owner to the Subject Property;
- (d) on the basis there is no change to the state and condition of the Subject Property (fair tear and wear excepted) as at the date of the SPA; and
- (e) that each of the Vendor's warranties remains true and accurate in all respects.

3. Manner of payment of the Purchase Consideration

- (a) Upon the execution of the SPA, the Trustee shall pay the cash deposit to the Vendor's solicitors as stakeholders.
- (b) On or before the expiry of the completion period, the Trustee shall pay the balance sum of the Purchase Consideration in the following manner:
 - i. subject to the settlement of the Vendor's Differential Sum (as defined below) by the Vendor (if any), defect retention sum shall be paid directly to the Vendor's solicitors as stakeholders;
 - ii. subject to the settlement of the Vendor's Differential Sum by the Vendor (if any), lease retention sum shall be set off with the part of the advance rental and full security deposit which the Vendor acknowledges the payment is made for and on behalf of the Lessee under the Lease Agreement;
 - iii. first balance sum to be paid as follows:
 - A. subject to the settlement of the Vendor's Differential Sum by the Vendor (if any), a sum equivalent to first balance sum shall be paid to the Existing Chargee towards the redemption sum; and
 - B. subject to the receipt by the Trustee of the original Vendor's loan documents and duly stamped discharge documents, the remaining first balance sum (if any) shall be paid to the Vendor's solicitors as stakeholder; and

APPENDIX I – SALIENT TERMS OF THE SPA (AS AMENDED BY THE LETTER OF VARIATION)

final balance sum shall be paid to the Vendor's solicitors as stakeholder, failing which the Vendor shall grant the Trustee an automatic extension of time of three (3) months from the expiry of the completion period or such other extended period as may be mutually agreed between the parties to pay the final balance sum free of interest.

4. Adjustment of the Purchase Consideration

- (a) The parties agreed and acknowledged that the Purchase Consideration and the valuation report conducted on the Subject Property are subject to the approval by Bursa Securities and/ or any other relevant authorities and if Bursa Securities and/ or any other relevant authorities determine that the value of the Subject Property is less than the Purchase Consideration, an adjustment shall be made to the Purchase Consideration by reducing the same to the determined value. For avoidance of doubt, no adjustment shall be made if the determined value of the Subject Property by Bursa Securities and/ or other relevant authorities is higher than the Purchase Consideration.
- (b) Any adjustment to the Purchase Consideration shall first be made to the payment made for lease retention sum and thereafter first balance sum and final balance sum of the SPA. The Vendor shall procure the Lessee to pay the shortfall of the advance rental and security deposit under the Lease Agreement to the Trustee on or prior to the completion date.

5. Vendor's Differential Sum

In the event the first balance sum is not sufficient to redeem the Subject Property, the Vendor shall, within fourteen (14) business days of the date of notice from the Trustee's solicitors, make available the difference between the redemption sum and the first balance sum to be paid to the Existing Chargee ("**Vendor's Differential Sum**"). The parties agreed that such part of the Purchase Consideration received by Vendor or Vendor's solicitors less the defect retention sum and lease retention sum shall only be utilised by the Vendor and/ or Vendor's solicitors to redeem the Subject Property from the Existing Chargee only if the Vendor and/ or Vendor's solicitors is able to pay and/ or make available the Vendor's Differential Sum to the Existing Chargee.

6. Conditions Precedent

The completion of the sale and purchase of the Subject Property pursuant to the terms and subject to the conditions set out in the SPA will in all respects be conditional upon the following conditions precedent being fulfilled/ obtained or waived (as the case may be) by the Cut-Off Date:

- (a) the Vendor having obtained, at its own cost and expense, the following consents:
 - i. the consent of the state authority to transfer the Subject Property by the Vendor to the Trustee;
 - ii. the consent of the state authority for the lease of the Subject Property by the Trustee to the Lessee; and
 - iii. the consent of the state authority for the charge of the excluded land by the Vendor in favour of the Trustee (if any);

APPENDIX I – SALIENT TERMS OF THE SPA (AS AMENDED BY THE LETTER OF VARIATION)

- (b) the Vendor having obtained, the approval from its shareholders and board of directors for the disposal of the Subject Property by the Vendor to the Trustee and the creation of the charge of the excluded land by the Vendor in favour of the Trustee;
- (c) the Vendor having obtained the consent from the Existing Chargee for the sale of the Subject Property by the Vendor in accordance with the terms of the SPA and that the Existing Chargee will not exercise any of its right under the Vendor's loan documents that may impede the sale herein including foreclosure on the master land and the Subject Property;
- (d) the Vendor shall have procured and delivered to the Trustee a valid redemption statement and undertaking in respect of the Subject Property from the Existing Chargee and addressed to the Trustee, setting out the amount payable for the full redemption of the Subject Property against the Existing Chargee's undertaking to release the original master title, the Vendor's loan documents and the discharge documents to the Trustee upon receipt of the redemption sum and to refund the redemption sum received in the event the discharge documents cannot be perfected for any reason whatsoever;
- (e) the Vendor shall sign in escrow a charge in favour of the Trustee over the excluded land under section 242 of the National Land Code 1965 and upon terms acceptable to the Trustee and deposit the same with the Trustee's solicitors who shall have the right to release the same to the Trustee on the completion date to effect the charge;
- (f) the Vendor shall and shall procure the Lessee to sign in escrow the deed of novation of the Lease Agreement upon terms acceptable to the Trustee for the purpose of novation of all the rights, benefits, interests, obligations and liabilities of the Vendor under the existing Lease and shall deposit the same together with the original copy of the Lease Agreement with the Trustee's solicitors who shall have the right to release them to the Trustee on the completion date to register the Lease;
- (g) the Vendor shall have executed in escrow the master deed of assignment and notices upon terms acceptable to the Trustee for the purpose of assigning, novating, transferring all the rights, benefits, interests, obligations and liabilities of the Vendor under the existing tenancies (other than the security deposits and income revenue) and deposited the same together with the original copies of the tenancy agreements with the Trustee's solicitors who shall have the right to release them to the Trustee on the completion date;
- (h) the Vendor shall have deposited with the Trustee all drawings pertaining to the Subject Property including as-built, civil and structural (C&S) and mechanical and electrical (M&E) plans and drawings as per the list as set out in the SPA;
- (i) the Trustee shall have obtained Bursa Securities' approval or clearance of the Purchase Consideration and the valuation report for the Subject Property in accordance with the Main Market Listing Requirements;
- (j) the Trustee shall have obtained the approvals of the Board and unitholders of Hektar REIT in relation to the diversification of the investment objectives of Hektar REIT, the amendment to the Trust Deed, and the acquisition of the Subject Property and the Lease;
- (k) the Trustee having carried out and completed the legal and financial due diligence review over the master land and the Subject Property as well as on the Lessee's and Vendor's financial capability to meet their obligations respectively under the SPA and the Lease Agreement and the results of the due diligence review are satisfactory to the Trustee;

APPENDIX I – SALIENT TERMS OF THE SPA (AS AMENDED BY THE LETTER OF VARIATION)

- (l) the parties having obtained any other approvals of any authorities as may be deemed necessary by the parties and agreed in writing; and
- (m) the parties having carried out and completed the joint inspection on the Subject Property to identify the defects to be repaired and made good by the Vendor prior to the completion date.

7. Defect Retention Sum

- (a) In the event that the defects were not rectified to the satisfaction of the purchaser, the purchaser shall be entitled to deduct from the Defect Retention Sum, the costs to remedy the defects. In the event the Defect Retention Sum is insufficient to remedy the defects, such shortfall shall constitute a debt due and owing from the Vendor to the purchaser, which shall be payable by the Vendor to the purchaser within fourteen (14) days of receipt of a demand notice from the purchaser. Upon deduction of the Defect Retention Sum herein, the Vendor hereby agrees to top up any shortfall of the Defect Retention Sum within fourteen (14) days of receipt of a notice from the purchaser demanding the same.
- (b) In the event that the defects are completed and rectified to the satisfaction of the purchaser, the Vendor's solicitors are hereby authorised to release the Defect Retention Sum to the Vendor fourteen (14) days after the receipt of the written notification from the purchaser informing on the aforesaid.

8. Lease and Lease Agreement

- (a) Simultaneously with the execution of the SPA, the Vendor shall and shall procure the Lessee to execute the deed of novation of the Lease Agreement and shall deposit the same together with the original copy of the Lease Agreement with the purchaser's solicitors as stakeholder who are authorised to deal with the same in accordance with the terms of the SPA.
- (b) Where applicable, the purchaser's solicitors shall and are hereby authorised to effect registration of the Lease in favour of the purchaser simultaneously with the registration of the Transfer (i.e. execution of Memorandum of Transfer in respect of the Subject Property in favour of the purchaser) upon the completion of the SPA.

9. Termination and Breach**(a) Vendor's rights to terminate**

If the Trustee defaults in the satisfaction of any part of the Purchase Consideration as and when it becomes due in accordance with the provisions of the SPA, or there is any breach by the Trustee of any of its representations, warranties, covenants, undertakings or obligations under the SPA which is not capable of remedy or capable of remedy but is not remedied within fourteen (14) days from the date of receiving a written notice from the Vendor requiring the same to be remedied, the Vendor will be entitled at any time prior to completion, to terminate the SPA by notice in writing to the Trustee.

(b) Trustee's right to terminate

If the Vendor fails, neglects or refuses to complete the sale in accordance with the provisions of the SPA, there is any breach by the Vendor of any of its representations, warranties, covenants, undertakings or obligations under the SPA which is not capable of remedy or capable of remedy but is not remedied within fourteen (14) days from the date of receiving a written notice from Trustee requiring the same to be remedied, the Trustee will be entitled at any time prior to completion, to terminate the SPA by notice in writing to the Vendor.

(c) Consequences of termination by Vendor

If a notice terminating the SPA is duly given by the Vendor, then within fourteen (14) days of the giving of the notice, if the Vendor elects not to pursue the remedies set out in the SPA, the deposit will be absolutely forfeited in favour of the Vendor and the Vendor must within seven (7) days thereof return all moneys received by them as part of the Purchase Consideration and held by them as at that date less the deposit, to the Trustee or to the Trustee's solicitors, free from interest, and in exchange with the Vendor's simultaneous compliance with the provisions of sub-paragraph (a), the Trustee shall re-deliver to the Vendor possession of the Subject Property and any documents delivered, if the same has been delivered to the Trustee.

(d) Consequences of termination by Trustee

If a notice terminating the SPA is duly given by the Trustee, then within fourteen (14) days of the giving of the notice, if the Trustee elects not to pursue the remedies set out in the SPA, the Vendor must within seven (7) days thereof return all moneys received by them as part of the Purchase Consideration and held by them as at that date, to the Trustee or to the Trustee's solicitors, free from interest together with an additional sum equivalent to the deposit as agreed liquidated damages to the Trustee, and in exchange with the Vendor's simultaneous compliance with the provisions of sub-paragraph (b), the Trustee shall re-deliver to the Trustee possession of the Subject Property and any documents delivered, if the same has been delivered to the Trustee.

(e) Specific performance

The Vendor and the Trustee will be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance to complete the sale and purchase of the Subject Property in accordance with the provisions of the SPA (in which respect the alternative remedy of monetary compensation will not be regarded as compensation or sufficient compensation for any default of the said party in the performance of the terms and conditions of the SPA) and for damages for the said party's breach of the SPA.

10. Real Property Gains Tax

The parties hereby acknowledge that the Vendor is exempted from payment of real property gain tax in relation to the disposal of the Subject Property pursuant to Real Property Gains Tax (Exemption) (No. 4) Order 2003. In the event that the Vendor is not exempted from payment of real property gain tax, the Vendor hereby agrees and undertakes to pay for the tax due and payable in respect of the disposition of the Subject Property in compliance with the Real Property Gain Tax Act, 1976 within sixty (60) days from the date of the SPA and shall forward a copy of the receipt to the Trustee.

11. Delivery of legal possession and condition of the Subject Property

- (a) Legal possession of the Subject Property together with the building system, free from all encumbrances and claims whatsoever, will be deemed delivered to the Trustee by the Vendor on the completion date.
- (b) On such date to be mutually agreed by the parties on or before the completion date, the parties shall conduct a joint inspection of the Subject Property to determine the state and condition of the Subject Property.
- (c) The Vendor shall deliver the Subject Property to the Trustee in the same state and condition as at the date of the SPA with the defects being rectified by the Vendor to the satisfaction of the Trustee.

APPENDIX II – SALIENT TERMS OF THE LEASE AGREEMENT

The salient terms of the Lease Agreement are as follows:

Nature of Lease	The lease is a quadruple-net fixed term lease where the Lessee shall be responsible for the operation, maintenance, replacement and repair (including structural repair) of the Subject Property at its own cost and expense and pay for the outgoings. In return for granting the Lease, the lessor shall be entitled to a guaranteed rent.
Term	The term begins on the commencement date of 22 June 2023 and ends on the expiry date i.e. 21 June 2053. Unless otherwise as specified, neither party shall have the right to terminate the Lease Agreement before the expiry of the term created.
Guaranteed Rent	In consideration of the lessor granting the Lease to the Lessee, subject to rental in advance under the Lease Agreement, the Lessee shall pay the guaranteed rent to the lessor on a quarterly payments in advance free of all deduction and set-off, with the first payment of the rental in advance commencing on or before the commencement date and thereafter the guaranteed rent shall be payable on the first (1 st) day of the nineteenth (19 th) month of the term and at each and every succeeding three (3) months after the nineteenth (19 th) month of the term (Rent Day). Where applicable, the final payment shall be prorated accordingly.
Adjustment of the Guaranteed Rent	<p>The guaranteed rent shall be revised upwards (step up) on an annual basis at the rate of two point five per centum (2.5%) of the preceding guaranteed rate.</p> <p>The parties agreed to reflect the revision of guaranteed rate by way of an exchange of letter between the parties recording such revision.</p>
Advance Rental	The Lessee shall pay and the lessor shall receive advance rental in the sum of RM12,245,547.27 equivalent to the first eighteen (18) months' guaranteed rent in respect of the Subject Property for the first (1 st) year and first six (6) months of the second (2 nd) year of the term within three (3) months from the date of Lease Agreement.
Security Deposit	On or prior to the date of the Lease Agreement, the Lessee shall pay and the lessor shall receive the security deposit in the sum of RM4,149,317.67 as security for compliance by the Lessee of all the provisions in the Lease Agreement. The security deposit shall be maintained throughout the term.
Late Payment Interest	Without prejudice to the other rights and remedies available to the lessor under the Lease Agreement, at law and in equity, the Lessee shall be liable to pay to the lessor interest on any amount due and payable to the lessor pursuant to the Lease Agreement, at the rate of ten per centum (10%) per annum on the basis of a year of 365 days, calculated from the due date until the full payment of such outstanding sum, with such interest to be paid together with the outstanding sum, and notwithstanding the lawful termination of lessor and Lessee relationship between the parties.
Other salient terms of the Lease Agreement	<p>The Principal Lease Period shall be 30 years from the commencement date, subject always to the provisions of the Lease Agreement, with an option to renew granted to both parties for a Secondary Lease Period of 30 years (at the expiry of the Principal Lease Period) and a Tertiary Lease Period of fifteen (15) years, five (5) months, and twenty eight (28) days commencing from the expiry of the Secondary Lease Period.</p> <p>The commencement date of the Lease Agreement is 22 June 2023.</p> <p>The option to renew shall be subject to lease rental to be mutually agreed between the lessor and the Lessee before the commencement of the Secondary Lease Period or the Tertiary Lease Period (as the case may be) of which the lease rental shall be based on the prevailing market rate not less than the last guaranteed rent payable failing which the lease rental shall be of the prevailing market rate and not more than ten percentum (10%) of the last guaranteed rent payable.</p> <p>The lessor may by a notice in writing to the Lessee or a forfeiture notice in writing pursuant to Section 235 of the National Land Code 1965 issued to the Lessee (as applicable) terminate the Lease Agreement as from the date of service of that notice after the Lessee defaults by serving a notice terminating the Lease Agreement on the Lessee, or instituting proceedings for possession of the Subject Property against the Lessee.</p> <p>Save and except for the force majeure and the compulsory acquisition as prescribed in the Lease Agreement, the Lessee shall, on the termination of the Lease Agreement arising from the default of the Lessee, pay to the lessor an accelerated lump sum payment of all quarterly guaranteed rent payable by the Lessee for the unexpired term.</p>



Jones Lang Wootton

Proprietor: Singham Sulaiman Sdn. Bhd.
Registration No.: 198101012087 (78217-X)

Chartered Surveyors
Registered Valuers
Registered Estate Agents
Registered Property Managers
Research and Property Consultants
Asset Managers
Project Coordinators

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Our Ref.: V/PC-(C)/012/23/BURSA

19 September 2023

**MTrustee Berhad as trustee for
Hektar Real Estate Investment Trust**
Unit No. D1-03-10, Solaris Dutamas
No. 1, Jalan Dutamas 1
Sri Hartamas
50480 Kuala Lumpur

Dear Sirs,

VALUATION OF A PRIVATE EDUCATIONAL PREMISES KNOWN AS 'KOLEJ YAYASAN SAAD' PRESENTLY FALLS WITHIN LOT 9808, MUKIM OF DURIAN TUNGGAL, DISTRICT OF ALOR GAJAH, MELAKA (COLLECTIVELY REFERRED TO AS "THE SUBJECT PROPERTY")

1. Terms of Reference

This valuation certificate has been prepared for the purposes of submission to Bursa Malaysia Securities Berhad in relation to the Proposed Acquisition and Lease of the Subject Property by MTrustee Berhad as trustee for Hektar Real Estate Investment Trust ("Hektar REIT"). This valuation certificate is for the inclusion in the circular to shareholders of Hektar REIT.

As per the draft Sale and Purchase Agreement ("SPA") provided to us, the Subject Property is erected on part of Lot 9808 and the Subject Property measures approximately 34.80741 hectares (86.011 acres). The vendor will, at its own cost and expense, be responsible to complete the process of subdivision and issuance of individual title in respect of the Subject Property in the name of purchaser.

We also noted that it will be a condition under the SPA for the vendor to enter into a lease agreement with KYSA Education Sdn Bhd for the lease of the Subject Property which will be novated to the purchaser upon the completion of sale.

Vide the draft Lease Agreement provided to us, we noted that the Subject Property will be leased based on a 'Quadruplet Net' basis (where the lessee is responsible for all outgoings for the property including the structural repairs) for a term of 30 years commencing from 22 June 2023 at a guaranteed rent of RM1.70 per square foot ("psf") per month for the first year of the term and subject to an increase of 2.5% annually which shall be payable quarterly in advance. We also noted that the first 1 year and 6 months rental are paid upfront on the commencement date of the Lease Agreement. An option is provided for renewal for another two terms of 30 years ("Secondary Lease Period") and 15 years, 5 months and 28 days ("Tertiary Lease Period") at a rent to be mutually agreed upon by the parties or based on the then prevailing market rental not less than the last guaranteed rent payable.



Jones Lang Wootton

Proprietor: Singham Sulaiman Sdn. Bhd.
Registration No.: 198101012087 (78217-X)

FOR PURPOSES OF THIS VALUATION, WE WERE SPECIFICALLY INSTRUCTED BY HEKTAR ASSET MANAGEMENT SDN BHD TO VALUE THE SUBJECT PROPERTY ON THE ASSUMPTIONS THAT:

- I) AN INDIVIDUAL TITLE FOR A LAND AREA OF ABOUT 34.80741 HECTARES (86.011 ACRES) HAS BEEN ISSUED WITH 'BUILDING' CATEGORY OF LAND USE SPECIFYING INSTITUTIONAL USE, WITH A BALANCE LEASE TERM OF 75 YEARS AND WITH ALL RELEVANT PREMIUMS, FEES AND CHARGES TO THE EFFECT PAID; AND
- II) THE 30-YEAR LEASE AGREEMENT WITH KYSA EDUCATION SDN BHD HAS BEEN EXECUTED.

SINCE THE VALUATION IS BASED ON UNREALISED ASSUMPTIONS (AS AT THE DATE OF VALUATION), SHOULD ANY PARTY WISHES TO RELY ON THE VALUATION, APPROPRIATE PROFESSIONAL ADVICE SHOULD BE SOUGHT.

Note:-

We wish to draw attention that MTrustee Berhad (the Purchaser) had on 11 September 2023 entered into a conditional SPA with KYS College Sdn Bhd (the Vendor) for the acquisition of the Subject Property. A lease agreement had also been entered into between KYS College Sdn Bhd (the Lessor) and KYSA Education Sdn Bhd (the Lessee) on 11 September 2023. We were given to understand by Hektar Asset Management Sdn Bhd ("HAMSB") that the main terms and conditions of SPA and lease agreement are in tandem with the draft agreements which were provided to us earlier.

We hereby confirm that we have valued, in accordance with the instruction from HAMSB, the Subject Property vide our Report and Valuation bearing Reference No. V/PC-(C)/012/23/BURSA dated 8 September 2023. This valuation certificate is to be read in conjunction with the abovementioned Report and Valuation.

The Report and Valuation has been prepared in accordance with the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers, Estate Agents and Property Managers as well as the Asset Valuation Guidelines issued by the Securities Commission Malaysia, with the necessary professional responsibility and due diligence.

2. The Subject and Date of Valuation

As per the **1.0 Terms of Reference**, the subject of this valuation comprises the legal interest in a parcel of land measuring about 34.80741 hectares (86.011 acres) accommodating a private educational premises known as 'Kolej Yayasan Saad'.

The relevant date of valuation is 22 June 2023.

**Jones Lang Wootton**Proprietor: Singham Sulaiman Sdn. Bhd.
Registration No.: 198101012087 (78217-X)**3. Title Particulars**

Enquiries conducted at the Melaka Land Registry on 21 June 2023 revealed the following particulars of title in respect of Lot 9808:-

Lot No.:	Lot 9808, Mukim of Durian Tunggal, District of Alor Gajah, Melaka.
Title No.:	PN 62892.
Land Area:	49.18 hectares ¹ .
Quit Rent:	RM44,262.00.
Registered Proprietor:	KYS College Sdn Bhd.
Tenure:	99-year leasehold interest, expiring on 20 December 2098.
Category of Land Use:	<i>Bangunan.</i>
Express Condition:	<i>Untuk tujuan mendirikan bangunan (Sekolah Yayasan Saad) sahaja.</i>
Restriction in Interest:	<i>Tanah ini tidak boleh di pindahtamlik atau dipajak kecuali dengan kebenaran Pihak Berkuasa Negeri.</i>
Encumbrance:	Charged to Malaysia Building Society Berhad, registered on 4 July 2012.
Endorsement:	<i>No. Pers 0400NB2019001256 Pembetulan 380 – Maklumat Urusan</i> , registered on 11 October 2018.

Note:

¹For purposes of this valuation, we were specifically instructed by HAMS B to value the Subject Property on the assumption that an individual title for a land area of about 34.80741 hectares (86.011 acres) has been issued with 'Building' category of land use specifying institutional use, with a balance lease term of 75 years and with all relevant premiums, fees and charges to the effect paid.



4. Brief Description of the Subject Property

Location

The Subject Property is situated in the state of Melaka Negeri Bersejarah and within a locality known as Ayer Keroh. It is sited on the left side of Leboh Ayer Keroh travelling from Ayer Keroh towards Melaka city centre. The Subject Property is located about 18 kilometres due north-east Melaka city centre and 7 kilometres due north-east of Malacca International Trade Centre (MITC). The Ayer Keroh Interchange of North South Expressway (NSE) is situated about 2.5 kilometres due west of the Subject Property. Kuala Lumpur city centre is located about 130 kilometres due north-west of the Subject Property.

The Site

The Subject Property presently falls within Lot 9808. As per the draft SPA and Survey Plan prepared by Messrs Juruukur Esa, the land area of the Subject Property measures approximately 34.80741 hectares (86.011 acres).

The Buildings

The site currently accommodates the following:-

Building/Improvements	Gross Floor Area	
	Square metres	Square Feet
1. Administration and Academic		
a) Administration, Resource Centre & Academic Block	4,000.03	43,056
b) Academic Block 2	2,037.60	21,933
c) Centre for Excellence (A-Level)	1,863.36	20,057
d) Boys' Preparation Block	991.87	10,676
e) Girls' Preparation Block	991.87	10,676
f) Great Hall	1,499.29	16,138
2. Staffs and Students Accommodation		
a) Four Units of Detached House	1,033.36	11,123
b) Guest House	720.00	7,750
c) Five Blocks of Boys' Dormitories	3,553.20	38,246
d) Two Blocks of Girls' Dormitories	1,389.60	14,958
e) Four Blocks of Teacher's Apartments	7,561.44	81,391
f) Two Blocks of Staff Quarters/Apartments	3,889.44	41,866
g) New Girls' Hostel	3,367.46	36,247
3. Outbuildings/Facilities		
a) Cafeteria	684.49	7,368
b) Dining Hall	922.32	9,928
c) Surau	692.11	7,450
d) Multipurpose Hall	773.32	8,324
e) Gymnasium & Squash Court Building	362.67	3,904
f) Swimming Pool Complex	526.30	5,665
g) Guard House	10.98	118
Grand Total	36,870.71	396,874

The buildings are generally constructed of reinforced concrete frame with brick infills rendered externally and plastered internally supporting either timber pitched roof (laid over with tiles or metal deck roofing sheets) or reinforced concrete flat roof.

The age of the buildings is approximately 8 to 24 years old.



5. Salient Details of the draft Lease Agreement

Vide the draft Lease Agreement provided to us, we noted that the Subject Property will be leased to KYSA Education Sdn Bhd based on a 'Quadruplet Net' basis (where the lessee is responsible for all outgoings for the property including the structural repairs) for a term of 30 years commencing from 22 June 2023 at a guaranteed rent of RM1.70 per square foot ("psf") per month for the first year of the term and subject to an increase of 2.5% annually which shall be payable quarterly in advance. We also noted that the first 1 year and 6 months rental are paid upfront on the commencement date of the lease.

An option is provided for renewal for another two terms of 30 years ("Secondary Lease Period") and 15 years, 5 months and 28 days ("Tertiary Lease Period") at a rent to be mutually agreed upon by the parties or based on the then prevailing market rental not less than the last guaranteed rent payable.

Note:-

We wish to draw attention that a lease agreement had been entered into between KYS College Sdn Bhd (the Lessor) and KYSA Education Sdn Bhd (the Lessee) on 11 September 2023. We were given to understand by HAMSB that the main terms and conditions of lease agreement are in tandem with the draft agreement which was provided to us earlier.

We also wish to highlight that it is a condition under the SPA for KYS College Sdn Bhd (the Vendor) to novate the lease agreement with KYSA Education Sdn Bhd to MTrustee Berhad (the Purchaser) upon the completion of sale.

6. Planning Details

Our enquiries at the *Majlis Perbandaran Hang Tuah Jaya* revealed that Lot 9808 is zoned for institutional use.

The buildings have been issued with a Certificate of Fitness for Occupation on 23 October 1999 and a Certificate of Completion and Compliance on 30 June 2015.

7. Basis of Valuation

The basis of valuation adopted is the **Market Value** which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

No allowances are made in the valuation for any expense of realisation or for taxation which might arise in the event of a disposal, deemed or otherwise. We have considered the property as if free and clear of all charges, lien and all other encumbrances which may be secured thereon. We have also assumed the property is free of all statutory notices and outgoings.

8. Valuation Methodology

In arriving at our opinion of the **Market Value**, we have used the **Income Approach by way of Investment Method** and **Cost Approach**.

APPENDIX III – VALUATION CERTIFICATE FROM JONES LANG WOOTTON



Jones Lang Wootton

Proprietor: Singham Sulaiman Sdn. Bhd.
Registration No.: 198101012087 (78217-X)

Income Approach by way of Investment Method

This methodology of valuation involves is the capitalisation of net rental income from a property. Net rental income is the residue of gross annual rent less annual expenses (outgoings) required to sustain the rent with allowance for void and management fees. The main parameters adopted are tabulated as follows:-

Parameters	Rate Adopted		Explanation												
	Term	Reversion													
Monthly Rental Rate (Quadruplet Net)	RM1.70 psf to RM3.48 psf	RM1.70 psf	<p><u>Term:</u> As per the draft Lease Agreement, the Subject Property will be leased based on a 'Quadruplet Net' basis (where the lessee is responsible for all outgoings for the property, including the structural repairs) for a term of 30 years, and subject to an increase of 2.5% annually which shall be payable quarterly in advance, with the lease commencing from the date of valuation i.e. 22 June 2023.</p> <p>There is no mandatory guarantee that the option to renew will be executed by either party upon the expiry of the first 30-year lease. Given the situation and with the renewal option far into the distant future, it is prudence in valuation to revert back to market.</p> <p><u>Reversion:</u> Based on our database, it is normal for long leases that the rental payments are paid on quarterly basis in advance. It is consistent with market practice. The reversionary rental rate adopted was arrived at after considering the rental rates of the following properties: -</p> <table><tr><th>Rental Comparable</th><th>Gross Floor Area</th><th>Initial Term Monthly Rental Rate (Year)</th></tr><tr><td>Sri KDU International School Kota Damansara, Selangor</td><td>589,033 square feet</td><td>RM1.52 psf[^] (2017)</td></tr><tr><td>Sunway University, Bandar Sunway, Selangor</td><td>1,459,134 square feet</td><td>RM1.95 psf[^] (2018)</td></tr><tr><td>An undisclosed private institution in Johor</td><td>About 800,000 square feet</td><td>RM2.25 psf[^] (2021)</td></tr></table> <p>[^]Rental rate of 'Triple Net' lease (lessee is responsible for all outgoings except structural repair).</p> <p>(Source: Bursa Malaysia Berhad, J.L.W Research)</p> <p>Adjustments have been made to reflect the differences in market condition, location, size, design/building condition, plinth area and tenancy (structure of lease agreement).</p>	Rental Comparable	Gross Floor Area	Initial Term Monthly Rental Rate (Year)	Sri KDU International School Kota Damansara, Selangor	589,033 square feet	RM1.52 psf [^] (2017)	Sunway University, Bandar Sunway, Selangor	1,459,134 square feet	RM1.95 psf [^] (2018)	An undisclosed private institution in Johor	About 800,000 square feet	RM2.25 psf [^] (2021)
Rental Comparable	Gross Floor Area	Initial Term Monthly Rental Rate (Year)													
Sri KDU International School Kota Damansara, Selangor	589,033 square feet	RM1.52 psf [^] (2017)													
Sunway University, Bandar Sunway, Selangor	1,459,134 square feet	RM1.95 psf [^] (2018)													
An undisclosed private institution in Johor	About 800,000 square feet	RM2.25 psf [^] (2021)													
Void Allowance	-	5%	The void allowance is to reflect the rent-free period and risk of vacancy periods due to changes in tenants.												
Capitalisation Rate	6.50% to 7.25%	7.25%	Based on our analysis of the selected educational premises transactions, the yields range between 5.4% and 6.5%. A higher capitalisation rate was adopted given the profile of the Subject Property and taking into consideration that the Subject Property is located outside of the main cities.												

The Market Value as per the Investment Method is RM150,000,000.00.

APPENDIX III – VALUATION CERTIFICATE FROM JONES LANG WOOTTON



Cost Approach

This methodology is the summation of the value of the land component in its improved existing state and the gross replacement fair value cost of the buildings and other ancillary improvements, after allowing for depreciation. The land value component is arrived by the Comparison Approach whereby comparison is made of the property under valuation with sales of other similar properties. Where dissimilarities exist, adjustments are made.

We have adopted the following sale comparables (as obtained from *Jabatan Penilaian dan Perkhidmatan Harta*) to arrive at the value of the land component:-

Description	Sale Comparable 1	Sale Comparable 2	Sale Comparable 3
Type	Two parcels of converted development land	Ten parcels of unconverted development land	A parcel of unconverted development land
Location	Lots PT 4846 and PT 4847, located off Jalan Tun Kudu, Ayer Molek, Melaka	Lots 2646 and 9 others, located off Jalan Kemuning, off Jalan Pulau Sebang/Tampin, Melaka	Lot 16277, located off Jalan Pulau Sebang/Tampin, Melaka
Tenure	99-year leasehold interest (with unexpired term of about 98 years)	Interest in perpetuity in respect of all titles except for Lot 2646 which is 99-year leasehold interest (with unexpired term of about 13 years)	Interest in perpetuity
Category of Land Use	<i>Bangunan</i>	<i>Tiada</i>	<i>Tiada</i>
Zoning	Residential	Industrial	Industrial
Land Area	64.403 acres (2,805,403 square feet)	281.820 acres (12,276,079 square feet)	176.532 acres (7,689,726 square feet)
Consideration	RM37,800,000.00	RM240,000,000.00	RM148,320,480.00
Date of Transaction	2 March 2022	30 October 2020	22 September 2020
Vendor	MSS Teguhbina Sdn Bhd	Eksklusif Pesona Sdn Bhd	Eksklusif Pesona Sdn Bhd
Purchaser	Anjuran Legenda Sdn Bhd	Hicom Glen Sdn Bhd	Malakoff R&D Sdn Bhd
Analysed Price	RM13.47 psf	RM19.55 psf	RM19.29 psf
Factors Considered for Adjustment	Zoning, planning requirements, title conversion, location, size, tenure, usage and matured development with all approval in place.		
Adjusted Value	RM22.00 psf	RM26.00 psf	RM24.00 psf

We have relied on Sale Comparable 1 as it is a more recent transaction and more similar in size.

Building Component

For the building component, we have adopted the replacement cost new (current cost) ranging from RM170.00 psf to RM225.00 psf for the buildings. The replacement cost new adopted is based on our checks and consultations with quantity surveyor and contractors. That the buildings and ancillary improvements are not new, they are depreciated to reflect their current age and conditions and balanced economic life.

The Market Value as per the Cost Approach is RM143,000,000.00.



9. Summary and Reconciliation of Values

Valuation Methodology	Market Value
Income Approach by way of Investment Method	RM150,000,000.00
Cost Approach	RM143,000,000.00

That the Subject Property is an investment asset the appropriate methodology to arrive at the Market Value is the Investment Method. The Cost Approach is used as a check.

10. Opinion of Value

We wish to draw attention that the title of Lot 9808 (which the Subject Property forms part of) carries a restriction-in-interest which stipulates that “*Tanah ini tidak boleh di pindahmilik atau dipajak kecuali dengan kebenaran Pihak Berkuasa Negeri*”. In this regard, our valuation is on the basis that written consent from the State Authority in respect of the aforesaid restriction will not be unreasonably withheld.

Having regard to the foregoing, our opinion of the Market Value of the legal interest in the Subject Property (a private educational premises known as ‘Kolej Yayasan Saad’), presently falls within Lot 9808, Mukim of Durian Tunggal, District of Alor Gajah, Melaka, which is presently held under Title No. PN 62892; with the benefits of Certificates of Fitness for Occupation as well as Certificate of Completion and Compliance, subject to the draft lease and the title when issued will be free of all encumbrances (including but not limiting to the existing charge to Malaysia Building Society Berhad), good, marketable and registrable is RM150,000,000.00 (Ringgit Malaysia One Hundred Fifty Million Only).

SINCE THE VALUATION IS BASED ON UNREALISED ASSUMPTIONS (AS AT THE DATE OF VALUATION), SHOULD ANY PARTY WISHES TO RELY ON THE VALUATION, APPROPRIATE PROFESSIONAL ADVICE SHOULD BE SOUGHT.

We would also like to confirm further that there are no further pertinent factors which may affect the value of the Subject Property and the contents of this Valuation Certificate are in compliance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia.

For and on behalf of
JONES LANG WOOTTON

**LIM TZE HER, FRISM MRICS FMVA
REGISTERED VALUER, V-805 AND CHARTERED SURVEYOR
EXECUTIVE DIRECTOR**

APPENDIX IV – FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

The Board has seen and approved this Circular and they collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

All information relating to KCSB and KESB in this Circular was obtained from the management of the Vendor and the Lessee. The responsibility of the Board with respect to such information is limited to ensuring that such information is correctly extracted and reproduced in this Circular.

2. CONSENT

UOBKH, being the Principal Adviser for the Proposals and the Placement Agent for the Proposed Placement, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

Jones Lang Wootton, being the Valuer to Hektar REIT in relation to the valuation of the Subject Property, has given and has not subsequently withdrawn its written consent to the inclusion of this Circular of its name, Valuation Certificate, and all references thereto in the form and context in which they appear in this Circular.

AER, being the Independent Adviser for the Proposed Acquisition and Lease, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

3. DECLARATION OF CONFLICT OF INTEREST

UOBKH has given its written confirmation that there is no situation of conflict of interest that exists or is likely to exist in relation to its role as the Principal Adviser for the Proposals and the Placement Agent for the Proposed Placement.

Jones Lang Wootton has given its written confirmation that there is no situation of conflict of interest that exists nor is likely to exist in relation to its role as the Valuer to Hektar REIT in relation to the valuation of the Subject Property.

AER has given its written confirmation that there is no situation of conflict of interest that exists nor is likely to exist in relation to its role as the Independent Adviser to Hektar REIT for the Proposed Acquisition and Lease.

4. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

4.1 Subject Property

Save as disclosed below, as at the LPD, the Board is not aware of any material litigation, claims or arbitration, proceedings pending or threatened involving the Subject Property, or of any facts likely to give rise to any proceedings involving the Subject Property:

**i. Kuala Lumpur High Court No. WA-22M-265-06/2018
MBSB Bank Berhad v KYS College Sdn Bhd & Anor**

On 26 June 2018, MBSB Bank Berhad ("**MBSB**") sued KCSB, the principal debtor in the Bai' Al-Inah Facility Agreement ("**Facility Agreement**"), and Tan Sri Halim bin Saad ("**TSH**") whom is the personal guarantor of KCSB for RM120,239,742.29 as of 17 May 2018 ("**Total Sum Due**").

The suit was concluded by way of a Consent Judgment dated 15 October 2018 ("**Consent Judgement**"), which was entered into between MBSB and KCSB. TSH was not made a party whom holds any liability towards MBSB in the said Consent Judgment. The summary of the terms of the said Consent Judgment is as follows:

- (a) KCSB is to pay MBSB the Total Sum Due pursuant to the Facility Agreement and the security documents;
- (b) KCSB had requested for deferment of payment for the said Total Sum Due until 30 April 2019 ("**Total Sum Due No. 2**");
- (c) Following KCSB's said request, MBSB had agreed to allow KCSB the deferment of payment for the said Total Sum Due No. 2 until 30 April 2019 and that the total settlement amount to be paid to MBSB as of 30 April 2019 is RM83,633,771.55 ("**Settlement Amount**"); and
- (d) If KCSB fails to pay the said Settlement Amount before 30 April 2019, then KCSB has to pay the said Total Sum Due No. 2 with immediate effect to MBSB subject to the part payment duly accepted by MBSB, ibra' and ta'widh that have accrued.

As the Consent Judgment was entered between MBSB and KCSB, MBSB had withdrawn the suit against TSH with liberty to file afresh and with no order as to costs.

The suit had been concluded via the said Consent Judgment. Consequently, due to KCSB's default in making payment pursuant to the terms of the said Consent Judgment, MBSB had initiated suits further deliberated in paragraphs (ii), (iii) and (iv) below.

**ii. Kuala Lumpur High Court No. WA-22M-23-02/2022
MBSB Bank Berhad v Halim Bin Saad**

The suit was filed by MBSB against TSH for the sum of RM106,800,801.38 as of 31 December 2021 ("**Total Sum Due No. 3**") as the personal guarantor to KCSB pursuant to KCSB's failure to make full payment for the Settlement Amount and the Total Sum Due No. 2 as per the terms of the said Consent Judgment.

The Kuala Lumpur High Court had granted Summary Judgment for MBSB against TSH on 29 July 2022 ("**Summary Judgment**"), the terms of which are as follows:

- (a) TSH is to pay the outstanding amount under the Facility Agreement in the amount of RM106,363,654.03 as of 31 December 2021;
- (b) TSH is to pay ta'widh for the outstanding amount under the Facility Agreement in the sum of RM437,147.35 as of 31 December 2021;

APPENDIX IV – FURTHER INFORMATION

- (c) TSH is to pay ta'widh outstanding amount under the Facility Agreement at the base rate of the Islamic Interbank Money Market Pasaran Wang Antara Bank Secara Islam per annum on the amount of RM106,363,654.03 that is calculated from 1 January 2022 until the date of full and final settlement;
- (d) TSH is to pay late payment interest at 5% per annum based on the RM106,363,654.03 calculated from the date of judgment until full and final settlement of the judgment sum pursuant to Order 42 rule 12A Rules of Court 2012 ("**ROC 2012**"); and
- (e) TSH is to pay costs of RMRM7,500.00 to MBSB subject to 4% allocator fees.

TSH has filed an appeal against the said Summary Judgment (Civil Appeal No.: W-02(IM)(MUA)-1522- 08/2022) ("**TSH's Appeal**"), and the hearing has been fixed at the Court of Appeal ("**COA**") on 23 January 2024.

Considering the facts that TSH is a personal guarantor of KCSB and that KCSB had defaulted in making payment to MBSB pursuant to the terms of the said Consent Judgment, the solicitors opine that the chances for TSH's Appeal against the Summary Judgment to be allowed at the COA are slim.

The solicitors' opinion as such is based on the fact that the said Consent Judgment is conclusive and final in nature, hence, KCSB's default of the same would give rise to MBSB's undisputed right to pursue the recovery of the same debt from TSH, whom is the personal guarantor to KCSB in the Facility Agreement for the repayment of the monies due and owing by KCSB to MBSB.

iii. **Kuala Lumpur High Court No. WA-24NCC-153-03/2022 KYS College Sdn Bhd v MBSB Bank Berhad**

Pursuant to KCSB's said default in making payment based on the terms of the said Consent Judgment, MBSB had issued a Winding Up Notice under Section 466 ("**466 Notice**") of the Act dated 9 February 2022. Thereafter, KCSB filed the Originating Summons ("**OS**") dated 11 March 2022 at the Kuala Lumpur High Court for a Fortuna Injunction to prevent MBSB from proceeding with the Winding Up Petition against KCSB. The said Fortuna Injunction was applied, among others, based on the fact that MBSB had simultaneously initiated other remedies (i.e., the OS No.: MA-24MFC-16-04/2023 below) against KCSB for the recovery of the same debt which are not as damaging to KCSB as compared to a winding up action.

The Kuala Lumpur High Court had dismissed the said OS on 9 November 2022 with costs of RM6,500.00 subject to allocator fees.

KCSB had then filed an appeal against the dismissal of the said OS (Civil Appeal No.: W-02(NCC)(A)- 2244-12/2022) ("**Fortuna Appeal**"), and the hearing was fixed at the Court of Appeal on 25 September 2023.

The Court of Appeal had dismissed the Fortuna Appeal with costs of RM20,000.00 to be paid by KCSB to MBSB subject to 4% allocator fees. The Court of Appeal had also affirmed the Kuala Lumpur High Court's decision, whereby both Courts had ruled that a lender may resort to pursue all remedies available against a borrower simultaneously, contemporaneously, or successively to recover the money lent unless there is an agreement to the contrary.

APPENDIX IV – FURTHER INFORMATION

To date, there is no further appeal from KCSB against the said Court of Appeal's decision.

iv. **Melaka High Court No. MA-24MFC-16-04/2023**
MBSB Bank Berhad v KYS College Sdn Bhd

On 9 February 2022, MBSB served a notice under Section 254 of the National Land Code 1965 ("**NLC 1965**") to foreclose KCSB's lands pursuant to the charge of the lands under the said Facility Agreement (Charge Presentation No.: 0400SC2012008841 @ 8841/2012 dated 4 July 2012). MBSB had then filed the OS dated 4 April 2022 to obtain an Order For Sale ("**OFS**") for the foreclosure of KCSB's said lands to settle the sum based on the Consent Judgment as follows:

- (a) Pajakan Negeri 62981, Lot 9807, Mukim Durian Tunggal, Daerah Alor Gajah, Negeri Melaka No. Perserahan Gadaian 0400SC2012008841 @ 8841/2012 dated 4.7.2012; and
- (b) Pajakan Negeri 62892, Lot 9808, Mukim Durian Tunggal, Daerah Alor Gajah, Negeri Melaka melalui No. Perserahan Gadaian 0400SC2012008841 @ 8841/2012 dated 4.7.2012.

KCSB had then filed an appeal against the OFS dated 9 August 2023 at the COA on 15 August 2023 (Civil Appeal No.: M-02(MUA)(A)-1289-08/2023) ("**OFS Appeal**"), and the date for hearing of the appeal at the COA has been fixed on 16 July 2024.

The solicitors opine that the chances of success for the said OFS Appeal are slim, as the threshold to prove cause to the contrary against the said Section 254 Notice under the NLC 1965 is of a high standard.

Settlement Proposal between KCSB and MBSB

Since all of the above legal suits stem from KCSB's default for the repayment of the Facility Agreement and the Consent Judgment thereof, as a way forward, KCSB is opting to liquidate its said charged land.

As at LPD, MBSB is agreeable for the settlement of all of the above suits in the sum of RM85 million to be paid by KCSB as the full and final settlement of KCSB's debts, subject to salient conditions set by MBSB as follows:

- (a) for a full and final settlement of the amount outstanding and payable under the Facility Agreement, Consent Judgment, Summary Judgment, and OFS:
 - i. the redemption sum shall be fixed at RM85 million ("**Redemption Sum**") and to be paid by KCSB to MBSB by 29 December 2023 ("**Deadline**") as per the terms in MBSB's Redemption Statement Cum Letter of Undertaking dated 10 November 2023 ("**Redemption Statement**") of MBSB's letter to KCSB dated 10 November 2023 ("**MBSB's Letter**"); and
 - ii. the terms of Redemption Statement shall be only valid if MBSB receive the Redemption Sum in full on or before the Deadline;
- (b) financial arrangement, time frame and any other obligations under the SPA shall not be binding on MBSB and shall not prejudice MBSB's rights to recover the amount outstanding and payable under the Facility Agreement, Consent Judgment, Summary Judgment and OFS;

APPENDIX IV – FURTHER INFORMATION

- (c) in the event the SPA is aborted or terminated pursuant to the terms and conditions therein provided:
 - i. MBSB shall have no obligation to refund any sum paid towards the redemption of the Facility Agreement to KCSB, the Trustee or the Manager;
 - ii. KCSB, the Trustee and the Manager shall not have any right whatsoever to any indemnification or any claim and damages against MBSB, including but not limited to the refund of any sum paid to MBSB;
 - iii. KCSB shall not impugn or challenge the Consent Judgment, Summary Judgment and OFS; and
 - iv. KCSB, the Trustee and the Manager shall not raise any objection to the execution of the Consent Judgment, Summary Judgment and judicial sale of the charged property as ordered by the Melaka High Court by way of the OFS.
- (d) KCSB, the Trustee and the Manager shall not lodge any form of caveat or prohibitory order over the Subject Property pending the full satisfaction of the Consent Judgment, Summary Judgment, OFS, or redemption of the Facility Agreement;
- (e) KCSB and TSH, as the guarantor shall withdraw the following appeals on or before the Deadline:
 - i. Court of Appeal Civil Appeal No.: M-02(MUA)(A)-1289-08/2023 filed by KCSB against the OFS; and
 - ii. Court of Appeal Civil Appeal No.: W-02(1M)(MUA)-1522-08/2022 filed by TSH against the Summary Judgment;
- (f) subject to the full compliance of the terms in the Redemption Statement and MBSB's Letter, MBSB shall take the necessary steps to discharge and release the securities as per the terms of the Redemption Statement and existing security documents.

Notwithstanding the foregoing, KCSB is still in the midst of negotiating with MBSB on potential amendments to the terms and conditions set out in MBSB's Letter in view of the ongoing transaction between KCSB and Hektar REIT.

4.2 Hektar REIT

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

APPENDIX IV – FURTHER INFORMATION

i. **Writ of summons against 3 tenants & Tashima Development Sdn Bhd**
(Civil Appeal No. JB-12BNCVC-10-07/2020; JB-12BNCVC-11-07/2020 and JB-12BNCVC-12-07/2020)

On 16 August 2018, Hektar REIT filed a writ of summons action at the Muar Sessions Court against 3 tenants at Segamat Central Shopping Centre, namely Agenda Fokus Sdn Bhd, Tirai Prospektif Sdn Bhd and Dazzling Density Sdn Bhd (collectively, "**3 Tenants**") and their guarantor, Tashima Development Sdn Bhd ("**Tashima**" or "**guarantor**") to seek, amongst others, the following:

- (a) a declaration that the termination of tenancy agreements all dated 28 July 2015 and the tenancy renewal letter by the tenants through their notices of termination was invalid and unlawful;
- (b) an order for vacant possession of the demised premises be returned to Hektar REIT in its original state and condition or alternatively, if the demised premises is not returned in such state and condition, the tenants shall compensate Hektar REIT for the reinstatement cost which shall be assessed by the Court;
- (c) compensation for loss of rental for the remaining unexpired term of the tenancy and compensation for double rental to be assessed by the Court; and
- (d) payment of RM425,971.98, RM808,799.32 and RM465,613.99 respectively being the outstanding rental and other charges owing under the tenancy agreements and tenancy renewal letters, calculated as at July 2018 only.

The Sessions Court had, on 30 June 2020 allowed the following claims of Hektar REIT against the 3 Tenants:

- (a) monthly rental of the remaining unexpired terms of tenancies amounting to a total of RM1,700,384.30 for all 3 cases;
- (b) outstanding sum due and owing under the tenancies and/ or tenancy renewal letters amounting to a total of RM1,973,086.29 for all 3 cases; and
- (c) costs of RM18,000 for each case payable to Hektar REIT.

At the same time, the Sessions Court allowed the following counter-claims by the 3 Tenants and guarantor:

- (a) the declaration that the letters of undertaking dated 14 September 2017 issued by Tashima to Hektar REIT is void and unenforceable; and
- (b) the declaration that the notice of termination issued by the 3 Tenants were valid and enforceable.

Following the dissatisfaction over the decision of the Sessions Court in awarding the counter claims in favor of the 3 Tenants and the guarantor, Hektar REIT had, on 13 July 2020, via its solicitors, filed the relevant notices of appeal to the High Court to appeal against the decision of the Sessions Court ("**Civil Appeals**").

APPENDIX IV – FURTHER INFORMATION

On 4 September 2023, the High Court had allowed Hektar REIT's Civil Appeals, and decided as follows:

- (a) the respective 1st respondents i.e. Dazzling Density Sdn Bhd, Tirai Prospektif Sdn Bhd and Agenda Fokus Sdn Bhd in the 3 appeals had occupied and possessed the demised premises for the period from August 2018 to December 2018 in which the Judge took cognisance that there had been no rental paid by the respective 1st respondents for such period and the rental for such period has not been ordered by the Sessions Court.

On this note, the Judge held that Hektar REIT was entitled to normal rent for such period and the Court had granted further damages for such period with interests of 12% per annum from 1 January 2019 until full realization, in addition to the damages granted by the Sessions Court earlier;

- (b) the Court had also set aside the Sessions Court order which refused to grant the declaratory relief that the notice of termination issued by the 1st respondents were invalid and unlawful. In this regard, the Court has further granted a declaration that the said notice of termination were invalid and unenforceable;
- (c) with regard to the appeals against the 2nd respondent i.e. Tashima, the High Court had dismissed Tashima's arguments that the letters of undertaking were invalid for want of consideration and economic duress. In this regard, the High Court was satisfied that there were considerations given in exchange for the letters of undertaking in the form of 'Forbearance to Sue'. Further, the High Court held that Tashima's argument of economic duress had no merit and was an afterthought. Therefore, the letter of undertaking were valid and enforceable;
- (d) consequently, the appeals against Tashima were allowed where it was ordered that Tashima was jointly and severally liable for the damages and interests payable by the respective tenants, i.e. the respective 1st respondents in the 3 appeals;
- (e) the High Court had also dismissed the cross appeal by the respective 1st respondents; and
- (f) Tashima to pay cost of RM20,000.00 under the respective appeals to Hektar REIT.

Following the above decision by the Muar High Court, Hektar REIT had taken steps to commence enforcement proceedings against the respective respondents. Hektar REIT have commenced judgment debtor summons against Tashima at Muar High Court where the case management is fixed on 4 January 2024. No enforcement proceedings commenced against the 3 Tenants as they have been wound up previously by the Court.

ii. **Writ of Summons by Eng Hiap Seng (Rengit) Sdn Bhd against Hektar REIT & Hektar Property Services Sdn Bhd**
(Civil Suit No. JB-22NCvC-15-03/2019)

Eng Hiap Seng (Rengit) Sdn Bhd ("**Eng Hiap Seng**") is the Plaintiff, the Trustee and Hektar REIT are the 1st and 2nd Defendants. Eng Hiap Seng seeks a declaration and damages for trespass as well as an injunction to restrain further trespass, specific performance, interest and costs. On 5 July 2019, Eng Hiap Seng filed an application for summary judgment against the Trustee and Hektar REIT. This application was dismissed by the High Court on 25 November 2019 with costs. On 24 January 2020, the Trustee and Hektar REIT filed an application for leave to issue third party proceedings against Wetex Realty Sdn Bhd ("**Wetex**"). On 17 February 2020, the High Court allowed the third-party proceedings to be brought against Wetex.

The action is presently pending before the High Court and the continued trial is fixed for 16 to 18 January 2024.

The solicitors are of the view that the Trustee and Hektar REIT as the Defendants in the main action have reasonable prospects of success in defending the claim filed by Eng Hiap Seng for trespass. The Defendants have since filed an Order 40A Affidavit annexing an expert's report. The expert's report will show that the land allegedly trespassed upon had been earmarked for and/ or intended to be utilized as a road reserve and as such, Eng Hiap Seng has no right to bring this action.

Further, the solicitors are of the view that the Defendants have reasonable prospect of success in third-party proceedings brought against Wetex for an indemnity and/ or contribution towards the satisfaction of any damages that the High Court may make in favour of Eng Hiap Seng in respect of either or both Defendants.

Notwithstanding the above, the solicitors are unable to ascertain the outcome of the proceedings at this stage as the trial is ongoing.

iii. **Writ of Summons by MTrustee Berhad against Mahkota Parade JMB & 5 Others**
(Civil Suit No. 22 NCvC-22-06/2020)

The Trustee instituted a claim against the Joint Management Body of Mahkota Parade ("**JMB**") and the then members of the Joint Management Committee elected during the 7th Annual General Meeting of the JMB ("**Defendants**"). The claim is for breach of statutory duty and negligence; breach of statute and/ or regulations passed under the Strata Management Act 2013; conspiracy to injure by unlawful means or conspiracy to injure by lawful means; abuse of statutory power, abuse of statutory process, and abuse of process of the court on part of the Defendants.

The Defendants filed a Counterclaim for abuse of court process. Additionally, the JMB filed a Counterclaim for payment of the sum of RM37.4 million against the Trustee. On 19 June 2020, the Trustee filed an application for an interim injunction to, inter-alia:

- (a) restrain the Defendants from taking out any proceedings or in any way acting on or proceedings against the Trustee premised on the Form 11 of the Strata Management (Maintenance and Management) Regulations 2015 dated 2 March 2020; and

APPENDIX IV – FURTHER INFORMATION

- (b) restrain the Defendants (or any one or more of them) from denying or refusing the Plaintiff its right to vote at a general meeting of the JMB in respect of any or all 131 parcels that it owns on account of the Trustee being in arrears only in respect of several (and not all) of the said parcels.

On 17 December 2020, the High Court ordered, inter-alia, that upon an undertaking by the Trustee as to damages, an injunction is granted to restrain the Defendants from taking out any proceedings or in any way acting on or proceeding against the Trustee premised on the Form 11 of the Strata Management (Maintenance and Management) Regulations 2015 dated 2 March 2020 until the disposal of the claim ("**Order**").

On 17 January 2022, the Trustee entered into a consent judgment with the JMB. Pursuant to the terms of the consent judgment both the Trustee and the JMB withdrew their respective claims against each other. The JMB accepted that the maintenance charges (which are the subject of the RM37.4 million Counterclaim) was not computed in accordance with the law. The trial is completed and the decision is fixed for 13 September 2023. On 13 September 2023, the High Court had dismissed both Hektar REIT's claim and the Counterclaim from the Defendants and made no order as to costs. With the decision from the High Court, both parties have decided to accept the decision and not to file any appeals against the said decision and therefore the decision of the High Court is final and this case is now at an end.

5. MATERIAL COMMITMENT

Save as disclosed below, as at the LPD, the Board confirms that there are no material commitments incurred or known to be incurred by Hektar REIT that has not been provided for which, may have a material impact on the financial results/ position of Hektar REIT:

Description	Amount (RM'000)
Replacement and modernization of lifts and escalators at Subang Parade	15,800

6. CONTINGENT LIABILITIES

As at the LPD, the Board confirms that there are no contingent liabilities incurred or known to be incurred by Hektar REIT which, upon becoming enforceable, may have a material impact on the financial results/ position of Hektar REIT.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Business Office of the Trustee at Level 15, Menara AmFIRST, No. 1, Jalan 19/3, 46300 Petaling Jaya, Selangor, during normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to and including the date of the Unitholders' Meeting:

- i. the Trust Deed and draft Supplemental Trust Deed;
- ii. the SPA and Letter of Variation;
- iii. the Lease Agreement;
- iv. the Valuation Certificate and Valuation Report for the Subject Property;

APPENDIX IV – FURTHER INFORMATION

- v. the audited financial statements of Hektar REIT for the past two FYEs 31 December 2021 and 31 December 2022, and the latest unaudited condensed consolidated financial statements for the 9-month financial period ended 30 September 2023;
- vi. the letters of consent and declaration of conflict of interest referred to in **Sections 2 and 3** of this Appendix; and
- vii. cause papers referred to in **Section 4** of this Appendix.



HEKTAR REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the Trust Deed dated 5 October 2006 (as amended by the Supplemental Trust Deed dated 20 March 2012, Second Supplemental Deed to the Trust Deed dated 23 November 2016 and Amended and Restated Trust Deed dated 8 February 2021) entered into between Hektar Asset Management Sdn Bhd and MTrustee Berhad)

NOTICE OF UNITHOLDERS' MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting ("**EGM**") of Hektar Real Estate Investment Trust ("**Hektar REIT**") will be conducted on a fully virtual basis at the Broadcast Venue at The Boardroom of Hektar Asset Management Sdn Bhd, D1-U3-10, Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480 Kuala Lumpur, Wilayah Persekutuan on Monday, 15 January 2024 at 10.30 a.m., or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modification, the following resolutions:

ORDINARY RESOLUTION 1

PROPOSED ACQUISITION BY MTRUSTEE BERHAD, BEING THE TRUSTEE OF HEKTAR REIT OF A SINGLE, 1 ½, 2 AND 3-STOREY BUILDINGS WHICH ARE CATEGORISED INTO ADMINISTRATION, ACADEMIC, RESIDENTIAL AND STUDENT FACILITIES FORMING PART OF THE FULLY RESIDENTIAL AND CO-EDUCATIONAL PRIVATE SCHOOL KNOWN AS 'KOLEJ YAYASAN SAAD' ('KYS COLLEGE' OR THE "SUBJECT PROPERTY") LOCATED AT AYER KEROH, MELAKA AND ERECTED ON PART OF THE LEASEHOLD LAND HELD UNDER PN 62892, LOT 9808, MUKIM OF DURIAN TUNGGAL, DISTRICT OF ALOR GAJAH, STATE OF MELAKA FROM KYS COLLEGE SDN BHD AT THE PURCHASE CONSIDERATION OF RM150 MILLION ("PURCHASE CONSIDERATION"), TOGETHER WITH THE NOVATION OF THE LEASE AGREEMENT TO THE TRUSTEE ON THE COMPLETION OF THE ACQUISITION ("PROPOSED ACQUISITION AND LEASE")

"THAT subject to the passing of Ordinary Resolution 2 and Special Resolution 1, the fulfilment of all other conditions precedent under the conditional sale and purchase agreement dated 11 September 2023 between the MTrustee Berhad ("**Trustee**") and KYS College Sdn Bhd ("**KCSB**" or the "**Vendor**") ("**SPA**") (which was subsequently amended by the letter of variation dated 4 December 2023) and the approvals of all relevant authorities and/ or parties (where required) being obtained, approval be and is hereby given to the Trustee, for and on behalf of Hektar REIT, to acquire the Subject Property and its building system at the Purchase Consideration, in accordance with the terms and conditions of the SPA;

THAT subject to the completion of the acquisition of the Subject Property, approval be and is hereby given to the Trustee, for and on behalf of Hektar REIT, to enter into a deed of novation between the Vendor, Trustee and KYSA Education Sdn Bhd (being the existing operator of KYS College) ("**KESB**" or the "**Lessee**") for the novation of the lease from the Vendor to the Trustee. The Vendor had on 22 June 2023 leased the Subject Property to KESB;

AND THAT the board of directors of Hektar Asset Management Sdn Bhd ("**Board**"), being the management company of Hektar REIT ("**Manager**") and the Trustee be and are hereby authorised to do all such acts, deeds and things and to execute, enter into, sign and deliver any arrangements, guarantees and/ or documents as the Board and the Trustee deem fit, necessary, expedient and/ or appropriate in order to implement, finalise and/ or give full effect to and complete the Proposed Acquisition and Lease for and on behalf of Hektar REIT and in the best interest of Hektar REIT and where applicable, with full powers to assent to any terms, conditions, modifications, variations and/ or amendments as may be required by the relevant regulatory authorities or as the Board and the Trustee may deem fit, necessary, expedient and/ or appropriate to implement, finalise and/ or give full effect to and complete the Proposed Acquisition and Lease.

ORDINARY RESOLUTION 2

PROPOSED PLACEMENT OF UP TO 145,353,768 NEW UNITS IN HEKTAR REIT ("UNIT(S)") ("PLACEMENT UNIT(S)'), REPRESENTING UP TO 25% OF THE ISSUED UNITS TO THIRD PARTY INVESTORS ("PROPOSED PLACEMENT")

"**THAT** subject to the passing of Ordinary Resolution 1 and Special Resolution 1, and the approvals of all relevant authorities being obtained, approval be and is hereby given to the Board and the Trustee to allot and issue up to 145,353,768 Placement Units;

THAT the Placement Units will be priced at not more than 10% discount to the five-day volume weighted average market price ("**VWAP**") of Hektar REIT Units immediately preceding the price-fixing date(s) to be determined later, for such purpose and use of proceeds as set out in Part A, Section 3.6 of the circular to unitholders dated 21 December 2023 ("**Circular**");

THAT the Placement Units will, upon allotment and issuance, rank equally in all respects with the existing Units, save and except that the holders of new Units shall not be entitled to any distributable income, rights, benefits, entitlements and/ or any other forms of distributions that may be declared, made or paid to unitholders where the entitlement date of such distributions precedes the relevant date of allotment and issuance of the Placement Units;

AND THAT the Board and the Trustee be and are hereby authorised to do all such acts, deeds and things and to execute, enter into, sign and deliver any arrangements, guarantees and/ or documents as the Board and the Trustee deem fit, necessary, expedient and/ or appropriate in order to implement, finalise and/ or give full effect to and complete the Proposed Placement for and on behalf of Hektar REIT and in the best interest of Hektar REIT and where applicable, with full powers to assent to any terms, conditions, modifications, variations and/ or amendments as may be required by the relevant regulatory authorities or as the Board and the Trustee may deem fit, necessary, expedient and/ or appropriate to implement, finalise and/ or give full effect to and complete the Proposed Placement."

SPECIAL RESOLUTION 1

PROPOSED AMENDMENT TO THE INVESTMENT OBJECTIVES OF HEKTAR REIT TO FACILITATE THE PROPOSED ACQUISITION AND LEASE ("PROPOSED AMENDMENT")

"**THAT** subject to the passing of Ordinary Resolution 1 and Ordinary Resolution 2, and the requisite approval being obtained, approval be and is hereby given to the Manager to alter, modify, add and/ or delete the provisions in the Trust Deed dated 5 October 2006 (as amended by the Supplemental Trust Deed dated 20 March 2012, Second Supplemental Deed to the Trust Deed dated 23 November 2016 and Amended and Restated Trust Deed dated 8 February 2021) between the Manager and the Trustee constituting Hektar REIT, in the manner as set out in Part A, Section 4 of the Circular pursuant to the Proposed Amendment;

AND THAT the Board and the Trustee be and are hereby authorised to do all such acts, deeds and things and to execute, enter into, sign and deliver any arrangements, guarantees and/ or documents as the Board and the Trustee deem fit, necessary, expedient and/ or appropriate in order to implement, finalise and/ or give full effect to and complete the Proposed Amendment for and on behalf of Hektar REIT and in the best interest of Hektar REIT and where applicable, with full powers to assent to any terms, conditions, modifications, variations and/ or amendments as may be required by the relevant regulatory authorities or as the Board and the Trustee may deem fit, necessary, expedient and/ or appropriate to implement, finalise and/ or give full effect to and complete the Proposed Amendment."

By Order of the Board
HEKTAR ASSET MANAGEMENT SDN BHD

DATO' MUHAMMAD HAFIDZ BIN NURUDDIN (MAICSA 7005820)(SSM PC No.: 202008001132)
LIM SECK WAH (MAICSA 0799845)(SSM PC No.: 202008000054)
Joint Company Secretaries

Kuala Lumpur
21 December 2023

Notes:

1. *A unitholder who is entitled to participate at the meeting is entitled to appoint not more than 2 proxies to participate instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.*
2. *Where a unitholder is a corporation, its duly authorised representative shall be entitled to participate at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to participate.*
3. *Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in Units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.*
4. *Where a unitholder is an exempt authorised nominee which holds Units in Hektar REIT for multiple beneficial owners in one account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.*
6. *The instrument appointing a proxy shall be deposited at the office of Hektar REIT's Poll Administrator for the EGM, SS E Solutions Sdn Bhd at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan no later than 48 hours before the time set for holding the EGM or at any adjournment thereof.*
7. *Only unitholders registered in the Record of Depositors as at 8 January 2024 shall be entitled to participate at the meeting or appoint proxy(ies) to participate on his behalf.*
8. *The meeting will be conducted on a fully virtual basis through live streaming and online remote voting via the Remote Participation and Voting ("**RPV**") facilities available on Securities Services e-Portal at <https://sshsb.net.my/>. Please refer to the procedures provided in the Administrative Guide for registration, participation and remote voting via the RPV facilities.*



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PROXY FORM

(Before completing this form please refer to the notes below)

CDS Account No.	
No. of units held	

I/ We _____ Tel: _____
[Full name in block, NRIC/ Passport/ Company No.]

of _____

being unitholder(s) of Hektar Real Estate Investment Trust ("Hektar REIT") hereby appoint the following person(s):-

Full Name (in Block)	NRIC/ Passport No.	No. of units to be represented by proxy
Address		

and/or* (*delete as appropriate)

Full Name (in Block)	NRIC/ Passport No.	No. of units to be represented by proxy
Address		

as my/our proxy to attend on my/our behalf at the Extraordinary General Meeting ("EGM") to be conducted on a fully virtual basis at the Broadcast Venue at The Boardroom of Hektar Asset Management Sdn Bhd, D1-U3-10, Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480 Kuala Lumpur, Wilayah Persekutuan on Monday, 15 January 2024 at 10.30 a.m. or at any adjournment thereof. My/our proxy is to vote as indicated below:-

Resolution	Description	FIRST PROXY		SECOND PROXY	
		FOR	AGAINST	FOR	AGAINST
Ordinary Resolution 1	Proposed Acquisition and Lease				
Ordinary Resolution 2	Proposed Placement				
Special Resolution 1	Proposed Amendment				

Dated this _____ day of _____ 2024

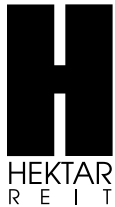
Notes:

Signature/Common Seal of Unitholder(s)

- A unitholder who is entitled to participate at the meeting is entitled to appoint not more than 2 proxies to participate instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
- Where a unitholder is a corporation, its duly authorised representative shall be entitled to participate at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to participate.
- Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.

4. Where a unitholder is an exempt authorised nominee which holds units in Hektar REIT for multiple beneficial owners in one account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
6. The instrument appointing a proxy shall be deposited at the office of Hektar REIT's Poll Administrator for the EGM, SS E Solutions Sdn Bhd, at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan no later than 48 hours before the time set for holding the EGM or at any adjournment thereof.
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AFFIX
STAMP

The Poll Administrator
SS E Solutions Sdn Bhd
Level 7, Menara Milenium, Jalan Damanlela
Pusat Bandar Damansara, Damansara Heights
50490 Kuala Lumpur
Wilayah Persekutuan

2nd Fold Here

Fold This Flap For Sealing