

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	As at 31.12.2015 RM (Unaudited)	As at 31.12.2014 RM (Audited)
<u>NON-CURRENT ASSETS</u>		
Investment properties	1,086,580,000	1,060,732,000
Capital work in progress	335,057	21,678,945
Fixed deposits with a licensed bank	634,816	4,408,367
	1,087,549,873	1,086,819,312
<u>CURRENT ASSETS</u>		
Trade receivables	3,725,472	2,883,584
Other receivables, deposits and prepayments	5,953,842	5,604,023
Cash and bank balances	19,085,638	14,739,242
	28,764,952	23,226,849
TOTAL ASSETS	1,116,314,825	1,110,046,161
<u>NON-CURRENT LIABILITIES</u>		
Tenancy deposits	15,089,960	14,073,995
Bank borrowings	479,214,809	453,876,328
	494,304,769	467,950,323
<u>CURRENT LIABILITIES</u>		
Trade payables	902,924	384,358
Other payables and accruals	7,117,205	5,054,046
Tenancy deposits	14,612,999	14,973,259
Bank borrowings	15,000,000	-
	37,633,128	20,411,663
TOTAL LIABILITIES	531,937,897	488,361,986
NET ASSET VALUE	584,376,928	621,684,175
<u>FINANCED BY:</u>		
Unitholders' capital	425,738,255	425,738,255
Undistributed income – realised	43,996,656	41,369,917
– unrealised	114,642,017	154,576,003
TOTAL UNITHOLDERS' FUND	584,376,928	621,684,175
NET ASSET VALUE PER UNIT (RM)		
-as at the date	1.4586	1.5518
-before distribution for the cumulative quarter	1.5636	1.6568
NUMBER OF UNITS IN CIRCULATION	400,634,117	400,634,117

Note: tenancy deposit includes RM2,044,197 (2014: RM1,898,262) which is discounted to present value in compliance with MFRS 139 as per note A14.

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.12.2015 RM	Preceding Year Corresponding Quarter 31.12.2014 RM	Current YTD 31.12.2015 RM	Preceding YTD 31.12.2014 RM
Revenue	31,930,543	30,827,813	125,511,215	121,991,064
Property operating expenses	(12,396,074)	(11,969,796)	(49,028,498)	(48,714,152)
Net property income	19,534,469	18,858,017	76,482,717	73,276,912
Interest income	55,704	127,040	271,924	318,400
Other income	45,918	56,757	458,493	84,137
Trust expenses	(2,815,338)	(2,515,943)	(10,449,134)	(9,805,255)
Borrowing costs	(5,804,452)	(5,076,371)	(22,070,679)	(19,613,355)
Realised income before taxation	11,016,302	11,449,500	44,693,321	44,260,839
Fair value adjustment of investment properties	(39,933,986)	6,126,123	(39,933,986)	6,126,123
Income before taxation	(28,917,684)	17,575,623	4,759,335	50,386,962
Taxation	-	-	-	-
Net income	(28,917,684)	17,575,623	4,759,335	50,386,962
Other comprehensive income after tax	-	-	-	-
Total comprehensive income	(28,917,684)	17,575,623	4,759,335	50,386,962
Earnings per unit (sen)	(7.22)	4.39	1.19	12.58
- realised (sen)	2.75	2.86	11.16	11.05

The Condensed Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF CHANGES IN NET ASSETS VALUE FOR THE CUMULATIVE QUARTER ENDED 31 DECEMBER 2015 (UNAUDITED)

	Unitholders' Capital RM	<u>Undistributed income</u> Realised RM Unrealised RM		Unitholders' Fund RM
<u>Balance at 1 January 2015</u>	425,738,255	41,369,917	154,576,003	621,684,175
<u>Operation for the cumulative quarter ended 31 December 2015</u>				
Total comprehensive income for the financial year	-	44,693,321	(39,933,986)	4,759,335
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2015	<u>425,738,255</u>	<u>43,996,656</u>	<u>114,642,017</u>	<u>584,376,928</u>

CUMULATIVE QUARTER ENDED 31 DECEMBER 2014 (AUDITED)

	Unitholders' Capital RM	<u>Undistributed income</u> Realised RM Unrealised RM		Unitholders' Fund RM
<u>Balance at 1 January 2014</u>	425,738,255	39,175,660	148,449,880	613,363,795
<u>Operation for the cumulative quarter ended 31 December 2014</u>				
Total comprehensive income for the financial year	-	44,260,839	6,126,123	50,386,962
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2014	<u>425,738,255</u>	<u>41,369,917</u>	<u>154,576,003</u>	<u>621,684,175</u>

The Condensed Statement of Changes in Net Assets Value should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE CUMULATIVE QUARTER ENDED 31 DECEMBER 2015

	Current YTD 31.12.2015 RM	Preceding YTD 31.12.2014 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxation	4,759,335	50,386,962
Adjustments for :-		
Interest income	(271,924)	(318,400)
Interest expense	22,070,679	19,613,355
Rental under MFRS 117	249,785	217,252
Impairment loss on trade receivables	208,155	388,394
Bad debt written off	29,046	17,209
Reversal of impairment loss on trade receivables	(149,170)	(69,365)
Fair value adjustment	39,933,988	(6,126,123)
Operating profit before working capital changes	<u>66,829,894</u>	<u>64,109,284</u>
Change in working capital :-		
Receivables	(1,529,525)	(469,351)
Payables	3,237,430	(1,153,456)
Net cash from operating activities	<u>68,537,799</u>	<u>62,486,477</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment properties	(23,524,327)	(2,676,008)
Expenditure for refurbishment and enhancement of investment property incurred	(20,913,771)	(24,588,800)
Interest income	271,924	318,400
Withdrawal/(Placement) of fixed deposits	3,773,551	(180,897)
Net cash used in investing activities	<u>(40,392,623)</u>	<u>(27,127,305)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Interest expense	(22,070,679)	(19,613,355)
Distribution to Unitholders	(42,066,582)	(42,066,582)
Borrowings	40,338,481	17,776,328
Net cash (used in)/from financing activities	<u>(23,798,780)</u>	<u>(43,903,609)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	4,346,396	(8,544,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>14,739,242</u>	<u>23,283,679</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>19,085,638</u>	<u>14,739,242</u>

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

A. EXPLANATORY NOTES FOR THE QUARTER ENDED 31 DECEMBER 2015 PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")

A1 BASIS OF PREPARATION

The quarterly financial report is unaudited and has been prepared in compliance with MFRS 134: Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). Hektar REIT had adopted Malaysian Financial Reporting Standard issued by Malaysian Accounting Standards Board for accounting period beginning 1 January 2012.

A2 AUDIT REPORT OF PRECEDING FINANCIAL YEAR

The auditors have expressed an unqualified opinion on Hektar REIT's financial statements for the year ended 31 December 2014 in their report dated 16 February 2015.

A3 SEASONALITY OR CYCLICALITY OF OPERATIONS

The business of Hektar REIT is not affected by material, seasonal or cyclical factors.

A4 UNUSUAL ITEMS

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter.

A5 CHANGES IN ESTIMATES

There were no changes in estimates that have had material effect in the current quarter.

A6 DEBT AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter.

A7 INCOME DISTRIBUTION

Based on the quarterly result ended 31 December 2015, there will be a Final Income Distribution of 2.7 sen per unit, amounting to RM10,817,121 to be made on 18 March 2016 to Unitholders registered as at 1 March 2016.

A8 SEGMENT INFORMATION

The principal activity of Hektar REIT is to invest in properties in Malaysia with the primary objective to derive rental income and medium-to-long term growth. Hence, no segmental reporting is presented.

A9 VALUATION OF INVESTMENT PROPERTIES

The Investment Properties for Subang Parade and Mahkota Parade were last valued on 31 December 2015. Meanwhile for Wetex Parade, Central Square and Landmark Central were last valued on 30 November 2015.

A10 MATERIAL SUBSEQUENT EVENTS TO THE END OF THE INTERIM PERIOD

There were no material events subsequent to the end of the interim period.

A11 CHANGES IN THE COMPOSITION OF THE TRUST

There were no changes to the composition of Hektar REIT during the current quarter and the fund size stands at 400,634,117 units.

A12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets to be disclosed.

A13 RENTAL INCOME FROM TENANCIES (MFRS 117)

Rental income receivable under tenancy agreements is recognised on a straight-line basis over the term of the lease. Meanwhile, gross turnover rental is recognised as income in the accounting period on a receipt basis.

A14 TENANCY DEPOSITS (MFRS 139)

Included in the tenancy deposit received from tenants is RM2,044,197 representing the difference between the fair value and the amount of deposits carried in the statement of financial position as a result of the recognition of the said deposits at fair value in compliance with the requirements of MFRS 139 financial instruments.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

A15 CAPITAL COMMITMENT (MFRS 134)

Capital expenditure in respect of the following has not been provided for in the financial statement: -

Authorised and contracted for:-	<u>RM</u>
Refurbishment of investment properties	<u>2,161,360</u>

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

B1 REVIEW OF PERFORMANCE

For the cumulative quarter ended 31 December 2015, Hektar REIT generated total revenue of RM126,241,632 including interest and other income.

Revenue is higher than the preceding year by 2.9%. Property operating expenses increased by 0.6% to RM49,028,498 compared to the preceding year.

Hektar REIT's realised net profit of RM44,693,321 for the year ended 31 December 2015 is 1% higher than the previous year. This is mainly attributable to improved revenue in :

1. Subang Parade due to positive rental reversions; and
2. Central Square following the completion of its Asset Enhancement Initiative ("AEI")

B2 VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter Ended 31.12.2015 RM	Preceding Quarter Ended 31.12.2014 RM
(Loss)/Income before tax (RM)	(28,917,684)	17,575,623
- Realised income before tax (RM)	<u>11,016,302</u>	<u>11,449,500</u>

B3 PROSPECTS

Retail business in Malaysia remains challenging. In addition to the GST which was introduced in April 2015, an unfavourable global economic condition has also affected retailers. Hektar is planning to undertake Asset Enhancement Initiatives on Landmark Central to ensure continuous performance improvement.

B4 VARIANCE OF PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as there was no profit forecast or profit guarantee issued.

B5 TAX EXPENSE

Pursuant to the introduction of the new tax regime for Real Estate Investment Trust ("REIT"), a REIT will be fully exempted from income tax provided at least 90% of its income is distributed to unitholders with effect from the year of assessment 2007.

Barring unforeseen circumstances, there will be no tax payable as Hektar REIT intends to distribute at least 90% of the distributable income to unitholders for the year ending 31 December 2014.

B6 SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

B7 QUOTED INVESTMENTS

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

B8 CORPORATE PROPOSAL AND DEVELOPMENTS

Acquisition of Sold Lots

In the fourth quarter of 2015, there were no new acquisitions of sold lots within Hektar REIT's portfolio of shopping malls.

Meanwhile, the acquisition of Lot G68 at Mahkota Parade Shopping Centre which was announced in the third quarter of 2015 was completed on 17 December 2015.

The lot acquired was amongst the individual lots which were previously sold to individual purchasers prior to the acquisition of Mahkota Parade Shopping Centre by Hektar REIT.

B9 BORROWINGS AND DEBT SECURITIES

Hektar REIT's total borrowings of RM494,214,808 comprise:

1. Current liability of RM15,000,000; and
2. Non-current liability of RM479,214,808.

Both loans are secured.

B10 UTILISATION OF PROCEEDS RAISED FROM ISSUANCE OF NEW UNITS

There was no issuance of new units during the quarter under review.

B11 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

B12 MATERIAL LITIGATION

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

Via a letter dated 27 November 2015, the Mahkota Parade Joint Management Body (“JMB”), through its solicitors Messrs HS Chew & Co sent a copy of the writ of summons to the named defendants, AmTrustee Berhad, Hektar Asset Management Sdn Bhd and Hektar Property Services Sdn Bhd.

In the writ of summons, the JMB is seeking, amongst others, the following :-

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

In the alternative, if the High Court decides that the ownership of the movable and fixed kiosks at the main entrance, balcony, concourse, lobby, corridor, below the staircase and the car parking bays at Mahkota Parade belongs to Hektar REIT, then the JMB is claiming for payment of an alleged outstanding maintenance charges, sinking fund and late payment interest on the “disputed common areas” totaling a sum of RM 12,148,962.12 as at 31 August 2015.

In addition, in the event the High Court decides that the car park bays (both at the basement level and the external open space) belong to Hektar REIT, the JMB is also making an alternative claim of a payment of RM 428,395.20 a month in accordance with the maintenance charge rate of RM 1.20 per square feet per month commencing from 1 September 2015.

Based on legal advice obtained from Hektar REIT’s solicitors, the management of Hektar REIT is of the view that the JMB’s claims are unjustified and the management is currently taking all necessary action to fully defend Hektar REIT’s rights and interest in this litigation matter.

B13 SOFT COMMISSION

For the quarter ended 31 December 2015, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

B14 INCOME DISTRIBUTION

The Board of Directors of Hektar Asset Management Sdn Bhd has recommended and the Trustee has approved a final income distribution of 2.7 sen per unit, amounting to RM10,817,121 for the Final Quarter ended 31 December 2015. The withholding tax rate imposed on the recipients of income distribution is as follows:

Resident individuals	Withholding tax at 10%
Non-resident individuals	Withholding tax at 10%
Foreign institutional investors	Withholding tax at 10%
Others – Resident and non-resident	Withholding tax at 10%
Resident companies	Corporate tax at 25%
	(No withholding tax)
Non-resident companies	Withholding tax at 25%

B15 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT

	Current Quarter Ended 31.12.2015	Preceding Quarter Ended 31.12.2014
Income before tax (RM)	11,016,302	17,575,623
Provision for income distribution (RM)	10,817,121	10,817,121
Number of units in issue	400,634,117	400,634,117
Basic earnings per unit (sen)		
- total	(7.22)	4.39
- realised	2.75	2.86
Distribution per unit (sen)	2.70	2.70

B16 RESPONSIBILITY STATEMENT

In the opinion of the Directors of the Manager, the quarterly report has been prepared in accordance with MFRSs and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of Hektar REIT as at 31 December 2015 and of its financial performance and cash flows for the quarter/period ended on that date and duly authorised for release by the Board of the Manager on 16 February 2016.

By Order of the Board

HEKTAR ASSET MANAGEMENT SDN BHD

(as the Manager of Hektar Real Estate Investment Trust)

Dato' Muhammad Hafidz Nuruddin (MAICSA 7005820)

Lim Seck Wah (MAICSA 0799845)

Joint Company Secretaries

Kuala Lumpur

16 February 2016