

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	As at 31.12.2016 RM (Unaudited)	As at 31.12.2015 RM (Audited)
<u>NON-CURRENT ASSETS</u>		
Investment properties	1,092,450,000	1,086,580,000
Capital work in progress	162,080	335,057
Fixed deposits with a licensed bank	665,369	634,816
	1,093,277,449	1,087,549,873
<u>CURRENT ASSETS</u>		
Trade receivables	5,750,826	3,725,472
Other receivables, deposits and prepayments	17,220,686	5,953,842
Cash and bank balances	14,560,249	19,085,638
	37,531,761	28,764,952
TOTAL ASSETS	1,130,809,210	1,116,314,825
<u>NON-CURRENT LIABILITIES</u>		
Tenancy deposits	12,279,861	15,089,960
Bank borrowings	493,200,372	479,214,809
Derivative financial instrument	814,013	-
	506,294,246	494,304,769
<u>CURRENT LIABILITIES</u>		
Trade payables	937,729	902,924
Other payables and accruals	5,596,625	7,117,205
Tenancy deposits	17,512,440	14,612,999
Bank borrowings	15,000,000	15,000,000
	39,046,794	37,633,128
TOTAL LIABILITIES	545,341,040	531,937,897
NET ASSET VALUE	585,468,170	584,376,928
<u>FINANCED BY:</u>		
Unitholders' capital	425,738,255	425,738,255
Undistributed income – realised	43,476,386	43,996,656
– unrealised	116,253,529	114,642,017
TOTAL UNITHOLDERS' FUND	585,468,170	584,376,928
NET ASSET VALUE PER UNIT (RM)		
-as at the date	1.4614	1.4586
-before distribution for the cumulative quarter	1.5664	1.5636
NUMBER OF UNITS IN CIRCULATION	400,634,117	400,634,117

Note: tenancy deposit includes RM1,936,830 (2015:RM2,044,197) 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 2015 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 2016 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.12.2016 RM	Preceding Year Corresponding Quarter 31.12.2015 RM	Current YTD 31.12.2016 RM	Preceding YTD 31.12.2015 RM
Revenue	31,167,083	31,930,543	124,570,904	125,511,215
Property operating expenses	(12,437,672)	(12,396,074)	(50,235,768)	(49,028,498)
Net property income	18,729,411	19,534,469	74,335,136	76,482,717
Interest income	92,995	55,704	318,276	271,924
Other income	4,086	45,918	95,825	458,493
Trust expenses	(2,482,039)	(2,815,337)	(9,987,216)	(10,449,134)
Borrowing costs	(5,948,206)	(5,804,452)	(23,215,709)	(22,070,679)
Realised income before taxation	10,396,247	11,016,302	41,546,312	44,693,321
Change in fair value of investment properties	2,425,526	(39,933,986)	2,425,526	(39,933,986)
Change in fair value of derivative financial instrument	(814,013)	-	(814,013)	-
Income before taxation	12,007,760	(28,917,684)	43,157,825	4,759,335
Taxation	-	-	-	-
Net income	12,007,760	(28,917,684)	43,157,825	4,759,335
Other comprehensive income after tax	-	-	-	-
Total comprehensive income	12,007,760	(28,917,684)	43,157,825	4,759,335
Earnings per unit (sen)	3.00	(7.22)	10.77	1.19
- realised (sen)	2.59	2.75	10.37	11.16

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 2015 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 2016 (UNAUDITED)

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised RM	
<u>Balance at 1 January 2016</u>	425,738,255	43,996,656	114,642,017	584,376,928
<u>Operation for the cumulative quarter ended 31 December 2016</u>				
Total comprehensive income for the financial year	-	41,546,312	1,611,512	43,157,824
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(42,066,582)	-	(42,066,582)
Balance at 31 December 2016	<u>425,738,255</u>	<u>43,476,386</u>	<u>116,253,529</u>	<u>585,468,170</u>

CUMULATIVE QUARTER ENDED 31 DECEMBER 2015 (AUDITED)

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised 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>

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 2015 and the accompanying explanatory notes.

HEKTAR REAL ESTATE INVESTMENT TRUST QUARTERLY REPORT

**STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE CUMULATIVE QUARTER ENDED 31 DECEMBER 2016**

	Current YTD 31.12.2016 RM	Preceding YTD 31.12.2015 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Income before taxation	43,157,824	4,759,335
Adjustments for :-		
Interest income	(318,276)	(271,924)
Interest expense	23,215,709	22,070,679
Rental under MFRS 117	237,994	249,785
Impairment loss on trade receivables	501,535	208,155
Bad debt written off	-	29,046
Reversal of impairment loss on trade receivables	(17,475)	(149,170)
Fair value adjustment	(2,425,526)	39,933,988
Fair value change on derivatives	814,013	-
Operating profit before working capital changes	<u>65,165,798</u>	<u>66,829,894</u>
Change in working capital :-		
Receivables	(14,014,251)	(1,529,525)
Payables	(1,396,433)	3,237,430
Net cash from operating activities	<u>49,755,114</u>	<u>68,537,799</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment properties	(1,168,362)	(23,524,327)
Expenditure for refurbishment and enhancement of investment property incurred	(2,103,136)	(20,913,771)
Interest income	318,276	271,924
(Withdrawal) / Placement of fixed deposits	(30,553)	3,773,551
Net cash used in investing activities	<u>(2,983,775)</u>	<u>(40,392,623)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Interest expense	(23,215,709)	(22,070,679)
Distribution to Unitholders	(42,066,582)	(42,066,582)
Borrowings	13,985,563	40,338,481
Net cash used in financing activities	<u>(51,296,728)</u>	<u>(23,798,780)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,525,389)	4,346,396
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>19,085,638</u>	<u>14,739,242</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>14,560,249</u></u>	<u><u>19,085,638</u></u>

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached.

A. EXPLANATORY NOTES FOR THE QUARTER ENDED 31 DECEMBER 2016 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 2015 in their report dated 19 February 2016.

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 2016, there will be a Final Income Distribution of 2.7 sen per unit, amounting to RM10,817,121 to be made on 16 March 2017.

A8 SEGMENT INFORMATION

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

A9 VALUATION OF INVESTMENT PROPERTIES

The Investment Properties for Subang Parade, Mahkota Parade, Wetex Parade, Central Square and Landmark Central were last valued on 30 November 2016.

A10 MATERIAL SUBSEQUENT EVENTS TO THE END OF THE INTERIM PERIOD

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

A11 CHANGES IN THE COMPOSITION OF THE TRUST

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

A12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

A13 RENTAL INCOME FROM TENANCIES (MFRS 117)

Rental income receivable under tenancy agreements is recognised on a straight-line basis over the term of the lease. 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 RM1,936,830 representing the difference between the fair value and the amount of deposits carried in the statement of financial position as a result of the recognition of the said deposits at fair value in compliance with the requirements of MFRS 139 financial instruments.

A15 CAPITAL COMMITMENT (MFRS 134)

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

Authorised and contracted for:-	<u>RM</u>
Refurbishment of investment properties	20,476,680
Acquisition of 1Segamat Shopping Centre	<u>93,600,000</u>
	<u>114,076,680</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 2016, Hektar REIT generated total revenue of RM124,985,005 including interest and other income.

Revenue is lower than the preceeding year by 0.7% The realised net profit was lower by 7% due mainly to increase in interest expenses arising from the full impact of loan drawdown and lower revenue from Subang Parade.

Property operating expenses increased by RM1,207,270 due mainly to increase in service charges arising from the acquisition of individual lots in Mahkota Parade.

B2 VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter Ended 31.12.2016 RM	Preceding Quarter Ended 31.12.2015 RM
Income/(loss) before tax (RM)	12,007,760	(28,917,684)
- Realised income before tax (RM)	<u>10,396,247</u>	<u>11,016,302</u>

Realised income before tax was lower by 5.6% due mainly to increase in interest expenses and lower revenue from Subang Parade and Mahkota Parade due to the soft retail market.

B3 PROSPECTS

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

B4 VARIANCE OF PROFIT FORECAST OR PROFIT GUARANTEE

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

B5 TAX EXPENSE

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

Barring unforeseen circumstances, there will be no tax payable as Hektar REIT intends to distribute at least 90% of the distributable income to unitholders for the year ending 31 December 2016.

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 1Segamat Shopping Centre & Proposed Rights Issue

Please refer to our announcements made to Bursa Malaysia Securities Berhad (“Bursa”) via the Bursa website:

http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc-profile.html?stock_code=5121.

B9 BORROWINGS AND DEBT SECURITIES

Hektar REIT’s total borrowings of RM508,200,372 comprise:

1. Current liability of RM15,000,000; and
2. Non-current liability of RM493,200,372

B10 UTILISATION OF PROCEEDS RAISED FROM ISSUANCE OF NEW UNITS

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

B11 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

B12 DERIVATIVES

As at 31 December 2016, the Trust has the following Islamic Profit Rate Swap (“IPRS”) to hedge against the fluctuation of future movement in profit rate on its short term financing. The Trust is currently using the said IPRS to hedge against its other revolving credit financing and the unrealized loss of the derivatives had been recognized in the profit and loss:

	Fair Value	
	31 December 2016	<u>Maturity</u>
	<u>RM</u>	
5-year IPRS – derivative liability	814,013	More than 1 year

B13 MATERIAL LITIGATION

Writ of Summons by Mahkota Parade JMB against Hektar REIT

(Guaman Sivil No: 22 NCVC-66-11)

Further to our announcements dated 25 April 2016, 1 August 2016 and 16 November 2016, the High Court has fixed the full hearing of this suit on 9 March 2017. However, Hektar REIT has filed an application to stay the proceedings of this case (Guaman Sivil No: cc NCVC-66-11) pending disposal of the Civil Appeal No. M-02(IM)(NCVC)-1955-10/2016 and Tribunal Court Putrajaya Case No. TPS/M-2024-11/2016 respectively, both of which are related to and will have an impact on the outcome of this case.

Appeal on Application to Strike Out Guaman Sivil No: 22 NCVC-66-11/2015)

(Civil Appeal No. M-02(IM)(NCVC)-1955-10/2016)

Further to our announcement dated 16 November 2016, Hektar REIT has, on 17 October 2016, filed a Notice of Appeal to the Court of Appeal to appeal on the decision of the High Court to dismiss the application to strike out the claim from Mahkota Parade JMB. The hearing of the appeal has been fixed on 15 March 2017.

Strata Management Tribunal Claim Against Mahkota Parade JMB

(Tribunal Court Putrajaya Case No. TPS/M-2024-11/2016)

On 28 November 2016, Hektar REIT has filed a claim against the Mahkota Parade JMB and 8 other defendants at the Strata Management Tribunal to invalidate the previous annual general meeting held on 26 January 2016. The hearing of the claim was partially heard on 26 January 2017 and a further hearing will be scheduled to a later date to be fixed by the Tribunal .

The management will continue to take all necessary action to fully defend Hektar REIT's rights and interest in this litigation matter and will provide further updates on the matter in due course.

B14 SOFT COMMISSION

For the quarter ended 31 December 2016, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

B15 INCOME DISTRIBUTION

The Board of Directors of Hektar Asset Management Sdn Bhd has recommended and the Trustee has approved a Final Income Distribution of 2.7 sen per unit, amounting to RM10,817,121 for the Fourth Quarter ended 31 December 2016. The withholding tax rate imposed on the recipients of income distribution is as follows:

Non-corporate investor	Withholding tax at 10%
Foreign institutional investors	Withholding tax at 10%
Resident companies	Subject to tax at the prevailing tax rate at 24%
Non-resident companies	Withholding tax at the prevailing tax rate at 24%

B16 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT

	Current Quarter Ended 31.12.2016	Preceding Quarter Ended 31.12.2015
Income before tax (RM)	10,396,247	11,016,302
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	3.00	(7.22)
- realised	2.59	2.75
Distribution per unit (sen)	2.70	2.70

B17 RESPONSIBILITY STATEMENT

In the opinion of the Directors of the Manager, the quarterly report has been prepared in accordance with MFRSs and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of Hektar REIT as at 31 December 2016 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 14 February 2017.

By Order of the Board
HEKTAR ASSET MANAGEMENT SDN BHD
 (as the Manager of Hektar Real Estate Investment Trust)

Dato' Muhammad Hafidz Nuruddin (MAICSA 7005820)
Lim Seck Wah (MAICSA 0799845)
 Joint Company Secretaries
 Kuala Lumpur
 14 February 2017