

# HEKTAR REAL ESTATE INVESTMENT TRUST

**Interim Financial Report  
for the period ended 31 March 2023**



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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

	As at 31.03.2023 RM (Unaudited)	As at 31.12.2022 RM (Audited)
<b><u>NON-CURRENT ASSETS</u></b>		
Investment properties	1,206,080,000	1,206,080,000
Plant & Equipment	39,908	45,538
	1,206,119,908	1,206,125,538
<b><u>CURRENT ASSETS</u></b>		
Trade receivables	5,367,723	4,491,594
Other receivables, deposits and prepayments	3,616,287	1,736,666
Cash and bank balances	16,771,079	23,152,897
	25,755,089	29,381,157
<b>TOTAL ASSETS</b>	<b>1,231,874,997</b>	<b>1,235,506,695</b>
<b><u>NON-CURRENT LIABILITIES</u></b>		
Tenancy deposits	25,730,434	25,581,891
Deferred tax liability	28,230,834	28,230,834
Bank borrowings	543,043,771	542,443,790
	597,005,039	596,256,515
<b><u>CURRENT LIABILITIES</u></b>		
Trade payables	8,362,601	5,652,838
Other payables and accruals	20,207,252	23,156,645
Tenancy deposits	3,215,268	3,479,129
Bank borrowings	3,000,000	9,000,000
	34,785,121	41,288,612
<b>TOTAL LIABILITIES</b>	<b>631,790,160</b>	<b>637,545,127</b>
<b>NET ASSET VALUE</b>	<b>600,084,837</b>	<b>597,961,568</b>
<b><u>FINANCED BY:</u></b>		
Unitholders' capital	514,625,014	496,731,949
Undistributed income – realised	51,197,833	66,967,629
– unrealised	34,261,990	34,261,990
<b>TOTAL UNITHOLDERS' FUND</b>	<b>600,084,837</b>	<b>597,961,568</b>
<b>NET ASSET VALUE PER UNIT (RM)</b>		
-as at the date	1.2031	1.2689
-after distribution for the cumulative quarter	1.2031	1.2159
<b>NUMBER OF UNITS IN CIRCULATION</b>	<b>498,787,970</b>	<b>471,260,178</b>

The Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2022 and the accompanying explanatory notes attached.

## CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 MARCH 2023 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2023 RM	Preceding Year Corresponding Quarter 31.03.2022 RM	Current YTD 31.03.2023 RM	Preceding YTD 31.03.2022 RM
Revenue	28,945,046	29,116,469	28,945,046	29,116,469
Property operating expenses	(13,732,058)	(12,491,985)	(13,732,058)	(12,491,985)
<b>Net property income</b>	<b>15,212,988</b>	<b>16,624,484</b>	<b>15,212,988</b>	<b>16,624,484</b>
Interest income	16,249	70,274	16,249	70,274
Other income	632,301	1,551,901	632,301	1,551,901
Reversal of impairment loss	2,067,852	2,243,687	2,067,852	2,243,687
Trust expenses	(2,494,103)	(2,386,343)	(2,494,103)	(2,386,343)
Finance expenses	(6,228,293)	(4,361,899)	(6,228,293)	(4,361,899)
<b>Realised income before taxation</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Change in fair value of investment property	-	-	-	-
<b>Income before taxation</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Taxation	-	-	-	-
<b>Net income</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Other comprehensive income after tax	-	-	-	-
<b>Total comprehensive income</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Earnings per unit (sen)	1.94	2.92	1.94	2.92
- realised (sen)	1.94	2.92	1.94	2.92
- unrealised (sen)	-	-	-	-
<b>Weighted average number of units</b>	<b>474,126,085</b>	<b>471,260,178</b>	<b>474,126,085</b>	<b>471,260,178</b>

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 2022 and the accompanying explanatory notes attached.

**CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE QUARTER ENDED 31 MARCH 2023 (UNAUDITED)**

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised RM	
<u>Balance at 1 January 2023</u> As previously reported	496,731,949	66,967,629	34,261,990	597,961,568
<u>Operation for quarter ended 31 March 2023</u>				
Total comprehensive income for The financial quarter	-	9,206,994	-	9,206,994
<u>Unitholders' transactions</u>				
Unitholders' capital	17,893,065	-	-	17,893,065
Distribution to unitholders	-	(24,976,790)	-	(24,976,790)
Balance at 31 March 2023	514,625,014	51,197,833	34,261,990	600,084,837

**CUMULATIVE YEAR ENDED 31 DECEMBER 2022 (AUDITED)**

	Unitholders' Capital RM	Undistributed income		Unitholders' Fund RM
		Realised RM	Unrealised RM	
<u>Balance at 1 January 2022</u> As previously reported	496,731,949	55,225,682	(3,994,810)	547,962,821
<u>Operation for year ended 31 December 2022</u>				
Total comprehensive loss for the financial quarter	-	36,388,853	38,256,800	74,645,653
<u>Unitholders' transaction</u>				
Distribution to unitholders	-	(24,646,906)	-	(24,646,906)
Balance at 31 December 2022	496,731,949	66,967,629	34,261,990	597,961,568

The Condensed Statement of Changes in Net Asset Value should be read in conjunction with the audited financial statements for the year ended 31 December 2022 and the accompanying explanatory notes.

**CONDENSED STATEMENT OF CASH FLOWS  
FOR THE QUARTER ENDED 31 MARCH 2022 (UNAUDITED)**

	<b>Current YTD 31.03.2023 RM</b>	<b>Preceding YTD 31.12.2022 RM</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	9,206,994	77,994,803
Adjustments for :-		
Depreciation of PPE	5,630	22,521
Interest income	(16,249)	(1,609,111)
Finance Expenses	6,228,293	20,213,005
Impairment loss on trade receivables	(2,067,852)	(8,779,287)
Fair value adjustment on Investment Properties	-	(41,600,000)
Operating profit before working capital changes	13,356,816	46,241,931
Change in working capital :-		
Receivables	(687,898)	7,959,130
Payables	(354,948)	(18,818,912)
Net cash from operating activities	12,313,970	35,382,149
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Interest income	16,249	1,609,111
Fixed deposit	-	1,583,933
Net cash generated from investing activities	16,249	3,193,044
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Finance expense	(6,228,293)	(20,213,005)
Distribution to Unitholders	(7,083,725)	(24,646,906)
Repayment of borrowings	(5,400,019)	(29,647,073)
Net cash used in financing activities	(18,712,037)	(74,506,984)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(6,381,818)	(35,931,791)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	23,152,897	59,084,688
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	16,771,079	23,152,897

The Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2022 and the accompanying explanatory notes attached.

**A. EXPLANATORY NOTES FOR THE QUARTER ENDED 31 MARCH 2023 PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134**

**A1 BASIS OF PREPARATION**

The quarterly financial report is unaudited and has been prepared in compliance with MFRS 134: Interim Financial Reporting issued by Malaysian Accounting Standards Board and Securities Commission's Guidelines on the Listed Real Estate Investment Trusts ("REIT Guidelines").

**A2 AUDIT REPORT OF PRECEDING FINANCIAL YEAR**

The auditors' report for the financial year ended 31 December 2022 was not subject to any audit qualification.

**A3 SEASONALITY OR CYCLICALITY OF OPERATIONS**

Hektar REIT's operations were not significantly affected by material seasonal or cyclical factors.

**A4 SIGNIFICANT UNUSUAL ITEMS**

There were no significant unusual items that affect the assets, liabilities, equity, net property 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, except for item stated as below:-

- (i) The Unitholders had on 15 December 2022 approved for Hektar REIT to establish an Income Distribution Reinvestment Plan that provides unitholders of Hektar REIT with an option to elect to reinvest, in whole or in part, their cash distribution declared by Hektar REIT (whether interim, final, special or any other types of cash distribution) in new units of Hektar REIT ("IDRP").

The Board of Directors had determined that the IDRP shall apply to the entire 2022 Final Income Distribution, where the gross electable portion will be 5.3 sen per unit. The new units of 27,527,792 issued pursuant to the IDRP was listed on the Main Market of Bursa Securities on 27 February 2023.

- (ii) The Board of the Manager had on 23rd February 2023, approved the acceptance of a ten (10) years term loan facilities, Commodity Murabahah Term Financing-i Facility of RM65 million ("CMTF-I Facility") granted from a local financial institution. The CMTF-I Facility is intended to partly refinance the existing borrowings due on February 2024.

**A7 INCOME DISTRIBUTION**

No income distribution is proposed for the current quarter ended 31 March 2023 (Q1 2023) as moving forward, subject to the financial performance of the REIT, the Manager intends to make distributions to the unitholders of Hektar REIT on a semi-annual basis for each six-month period ending 30 June and 31 December each year, unless otherwise determined and/or varied by the Manager at its sole discretion. However, the Manager intends to distribute at least 90% of Hektar REIT's distributable income for the financial year ending 31 December 2023.

**A8 SEGMENT INFORMATION**

The segmental financial information by operating segments is not presented as Hektar REIT is retail focused REIT and the operation of its properties are all located in Malaysia.

**A9 VALUATION OF INVESTMENT PROPERTIES**

The Investment Properties for Subang Parade, Mahkota Parade, Wetex Parade, Central Square, Kulim Central and Segamat Central were last valued on 31 December 2022.

**A10 MATERIAL SUBSEQUENT EVENTS TO THE END OF THE INTERIM PERIOD**

There were no material events subsequent to the current quarter under review up to the date of this Interim Financial Report that required disclosure.

**A11 CHANGES IN THE COMPOSITION OF THE TRUST**

During the quarter , Hektar REIT's Unitholders' capital increased from RM496,731,949 to RM514,625,014.

<b>Issued and fully paid</b>	<b>Number of Units</b>	<b>RM</b>
Balance as at 1 January 2023	471,260,178	496,731,949
Addition arising from the IDRP	27,527,792	17,893,065
<b>Balance as at 31 March 2023</b>	<b>498,787,970</b>	<b>514,625,014</b>

**A12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There were no contingent liabilities or contingent assets as at 31 March 2023.

**A13 RENTAL INCOME FROM TENANCIES (MFRS 16)**

Rental income receivable under tenancy agreements is recognized on a straight-line basis over the term of the lease.

**A14 CAPITAL COMMITMENT (MFRS 134)**

There were no major capital commitments as at 31 March 2023.

**B. ADDITIONAL INFORMATION PURSUANT TO PARAGRAPH 9.44 OF BURSA MALAYSIA SECURITIES BERHAD'S MAIN MARKET LISTING REQUIREMENTS****B1 REVIEW OF PERFORMANCE**

	Quarter		
	31.03.2023 RM	31.03.2022 RM	Variance %
Total Revenue	28,945,046	29,116,468	-0.6
Net Property Income ("NPI")	15,212,988	16,624,481	-8.5
Net Realised Income	9,206,994	13,742,103	-33.0
NPI Margin (%)	52.6	57.1	-4.5

Hektar REIT recorded a total revenue of RM28.95 million and RM29.12 million for Q1'2023 and Q1'2022 respectively. For the current quarter, NPI margin remains healthy at 52.6% or RM15.21 million, however it was marginally affected by:-

- higher utilities cost driven by the recent electricity tariff hike, mainly due to tariff adjustment via Imbalance Cost Pass-Through (ICPT) mechanism; and
- higher maintenance costs and security expenses arising from the mandatory increase in minimum wages.

The performance of current quarter's net realised income is also affected by the higher finance cost of RM1.87 million resulted from the hike in Overnight Policy Rate ("OPR"). Included in Q1'2022 was a one off other income of RM1.4 million being the claim awarded by the Court against third parties.

In mitigating the impact of increasing costs of operation, we are actively strengthening the REIT's financial position and enhancing profitability through continued prudent and proactive capital management initiatives as follow:-

- Improving the REIT's overall gearing ratio through debt reduction programme to 44.3% in the current quarter as compared to 44.6% as of 31 December 2022, and
- Adopting an aggressive & strategic leasing approach to increase the occupancy rate and improve the tenancy mix of our retail assets. The committed overall occupancy rate of our portfolio of retail assets for the first quarter of 2023 has improved to 85.4% and the revenue from the increase in occupancy rate is expected to materialise in subsequent quarters.

**B2 MATERIAL CHANGES IN QUARTERLY RESULTS**

	Q1'2023 RM	Q4'2022 RM	Variance %
Total Revenue	28,945,046	27,892,213	+3.8
Net Property Income ("NPI")	15,212,988	10,042,483	+51.5
Net Realised Income	9,206,994	2,572,999	+257.8
NPI Margin (%)	52.6	36.0	+16.6

For the current quarter, Hektar REIT's total revenue, increased 3.8% (RM1.05 million) to RM28.95 million; and improved NPI to RM15.21 million as compared with Q4'2022. Higher upkeep, repair and maintenance expense was incurred during Q4'2022, to cater to improving domestic demands as economic activities normalized.



The net realised income for Q1 2023 was higher by RM6.63 million or 257.8% than the previous quarter Q4 2022 mainly due to:

- Lower direct costs in current quarter by 23% or RM4.11 million. Conversely, higher upkeep, repair and maintenance expense were incurred during Q4'2022, to cater to improving domestic demand as economic activities normalized.
- Continued effort in bad debts recovery, a total net amount of RM2.07 million for the reversal of impairment loss in trade receivables.

### **B3 PROSPECTS**

Economic activity has picked up and the increased consumer confidence has resulted in shoppers and patrons returning to the shopping malls. Despite strong recovery of the country's economy, we remain cautious of the outlook for 2023 given the uncertainty in the economic landscape driven by monetary policy to combat inflation which could affect consumer sentiment.

Hektar REIT remains positive and resilient in achieving growth backed by an aggressive & strategic leasing approach to increase the occupancy rate. Moving forward, our focus will be on the repositioning of Subang Parade and sweating of Assets Under Management with the objective of increasing revenue and enhancing operational efficiencies.

### **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 Section 61A(1) of the Income Tax Act 1967, effective from the year of assessment 2017, a REIT is fully exempt from tax for a year of assessment if it distributes 90% or more of its total income to its Unitholders in the basis period for that year of assessment.

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 2023.

### **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**

There were no corporate proposals announced and pending completion as at the date of this report.

**B9 BORROWINGS AND DEBT SECURITIES**

Hektar REIT's total borrowings of RM546,043,771 are secured and comprise the following:

- Current borrowings of RM3,000,000; and
- Non-current borrowings of RM543,043,771.

**B10 OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

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

**B11 MATERIAL LITIGATION**

The Board of Directors of the Manager is not aware of any pending material litigation as at the date of this quarterly Financial Report other than disclosed below:

- i) Writ of summons against 3 tenants & Tashima Development Sdn. Bhd (Civil Suit No. JD-B52NCVC-01-01/2019; JD-B52NCVC-02-01/2019 and JD-B52NCVC-03-01/2019) (Civil Appeal No. JB-12BNCVC-10-07/2020; JB-12BNCVC-11-7/2020; and JB-12BNCVC-12-7/2020)

Further to our earlier announcements, on 6 March 2023, the Court allowed the Respondents' solicitors' application to discharge themselves from representing the First Respondents in all three (3) appeals i.e. Dazzling Density Sdn Bhd, Tirai Prospektif Sdn Bhd and Agenda Fokus Sdn Bhd and fixed the appeals for hearing on 24 May 2023.

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

- 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)

Further to our earlier announcements on this case, the High Court has informed the parties that due to an impending administrative change in the High Court of Malaya at Muar, the trial dates which was earlier fixed for this matter have been vacated. The High Court has now fixed the matter for trial from 16 January 2024 to 18 January 2024.

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

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

As per our earlier announcement on this case, the hearing of the oral submissions proceeded on 9 May 2023 and thereafter, the High Court had fixed 31 July 2023 to deliver its decision on the matter

The Management will provide further updates on the matter in due course.

**B12 SOFT COMMISSION**

For the quarter ended 31 March 2023, there was no soft commission received by the Manager, or its delegates, from its broker from any transactions conducted by the Trust.

**B13 INCOME DISTRIBUTION**

Pursuant to Section 109D(2) of the Malaysian Income Tax Act 1967, where 90% or more of the REIT's total taxable income is distributed by the REIT, distributions to the unitholders will be subject to tax based on a withholding tax mechanism at the following rates :

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

The Manager intends to distribute at least 90% of Hektar REIT's distributable income for the financial year ending 31 December 2023. Moving forward, subject to the financial performance of the REIT, the Manager intends to make distribution to the unitholders of Hektar REIT on a semi-annual basis for each six-month period ending 30 June and 31 December each year, unless otherwise determined and/or varied by the Manager at its sole discretion.

The final distribution of 5.30 sen (gross) per unit amounting to RM24.98 million for the financial year ended 31 December 2022 was declared and paid in cash amounting to RM7.08 million and the remaining of RM 17.89 million was paid by issuing additional shares on 24 February 2023.

**B14 DISTRIBUTION PER UNIT AND EARNINGS PER UNIT**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31.03.2023 RM	Preceding Year Corresponding Quarter 31.03.2022 RM	Current YTD 31.03.2023 RM	Preceding YTD 31.03.2022 RM
<b>Net property income</b>	<b>15,212,988</b>	<b>16,624,484</b>	<b>15,212,988</b>	<b>16,624,484</b>
Interest income	16,249	70,274	16,249	70,274
Other income	632,301	1,551,901	632,301	1,551,901
Reversal of impairment loss	2,067,852	2,243,687	2,067,852	2,243,687
Trust expenses	(2,494,103)	(2,386,343)	(2,494,103)	(2,386,343)
Borrowing costs	(6,228,293)	(4,361,899)	(6,228,293)	(4,361,899)
<b>Realised income before taxation</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Change in fair value of investment property	-	-	-	-
<b>Income before taxation</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Taxation	-	-	-	-
<b>Distribution income</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
Less: Proposed/declared income distribution	-	-	-	-
<b>Balance undistributed realized income</b>	<b>9,206,994</b>	<b>13,742,104</b>	<b>9,206,994</b>	<b>13,742,104</b>
<b>Weighted Average number of units</b>	<b>474,126,085</b>	<b>471,260,178</b>	<b>474,126,085</b>	<b>471,260,178</b>
Earnings per unit (sen) - realised (sen)	1.94	2.92	1.94	2.92

**B15 RESPONSIBILITY STATEMENT**

In the opinion of the Directors of the Manager, this Interim Financial Report has been prepared in accordance with MFRS 134: Interim Financial Reporting, the MMLR and the REIT Guidelines so as to give a true and fair view of the financial position of Hektar REIT as at 31 March 2023 and of its financial performance and cash flows for the financial period ended on that date and duly authorised for release by the Board of the Manager on 25 May 2023.

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

25 May 2023