

A N N U A L R E P O R T 2 0 0 7



HEKTAR REAL ESTATE INVESTMENT TRUST

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

Hektar REIT invests in income-producing real estate primarily used for retail purposes. Hektar REIT's portfolio currently consists of quality shopping centres situated in Subang Jaya and Melaka with a combined value of RM559 million as of 31 December 2007.

Hektar REIT was listed on the Main Board of Bursa Malaysia Securities Berhad on 4 December 2006 and has outperformed its forecast in its first year of listing. Hektar REIT's cornerstone investor is Frasers Centrepoint Trust, part of the F&N Group, headquartered in Singapore.

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

Creating The Places Where People Love to Shop





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FINANCIAL HIGHLIGHTS

For the Financial Year 2007 (1 December 2006 to 31 December 2007)

In RM	Actual '000	Forecast '000	Variance %
Gross Revenue	78,331	74,580	+ 5.0%
Direct Cost & Property Expenses	(29,052)	(28,738)	- 1.1%
Net Property Income	49,279	45,842	+ 7.5%
Net Income - Realised	36,682	30,811	+ 19.1%
Net Income Per Unit - Realised (sen)	11.46	9.63	+ 19.1%
Income Distribution	34,272	30,811	+ 11.2%
Distribution Per Unit (sen)	10.71	9.63	+ 11.2%

For the Financial Year ended 31 December 2007

In RM	'000
Total Assets	587,797
Total Liabilities	213,408
Total Borrowings	184,000
Net Assets	374,389
No. of Units in Circulation	320,001
NAV per Unit (RM)	1.17



Hektar REIT Unit Price for 2007 (IPO - 4 December 2006 to 31 December 2007)



Source: Bloomberg

Unit Price Statistics

IPO Price - Retail (4 Dec 06)	RM1.05
IPO Price - Institutional (4 Dec 06)	RM1.11
High	RM1.80
Low	RM0.94
FY2007 Closing Price (31 Dec 07)	RM1.51
Capital Appreciation - Retail	43.8%
Capital Appreciation - Institutional	36.4%

Distributions Per Unit (DPU)

Interim 1st Quarter DPU (31 Mar 07)	2.40 Sen
Interim 2nd Quarter DPU (30 Jun 07)	2.40 Sen
Interim 3rd Quarter DPU (30 Sep 07)	2.40 Sen
Final 4th Quarter DPU (31 Dec 07)	3.51 Sen

Total DPU (13 Months: 1 December 2006 to 31 December 2007) 10.71 Sen

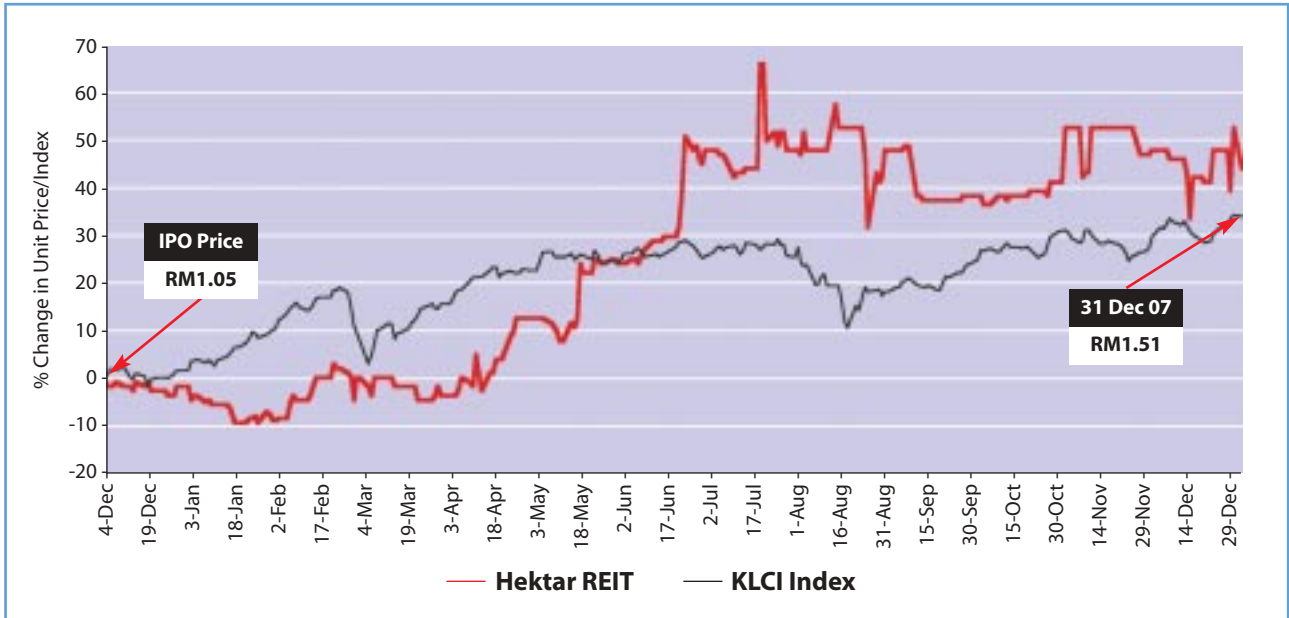
DPU Yield - Retail*	10.2 %
DPU Yield - Institutional*	9.6 %

* Based on FY2007 DPU of 10.71 sen and the respective IPO price of RM1.05 for retail and RM1.11 for institutional investors.

Total Return (FY 2007)

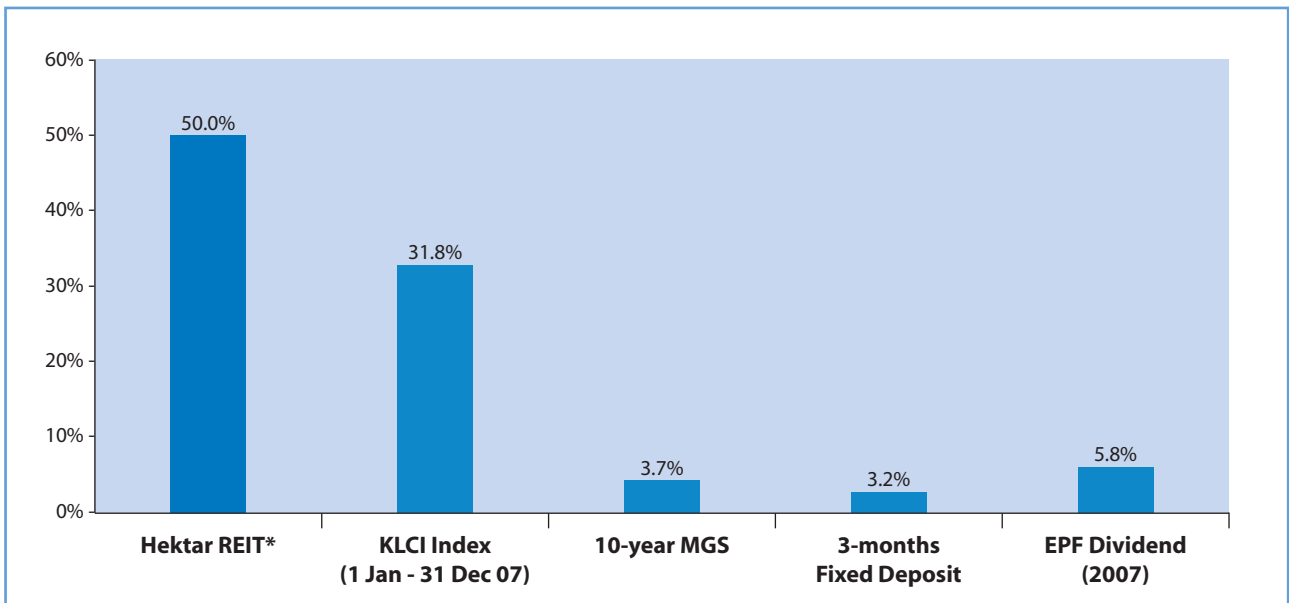
Retail IPO Investors	54%
<i>Annualised</i>	50%
Institutional IPO Investors	46%
<i>Annualised</i>	43%

Comparative Returns: Hektar REIT v KLCI (IPO - 4 December 2006 to 31 December 2007)



Source: Bloomberg

Comparative Returns: Hektar REIT v Other Investments (2007)



* Based on Total Return Retail IPO Investors, Annualised.

Source: Bloomberg, KWSP

FINANCIAL HIGHLIGHTS 2007

54%
Total Return
Retail IPO
Investors¹

46%
Total Return
Institutional IPO
Investors¹



44%
Unit Price
Capital
Appreciation in
FY 2007²

11%
Dividend Per
Unit Exceeds
Forecast³

15%
Net Asset
Value⁴

9%
Property
Valuation⁴



20%
Rental
Reversions⁵

96.9%
Portfolio
Occupancy⁶

1. Based on Retail IPO price of RM1.05, Institutional IPO Price of RM1.11, DPU of 10.71sen for FY2007 and closing price of RM1.51 on 31 Dec 2007.
 2. Based on Retail IPO price of RM1.05 and closing price of RM1.51 on 31 Dec 2007.
 3. Based on actual DPU of 10.71 sen v prospectus forecast of 9.63 sen.
 4. Based on Announcement on 9 Jan 2008: Property Valuation up 9% as of 31 Dec 2007 and NAV up 15% over previous book value.
 5. Based on FY2007 new and renewed tenancies within Hektar REIT portfolio.
 6. As of 31 Dec 2007.



SUTERA
FOODCOURT

Mang Charbonar

Advertisement for a product, possibly a beverage or food item, featuring a person's face and text in Indonesian.



Dynamic Retail

LETTER TO UNITHOLDERS



Dear Valued Unitholder of Hektar REIT,

On behalf of the Board, it is with great pleasure for me to share with you Hektar REIT's inaugural annual report for the financial year 2007, covering the 13-month period ending 31 December 2007.

Hektar REIT was listed on 4 December 2006 on the Main Board of Bursa Malaysia Securities Berhad. This first year as a public-listed entity has surpassed our initial expectations. During the course of the year, our operating performance has exceeded our forecast, as provided in our initial offering prospectus. The endorsement from our investors has also been highly positive.

For the financial year ending 2007, Hektar REIT delivered a DPU of 10.71 sen, which was 11% higher than our forecast. For the year, Hektar REIT's total return was 54% for our retail IPO investors (46% for our institutional IPO investors). Our unit price has soared, ending the year at RM1.51, up 44% from the retail IPO price of RM1.05, outpacing the Kuala Lumpur Composite Index return of 31.8% in 2007.

We are happy to have such solid investors in our portfolio and remain appreciative of your continued support. While it has been an interesting journey up to this point, we remain excited about our prospects for the future.

For the benefit of our new or prospective investors, let us revisit the Hektar story thus far.

OUR ORIGINS & OUR STORY

The Hektar Group was formed to focus on developing, investing and managing retail shopping centres. We started out more than five years ago with a vision to create world-class shopping environments for Malaysian consumers. At that time, there were only a handful of well-managed shopping centres in Malaysia. We believe Malaysian shoppers deserved better. We traveled around the world to analyse renowned shopping centres designed for middle-class consumers and we set international best practices as our benchmark. Our motto is 'Creating The Places Where People Love To Shop' and we wholeheartedly set out to implement this ideal.

In late 2003, an opportunity came knocking in the form of Subang Parade and Mahkota Parade and we acquired both malls. We sent our local managers to international conferences and seminars. In the process, we created our own standard, which is reflected in the full refurbishment and transformation of Subang Parade. Subang Parade, as most Malaysians may remember, was once hailed as the longest shopping centre in southeast Asia when it opened 20 years ago. We believe we have restored its vibrancy within the past 2 years and for those who have not yet done so, we definitely recommend a visit.





The private companies of the Hektar Group continue to pursue development and redevelopment projects. Our flagship project is Hilltop at Nusajaya. The Hilltop project will be positioned on a generous 52 acres and will house more than 1 million sq ft of retail space. Hilltop is a 'lifestyle' shopping centre, based on the current design trend and features a mix of enclosed shopping space, 'high-street' retail spaces and plenty of open-air ambience. We believe that Hilltop will transcend the current retail experience in southern Malaysia as we certainly feel the people of Johor deserve better. Our other redevelopment project includes the Subang Parade expansion, which is currently sited on 2 acres of adjacent land and is also timely to start development. Since its full refurbishment, Subang Parade has reached 99.9% occupancy at the end of 2007 and thus ready for expansion. Both properties will be injected into Hektar REIT when the timing is right and the acquisitions are stabilised enough to be yield-accretive to Hektar REIT.

Hektar REIT is the public-listed entity of the Hektar Group and remains our target platform for all our developments and acquisitions. Through Hektar REIT, we are able to build relationships and bridges to investors and the capital markets to set a foundation to fund our growth strategies for acquisitions.

FINANCIAL PERFORMANCE OF HEKTAR REIT

Hektar REIT delivered a better than expected DPU of 10.71 sen for the thirteen (13) months ending 31 December 2007. This is approximately 11.2% higher than the forecast provided in the initial offering prospectus dated 15 November 2006. We stated in our prospectus then that, barring unforeseen

circumstances, we would pay the full forecast dividend of 9.6 sen or 90% of our actual net income, whichever was higher. We eventually achieved the higher amount.

Our actual net income (realised) achieved was RM36.7 million, which is 19.1% higher than our forecast. We achieved this as revenues hit RM78.3 million, exceeding our budget by 5.0% while holding our operating costs flat. We were also beneficiaries of a competitive funding rate environment as savings on interest expense was 28.6% better than compared to our budget. Our interest expense remains fixed for 2008 at 4.95%, still a 15% improvement over our forecast.

In our first year of operations, we have increased the NAV of Hektar REIT by 15%. As of 9 January 2008, we announced a revaluation of our property portfolio to RM1.205 per unit, up 13.7 sen from our previous NAV recorded at RM1.04 in September 2007.

PORTFOLIO COMMENTARY

We attribute these solid financial results to the strong operational performance of Hektar REIT's portfolio. Visitor traffic, an important Key Performance Indicator for shopping centres, is monitored by Footfall, a UK-technology camera-based system which captures people transiting at the various entrances. In 2007, traffic visits at Subang Parade increased to 7.8 million, an astounding 32.6% increase over 2006, which is





largely attributed to the new look and feel following its refurbishment. Traffic at Mahkota Parade hit 8.8 million visits, up a decent 2.1% over 2006. We are particularly pleased with these positive results as it demonstrates that shoppers are still patronizing Subang Parade and Mahkota Parade in growing numbers, in spite of the new major mall openings in both markets in the past year.

Throughout the year, overall occupancy rates remained steady across the portfolio, ending the year at approximately 96.9%. In Subang Parade, occupancy hit 99.9% in December 2007. More impressively, we were able to maintain occupancy on our own terms; rental reversions in the fourth quarter were positive with 16 new or renewed tenancies now paying rates at 15% over the previous tenancy. Overall, for the year, 43 new or renewed tenancies, representing 29% of Subang Parade's net lettable area (NLA), were renewed at rental rates of 16% over previous tenancy rates.

The scenario in Mahkota Parade is a little mixed. In the fourth quarter, 10 new or renewed tenancies were paying rates which were 1% less than the previous rental rates. This relative weakness is attributed to the typical 'absorption' phase when new retail supply hits the market. Mahkota Parade faces a new retail shopping centre across the street, which opened in late 2006. As Mahkota Parade is situated in the commercial / historic district of Melaka, the additional new retail shopping centre will ultimately complement and elevate the area as a shopping precinct in the long run, similar to that of the famous Bukit Bintang precinct in Kuala Lumpur. In the short term, during the 'absorption' phase, as this new mall improves its occupancy, it can exert downward pressure on rental rate increases. Fortunately, for the year overall, 41 new or renewed tenancies representing 11% of Mahkota Parade's NLA achieved rental rates of 27% above the previous tenancy rates. The overall positive rental reversion for Mahkota Parade, in spite of the weak fourth quarter, is attributed to an asset enhancement exercise.

We believe asset enhancement is an important activity in property management. In late 2006, we conducted an asset enhancement on the ground floor of Mahkota Parade which resulted in a new retail zone. The previous tenant occupied a large 28,460 square feet lot, paying a rental rate one-fifth of the prevailing ground floor rate. When the tenancy expired, we took back the lot and reconfigured the space into smaller units. As of the first quarter 2007, at least 13 new tenancies were renting the old space at an average overall rent increase of 124% over the previous rental rate. Based on this exercise, we feel more asset enhancement exercises are necessary for Mahkota Parade. We are aiming to replicate the success of our refurbishment project in Subang Parade by applying the same high standards in Mahkota Parade. We will keep you posted on our plans.

INTRODUCING THE QUARTERLY DIVIDEND POLICY

In the initial month after listing, Hektar REIT's market price lagged behind its IPO price (RM1.05 for retail and RM1.11 for institutions), and hovered between the RM0.95 to RM1.00 range. We attribute this to the lack of awareness among investors of the REIT vehicle and Hektar REIT at that point of time. To address this market price malaise, we embarked on an aggressive post-listing roadshow, meeting existing and prospective investors domestically and abroad. We participated in various investor roadshows, conferences and seminars in Malaysia, Singapore and Hong Kong, some sponsored by international banks. The resulting interactions and feedback were crucial for our understanding of investor's concerns.



Our first initiative was the introduction of the quarterly dividend payout. Most REITs internationally pay out dividends 4 times a year. We believe we were among the first of Malaysian REITs to similarly adopt this policy. Many institutional investors welcomed the quarterly dividend, believing that since REITs derived the majority of their income from multi-year tenancy leases, they possessed income stability and therefore could support a regular dividend payout. We had full confidence in our management and our portfolio and similarly believed we could reward our investors with quarterly payouts, so we announced the quarterly dividend policy along with our first quarter's results.

Hektar REIT's first quarter results achieved a net income exceeding its forecast by 18.6%, as announced to Bursa Malaysia in April 2007. We also announced the first dividend payout of 2.4 sen per unit. The markets reflected on the news. Following the announcement, our price surged to RM1.18.

Since then, we have declared RM34.3 million in dividends to our investors for the 13-month period ending 31 December 2007.

CORNERSTONE INVESTOR

In May 2007, we announced a new cornerstone investor, Frasers Centrepoint Trust (FCT). In what was the first foreign REIT investment in a Malaysian REIT, FCT secured a 27% stake in Hektar REIT. The rationale for us was to find a strong strategic & financial partner with a common vision, to support our REIT growth strategy. We found it with FCT.



FCT engages in a business that is similar to Hektar REIT in that it is also focused on owning and managing shopping centres. It currently owns 3 shopping malls in Singapore with an asset value of close to S\$1 billion (~RM2.3 billion). FCT's parent company, Frasers Centrepoint Limited (FCL) also develops retail shopping centres in Singapore with several projects in its portfolio. FCL shares a similar philosophy in actively and aggressively managing their retail property portfolio in Singapore. Both FCT and FCL are part of the F&N group, a large Pan-Asian business group with more than S\$9 billion in assets (~RM21 billion).

FCL will also be investing in a 40% stake in Hektar Asset Management Sdn Bhd. The cross-border aspect of the transaction has resulted in a longer than expected delay, but we will soon announce the closing of the deal, hopefully before the first quarter is out. FCL will elect 2 Directors and we will jointly add a third Independent Director to our board. As a strategic partner with Hektar on the Manager and REIT level, we feel confident of accelerating Hektar Group's overall growth strategy. To reflect the partnership with FCL and FCT, a rebranding exercise will be undertaken.

ACQUISITIONS

We have always believed that there is a big opportunity to refurbish shopping centres. Within the last three decades, almost 200 shopping centres and retail centres have been built throughout Malaysia. Many of these developments are now located within mature residential communities and represent unique opportunities for redevelopment. As we have demonstrated with Subang Parade, the potential upside for refurbishing and repositioning a shopping centre can be significant. We intend to apply the same methodology of best practices to similar shopping centres that we intend to acquire.



Hektar REIT's intermediate term strategy is to undertake/initiate new acquisitions to add to the portfolio. Essentially, there are two types - the 'stabilised' acquisition which is generally decently-managed and will be yield-accretive to the REIT from day one; and the 'turnaround' acquisition, which requires capital refurbishment but with the potential for a significant financial upside upon successful execution.

Hektar REIT can expect an acquisition to be added to its portfolio within the first quarter of 2008. We have been working on this project since last year and expect it to be yield-accretive from day one. It will be a stabilised acquisition, but we will definitely provide the Hektar touch in terms of active management of the property to enhance its financial return.

For the rest of 2008, we intend to pursue further acquisitions and are evaluating and negotiating on various potential candidates at this time. We will continue to search for proposals and our criteria remains standard - old or even brand new shopping centres of fundamentally sound structures, operating in mature or growing townships throughout Malaysia. We will do the rest of the work. We welcome all proposals.

Under Hektar REIT's current capital structure, we will initially be financing the first acquisition using debt and therefore increasing Hektar REIT's gearing close to the 50% limit as provided under the Securities Commission Guidelines for REITs. For subsequent acquisitions, we may have to go to the equity markets to raise additional capital. With a secure

cornerstone investor in the form of FCT, we are confident that we have the resources to pursue equity financing to fund our future acquisitions.

CHALLENGES

We will be the first to acknowledge that one of the more pressing questions on our investor's agenda is the pace of our acquisition timetable. Our maiden transaction has taken a lot longer than we expected, but has provided us with a lot more insight in the process.

Acquiring a shopping centre requires a wider ranging due diligence process compared with other commercial property types. The process is more complicated as it involves due diligence on the tenant mix and requires a lot more creative thinking in the refurbishment scenarios. Unlike non-retail commercial properties, shopping centres can derive as much as a fifth of their income from non-NLA areas in the form of parking, casual leasing and exhibition income. The reconfiguration of non-NLA and NLA areas is a delicate balance, juggling the competing demands of shopping centre ambience, the requirements of retailers and the ever-changing preferences of consumers. On some occasions, we have conducted extensive due diligence only to decide to hold off on a deal, for want of better prospects.

Our first acquisition is long overdue, but it will certainly not be our last. As they say, the first one is always the hardest, but we will constantly examine ways of improving our capabilities in delivering the next one. Above all, we will take care in choosing our acquisitions carefully.



PORTFOLIO OUTLOOK

Our portfolio continues to provide sources of challenges and opportunities. Over the next year, approximately 29% of our NLA is due for renewal (our anchor tenant Parkson, comprising up to 26% of our NLA has already renewed). This is an opportunity for positive rental reversions - already close to 91% of our tenancies have some form of turnover rent provision with us, providing us with invaluable retailer sales information, which effectively gives us foresight on our retailer's scope for rental increases. Our current phase of asset enhancements in Subang Parade is nearing an end and we are already setting our sights on other areas of the centre to continue refinement. We have just finished conducting an updated market research on Subang Parade's target catchment market and are digesting the results. Over in Mahkota Parade, our manager is busy planning selective major refurbishments, which we will announce in due course. An extensive updated market research study is also planned for Mahkota Parade's catchment market which will commence in the first quarter of 2008.

On the whole, barring any unforeseen circumstances, we believe 2008 will be another solid year for Hektar REIT.

ACKNOWLEDGMENTS

On behalf of the Board of Directors of Hektar Asset Management, I would like to record our appreciation to our tenants and business partners for their contributions to our performance and last but not least, our gratitude to our shoppers and Unitholders (hopefully you are both) for their continued support.

As a parting note, I would like to assure all Unitholders of Hektar's continuous commitment in executing its strategies to ensure Hektar REIT's success is propelled to greater heights.

DATO' JAAFAR BIN ABDUL HAMID
Chairman & Chief Executive Officer

MANAGER'S REPORT

The Board of Directors of Hektar Asset Management Sdn Bhd ("The Manager"), the Manager of Hektar Real Estate Investment Trust are pleased to submit their report to the Unitholders of Hektar REIT together with the audited financial statements of Hektar REIT for the thirteen (13) month period ending 31 December 2007.

PRINCIPAL ACTIVITY

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

REVIEW OF PERFORMANCE

	As At 31 December 2007
	RM
NAV	374,388,604
Units in Circulation (Units)	320,001,000
NAV per unit	1.17
Market Value per Unit as at 31 December 2007	1.51
Highest Traded Price for the thirteen (13) month period	1.80
Lowest Traded Price for the thirteen (13) month period	0.94

OPERATING RESULTS

	Period Ending 31 December 2007
	RM
Total Gross Income	78,454,333
Total Property Expenses	(29,052,074)
Fair Value Adjustment on Investment Properties	43,841,617
	93,243,876
Total Non-Property Expenses	(12,719,876)
Net Income before taxation	80,524,000
Net Income before taxation - realised	36,682,383
Net Income before taxation - unrealised	43,841,617
Net Income after taxation	80,524,000
Earnings per Unit after Tax (sen)	25.16
Realised Earnings per Unit after Tax (sen)	11.46
Distribution per Unit ("DPU") (sen)	10.71

The Manager is pleased to report that for the thirteen (13) months financial period ending 31 December 2007, the total revenue of the Trust was RM78,454,333 comprising gross rental income of RM78,330,975, interest income of RM121,858 and other income of RM1,500.

The actual total revenue of RM78,454,333 exceeded the forecast by 4.7% while actual expenses were capped within forecast. Savings on interest expenses were also substantial as the actual interest rate (4.7% p.a.) was significantly lower than forecasted (5.85% p.a.).

Net income before taxation was RM80,524,000 after deducting total Trust expenditure and borrowings of RM12,719,876.

The Manager has recommended and the Trustee has approved a total income distribution of 10.71 sen per unit (equivalent to 93% of income before tax) totaling RM34,272,107 for the 13-month period ending 31 December 2007.

The total income distribution of RM34,272,107 surpassed the forecast published in the prospectus by 11.2%.

The Manager is confident that Hektar REIT's good performance will further improve in 2008, barring any unforeseen circumstances.

INCOME DISTRIBUTION

The schedule of the income distributions are as follows :

Dividend payment	Period covered	Income Distribution (RM)	Status	Remarks
First interim dividend	December 06 portion	2,995,183	Paid on 17 May 2007	100% payout based on Dec 06 taxable income
	Jan - Mar 07 portion	4,684,841		
Second interim dividend	Apr - Jun 07	7,680,024	Paid on 30 August 2007	90% payout based on Jan 07 - Dec 07 taxable income
Third interim dividend	Jul - Sep 07	7,680,024	Paid on 30 November 2007	
Final dividend	Oct - Dec 07	11,232,035	To be paid on 4 March 2008	
Total		34,272,107		

The Trustee has approved for RM11,232,035 to be paid as final dividend on 4 March 2008.

DIRECTORS OF THE MANAGER

Directors who served on the Board of Hektar Asset Management Sdn Bhd since commencement are:

Dato' Jaafar Bin Abdul Hamid
Zalila Binti Mohd Toon
Dato' Syed Amin Aljeffri
Dato' Robert Lim Git Hooi
Shahril Bin Kassim

MEETING ATTENDANCE

Director	7 Mar 07	19 Apr 07	6 Aug 07	7 Nov 07
Dato' Jaafar Bin Abdul Hamid	✓	✓	✓	✓
Zalila Binti Mohd Toon	✓	✓	✓	✓
Dato' Syed Amin Aljeffri	✓	✓	✓	✓
Dato' Robert Lim Git Hooi	✓	✓	✓	✓
Shahril Bin Kassim	✓	✓	✓	✓

DIRECTORS BENEFITS

For the thirteen (13) month period ending 31 December 2007, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Trust or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the thirteen (13) month period, which had the objective of enabling Directors of the Manager to acquire benefits by means of the acquisition of units in, or debentures of the Trust or any other corporate body.

MANAGER'S FEE

The Unitholders must approve any increase in the maximum permitted level of the Manager's fees by way of a majority 2/3 resolution passed at a Unitholders' meeting convened in accordance with the Deed for the time being (or such other majority as may be required under the REIT guidelines).

From 2007-2009, the Manager will receive 0.25% of the GAV of Hektar REIT and a performance fee of 3.5% of Net Property Income ("NPI"), before deducting the Property Manager fees excluding Goods and Services Tax ("GST"), if any. In accordance to the Deed, the Manager is entitled to receive a base fee of up to 1% per annum of the GAV of Hektar REIT, as well as a performance fee of up to 5% of the NPI. Other fees comprise the following:-

- (a) Acquisition fee of up to 1% of the acquisition value; and
- (b) Divestment fee of up to 0.5% of disposal value.

For the thirteen (13) months ending 31 December 2007, the Manager's fee was RM3,258,055 representing 0.87% per annum of the NAV of Hektar REIT. The Manager did not receive any soft commissions during this period.

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

CORPORATE DEVELOPMENTS

Partnership with Frasers Centrepoint Limited

On 16 May 2007, an announcement was made to Bursa Malaysia to inform that Hektar Klasik Sdn Bhd ("HKSB"), the holding company of the Manager had on 16 May 2007 entered into a conditional Sale and Purchase Agreement with Frasers Centrepoint Limited ("FCL") for FCL to acquire 400,000 ordinary shares of RM 1.00 each comprising 40% of the issued and paid up share capital in the Manager for a total cash consideration of RM 500,000.

FCL is a wholly-owned subsidiary of Fraser & Neave, Limited, Singapore, a leading international and diversified business group.

The announcement also added that, as part of a multi-tiered partnership between the Hektar Group and the FCL Group, Hektar Black Sdn Bhd ("HBSB"), a company related to HKSB, has also entered into a Sale and Purchase Agreement with HSBC Institutional Trust Services (Singapore) Limited, the trustee to Frasers Centrepoint Trust ("FCT"), for FCT to acquire 32,000,000 units of RM1.00 each in Hektar REIT at a purchase consideration of RM1.21 per unit, representing 10% of the total issued units of Hektar REIT from HBSB. The two agreements are not inter-conditional.

The acquisition of the REIT units by FCT as mentioned above has been completed on 5 June 2007. However, the Sale & Purchase Agreement ("SPA") for the acquisition of the 40% interest in the issued and paid up share capital of the Manager by FCL is still ongoing.

On 16 November 2007, an announcement was made to Bursa Malaysia to inform that FCL and HKSB have mutually agreed to further extend the cut off date as defined under clause 1.1 of the SPA to 16 November 2007. On 16 January 2008, a further announcement was made to further extend the cut-off date to 16 March 2008.

Public Spread

As at 31 January 2008, the public spread for Hektar REIT was 25.86% in the hands of 416 public unit holders holding not less than 100 units each. Under clause 8.15 of Bursa Malaysia's Listing Requirements, a public-listed entity is required to have at least 25% of its total listed units in the hands of a minimum of 1,000 public unit holders holding not less than 100 units each.

In relation to this, on 7 September 2007, the Manager has announced that Bursa Malaysia, in its letter dated 6 September 2007 has granted the Manager until 28 February 2008 to comply with this requirement.

The Manager is continuing to exercise its best endeavors to rectify the public spread number by continuing investor relations programmes via (a) investor and broker conferences; (b) roadshow presentations to fund managers and (c) marketing and investor education of REITs to new and foreign investors.

Acquisition of Sold Lot

In the First Quarter announcement, the Manager announced that on 10 April 2007, AmTrustee Berhad acting for and on behalf of Hektar REIT had entered into a Sale and Purchase Agreement to acquire Lot F28A, a retail space at Subang Parade, for RM510,000. Lot F28A represents one of the individual lots which were previously sold prior to the acquisition of Subang Parade by Hektar REIT.

The transaction was completed on 9 July 2007.

GROWTH STRATEGIES

The Manager has devised multiple-pronged strategies to sustain the growth of Hektar REIT, which are summarised as follows:

1. Portfolio Optimisation

- a. Active Leasing - The Manager will continue refreshing the tenancy mix of its assets to align with the needs and demands of its target shoppers;
- b. Marketing and Promotion - Aggressive marketing and promotion programmes have been planned all-year round to enhance and retain shopper traffic; and
- c. Asset Enhancement - Enhancements are continuously planned and made to increase NLA. In addition, all sold lots that are up for sale are being evaluated for possible buy-back / repurchase.

2. Yield-Accretive Acquisitions

- a. Stabilised Properties - These are stable properties which are already contributing strong cash flow. Acquisitions of these types of properties will be yield accretive to the REIT and may enhance liquidity of the REIT; and
- b. Turnaround Properties - These are properties that are currently under-serving their respective markets and if managed actively, have the potential of yielding significantly better performance in the medium term. Acquisitions of these types of properties will ensure a substantial increase in the value of Hektar REIT as a whole, as well as improved returns to Unitholders.

The Manager is currently undertaking due diligence exercises on a few shopping centres.

GEARING

Debt Facilities

Hektar REIT has a RM184,000,000 Murabahah overdraft ("MOD") facility with Maybank which has been fully drawn down for part payment towards the acquisition of Subang Parade and Mahkota Parade.

Gearing Capacity

As at 31 December 2007, Hektar REIT had a gearing ratio (external borrowings to total assets) of 31%. Based on the GAV of RM587,797,476 as at 31 December 2007, there is capacity to borrow an additional RM109,898,738 before reaching the 50% limit permitted under the SC Guidelines on REITs.

The Manager will be utilizing the available credit facilities to further pursue its acquisitions prior to a Unit Issue.

UNITS IN ISSUE

The total number of Units in issue of Hektar REIT is 320,001,000.

INVESTMENTS OF THE TRUST

Total Investments as at 31 December 2007 was RM559,400,000.

	Purchase Price (RM' mill.)	Refurbish./ Acq. of Sold Lot (RM' mill.)	Total (RM' mill.)	Revaluation (RM' mill.)	Unrealised gain (RM' mill.)
Subang Parade	280.0	0.7	280.7	311.4	30.7
Mahkota Parade	232.0	2.9	234.9	248.0	13.1
Total	512.0	3.6	515.6	559.4	43.8

NET ASSET VALUE OF HEKTAR REIT

The NAV of Hektar REIT as at 31 December 2007 is RM1.17 per unit. In line with Bursa Malaysia's Listing Requirements, the NAV has been posted weekly with Bursa Malaysia and published on their website.

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

DATO' JAAFAR BIN ABDUL HAMID
Chairman & Chief Executive Officer

ZALILA BINTI MOHD TOON
Executive Director & Chief Financial Officer

Kuala Lumpur
4 February 2008

PORTFOLIO PERFORMANCE

PROPERTY PORTFOLIO

Hektar REIT's portfolio consists of 2 well-established retail shopping centres - Subang Parade, located in Selangor and Mahkota Parade, located in Melaka.

The properties benefit from:

- Strategic locations within large trade areas
- Consumer-focused tenancy mix
- Diverse, quality tenant base
- High occupancy rates

OCCUPANCY

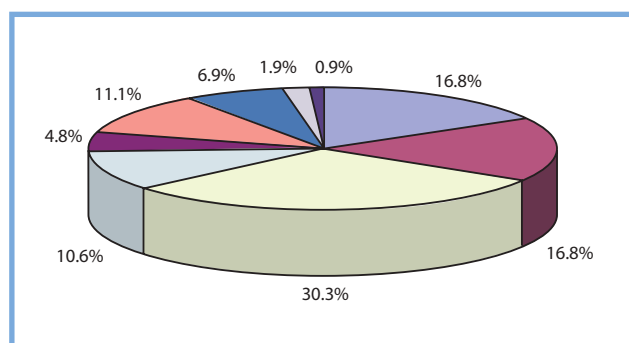
	2003	2004	2005	2006	2007
Subang Parade	97.7%	93.4%	98.3%	98.5%	99.9%
Mahkota Parade	-	86.8%	96.9%	94.9%	93.9%
Total/Overall	97.7%	91.3%	97.6%	96.7%	96.9%

TRAFFIC

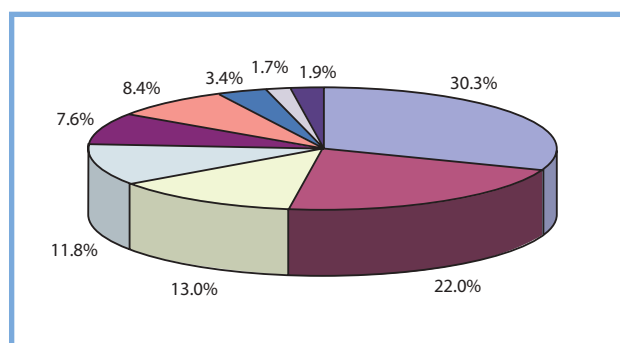
Property	No. of Visits (2005)	No. of Visits (2006)	No. of Visits (2007)
Subang Parade	5,689,196	5,916,354	7,842,409
% Change in Traffic	-	4.0%	32.6%
Mahkota Parade	8,012,968	8,636,714	8,817,065
% Change in Traffic	-	7.8%	2.1%
Total	13,702,164	14,553,068	16,659,474
% Change in Traffic	-	6.2%	14.5%

TENANCY MIX

BY NLA



BY MONTHLY RENTAL INCOME*



* Based on monthly rental income for December 2007.



TOP TEN TENANTS

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
1 Parkson	Department Store/Supermarket	254,009	26.9%	12.0%
2 The Reject Shop	Fashion & Footwear	17,695	1.9%	2.2%
3 Bata	Fashion & Footwear	7,169	0.8%	2.2%
4 Ampang Super Bowl	Leisure & Entertainment	36,717	3.9%	1.9%
5 McDonald's	F&B	10,457	1.1%	1.8%
6 Kenny Rogers Roasters	F&B	7,096	0.8%	1.7%
7 World of Sports	Fashion & Footwear	10,796	1.1%	1.7%
8 Bonia	Fashion & Footwear	4,835	0.5%	1.5%
9 Celebrity Fitness	Sport & Fitness	34,317	3.6%	1.5%
10 Voir	Fashion & Footwear	5,506	0.6%	1.4%
Top 10 Tenants (By Monthly Rental Income)		388,597	41.1%	27.8%
Other Tenants		556,303	58.9%	72.2%
Total		944,900	100.0%	100.0%

* Based on monthly rental income for December 2007.

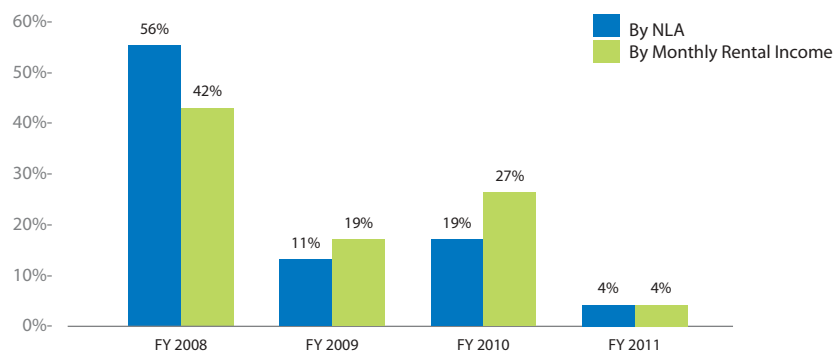
RENTAL REVERSIONS

Subang Parade	43	137,177	29%	16%
Mahkota Parade	41	54,760	12%	26%
Portfolio Total/Average	84	191,937	20%	20%

TENANCY EXPIRY PROFILE

For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2008	75	524,105	56%	42%
FY 2009	59	104,444	11%	19%
FY 2010	69	178,456	19%	27%
FY 2011	11	41,818	4%	4%

* Based on monthly rental income for December 2007.



SUBANG PARADE

It's Our Place!

Subang Parade was the first 'regional' shopping centre in Selangor when it was opened in 1988, offering half a million sq ft of retail space. The centre is located in Subang Jaya, a township accessible 15 minutes by car from Shah Alam and Petaling Jaya, 25 minutes from Kuala Lumpur and 45 minutes from Kuala Lumpur International Airport (KLIA).

Today, Subang Parade's positioning strategy and tenant mix is community-focused within its primary trade area and receives the bulk of its visitors from its immediate vicinity. The emphasis on the end-consumer provides the centre with a captive consumer base, whose primary retail needs is driven by value, convenience and the proximity of the centre.

SUBANG PARADE

Location	No. 5 Jalan SS 16/1, Subang Jaya 47500 Petaling Jaya Selangor MALAYSIA
Land Tenure	Freehold
Gross Floor Area	1.2 million sq ft
Net Lettable Area	473,108 sq ft
Car Park	1,390 bays
Valuation	RM311.4 million
Tenants*	121
Key Tenants	Parkson, HSL, Toys R Us, MPH, Celebrity Fitness
Occupancy	99.9%
Annual Visitor Traffic	7.8 million
Year Opened	1988
Year Acquired	2003
Year Refurbished	2006-7

Data as of 31 December 2007. * Only NLA lots.

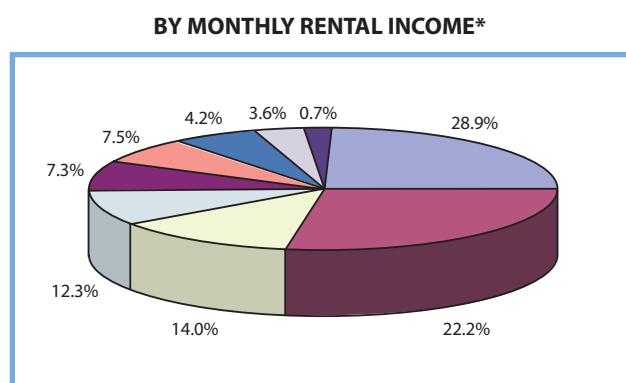
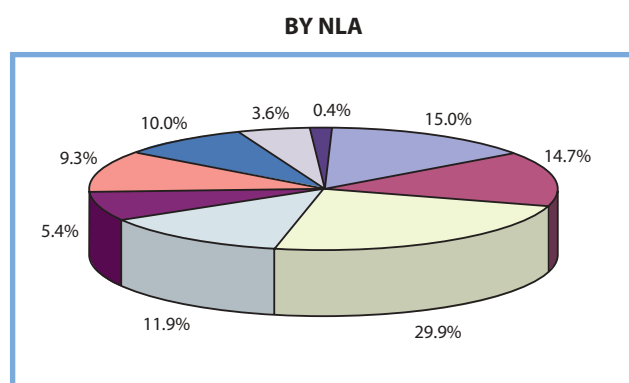


SUBANG PARADE'S TOP TEN TENANTS BY RENTAL INCOME

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
1 Parkson	Department Store	140,620	29.7%	14.0%
2 Celebrity Fitness	Sport & Fitness	34,317	7.3%	2.9%
3 Bata	Fashion & Footwear	4,597	1.0%	2.3%
4 Digital One	IT & Electronics	21,361	4.5%	2.2%
5 Toys R Us	Gifts & Specialty	21,981	4.6%	2.2%
6 Kenny Rogers Roasters	F&B	3,610	0.8%	2.2%
7 The Reject Shop	Fashion & Footwear	9,192	1.9%	2.0%
8 Voir	Fashion & Footwear	4,387	0.9%	2.0%
9 World of Sports	Fashion & Footwear	5,769	1.2%	1.9%
10 TGI Friday's	F&B	5,655	1.2%	1.9%
Top 10 Tenants (By Monthly Rental Income)		251,489	53.2%	33.5%
Other Tenants		221,619	46.8%	66.5%
Total		473,108	100.0%	100.0%

* Based on monthly rental income for December 2007.

SUBANG PARADE'S TENANCY MIX



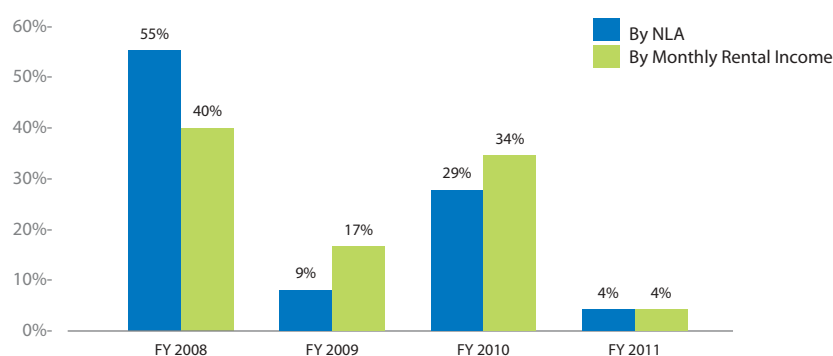
* Based on monthly rental income for December 2007.



SUBANG PARADE'S EXPIRY PROFILE

Subang Parade For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2008	39	262,287	55%	40%
FY 2009	30	43,255	9%	17%
FY 2010	41	138,319	29%	34%
FY 2011	5	19,328	4%	4%

* Based on monthly rental income for December 2007.





Mahkota Parade was the first 'regional' shopping centre in Melaka when it was opened in 1994, offering over half a million square feet of retail space. The complex is located within Mahkota Melaka, the commercial and tourist centre of Melaka, situated in the heart of Melaka town.

Mahkota Parade is positioned as a prime shopping centre for metropolitan Melaka. The centre serves as the premier one-stop destination centre in the region, featuring a full array of dining, fashion and specialty offerings and entertainment, including a bowling alley, cinema and gaming arcade. The centre also serves as a key venue for major promotional events and community gatherings.

MAHKOTA PARADE

Location	No. 1 Jalan Merdeka 75000 Melaka Melaka MALAYSIA
Land Tenure	Leasehold (Until 2101)
Gross Floor Area	1.1 million sq ft
Net Lettable Area	471,792 sq ft
Car Park	955 bays
Valuation	RM248.0 million
Tenants*	109
Key Tenants	Parkson, Ampang Superbowl, Giant, Golden Screen Cinemas
Occupancy	93.9%
Annual Visitor Traffic	8.8 million
Year Opened	1994
Year Acquired	2004
Year Refurbished	Currently in Phases

Data as of 31 December 2007. * Only NLA lots.



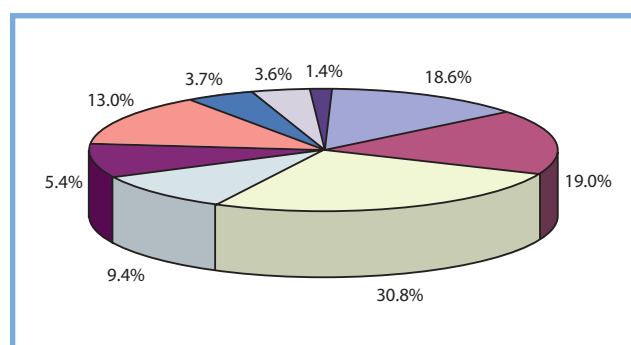
MAHKOTA PARADE'S TOP TEN TENANTS BY RENTAL INCOME

Tenant	Trade Sector	NLA (sq ft)	% of Total NLA	% of Monthly Rental Income*
1 Parkson	Department Store	113,389	24.0%	9.8%
2 Ampang Superbowl	Leisure & Entertainment	36,717	7.8%	4.0%
3 Bum City	Fashion & Footwear	13,918	3.0%	2.9%
4 KFC	F&B	5,403	1.1%	2.3%
5 Reject Shop	Fashion & Footwear	8,503	1.8%	2.3%
6 In Base	Fashion & Footwear	4,273	0.9%	2.2%
7 Giant	Supermarket	24,143	5.1%	2.1%
8 McDonald's	F&B	5,942	1.3%	2.1%
9 Bata	Fashion & Footwear	2,572	0.5%	2.0%
10 Golden Screen Cinemas	Leisure & Entertainment	14,376	3.0%	1.9%
Top 10 Tenants (By Monthly Rental Income)		229,236	48.6%	31.6%
Other Tenants		242,556	51.4%	68.4%
Total		471,792	100.0%	100.0%

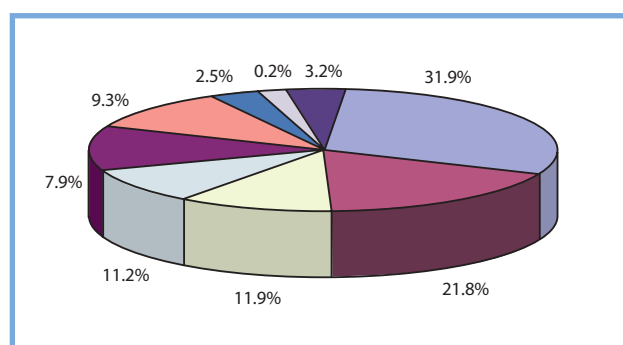
* Based on monthly rental income for December 2007.

MAHKOTA PARADE'S TENANCY MIX

BY NLA



BY MONTHLY RENTAL INCOME*



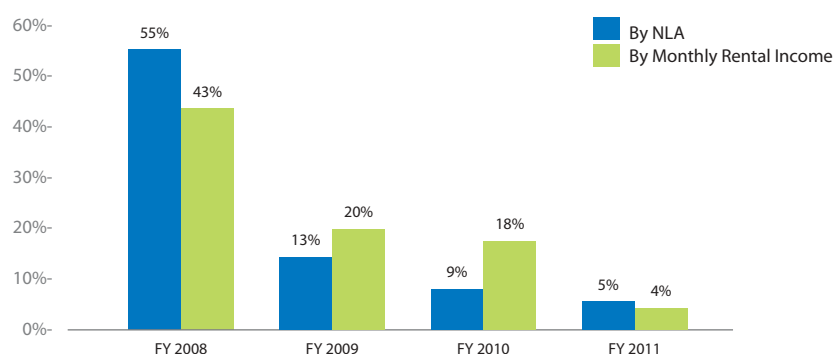
* Based on monthly rental income for December 2007.



MAHKOTA PARADE'S EXPIRY PROFILE

Mahkota Parade For Year Ending 31 December	No. of Tenancies Expiring	NLA of Tenancies Expiring (sq ft)	NLA of Tenancies Expiring as % of Total NLA	% of Total Monthly Rental Income*
FY 2008	36	261,818	55%	43%
FY 2009	29	61,189	13%	20%
FY 2010	28	40,137	9%	18%
FY 2011	6	22,490	5%	4%

* Based on monthly rental income for December 2007.



VIENNA
RENO
LONDON
HONOLULU
PARIS
MALMO
DENPASAR
MADRID
WASHINGTON
BATH
ABERDEEN
GREENVILLE
HAARLEM
LEIDSCHENDAM
BIRMINGHAM
JAKART
AREST
BATH
CAPE
BURG
BANGKOK
BERG
BARBARA
KYOTO
PERT
ENIX
THURROCK
JEDO
ROME
BRAY
GLASGO
AN
DIEGO
HEIDELBERG
R
BILBAO
YOKOHAMA
ANFORD
SUTTON
ATH
OUTH
ERINA
DUMFRIE
OTTAWA
ABHA
MONG
NARA
MELBOURNE
NICE
KAMLOOP
DHA





THE BOARD OF DIRECTORS



Sitting from left to right:
Dato' Lim Git Hooi @ Robert Lim
Dato' Jaafar Bin Abdul Hamid

Standing from left to right:
Shahril Bin Kassim
Dato' Syed Amin Aljeffri
Zalila Binti Mohd Toon
Muhammad Hafidz Bin Nuruddin
(Company Secretary)

DATO' JAAFAR BIN ABDUL HAMID

Chairman & Chief Executive Officer

Dato' Jaafar is Chairman & Chief Executive Officer. He is also the founder and principal shareholder of the Hektar Group of companies and provides leadership for the overall strategic direction of the group. Previously, he was the Managing Director of United Engineers Malaysia Berhad ("UEM"), a public-listed corporation listed on the Main Board of Bursa Malaysia Securities Bhd. During his tenure at the helm of the UEM group of companies, he was responsible for undertaking numerous privatisation projects including the North-South Expressway (PLUS), the Malaysia-Singapore Second Crossing (Linkedua), Integrated Schedule Waste Management (Kualiti Alam) and the National Sports Complex. After his UEM stint, he assumed the Chairmanship of an international engineering and construction group, Costain Group PLC until 2000 and was involved in its re-listing exercise on the London Stock Exchange. He holds a Bachelor of Science (Hons) in Engineering Production from the University of Birmingham, United Kingdom.

ZALILA BINTI MOHD TOON

Executive Director & Chief Financial Officer

Zalila is the Executive Director & Chief Financial Officer and is responsible for the financial and strategic matters of Hektar REIT and the overall financial performance of the Fund. Zalila spent twenty (20) years with Cement Industries of Malaysia Berhad ("CIMA"), a subsidiary of UEM Group, a public-listed corporation listed on Bursa Malaysia Securities Bhd. In CIMA, she was in charge of both operational and corporate finance. During her tenure, she spearheaded various major corporate finance initiatives, including the issuance of Private Debt Securities ("PDS") and the acquisition of Negri Sembilan Cement Industries Sdn Bhd. She was also involved in the collaboration with JP Morgan to internationalise the company's market. Subsequently, whilst in Park May Berhad, she arranged for the issuance of PDS to refinance the existing high interest-bearing loans resulting in substantial savings to the company. She was also involved in the reverse take-over exercise of Park May Berhad before leaving for a brief stint in UEM Environment Sdn Bhd, a holding company of Kualiti Alam Sdn Bhd. She holds a Master of Business Administration (Financial Studies) from the University of Nottingham, United Kingdom and a Company Secretarial Licence from the Companies Commission of Malaysia. She is also a member of Malaysian Institute of Corporate Governance.

DATO' LIM GIT HOOI @ ROBERT LIM

Independent Non-Executive Director

Dato' Lim was previously a partner in Ernst & Young and he is also an Independent Non-Executive Director of Gopeng Berhad, Choo Bee Metal Industries Berhad, YNH Property Berhad and Seloga Holdings Berhad, all of which are listed on Bursa Malaysia Securities Bhd. He also holds directorship in several other private limited companies. He is a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants.

DATO' SYED AMIN ALJEFFRI

Independent Non-Executive Director

Dato' Syed's extensive work experience includes stints with Esso in Malaysia and the United States of America, Touche Ross Canada and his own public accounting and consulting practices, AljeffriDean. He also sits on the board of Bina Darulaman Berhad, Tien Wah Press Berhad, LBI Capital Berhad, Seloga Holdings Berhad, Kulim Technologies Park Corporation Berhad, Mines City Hotel Berhad and several other private limited companies. He is an Economics graduate from the University of Malaya, a Chartered Accountant with the Malaysian Institute of Accountants and the Canadian Institute of Chartered Accountants, a Certified Public Accountant with the Malaysian Institute of Certified Public Accountants and the Institute of Certified Public Accountants of Singapore, a Certified Financial Planner with the Financial Planning Association of Malaysia and a Fellow of the Malaysian Institute of Taxation. He is a member of the Board of Islamic University College of Malaysia, owned by the Malaysian Government. He is currently the President of the Kuala Lumpur Malay Chamber of Commerce and the Co-Chairman of the ASEAN Business Advisory Council. He is also a Council Member of the Malaysia-China Business Council and the East Asia Business Council and the Board of the Small and Medium Industries Development Corporation ("SMIDEC"). He is also a member of the Malaysian Honorary Council of the Federal Democratic Republic of Ethiopia. He was formerly the Secretary General of the ASEAN Chamber of Commerce and Industry.

SHAHRIL BIN KASSIM

Non-Executive Director

Shahril has had over twenty (20) years of experience with IBM Malaysia and Mesiniaga Bhd in various capacities such as sales, marketing, management and executive education for the government sector. During the course of his career, he has also been involved in organising, designing and facilitating executive strategy development for organizations to align their business strategy with Information and Communication Technology ("ICT"). He left IBM in 1999 and was a consultant to HeiTech Padu Berhad, a local ICT solutions provider until 2003. He holds a degree in Electronics Engineering from Salford University, United Kingdom.

THE MANAGEMENT TEAM

DATO' JAAFAR BIN ABDUL HAMID

Chairman & Chief Executive Officer

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

ZALILA BINTI MOHD TOON

Executive Director & Chief Financial Officer

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

CHRISTOPHER ANGUS MEARS

Executive Vice President, Asset Management

Christopher leads the asset management and investment activities. He is responsible for formulating business and asset enhancement plans for Hektar REIT's portfolio and for evaluating investment initiatives for Hektar REIT in Malaysia. He possesses over 19 years of comprehensive property management, leasing and marketing experience at regional shopping centres, office buildings and community shopping centres ranging in size from 11,000 sqm to 65,000 sqm in Australia and Asia. He is not unfamiliar with the Malaysian retailing scene, having been directly responsible for a development portfolio in Malaysia including mixed-use developments with a focus on retail and office, and hotel and serviced apartment concepts. Previously, he was Leasing Manager with Stockland Properties, a public-listed Limited Property Trust in Australia, where he was managing the leasing of four major shopping centres, Stockland, Townsville and Cairns, City Centre Plaza in Rockhampton and Kinkora Centre in Gladstone, which represented almost half of Stockland Properties' retail portfolio at that time. He holds a Bachelor of Arts (Communication and Public Relations) degree from the University of Canberra, Australia. He also holds an Advanced Certificate in Property Agency from Technical and Further Education (TAFE) College.

LIM YE JHEN

General Manager, Strategy

Ye Jhen is responsible for Hektar REIT's strategic planning, investor relations, industry research and analysis. He has appeared and spoken at real estate conferences and investment seminars throughout Malaysia, Singapore and Hong Kong. Previously, he was Assistant Vice-President of the Investment & Business Advisory division of Henry Butcher Malaysia, consulting for real estate organisations. Prior to this, he was with Global Asset Capital LLC, a private equity firm based in San Francisco, USA, where he was responsible for investments and working with portfolio companies in North America. He was also involved in setting up their investment fund in 2000. Previously, he worked with PwC Management Consulting Services (now part of IBM), working on behalf of various entities including public-listed, private companies and government entities. He graduated with a Bachelor's degree in Finance from the Stern School of Business at New York University, New York, USA.

ZARINA HALIM

Senior Manager, Legal and Secretarial

Zarina is responsible for the legal and secretarial portfolio of Hektar REIT and provides support in the areas of secretarial compliance. She was formerly with the United Engineers Malaysia Berhad ("UEM") Group of Companies for 9 years. She was Head of Corporate Affairs and Business Development in Prolink Development Sdn Bhd (currently UEM Land), the UEM Group's subsidiary responsible for the development of Malaysia's Singapore Second Crossing (MSSC) township, Bandar Nusajaya. Her notable experience at Prolink included the implementation of corporate land sales to the value of over RM1 billion and the successful restructuring of Prolink's debt obligations under Danaharta. She then moved on to head the Business Development unit at OptixLab Sdn Bhd which was mainly responsible for the sourcing and implementation of Information and communications technology related investments as well as the company's strategic marketing initiatives. She graduated from the University of Manchester, United Kingdom with a Bachelor's degree in Accounting and Finance.

RAZIFF SUHAIRI BIN SHAABAN

Senior Manager, Finance

Raziff is responsible for the finances of Hektar REIT and provides support in areas of accounting, taxation and treasury. He served in Renong Berhad (now United Engineers Malaysia Berhad) for 5 years from 1997, mainly handling the privatization exercise of Keretapi Tanah Melayu Berhad. The privatization exercise included the divestment of subsidiaries and realignment of business units. Subsequent to that, he served in Park May Berhad for 2 years as the Manager of Group Finance and Corporate Affairs. In addition to his role in operational finance, he was also involved in various corporate asset divestment programmes as well as the reverse take-over exercise of a public-listed company. In 2004, he joined TIME Engineering Berhad (TIME) as the Manager of Corporate Finance. He was involved in the issuance of the world's first RM2.5 billion Sukuk Musyarakah Asset-Backed Securities Programme. He also initiated the refinancing exercise of TIME's RM550 million term loan, as well as overseeing RM400 million worth of trade finance activities with regard to TIME's project with the Ministry of Education. He holds a Bachelor of Commerce (Accounting and Finance) degree from the University of Queensland, Australia.

CORPORATE GOVERNANCE

Pursuant to Chapter 8.38 of Bursa Malaysia's Listing Requirements (the "LR"), a REIT is exempted from having to comply with Chapter 15- Corporate Governance (except for paragraphs 15.03 and 15.06-15.09).

Notwithstanding the above, the Board of the Manager ("the Board") feels that it is in the best interest of Hektar REIT's Unitholders to be made aware of certain provisions under the Malaysian Code of Corporate Governance ("the Code") that have been adopted by the Manager.

The management of Hektar REIT is governed by a Trust Deed executed on 5 October 2006 between the Manager and the Trustee ("the Deed"). The Deed, inter alia, details out the roles, duties, obligations and power of the Manager and the Trustee. Essentially, the Trustee and the Manager play countervailing roles against each other to ensure that the REIT is managed with efficiency and integrity.

The Board views corporate governance in four key concepts:

1. Good performance
2. Accountability
3. Transparency
4. Integrity

The Board has the responsibility to ensure that the abovementioned concepts were rigorously observed throughout the thirteen (13) month period ending 31 December 2007. In formulating the corporate governance framework, the Manager applied the principles and best practices as set out in Parts 1 and 2 respectively of the Code and Bursa Malaysia's LR.

THE BOARD OF DIRECTORS

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

BOARD MEETINGS

The Board ordinarily meets at least four (4) times a year with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. During the thirteen (13) month financial period ending 31 December 2007, the Board met on four (4) occasions, where it deliberated upon and considered a variety of matters including Hektar REIT's financial results and strategic and major investment decisions.

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

All five (5) directors attended all four (4) meetings held for the thirteen (13) month financial period ending 31 December 2007.

BOARD BALANCE

As at the date of this statement, the Board consists of five (5) members, comprising one (1) Executive Chairman, one (1) Executive Director, one (1) Non-Executive, Non-Independent Director and two (2) Independent Non-Executive Directors. 40% of Directors are considered Independent which complies and exceeds the Directors' independence requirements set out under paragraph 15.02 of Bursa Malaysia's LR which requires that at least one-third (1/3) of the Board to be Independent Directors. A brief profile of each Director is presented on pages 28 and 29 of this annual report.

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

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

The Board is satisfied that the current Board composition fairly reflects the interest of Hektar REIT's minority Unitholders.

DIRECTOR'S TRAINING

In line with the best practices of the Code and Bursa Malaysia's LR, all Directors have attended the Management Accreditation Programme. Directors are also encouraged to keep abreast of changes and new developments.

SUPPLY OF INFORMATION

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

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

UNITHOLDERS

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

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

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

FINANCIAL REPORTING

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

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE PREPARATION OF THE AUDITED FINANCIAL STATEMENTS

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

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

STATEMENT ON INTERNAL CONTROL

The Board acknowledges its responsibilities for maintaining sound internal control systems to safeguard Unitholders' interest and Hektar REIT's assets and for reviewing the adequacy and integrity of these systems. Due to the limitations that are inherent in any system of internal control, the system currently employed is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

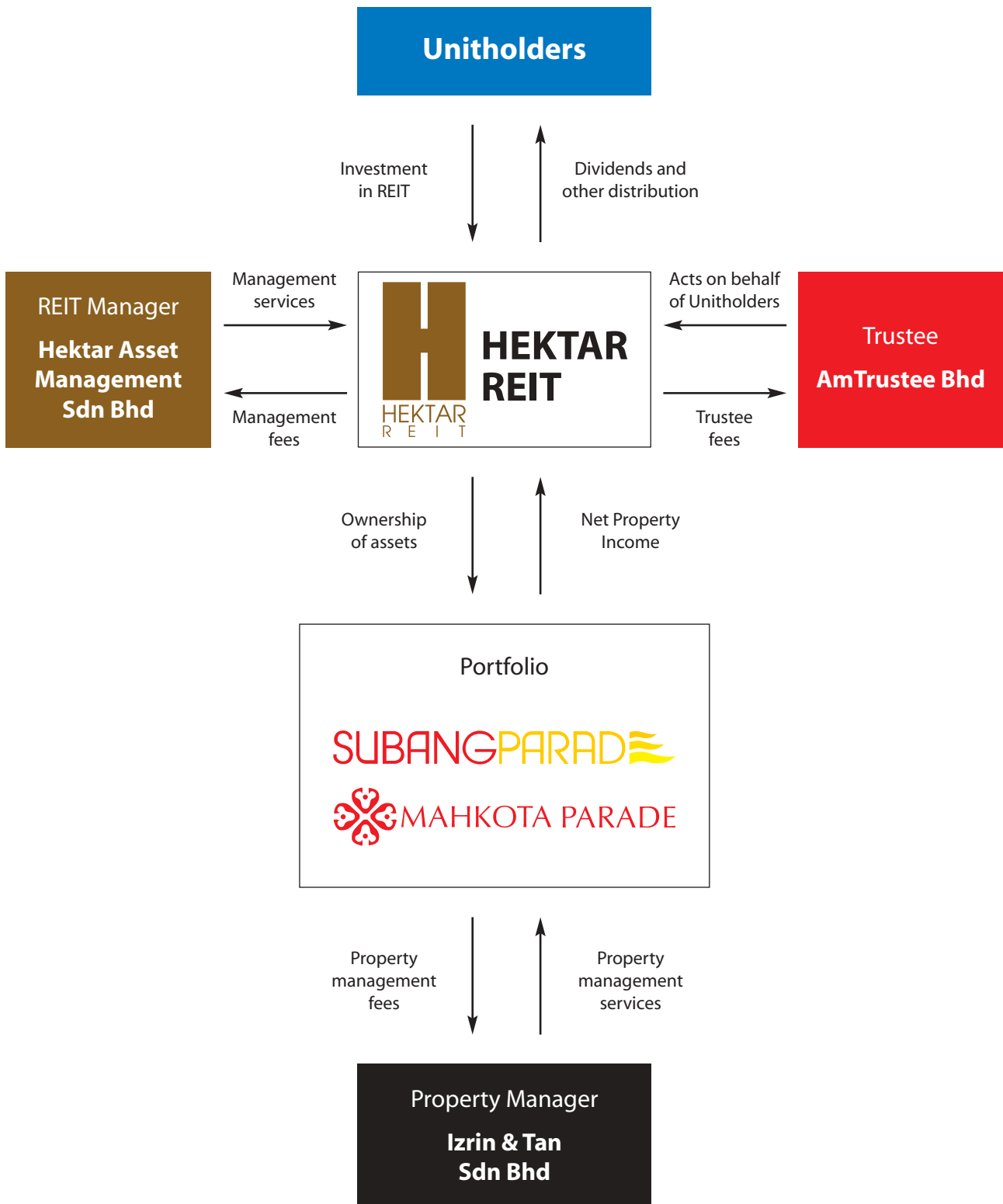
The Board has put in place an organizational structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provide for a documented and auditable trail of accountability. The procedures include the establishment of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

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

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

To further improve its system of internal controls, the Board has engaged KPMG Business Advisory Sdn Bhd to perform a gap analysis on its existing controls, and recommend measures to strengthen the current system. In addition, KPMG is also tasked to establish a risk management framework for adoption in 2008, as well as perform internal audit services.

CORPORATE ORGANISATION



CORPORATE DIRECTORY

MANAGER

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

Manager's Principal Place of Business

Block A-2-4, Plaza Damas
No. 60 Jalan Sri Hartamas 1
Sri Hartamas
50480 Kuala Lumpur
Tel : 03-6201 1011
Fax : 03-6201 0012

Manager's Registered Office

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

BOARD OF DIRECTORS OF THE MANAGER

Dato' Jaafar Bin Abdul Hamid
Chairman & Chief Executive Officer

Zalila Binti Mohd Toon
Executive Director & Chief Financial Officer

Dato' Syed Amin Aljeffri
Independent Non-Executive Director

Dato' Robert Lim Git Hooi
Independent Non-Executive Director

Shahril Kassim
Non-Executive Director

JOINT COMPANY SECRETARIES OF THE MANAGER

Muhammad Hafidz Bin Nuruddin
(MAICSA 7005820)

Lim Seck Wah
(MAICSA 0799845)

TRUSTEE

AmTrustee Berhad
(Company No. 163032-V)
(a member of AmInvestment Group Berhad)
17th Floor, Bangunan Ambank
55 Jalan Raja Chulan
50200 Kuala Lumpur

PROPERTY MANAGER

Izrin & Tan Properties Sdn Bhd
(Company No. 602338-K)
1-1 Jalan 5/76B
Desa Pandan
55100 Kuala Lumpur

PRINCIPAL BANKER OF THE FUND

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

AUDITOR

SJ Grant Thornton (AF : 0737)
Level 11 Faber Imperial Court
Jalan Sultan Ismail
P.O. Box 12337
50774 Kuala Lumpur

TAX AGENT

SJ Grant Thornton (AF : 0737)
Level 11 Faber Imperial Court
Jalan Sultan Ismail
P.O. Box 12337
50774 Kuala Lumpur

REGISTRAR

Mega Corporate Services Sdn Bhd
(Company No. 187984-H)
Level 15-2 Faber Imperial Court
Jalan Sultan Ismail
P.O. Box 12337
50774 Kuala Lumpur

STOCK EXCHANGE LISTING

BURSA MALAYSIA MAIN BOARD
STOCK CODE: HEKTAR 5121

STATEMENT BY THE MANAGER

In the opinion of the Directors of Hektar Asset Management Sdn. Bhd., the financial statements set out on pages 42 to 60 are drawn up in accordance with the provisions of the Deed dated 5 October 2006, Securities Commission Act, 1993, Securities Commission's Guidelines on Real Estate Investment Trusts and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the state of affairs of Hektar Real Estate Investment Trust ("Hektar REIT") as at 31 December 2007 and of the results and cash flows of Hektar REIT for the financial period from 5 October 2006 (date of establishment) to 31 December 2007.

Signed on behalf of the Board of the Directors of the Manager in accordance with a resolution of the Board of Directors dated 1 February 2008.

Signed on behalf of the Board
of Directors of the Manager

DATO' JAAFAR BIN ABDUL HAMID

ZALILA BINTI MOHD TOON

Kuala Lumpur
4 February 2008

STATUTORY DECLARATION

I, Zalila Binti Mohd Toon, being the Director of Hektar Asset Management Sdn. Bhd. primarily responsible for the financial management of Hektar Real Estate Investment Trust, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 42 to 60 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

ZALILA BINTI MOHD TOON

Subscribed and solemnly declared by the
abovenamed at Kuala Lumpur in
the Federal Territory this day of 4 February 2008

Before me:

T THANDONEE RAJAGOPAL (W 228)
Commissioner for Oaths

Kuala Lumpur

REPORT OF THE TRUSTEE

TO THE UNITHOLDERS OF HEKTAR REAL ESTATE INVESTMENT TRUST (Established in Malaysia)

We have acted as Trustee of Hektar Real Estate Investment Trust ("Hektar REIT") for the financial period ended 31 December 2007. In our opinion and to the best of our knowledge, Hektar Asset Management Sdn. Bhd., the Manager has managed Hektar REIT in accordance with the limitation imposed on the investment powers of the Manager and the Trustee under the Deed dated 5 October 2006 ("the Deed"), the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission Act, 1993 and other applicable laws during the financial period ended 31 December 2007.

We have also ensured the following:-

- (a) the procedures and processes employed by the Manager to value and price the units of Hektar REIT are adequate and that such valuation/pricing is carried out in accordance with the Deed and other regulatory requirements; and
- (b) the creation of units are carried out in accordance with the Deed and other regulatory requirements.

We confirm that the recommended gross income distribution of 10.71 sen per unit for the financial period ended 31 December 2007 is in line with and is reflective of the objective of Hektar REIT.

For and on behalf of the Trustee,
AmTrustee Berhad

RAJA AMIR SHAH BIN RAJA ABDUL AZIZ
Chief Executive Officer

Kuala Lumpur
4 February 2008

REPORT OF THE AUDITORS

TO THE UNITHOLDERS OF HEKTAR REAL ESTATE INVESTMENT TRUST (Established in Malaysia)

We have audited the financial statements set out on pages 42 to 60.

These financial statements are the responsibility of the Directors of Hektar Asset Management Sdn. Bhd., the Manager of Hektar Real Estate Investment Trust.

It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with the Securities Commission's Guidelines on Real Estate Investment Trusts and for no other purposes. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the Directors of the Manager, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements have been properly drawn up in accordance with the provisions of the Deed dated 5 October 2006, the Securities Commission Act, 1993, Securities Commission's Guidelines on Real Estate Investment Trusts and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the state of affairs of Hektar Real Estate Investment Trust as at 31 December 2007 and of the results and cash flows for the financial period from 5 October 2006 (date of establishment) to 31 December 2007 of Hektar Real Estate Investment Trust.

SJ GRANT THORNTON
(NO. AF : 0737)
CHARTERED ACCOUNTANTS

DATO' N.K. JASANI
CHARTERED ACCOUNTANT
(NO: 708/03/08(J/PH))
PARTNER

Kuala Lumpur
4 February 2008



HEKTAR
GROUP

The logo features a large, stylized 'H' composed of two vertical bars. Below the logo is a horizontal line of silhouettes depicting a group of people, including a person pushing a shopping cart, a person walking, and a person sitting on the ground.



HEKTAR
GROUP

The logo features a large, stylized 'H' composed of two vertical bars. Below the logo is a horizontal line of silhouettes depicting a group of people, including a person pushing a shopping cart, a person walking, and a person sitting on the ground.



SUBANGPARADE

The logo consists of the word 'SUBANGPARADE' in a bold, sans-serif font, followed by a stylized graphic element resembling three horizontal wavy lines or a flame.

Happy
Shoppers



BALANCE SHEET

As at 31 December 2007

	Note	2007 RM
UNITHOLDERS' CAPITAL	4	328,136,711
UNDISTRIBUTED INCOME-REALISED		2,410,276
UNDISTRIBUTED INCOME-UNREALISED		43,841,617
Total Unitholders' funds		374,388,604
Represented by:-		
ASSETS		
Investment properties	5	559,400,000
Capital work in progress		2,755,559
Fixed deposit with a licensed bank	6	1,278,529
Trade receivables	7	915,562
Other receivables, deposits and prepayments	8	5,350,886
Cash and bank balances		18,096,940
Total assets		587,797,476
LIABILITIES		
Trade payables		134,968
Other payables and accruals	9	18,041,869
Provision for income distribution	10	11,232,035
Borrowings	11	184,000,000
Total liabilities		213,408,872
NET ASSET VALUE ("NAV")		374,388,604
Number of Units of circulation		320,001,000
Net asset value ("NAV") per unit (RM)		
- before income distribution		1.28
- after income distribution		1.17

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

INCOME STATEMENT

For the financial period from 5 October 2006
(date of establishment) to 31 December 2007

	Note	5.10.2006 to 31.12.2007 RM
Gross revenue	12	78,330,975
Property expenses	13	(29,052,074)
Net rental income		49,278,901
Interest income		121,858
Fair value adjustment on investment properties		43,841,617
Other income		1,500
Total income		93,243,876
Manager's fees	14	3,258,055
Trustee's fee	15	128,118
Audit fees		40,000
Tax agent's fees		10,000
Valuation fees		60,000
Professional fees		600,965
Allowance for doubtful debts		79,844
Administration expenses		218,085
Interest expenses		8,324,809
Total expenses		12,719,876
Net income before taxation		80,524,000
Taxation	16	-
Net income for the financial period		80,524,000
Net income for the financial period is made up as follows:-		
Realised		36,682,383
Unrealised - Fair value adjustment on investment properties		43,841,617
		80,524,000
Earnings per unit (sen)		25.16

	Note	5.10.2006 to 31.12.2007 RM
Earnings per unit	17	
- After Manager's fees (sen)		25.16
- Before Manager's fees (sen)		26.18
Net income distribution	18	
- Interim distribution of 2.4 sen paid on 17 May 2007		7,680,024
- Interim distribution of 2.4 sen paid on 30 August 2007		7,680,024
- Interim distribution of 2.4 sen paid on 30 November 2007		7,680,024
- Proposed final distribution of 3.51 sen payable on 4 March 2008		11,232,035
		34,272,107
Interim income distribution per unit		
- Gross (sen)		7.20
- Net (sen)*		7.20
Final income distribution per unit		
- Gross (sen)		3.51
- Net (sen)*		3.51

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

Resident individual	Withholding tax at 15%
Non-resident individual	Withholding tax at 15%
Resident institutional investors	Withholding tax at 20%
Non-resident institutional investors	Withholding tax at 20%
Non-resident companies	Withholding tax at 27%

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

STATEMENT OF CHANGES IN NET ASSET VALUE

For the financial period from 5 October 2006 (date of establishment) to 31 December 2007

	Unitholders' capital RM	Undistributed income		Total Unitholders' fund RM
		Realised RM	Unrealised RM	
Balance at date of establishment	1,000	–	–	1,000
Operations for the financial period ended 31 December 2007				
- Net income for the financial period	–	36,682,383	43,841,617	80,524,000
Increase in net assets resulting from operations	1,000	36,682,383	43,841,617	80,525,000
Unitholders' transactions				
Creation of units	336,585,000	–	–	336,585,000
Distribution to Unitholders	–	(34,272,107)	–	(34,272,107)
Listing expenses (Note 19)	(8,449,289)	–	–	(8,449,289)
Increase in net assets resulting from Unitholders' transactions	328,135,711	(34,272,107)	–	293,863,604
Balance at 31 December 2007	328,136,711	2,410,276	43,841,617	374,388,604

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

CASH FLOW STATEMENT

for the financial period from 5 October 2006
(date of establishment) to 31 December 2007

5.10.2006
to 31.12.2007
RM

CASH FLOWS FROM OPERATING ACTIVITIES

Net income before taxation	80,524,000
Adjustments for:-	
Fair value adjustment on investment properties	(43,841,617)
Interest expenses	8,324,809
Interest income	(121,858)
Allowance for doubtful debts	79,844
Operating income before working capital changes:-	44,965,178
Payables	(6,346,292)
Receivables	18,176,837
Cash generated from operations	56,795,723
Interest paid	(8,324,809)
Interest received	121,858
Net cash generated from operating activities	48,592,772

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of investment properties	(351,500,000)
Expenditure for enhancement of investment properties incurred	(3,558,383)
Expenditure for refurbishment of investment properties incurred	(2,755,559)
Placement of fixed deposit	(1,278,529)
Net cash used in investing activities	(359,092,471)

**5.10.2006
to 31.12.2007
RM**

CASH FLOWS FROM FINANCING ACTIVITIES

Proceed from issuance of Units	176,085,000
Drawdown of borrowings	184,000,000
Distribution to Unitholders	(23,040,072)
Listing expenses	(8,449,289)
<hr/>	
Net cash generated from financing activities	328,595,639

CASH AND CASH EQUIVALENTS

Net changes	18,095,940
At date of establishment	1,000
<hr/>	
At end of financial period	18,096,940

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:-

**5.10.2006
to 31.12.2007
RM**

Cash and bank balances	18,096,940
------------------------	------------

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

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2007

1. GENERAL INFORMATION

Hektar Real Estate Investment Trust ("Hektar REIT") was constituted on 5 October 2006 pursuant to a trust deed dated 5 October 2006 ("the Deed") between Hektar Asset Management Sdn.Bhd. ("the Manager") and AmTrustee Berhad ("the Trustee").

Hektar REIT was listed on the Main Board of Bursa Malaysia Securities Berhad on 4 December 2006.

The principal activity of Hektar REIT is to acquire and invest in income-producing real-estate in Malaysia which is primarily used for retail purposes with a view to provide Unitholders with stable distribution of income and potential capital growth. There have been no significant changes in the nature of these activities during the financial period.

The principal activities of the Manager consist of managing and administering the Fund for Hektar REIT and other management services. The Manager, incorporated in Malaysia is a wholly-owned subsidiary of Hektar Klasik Sdn. Bhd.

The Manager's registered office is located at Unit 419, Block A, Kelana Business Centre, No. 97, Jalan SS 7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor. The principal place of business of the Manager is located at Block A-2-4, Plaza Damas, No. 60, Jalan Sri Hartamas 1, Sri Hartamas, 50480 Kuala Lumpur.

2. FINANCIAL RISK MANAGEMENT POLICIES

Hektar REIT's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the REIT's business whilst managing its risks. Hektar REIT operates within clearly defined guidelines as set out in the Securities Commission's Guidelines on Real Estate Investment Trusts ("the Guidelines"). These Guidelines seek to provide a regulatory framework that would protect the interests of the investing public. Hektar REIT's risk management policies, which ensure compliance with the spirit of the Guidelines, are set out below. It is not the Trust's policy to engage in speculative transactions.

(a) Interest rate risk

Hektar REIT's exposures to changes in interest rates are primarily due to interest-earning financial assets and interest bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rate.

(b) Credit risk

The Trust controls credit risk by the application of credit approvals, limits and monitoring procedures.

(c) Liquidity and cash flow risks

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Hektar REIT's operations and mitigate the effects of fluctuations in cash flows.

In addition, the Manager also monitors and observes the Guidelines concerning limits on total borrowing.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention (unless otherwise indicated in the other significant accounting policies) and complied with the applicable provisions of the Deed, the provisions of the Securities Commission Act 1993, the Guidelines and the applicable MASB Approved Accounting Standard in Malaysia for Entities Other Than Private Entities.

These financial statements are presented in Ringgit Malaysia (RM), which is the Trust's functional and presentation currency.

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of the Directors on 1 February 2008.

(b) Significant accounting estimates and judgments

Estimates, assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Trust's accounting policies and reported amounts of assets, liabilities, income, expenses and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the financial period in which the estimate is revised and in any future financial periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed in Note 5 to the Financial Statements.

(c) Investment properties

Investment properties consist of land and buildings held for capital appreciation or rental purpose.

Investment properties are stated at fair value, which reflects market condition at the balance sheet date. The fair value is based on market value, which is the price at which the properties could be exchanged between knowledgeable, willing parties in an arm length transaction. Gain or losses arising from changes in the fair values of investment properties are included in the income statement in the financial year in which they arise.

Investment properties are derecognised when either they are disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the income statement in the financial year of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Capital work in progress

Capital work in progress represents refurbishment work undertaken to enhance the value of the properties which will be transferred to investment properties upon the completion of the work.

(e) Income tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the financial period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(f) Receivables

Known bad debts are written off and specific provision is made to debts which are considered doubtful of collection.

(g) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Provision for liabilities

Provisions are recognised when there is a present obligation legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation.

Provision for income distribution is recognised when any distribution declared, determined or publicly recommended by the Directors of the Manager and approved by the Trustee but not distributed at the balance sheet date.

(i) Cash and cash equivalents

Cash comprises of cash and bank balances, short-term demand deposits and bank overdraft. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(j) Borrowing costs

Interest bearing borrowing is recorded at the amount of proceeds received.

(k) Impairment of assets

At each balance sheet date, Hektar REIT reviews the carrying amounts of its assets (except for investment properties that are measured at fair value) which are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount of the asset or a cash-generating unit is less than its carrying amount. Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Impairment of assets (cont'd)

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior financial years.

All reversals of impairment losses are recognised as income immediately in the income statement unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the income statement is treated as revaluation increase. After such a reversal, the depreciation charge is adjusted in future financial periods to allocate the revised carrying amount of the asset, less any residual value, on a systematic basis over its remaining useful life.

(l) Revenue recognition

- (i) Rental income is recognised in the Income Statement on accrual basis.
- (ii) Car park income is recognised in the Income Statement on accrual basis.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will be accrued.

(m) Expenses

- (i) Property expenses consist of property management fees, quit rent and assessment, and other property outgoings in relation to investment properties where such expenses are the responsibility of the Trust. Property management fees are recognised on an accrual basis using the applicable formula as stated in the Property Management Agreement.
- (ii) Manager's fees are recognised on an accrual basis using the applicable formula as stated in the Deed.
- (iii) Trustee's fee is recognised on an accrual basis using the applicable formula as stated in the Deed.
- (iv) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred.

4. UNITHOLDERS' CAPITAL

	No. of units 2007	Unitholders' capital 2007 RM
Authorised:-		
At date of establishment / end of financial period	320,001,000	320,001,000
Issued and fully paid:-		
At date of establishment	1,000	1,000
Issue of new units:-		
- Units issued for acquisition of investment properties	160,500,000	160,500,000
- Initial Public Offering		
(i) retail offering	16,000,000	16,800,000
(ii) institutional offering	143,500,000	159,285,000
Listing expenses	-	(8,449,289)
At end of financial period	320,001,000	328,136,711

As at 31 December 2007, the Manager did not hold any Units in Hektar REIT. However, the Directors of the Manager and their related parties held Units in Hektar REIT as follows:-

	2007 No. of units	% of total units
Manager's Directors' Direct & Indirect Unitholdings in Hektar REIT:-		
1. Dato' Jaafar Bin Abdul Hamid	130,544,700	40.81%
2. Zalila Binti Mohd Toon	350,000	0.11%

Substantial Unitholders' Direct Unitholdings in Hektar REIT:-

1. Hektar Premier Sdn. Bhd.	47,800,000	} ————— 27.44%
- Pledged securities account for Hektar Premier Sdn. Bhd.	40,000,000	
2. HSBC Institutional Trust Services (Singapore) Limited for Frasers Centrepoint Trust (As Trustee)	86,400,000	27.00%
3. Hektar Black Sdn. Bhd.	6,700,000	} ————— 12.72%
- Pledged securities account for Hektar Black Sdn. Bhd.	34,000,000	
4. HSBC - FS For Arisaig Asean Fund Limited	19,855,000	6.20%

The Manager's related parties' Direct Unitholdings in Hektar REIT:-

1. Hektar Premier Sdn. Bhd.	87,800,000	27.44%
2. Hektar Black Sdn. Bhd.	40,700,000	12.72%

5. INVESTMENT PROPERTIES

	2007 RM
At date of establishment	–
Acquisition	512,000,000
Additions	3,558,383
Fair value adjustment	43,841,617
At end of financial period	559,400,000

Details of the above are as follows:-

Description of property	Tenure of land	Location	Existing use	Acquisition cost as at 31 December 2007 RM	Valuation as at 31 December 2007 RM	Percentage of valuation to net asset value %
1. Subang Parade	Freehold	Selangor	Commercial	280,000,000	311,400,000	83%
2. Mahkota Parade	Leasehold	Melaka	Commercial	232,000,000	248,000,000	66%
				<u>512,000,000</u>	<u>559,400,000</u>	

The valuations of Subang Parade and Mahkota Parade were carried out on 30 November 2007 by Messrs. Henry Butcher Malaysia Sdn. Bhd. and Henry Butcher Malaysia (Malacca) Sdn. Bhd. respectively, the independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the comparison and the investment methods of valuation.

The leasehold land for Mahkota Parade is expiring on 2101.

Subang Parade has been pledged as security for borrowings under Note 11 of the Notes to the Financial Statements.

6. FIXED DEPOSIT WITH A LICENSED BANK

The fixed deposit has been pledged to a licensed bank for bank guarantee granted to the Trust.

7. TRADE RECEIVABLES

	2007 RM
Trade receivables	995,406
Less: Allowance for doubtful debts	(79,844)
	915,562

8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the other receivables, deposits and prepayments are receivables of RM2,480,074 due from companies related to the Manager which are trade in nature, interest free and have no fixed terms of repayments and also deposit of RM2,350,000 paid upon for the proposed acquisition of properties.

9. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are amounts owing to the Manager and Trustee of RM255,148 and RM9,970 respectively, which are unsecured, interest free and payable monthly in arrears and also the deposits received from tenants amounting to RM16,082,588.

10. PROVISION FOR INCOME DISTRIBUTION

	2007 RM
At date of establishment	–
Provision during the financial period	34,272,107
Payment made during the financial period	(23,040,072)
At the end of financial period	11,232,035

11. BORROWINGS

	2007 RM
Secured:-	
Murabahah Overdraft ("MOD")	184,000,000

The MOD is secured by way of a fixed charge over Subang Parade subject to interest rate of cost of funds plus 50 basis points in year 2007 and cost of funds plus 75 basis points for the subsequent four years.

12. GROSS REVENUE

	5.10.2006 to 31.12.2007 RM
Rental income	71,254,059
Car park income	6,900,129
Other income	176,787
	<hr/> 78,330,975 <hr/>

13. PROPERTY EXPENSES

	5.10.2006 to 31.12.2007 RM
Assessment and quit rent	2,990,125
Marketing and promotions	3,087,029
Property management fee	1,568,168
Property maintenance	12,095,502
Utilities	8,844,535
Others	466,715
	<hr/> 29,052,074 <hr/>

For the financial period ending 31 December 2007, a property management fee of RM1,568,168 was incurred to Izrin & Tan Sdn. Bhd. in accordance to the Valuers, Appraisers and Estate Agent Act, 1981.

14. MANAGER'S FEES

Pursuant to the Deed, the Manager's fees consist of the followings:-

Manager's annual fee:-

(i) Base fee

Up to 1.0% per annum of the GAV of the Trust, payable monthly in arrears, excluding GST.

For the thirteen (13) month financial period ending 31 December 2007, FYE 2008 and FYE 2009, the base fee shall be 0.25% per annum of the GAV of the Trust, excluding GST.

14. MANAGER'S FEES (cont'd)

(ii) Performance Fee

Up to 5.0% per annum of the NPI, before deducting the Property Management Company ("PMC") fee, payable monthly in arrears, excluding GST.

For the thirteen (13) month financial period ending 31 December 2007, FYE 2008 and FYE 2009, the performance fee shall be 3.5% per annum of the NPI, before deducting the PMC's fee, excluding GST.

15. TRUSTEE'S FEE

Pursuant to the Deed, the Trustee is entitled to receive a fee of up to 0.1% per annum of the NAV of the Trust, including the Manager's fees, payable annually in arrears, excluding GST.

For the financial period ending 31 December 2007, FYE 2008 and FYE 2009 the Trustee's fee shall be 0.035% per annum of the NAV of the Trust, including the Manager's fees but excluding GST.

16. TAXATION

	5.10.2006 to 31.12.2007 RM
Current year's provision	–

A reconciliation of income tax expense on income before taxation for the REIT with the applicable statutory income tax rate is as follows:-

	5.10.2006 to 31.12.2007 RM
Income before taxation	80,524,000
Income tax @ 27%	21,741,480
Tax effects in respect of:-	
Non-allowable expenses	261,330
Income not subject to tax	(11,837,237)
Change in tax rate	3,347
Effect of income distribution exempted from tax	(10,168,920)
Total tax expenses	–

17. EARNINGS PER UNIT

The earnings per unit is calculated by dividing the net income for the financial period of RM80,524,000 to the number of units in circulation during the financial period of 320,001,000.

18. INCOME DISTRIBUTION

Distribution to Unitholders is from the following sources:-

	5.10.2006 to 31.12.2007 RM
Net rental income	49,278,901
Other income	1,500
Interest income	121,858
	<hr/>
Less: Expenses	49,402,259 (12,719,876)
	<hr/>
	36,682,383
	<hr/>
Gross provision for DPU (sen)	10.71
	<hr/>
Net provision for DPU (sen)**	10.71

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

Resident individual	Withholding tax at 15%
Non-resident individual	Withholding tax at 15%
Resident institutional investors	Withholding tax at 20%
Non-resident institutional investors	Withholding tax at 20%
Non-resident companies	Withholding tax at 27%

19. LISTING EXPENSES

	5.10.2006 to 31.12.2007 RM
Brokerage and commissions	3,274,583
Professional fees	2,617,108
Miscellaneous expenses	2,557,598
	<hr/>
	8,449,289

The expenses were deducted directly against the Unitholders' funds. Included in the professional fees were non-audit fees paid and payables to the auditors of Hektar REIT amounting to RM108,000 for acting as independent reporting accountant with respect to the issuance and placement of Units in Hektar REIT.

20. PORTFOLIO TURNOVER RATIO

5.10.2006
to 31.12.2007
RM

Portfolio Turnover Ratio ("PTR")(times)	1.53
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The calculation of PTR is based on the average of total acquisition and total disposal of investment in Hektar REIT to the average NAV for the financial period calculated on a weekly basis.

21. MANAGEMENT EXPENSE RATIO

5.10.2006
to 31.12.2007
RM

Management Expense Ratio ("MER") (%)	1.31
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The calculation of MER is based on the total fees and expenses of Hektar REIT incurred, including Manager's fees, Trustee's fee, auditors' remuneration, tax agent's fees, allowance for doubtful debts and administrative expenses, to the average NAV during the financial period. Since the NAV is calculated on a weekly basis, comparison of the MER of Hektar REIT with other REITs which uses different basis of calculation may not be an accurate comparison.

22. CAPITAL COMMITMENT

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

2007
RM

Authorised but not contracted for:-

Acquisition of investment properties	115,150,000
Refurbishment of investment properties	1,567,481

116,717,481

Authorised and contracted for:-

Refurbishment of investment properties	827,560
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23. TRANSACTION WITH A COMPANY RELATED TO THE MANAGER

5.10.2006
to 31.12.2007
RM

Commission and service charges received

- Hektar Black Sdn. Bhd.

247,771

24. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:-

2007	Within 1 year RM	2 to 5 years RM	Total RM	Effective interest rate during the financial period
<u>Financial asset</u>				
Fixed deposit with a licensed bank	–	1,278,529	1,278,529	2.90%
<u>Financial liability</u>				
Borrowings	–	184,000,000	184,000,000	4.75%

(b) Credit risk

The maximum credit risk associated with recognised financial assets is the carrying amounts shown in the balance sheet.

Hektar REIT has no significant concentration of credit risk with any single counterparty.

As at 31 December 2007, Hektar REIT had no significant credit risk associated with its exposure to potential counterparty failure to settle outstanding.

(c) Fair values

The carrying amounts of financial assets and liabilities of Hektar REIT at the balance sheet date approximated their fair values.

25. COMPARATIVE INFORMATION

There is no comparative figure for Hektar REIT as this is the first set of such financial statements being prepared.

ANALYSIS OF UNITHOLDERS

TOP 30 UNITHOLDERS AS AT 31 JANUARY 2008 (As per Record of Depositors)

No.	Name of Unitholders	No. of units	%
1	AMSEC Nominees (Asing) Sdn Bhd HSBC Institutional Trust Services (Singapore) Limited For Frasers Centrepoint Trust (As Trustee)	86,400,000	27.00
2	Hektar Premier Sdn Bhd	47,800,000	14.94
3	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hektar Premier Sdn. Bhd.	40,000,000	12.50
4	AMMB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hektar Black Sdn. Bhd.	37,500,000	11.72
5	HSBC Nominees (Asing) Sdn Bhd HSBC-FS For Arisaig Asean Fund Limited	19,855,000	6.20
6	HSBC Nominees (Asing) Sdn Bhd For the Hongkong And Shanghai Banking Corporation Limited (HBFS-I CLT ACCT)	13,819,300	4.32
7	Diligent Harmony Sdn Bhd	13,000,000	4.06
8	Citigroup Nominees (Tempatan) Sdn Bhd For ING Insurance Berhad (INV-IL PAR)	7,000,000	2.19
9	Amanah Raya Nominees (Tempatan) Sdn Bhd For Public Enhanced Bond Fund	5,603,400	1.75
10	Citigroup Nominees (Asing) Sdn Bhd For Mellon Bank (ABNAMRO Mellon)	4,919,000	1.54
11	Hektar Black Sdn Bhd	3,200,000	1.00
12	Citigroup Nominees (Asing) Sdn Bhd For Goldman Sachs International	3,000,000	0.94
13	Firstwide Trade Sdn Bhd	3,000,000	0.94
14	Citigroup Nominees (Asing) Sdn Bhd For American International Assurance Company Limited	2,550,000	0.80
15	HSBC Nominees (Asing) Sdn Bhd BBH (LUX) SCA For Fidelity Funds Malaysia	2,372,900	0.74
16	Citigroup Nominees (Tempatan) Sdn Bhd For ING Insurance Berhad (INV-IL NON-PAR)	2,000,000	0.62
17	AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Bhd For Pacific Dividend Fund (5/27-2)	1,935,300	0.60
18	Mayban Nominees (Tempatan) Sdn Bhd For Mayban Life Assurance Berhad (Par Fund)	1,533,500	0.48
19	Mayban Nominees (Tempatan) Sdn Bhd For Mayban Life Assurance Berhad (Non-par Fund)	1,533,000	0.48
20	BHLB Trustee Berhad For TA Small Cap Fund	1,490,700	0.47

No.	Name of Unitholders	No. of units	%
21	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For Prudential Equity Income Fund (4801)	1,368,000	0.43
22	Mayban Nominees (Tempatan) Sdn Bhd For Etiqa Insurance Berhad	1,335,000	0.42
23	Citigroup Nominees (Asing) Sdn Bhd For UBS AG	1,157,800	0.36
24	Universal Trustee (Malaysia) Berhad - Alliance Optimal Income Fund	1,106,000	0.35
25	AMMB Nominees (Tempatan) Sdn Bhd For AmAssurance Berhad (LFNP 7/929-6)	979,300	0.31
26	Amanah Raya Nominees (Tempatan) Sdn Bhd For Public Far-East Property & Resorts Fund	882,000	0.28
27	AMMB Nominees (Tempatan) Sdn Bhd AmAssurance Berhad (LF1/148-1)	856,000	0.27
28	Jazelan Firhan Bin Jaafar	850,000	0.27
29	Latifpah Binti M Atan	850,000	0.27
30	HSBC Nominees (Asing) Sdn Bhd BNY LUX For International Opportunities Fund-Malaysia Equity	791,800	0.25
		308,688,000	96.50

BREAKDOWN OF UNITHOLDERS AS AT 31 JANUARY 2008

	No. of Unitholders	% of Total Unitholders	No. of Units Held	% of Total Units
5,000 and below	221	51.52	440,200	0.14
5,001 to 10,000	91	21.21	792,900	0.25
10,001 to 50,000	55	12.82	1,548,000	0.48
50,001 to 500,000	28	6.53	6,122,900	1.91
500,001 and above	34	7.92	311,097,000	97.22
Total	429	100.00	320,001,000	100.00

GLOSSARY

Bursa Malaysia / Bursa Securities / the Exchange	: Bursa Malaysia Securities Berhad (Company No. 635998-W)
Deed	: The Deed dated 5 October 2006 constituting Hektar REIT executed between the Trustee and the Manager
DPU	: Distribution per Unit
Fair Value Adjustment	: The difference between the valuation of a property, as determined by a registered valuer, and the accounting carrying amounts of the REIT
GAV	: Gross Asset Value
Gross Revenue	: Gross rental income and other income earned from the properties including license fees, car park income, utilities and miscellaneous income
Hektar Klasik	: Hektar Klasik Sdn Bhd (Company No. 557687-X), being the holding company of the Manager
Hektar REIT / the Trust	: Hektar Real Estate Investment Trust
MER	: Management Expense Ratio
Manager	: Hektar Asset Management Sdn Bhd (Company No. 732261-T), being the management company of Hektar REIT
NAV	: Net Asset Value
NPI	: Net Property Income
NTA	: Net Tangible Assets
NLA / Net Lettable Area	: Consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
OMV	: Open Market Value
PTR	: Portfolio Turnover Ratio
Property Manager	: Izrin & Tan Properties Sdn Bhd (Company No. 602338-K)
REIT(s)	: Real Estate Investment Trust(s)
RM and sen	: Ringgit Malaysia and sen, respectively
SC	: Securities Commission
SCA	: Securities Commission Act, 1993
SC Guidelines on REITs	: Guidelines on Real Estate Investment Trusts issued by the SC on 3 January 2005 and any subsequent amendments or updates thereof

Sq. ft.	: Square feet
Sqm	: Square metres
Share Registrar	: Mega Corporate Services Sdn Bhd (Company No. 187984-H)
Trustee	: AmTrustee Berhad (Company No. 163032-V) being the Trustee of Hektar REIT
Unit(s)	: Undivided interest(s) in Hektar REIT as constituted by the Deed
Unitholder(s)	: Holder(s) of the Units

