

# AmFIRST Real Estate Investment Trust

[Established in Malaysia under the Trust Deed dated 28 September 2006 (as amended by the First Supplemented, Revised and Restated Trust Deed dated 15 December 2006, the Second Restated Deed dated 13 September 2013 ("Second Deed") and the Third Restated Deed dated 12 June 2020 ("Third Deed") entered into between AmREIT Managers Sdn. Bhd. and Maybank Trustees Berhad, companies incorporated under the Companies Act, 1965 repealed and replaced with Companies Act, 2016 with effect from 31 January 2017]

**Summary of Key Matters Discussed at the Eighth Annual General Meeting ("8th AGM")  
of AmFIRST REAL ESTATE INVESTMENT TRUST ("AmFIRST REIT")  
conducted via Remote Participation Electronic Voting held at  
Symphony Square Auditorium, 3A Floor, No.5 Jalan Prof. Khoo Kay Kim  
Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan  
on Monday, 10 August 2020 at 10.00 a.m.**

The Chairman, Mr Soo Kim Wai, called the Meeting to order at 10:00 a.m. after confirmation of the requisite quorum being present pursuant to paragraph (f) of Schedule 1 of the Trust Deed.

Y.M. Raja Nazirin Shah bin Raja Mohamad, the Executive Director cum Chief Executive Officer ("CEO") of AmREIT Managers Sdn. Bhd. ("the Manager") was invited to present the financial performance for the financial year ended 31 March 2020 and operations review of AmFIRST REIT as well as its future plans and the rationale for the Resolutions set out under the Special Business of the Agenda of the Meeting.

**Presentation on AmFIRST REIT's financial performance and operation review for the financial year ended 31 March 2020**

AmFIRST REIT's financial performance and operation review for the financial year ended 31 March 2020 were presented by the CEO covering the following topics:-

1. Financial Highlights for the financial year ended 31 March 2020
  - Gross Revenue and Net Property Income declined by 0.5% and 4.2% year-on-year respectively due to the challenging economic climate and property market.
  - Correspondingly, the Realised Net Income dropped by 9.6% year-on-year to RM25.5 million.
  - Asset Under Management increased by 0.3% year-on-year to RM1.65 billion, whilst borrowings remained at RM798.7 million with a gearing of 47.6%.
  - Distribution Per Unit ("DPU") for FY2020 decreased by 16.3% year-on-year to 3.35 sen, representing a distribution ratio of 90%, translated into a Distribution Yield of 8.3% based on closing unit price of 40.5 sen.
2. Operational Highlights for the financial year ended 31 March 2020
  - Net revaluation surplus of RM0.3 million was recorded for the current financial year as compared to the net revaluation loss of RM6.2 million in FY2019. The appraised value of RM1.67 billion was inclusive of the accrued unbilled incremental lease rental income from Mydin Mohamed Holdings Berhad in respect of the 30 years' operating lease agreement.

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- New acquisition of an additional prime lot at the ground floor near the main entrance of The Summit Retail amounted to RM1.4 million to increase the ownership of the strategic lots.
- Reduction in electricity consumption by 16.1% resulting from energy optimisation and go green initiatives since 2016.
- As at 31 March 2020, the overall portfolio occupancy stood at 84.9% with tenants' retention of 93.7% and 35,553 square feet ("sf") of leased area taken up by nine (9) new tenants in FY2020.

### **3. Statement of Comprehensive Income**

- Gross Revenue marginally declined mainly due to lower overall portfolio occupancy from 86.7% as at 31 March 2019 to 84.9% in as at 31 March 2020. The Manager targets to maintain an occupancy rate of above 85% for all assets under the portfolio.
- Net Property Income was lower mainly due to the full year impact on the increase in service charges at The Summit Subang USJ, higher electricity charges incurred in tandem with higher occupancy at some of the properties with higher occupancy and lower revenue.
- Interest expenses decreased by 2.3% from RM38.8 million in FY2019 to RM37.9 million in FY2020 due to the reduction in Overnight Policy Rate ("OPR").
- As a result, the total realised income generated for FY2020 was recorded at RM25.5 million.
- Total DPU of 3.35 sen was declared in FY2020, represented a 90% distribution ratio.

### **4. Statement of Financial Position**

- Investment Properties increased to RM1.647 billion as a result of the ongoing Asset Enhancement Initiatives ("AEIs") and the acquisition of an additional prime lot at The Summit Retail of RM7.8 million and RM1.4 million respectively.
- The ongoing AEIs led to increased borrowings of RM798.7 million.
- Net Asset Value per unit maintained at RM1.21 for FY2020.

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### **5. Capital and Interest Rate Management**

- Total borrowings of 12.5% were hedged via RM100.0 million Interest Rate Swaps ("IRS").
- 87.5% of the borrowings (approximately RM700.0 million) were on a floating rate basis, hence benefiting from the current low interest rate.
- As at July 2020, the average interest rate stood at 3.30% after the recent reduction in OPR by 25 basis points ("bps") in July 2020. The Manager estimates an interest saving of RM1.75 million for every 25 bps reduction in OPR.
- The weighted average maturity of the borrowings profile was 2.3 years. No immediate loan maturities except for a RM250 million syndicated term loan which shall expire in January 2021.

### **6. Asset Under Management**

- The current asset portfolio includes nine (9) properties which consist of seven (7) offices, one (1) mixed development consisting of Office, Hotel and Retail Mall, and a HyperMall leased to Mydin in Bukit Mertajam.
- Net revaluation surplus of RM0.3 million was reported.
- An additional prime lot in Summit Retail was acquired during FY2020.
- Additional capital expenditures of RM7.8 million were incurred mainly on lift modernisation at Bangunan AmBank Group and The Summit Office.

### **7. Average Portfolio Occupancy**

- On average, the overall portfolio occupancy has slightly improved from 84.5% in FY2019 to 86.0% in FY2020.

### **8. Leasing Management**

- Achieved tenant's retention of 93.7% (705,936 sf was renewed).
- Achieved a positive rental reversion of 0.7%.

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- Secured nine (9) new tenants with a total leased area of 35,553 sf.
- 27.6% or approximately 0.7 million sf of the leased area are subject for renewal in FY2021.

### 9. Diversified Asset Portfolio and Tenants' Base

- Based on asset value, the asset portfolio comprised of 63% Office, 17% HyperMall, 14% Retail Mall and 6% Hotel.
- Top ten (10) tenants accounted for 66.8% or RM77.5 million of the annual gross revenue. AmBank Group is the largest tenant contributed 33.6% of the total rental income.

### 10. Market Overview

- Gross Domestic Product expanded 4.3% in 2019 and is forecasted between -2.0% to 0.5% in 2020.
- Unemployment rate is expected to rise to a range between 3.5% to 5.5% due to the Covid-19 pandemic in 2020.
- Negative inflation is expected due to lower global oil prices, weaker domestic growth prospects and higher unemployment rate.
- The prolonging of Covid-19 pandemic is expected to exert further pressure on the oversupplied office market, leading to lower leasing activities as businesses cope with the financial fallout.

### 11. Market Outlook for Kuala Lumpur Office

- Overall occupancy in KL City declined to 73.6% in FY2019, whilst occupancy in KL Fringe improved to 85.1% in FY2019. Nonetheless, pressure on overall occupancy rates continued throughout the first half of FY2020.
- Average rental in KL City remained under pressure from growing challenges attributed to Covid-19 pandemic and the imbalance of office supply and demand.
- Cumulative supply of KL City and KL Fringe stood at 55.7 million sf and 29.4 million sf respectively. Approximately 8.7 million sf of new supply (about 16.0% of the current supply in FY2019) is expected by FY2020 and FY2021.

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- The outlook on office market remains cloudy with expected declines in rental occupancy levels, as weaker office demand leads to a widening of the gap between supply and demand.

### **12. Market Outlook for Selangor Retail**

- Overall occupancy for Selangor retail declined to 82.1% in FY2019 and further declined to 78.4% in the first half of FY2020.
- Average achievable rental rates remained steady in Selangor in the first half of FY2020.
- Cumulative supply increased to 39.0 million sf in FY2019 with additional spaces of 1.6 million sf slated for completion by the end of FY2020.
- Shopping malls have embarked on AEs and rejuvenation plans in light of heightened competition and increased challenges in the retail market.
- Although the retail landscape is expected to face hardships due to the fallout of the Covid-19 pandemic, retail sales trend is anticipated to gradually improve after the Recovery Movement Control Order.

### **13. Navigating through Covid-19 Pandemic**

- Supporting Affected Tenants
  - The Government has announced various stimulus packages to cushion the impact of Covid-19 pandemic to individuals and businesses in particular the SMEs, whereas Bank Negara Malaysia has reduced the OPR by 125 bps from January 2020 to July 2020 to support the economy.
  - AmFIRST REIT has rolled out rental rebates on a case-by-case basis and rental payment deferrals to support tenants' business continuity, particularly for retail and hotel tenants in The Summit Subang USJ.
- Precautionary Health and Safety Measures
  - Standard operating procedures have been established to mitigate the spreading of the virus. Stringent screening measures are currently enforced on both occupants and visitors, including:-

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- Self-declaration form;
- Temperature screening;
- Enhanced sanitization for heavy touch surfaces;
- Thermal scanning;
- Hand sanitisers at receptions; and
- Social-distancing at common areas

#### 14. Business Impacts by Covid-19 Pandemic

- Operational Challenges and Risk Management
  - Impact on valuation of investment properties, which consequently affects the gearing level.
  - Occupancy and rental rates will be under pressure as tenants' business continues to be impacted by Covid-19 pandemic.
  - Leases due for renewal in FY2021 accounted approximately 27.6% of the total leased area.
  - Tenants are holding their back expansion plans, leading to a slowdown in leasing activities.
  - Various precautionary measures and standard operating procedures have been implemented on buildings for health and safety purposes to mitigate the risk associated with the outbreak of virus.
- Financial and Liquidity
  - Revenue is impacted by rental rebate and tenants' default. Notwithstanding, the Management has implemented stringent cost control and practicing discretionary capital expenditure to conserve cash.
  - 90% of realised income was distributed, with 10% of the income retained.
  - With the recent OPR reduction, the Manager estimates an interest saving of RM8.6 mil year-on-year as 87.5% of total borrowings are in floating rate.
  - Tenaga Nasional Berhad offered electricity discounts of 15% and 2% for retail and office buildings respectively.

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- RM250 million of the borrowings are due for renewal in FY2021.

## 15. Moving Forward: Improve Distribution and Long Term Value Creation

- The Manager will remain focus on three (3) key strategies to improve the distribution and create long term value to the Unitholders:-
  - Asset Optimisation:
    - Bolster leasing efforts to improve occupancy of the properties, targeting overall occupancy rate above 90%.
    - Leasing undertaking to ride on current trends relating to working from home, social distancing, digital set-up processes and essential services.
    - Further explore avenues to cushion the impact of Covid-19 pandemic through energy and cost optimisation initiatives.
  - Portfolio Rationalisation:
    - Divestment of non-core and non-strategic assets.
    - Long term value creation through accretive deals.
    - Target key growth market segments with strong fundamentals.
  - Prudent Capital Management:
    - Attain target gearing level of 35% to 40% through optimisation of capital structure.
    - Actively manage interest rates and establish effective hedging strategies.
    - Maintain competitive interest rate and diverse funding sources.

Upon completion of CEO's presentation, the Unitholders raised some questions which were responded to by the Chairman and/or the CEO. The detailed questions and responses were set out in Appendix 1 enclosed herein.

We are pleased to announce that the two (2) resolutions as set out in the Notice were duly passed by the Unitholders by way of poll. The results of the poll were duly verified by Boardroom Corporate Services Sdn. Bhd., the Independent Scrutineer appointed by AmREIT Managers Sdn. Bhd., the Manager of AmFIRST REIT.

There being no other business, the 8th AGM concluded at 11.04 a.m. with a vote of thanks to the Chairman and the Board of Directors of the Manager.