

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 31 March 2014

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IGB Real Estate Investment Trust

Condensed Statement of Comprehensive Income

(The figures have not been audited)

	Quarter		Period-To-Date	
	31.03.2014 RM'000	31.03.2013 RM'000	31.03.2014 RM'000	31.03.2013 RM'000
Gross rental income	88,352	78,433	88,352	78,433
Other income	25,787	22,952	25,787	22,952
Gross revenue	114,139	101,385	114,139	101,385
Utilities expenses	(13,818)	(11,236)	(13,818)	(11,236)
Maintenance expenses	(4,973)	(4,660)	(4,973)	(4,660)
Quit rent and assessment	(6,518)	(2,815)	(6,518)	(2,815)
Reimbursement costs	(9,641)	(13,438)	(9,641)	(13,438)
Other operating expenses	(1,706)	(112)	(1,706)	(112)
Property operating expenses	(36,656)	(32,261)	(36,656)	(32,261)
Net property income	77,483	69,124	77,483	69,124
Interest income	1,589	1,105	1,589	1,105
Changes in fair value on investment properties	-	-	-	-
Net investment income	79,072	70,229	79,072	70,229
Manager fee	(7,564)	(7,040)	(7,564)	(7,040)
Trustees' fee	(69)	(69)	(69)	(69)
Other trust expenses	(207)	(152)	(207)	(152)
Borrowings costs	(13,487)	(13,657)	(13,487)	(13,657)
Profit before taxation	57,745	49,311	57,745	49,311
Taxation	-	-	-	-
Profit after taxation	57,745	49,311	57,745	49,311
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	57,745	49,311	57,745	49,311
Distribution adjustments ^{*1}	8,913	8,502	8,913	8,502
Distributable income	66,658	57,813	66,658	57,813
Profit for the period comprise the following:				
- Realised	57,745	49,311	57,745	49,311
- Unrealised	-	-	-	-
	57,745	49,311	57,745	49,311
Basic earnings per unit (sen)				
- before Manager fee	1.91	1.65	1.91	1.65
- after Manager fee	1.69	1.45	1.69	1.45

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Condensed Statement of Comprehensive Income (continued)

(The figures have not been audited)

Note:

*1 *The composition of distribution adjustments is as follows:*

	Quarter		Period-To-Date	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Changes in fair value on investment properties	-	-	-	-
Manager fee payable in units	7,564	7,040	7,564	7,040
Amortisation of fit-out incentives	496	513	496	513
Amortisation of capitalised borrowing costs	339	509	339	509
Depreciation of plant & machinery	514	440	514	440
Distribution Adjustments	8,913	8,502	8,913	8,502

The unaudited condensed statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013 (“AFS FY2013”) and the accompanying notes attached to this Interim Financial Report.

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Condensed Statement of Financial Position

(The figures have not been audited)

	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000
Non-current assets		
Investment properties	4,805,000	4,805,000
Plant and equipment	11,480	11,202
	4,816,480	4,816,202
Current assets		
Receivables	25,879	26,139
Cash and bank balances	134,208	217,148
	160,087	243,287
TOTAL ASSETS VALUE ("TAV")	4,976,567	5,059,489
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,279,783	4,272,546
Accumulated losses	(688,206)	(759,041)
Current period profit (after income distribution)	57,745	70,835
Total unitholders' fund	3,649,322	3,584,340
Non-current liabilities		
Borrowings	1,195,248	1,194,909
Payables and accruals	48,060	48,469
	1,243,308	1,243,378
Current liabilities		
Borrowings	14,312	27,606
Payables and accruals	69,625	204,165
	83,937	231,771
Total liabilities	1,327,245	1,475,149
TOTAL UNITHOLDERS' FUND AND LIABILITIES	4,976,567	5,059,489
Number of units in circulation ('000 units)	3,428,753	3,422,620
NET ASSET VALUE ("NAV") (RM)		
- Before income distribution	3,649,322	3,825,450
- After income distribution	3,649,322	3,584,340
NAV per unit (RM)		
- Before income distribution	1.0643	1.1177
- After income distribution	1.0643	1.0473

The unaudited condensed statement of financial position should be read in conjunction with the AFS FY2013 and the accompanying notes attached to this Interim Financial Report.

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Condensed Statement of Changes in Net Asset Value

(The figures have not been audited)

	Unitholders' Capital RM'000	Accumulated Losses RM'000	Total Unitholders' Fund RM'000
As at 1 January 2014	4,272,546	(688,206)	3,584,340
Total comprehensive income for the year	-	57,745	57,745
Net total comprehensive income for the year	-	57,745	57,745
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	7,237*	-	7,237
Increase in net assets resulting from unitholders' transactions	7,237	-	7,237
As at 31 March 2014	4,279,783	(630,461)	3,649,322
As at 1 January 2013	4,243,085	(759,041)	3,484,044
Total comprehensive income for the period	-	49,311	49,311
Net total comprehensive income for the period	-	49,311	49,311
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	7,852	-	7,852
Increase in net assets resulting from unitholders' transactions	7,852	-	7,852
As at 31 March 2013	4,250,937	(709,730)	3,541,207

Note:

Issue of new units involves:

	Units '000	Amount RM'000
<i>Manager fee paid in units:</i>		
- for the financial quarter ended 31 December 2013	6,133	7,237
	6,133	7,237*

The unaudited condensed statement of changes in net asset value should be read in conjunction with the AFS FY2013 and the accompanying notes attached to this Interim Financial Report.

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Condensed Statement of Cash Flows

(The figures have not been audited)

	Period-To-Date 31.03.2014 RM'000	Period-To-Date 31.03.2013 RM'000
Operating activities		
Profit before tax	57,745	49,311
Adjustment for:		
Non-cash items	8,574	7,993
Non-operating items	11,898	12,552
Operating profit before changes in working capital	78,217	69,856
Net change in current assets	(451)	18,061
Net change in current liabilities	(11,498)	(16,866)
Net cash generated from operating activities	66,268	71,051
Investing activities		
Purchase of plant and equipment	(792)	(423)
Interest received	1,804	1,105
Net cash generated from investing activities	1,012	682
Financing activities		
Interest paid	(26,442)	(26,442)
Distribution paid to unitholders	(123,778)	(62,326)
Cash held under trustee	(213)	(348)
Net cash used in financing activities	(150,433)	(89,116)
Net decrease in cash and cash equivalents	(83,153)	(17,383)
Cash and cash equivalents at beginning of year	189,712	111,311
Cash and cash equivalents at end of year	106,559	93,928
Note:		
Cash and bank balances	134,208	120,717
Less: Restricted cash	(27,649)	(26,789)
Cash and cash equivalents	106,559	93,928

The unaudited condensed statement of cash flows should be read in conjunction with the AFS FY2013 and the accompanying notes attached to this Interim Financial Report.

Part A – Disclosure Requirements Pursuant to Malaysian Financial Reporting Standards (MFRS) 134

A1 Basis of preparation

This Interim Financial Report is unaudited and has been prepared in accordance with MFRS 134 “Interim Financial Reporting” issued by Malaysian Accounting Standards Board, paragraph 9.44 of the MMLR and the Securities Commission’s Guidelines on Real Estate Investment Trusts. This Interim Financial Report should be read in conjunction with the AFS FY2013 and the accompanying notes attached to this Interim Financial Report. The accounting policies and methods of computation adopted in this Interim Financial Report are consistent with those disclosed in the AFS FY2013.

The new accounting standards, amendments and improvements to published standards and interpretations that are applicable and are effective from 1 January 2014 are as follows:

MFRS 132 Financial instruments: Presentation

Save as disclosed in this Interim Financial Report, the adoption of the revised MFRSs and Amendments to MFRS that are applicable to IGB REIT which took effect since 1 January 2014 has no material effect to IGB REIT’s financial statements of the current financial period.

A2 Auditors’ report of preceding financial statements

The auditors’ report for FY2013 was not subject to any audit qualification.

A3 Seasonal or cyclical factors

IGB REIT’s operations were not significantly affected by seasonal or cyclical factors.

A4 Significant unusual items

There were no significant unusual items that affect the assets, liabilities, equity, net property income or cash flow during the period-to-date under review.

A5 Material changes in estimates

Not applicable.

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A6 Debt and equity securities

Issue of new units:

	Units '000	Amount RM'000
Manager fee paid:		
- for the financial quarter ended 31 December 2013	6,133	7,237
	<u>6,133</u>	<u>7,237</u>

Save for the issuance of new units of IGB REIT as payment for Manager fee, there were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current period-to-date.

A7 Income distribution

Pursuant to the distribution policy in clause 17.1 of the deed of trust between IGB REIT Management Sdn Bhd (“Manager”) and AmTrustee Berhad (“Trustee”) dated 18 July 2012 (“Deed”), the Manager intends to distribute at least 90% of IGB REIT’s distributable income on a half-yearly basis for each consecutive 6-month period on and ending 30 June and 31 December of each financial year (or such other intervals as the Manager may determine at its absolute discretion).

As disclosed in the Prospectus dated 27 August 2012, the Manager intends to distribute up to 100% of IGB REIT’s distributable income for the period from the date of establishment of IGB REIT i.e. 25 July 2012 to 31 December 2014 on a half-yearly basis.

No distribution was declared for the current financial period ended 31 March 2014.

A8 Segmental reporting

The segmental financial information by operating segments is not presented as IGB REIT is the owner of Mid Valley Megamall and The Gardens Mall both located in Kuala Lumpur, Malaysia, which is considered as one operating segment.

A9 Valuation of investment properties

A revaluation on Mid Valley Megamall and The Gardens Mall had been conducted by Henry Butcher Malaysia Sdn Bhd. Based on the valuation letters dated 1 April 2014, the market value of Mid Valley Megamall and The Gardens Mall as at 31 March 2014 remained at RM3.560 billion and RM1.245 billion respectively.

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A10 Material events subsequent to the end of the interim period

There were no material events subsequent to the current period-to-date under review up to the date of this Interim Financial Report.

A11 Changes in the composition of IGB REIT

IGB REIT's fund size increased from 3,422.620 million units to 3,428.753 million units arising from the issuance of new units as disclosed in Note A6.

A12 Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets as at 31 March 2014.

A13 Capital commitment

There were no major capital commitments as at 31 March 2014.

Part B – Additional Disclosures Pursuant to Paragraph 9.44 of the MMLR

B1 Review of performance

For the current quarter, IGB REIT's gross revenue was RM114.1 million, up 12.5% against the corresponding quarter in 2013 of RM101.4 million. Net property income was RM77.5 million or up 12.2% compared with the corresponding quarter in 2013 of RM69.1 million. This was mainly due to higher total rental income in the current quarter.

The distributable income for the current quarter amounted to RM66.7 million or 1.93 sen per unit, consisting of realised profit of RM57.7 million and the non-cash adjustment arising from Manager fee in units of RM7.6 million.

B2 Material changes in quarterly results

For the current quarter, IGB REIT's gross revenue was RM114.1 million or 0.2% lower compared with the immediate preceding quarter of RM114.3 million, mainly due to lower percentage rental income in current quarter.

Net property income was RM77.5 million, approximately 7.0% higher when compared with net property income of RM72.4 million in the preceding quarter, mainly due to lower property costs in the current quarter.

B3 Prospects

Malaysia's retail industry recorded a sluggish sales growth of 3.1% in the third quarter of 2013 compared with 4.8% in 2012, according to a report by Retail Group Malaysia ("RGM").

The drop was the lowest sales growth since the fourth quarter of 2009 when it went up by 3%. The Ramadan month and Hari Raya during the third quarter did not lift the overall retail sales and only retailers selling festive goods enjoyed better sales, based on the latest Malaysia Retail Industry Report.

Bank Negara had implemented new policies on bank borrowing to control household debt in July 2013. Personal loans are available only for up to 10 years instead of 25 years, which should have affected sales of big-ticket items including furniture and electrical & electronics goods. During this period, many retailers continued to offer steep discounts and very attractive offers to attract shoppers. Once again, their bottom line was severely affected.

B3 Prospects (continued)

The 3.1% growth in the third quarter of 2013 was 70% lower than the earlier 10.5% estimate by the Malaysia Retailers Association (“MRA”) retailers compiled in September 2013, as well as 52% lower than the estimated 6.5% given by RGM in the same period. Moving forward, the MRA retailers expected a 4.2% increase in their business during the fourth quarter of 2013.

RGM was maintaining its 6% growth rate for the Malaysia retail industry in 2014 despite the “tsunami of price hike” in recent months. A review on the growth rate will only be carried out after all the market changes have taken place. Cost of living of the average Malaysian has been rising since the last quarter of 2013 and the increment will be even more apparent in the first six months of 2014. As 2014 is Visit Malaysia Year, retailers are expected to continue to offer steep discounts to attract more sales especially for those retailers located in major city centres and popular tourist attractions.

(Source: The Star, Starbiz, 16.01.2014)

Retail sales are expected to rise by only 4.8% for the first quarter of this year despite the Chinese New Year celebrations, according to the Malaysia Retail Industry Report. This compares with a 7.5% growth for the same period in 2013. The report from Retail Group Malaysia showed first quarter growth was better over the previous year’s Christmas quarter which saw a 3.9% increase in sales. For the whole of 2013, Malaysian retail industry expanded by 4.5% to RM91.7 billion in total turnover.

Going forward, the second quarter of this year is expected to see sales expand by 5% with cautious consumer spending as more products and services saw a rise in prices. The Hari Raya celebration, which comes early this year (in July), is expected to contribute to 6.3% growth in retail sales during the third quarter. However, the likely increase in overnight policy rate by the second half of the year may affect retail sales of big-ticket items. The entire 2014 is expected to see overall growth of 6%.

(Source: The Star, 12.03.2014)

The Manager expects 2014 to be a challenging year with the above observations and the increasing number of incoming retail centres in 2014 onwards. The Manager continues to strive and is cautiously optimistic that its financial performance for the year ending 31 December 2014 will be satisfactory.

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B4 Investment objectives and strategies

The Manager's key objective for IGB REIT is to provide the unitholders with regular and stable distributions and achieve long term growth in net asset value per unit, while maintaining an appropriate capital structure. The Manager intends to increase the income and the value of the investment properties through active asset management, asset enhancement initiatives, acquisition growth as well as capital and risk management strategies.

B5 Portfolio composition

During the financial period under review, the portfolio of IGB REIT consists of two (2) investment properties, Mid Valley Megamall and The Gardens Mall.

B6 Utilisation of proceeds raised from issuance of new units

A total of 6.134 million new units were issued by IGB REIT as payment for Manager fee in the current period-to-date.

B7 Taxation

(i) Taxation of IGB REIT

IGB REIT is regarded as Malaysian resident for Malaysian income tax purpose since the Trustee of IGB REIT is resident in Malaysia.

The income of IGB REIT, will be taxable at the normal corporate tax rate, currently at 25%.

The tax transparency system under Section 61A of the Malaysian Income Tax Act 1967 ('Act') however, exempts IGB REIT from such taxes in a year of assessment ("YA") if IGB REIT distributes at least 90% of its total taxable income in the same YA.

If less than 90% of its total taxable income is distributed in a YA, then the tax transparency system under Section 61A of the Act would not apply and total taxable income of IGB REIT would continue to be taxed, currently at the prevailing rate of 25%. Income which has been taxed at IGB REIT level will have tax credits attached when subsequently distributed to unitholders.

As the Manager intends to declare 100% of the distributable income of IGB REIT to unitholders for the financial year ending 31 December 2014, no provision for taxation has been made for the current financial period ended 31 March 2014.

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B7 Taxation (continued)

(i) Taxation of IGB REIT (continued)

Generally, gains on disposal of investments by IGB REIT are regarded as capital gains and hence, will not be subject to income tax. However, where the investments represent real properties and shares in real property companies, such gains will be subject to real property gains tax (“RPGT”).

With effect from 1 January 2014, any gains on disposal of real properties or shares in real property companies would be subject to RPGT at the following rates:

Disposal time frame	Rates
Disposal within 3 years of acquisition	30%
Disposal in the 4th year of acquisition	20%
Disposal in the 5th year of acquisition	15%
Disposal after 5 years of acquisition	5%

(ii) Taxation of Unitholders

The tax treatment is dependent on whether IGB REIT has distributed 90% or more of its total taxable income.

(a) REIT distributes 90% or more of taxable income

Where 90% or more of the REIT’s total taxable income is distributed by IGB REIT, distributions to unitholders will be subject to tax based on a withholding tax mechanism at the following rates:

Unitholders	Withholding tax rate
Individuals & All Other Non-Corporate Investors such as institutional investors (resident and non-resident)	10%
Non-resident corporate investors	25%
Resident corporate investors	0%

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B7 Taxation (continued)

(ii) Taxation of Unitholders (continued)

(b) REIT distributes less than 90% of taxable income

Where less than 90% of the total taxable income is distributed by IGB REIT, then IGB REIT is not entitled to Section 61A of the Act exemption. IGB REIT would have paid taxes on the taxable income for the year. The distributions made by IGB REIT of such taxed income will have tax credits attached. The tax treatment for unitholders would be as follows:

- Resident individuals will be subject to tax at their own marginal rates on the distributions and be entitled to tax credits representing tax already paid by IGB REIT.
- Resident corporate investors are required to report the distributions from REITs in their normal corporate tax return and bring such income to tax at the normal corporate tax rate, currently 25%. Where tax has been levied at IGB REIT level, the resident corporate investors are entitled to tax credits.
- No further taxes or withholding tax would be applicable to foreign unitholders. Foreign unitholders may be subject to tax in their respective jurisdictions depending on the provisions of their country's tax legislation and the entitlement to any tax credits would be dependent on their home country's tax legislation.

Distributions representing specific exempt income or gains on disposal of investments at IGB REIT level will not be subject to further income tax when distributed to all unitholders.

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B8 Status of corporate proposal

There were no corporate proposals announced but not completed as at the date of this Interim Financial Report.

For Mid Valley Megamall, the amalgamation of Lot 80 and Lot 25 has been submitted to Pejabat Pengarah Tanah dan Galian, Wilayah Persekutuan Kuala Lumpur (“PTG”) via Pusat Setempat, Dewan Bandaraya Kuala Lumpur on 23 April 2013. The strata title application would be finalised pending the approval and completion of the amalgamation.

For The Gardens Mall, the strata title application submitted on 29 January 2013 to PTG for processing and we are awaiting for PTG to issue the strata title.

Mid Valley City Sdn Bhd obtained an extension of consent from state authority for the transfer of Mid Valley Megamall in favour of AmTrustee Berhad as trustee for IGB REIT to be completed within a period of 12 months from 31 March 2014. Mid Valley City Developments Sdn Bhd and Mid Valley City Gardens Sdn Bhd obtained an extension of consent from state authority for the transfer of The Gardens Mall in favour of AmTrustee Berhad as trustee for IGB REIT for a period of 12 months from 31 March 2014.

B9 Borrowings and debt securities

IGB REIT’s borrowings and debts securities as at 31 March 2014 were as follows:

	As at 31.03.2014 RM’000	As at 31.12.2013 RM’000
Non-current borrowings		
- secured term loans	1,195,248	1,194,909
Current borrowings		
- secured revolving credit	14,312	27,606
	<u>1,209,560</u>	<u>1,222,515</u>

All borrowings are denominated in Ringgit Malaysia.

B10 Material litigation

The Board of Directors of the Manager is not aware of any pending material litigation as at the date of this Interim Financial Report.

B11 Soft commission received

There was no soft commission received by the Manager and/or its delegates during the current period-to-date.

IGB Real Estate Investment Trust

B12 Summary of NAV, EPU, DPU and market price

	Unit of measurement	Current quarter ended 31.03.2014 RM' 000	Immediate preceding quarter ended 31.12.2013 RM' 000
Number of units in issue	units	3,428,753	3,422,620
NAV	RM'000	3,649,322	3,584,340
NAV per unit	RM	1.0643	1.0473
Total comprehensive income	RM'000	57,745	158,082
Weighted average number of units in issue	units	3,425,959	3,411,505
Earnings per unit ("EPU") after Manager fee	sen	1.69	4.63
Distribution per unit ("DPU")	sen	1.93	1.78
Closing market price per unit	RM	1.14	1.19

B13 Manager fee

Based on the Deed, the Manager is entitled to receive the following fees from IGB REIT:

- (i) Base fee of up to 1.0% per annum on the total assets value;
- (ii) Performance fee of 5.0% per annum of net property income;
- (iii) Acquisition fee of 1.0% of the transaction value of any real estate and real estate related assets directly or indirectly acquired from time to time by the Trustee; and
- (iv) Divestment fee of 0.5% of the transaction value of any real estate and real estate related assets directly or indirectly sold or divested from time to time by the Trustee.

Total Manager fee for the current period-to-date was RM7,564,000, as detailed below:

Type	Quarter 31.03.2014 RM'000	Quarter 31.03.2013 RM'000	Period-to-date 31.03.2014 RM'000	Period-to-date 31.03.2013 RM'000
Base fee	3,697	3,584	3,697	3,584
Performance fee	3,867	3,456	3,867	3,456
Total	7,564	7,040	7,564	7,040

For the current period-to-date, 100% of the total Manager fee would be payable in units.

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B14 Trustee fee

Based on the Deed, an annual trustee fee of up to 0.03% per annum of the net asset value of IGB REIT is to be paid to the Trustee.

B15 Unitholdings of the Manager and parties related to the Manager

Based on the Register of Unitholders of IGB REIT as at 31 March 2014, the unitholdings of the Manager and parties related to the Manager were as follows:

Major unitholders of IGB REIT	Direct		Indirect	
	No. of units	%	No. of units	%
IGB Corporation Berhad	1,733,617,754	50.56	28,753,071	0.84
Goldis Berhad	41,234,424	1.20	1,763,080,955	51.42
Dato' Seri Robert Tan Chung Meng	7,289,081	0.21	1,816,027,481	52.96
Pauline Tan Suat Ming	1,080,898	0.03	1,816,027,481	52.96
Tony Tan @ Choon Keat	1,000,000	0.03	1,816,027,481	52.96
Tan Chin Nam Sdn Bhd	4,282,888	0.12	1,813,249,014	52.88
Tan Kim Yeow Sdn Bhd	2,879,665	0.08	1,813,147,816	52.88
Wah Seong (Malaya) Trading Co. Sdn Bhd	6,079,992	0.18	1,806,742,479	52.69

B16 Responsibility statement

In the opinion of the Directors of the Manager, this Interim Financial Report has been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.44 of the MMLR so as to give a true and fair view of the financial position of IGB REIT as at 31 March 2014 and of its financial performance and cash flows for the financial period ended on that date and duly authorised for release by the Board of Directors of the Manager on 30 April 2014.