

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 30 June 2015

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IGB Real Estate Investment Trust

Condensed Statement of Comprehensive Income

(The figures have not been audited)

	Quarter		Period-To-Date	
	30.06.2015 RM'000	30.06.2014 RM'000	30.06.2015 RM'000	30.06.2014 RM'000
Gross rental income	93,694	89,649	192,326	178,001
Other income	27,668	25,828	54,476	51,615
Gross revenue	121,362	115,477	246,802	229,616
Utilities expenses	(12,967)	(14,188)	(25,633)	(28,006)
Maintenance expenses	(5,025)	(4,447)	(9,957)	(9,420)
Quit rent and assessment	(3,280)	(3,273)	(6,547)	(6,547)
Reimbursement costs	(12,104)	(12,715)	(25,035)	(25,600)
Other operating expenses	(1,641)	(2,201)	(3,240)	(3,907)
Property operating expenses	(35,017)	(36,824)	(70,412)	(73,480)
Net property income	86,345	78,653	176,390	156,136
Interest income	1,598	1,397	3,419	2,986
Changes in fair value on investment properties	-	-	-	-
Net investment income	87,943	80,050	179,809	159,122
Manager fee	(8,171)	(7,688)	(16,429)	(15,252)
Trustees' fee	(77)	(70)	(146)	(139)
Other trust expenses	(207)	(158)	(313)	(365)
Borrowings costs	(13,656)	(13,633)	(27,181)	(27,120)
Profit before taxation	65,832	58,501	135,740	116,246
Taxation	-	-	-	-
Profit after taxation	65,832	58,501	135,740	116,246
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	65,832	58,501	135,740	116,246
Distribution adjustments ^{*1}	9,622	9,039	19,309	17,952
Distributable income	75,454	67,540	155,049	134,198
Profit for the period/year comprise the following:				
- Realised	65,832	58,501	135,740	116,246
- Unrealised	-	-	-	-
	65,832	58,501	135,740	116,246
Basic earnings per unit (sen)				
- before Manager fee	2.14	1.93	4.41	3.83
- after Manager fee	1.91	1.71	3.93	3.39

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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	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Changes in fair value on investment properties	-	-	-	-
Manager fee payable in units	8,171	7,688	16,429	15,252
Amortisation of fit-out incentives	496	496	992	992
Amortisation of capitalised borrowing costs	339	340	678	679
Depreciation of plant & machinery	616	515	1,210	1,029
Distribution Adjustments	9,622	9,039	19,309	17,952

The unaudited condensed statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014 (“AFS FY2014”) 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 30.06.2015 RM'000	As at 31.12.2014 RM'000
Non-current assets		
Investment properties	4,890,000	4,890,000
Plant and equipment	13,025	11,872
	4,903,025	4,901,872
Current assets		
Receivables	55,139	23,010
Cash and bank balances	242,850	231,898
	297,989	254,908
TOTAL ASSETS VALUE ("TAV")	5,201,014	5,156,780
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,318,778	4,302,842
Accumulated losses	(639,384)	(688,206)
Current year profit	135,740	317,617
Income distribution	(155,049)	(268,795)
Total unitholders' fund	3,660,085	3,663,458
Non-current liabilities		
Borrowings	1,196,945	1,196,267
Payables and accruals	50,072	54,590
	1,247,017	1,250,857
Current liabilities		
Borrowings	27,632	27,319
Payables and accruals	266,280	215,146
	293,912	242,465
Total liabilities	1,540,929	1,493,322
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,201,014	5,156,780
Number of units in circulation ('000 units)	3,459,351	3,447,328
NET ASSET VALUE ("NAV") (RM)		
- Before income distribution	3,815,134	3,932,253
- After income distribution	3,660,085	3,663,458
NAV per unit (RM)		
- Before income distribution	1.1028	1.1407
- After income distribution	1.0580	1.0627

The unaudited condensed statement of financial position should be read in conjunction with the AFS FY2014 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 2015	4,302,842	(639,384)	3,663,458
Total comprehensive income for the year	-	135,740	135,740
Income distribution		(155,049)	(155,049)
Net total comprehensive income for the year	-	(19,309)	(19,309)
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	15,936*	-	15,936
Increase in net assets resulting from unitholders' transactions	15,936	-	15,936
As at 30 June 2015	4,318,778	(658,693)	3,660,085
As at 1 January 2014	4,272,546	(688,206)	3,584,340
Total comprehensive income for the year	-	116,246	116,246
Income distribution	-	(134,198)	(134,198)
Net total comprehensive income for the year	-	(17,952)	(17,952)
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	14,801	-	14,801
Increase in net assets resulting from unitholders' transactions	14,801	-	14,801
As at 30 June 2014	4,287,347	(706,158)	3,581,189

Note:

Issue of new units involves:

	Units '000	Amount RM'000
Manager fee paid in units:		
- for the financial quarter ended 31 December 2014	5,905	7,677
- for the financial quarter ended 31 March 2015	6,118	8,259
	<u>12,023</u>	<u>15,936*</u>

The unaudited condensed statement of changes in net asset value should be read in conjunction with the AFS FY2014 and the accompanying notes attached to this Interim Financial Report.

IGB Real Estate Investment Trust

Condensed Statement of Cash Flows

(The figures have not been audited)

	Period-To-Date 30.06.2015 RM'000	Period-To-Date 30.06.2014 RM'000
Operating activities		
Profit before tax	135,740	116,246
Adjustment for:		
Non-cash items	18,636	17,273
Non-operating items	23,762	24,134
Operating profit before changes in working capital	178,138	157,653
Net change in current assets	6,098	8,333
Net change in current liabilities	(12,911)	(7,072)
Net cash generated from operating activities	171,325	158,914
Investing activities		
Purchase of plant and equipment	(2,368)	(794)
Interest received	2,861	2,991
Net cash generated from investing activities	493	2,197
Financing activities		
Interest paid	(26,190)	(26,442)
Distribution paid to unitholders	(134,676)	(123,778)
Cash held under trustee	-	(426)
Net cash used in financing activities	(160,866)	(150,646)
Net increase in cash and cash equivalents	10,952	10,465
Cash and cash equivalents at beginning of year	203,801	189,712
Cash and cash equivalents at end of year	214,753	200,177
<i>Note:</i>		
<i>Cash and bank balances</i>	<i>242,850</i>	<i>228,040</i>
<i>Less: Restricted cash</i>	<i>(28,097)</i>	<i>(27,863)</i>
<i>Cash and cash equivalents</i>	<i>214,753</i>	<i>200,177</i>

The unaudited condensed statement of cash flows should be read in conjunction with the AFS FY2014 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 (“REIT Guidelines”). This Interim Financial Report should be read in conjunction with the AFS FY2014 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 FY2014.

A2 Auditors’ report of preceding financial statements

The auditors’ report for FY2014 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.

A6 Debt and equity securities

Issue of new units:

	Units ‘000	Amount RM’000
Manager fee paid:		
- for the financial quarter ended 31 December 2014	5,905	7,677
- for the financial quarter ended 31 March 2015	6,118	8,259
	12,023	15,936

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.

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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). The Manager intends to distribute 100% of distributable income on a half-yearly basis for 6-month period ended 30 June 2015 and ending 31 December 2015.

For the financial period ended 30 June 2015, the Manager declared an income distribution of 100% of distributable income amounting to RM155.0 million or 4.47 sen per unit (@ 4.40 sen taxable and 0.07 sen non-taxable), to be payable on 28 August 2015 to every unitholder who is entitled to receive such distribution as at 4.00 p.m. on 11 August 2015.

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 and based on the valuation letters dated 6 July 2015, the market value of Mid Valley Megamall and The Gardens Mall as at 30 June 2015 remained at RM3.61 billion and RM1.28 billion respectively from previous quarter.

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 3,447.328 million units to 3,459.351 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 30 June 2015.

A13 Capital commitment

There were no major capital commitments as at 30 June 2015.

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

B1 Review of performance

Current quarter results

For the current quarter, IGB REIT's gross revenue was RM121.4 million, up 5.1% against the corresponding quarter in 2014 of RM115.5 million. This was mainly due to higher total rental income in the current quarter.

Net property income was RM86.3 million, up 9.7% compared with the corresponding quarter in 2014 of RM78.7 million. This was mainly due to higher total rental income and lower property costs in the current quarter.

The distributable income for the current quarter amounted to RM75.5 million or 2.18 sen per unit, consisting of realised profit of RM65.8 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM8.2 million.

Current period-to-date results

For the current period-to-date, IGB REIT's gross revenue was RM246.8 million, up 7.5% against the corresponding period-to-date in 2014 of RM229.6 million. This was mainly due to higher total rental income in the current period-to-date.

Net property income was RM176.4 million, up 13.0% compared with the corresponding period-to-date in 2014 of RM156.1 million. This was mainly due to higher total rental income and lower property costs in the current period-to-date.

The distributable income for the current period-to-date amounted to RM155.0 million or 4.47 sen per unit, consisting of realised profit of RM135.7 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM16.4 million.

B2 Material changes in quarterly results

For the current quarter, IGB REIT's gross revenue was RM121.4 million, 3.2% lower compared with the immediate preceding quarter of RM125.4 million, mainly due to lower percentage rental income in current quarter.

Net property income was RM86.3 million, 4.1% lower when compared with net property income of RM90.0 million in the preceding quarter, mainly due to lower percentage rental income in the current quarter.

B3 Prospects

Report:

Retailers have been hard hit by the implementation of the Goods and Services Tax (“GST”), especially discretionary businesses and those catering for the mass-market segment. Retail Group Malaysia (“RGM”) said that in April, sales for all retail subsectors (grocery, fashion and fashion accessories, electrical, food and beverage, and overseas travel) have dropped by as much as 50%. The cost of living has risen since April 1 and has reduced the spending power of consumers. They were holding back on purchases and observing the price movements of goods and services. In January, RGM revised downwards its 2015 retail sales growth forecast to 5.5% from 6%. Last year, the annual growth was 3.4%.

For retailers in the mass-market segment, the impact of the GST has been more profound. They were absorbing the higher costs which affect the profit margins, and raising prices which lower sales. The Malaysian Institute of Economic Research’s Consumer Sentiment Index has plummeted to a six-year low of 72.6 points, a level not seen since the global economic slowdown in 2008/09. RGM pointed out that conflicting directives (such as service charges, cell phone top-up cards and eleventh-hour announcement of products to be tax exempted) from the government are some of the main causes for the drop in retail sales as consumers decide to delay purchases.

According to RGM, traffic in shopping malls has dropped in April 2015. Nevertheless, the malls are still crowded during weekends and peak hours. Retailers who buy the bulk of their imported goods from third parties could be worse off due to the weaker ringgit.

According to CIMB Research, while highly discretionary items, such as high-end watches, handbags and jewellery have generally experienced weak sales pre and post-GST, business is improving gradually. Sales of luxury international brands and F&B businesses were generally not too affected. Grocers saw strong sales before the implementation of GST, but sales softened post-GST as consumers had already stocked up on their necessities. CIMB Research also pointed out that sales were picking up more quickly than expected, as retail businesses started to improve in the third week following GST implementation. Nonetheless, business may be slower due to fewer shopping activities in the next few months.

(Source: The Edge, 18 May 2015)

Outlook:

The retail sector faces a challenging business environment. Given the current satisfactory performance of IGB REIT’s existing business portfolio, the operational results of IGB REIT for the financial year 2015 are expected to 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 NAV 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 12.023 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 2015, no provision for taxation has been made for the current financial period ended 30 June 2015.

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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 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 exemption under Section 61A of the Act will not apply and IGB REIT would have to pay 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.

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 was submitted to Pejabat Pengarah Tanah dan Galian, Wilayah Persekutuan Kuala Lumpur ("PTG") via Pusat Setempat, Dewan Bandaraya Kuala Lumpur on 23 April 2013. Federal Territories of Kuala Lumpur Land Working Committee has approved the application for surrender and re-alienation. Pending for new title to be issued.

For The Gardens Mall, the strata title application was 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 by 26 September 2015. 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 to be completed by 26 September 2015.

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B9 Borrowings and debt securities

IGB REIT's borrowings and debts securities as at 30 June 2015 were as follows:

	As at 30.06.2015 RM'000	As at 31.12.2014 RM'000
Non-current borrowings		
- secured term loans	1,196,945	1,196,267
Current borrowings		
- secured revolving credit	27,632	27,319
	<u>1,224,577</u>	<u>1,223,586</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.

B12 Summary of NAV, EPU, DPU and market price

	Unit of measurement	Current quarter ended 30.06.2015	Immediate preceding quarter ended 31.03.2015
Number of units in issue	'000 units	3,459,351	3,453,233
NAV (after income distribution)	RM'000	3,660,085	3,741,043
NAV per unit (after income distribution)	RM	1.0580	1.0833
Total comprehensive income	RM'000	65,832	69,908
Weighted average number of units in issue	'000 units	3,453,918	3,450,871
Earnings per unit ("EPU") after Manager fee	sen	1.91	2.03
Distributable income per unit ("DPU")	sen	2.18	2.29
Closing market price per unit	RM	1.33	1.33

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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 RM16,429,000, as follows:

Type	Quarter 30.06.2015 RM'000	Quarter 30.06.2014 RM'000	Period-to- date 30.06.2015 RM'000	Period-to- date 30.06.2014 RM'000
Base fee	3,854	3,755	7,622	7,452
Performance fee	4,317	3,933	8,807	7,800
Total	<u>8,171</u>	<u>7,688</u>	<u>16,429</u>	<u>15,252</u>

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

B14 Trustee fee

Based on the Deed, an annual trustee fee of up to 0.03% per annum of the NAV of IGB REIT would be paid to the Trustee.

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B15 Unitholdings of the Manager and parties related to the Manager

Based on the Register of Unitholders of IGB REIT as at 30 June 2015, the unitholdings of the Manager and parties related to the Manager were as follows:

Unitholders of IGB REIT	Direct		Indirect	
	No. of units	%	No. of units	%
IGB REIT Management Sdn Bhd	59,350,693	1.72	-	-
IGB Corporation Berhad	1,733,617,754	50.11	59,350,693	1.72
Goldis Berhad	-	-	1,792,968,447	51.83
Dato' Seri Robert Tan Chung Meng	7,289,081	0.21	1,824,680,549	52.75
Pauline Tan Suat Ming	1,080,898	0.03	1,824,680,549	52.75
Tony Tan @ Choon Keat	1,000,000	0.03	1,824,680,549	52.75
Tan Chin Nam Sdn Bhd	14,282,888	0.41	1,821,902,082	52.67
Tan Kim Yeow Sdn Bhd	2,879,665	0.08	1,821,800,884	52.66
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.75	1,795,395,547	51.90

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 and the REIT Guidelines so as to give a true and fair view of the financial position of IGB REIT as at 30 June 2015 and of its financial performance and cash flows for the financial year ended on that date and duly authorised for release by the Board of Directors of the Manager on 28 July 2015.