

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 30 September 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	
	30.09.2015 RM'000	30.09.2014 RM'000	30.09.2015 RM'000	30.09.2014 RM'000
Gross rental income	94,358	84,893	286,684	262,894
Other income	26,597	27,660	81,073	79,275
Gross revenue	120,955	112,553	367,757	342,169
Utilities expenses	(12,429)	(13,673)	(38,062)	(41,679)
Maintenance expenses	(4,562)	(4,618)	(14,519)	(14,038)
Quit rent and assessment	(3,274)	(3,288)	(9,821)	(9,646)
Reimbursement costs	(13,498)	(8,667)	(38,533)	(34,456)
Other operating expenses	(2,024)	(2,183)	(5,264)	(6,090)
Property operating expenses	(35,787)	(32,429)	(106,199)	(105,909)
Net property income	85,168	80,124	261,558	236,260
Interest income	1,990	1,768	5,409	4,754
Changes in fair value on investment properties	-	85,000	-	85,000
Net investment income	87,158	166,892	266,967	326,014
Manager fee	(8,124)	(7,806)	(24,553)	(23,058)
Trustees' fee	(80)	(70)	(226)	(209)
Other trust expenses	(27)	(94)	(340)	(459)
Borrowings costs	(13,802)	(13,790)	(40,983)	(40,910)
Profit before taxation	65,125	145,132	200,865	261,378
Taxation	-	-	-	-
Profit after taxation	65,125	145,132	200,865	261,378
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	65,125	145,132	200,865	261,378
Distribution adjustments ^{*1}	9,588	(75,837)	28,897	(57,885)
Distributable income	74,713	69,295	229,762	203,493
Profit for the period comprise the following:				
- Realised	65,125	60,132	200,865	176,378
- Unrealised	-	85,000	-	85,000
	65,125	145,132	200,865	261,378
Basic earnings per unit (sen)				
- before Manager fee	2.12	4.46	6.52	8.29
- after Manager fee	1.88	4.23	5.81	7.61

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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	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
Changes in fair value on investment properties	-	(85,000)	-	(85,000)
Manager fee payable in units	8,124	7,806	24,553	23,058
Amortisation of fit-out incentives	496	495	1,488	1,487
Amortisation of capitalised borrowing costs	340	339	1,018	1,018
Depreciation of plant & machinery	628	523	1,838	1,552
Distribution Adjustments	9,588	(75,837)	28,897	(57,885)

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 30.09.2015 RM'000	As at 31.12.2014 RM'000
Non-current assets		
Investment properties	4,890,000	4,890,000
Plant and equipment	12,605	11,872
	4,902,605	4,901,872
Current assets		
Receivables	16,373	23,010
Cash and bank balances	147,782	231,898
	164,155	254,908
TOTAL ASSETS VALUE ("TAV")	5,066,760	5,156,780
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,326,948	4,302,842
Accumulated losses	(639,384)	(688,206)
Current year profit	200,865	317,617
Income distribution	(154,912)	(268,795)
Total unitholders' fund	3,733,517	3,663,458
Non-current liabilities		
Borrowings	1,197,285	1,196,267
Payables and accruals	51,519	54,590
	1,248,804	1,250,857
Current liabilities		
Borrowings	14,022	27,319
Payables and accruals	70,417	215,146
	84,439	242,465
Total liabilities	1,333,243	1,493,322
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,066,760	5,156,780
Number of units in circulation ('000 units)	3,465,587	3,447,328
NET ASSET VALUE ("NAV") (RM)		
- Before income distribution	3,888,429	3,932,253
- After income distribution	3,733,517	3,663,458
NAV per unit (RM)		
- Before income distribution	1.1220	1.1407
- After income distribution	1.0773	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	-	200,865	200,865
Income distribution		(154,912)	(154,912)
Net total comprehensive income for the year	-	45,953	45,953
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	24,106*	-	24,106
Increase in net assets resulting from unitholders' transactions	24,106	-	24,106
As at 30 September 2015	4,326,948	(593,431)	3,733,517
As at 1 January 2014	4,272,546	(688,206)	3,584,340
Total comprehensive income for the year	-	261,378	261,378
Income distribution	-	(133,869)	(133,869)
Net total comprehensive income for the year	-	127,509	127,509
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	22,489	-	22,489
Increase in net assets resulting from unitholders' transactions	22,489	-	22,489
As at 30 September 2014	4,295,035	(560,697)	3,734,338

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
- for the financial quarter ended 30 June 2015	6,236	8,170
	<u>18,259</u>	<u>24,106*</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.

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Condensed Statement of Cash Flows

(The figures have not been audited)

	Period-To-Date 30.09.2015 RM'000	Period-To-Date 30.09.2014 RM'000
Operating activities		
Profit before tax	200,865	261,378
Adjustment for:		
Non-cash items	27,886	(58,903)
Non-operating items	35,574	36,156
Operating profit before changes in working capital	264,325	238,631
Net change in current assets	5,720	9,689
Net change in current liabilities	(13,571)	(12,271)
Net cash generated from operating activities	256,474	236,049
Investing activities		
Purchase of plant and equipment	(2,578)	(2,002)
Interest received	4,838	4,832
Net cash generated from investing activities	2,260	2,830
Financing activities		
Interest paid	(53,262)	(53,624)
Distribution paid to unitholders	(289,588)	(257,647)
Cash held under trustee	-	(584)
Net cash used in financing activities	(342,850)	(311,855)
Net decrease in cash and cash equivalents	(84,116)	(72,976)
Cash and cash equivalents at beginning of year	203,801	189,712
Cash and cash equivalents at end of year	119,685	116,736
<i>Note:</i>		
<i>Cash and bank balances</i>	147,782	144,756
<i>Less: Restricted cash</i>	(28,097)	(28,020)
<i>Cash and cash equivalents</i>	119,685	116,736

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, 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
- for the financial quarter ended 30 June 2015	6,236	8,170
	18,259	24,106

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 paid a distributable income amounting to RM154.9 million or 4.47 sen per unit (@ 4.40 sen taxable and 0.07 sen non-taxable) on 28 August 2015.

No distribution was declared for the current financial period ended 30 September 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 1 October 2015, the market value of Mid Valley Megamall and The Gardens Mall as at 30 September 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.

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A11 Changes in the composition of IGB REIT

IGB REIT's fund size increased from 3,447.328 million units as at 31 December 2014 to 3,465.587 million units as at 30 September 2015 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 September 2015.

A13 Capital commitment

There were no major capital commitments as at 30 September 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 RM121.0 million, up 7.5% against the corresponding quarter in 2014 of RM112.6 million. This was mainly due to higher total rental income in the current quarter.

Net property income was RM85.2 million, up 6.4% compared with the corresponding quarter in 2014 of RM80.1 million. This was mainly due to higher total rental income in the current quarter.

The distributable income for the current quarter amounted to RM74.7 million or 2.14 sen per unit, consisting of realised profit of RM65.1 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM8.1 million.

Current period-to-date results

For the current period-to-date, IGB REIT's gross revenue was RM367.8 million, up 7.5% against the corresponding period-to-date in 2014 of RM342.2 million. This was mainly due to higher total rental income in the current period-to-date.

Net property income was RM261.6 million, up 10.7% compared with the corresponding period-to-date in 2014 of RM236.3 million. This was mainly due to higher total rental income in the current period-to-date.

The distributable income for the current period-to-date amounted to RM229.8 million or 6.61 sen per unit, consisting of realised profit of RM200.9 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM24.6 million.

B2 Material changes in quarterly results

For the current quarter, IGB REIT's gross revenue was RM121.0 million, 0.3% lower compared with the immediate preceding quarter of RM121.4 million, mainly due to lower percentage rental income in current quarter.

Net property income was RM85.2 million, 1.3% lower when compared with net property income of RM86.3 million in the preceding quarter, mainly due to lower percentage rental income and higher operating expenses in the current quarter.

B3 Prospects

Report:

Malaysia Retailers Association (“MRA”) have lowered the projected retail sales growth rate in 2015 for the third time from 4.9% to 4.0% as consumers hold back their spending due to higher costs of living, a weak Ringgit and higher cost of doing business.

In its Malaysia Retail Industry Report (“MRIR”), MRA said consumers had been holding back on spending since end of 2014 ahead of the Goods & Services Tax (“GST”), which was imposed on 1 April 2015.

(Source: The Star, 2 July 2015)

Outlook:

The retail sector is facing 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.

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

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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 September 2015.

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%

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B7 Taxation (continued)

(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%

(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.

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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 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 the state authority for the transfer of Mid Valley Megamall in favour of AmTrustee Berhad as trustee for IGB REIT to be completed by 18 October 2016. Mid Valley City Developments Sdn Bhd and Mid Valley City Gardens Sdn Bhd obtained an extension of consent from the state authority for the transfer of The Gardens Mall in favour of AmTrustee Berhad as trustee for IGB REIT to be completed by 18 October 2016.

B9 Borrowings and debt securities

IGB REIT’s borrowings and debts securities as at 30 September 2015 were as follows:

	As at 30.09.2015 RM’000	As at 31.12.2014 RM’000
Non-current borrowings		
- secured term loans	1,197,285	1,196,267
Current borrowings		
- secured revolving credit	14,022	27,319
	<u>1,211,307</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.

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B12 Summary of NAV, EPU, DPU and market price

	Unit of measurement	Current quarter ended 30.09.2015	Immediate preceding quarter ended 30.06.2015
Number of units in issue	'000 units	3,465,587	3,459,351
NAV (after income distribution)	RM'000	3,733,517	3,660,085
NAV per unit (after income distribution)	RM	1.0773	1.0580
Total comprehensive income	RM'000	65,125	65,832
Weighted average number of units in issue	'000 units	3,457,028	3,453,918
Earnings per unit ("EPU") after Manager fee	sen	1.88	1.91
Distributable income per unit ("DPU")	sen	2.14	2.18
Closing market price per unit	RM	1.32	1.33

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 TAV;
- (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 RM24,553,000, as follows:

Type	Quarter 30.09.2015 RM'000	Quarter 30.09.2014 RM'000	Period-to- date 30.09.2015 RM'000	Period-to- date 30.09.2014 RM'000
Base fee	3,865	3,800	11,487	11,252
Performance fee	4,259	4,006	13,066	11,806
Total	<u>8,124</u>	<u>7,806</u>	<u>24,553</u>	<u>23,058</u>

For the current period-to-date, 100% of the total Manager fee had been paid and 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 NAV of IGB REIT would 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 30 September 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	65,587,458	1.89	-	-
IGB Corporation Berhad	1,733,617,754	50.03	65,587,458	1.89
Goldis Berhad	-	-	1,799,205,212	51.92
Dato' Seri Robert Tan Chung Meng	9,289,081	0.27	1,830,917,314	52.83
Pauline Tan Suat Ming	1,080,898	0.03	1,830,917,314	52.83
Tony Tan (@) Choon Keat	1,000,000	0.03	1,830,917,314	52.83
Tan Chin Nam Sdn Bhd	14,482,888	0.42	1,828,138,847	52.75
Tan Kim Yeow Sdn Bhd	2,879,665	0.08	1,828,037,649	52.75
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.75	1,801,632,312	51.99

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, 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 September 2015 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 27 October 2015.