

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 31 December 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	
	31.12.2015 RM'000	31.12.2014 RM'000	31.12.2015 RM'000	31.12.2014 RM'000
Gross rental income	93,955	91,743	380,639	354,637
Other income	27,478	27,856	108,551	107,131
Gross revenue	121,433	119,599	489,190	461,768
Utilities expenses	(12,326)	(13,314)	(50,388)	(54,993)
Maintenance expenses	(5,227)	(4,987)	(19,746)	(19,025)
Quit rent and assessment	(3,273)	(3,288)	(13,094)	(13,096)
Reimbursement costs	(10,721)	(10,627)	(49,254)	(44,921)
Other operating expenses	(8,656)	(11,002)	(13,920)	(17,092)
Property operating expenses	(40,203)	(43,218)	(146,402)	(149,127)
Net property income	81,230	76,381	342,788	312,641
Interest income	1,848	1,626	7,257	6,380
Changes in fair value on investment properties	-	-	-	85,000
Net investment income	83,078	78,007	350,045	404,021
Manager fee	(7,877)	(7,678)	(32,430)	(30,736)
Trustees' fee	(81)	(71)	(307)	(280)
Other trust expenses	(178)	(235)	(518)	(694)
Borrowings costs	(21,809)	(13,784)	(62,792)	(54,694)
Profit before taxation	53,133	56,239	253,998	317,617
Taxation	-	-	-	-
Profit after taxation	53,133	56,239	253,998	317,617
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	53,133	56,239	253,998	317,617
Distribution adjustments ^{*1}	8,085	9,063	36,982	(48,822)
Distributable income	61,218	65,302	290,980	268,795
Profit for the period comprise the following:				
- Realised	53,133	56,239	253,998	232,617
- Unrealised	-	-	-	85,000
	53,133	56,239	253,998	317,617
Basic earnings per unit (sen)				
- before Manager fee	1.76	1.86	8.28	10.14
- after Manager fee	1.54	1.64	7.34	9.24

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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	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Changes in fair value on investment properties	-	-	-	(85,000)
Manager fee payable in units	7,877	7,678	32,430	30,736
Amortisation of fit-out incentives	495	496	1,983	1,983
Amortisation of capitalised borrowing costs	(922)	340	96	1,358
Depreciation of plant & machinery	635	549	2,473	2,101
Distribution Adjustments	8,085	9,063	36,982	(48,822)

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 31.12.2015 RM'000	As at 31.12.2014 RM'000
Non-current assets		
Investment properties	4,890,000	4,890,000
Plant and equipment	11,740	11,872
	4,901,740	4,901,872
Current assets		
Receivables	21,619	23,010
Cash and bank balances	246,648	231,898
	268,267	254,908
TOTAL ASSETS VALUE ("TAV")	5,170,007	5,156,780
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,335,072	4,302,842
Accumulated losses	(639,384)	(688,206)
Current year profit	253,998	317,617
Income distribution	(284,177)	(268,795)
Total unitholders' fund	3,665,509	3,663,458
Non-current liabilities		
Borrowings	1,196,363	1,196,267
Payables and accruals	62,806	54,590
	1,259,169	1,250,857
Current liabilities		
Borrowings	36,752	27,319
Payables and accruals	208,577	215,146
	245,329	242,465
Total liabilities	1,504,498	1,493,322
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,170,007	5,156,780
Number of units in circulation ('000 units)	3,471,789	3,447,328
NET ASSET VALUE ("NAV") (RM)		
- Before income distribution	3,949,686	3,932,253
- After income distribution	3,665,509	3,663,458
NAV per unit (RM)		
- Before income distribution	1.1377	1.1407
- After income distribution	1.0558	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	-	253,998	253,998
Income distribution		(284,177)	(284,177)
Net total comprehensive income for the year	-	(30,179)	(30,179)
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	32,230*	-	32,230
Increase in net assets resulting from unitholders' transactions	32,230	-	32,230
As at 31 December 2015	<u>4,335,072</u>	<u>(669,563)</u>	<u>3,665,509</u>
As at 1 January 2014	4,272,546	(688,206)	3,584,340
Total comprehensive income for the year	-	317,617	317,617
Income distribution	-	(268,795)	(268,795)
Net total comprehensive income for the year	-	48,822	48,822
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	30,296	-	30,296
Increase in net assets resulting from unitholders' transactions	30,296	-	30,296
As at 31 December 2014	<u>4,302,842</u>	<u>(639,384)</u>	<u>3,663,458</u>

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
- for the financial quarter ended 30 September 2015	6,202	8,124
	<u>24,461</u>	<u>32,230*</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 31.12.2015 RM'000	Period-To-Date 31.12.2014 RM'000
Operating activities		
Profit before tax	253,998	317,617
Adjustment for:		
Non-cash items	36,985	(49,576)
Non-operating items	55,535	48,314
Operating profit before changes in working capital	346,518	316,355
Net change in current assets	(379)	152
Net change in current liabilities	6,862	6,073
Net cash generated from operating activities	353,001	322,580
Investing activities		
Purchase of plant and equipment	(2,667)	(2,811)
Proceeds from disposal of plant and equipment	142	1
Interest received	7,125	6,250
Net cash generated from investing activities	4,600	3,440
Financing activities		
Interest paid	(53,263)	(53,623)
Distribution paid to unitholders	(289,588)	(257,647)
Cash held under trustee	(1,095)	(661)
Net cash used in financing activities	(343,946)	(311,931)
Net increase in cash and cash equivalents	13,655	14,089
Cash and cash equivalents at beginning of year	203,801	189,712
Cash and cash equivalents at end of year	217,456	203,801
<i>Note:</i>		
<i>Cash and bank balances</i>	246,648	231,898
<i>Less: Restricted cash</i>	(29,192)	(28,097)
<i>Cash and cash equivalents</i>	217,456	203,801

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
- for the financial quarter ended 30 September 2015	6,202	8,124
	24,461	32,230

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 95% of distributable income for the 6-month period ended 31 December 2015.

For the first half 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.

For the second half ended 31 December 2015, the Manager declared an income distribution amounting to RM129.3 million or 3.72 sen per unit (@ 3.60 sen taxable and 0.12 sen non-taxable), payable on 29 February 2016 to every unitholder who is entitled to receive such distribution at 4.00 p.m. on 12 February 2016.

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 7 January 2016, the market value of Mid Valley Megamall and The Gardens Mall as at 31 December 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 3,471.789 million units as at 31 December 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 31 December 2015.

A13 Capital commitment

There were no major capital commitments as at 31 December 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 1.5% against the corresponding quarter in 2014 of RM119.6 million. This was mainly due to higher total rental income in the current quarter.

Net property income was RM81.2 million, up 6.3% compared with the corresponding quarter in 2014 of RM76.4 million. This was mainly due to higher total rental income and lower property upgrade costs in the current quarter.

The distributable income for the current quarter amounted to RM61.2 million or 1.76 sen per unit, consisting of realised profit of RM53.1 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM7.9 million.

Current period-to-date results

For the current period-to-date, IGB REIT's gross revenue was RM489.2 million, up 5.9% against the corresponding period-to-date in 2014 of RM461.8 million. This was mainly due to higher total rental income in the current period-to-date.

Net property income was RM342.8 million, up 9.7% compared with the corresponding period-to-date in 2014 of RM312.6 million. This was mainly due to higher total rental income lower property upgrade costs in the current period-to-date.

The distributable income for the current period-to-date amounted to RM291.0 million or 8.37 sen per unit, consisting of realised profit of RM254.0 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM32.4 million.

B2 Material changes in quarterly results

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

Net property income was RM81.2 million, 4.7% lower when compared with net property income of RM85.2 million in the preceding quarter, mainly due to higher property upgrade costs and interest costs accrued in the current quarter.

B3 Prospects

A weak outlook on oil price, rising interest rates in United States, capital outflow and pressure on ringgit in addition to inflation impact on consumer purchasing power and high household debt create a challenging outlook for the retail sector. Retailers' performance could be hit by lower discretionary spending, weakened consumer sentiment and stiff competition. Despite the satisfactory financial performance for the financial year ended 31 December 2015, IGB REIT is cautious about the challenging business volatility and economic headwinds may impact the financial performance for 2016.

Notwithstanding the above, IGB REIT would still focus on asset enhancement initiatives and proactive asset management in order to remain resilient and sustain the distribution yield.

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 24.461 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 more than 90% of the distributable income of IGB REIT to unitholders for the year ended 31 December 2015, no provision for taxation has been made for the current financial year ended 31 December 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. With effect from 1 January 2016, the rates are as follows:

Unitholders	Withholding tax rate
Individuals & All Other Non-Corporate Investors such as institutional investors (resident and non-resident)	10%
Non-resident corporate investors	24%
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. 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 31 December 2015 were as follows:

	As at 31.12.2015 RM’000	As at 31.12.2014 RM’000
Non-current borrowings		
- secured term loans	1,196,363	1,196,267
Current borrowings		
- secured revolving credit	36,752	27,319
	<u>1,233,115</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 31.12.2015	Immediate preceding quarter ended 30.09.2015
Number of units in issue	'000 units	3,471,789	3,465,587
NAV (after income distribution)	RM'000	3,665,509	3,733,517
NAV per unit (after income distribution)	RM	1.0558	1.0773
Total comprehensive income	RM'000	53,133	65,125
Weighted average number of units in issue	'000 units	3,460,154	3,457,028
Earnings per unit ("EPU") after Manager fee	sen	1.54	1.88
Distributable income per unit ("DPU")	sen	1.76	2.14
Closing market price per unit	RM	1.34	1.32

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 RM32,430,000, as follows:

Type	Quarter 31.12.2015 RM'000	Quarter 31.12.2014 RM'000	Period-to-date 31.12.2015 RM'000	Period-to-date 31.12.2014 RM'000
Base fee	3,816	3,859	15,303	15,111
Performance fee	4,061	3,819	17,127	15,625
Total	7,877	7,678	32,430	30,736

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 31 December 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	71,789,003	2.07	-	-
IGB Corporation Berhad	1,733,617,754	49.93	71,789,003	2.07
Goldis Berhad	-	-	1,805,406,757	52.00
Dato' Seri Robert Tan Chung Meng	9,289,081	0.27	1,837,118,859	52.92
Pauline Tan Suat Ming	1,080,898	0.03	1,837,118,859	52.92
Tony Tan (@) Choon Keat	1,000,000	0.03	1,837,118,859	52.92
Tan Chin Nam Sdn Bhd	14,482,888	0.42	1,834,340,392	52.84
Tan Kim Yeow Sdn Bhd	2,879,665	0.08	1,834,239,194	52.83
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.75	1,807,833,857	52.07

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 31 December 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 26 January 2016.