

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 31 March 2017

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IGB Real Estate Investment Trust

Condensed Statement of Comprehensive Income

(The figures have not been audited)

	Quarter		Period-To-Date	
	31.03.2017 RM'000	31.03.2016 RM'000	31.03.2017 RM'000	31.03.2016 RM'000
Gross rental income	106,489	103,327	106,489	103,327
Other income	27,166	27,883	27,166	27,883
Gross revenue	133,655	131,210	133,655	131,210
Utilities expenses	(11,992)	(12,266)	(11,992)	(12,266)
Maintenance expenses	(5,528)	(5,135)	(5,528)	(5,135)
Quit rent and assessment	(3,753)	(3,273)	(3,753)	(3,273)
Reimbursement costs	(14,619)	(14,388)	(14,619)	(14,388)
Other operating expenses	(1,708)	(2,526)	(1,708)	(2,526)
Property operating expenses	(37,600)	(37,588)	(37,600)	(37,588)
Net property income	96,055	93,622	96,055	93,622
Interest income	2,001	2,245	2,001	2,245
Net investment income	98,056	95,867	98,056	95,867
Manager fee	(8,590)	(8,495)	(8,590)	(8,495)
Trustees' fee	(79)	(80)	(79)	(80)
Other trust expenses	(84)	(109)	(84)	(109)
Borrowings costs	(13,909)	(14,368)	(13,909)	(14,368)
Profit before taxation	75,394	72,815	75,394	72,815
Taxation	-	-	-	-
Profit after taxation	75,394	72,815	75,394	72,815
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	75,394	72,815	75,394	72,815
Distribution adjustments ^{*1}	9,483	9,842	9,483	9,842
Distributable income	84,877	82,657	84,877	82,657
Profit for the period comprise the following:				
- Realised	75,394	72,815	75,394	72,815
- Unrealised	-	-	-	-
	75,394	72,815	75,394	72,815
Basic earnings per unit (sen)				
- before Manager fee	2.40	2.34	2.40	2.34
- after Manager fee	2.16	2.10	2.16	2.10

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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	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Manager fee payable in units	8,590	8,495	8,590	8,495
Amortisation of fit-out incentives	42	496	42	496
Amortisation of capitalised borrowing costs	242	242	242	242
Depreciation of plant & machinery	609	609	609	609
Distribution Adjustments	9,483	9,842	9,483	9,842

The unaudited condensed statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 (“AFS FY2016”) 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 31.03.2017 RM'000	As at 31.12.2016 RM'000
Non-current assets		
Investment properties	4,890,000	4,890,000
Plant and equipment	11,013	10,456
	4,901,013	4,900,456
Current assets		
Receivables	24,012	19,406
Cash and bank balances	187,253	274,395
	211,265	293,801
TOTAL ASSET VALUE	5,112,278	5,194,257
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,376,362	4,367,920
Accumulated losses	(695,937)	(669,563)
Current year profit	75,394	277,836
Income distribution	-	(304,210)
Total unitholders' fund	3,755,819	3,671,983
Non-current liabilities		
Borrowings	1,209,735	1,209,176
Payables and accruals	70,058	64,455
	1,279,793	1,273,631
Current liabilities		
Borrowings	14,919	28,053
Payables and accruals	61,747	220,590
	76,666	248,643
Total liabilities	1,356,459	1,522,274
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,112,278	5,194,257
Number of units in circulation ('000 units)	3,498,354	3,493,474
NET ASSET VALUE ("NAV") (RM)		
- Before income distribution	3,755,819	3,976,193
- After income distribution	3,755,819	3,671,983
NAV per unit (RM)		
- Before income distribution	1.0736	1.1382
- After income distribution	1.0736	1.0511

The unaudited condensed statement of financial position should be read in conjunction with the AFS FY2016 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 2017	4,367,920	(695,937)	3,671,983
Total comprehensive income for the year	-	75,394	75,394
Net total comprehensive income for the year	-	75,394	75,394
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	8,442*	-	8,442
Increase in net assets resulting from unitholders' transactions	8,442	-	8,442
As at 31 March 2017	<u>4,376,362</u>	<u>(620,543)</u>	<u>3,755,819</u>
As at 1 January 2016	4,335,072	(669,563)	3,665,509
Total comprehensive income for the year	-	72,815	72,815
Net total comprehensive income for the year	-	72,815	72,815
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	7,878	-	7,878
Increase in net assets resulting from unitholders' transactions	7,878	-	7,878
As at 31 March 2016	<u>4,342,950</u>	<u>(596,748)</u>	<u>3,746,202</u>

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 2016	4,880	8,442
	<u>4,880</u>	<u>8,442*</u>

The unaudited condensed statement of changes in net asset value should be read in conjunction with the AFS FY2016 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 31.03.2017 RM'000	Period-To-Date 31.03.2016 RM'000
Operating activities		
Profit before tax	75,394	72,815
Adjustment for:		
Non-cash items	9,268	9,606
Non-operating items	11,908	12,123
Operating profit before changes in working capital	96,570	94,544
Net change in current assets	(4,649)	(3,459)
Net change in current liabilities	(2,959)	(1,095)
Net cash generated from operating activities	88,962	89,990
Investing activities		
Purchase of plant and equipment	(1,193)	(391)
Interest received	2,002	2,068
Net cash generated from investing activities	809	1,677
Financing activities		
Interest paid	(26,484)	(26,633)
Distribution paid to unitholders	(150,429)	(129,370)
Net cash used in financing activities	(176,913)	(156,003)
Net decrease in cash and cash equivalents	(87,142)	(64,336)
Cash and cash equivalents at beginning of year	244,013	217,456
Cash and cash equivalents at end of year	156,871	153,120
<i>Note:</i>		
<i>Cash and bank balances</i>	<i>187,253</i>	<i>182,312</i>
<i>Less: Restricted cash</i>	<i>(30,382)</i>	<i>(29,192)</i>
<i>Cash and cash equivalents</i>	<i>156,871</i>	<i>153,120</i>

The unaudited condensed statement of cash flows should be read in conjunction with the AFS FY2016 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 FY2016 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 FY2016.

A2 Auditors’ report of preceding financial statements

The auditors’ report for FY2016 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 2016	4,880	8,442
	<u>4,880</u>	<u>8,442</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.

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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 MTrustee Berhad (*formerly known as 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).

No distribution was declared for the current financial period ended 31 March 2017. At least 90% distributable income would be distributed semi-annually for year 2017 subject to IGB REIT’s financial position, earnings, funding and capital management requirements, in keeping with the Manager’s key objective of providing investors with regular and stable income distribution.

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 reports dated 3 April 2017, the market value of Mid Valley Megamall and The Gardens Mall as at 31 March 2017 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 3,493.474 million units as at 31 December 2016 to 3,498.354 million units as at 31 March 2017 arising from the issuance of new units as disclosed in Note A6.

A12 Contingent liabilities and contingent assets

There were no material contingent liabilities or contingent assets as at 31 March 2017.

A13 Capital commitment

There were no major capital commitments as at 31 March 2017.

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 RM133.7 million, up 1.9% against the corresponding quarter in 2016 of RM131.2 million. This was mainly due to higher rental income in the current quarter.

Net property income was RM96.1 million, up 2.7% compared with the corresponding quarter in 2016 of RM93.6 million. This was mainly due to higher rental income in the current quarter.

The distributable income for the current quarter amounted to RM84.9 million or 2.42 sen per unit, consisting of realised profit of RM75.4 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM8.6 million.

B2 Material changes in quarterly results

For the current quarter, IGB REIT's gross revenue was RM133.7 million, 6.4% higher compared with the immediate preceding quarter of RM125.7 million, mainly due to higher rental income in current quarter.

Net property income was RM96.1 million, 5.0% higher when compared with net property income of RM91.5 million in the preceding quarter, mainly due to higher rental income in the current quarter.

B3 Prospects

Malaysian consumers continue to tighten their belts as reflected by the 0.3% year-on-year growth of retail sales in the fourth quarter of 2016 based on data compiled by Retail Group Malaysia ("RGM") from members of Malaysia Retailers Association. Retailers are not optimistic about the retail sales performance for 2017. As consumer confidence remains low, they estimate an average retail sales growth rate of only 0.9% during the first quarter of 2017. For 2016, domestic retail sales expanded by 1.7%, which was not much stronger compared with 1.4% growth in 2015, the year when goods and services tax was introduced in April that year. After almost two years, the retail industry has yet to recover. Economic condition remains tough for retailers.

RGM has since lowered its forecast annual retail sales growth rate to 3.9% to RM101.6 billion for 2017 from RM97.8 billion in 2016, compared with its initial forecast of 5%. RGM pointed out that the latest quarterly retail sales result was way below market expectations. It also reported that the weak ringgit has affected the costs of retail goods sold locally. Retailers have begun to raise prices, including prices of food and beverages, household goods as well as other daily necessities. Costlier goods and services and higher cost of living are likely to lead to lower domestic spending and hence, lower retail sales.

B3 Prospects (continued)

Between 2010 and 2015, the population in Kuala Lumpur increased at an annual growth rate of 0.9% while retail shopping space grew 5.6%. In Selangor, the population grew at 3% a year while the retail shopping space rose 5.9%. Most of the planned new malls in Malaysia are concentrated in the Klang Valley. By 2018, it is estimated that total retail space in the Klang Valley would reach 70 million sq ft. Currently, Kuala Lumpur has more than an average of 7 sq ft of retail space per person, higher than in Singapore and Bangkok.

Notwithstanding the increasing supply of retail shopping space, lower expected retail sales growth and intense competition, the Manager would continue to strengthen IGB REIT's performance by proactively exploring asset enhancement initiatives at both the Mid Valley Megamall and The Gardens Mall in order to maintain a stable flow of distributable income, and create long-term value for its unitholders.

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 4.88 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 is resident in Malaysia. The income of IGB REIT will be taxable at corporate tax rate.

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. 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 total taxable income of IGB REIT to unitholders for the year ending 31 December 2017, no provision for taxation has been made for the current financial period ended 31 March 2017.

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").

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 total 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. The current withholding tax 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 total 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.

The strata titles for The Gardens Mall had been issued on 13 January 2017. The extended validity period of the consent of the State Authority for the transfer of Mid Valley Megamall and The Gardens Mall in favour of MTrustee Berhad (*formerly known as AmTrustee Berhad*) expires on 29 March 2018 and 30 March 2018, respectively.

B9 Borrowings and debt securities

IGB REIT’s borrowings and debts securities as at 31 March 2017 were as follows:-

	As at 31.03.2017 RM’000	As at 31.12.2016 RM’000
Non-current borrowings		
- secured term loan	1,209,735	1,209,176
Current borrowings		
- secured term loan and revolving credit	14,919	28,053
	<u>1,224,654</u>	<u>1,237,229</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 31.03.2017	Immediate preceding quarter ended 31.12.2016
Number of units in issue	'000 units	3,498,354	3,493,474
NAV (after income distribution)	RM'000	3,755,819	3,671,983
NAV per unit (after income distribution)	RM	1.0736	1.0511
Total comprehensive income	RM'000	75,394	70,290
Weighted average number of units in issue	'000 units	3,496,619	3,483,741
Earnings per unit ("EPU") after Manager fee	sen	2.16	2.02
Distributable income per unit ("DPU")	sen	2.42	2.28
Closing market price per unit	RM	1.69	1.61

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 of total asset 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 RM8,590,000, as follows:-

Type	Quarter 31.03.2017 RM'000	Quarter 31.03.2016 RM'000	Period-to- date 31.03.2017 RM'000	Period-to- date 31.03.2016 RM'000
Base fee	3,779	3,808	3,779	3,808
Performance fee	4,811	4,687	4,811	4,687
Total	<u>8,590</u>	<u>8,495</u>	<u>8,590</u>	<u>8,495</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 31 March 2017, 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	98,353,641	2.81	-	-
IGB Corporation Berhad	1,733,617,754	49.56	98,353,641	2.81
Goldis Berhad	-	-	1,831,971,395	52.37
Dato' Seri Robert Tan Chung Meng	10,639,081	0.30	1,863,683,497	53.27
Pauline Tan Suat Ming	-	-	1,863,683,497	53.27
Tony Tan (@) Choon Keat	1,000,000	0.03	1,863,683,497	53.27
Tan Chin Nam Sendirian Berhad	14,482,888	0.41	1,860,905,030	53.19
Tan Kim Yeow Sendirian Berhad	2,879,665	0.08	1,860,803,832	53.19
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.75	1,834,398,495	52.44

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 March 2017 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 25 April 2017.