

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 30 June 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	
	30.06.2017 RM'000	30.06.2016 RM'000	30.06.2017 RM'000	30.06.2016 RM'000
Gross rental income	99,242	96,003	205,731	199,330
Other income	28,079	28,598	55,245	56,481
Gross revenue	127,321	124,601	260,976	255,811
Utilities expenses	(12,816)	(13,017)	(24,808)	(25,283)
Maintenance expenses	(6,568)	(5,377)	(12,096)	(10,512)
Quit rent and assessment	(3,766)	(3,274)	(7,519)	(6,547)
Reimbursement costs	(13,077)	(14,357)	(27,696)	(28,745)
Other operating expenses	(3,094)	(1,937)	(4,802)	(4,463)
Property operating expenses	(39,321)	(37,962)	(76,921)	(75,550)
Net property income	88,000	86,639	184,055	180,261
Interest income	2,015	2,198	4,016	4,443
Net investment income	90,015	88,837	188,071	184,704
Manager fee	(8,229)	(8,159)	(16,819)	(16,654)
Trustees' fee	(80)	(79)	(159)	(159)
Other trust expenses	(222)	(265)	(306)	(374)
Borrowings costs	(13,768)	(14,375)	(27,677)	(28,743)
Profit before taxation	67,716	65,959	143,110	138,774
Taxation	-	-	-	-
Profit after taxation	67,716	65,959	143,110	138,774
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	67,716	65,959	143,110	138,774
Distribution adjustments ^{*1}	9,078	9,508	18,561	19,350
Distributable income	76,794	75,467	161,671	158,124
Profit for the period comprise the following:				
- Realised	67,716	65,959	143,110	138,774
- Unrealised	-	-	-	-
	67,716	65,959	143,110	138,774
Basic earnings per unit (sen)				
- before Manager fee	2.17	2.13	4.57	4.47
- after Manager fee	1.94	1.90	4.09	3.99

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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	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Manager fee payable in units	8,229	8,159	16,819	16,654
Amortisation of fit-out incentives	-	479	42	975
Amortisation of capitalised borrowing costs	242	242	484	484
Depreciation of plant & machinery	607	628	1,216	1,237
Distribution Adjustments	9,078	9,508	18,561	19,350

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 30.06.2017 RM'000	As at 31.12.2016 RM'000
Non-current assets		
Investment properties	4,890,000	4,890,000
Plant and equipment	10,497	10,456
	4,900,497	4,900,456
Current assets		
Receivables	21,787	19,406
Cash and bank balances	283,950	274,395
	305,737	293,801
TOTAL ASSET VALUE	5,206,234	5,194,257
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,384,952	4,367,920
Accumulated losses	(695,937)	(669,563)
Current year profit	143,110	277,836
Income distribution	(153,744)	(304,210)
Total unitholders' fund	3,678,381	3,671,983
Non-current liabilities		
Borrowings	1,210,152	1,209,176
Payables and accruals	65,503	64,455
	1,275,655	1,273,631
Current liabilities		
Borrowings	28,270	28,053
Payables and accruals	223,928	220,590
	252,198	248,643
Total liabilities	1,527,853	1,522,274
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,206,234	5,194,257
Number of units in circulation ('000 units)	3,503,436	3,493,474
NET ASSET VALUE ("NAV") (RM)		
- Before income distribution	3,832,125	3,976,193
- After income distribution	3,678,381	3,671,983
NAV per unit (RM)		
- Before income distribution	1.0938	1.1382
- After income distribution	1.0499	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	-	143,110	143,110
Income distribution	-	(153,744)	(153,744)
Net total comprehensive income for the year	-	(10,634)	(10,634)
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	17,032*	-	17,032
Increase in net assets resulting from unitholders' transactions	17,032	-	17,032
As at 30 June 2017	<u>4,384,952</u>	<u>(706,571)</u>	<u>3,678,381</u>
As at 1 January 2016	4,335,072	(669,563)	3,665,509
Total comprehensive income for the year	-	138,774	138,774
Income distribution	-	(154,171)	(154,171)
Net total comprehensive income for the year	-	(15,397)	(15,397)
Unitholders' transactions			
- Issue of new units			
Manager fee paid in units	16,372	-	16,372
Increase in net assets resulting from unitholders' transactions	16,372	-	16,372
As at 30 June 2016	<u>4,351,444</u>	<u>(684,960)</u>	<u>3,666,484</u>

Note:

Issue of new units involves:

	Units '000	Amount RM'000
Manager fee paid in units:		
- for the financial quarter ended 31 December 2016	4,880	8,442
- for the financial quarter ended 31 March 2017	5,082	8,590
	<u>9,962</u>	<u>17,032*</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 30.06.2017 RM'000	Period-To-Date 30.06.2016 RM'000
Operating activities		
Profit before tax	143,110	138,774
Adjustment for:		
Non-cash items	18,106	18,949
Non-operating items	23,661	24,300
Operating profit before changes in working capital	184,877	182,023
Net change in current assets	(1,512)	864
Net change in current liabilities	1,284	(3,897)
Net cash generated from operating activities	184,649	178,990
Investing activities		
Purchase of plant and equipment	(1,286)	(961)
Interest received	3,105	3,717
Net cash generated from investing activities	1,819	2,801
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 increase in cash and cash equivalents	9,555	25,788
Cash and cash equivalents at beginning of period	244,013	217,456
Cash and cash equivalents at end of period	253,568	243,244
<i>Note:</i>		
<i>Cash and bank balances</i>	283,950	272,436
<i>Less: Restricted cash</i>	(30,382)	(29,192)
<i>Cash and cash equivalents</i>	253,568	243,244

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
- for the financial quarter ended 31 March 2017	5,082	8,590
	<u>9,962</u>	<u>17,032</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).

For the financial period ended 30 June 2017, the Manager declared an income distribution of 95% of distributable income amounting to RM153.6 million or 4.38 sen per unit (@ 4.30 sen taxable and 0.08 sen non-taxable), to be payable on 30 August 2017 to every unitholder who is entitled to receive such distribution as at 4.00 p.m. on 16 August 2017.

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 July 2017, the market value of Mid Valley Megamall and The Gardens Mall as at 30 June 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 3,503.436 million units as at 30 June 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 30 June 2017.

A13 Capital commitment

There were no major capital commitments as at 30 June 2017.

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 RM127.3 million, up 2.2% against the corresponding quarter in 2016 of RM124.6 million. This was mainly due to higher rental income in the current quarter.

Net property income was RM88.0 million, up 1.6% compared with the corresponding quarter in 2016 of RM86.6 million. This was mainly due to higher rental income in the current quarter.

The distributable income for the current quarter amounted to RM76.8 million or 2.19 sen per unit, consisting of realised profit of RM67.7 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 RM261.0 million, up 2.0% against the corresponding period-to-date in 2016 of RM255.8 million. This was mainly due to higher rental income in the current period-to-date.

Net property income was RM184.1 million, up 2.1% compared with the corresponding period-to-date in 2016 of RM180.3 million. This was mainly due to higher rental income in the current period-to-date.

The distributable income for the current period-to-date amounted to RM161.7 million or 4.61 sen per unit, consisting of realised profit of RM143.1 million and the non-cash adjustment arising mainly from Manager fee payable in units of RM16.8 million.

B2 Material changes in quarterly results

For the current quarter, IGB REIT's gross revenue was RM127.3 million, 4.8% lower compared with the immediate preceding quarter of RM133.7 million, mainly due to lower rental income in current quarter.

Net property income was RM88.0 million, 8.4% lower when compared with net property income of RM96.1 million in the preceding quarter, mainly due to lower rental income and higher maintenance and property upgrade expenses in the current quarter.

B3 Prospects

Based on the Malaysia Retail Industry Report, retail sales contracted 1.2% in the first quarter of 2017 compared with the same period in 2016, partly due to poor Chinese New Year sales in January reflecting cautious consumer spending. The 1.2% contraction was worse than the Malaysia Retailers Association's ("MRA") estimated rise of 0.9% and Retail Group Malaysia's ("RGM") projection of 1.5% growth.

Prices of retail goods had continued to rise since the beginning of 2017, given the weak ringgit and higher fuel prices. RGM expressed the view that consumers have turned cautious as they were burdened by the higher cost of living. Average pump price for RON95 during the first quarter of 2017 was the highest since the implementation of the managed float system in December 2014. The purchasing power of consumers has been reduced and consumer confidence remains low. Private consumption rose by 6.6% during first quarter of 2017 in the face of unemployment being maintained at 3.5%.

MRA members expected their businesses to have picked up by the second quarter of 2017, rising at an average rate of 4.8%. RGM is maintaining its retail sales growth - forecast at 3.9% for 2017, lower than its earlier estimate of 5%. The poorer retail sales during the first quarter would be offset by the higher estimate for the second quarter (4.8%). Retail sales for the third and fourth quarters are estimated to rise by 5% and 5.5% respectively.

Trading conditions will remain tough for retailers for the second half of 2017. The challenges include higher cost of goods and rising operation costs. The recovery of retail sales is highly dependent on external demand and the ringgit's performance for the rest of the year.

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.

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B6 Utilisation of proceeds raised from issuance of new units

A total of 9.96 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 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 30 June 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 were 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 30 June 2017 were as follows:-

	As at 30.06.2017 RM’000	As at 31.12.2016 RM’000
Non-current borrowings		
- secured term loan	1,210,152	1,209,176
Current borrowings		
- secured term loan and revolving credit	28,270	28,053
	<u>1,238,422</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 30.06.2017	Immediate preceding quarter ended 31.03.2017
Number of units in issue	'000 units	3,503,436	3,498,354
NAV (after income distribution)	RM'000	3,678,381	3,755,819
NAV per unit (after income distribution)	RM	1.0499	1.0736
Total comprehensive income	RM'000	67,716	75,394
Weighted average number of units in issue	'000 units	3,499,120	3,496,619
Earnings per unit ("EPU") after Manager fee	sen	1.94	2.16
Distributable income per unit ("DPU")	sen	2.19	2.42
Closing market price per unit	RM	1.76	1.69

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 RM16,819,000, as follows:-

Type	Quarter 30.06.2017 RM'000	Quarter 30.06.2016 RM'000	Period-to- date 30.06.2017 RM'000	Period-to- date 30.06.2016 RM'000
Base fee	3,837	3,828	7,616	7,636
Performance fee	4,392	4,331	9,203	9,018
Total	<u>8,229</u>	<u>8,159</u>	<u>16,819</u>	<u>16,654</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 June 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	103,436,346	2.95	-	-
IGB Corporation Berhad	1,733,617,754	49.48	103,436,346	2.95
Goldis Berhad	-	-	1,837,054,100	52.44
Dato' Seri Robert Tan Chung Meng	12,039,081	0.34	1,868,766,202	53.34
Pauline Tan Suat Ming	-	-	1,868,766,202	53.34
Tony Tan (@) Choon Keat	1,000,000	0.03	1,868,766,202	53.34
Tan Chin Nam Sendirian Berhad	14,482,888	0.41	1,865,987,735	53.26
Tan Kim Yeow Sendirian Berhad	2,879,665	0.08	1,865,886,537	53.26
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.74	1,839,481,200	52.51

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 June 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 2 August 2017.