

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 31 March 2018

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IGB Real Estate Investment Trust

Condensed Consolidated Statement of Comprehensive Income

(The figures have not been audited)

	Quarter		Period-To-Date	
	Group	Fund	Group	Fund
	31.03.2018	31.03.2017	31.03.2018	31.03.2017
	RM'000	RM'000	RM'000	RM'000
Gross rental income	109,313	106,489	109,313	106,489
Other income	27,477	27,166	27,477	27,166
Gross revenue	136,790	133,655	136,790	133,655
Utilities expenses	(11,153)	(11,992)	(11,153)	(11,992)
Maintenance expenses	(5,955)	(5,528)	(5,955)	(5,528)
Quit rent and assessment	(3,749)	(3,753)	(3,749)	(3,753)
Reimbursement costs	(12,834)	(14,619)	(12,834)	(14,619)
Other operating expenses/upgrades	(586)	(1,708)	(586)	(1,708)
Property operating expenses	(34,277)	(37,600)	(34,277)	(37,600)
Net property income	102,513	96,055	102,513	96,055
Interest income	2,190	2,001	2,190	2,001
Net investment income	104,703	98,056	104,703	98,056
Manager fee	(8,927)	(8,590)	(8,927)	(8,590)
Trustees' fee	(79)	(79)	(79)	(79)
Other trust expenses	(362)	(84)	(362)	(84)
Finance costs	(13,084)	(13,909)	(13,084)	(13,909)
Profit before taxation	82,251	75,394	82,251	75,394
Taxation	-	-	-	-
Profit after taxation	82,251	75,394	82,251	75,394
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	82,251	75,394	82,251	75,394
Distribution adjustments ^{*/}	9,648	9,483	9,648	9,483
Distributable income	91,899	84,877	91,899	84,877
Profit for the period comprise the following:				
- Realised	82,251	75,394	82,251	75,394
- Unrealised	-	-	-	-
	82,251	75,394	82,251	75,394
Basic earnings per Unit (sen)				
- before Manager fee	2.59	2.40	2.59	2.40
- after Manager fee	2.34	2.16	2.34	2.16

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Condensed Consolidated 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	
	Group	Fund	Group	Fund
	31.03.2018	31.03.2017	31.03.2018	31.03.2017
	RM'000	RM'000	RM'000	RM'000
Manager fee payable in Units	8,927	8,590	8,927	8,590
Amortisation of fit-out incentives	-	42	-	42
Amortisation of capitalised borrowing costs	65	242	65	242
Depreciation of plant & machinery	656	609	656	609
Distribution Adjustments	9,648	9,483	9,648	9,483

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 (“AFS FY2017”) and the accompanying notes attached to this Interim Financial Report.

The unaudited consolidated financial results presented in the current quarter and period-to-date include a wholly-owned subsidiary incorporated in July 2017.

IGB Real Estate Investment Trust

Condensed Consolidated Statement of Financial Position

(The figures have not been audited)

	Group As at 31.03.2018 RM'000	Group As at 31.12.2017 RM'000
Non-current assets		
Investment properties	4,930,000	4,930,000
Plant and equipment	9,735	10,220
	4,939,735	4,940,220
Current assets		
Trade and other receivables	26,588	25,300
Cash and bank balances	186,125	285,208
	212,713	310,508
TOTAL ASSET VALUE	5,152,448	5,250,728
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,410,406	4,401,760
Accumulated losses	(678,461)	(695,937)
Current year profit	82,251	343,366
Income distribution	(87,652)	(325,890)
Total unitholders' fund	3,726,544	3,723,299
Non-current liabilities		
Borrowings	1,198,830	1,198,765
Trade and other payables	73,719	69,131
	1,272,549	1,267,896
Current liabilities		
Borrowings	1,736	14,900
Trade and other payables	151,619	244,633
	153,355	259,533
Total liabilities	1,425,904	1,527,429
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,152,448	5,250,728
Number of Units in circulation ('000 units)	3,518,822	3,513,452
NET ASSET VALUE ("NAV") (RM'000)		
- Before income distribution	3,814,196	4,049,189
- After income distribution	3,726,544	3,723,299
NAV per Unit (RM)		
- Before income distribution	1.0839	1.1525
- After income distribution	1.0590	1.0597

IGB Real Estate Investment Trust

Condensed Consolidated Statement of Financial Position (continued)

(The figures have not been audited)

The unaudited condensed consolidated statement of financial position should be read in conjunction with the AFS FY2017 and the accompanying notes attached to this Interim Financial Report.

The unaudited consolidated financial results presented in the current quarter and period-to-date include a wholly-owned subsidiary incorporated in July 2017.

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Condensed Consolidated 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
<u>Group</u>			
As at 1 January 2018	4,401,760	(678,461)	3,723,299
Total comprehensive income for the year	-	82,251	82,251
Income distribution	-	(87,652)	(87,652)
Net total comprehensive income for the year	-	(5,401)	(5,401)
Unitholders' transactions			
- Issue of new Units			
Manager fee paid in Units	8,646*	-	8,646
Increase in net assets resulting from unitholders' transactions	8,646	-	8,646
As at 31 March 2018	<u>4,410,406</u>	<u>(683,862)</u>	<u>3,726,544</u>
<u>Fund</u>			
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>

Note:

Issue of new Units involves:

	Units '000	Amount RM'000
Manager fee paid in Units:		
- for the financial quarter ended 31 December 2017	5,370	8,646
	<u>5,370</u>	<u>8,646*</u>

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Condensed Consolidated Statement of Changes in Net Asset Value (continued)

(The figures have not been audited)

The unaudited condensed consolidated statement of changes in net asset value should be read in conjunction with the AFS FY2017 and the accompanying notes attached to this Interim Financial Report.

The unaudited consolidated financial results presented in the current quarter and period-to-date include a wholly-owned subsidiary incorporated in July 2017.

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Condensed Consolidated Statement of Cash Flows

(The figures have not been audited)

	Period-To-Date Group 31.03.2018 RM'000	Period-To-Date Fund 31.03.2017 RM'000
Operating activities		
Profit before tax	82,251	75,394
Adjustment for:		
Non-cash items	10,894	9,268
Non-operating items	10,074	11,908
Operating profit before changes in working capital	103,219	96,570
Net change in current assets	(2,963)	(4,649)
Net change in current liabilities	(3,937)	(2,959)
Net cash generated from operating activities	96,319	88,962
Investing activities		
Purchase of plant and equipment	(174)	(1,193)
Interest received	3,377	2,002
Movement in fixed deposits with maturity of more than 3 months	78,500	-
Net cash generated from investing activities	81,703	809
Financing activities		
Interest paid	(26,183)	(26,484)
Distribution paid to unitholders	(172,422)	(150,429)
Movement in restricted cash	(496)	-
Net cash used in financing activities	(199,101)	(176,913)
Net decrease in cash and cash equivalents	(21,079)	(87,142)
Cash and cash equivalents at beginning of period	111,695	244,013
Cash and cash equivalents at end of period	90,616	156,871
Note:		
<i>Cash and bank balances</i>	<i>186,125</i>	<i>187,253</i>
<i>Less:-</i>		
<i>Fixed deposits with maturity of more than 3 months</i>	<i>(68,829)</i>	<i>-</i>
<i>Restricted cash</i>	<i>(26,680)</i>	<i>(30,382)</i>
<i>Cash and cash equivalents</i>	<i>90,616</i>	<i>156,871</i>

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Condensed Consolidated Statement of Cash Flows (continued)

(The figures have not been audited)

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the AFS FY2017 and the accompanying notes attached to this Interim Financial Report.

The unaudited consolidated financial results presented in the current quarter and period-to-date include a wholly-owned subsidiary incorporated in July 2017.

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 FY2017 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 FY2017.

A2 Auditors’ report of preceding financial statements

The auditors’ report for FY2017 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 2017	5,370	8,646
	<u>5,370</u>	<u>8,646</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

The Directors of the Manager had decided to change the distribution period from half-yearly to quarterly and to distribute at least 90% of IGB REIT's distributable income for the financial year ending 31 December 2018.

For the first quarter ended 31 March 2018, the Manager made an income distribution of 95% of IGB REIT's distributable income amounting to RM87.3 million or 2.48 sen per Unit (2.40 sen taxable and 0.08 sen non-taxable), to be payable on 31 May 2018 to every unitholder who is entitled to receive such distribution as at 4.00 p.m. on 8 May 2018.

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 One Asia Property Consultants (KL) Sdn Bhd and based on the valuation updates dated 2 April 2018, the market value of Mid Valley Megamall and The Gardens Mall as at 31 March 2018 remained at RM3.645 billion and RM1.285 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 3,513.452 million Units as at 31 December 2017 to 3,518.822 million Units as at 31 March 2018 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 2018.

A13 Capital commitment

There were no major capital commitments as at 31 March 2018.

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 RM136.8 million, up 2.3% against the corresponding quarter in 2017 of RM133.7 million. This was mainly due to higher rental income in the current quarter.

Net property income was RM102.5 million, up 6.7% compared with the corresponding quarter in 2017 of RM96.1 million. This was mainly due to higher rental income and lower property operating expenses in the current quarter.

The distributable income for the current quarter amounted to RM91.9 million or 2.61 sen per Unit, consisting of realised profit of RM82.3 million and the non-cash adjustments arising mainly from Manager fee payable in Units of RM8.9 million.

B2 Material changes in quarterly results

For the current quarter, IGB REIT's gross revenue was RM136.8 million, 1.8% higher compared with the immediate preceding quarter of RM134.4 million, mainly due to higher rental income in current quarter.

Net property income was RM102.5 million, 7.7% higher when compared with net property income of RM95.2 million in the preceding quarter, mainly due to higher rental income and lower property operating expenses in the current quarter.

B3 Prospects

The Malaysian retail industry reported a modest growth rate of 3.1% in the fourth quarter of 2017 compared with the same period in 2016, coming in below expectations due to the rising cost of living which has eroded the purchasing power of Malaysian consumers, according to the independent retail research firm Retail Group Malaysia ("RGM"). The results did not meet market expectations as Members of Malaysia Retailers Association ("MRA") projected the fourth quarter 2017 growth rate at 3.8%. It was also below RGM's own forecast of 4.5%.

The quarterly result appeared consistent with the Consumer Sentiment Index for the same period published by the Malaysian Institute of Economic Research ("MIER"). For the fourth quarter of 2017, the Index improved to 82.6. Malaysian consumers had remained cautious in their monthly spending while juggling with higher cost of living.

B3 Prospects (continued)

For the whole of 2017, retail sales rose 2.0% (or RM99.8 billion) compared with the same period in 2016. The retail industry's performance lagged behind GDP growth rate of 5.9% in 2017. Members of the MRA are hopeful that their businesses would begin to recover in 2018. They had estimated an average growth rate of 5.4% during the first quarter of 2018, due to the Chinese New Year celebrations. For 2018, RGM had estimated a 4.7% growth in retail sales (or RM104.4 billion). This is considered optimistic by MRA members. Prospects are still highly dependent on economic performance and consumer confidence.

Notwithstanding the current higher cost of living, weakening purchasing power and weaker consumer sentiment, the Manager would continue to strengthen IGB REIT's performance in 2018 by improving customers and shoppers experience in both Mid Valley Megamall and The Gardens Mall. The Manager would proactively explore asset enhancement initiatives and ensure that the tenancy mix is able to meet the evolving demands and preferences of customers, shoppers and retailers. These may translate into a better financial performance that would enable IGB REIT 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 5.37 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 2018, no provision for taxation has been made for the current financial period ended 31 March 2018.

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 extended validity period of the consent of the State Authority for the transfer of Mid Valley Megamall in favour of MTrustee Berhad (acting in its capacity as trustee for IGB REIT) expires on 28 September 2018.

The transfer of the strata titles for The Gardens Mall in favour of MTrustee Berhad (acting in its capacity as trustee for IGB REIT) has been presented to PTG for registration of transfer.

B9 Borrowings and debt securities

IGB REIT’s borrowings and debts securities as at 31 March 2018 were as follows:-

	As at 31.03.2018 RM’000	As at 31.12.2017 RM’000
Non-current borrowings		
- secured medium term notes	1,198,830	1,198,765
Current borrowings		
- secured medium term notes	1,736	14,900
	<u>1,200,566</u>	<u>1,213,665</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.

IGB Real Estate Investment Trust

B12 Summary of NAV, EPU, DPU and market price

	Unit of measurement	Current quarter ended 31.03.2018	Immediate preceding quarter ended 31.12.2017
Number of Units in issue	‘000 units	3,518,822	3,513,452
NAV (after income distribution)	RM’000	3,726,544	3,723,299
NAV per Unit (after income distribution)	RM	1.0590	1.0597
Total comprehensive income	RM’000	82,251	117,127
Weighted average number of Units in issue	‘000 units	3,517,092	3,503,884
Earnings per Unit (“EPU”) after Manager fee	sen	2.34	3.34
Distributable income per Unit (“DPU”)	sen	2.61	2.46
Closing market price per Unit	RM	1.55	1.80

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 RM8,927,000, as follows:-

Type	Quarter 31.03.2018 RM’000	Quarter 31.03.2017 RM’000	Period-to- date 31.03.2018 RM’000	Period-to- date 31.03.2017 RM’000
Base fee	3,801	3,779	3,801	3,779
Performance fee	5,126	4,811	5,126	4,811
Total	<u>8,927</u>	<u>8,590</u>	<u>8,927</u>	<u>8,590</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 2018, 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	118,821,841	3.38	-	-
IGB Corporation Berhad	1,733,617,754	49.27	118,821,841	3.38
IGB Berhad	-	-	1,852,439,595	52.64
Dato' Seri Robert Tan Chung Meng	14,739,081	0.42	1,884,151,697	53.54
Pauline Tan Suat Ming	-	-	1,884,151,697	53.54
Tony Tan (@) Choon Keat	1,000,000	0.03	1,884,151,697	53.54
Tan Chin Nam Sendirian Berhad	14,482,888	0.41	1,881,373,230	53.47
Tan Kim Yeow Sendirian Berhad	2,879,665	0.08	1,881,272,032	53.46
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.74	1,854,866,695	52.71

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 2018 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 23 April 2018.