

IGB REAL ESTATE INVESTMENT TRUST

Interim Financial Report for the 3-month ended 31 March 2019

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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	
	31.03.2019 RM'000	31.03.2018 RM'000	31.03.2019 RM'000	31.03.2018 RM'000
Gross rental income	121,956	117,800	121,956	117,800
Revenue from contracts with customers	19,276	18,990	19,276	18,990
Gross revenue	141,232	136,790	141,232	136,790
Utilities expenses	(11,608)	(11,153)	(11,608)	(11,153)
Maintenance expenses	(5,296)	(5,955)	(5,296)	(5,955)
Quit rent and assessment	(3,749)	(3,749)	(3,749)	(3,749)
Reimbursement costs	(14,194)	(12,834)	(14,194)	(12,834)
Other operating expenses/upgrades	(2,909)	(586)	(2,909)	(586)
Property operating expenses	(37,756)	(34,277)	(37,756)	(34,277)
Net property income	103,476	102,513	103,476	102,513
Interest income	1,802	2,190	1,802	2,190
Net investment income	105,278	104,703	105,278	104,703
Manager fee	(9,002)	(8,927)	(9,002)	(8,927)
Trustees' fee	(79)	(79)	(79)	(79)
Other trust expenses	(236)	(362)	(236)	(362)
Finance costs	(13,084)	(13,084)	(13,084)	(13,084)
Profit before taxation	82,877	82,251	82,877	82,251
Taxation	-	-	-	-
Profit after taxation	82,877	82,251	82,877	82,251
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	82,877	82,251	82,877	82,251
Distribution adjustments ^{*1}	6,578	9,648	6,578	9,648
Distributable income	89,455	91,899	89,455	91,899
Profit for the period comprise the following:				
- Realised	82,877	82,251	82,877	82,251
- Unrealised	-	-	-	-
	82,877	82,251	82,877	82,251
Basic earnings per Unit (sen)				
- before Manager fee	2.60	2.59	2.60	2.59
- after Manager fee	2.34	2.34	2.34	2.34

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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	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Manager fee payable in Units	5,851	8,927	5,851	8,927
Amortisation of capitalised borrowing costs	65	65	65	65
Depreciation of plant & machinery	662	656	662	656
Distribution Adjustments	6,578	9,648	6,578	9,648

Statement of Income Distribution:-

	Quarter		Period-To-Date	
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM'000	RM'000	RM'000	RM'000
Gross rental income	121,956	117,800	121,956	117,800
Revenue from contracts with customers	19,276	18,990	19,276	18,990
Interest income	1,802	2,190	1,802	2,190
	143,034	138,980	143,034	138,980
Less: Expenses	(60,157)	(56,729)	(60,157)	(56,729)
Total comprehensive income for the period	82,877	82,251	82,877	82,251
Distribution adjustment	6,578	9,648	6,578	9,648
Distributable income	89,455	91,899	89,455	91,899
Previous period undistributed realised income	-	-	-	-
Total realised income available for distribution	89,455	91,899	89,455	91,899
Less: Proposed/declared income distribution	(84,963)	(87,652)	(84,963)	(87,652)
Balance undistributed realised income	4,492	4,247	4,492	4,247
Distribution per Unit ("DPU") (sen)	2.40	2.48	2.40	2.48

The unaudited condensed consolidated statement of comprehensive income and statement of income distribution should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 ("AFS FY2018") and the accompanying notes attached to this Interim Financial Report.

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Condensed Consolidated Statement of Financial Position

(The figures have not been audited)

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Non-current assets		
Investment properties	4,960,000	4,960,000
Plant and equipment	7,359	7,964
	4,967,359	4,967,964
Current assets		
Trade and other receivables	32,578	27,879
Cash and bank balances	197,490	207,123
	230,068	235,002
TOTAL ASSET VALUE	5,197,427	5,202,966
FINANCED BY:		
Unitholders' fund		
Unitholders' capital	4,445,086	4,436,366
Accumulated losses	(669,675)	(678,461)
Current year profit	82,877	333,753
Income distribution	(84,963)	(324,967)
Total unitholders' fund	3,773,325	3,766,691
Non-current liabilities		
Borrowings	1,199,090	1,199,025
	1,199,090	1,199,025
Current liabilities		
Borrowings	1,736	14,900
Trade and other payables	223,276	222,350
	225,012	237,250
Total liabilities	1,424,102	1,436,275
TOTAL UNITHOLDERS' FUND AND LIABILITIES	5,197,427	5,202,966
Number of Units in circulation ('000 units)	3,539,822	3,534,810
NET ASSET VALUE ("NAV") (RM'000)		
- Before income distribution	3,858,288	4,091,658
- After income distribution	3,773,325	3,766,691
NAV per Unit (RM)		
- Before income distribution	1.0900	1.1575
- After income distribution	1.0660	1.0656

The unaudited condensed consolidated statement of financial position should be read in conjunction with the AFS FY2018 and the accompanying notes attached to this Interim Financial Report.

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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
As at 1 January 2019	4,436,366	(669,675)	3,766,691
Total comprehensive income for the year	-	82,877	82,877
Income distribution	-	(84,963)	(84,963)
Net total comprehensive loss for the year	-	(2,086)	(2,086)
Unitholders' transactions			
- Issue of new Units	8,720*	-	8,720
Manager fee paid in Units	-	-	-
Increase in net assets resulting from unitholders' transactions	8,720	-	8,720
As at 31 March 2019	4,445,086	(671,761)	3,773,325
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	8,646	-	8,646
Manager fee paid in Units	-	-	-
Increase in net assets resulting from unitholders' transactions	8,646	-	8,646
As at 31 March 2018	4,410,406	(683,862)	3,726,544

Note:

Issue of new Units involves:

	Units '000	Amount RM'000
Manager fee paid in Units:		
- for the financial quarter ended 31 December 2018	5,012	8,720
	5,012	8,720*

The unaudited condensed consolidated statement of changes in net asset value should be read in conjunction with the AFS FY2018 and the accompanying notes attached to this Interim Financial Report.

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Condensed Consolidated Statement of Cash Flows

(The figures have not been audited)

	Period-To-Date 31.03.2019 RM'000	Period-To-Date 31.03.2018 RM'000
Operating activities		
Profit before tax	82,877	82,251
Adjustment for:		
Non-cash items	10,453	10,894
Non-operating items	11,282	10,074
Operating profit before changes in working capital	104,612	103,219
Net change in current assets	(5,469)	(2,963)
Net change in current liabilities	(3,611)	(3,937)
Net cash generated from operating activities	95,532	96,319
Investing activities		
Purchase of plant and equipment	(58)	(174)
Interest received	1,784	3,377
Movement in fixed deposits with maturity of more than 3 months	30	78,500
Movement in pledged deposit	(254)	(496)
Net cash generated from investing activities	1,502	81,207
Financing activities		
Interest paid	(26,183)	(26,183)
Distribution paid to unitholders	(80,708)	(172,422)
Net cash used in financing activities	(106,891)	(198,605)
Net decrease in cash and cash equivalents	(9,857)	(21,079)
Cash and cash equivalents at beginning of period	179,632	111,695
Cash and cash equivalents at end of period	169,775	90,616
Note:		
<i>Cash and bank balances</i>	197,490	186,125
<i>Less:-</i>		
<i>Fixed deposits with maturity of more than 3 months</i>	-	(68,829)
<i>Pledged deposit</i>	(27,715)	(26,680)
<i>Cash and cash equivalents</i>	169,775	90,616

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the AFS FY2018 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 Listed Real Estate Investment Trusts (“REIT Guidelines”). This Interim Financial Report should be read in conjunction with the AFS FY2018 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 FY2018.

A2 Auditors’ report of preceding financial statements

The auditors’ report for FY2018 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 2018	5,012	8,720
	<u>5,012</u>	<u>8,720</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 Board of Directors of the Manager has decided to make a distribution of at least 90% of IGB REIT's distributable income on a quarterly basis for the year ending 31 December 2019 (or such other intervals as the Manager may determine at its absolute discretion).

For the first quarter ended 31 March 2019, the Manager made a distribution of 95% of IGB REIT's quarterly distributable income amounting to RM85.0 million or 2.40 sen per Unit (@ 2.36 sen taxable and 0.04 sen non-taxable), to be payable on 31 May 2019 to every unitholder who is entitled to receive such distribution as at 4.00 p.m. on 9 May 2019.

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 (as an independent registered valuer) and based on the valuation reports dated 1 April 2019, the market value of Mid Valley Megamall and The Gardens Mall as at 31 March 2019 remained at RM3.665 billion and RM1.295 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 that required disclosure.

A11 Changes in the composition of IGB REIT

IGB REIT's fund size increased from 3,534.810 million Units as at 31 December 2018 to 3,539.822 million Units as at 31 March 2019 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 2019.

A13 Capital commitment

There were no major capital commitments as at 31 March 2019.

Part B – Additional Disclosures Pursuant to Paragraph 9.44 of the MMLR

B1 Review of performance

	Quarter/Period-To-Date		
	31.03.2019 RM'000	31.03.2018 RM'000	Variance %
Gross revenue	141,232	136,790	3.2%
Net property income	103,476	102,513	0.9%
Profit before taxation	82,877	82,251	0.8%
Profit after taxation	82,877	82,251	0.8%
Total comprehensive income for the period	82,877	82,251	0.8%

For the current quarter, IGB REIT's gross revenue was RM141.2 million, up 3.2% against the corresponding quarter in 2018 of RM136.8 million. This was mainly due to higher rental income in the current quarter.

Net property income was RM103.5 million, up 0.9% compared with the corresponding quarter in 2018 of RM102.5 million. This was mainly due to higher rental income in the current quarter.

The distributable income for the current quarter amounted to RM89.5 million, consisting of realised profit of RM82.9 million and the non-cash adjustments arising mainly from Manager fee payable in Units of RM5.8 million.

B2 Material changes in quarterly results

	Quarter		
	31.03.2019 RM'000	31.12.2018 RM'000	Variance %
Gross revenue	141,232	137,206	2.9%
Net property income	103,476	96,453	7.3%
Profit before taxation	82,877	105,508	-21.4%
Profit after taxation	82,877	105,508	-21.4%
Total comprehensive income for the period	82,877	105,508	-21.4%

For the current quarter, IGB REIT's gross revenue was RM141.2 million, 2.9% higher compared with the immediate preceding quarter of RM137.2 million, mainly due to higher rental income in the current quarter.

Net property income was RM103.5 million, 7.3% higher compared with net property income of RM96.5 million in the preceding quarter, mainly due to higher rental income and lower property operating expenses in the current quarter.

Despite the higher gross revenue and higher net property income in the current quarter, the profit after taxation was RM82.9 million, 21.4% lower compared with the immediate preceding quarter of RM105.5 million, mainly due to revaluation surplus on investment properties in the immediate preceding quarter. Excluding revaluation surplus, the profit after taxation was RM82.9 million, 9.8% higher compared with the immediate preceding quarter of RM75.5 million.

B3 Prospects

Retail Group Malaysia (“RGM”) forecasts a 4.5% growth in retail sales to RM108.3 billion in 2019. Despite a lacklustre start in January and February, RGM is optimistic that the retail industry will recover and expand by 3.1% in 1Q’19; for the second quarter, the overall industry is expected to grow at an estimated 4.8%, underpinned by a good Hari Raya festival. Retail sales are then expected to grow at 3.9% and 5.8% for third and fourth quarters respectively, reflecting a revival of economic activities in the later part of 2019.

RGM forecasts are consistent with the results of the Consumer Sentiment Index for the same period published by Malaysian Institute of Economic Research (“MIER”). The rising cost of living and stagnant take-home pay continue to adversely affect the purchasing power of Malaysian consumers. For the sixth consecutive year, retail sales performance will lag behind GDP growth for the year.

Notwithstanding these developments, the Manager will endeavour to strengthen IGB REIT’s performance by improving customers and shoppers experience at both Mid Valley Megamall and The Gardens Mall. The Manager is determined to proactively explore asset enhancement initiatives, and ensure that the tenancy mix is responsive to meeting the evolving demands and changing preferences of customers and shoppers. These are expected to enable IGB REIT to maintain a stable flow of distributable income, and continue to 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 5.01 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 has decided to declare more than 90% of the total taxable income of IGB REIT to unitholders for the year ending 31 December 2019, no provision for taxation has been made for the current financial period ended 31 March 2019.

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 2019, 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	10%

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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 subjected 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 application for amalgamation of Lot 80 and Lot 20004 (formerly known as Lot 25), which including all strata plot components, was re-submitted to Pejabat Pengarah Tanah dan Galian, Wilayah Persekutuan Kuala Lumpur via Pusat Setempat, Dewan Bandaraya Kuala Lumpur in September 2018 and 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 15 August 2019.

B9 Borrowings and debt securities

IGB REIT's debts securities as at 31 March 2019 were as follows:-

	As at 31.03.2019 RM'000	As at 31.03.2018 RM'000
Non-current borrowings		
- secured medium term notes	1,199,090	1,198,830
Current borrowings		
- secured medium term notes	1,736	1,736
	<u>1,200,826</u>	<u>1,200,566</u>

All debt securities 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 31.03.2019	Immediate preceding quarter ended 31.12.2018
Number of Units in issue	'000 units	3,539,822	3,534,810
NAV (after income distribution)	RM'000	3,773,325	3,766,691
NAV per Unit (after income distribution)	RM	1.0660	1.0656
Total comprehensive income	RM'000	82,877	105,508
Weighted average number of Units in issue	'000 units	3,538,207	3,525,443
Earnings per Unit after Manager fee	sen	2.34	2.99
Distributable income	RM'000	89,455	84,977
DPU	sen	2.40	2.28
Closing market price per Unit	RM	1.85	1.73

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 RM9,002,000, as follows:-

Type	Quarter 31.03.2019 RM'000	Quarter 31.03.2018 RM'000	Period-To- Date 31.03.2019 RM'000	Period-To- Date 31.03.2018 RM'000
Base fee	3,828	3,801	3,828	3,801
Performance fee	5,174	5,126	5,174	5,126
Total	<u>9,002</u>	<u>8,927</u>	<u>9,002</u>	<u>8,927</u>

For the current period-to-date, 65% of the total Manager fee 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 2019, 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	139,821,587	3.95	-	-
IGB Berhad	1,733,617,754	48.97	139,821,587	3.95
Dato' Seri Robert Tan Chung Meng	14,739,081	0.42	1,905,151,443	53.82
Pauline Tan Suat Ming	-	-	1,905,151,443	53.82
Tony Tan Choon Keat	1,000,000	0.03	1,905,151,443	53.82
Tan Chin Nam Sendirian Berhad	155,988	0.004	1,902,372,976	53.74
Tan Kim Yeow Sendirian Berhad	2,879,665	0.08	1,902,271,778	53.74
Wah Seong (Malaya) Trading Co. Sdn Bhd	26,079,992	0.74	1,875,866,441	52.99

B16 Notes to the Statement of Comprehensive Income

	Quarter 31.03.2019 RM'000	Quarter 31.03.2018 RM'000	Period-To- Date 31.03.2019 RM'000	Period-To- Date 31.03.2018 RM'000
Depreciation	662	656	662	656
Allowance for impairment on receivables	787	488	787	488

B17 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 2019 and of its financial performance and cash flows for the financial period/year ended on that date and duly authorised for release by the Board of Directors of the Manager on 24 April 2019.