

**QUILL CAPITA TRUST**  
**EXPLANATORY NOTES FOR QUARTER ENDED 30 JUNE 2007**

**A1 BASIS OF PREPARATION**

The financial statements have been prepared under the historical cost convention except for investment in real estate properties which is stated at fair value.

The financial statements comply with the applicable Financial Reporting Standards in Malaysia , provisions of The Deed and the Securities Commission's Guidelines on Real Estate Investment Trusts.

**A2 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of QCT and its wholly -owned special entity ( "SPE") . The special purpose entity is established for the specific purpose of raising financing on behalf of QCT for the acquisition of real estate properties and single -purpose companies. QCT does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with QCT and the SPE's risks and rewards, QCT concludes that it controls the SPE. SPEs controlled by QCT were established under the terms that impose strict limitations on the decision-making powers of the SPE 's management resulting in QCT receiving all of the benefits related to SPE 's operations and net assets.

**A3 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2006**

The audit report of the financial statements for the preceding year ended 31 December 2006 was not qualified.

**A4 SEASONALITY OR CYCLICALITY OF OPERATIONS**

The business operations of QCT are not materially affected by any seasonal or cyclical factor.

**A5 EXCEPTIONAL OR UNUSUAL ITEMS**

During the current quarter under review, there was no item of an exceptional or unusual nature that affects the assets, liabilities, equity, net income or cash flows of QCT.

**A6 CHANGES IN ESTIMATES OF AMOUNTS REPORTED**

This is not applicable as there was no estimate of amounts reported.

**A7 CHANGES IN DEBT AND EQUITY SECURITIES**

Save as disclosed in Note A11 and Note B 9 , there was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter and year to date

## **A8 INCOME DISTRIBUTION POLICY**

In line with the Trust deed dated 9 October 2006, the Trust intends to distribute 100% of its distributable income at least semi-annually or at any such interval as may be determined by the Manager.

## **A9 SEGMENT REPORTING**

No segment information is prepared as QCT's activities are predominantly in one industry segment and occur predominantly in Malaysia.

## **A10 VALUATION OF INVESTMENT PROPERTIES**

The real estate properties were purchased by QCT on 20 November 2006 for RM 276,000,000 which approximate the fair market value as at 31 December 2006. There was no change in the value of the investment properties for the quarter under review.

## **A11 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 JUNE 2007**

### **i) Acquisition of new properties**

On 8 June 2007, Maybank Trustee Berhad as trustee of QCT, has signed two separate conditional sales and purchase agreements to acquire Wisma Technip for RM 125 million and commercial shops and carpark lots of Plaza Mont Kiara for RM 90 million.

The announcement was made on 8 June 2007 to Bursa Malaysia Securities Berhad on the said acquisitions and the terms and conditions for the completion of the SPAs.

### **ii) Proposed placement**

QCT has proposed issuance of up to 251,440,000 new units in QCT, the proceeds of which will be utilised for :

- settlement of purchase consideration of the above mentioned properties
- capital expenditure
- working capital of QCT
- defraying estimated expenses for the proposals and acquisition related expenses
- paring down future borrowing

The issuance of up to 251,440,000 new units may be made in tranches.

### **iii) Proposed increase in Fund Size**

The Manager has proposed to increase the size of QCT from the existing approved fund size of 238,691,000 to the proposed fund size of up to 490,131,000 units to accommodate the increase in units pursuant to the Proposed Placement.

## SIGINIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 JUNE 2007 (cont'd )

### iv) Proposed amendment to the Deed of Trust of QCT

QCT does not hold any of its investment in retail shopping malls as its investment mandate specifically excludes investment in such assets. The Manager proposes to amend the Deed to effectively increase the potential investment opportunities for QCT in the Malaysian property market and allow more flexibility in the selection of QCT portfolio mix to achieve optimal returns for unitholders. The Manager therefore proposes to amend the objectives and authorised investments clauses in the Deed, by way of a supplemental deed.

The announcements relating to the proposals above were made on 8 June 2007, 12 June 2007, 2 July 2007 and 4 July 2007 respectively, to Bursa Securities Malaysia Berhad.

The Circular to Unitholders was issued on 16 July 2007.

The meeting of unitholders for the approval of the above is proposed to be convened on 8 August 2007 . The Notice Of Meeting was issued on 16 July 2007.

### A12 CHANGES IN CONTINGENT LIABILITIES

There is no contingent liabilities to be disclosed.

### B1 REVIEW OF PERFORMANCE

QCT recorded RM5.718 million and RM 3.671 million of revenue and profit before tax respectively for the quarter ended 30 June 2007.

### B2 COMPARISON WITH PRECEDING QUARTER

|                                   | Current Quarter<br>ended 30 June 2007 | Preceding Quarter<br>ended 31 March 2007 |
|-----------------------------------|---------------------------------------|--|
|                                   | RM                                    | RM                                       |
| Total Revenue                     | 5,718,374                             | 6,202,213                                |
| Profit before tax                 | 3,670,630                             | 3,641,962                                |
| Profit after tax                  | 3,677,980                             | 3,631,962                                |
| Provision for income distribution | -                                     | -  |

\*The total revenue for the quarter ended 30 June 2007 was less than the revenue of the preceding quarter due to reclassification of the costs recoverable from tenants from the revenue account to the respective cost accounts . There was no impact to the P&L as a result of the said reclassification.

### B3 PROSPECTS

Barring unforeseen circumstances, QCT is expected to achieve performance for FY 2007 in line with the projections made in the prospectus dated 10 December 2006, and the forecast as disclosed in the Circular to Unitholders dated 16 July 2007 if the proposals as detailed in the Circular are materialised.

### B4 Variances

The results for the second quarter ended 30 June 2007 is within the expectation of the Trust and is line with the forecast disclosed in the prospectus dated 10 December 2006.

## B5 TAXATION

The breakdown of the tax components is as follows:

|  | Current Quarter<br>RM | Period To Date<br>RM |
|--|-----------------------|----------------------|
| Provision for current quarter's profits    | -                     | -                    |
| Write-back of over provision               | (7,350)               | -                    |
| Under provision of prior year tax expense  | -                     | 2,650                |
| Tax expense/( write -back ) for the period | (7,350)               | 2,650                |

Previously, undistributed income of a REIT would be subject to income tax whereas the income distributed would be exempt from tax. With the amendment to Section 61A of the Income Tax Act 1967, effective from Year of Assessment 2007, the undistributed income of a REIT will also be exempt from income tax provided that the REIT distributes 90% or more of its total income for the year. If the REIT is unable to meet the 90% distribution criteria, the entire taxable income of the REIT for the year would be subject to income tax.

As QCT intends to distribute 100% of its distributable income during the first three financial years from 2006 to 2008, it is likely that the 90% criteria would be met and as such, no tax expense is charged for the half year ended 30 June 2007.

A reconciliation of income tax expense applicable to income before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of QCT is as follows:

|  | Current Quarter<br>RM | Period To Date<br>RM |
|--|-----------------------|----------------------|
| Income tax before taxation                 | 3,670,630             | 7,312,592            |
| Taxation at Malaysian statutory tax of 27% | 991,070               | 1,974,400            |
| Expenses not deductible for tax purposes   | -                     | -                    |
| Income exempted from tax                   | (991,070)             | (1,974,400)          |
| Underprovision of prior year tax           | -                     | 2,650                |
| Write-back of over provision               | (7,350)               | -                    |
| Tax expense for the period                 | (7,350)               | 2,650                |

## B6 PROFITS ON SALE OF INVESTMENTS IN UNQUOTED SECURITIES /PROPERTIES

There was no disposal of investments in unquoted securities during the current quarter and the period to date.

## B7 PARTICULARS OF PURCHASE OR DISPOSAL OF INVESTMENT IN QUOTED SECURITIES

There was no purchase or disposal of investment in quoted securities during the current quarter and the period-to-date.

## B8 STATUS OF CORPORATE PROPOSAL

Save as disclosed in Note A 11 above, there was no corporate proposals in the period -to-date.

The proposal as mentioned will be subject to unitholders's approval during the meeting of Unitholders to be convened on 8 August 2007.

## B9 BORROWING AND DEBT SECURITIES

|                                       | Current Quarter<br>RM    |
|---------------------------------------|--------------------------|
| Face value                            | 91,900,000               |
| Discount                              | (1,812,369)              |
| Net discounted value                  | <u>90,087,631</u>        |
| Less : Transaction costs              | 779,167                  |
| Add: amortisation of interest expense | <u>302,061</u>           |
|                                       | <u><u>89,610,526</u></u> |

QCT has through its wholly owned special purpose vehicle, Gandalf Capital Sdn Bhd, drawdown net proceeds of RM 90,067,992 from the CPs/MTNs programme on 1 December 2006, of which RM 90M was utilised to part finance the acquisition of Quill Building 1, Quill Building 2 , Quill Building 3 and Quill Building 4 ( " Quill Buildings" ) .

The actual discount rate for the 6 months period from 1 December to 31 May 2007 was at 4.02%.

The CPs were rolled over on 31 May 2007. The Manager is of the opinion that the CPs/MTNs will be available throughout the period. The effective interest rate on QCT's borrowings is 3.995% until 30 November 2011.

## B10 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Other than as disclosed below, QCT has no financial instruments with off balance sheet risks as at the latest practicable date from the date of issuance of this report that may materially affect the position or business of QCT.

As part of the active interest rate management strategy of QCT, the Manager has recommended to the Trustee that it should enter into an interest rate swap ( "IRS" ) arrangement to lock in fixed interest rate from the current floating interest rate .

Pursuant to the Manager's recommendation, the Trustee has authorised the Manager to enter into an IRS arrangement based on RM 90 million of the underlying CPs. On 18 April 2007, the IRS arrangement was entered into by the Manager with a licensed financial institution ("The Bank") whereby the interest rate is fixed at 3.745% until 30 November 2011. As such, QCT will pay a fixed rate of 3.995% p.a from 31 May 2007 to 30 November 2011 ( including a credit spread of 0.25% p.a ) .

The said IRS was announced on 18 April 2007 to Bursa Securities Malaysia Berhad.

The net difference between the floating rate and the fixed rate will be settled between QCT and The Bank semi-annually. Where the fixed rate is higher than the floating rate, the net difference will be payable by QCT to The Bank and where the fixed rate is lower than the floating rate, The net difference will be paid by The Bank to QCT .

The net difference between the fixed rate and the floating rate is charged to the P&L over the 6 -month period.

## B11 TRADE & OTHER RECEIVABLES

Included in other receivables are deposits of RM 9 million paid to Sunrise Berhad for the acquisition of the commercial retail shops and carpark lots.

## B12 MATERIAL LITIGATION

There was no pending material litigation as at the latest practicable date from the date of issuance of this report.

## B13 INCOME DISTRIBUTION

In line with the Trust Deed dated 9 October 2006, for the first three financial years from 2006 to 2008, QCT intends to distribute 100% of its distributable income at least semi-annually, or at such other intervals as the Manager may determine.

The next distribution was originally scheduled to take place by 30 August 2007 in relation to the distributable income for the period 1 January 2007 to 30 June 2007 ( the "Scheduled Distribution") . However, in conjunction with the proposed placement as disclosed in note A 11 above as well as in the Circular to Unitholders dated 16 July 2007 , the Manager will declare , in lieu of the Scheduled Distribution, a distribution of the distributable income for the period from 1 January 2007 to the day immediately preceding the date on which the new units are issued under the proposed placement of new units ( which is expected to be on 24 August 2007) , ( the "Cumulative Distribution " ) .

The Cumulative Distribution is proposed as a means to ensure fairness to existing unitholders , and at the same time to avoid the additional costs of making two distributions within a short span of time. By implementing the Cumulative Distribution, the distributable income accrued by QCT up to the day preceding the date of issue of new units ( which, at that point in time, will be entirely attributable to the existing units ), will only be distributed in a single distribution in respect of the existing units . The new units will not be entitled to the Cumulative Distribution.

Income distributed to non-resident companies, foreign institutional investors and unitholders other than resident companies will be subject to withholding tax.

The announcement on the Cumulative Distribution and the Book Closure Date will be made on a later date .

BY ORDER OF THE BOARD

LEE FONG YONG  
COMPANY SECRETARY  
Quill Capita Management Sdn Bhd  
(Company No: 737252-X)  
(As Manager of Quill Capita Trust )  
Kuala Lumpur

Dated : 1-Aug-2007