

QUILL CAPITA TRUST
EXPLANATORY NOTES FOR QUARTER ENDED 30 JUNE 2008

A1 BASIS OF PREPARATION

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

The financial statements comply with the applicable Financial Reporting Standards in Malaysia, provisions of the Trust 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 purpose 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 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 2007

The audit report of the financial statements for the preceding year ended 31 December 2007 was not qualified.

A4 SEASONALITY OR CYCLICALITY OF OPERATIONS

The business operations of QCT are not materially affected by any seasonal or cyclical factor, except for changes in demand and supply of properties in the market conditions.

A5 UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

During the current quarter under review, there were no unusual items due to their nature, size or incidence that affects the assets, liabilities, equity, net income or cash flows of QCT.

A6 CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no changes in the estimates of amounts reported during the current quarter.

A7 CHANGES IN DEBT AND EQUITY

Save as disclosed in note B9, there were no repurchase, resale and repayment of debt and equity instruments for the current quarter and year to date.

A8 INCOME DISTRIBUTION POLICY

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

A9 SEGMENT REPORTING

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

A10 VALUATION OF INVESTMENT PROPERTIES

The investment properties were valued based on valuations performed by independent registered valuers on 1 December 2007. The difference between the valuations and the book value of the respective properties were credited to the revaluation surplus account in the income statement for the financial year ended 31 December 2007.

No valuation of the investment properties were carried out during the quarter.

A11 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 JUNE 2008

1 Acquisition of a new property

On 14 May 2008, Mayban Trustees Berhad ("Trustee") entered into a Conditional Sale and Purchase Agreement ("SPA") with IJM Properties Sdn Bhd to acquire Tesco building located on a freehold land in Jelutong Penang, for RM132 million. A deposit of RM13.2 million was paid during the quarter. The acquisition is expected to be completed during the fourth quarter of the year.

The said acquisition was announced on 14 May 2008 to Bursa Malaysia Securites Berhad.

2 Placement of up to 251,440,000 new units of QCT

The proposed issuance of up to 251,440,000 new units in QCT was approved by the Securities Commission ("SC") on 28 June 2007 and unitholders on 8 August 2007. On 3 September 2007, 151,440,000 units were issued and listed on the Bursa Malaysia Securities Berhad. There was a balance of 100,000,000 units to be issued to raise funds for paring down borrowings. The SC had, on 19 December 2007, given its approval for an extension of time to 27 June 2008 to complete the placement of the 100,000,000 units. Subsequently, the SC has given further extension to 11 July 2008 to complete the placement.

The Manager had, on 25 June 2008, decided not to proceed with the placement. The announcement on the decision was made on 25 June 2008 to Bursa Malaysia Securites Berhad.

A12 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 JUNE 2008

Acquisition of a special purpose entity - Boromir Capital Sdn. Bhd (formerly known as Haruman Idaman Sdn. Bhd.)

On 11 July 2008, the SC has approved the acquisition of a special purpose entity, Boromir Capital Sdn.Bhd. to facilitate the implementation of a RM134 million CPs/MTNs programme. The announcement was made to Bursa Malaysia Securities Berhad on 16 July 2008.

A13 CHANGES IN CONTINGENT LIABILITIES

There are no contingent liabilities to be disclosed.

A14 CAPITAL COMMITMENTS

The amount of capital commitment not provided for in the financial statements as at 30 June 2008 are as follows:

	RM
Approved and contracted for :	
Investment properties	132,991,543
Approved and not contracted for :	
Investment properties	279,759

B1 REVIEW OF PERFORMANCE

QCT recorded RM13.695 million and RM6.749 million of revenue and profit before tax respectively for the quarter ended 30 June 2008.

B2 COMPARISON WITH PRECEDING QUARTER

		Current Quarter ended 30 June 2008 RM	Preceding Quarter ended 31 March 2008 RM
Total Revenue	*	13,695,110	11,379,456
Profit before tax		6,749,408	7,100,512
Profit after tax	#	6,749,408	7,100,512
Provision for income distribution		6,007,891	7,100,512

* The total revenue for the quarter is higher due mainly to revenue generated from the three properties acquired in March 2008.

The profit after tax is lower than the preceding quarter due mainly to lower interest income, higher property operating expenses and borrowing costs during the quarter.

B3 PROSPECTS

The Manager expects the investment properties of QCT to continue to enjoy good occupancy and rental as the tenancies are mainly long term leases with quality tenants who are mainly subsidiaries of multinational companies ("MNCs").

The Manager plans to continue to seek additional income growth and enhancement to the value of QCT's portfolio through its acquisition and growth strategies, active asset management and capital management strategies.

B4 PROFIT FORECAST / PROFIT GUARANTEE VARIANCE

a) Profit forecast

The unaudited results for the second quarter ended 30 June 2008 is in line with the forecast as announced on 21 April 2008 ("Forecast 2008") and is in line with the expectation of QCT.

b) Profit guarantee

QCT is not involved in any arrangement involving it providing profit guarantee.

B5 TAXATION

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 more than 90% of its total income for the year to its unitholders, no provision for tax has been made in the current quarter and period to date.

A reconciliation of the 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 RM	Period To Date RM
Income before taxation	6,749,408	13,849,919
Taxation at Malaysian statutory tax of 26%	1,754,846	3,600,979
Expenses not deductible for tax purposes	-	-
Income exempted from tax	(1,754,846)	(3,600,979)
Underprovision of prior year tax	-	-
Write-back of over provision	-	-
Tax expense for the period	-	-

B6 PROFIT 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 PROPOSALS

There were no corporate proposals during the current quarter and period to date.

B9 BORROWING AND DEBT SECURITIES

	Current Quarter RM
Face value of CPs issued	115,900,000
Discount	(2,275,866)
Cash proceeds	<u>113,624,134</u>
Accretion of interest expense	<u>329,983</u>
	113,954,117
Transaction costs	<u>(545,101)</u>
	113,409,016
Amortisation of transaction costs	<u>46,269</u>
	113,455,285
Loan Facilities	<u>59,240,000</u>
Total	<u><u>172,695,285</u></u>

Commercial Papers ("CPs") / Medium Term Notes ("MTNs") programme ("CPs/MTNs Programme")

On 3 November 2006, QCT has through its SPE, Gandalf Capital Sdn. Bhd., established a 7 year RM118 million Commercial Papers ("CPs") / Medium Term Notes ("MTNs") programme ("CPs/MTNs Programme") to raise funds from the private debt securities market to part finance acquisitions of its investment properties.

On 1 December 2006, CPs of nominal value of RM91.9 million were issued to raise net proceeds of RM90.1 million which were utilised to part finance the acquisition of Quill Building 1, Quill Building 2, Quill Building 3 and Quill Building 4 ("Quill Buildings").

The effective interest rate on the said RM91.9 million CPs is 3.995% p.a. until 30 November 2011, resulting from an Interest Rate Swap as disclosed in Note B10.

B9 BORROWING AND DEBT SECURITIES (cont'd)

On 14 March 2008, CPs of nominal value of RM24 million were issued, the proceeds of which were utilised to part finance the acquisition of Quill Building 5 - IBM. The said CPs have been rolled over to 15 December 2008. Interest rates for the CPs during the period range between 3.57% and 3.98%.

The Manager is of the opinion that the CPs/MTNs will be available throughout the period of the CPs/MTNs Programme.

Loan Facilities

On 29 February 2008, QCT obtained loan facilities totalling RM290 million ("Loan Facilities") with RM145 million each from HwangDBS Investment Bank Berhad ("HwangDBS") and Malayan Banking Berhad ("MBB").

As at 30 June 2008, QCT has made a total drawdown of RM59.24 million from its Loan Facilities with HwangDBS and MBB to finance the acquisition of Quill Building 8 - DHL, Quill Building 10 - HSBC Section 13, and part payment for Tesco building.

The interest rates on the loans drawdown during the period range from 4.63% p.a to 4.88% p.a.

The Loan Facilities are secured by :

- (a) Lienholders caveat(s) in favour of HwangDBS as security agent over the titles to Wisma Technip, Quill Building 8 - DHL and Quill Building 10 - HSBC Section 13 and any future properties to be acquired where individual titles to such properties are available; and
- (b) assignment in favour of HwangDBS as security agent of all benefits, rights and interest over the retail units and carpark lots comprised in Plaza Mont' Kiara belonging to QCT, Quill Building 5 - IBM and any future properties to be acquired where individual titles to such properties are not available.

B10 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Other than as disclosed below, QCT has no financial instruments with off balance sheet risks as at 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, on 18 April 2007, an Interest Rate SWAP ("IRS") arrangement (swapping floating rate for fixed rate) was entered into by the Manager with a licensed financial institution ("The Bank") whereby the interest rate was 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 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 difference will be payable by QCT to The Bank and where the fixed rate is lower than the floating rate, the difference will be paid by The Bank to QCT.

The difference between the fixed rate and the floating rate is charged or credited to the income statement over the 6 month period.

B11 CHANGES IN MATERIAL LITIGATION

There is no pending material litigation as at the date of issuance of this report.

B12 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.

QCT had, on 6 June 2008, announced an income distribution of RM13,108,402 (or 3.36 sen per unit) being 99.2% of QCT's distributable income for the period from 1 January 2008 to 23 June 2008. The income distribution was paid on 18 July 2008.

Details of the interim distribution declared on 6 June 2008 and paid on 18 July 2008 are as follows :

	RM
Gross revenue from 1/1/08 to 23/6/08	24,103,828
Interest income from 1/1/08 to 23/6/08	295,336
	<u>24,399,164</u>
Expenses	(11,185,059)
Total distributable income for the period 1/1/08 to 23/6/08	<u><u>13,214,105</u></u>
Interim distribution (approximately 99.2% of the total distributable income)	13,108,402
of which ;	
Taxable distributable income	12,813,066
Tax exempt distributable income	295,336
Total units in circulation as at 23 June 2008	390,131,000
Gross DPU (sen)	3.36
Annualised DPU (sen)	7.01

The distributable income from 24 June 2008 onwards will be included in the next income distribution.

B13 AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of directors dated 23 July 2008.

BY ORDER OF THE BOARD

LEE FONG YONG
COMPANY SECRETARY (MAICSA No. 7005956)
Quill Capita Management Sdn Bhd
(Company No: 737252-X)
(As Manager of Quill Capita Trust)
Kuala Lumpur

Dated : 23 July 2008