

MRCB-QUILL REIT  
(FORMERLY KNOWN AS QUILL CAPITA TRUST)  
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 31 DECEMBER 2015 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter 31.12.2015	Quarter 31.12.2014	To Date 31.12.2015	To Date 31.12.2014
	RM	RM	RM	RM
<b>TOTAL INCOME</b>				
Gross revenue	32,578,226	18,183,268	115,174,498	70,249,414
Property operating expenses	(5,784,948)	(4,769,441)	(24,902,859)	(16,924,236)
Net property income	26,793,278	13,413,827	90,271,639	53,325,178
Interest income	306,812	97,880	927,484	724,223
Gain on divestment of properties	-	-	594,734	-
Surplus on revaluation of investment properties	6,677,375	6,120,279	6,677,375	6,120,279
	<u>33,777,465</u>	<u>19,631,986</u>	<u>98,471,232</u>	<u>60,169,680</u>
<b>TOTAL EXPENDITURE</b>				
Manager's fee	(2,426,784)	(1,330,629)	(8,553,750)	(5,389,038)
Trustee's fee	(125,014)	(64,977)	(436,003)	(257,451)
Finance costs	(7,939,250)	(3,452,932)	(27,983,598)	(14,053,911)
Valuation fees	(100,503)	(47,502)	(243,000)	(190,000)
Auditors' remuneration	(47,483)	(30,863)	(140,960)	(123,500)
Tax agent's fee	(16,123)	(3,421)	(34,128)	81,600
Administrative expenses	(70,129)	(75,768)	(381,793)	45,642
	<u>(10,725,286)</u>	<u>(5,006,092)</u>	<u>(37,773,232)</u>	<u>(19,886,658)</u>
<b>INCOME BEFORE TAX</b>	23,052,179	14,625,894	60,698,000	40,283,022
Income tax expense	-	-	-	-
<b>NET INCOME FOR THE PERIOD</b>	<u>23,052,179</u>	<u>14,625,894</u>	<u>60,698,000</u>	<u>40,283,022</u>
<b>OTHER COMPREHENSIVE INCOME</b>				
(Loss)/Gain on remeasurement of financial derivatives (a)	(3,594,644)	149,635	1,056,288	201,009
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u>(3,594,644)</u>	<u>149,635</u>	<u>1,056,288</u>	<u>201,009</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>19,457,535</u>	<u>14,775,529</u>	<u>61,754,288</u>	<u>40,484,031</u>
<b>Net income for the period is made up as follows:</b>				
Realised	16,374,804	8,505,615	54,020,625	34,162,743
Unrealised	6,677,375	6,120,279	6,677,375	6,120,279
<b>EARNINGS PER UNIT (b)</b>				
- after manager's fees (sen)	3.49	3.75	10.18	10.33
- before manager's fees (sen)	3.85	4.09	11.62	11.71
<b>EARNINGS PER UNIT (REALISED) (c)</b>				
- after manager's fees (sen)	2.48	2.18	9.06	8.76
- before manager's fees (sen)	2.84	2.52	10.50	10.14
<b>INCOME DISTRIBUTION</b>				
Gross (sen)				
-Interim income distribution	-	-	(22,017,121)	(15,995,371)
-Proposed final distribution of income	(13,167,864)	(7,764,329)	(28,902,350)	(16,697,607)
	<u>(13,167,864)</u>	<u>(7,764,329)</u>	<u>(50,919,471)</u>	<u>(32,692,978)</u>
<b>Income distribution per unit</b>				
Gross (sen)				
-Interim income distribution	-	-	4.10 (d)	4.10
-Proposed final distribution of income	1.99	1.99	4.37 (e)	4.28
<b>Total distribution</b>	<u>1.99</u>	<u>1.99</u>	<u>8.47</u>	<u>8.38</u>

- (a) This relates to the (loss)/gain on the remeasurement of the fair values of interest rate swaps ("IRSs"). (please refer Note B15)
- (b) Earnings Per Unit for the quarter/period is computed based on the Net Income for the quarter/period divided by average units in circulation of 661,381,000/595,983,740 units during the quarter/period. The manager's fee of RM917,919 payable in units as proposed in the 2nd quarter has been paid in cash.
- (c) Earnings Per Unit (Realised) for the quarter/period is computed based on the Realised Net Income for the quarter/period divided by average units in circulation of 661,381,000/595,983,740 units during the quarter/period. The manager's fee of RM917,919 payable in units as proposed in the 2nd quarter has been paid in cash.
- (d) Income distribution of 4.10 sen per unit being the distribution of income for the period 1 January 2015 to 30 June 2015 were paid on 15 April 2015 (of 1.88 sen per unit) and 28 August 2015 (of 2.22 sen per unit) respectively.
- (e) Proposed final gross distribution of 4.37 sen per unit relates to the distribution of income for the period 1 July 2015 to 31 December 2015, will be payable on 29 February 2016 to all unitholders as at book closure date on 11 February 2016. Pls refer to Note B17 for details of the distribution.

The Condensed Consolidated Statement Of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached to the financial statements.

**MRCB-QUILL REIT**  
**(FORMERLY KNOWN AS QUILL CAPITA TRUST)**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015 (UNAUDITED)**

	<b>AS AT END OF CURRENT QUARTER  31.12.2015 UNAUDITED RM</b>	<b>AS AT PRECEDING FINANCIAL YEAR END  31.12.2014 AUDITED RM</b>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	236,582	17,376
Investment properties	1,569,800,000	837,700,000
Derivative assets (i)	1,594,224	1,224,193
Lease receivable	2,000,864	-
	<u>1,573,631,670</u>	<u>838,941,569</u>
<b>CURRENT ASSETS</b>		
Trade and other receivables	5,715,498	6,142,148
Derivative assets (i)	686,257	-
Lease receivable	409,684	-
Deposits with licensed financial institution	38,636,273	14,863,008
Cash and cash equivalents	6,227,690	8,425,988
	<u>51,675,402</u>	<u>29,431,144</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	13,642,211	12,241,188
Security deposits	2,515,677	2,263,561
	<u>16,157,888</u>	<u>14,504,749</u>
<b>NET CURRENT ASSETS</b>	35,517,514	14,926,395
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	689,721,862	305,113,452
Security deposits	15,572,463	7,503,503
	<u>705,294,325</u>	<u>312,616,955</u>
<b>NET ASSETS</b>	<u>903,854,859</u>	<u>541,251,009</u>
Represented by:		
<b>UNITHOLDERS' FUND</b>		
Unitholders' capital	751,276,357	411,712,067
Undistributed and Non-distributable income	152,578,502	129,538,942
	<u>903,854,859</u>	<u>541,251,009</u>
<b>NET ASSET VALUE PER UNIT (before proposed final income distribution)</b>	1.3666	1.3874
<b>NET ASSET VALUE PER UNIT (after proposed final income distribution)</b>	1.3229	1.3446
<b>NUMBER OF UNITS IN CIRCULATION</b>	661,381,000	390,131,000

(i) These relate to the fair values of the IRSs (Note B15).

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached to the financial statements.

**MRCB-QUILL REIT  
(FORMERLY KNOWN AS QUILL CAPITAL TRUST)  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE  
FOR THE PERIOD ENDED 31 DECEMBER 2015 (UNAUDITED)**

	Unitholders' Capital	Distributable		Non-Distributable		Total Undistributed and Non-Distributable Income	Unitholders' Funds
	RM	Undistributed Income Realised	Undistributed Income Unrealised	Undistributed Income Unrealised	Net Fair Value (Loss) / Gain On Derivatives	RM	RM
<b>As at 1 January 2015</b>	411,712,067	27,069,066	101,245,683	1,224,193	129,538,942	541,251,009	
Issuance of new units on 30 March 2015	342,000,000	-	-	-	-	342,000,000	
Issuance of new units expenses	(2,435,710)	-	-	-	-	(2,435,710)	
Total Comprehensive Income for the period	751,276,357	54,020,625	6,677,375	1,056,288	61,754,288	61,754,288	
		81,089,691	107,923,058	2,280,481	191,293,230	942,569,587	
<b>Unitholders' transactions:</b>							
Distribution to unitholders	-	(38,714,728)	-	-	(38,714,728)	(38,714,728)	
<b>As at 31 December 2015</b>	751,276,357	42,374,963	107,923,058	2,280,481	152,578,502	903,854,859	
<b>As at 1 January 2014</b>	411,712,067	25,599,301	95,125,404	1,023,184	121,747,889	533,459,956	
Total Comprehensive Income for the period	-	34,162,743	6,120,279	201,009	40,484,031	40,484,031	
	411,712,067	59,762,044	101,245,683	1,224,193	162,231,920	573,943,987	
<b>Unitholders' transactions:</b>							
Distribution to unitholders	-	(32,692,978)	-	-	(32,692,978)	(32,692,978)	
<b>As at 31 December 2014</b>	411,712,067	27,069,066	101,245,683	1,224,193	129,538,942	541,251,009	

The Condensed Consolidated Statement of Changes in Net Asset Value should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached to the financial statements.

**MRCB-QUILL REIT  
(FORMERLY KNOWN AS QUILL CAPITA TRUST)  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 31 DECEMBER 2015 (UNAUDITED)**

	<b>CURRENT YEAR TO DATE 31.12.2015 RM</b>	<b>PRECEDING YEAR TO DATE 31.12.2014 RM</b>
<b>OPERATING ACTIVITIES</b>		
Income before tax	60,698,000	40,283,022
Adjustments for:		
Finance costs	27,983,598	14,053,911
Depreciation	13,794	8,806
Interest income	(927,484)	(724,223)
Gain on divestment of properties	(594,734)	-
Surplus on revaluation of investment properties	<u>(6,677,375)</u>	<u>(6,120,279)</u>
Operating cash flows before changes in working capital	80,495,799	47,501,237
Receivables	36,958	(3,257,689)
Payables	<u>6,457,535</u>	<u>110,744</u>
Cash flows from operations	86,990,292	44,354,292
Income tax paid	-	-
Net cash flows generated from operating activities	<u>86,990,292</u>	<u>44,354,292</u>
<b>INVESTING ACTIVITIES</b>		
Additions to investment properties	(751,922,625)	(6,019,721)
Proceed from divestment of QB10	27,300,000	-
Purchase of plant & equipment	(233,000)	(16,700)
Investment in finance lease	(2,410,548)	-
Interest income	887,706	733,190
Net cash flow used in investing activities	<u>(726,378,467)</u>	<u>(5,303,231)</u>
<b>FINANCING ACTIVITIES</b>		
Distribution to unitholders	(38,714,728)	(32,692,978)
Finance costs paid	(28,886,420)	(13,984,500)
Proceeds from borrowings	534,000,000	15,000,000
Repayment of borrowings	(145,000,000)	(15,000,000)
Proceeds from issuance of new units	342,000,000	-
Expenses paid on issuance of new units	<u>(2,435,710)</u>	<u>-</u>
Cash flows generated from/(used in) financing activities	660,963,142	(46,677,478)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	21,574,967	(7,626,417)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	23,288,996	30,915,413
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>44,863,963</u>	<u>23,288,996</u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	38,636,273	14,863,008
Cash on hand and at banks	<u>6,227,690</u>	<u>8,425,988</u>
	<u>44,863,963</u>	<u>23,288,996</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes to the financial statements.

**MRCB-QUILL REIT  
(FORMERLY KNOWN AS QUILL CAPITA TRUST)  
EXPLANATORY NOTES FOR TWELVE MONTH ENDED 31 DECEMBER 2015**

**A1 BASIS OF PREPARATION**

The financial statements have been prepared under the historical cost convention except for investment properties and derivative financial instruments which are stated at fair value and presented in Ringgit Malaysia (RM).

The financial statements comply with the Malaysian Financial Reporting Standards ("MFRS") 134 "Interim Financial Reporting", provisions of the Trust Deed and the Securities Commission's Guidelines on Real Estate Investment Trusts and should be read in conjunction with MRCB-Quill Reit's ("MQReit") audited financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to these unaudited condensed consolidated financial statements.

**A2 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of MQReit and its special purpose entities ("SPEs"). The SPEs were established for the specific purpose of raising financing on behalf of MQReit. A SPE is consolidated if, based on an evaluation of the substance of its relationship with MQReit and the SPE's risks and rewards, MQReit concludes that it controls the SPE. SPEs controlled by MQReit were established under terms that impose strict limitations on the decision-making powers of the SPE's management resulting in MQReit receiving all of the benefits related to the SPE's operations and net assets.

**A3 CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted in the interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2014.

**A4 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2014**

The audit report of the financial statements for the preceding year ended 31 December 2014 was unqualified.

**A5 SEASONALITY OR CYCLICALITY OF OPERATIONS**

The business operations of MQReit were not materially affected by seasonal or cyclical factors during the current quarter. Seasonal or cyclical factors include but are not limited to changes in rental demand and supply of properties which depend on market conditions, economic cycle, financial performance of its tenants, availability of credit facilities and interest rate environment.

**A6 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 MQReit.

**A7 CHANGES IN ESTIMATES OF AMOUNTS REPORTED**

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

## **A8 CHANGES IN DEBT AND EQUITY**

Except as disclosed in the above and note B14, there were no repurchase, resale and repayment of debt and equity instruments for the current quarter .

## **A9 INCOME DISTRIBUTION POLICY**

In line with the Trust Deed dated 9 October 2006, effective from financial year 2009, MQReit intends to distribute at least 90% (or any other lower percentage at the discretion of the Manager) of its distributable income at least semi-annually, or at such other intervals as the Manager may determine.

## **A10 SEGMENT REPORTING**

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

## **A11 VALUATION OF INVESTMENT PROPERTIES**

The investment properties are valued by independent registered valuers and the differences between the valuations and the book values of the respective properties are charged or credited to the profit or loss in the statement of comprehensive income.

For the quarter and financial year ended 31 December 2015, the investment properties were valued based on valuation performed by two independent registered valuers, i.e. DTZ Nawawi Tie Leung Property Consultants Sdn. Bhd., and CH William Talhar & Wong on 31 December 2015. A surplus of RM6,677,375 was credited to the statement of comprehensive income.

## **A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 31 DECEMBER 2015**

- (A) As announced on 13 November 2015, the Board of Directors of MRCB Quill Management Sdn Bhd ("MQM" or "the Manager"), the management company of MRCB-Quill Reit ("MQREIT") on behalf of MQREIT, has appointed Quill Construction Sdn Bhd ("QCSB") as Consultant and Project Manager for consultancy and project management services for the proposed multi-storey car park construction at Quill Building 2-HSBC at No. 3500, Jalan Teknokrat 3,63000 Cyberjaya for a contract sum of RM925,614.00 exclusive of GST ("Appointment").

The transaction with QCSB is regarded as a Related Party Transaction ("RPT") by virtue of QCSB being a company within the Quill Group of Companies and is related to MQREIT's major unitholders namely Quill Properties Sdn Bhd ("QPSB"), Quill Land Sdn Bhd ("QLSB"), Quill Estates Sdn Bhd ("QESB"), as well as Quill Resources Holding Sdn Bhd ("QRHSB").

- (B) As announced on 3 December 2015, Maybank Trustees Berhad ("MTB"), acting as trustee for MQREIT, has on 3 December 2015, entered into Heads of Agreement ("HOA") with the Vendor for the proposed acquisition of a 33 storey office tower known as Menara Shell together with a 5 storey podium and 4 storey basement car park, bearing the postal address of No. 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur, Wilayah Persekutuan, Malaysia (collectively "the Property") erected on part of a freehold land held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan KL for a purchase consideration of RM640 million ("Proposed Acquisition").

The purchase consideration of RM640 million for the Proposed Acquisition is based on valuation and will be satisfied by MQREIT through a combination of cash and issuance of new MQREIT units.

**A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 31 DECEMBER 2015 (CONT'D)**

The Proposed Acquisition shall be conditional upon, among others, approvals being obtained from the shareholders of the Vendor and MRCB, unitholders of MQREIT and the relevant authorities.

The Proposed Acquisition is subject to a SPA to be entered into between MTB and the Vendor (collectively, the "Parties" within 30 business days from the date of the HOA ("Cut-Off Date") with an automatic extension of a further period of 30 business days in the event that MQREIT is unable to complete its due diligence investigations by the Cut-Off Date, and thereafter, such further extension of time as may be mutually agreed.

During this time, or up to the date when the Parties have entered into a definitive SPA, the Parties agree to co-operate exclusively with each other with respect to the Proposed Acquisition.

A detailed announcement will be made upon signing of the SPA.

Astramina Advisory Sdn. Bhd. has been appointed as Transaction Arranger for the Proposed Acquisition.

**A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 31 DECEMBER 2015**

There were no significant events subsequent to the quarter ended 31 December 2015.

**A14 CHANGES IN CONTINGENT LIABILITIES**

There are no contingent liabilities to be disclosed.

**A15 CAPITAL COMMITMENTS**

The amount of capital commitment not provided for in the condensed consolidated financial statements as at 31 December 2015 are as follows:

	As at 31 December 2015
	RM
Approved and contracted for :	
Investment properties	<u>3,160,527</u>

## **B1 REVIEW OF PERFORMANCE**

### **Quarter and year to date results**

MQRreit recorded total revenue of RM32.58 million and property operating expenses of RM5.78 million respectively for the current quarter ended 31 December 2015. Realised income of RM16.37 million was achieved. Finance costs of RM7.94 million and manager's fee of RM2.43 million were incurred during the quarter.

As compared with the preceding year corresponding quarter ("4Q 2014"), the revenue is higher by 79.2% mainly due to additional revenue arising from the acquisition of Platinum Sentral on 30 March 2015, higher revenue from Plaza Mont' Kiara ("PMK") and rental rate increases for QB2, QB3 and Tesco. Property operating expenses is higher by 21.3% due to acquisition of Platinum Sentral. Overall, the net property income increased by 99.7%. Finance costs is higher by 129.9% during the current quarter mainly due to interest on additional borrowings drawdown on 30 March 2015 (note B14(c)). Interest income is higher by 213.5% mainly due to higher bank balances in the current quarter. The realised income of RM16.37 million is 92.5% higher than 4Q 2014 mainly due to higher net property income, higher interest income, net of higher finance costs, manager's fee, trustee's fee and valuation fee in the current quarter.

As compared with the immediate preceding quarter ("3Q 2015"), revenue of RM32.58 million is higher by 2.4% mainly due to rental rate increases for some tenants in the current quarter. Property operating expenses is lower by 8.6% due to cost savings from Platinum Sentral. Overall, the net property income increased by 5.1%. Interest income is lower by 12.8% mainly due to lower bank balance after payment of income distribution in the previous quarter. Finance costs is lower by 4.6% mainly due to reduction in borrowings by RM30 million in 4Q 2015. The realised income of the current quarter is higher by 4.1% mainly due to higher net property income offset by lower finance costs.

As compared with the last financial year ended 31 December 2014 ("FY 2014"), revenue of RM115.17 million is higher by 64.0% mainly due additional revenue arising from the acquisition of Platinum Sentral on 30 March 2015, higher revenue from PMK and rental rate increases for QB2, QB3 and Tesco. Property operating expenses is higher by 47.1% mainly due to acquisition of Platinum Sentral and higher repairs and maintenance expenses from PMK. Overall, the net property income increased by 69.3%. Finance costs is higher by 99.1% due to additional borrowings drawdown (Note B14(c)). Administrative expenses is higher mainly due to write back of over-accrued fee in FY 2014. The realised income of RM54.02 million is higher by 58.1% mainly due to higher net property income, higher interest income, gain on divestment of QB10, net of higher finance costs, manager's fee, trustee's fee and administrative expenses.

The performance of MQRreit for the period ended 31 December 2015 is in line with the investment objective of MQRreit.

## **B2 INVESTMENT OBJECTIVES AND STRATEGIES**

The investment objective of MQRreit is to acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value per unit. There has been no change in the investment objective of MQRreit since the date of the Annual Report for 2014.

The Manager will continue to focus on its portfolio management and acquisition growth strategy, active asset management strategy and capital management strategy to achieve the objective of MQRreit. There has been no change in the strategies employed by the Manager since the date of the Annual Report for 2014 as they remain relevant in the current market conditions.



### **B3 REVIEW OF THE MARKETS IN WHICH MQREIT INVESTS IN DURING THE PERIOD AND GENERAL ASSESSMENT OF THE FUTURE PROSPECTS OF THESE MARKETS**

The office sector in Kuala Lumpur experienced a stable occupancy rate of 81% despite the 3.4 million sq ft office space that came into the market in second quarter of 2015. This has brought the total office space in Kuala Lumpur to 76 million sq ft. The average rental rate in the Kuala Lumpur city centre has also remained stable at RM6.25 per sq ft. To stay competitive in the midst of a tenant favoured market, building owners are refurbishing older buildings to improve the building's attractiveness while offering better services and competitive rates.

(Sources : DTZ Nawawi Tie Leung, Property Market Overview 2015 )

#### Review of retail market - Klang Valley

Kuala Lumpur currently houses more than 25 million sq ft of retail space, half of the overall supply in Klang Valley. In early 2015, Kuala Lumpur retail property market saw some significant activities including the closure of the old BB Plaza due to the MRT construction, the reopening of several refurbished malls - Jakel Textile Mall and Sunway Putra Mall. Other notable new malls in Greater Kuala Lumpur include Mitsui Outlet Park in Sepang and Ikea in Cheras. The average occupancy rate of retail malls in Kuala Lumpur was generally stable in 2014 - 2015, hovering between 91% and 92%. Rental rates for retail spaces in the city centre currently range between RM7.00 - RM25.00 per sq ft.

(Sources : DTZ Nawawi Tie Leung, Property Market Overview 2015 )

#### Review of retail market - Penang

The National Property Information Centre (NAPIC) reported that the total retail space supply in Penang stood at 18.0 million sq ft as at second quarter of 2015. The supply encompasses retail malls, commercial complexes and hypermarkets, with retail malls having a total retail space of approximately 11.5 million sq ft. Rental rates for retail malls in Penang have stayed competitive with prime malls commanding overall rental rates of between RM6.00 - RM8.00 per sq ft, while individual prime shop lots are fetching rental rates of RM15.00 to RM20.00 per sq ft per month.

(Sources : DTZ Nawawi Tie Leung, Property Market Overview 2015 )

### **B4 PROSPECTS**

The Kuala Lumpur office market occupancy rate is expected to experience some downward pressures in anticipation of a challenging economic environment in 2016 and the impending future supply of office space. Notwithstanding the above, MQREIT's occupancy rate is expected to remain stable. The Manager will continue to focus on its active asset management programme as part of its tenant retention strategy as well as to continue to explore acquisition opportunities to grow the Fund.

Based on the lease expiry profile with the inclusion of Platinum Sentral into the Trust's portfolio, 25% of the total net lettable area is due for renewal in 2015. As at 31 December 2015, 94% of these leases have been renewed while 6% has not been renewed. For 2016, 7% of the total net lettable area is due for renewal in 2016 which are mainly due in the second quarter of 2015. The Manager has started discussion with these tenants with the intention to lock in the tenancy ahead of its expiry.

## **B5 REVENUE RECOGNITION**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to MQReit and the revenue can be reliably measured.

Revenues from the rental of investment properties, service charges, car park income and utilities recovery are recognised on an accrual basis.

## **B6 PROFIT FORECAST / PROFIT GUARANTEE VARIANCE**

### **(a) Profit forecast**

There has been no profit forecast issued by MQReit for the financial year 2015.

### **(b) Profit guarantee**

MQReit is not involved in any arrangement whereby it provides profit guarantee.

## **B7 TAXATION**

Under Section 61A of the Income Tax Act 1967, the undistributed income of a REIT are exempted 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 MQReit intends to distribute at least 90% of its total income for the year to its unitholders, no provision for tax has been made in the current quarter.

## **B8 PROFIT ON SALE OF INVESTMENTS IN UNQUOTED SECURITIES/PROPERTIES**

There were no disposals of investments in unquoted securities/properties during the current quarter and period to date.

## **B9 PARTICULARS OF PURCHASE OR DISPOSAL OF INVESTMENT IN QUOTED SECURITIES**

There were no purchases or disposals of investments in quoted securities during the current quarter and period to date.

## **B10 STATUS OF CORPORATE PROPOSALS**

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

## **B11 UTILISATION OF PROCEEDS RAISED FROM ANY NEW ISSUANCE**

There were no issuance of new units during the quarter.

## **B12 CIRCUMSTANCES WHICH MATERIALLY AFFECT ANY INTEREST OF THE UNITHOLDERS**

As at the date of this report, the directors of the Manager are not aware of any circumstances not otherwise disclosed in this report which would materially affect the interest of the unitholders.

## B13 COMPOSITION OF INVESTMENT PORTFOLIO AS AT 31 DECEMBER 2015

As at 31 December 2015, MQReit's portfolio comprises of ten buildings as follows:

Investment properties	Cost of Investment	Market Value /Net Carrying amount as at 31 December 2015	Market value /Net Carrying amount as % of NAV
	RM	RM	
<u>Commercial buildings</u>			
1 QB1 -DHL 1 & QB 4-DHL2	109,100,000	126,000,000	13.94%
2 QB 2- HSBC	107,500,000	120,700,000	13.35%
3 QB 3- BMW	59,400,000	75,500,000	8.35%
4 Wisma Technip	125,000,000	172,000,000	19.03%
5 Part of Plaza Mont' Kiara	90,000,000	114,000,000	12.61%
6 QB5- IBM	43,000,000	45,200,000	5.00%
7 Tesco Building Penang	132,000,000	140,000,000	15.49%
8 Platinum Sentral	740,000,000	750,000,000	82.98%
<u>Industrial building</u>			
9 QB 8 -DHL XPJ	28,800,000	26,400,000	2.92%
	<u>1,434,800,000</u>	<u>1,569,800,000</u>	

Capital expenditure of RM1,049,171 was incurred during the quarter. The NAV as at 31 December 2015 is RM903,854,859.

## B14 BORROWINGS AND DEBT SECURITIES

	As at end of period ended 31 December 2015
	RM
<b>Non-current Liabilities:</b>	
<u>RM270 million CP/MTN Programme</u>	
Face value of CPs and MTNs issued	195,000,000
Discount	(2,814,219)
Cash proceeds	192,185,781
Accretisation of interest expenses	1,812,828
	<u>193,998,609</u>
Transaction costs b/f	(232,221)
Transaction costs on CP issued during the year	(18,332)
Amortisation of transaction costs during the year	162,200
Redemption of RM5million CP on 3 June 2015	(5,000,000)
	<u>188,910,256</u>
<u>RM150 million Term Loan</u>	
Term Loan drawdown	117,000,000
Transaction cost c/f	(720,892)
	<u>116,279,108</u>
Amortisation of transaction costs during the year	196,607
	<u>116,475,715</u>

**B14 BORROWINGS AND DEBT SECURITIES (CONT'D)**

As at end of period  
ended 31 December  
2015  
RM

**Non-current Liabilities (cont'd)****RM290 million Senior CP/MTN Programme**

Face value of CPs issued/rollover on 30 December 2015	279,000,000
Discount	(2,949,298)
Cash proceeds	<u>276,050,702</u>
Accretisation of interest expenses	<u>64,820</u>
	276,115,522
Transaction costs on CP issued during the year	(1,422,002)
Amortisation of transaction costs during the year	<u>237,000</u>
	<u><u>274,930,520</u></u>

**RM450 million Junior CP/MTN Programme**

Face value of CPs issued on 30 March 2015	140,000,000
Discount	(3,373,501)
Cash proceeds	<u>136,626,499</u>
Accretisation of interest expenses	<u>3,373,501</u>
	140,000,000
Transaction costs on CP issued during the year	(83,244)
Amortisation of transaction costs during the year	83,244
Redemption of RM140million CP on 30 September 2015	<u>(140,000,000)</u>
	<u><u>-</u></u>

**Fixed-Rate Subordinated Term Loan Facility of upto RM250 million**

Term Loan drawdown on 30 September 2015	110,000,000
Transaction costs on term loan	(630,305)
	<u>109,369,695</u>
Amortisation of transaction costs during the year	<u>35,676</u>
	<u><u>109,405,371</u></u>

**Total:** 689,721,862

**(a) CP/MTN Programme of up to RM270 million ("RM270 million Programme")**

On 18 July 2011, MQRreit through its SPE, Kinabalu Capital Sdn. Bhd. ("Kinabalu"), established a CPs/MTNs programme of up to RM270 million ("RM270 million Programme") for five years.

Todate, CPs/MTNs totalling RM195 million were issued by Kinabalu, details as follows:

- RM12 million nominal values of CPs issued on 5 September 2011. The effective interest rate for the RM12 million CPs is 3.34% p.a. due to the IRS arrangement as disclosed in Note B15.
- RM60 million of MTNs issued on 5 September 2011 for 3 years, at interest rate of 4.9% p.a..
- RM118 million nominal values of CPs issued on 30 November 2011. The effective interest rate for the RM118 million CP is 3.34% p.a. due to the IRS arrangement as disclosed in Note B15.
- RM5 million nominal values of CPs issued on 3 March 2015 at the interest rate of 4.19% p.a.; and has been repaid on 3 June 2015.

## **B14 BORROWINGS AND DEBT SECURITIES (CONT'D)**

### **(a) CP/MTN Programme of up to RM270 million ("RM270 million Programme") (cont'd)**

The transaction costs relating to the programme are amortised over the tenure of the programme.

The RM270 million Programme are secured borrowings.

There was no drawdown of the facility during the quarter.

### **(b) Fixed Rate Term Loan Facility Up to RM150 million ("RM150 million Term Loan")**

On 18 July 2013, MQReit through its SPE, Trusmadi Capital Sdn. Bhd. ("Trusmadi") established a RM150 million fixed rate term loan facility agreement for five years ("RM150 million Term Loan").

On 13 September 2013, Tranche 1 of the facility of RM117 million at interest rate of 4.6% was drawdown to repay the RM117 million MTN outstanding under the RM134 million CP/MTN Programme which matured in September 2013. Tranche 2 will be used for capital expenditure and investments at the interest rate at MGS + 1.4% per annum.

The transaction costs relating to the programme are amortised over the tenure of the programme.

The RM150 million Programme are secured borrowings.

There was no drawdown of the facility during the quarter.

### **(c) Senior CP/MTN Programme of up to RM290 million ("Senior CP/MTN Programme"), Junior CP/MTN Programme of up to RM450 million ("Junior CP/MTN Programme") and Fixed-Rate Subordinated Term Loan Facility of up to RM250 million**

On 13 March 2015, MQReit through its SPE, Murud Capital Sdn Bhd ("Murud") (formerly known as Gandalf Capital Sdn Bhd) established a RM290 million Senior CP/MTN Programme and Junior CP/MTN Programme of RM450 million for 7 years.

On 30 March 2015, RM279 million nominal values of Senior CPs were issued at an interest rate of 4.13% p.a.. A Junior CP of RM140 million nominal values were issued at an interest rate of 4.78% p.a.(effective rate is 4.9% p.a.). This Junior CP has been redeemed on 30 September 2015 upon its maturity on the same day, and has been refinanced by a Subordinated Term loan RM110 million at the interest rate of 4.9% p.a.; and balance via internal funds.

On 21 April 2015, MRCB-Quill Reit entered into two interest rate swap arrangements, swapping floating rate for fixed rate for a notional amount of RM139.5 million respectively, in relation to the RM279 million Senior CPs issued by Murud. MRCB-Quill Reit will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MRCB-Quill Reit. These interest rate swap arrangements commenced on 21 April 2015 and will mature on 30 March 2020.

The transaction costs relating to the programme are amortised from the dates of issuance of the CPs to the maturity of the programme. The RM290 million Senior CP, RM450 million Junior CP and RM110 million Subordinated Term Loan are secured borrowings.

## B15 DERIVATIVE FINANCIAL INSTRUMENTS

As part of the active interest rate management strategy of MQReit, the following Interest Rate Swap ("IRS") arrangements have been entered into and are still in place as at the reporting date:

- (i) On 21 November 2011, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM65 million ("IRS No. 5") was entered into in relation to part of the RM130 million CPs issued by Kinabalu. Pursuant to IRS No. 5, MQReit will pay a fixed rate of 3.34% p.a. to the Bank whilst the Bank will pay a floating rate to MQReit. IRS No. 5 commenced on 30 November 2011 and will mature on 5 September 2016.
- (ii) On 21 November 2011, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM65 million ("IRS No. 6") was entered into in relation to part of the RM130 million CPs issued by Kinabalu. Pursuant to IRS No. 6, MQReit will pay a fixed rate of 3.34% p.a. to the Bank whilst the Bank will pay a floating rate to MQReit. IRS No. 6 commenced on 30 November 2011 and will mature on 5 September 2016.
- (iii) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 7") was entered into in relation to the RM279 million CPs issued by Murud. Pursuant to IRS No. 7, MQReit will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MQReit. IRS No. 7 commenced on 21 April 2015 and will mature on 30 March 2020.
- (iv) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 8") was entered into in relation to the RM279 million CPs issued by Murud. Pursuant to IRS No. 8, MQReit will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MQReit. IRS No. 7 commenced on 21 April 2015 and will mature on 30 March 2020.

The differences between the floating rate and the fixed rate of the respective IRSs are settled between MQReit and the Bank on semi-annually for IRS No. 5 and IRS No. 6; and quarterly basis for IRS No. 7 and IRS No. 8 respectively, and are charged or credited to profit or loss accordingly.

The risk associated with the IRSs above would be credit risk, which is the counterparty risk of the financial institutions with whom the IRSs were contracted. However, the Manager has taken precaution to mitigate this risk by entering the IRSs contracts with reputable licensed financial institutions.

The fair values of the IRSs and the maturity profile as at 31 December 2015 are as follows:

	Fair values of derivative assets as at 31 December 2015 RM
Within one year	686,257
Two to three years	-
More than 3 years	1,594,224
	<u>2,280,481</u>

MQReit was eligible to apply hedge accounting for its IRSs, hence changes in fair values of the IRSs were recognised in other comprehensive income.

## B16 CHANGES IN MATERIAL LITIGATION

The Manager is not aware of any pending material litigation as at the date of issuance of this report.

## B17 INCOME DISTRIBUTION

MQReit intends to distribute at least 90% of its distributable income at least semi-annually, or at such other intervals as the Manager may determine.

An interim income distribution of RM7,334,463 or 1.88 sen per unit, being 98.75% of the realised income for the period 1 January 2015 to 23 March 2015 was made on 15 April 2015. The said distribution was made to existing unitholders prior to the issuance of new units and private placements of units on 30 March 2015.

Another interim income distribution of RM14,682,658 or 2.22 sen per unit is proposed, being 95.33% of the realised income for the period 24 March 2015 to 30 June 2015, was made on 28 August 2015 to all existing 661,381,000 unitholders.

A final income distribution of RM28,902,350, or 4.37 sen per unit is proposed, being income distribution for the period 1 July 2015 to 31 December 2015. The proposed final income distribution has been approved by the Board and the Trustee on 21 January 2016 and will be payable on 29 February 2016 to all unitholders as at book closure date on 11 February 2016.

The total gross distribution relating to the financial year ended 31 December 2015 amounted to RM50,919,471 or 8.47 sen per unit, being approximately 94.3% of the realised income after taxation of MQReit of RM54,020,625 for the financial year ended 31 December 2015.

Distributions are from the following sources :

	01.01.2015 to 31.12.2015	
	RM	
Gross revenue		115,174,498
Interest income		927,484
Gain on divestment of properties		594,734
Property operating expenses and trust expenses		(62,676,091)
		<u>54,020,625</u>
Less: 1st Interim distribution paid on 15 April 2015		(7,334,463)
Less: 2nd Interim distribution paid on 28 August 2015		(14,682,658)
		<u>32,003,504</u>
Less : Undistributable and non-distributable income		(3,101,154)
Balance for income distribution		<u><u>28,902,350</u></u>
of which	RM	
- taxable distribution	28,518,531	4.31 sen
- tax exempt distribution	<u>383,819</u>	<u>0.06 sen</u>
	<u><u>28,902,350</u></u>	<u><u>4.37 sen</u></u>

Income distribution to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax as follows:

Resident and non-resident individuals	10%
Resident and non-resident institutional investors	10%
Resident companies (flow through)	0%
Non-resident companies	25%

**B18 CHANGES IN NAV AND MARKET PRICE SINCE THE LAST REPORTING DATE**

	As at 31 December 2015	As at 30 September 2015
NAV (RM)	903,854,859	884,397,324
Number of units in circulation (unit)	661,381,000	661,381,000
NAV per unit (RM)	1.3229	1.3134
(after provision for distribution)		
Market price (RM)	1.08	1.13

NAV per unit is arrived at by dividing the NAV with the number of units in circulation as at the date of reporting.

The changes in NAV per unit is mainly due to surplus on revaluation of investment properties.

The Manager believes that the movement in market price is due mainly to changes in market sentiment.

**B19 MANAGER'S FEE AND SOFT COMMISSION**

Pursuant to the Trust Deed, the Manager is entitled to receive from MQReit the following fees:

- (i) Base fee of 0.4% per annum of the gross asset value, payable monthly in arrears;
- (ii) Performance fee of 3% per annum on the net investment income, payable semi-annually in arrears.
- (iii) Acquisition fee of 1% of the acquisition value of any asset, being authorised investments, acquired by MQReit; and
- (iv) Divestment fee of 0.5% of the disposal value of any asset divested by MQReit.

Total fees accrued to the Manager (exclusive of 6% GST) for the quarter ended 31 December 2015 are :

	RM
Base fee	1,614,043
Performance fee	812,741
	<u>2,426,784</u>

During the quarter, the Manager did not receive any soft commission from its brokers/dealers, by virtue of transaction conducted for MQReit.

**B20 TRUSTEE'S FEE**

Trustee's fee is payable to Maybank Trustees Berhad (Formerly known as Mayban Trustees Berhad) ("Trustee"), which is computed at 0.03% per annum on the first RM2.5 billion gross asset value and 0.02% per annum on the gross asset value in excess of RM2.5 billion, payable monthly in arrears.

Trustee's fee accrued to the Trustee for the quarter ended 31 December 2015 amounted to RM125,014.

**B21 UNITHOLDINGS BY THE MANAGER**

As at 31 December 2015, the Manager did not hold any units in MQReit.



**B22 UNITHOLDINGS BY PARTIES RELATED TO THE MANAGER**

	No. of units	Percentage of total units	Market Value as at 31 December 2015 RM
Malaysian Resources Corporation Berhad HLIB Nominee (Tempatan) Sdn. Bhd. for :	206,250,000	31.18%	222,750,000
-Quill Properties Sdn. Bhd.	45,997,000	6.95%	49,676,760
-Quill Land Sdn. Bhd.	48,767,000	7.37%	52,668,360
-Quill Estates Sdn. Bhd.	22,276,000	3.37%	24,058,080
	<u>323,290,000</u>	<u>48.88%</u>	<u>349,153,200</u>

The Manager's directors' direct unitholding in MQReit:

	No. of units	Percentage of total units	Market Value as at 31 December 2015 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.01%	54,000
Dato' Michael Ong Leng Chun	55,000	0.01%	59,400
Datuk Dr. Mohamed Arif Bin Nun	10,000	0.00%	10,800
Aw Hong Boo (Alternate to Dato' Dr. Low Moi Ing, J.P)	50,000	0.01%	54,000

The Manager's directors' indirect unitholding in MQReit:

	No. of units	Percentage of total units	Market Value as at 31 December 2015 RM
Dato' Dr. Low Moi Ing, J.P	117,040,000 (a)	17.70%	126,403,200
Dato' Michael Ong Leng Chun	117,040,000 (b)	17.70%	126,403,200

(a) Deemed interested by virtue of her direct shareholding in Quill Properties Sdn. Bhd., Quill Land Sdn. Bhd., and Quill Estates Sdn. Bhd..

(b) Deemed interested by virtue of his direct shareholding in Quill Properties Sdn. Bhd., Quill Land Sdn. Bhd., and Quill Estates Sdn. Bhd..

The market value of the units is computed based on the closing price as of 31 December 2015 of RM1.08 per unit.

**B23 UNITHOLDERS CAPITAL**

	No. of units	
	Current Quarter	Preceding Quarter
Approved fund size	700,000,000	700,000,000
Issued and fully paid	661,381,000	661,381,000

**B24 FINANCE COSTS INCURRED DURING THE QUARTER AND YEAR TO DATE**

	Current Quarter RM	Cumulative Quarter RM
Interest expenses	7,649,690	26,916,873
Amortisation of transaction costs and credit facility costs	289,560	1,066,725
Total finance costs	<u>7,939,250</u>	<u>27,983,598</u>

**B25 OTHER INCOME AND EXPENSES**

For the current quarter, the following were credited or charged to the profit or loss in the statement of comprehensive income:

	Current Quarter RM	Cumulative Quarter RM
Depreciation	5,688	13,794
Provision for / write off of receivables	67,372	67,372
Provision for / write off of inventories	-	-
Gain/loss on quoted and unquoted investment or properties	-	-
Impairment of assets	-	-
Foreign exchange gain or loss	-	-
Exceptional items	-	-

**B26 RESPONSIBILITY STATEMENT AND STATEMENT BY THE DIRECTORS OF THE MANAGER**

The Manager is responsible for the preparation of the quarterly report.

In the opinion of the directors of the Manager, the quarterly report has been prepared in accordance with MFRS 134: Interim Financial reporting and Paragraph 9.44 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of MQReit as at 31 December 2015 and of its financial performance and cash flows for the quarter ended on that date and duly authorised for release by the Board of the Manager on 21 January 2016.

**BY ORDER OF THE BOARD**

**MOHAMED NOOR RAHIM YAHAYA**  
COMPANY SECRETARY (MAICSA No. 0866820)  
**HO NGAN CHUI**  
COMPANY SECRETARY (MAICSA No. 7014785)  
MRCB Quill Management Sdn Bhd  
(Formerly known as Quill Capita Management Sdn Bhd)  
(Company No: 737252-X)  
(As Manager of MRCB-QUILL REIT)  
Kuala Lumpur

Date: 21 January 2016