

MRCB-QUILL REIT
(FORMERLY KNOWN AS QUILL CAPITA TRUST)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 MARCH 2016 (UNAUDITED)

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTERS | |
|--|---|--|---|--|
| | Current Year Quarter 31.03.2016 RM | Preceding Year Corresponding Quarter 31.03.2015 RM | Current Year To Date 31.03.2016 RM | Preceding Year Corresponding To Date 31.03.2015 RM |
| TOTAL INCOME | | | | |
| Gross revenue | 32,655,763 | 18,609,238 | 32,655,763 | 18,609,238 |
| Property operating expenses | (7,207,556) | (4,929,709) | (7,207,556) | (4,929,709) |
| Net property income | 25,448,207 | 13,679,529 | 25,448,207 | 13,679,529 |
| Interest income | 389,483 | 125,558 | 389,483 | 125,558 |
| | <u>25,837,690</u> | <u>13,805,087</u> | <u>25,837,690</u> | <u>13,805,087</u> |
| TOTAL EXPENDITURE | | | | |
| Manager's fee | (2,392,618) | (1,627,921) | (2,392,618) | (1,627,921) |
| Trustee's fee | (115,986) | (83,591) | (115,986) | (83,591) |
| Finance costs | (7,856,274) | (3,537,661) | (7,856,274) | (3,537,661) |
| Valuation fees | (35,575) | (47,499) | (35,575) | (47,499) |
| Auditors' remuneration | (40,773) | (31,239) | (40,773) | (31,239) |
| Tax agent's fee | (5,934) | (4,929) | (5,934) | (4,929) |
| Administrative expenses | (152,513) | (193,375) | (152,513) | (193,375) |
| | <u>(10,599,673)</u> | <u>(5,526,215)</u> | <u>(10,599,673)</u> | <u>(5,526,215)</u> |
| INCOME BEFORE TAX | 15,238,017 | 8,278,872 | 15,238,017 | 8,278,872 |
| Income tax expense | - | - | - | - |
| NET INCOME FOR THE PERIOD | <u>15,238,017</u> | <u>8,278,872</u> | <u>15,238,017</u> | <u>8,278,872</u> |
| OTHER COMPREHENSIVE INCOME | | | | |
| Loss on remeasurement of financial derivatives (a) | (3,963,491) | (553,816) | (3,963,491) | (553,816) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | <u>(3,963,491)</u> | <u>(553,816)</u> | <u>(3,963,491)</u> | <u>(553,816)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>11,274,526</u> | <u>7,725,056</u> | <u>11,274,526</u> | <u>7,725,056</u> |
| Net income for the period is made up as follows: | | | | |
| Realised | 15,238,017 | 8,278,872 | 15,238,017 | 8,278,872 |
| Unrealised | - | - | - | - |
| EARNINGS PER UNIT (b) | | | | |
| - after manager's fees (sen) | 2.30 | 2.09 | 2.30 | 2.09 |
| - before manager's fees (sen) | 2.67 | 2.50 | 2.67 | 2.50 |
| EARNINGS PER UNIT (REALISED) (c) | | | | |
| - after manager's fees (sen) | 2.30 | 2.09 | 2.30 | 2.09 |
| - before manager's fees (sen) | 2.67 | 2.50 | 2.67 | 2.50 |
| INCOME DISTRIBUTION | | | | |
| -Interim income distribution | - | (7,334,463) | - | (7,334,463) |
| | <u>-</u> | <u>(7,334,463)</u> | <u>-</u> | <u>(7,334,463)</u> |
| Income distribution per unit | | | | |
| Gross (sen) | | | | |
| -Interim income distribution (d) | - | 1.88 | - | 1.88 |
| Total distribution | <u>-</u> | <u>1.88</u> | <u>-</u> | <u>1.88</u> |

(a) This relates to the loss on the remeasurement of the fair values of interest rate swaps ("IRs"). (please refer Note B15)

(b) Earnings Per Unit for the current quarter/period is computed based on the Net Income divided by units in circulation of 661,381,000. EPU for the preceding year corresponding quarter is based on weighted average units in circulation of 396,158,778.

(c) Earnings Per Unit (Realised) for the quarter/period is computed based on the Realised Net Income divided by units in circulation of 661,381,000. EPU (Realised) for the preceding year corresponding quarter/period is based on weighted average no of units in circulation of 396,158,778.

(d) No income distribution was declared in relation to the income for the current quarter. In the preceding year corresponding quarter/period, an income distribution of 1.88 sen per unit was declared for the period 1/1/2015 to 23/3/2015 for the 390,131,000 units in circulation before the new units of 271,250,000 were issued on 30 March 2015. The said distribution was paid on 15 April 2015.

The Condensed Consolidated Statement Of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2015 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 MARCH 2016 (UNAUDITED)

| | AS AT END OF CURRENT QUARTER | AS AT PRECEDING FINANCIAL YEAR END |
|---|---|---|
| | 31.03.2016 UNAUDITED RM | 31.12.2015 AUDITED RM |
| NON-CURRENT ASSETS | | |
| Plant and equipment | 223,128 | 236,582 |
| Investment properties | 1,569,800,000 | 1,569,800,000 |
| Derivative assets (i) | - | 1,594,224 |
| Lease receivable | 1,891,631 | 2,000,864 |
| | <u>1,571,914,759</u> | <u>1,573,631,670</u> |
| CURRENT ASSETS | | |
| Trade and other receivables | 6,897,063 | 5,648,126 |
| Derivative assets (i) | 312,629 | 686,257 |
| Lease receivable | 420,443 | 409,684 |
| Deposits with licensed financial institution | 20,671,451 | 38,636,273 |
| Cash and cash equivalents | 4,936,190 | 6,227,690 |
| | <u>33,237,776</u> | <u>51,608,030</u> |
| CURRENT LIABILITIES | | |
| Trade and other payables | 9,993,195 | 13,574,839 |
| Borrowings | 187,582,291 | 188,910,256 |
| Security deposits | 1,844,541 | 2,515,677 |
| | <u>199,420,027</u> | <u>205,000,772</u> |
| NET CURRENT ASSETS/(LIABILITIES) | (166,182,251) | (153,392,742) |
| NON-CURRENT LIABILITIES | | |
| Borrowings | 501,024,557 | 500,811,606 |
| Derivative liabilities (i) | 1,995,639 | - |
| Security deposits | 16,485,277 | 15,572,463 |
| | <u>519,505,473</u> | <u>516,384,069</u> |
| NET ASSETS | <u>886,227,035</u> | <u>903,854,859</u> |
| Represented by: | | |
| UNITHOLDERS' FUND | | |
| Unitholders' capital | 751,276,357 | 751,276,357 |
| Undistributed and Non-distributable income | 134,950,678 | 152,578,502 |
| | <u>886,227,035</u> | <u>903,854,859</u> |
| NET ASSET VALUE PER UNIT (before provision for distribution) | 1.3400 | 1.3666 |
| NET ASSET VALUE PER UNIT (after provision for distribution) | 1.3169 | 1.3229 |
| NUMBER OF UNITS IN CIRCULATION | 661,381,000 | 661,381,000 |

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

(ii) Net Asset Value assuming 100% of realised net income for the current quarter of RM15,238,017 is provided for income distribution.

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the financial statements.

MRCB-QUILL REIT
(FORMERLY KNOWN AS QUILL CAPITA TRUST)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE PERIOD ENDED 31 MARCH 2016 (UNAUDITED)

| | Unitholders' Capital | Distributable | Non-Distributable | | Total Undistributed and Non- Distributable Income | Unitholders' Funds |
|---|-------------------------|-------------------------------------|---------------------------------------|--|---|-----------------------|
| | | Undistributed Income Realised | Undistributed Income Unrealised | Net Fair Value (Loss) / Gain On Derivatives Unrealised | | |
| | | | | | | |
| As at 1 January 2016 | 751,276,357 | 42,374,963 | 107,923,058 | 2,280,481 | 152,578,502 | 903,854,859 |
| Total Comprehensive Income for the period | - | 15,238,017 | - | (3,963,491) | 11,274,526 | 11,274,526 |
| | <u>751,276,357</u> | <u>57,612,980</u> | <u>107,923,058</u> | <u>(1,683,010)</u> | <u>163,853,028</u> | <u>915,129,385</u> |
| Unitholders' transactions: | | | | | | |
| Distribution to unitholders | - | (28,902,350) | - | - | (28,902,350) | (28,902,350) |
| As at 31 March 2016 | <u>751,276,357</u> | <u>28,710,630</u> | <u>107,923,058</u> | <u>(1,683,010)</u> | <u>134,950,678</u> | <u>886,227,035</u> |
| As at 1 January 2015 | 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 | (2,300,237) | - | - | - | - | (2,300,237) |
| Total Comprehensive Income for the period | - | 8,278,872 | - | (553,816) | 7,725,056 | 7,725,056 |
| | <u>751,411,830</u> | <u>35,347,938</u> | <u>101,245,683</u> | <u>670,377</u> | <u>137,263,998</u> | <u>888,675,828</u> |
| Unitholders' transactions: | | | | | | |
| Distribution to unitholders | - | (16,697,607) | - | - | (16,697,607) | (16,697,607) |
| As at 31 March 2015 | <u>751,411,830</u> | <u>18,650,331</u> | <u>101,245,683</u> | <u>670,377</u> | <u>120,566,391</u> | <u>871,978,221</u> |

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 2015 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 MARCH 2016 (UNAUDITED)

| | CURRENT YEAR TO DATE 31.03.2016 RM | PRECEDING YEAR TO DATE 31.03.2015 RM |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Income before tax | 15,238,017 | 8,278,872 |
| Adjustments for: | | |
| Finance costs | 7,856,274 | 3,537,661 |
| Depreciation | 13,454 | 3,421 |
| Interest income | <u>(389,483)</u> | <u>(125,558)</u> |
| Operating cash flows before changes in working capital | 22,718,262 | 11,694,396 |
| Receivables | 359,502 | 133,116 |
| Payables | <u>(1,614,295)</u> | <u>10,765,599</u> |
| Cash flows from operations | 21,463,469 | 22,593,111 |
| Income tax paid | <u>-</u> | <u>-</u> |
| Net cash flows generated from operating activities | <u>21,463,469</u> | <u>22,593,111</u> |
| INVESTING ACTIVITIES | | |
| Additions to investment properties | - | (749,859,867) |
| Interest income | <u>402,888</u> | <u>137,104</u> |
| Net cash flow generated from/(used in) investing activities | <u>402,888</u> | <u>(749,722,763)</u> |
| FINANCING ACTIVITIES | | |
| Distribution to unitholders | (28,902,350) | (16,697,607) |
| Finance costs paid | (12,220,329) | (13,371,687) |
| Proceeds from borrowings | - | 424,000,000 |
| Repayment of borrowings | - | (1,885,790) |
| Proceeds from issuance of new units | - | 342,000,000 |
| Expenses paid on issuance of new units | <u>-</u> | <u>(2,300,237)</u> |
| Cash flows (used in)/generated from financing activities | <u>(41,122,679)</u> | <u>731,744,679</u> |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (19,256,322) | 4,615,027 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>44,863,963</u> | <u>23,288,996</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>25,607,641</u> | <u>27,904,023</u> |
| Cash and cash equivalents at end of period comprises: | | |
| Deposits with licensed financial institutions | 20,671,451 | 8,496,353 |
| Cash on hand and at banks | <u>4,936,190</u> | <u>19,407,670</u> |
| | <u>25,607,641</u> | <u>27,904,023</u> |

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes to the financial statements.

**MRCB-QUILL REIT
(FORMERLY KNOWN AS QUILL CAPITA TRUST)
EXPLANATORY NOTES FOR THREE MONTH ENDED 31 MARCH 2016**

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 2015 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 2015.

A4 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2015

The audit report of the financial statements for the preceding year ended 31 December 2015 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 ended 31 March 2016, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 31 MARCH 2016

(A) Proposed Authority to allot new Units for the purpose of the payment of Management Fee in the form of new Units ("Proposed Authority")

Pursuant to Paragraph 6.62(1) of the Main Market Listing Requirements of Bursa Malaysia, stipulates that a proposal relating to the issuance of securities must be completed within 6 months from the date of listing approval by Bursa Malaysia, failing which the listing approval given with regard to the proposal will lapse.

As announced on 28 January 2016, an application has been submitted to Bursa Malaysia on 28 January 2016 to seek a further extension of time of 6 months from 16 February 2016 to 15 August 2016 to implement the Authority.

As announced on 5 February 2016, Bursa Securities had, vide its letter dated 4 February 2016, approved a further extension of time of 6 months from 16 February 2016 to 15 August 2016 to implement the authority.

(B) Heads of Agreement ("HOA") between MQREIT and 348 Sentral Sdn. Bhd., a wholly-owned subsidiary of MRCB in relation to the proposed acquisition of Menara Shell ("Proposed Acquisition")

As announced on 3 March 2016, in view of the on-going negotiations, the parties to the HOA, via the Extension Letter dated 3 March 2016 have mutually agreed to extend the Cut-Off Date for the execution of the Sale and Purchase Agreement in relation to the Proposed Acquisition to 15 April 2016.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 31 MARCH 2016 (CONT'D)

(C) Change in correspondence address

As announced on 8 March 2016, there was a change in correspondence address from 9-1, Wisma Mont' Kiara, 1, Jalan Kiara, Mont Kiara, 50480 Kuala Lumpur, Wilayah Persekutuan, Malaysia to Level 35, Menara NU 2, No. 203, Jalan Tun Sambanthan, 50470 Kuala Lumpur, Wilayah Persekutuan; bearing telephone no 03-27868080 and facsimile no 03-27807988 respectively.

(D) Renewal of The Appointment of Semasa Parking Sdn Bhd As The Car Park Operator for Platinum Sentral ("The Appointment of Car Park Operator")

As announced on 25 March 2016, MQREIT had renewed the appointment of Semasa Parking Sdn Bhd ("SPSB") as the car park operator for Platinum Sentral for a period of 1 year commencing from 1 January 2016 to 31 December 2016, at a monthly minimum guaranteed rental at RM150,000 with a profit sharing basis in the proportion of 80% (MQREIT) : 20% (SPSB) ratio.

Pursuant to Chapter 9 of the Guidelines on Real Estate Investment Trust issued by the Securities Commission Malaysia ("REIT Guidelines"), the transaction between MQREIT and SPSB is a related party transaction by virtue of SPSB being a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), which in turn a major unitholder of MQREIT.

The Audit Committee and The Board are satisfied that the terms are fair, reasonable and on normal commercial terms, and is in the best interest of MQREIT.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 31 MARCH 2016

(A) Heads of Agreement ("HOA") between MQREIT and 348 Sentral Sdn. Bhd., a wholly-owned subsidiary of MRCB in relation to the proposed acquisition of Menara Shell ("Proposed Acquisition")

As announced on 12 April 2016, the parties to the HOA, via the Second Extension Letter dated 12 April 2016 have mutually agreed to further extend the Cut-Off date for the execution of the Sale and Purchase Agreement in relation to the Proposed Acquisition to 30 May 2016. The extension of the Cut-Off Date is to facilitate the submission of an application for a certificate of the proposed strata plan ("CPSP Application") by 348 Sentral to subdivide Menara Shell and other building (Menara Ascott) where both buildings are currently held under a master title of Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan KL in accordance to the Strata Titles Act 1985.

In the event that 348 Sentral is unable to submit the CPSP Application by 30 May 2016, the Cut-Off Date shall be automatically extended further by 30 business days.

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 March 2016 are as follows:

| | |
|-------------------------------|---------------------|
| | As at 31 March 2016 |
| | RM |
| Approved and contracted for : | |
| Investment properties | <u>1,189,787</u> |

B1 REVIEW OF PERFORMANCE

Quarter and year to date results

MQRreit recorded total revenue of RM32.66 million and property operating expenses of RM7.21 million for the current quarter ended 31 March 2016. Finance costs of RM7.86 million and manager's fee of RM2.39 million were incurred during the quarter. Overall, realised income of RM15.24 million was achieved in the current quarter.

As compared with the preceding year corresponding quarter ("1Q 2015"), the revenue is higher by 75.5% mainly due to additional revenue arising from the acquisition of Platinum Sentral on 30 March 2015, higher rental income due to step up rent adjustments offset by lower recoveries due to lower utility consumption by tenants. Property operating expenses is higher by 46.2% due to acquisition of Platinum Sentral on 30 March 2015 offset by lower repairs and maintenance compared to last year. Overall, the net property income increased by 86.0%. Interest income is higher by 210.2% mainly due to higher placement amount deposited in the financial institution and interest earned on finance lease arrangement (which commenced in mid 2015) in the current quarter. Finance costs is higher by 122.1% mainly due to interest on additional borrowings drawdown on 30 March 2015 for acquisition of Platinum Sentral (note B14(c)). As a result of all of the above, the realised income of RM15.24 million is 84.1% compared to 1Q 2015.

As compared with the immediate preceding quarter ("4Q 2015"), revenue of RM32.66 million is higher by 0.2% mainly due to step up rent adjustments in the current quarter. Property operating expenses is higher by 24.6% due to reversal of provision no longer required in 4Q 2015 due to cost saving measures undertaken in 2015. Overall, the net property income decreased by 5.0%. Finance costs is marginally lower by 1.1% mainly due to additional one day 4Q 2015. As a result of the above, the realised income of RM15.24 million is lower by 6.9% compared to 4Q 2015.

The performance of MQRreit for the period ended 31 March 2016 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 2015.

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 2015 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 purpose built office market in Klang Valley was stable in 2015. Newly completed office space in the pipeline is likely to command a higher premium given that those situated in the city centre are with green features as well as MSC accreditation. The coming few years will continue to be a tenants' market with more quality office space available in the market and owners/investors may experience stiff competition in retaining existing tenants or leasing out new space. In 2015, purpose built offices within Kuala Lumpur outperformed those outside Kuala Lumpur and in Petaling Jaya, with a vacancy rate of 12% compared to 13% in the previous year. Occupancy rates may drop further in 2016 as slower take-up is expected for new supply as uncertainty of economic climate may restrain MNC and local SME from expansions. The prestigious address of KLCC currently command premium office rents of between RM6.50 to RM7.00 psf. The rental rate of KLCC prime office space is expected to stay firm moving into 2016 despite stiff competition, mainly due to its well-connected infrastructure, which enabled easy access to and from the city centre.

(Sources : Property Market 2016 - CH Williams Talhar & Wong)

Review of retail market - Klang Valley

The Klang Valley (KV) retail market was soft in 2015 as consumer sentiment has weakened following the implementation of Goods and Services Tax (GST) in April 2015. Cumulative supply of retail space stood at approximately 51.27 million sq ft as of 2015. The occupancy rate of retail malls had remained strong in the past five years, hovering at an average of about 90%. The average rental rate in prime retail malls remained healthy at between RM24 psf and RM30 psf. In 2016, there are a few malls in the major towns will be completed, including Empire City Mall in Damansara Perdana with net lettable area of around 2.5 million sq ft and MyTown Shopping Centre in Cheras with NLA of around 1.1 million sq ft. Other retail malls that scheduled for completion in 2016 included Jakel Mall, Damansara City Lifestyle Mall, Starling Boutique Damansara Uptown, Glo Damansara, Melawati Mall, AEON Shah Alam, Da Men USJ and Sunway Pyramid Phase 3.

(Sources : Property Market 2016 - CH Williams Talhar & Wong)

Review of retail market - Penang

Existing supply of retail space in Penang stood at approximately 18.07 million sq ft in 2015, of which 63% are in the island while 37% are in Seberang Perai. There are a number of planned shopping complexes scheduled for completion over the next five years. The bulk of retail space currently in the pipeline are located in Seberang Perai, including the Penang Designer Village in Batu Kawan and Pearl City Mall within the Pearl City Township. Another planned retail mall is IKEA and an integrated shopping mall development within Aspen Vision city in Bandar Cassia that are scheduled for completion by 2018 and 2020 respectively. The next few years are likely to stay healthy for the retail market in Penang, with both occupancy rate and rental staying firm as the new malls to be completed are in locations that still has demand.

(Sources : Property Market 2016 - CH Williams Talhar & Wong)

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. Although, we anticipate some minor fluctuations in MQREIT's portfolio occupancy rate in 2016, we expect the performance of MQREIT's portfolio 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, 7% of the total net lettable area is due for renewal in 2016. As at 1 Q 2016, 4% of these leases have been renewed while 5% have not been renewed. 53% of the leases due in 2016 are due in 2Q 2016, while balance 9% and 29% will be due in 3Q and 4Q 2016, respectively. The Manager has started advanced negotiations with tenants for leases due in 2Q and 3Q 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 2016.

(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.

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.

B10 STATUS OF CORPORATE PROPOSALS

There were no corporate proposals during the current quarter.

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 MARCH 2016

As at 31 March 2016, MQRreit's portfolio comprises of ten buildings as follows:

| Investment properties | Cost of Investment | Market Value /Net Carrying amount as at 31 March 2016 | 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 | 14.22% |
| 2 QB 2- HSBC | 107,500,000 | 120,700,000 | 13.62% |
| 3 QB 3- BMW | 59,400,000 | 75,500,000 | 8.52% |
| 4 Wisma Technip | 125,000,000 | 172,000,000 | 19.41% |
| 5 Part of Plaza Mont' Kiara | 90,000,000 | 114,000,000 | 12.86% |
| 6 QB5- IBM | 43,000,000 | 45,200,000 | 5.10% |
| 7 Tesco Building Penang | 132,000,000 | 140,000,000 | 15.80% |
| 8 Platinum Sentral | 740,000,000 | 750,000,000 | 84.63% |
| <u>Industrial building</u> | | | |
| 9 QB 8 -DHL XPJ | 28,800,000 | 26,400,000 | 2.98% |
| | <u>1,434,800,000</u> | <u>1,569,800,000</u> | |

No capital expenditure was incurred during the quarter. The NAV as at 31 March 2016 is RM886,227,035.

B14 BORROWINGS AND DEBT SECURITIES

| | As at end of period ended 31 March 2016 |
|---|---|
| | RM |
| Current Liabilities: | |
| <u>RM270 million CP/MTN Programme</u> | |
| Face value of CPs and MTNs issued | 190,000,000 |
| Discount | (2,741,967) |
| Cash proceeds | 187,258,033 |
| Accretion of interest expenses | 376,644 |
| | 187,634,677 |
| Transaction costs b/f | (88,353) |
| Transaction costs on CP issued during the period | 35,967 |
| | <u>187,582,291</u> |
| Non-current Liabilities: | |
| <u>RM150 million Term Loan</u> | |
| Term Loan drawdown | 117,000,000 |
| Transaction cost c/f | (524,285) |
| | 116,475,715 |
| Amortisation of transaction costs during the period | 49,152 |
| | <u>116,524,867</u> |

B14 BORROWINGS AND DEBT SECURITIES (CONT'D)As at end of period
ended 31 March 2016

RM

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

| | |
|---|--------------------|
| Face value of CPs issued/rollover on 30 March 2016 | 279,000,000 |
| Discount | (2,890,287) |
| Cash proceeds | 276,109,713 |
| Accretion of interest expenses | 62,832 |
| | <u>276,172,545</u> |
| Transaction costs on CP issued during the period | (1,185,002) |
| Amortisation of transaction costs during the period | 71,100 |
| | <u>275,058,643</u> |

Fixed-Rate Subordinated Term Loan Facility of upto RM250 million

| | |
|---|--------------------|
| Term Loan drawdown/rollover on 30 March 2016 | 110,000,000 |
| Transaction costs on term loan | (594,629) |
| | <u>109,405,371</u> |
| Amortisation of transaction costs during the period | 35,676 |
| | <u>109,441,047</u> |

Total:**501,024,557****(a) CP/MTN Programme of up to RM270 million ("RM270 million Programme")**

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

To date, 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 5 years, at interest rate of 4.90% 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 4.60% 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 + 1.40% 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") 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 4.90% 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 4.90% 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 March 2016 are as follows:

| | Fair values of derivative assets/(liabilities) as at 31 March 2016 |
|--|--|
| | RM |
| Within one year | 312,629 |
| More than 1 year and less than 5 years | <u>(1,995,639)</u> |
| | <u><u>(1,683,010)</u></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.

A final income distribution of RM28,902,350, or 4.37 sen per unit, being income distribution for the period 1 July 2015 to 31 December 2015, has been made on 29 February 2016.

No income distribution was declared in relation to the income for the quarter ended 31 March 2016.

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 March 2016 | As at 31 December 2015 |
|---|---------------------|------------------------|
| NAV (RM) | 886,227,035 | 903,854,859 |
| Number of units in circulation (unit) | 661,381,000 | 661,381,000 |
| NAV per unit (RM) (after provision for distribution) | 1.3169 | 1.3229 |
| Market price (RM) | 1.15 | 1.08 |

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 the income distribution made in the current quarter.

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 March 2016 are :

| | |
|-----------------|------------------|
| | RM |
| Base fee | 1,615,629 |
| Performance fee | 776,989 |
| | <u>2,392,618</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 ("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 March 2016 amounted to RM115,986.

B21 UNITHOLDINGS BY THE MANAGER

As at 31 March 2016, 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 March 2016 RM |
|---|--------------------|---------------------------|--|
| Malaysian Resources Corporation Berhad HLIB Nominee (Tempatan) Sdn. Bhd. for : | 206,250,000 | 31.18% | 237,187,500 |
| -Quill Properties Sdn. Bhd. | 45,997,000 | 6.95% | 52,896,550 |
| -Quill Land Sdn. Bhd. | 48,767,000 | 7.37% | 56,082,050 |
| -Quill Estates Sdn. Bhd. | 22,276,000 | 3.37% | 25,617,400 |
| | <u>323,290,000</u> | <u>48.88%</u> | <u>371,783,500</u> |

The Manager's directors' direct unitholding in MQReit:

| | No. of units | Percentage of total units | Market Value as at 31 March 2016 RM |
|---|--------------|---------------------------|--|
| Dato' Dr. Low Moi Ing, J.P | 50,000 | 0.01% | 57,500 |
| Dato' Michael Ong Leng Chun | 55,000 | 0.01% | 63,250 |
| Datuk Dr. Mohamed Arif Bin Nun | 10,000 | 0.00% | 11,500 |
| Aw Hong Boo (Alternate to Dato' Dr. Low Moi Ing, J.P) | 50,000 | 0.01% | 57,500 |

The Manager's directors' indirect unitholding in MQReit:

| | No. of units | Percentage of total units | Market Value as at 31 March 2016 RM |
|-----------------------------|-----------------|---------------------------|--|
| Dato' Dr. Low Moi Ing, J.P | 117,040,000 (a) | 17.70% | 134,596,000 |
| Dato' Michael Ong Leng Chun | 117,040,000 (b) | 17.70% | 134,596,000 |

(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 March 2016 of RM1.15 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 | <u>661,381,000</u> | <u>661,381,000</u> |

B24 FINANCE COSTS INCURRED DURING THE QUARTER AND YEAR TO DATE

| | Current Quarter RM | Cumulative Quarter RM |
|---|-----------------------|--------------------------|
| Interest expenses | 7,568,379 | 7,568,379 |
| Amortisation of transaction costs and credit facility costs | 287,895 | 287,895 |
| Total finance costs | <u>7,856,274</u> | <u>7,856,274</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 | 13,454 | 13,454 |
| Provision for / write off of receivables | 61,944 | 61,944 |
| 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 March 2016 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 28 April 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: 29 April 2016