

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2016 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	To Date	To Date
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM	RM	RM	RM
TOTAL INCOME				
Gross revenue	32,565,275	32,175,379	65,221,038	50,784,617
Property operating expenses	(6,865,457)	(7,861,861)	(14,073,013)	(12,791,570)
Net property income	25,699,818	24,313,518	51,148,025	37,993,047
Interest income	379,969	143,313	769,452	268,871
	<u>26,079,787</u>	<u>24,456,831</u>	<u>51,917,477</u>	<u>38,261,918</u>
TOTAL EXPENDITURE				
Manager's fee	(2,399,911)	(2,103,992)	(4,792,529)	(3,731,913)
Trustee's fee	(120,927)	(126,216)	(236,913)	(209,807)
Finance costs	(7,977,470)	(8,189,215)	(15,833,744)	(11,726,876)
Valuation fees	(82,501)	(47,499)	(118,076)	(94,998)
Auditors' remuneration	(36,249)	(31,239)	(77,022)	(62,478)
Tax agent's fee	(17,474)	(6,873)	(23,408)	(11,802)
Administrative expenses	(58,727)	(319,334)	(211,240)	(512,709)
	<u>(10,693,259)</u>	<u>(10,824,368)</u>	<u>(21,292,932)</u>	<u>(16,350,583)</u>
INCOME BEFORE TAX	15,386,528	13,632,463	30,624,545	21,911,335
Income tax expense	-	-	-	-
NET INCOME FOR THE PERIOD	<u>15,386,528</u>	<u>13,632,463</u>	<u>30,624,545</u>	<u>21,911,335</u>
OTHER COMPREHENSIVE INCOME				
(Loss)/ gain on remeasurement of financial derivatives (a)	(726,140)	1,400,611	(4,689,631)	846,795
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(726,140)</u>	<u>1,400,611</u>	<u>(4,689,631)</u>	<u>846,795</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>14,660,388</u>	<u>15,033,074</u>	<u>25,934,914</u>	<u>22,758,130</u>
Net income for the period is made up as follows:				
Realised	15,386,528	13,632,463	30,624,545	21,911,335
Unrealised	-	-	-	-
EARNINGS PER UNIT (b)				
- after manager's fees (sen)	2.33	2.20	4.63	4.31
- before manager's fees (sen)	2.69	2.38	5.36	4.84
EARNINGS PER UNIT (REALISED) (c)				
- after manager's fees (sen)	2.33	2.20	4.63	4.31
- before manager's fees (sen)	2.69	2.38	5.36	4.84
INCOME DISTRIBUTION				
-Interim income distribution	(27,976,416)	(13,871,005)	(27,976,416)	(22,017,121)
	<u>(27,976,416)</u>	<u>(13,871,005)</u>	<u>(27,976,416)</u>	<u>(22,017,121)</u>
Income distribution per unit				
Gross (sen)				
-Interim income distribution (d)				
From 24 March 2015 upto 31 March 2015	-	0.12	-	-
From 1 April 2015 upto 30 June 2015	-	2.10	-	-
Total distribution for current quarter ended / cumulative quarter ended 30 June	<u>4.23</u>	<u>2.22</u>	<u>4.23</u>	<u>4.10</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 ("EPU") 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/period is based on the Net Income for the quarter/period divided by units/weighted average units in circulation of 661,381,000/529,502,547 units during the quarter/period.
In corresponding quarter/period of 2015, manager's fees of RM917,919 was accrued to be paid in units and was added back to Net Income in computing the EPU. However subsequently it was paid in cash in final quarter of 2015 and no adjustment to the EPU was made.
- (c) Earnings Per Unit (Realised) ("EPU (Realised)") for the current 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 Realised Net Income for the quarter/period divided by units/weighted average no of units in circulation of 661,381,000/529,502,547 units during the quarter/period.
In corresponding quarter/period of 2015, manager's fees of RM917,919 was accrued to be paid in units and was added back to Realised Net Income in computing the EPU (Realised). However subsequently it was paid in cash in final quarter of 2015 and no adjustment to the EPU (Realised) was made.
- (d) Income distribution of 4.23 sen per unit being the distributable of income for the period 1 January 2016 to 30 June 2016 will be payable on 8 September 2016 to all unitholders as at book closure date on 18 August 2016. Please refer to Note B17 for further 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 2015 and the accompanying explanatory notes attached to the financial statements.

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016 (UNAUDITED)

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
	30.06.2016	31.12.2015
	UNAUDITED	AUDITED
	RM	RM
NON-CURRENT ASSETS		
Plant and equipment	217,228	236,582
Investment properties	1,569,800,000	1,569,800,000
Derivative assets (i)	-	1,594,224
Lease receivable	1,779,530	2,000,864
	<u>1,571,796,758</u>	<u>1,573,631,670</u>
CURRENT ASSETS		
Trade and other receivables	6,196,534	5,648,126
Derivative assets (i)	315,536	686,257
Lease receivable	431,484	409,684
Deposits with licensed financial institution	43,917,344	38,636,273
Cash and cash equivalents	3,546,125	6,227,690
	<u>54,407,023</u>	<u>51,608,030</u>
CURRENT LIABILITIES		
Trade and other payables	13,875,150	13,574,839
Borrowings	188,989,242	188,910,256
Security deposits	2,559,360	2,515,677
	<u>205,423,752</u>	<u>205,000,772</u>
NET CURRENT LIABILITIES	(151,016,729)	(153,392,742)
NON-CURRENT LIABILITIES		
Borrowings	501,190,804	500,811,606
Derivative liabilities (i)	2,724,686	-
Security deposits	15,977,116	15,572,463
	<u>519,892,606</u>	<u>516,384,069</u>
NET ASSETS	<u>900,887,423</u>	<u>903,854,859</u>
Represented by:		
UNITHOLDERS' FUND		
Unitholders' capital	751,276,357	751,276,357
Undistributed and Non-distributable income	149,611,066	152,578,502
	<u>900,887,423</u>	<u>903,854,859</u>
NET ASSET VALUE PER UNIT (before provision for distribution) (ii)	1.3621	1.3666
NET ASSET VALUE PER UNIT (after provision for distribution) (iii)	1.3198	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 per unit before the proposed interim distribution of 4.23 sen per unit.

(iii) Net Asset Value per unit after the proposed interim distribution of 4.23 sen per unit.

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
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE PERIOD ENDED 30 JUNE 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		
	RM	RM	RM	RM	RM	RM
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	-	30,624,545	-	(4,689,631)	25,934,914	25,934,914
	<u>751,276,357</u>	<u>72,999,508</u>	<u>107,923,058</u>	<u>(2,409,150)</u>	<u>178,513,416</u>	<u>929,789,773</u>
Unitholders' transactions:						
Distribution to unitholders	-	(28,902,350)	-	-	(28,902,350)	(28,902,350)
As at 30 June 2016	<u>751,276,357</u>	<u>44,097,158</u>	<u>107,923,058</u>	<u>(2,409,150)</u>	<u>149,611,066</u>	<u>900,887,423</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	(2,435,710)	-	-	-	-	(2,435,710)
Total Comprehensive Income for the period	-	21,911,335	-	846,795	22,758,130	22,758,130
	<u>751,276,357</u>	<u>48,980,401</u>	<u>101,245,683</u>	<u>2,070,988</u>	<u>152,297,072</u>	<u>903,573,429</u>
Unitholders' transactions:						
Distribution to unitholders	-	(24,032,070)	-	-	(24,032,070)	(24,032,070)
As at 30 June 2015	<u>751,276,357</u>	<u>24,948,331</u>	<u>101,245,683</u>	<u>2,070,988</u>	<u>128,265,002</u>	<u>879,541,359</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
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2016 (UNAUDITED)

	CURRENT YEAR TO DATE 30.06.2016 RM	PRECEDING YEAR TO DATE 30.06.2015 RM
OPERATING ACTIVITIES		
Income before tax	30,624,545	21,911,335
Adjustments for:		
Finance costs	15,833,744	11,726,876
Depreciation	27,594	6,302
Interest income	<u>(769,452)</u>	<u>(268,871)</u>
Operating cash flows before changes in working capital	45,716,431	33,375,642
Receivables	(166,423)	737,679
Payables	<u>352,288</u>	<u>6,541,439</u>
Cash flows from operations	45,902,296	40,654,760
Income tax paid	<u>-</u>	<u>-</u>
Net cash flows generated from operating activities	<u>45,902,296</u>	<u>40,654,760</u>
INVESTING ACTIVITIES		
Additions to investment properties	-	(750,418,481)
Purchase of plant & equipment	(8,240)	-
Interest income	<u>806,152</u>	<u>249,835</u>
Net cash flow generated from/(used in) investing activities	<u>797,912</u>	<u>(750,168,646)</u>
FINANCING ACTIVITIES		
Distribution to unitholders	(28,902,350)	(24,032,070)
Finance costs paid	(15,198,352)	(12,125,785)
Proceeds from borrowings	-	424,000,000
Repayment of borrowings	-	(5,000,000)
Proceeds from issuance of new units	-	342,000,000
Expenses paid on issuance of new units	<u>-</u>	<u>(2,435,710)</u>
Cash flows (used in)/generated from financing activities	<u>(44,100,702)</u>	<u>722,406,435</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,599,506	12,892,549
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>47,463,469</u>	<u>36,181,545</u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	43,917,344	30,276,210
Cash on hand and at banks	<u>3,546,125</u>	<u>5,905,335</u>
	<u>47,463,469</u>	<u>36,181,545</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
EXPLANATORY NOTES FOR SIX MONTH ENDED 30 JUNE 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 30 June 2016, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 JUNE 2016

(A) Outcome of Annual General Meeting held on 13 April 2016

As announced on 13 April 2016, the Ordinary Resolution on the Proposed Authority to Allot and issue New Units tabled at the 4th Annual General Meeting held on the same day has been approved by the unitholders by way of poll and the result is as follows:

Ordinary Resolution	No of Holdings	%
Favour	326,831,862	99.39
Against	2,000,000	0.61
Total	328,831,862	100.00

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 JUNE 2016 (CONT'D)

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

Further to the announcements dated 3 December 2015 and 3 March 2016, as announced on 12 April 2016, the parties to the 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**"), 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.

(C) Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "**Proposals**")

Further to the announcements dated 3 December 2015, 3 March 2016 and 12 April 2016, CIMB Investment Bank Berhad, Hong Leong Investment Bank Berhad and Maybank Investment Bank Berhad, on behalf of the Board of Directors of MRCB Quill Management Sdn Bhd ("**Manager**") ("**Board**"), announced that the Trustee, acting solely in the capacity as Trustee for and on behalf of MQREIT, had on 30 June 2016 entered into a conditional Sale and Purchase Agreement with 348 Sentral Sdn Bhd, a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("**MRCB**"), for the proposed acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park, for a purchase consideration of RM640,000,000 ("**Proposed Acquisition**").

In conjunction with the Proposed Acquisition, the Board also proposes to undertake the following:

- (i) Proposed placement of up to 406,666,667 new units in MQREIT ("**Units**") ("**Placement Units**") by way of bookbuilding at an issue price to be determined later ("**Proposed Placement**");
- (ii) Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of Placement Units at an issue price to be determined later, pursuant to the Proposed Placement ("**Proposed Placement to MRCB**");
- (iii) Proposed placement to Employees Provident Fund Board ("**EPF**") of up to 7% of the enlarged Units in circulation of MQREIT at an issue price to be determined later, pursuant to the Proposed Placement ("**Proposed Placement to EPF**");
- (iv) Proposed authority to allot and issue up to 31,952,333 new Units for the purpose of the payment of management fee to the Manager in the form of new Units ("**Proposed Authority**"); and
- (v) Proposed increase in the existing approved fund size of MQREIT from 700,000,000 Units to up to a maximum of 1,100,000,000 Units ("**Proposed Increase in Fund Size**")

As announced on 30 June 2016, upon the completion of the Proposed Acquisition, MQREIT's asset portfolio Size is expected to expand from RM1.63 billion as at 31 December 2015 to approximately RM2.27 billion.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 JUNE 2016

(A) Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals")

An announcement has been made on 11 July 2016, that the following have been submitted to the SC on the same day:

- (a) Valuation Report for the Property in respect of the Proposed Acquisition; and
- (b) Waiver application form (i) complying with Clauses 14.04 (a)(i) and (ii) of the REIT Guidelines, and (ii) having to submit to the SC a declaration from the advisers/directors of the Manager stating that the Trustee, on behalf of the Unitholders, will enter into a private caveat to protect its interest in the Property and to prevent other encumbrances from being entered by any other party.

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 30 June 2016 are as follows:

	As at 30 June 2016
	RM
Approved and contracted for :	
Investment properties	<u>1,993,069</u>

B1 REVIEW OF PERFORMANCE

Quarter and year to date results

MQReit recorded total revenue of RM32.57 million and property operating expenses of RM6.87 million for the current quarter ended 30 June 2016. Finance costs of RM7.98 million and manager's fee of RM2.40 million were incurred during the quarter. Overall, realised income of RM15.39 million was achieved in the current quarter.

As compared with the preceding year corresponding quarter ("2Q 2015"), the revenue is higher by 1.2% mainly due to additional revenue from Platinum Sentral, higher rental income due to step up rent adjustments from QB2, QB3 and QB8. Property operating expenses is lower by 12.7% due to lower repairs & maintenance costs for Platinum Sentral and part of Plaza Mont' Kiara compared to last year. Overall, the net property income had increased by 5.7%. Interest income is higher by 165.1% mainly due to higher amount placed and better interest rates from financial institutions and interest earned on finance lease arrangement (which commenced in mid 2015) in the current quarter. Finance costs is lower by 2.6% mainly due to lower borrowings in 2Q 2016; after the redemption of RM140 million Junior CPs on 30 September 2015 and refinanced by Subordinated Term Loan of RM110 million on the same day. As a result of all of the above, the realised income of RM15.39 million is higher by 12.9% compared to 2Q 2015.

As compared to preceding year cumulative quarter ("YTD 2Q 2015"), revenue of RM65.22 million is higher by 28.4% mainly due additional revenue arising from the acquisition of Platinum Sentral on 30 March 2015 and rental rate increases of some properties. Property operating expenses is higher by 10.0% mainly due to acquisition of Platinum Sentral on 30 March 2015. Overall, the net property income increased by 34.6% to RM51.1 million. Finance costs is higher by 35.0% due to additional borrowings were drawdown on 30 March 2015 to finance the acquisition of Platinum Sentral (Note B14(c)). The realised income of RM30.62 million is higher by 39.8% mainly due to higher net property income, net of higher finance costs, manager's fee, trustee's fee and administrative expenses.

As compared with the immediate preceding quarter ("1Q 2016"), revenue of RM32.57 million is lower by 0.3% mainly due to lower recoveries of some properties. Property operating expenses is lower by 4.8% due to better control on operating costs. Overall, the net property income increased by 1%. Finance costs increased by 1.5% mainly due to increase in interest rate for RM110 million Subordinated Secured Loan from 4.9% to 5.35% effective from 30 March 2016. As a result of the above, the realised income of RM15.39 million is higher by 1% compared to 1Q 2016.

The performance of MQReit for the period ended 30 June 2016 is in line with the investment objectives of MQReit.

B2 INVESTMENT OBJECTIVES AND STRATEGIES

The investment objective of MQReit 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 MQReit 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 MQReit. 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 office market in KL and beyond KL was subdued in 1Q2016 with fewer office space leasing enquiries and less activity. The accumulative supply of office space in KL City, KL Fringe and Beyond KL stayed unchanged at 92.53 million sq ft. The supply of office space is expected to grow 15.1% between 2Q2016 and 2018 with bulk of new completion in KL Fringe. Overall occupancy rates in KL City and KL Fringe remained unchanged during the quarter at 82.7% and 90.0% respectively. Occupancy rate in Beyond KL recorded a marginal improvement of 1.4% at 79.7%. The average rents in KL City, KL Fringe and Beyond KL fell 0.6%, 0.3% and 0.8% respectively to RM6.13 psf, RM6.74 psf and RM4.16psf. The dip in average rentals are expected to continue in the coming quarters as new supply enters in the market.

(Sources : The Edge Knight Frank Klang Valley Office Monitor (1Q2016))

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

Downward pressure on the Kuala Lumpur office market occupancy rate is expected to persist in view of the challenging economic environment in 2016 and the impending future supply of office space. Notwithstanding the 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 2Q 2016, 56% of these leases have been renewed while 8% have not been renewed which includes 1.8% leases due in 3Q and 4Q which was terminated early. There is a balance of 8% and 28% of leases due in 3Q and 4Q 2016, respectively wherein most of the renewal negotiations are in advanced stages.

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 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 30 JUNE 2016

As at 30 June 2016, MQRreit's portfolio comprises of ten buildings as follows:

Investment properties	Cost of Investment	Market Value /Net Carrying amount as at 30 June 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	13.99%
2 QB 2- HSBC	107,500,000	120,700,000	13.40%
3 QB 3- BMW	59,400,000	75,500,000	8.38%
4 Wisma Technip	125,000,000	172,000,000	19.09%
5 Part of Plaza Mont' Kiara	90,000,000	114,000,000	12.65%
6 QB5- IBM	43,000,000	45,200,000	5.02%
7 Tesco Building Penang	132,000,000	140,000,000	15.54%
8 Platinum Sentral	740,000,000	750,000,000	83.25%
<u>Industrial building</u>			
9 QB 8 -DHL XPJ	28,800,000	26,400,000	2.93%
	<u>1,434,800,000</u>	<u>1,569,800,000</u>	

No capital expenditure was incurred during the quarter. The NAV as at 30 June 2016 is RM900,887,423.

B14 BORROWINGS AND DEBT SECURITIES

	As at end of period ended 30 June 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	1,747,627
	189,005,660
Transaction costs b/f	(88,353)
Amortisation of transaction costs during the period	71,934
	<u>188,989,241</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	98,304
	<u>116,574,019</u>

B14 BORROWINGS AND DEBT SECURITIES (CONT'D)As at end of period
ended 30 June 2016

RM

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

Face value of CPs issued/rollover on 30 June 2016	279,000,000
Discount	(2,848,093)
Cash proceeds	276,151,907
Accretion of interest expenses	30,957
	276,182,864
Transaction costs on CP issued during the period	(1,185,002)
Amortisation of transaction costs during the period	142,200
	275,140,062

Fixed-Rate Subordinated Term Loan Facility of up to RM250 million

Term Loan drawdown/rollover on 30 March 2016	110,000,000
Transaction costs on term loan	(594,629)
	109,405,371
Amortisation of transaction costs during the period	71,352
	109,476,723

Total:**501,190,804****(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 30 June 2016 are as follows:

	Fair values of derivative assets/(liabilities) as at 30 June 2016
	RM
Within one year	315,536
More than 1 year and less than 5 years	(2,724,686)
	<u>(2,409,150)</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

MQRreit 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 RM27,976,416 or 4.23 sen per unit is proposed, being 91.35% of the realised net income for the period 1 January 2016 to 30 June 2016. The proposed income distribution has been approved by the Board and the Trustee on 2 August 2016 and will be payable on 8 September 2016 to all existing 661,381,000 unitholders as at book closure date on 18 August 2016.

Distributions are from the following sources :

	01.01.2016 to 30.06.2016	
	RM	
Gross revenue	65,221,038	
Interest income	769,452	
Property operating expenses and trust expenses	(35,365,945)	
Net income for the period	<u>30,624,545</u>	
Gross interim distribution (RM)	<u>27,976,416</u>	
(approximately 91.35% of RM30,624,545, being realised income after taxation for the period 1 January 2016 to 30 June 2016)		
of which	RM	
- taxable distribution	27,346,271	4.13 sen per unit
- tax exempt distribution	630,145	0.10 sen per unit
	<u>27,976,416</u>	<u>4.23 sen per unit</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 30 June 2016	As at 31 March 2016
NAV (RM)	900,887,423	886,227,035
Number of units in circulation (unit)	661,381,000	661,381,000
NAV per unit (RM) (after provision for distribution)	1.3198	1.3169
Market price (RM)	1.16	1.15

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 loss on remeasurement of financial derivatives and income distribution made in the previous 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 30 June 2016 are :

	RM
Base fee	1,619,376
Performance fee	780,535
	<u>2,399,911</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 30 June 2016 amounted to RM120,927.

B21 UNITHOLDINGS BY THE MANAGER

As at 30 June 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 30 June 2016 RM
Malaysian Resources Corporation Berhad HLIB Nominee (Tempatan) Sdn. Bhd. for :	206,250,000	31.18%	239,250,000
-Quill Properties Sdn. Bhd.	45,997,000	6.95%	53,356,520
-Quill Land Sdn. Bhd.	48,767,000	7.37%	56,569,720
-Quill Estates Sdn. Bhd.	22,276,000	3.37%	25,840,160
	<u>323,290,000</u>	<u>48.88%</u>	<u>375,016,400</u>

The Manager's directors' direct unitholding in MQReit:

	No. of units	Percentage of total units	Market Value as at 30 June 2016 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.01%	58,000
Dato' Michael Ong Leng Chun	55,000	0.01%	63,800

The Manager's directors' indirect unitholding in MQReit:

	No. of units	Percentage of total units	Market Value as at 30 June 2016 RM
Dato' Dr. Low Moi Ing, J.P	117,040,000 (a)	17.70%	135,766,400
Dato' Michael Ong Leng Chun	117,040,000 (b)	17.70%	135,766,400

(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 30 June 2016 of RM1.16 per unit.

B23 UNITHOLDERS CAPITAL

	No. of units	
	Current Quarter	Preceding Quarter
Approved fund size	<u>700,000,000</u>	<u>700,000,000</u>
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	7,689,575	15,257,954
Amortisation of transaction costs	191,895	383,790
Credit facility costs	96,000	192,000
Total finance costs	<u>7,977,470</u>	<u>15,833,744</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	14,140	27,594
Provision for / write off of receivables	104,902	166,846
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 30 June 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 2 August 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
(Company No: 737252-X)
(As Manager of MRCB-QUILL REIT)
Kuala Lumpur

Date: 2 August 2016