

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Corresponding	Quarter	Corresponding
	30.09.2016	30.09.2015	To Date	To Date
	RM	RM	RM	RM
TOTAL INCOME				
Gross revenue	32,497,623	31,811,655	97,718,661	82,596,272
Property operating expenses	(6,969,776)	(6,326,341)	(21,042,789)	(19,117,911)
Net property income	25,527,847	25,485,314	76,675,872	63,478,361
Interest income	475,548	351,801	1,245,000	620,672
Gain on divestment of properties	-	594,734	-	594,734
	<u>26,003,395</u>	<u>26,431,849</u>	<u>77,920,872</u>	<u>64,693,767</u>
TOTAL EXPENDITURE				
Manager's fee	(2,417,673)	(2,395,053)	(7,210,202)	(6,126,966)
Trustee's fee	(122,528)	(101,182)	(359,441)	(310,989)
Finance costs	(8,102,756)	(8,317,472)	(23,936,500)	(20,044,348)
Valuation fees	(65,001)	(47,499)	(183,077)	(142,497)
Auditors' remuneration	(36,249)	(30,999)	(113,271)	(93,477)
Tax agent's fee	(10,151)	(6,203)	(33,559)	(18,005)
Administrative expenses	(21,921)	201,045	(233,161)	(311,664)
	<u>(10,776,279)</u>	<u>(10,697,363)</u>	<u>(32,069,211)</u>	<u>(27,047,946)</u>
INCOME BEFORE TAX	15,227,116	15,734,486	45,851,661	37,645,821
Income tax expense	-	-	-	-
NET INCOME FOR THE PERIOD	<u>15,227,116</u>	<u>15,734,486</u>	<u>45,851,661</u>	<u>37,645,821</u>
OTHER COMPREHENSIVE INCOME				
(Loss)/ gain on remeasurement of financial derivatives (a)	(1,523,686)	3,804,137	(6,213,317)	4,650,932
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(1,523,686)</u>	<u>3,804,137</u>	<u>(6,213,317)</u>	<u>4,650,932</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>13,703,430</u>	<u>19,538,623</u>	<u>39,638,344</u>	<u>42,296,753</u>
Net income for the period is made up as follows:				
Realised	15,227,116	15,734,486	45,851,661	37,645,821
Unrealised	-	-	-	-
EARNINGS PER UNIT (b)				
- after manager's fees (sen)	2.30	2.38	6.93	6.72
- before manager's fees (sen)	2.67	2.74	8.02	7.63
EARNINGS PER UNIT (REALISED) (c)				
- after manager's fees (sen)	2.30	2.38	6.93	6.72
- before manager's fees (sen)	2.67	2.74	8.02	7.63
INCOME DISTRIBUTION				
-Interim income distribution	-	-	(27,976,416)	(22,017,121)
	<u>-</u>	<u>-</u>	<u>(27,976,416)</u>	<u>(22,017,121)</u>
Income distribution per unit				
Gross (sen)	-	-	4.23 (d)	4.10 (e)

(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 661,381,000/573,945,103 units during the quarter/period.
In preceding year corresponding period, 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 661,381,000/573,945,103 units during the quarter/period.
In preceding year corresponding period, 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 distribution of income for the period 1 January 2016 to 30 June 2016 was paid on 8 September 2016.

(e) 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.

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 SEPTEMBER 2016 (UNAUDITED)

	AS AT END OF CURRENT QUARTER 30.09.2016 UNAUDITED RM	AS AT PRECEDING FINANCIAL YEAR END 31.12.2015 AUDITED RM
NON-CURRENT ASSETS		
Plant and equipment	203,156	236,582
Investment properties	1,569,800,000	1,569,800,000
Derivative assets (i)	-	1,594,224
Lease receivable	1,676,469	2,000,864
	<u>1,571,679,625</u>	<u>1,573,631,670</u>
CURRENT ASSETS		
Trade and other receivables	8,485,284	5,648,126
Derivative assets (i)	-	686,257
Lease receivable	430,831	409,684
Deposits with licensed financial institution	23,506,536	38,636,273
Cash and cash equivalents	5,629,758	6,227,690
	<u>38,052,409</u>	<u>51,608,030</u>
CURRENT LIABILITIES		
Trade and other payables	10,791,195	13,574,839
Borrowings	187,816,428	188,910,256
Security deposits	2,735,895	2,515,677
	<u>201,343,518</u>	<u>205,000,772</u>
NET CURRENT LIABILITIES	(163,291,109)	(153,392,742)
NON-CURRENT LIABILITIES		
Borrowings	501,549,675	500,811,606
Derivative liabilities (i)	3,932,836	-
Security deposits	16,291,568	15,572,463
	<u>521,774,079</u>	<u>516,384,069</u>
NET ASSETS	<u>886,614,437</u>	<u>903,854,859</u>
Represented by:		
UNITHOLDERS' FUND		
Unitholders' capital	751,276,357	751,276,357
Undistributed and Non-distributable income	135,338,080	152,578,502
	<u>886,614,437</u>	<u>903,854,859</u>
NET ASSET VALUE PER UNIT (before provision for distribution)	1.3406	1.3666
NET ASSET VALUE PER UNIT (after provision for distribution) (ii)	1.3175	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 RM15,227,116 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
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE PERIOD ENDED 30 SEPTEMBER 2016 (UNAUDITED)

	Unitholders' Capital	Distributable Undistributed Income Realised	Non-Distributable Undistributed Income Unrealised	Net Fair Value (Loss) / Gain On Derivatives Unrealised	Total Undistributed and Non- Distributable Income	Unitholders' Funds
	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	-	45,851,661	-	(6,213,317)	39,638,344	39,638,344
	751,276,357	88,226,624	107,923,058	(3,932,836)	192,216,846	943,493,203
Unitholders' transactions:						
Distribution to unitholders	-	(56,878,766)	-	-	(56,878,766)	(56,878,766)
As at 30 September 2016	<u>751,276,357</u>	<u>31,347,858</u>	<u>107,923,058</u>	<u>(3,932,836)</u>	<u>135,338,080</u>	<u>886,614,437</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	-	37,645,821	-	4,650,932	42,296,753	42,296,753
	751,276,357	64,714,887	101,245,683	5,875,125	171,835,695	923,112,052
Unitholders' transactions:						
Distribution to unitholders	-	(38,714,728)	-	-	(38,714,728)	(38,714,728)
As at 30 September 2015	<u>751,276,357</u>	<u>26,000,159</u>	<u>101,245,683</u>	<u>5,875,125</u>	<u>133,120,967</u>	<u>884,397,324</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 SEPTEMBER 2016 (UNAUDITED)

	CURRENT YEAR TO DATE 30.09.2016 RM	PRECEDING YEAR TO DATE 30.09.2015 RM
OPERATING ACTIVITIES		
Income before tax	45,851,661	37,645,821
Adjustments for:		
Finance costs	23,936,500	20,044,348
Depreciation	41,666	8,106
Interest income	(1,245,000)	(687,553)
Gain on divestment of properties	-	(594,734)
Operating cash flows before changes in working capital	68,584,827	56,415,988
Receivables	292,191	(1,750,801)
Payables	(1,739,213)	13,392,806
Cash flows from operations	67,137,805	68,057,993
Income tax paid	-	-
Net cash flows generated from operating activities	67,137,805	68,057,993
INVESTING ACTIVITIES		
Additions to investment properties	-	(750,873,455)
Proceed from divestment of QB10	-	27,300,000
Purchase of plant & equipment	(8,240)	-
Investment in finance lease	-	(2,600,000)
Interest income	1,250,529	608,703
Net cash flow generated from/(used in) investing activities	1,242,289	(725,564,752)
FINANCING ACTIVITIES		
Distribution to unitholders	(56,878,766)	(38,714,728)
Finance costs paid	(27,228,997)	(25,799,370)
Proceeds from borrowings	-	534,000,000
Repayment of borrowings	-	(145,000,000)
Proceeds from issuance of new units	-	342,000,000
Expenses paid on issuance of new units	-	(2,435,710)
Cash flows (used in)/generated from financing activities	(84,107,763)	664,050,192
NET INCREASE IN CASH AND CASH EQUIVALENTS	(15,727,669)	6,543,433
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44,863,963	23,288,996
CASH AND CASH EQUIVALENTS AT END OF PERIOD	29,136,294	29,832,429
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	23,506,536	22,238,442
Cash on hand and at banks	5,629,758	7,593,987
	29,136,294	29,832,429

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 NINE MONTH ENDED 30 SEPTEMBER 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 September 2016, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 SEPTEMBER 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.

As announced on 4 August 2016, SC had, vide its letter dated 3 August 2016, approved the exemptions from:

- (i) compliance with Clauses 14.04(a)(i) and (ii) of the REIT Guidelines; and
- (ii) submitting to the SC a declaration from the advisers/ directors of the Managers 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.

As announced on 8 August 2016, an application to the SC in respect of the Proposals has been submitted on the same day.

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

(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") (cont'd)

As announced on 28 September 2016, on behalf of the Board, CIMB, HLIB and Maybank IB announced that MQREIT had on 28 September 2016 received the approval of the SC via their letter dated 27 September 2016 for the:

- (i) value of the Property pursuant to Clause 10.12(b) of the REIT Guidelines;
- (ii) issuance of new Units; and
- (iii) listing of and quotation for the new Units on the Main Market of Bursa Securities.

subject to the terms and conditions as set out below:

Terms

- (i) issuance of:
 - (a) up to 406,666,667 new Units pursuant to the Proposed Placement;
 - (b) up to 31,952,333 new Units pursuant to the Proposed Authority; and
- (ii) Listing and quotation for up to 438,619,000 new Units on the Main Market of Bursa Securities.

Conditions

- (i) in relation to the Proposed Placement;
 - (a) Maybank IB, CIMB, HLIB and the Manager are to inform the SC of the actual number of new Units issued, the date of the issuance of the new Units and the date of the listing of and quotation for such new Units on the Main Market of Bursa Securities; and
 - (b) the issuance and listing of new Units on the Main Market of Bursa Securities must be completed within 6 months from the date of the decision letter. The SC's approval is deemed to lapsed if the Manager fails to do so within the stipulated timeframe.
 - (c) In relation to the Proposed Authority, the Manager is to inform the SC of the actual number of new Units issued, the date of the issuance of the new Units and the date of the listing of and quotation for such new Units on the Main Market of Bursa Securities.

(B) The Authority to allot and issue up to 18,619,000 new Units in MQREIT for the purpose of the payment of Management Fee to MRCB Quill Management Sdn Bhd in the form of new Units ("Authority")

Paragraph 6.62(1) of the Main Market Listing Requirements of Bursa Securities stipulates that a proposal relating to the issuance of securities must be completed within 6 months from the date of listing approval by Bursa Securities, failing which the listing approval given with regard to the proposal will lapse. Bursa Securities had, vide its letter dated 16 February 2015, approved the listing of and quotation for up to 18,619,000 new units in MQREIT to be issued pursuant to the Authority.

On 30 July 2015, HLIB announced on behalf of MQREIT that Bursa Securities had on 29 July 2015 approved an extension of time of 6 months from 16 August 2015 to 15 February 2016 for the implementation of the Authority. Subsequently, on 5 February 2016, HLIB announced on behalf of MQREIT that Bursa Securities had on 4 February 2016 approved a further extension of time of 6 months from 16 February 2016 to 15 August 2016 for the implementation of the Authority.

As announced on 1 August 2016, an application has been submitted to Bursa Securities on the same day to seek another extension of time until 31 March 2017 for MQREIT to implement the Authority.

As announced on 12 August 2016, Bursa Securities had, vide its letter dated 11 August 2016, approved a further extension of time until 31 December 2016 for MQREIT to implement the Authority.

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

(C) Change in Principal Officer

As announced on 1 September 2016, Chief Financial Officer, Mr Wong Tze Meng has resigned to pursue other interest effective from 1 September 2016.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 SEPTEMBER 2016

There is no significant events subsequent to the quarter ended 30 September 2016.

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 September 2016 are as follows:

	As at 30 September 2016
	RM
Approved and contracted for :	
Investment properties	<u><u>3,974,447</u></u>

B1 REVIEW OF PERFORMANCE

Quarter and year to date results

MQREIT recorded total revenue of RM32.50 million and property operating expenses of RM6.97 million for the current quarter ended 30 September 2016. Finance costs of RM8.10 million and manager's fee of RM2.42 million were incurred during the quarter. Overall, realised income of RM15.23 million was achieved in the current quarter.

As compared with the preceding year corresponding quarter ("3Q 2015"), the revenue is higher by 2.2% mainly due to additional revenue from Platinum Sentral, higher rental income due to step up rent adjustments from QB2, QB3 and Wisma Technip. Property operating expenses is higher by 10.2% due to higher repairs & maintenance costs incurred. Overall, the net property income had increased by 0.2%. Interest income is higher by 35.2% mainly due to higher amount placed with licensed financial institutions in the current quarter. Finance costs is lower by 2.6% mainly due to lower borrowings in 3Q 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 RM15.23 million is lower by 3.2% compared to 3Q 2015.

As compared to preceding year cumulative quarter ("YTD 3Q 2015"), revenue of RM97.72 million is higher by 18.3% 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 10.1% mainly due to acquisition of Platinum Sentral on 30 March 2015. Overall, the net property income increased by 20.8% to RM76.7 million. Finance costs is higher by 19.4% due to additional borrowings were drawdown on 30 March 2015 to finance the acquisition of Platinum Sentral (Note B14(c)). The realised income of RM45.85 million is higher by 21.8% mainly due to higher net property income and higher interest income, net of higher finance costs, manager's fee and trustee's fee.

As compared with the immediate preceding quarter ("2Q 2016"), revenue of RM32.50 million is lower by 0.2% mainly due to lower rental income from QB8. Property operating expenses is lower by 1.5% due to better control on operating costs. Overall, the net property income increased by 0.7%. Finance costs increased by 1.6% mainly due to additional one day in the current quarter. As a result of the above, the realised income of RM15.23 million is higher by 1.0% compared to 2Q 2016.

The performance of MQREIT for the period ended 30 September 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 soft in 2Q2016 as organizations in selected sectors continue to downsize in view of the challenging operating environment. The accumulative supply of office space in KL City, KL Fringe and Beyond KL inched up to 92.7 million sq. ft. from 92.5 million in the previous quarter. The supply of office space is expected to grow 18% between 2H2016 and 2018 with bulk of new completion in the KL Fringe. Overall occupancy rates in KL City and KL Fringe remained stable during the quarter at 82.8% (Q12016: 82.7%) and 90.0% (Q12016: unchanged), respectively. Occupancy rate in Beyond KL also remained stable at 79.6% (Q12016: 79.7%). The average rents in KL City, KL Fringe and Beyond KL held steady despite downward pressures at RM6.13 psf, RM5.72 psf and RM4.16psf. The efforts of the Ministry of Federal Territories tightening the approvals for new office developments is expected to help stabilise the current office market, allowing demand – take up/absorption rate to catch up with supply.

(Sources : The Edge Knight Frank Klang Valley Office Monitor (2Q2016))

Review of retail market - Klang Valley

Retail sales continued to be impacted by rising cost of living amid a slowdown in the economy and weak job market, growing by a modest 1.4% in 2015 compared to a 3.4% expansion in 2014. With consumers continuing to hold back on spending, retail sales contracted sharply (-4.4%) in 1Q2016 (4Q2015: 1.3%).

A total of 12 shopping malls with combined NLA of approximately 2.82 million sq ft were opened / completed during the review period, bringing the cumulative supply of retail space in Klang Valley to circa 53.72 million sq ft. Overall, prime shopping centres have record higher rates mainly from new and renewed leases.

(Sources : Knight Frank Real Estate Highlights 1st Half 2016)

Review of retail market - Penang

The existing supply of purpose-built shopping space on Penang Island remains unchanged at 2H2015's level of 6.69 million sq. ft. No new purpose-built shopping malls were completed on the island in 1H2016. M Mall 020, Phase 2 of Penang Times Square which opened for business in late December 2015 had its official opening on May 28, 2016. Occupancy rates for the prime shopping malls on the island range from 80% to 98.5% whilst for the secondary shopping malls, the range is generally from 70% to 90%.

In prime shopping malls, rental rates for ground floor retail lots generally range from RM13 to above RM35 per sq ft per month, depending on the mall, location and size of the units.

(Sources : Knight Frank Real Estate Highlights 1st Half 2016)

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. Overall, we expect the performance of MQREIT's portfolio to remain stable. The Manager will continue to focus on its tenant retention strategy and 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 3Q 2016, 64% of these leases have been renewed while 8% have not been renewed. There is a balance of 28% of these leases due in 4Q 2016, wherein most of the renewal negotiations are at advanced stages. Early negotiations have commenced for certain leases due in 2017.

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 SEPTEMBER 2016

As at 30 September 2016, MQREIT's portfolio comprises of ten buildings as follows:

Investment properties	Cost of Investment	Market Value /Net Carrying amount as at 30 September 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	14.21%
2 QB 2- HSBC	107,500,000	120,700,000	13.61%
3 QB 3- BMW	59,400,000	75,500,000	8.52%
4 Wisma Technip	125,000,000	172,000,000	19.40%
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	15.79%
8 Platinum Sentral	740,000,000	750,000,000	84.59%
<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 30 September 2016 is RM886,614,437.

B14 BORROWINGS AND DEBT SECURITIES

As at end of period
ended 30 September
2016
RM

Current Liabilities:**RM270 million CP/MTN Programme**

Face value of CPs and MTNs issued	190,000,000
Discount	(2,547,501)
Cash proceeds	187,452,499
Accretion of interest expenses	363,929
	187,816,428
Transaction costs b/f	(88,353)
Amortisation of transaction costs during the period	88,353
	<u>187,816,428</u>

Non-current Liabilities:**RM150 million Term Loan**

Term Loan drawdown	117,000,000
Transaction cost c/f	(524,285)
	116,475,715
Amortisation of transaction costs during the period	147,455
	<u>116,623,170</u>

B14 BORROWINGS AND DEBT SECURITIES (CONT'D)

As at end of period
ended 30 September
2016
RM

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

Face value of CPs issued/rollover on 30 September 2016	279,000,000
Discount	(2,643,238)
Cash proceeds	276,356,762
Accretion of interest expenses	29,046
	276,385,808
Transaction costs on CP issued during the period	(1,185,002)
Amortisation of transaction costs during the period	213,300
	275,414,106

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

Term Loan drawdown/rollover on 30 September 2016	110,000,000
Transaction costs on term loan	(594,629)
	109,405,371
Amortisation of transaction costs during the period	107,028
	109,512,399

Total:**501,549,675****(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.

Subsequent to obtaining Noteholders approval, the original expected maturity of the RM60 million outstanding MTNs was deferred from 5 September 2016 to 6 March 2017 concurrently with a new issuance of CPs comprising RM12 million and RM118 million respectively with a tenure of 6 months, for the purpose of refinancing the outstanding CPs and to coincide with the new expected maturity of the outstanding MTNs.

(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:

- (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 matured 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 matured 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. 8 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 September 2016 are as follows:

	Fair values of derivative assets/(liabilities) as at 30 September 2016
	RM
Within one year	-
More than 1 year and less than 5 years	(3,932,836)
	<u>(3,932,836)</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 RM27,976,416 or 4.23 sen per unit, being 91.35% of the realised net income for the period 1 January 2016 to 30 June 2016 was made on 8 September 2016.

No income distribution is proposed for the quarter ended 30 September 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 30 September 2016	As at 30 June 2016
NAV (RM)	886,614,437	900,887,423
Number of units in circulation (unit)	661,381,000	661,381,000
NAV per unit (RM) (after provision for distribution)	1.3175	1.3198
Market price (RM)	1.25	1.16

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 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 30 September 2016 are :

	RM
Base fee	1,628,325
Performance fee	789,348
	<u>2,417,673</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 September 2016 amounted to RM122,528.

B21 UNITHOLDINGS BY THE MANAGER

As at 30 September 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 September 2016 RM
Malaysian Resources Corporation Berhad	206,250,000	31.18%	257,812,500
HLIB Nominee (Tempatan) Sdn. Bhd. for :			
-Quill Properties Sdn. Bhd.	45,997,000	6.95%	57,496,250
-Quill Land Sdn. Bhd.	48,767,000	7.37%	60,958,750
-Quill Estates Sdn. Bhd.	22,276,000	3.37%	27,845,000
	<u>323,290,000</u>	<u>48.88%</u>	<u>404,112,500</u>

The Manager's directors' direct unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2016 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.01%	62,500
Dato' Michael Ong Leng Chun	55,000	0.01%	68,750

The Manager's directors' indirect unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2016 RM
Dato' Dr. Low Moi Ing, J.P	117,040,000 (a)	17.70%	146,300,000
Dato' Michael Ong Leng Chun	117,040,000 (b)	17.70%	146,300,000

(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 30 September 2016 of RM1.25 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	7,834,410	23,092,364
Amortisation of transaction costs	172,346	556,136
Credit facility costs	96,000	288,000
Total finance costs	<u>8,102,756</u>	<u>23,936,500</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	14,072	41,666
Provision for / write off of receivables	(38,722)	128,124
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 September 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 25 October 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: 26 October 2016