

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	To Date	To Date
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM	RM	RM	RM
Total income				
Gross revenue				
-Realised gross revenue	41,383,475	44,044,733	41,383,475	44,044,733
-Unrealised rental income (unbilled lease income receivable) (a)	335,784	248,530	335,784	248,530
	<u>41,719,259</u>	<u>44,293,263</u>	<u>41,719,259</u>	<u>44,293,263</u>
Property operating expenses	(9,341,410)	(9,757,353)	(9,341,410)	(9,757,353)
Net property income	<u>32,377,849</u>	<u>34,535,910</u>	<u>32,377,849</u>	<u>34,535,910</u>
Interest income	827,954	729,327	827,954	729,327
Change in fair value of investment properties				
-Unbilled lease income receivable (a)	(335,784)	(248,530)	(335,784)	(248,530)
	<u>32,870,019</u>	<u>35,016,707</u>	<u>32,870,019</u>	<u>35,016,707</u>
Total expenditure				
Manager's fees	(3,244,502)	(3,333,623)	(3,244,502)	(3,333,623)
Trustee's fee	(170,410)	(171,704)	(170,410)	(171,704)
Finance costs	(9,856,493)	(9,692,311)	(9,856,493)	(9,692,311)
Valuation fees	(90,450)	(113,412)	(90,450)	(113,412)
Auditors' remuneration	(35,868)	(37,200)	(35,868)	(37,200)
Tax agent's fee	(6,408)	(6,045)	(6,408)	(6,045)
Administrative expenses	(58,290)	(653,121)	(58,290)	(653,121)
	<u>(13,462,421)</u>	<u>(14,007,416)</u>	<u>(13,462,421)</u>	<u>(14,007,416)</u>
Income before taxation	19,407,598	21,009,291	19,407,598	21,009,291
Income tax expense	-	-	-	-
Income net of taxation	19,407,598	21,009,291	19,407,598	21,009,291
Other comprehensive income				
(Loss)/Gain on remeasurement of financial derivatives (b)	(345,338)	356,952	(345,338)	356,952
Total comprehensive income for the financial year	19,062,260	21,366,243	19,062,260	21,366,243
Net income for the year is made up as follows:				
Realised	19,407,598	21,009,291	19,407,598	21,009,291
Unrealised	-	-	-	-
EARNINGS PER UNIT (c)				
- after manager's fees (sen)	1.81	1.97	1.81	1.97
- before manager's fees (sen)	2.11	2.28	2.11	2.28
EARNINGS PER UNIT (REALISED) (d)				
- after manager's fees (sen)	1.81	1.97	1.81	1.97
- before manager's fees (sen)	2.11	2.28	2.11	2.28
Income net of taxation	19,407,598	21,009,291	19,407,598	21,009,291
Distribution adjustments (e)	-	1,388,000	-	1,388,000
Distributable income	19,407,598	22,397,291	19,407,598	22,397,291
DISTRIBUTABLE INCOME PER UNIT (f)	1.81	2.10	1.81	2.10

(a) Recognition of unrealised rental income-unbilled lease income receivable pursuant to requirements of MFRS 117 Leases, to recognize income from operating lease on a straight-line basis, including contractual increase rates over the fixed tenure of the agreement.

- (b) This relates to the (loss)/gain on the remeasurement of the fair values of interest rate swaps ("IRSs"). (please refer Note B15)
- (c) Earnings Per Unit for the current quarter/period is computed based on the Net Income for the quarter/period divided by 1,071,783,000 units during the quarter/period. EPU for the preceding year corresponding quarter/period is based on the units in circulation of 1,068,000,000.
- (d) Earnings Per Unit (Realised) for the current quarter/period is computed based on the Realised Net Income for the quarter/period divided by 1,071,783,000 units during the quarter/period. EPU (Realised) for the preceding year corresponding quarter/period is based on the units in circulation of 1,068,000,000.
- (e) Distribution adjustment comprise:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	To Date	To Date
	31.03.2019	31.03.2018	31.03.2019	31.03.2018
	RM	RM	RM	RM
Manager's management fee payable in units	-	1,388,000	-	1,388,000
	-	1,388,000	-	1,388,000

- (f) Distributable income per unit for the current quarter/period is computed based on the units in circulation of 1,071,783,000. Distributable income per unit for the preceding year corresponding quarter/period is based on the units in circulation of 1,068,000,000.

The Condensed Consolidated Statement Of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the financial statements.

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019 (UNAUDITED)

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
	31.03.2019 UNAUDITED RM	31.12.2018 AUDITED RM
NON-CURRENT ASSETS		
Plant and equipment	308,085	345,125
Investment properties	2,177,809,090	2,158,708,055
Investment properties-accrued rental income	-	18,891,945
Lease receivables	1,193,748	1,326,763
	<u>2,179,310,923</u>	<u>2,179,271,888</u>
CURRENT ASSETS		
Trade and other receivables	11,170,284	5,969,634
Lease receivables	626,218	688,167
Deposits with licensed financial institution	34,781,473	80,486,003
Cash and cash equivalents	5,144,113	5,289,600
	<u>51,722,088</u>	<u>92,433,404</u>
TOTAL ASSETS	<u>2,231,033,011</u>	<u>2,271,705,292</u>
NON-CURRENT LIABILITIES		
Borrowings	503,480,758	853,704,352
Derivative liabilities (i)	-	428,022
Security deposits	15,876,991	11,168,217
Other payables	1,825,879	1,825,879
Deferred tax liability	6,132,188	6,132,188
	<u>527,315,816</u>	<u>873,258,658</u>
CURRENT LIABILITIES		
Trade and other payables	12,683,319	16,114,325
Derivative liabilities (i)	773,360	-
Borrowings	332,201,624	-
Security deposits	7,970,747	10,042,778
	<u>353,629,050</u>	<u>26,157,103</u>
TOTAL LIABILITIES	<u>880,944,866</u>	<u>899,415,761</u>
NET ASSETS VALUE ("NAV")	<u>1,350,088,145</u>	<u>1,372,289,531</u>
UNITHOLDERS' FUNDS		
Unitholders' funds attributable to unitholders of MQREIT		
Unitholders' capital	1,235,876,768	1,235,876,768
Undistributed and non-distributable income	114,211,377	136,412,763
Total unitholders' funds	<u>1,350,088,145</u>	<u>1,372,289,531</u>
NUMBER OF UNITS IN CIRCULATION	1,071,783,000	1,071,783,000
NET ASSET VALUE PER UNIT		
- before income distribution	1.2597	1.2804
- after income distribution (ii)	1.2416	1.2419

(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 RM19,407,598 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 2018 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 31 MARCH 2019 (UNAUDITED)

	Unitholders' Capital	Distributable		Non-Distributable Net Fair Value (Loss) / Gain On Derivatives Unrealised	Total Undistributed and Non-Distributable Income	Unitholders' Funds
		Undistributed Income Realised	Undistributed Income Unrealised			
	RM	RM	RM	RM	RM	RM
As at 1 January 2019	1,235,876,768	54,923,500	81,917,285	(428,022)	136,412,763	1,372,289,531
Issuance of new units expenses	-	-	-	-	-	-
Total Comprehensive Income for the financial year	-	19,407,598	-	(345,338)	19,062,260	19,062,260
	<u>1,235,876,768</u>	<u>74,331,098</u>	<u>81,917,285</u>	<u>(773,360)</u>	<u>155,475,023</u>	<u>1,391,351,791</u>
Unitholders' transactions:						
Distribution to unitholders	-	(41,263,646)	-	-	(41,263,646)	(41,263,646)
As at 31 March 2019	<u>1,235,876,768</u>	<u>33,067,452</u>	<u>81,917,285</u>	<u>(773,360)</u>	<u>114,211,377</u>	<u>1,350,088,145</u>
As at 1 January 2018	1,231,914,544	60,034,963	93,440,794	(665,731)	152,810,026	1,384,724,570
Issuance of new units expenses	-	-	-	-	-	-
Total Comprehensive Income for the financial year	-	21,009,291	-	356,952	21,366,243	21,366,243
	<u>1,231,914,544</u>	<u>81,044,254</u>	<u>93,440,794</u>	<u>(308,779)</u>	<u>174,176,269</u>	<u>1,406,090,813</u>
Unitholders' transactions:						
Distribution to unitholders	-	(44,428,800)	-	-	(44,428,800)	(44,428,800)
As at 31 March 2018	<u>1,231,914,544</u>	<u>36,615,454</u>	<u>93,440,794</u>	<u>(308,779)</u>	<u>129,747,469</u>	<u>1,361,662,013</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 2018 and the accompanying explanatory notes attached to the financial statements.

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

	CURRENT YEAR TO DATE 31.03.2019 RM	PRECEDING YEAR TO DATE 31.03.2018 RM
OPERATING ACTIVITIES		
Income before tax	19,407,598	21,009,291
Adjustments for:		
Finance costs	9,856,493	9,692,311
Depreciation	37,040	17,283
Interest income	(827,954)	(729,327)
Operating cash flows before changes in working capital	<u>28,473,177</u>	<u>29,989,558</u>
Receivables	(5,186,402)	(4,495,392)
Payables	<u>3,157,003</u>	<u>8,120,643</u>
Cash flows from operations	<u>26,443,778</u>	<u>33,614,809</u>
Income tax paid	-	-
Net cash flows generated from operating activities	<u>26,443,778</u>	<u>33,614,809</u>
INVESTING ACTIVITIES		
Additions to investment properties	(209,090)	(478,773)
Interest received	<u>1,315,139</u>	<u>926,229</u>
Net cash flow generated from investing activities	<u>1,106,049</u>	<u>447,456</u>
FINANCING ACTIVITIES		
Distribution to unitholders	(41,263,646)	(44,428,800)
Finance costs paid	(13,136,198)	(13,166,951)
Proceeds from borrowings	35,000,000	-
Repayment of borrowings	<u>(54,000,000)</u>	<u>-</u>
Cash flows used in financing activities	<u>(73,399,844)</u>	<u>(57,595,751)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(45,850,017)</u>	<u>(23,533,486)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>85,775,603</u>	<u>76,041,326</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>39,925,586</u></u>	<u><u>52,507,840</u></u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	34,781,473	47,351,129
Cash on hand and at banks	<u>5,144,113</u>	<u>5,156,711</u>
	<u><u>39,925,586</u></u>	<u><u>52,507,840</u></u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2018 and the accompanying explanatory notes to the financial statements.

MRCB-QUILL REIT
EXPLANATORY NOTES FOR PERIOD ENDED 31 MARCH 2019

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 2018 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 2018.

A4 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2018

The audit report of the financial statements for the preceding year ended 31 December 2018 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 2019, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 31 MARCH 2019

There is no significant events during the quarter ended 31 March 2019.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 31 MARCH 2019

There is no significant events subsequent to the quarter ended 31 March 2019.

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 2019 are as follows:

	As at 31 March 2019
	RM
Approved and contracted for :	
Investment properties	<u>1,789,060</u>

B1 REVIEW OF PERFORMANCE

Quarter Results (1Q 2019 vs 1Q 2018)

MQREIT recorded realised gross revenue of RM41.4 million in 1Q 2019, a decrease of RM2.7 million or 6.0% compare to 1Q 2018. The decrease was mainly due to lower revenue generated from Platinum Sentral, Wisma Technip, QB5 and loss of revenue from QB8-DHL XPJ after the disposal took place on 12 April 2018.

Property operating expenses for 1Q 2019 were RM9.3 million, a decrease of RM0.4 million or 4.3% compared to 1Q 2018, mainly due to tighten control on costs and lower expenses incurred after the disposal of QB8.

These have resulted in lower net property income by RM2.2 million or 6.3% in 1Q 2019 compared to 1Q 2018.

Manager's fees incurred for 1Q 2019 were RM3.2 million, lower by 2.7% compared to 1Q 2018, this was in line with the lower net property income and total gross asset value in 1Q 2019. Finance costs incurred for 1Q 2019 of RM9.9 million were 1.7% marginally higher than 1Q 2018, mainly due to slight increase in 6 month-KLIBOR rate on borrowings.

As a result of all the above, income before taxation for the current quarter under review of RM19.4 million was lower by RM1.6 million or 7.6% compared to 1Q 2018.

Financial Year-to-date Results (YTD 2019 vs YTD 2018)

Review of financial year-to-date results is the same as above.

Current Quarter vs Immediate Preceding Quarter (1Q 2019 vs 4Q 2018)

As compared with the immediate preceding quarter ("4Q 2018"), realised gross revenue in 1Q 2019 of RM41.4 million was lower by 3.0% and property operating expenses of RM9.3 million were higher by 6.5% respectively, resulted in lower net property income by 1.8%. Manager's fees and trustee's fees were marginally lower as a result of lower gross asset value recorded in 1Q 2019. Finance costs were lower in 1Q 2019 due to lesser number of days in 1Q 2019 as compared to 4Q 2018. Overall, realised net income before taxation of RM19.4 million were marginally lower by 0.8% compared to 4Q 2018.

The performance of MQREIT for the period ended 31 March 2019 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 2018.

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 2018 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

Review of office market - Klang Valley

The supply of office space in Kuala Lumpur is projected to increase 14% over 3 years which will add to the existing office space of 103.17 million sq.ft. In 4Q 2018, the occupancy rates in Kuala Lumpur Fringe and Selangor have improved slightly at 82.6% and 78.7% respectively, while KL City's occupancy rate dropped slightly by 1.5% to 78.1%. In respect of average rental rates, KL City and Selangor have improve marginally by 0.1% each to RM7.15 per sq. ft. and RM4.23 per sq. ft. respectively. The average rental rate for KL Fringe was maintained at RM5.75 per sq. ft. Pressure on the occupancy levels are expected with the increase in incoming supply and the rise in vacancy rates due to lack of catalyst to boost demand.

(Source : The Edge Knight Frank - Kuala Lumpur and Selangor Office Monitor (4Q2018))

Review of retail market - Klang Valley & Penang

Klang Valley will boost an existing stock of 67 million sq. ft. by end of 2018. In the State of Penang, completions of City Mall and Southbay Plaza will bring total supply to 19 million sq. ft. by year end. By 2021, total supply in Klang Valley is projected to reach 82 million sq. ft., given the current pipeline of nearly 16 million sq. ft.. In Penang, new developments are largely concentrated in Seberang Perai due to easier availability of larger land plots. Overall, 3 million sq. ft. of retail space across six centres are slated for opening during the next three years, and this will increase the total supply to 22 million sq. ft. by 2021. As consumers benefit from more shopping mall options, new malls will likely to struggle in achieving their desired foot traffic, given the diluted market share amid overlapping catchment. In addition, retailers are cautious on expanding their business, given the subdued consumer sentiments. Occupancy rates have been under pressure, averaged at 86% and 72% in Klang Valley and Penang respectively. Further upsides are unlikely, as market takes time to digest the incoming supply.

(Source : Property Market Report 2018 prepared by Nawawi Tie Leung Property Consultant Sdn Bhd for MRCB-Quill REIT dated December 2018)

B4 PROSPECTS

In 2019, 19% of MQREIT's total net lettable area ("NLA") or approximately 369,000 sq. ft. are due for renewal. 16% of these leases (approximately 59,000 sq. ft.) were due in 1Q 2018. Approximately 97% of the leases due in 1Q 2019 were not renewed by the existing tenants. Notwithstanding, new tenants have been identified and tenancies entered into for 48,000 sq. ft. of the non-renewed spaces.

The Klang Valley office market is expected to remain challenging. Similar to 2018, we will focus on asset management and leasing strategies that are centred on tenant retention to overcome the challenging operating environment for the 2019.

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 2019.

(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 current 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 2019

As at 31 March 2019, MQREIT's portfolio comprises of ten buildings as follows:

Investment properties	Cost of Investment	Market Value / Net Carrying amount as at 31 March 2019	Market value /Net Carrying amount as % of NAV
	RM	RM	
<u>Commercial buildings</u>			
1 QB1 - DHL 1 & QB4 - DHL 2	109,100,000	133,000,000	9.85%
2 QB2 - HSBC	107,500,000	122,000,000	9.04%
3 QB3 - BMW	59,400,000	79,000,000	5.85%
4 Wisma Technip	125,000,000	172,400,000	12.77%
5 Part of Plaza Mont' Kiara	90,000,000	118,200,000	8.75%
6 QB5 - IBM	43,000,000	39,000,000	2.89%
7 Tesco Building Penang	132,000,000	140,000,000	10.37%
8 Platinum Sentral	740,000,000	724,000,000	53.63%
9 Menara Shell	640,000,000	650,209,090	48.16%
	<u>2,046,000,000</u>	<u>2,177,809,090</u>	

Capital expenditure of RM209,090 were incurred during the quarter. The NAV as at 31 March 2019 is RM1,350,088,145.

B14 BORROWINGS AND DEBT SECURITIES

	As at end of period ended 31 March 2019
	RM
<u>CURRENT LIABILITIES:</u>	
(a) (i) Senior CP / MTN Programme of up to RM290 million	241,332,302
(a) (ii) Fixed Rate Subordinated Term Loan Facility of up to RM250 million	90,869,322
	<u>332,201,624</u>
<u>NON-CURRENT LIABILITIES:</u>	
(b) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")	116,851,146
(c) CPs/MTNs Programme of up to RM3 billion	386,629,612
	<u>503,480,758</u>
TOTAL BORROWINGS	835,682,382
<u>CURRENT LIABILITIES:</u>	
(a) Senior CP / MTN Programme of up to RM290 million ("Senior CP / MTN Programme") and Fixed-Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan")	
(i) <u>Senior CP / MTN Programme</u>	RM
Face value of CPs issued / rollover	279,000,000
Discount	(2,488,065)
Cash proceeds	276,511,935
Accretion of interest expenses	82,024
	<u>276,593,959</u>
Transaction costs b/f	(332,863)
Amortisation of transaction costs during the period	71,206
Partial redeemed on 29 March 2019	(35,000,000)
	<u>241,332,302</u>

B14 BORROWINGS AND DEBT SECURITIES (cont'd)**(ii) Fixed Rate Subordinated Term Loan**

	RM
Term Loan draw down	110,000,000
Transaction costs b/f	<u>(166,409)</u>
	109,833,591
Amortisation of transaction costs during the period	35,731
Partial repaid on 29 March 2019	<u>(19,000,000)</u>
	<u>90,869,322</u>

On 13 March 2015, MQREIT through its SPE, Murud Capital Sdn Bhd ("Murud") established a RM290 million Senior CP/MTN Programme for 5 years.

On 30 March 2015, RM279 million nominal values of Senior CPs were issued at an interest rate of 4.13% per annum. On 30 September 2015, a Fixed Rate Subordinated Term Loan of RM110 million were established at the interest rate of 4.90% per annum.

On 21 April 2015, MQREIT 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 CPs issued by Murud. MQREIT will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MQREIT. These interest rate swap arrangements commenced on 21 April 2015 and will mature on 30 March 2020.

On 29 March 2019, RM35 million nominal value of Senior CPs had been early redeemed and refinanced by a RM35 million nominal value of CPs issued by Kinabalu Capital Sdn Bhd ("Kinabalu"), at the interest rate of 4.29% p.a.. On the same day, RM19 million Fixed Rate Subordinated Term Loan had been early repaid via the proceeds from disposal of QB8 and internal funds.

The transaction costs relating to the programme are amortised over the tenure of the programmes and are charged to profit or loss. The RM290 million Senior CP and RM110 million Subordinated Term Loan are secured borrowings.

B14 BORROWINGS AND DEBT SECURITIES (cont'd)**NON-CURRENT LIABILITIES:**

(b) <u>Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")</u>	RM
Term Loan draw down	117,000,000
Transaction cost b/f	<u>(157,274)</u>
	116,842,726
Amortisation of transaction costs during the period	<u>8,420</u>
	<u><u>116,851,146</u></u>

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% per annum was draw down 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.

On 13 September 2018, the term loan facility has been extended for a further term of five (5) years from 13 September 2018 to 13 September 2023, at interest rate of 4.75% per annum.

The transaction costs relating to the programme are amortised over the tenure of the programme and are charged to profit or loss.

The RM150 million Term Loan is secured borrowing and there was no draw down of the facility during the quarter.

(c) Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value ("RM3 billion Programme")

(i) <u>RM144 million in nominal value of CP and RM20 million in nominal value of MTN</u>	RM
Face value of CPs / MTNs issued	164,000,000
Discount	<u>(3,159,320)</u>
Cash proceeds	160,840,680
Accretion of interest expenses	<u>1,753,249</u>
	162,593,929
Transaction costs b/f	<u>(273,248)</u>
Amortisation of transaction costs during the period	<u>23,404</u>
	<u><u>162,344,085</u></u>

(ii) <u>RM61 million in nominal value of CP and RM130 million in nominal value of MTN</u>	RM
Face value of CPs / MTNs issued	191,000,000
Discount	<u>(1,353,030)</u>
Cash proceeds	189,646,970
Accretion of interest expenses	<u>191,189</u>
	189,838,159
Transaction costs b/f	<u>(206,957)</u>
Amortisation of transaction costs during the period	<u>16,330</u>
	<u><u>189,647,532</u></u>

B14 BORROWINGS AND DEBT SECURITIES (cont'd)

NON-CURRENT LIABILITIES (cont'd):

(c) Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value ("RM3 billion Programme") (cont'd):

(iii) RM35 million in nominal value of CP

Face value of CPs issued	35,000,000
Discount	(374,346)
Cash proceeds	34,625,654
Accretion of interest expenses	12,341
	<u>34,637,995</u>
Total:	<u>386,629,612</u>

On 30 November 2016, MQREIT through its SPE, Kinabalu Capital Sdn Bhd ("Kinabalu") established a RM3.0 billion in nominal value of CP/MTN programme. The CP Programme shall have a legal tenure of seven (7) years from the date of the first issue of the CPs under the CP Programme, whereas the MTN Programme shall have a legal tenure of twenty (20) years from the date of the first issue of MTNs under the MTN Programme.

(i) RM144 million in nominal value of CP and RM20 million in nominal value of MTN

On 22 December 2016, RM144 million nominal value of CPs and RM20 million in nominal value of MTNs out of the respective programme were issued at the interest rate of 4.13% p.a. and 4.30% p.a. respectively. The proceeds raised from the issuance were utilised to part-finance the acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park.

The transaction costs relating to the programme are amortised over the tenure of the programme and are charged to profit or loss. The RM144 million CP and RM20 million MTN are secured borrowings.

(ii) RM61 million in nominal value of CPs and RM130 million in nominal value of MTNs

On 6 March 2017, RM61 million in nominal value of CPs and RM130 million nominal value of MTNs from the CP and MTN Programme were issued at the interest rate of 4.14% p.a. and 4.40% p.a. respectively.

The transaction costs relating to the programme are amortised over the tenure of the programme and are charged to profit or loss. The RM61 million CP and RM130 million MTN are secured borrowings. There were no draw down of the facility during the quarter.

(iii) RM35 million in nominal value of CPs

On 29 March 2019, RM35 million in nominal value of CPs were issued at the interest rate of 4.29% p.a. for the purpose of redemption of the RM35 million Senior CPs issued by Murud.

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 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 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.
- (ii) 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 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 IRS arrangements are the estimated amount that would be received or paid to terminate the IRS arrangements as at the reporting date, taking into account interest rate market conditions. The fair values are obtained based on quotes provided by the financial institutions.

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

The details of the outstanding derivatives as at 31 March 2019 are as follows:

Type of Derivatives	Contract/Notional Value As at 31 March 2019	Fair values of derivative liabilities as at 31 March 2019
	RM	RM
Interest Rate Swap ("IRS")		
(i) IRS No. 7 - within 1 year	139,500,000	388,937
(ii) IRS No. 8 - within 1 year	139,500,000	384,423
	<u>279,000,000</u>	<u>773,360</u>

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 RM41,263,646, or 3.85 sen per unit, being income distribution for the period 1 July 2018 to 31 December 2018, has been made on 28 February 2019.

No income distribution was proposed for the current quarter as MQREIT's distribution of income is paid on a half yearly basis.

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	24%

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

	As at 31 March 2019	As at 31 December 2018
NAV (RM)	1,350,088,145	1,372,289,531
Number of units in circulation (units)	1,071,783,000	1,071,783,000
NAV per unit (RM) (after provision for distribution)	1.2416	1.2419
Market price (RM)	1.09	1.06

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 for the quarter ended 31 March 2019 are :

	RM
Base fee	2,258,402
Performance fee	986,100
	<u>3,244,502</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 2019 amounted to RM170,410.

B21 UNITHOLDINGS BY THE MANAGER

As at 31 March 2019, the Manager held 2,857,000 units in MQREIT.

B22 UNITHOLDINGS BY PARTIES RELATED TO THE MANAGER

	No. of units	Percentage of total units	Market Value as at 31 March 2019 RM
Malaysian Resources Corporation Berhad	298,297,000	27.83%	325,143,730
HLIB Nominee (Tempatan) Sdn. Bhd. for :			
-Quill Properties Sdn. Bhd.	20,715,800	1.93%	22,580,222
-Quill Land Sdn. Bhd.	30,868,600	2.88%	33,646,774
-Quill Estates Sdn. Bhd.	7,455,600	0.70%	8,126,604
MRCB Quill Management Sdn. Bhd.	2,857,000	0.27%	3,114,130
Quill Resources Holding Sdn. Bhd.	361,000	0.03%	393,490
Global Jejaka Sdn. Bhd.	185,000	0.02%	201,650
	<u>360,740,000</u>	<u>33.66%</u>	<u>393,206,600</u>

The Manager's directors' direct unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 31 March 2019 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.005%	54,500
Dato' Michael Ong Leng Chun	55,000	0.005%	59,950
Kwan Joon Hoe	80,000	0.007%	87,200

The Manager's directors' indirect unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 31 March 2019 RM
Dato' Dr. Low Moi Ing, J.P	59,401,000 (a)	5.54%	64,747,090
Dato' Michael Ong Leng Chun	59,401,000 (b)	5.54%	64,747,090
Tan Sri Saw Choo Boon	185,000 (c)	0.02%	201,650

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

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

(c) Deemed interest by way of his substantial shareholding in Morningale Sdn Bhd and Jendela Elit Sdn Bhd, which in turn are substantial shareholders of Global Jejaka Sdn Bhd

The market value of the units is computed based on the closing price as of 31 March 2019 of RM1.09 per unit.

B23 UNITHOLDERS CAPITAL

	No. of units	
	Current Quarter	Preceding Quarter
Approved fund size	1,100,000,000	1,100,000,000
Issued and fully paid	1,071,783,000	1,071,783,000

B24 FINANCE COSTS INCURRED DURING THE QUARTER AND YEAR TO DATE

	Current Quarter	Cumulative Quarter
	RM	RM
Interest expenses on CPMTN	6,660,846	6,660,846
Interest expenses on term loan	2,813,084	2,813,084
Interest on interest rate swap arrangements	89,433	89,433
Amortisation of transaction costs	169,068	169,068
Credit facility costs	124,062	124,062
Total finance costs	9,856,493	9,856,493

B25 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 2019 and of its financial performance and cash flows for the quarter ended on that date and duly authorised for release by the Board of Directors of the Manager on 9 May 2019.

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 : 9 May 2019