

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	To Date	To Date
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
	RM	RM	RM	RM
Total income				
Gross revenue				
-Realised gross revenue	39,919,714	43,262,161	120,082,679	130,712,897
-Unrealised rental income (unbilled lease income receivable) (a)	(458,201)	331,654	287,345	865,469
	39,461,513	43,593,815	120,370,024	131,578,366
Property operating expenses	(9,726,245)	(9,927,572)	(28,767,354)	(29,729,617)
Net property income	29,735,268	33,666,243	91,602,670	101,848,749
Interest income	702,703	1,021,408	2,096,233	2,627,689
Change in fair value of investment properties				
-Unbilled lease income receivable (a)	458,201	(331,654)	(287,345)	(865,469)
Gain on divestment of investment property	-	-	-	2,196,632
	30,896,172	34,355,997	93,411,558	105,807,601
Total expenditure				
Manager's fees	(3,184,384)	(3,326,266)	(9,566,225)	(9,972,253)
Trustee's fee	(169,811)	(171,917)	(508,257)	(514,483)
Finance costs	(9,741,165)	(10,070,386)	(29,323,316)	(29,697,864)
Valuation fees	(90,450)	(90,450)	(271,350)	(261,293)
Auditors' remuneration	(35,868)	(33,840)	(107,604)	(104,880)
Tax agent's fee	(6,408)	(17,295)	(19,224)	(29,385)
Administrative expenses	(30,702)	(57,537)	(115,818)	(143,799)
	(13,258,788)	(13,767,691)	(39,911,794)	(40,723,957)
Income before taxation	17,637,384	20,588,306	53,499,764	65,083,644
Income tax expense	-	-	-	-
Income net of taxation	17,637,384	20,588,306	53,499,764	65,083,644
Other comprehensive income				
Gain/(Loss) on remeasurement of financial derivatives (b)	257,302	(57,386)	(231,268)	253,405
Total comprehensive income for the financial year	17,894,686	20,530,920	53,268,496	65,337,049
Net income for the year is made up as follows:				
Realised	17,637,384	20,588,306	53,499,764	65,083,644
Unrealised	-	-	-	-
	17,637,384	20,588,306	53,499,764	65,083,644
EARNINGS PER UNIT (c)				
- after manager's fees (sen)	1.65	1.92	4.99	6.08
- before manager's fees (sen)	1.94	2.23	5.88	7.01
EARNINGS PER UNIT (REALISED) (d)				
- after manager's fees (sen)	1.65	1.92	4.99	6.08
- before manager's fees (sen)	1.94	2.23	5.88	7.01
INCOME DISTRIBUTION (e)				
Interim income distribution	-	-	36,762,157	45,336,421
	-	-	36,762,157	45,336,421
Income distribution per unit				
Gross (sen)				
-Interim income distribution	-	-	3.43	4.23
Total income distribution	-	-	3.43	4.23
Income net of taxation	17,637,384	20,588,306	53,499,764	65,083,644
Distribution adjustments (f)	-	1,400,000	900,000	3,788,000
Distributable income	17,637,384	21,988,306	54,399,764	68,871,644
DISTRIBUTABLE INCOME PER UNIT	1.65	2.05	5.08	6.43

- (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 gain/(loss) 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/weighted average units in circulation of 1,071,783,000/1,070,480,429 units during the quarter/period.
- (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 for the preceding year corresponding quarter/period is based on the units in circulation/weighted average units in circulation of 1,071,783,000/1,070,480,429 units during the quarter/period.
- (e) Income distribution of 3.43 sen per unit being the distribution of income for the period 1 January 2019 to 30 June 2019 was paid on 23 September 2019.
- (f) Income distribution of 4.23 sen per unit being the distribution of income for the period 1 January 2018 to 30 June 2018 was paid on 19 September 2018.
- (g) Distribution adjustments comprise:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year Corresponding	Current Year	Preceding Year Corresponding
	Quarter	Quarter	To Date	To Date
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
	RM	RM	RM	RM
Manager's management fee payable in units	-	-	-	1,388,000
Amount previously not distributed	-	1,400,000	900,000	2,400,000
	<u>-</u>	<u>1,400,000</u>	<u>900,000</u>	<u>3,788,000</u>

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 30 SEPTEMBER 2019 (UNAUDITED)

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
	30.09.2019 UNAUDITED RM	31.12.2018 AUDITED RM
NON-CURRENT ASSETS		
Plant and equipment	276,693	345,125
Investment properties	2,178,978,973	2,158,708,055
Investment properties-accrued rental income	-	18,891,945
Lease receivables	917,066	1,326,763
	<u>2,180,172,732</u>	<u>2,179,271,888</u>
CURRENT ASSETS		
Trade and other receivables	7,441,220	5,969,634
Lease receivables	539,284	688,167
Deposits with licensed financial institution	40,722,220	80,486,003
Cash and cash equivalents	4,708,568	5,289,600
	<u>53,411,292</u>	<u>92,433,404</u>
TOTAL ASSETS	<u>2,233,584,024</u>	<u>2,271,705,292</u>
NON-CURRENT LIABILITIES		
Borrowings	503,767,661	853,704,352
Derivative liabilities (i)	-	428,022
Security deposits	20,508,731	11,168,217
Other payables	1,825,879	1,825,879
Deferred tax liability	6,132,188	6,132,188
	<u>532,234,459</u>	<u>873,258,658</u>
CURRENT LIABILITIES		
Trade and other payables	16,936,727	16,114,325
Derivative liabilities (i)	659,290	-
Borrowings	332,522,137	-
Security deposits	3,699,187	10,042,778
	<u>353,817,341</u>	<u>26,157,103</u>
TOTAL LIABILITIES	<u>886,051,800</u>	<u>899,415,761</u>
NET ASSETS VALUE ("NAV")	<u>1,347,532,224</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	111,655,456	136,412,763
Total unitholders' funds	<u>1,347,532,224</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	1.2573	1.2804
- after income distribution (ii)	1.2408	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 RM17,637,384 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 30 SEPTEMBER 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
Total Comprehensive Income for the financial year	-	53,499,764	-	(231,268)	53,268,496	53,268,496
	<u>1,235,876,768</u>	<u>108,423,264</u>	<u>81,917,285</u>	<u>(659,290)</u>	<u>189,681,259</u>	<u>1,425,558,027</u>
Unitholders' transactions:						
Distribution to unitholders	-	(78,025,803)	-	-	(78,025,803)	(78,025,803)
As at 30 September 2019	<u>1,235,876,768</u>	<u>30,397,461</u>	<u>81,917,285</u>	<u>(659,290)</u>	<u>111,655,456</u>	<u>1,347,532,224</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	3,974,420	-	-	-	-	3,974,420
Expenses on issuance of new units	(12,196)	-	-	-	-	(12,196)
Total Comprehensive Income for the financial year	-	65,083,644	-	253,405	65,337,049	65,337,049
	<u>1,235,876,768</u>	<u>125,118,607</u>	<u>93,440,794</u>	<u>(412,326)</u>	<u>218,147,075</u>	<u>1,454,023,843</u>
Unitholders' transactions:						
Distribution to unitholders	-	(89,765,221)	-	-	(89,765,221)	(89,765,221)
As at 30 September 2018	<u>1,235,876,768</u>	<u>35,353,386</u>	<u>93,440,794</u>	<u>(412,326)</u>	<u>128,381,854</u>	<u>1,364,258,622</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 30 SEPTEMBER 2019 (UNAUDITED)

	CURRENT YEAR TO DATE 30.09.2019 RM	PRECEDING YEAR TO DATE 30.09.2018 RM
OPERATING ACTIVITIES		
Income before tax	53,499,764	65,083,644
Adjustments for:		
Finance costs	29,323,316	29,697,864
Depreciation	113,632	51,854
Interest income	(2,096,233)	(2,627,689)
Gain on divestment of investment property	-	(2,196,632)
Operating cash flows before changes in working capital	<u>80,840,479</u>	<u>90,009,041</u>
Receivables	(776,745)	(3,736,585)
Payables	4,666,002	1,778,974
Cash flows from operations	<u>84,729,736</u>	<u>88,051,430</u>
Income tax paid	-	-
Net cash flows generated from operating activities	<u>84,729,736</u>	<u>88,051,430</u>
INVESTING ACTIVITIES		
Additions to investment properties	(1,378,973)	(3,162,764)
Proceed from divestment of QB8	-	28,000,000
Purchase of plant & equipment	(45,200)	(31,000)
Interest received	2,451,636	2,905,885
Net cash flow generated from investing activities	<u>1,027,463</u>	<u>27,712,121</u>
FINANCING ACTIVITIES		
Distribution to unitholders	(78,025,803)	(89,765,221)
Finance costs paid	(29,076,211)	(32,682,300)
Proceeds from borrowings	35,000,000	-
Repayment of borrowings	(54,000,000)	-
Proceeds from issuance of new units	-	3,974,420
Expenses paid on issuance of new units	-	(12,196)
Cash flows used in financing activities	<u>(126,102,014)</u>	<u>(118,485,297)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(40,344,815)	(2,721,746)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	85,775,603	76,041,326
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>45,430,788</u>	<u>73,319,580</u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	40,722,220	69,747,285
Cash on hand and at banks	4,708,568	3,572,295
	<u>45,430,788</u>	<u>73,319,580</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 30 SEPTEMBER 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

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 2019, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 SEPTEMBER 2019

Related Party Transactions-Provision of auxiliary police services for Menara Shell and Platinum Sentral by Semasa Sentral Sdn Bhd

As announced on 29 August 2019, the manager of MRCB-Quill Reit ("MQREIT"), MRCB Quill Management Sdn Bhd ("MQM") had on the same day appointed Semasa Sentral Sdn Bhd ("SSSB") to provide auxiliary police services at Menara Shell and Platinum Sentral for a period of two (2) years commencing from 1 September 2019 to 31 August 2021 at the monthly rate of RM41,721.60 and RM34,916.40 (including Service Tax) respectively.

The transaction with SSSB is regarded as a Related Party Transaction ("RPT") by virtue of SSSB is a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

SSSB was incorporated in Malaysia under the Companies Act, 1965 on 4 May 1982 and its principal activity is maintaining, operating and management of the Kuala Lumpur Sentral Station.

The RPT is not expected to have any material effect on the net assets per share, earnings per share and gearing of MQREIT for the financial year ending 2019.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 SEPTEMBER 2019

There is no significant event subsequent to the quarter ended 30 September 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 30 September 2019 are as follows:

	As at 30 September 2019 RM
Approved and contracted for :	
Investment properties	<u><u>1,220,579</u></u>

B1 REVIEW OF PERFORMANCE

Quarter Results (3Q 2019 vs 3Q 2018)

MQREIT recorded gross revenue of RM39.5 million in 3Q 2019, a decrease of RM4.1 million or 9.5% compare to 3Q 2018. The decrease was mainly due to lower revenue generated from Platinum Sentral, QB5 and Wisma Technip.

Property operating expenses for 3Q 2019 were RM9.7 million, a marginal decrease of RM0.2 million or 2% compared to 3Q 2018, mainly due to tighten control on costs.

These have resulted in lower net property income by RM3.9 million or 11.7% in 3Q 2019 compared to 3Q 2018.

Manager's fees incurred for 3Q 2019 were RM3.2 million, lower by 4.3% compared to 3Q 2018, this was in line with the lower net property income and total gross asset value in 3Q 2019. Finance costs incurred for 3Q 2019 of RM9.7 million were 3.3% marginally lower than 3Q 2018, mainly due to lower borrowings after the partial repayment of Murud Capital Sdn Bhd ("Murud")'s Fixed Rate Sub-ordinated Term Loan ("SSL") of RM19mil on 29 Mar 2019.

As a result of all the above, income before taxation for the current quarter under review of RM17.6 million was lower by RM3.0 million compared to 3Q 2018.

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

MQREIT recorded gross revenue of RM120.4 million in YTD September 2019, a decrease of RM11.2 million or 8.5% over the previous financial period ended YTD September 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. A gain on divestment of QB8 - DHL XPJ amounted to RM2.2 million was recorded in YTD 3Q 2018, upon the completion of disposal on 12 April 2018.

Property operating expenses for YTD September 2019 were RM28.8 million, a decrease of approximately RM1.0 million or 3.2% against the previous financial period. The decrease was mainly attributable to lower expenses incurred by some properties.

Overall, the net property income for YTD September 2019 was lower by RM10.3 million or 10.1% compared to YTD September 2018.

Manager's fees for YTD September 2019 were RM9.6 million, marginally lower by 4.1% compared to YTD September 2018, this was in line with the lower net property income and total gross asset value in YTD September 2019. Finance costs for YTD September 2019 amounted to RM29.3 million were 1.3% marginally lower due to lower borrowings after the partial repayment of Murud's Fixed Rate SSL of RM19mil on 29 Mar 2019.

Overall, the income before taxation for YTD September 2019 of RM53.5 million was lower by RM11.6 million or 17.8% compared to YTD September 2018. Distributable income for the current period was RM54.4 million or 5.08 sen per unit, consisting of income after taxation of RM53.5 million and distribution adjustment of RM0.9 million.

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 current supply office space in Klang Valley stood at circa 106.97 million sq. ft. as of end 1H2019 following the completion of five buildings offering a total of 3.73 million sq. ft. of space.

A mixed performance in Klang Valley office market. Looming supply and weak absorption of space continue to negatively impact the KL City office market while decentralised office locations in KL Fringe and Selangor, performed better with both rental and occupancy levels holding steady.

In terms of 1H2019 occupancy, KL City overall occupancy rate was lower at 77.1% (2H2018: 78.7%). In contrast, the overall occupancy rate for KL Fringe improved to 84.6% in 1H2019 (2H2018: 82.2%), as well as for the Selangor office market, with overall occupancy rate at positive territory to register at 80.0% in 1H2019 (2H2018: 78.3%).

The overall average achieved rental in KL City continued to be under pressure, as it recorded a average rate of RM7.09 per sq. ft. per month in 1H2019 (2H2018: RM7.15 per sq. ft. per month). As for KL Fringe, the overall average achieved rental remained fairly stable at RM5.77 per sq. ft. per month (2H2018: RM5.75 per sq. ft. per month), supported by sustained demand for decentralised office space. In Selangor, the overall average rental was also marginally higher at RM4.30 per sq. ft. per month in 1H2019 (2H2018: RM4.22 per sq. ft. per month).

(Source : Knight Frank Real Estate Highlights 1st Half 2019)

Review of retail market - Klang Valley

The retail market continues to face challenges amid rapid changes in shopping retail trends and consumer behaviour. The existing supply of shopping malls in Klang Valley rose to 60.48 million sq. ft. Another five new shopping centres / supporting retail components within integrated developments, offering combined retail space of 2.14 million sq. ft. are expected to come on-stream by 2H2019.

The monthly gross rentals of prime shopping centres in Klang Valley remained resilient. In Kuala Lumpur City, Suria KLCC and Pavilion Kuala Lumpur continued to command higher average monthly gross rentals, averaging at about RM37.00 per sq. ft. and RM28.00 per sq. ft., respectively. These prominent malls registered near full occupancy of 98.8% and 98.7%, respectively. In KL Fringe, Mid Valley Megamall and The Gardens Mall command average monthly gross rentals of RM17.00 per sq. ft. and RM16.00 per sq. ft. respectively. These malls registered 99.3% and 97.2% occupancies respectively. As for the other popular retail destinations such as Sunway Pyramid and The Mines in Selangor, the average gross rentals are RM16.00 per sq. ft. and RM8.00 per sq. ft. per month, respectively. These malls registered 98.8% and 89.1% occupancies, respectively.

(Source : Knight Frank Real Estate Highlights 1st Half 2019)

B4 PROSPECTS

In 2019, 19% of MQREIT's total net lettable area ("NLA") or approximately 369,000 sq. ft. are due for renewal. MQREIT achieving an 93% renewal rate for the leases expiring in 3Q 2019. A balance of approximately 65,000 sq. ft. or 17% of these leases will be expiring 4Q 2019. Negotiations are progressing as scheduled.

The Klang Valley office market is expected to remain challenging. We will continue to 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 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 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 30 SEPTEMBER 2019

As at 30 September 2019, MQREIT's portfolio comprises of ten buildings as follows:

Investment properties	Cost of Investment	Market Value / Net Carrying amount as at 30 September 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	133,215,000	9.89%
2 QB2 - HSBC	107,500,000	122,290,000	9.08%
3 QB3 - BMW	59,400,000	79,000,000	5.86%
4 Wisma Technip	125,000,000	172,772,033	12.82%
5 Part of Plaza Mont' Kiara	90,000,000	118,200,000	8.77%
6 QB5 - IBM	43,000,000	39,000,000	2.89%
7 Tesco Building Penang	132,000,000	140,000,000	10.39%
8 Platinum Sentral	740,000,000	724,292,850	53.75%
9 Menara Shell	640,000,000	650,209,090	48.25%
	<u>2,046,000,000</u>	<u>2,178,978,973</u>	

Capital expenditure of RM954,883 were incurred during the quarter. The NAV as at 30 September 2019 is RM1,347,532,224.

B14 BORROWINGS AND DEBT SECURITIES

	As at end of period ended 30 September 2019	RM
<u>CURRENT LIABILITIES:</u>		
(a) (i) Senior CP / MTN Programme of up to RM290 million	241,581,326	
(a) (ii) Fixed Rate Subordinated Term Loan Facility of up to RM250 million	90,940,811	
	<u>332,522,137</u>	
<u>NON-CURRENT LIABILITIES:</u>		
(b) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")	116,867,988	
(c) CPs/MTNs Programme of up to RM3 billion	386,899,673	
	<u>503,767,661</u>	
TOTAL BORROWINGS		836,289,798
<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")		
<hr/>		
(i) Senior CP / MTN Programme		RM
Face value of CPs issued / rollover		279,000,000
Discount		(2,324,752)
Cash proceeds		<u>276,675,248</u>
Accretion of interest expenses		25,269
		<u>276,700,517</u>
Transaction costs b/f		(332,863)
Amortisation of transaction costs during the period		213,672
Partial redeemed on 29 March 2019		<u>(35,000,000)</u>
		<u>241,581,326</u>

B14 BORROWINGS AND DEBT SECURITIES (cont'd)

(ii) <u>Fixed Rate Subordinated Term Loan</u>	RM
Term Loan draw down	110,000,000
Transaction costs b/f	(166,408)
	<hr/>
	109,833,592
Amortisation of transaction costs during the period	107,219
Partial repaid on 29 March 2019	(19,000,000)
	<hr/>
	<u>90,940,811</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 Senior CP and 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>25,262</u>
	<u><u>116,867,988</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>(2,986,994)</u>
Cash proceeds	161,013,006
Accretion of interest expenses	<u>1,674,030</u>
	162,687,036
Transaction costs b/f	<u>(273,248)</u>
Amortisation of transaction costs during the period	<u>70,220</u>
	<u><u>162,484,008</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>(1,262,282)</u>
Cash proceeds	189,737,718
Accretion of interest expenses	<u>173,390</u>
	189,911,108
Transaction costs b/f	<u>(206,956)</u>
Amortisation of transaction costs during the period	<u>48,995</u>
	<u><u>189,753,147</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	(348,168)
Cash proceeds	34,651,832
Accretion of interest expenses	15,304
	<u>34,667,136</u>
Transaction costs on CP/MTN issued	(5,683)
Amortisation of transaction costs during the period	1,065
	<u>34,662,518</u>
	<u><u>386,899,673</u></u>
Total:	

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 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 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 30 September 2019 are as follows:

Type of Derivatives	Contract/Notional Value As at 30 September 2019	Fair values of derivative liabilities as at 30 September 2019
	RM	RM
Interest Rate Swap ("IRS")		
(i) IRS No. 7 - within 1 year	139,500,000	327,760
(ii) IRS No. 8 - within 1 year	139,500,000	331,530
	<u>279,000,000</u>	<u>659,290</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.

An interim income distribution of RM36,762,157 or 3.43 sen per unit, being approximately 100% of the distributable income for the period 1 January 2019 to 30 June 2019 was made on 23 September 2019.

No income distribution is proposed for the quarter ended 30 September 2019.

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 30 September 2019	As at 30 June 2019
NAV (RM)	1,347,532,224	1,366,399,695
Number of units in circulation (units)	1,071,783,000	1,071,783,000
NAV per unit (RM) (after provision for distribution)	1.2408	1.2406
Market price (RM)	1.02	1.08

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

The changes in NAV per unit is mainly due to the income distribution made in the 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 for the quarter ended 30 September 2019 are :

	RM
Base fee	2,257,499
Performance fee	926,885
	<u>3,184,384</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 2019 amounted to RM169,811.

B21 UNITHOLDINGS BY THE MANAGER

As at 30 September 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 30 September 2019 RM
Malaysian Resources Corporation Berhad	298,297,000	27.83%	304,262,940
HLIB Nominee (Tempatan) Sdn. Bhd. for :			
-Quill Land Sdn. Bhd.	59,040,000	5.51%	60,220,800
MRCB Quill Management Sdn. Bhd.	2,857,000	0.27%	2,914,140
Quill Resources Holding Sdn. Bhd.	361,000	0.03%	368,220
Global Jejaka Sdn. Bhd.	185,000	0.02%	188,700
	<u>360,740,000</u>	<u>33.66%</u>	<u>367,954,800</u>

The Manager's directors' direct unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2019 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.005%	51,000
Dato' Michael Ong Leng Chun	55,000	0.005%	56,100
Kwan Joon Hoe	80,000	0.007%	81,600

The Manager's directors' indirect unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2019 RM
Dato' Dr. Low Moi Ing, J.P	59,401,000 (a)	5.54%	60,589,020
Dato' Michael Ong Leng Chun	59,401,000 (b)	5.54%	60,589,020
Tan Sri Saw Choo Boon	185,000 (c)	0.02%	188,700

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

(b) Deemed interest by virtue of his direct shareholding in Quill Land Sdn. Bhd., and Quill Resources Holding 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 30 September 2019 of RM1.02 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	6,565,819	19,963,648
Interest expenses on term loan	2,627,923	8,040,366
Interest on interest rate swap arrangements	253,775	438,909
Amortisation of transaction costs	169,586	508,207
Credit facility costs	124,062	372,186
Total finance costs	9,741,165	29,323,316

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 30 September 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 22 November 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 : 25 November 2019