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If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

The approval of the Securities Commission Malaysia ("SC") for the value of the Property (as defined herein), the issuance of, listing of and quotation for the new Units in MRCB-Quill REIT ("MQREIT") ("Units") pursuant to the Proposed Placement (as defined herein) and Proposed Authority (as defined herein), on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") shall not be taken to indicate that the SC recommends the said proposals or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Circular. The SC has not, in any way, considered the merits of the proposals being tabled for the approval of the unitholders of MQREIT.

The SC and Bursa Securities take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



MRCB-Quill REIT

(Established in Malaysia under the Deed of Trust dated 9 October 2006, as amended by the first supplemental deed dated 27 August 2007, the second supplemental deed dated 28 May 2013 and the third supplemental deed dated 2 April 2015 entered into between MRCB Quill Management Sdn Bhd, a company incorporated in Malaysia under the Companies Act 1965 and Maybank Trustees Berhad, a company incorporated in Malaysia under the Companies Ordinances, 1940 to 1946)

CIRCULAR TO UNITHOLDERS IN RELATION TO THE

PART A

- (I) **PROPOSED ACQUISITION BY MAYBANK TRUSTEES BERHAD, ACTING SOLELY IN THE CAPACITY AS TRUSTEE FOR AND ON BEHALF OF MQREIT, OF THE PROPERTY (AS DEFINED HEREIN) FROM 348 SENTRAL SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF MALAYSIAN RESOURCES CORPORATION BERHAD ("MRCB"), FOR A PURCHASE CONSIDERATION OF RM640,000,000 TO BE SATISFIED ENTIRELY IN CASH ("PROPOSED ACQUISITION");**
- (II) **PROPOSED PLACEMENT OF UP TO 406,666,667 NEW UNITS ("PLACEMENT UNITS"), REPRESENTING UP TO 38.1% OF THE ENLARGED UNITS IN CIRCULATION, AFTER THE PROPOSED PLACEMENT, BY WAY OF BOOKBUILDING AT AN ISSUE PRICE TO BE DETERMINED LATER ("PROPOSED PLACEMENT");**
- (III) **PROPOSED PLACEMENT TO MRCB FOR AN AMOUNT OF NO LESS THAN RM110,000,000 BUT UP TO RM152,000,000 OF PLACEMENT UNITS, REPRESENTING BETWEEN 9.0% AND 12.4% OF THE ENLARGED UNITS IN CIRCULATION, AFTER THE PROPOSED PLACEMENT, AT AN ISSUE PRICE TO BE DETERMINED LATER, PURSUANT TO THE PROPOSED PLACEMENT;**
- (IV) **PROPOSED PLACEMENT TO EMPLOYEES PROVIDENT FUND BOARD OF UP TO 7% OF THE ENLARGED UNITS IN CIRCULATION, AFTER THE PROPOSED PLACEMENT, REPRESENTING UP TO 74,763,336 UNITS, AT AN ISSUE PRICE TO BE DETERMINED LATER, PURSUANT TO THE PROPOSED PLACEMENT;**
- (V) **PROPOSED AUTHORITY TO ALLOT AND ISSUE UP TO 31,952,333 NEW UNITS FOR THE PURPOSE OF THE PAYMENT OF MANAGEMENT FEE TO MRCB QUILL MANAGEMENT SDN BHD IN THE FORM OF NEW UNITS; AND**
- (VI) **PROPOSED INCREASE IN THE EXISTING APPROVED FUND SIZE OF MQREIT FROM 700,000,000 UNITS TO A MAXIMUM OF 1,100,000,000 UNITS**

PART B

INDEPENDENT ADVICE LETTER FROM AMINVESTMENT BANK BERHAD TO THE NON-INTERESTED UNITHOLDERS OF MQREIT IN RELATION TO THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

AND

NOTICE OF UNITHOLDERS' MEETING

Joint Principal Advisers and Joint Placement Agents



CIMB Investment Bank Berhad (18417-M)
(A Participating Organisation of
Bursa Malaysia Securities Berhad)



HongLeong Investment Bank

Hong Leong Investment Bank Berhad (10209-W)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
(A Trading Participant of Bursa Malaysia Derivatives Berhad)



Maybank Investment Bank Berhad (15938-H)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Independent Adviser



AmInvestment Bank

AmInvestment Bank Berhad
(Company No. 23742-V)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Transaction Arranger



ASTRAMINA
ADVISORY

Astramina Advisory Sdn Bhd
(Company No. 810705-K)
(A licensed corporate finance advisory firm)

The Notice of Unitholders' Meeting ("Meeting") and Proxy Form are set out in this Circular. The details of the Meeting are as follows:

Date and time of the Meeting	: Wednesday, 7 December 2016 at 10.30 a.m. or at any adjournment thereof
Venue of the Meeting	: Sime Darby Convention Centre, Ballroom 3, Level 1, No 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur
Last date and time for lodging the Proxy Form	: Monday, 5 December 2016 at 10.30 a.m.

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

“348 Sentral” or “Vendor”	:	348 Sentral Sdn Bhd, a wholly-owned subsidiary of MRCB
“Act”	:	Companies Act 1965
“Astramina Advisory”	:	Astramina Advisory Sdn Bhd
“Board”	:	Board of Directors of the Manager
“Bursa Securities”	:	Bursa Malaysia Securities Berhad
“CCT”	:	CapitaCommercial Trust
“Certificate of Proposed Strata Plan”	:	The certificate of proposed strata plan to be issued by Director of Survey and Mapping for the Federal Territory pursuant to section 8A of the Strata Titles Act 1985
“CIMB”	:	CIMB Investment Bank Berhad
“CMSA”	:	Capital Markets and Services Act 2007
“Completion Date”	:	A date no later than 1 month from the day upon which the last condition precedent as set out in Section 2.1.2(iv), Part A of this Circular (which has not been waived in writing) has been fulfilled in accordance with the provision of the SPA
“Deed”	:	Deed of trust constituting MQREIT dated 9 October 2006, as amended by the first supplemental deed dated 27 August 2007, the second supplemental deed dated 28 May 2013 and the third supplemental deed dated 2 April 2015 entered into between the Manager and the Trustee
“DPU”	:	Distribution per Unit
“EPF”	:	Employees Provident Fund Board
“Existing Charge”	:	A first-party legal charge bearing presentation number 41546/2009 created by 348 Sentral in favour of CIMB (as security agent for CIMB Bank Berhad, Hong Leong Bank Berhad and RHB Bank Berhad) as security for the Term Loan Facility
“Extended Completion Date”	:	A date which is 45 days from the Completion Date or such later period(s) thereafter, if any, as 348 Sentral and the Trustee may mutually agree to in writing
“FYE”	:	Financial year(s) ended or ending, as the case may be
“Gapurna”	:	Gapurna Sdn Bhd
“GJSB”	:	Global Jejaka Sdn Bhd
“Government”	:	Government of Malaysia
“GST”	:	Goods and Services Tax
“HLIB”	:	Hong Leong Investment Bank Berhad

DEFINITIONS (Cont'd)

“HOA”	:	Heads of agreement dated 3 December 2015 entered into between the Trustee and 348 Sentral in relation to the Proposed Acquisition
“IAL”	:	Independent Advice Letter from AmlInvestment Bank to the non-interested Unitholders in relation to the Proposed Acquisition and Proposed Placement
“Independent Adviser” or “AmlInvestment Bank”	:	AmlInvestment Bank Berhad
“Interested Directors”	:	Tan Sri Saw Choo Boon, Dato’ Dr Low Moi Ing J.P., Dato’ Michael Ong Leng Chun, Dato’ Thanarajasingam Subramaniam, Ann Wan Tee and Kwan Joon Hoe, collectively
“KLIA”	:	Kuala Lumpur International Airport
“Last Trading Date”	:	29 June 2016, being the market day immediately preceding the signing of the SPA
“Lease”	:	A 15-year lease bearing presentation number 3794/2014 created by 348 Sentral in favour of Shell pursuant to the Lease Agreements
“Lease Agreements”	:	The lease agreement dated 1 November 2013 made between Shell and 348 Sentral which includes the supplemental lease agreement dated 30 March 2015, the second supplemental lease agreement dated 16 December 2015 and any other instrument executed supplemental thereto or in substitution thereof from time to time
“LEED”	:	Leadership in Energy and Environmental Design
“LPD”	:	2 November 2016, being the latest practicable date prior to the printing of this Circular
“Management Fee”	:	A base fee not exceeding 0.4% per annum of the gross asset value of MQREIT and the performance fee equivalent to a rate of 3% of the net investment income of MQREIT, before payment of such management fee, in relation to any financial year
“Manager”	:	MRCB Quill Management Sdn Bhd, the management company of MQREIT
“Manager’s Unit(s)”	:	New Unit(s) to be issued to the Manager pursuant to the Proposed Authority
“Maybank IB”	:	Maybank Investment Bank Berhad
“Meeting”	:	Unitholders’ meeting of MQREIT
“MQREIT”	:	MRCB-Quill REIT
“MRCB”	:	Malaysian Resources Corporation Berhad
“MSC Malaysia Status”	:	A recognition by the Government, through the Malaysia Digital Economy Corporation, for information communication technology and information communication technology facilitated businesses that develop or use multimedia technologies to produce and enhance products and services
“NAV”	:	Net asset value

DEFINITIONS (Cont'd)

“NLA”	: Net lettable area
“PBO”	: Purpose-built office
“Placement Unit(s)”	: New Unit(s) to be issued pursuant to the Proposed Placement
“Property”	: 33-storey office tower known as Menara Shell together with a 5-storey podium and a 4-storey basement car park, and all such plant and equipment, fixtures and fittings attached (excluding fixtures and fittings belonging to the existing tenants/lessees and third parties, including those with whom the existing tenants/lessees have entered into hire purchase and/or leasing agreement in respect of such fixtures and fittings), collectively
“Proposals”	: The Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF, Proposed Authority and Proposed Increase in Fund Size, collectively
“Proposed Acquisition”	: Proposed acquisition by the Trustee of the Property from 348 Sentral for a purchase consideration of RM640,000,000 to be satisfied entirely in cash
“Proposed Authority”	: Proposed authority to allot and issue up to 31,952,333 Manager’s Units for the purpose of the payment of Management Fee to the Manager in the form of new Units
“Proposed Increase in Fund Size”	: Proposed increase in the existing approved fund size of MQREIT from 700,000,000 Units to a maximum of 1,100,000,000 Units
“Proposed Placement”	: Proposed placement of up to 406,666,667 Placement Units, representing up to 38.1% of the enlarged Units in circulation, after the Proposed Placement, by way of bookbuilding at an issue price to be determined later
“Proposed Placement to EPF”	: Proposed placement to EPF of up to 7% of the enlarged Units in circulation after the Proposed Placement, representing up to 74,763,336 Units, at an issue price to be determined later, pursuant to the Proposed Placement
“Proposed Placement to MRCB”	: Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of Placement Units, representing between 9.0% and 12.4% of the enlarged Units in circulation, after the Proposed Placement, at an issue price to be determined later, pursuant to the Proposed Placement
“psf”	: Per square foot
“Purchase Consideration”	: The purchase price for the Property amounting to RM640,000,000
“QESB”	: Quill Estates Sdn Bhd
“QLSB”	: Quill Land Sdn Bhd
“QPSB”	: Quill Properties Sdn Bhd
“QRHSB”	: Quill Resources Holding Sdn Bhd
“Quill Group”	: QLSB, QPSB, QESB and QRHSB, collectively

DEFINITIONS (Cont'd)

“Redemption Sum”	: The redemption amount required to fully settle and discharge the relevant outstanding indebtedness and to obtain a full discharge of the Existing Charge
“REIT(s)”	: Real estate investment trust(s)
“REIT Guidelines”	: Guidelines on Real Estate Investment Trusts issued by the SC on 21 August 2008 (and updated on 28 December 2012)
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“SC”	: Securities Commission Malaysia
“Shell”	: Shell People Services Asia Sdn Bhd
“SPA”	: The conditional sale and purchase agreement dated 30 June 2016 entered into between the Trustee, acting solely in the capacity as trustee for and on behalf of MQREIT, and 348 Sentral for the Proposed Acquisition
“sq ft”	: Square foot / feet
“sq m”	: Square metre(s)
“Term Loan Facility”	: Syndicated term loan facility of up to RM460,000,000 executed between the Vendor, CIMB Bank Berhad, Hong Leong Bank Berhad and RHB Bank Berhad, RHB Investment Bank Berhad and CIMB
“Trustee”	: Maybank Trustees Berhad, acting solely in the capacity as trustee for and on behalf of MQREIT
“Unit(s)”	: Undivided interest in MQREIT as constituted by the Deed
“Unitholder(s)”	: Holder(s) of the Units
“US”	: United States of America
“Valuation Report”	: Valuation report by CBRE WTW dated 20 June 2016 in relation to the valuation of the Property
“Valuer” or “CBRE WTW”	: C H Williams Talhar & Wong Sdn Bhd
“VWAMP”	: Volume weighted average market price

All references to “you” and “your” in this Circular are to the Unitholders.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include corporations, unless otherwise stated.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted.

All references to the time of day in this Circular are references to Malaysian time, unless otherwise stated.

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PART A

**LETTER FROM THE BOARD TO UNITHOLDERS IN RELATION TO
THE PROPOSALS**

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Meanings of defined terms may be found in the “Definitions” section on pages (i) to (iv) of this Circular.

1. OVERVIEW OF THE PROPOSALS

(i) Proposed Acquisition

The Board proposes to acquire the Property, via the Trustee from 348 Sentral for a purchase consideration of RM640,000,000, which shall be satisfied entirely in cash.

(ii) Proposed Placement

The Board proposes to undertake the Proposed Placement (which includes the Proposed Placement to MRCB and Proposed Placement to EPF) whereby the proceeds from the Proposed Placement will be used to partially finance the Proposed Acquisition and defray expenses relating to the Proposals.

The Proposed Placement shall involve an issuance of up to 406,666,667 Placement Units, representing up to 61.5% of the total Units in circulation of 661,381,000 Units as at the LPD and up to 38.1% of the enlarged Units in circulation after the Proposed Placement, by way of a bookbuilding exercise.

(iii) Proposed Placement to MRCB

MRCB, being a major Unitholder with a unitholding of approximately 31.2% as at the LPD, has given an undertaking to subscribe for the Placement Units at the issue price to be determined by way of bookbuilding for an amount of no less than RM110,000,000 but up to RM152,000,000 in value, representing between 9.0% and 12.4% of the enlarged Units in circulation, after the Proposed Placement, based on the illustrative issue price of RM1.15 per Placement Unit (based on a discount of approximately 9.9% to the 5-day VWAMP of the Units up to and including the LPD of RM1.2764).

(iv) Proposed Placement to EPF

EPF had confirmed its interest to participate in the Proposed Placement for up to 7% of the enlarged Units in circulation after the Proposed Placement, representing up to 74,763,336 Units, through a bookbuilding exercise, provided that its subscription of the Placement Units (i) shall be at its preferred price, (ii) will not in any way trigger a mandatory take-over offer in respect of the remaining Units not owned by EPF and persons acting in concert with it, and (iii) that MQREIT and/or the Manager will ensure that EPF's subscription of the Placement Units shall not in any way trigger a mandatory take-over offer. EPF also had, via the same letter, committed to participate in the pricing and bookbuilding exercise together with other interested investors or subscribers for the Proposed Placement.

(v) Proposed Authority

The Board proposes to seek Unitholders' approval to empower the Board with the flexibility to allot and issue up to 31,952,333 new Units for the purpose of partial or full payment of the Management Fee for the FYEs 31 December 2017 to 31 December 2019.

(vi) Proposed Increase in Fund Size

In order to accommodate the issuance of the Placement Units and the Manager's Units, the Board proposes to increase the existing approved fund size of MQREIT from 700,000,000 Units to a maximum of 1,100,000,000 Units.

2. THE PROPERTY



MQREIT, via the Trustee will acquire the Property from 348 Sentral for a purchase consideration of RM640,000,000. The Property is a commercial development consisting of a 33-storey stratified office tower known as Menara Shell together with a 5-storey podium and a 4-storey basement carpark. It is constructed on part of a parcel of freehold land and held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia.

Menara Shell is strategically located in Kuala Lumpur Sentral, a self-contained urban development comprising an integrated transit hub known as Kuala Lumpur Sentral Station, corporate office towers and business suites, 5-star international hotels, condominiums and a shopping mall. It is within walking distance to Kuala Lumpur Sentral Station which consists of 8 major transit lines including a dedicated line to KLIA and the soon to be completed Mass Rapid Transit Line.

Menara Shell is designed with energy efficiencies and green features, and has been accorded LEED platinum certification. In addition, it is also accredited with MSC Malaysia Status which is one of the requirements by many multinational and local corporates.

Menara Shell is tenanted by a pool of established corporations such as Shell and AmGeneral Insurance Berhad. Based on the tenancy schedule of the Property as at the LPD, Shell and AmGeneral Insurance Berhad accounted for approximately 54.7% and 25.1% of the total NLA of the Property respectively.

3. RATIONALE AND BENEFITS TO UNITHOLDERS

3.1 Proposed Acquisition

The Board believes that the Proposed Acquisition will provide Unitholders with the following key benefits:

(i) DPU yield is expected to be accretive

The Proposed Acquisition is in line with the investment objective of the Manager to provide long-term and sustainable distribution of income to the Unitholders and to achieve long-term growth in NAV.

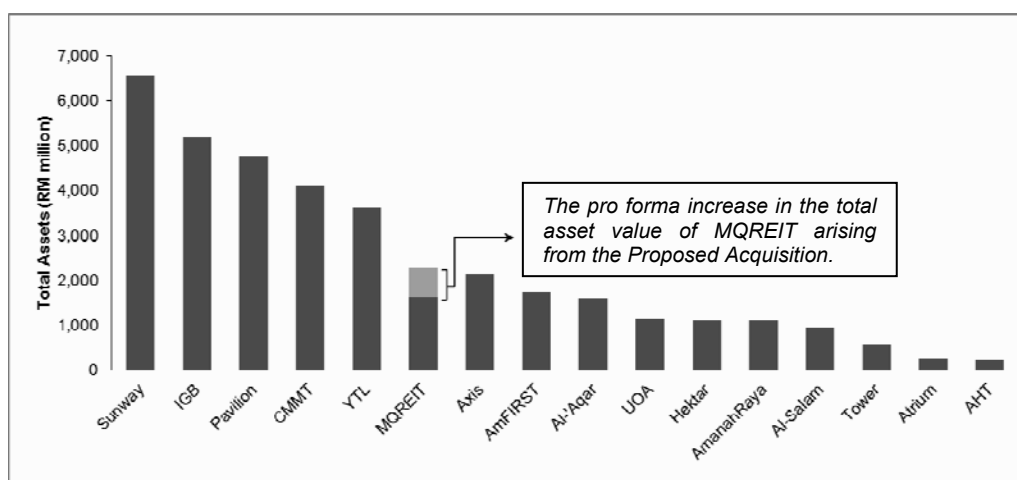
EXECUTIVE SUMMARY (Cont'd)

For the FYE 31 December 2015, the Manager declared and paid approximately 94.3% of the total realised income after taxation or DPU of 8.47 sen. Excluding a one-off gain on divestment of properties of 0.09 sen per Unit, the normalised DPU for the FYE 31 December 2015 was 8.38 sen. The pro forma earnings per Unit after the Proposed Acquisition, Proposed Placement and Proposed Authority is expected to be 7.67 sen (as set out in Section 6.3, Part A of this Circular). The lower pro forma DPU of 7.67 sen based on a 100% payout ratio as compared to the normalised DPU for the FYE 31 December 2015 of 8.38 sen is mainly due to the Property only achieving an occupancy rate of 99.9% in December 2015 from 74% in November 2015, resulting in lower income contribution for the year. Nevertheless, upon completion of the Proposed Acquisition, based on an occupancy rate of 99.9%, the Manager expects the DPU yield to increase moving forward due to, among others, future increase in net property income from expected rental reversions of current portfolio and the Property as well as payment of Management Fee in Manager's Units.

(ii) The Proposed Acquisition represents growth catalyst

MQREIT's total assets will increase from RM1.63 billion to RM2.27 billion upon completion of the Proposed Acquisition, thereby elevating MQREIT's position from 8th to 6th out of 16 listed REITs (excluding KLCC Stapled Securities) in Malaysia in terms of total asset size (based on the latest available audited financial statements of the respective REITs as at the LPD).

The larger asset base will enable MQREIT to enjoy greater operating efficiency arising through the efficient utilisation of current resources, namely manpower. It will also enhance its competitive positioning providing MQREIT with greater bargaining power and thus, enabling it to secure term contracts at more competitive terms.



Abbreviations:

AHT	Amanah Harta Tanah PNB	CMMT	CapitaLand Malaysia Mall Trust
Al-Aqar	Al-Aqar Healthcare REIT	Hektar	Hektar Real Estate Investment Trust
Al-Salam	Al-Salam Real Estate Investment Trust	IGB	IGB Real Estate Investment Trust
AmanahRaya	AmanahRaya Real Estate Investment Trust	Pavilion	Pavilion Real Estate Investment Trust
AmFIRST	AmFIRST Real Estate Investment Trust	Sunway	Sunway Real Estate Investment Trust
Atrium	Atrium Real Estate Investment Trust	Tower	Tower Real Estate Investment Trust
Axis	Axis Real Estate Investment Trust	UOA	UOA Real Estate Investment Trust
		YTL	YTL Hospitality REIT

(Source: Latest available audited financial statements of the respective REITs as at the LPD)

- (iii) **Competitive strengths of the Property is expected to fit well into MQREIT's clientele requirements, enhance its portfolio profile and contribute positively to the performance of MQREIT**
- (a) The Property currently enjoys almost full occupancy with an occupancy rate of 99.9%. Therefore, with the addition of the Property to MQREIT's portfolio, MQREIT's overall occupancy rate would improve from 97% to 98%.
 - (b) The Property is situated in Kuala Lumpur Sentral, a self-contained transportation hub and a prime commercial area within Kuala Lumpur. The Proposed Acquisition will increase MQREIT's footprint in Kuala Lumpur Sentral and would augur well for MQREIT in view that Kuala Lumpur Sentral is highly sought after by corporate tenants.
 - (c) The inclusion of a green building with LEED platinum certification and MSC Malaysia Status will fit well into MQREIT's clientele requirements for high-quality specification buildings.
 - (d) The tenant mix profile of the Property will provide a good mix of high-quality multinational and large local conglomerate tenants for MQREIT's overall clientele mix. MQREIT's tenant base before the Proposed Acquisition is broadly categorised into 8 sectors as depicted in Section 3.1(iii), Part A of this Circular. Subsequent to the Proposed Acquisition, the tenant mix is expected to further diversify into 12 sectors as depicted in Section 3.1(iii), Part A of this Circular. The enlarged tenant base will diversify MQREIT's income stream across a wider spread of tenants from various sectors, reducing the reliance on income contribution from almost all of the major trade sectors.

3.2 Proposed Placement

The rationale for the Proposed Placement are as follows:

- (i) The Proposed Placement will enable MQREIT to raise equity to partially finance the Proposed Acquisition, thus reducing the gearing level relative to funding the Proposed Acquisition entirely via debt. In the event the Proposed Acquisition and the expenses relating to the Proposals are funded totally by debt financing, it would raise the gearing level to approximately 59.1% of MQREIT's total asset value which would exceed the 50% limit stipulated under the REIT Guidelines.
- (ii) The Proposed Placement will enable MQREIT to raise funds expeditiously as it can be implemented immediately upon obtaining Unitholders' approval.
- (iii) The Proposed Placement will involve the issuance of new Units which will increase the number of Units in circulation and may improve the trading liquidity of MQREIT. The Proposed Placement should also allow MQREIT to attract more local and international institutional investors to invest in MQREIT, thereby potentially enlarging its Unitholders base.

3.3 Proposed Authority

The Proposed Authority will provide the Manager with more flexibility in the structuring of the payment of Management Fee. To the extent that the Manager chooses to receive the Management Fee in the form of new Units, the Manager's interest will be further aligned with the Unitholders. In addition, any cash conserved for the payment of the Management Fee can be used by MQREIT for future acquisition, capital expenditures and/or distribution to Unitholders.

3.4 Proposed Increase in Fund Size

The Proposed Increase in Fund Size will accommodate the issuance of Placement Units and Manager's Units pursuant to the Proposed Placement and Proposed Authority respectively.

4. METHOD OF FINANCING AND USE OF PROCEEDS

The Purchase Consideration of RM640,000,000 shall be satisfied entirely in cash. The Manager intends to fund the Purchase Consideration and the expenses for the Proposals through a combination of proceeds from the Proposed Placement and borrowings. The amount of borrowings to fund the Proposed Acquisition will depend on the eventual proceeds to be raised from the Proposed Placement, which will in turn depend on, among others, market conditions, issue price and demand for the Placement Units.

Based on the assumed issue price of RM1.15 per Placement Unit and the maximum 406,666,667 Placement Units, the estimated breakdown of the source of funding is set out below:

	RM million
Gross proceeds to be raised from the Proposed Placement	467.7
Borrowings	188.3
Total	656.0

The gross proceeds to be raised from the Proposed Placement are expected to be used for the partial settlement of the Purchase Consideration and defraying expenses relating to the Proposals.

5. RISK FACTORS

Unitholders should consider the following risks inherent in the property market and the risk factors (which may not be exhaustive) pertaining to the Proposed Acquisition:

5.1 Risks relating to the Proposed Acquisition

- (i) Financing risk; and
- (ii) Delay in completion of the Proposed Acquisition.

5.2 Risks relating to the Property to be acquired

- (i) Loss of tenants;
- (ii) Losses from latent building defects;
- (iii) Inadequate insurance and potential losses due to uninsured liabilities;
- (iv) Risk associated with asset enhancement initiatives;
- (v) Devaluation of the Property; and
- (vi) Delays in the issuance and transfer of the strata titles of the Property.

5.3 Risks relating to the property market

- (i) Increased competition from other properties; and
- (ii) Compulsory acquisition by the Government.

EXECUTIVE SUMMARY (Cont'd)

6. EFFECTS OF THE PROPOSALS

For illustrative purposes only, the pro forma effects of the Proposals on the earnings, NAV per Unit and gearing are set out below based on the following parameters:

Illustrative issue price of the Placement Units	: RM1.15
Size of the Proposed Placement	: RM467,666,667
Placement Units issued	: 406,666,667
Borrowings raised	: RM188,333,333

The effects of the Proposed Placement to MRCB and Proposed Placement to EPF are reflected accordingly in the effects of the Proposed Placement as they form part of the Proposed Placement.

Pro forma earnings

	Audited for FYE 31 December 2015	After the Proposed Acquisition, Proposed Placement and Proposed Authority
Audited/Pro forma realised net income of MQREIT for the FYE 31 December 2015 (RM '000)	54,021	82,189
Earnings per Unit (sen)	9.06	7.67

The Proposed Increase in Fund Size will not have any effect on the earnings and distributable income of MQREIT.

Please refer to Section 6.3, Part A of this Circular for further details.

Pro forma NAV per unit and gearing

	Audited as at 31 December 2015	After the Proposed Acquisition and Proposed Placement
NAV per Unit (RM)		
- Before income distribution	1.37	1.28
- After income distribution	1.32	1.25
Gearing (%)	42.4	38.6

Any issuance of new Units pursuant to the Proposed Authority is expected to reduce the NAV per Unit, the extent of which would depend on the actual number of new Units to be issued which, in turn, would depend on the actual issue price. Further, any issuance of new Units pursuant to the Proposed Authority is not expected to have a material effect on the gearing.

The Proposed Increase in Fund Size will not have any effect on the NAV per Unit and gearing of MQREIT.

Please refer to Section 6.4, Part A of this Circular for further details.



MRCB Quill Management Sdn Bhd
(Company No.: 737252-X)

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22 November 2016

Board of Directors

Tan Sri Saw Choo Boon (*Non-Independent Non-Executive Chairman*)
Dato' Dr Low Moi Ing, J.P. (*Non-Independent Non-Executive Director*)
Dato' Michael Ong Leng Chun (*Non-Independent Non-Executive Director*)
Dato' Thanarajasingam Subramaniam (*Non-Independent Non-Executive Director*)
Dr. Roslan A. Ghaffar (*Independent Non-Executive Director*)
Foong Soo Hah (*Independent Non-Executive Director*)
Ann Wan Tee (*Non-Independent Non-Executive Director*)
Kwan Joon Hoe (*Non-Independent Non-Executive Director*)
Aminuddin Mohd Arif (*Independent Non-Executive Director*)

To: Unitholders of MRCB-Quill REIT

Dear Sir/Madam,

- (I) **PROPOSED ACQUISITION;**
- (II) **PROPOSED PLACEMENT;**
- (III) **PROPOSED PLACEMENT TO MRCB;**
- (IV) **PROPOSED PLACEMENT TO EPF;**
- (V) **PROPOSED AUTHORITY; AND**
- (VI) **PROPOSED INCREASE IN FUND SIZE**

1. INTRODUCTION

On 3 December 2015, the Manager announced that the Trustee had entered into the HOA with 348 Sentral on the same date for the Proposed Acquisition.

On 3 March 2016, the Manager announced that the parties to the HOA had, via an extension letter, mutually agreed to extend the cut-off date for the execution of the SPA to 15 April 2016.

On 12 April 2016, the parties, via a second extension letter, agreed to further extend the said cut-off date to 30 May 2016 to ensure 348 Sentral is able to submit the application for the Certificate of Proposed Strata Plan to sub-divide the development consisting of the Property and another building, both of which are erected on a parcel of land held under a master title of Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia to the relevant authorities within the stipulated timeline as required by the Strata Titles Act 1985 upon signing of the SPA. The cut-off date would be automatically extended further by 30 business days if 348 Sentral was unable to submit the application for Certificate of Proposed Strata Plan by 30 May 2016, thereby further extending the cut-off date to 14 July 2016.

On 30 June 2016, CIMB, HLIB and Maybank IB, announced, on behalf of the Board, that the Trustee had entered into the SPA with 348 Sentral on the same date for the Proposed Acquisition.

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

- (i) Proposed Placement (which includes the Proposed Placement to MRCB and Proposed Placement to EPF) to partially fund the Proposed Acquisition and the expenses relating to the Proposals;
- (ii) Proposed Authority to provide the Board with the flexibility in allotting and issuing new Units to the Manager as payment of the Management Fee; and
- (iii) Proposed Increase in Fund Size to accommodate the issuance of the Placement Units and the Manager's Units pursuant to the Proposed Placement and Proposed Authority respectively.

On 4 August 2016, CIMB, HLIB and Maybank IB announced, on behalf of the Board, that the SC had, via its letter dated 3 August 2016, approved the exemptions from the following:

- (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/the Board 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.

On 28 September 2016, CIMB, HLIB and Maybank IB announced, on behalf of the Board, that the SC had, via its letter dated 27 September 2016, approved the following:

- (i) the value of the Property pursuant to Clause 10.12(b) of the REIT Guidelines;
- (ii) issuance of:
 - (a) up to 406,666,667 new Units pursuant to the Proposed Placement; and
 - (b) up to 31,952,333 new Units pursuant to the Proposed Authority;
- (iii) the listing of and quotation for:
 - (a) up to 406,666,667 new Units pursuant to the Proposed Placement; and
 - (b) up to 31,952,333 new Units pursuant to the Proposed Authority,on the Main Market of Bursa Securities.

On 21 November 2016, CIMB, HLIB and Maybank IB announced, on behalf of the Board, that Bursa Securities had, via its letter dated 21 November 2016, approved the listing of and quotation for:

- (i) up to 406,666,667 new Units to be issued pursuant to the Proposed Placement; and
- (ii) up to 31,952,333 new Units to be issued pursuant to the Proposed Authority

on the Main Market of Bursa Securities.

CIMB, HLIB and Maybank IB were appointed as the Joint Principal Advisers and Joint Placement Agents for the Proposals on 30 June 2016 to, among others, advise the Board and Manager in respect of the Proposals and to identify and procure potential investors to subscribe to the Placement Units in respect of the Proposed Placement.

The Proposed Acquisition is deemed a related party transaction under Clause 9.01 of the REIT Guidelines in view of the interests of certain Directors of the Manager, major shareholders of the Manager and major Unitholders as set out in Section 9, Part A of this Circular.

In view that the Proposed Acquisition is deemed a related party transaction, AmlInvestment Bank was appointed as the Independent Adviser on 30 June 2016 to undertake the following:

- (i) comment as to whether the Proposed Acquisition and Proposed Placement are:
 - (a) fair and reasonable so far as the Unitholders are concerned; and
 - (b) to the detriment of the non-interested Unitholders,and set out the reasons for such opinion, the key assumptions made and the factors taken into consideration in forming that opinion;
- (ii) advise the non-interested Unitholders whether they should vote in favour of the Proposed Acquisition and Proposed Placement; and
- (iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (i) and (ii) above.

Astramina Advisory has been appointed by the Manager as the Transaction Arranger in respect of the Proposed Acquisition with effect from 4 January 2016 and will be appointed as the financial adviser for the Proposed Placement. The terms of engagement of Astramina Advisory as the Transaction Arranger for the Manager are limited to ensuring an expeditious and accurate flow of information between MQREIT, the Manager and MRCB and the arrangement and coordination of implementation of the Proposed Acquisition so as to assist in timely implementation of the Proposed Acquisition. Astramina Advisory's role as financial adviser to the Manager for the Proposed Placement is expected to include, amongst others, assisting in the procurement of investor(s) as well as identifying and resolving issues that may arise in the course of implementation of the Proposed Placement.

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is approximately 70.8% based on the audited financial statements of MQREIT for the FYE 31 December 2015.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE DETAILS OF THE PROPOSALS TOGETHER WITH THE RECOMMENDATION OF THE BOARD (SAVE FOR THE INTERESTED DIRECTORS) AND TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING MEETING. THE NOTICE OF MEETING, TOGETHER WITH THE PROXY FORM, IS SET OUT IN THIS CIRCULAR.

YOU ARE ADVISED TO READ THE CONTENTS OF THIS CIRCULAR INCLUDING THE IAL (AS SET OUT IN PART B OF THIS CIRCULAR) TOGETHER WITH THE APPENDICES CAREFULLY BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING MEETING.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Acquisition

The Proposed Acquisition entails the acquisition by the Trustee of the Property free from all encumbrances with legal possession and subject to the existing tenancies/leases for those parts of the Property that are tenanted and vacant possession for those parts of the Property that are untenanted, for the Purchase Consideration.

The Purchase Consideration shall be satisfied entirely in cash and is intended to be funded via proceeds from the Proposed Placement and borrowings.

2.1.1 Information on the Property

MQREIT, via the Trustee will acquire the Property from 348 Sentral for a purchase consideration of RM640,000,000. The Property is a commercial development consisting of a 33-storey stratified office tower known as Menara Shell together with a 5-storey podium and a 4-storey basement carpark. It is constructed on part of a parcel of freehold land and held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia.

Menara Shell is strategically located in Kuala Lumpur Sentral, a self-contained urban development comprising an integrated transit hub known as Kuala Lumpur Sentral Station, corporate office towers and business suites, 5-star international hotels, condominiums and a shopping mall. It is within walking distance to Kuala Lumpur Sentral Station which consists of 8 major transit lines including a dedicated line to KLIA and the soon to be completed Mass Rapid Transit Line.

Menara Shell is designed with energy efficiencies and green features, and has been accorded LEED platinum certification. In addition, it is also accredited with MSC Malaysia Status which is one of the requirements by many multinational and local corporates.

Menara Shell is tenanted by a pool of established corporations such as Shell and AmGeneral Insurance Berhad. Based on the tenancy schedule of the Property as at the LPD, Shell and AmGeneral Insurance Berhad accounted for approximately 54.7% and 25.1% of the total NLA of the Property respectively.

A summary of the salient information on the Property is as follows:

Postal address	: Menara Shell, 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur
Strata title	: Not issued yet
Parent title details	: Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia
Tenure	: Term in perpetuity (Freehold)
Registered and beneficial owner	: 348 Sentral
Land area of parent lot	: 91,224 sq ft
Property use	: 33-storey stratified office tower erected on a 5-storey podium and a 4-storey basement car park
Age of building	: Approximately 2 years old

Commencement of operations	: 18 February 2014
Number of parking bays	: 915 car park lots and 110 motorcycle lots
Gross built-up area based on approved building plan	: 820,916.69 sq ft (comprising Menara Shell and a shared podium but excluding car park area) ⁽¹⁾
NLA as per tenancy schedule as at 25 March 2016	: 557,053 sq ft
Occupancy rate based on NLA as per tenancy schedule as at the LPD	: 99.9%
Category of land use	: Building
Restriction in interest	: Nil
Encumbrances as per land search dated 16 February 2016	: (i) The Lease; and (ii) The Existing Charge ⁽²⁾
Express conditions as per land search dated 16 February 2016	: The land shall be used for commercial building for the purpose of office and service apartment only
Market value	: RM640,000,000
Date of valuation	: 19 May 2016
Independent valuer	: CBRE WTW
Method of valuation	: Investment and comparison methods

(Source: Extracted from the Valuation Report)

Gross rental income for the FYE 31 December 2015	: RM46,355,245
Initial net yield before financing cost (based on the financial statement for the FYE 31 December 2015)	: 5.33% ⁽³⁾
Audited net book value as at 31 December 2015	: RM428,527,841

Notes:

- (1) *MQREIT, via the Trustee will acquire a 33-storey stratified office tower known as Menara Shell together with a 5-storey podium and a 4-storey basement carpark, based on the Strata Demarcation (as defined in Section 2.1.2(iii) below).*
- (2) *The Existing Charge will be discharged as soon as practicable after the payment of the Redemption Sum as part of the settlement of the Purchase Consideration as set out in Section 2.1.2(ii) below.*
- (3) *The initial net yield is computed based on the net property income of the Property for the FYE 31 December 2015 of RM34,127,700 divided by the Purchase Consideration.*

2.1.2 Salient terms of the SPA

The salient terms of the SPA include, among others, the following:

(i) Sale and purchase

348 Sentral agrees to sell and the Trustee agrees to purchase the Property and the benefit and obligations in respect of the existing tenancies at the Purchase Consideration free from all encumbrances (save and except for the Lease pursuant to the Lease Agreements and the Existing Charge) together with all rights, title and interest therein and thereto, subject however to the conditions, category of use and restrictions of title of the Property expressed or implied in the strata titles to the Property, upon the terms and conditions of the SPA.

(ii) Purchase Consideration

Subject to the adjustment to the Purchase Consideration provided for in Section 2.1.2(iii) below, the consideration payable for the sale and purchase of the Property shall be RM640,000,000.

The Purchase Consideration shall be satisfied by the Trustee entirely in cash as follows:

Date of settlement	Payment	Note	Consideration (RM '000)
By the Completion Date or the Extended Completion Date, as the case may be	Redemption Sum	(a)	430,000
	Balance Purchase Consideration	(b)	210,000
Total			640,000

Notes:

- (a) *The Redemption Sum shall be paid to the facility agent of the Term Loan Facility simultaneously with the payment of the balance Purchase Consideration to 348 Sentral. Assuming that the Term Loan Facility will be settled on 31 December 2016, the Redemption Sum is estimated to be RM430 million, before taking into consideration a principal settlement of RM25 million, which is due and payable on 16 December 2016. If the actual Redemption Sum is higher or lower than RM430 million, the difference will be adjusted against the balance Purchase Consideration payable to 348 Sentral.*
- (b) *The balance Purchase Consideration after the deduction of the actual Redemption Sum ("**Final Balance**") shall be paid to 348 Sentral by the Completion Date or the Extended Completion Date, as the case may be.*

At any time prior to the Completion Date, 348 Sentral will be entitled to appoint a nominee, being MRCB and/or a wholly-owned subsidiary of MRCB and/or wholly-owned subsidiary of 348 Sentral, to receive and accept the Purchase Consideration in place of 348 Sentral by giving to the Trustee 7 business days' prior notice in writing of such nomination together with all particulars of the nominee.

(iii) Adjustment to the Purchase Consideration

In the event that the market value of the Property is varied/adjusted pursuant to variations/adjustments caused by whatsoever reasons (as mutually agreed by the Trustee and 348 Sentral) ("**Revised Market Value**"), the purchase consideration of RM640,000,000 shall be adjusted upwards or downwards by the same amount of the variation/adjustments. Accordingly, the Revised Market Value shall be deemed as the final Purchase Consideration provided that the upward/downward adjustment does not exceed 3% of the Purchase Consideration.

Notwithstanding the above, if the adjustment shall amount to:

- (a) an upward adjustment of 3% or more of the Purchase Consideration, the Trustee shall be entitled to give notice to 348 Sentral immediately terminating the SPA; or
- (b) a downward adjustment of 3% or more of the Purchase Consideration, 348 Sentral shall be entitled to give notice to the Trustee immediately terminating the SPA.

The Trustee or 348 Sentral terminating the SPA due to any adjustment of 3% or more of the Purchase Consideration (as the case may be) will not be liable to pay any damages whatsoever for such termination.

The Trustee and 348 Sentral agreed and declared that the position of the parcels within the Property and the measurements, boundaries and estimated areas as shown in the strata demarcation plan ("**Strata Demarcation**") are believed but not guaranteed to be correct. If the said details, size and/or area as given in the Strata Demarcation shall be different from the details of the strata titles for the Property when issued, no such discrepancy shall be the subject of any adjustment to the Purchase Consideration or give rise to a claim for loss, damages, compensation or otherwise, provided that:

- (a) the NLA of the Property within the boundaries and/or area as shown in the issued strata titles shall not be less than 557,053 sq ft; and
- (b) there are at least 915 car park lots and 110 motorcycle lots within the boundaries and/or area as shown in the issued strata titles.

The Strata Demarcation consists of the measurement of the gross floor area for the Property. There will not be any effect to the adjustments to the Purchase Consideration arising from the issuance of the strata title based on a revised Strata Demarcation.

(iv) Conditions precedent

The sale and purchase of the Property shall be subject to and conditional upon the following:

- (a) the approval from the shareholder of 348 Sentral, and if required, the shareholders of its holding company, MRCB for the disposal of the Property to the Trustee;
- (b) the approval of the Unitholders for the Proposals, which is the subject of this Circular;

- (c) the Manager, on behalf of MQREIT, obtaining the approval of the SC (save for (ee), all of which was obtained via its letter dated 27 September 2016) for:
 - (aa) the value of the Property;
 - (bb) the Proposed Placement;
 - (cc) issuance of new Units pursuant to the Proposed Placement and Proposed Authority;
 - (dd) listing of and quotation for the new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities;
 - (ee) exemption from complying with Clauses 14.04(a)(i) and (ii) of the REIT Guidelines in relation to the Proposed Placement (which was obtained via its letter dated 3 August 2016); and
 - (ff) the proposed increase in the approved fund size of MQREIT pursuant to the issuance of the Placement Units and Manager's Units;
- (d) the Manager, on behalf of MQREIT, obtaining the approval from Bursa Securities (which was obtained via its letter dated 21 November 2016) for the listing of and quotation for the new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities;
- (e) 348 Sentral, at its own cost and expense, and the Trustee, at the cost and expense of MQREIT, procuring the undertaking of a valuation exercise on the Property by the Valuer whereby a written report shall be prepared by the Valuer (which shall be addressed separately to 348 Sentral and MQREIT) to determine and confirm the valuation of the Property in such written report. The Valuation Report has been issued by the Valuer;
- (f) 348 Sentral, at its own cost and expense, obtaining written consent from the facility agent of the Term Loan Facility, being CIMB, in relation to the disposal of the Property (which was obtained via CIMB's letter dated 13 September 2016);
- (g) a letter of commitment in relation to the financing of the Property being issued by the financier of the Trustee ("**Financier**") (or in the case of debt instrument, the letter of commitment from the financier(s) of the Trustee to the arranger of the debt instrument) and accepted by the Trustee or MQREIT's special purpose company;
- (h) the Trustee, on behalf of MQREIT, having received the proceeds from the Proposed Placement;
- (i) 348 Sentral, at its own cost and expense, obtaining the approval of Shell for the novation and transfer of all the rights, benefits, interest and obligations of 348 Sentral in the Lease Agreement to the Trustee; and
- (j) 348 Sentral providing documentary evidence to the Trustee that 348 Sentral has submitted an application to the Department of Survey and Mapping for the Federal Territory Kuala Lumpur or Director of Survey and Mapping for the Federal Territory Kuala Lumpur for the issuance of the Certificate of Proposed Strata Plan for the Property in accordance with the Strata Demarcation (which was submitted on 24 October 2016),

all to be obtained within 6 months from the date of the SPA, or such later period(s) as 348 Sentral and the Trustee may mutually agree to in writing. If all other conditions precedent other than the condition precedent in Section 2.1.2(iv)(h) above are either fulfilled or waived by then, the period of 6 months above shall be automatically extended by a further period of 3 months after the expiry of the said period of 6 months.

(v) Completion

The completion of the sale and purchase of the Property shall take place at the office of 348 Sentral on the Completion Date or the Extended Completion Date, as the case may be.

(vi) Termination

(a) Default by 348 Sentral

In the event that there is a default by 348 Sentral to complete the sale and disposal of the Property in accordance with the terms and conditions of the SPA, or in the event any representation, warranty or undertaking by 348 Sentral is not true or accurate or is not complied with in any material respect, the Trustee shall give to 348 Sentral a 45 days' notice to rectify the alleged breach or default as stipulated in the said notice.

In the event that 348 Sentral fails to rectify the alleged breach or default within the said 45 days, the Trustee shall be entitled at its sole and absolute discretion to do either of the following (by notice in writing to 348 Sentral):

- (aa) require specific performance of the SPA; or
- (bb) terminate the SPA and 348 Sentral shall within 14 business days of its receipt of the notice of such written termination refund the aggregate of the Final Balance and the Redemption Sum to:
 - the Trustee, if the said amount has already been paid to 348 Sentral; or
 - the Financier, to the extent the said amount has been paid by the Financier,

after the Completion Date or the Extended Completion Date, as the case may be (if any) interest-free and upon the terms and conditions of the SPA.

(b) Default by the Trustee

In the event that the Trustee shall fail to satisfy the Purchase Consideration or any part thereof or to complete the sale and purchase of the Property in accordance with the terms and conditions of the SPA, or in the event any representation, warranty or undertaking of the Trustee is not true or accurate or is not complied with in any material respect, by the Completion Date or the Extended Completion Date, as the case may be, save for non-payment of the Purchase Consideration or any part thereof, 348 Sentral shall give to the Trustee 45 days' notice to rectify the alleged breach or default as stipulated in the said notice. In the event that the Trustee fails to rectify the alleged breach or default within the said 45 days, 348 Sentral shall be entitled at its sole and absolute discretion to do either of the following (by notice in writing to the Trustee):

- (aa) require specific performance of the SPA; or
- (bb) terminate the SPA.

If the SPA is terminated by 348 Sentral, the Trustee shall redeliver legal possession of the Property (if delivered earlier) and where applicable, procure the withdrawal of the private caveat, return documents belonging to 348 Sentral, execute and deliver the deed of novation and re-assignment (including payment of stamp duty), and apply for licences to be re-issued in the name of 348 Sentral.

Upon the lawful termination pursuant to the above events, the SPA shall become null and void and be of no further effect and neither party shall have any further claims action or proceedings against the other in respect of or arising out of the SPA, save and except for antecedent breach and as provided in the SPA. Thereafter, 348 Sentral shall be at liberty to deal, sell or dispose the Property to any third party without the necessity of previously tendering or offering to sell to the Trustee and without having to account to the Trustee for any profit made on such resale or disposal.

- (c) There shall be no right of termination of the SPA for any reason whatsoever upon the completion of the sale and purchase of the Property.

(vii) Non-registration of transfer or discharge of Existing Charge

If:

- (a) upon the issuance of the strata title for each parcel under the Property, the transfer of each parcel through a valid and registrable memorandum of transfer in respect of each parcel under the Property ("**Transfer**"); or
- (b) the discharge of the Existing Charge,

cannot be registered for any reason whatsoever other than through any default of the Trustee or the Financier or any of their solicitors, 348 Sentral and the Trustee/Financier shall work together to procure the registration of the Transfer and the discharge of the Existing Charge.

If the matter giving rise to the non-registration cannot be rectified within 6 months of a notice in writing from the Trustee to 348 Sentral to rectify this, the Trustee shall have the right to require 348 Sentral to repurchase the Property from the Trustee at the price to be mutually agreed upon by 348 Sentral and the Trustee ("**Repurchase Price**") provided that the Repurchase Price cannot be lower than the Purchase Consideration or the redemption amount required to fully settle and discharge the outstanding purchaser's financing, whichever is higher. 348 Sentral and the Trustee further agree that the Repurchase Price shall not contravene Clause 8.19¹ and Clause 9.04(b)² of the REIT Guidelines.

2.1.3 Basis and justification for the Purchase Consideration

The Purchase Consideration was arrived at based on the market value of the Property of RM640,000,000 as appraised by the Valuer using the investment and comparison methods. In view that the Proposed Acquisition is deemed a related party transaction involving two public listed companies, the Purchase Consideration was determined based on the market value of the Property of RM640,000,000 as ascribed by the Valuer.

¹ Clause 8.19 of the REIT Guidelines states that a fund should not dispose of real estates at a price lower than 90% of the value assessed in a valuation report.

² Clause 9.04(b) of the REIT Guidelines states that a real estate may be transacted at a price other than the price that is equivalent to the value assessed in the valuation report (for related party transactions), provided that the disposal price is not less than 90% of the value assessed in the valuation report.

The Valuer has adopted the investment method as the primary method of valuation in arriving at the market value of the Property and the comparison method as a check. The market value of the Property derived from the investment method is RM640,000,000 while that derived from the comparison method is RM665,000,000. The Valuer considers the market value derived from investment method to be a fair representation of the market value of the Property in view that the Property is an income generating property.

The basis of valuation is the market value which is defined as the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The Valuer had adopted the investment method in arriving at its opinion of market value for the Property, which entails determining the net current annual income by deducting the annual outgoings from the gross annual income and capitalising the net income by a suitable rate of return consistent with the type and quality of investment to arrive at the market value.

As a check, the Valuer had adopted the comparison method in which recent transactions and asking prices of similar properties in the larger locality are analysed for comparison purposes, with adjustments made for differences in location, visibility, age and condition of the building, design, finishes, specifications, size, strata/individual titles, tenure, density, public amenities, green building features, MSC Malaysia Status, title restrictions if any, progress payments, and other relevant characteristics to arrive at the market value.

Further details are set out in the valuation certificate for the Property dated 20 June 2016 as enclosed in **Appendix I** of this Circular.

2.1.4 Total funding required

The estimated funding required in undertaking the Proposals is set out in the table below:

Estimated total funding required	RM million
Purchase Consideration	640.0
Estimated expenses for the Proposals ⁽¹⁾	16.0
Total	656.0

Note:

(1) The estimated expenses for the Proposals comprise the following:

Details of estimated expenses	RM million
<i>Professional fees, placement fees, fees payable to the relevant authorities, cost of convening the Meeting and other incidental expenses</i>	9.6
<i>Acquisition fee of 1% of the Purchase Consideration due to the Manager</i>	6.4
Total	16.0

An additional cost of RM1.3 million to set up the debt funding programme to be incurred pursuant to the borrowings will be financed via internally generated funds of MQREIT as MQREIT has sufficient working capital to fund the same.

In addition, GST or any similar tax may also be chargeable on the Purchase Consideration. In relation to the GST, on 1 August 2016, 348 Sentral had sought clarification from the Royal Malaysian Customs Department ("**RMC**") on the applicability of the GST payment. As at the LPD, reply from the RMC is pending. Where GST is chargeable on the Purchase Consideration, MQREIT is liable to bear such GST and it will be financed via borrowings.

2.1.5 Source of funds

The Purchase Consideration and the expenses relating to the Proposals will be funded through a combination of proceeds from the Proposed Placement and borrowings. The amount of borrowings to fund the Proposed Acquisition will depend on the eventual proceeds to be raised from the Proposed Placement, which will in turn depend on, among others, market conditions, issue price and demand for the Placement Units.

For illustrative purposes only, based on the assumed issue price of RM1.15 per Placement Unit (based on a discount of approximately 9.9% to the 5-day VWAMP of the Units up to and including the LPD of RM1.2764), and the maximum 406,666,667 Placement Units, the gross proceeds that would be raised from the Proposed Placement is RM467.7 million.

The estimated breakdown of the source of funding is set out below:

	RM million
Gross proceeds to be raised from the Proposed Placement ⁽¹⁾	467.7
Borrowings	188.3
Total	656.0

Note:

- (1) Based on a maximum of 406,666,667 Placement Units that has been approved by the SC. The maximum number of Placement Units has been arrived at based on an earlier illustrative price of RM1.05 per Placement Unit and gross proceeds of RM427.0 million as announced on 30 June 2016. The placement price of RM1.05 was at an approximate 8.5% discount to RM1.1481, the 5-day VWAMP of the Units up to and including the Last Trading Date.

In the event the proceeds raised pursuant to the Proposed Placement is less than the amount shown above, the difference will be funded via borrowings, subject to the total borrowings of MQREIT not exceeding 50% of its total asset value. Nevertheless, in the event the proceeds raised pursuant to the Proposed Placement is higher than the amount shown above, MQREIT will reduce the amount of borrowings required to settle the Purchase Consideration, which is expected to reduce the gearing level of MQREIT.

2.1.6 Liabilities to be assumed

MQREIT will not be assuming any liabilities, contingent liabilities or guarantees pursuant to the Proposed Acquisition.

2.1.7 Additional financial commitment

Save for the financing to be obtained to fund the Proposed Acquisition which will be by way of the establishment of a medium term notes programme and commercial paper programme (wherein the Property will form part of the collateral pledged), and capital expenditure to be incurred for the Property in the normal course of operations, MQREIT does not expect to incur any other financial commitment arising from the Proposed Acquisition.

2.1.8 Original cost of investment

The original carrying value of the Property at completion of construction on 18 February 2014 is RM447,395,956.

2.1.9 Information on 348 Sentral

348 Sentral was incorporated as a private limited company in Malaysia on 9 October 2006 under the Act. 348 Sentral is a wholly-owned subsidiary of MRCB.

As at the LPD, the authorised share capital of 348 Sentral is RM100,000,000 comprising 50,000,000 ordinary shares of RM1.00 each and 5,000,000,000 redeemable preference shares of RM0.01 each. The issued and paid-up capital of 348 Sentral as at the LPD is RM38,661,791 comprising 38,035,001 ordinary shares of RM1.00 each and 62,679,000 redeemable preference shares of RM0.01 each. 348 Sentral is principally involved in leasing of office and service residence units and provision of interior design fit out consultancy work and services.

As at the LPD, the Directors of 348 Sentral are Tan Sri Mohamad Salim Fateh Din, Ann Wan Tee, Kwan Joon Hoe and Shireen Iqbal Mohamed Iqbal.

(Source: MRCB and extracted from Companies Commission of Malaysia)

2.1.10 Information on MRCB

MRCB was incorporated in Malaysia on 21 August 1968 under the Act as a private limited company under the name Perak Carbide Corporation Sendirian Berhad. It was converted to a public company on 28 June 1969 and listed on the Stock Exchange of Malaysia and Singapore (now known as the Main Market of Bursa Securities) on 22 March 1971. It subsequently changed its name to Malaysian Resources Corporation Berhad on 12 October 1981.

As at the LPD, the authorised share capital of MRCB is RM5,000,000,000 comprising 5,000,000,000 ordinary shares of RM1.00 each in MRCB of which RM2,080,215,857 comprising 2,080,215,857 ordinary shares of RM1.00 each have been issued and credited as fully paid-up.

MRCB is principally an investment holding company. MRCB also engages in construction-related activities, environmental engineering, property development and investment as well as provision of management services to its subsidiaries. MRCB's subsidiaries and associates are principally engaged in property development and property investment, building services, environmental engineering, infrastructure and engineering as well as construction related activities.

The particulars of MRCB's directors and substantial shareholders and their respective shareholdings in MRCB as at the LPD are as follows:

	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
<u>Directors</u>					
Tan Sri Azlan Zainol	Malaysian	120,000	*	30,000 ⁽¹⁾	*
Tan Sri Mohamad Salim Fateh Din	Malaysian	-	-	358,322,581 ⁽²⁾	17.2
Mohd Imran Tan Sri Mohamad Salim	Malaysian	-	-	-	-
Datuk Shahril Ridza Ridzuan	Malaysian	500,000	*	-	-
Jamaludin Zakaria	Malaysian	-	-	-	-
Rohaya Mohammad Yusof	Malaysian	-	-	-	-
Chuah Mei Lin	Malaysian	-	-	-	-
Hasman Yusri Yusoff	Malaysian	-	-	-	-

	Nationality / Country of incorporation	Direct		Indirect	
		No. of shares	%	No. of shares	%
<u>Substantial shareholders</u>					
EPF	Malaysia	722,457,897	34.7	-	-
Gapurna	Malaysia	358,322,581	17.2	-	-
Lembaga Tabung Haji	Malaysia	181,066,473	8.7	-	-
Bank Kerjasama Rakyat Malaysia Berhad	Malaysia	172,000,000	8.3	-	-
Tan Sri Mohamad Salim Fateh Din	Malaysian	-	-	358,322,581 ⁽²⁾	17.2

Notes:

* Negligible, less than 0.1%

(1) Deemed interested by virtue of his shareholding in Edenview Projects Sdn Bhd.

(2) Deemed interested by virtue of his shareholding in Gapurna.

(Source: MRCB)

2.2 Proposed Placement

The Manager proposes to undertake the Proposed Placement to partially fund the Proposed Acquisition and the expenses relating to the Proposals.

The Proposed Placement shall involve the issuance of up to 406,666,667 Placement Units, representing up to 61.5% of the total Units in circulation as at the LPD and up to 38.1% of the enlarged Units in circulation after the Proposed Placement, by way of a bookbuilding exercise. The actual number of Placement Units to be issued will depend on the actual placement size and the issue price, which shall be determined later after obtaining the approval of Unitholders and after the close of the bookbuilding exercise.

The basis to determine the actual placement size will be decided based on the optimal debt to equity ratio taking into consideration the expected DPU yield accretion. Based on the assumed issue price of RM1.15 per Placement Unit (based on a discount of approximately 9.9% to the 5-day VWAMP up to and including the LPD of RM1.2764) and a maximum of 406,666,667 Placement Units to be issued, the gearing ratio of MQREIT after the Proposed Acquisition and Proposed Placement will improve from 42.4% to 38.6% as at 31 December 2015. The actual placement size and the issue price will be determined by the chief executive officer of the Manager pursuant to the authority given by the non-interested Directors of the Manager.

The issue price for the Placement Units shall be based on the bookbuilding price. The bookbuilding price range for the Placement Units would be determined based on, among others:

- (i) indicative demand and feedback from the potential investors;
- (ii) precedent transactions; and
- (iii) market price of the Units.

In any event, the Placement Units will be placed out at not more than 10% discount to the 5-day VWAMP of the Units immediately prior to the price-fixing date.

MQREIT had obtained an undertaking letter dated 30 June 2016 from MRCB to subscribe for the Placement Units at the issue price to be determined by way of a bookbuilding exercise for an amount of no less than RM110,000,000 but up to RM152,000,000 in value pursuant to the Proposed Placement. Please refer to Section 2.3 below for further details on the said undertaking letter from MRCB.

MQREIT had also received a letter from EPF dated 17 October 2016 confirming its interest to participate in the Proposed Placement for up to 7% of the enlarged Units in circulation after the Proposed Placement. Please refer to Section 2.4 below for further details on the said letter from EPF.

It is the intention of MQREIT that an underwriting arrangement for the Proposed Placement in respect of the remaining amount (excluding the Proposed Placement to MRCB) to be executed on the day of the bookbuilding exercise. The said underwriting arrangement will be subject to terms and conditions to be agreed upon between the Manager and the Joint Placement Agents.

2.2.1 Ranking of the Placement Units

The Placement Units shall, upon allotment and issue, rank equally in all respects with the then existing Units in issue, save and except that the Placement Units shall not be entitled to any distributable income, rights, benefits, entitlements and/or any other distributions, unless the allotment and issue of the Placement Units were made on or prior to the entitlement date of such distributable income, rights, benefits, entitlements and/or any other distributions.

2.2.2 Listing of and quotation for the Placement Units

Bursa Securities had, via its letter dated 21 November 2016, approved the listing of and quotation for the Placement Units on the Main Market of Bursa Securities.

2.2.3 Exemption from the REIT Guidelines

Clauses 14.04(a)(i) and (ii) of the REIT Guidelines state that where an issue of units departs from any of the applicable requirements stipulated in Clause 14.03 of the REIT Guidelines, the management company must obtain unitholders' approval by way of an ordinary resolution for the precise terms and conditions of the issue, in particular on:

- (i) the persons to whom the units will be issued; and
- (ii) the amount of units to be placed to each of them.

The Proposed Placement departs from Clauses 14.03(a), (b) and (e) of the REIT Guidelines as:

- (i) the number of Placement Units to be issued exceeds 20% of MQREIT's approved fund size;
- (ii) the number of Placement Units to be placed to MRCB would be more than 10% of MQREIT's approved fund size; and
- (iii) part of the Placement Units will be placed out to MRCB, an interested person of the Manager, and to EPF, a person connected to MRCB.

Therefore, MQREIT will be required to comply with the requirements under Clause 14.04(a) of the REIT Guidelines.

Save for MRCB and EPF, the other placees together with the exact number of Placement Units to be placed to each placee as required under Clauses 14.04(a)(i) and (ii) of the REIT Guidelines respectively, cannot be ascertained at this juncture given that the Proposed Placement would be carried out by way of a bookbuilding exercise, which will take place only after obtaining the approvals of the SC (which was obtained via its letter dated 27 September 2016) and the Unitholders. The final list of placees together with the number of Placement Units to be placed to each placee can only be determined after the close of the bookbuilding exercise.

Accordingly, on behalf of MQREIT, the Manager had sought an exemption from the SC from complying with Clauses 14.04(a)(i) and (ii) of the REIT Guidelines to facilitate the implementation of the Proposed Placement. The exemption was approved by the SC via its letter dated 3 August 2016.

2.2.4 Use of proceeds

The gross proceeds from the Proposed Placement are expected to be used within 1 month from the listing of the Placement Units to partially settle the Purchase Consideration and the expenses relating to the Proposals.

2.3 Proposed Placement to MRCB

To demonstrate its commitment to support the continued growth of MQREIT and its confidence in the future prospects of MQREIT, MRCB, being a major Unitholder having a unitholding of approximately 31.2% in MQREIT as at the LPD, has given an undertaking via a letter dated 30 June 2016 to subscribe for the Placement Units at the issue price to be determined by way of a bookbuilding exercise for an amount of no less than RM110,000,000 but up to RM152,000,000 in value pursuant to the Proposed Placement, representing between 9.0% and 12.4% of the enlarged Units in circulation, after the Proposed Placement, based on the illustrative issue price of RM1.15 per Placement Unit ("**Undertaking**").

The Undertaking is subject to the following:

- (i) the approval of the Unitholders for the Proposed Placement and Proposed Placement to MRCB;
- (ii) the approval of the shareholders of MRCB for the subscription in the Proposed Placement;
- (iii) the Proposed Placement being implemented in a single tranche;
- (iv) MQREIT obtaining the approval from Bursa Securities for the listing of and quotation for the Placement Units on the Main Market of Bursa Securities;
- (v) MRCB and/or persons acting in concert with MRCB in relation to MQREIT will not trigger a mandatory take-over offer in respect of the remaining Units not owned by MRCB and persons acting in concert with MRCB due to MRCB's subscription of the Placement Units; and
- (vi) the subscription for Placement Units in excess of RM110,000,000 in value shall be at MRCB's sole discretion.

For the avoidance of doubt, MRCB will not influence the manner in which the book builds for the Proposed Placement nor the determination of the issue price of the Placement Units. MRCB, as a price-taker, shall accept the final price for its Placement Units, being the issue price to be determined after the bookbuilding exercise is closed and shall be duly announced on Bursa Securities.

2.4 Proposed Placement to EPF

As part of the Proposed Placement, MQREIT had invited EPF to participate in the Proposed Placement. EPF had via its letter dated 17 October 2016 confirmed its interest to participate in the Proposed Placement for up to 7%³ of the enlarged Units in circulation after the Proposed Placement through a bookbuilding exercise, provided that EPF's subscription of the Placement Units (i) shall be at its preferred price⁴, (ii) will not in any way trigger a mandatory take-over offer in respect of the remaining Units not owned by EPF and persons acting in concert with it, and (iii) that MQREIT and/or the Manager will ensure that EPF's subscription of the Placement Units shall not in any way trigger a mandatory take-over offer⁵. EPF also had, via the same letter, committed to participate in the pricing and bookbuilding exercise together with other interested investors or subscribers for the Proposed Placement.

However, in the event that EPF does not participate in the Proposed Placement, the number of Placement Units allocated to EPF shall be placed out to other placees by way of a bookbuilding exercise. The Placement Units to other placees shall thereby increase accordingly to raise sufficient proceeds to partially fund the Proposed Acquisition and the expenses relating to the Proposals.

2.5 Proposed Authority

Pursuant to the Deed, the Manager is entitled to receive, among others, the Management Fee. The Board proposes to progressively allot and issue up to 31,952,333 new Units (approximately 3% of the total maximum Units in circulation after the Proposed Placement) for the purpose of payment of the Management Fee to the Manager for the 3-year period from the FYEs 31 December 2017 to 31 December 2019. The Proposed Authority will empower the Board with the flexibility to allot and issue new Units to the Manager for partial or full payment of the Management Fee, provided that the aggregate number of Units to be issued pursuant to the Proposed Authority does not exceed 31,952,333 new Units.

The issue price of the Manager's Units will be determined based on the 5-day VWAMP of the Units of the relevant period in which the Management Fee accrues as stipulated in the Deed.

The Proposed Authority shall be effective from the date of the Unitholders' approval until:

- (i) 31 March 2020, being the last date on which the Management Fee in respect of the FYE 31 December 2019 shall be paid; or
- (ii) all the 31,952,333 Manager's Units have been issued pursuant to the Proposed Authority for the purpose of the payment of the Management Fee to the Manager in respect of the FYEs 31 December 2017 to 31 December 2019,

whichever is earlier. The said authority is deemed to lapse in the event there are any unissued Manager's Units upon the expiry of the above period.

2.5.1 Ranking of the Manager's Units

The Manager's Units shall, upon allotment and issue, rank equally in all respects with the then existing Units in issue, save and except that the Manager's Units shall not be entitled to any distributable income, rights, benefits, entitlements and/or any other distributions, unless the allotment and issue of the Manager's Units were made on or prior to the entitlement date of such distributable income, rights, benefits, entitlements and/or any other distributions.

³ Represents up to 74,763,336 Units.

⁴ Refers to the bid price to be submitted by EPF during the bookbuilding process.

⁵ Based on confirmations by EPF and persons acting in concert with it, of their respective unitholdings in MQREIT, the Trustee and/or the Manager will take reasonable steps to ensure that the Proposed Placement to EPF will not trigger a mandatory take-over offer for the remaining Units not owned by EPF and persons acting in concert with it, during the price fixing and allocation of Placement Units.

2.5.2 Listing of and quotation for the Manager's Units

Bursa Securities had, via its letter dated 21 November 2016, approved the listing of and quotation for the Manager's Units on the Main Market of Bursa Securities.

2.6 Proposed Increase in Fund Size

In order to accommodate the issuance of the Placement Units and the Manager's Units to be issued pursuant to the Proposed Placement and Proposed Authority respectively, the Manager proposes to increase the existing approved fund size of MQREIT from 700,000,000 Units to a maximum of 1,100,000,000 Units.

3. RATIONALE FOR AND BENEFITS OF THE PROPOSALS

3.1 Proposed Acquisition

The rationale for the Proposed Acquisition include:

(i) DPU yield is expected to be accretive

The Proposed Acquisition is in line with the investment objective of the Manager to continuously pursue an acquisition strategy to acquire and invest in properties used or predominantly used for commercial purposes primarily in Malaysia with a view to provide long-term and sustainable distribution of income to the Unitholders, and achieve long-term growth in NAV.

For the FYE 31 December 2015, the Manager declared and paid approximately 94.3% of the total realised income after taxation or DPU of 8.47 sen. Excluding a one-off gain on divestment of properties of 0.09 sen per Unit, the normalised DPU for the FYE 31 December 2015 was 8.38 sen. The pro forma earnings per Unit after the Proposed Acquisition, Proposed Placement and Proposed Authority is expected to be 7.67 sen (as set out in Section 6.3 below). The lower pro forma DPU of 7.67 sen based on a 100% payout ratio as compared to the normalised DPU for the FYE 31 December 2015 of 8.38 sen is mainly due to the Property only achieving an occupancy rate of 99.9% in December 2015 from 74% in November 2015, resulting in lower income contribution for the year.

Nevertheless, the Manager expects the DPU yield to increase moving forward based on the following envisaged broad parameters of the Proposals:

- (a) future increase in net property income from expected rental reversions of the current portfolio and the Property;
- (b) a portion of the estimated Management Fee pursuant to the Proposed Authority is paid in new Units;
- (c) distribution of at least 90.0% of the net realised income of MQREIT; and
- (d) the Purchase Consideration is funded by an optimal combination of borrowings and proceeds from the Proposed Placement as set out in Section 2.1.5 above.

(ii) The Proposed Acquisition represents a growth catalyst

The Proposed Acquisition will strengthen MQREIT's position as a sizeable, geographically well-diversified office REIT in the Klang Valley. The Proposed Acquisition will also strengthen MQREIT's position among the REITs in Malaysia in terms of total asset size and market capitalisation.

For illustration purposes only, based on the valuation of RM640 million, MQREIT's asset size will increase from RM1.63 billion to RM2.27 billion upon completion of the Proposed Acquisition and correspondingly elevate MQREIT's position from 8th to 6th out of 16 listed REITs (excluding KLCC Stapled Securities) in the Malaysian REIT industry in terms of total asset size (based on the latest available audited financial statements of the respective REITs as at the LPD) as follows:

No.	Listed REITs in Malaysia	Total Assets ⁽¹⁾ (RM million)
1.	Sunway Real Estate Investment Trust	6,537
2.	IGB Real Estate Investment Trust	5,170
3.	Pavilion Real Estate Investment Trust	4,751
4.	CapitaLand Malaysia Mall Trust	4,092
5.	YTL Hospitality REIT	3,622
	MQREIT	2,271
6.	Axis Real Estate Investment Trust	2,141
7.	AmFIRST Real Estate Investment Trust	1,728
8.	MQREIT	1,625
9.	Al-'Aqar Healthcare REIT	1,594
10.	UOA Real Estate Investment Trust	1,135
11.	Hektar Real Estate Investment Trust	1,116
12.	AmanahRaya Real Estate Investment Trust	1,101
13.	Al-Salam Real Estate Investment Trust	950
14.	Tower Real Estate Investment Trust	568
15.	Atrium Real Estate Investment Trust	239
16.	Amanah Harta Tanah PNB	227

Note:

(1) Extracted from the latest available audited financial statements of the respective REITs as at the LPD.

The larger asset base will enable MQREIT to enjoy greater operating efficiency arising through the efficient utilisation of current resources, namely manpower. It will also enhance its competitive positioning providing MQREIT with greater bargaining power and thus, enabling it to secure term contracts at more competitive terms.

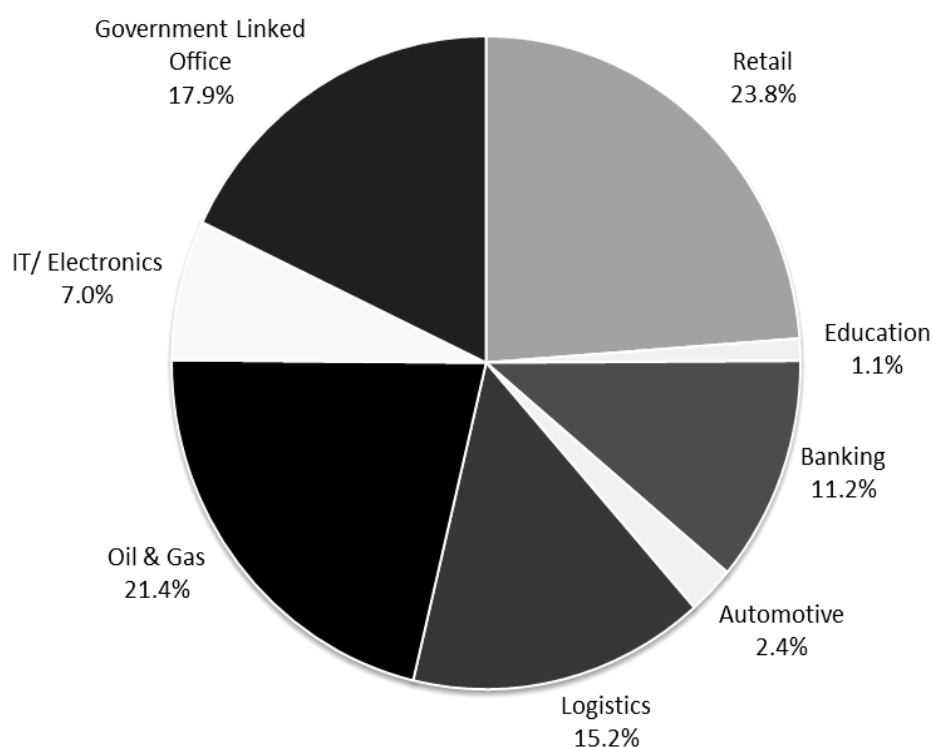
In terms of market capitalisation, MQREIT's market capitalisation will increase from RM846.57 million based on the closing price of RM1.28 as at the LPD, to RM1.37 billion assuming the issuance of the maximum number of new Units pursuant to the Proposed Placement. Correspondingly, this will elevate MQREIT's position from 8th to 7th out of 16 listed REITs (excluding KLCC Stapled Securities) in the Malaysian REIT industry.

The increase in Units in circulation is expected to provide more liquidity to MQREIT.

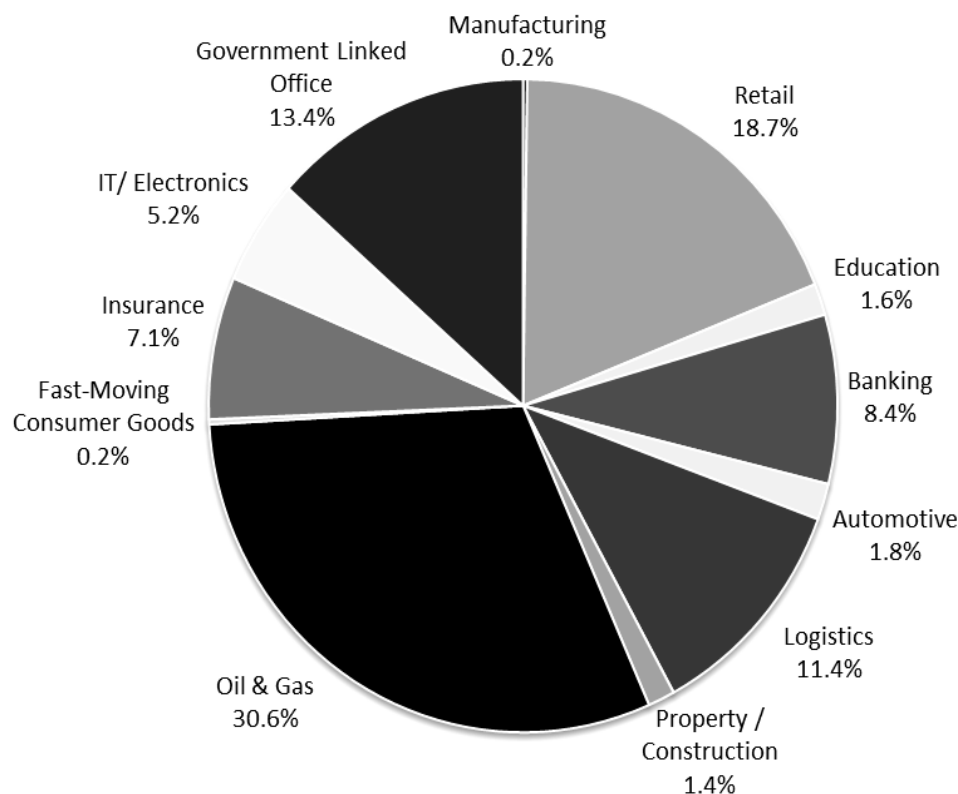
(iii) **Competitive strengths of the Property is expected to fit well into MQREIT's clientele requirements, enhance its portfolio profile and contribute positively to the performance of MQREIT**

The Property is expected to fit well into MQREIT's clientele requirements, enhance its portfolio profile and contribute positively to the performance of MQREIT based on the following factors:

- (a) The Property currently enjoys almost full occupancy with an occupancy rate of 99.9%. Therefore, with the addition of the Property to MQREIT's portfolio, MQREIT's overall occupancy rate would improve from 97% to 98%.
- (b) The Property is situated in Kuala Lumpur Sentral, a self-contained transportation hub and a prime commercial area within Kuala Lumpur. The Proposed Acquisition will increase MQREIT's footprint in Kuala Lumpur Sentral and would augur well for MQREIT in view that Kuala Lumpur Sentral is highly sought after by corporate tenants.
- (c) The inclusion of a green building with LEED platinum certification and MSC Malaysia Status will fit well into MQREIT's clientele requirements for high-quality specification buildings.
- (d) The tenant mix profile of the Property will provide a good mix of high-quality multinational and large local conglomerate tenants for MQREIT's overall clientele mix. MQREIT's tenant base before the Proposed Acquisition is broadly categorised into 8 sectors as depicted below:



Subsequent to the Proposed Acquisition, the tenant mix is expected to further diversify into 12 sectors, as follows:



The enlarged tenant base will diversify MQREIT's income stream across a wider spread of tenants from various sectors, reducing the reliance on income contribution from any one or more major trade sectors.

3.2 Proposed Placement

The Board had considered various funding options to fund the Proposed Acquisition taking into consideration, among others, the prevailing market condition, payment of Management Fee in new Units, interest rate environment, MQREIT's capital structure, the expected DPU accretion and gearing level.

Furthermore, a rights issue will also result in both an EPU and DPU dilution due to the larger number of Units to be issued. Although the Proposed Placement has a dilutive effect on the unitholdings of the Unitholders who are unable to participate, their DPU will not be affected taking into consideration, among others, future increase in net property income from expected rental reversions of current portfolio and the Property as well as payment of Management Fee in Manager's Units.

Taking into consideration all of the above, the Board decided that the Proposed Placement is the preferred mode of equity funding.

The rationales for the Proposed Placement are as follows:

- (i) Clause 8.37 of the REIT Guidelines stipulates that the total borrowings of a fund (including borrowings through issuance of debt securities) should not exceed 50% of the total asset value of the fund at the time the borrowings are incurred, unless the sanction of the Unitholders by way of an ordinary resolution is obtained. The gearing level of MQREIT was approximately 42.4% of the total asset value as at 31 December 2015. In the event the Purchase Consideration and the estimated expenses relating to the Proposals are funded totally by debt financing, it will increase the gearing level to approximately 59.1% of MQREIT's total asset value which would exceed the 50% limit stipulated under the REIT Guidelines.

The Proposed Placement will enable MQREIT to raise equity to partially finance the Proposed Acquisition, thus reducing the gearing level, relative to funding the Proposed Acquisition entirely via debt. The existing gearing level will decrease from 42.4% to 38.6%, assuming gross proceeds of RM467.7 million are raised. Should the Proposed Placement enable MQREIT to lower its gearing level, it will have sufficient headroom to undertake future cash acquisitions which is in line with the capital management and growth strategy of MQREIT.

- (ii) The Proposed Placement will allow MQREIT to raise funds expeditiously as it can be implemented immediately upon obtaining Unitholders' approval. Unitholders who will not be able to participate in the Proposed Placement would not be required to contribute additional capital. Notwithstanding the above, the Manager will determine the optimal number of Placement Units to achieve an optimal debt to equity ratio as illustrated in Section 2.2 above.
- (iii) The Proposed Placement will involve the issuance of new Units which will increase the number of Units in circulation and may improve the trading liquidity of MQREIT. The Proposed Placement should allow MQREIT to attract more local and international institutional investors to invest in MQREIT, thereby potentially enlarging its Unitholders base. The Proposed Placement will allow new reputable investors to invest in MQREIT, which serves as a testament of investors' confidence in the future prospects of MQREIT.

3.3 Proposed Placement to MRCB

The Proposed Placement to MRCB demonstrates the commitment of MRCB to support the Proposed Placement. It will also allow MRCB to maintain its majority stake in the enlarged unitholders' capital of MQREIT after the Proposed Placement.

In addition, as MRCB and its subsidiaries have an established track record in property development with a portfolio of commercial and residential developments in Malaysia, MQREIT is able to leverage on and benefit from MRCB's pipeline of future assets that MQREIT could potentially acquire, if these assets meet MQREIT's investment criteria.

3.4 Proposed Placement to EPF

EPF is a reputable institutional fund in Malaysia and the inclusion of EPF as a Unitholder will provide further diversity to MQREIT's institutional investor base. The Proposed Placement to EPF would be part of the proceeds raised from the Proposed Placement, which would facilitate the completion of the Proposed Acquisition and in turn benefit MQREIT as a whole.

3.5 Proposed Authority

The Proposed Authority will provide the Manager with more flexibility in the structuring of the payment of Management Fee. To the extent that the Manager chooses to receive the Management Fee in the form of new Units, the Manager's interest will be further aligned with those of the Unitholders. In addition, any cash conserved for the payment of the Management Fee can be used by MQREIT for future acquisition, capital expenditures and/or distribution to Unitholders.

3.6 Proposed Increase in Fund Size

The Proposed Increase in Fund Size is to accommodate the issuance of Placement Units and Manager's Units pursuant to the Proposed Placement and Proposed Authority respectively.

4. OUTLOOK AND PROSPECTS

MQREIT is a REIT and the investment objective of the Manager is to acquire and invest primarily in properties used or predominantly used for commercial purpose primarily in Malaysia with a view to provide Unitholders with long-term and sustainable distribution of income to the Unitholders, and achieve long-term growth in NAV. MQREIT's prospects are inherently linked to the outlook of the Malaysian economy and property industry.

4.1 Malaysian economic overview and outlook

Malaysia's 4.1% growth in the first half of 2016 (January – June 2015: 5.3%) was mainly driven by domestic demand, which grew at a steady pace of 5% (January – June 2015: 6.3%) on account of private sector spending. Private consumption expanded 5.8% (January – June 2015: 7.7%), mainly driven by the stable labour market and income growth. Gross fixed capital formation increased 3.2% (January – June 2015: 3.9%), mainly led by private investment activity, which grew 4% (January – June 2015: 7.4%). The surplus in the goods and services account of the balance of payments narrowed to RM31.8 billion (January – June 2015: RM42.8 billion) following weak global demand and declining commodity prices.

On the supply side, all sectors of the economy recorded positive growth except agriculture. The services sector grew 5.4% (January – June 2015: 5.7%) spurred by higher activity in the wholesale and retail trade, information and communication, as well as food and beverages and accommodation subsectors. The manufacturing sector grew 4.3% (January – June 2015: 4.9%), mainly supported by electrical and electronics and resource-based products subsectors. The construction sector expanded further by 8.4% (January – June 2015: 7.6%) underpinned by higher activity in the civil engineering and residential segments. Meanwhile, the mining sector grew at a moderate pace of 1.4% (January – June 2015: 7.8%) on account of lower output of crude oil. In contrast, the agriculture sector declined 6% (January – June 2015: 0.3%) due to lower output of crude palm oil and rubber.

Given the nation's strong economic fundamentals coupled with the 2017 budget strategies and programmes, the economy is expected to expand between 4% and 5% in 2017. The expansion translates into gross national income per capital growth of 5% from RM37,812 to RM39,699. On the demand side, growth will emanate from domestic demand, particularly private consumption and private investment expenditures which are expected to expand 6.3% and 5.8%, respectively. In tandem with higher investment activities, the savings-investment gap is expected to narrow to 0.5% - 1.5% of gross national income (2016: 1% - 1.5%). Inflation will remain manageable, while the economy continues to operate under full employment. All sectors of the economy are expected to contribute to growth, with the services and manufacturing sectors spearheading the expansion. With the government's commitment to enhancing revenue and rein in expenditure, the fiscal deficit is expected to improve further to 3% of gross development product. These developments will strengthen the economic fundamentals and augurs well for a nation in transition from an upper-middle to a high-income and advanced nation.

(Source: Economic Report 2016 - 2017, Ministry of Finance Malaysia)

4.2 Overview and prospects of the office property in Klang Valley

The Klang Valley PBO market was insipid during the review period, being the fourth quarter of 2015 ("4Q 2015"), due to a combination of dreary global and domestic economic performance and falling commodity prices. The PBO sector will continue to remain as tenants' market with some 4.5 million sq ft scheduled for completion by end 2016. Vacancy rate is expected to hover around 15% to 18% in view of anticipated completions over the next 3 years.

Nevertheless, despite concerns about the present market conditions, demand for office space is expected to remain stable supported by local as well as foreign demand, primarily by the services sector, due to the weakening ringgit.

Market prices and rentals of PBO buildings, on the other hand, are also anticipated to remain stagnant where better quality office space will continue to stand out, fetching slightly higher premiums compared to current rental levels.

Supply

As at 4Q 2015, the cumulative PBO supply in the Klang Valley stood at 98.6 million sq ft with Central Kuala Lumpur continuing to be the focus, accounting for 45.3 million sq ft (or 46% of total Klang Valley supply) followed by Metropolitan Kuala Lumpur at 39.6 million sq ft (or 40% of total Klang Valley supply) and the remaining 13.7 million sq ft (or 14% of total Klang Valley supply) from Greater Kuala Lumpur.

In terms of office grading, approximately 61.6 million sq ft (or 62% of total Klang Valley supply) are contributed by prime office buildings, i.e. Grade Premium A and Grade A while the remaining are contributed by non-prime space which accounted for some 36.9 million sq ft (or 38% of total Klang Valley supply) during the review period.

In Western Metropolitan Kuala Lumpur where the subject property is located, the total supply of PBO space stood at 19.1 million sq ft (or 19% of total Klang Valley supply) where prime office space accounted for 16.3 million sq ft (or 85% of total Western Metropolitan Kuala Lumpur supply).

In terms of future supply, a total of 15 new PBO buildings or approximately 7.2 million sq ft of office space are expected to be completed in the Klang Valley by end of 2018 with about 4.1 million sq ft (or 57% of total Klang Valley future supply) located in Metropolitan Kuala Lumpur.

About 3.0 million sq ft, or 74% of the total share of Metropolitan Kuala Lumpur future supply, are located within Western Metropolitan Kuala Lumpur.

Demand

The overall vacancy of office space in the Klang Valley had improved by 0.9% from 2014 and registered at 15.3% during the review period. Central Kuala Lumpur and Metropolitan Kuala Lumpur experienced an increase of 3.5% and 0.3% from 2014 to register a vacancy rate of 13.5% and 20.6% respectively. Greater Kuala Lumpur, on the other hand, had a marginal improvement of about 0.1% registering at 23.7% during the review period.

The overall vacancy rate in Western Metropolitan Kuala Lumpur observed an improvement of about 8.1% from 2014, registering at 12.7% during the review period. The improvement in the vacancy rate was largely due to the closure of Damansara Town Centre.

Rents and capital values

The Valuer's survey of prime office rentals in Central Kuala Lumpur and Western Metropolitan Kuala Lumpur revealed that rental growth from 2007 to 2011 was the most apparent in Western Metropolitan Kuala Lumpur for all categories, with and without MSC Malaysia Status. The growth of rental levels over the past couple of years could be due to the completion of new generation of office buildings such as Quill 7 at Kuala Lumpur Sentral, Plaza Sentral, 1 Sentral at Kuala Lumpur Sentral, Menara UOA Bangsar (Towers A and B) in Bangsar, Gardens North and South Towers and Centrepont at Mid Valley City.

In general, gross asking rentals have improved since 2008 owing to the newer breed of office buildings which are mostly of better quality, with MSC Malaysia Status and/or with Green Building compliance/certification. Prime office space in Central Kuala Lumpur continues to command top rentals despite being a close match with similar office space with MSC Malaysia Status situated in Western Metropolitan Kuala Lumpur, particularly those in Kuala Lumpur Sentral transport hub. This could likely be due to the tenants' preference for prime office premises with a Kuala Lumpur address which still ranks high amongst the multinational companies and financial sector as it exudes prestige, being the capital city.

The office market in Malaysia is not particularly mature to reflect any significant price trends over the years, however, observation on the transactions of prime office buildings, i.e. Grade Premium A and Grade A in Kuala Lumpur had noted an upward price trend.

Outlook

The Klang Valley office market, as at 4Q 2015, appeared to have been improving moderately with occupancy rate increase quarter-on-quarter by 1.2% from 83.5% in the fourth quarter of 2014 to 84.7% during the review period albeit lower by 1.7% as compared with the first quarter of 2015. A slower performance was observed likely due to the sluggish condition of foreign markets and a very cautious local market.

In terms of future supply, approximately 7.2 million sq ft from 15 PBO buildings are expected to be released into the Klang Valley market by end 2018. Out of the total, 6 office buildings totaling 3.0 million sq ft are located within Western Metropolitan Kuala Lumpur. Should all these office buildings which are currently under various stages of construction complete as scheduled, it is envisaged that these new completions may exert pressure to the market in terms of rental and performance.

The outlook for the office sector in the Klang Valley within the next 6 to 12 months shall nevertheless remain resilient with some indications of further movement of tenants but with no real growth expected in market rentals. Nevertheless, landlords of quality grade office buildings are likely to maintain their present rental rates for the remaining vacant office space in the next 6 to 12 months. Selected newer buildings that are expected to come on stream or have recently completed are commanding premium rentals as they are mostly provided with more advanced features like Green Building Index/LEED compliant as well as MSC Malaysia Status/CyberCentre status.

Market prices of office buildings are expected to generally remain stable in the short term despite numerous transactions recorded in the last 12 months. However, on the investment front, interest is very keen and with the weakening of ringgit, transactional activities are expected to increase in the next 6 to 12 months where prime office buildings with investment potential are expected to continue to attract investors.

(Source: Extracted from the Valuation Report)

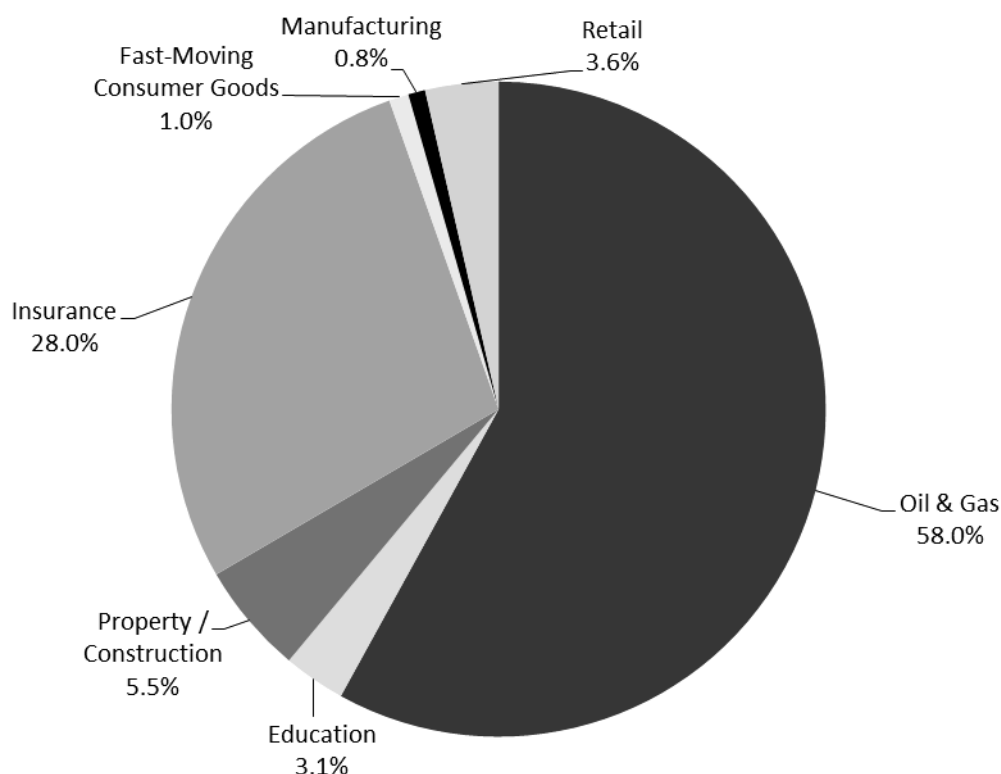
4.3 Prospects of the Property

The Property is strategically located in Kuala Lumpur Sentral, a self-contained urban development comprising of an integrated transit hub known as Kuala Lumpur Sentral Station, corporate office towers and business suites, 5-star international hotels, condominiums and a shopping mall. It is within walking distance to Kuala Lumpur Sentral Station which consists of 8 major transit lines including a dedicated line to KLIA and the soon to be completed Mass Rapid Transit Line. The Property's strategic location will benefit its tenants in view of the excellent connectivity to other urban and suburban residential, commercial and industrial hubs within Malaysia, KLIA, Putrajaya (the Federal Government Administrative Centre) and Cyberjaya.

Menara Shell is easily accessible via Jalan Tun Sambanthan and Jalan Travers. It can also be easily accessed from few major highways and roads like the Federal Highway, the New Pantai Expressway, Jalan Bangsar, Jalan Tun Sambanthan, Jalan Istana, Jalan Damansara, Lebuhraya Sultan Iskandar (formerly known as Lebuhraya Mahameru), New Pantai Expressway and Federal Highway linking the Property to other commercial hubs within Kuala Lumpur such as Bangsar, Damansara and the Kuala Lumpur central business district as well as other main locations within Selangor such as Petaling Jaya and Shah Alam.

Other than its prime location, the Property was built with emphasis on energy saving and environment sustainability. The Property is designed with energy efficiencies and green features, and has been accorded LEED platinum certification. In addition, the Property is designed to provide for high levels of natural lighting and is equipped with state of the art green technology which includes a thermal energy storage system, under floor air conditioning system, rainwater recycling system and daylight harvesting system. In addition, it is also accredited with MSC Malaysia Status which is one of the requirements by many multinational and local corporations.

It currently enjoys high committed occupancy rate made up of reputable and established tenants comprising of multinational and local companies, on the back of more than half of its total NLA committed under long lease arrangements. The details of the tenants as at the LPD are as follows:



The prospects of the Property are expected to be positive in view of its strategic location, good accessibility and high quality specifications that meet the requirements of MQREIT's clientele requirements. These property attributes are expected to be able to attract new and existing tenants' demands, which in turn will provide a stable income stream to MQREIT.

(Source: The Manager)

5. RISK FACTORS

Unitholders should consider the following risks inherent in the property market and the risk factors (which may not be exhaustive) pertaining to the Proposed Acquisition.

5.1 Risks relating to the Proposed Acquisition

5.1.1 Financing risk

MQREIT will depend on external financing to part-finance the Proposed Acquisition. The incurrence of debt to finance the Proposed Acquisition will result in new interest/principal servicing obligations. In the event that MQREIT undertakes to part finance the Proposed Acquisition via floating rate debt facilities, any future significant increase in interest rates could have an adverse effect on MQREIT's cash flows and profitability which in turn may affect its ability to make distributions to its Unitholders.

In mitigating such risk, MQREIT will actively review its debt portfolio taking into account the level, structure and nature of borrowings, and will seek to adopt cost effective and optimal mix of financing options. The Manager believes that its prudent capital management will be able to address and mitigate MQREIT's financing and interest rate risk in a volatile market environment. While efforts will be taken to ensure that no significant adverse effects would arise from the interest/principal servicing commitments, there is no assurance that it will not have any material impact on the MQREIT's future financial performance.

5.1.2 Delay in completion of the Proposed Acquisition

The Purchase Consideration and the estimated expenses relating to the Proposals cannot be fully funded by debt financing in view that it would result in the gearing level of MQREIT exceeding the 50% limit stipulated under the REIT Guidelines. Accordingly, the successful completion of the Proposed Placement is vital in ensuring the completion of the Proposed Acquisition.

If the indicative demand from investors at the proposed price range pursuant to the Proposed Placement is insufficient to ensure a successful completion of the placement exercise and/or, if the price range falls beyond 10% discount to the 5-day VWAMP of the Units, the Manager, in consultation with the joint bookrunners, may decide to lower the price range, or defer the bookbuilding exercise until such time when market conditions improve.

It is the intention of MQREIT that an underwriting arrangement for the Proposed Placement be executed on the day of the bookbuilding exercise to mitigate the risk of non-completion of the Proposed Placement. Notwithstanding the above, the said underwriting arrangement will be subject to terms and conditions to be agreed upon between the Manager and the joint placement agents.

In the event that the bookbuilding exercise is deferred resulting in the non-fulfilment of the conditions precedent of the SPA which requires the proceeds from the Proposed Placement to be received by the Trustee (on behalf of MQREIT), the completion of the Proposed Acquisition will be delayed accordingly.

5.2 Risks relating to the Property to be acquired

5.2.1 Loss of tenants

Based on the tenancy schedule of the Property as at 30 June 2016, the top 2 tenants of the Property (in terms of NLA occupied) accounted for approximately 80% of the total NLA of the Property. The ability of the Property to generate revenue may be adversely affected by the loss of either one of these key tenants should they decide not to renew their tenancies or request for early termination of their leases.

The sudden loss of key tenants could result in periods of vacancy for the Property as MQREIT will require time to secure new tenants for sizable vacant office space. In addition, the terms of new leases with new tenants may be less favourable than those of the existing leases. Therefore, the gross rental income of the Property may decrease arising from lower occupancy rates due to non-renewal of expired leases as well as lower rental rates negotiated for new leases. This could in turn adversely affect the revenue generated from the Property, the operating results of MQREIT and ultimately the ability of MQREIT to sustain its current income levels and distribution to its Unitholders.

To mitigate this risk, the Manager intends to put in place active leasing and asset management strategies which are centred upon building strong tenant relationships with the existing tenants and ensuring that satisfactory retention rates are achieved.

5.2.2 Losses from latent building defects

Due diligence on the Property conducted prior to the Proposed Acquisition may not identify all material defects, breaches of laws and regulations and other deficiencies, which could result in unpredictable business interruption and additional expenses on repairs and rectifications being incurred.

The representations, warranties and indemnities made in favour of MQREIT by the Vendor pursuant to the SPA may not offer sufficient protection for the costs and liabilities arising from any defect or deficiency, which may have a material adverse effect on MQREIT's earnings and cash flows. Further, the Trustee's rights to claim against the Vendor for breach of such representations, warranties and indemnities are subject to a maximum aggregate liability in respect of all claims which shall not exceed RM100,000,000. However, no liability shall be attached to the Vendor where the amount of any individual claim (or a series of claims arising from same facts or circumstances) where the liability agreed or determined in respect of any such claim or series of claims is less than RM100,000. Where the liability agreed or determined in respect of any such claim exceeds RM100,000, the Vendor shall be liable for the whole of the amount (and not only the differential) of the claim or series of claims as agreed or determined.

MQREIT's right to claim for breach of any warranty given by the Vendor shall expire at the end of 18 months after the Completion Date or the Extended Completion Date, as the case may be. No claim may be made for breach of any warranty given by vendor unless a written notice of the claim is made and submitted to the Vendor with sufficient particulars to identify the breach and the amount of the claim within the said period of 18 months after the Completion Date or Extended Completion Date, as the case may be.

5.2.3 Inadequate insurance and potential losses due to uninsured liabilities

The Property may suffer physical damages by fire, flood, earthquake or other causes which may cause MQREIT to suffer public liability claim thereby resulting in losses (including loss of rental income) and MQREIT may not be sufficiently compensated/covered by insurance. In addition, certain types of risks (such as war risk and terrorist acts) may be uninsurable or not economically insurable.

Should an uninsured loss or a loss in excess of insured limits occur, MQREIT could suffer a loss of capital invested in the Property as well as anticipated future revenue from the Property. MQREIT would also remain liable for any debt or other financial obligation related to the Property. No assurance can be given that material losses in excess of insurance proceeds (if any) will not occur in the future. In the event that an uninsured loss or a loss in excess of insured limits occurs, this may adversely affect MQREIT's financial condition and results of operations.

The Property is currently insured against risks such as fire, business interruption and public liability, which the Manager believes is consistent with general industry practice in Malaysia. The Manager may in the future take up insurance against such other relevant risks as and when the Manager considers there is a need to do so.

5.2.4 Risks associated with asset enhancement initiatives

The Property may need to undergo renovation or asset enhancement works from time to time to retain its competitiveness and may also require unforeseen ad hoc maintenance or repairs in respect of faults or problems that may develop from time to time. The costs of maintaining a property and the risk of unforeseen maintenance or repair requirements tend to increase over time as the building ages.

The Manager will work together with the property manager to identify and plan for future asset enhancement or rectification works in respect of the Property to minimise disruption to the operations of the Property. While the Manager and the property manager will endeavour to keep any disruptions caused by such renovation works or maintenance or repairs to a minimum, the operations of the Property may still suffer some disruption.

Further, there is no assurance that the renovation or asset enhancement works will be able to achieve their intended return or benefit as the Property may still be unable to attract new tenants or retain existing tenants, and significant costs may have been incurred by MQREIT in the course of such renovation or asset enhancement works.

5.2.5 Devaluation of the Property

Property valuations (including the valuation conducted by the Valuer in connection with the Proposed Acquisition) generally include a subjective evaluation of certain factors relating to the relevant properties, such as their relative market positions, their financial and competitive strengths and their physical conditions.

General property prices, including that of commercial property, are subject to the volatilities of the property market and there can be no assurance that MQREIT will not be required to make downward revaluation of the Property in the future. Any fall in the gross revenue or net property income derived from the Property may result in its downward revaluation.

MQREIT is required to measure the investment properties at fair value at each reporting date. The changes in fair value may have an adverse effect on MQREIT's financial results in the financial year where there is a significant decrease in the valuation of MQREIT's investment properties, which will result in revaluation losses that will be charged to its statement of comprehensive income. However, this should not have an impact on income available for distributions to Unitholders.

Upon the completion of the Proposed Acquisition, the Manager will evaluate and where necessary, put in place asset enhancement initiatives to maintain the condition of the Property as well as to retain its competitiveness vis-à-vis other office buildings within the vicinity and to meet the requirements of its tenants. In addition, the Manager intends to put in place a marketing initiative which will promote and enhance the public profile and visibility of the Property so as to maximise tenant interest and demand and correspondingly, provide a sustainable stream of income to the Property with a view to maintain the long-term value of the Property.

5.2.6 Delays in the issuance and transfer of the strata titles of the Property

Menara Shell is part of an integrated development comprising a 33-storey office building and 1 block of 21-storey serviced apartment erected on a 5-storey podium and a 4-storey basement car park which are currently held under 1 master title ("**Development Properties**"). The Development Properties will be subdivided into 7 separate strata titles in accordance with the Strata Demarcation. As at the LPD, the strata title in respect of the Property has not been issued.

In accordance with the terms and conditions of the SPA, the Vendor is required to submit an application to the Department of Survey and Mapping for the Federal Territory Kuala Lumpur for the issuance of the Certificate of Proposed Strata Plan for the Development Properties. Upon obtaining the Certificate of Proposed Strata Plan, the Vendor is required within 1 month from the issuance of the said certificate, to file in its subdivision application for the Development Properties to the Director of Lands and Mines (and in the case of the Federal Territory, the Land Administrator) for approval and the issuance of the individual strata titles of the Development Properties. The Trustee will only become the registered and legal owner of the Property once the statutory instrument of transfer is presented for registration at the relevant land office and endorsement of the name of the Trustee as the registered owner on the respective strata titles to the Property.

Given that the Strata Title (Amendment) Act 2013 has just recently taken effect, it is uncertain at this juncture the duration required for the subdivision process and transfer of the strata titles of the Property thereafter. As such, there could be possible delays in completing the subdivision process and transfer of the strata titles of the Property.

5.3 Risks relating to the property market

5.3.1 Increased competition from other properties

The Property may be affected by increased competition from other office properties in the vicinity. The increase in supply of new office space will provide existing and prospective tenants with a wider choice of available office space to rent and this could potentially exert downward pressure on rental rates should the supply of office space exceed demand.

The ability of the Property in attracting or retaining tenants depends on factors including the attractiveness of the building and its surrounding as well as the quality of the building's existing tenants. The appeal of the Property may diminish if the Property fails to retain its competitiveness in light of new office supply in the vicinity with higher quality and building specifications and/or existing properties that undergo upgrading works. Such competition from neighbouring properties could adversely affect the revenue derived from the Property, thereby adversely affecting MQREIT's cash flow and its ability to make distributions to its Unitholders. In order to mitigate competition risk in the property market, the Manager will endeavour to work with the property manager and tenants to provide quality services which meet the requirements and expectations of the tenants.

5.3.2 Compulsory acquisition by the Government

The Government has the power to compulsorily acquire any land in Malaysia pursuant to the provisions of the applicable legislation including the Land Acquisition Act 1960 for certain purposes where the compensation to be awarded is based on the fair market value of a property assessed on the basis prescribed in the Land Acquisition Act 1960 and other relevant laws. Compulsory acquisition by the Government could adversely affect the value of the Property, which could impair MQREIT's financial condition and results of operations.

Furthermore, if all or any portion of the Property is compulsorily acquired by the Government at a point in time when the market value of the Property has decreased, the level of compensation paid to MQREIT may be less than the price which MQREIT paid for the Property, which may have an adverse effect on MQREIT's business, financial condition, results of operations and prospects.

In the event of any compulsory acquisition, MQREIT will seek to minimise any potential losses from such transaction, including invoking the relevant provisions of the Land Acquisition Act 1960 in relation to its rights to submit an objection in respect of the compensation, where necessary.

6. EFFECTS OF THE PROPOSALS

For illustrative purposes only, the pro forma effects of the Proposals are set out below based on the following parameters:

Illustrative issue price of the Placement Units	: RM1.15 ⁽¹⁾
Size of the Proposed Placement	: RM467,666,667
Placement Units issued	: 406,666,667
Borrowings raised	: RM188,333,333

Note:

- (1) Based on a discount of approximately 9.9% to the 5-day VWAMP of the Units up to and including the LPD of RM1.2764.

The effects of the Proposed Placement to MRCB and Proposed Placement to EPF are reflected accordingly in the effects of the Proposed Placement as they form part of the Proposed Placement.

6.1 Unitholders' capital

The Proposed Acquisition will not have any effect on the Unitholders' capital of MQREIT.

The pro forma effects of the Proposed Placement on the Unitholders' capital of MQREIT, assuming the issuance of the maximum number of Units under the Proposed Placement are as follows:

	No. of Units
	'000
As at the LPD	661,381
To be issued under the Proposed Placement	406,667
Enlarged Unitholders' capital	1,068,048

The quantum of the increase in Unitholders' capital as a result of new Units to be issued under the Proposed Authority will depend on the quantum of the Management Fee, which will be satisfied in the form of new Units and the issue price which will be determined in accordance with the Deed. For illustration purposes only, assuming the maximum 31,952,333 new Units are issued pursuant to the Proposed Authority, the enlarged Unitholder's capital of MQREIT after the Proposed Placement and the Proposed Authority would be 1,100,000,000 Units.

The Proposed Increase in Fund Size will not have any effect on the Unitholders' capital of MQREIT. However, the quantum of the Proposed Increase in Fund Size will depend on the number of new Units issued under the Proposed Placement and Proposed Authority.

6.2 Substantial Unitholders' unitholdings

The Proposed Acquisition will not have any effect on the unitholdings of the substantial Unitholders.

The pro forma effects of the Proposed Placement on the unitholdings of the substantial Unitholders based on the Record of Depositors of MQREIT as at the LPD are as follows:

Substantial Unitholders	As at the LPD				After the Proposed Acquisition and Proposed Placement			
	Direct		Indirect		Direct		Indirect	
	'000	%	'000	%	'000	%	'000	%
MRCB	206,250	31.2	-	-	338,424	31.7	-	-
CCT	117,040	17.7	-	-	117,040	11.0	-	-
QLSB	48,767	7.4	-	-	48,767	4.6	-	-
QPSB	45,997	6.9	-	-	45,997	4.3	-	-
QESB	22,276	3.4	-	-	22,276	2.1	-	-
CapitaLand Limited	-	-	117,040 ⁽¹⁾	17.7	-	-	117,040 ⁽¹⁾	11.0
Dato' Michael Ong Leng Chun	55	*	117,040 ⁽²⁾	17.7	55	*	117,040 ⁽²⁾	11.0
Dato' Dr Low Moi Ing, J.P.	50	*	117,040 ⁽²⁾	17.7	50	*	117,040 ⁽²⁾	11.0
EPF	-	-	209,246 ⁽³⁾	31.6	74,763	7.0	341,420 ⁽³⁾	32.0
Gapurna	-	-	206,250 ⁽⁴⁾	31.2	-	-	338,424 ⁽⁴⁾	31.7
Tan Sri Mohamad Salim Fateh Din	-	-	206,250 ⁽⁵⁾	31.2	-	-	338,424 ⁽⁵⁾	31.7

Notes:

The pro forma effects above have been prepared assuming MRCB subscribes for RM152,000,000 in value of Placement Units, EPF subscribes for 7% of the enlarged Units in circulation after the Proposed Placement and CCT, QLSB, QPSB, QESB do not subscribe to the Proposed Placement.

- * Negligible, less than 0.01%.
- (1) Deemed interested pursuant to Section 4 of the CMSA by virtue of its interest in CCT.
- (2) Deemed interested pursuant to Section 4 of the CMSA by virtue of his/her interests in QLSB, QPSB and QESB.
- (3) Deemed interested pursuant to Section 4 of the CMSA by virtue of its interest in MRCB and Units held by one of its discretionary funds.
- (4) Deemed interested pursuant to Section 4 of the CMSA by virtue of its interest in MRCB.
- (5) Deemed interested pursuant to Section 4 of the CMSA by virtue of his interest in MRCB held through Gapurna.

Any issuance of new Units under the Proposed Authority will dilute the percentage of direct unitholdings of the substantial Unitholders. The Proposed Increase in Fund Size will not have any effect on the unitholdings of the substantial Unitholders. However, the quantum of the Proposed Increase in Fund Size will depend on the number of new Units issued under the Proposed Placement and Proposed Authority.

6.3 Earnings and distributable income

Assuming that the Proposed Acquisition, Proposed Placement and Proposed Authority were completed on 1 January 2015 (being the beginning of the FYE 31 December 2015), the pro forma effects on the realised net income of MQREIT per Unit for the FYE 31 December 2015 are as set out below. The pro forma financial information is for illustrative purposes only and is not necessarily indicative of the results of the operations or the financial position that would have been attained had the Proposed Acquisition, Proposed Placement and Proposed Authority actually occurred in the relevant period.

	Audited for FYE 31 December 2015 RM '000	After the Proposed Acquisition, Proposed Placement and Proposed Authority RM '000
Audited realised net income of MQREIT for the FYE 31 December 2015	54,021	54,021
Add: Incremental realised net income contribution of the Property for the FYE December 2015, net of finance cost for the Proposed Acquisition of RM9.03 million ⁽¹⁾ (assuming borrowings of RM188.33 million)		(2)28,168
Pro forma realised net income of MQREIT for the FYE 31 December 2015		82,189
Weighted average number of Units in issue ('000)	595,984	(3)1,071,359
Earnings per Unit (sen)	9.06	7.67

Notes:

- (1) Finance cost of RM9.03 million comprise interest cost of RM8.5 million relating to total borrowing of RM188.33 million, amortisation cost of RM260,000 and an annual recurring cost of RM200,000. The amortisation cost of RM260,000 is derived by amortising initial set up debt cost of RM1.3 million over a period of 5 years.
- (2) Assuming RM7.03 million of the Management Fees is paid in new Units, where the base fee and performance fee are paid quarterly and semi-annually respectively.
- (3) After taking into consideration the issuance of 406,666,667 Placement Units and approximately 3,311,000 Manager's Units (in which the issue prices of the Units were calculated based on the 5-day VWAMP of the Units for the relevant period in which the Management Fee accrues).

Based on the pro forma effects as at FYE 31 December 2015 illustrated above, the Proposed Placement and Proposed Authority will dilute the earnings per Unit, as a result of the increase in the number of Units in circulation and lower income contributed from the Property for the said financial year.

Nevertheless, MQREIT expects the Proposed Acquisition to contribute positively to its future earnings after the completion of the Proposed Acquisition taking into consideration the improved earnings from future rental increases from the Property.

The Manager intends to distribute at least 90.0% of the distributable income of MQREIT for each financial year. For the FYE 31 December 2015, the Manager declared and paid total distribution of RM50,919,471, representing approximately 94.3% of the total realised income after taxation or DPU of 8.47 sen. Excluding a one-off gain on divestment of properties of 0.09 sen per Unit, the normalised DPU for the FYE 31 December 2015 was 8.38 sen. The pro forma earnings per Unit after the Proposed Acquisition, Proposed Placement and Proposed Authority is expected to be 7.67 sen as set out in the table above. The lower pro forma DPU of 7.67 sen based on a 100% payout ratio as compared to the normalised DPU for the FYE 31 December 2015 of 8.38 sen is mainly due to the Property only achieving an occupancy rate of 99.9% in December 2015 from 74% in November 2015, resulting in lower income contribution for the year. Nevertheless, upon completion of the Proposed Acquisition, based on an occupancy rate of 99.9%, the Manager expects the DPU yield to increase moving forward due to, among others, future increase in net property income from expected rental reversions of current portfolio and the Property as well as payment of Management Fee in Manager's Units.

The Proposals are not expected to have any material effect on the above distribution policy as determined by the Board. The decision to declare and pay any distributable income in the future would depend on, among others, the financial performance, cash flow position, prevailing market conditions and future financing requirements of MQREIT.

Any issuance of new Units pursuant to the Proposed Placement and Proposed Authority will dilute the DPU, given the enlarged number of Units in circulation, the quantum of which would depend on the actual number of new Units to be issued which, in turn, would depend on the actual issue price. Nevertheless, the Manager expects the DPU yield to increase moving forward (to the normalised DPU for the FYE 31 December 2015 of 8.38 sen) due to, among others, the future increase in net property income from expected rental reversions of the current portfolio and the Property as well as payment of Management Fee in Manager's Units.

The Proposed Increase in Fund Size will not have any effect on the earnings and distributable income of MQREIT.

As the Manager expects to complete the Proposed Acquisition and Proposed Placement in the 4th quarter of 2016, and the Proposed Authority is expected to be implemented commencing from the FYE 31 December 2017, the Proposals are not expected to have a material effect on MQREIT's DPU for the FYE 31 December 2016.

6.4 NAV per Unit and gearing

The pro forma effects of the Proposed Acquisition and Proposed Placement on the NAV per Unit and gearing of MQREIT based on the audited statement of financial position of MQREIT as at 31 December 2015 and on the assumption that the Proposed Acquisition and Proposed Placement had been effected on that date are as follows:

	Audited as at 31 December 2015	After the Proposed Acquisition and Proposed Placement
	RM '000	RM '000
Unitholders' capital	751,276	1,210,443 ⁽¹⁾
Undistributed and non-distributable income	152,579	152,579
NAV	903,855	1,363,022
No. of Units in circulation ('000)	661,381	1,068,048
NAV per Unit (RM)		
- Before income distribution	1.37	1.28

	Audited as at 31 December 2015	After the Proposed Acquisition and Proposed Placement
	RM '000	RM '000
Total borrowings	689,722	876,737 ⁽³⁾
Total asset value	1,625,240	2,271,421 ⁽¹⁾⁽³⁾
Gearing (%) ⁽⁴⁾	42.4	38.6 ⁽⁵⁾

Notes:

- (1) Out of the total RM16.0 million estimated expenses for the Proposals, approximately RM8.5 million is in relation to the issuance of new Units which will be set-off against the Unitholders' capital, while the remaining RM7.5 million is in relation to the Proposed Acquisition which will be capitalised as part of the Property.
- (2) After the final income distribution of 4.37 sen per Unit which was paid in February 2016.
- (3) After deducting the upfront cost associated with the borrowings to be paid from cash and bank balances.
- (4) Gearing is calculated as total borrowings divided by total asset value.
- (5) The assumed gearing level was based on gross placement proceeds raised of RM467.7 million. If the gross placement proceeds had been RM427.0 million as announced on 30 June 2016, the resultant gearing level after the Proposals would have been 40.4%.

Any issuance of new Units pursuant to the Proposed Authority is expected to reduce the NAV per Unit, the extent of which would depend on the actual number of new Units to be issued which, in turn, would depend on the actual issue price. Further, any issuance of new Units pursuant to the Proposed Authority is not expected to have a material effect on the gearing.

The Proposed Increase in Fund Size will not have any effect on the NAV per Unit and gearing of MQREIT.

7. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:

- (i) the SC for the following:
 - (a) value of the Property;
 - (b) issuance of new Units pursuant to the Proposed Placement and Proposed Authority;
 - (c) listing of and quotation for the new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities;
 - (d) exemption from 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; and
 - (e) exemption from complying with Clauses 14.04(a)(i) and (ii) of the REIT Guidelines in relation to the Proposed Placement, the details of which are set out in Section 2.2.3 above.

The approval of the SC for items (i)(d) and (e) above was obtained via its letter dated 3 August 2016. The approval of the SC for items (i)(a) to (c) above was obtained via its letter dated 27 September 2016 and is subject to the following conditions:

Details of conditions imposed	Status of compliance
<p>(a) In relation to the Proposed Placement,</p> <ul style="list-style-type: none"> - 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 - the issuance and the 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 lapse if the Manager fails to do so within the stipulated timeframe. 	<p>To be complied.</p> <p>Noted.</p>
<p>(b) 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.</p>	<p>To be complied.</p>

- (ii) Bursa Securities for the listing of and quotation for the new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities;

The approval of Bursa Securities was obtained via its letter dated 21 November 2016 subject to the following conditions:

Details of conditions imposed	Status of compliance
<p>(a) MQREIT, CIMB, HLIB and Maybank IB must fully comply with the relevant provisions under the Main Market Listing Requirements of Bursa Securities pertaining to the implementation of the Proposals;</p>	<p>Noted.</p>
<p>(b) MQREIT, CIMB, HLIB and Maybank IB are to inform Bursa Securities upon the completion of the Proposals;</p>	<p>To be complied.</p>
<p>(c) MQREIT, CIMB, HLIB and Maybank IB are to furnish a certified true copy of the resolution passed by Unitholders at the Meeting for the Proposals; and</p>	<p>To be complied.</p>
<p>(d) MQREIT is to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals are completed.</p>	<p>To be complied.</p>

- (iii) the Unitholders at the forthcoming Meeting;

- (iv) the shareholders of MRCB at an extraordinary general meeting to be convened by MRCB for the disposal of the Property and the subscription of the Placement Units for an amount of no less than RM110,000,000 but up to RM152,000,000 in value;

- (v) Shell for the novation and transfer of all the rights, benefits, interests and obligations of 348 Sentral in the Lease Agreement to MQREIT; and
- (vi) any other relevant authorities or parties, if required.

Conditionality of the Proposals

The Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF, Proposed Authority and Proposed Increase in Fund Size are inter-conditional upon the respective approvals being obtained for each proposal.

Save as disclosed above, the Proposals are not conditional/inter-conditional upon any other corporate exercise/scheme.

8. IMPLICATION OF THE RULES ON TAKE-OVERS, MERGERS AND COMPULSORY ACQUISITIONS 2016

MRCB is a major Unitholder, directly holding 206,250,000 Units or approximately 31.2% of the total Units in circulation based on the Record of Depositors of MQREIT as at the LPD. EPF is a major shareholder of MRCB, but does not directly hold any Units as at the LPD. QLSB, QPSB and QESB collectively hold 117,040,000 Units or approximately 17.7% of the total Units in circulation of MQREIT as at the LPD. The collective unitholdings of MRCB, QLSB, QPSB and QESB is 48.9% prior to the Proposed Placement.

Assuming that MRCB subscribes for RM152,000,000 in value of Placement Units, EPF subscribes for 7% of the enlarged Units in circulation after the Proposed Placement and that QLSB, QPSB and QESB do not subscribe to the Proposed Placement, the direct unitholdings of MRCB, EPF, and QLSB, QPSB and QESB in MQREIT will be 31.7%, 7.0% and 11.0% respectively. Based on this, the collective unitholdings of MRCB, EPF, QLSB, QPSB and QESB will be 49.7%. As the net increase of the collective unitholdings of MRCB, EPF, QLSB, QPSB and QESB in MQREIT after the Proposed Placement is not expected to exceed 2%, the subscription by MRCB and EPF of the Placement Units is not expected to trigger a mandatory take-over offer in respect of the remaining Units not owned by MRCB, EPF and the Quill Group upon the completion of the Proposed Placement.

Based on the above assumptions, CIMB, HLIB and Maybank IB confirm that the Rules on Take-Overs, Mergers and Compulsory Acquisitions 2016 will not be triggered following the Proposed Acquisition and Proposed Placement.

9. INTERESTS OF THE DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS OF MQREIT AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the Directors and major shareholders of the Manager or major Unitholders and/or persons connected with them have any interest, direct or indirect in the Proposals:

9.1 Major Unitholders/major shareholders of the Manager

- (i) MRCB is a major Unitholder, directly holding 206,250,000 Units or approximately 31.2% of the total Units in circulation based on the Record of Depositors as at the LPD and a major shareholder of the Manager, holding 410,000 ordinary shares or approximately 41.0% of the issued and paid-up share capital of the Manager. MRCB is also the holding company of the Vendor and the party receiving the Placement Units under the Proposed Placement to MRCB. Therefore, MRCB is deemed interested in the Proposed Acquisition, Proposed Placement to MRCB and Proposed Authority.

Additionally, MRCB is also deemed to have an interest in the outcome of the Proposed Placement to EPF as EPF is a major shareholder of MRCB, directly holding 722,457,897 ordinary shares in MRCB or approximately 34.7% of the issued and paid-up share capital of MRCB as at the LPD and EPF is the party receiving the Placement Units under the Proposed Placement to EPF.

As the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF, Proposed Authority and Proposed Increase in Fund Size are inter-conditional with each other, MRCB is therefore deemed to have an interest in the outcome of the Proposals.

- (ii) EPF is a Unitholder via its Units held by one of its discretionary funds, which holds 2,995,900 Units or approximately 0.45% of the total Units in circulation based on the Record of Depositors as at the LPD. It also holds Units indirectly in MQREIT via MRCB as EPF is a major shareholder of MRCB, directly holding 722,457,897 ordinary shares in MRCB or approximately 34.7% of the issued and paid-up share capital of MRCB as at the LPD. EPF is also the party receiving the Placement Units under the Proposed Placement to EPF. As such, EPF is deemed interested in the Proposed Acquisition, Proposed Placement to MRCB, Proposed Placement to EPF and Proposed Authority.

As the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF, Proposed Authority and Proposed Increase in Fund Size are inter-conditional with each other, EPF is therefore deemed to have an interest in the outcome of the Proposals.

- (iii) QLSB, QPSB and QESB collectively hold approximately 117,040,000 Units or approximately 17.7% of the total Units in circulation based on the Record of Depositors as at the LPD. QRHSB is a major shareholder of the Manager as at the LPD, holding 390,000 ordinary shares or approximately 39.0% of the issued and paid-up share capital of the Manager. The Quill Group are jointly owned by Dato' Dr Low Moi Ing, J.P. and Dato' Michael Ong Leng Chun, who are also Directors of the Quill Group. As such, the Quill Group is deemed interested in the Proposed Authority. Further to the above, the Quill Group is also persons connected to MRCB. Hence, they are deemed interested in the Proposed Acquisition.

As the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF, Proposed Authority and Proposed Increase in Fund Size are inter-conditional with each other, the Quill Group is therefore deemed to have an interest in the outcome of the Proposals.

- (iv) GJSB is a major shareholder of the Manager as at the LPD and does not hold any Units. As a major shareholder of the Manager, it is deemed interested in the Proposed Authority.

As the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF, Proposed Authority and Proposed Increase in Fund Size are inter-conditional with each other, GJSB is therefore deemed to have an interest in the outcome of the Proposals.

- (v) The Manager does not currently hold any Units. In any event, if the Manager does eventually hold Units, the Manager will not vote on any of the Proposals as doing so is prohibited under Clause 15.48 of the REIT Guidelines which states that a management company must not exercise the voting rights for the units it or its nominees hold in any unitholders' meeting, regardless of the party who requested for the meeting and the matter or matters laid before the meeting.

The parties named above will abstain and have undertaken to ensure that persons connected with them will also abstain from voting in respect of their direct and/or indirect unitholdings in MQREIT on the respective resolutions pertaining to the Proposals to be tabled at the forthcoming Meeting.

9.2 Directors of the Manager

The Directors of the Manager who are related to MRCB, the Quill Group and GJSB, namely Tan Sri Saw Choo Boon, Dato' Dr Low Moi Ing, J.P., Dato' Michael Ong Leng Chun, Dato' Thanarajasingam Subramaniam, Ann Wan Tee and Kwan Joon Hoe are deemed to have an interest in the outcome of the Proposals. Ann Wan Tee and Kwan Joon Hoe are also Directors of the Vendor.

Accordingly, the Interested Directors have abstained and will continue to abstain from deliberating and voting on the Proposals at the relevant Board meetings, nor will they make recommendations on the Proposals. Dato' Dr Low Moi Ing, J.P. and Dato' Michael Ong Leng Chun will also abstain from voting in respect of their direct and/or indirect unitholdings in MQREIT on the respective resolutions pertaining to the Proposals to be tabled at the forthcoming Meeting. Further, the Interested Directors have also undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect unitholdings in MQREIT on the respective resolutions pertaining to the Proposals to be tabled at the forthcoming Meeting.

The number of Units held by the Interested Directors and interested major shareholders of the Manager, and interested major Unitholders in MQREIT based on the Record of Depositors as at the LPD are as follows:

	Direct		Indirect	
	No. of Units	%	No. of Units	%
<u>Interested Directors</u>				
Tan Sri Saw Choo Boon	-	-	-	-
Dato' Dr Low Moi Ing, J.P.	50,000	*	117,040,000 ⁽¹⁾	17.7
Dato' Michael Ong Leng Chun	55,000	*	117,040,000 ⁽¹⁾	17.7
Dato' Thanarajasingam Subramaniam	-	-	-	-
Ann Wan Tee	-	-	-	-
Kwan Joon Hoe	-	-	-	-
<u>Interested major shareholders of the Manager</u>				
MRCB	206,250,000	31.2	-	-
QRHSB	-	-	-	-
GJSB	-	-	-	-
<u>Interested major Unitholders</u>				
MRCB	206,250,000	31.2	-	-
EPF	-	-	209,245,900 ⁽²⁾	31.6
Gapurna	-	-	206,250,000 ⁽³⁾	31.2
Tan Sri Mohamad Salim Fateh Din	-	-	206,250,000 ⁽⁴⁾	31.2
QLSB	48,767,000	7.4	-	-
QPSB	45,997,000	6.9	-	-
QESB	22,276,000	3.4	-	-
Dato' Dr Low Moi Ing, J.P.	50,000	*	117,040,000 ⁽¹⁾	17.7
Dato' Michael Ong Leng Chun	55,000	*	117,040,000 ⁽¹⁾	17.7

Notes:

* Negligible, less than 0.01%.

(1) Deemed interested pursuant to Section 4 of the CMSA by virtue of his/her interest in QLSB, QPSB and QESB.

- (2) *Deemed interested pursuant to Section 4 of the CMSA by virtue of its interest in MRCB and Units held by one of its discretionary funds.*
- (3) *Deemed interested pursuant to Section 4 of the CMSA by virtue of its interest in MRCB.*
- (4) *Deemed interested pursuant to Section 4 of the CMSA by virtue of his interest in MRCB held through Gapurna.*

10. RELATED PARTY TRANSACTION

With reference to Section 9 above, the Proposed Acquisition is deemed a related party transaction under Clause 9.01 of the REIT Guidelines.

MQREIT had no other transactions with 348 Sentral in the 12 months preceding the LPD.

11. DIRECTORS' STATEMENT

The Board (save for the Interested Directors who have abstained from all deliberation on the Proposals), having considered all aspects of the Proposals (including but not limited to the rationale, prospects, effects, risk factors, salient terms of the SPA and the Purchase Consideration) is of the opinion that the Proposals are in the best interest of MQREIT.

Accordingly, the Board (save for the Interested Directors) recommends that you vote in favour of the proposed resolutions in relation to the Proposals to be tabled at the forthcoming Meeting.

12. AUDIT COMMITTEE'S STATEMENT

The Audit Committee (save for Dato' Dr. Low Moi Ing, J.P. and Ann Wan Tee who are deemed interested in the Proposals), after taking into consideration the Manager's investment objectives, and having considered all aspects of the Proposals, including but not limited to the rationale, prospects, effects, risk factors, salient terms of the SPA and the Purchase Consideration, is of the opinion that the Proposals are:

- (i) in the best interest of MQREIT;
- (ii) fair and reasonable and on normal commercial terms; and
- (iii) not detrimental to the interests of the non-interested Unitholders.

In arriving at the above view, the Audit Committee (save for Dato' Dr. Low Moi Ing, J.P. and Ann Wan Tee who are deemed interested in the Proposals) has taken into consideration, among others, the evaluation and recommendation by the Independent Adviser as contained in the IAL, as set out in Part B of this Circular, and has concurred with the views of the Independent Adviser.

13. INDEPENDENT ADVISER

In view that the Proposed Acquisition is deemed a related party transaction as set out in Section 10 above, AmlInvestment Bank has been appointed on 30 June 2016 to act as the Independent Adviser to undertake the following:

- (i) comment as to whether the Proposed Acquisition and Proposed Placement are:
 - (a) fair and reasonable so far as the Unitholders are concerned; and
 - (b) to the detriment of the non-interested Unitholders,

and set out the reasons for such opinion, the key assumptions made and the factors taken into consideration in forming that opinion;

- (ii) advise the non-interested Unitholders whether they should vote in favour of the Proposed Acquisition and Proposed Placement; and
- (iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (i) and (ii) above.

Please refer to the IAL as set out in Part B of this Circular. Unitholders are advised to read and consider carefully the contents of Part A of this Circular and the IAL as set out in Part B of this Circular before voting on the resolutions pertaining to the Proposals to be tabled at the forthcoming Meeting.

14. OTHER CORPORATE EXERCISE/SCHEME ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals and the proposed authority to allot and issue up to 18,619,000 new Units for the purpose of the payment of the Management Fee to the Manager in the form of Units as set out in the Circular to Unitholders dated 17 February 2015, there is no other corporate exercise/scheme which has been announced but pending completion as at the LPD.

15. HISTORICAL UNIT PRICES

The monthly highest and lowest prices of the Units traded on Bursa Securities for the past 12 months from November 2015 to October 2016 are as follows:

	High RM	Low RM
2015		
November	1.16	1.06
December	1.13	1.05
2016		
January	1.10	1.06
February	1.13	1.05
March	1.16	1.11
April	1.17	1.13
May	1.17	1.13
June	1.16	1.14
July	1.23	1.16
August	1.39	1.20
September	1.27	1.24
October	1.28	1.26
The last transacted price of the Units on the Last Trading Date		RM1.16
The last transacted price of the Units as at the LPD		RM1.28

(Source: Bloomberg)

16. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the tentative timetable in relation to the Proposals is as follows:

Event	Tentative date
Convening of the Meeting	7 December 2016
Announcement of the price-fixing date for the Placement Units	Mid December 2016
Allotment and issuance of the Placement Units	End December 2016
Listing of and quotation for the Placement Units on the Main Market of Bursa Securities	End December 2016
Fulfilment of the conditions precedent of the SPA	End December 2016
Completion of the Proposed Acquisition	End December 2016

The Proposed Authority is expected to be implemented commencing from the FYE 31 December 2017 up to 31 March 2020 or when all the 31,952,333 Manager's Units have been issued for the FYEs 31 December 2017 to 31 December 2019, whichever is earlier.

17. MEETING

The proposed resolutions in respect of the Proposals will be tabled at the Meeting to be held at Sime Darby Convention Centre, Ballroom 3, Level 1, No 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 7 December 2016 at 10.30 a.m. or at any adjournment thereof.

The Notice of Meeting, together with the Proxy Form, is enclosed in this Circular. If you are unable to attend the Meeting in person and wish to appoint other person(s) to be your proxy, please complete, sign and return the enclosed Proxy Form to the Registered Office of the Manager at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur, so as to arrive not less than 48 hours before the time appointed for holding of the Meeting or at any adjournment thereof.

The completion and return of the Proxy Form will not preclude you from attending and voting at the Meeting in person should you subsequently wish to do so. The Proxy Form should be completed strictly in accordance with the instructions contained therein.

18. FURTHER INFORMATION

You are requested to refer to the appendices for further information.

Yours faithfully
for and on behalf of the Board
MRCB QUILL MANAGEMENT SDN BHD
(as Manager of MRCB-Quill REIT)

Dr. Roslan A. Ghaffar
Independent Non-Executive Director

PART B

**INDEPENDENT ADVICE LETTER FROM AMINVESTMENT BANK BERHAD TO THE NON-
INTERESTED UNITHOLDERS IN RELATION TO THE PROPOSED ACQUISITION AND
PROPOSED PLACEMENT**

EXECUTIVE SUMMARY

All definitions used in this Executive Summary shall have the same meaning as the words and expressions provided in the “Definitions” section of the Circular, except where the context otherwise requires or where otherwise defined in this IAL. All references to “we”, “us” or “our” are to AmlInvestment Bank, being the Independent Adviser for the Proposed Acquisition. All references to “you” are to the Non-Interested Unitholders.

This Executive Summary is intended to provide you with a brief summary of this IAL on our independent evaluation of the Proposed Acquisition and Proposed Placement and to express our recommendation thereon.

1. INTRODUCTION

On 3 December 2015, the Manager announced that the Trustee had on even date entered into the HOA with the Vendor for the Proposed Acquisition.

On 3 March 2016, the Manager announced that the parties to the HOA had, via an extension letter, mutually agreed to extend the cut-off date for the execution of the SPA to 15 April 2016. On 12 April 2016, the parties, via a second extension letter, agreed to further extend the said cut-off date to 30 May 2016 to ensure 348 Sentral is able to submit the application for the Certificate of Proposed Strata Plan to sub-divide the development consisting of the Property and another building, both of which are erected on a parcel of land held under a master title of Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia to the relevant authorities within the stipulated timeline as required by the Strata Titles Act 1985 upon signing of the SPA. The cut-off date would be automatically extended further by 30 business days if 348 Sentral was unable to submit the application for Certificate of Proposed Strata Plan by 30 May 2016, thereby further extending the cut-off date to 14 July 2016.

On 30 June 2016, CIMB, HLIB and Maybank IB had on behalf of the Board, announced that the Trustee had on even date entered into the SPA with the Vendor for the Proposed Acquisition as well as the Proposed Placement.

In view of the interests of certain interested parties as set out in Section 8, Part A of the Circular, the Proposed Acquisition is deemed to be a related party transaction pursuant to Chapter 9 of the REIT Guidelines. Accordingly, AmlInvestment Bank had been appointed on 30 June 2016 to act as the Independent Adviser in relation to the Proposed Acquisition.

2. EVALUATION OF THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

(i) Rationale for and benefits of the Proposed Acquisition

The Proposed Acquisition is in line with the investment objective of MQREIT to provide a long term and sustainable distribution of income to the Unitholders and to achieve long term growth in the NAV per Unit. It would augur well for MQREIT to undertake the Proposed Acquisition as the Property is expected to contribute positively to the future earnings and distributable income of MQREIT which would in turn enhance the prospective NAV per Unit and DPU yield. Although the DPU yield is expected to be diluted following the issuance of the Placement Units, such dilution impact can be mitigated by (i) future increase in net income from the Property, as supported by high occupancy rate of the Property of 99.9% and the provisions in the Property's existing tenancies for future potential upward rental revisions; (ii) payment of a portion of the Management Fee in new Units to conserve cash for distribution to the Unitholders; and/or (iii) varying its payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

Further, the Proposed Acquisition will also strengthen MQREIT's position as a sizeable, geographically well-diversified office REIT in the Klang Valley as well as among the listed REITs in Malaysia in terms of total asset size and market capitalisation, which will enable MQREIT to enjoy greater operating efficiency, enhance its competitive positioning and improve the trading liquidity of the Units.

The Property is also expected to fit well into MQREIT's clientele requirements, enhance its portfolio profile and contribute positively to the performance of MQREIT in view of the Property's high occupancy rate, strategic location, green building features and MSC Malaysia Status as well as high quality tenancy mix profile. The addition of the Property would also allow MQREIT to increase its footprint in Kuala Lumpur locations, which is highly sought after by corporate tenants.

Premised on the above, we are of the view that there is sufficient merit to the rationale for and benefits of the Proposed Acquisition and it is reasonable and not detrimental to the interest of the Non-Interested Unitholders.

Please refer to **Section 6.1** of this IAL for further details.

(ii) Rationale for and benefits of the Proposed Placement

The Proposed Placement represents a more expeditious manner to raise funds for the Proposed Acquisition as the Proposed Placement can be implemented immediately post obtaining Unitholders' approval. Additionally, the level of discount accorded for a private placement is typically not as steep as a rights issue, which will result in lesser number of Units issued in order to raise the same amount of gross proceeds.

Further, the Proposed Placement will reduce MQREIT's current borrowings from 42.4% to 38.6% and hence provide headroom for future cash acquisitions, in line with the MQREIT's growth strategy. The Proposed Placement to MRCB will also provide no less than RM110 million to RM152 million, representing up to approximately 33% of the total equity proceeds raised. This amount may potentially be higher in the event EPF participates in the Proposed Placement. Given the speed at which the Proposed Placement can be implemented, the resultant lower gearing and the commitment from a major Unitholder, the Proposed Placement is expected to augur well for MQREIT.

(iii) Evaluation of the Purchase Consideration

The Purchase Consideration was arrived at based on the market value of the Property of RM640,000,000 as appraised by the Valuer. The Valuer has adopted the Investment Method as the principal valuation methodology to arrive at the market value of the Property in view that it is an income generating property, whilst the Comparison Method was used to cross check against the market value of the Property derived from the Investment Method.

Premised on the foregoing, we are of the opinion that the Purchase Consideration is fair and not detrimental to the interest of the Non-Interested Unitholders.

(iv) Settlement of consideration

The Total Cash Outlay (as defined herein) will be satisfied wholly in cash through a combination of proceeds from the Proposed Placement and borrowings, the breakdown of which has yet to be determined and will be dependent upon, amongst others, the actual size and issue price of the Placement Units.

Nonetheless, the Indicative Financing Proportion (as defined herein) to finance the Total Cash Outlay is reasonable in view that it strikes a balance between equity and debt financing and MQREIT is able to maintain a manageable gearing position with a healthy debt headroom before reaching the Gearing Limit (as defined herein).

However, the Non-Interested Unitholders should note that in the event the proceeds raised from the Proposed Placement is less than RM467.7 million, such shortfall will be funded via borrowings, which would increase the gearing of MQREIT. Nonetheless, it is the intention of MQREIT that an underwriting arrangement for the Proposed Placement in respect of the remaining amount (excluding the Proposed Placement to MRCB) to be executed on the day of the bookbuilding exercise. The said underwriting arrangement will be subject to terms and conditions to be agreed upon between the Manager and the Joint Placement Agents.

(v) Issue price of the Placement Units

Based on the Illustrative Issue Prices of RM1.05 to RM1.20, the DPU, P/E Multiple and P/NAV Multiple of MQREIT are comparable to MQREIT Peers (as defined herein). Notwithstanding that MQREIT's DPU yield is below the MQREIT Peers for the Issue Price range of RM1.05 to RM1.15, it should be noted that the market price of the Units post entering into the SPA on 30 June 2016 had not traded below RM1.15 and the 5-day VWAMP of the Units up to and including the LPD is RM1.2764. Additionally, the DPU yield may also improve in the event of future increase net income from the Property arising from future potential upward rental revisions, a portion of the Management Fee may potentially be paid in new Units pursuant to the Proposed Authority and the Manager may consider varying the payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

The final impact will still be dependent on the final Issue Price and hence the final financing proportions of the proceeds from the Proposed Placement and borrowings. However, based on the current price of the Units, based on the 5-day VWAMP up to and including the LPD, which is higher at approximately RM1.2764, the illustrative P/E Multiple and P/NAV Multiple will be lower and the illustrative DPU and DPU yield will be higher.

Please refer to **Section 6.2** of this IAL for further details.

(vi) Salient terms of the SPA

Based on our review of the salient terms of the SPA, the terms and conditions of the SPA are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

Please refer to **Section 6.3** of this IAL for further details.

(vii) Effects of the Proposed Acquisition and Proposed Placement

The number of Units in circulation would increase from 661.4 million Units as at the LPD to up to 1,068.0 million Units after the Proposed Placement. Following the completion of the Proposed Placement, MRCB will remain as the single largest Unitholder and EPF may emerge as a substantial Unitholder. The ROA of the Property amounts to 5.27%, whilst the ROA of MQREIT amounts to 5.55% as at 31 December 2015. Nevertheless, the ROA of the Property is expected to improve as the Property has now achieved occupancy rate of 99.9% as at the LPD and there are provisions in the Property's existing tenancies for future potential upward rental revisions. Hence, the Proposed Acquisition is expected to contribute positively to the future earnings of MQREIT.

Assuming that the Proposed Acquisition and Proposed Placement were effected on 1 January 2015, the pro forma NPI yield will be lower post-Proposed Acquisition and Proposed Placement, from 5.55% as at 31 December 2015 to 5.48%. Nevertheless, the NPI and NPI yield of the Property is expected to improve as the Property has now achieved occupancy rate of 99.9% as at the LPD and there are provisions in the Property's existing tenancies for future potential upward rental revisions.

The issuance of new Units pursuant to the Proposed Placement and Proposed Authority will dilute the EPU as well as DPU, given the enlarged number of Units in circulation, the quantum of which would depend on the actual number of new Units to be issued which, in turn, would depend on the issue price of the new Units and the final proportion of the Purchase Consideration to be financed by equity.

Nevertheless, the Manager intends to continue to distribute at least 90% of the distributable income of MQREIT for each financial year and the Proposals are still expected to be DPU yield accretive for Unitholders after taking into consideration the future increase in net property income from the Property and the additional cash conserved for distribution to the Unitholders via the issuance of Manager's Units to the Manager as payment of Management Fee and/or variation of its payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

The pro forma NAV per Unit before income distribution as at 31 December 2015 is expected to decrease from RM1.37 per Unit to a range of between RM1.23 and RM1.30 per Unit assuming the Proposed Acquisition and Proposed Placement were effected on 31 December 2015, whilst the gearing of MQREIT is expected to decrease from 42.4% to 38.6%, assuming gross proceeds of RM467.7 million is raised from the Proposed Placement.

Premised on the above, we are of the opinion that the effects of the Proposed Acquisition and Proposed Placement are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

Please refer to **Section 6.4** of this IAL for further details.

(viii) Industry overview and future prospects

The outlook of the Malaysian economy is expected to remain positive as supported by a sustained growth in domestic demand, particularly private consumption and private investment expenditures.

On the other hand, the prospects of the office and retail property in Klang Valley are expected to remain resilient underpinned by the stable demand for office spaces as supported by local as well as foreign demand, primarily by the services sector, due to the weakening of RM. Although the market prices and rentals of office buildings are anticipated to remain stagnant, better quality office spaces are expected to stand out, fetching slightly higher premiums as compared to current rental levels.

Further, the prospects of the Property are favourable in view of its prime location in Kuala Lumpur Sentral coupled with excellent connectivity as well as its green building features and MSC Malaysia Status. In addition, the Property has a high occupancy rate of approximately 99.9%, with its anchor tenant (i.e. Shell) having long remaining Lease period of about 12 years, occupying a total of 17 floors out of the Property's 33-storey office tower, pursuant to the Lease Agreements.

Please refer to **Section 6.5** of this IAL for further details.

(ix) Risk factors relating to the Proposed Acquisition and Proposed Placement

Non-Interested Unitholders should also consider the risk that the final Issue Price of the Proposed Placement has yet to be determined. The final Issue Price is still uncertain at this juncture and hence, the actual impact of the Proposed Acquisition and Proposed Placement to the yield and financials of MQREIT cannot be determined. Depending on the level of discount and hence the final Issue Price, the lower the Issue Price, the more dilutive the DPU and hence impacting on the overall DPU yield of MQREIT.

The Proposed Acquisition should not materially expose MQREIT to any new categories of risks which are not within its current risk profile and the Board will take necessary measures to mitigate the risks associated with the Proposed Acquisition and Proposed Placement.

Non-Interested Unitholders should note that the risk factors mentioned above are not meant to be exhaustive. We wish to highlight that while efforts and measure would be taken by the Board to mitigate the risks relating to the Proposed Acquisition and Proposed Placement, no assurance can be given that one or combination of the risk factors will not occur and give rise to material and adverse impact on the business and operations, competitiveness, financial performance, financial position or prospects of MQREIT thereon.

Please refer to **Section 6.6** of this IAL for further details.

(x) Other considerations of the Proposed Placement

In view of the interest of MRCB in the Proposed Acquisition, MRCB will not have any influence on the manner in which the book builds for the Proposed Placement and the determination of the Issue Price of the Placement Units. MRCB, as a price-taker, shall accept the final price for its Placement Units, being the issue price to be determined after the bookbuilding exercise is closed. In addition, the Proposed Placement to MRCB demonstrates MRCB's support and confidence to MQREIT's future prospects as well as reaffirming its commitment to MQREIT.

Although EPF is deemed as a person connected with MRCB pursuant to the Proposed Acquisition, we are of the view that the Proposed Placement to EPF is not detrimental to the interest of the Non-Interested Unitholders in view of the following:

- (a) although EPF is a major shareholder of MRCB, it is not involved in the day-to-day operations of the MRCB Group;
- (b) the Proposed Placement is undertaken via a bookbuilding process wherein investors will be invited to bid for the Placement Units at various prices and the final outcome of the book will be determined by taking into consideration the actual bid size and the corresponding bid price for the Placement Units from each investor who will be participating in the bookbuilding exercise. Accordingly, there is no assurance that EPF will be allocated with the Placement Units; and
- (c) EPF, as a social security organisation, would need to act in the best interest of its members in respect of the Proposed Placement to EPF and submit a bid in the bookbuilding exercise at a price which is not detrimental to the interest of its members.

In addition, depending on the result of the bookbuilding exercise, EPF may potentially emerge as a direct Unitholder with a substantial unitholding in MQREIT. This would augur well for MQREIT by having a reputable institutional investor as its direct Unitholder with a substantial unitholding.

Please refer to **Section 6.7** of this IAL for further details.

3. CONCLUSION AND RECOMMENDATION

Based on our evaluation and analysis of the Proposed Acquisition and Proposed Placement as a whole as set out in this IAL, we are of the opinion that the Proposed Acquisition and Proposed Placement are **fair and reasonable** and **not detrimental** to the interest of the Non-Interested Unitholders.

Accordingly, we recommend that you vote in favour of the ordinary resolutions pertaining to the Proposed Acquisition and Proposed Placement to be tabled at the forthcoming Meeting.

YOU ARE ADVISED TO READ BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES ENCLOSED THEREON THOROUGHLY FOR MORE INFORMATION AND NOT TO RELY SOLELY ON THIS EXECUTIVE SUMMARY BEFORE FORMING AN OPINION ON THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT.

YOU ARE ADVISED TO CONSIDER THE RECOMMENDATIONS CONTAINED HEREIN CAREFULLY BEFORE VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT AT THE FORTHCOMING MEETING.

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AmInvestment Bank

Your Bank. Malaysia's Bank. AmInvestment Bank.

Registered Office:
22nd Floor
Bangunan AmBank Group
55, Jalan Raja Chulan
50200 Kuala Lumpur

22 November 2016

To: The Non-Interested Unitholders of MRCB-Quill REIT

Dear Sir / Madam,

INDEPENDENT ADVICE LETTER FROM AMINVESTMENT BANK BERHAD TO THE NON-INTERESTED UNITHOLDERS OF MRCB-QUILL REIT ("MQREIT") IN RELATION TO THE PROPOSED ACQUISITION OF A 33-STOREY OFFICE TOWER KNOWN AS MENARA SHELL TOGETHER WITH A FIVE (5)-STOREY PODIUM AND A FOUR (4)-STOREY BASEMENT CAR PARK BY MAYBANK TRUSTEES BERHAD, ACTING SOLELY IN THE CAPACITY AS TRUSTEE FOR AND ON BEHALF OF MQREIT, FOR A PURCHASE CONSIDERATION OF RM640,000,000 TO BE SATISFIED ENTIRELY IN CASH ("PROPOSED ACQUISITION")

This Independent Advice Letter ("IAL") is prepared for inclusion in the circular to the unitholders of MQREIT dated 22 November 2016 in relation to, amongst others, the Proposed Acquisition and Proposed Placement ("Circular") and should be read in conjunction with the same. All definitions used in this IAL shall have the same meaning as the words and expressions provided in the "Definitions" section of the Circular, except where the context otherwise requires or where otherwise defined herein.

1. INTRODUCTION

On 3 December 2015, the Manager announced that the Trustee had on even date entered into the HOA with the Vendor for the Proposed Acquisition.

On 3 March 2016, the Manager announced that the parties to the HOA had, via an extension letter, mutually agreed to extend the cut-off date for the execution of the SPA to 15 April 2016. On 12 April 2016, the parties, via a second extension letter, agreed to further extend the said cut-off date to 30 May 2016 to ensure 348 Sentral is able to submit the application for the Certificate of Proposed Strata Plan to sub-divide the development consisting of the Property and another building, both of which are erected on a parcel of land held under a master title of Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia to the relevant authorities within the stipulated timeline as required by the Strata Titles Act 1985 upon signing of the SPA. The cut-off date would be automatically extended further by 30 business days if 348 Sentral was unable to submit the application for Certificate of Proposed Strata Plan by 30 May 2016, thereby further extending the cut-off date to 14 July 2016.

AmInvestment Bank Berhad (23742-V)

A member of the AmBank Group

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On 30 June 2016, CIMB, HLIB and Maybank IB had on behalf of the Board, announced that the Trustee had on even date entered into the SPA with the Vendor for the Proposed Acquisition (“**Announcement**”). In conjunction with the Proposed Acquisition, the Board also proposed to undertake the following:

- (i) Proposed Placement (which includes the Proposed Placement to MRCB and Proposed Placement to EPF) to partially fund the Proposed Acquisition and the expenses relating to the Proposals;
- (ii) Proposed Authority to provide the Board with the flexibility in allotting and issuing Manager’s Units to the Manager as payment of Management Fee; and
- (iii) Proposed Increase in Fund Size to accommodate the issuance of the Placement Units and Manager’s Units pursuant to the Proposed Placement and Proposed Authority respectively.

In view of the interests of certain interested parties as set out in Section 8, Part A of the Circular, the Proposed Acquisition is deemed to be a related party transaction pursuant to Chapter 9 of the REIT Guidelines. Accordingly, AmInvestment Bank had been appointed on 30 June 2016 to act as the Independent Adviser in relation to the Proposed Acquisition.

The purpose of this IAL is to provide the non-interested Unitholders (“**Non-Interested Unitholders**”) with an independent evaluation of the Proposed Acquisition and Proposed Placement as a whole, together with the recommendations contained herein, subject to the scope and limitations set out herein. Whilst you are relying on our evaluation and recommendations, you should nonetheless exercise your own due care and diligence before making a decision on the course of action to be taken.

THIS IAL IS PREPARED SOLELY FOR THE USE OF THE NON-INTERESTED UNITHOLDERS FOR THE PURPOSE OF CONSIDERING THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT AND SHOULD NOT BE USED OR RELIED UPON BY ANY OTHER PARTY.

YOU ARE ADVISED TO READ BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES ENCLOSED THEREON THOROUGHLY, AND TO CONSIDER CAREFULLY OUR EVALUATION AND RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT AT THE FORTHCOMING MEETING.

IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. DETAILS OF THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

The Proposed Acquisition entails the acquisition by the Trustee of the Property and all such plant and equipment, fixtures and fittings attached to the Property (excluding fixtures and fittings belonging to the existing tenants/lessees and third parties, including those with whom the existing tenants/lessees have entered into hire purchase and/or leasing agreement in respect of such fixtures and fittings) free from all encumbrances with legal possession and subject to the existing tenancies/leases for those parts of the Property that are tenanted and vacant possession for those parts of the Property that are untenanted, for the Purchase Consideration.

The Purchase Consideration shall be satisfied entirely in cash and is intended to be funded via proceeds from the Proposed Placement, which includes the Proposed Placement to MRCB and Proposed Placement to EPF, and borrowings. Further details of the Proposed Acquisition and Proposed Placement are set out in Sections 2.1 and 2.2, Part A of the Circular respectively which should be read in its entirety by the Non-Interested Unitholders.

3. INTERESTS OF THE DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS AND/OR PERSONS CONNECTED WITH THEM IN THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

Save as disclosed below, none of the Directors and major shareholders of the Manager or major Unitholders as well as persons connected with them has any interest, direct or indirect, in the Proposed Acquisition and Proposed Placement:

- (i) MRCB is a major Unitholder, directly holding 206,250,000 Units or approximately 31.2% of the total Units in circulation based on the Record of Depositors (“**ROD**”) as at the LPD and a major shareholder of the Manager, holding 410,000 ordinary shares or approximately 41.0% of the issued and paid-up share capital of the Manager. MRCB is also the holding company of the Vendor and the party receiving the Placement Units under the Proposed Placement to MRCB. Additionally, MRCB is also deemed to have an interest in the outcome of the Proposed Placement to EPF as EPF is a major shareholder of MRCB, directly holding 722,457,897 ordinary shares in MRCB or approximately 34.7% of the issued and paid-up share capital of MRCB as at the LPD and EPF is the party receiving the Placement Units under the Proposed Placement to EPF. The Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF are inter-conditional with each other. In view of this, MRCB is deemed interested in the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF;
- (ii) EPF is a Unitholder via its Units held by one of its discretionary funds, which holds 2,995,900 Units or approximately 0.45% of the total Units in circulation based on the ROD as at the LPD. It also holds Units indirectly in MQREIT via MRCB as EPF is a major shareholder of MRCB, directly holding 722,457,897 ordinary shares or approximately 34.7% of the issued and paid-up share capital of MRCB as at the LPD. EPF is also the party receiving the Placement Units under the Proposed Placement to EPF. The Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB, Proposed Placement to EPF are inter-conditional with each other. As such, EPF, being a person connected to MRCB, is deemed interested in the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF;
- (iii) QLSB, QPSB and QESB collectively hold approximately 117,040,000 Units or approximately 17.7% of the total Units in circulation based on the ROD as at the LPD. QRHSB is a major shareholder of the Manager as at the LPD, holding 390,000 ordinary shares or approximately 39.0% of the issued and paid-up share capital of the Manager. The Quill Group is jointly owned by Dato’ Dr Low Moi Ing, J.P. and Dato’ Michael Ong Leng Chun, who are also Directors of the Quill Group. As the Quill Group is persons connected to MRCB and in view of the conditionality of the Proposals, they are deemed interested in the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF; and
- (iv) GJSB is a major shareholder of the Manager as at the LPD and does not hold any Units. As a major shareholder of the Manager, it is deemed interested in the Proposed Authority. In view of the conditionality of the Proposals, GJSB is deemed interested in the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF.

In view of the above, the interested major Unitholder, namely MRCB (“**Interested Major Unitholder**”) and the interested major shareholders of the Manager, namely MRCB, QRHSB and GJSB (collectively, the “**Interested Major Shareholders of the Manager**”) will abstain and have undertaken to ensure that persons connected with them, including but not limited to the EPF and the Quill Group, will also abstain from voting in respect of their direct and/or indirect unitholdings in MQREIT on the ordinary resolutions pertaining to the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF to be tabled at the forthcoming Meeting.

In addition, the Directors of the Manager who are related to MRCB, the Quill Group and GJSB, namely Tan Sri Saw Choo Boon, Dato' Dr Low Moi Ing, J.P., Dato' Michael Ong Leng Chun, Dato' Thanarajasingam Subramaniam, Ann Wan Tee and Kwan Joon Hoe are deemed to have an interest in the outcome of the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF. Ann Wan Tee and Kwan Joon Hoe are also Directors of the Vendor. Accordingly, the Interested Directors have abstained and will continue to abstain from deliberating and voting on the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF at the relevant Board meetings, nor will they make recommendation on the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF. Dato' Dr Low Moi Ing, J.P. and Dato' Michael Ong Leng Chun will also abstain from voting in respect of their direct and/or indirect unitholdings in MQREIT on the ordinary resolutions pertaining to the Proposed Acquisition Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF to be tabled at the forthcoming Meeting. Further, the Interested Directors have also undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect unitholdings in MQREIT on the ordinary resolutions pertaining to the Proposed Acquisition, Proposed Placement, Proposed Placement to MRCB and Proposed Placement to EPF to be tabled at the forthcoming Meeting.

The unitholdings of the Interested Major Unitholder, the Interested Major Shareholders of the Manager and the Interested Directors as well as persons connected with them based on the ROD as at the LPD are as follows:

	Direct		Indirect	
	No. of Units	%	No. of Units	%
<u>Interested Major Unitholder and persons connected</u>				
MRCB	206,250,000	31.2	-	-
EPF	-	-	209,245,900 ⁽¹⁾	31.6
Gapurna	-	-	206,250,000 ⁽²⁾	31.2
Tan Sri Mohamad Salim Fateh Din	-	-	206,250,000 ⁽³⁾	31.2
QLSB	48,767,000	7.4	-	-
QPSB	45,997,000	6.9	-	-
QESB	22,276,000	3.4	-	-
Dato' Dr Low Moi Ing, J.P.	50,000	*	117,040,000 ⁽⁴⁾	17.7
Dato' Michael Ong Leng Chun	55,000	*	117,040,000 ⁽⁴⁾	17.7
<u>Interested Major Shareholders of the Manager</u>				
MRCB	206,250,000	31.2	-	-
QRHSB	-	-	-	-
GJSB	-	-	-	-
<u>Interested Directors</u>				
Tan Sri Saw Choo Boon	-	-	-	-
Dato' Dr Low Moi Ing, J.P.	50,000	*	117,040,000 ⁽⁴⁾	17.7
Dato' Michael Ong Leng Chun	55,000	*	117,040,000 ⁽⁴⁾	17.7
Dato' Thanarajasingam Subramaniam	-	-	-	-
Ann Wan Tee	-	-	-	-
Kwan Joon Hoe	-	-	-	-

Notes:

* *Negligible, being less than 0.01%.*

- (1) *Deemed interested pursuant to Section 4 of the CMSA by virtue of its interests in MRCB and Units held by one of its discretionary funds.*
- (2) *Deemed interested pursuant to Section 4 of the CMSA by virtue of its interest in MRCB.*
- (3) *Deemed interested pursuant to Section 4 of the CMSA by virtue of his interest in MRCB held through Gapurna.*
- (4) *Deemed interested pursuant to Section 4 of the CMSA by virtue of his/her interests in QLSB, QPSB and QESB.*

4. SCOPE, LIMITATIONS AND ASSUMPTIONS TO THE EVALUATION AND OPINION

AmlInvestment Bank was not involved in the formulation of or any of the deliberations and negotiations on the terms and conditions of the Proposed Acquisition, the Proposed Placement and the SPA. In performing our evaluation, we have relied on the following:

- (i) the SPA;
- (ii) information contained in Part A of the Circular and the accompanying appendices in the Circular;
- (iii) information contained in the Valuation Report and the valuation certificate prepared by the Valuer dated 20 June 2016 in relation to the Property;
- (iv) other relevant information, documents, confirmation and/or representations provided by the Board and the Manager, or obtained in or derived from the discussions with the Manager; and
- (v) other publicly available information as we deemed relevant.

We have relied on the accuracy of the information and documents furnished to us by the Board and the Manager and have not independently verified such information and documents for their validity, reliability, accuracy and/or completeness.

The Board and the Manager had confirmed that they had read this IAL and collectively and individually accept full responsibility for the accuracy of the information on MQREIT, the Property, the Proposed Acquisition and Proposed Placement as disclosed in this IAL and/or documents provided to us, which are essential to our evaluation, and confirm that after making all reasonable enquiries, and to the best of their knowledge and belief, there is no omission of any material fact which would make any information and statement disclosed to us incomplete, inaccurate, false or misleading.

It is not within our terms of reference to express any opinion on the commercial benefits of the Proposed Acquisition and Proposed Placement and this remains the responsibility of the Board and Manager. In preparing this IAL, we have considered various factors which we believe are important in enabling us to form an opinion on the fairness and reasonableness of the Proposed Acquisition and Proposed Placement so far as the Non-Interested Unitholders are concerned, and whether it is to the detriment of the Non-Interested Unitholders. We are not in possession of information relating to, and have not given any consideration to, separate specific investment objectives, financial situations and particular needs of any individual Unitholder or any specific group of Unitholders.

The scope of AmlInvestment Bank's responsibility with regard to its evaluation and recommendation is based on the considerations set out in the ensuing sections of this IAL, and where comments or points of consideration are included on matters which may be commercially oriented, these are incidental to our overall evaluation and concern matters which we may deem material for disclosure.

We shall not be liable for any damage or loss of any kind sustained or suffered by any individual Unitholder or group of Unitholders in reliance on the opinion stated herein for any purpose whatsoever which is particular to such Unitholder or group of Unitholders.

Our opinions as set out in this IAL are, amongst others, based on prevailing market, economic, industry and other conditions (if applicable), and the information and/or documents made available to us as of 2 November 2016, being the LPD. Such conditions may change significantly over a short period of time. It should be noted that our evaluation and opinions expressed in this IAL may not take into account the information, events or conditions arising after the LPD or such other period as specified herein, as the case may be.

5. DECLARATION OF CONFLICT OF INTEREST AND OUR CREDENTIALS, EXPERIENCE AND EXPERTISE

5.1 CONFLICT OF INTEREST

AmInvestment Bank and/or its related and associated companies ("**AmBank Group**") form a diversified financial group and are engaged in a wide range of transactions relating to amongst others, investment banking, commercial banking, private banking, brokerage, securities trading, asset and funds management and credit transaction services businesses. AmBank Group's securities business is primarily in the areas of securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of the AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of MQREIT.

As at the LPD, the AmBank Group did not extend any credit facilities to MQREIT and/or the Manager. However, the AmBank Group has in the ordinary course of its banking businesses, extended credit facilities to MRCB and its group of companies ("**MRCB Group**"). The aforementioned credit facilities represent approximately 1.6% of the total borrowings of the MRCB Group as at 31 March 2016 and approximately 0.3% of the latest audited shareholders' funds of the AmBank Group as at 31 March 2016. We are of the view that the aforementioned extension of credit facilities does not result in any conflict of interest situations in respect of our capacity as the Independent Adviser for the Proposed Acquisition as the aforementioned credit facilities have been extended by the AmBank Group in the ordinary course of its banking business, and the terms and conditions of such credit facilities are offered on an arm's length basis.

Save for the Proposed Acquisition, which is the subject matter of the Circular, we have not advised MQREIT in the capacity of principal adviser or independent adviser for any corporate exercise within the past two (2) years preceding the LPD.

Premised on the above, we confirm that no conflict of interest situation exists or likely to exist in relation to our role as the Independent Adviser to MQREIT in respect of the Proposed Acquisition.

5.2 CREDENTIALS, EXPERIENCE AND EXPERTISE

AmInvestment Bank is an approved corporate finance adviser within the meaning of the Principal Adviser Guidelines issued by the SC. We provide a range of advisory services including, amongst others, mergers and acquisitions, take-overs/general offers, restructuring, equity fund raisings, asset and investment valuations as well as initial public offerings.

The credentials and experience of AmlInvestment Bank as an independent adviser in the past two (2) years prior to the date of the SPA include, amongst others, the following:

- (i) acquisition by MISC Berhad of the remaining 50% equity interest in Gumusut-Kakap Semi-Floating Production System (L) Limited from E&P Venture Solutions Co Sdn Bhd, a wholly-owned subsidiary of PETRONAS Carigali Sdn Bhd, for a cash consideration of USD445.0 million (approximately RM1,849.0 million), which was announced on 24 February 2016;
- (ii) selective capital reduction and repayment exercise of Kulim (Malaysia) Berhad pursuant to Section 64 of the Act, which was announced on 18 November 2015;
- (iii) unconditional mandatory take-over offer by OSK Holdings Berhad ("**OSK Holdings**") through RHB Investment Bank Berhad to acquire all the remaining ordinary shares of RM1.00 each in OSK Property Holdings Berhad ("**OSK Property**") ("**OSK Property Shares**") not already held by OSK Holdings and such number of new OSK Property Shares that may be issued prior to the close of offer arising from the exercise of the outstanding five (5)-year warrants 2012/2017 issued by OSK Property ("**OSK Property Warrants**") as well as all the OSK Property Warrants, which was announced on 20 July 2015;
- (iv) unconditional mandatory take-over offer by Dayang Enterprise Holdings Bhd ("**Dayang**") through Maybank IB to acquire all the remaining ordinary shares of RM0.50 each in Perdana Petroleum Berhad ("**PPB**") ("**PPB Shares**") not already owned by Dayang and such number of new PPB Shares that may be issued pursuant to the exercise of any outstanding 5-year warrants 2010/2015 issued by PPB ("**PPB Warrants**") prior to the close of offer and all the remaining PPB Warrants not already owned by Dayang, which was announced on 2 July 2015;
- (v) reverse take-over of Symphony House Berhad ("**Symphony House**") by Ranhill Holdings Berhad ("**Ranhill Holdings**"), disposal by Ranhill Holdings of its entire equity interest in Symphony House to Stone Equity Sdn Bhd through a management buy-out, granting of a call option by Ranhill Group Sdn Bhd to Ranhill Holdings for Ranhill Holdings to purchase its 51% equity interest in Ranhill WorleyParsons Sdn Bhd as well as the transfer of listing status of Symphony House to Ranhill Holdings and the admission of Ranhill Holdings to the Official List of Bursa Securities, which was announced on 20 June 2014; and
- (vi) selective capital reduction and repayment exercise of Malaysian Airline System Berhad pursuant to Sections 60 and 64 of the Act, which was announced on 8 August 2014.

Premised on the foregoing, AmlInvestment Bank is capable, competent and have the relevant experience in carrying out our role and responsibilities as the Independent Adviser to advise the Non-Interested Unitholders in relation to the Proposed Acquisition.

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6. EVALUATION OF THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

In evaluating the Proposed Acquisition and Proposed Placement, we have considered the following factors:

- (i) rationale for and benefits of the Proposed Acquisition and Proposed Placement;
- (ii) evaluation of the Purchase Consideration and issue price of the Placement Units ("**Issue Price**");
- (iii) salient terms of the SPA;
- (iv) effects of the Proposed Acquisition and Proposed Placement;
- (v) industry overview and future prospects;
- (vi) risk factors relating to the Proposed Acquisition and Proposed Placement; and
- (vii) other considerations of the Proposed Placement.

6.1 RATIONALE FOR AND BENEFITS OF THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

We note the rationale for and benefits of the Proposed Acquisition and Proposed Placement as stated in Section 3.1, Part A of the Circular and wish to highlight the following:

(i) DPU yield is expected to be accretive

We note that the DPU yield is expected to be diluted following the issuance of the Placement Units. Notwithstanding this, the dilution impact can be mitigated by the following envisaged broad parameters of the Proposals:

- (a) future increase in net income from expected rental revisions of the current portfolio and the Property. The Property has a stable income with its high occupancy rate of 99.9%, as supported by the Lease Agreements with Shell occupying a total of 17 floors out of the Property's 33-storey office tower, and there are provisions in the Property's existing tenancies for future potential upward rental revisions;
- (b) a portion of the Management Fee may potentially be paid in new Units pursuant to the Proposed Authority. The additional cash conserved can be used for distribution to the Unitholders; and/or
- (c) the Manager can consider varying its payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

Premised on the above, we are of the view that it would augur well for MQREIT to undertake the Proposed Acquisition as the Property is expected to contribute positively to the future earnings and distributable income of MQREIT which would in turn enhance the prospective NAV per Unit and DPU yield based on the envisaged broad parameters of the Proposals as mentioned above.

(ii) The Proposed Acquisition represents a growth catalyst

We note that the total asset size of MQREIT is expected to increase from RM1.63 billion to RM2.27 billion, whilst its market capitalisation will increase from RM846.57 million, based on the closing price of RM1.28 as at the LPD, to RM1.37 billion upon completion of the Proposed Acquisition and Proposed Placement. Correspondingly, this will elevate MQREIT's competitive positioning from eighth (8th) to sixth (6th) out of 16 listed REITs in Malaysia (excluding KLCC Stapled Securities) in terms of total asset size based on the latest available audited financial statements of the respective REITs as at the LPD.

The increase in MQREIT's asset size upon completion of the Proposed Acquisition is expected to enable MQREIT to enjoy greater operating efficiency arising through the efficient utilisation of current resources, namely manpower. It will also enhance its competitive positioning providing MQREIT with greater bargaining power and thus, enabling it to secure term contracts at more competitive terms. On the other hand, the increase in market capitalisation as well as Units in circulation after the Proposed Placement is expected to improve the trading liquidity of the Units.

(iii) Competitive strengths of the Property is expected to fit well into MQREIT's clientele requirements, enhance its portfolio profile and contribute positively to the performance of MQREIT

The Property currently enjoys almost full occupancy with an occupancy rate of 99.9%, and therefore, improving the occupancy rate of MQREIT's portfolio of properties from 97% to 98% upon completion of the Proposed Acquisition. We note that the high occupancy rate of the Property is also supported by a 15-year Lease with Shell pursuant to the Lease Agreements. For information purposes, Shell is currently occupying a total of 17 floors out of the Property's 33-storey office tower.

The addition of the Property would also allow MQREIT to increase its footprint in Kuala Lumpur locations. Following the Proposed Acquisition, based on NLA, MQREIT's geographical base would comprise 71% in Kuala Lumpur locations, 17% in Cyberjaya, 5% in Mont' Kiara and 7% in other locations, as compared to existing geographical base which comprises 59% in Kuala Lumpur locations, 23% in Cyberjaya, 7% in Mont' Kiara and 11% in other locations. This is expected to augur well for MQREIT given that Kuala Lumpur locations, particularly Kuala Lumpur Sentral is highly sought after by corporate tenants.

We also note that the Property, with its green building features, MSC Malaysia Status and strategic location has the potential to become a prime office asset which will fit well into MQREIT's clientele requirements for high-quality specification buildings.

MQREIT's existing tenant base is broadly categorised into eight (8) sectors, namely, oil and gas, government-linked, retail, banking, automotive, logistics, education and information technology/electronics, of which the retail sector (24%), oil and gas sector (21%), government-linked sector (18%), logistics sector (15%) and banking sector (11%) being the larger sectors amongst MQREIT's portfolios. We note that the Property, albeit with a heavier weightage towards the oil and gas sector, has a relatively well-balanced tenancy mix across the industries. Upon completion of the Proposed Acquisition, MQREIT will continue to have a well-balanced tenancy mix across the business sectors, with the oil and gas sector (31%), retail sector (19%), banking sector (16%), government-linked sector (13%) and logistics sector (11%) remaining as the larger sectors amongst MQREIT's portfolios. The tenant base of the Property is also made up by a mix of reputable, high-quality multinational and large local conglomerate tenants such as Shell, AmGeneral Insurance Berhad and Tradewinds Corporation Berhad which will enhance MQREIT's overall clientele mix and portfolio profile.

(iv) **The Proposed Placement is more expeditious, lower gearing and less discount accorded**

The Proposed Placement was determined by the Board after taking into consideration that it represents a more expeditious manner to raise funds for the Proposed Acquisition as the Proposed Placement can be implemented immediately post obtaining Unitholders' approval. Additionally, the level of discount accorded for a private placement is typically not as steep as a rights issue, which will result in lesser number of Units issued in order to raise the same amount of gross proceeds.

Further, considerations were also given to MQREIT's current debt profile vis-a-vis the borrowings restrictions of a fund under REIT Guidelines. The Proposed Placement will reduce MQREIT's current borrowings from 42.4% to 38.6% and hence provide headroom for future cash acquisitions, in line with the MQREIT's growth strategy.

Premised on the above, we are of the view that there is sufficient merit to the rationale for and benefits of the Proposed Acquisition and Proposed Placement as a whole and it is reasonable and not detrimental to the interest of the Non-Interested Unitholders.

6.2 EVALUATION OF THE PURCHASE CONSIDERATION AND ISSUE PRICE

As set out in Section 2.1.3, Part A of the Circular, the Purchase Consideration was arrived at based on the market value of the Property of RM640,000,000 as appraised by the Valuer using the investment and comparison methods. For information purposes, the estimated expenses for the Proposals which comprise mainly of acquisition fees due to the Manager and other acquisition and equity related cost such as professional fees amount to RM16,000,000.

In evaluating the Purchase Consideration, we have considered:

- (i) the reasonableness of the market value of the Property as appraised by the Valuer after taking into consideration, inter-alia:
 - (a) the applied method of valuation by the Valuer;
 - (b) the assumptions used by the Valuer in deriving the cash flow projections from the Property comprising inter-alia:
 - (aa) rental rates of the Property;
 - (bb) car park income;
 - (cc) other income;
 - (dd) outgoings;
 - (ee) void, occupancy and capitalisation rates;
 - (c) comparison against recent transactions of office buildings and car parks as well as MQREIT's previous acquisition of an office building in Kuala Lumpur Sentral known as Platinum Sentral ("**Platinum Sentral**"), which was completed on 30 March 2015;
- (ii) the satisfaction of the Purchase Consideration; and
- (iii) the Issue Price.

6.2.1 Market value of the Property as appraised by the Valuer

6.2.1.1 Valuation methods

We noted from the Valuation Report that the valuation of the Property was carried out based on the investment method of valuation ("**Investment Method**") in view that the Property is an income generating property.

The Investment Method entails determining the net annual income by deducting the annual outgoings from the gross annual income and capitalising the net annual income by a suitable rate of return which is consistent with the type and quality of investment to arrive at the market value.

As a check against the market value of the Property derived from the Investment Method, the Valuer has also adopted the comparison method of valuation ("**Comparison Method**"). Under the Comparison Method, recent transactions and asking prices of similar properties in the larger locality are analysed for comparison purposes with adjustments being made for differences in location, visibility, age and condition of building, design, finishes, specifications, size, strata or individual title, tenure, density, public amenities, green building features, MSC Malaysia Status, title restrictions, if any, progress payments and other relevant characteristics to arrive at the market value.

COMMENTS

We note that the Valuer has adopted the Investment Method as the principal valuation methodology to arrive at the market value of the Property, whilst the Comparison Method was used to cross check against the market value of the Property derived from the Investment Method. We are of the view that the Investment Method is an appropriate valuation methodology as the Investment Method takes into consideration:

- (i) that the Property is an income generating asset with relatively predictable income stream based on its existing tenancies and lease agreements; and
- (ii) the resultant net income (net of expenses incurred) is capitalised into market value using a capitalisation rate which reflects the expected return on investment and commensurate with the risk exposure of the Property.

In addition, the Comparison Method is also an appropriate valuation methodology as a check against the Investment Method given that it provides a snapshot of the market demand and supply conditions as well as the perceived value of similar nature properties which have been recently transacted and there are sufficient office building transactions in the vicinity of the Property.

Further, given the similarity of the Property with Platinum Sentral, which was acquired by MQREIT on 30 March 2015, the Non-Interested Unitholders should also note that the valuation methods adopted by the Valuer for the Property are consistent with those adopted by the Valuer in its valuation to arrive at the market value of Platinum Sentral (*Source: MQREIT's circular to Unitholders dated 17 February 2015*).

6.2.1.2 Assumptions used by the Valuer in deriving the cash flow projections from the Property

In summary, the valuation of the Property which was derived by the Valuer using the Investment Method is based on the following computations:

Property	Explanatory Notes	Capitalisation Rates	Market Value (RM)
Office/Retail Space <ul style="list-style-type: none"> • Term 1⁽¹⁾ • Terms 2 to 5⁽²⁾ • Reversionary Term⁽³⁾ 	<div style="display: flex; align-items: center; justify-content: center;"> <div style="font-size: 3em; margin-right: 10px;">}</div> <div> <p>(A)</p> <p>(B)</p> </div> </div>	5.50%	28,995,818
		5.75% to 6.50%	195,542,964
		6.25%	355,070,881
			579,609,663

Property	Explanatory Notes	Capitalisation Rates	Market Value (RM)
Car Park <ul style="list-style-type: none"> Term 1⁽⁴⁾ Term 2⁽⁵⁾ Reversionary Term⁽⁶⁾ 	(C)	5.50%	1,104,096
		5.75%	28,399,365
		6.25%	28,896,858
			58,400,319
Other Income	(E)	6.25%	3,837,696
Total			⁽⁷⁾ 640,000,000

Notes:

- (1) Term 1 for office/retail space refers to the current tenancy term based on the Property's existing tenancies, which ranges from two (2) to three (3) years.
- (2) Terms 2 to 5 for office/retail space refer to tenancy terms of Shell for a remaining Lease period of 12 years pursuant to the Lease Agreements up to 31 October 2028 with each term representing a period of three (3) years.
- (3) Reversionary term for office/retail space refers to the future tenancy term upon the expiry of the Property's existing tenancies and assuming the respective tenancies are renewed.
- (4) Term 1 for car park refers to the current rental term based on the car park operation agreement dated 28 October 2014 ("**Car Park Agreement**") entered into between the Vendor and Semasa Parking Sdn Bhd ("**Semasa Parking**"), the current car park operator of the Property.
- (5) Term 2 for car park refers to the future rental term upon the expiry of the initial term of the Car Park Agreement on 31 December 2016 until the expiry of the Lease Agreements.
- (6) Reversionary term for car park refers to the future rental term upon the expiry of the Car Park Agreement and the Lease Agreements.
- (7) The market value was rounded down by the Valuer from RM641,847,678.

Explanatory Notes:

- (A) Net rental income for Term 1 is based on the gross rental rates of all existing tenancies until their respective expiry dates, after deducting related outgoings and capitalising the net rental income by a suitable rate of return of 5.50%.
- (B) Net rental income for Terms 2 to 5 as well as Reversionary Term is based on assumed gross rental rates, after deducting assumed outgoings and capitalising the net rental income by a suitable rate of return which ranges from 5.75% to 6.50% and 6.25% respectively.
- (C) Net car park income for Term 1 is based on the actual monthly car park income, as derived from the Car Park Agreement, and capitalising the net car park income by a suitable rate of return of 5.50%.
- (D) Net car park income for Term 2 and Reversionary Term is based on assumed term monthly car park income after the expiry of Car Park Agreement, after deducting assumed outgoings and capitalising the net rental income by a suitable rate of return of 5.75% and 6.25% respectively.
- (E) Other income comprises net rental income from the Property's kiosks and stores, which are based on actual monthly rental income and capitalising the net rental income by a suitable rate of return of 6.25%.

(i) **Office/Retail Space**

In arriving at the market value of the Property's office/retail space, we note that the Valuer has adopted the following key parameters:

Gross Monthly Rental Rates	Office Space (psf)	Retail Space (psf)
Term 1	RM5.80 to RM7.95 or RM7.40 in average	RM2.00 to RM10.00 or RM4.02 in average
Terms 2 to 5 and Reversionary Term	RM6.38 to RM9.40 or RM8.52 in average	RM2.20 to RM11.00 or RM4.48 in average

Monthly Outgoings	Office/Retail Space (psf)
Term 1	RM2.10
Terms 2 to 5	RM2.15
Reversionary Term	RM2.15

Void	Office/Retail Space
Reversionary Term	5%

Capitalisation Rate	Office/Retail Space
Term 1	5.50%
Terms 2 to 5	5.75% to 6.50%
Reversionary Term	6.25%

COMMENTS

❖ **Gross Monthly Rental Rates**

We note that:

- the gross monthly rental rates adopted for Term 1 are based on the Property's existing tenancy and lease agreements;
- the Valuer has adopted an increment of 5% to the base monthly rental rates of the office space tenanted by Shell for Terms 2 to 5; and
- the Valuer has considered the asking rentals of similar office buildings and retail mall within the vicinity ("**Similar Buildings**") to arrive at the gross monthly rental rates for Reversionary Term.

In view that the gross monthly rental rates adopted for Term 1 as stated in the Valuation Report are based on the Property's existing tenancy and lease agreements, we note that the annual gross income derived by the Valuer of RM48.6 million for Term 1 is comparable to the annual gross rental income recognised by the Property for the FYE 31 December 2015 amounting to RM44.4 million.

We are of the opinion that the gross monthly rental rates adopted by the Valuer for Terms 1 to 5 and Reversionary Term are reasonable as they are comparable to the adjusted average rental rates of the Similar Buildings which range between RM7.84 psf and RM8.46 psf as follows:

Details	Similar Buildings		
Building name	Platinum Sentral, Kuala Lumpur Sentral	Integra@The Intermark, Jalan Tun Razak	G Tower, Jalan Tun Razak
Lettable Area (sq ft)	17,588	7,000	4,900
Analysis (RM psf)	9.00	11.00	8.50
Adjustments	Location, age of building, green building features, density, size (NLA) and negotiation		
Adjusted Value (RM psf)	8.10	8.46	7.84

(Source: Valuation Report)

In addition, the gross monthly rental rates adopted by the Valuer are also comparable to the asking gross monthly rental of other Grade A office buildings within Kuala Lumpur Sentral, which ranges from RM6.50 psf to RM8.00 psf as follows:

Building name	Asking gross monthly rental (RM psf)
Menara CIMB	8.00
The Gardens North and South Towers	7.80
Menara Allianz Sentral and Nu Tower 2	6.50
Menara BRDB	7.00

(Source: Real Estate Highlights 1st Half of 2016, Knight Frank Research)

We are also of the opinion that the increment of 5% applied to the base monthly rental rates for Shell's office space in respect of Terms 2 to 5 is prudent in view that the Lease Agreements allow an increment of higher than 5% subject to agreement from the lessee.

In respect of retail space, we note that, save for the higher gross monthly rental rates of RM10.00 psf and RM11.00 psf for Term 1 and Reversionary Term respectively which were mainly given to ground floor's tenants with better visibility and accessibility, the average gross monthly rental rates for retail space are generally lower as compared to the average gross monthly rental rates for office space in view that the Property's retail space, which represents only 3% of the Property's total NLA, mainly serves to supplement the requirements of the Property's tenants and to complement the office rental space.

❖ Monthly Outgoings

Based on the Valuation Report, we note that the historical monthly outgoings of the Property in 2015 is approximately RM1.83 psf, whilst the Valuer has adopted monthly outgoings of RM2.10 psf for Term 1 and RM2.15 psf for Terms 2 to 5. Further, the monthly outgoings for the Property are higher than the range of monthly outgoings of most recent comparable transactions of office buildings which have been analysed by the Valuer ("**Comparables**") as set out in Section 6.2.1.3(A) of this IAL of between RM1.50 psf and RM1.80 psf.

We are of the opinion that although the monthly outgoings adopted by the Valuer for the Property is higher than the Comparables' range of monthly outgoings of between RM1.50 psf and RM1.80 psf, this is reasonable in view of the higher expenses required to meet the service levels required by Shell as stipulated in the Lease Agreements.

The higher monthly outgoings of RM2.10 psf for Term 1 and RM2.15 psf for Terms 2 to 5 and Reversionary Term as compared to the actual monthly outgoings of RM1.83 psf in 2015 is reasonable given that the Property was only completed in February 2014 and was under defect liability period until February 2015. Further, some of the scheduled maintenance or operation only commenced in October 2015.

❖ Void

We noted that the Valuer has adopted a void rate of 5% for the Reversionary Term.

This is reasonable after taking into consideration of the Property's high occupancy rate of approximately 99.9% as well as the Property's prime location coupled with reasonably good accessibility as well as its green building features and MSC Malaysia Status.

❖ Capitalisation Rate

We note that the Valuer has adopted a capitalisation rate of 5.50% for Term 1. We are of the opinion that the capitalisation rate adopted for Term 1 is reasonable as:

- (i) it is comparable with the Comparables' range of net yields of between 4.71% and 5.62% as follows:

Comparables	Net yield (%)
Dijaya Plaza	5.47
Nu Tower 1	4.71
Platinum Sentral	5.62

(Source: Valuation Report)

- (ii) it is comparable to the current weighted average cost of capital ("**WACC**") of MQREIT of 5.82% (Source: Bloomberg);

- (iii) it is within the range of WACC of REITS which are comparable to MQREIT ("**MQREIT Peers**") which range from 5.40% to 6.20% as follows:

MQREIT Peers	WACC (%)
AmFirst REIT	5.60
UOA REIT	5.40
Tower REIT	6.20

(Source: Bloomberg)

- (iv) it is comparable to the range of term capitalisation rate of precedent transactions of office buildings undertaken by listed REITs in Malaysia ("**Precedent Transactions**") of between 5.75% and 6.00% as follows:

Precedent Transactions	Announcement Date	Term Capitalisation Rate (%)
Disposal by AmanahRaya REIT (" AmanahRaya ") of Wisma AmanahRaya	23 June 2015	7.00*
Acquisition by CapitaMalls Malaysia Trust (" CMMT ") of Tropicana City Mall and Tropicana City Office Tower	26 January 2015	6.00
Acquisition by MQREIT of Platinum Sentral	29 January 2014	5.75

(Source: Circulars to unitholders of AmanahRaya, CMMT and MQREIT dated 2 September 2015, 10 June 2015 and 17 February 2015 respectively)

Note:

* Deemed not comparable as a higher capitalisation rate was used by the independent valuer of Wisma AmanahRaya in view that it is a leasehold property.

We note that the capitalisation rates adopted for Terms 2 to 5 of between 5.75% and 6.50% are higher than the capitalisation rate for Term 1 and the Comparables' range of net yields of between 4.71% and 5.62%.

We are of the opinion that the higher capitalisation rates adopted for Term 2 to 5 are reasonable to reflect the risks associated with the projected gross rental income and tenancy uncertainties for the said future terms. Notwithstanding the higher rates adopted, the capitalisation rates are still comparable to the range of WACC of MQREIT Peers of between 5.40% and 6.20% as well as the capitalisation rates of Precedent Transactions of between 5.75% and 6.00%.

We also noted that the Valuer adopted a lower capitalisation rate of 6.25% for Reversionary Term, which is lower than the 6.50% yield applied for Shell's tenancy in Term 5. This is reasonable in view that the rate of increment applied to the gross rental for Reversionary Term is lower than the rate of increment applied to the gross rental for Shell's tenancy up to Term 5.

(ii) **Car Park**

In arriving at the market value of the Property's car park, we note that the Valuer has adopted the following key parameters:

Monthly Car Park Income	
Term 1	RM155,000 per month
Term 2	RM293,138 per month
Reversionary Term	RM355,954 per month

Monthly Outgoings	
Term 1	-
Term 2 and Reversionary Term	10% of gross monthly rental

Occupancy Rate	
Term 2	100% for Shell's season car park, 95% for other season car park with fixed lots and floating lots, 70% for drive-in customers on weekdays and 30% for drive-in customers on weekends
Reversionary Term	95% for season car park with fixed lots and floating lots, 70% for drive-in customers on weekdays and 30% for drive-in customers on weekends

Capitalisation Rate	
Term 1	5.50%
Term 2	5.75%
Reversionary Term	6.25%

COMMENTS

❖ **Monthly Car Park Income**

- The monthly car park income adopted for Term 1 is reasonable as it is the minimum guaranteed income by Semasa Parking until 31 December 2016 based on the Car Park Agreement. In addition, we note that the current monthly car park income of the Property is comparable to Platinum Sentral, a comparable building in Kuala Lumpur Sentral; and
- We note that the monthly rates adopted for Term 2 and Reversionary Term to arrive at the monthly car park income are based on the existing parking rates and current agreed rates for the car park lots which are reserved for Shell ("**Shell Allocated Lots**") and are hence reasonable.

In addition, we also note that the total car park income recognised during the Reversionary Term is higher as it is assumed that the Shell Allocated Lots are reallocated for season parking and drive-in customers, which generally charge higher rate per hour, upon expiry of the Lease Agreements.

❖ **Monthly Outgoings**

There are no monthly outgoings for Term 1 based on the Car Park Agreement as the monthly car park income derived for Term 1 is net of outgoings as stipulated in the Car Park Agreement.

The monthly outgoings of 10% of gross monthly rental adopted for Term 2 and Reversionary Term is reasonable as it is comparable to the average monthly outgoings incurred by Semasa Parking for the FYE 31 December 2015.

❖ **Occupancy Rate**

The occupancy rate of 100% adopted for Shell Allocated Lots and 95% for other season car park for Term 2 is reasonable in view that the Property currently has almost full occupancy rate of approximately 99.9% and after taking into consideration the limited supply of car park space within the vicinity of the Property in Kuala Lumpur Sentral. Nonetheless, the Valuer has adopted a lower occupancy rate for the Reversionary Term to reflect tenancy risk.

In addition, the lower occupancy rate adopted for drive-in customers on weekends for Term 2 and Reversionary Term as compared to weekdays is also reasonable given that the Property is an office building and the surrounding shopping malls and hotels would also have their own parking spaces.

❖ **Capitalisation Rate**

We note that the Valuer has adopted capitalisation rates which are similar to those adopted for the Property's office/retail space. This is reasonable given that the risk profile for the car park are similar to the office space given that the majority of the car park lots will be rented out to or occupied by the tenants of the Property.

(iii) **Other Income**

Other income comprises income from the Property's kiosks and stores. We note that the Valuer has adopted actual monthly income as stated in the Property's tenancy agreements as well as capitalisation rates and void factor which are similar to those adopted for the Property's office/retail space for Reversionary Term. This is reasonable as it is prudent and reflects the long term nature of income from the kiosks and stores.

In addition, no outgoings were reflected in the valuation of the Property's other income in view that kiosks and stores do not form part of the Property's NLA and there are minimal usage of utilities from these kiosks and stores.

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6.2.1.3 Comparison Method

The breakdown of the market value of the Property of RM665,000,000 as appraised by the Valuer using the Comparison Method is as follows:

Property	Description of valuation methodology	Explanatory Notes	Market Value
Office Building	The Valuer has considered transactions of office buildings within the immediate and surrounding localities to arrive at the market value with adjustments made on location, size (NLA), density, public amenities, design/finishes/specifications, green building features and MSC Malaysia Status	(A)	RM612,758,300
Car Park	The Valuer has considered transactions of car park within Klang Valley to arrive at the market value with adjustments made on location	(B)	RM54,900,000
Total			*RM665,000,000

Note:

* The market value was rounded down by the Valuer from RM667,658,300 to RM665,000,000.

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COMMENTS

(A) Office Building

The details of the Comparables are as follows:

	Property	Comparable 1	Comparable 2	Comparable 3
Building name	Menara Shell	Dijaya Plaza	Nu Tower 1	Platinum Sentral
Location	Kuala Lumpur Sentral	Jalan Tun Razak, Kuala Lumpur	Kuala Lumpur Sentral	Kuala Lumpur Sentral
Net lettable area (sq ft)	557,053	156,488	259,632	475,857
Tenure	Freehold	Freehold	Freehold	Freehold
Date	19 May 2016	28 January 2016	26 March 2015	10 April 2014
Consideration (excluding car park) (RM)	612,758,300	140,000,000	283,000,000	695,410,000
RM psf	1,100	771	1,090	1,461
Adjustments made by the Valuer	Not applicable	<ul style="list-style-type: none"> • <u>Upward</u> Building's age/condition • Design/finishes/specifications • Public amenities • Green building features • MSC Malaysia Status 	<ul style="list-style-type: none"> • <u>Upward</u> Design/finishes/specifications • Green building features 	<ul style="list-style-type: none"> • <u>Upward</u> Nil
Adjusted RM psf	1,100	<ul style="list-style-type: none"> • <u>Downward</u> Size • Strata title/individual title 	<ul style="list-style-type: none"> • <u>Downward</u> Size 	<ul style="list-style-type: none"> • <u>Downward</u> Strata title/individual title • Density
		1,003	1,145	1,096

(Source: Valuation Report)

We note that the adjusted market value of the comparable transactions of office building ranges from RM1,096 psf to RM1,145 psf. The Valuer has adopted an adjusted market value of RM1,100 psf for the office building of the Property based on Comparable 3 as it is the most appropriate comparable in terms of location, building age/condition, design/finishes/specification, title, tenure, public amenities, green building features and MSC Malaysia Status.

(B) Car Park

The details of the comparable transactions of car park within Klang Valley which have been analysed by the Valuer are as follows:

	Property	Comparable 1	Comparable 2
Building name	Menara Shell	Pavilion Kuala Lumpur	East Wing of The Icon @ Tun Razak
Location	Kuala Lumpur Sentral	Jalan Bukit Bintang	Jalan Tun Razak
No. of car park lots	915	72	301
Date	19 May 2016	1 July 2015	24 December 2009
Consideration (RM)	54,900,000	4,896,000	18,151,000
RM per lot	60,000	68,000	60,302
Adjustments made by the Valuer	Not applicable	<u>Upward</u> <ul style="list-style-type: none"> Nil <u>Downward</u> <ul style="list-style-type: none"> Location and surrounding 	Nil
Adjusted RM per lot	60,000	61,200	60,302

(Source: Valuation Report)

We note that the adjusted market value of the comparable transactions of car park ranges from RM60,302 per lot to RM61,200 per lot. The Valuer has adopted an adjusted market value of RM60,000 psf for the car park of the Property based on Comparable 1 as it is the most recent transaction.

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6.2.2 Settlement of the Purchase Consideration

As set out in Section 2.1.5, Part A of the Circular, the Purchase Consideration and expenses relating to the Proposals amounting to RM656,000,000 ("**Total Cash Outlay**") will be funded through a combination of proceeds from the Proposed Placement and borrowings, the actual breakdown of which has yet to be determined and will be dependent upon, amongst others, the actual placement size and Issue Price.

The financing proportion as illustrated in Section 2.1.5, Part A of the Circular will involve an issuance of 406,666,667 Placement Units, raising gross proceeds of RM467.7 million (representing 71.3% of the Total Cash Outlay) based on the illustrative Issue Price of RM1.15 per Unit, which represents a discount of approximately 9.9% to the 5-day VWAMP of the Units up to and including the LPD of RM1.2764, whilst the remaining RM188.3 million of the Total Cash Outlay will be financed via borrowings (representing 28.7% of the Total Cash Outlay) ("**Indicative Financing Proportion**").

In evaluating the present mode of consideration, we have considered the impact of the Indicative Financing Proportion on MQREIT's pro forma WACC, gearing and DPU vis-à-vis the following alternative modes of consideration:

- | | |
|----------------------------|--|
| Alternative Mode I | : Assuming the Total Cash Outlay is entirely financed via the issuance of new Units |
| Alternative Mode II | : Assuming the Total Cash Outlay is financed via a combination of borrowings of such amount which MQREIT could procure, such that the total borrowings of MQREIT does not exceed 50% of its total asset value as allowed under the REIT Guidelines (" Gearing Limit "), and the remaining via the issuance of new Units |

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For illustrative purposes, the impact of the Indicative Financing Proportion on MQREIT's pro forma WACC, gearing and DPU yield vis-à-vis Alternative Mode I and Alternative Mode II is as follows:

	Audited as at 31 December 2015	Indicative Financing Proportion ⁽¹⁾⁽²⁾	Alternative Modes of Consideration		MQREIT Peers	
			Alternative Mode I ⁽²⁾	Alternative Mode II ⁽¹⁾⁽²⁾	Range ⁽³⁾	Average ⁽³⁾
WACC (%)	5.84	5.95	6.11	5.73	6.00 – 6.50	6.30
Gearing (%)	42.44	38.60	30.35	50.00	33.32 – 46.15	39.74
DPU yield (%) ⁽⁴⁾	7.37	5.77	5.60	6.12	5.78 – 6.89	6.49

Notes:

(1) Assuming additional financing costs of RM8.6 million per annum for Indicative Financing Proportion and RM20.3 million for Alternative Mode II in view of the additional borrowings to be obtained.

(2) Based on illustrative Issue Price of RM1.15 and existing payout ratio of 94.3% as at 31 December 2015 and no Manager's Units are issued.

(3) Based on MQREIT Peers as extracted from Bloomberg as at the LPD.

	PRICE-TO-NAV MULTIPLE ("P/NAV MULTIPLE") (TIMES)	PRICE-TO-EARNINGS MULTIPLE ("P/E MULTIPLE") (TIMES)	DPU YIELD (%)	DPU (sen)	WACC (%)	Gearing (%)
AmFirst REIT	0.68	15.30	6.80 [^]	5.10	6.40	46.15
UOA REIT	1.03	15.22	6.89 [^]	11.02	6.00	33.32
Tower REIT	0.63	18.50	5.78 [^]	6.93	6.50	0.02
Average	0.78	16.34	6.49	6.02 [*]	6.30	39.74 ^{**}
Range	0.63 – 1.03	15.22 – 18.50	5.78 – 6.89	5.10 – 6.93 [*]	6.00 – 6.50	33.32 – 46.15 ^{**}

Sub-notes:

[^] Calculated based on the DPU of their respective audited financial statements and their closing market price on the last trading date of their respective financial years.

^{*} Historically, UOA REIT has a high trading market price. Arising therefrom, UOA REIT also has a higher DPU in quantum (sen) to ensure comparable DPU yield to its peers. Hence, we have excluded UOA REIT which is deemed as an outlier.

^{**} Excluding Tower REIT which is deemed as an outlier due to its low gearing. Tower REIT's borrowings have decreased substantially from RM116.4 million as at 31 December 2014 to RM0.10 million as at 31 December 2015 following the repayment of borrowings using the proceeds arising from the disposal of its Menara ING.

(4) The denominator is based on the 5-day VWAP of MQREIT up to and including 30 June 2016, being the date of the Announcement, of approximately RM1.15.

Based on the above, we noted the following:

- (i) Alternative Mode I involves the financing of the Purchase Consideration entirely in new Units. This would result in the lowest DPU yield amongst the three (3) modes of consideration as well as amongst MQREIT Peers notwithstanding the pro forma gearing of MQREIT would be substantially lower; and
- (ii) the pro forma gearing of MQREIT would increase substantially under Alternative Mode II. Notwithstanding the pro forma WACC of MQREIT would be marginally lower and the DPU yield is higher, in view that the maximum amount of borrowings are obtained, MQREIT will be burdened with additional finance costs and leave MQREIT with no headroom to obtain further borrowings in the future. In addition, MQREIT would be at high risk of breaching the Gearing Limit in the event of a devaluation of its portfolio of properties.

Based on the foregoing, we are of the view that the Indicative Financing Proportion is reasonable in view that it strikes a balance between equity and debt financing and MQREIT is able to maintain a manageable gearing position with a healthy debt headroom before reaching the Gearing Limit. However, the Non-Interested Unitholders should note that in the event the proceeds raised from the Proposed Placement is less than RM467.7 million, such shortfall will need to be funded via borrowings which would increase the gearing of MQREIT. Nonetheless, it is the intention of MQREIT that an underwriting arrangement for the Proposed Placement in respect of the remaining amount (excluding the Proposed Placement to MRCB) to be executed on the day of the bookbuilding exercise. The said underwriting arrangement will be subject to terms and conditions to be agreed upon between the Manager and the Joint Placement Agents.

For illustrative purposes, based on the 5-day VWAMP of the Units up to and including the LPD of RM1.2764 per Unit and applying a discount of approximately 9.9%, the illustrative Issue Price is RM1.15. In view of the higher illustrative Issue Price of RM1.15 and assuming that the maximum number of 406,666,667 Placement Units are issued, the proceeds from the Proposed Placement is expected to be higher, and hence the amount to be financed via borrowings would be lower resulting in lower gearing level and DPU yield as well as a higher WACC as compared to the Indicative Financing Proportion scenario. Nonetheless, the final impact will still be dependent on the final financing proportions of the proceeds from the Proposed Placement and borrowings.

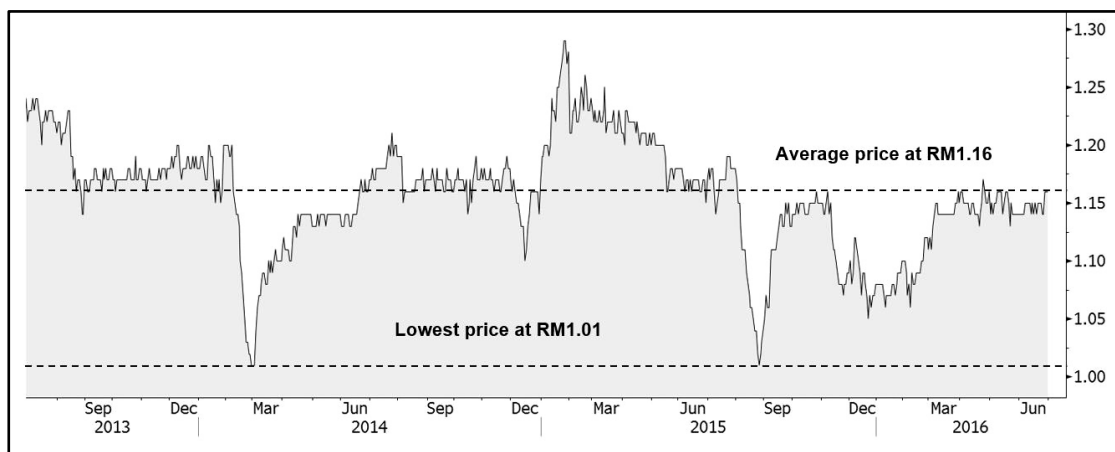
6.2.3 Issue Price

As set out in Section 2.2, Part A of the Circular, the Issue Price for up to 406,666,667 Placement Units will be fixed at a date to be determined later by way of a bookbuilding exercise, subject to the Issue Price being placed out at no more than 10% discount to the 5-day VWAMP of the Units up to and including the day immediately prior to the price fixing date. Hence, the effect of the issuance of Placement Units on the DPU and DPU yield of MQREIT is uncertain at this juncture. Nevertheless, our evaluation on the fairness of the Issue Price will be premised on the following range of illustrative issue prices ("**Illustrative Issue Prices**"):

Illustrative Issue Prices	1.20	1.15	1.10	1.05
Premium / (Discount) to the 5-day VWAMP of the Units up to and including 30 June 2016, being the date of the Announcement	~5%	0%	~(5%)	~(10%)

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The following chart illustrates the price movement of the Units for the past three (3) years up to and including 30 June 2016, being the date of the Announcement:



(Source: Bloomberg)

The Illustrative Issue Prices were adopted in our evaluation as we noted that although the closing price of the Units as at 30 June 2016 was RM1.16, for a total of 288 days or approximately 40% of the total number of market days in the three (3) years prior to the Announcement, the market price of the Units has traded below RM1.16. Out of the 288 days, the market price of the Units generally traded at around RM1.05 to RM1.15 for up to a total number of 273 days, or approximately 95% of 288 days. Furthermore, the Units have not traded below RM1.15 since the date of the Announcement up to the LPD.

In addition, in view that the current market price of the Units based on the 5-day VWAMP up to and including the LPD is higher at approximately RM1.2764, we have also included the Issue Price of RM1.20, being a discount of approximately 5% to the said VWAMP, as part of the Illustrative Issue Prices.

We set out below our analysis on the Illustrative Issue Prices on the DPU, DPU yield, P/E Multiple and P/NAV Multiple after the Proposed Acquisition and Proposed Placement:

	Illustrative Issue Prices	DPU⁽⁴⁾	DPU yield⁽⁴⁾	P/E Multiple	P/NAV Multiple
Audited as at 31 December 2015 ⁽¹⁾		8.47	7.37	12.69	0.84
After the Proposed Acquisition and Proposed Placement ⁽²⁾	1.20	6.74	5.86	16.08	0.89
	1.15	6.63	5.77	16.34	0.90
	1.10	6.52	5.67	16.63	0.92
	1.05	6.40	5.57	16.93	0.93
MQREIT Peers' Range ⁽⁵⁾		5.10 – 6.93 ⁽³⁾	5.78 – 6.89	15.22 – 18.50	0.63 – 1.03

Notes:

- (1) Based on the latest audited earnings per Unit ("EPU") of 9.06 sen, and NAV per Unit of RM1.37 for the FYE 31 December 2015 and assuming market price of the Units is at RM1.15 per Unit.
- (2) Assuming no changes to the Indicative Financing Proportion (71.3% equity and 28.7% debt), the ratios were calculated using the respective Illustrative Issue Prices, the derived EPU and NAV per Unit post-Proposed Acquisition and assuming market price of the Units is at RM1.15.

- (3) *Historically, UOA REIT has a high trading market price. Arising therefrom, UOA REIT also has a higher DPU in quantum (sen) to ensure comparable DPU yield to its peers. Hence, we have excluded UOA REIT which is deemed as an outlier.*
- (4) *Assuming payout ratio remains at 94.3%, consistent with the existing payout ratio for the FYE 31 December 2015 and no Manager's Units are issued.*
- (5) *Further details are set out in Note 3 of Section 6.2.2 of this IAL.*

Based on the Illustrative Issue Prices of RM1.05 to RM1.20, the DPU, P/E Multiple and P/NAV Multiple of MQREIT are comparable to MQREIT Peers.

Notwithstanding that MQREIT's DPU yield is below the MQREIT Peers for the Issue Price range of RM1.05 to RM1.15, it should be noted that the market price of the Units post entering into the SPA on 30 June 2016 had not traded below RM1.15 and the 5-day VWAMP of the Units up to and including the LPD is RM1.2764. Additionally, the DPU yield may also improve in the event of future increase in net income from the Property arising from future potential upward rental revisions, a portion of the Management Fee may potentially be paid in new Units pursuant to the Proposed Authority and the Manager may consider varying the payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

Further, we also note that the P/E Multiple and P/NAV Multiple of MQREIT fall within range bound of MQREIT Peers for all Illustrative Issue Prices.

For prudence purposes, we have presented our analysis above based on the lower Illustrative Issue Prices as at the date of the Announcement. Given that the current price of the Units based on the 5-day VWAMP up to and including the LPD is higher at approximately RM1.2764 per Unit, we wish to highlight that a higher Issue Price as compared to the Illustrative Issue Prices will only result in lower illustrative P/E Multiple and P/NAV Multiple as well as higher illustrative DPU and DPU yield.

6.3 SALIENT TERMS OF THE SPA

The salient terms of the SPA are set out in Section 2.1.2, Part A of the Circular which should be read in its entirety by the Non-Interested Unitholders.

COMMENTS

The terms of the SPA are deemed reasonable given that:

(i) Purchase Consideration

We noted that the total Purchase Consideration of RM640.0 million is to be paid entirely via cash as follows:

- (a) the Redemption Sum to be paid directly to the facility agent for the discharge of the Existing Charge; and
- (b) RM640.0 million, less the Redemption Sum, will be paid to the Vendor and/or its nominees to be appointed,

by the Completion Date or Extended Completion Date, as the case maybe.

This term is fair as the balance Purchase Consideration is only paid when all the conditions precedent have been met (if not waived) and the completion documents stipulated in the SPA have been delivered by the Vendor to the Purchaser. The Redemption Sum can be paid any time after the SPA is unconditional but before the Completion Date or Extended Completion Date, as the case maybe, which is necessary to facilitate the discharge of the Existing Charge in order for the Property to be transferred free of encumbrances (save for the Lease Agreements).

(ii) Adjustment to the Purchase Consideration

This term is fair as it allows the parties to terminate the SPA in the event the valuation of the Property is adjusted pursuant to variations/adjustments caused by whatsoever reasons to the market value of the Property (which will be mutually agreed by the Purchaser and the Vendor) and such adjusted value is more than the pre-agreed variation of 3.0% from the original Purchase Consideration.

We also noted that there is no adjustment to the Purchase Consideration if there is a discrepancy between the details of the size/area as stated in the Strata Demarcation and the strata titles issued for the Property provided that:

- (a) the NLA of the Property within the boundaries and/or area as shown in the issued strata titles shall not be less than 557,053 sq ft; and
- (b) there are at least 915 car park lots and 110 motorcycle lots within the boundaries and/or area as shown in the issued strata titles.

This term is reasonable in view that the valuation of the Proposed Acquisition was premised on the NLA of the Property which is backed by the respective tenancy agreements.

(iii) Conditions precedent

These terms are reasonable as the fulfilment of the conditions precedent is necessary for the completion of Proposed Acquisition. We have highlighted some of the critical conditions precedent as follows:

- (a) In order to ensure compliance with the requirements of the relevant authorities and/or the Act, the conditions precedent for the Proposed Acquisition include approvals from shareholders of MRCB, Unitholders, the SC and Bursa Securities;
- (b) In order to ensure certainty of funding for the Proposed Acquisition, the conditions precedent of the Proposed Acquisition include the receipts of the proceeds from the Proposed Placement as well as commitment from the relevant financiers to finance the debt portion of the Purchase Consideration;
- (c) Prior approval from Shell to novate the Lease Agreements.

This is critical in view of the 15-year long term Lease Agreements entered into between the Vendor and Shell, as well as Shell being the largest tenant of the Property, taking up a total of 17 floors out of the Property's 33-storey office tower.

- (d) As the valuation was undertaken on an individual title basis, the Vendor has to provide documentary evidence to the Purchaser that the application for the issuance of the Certificate of the Proposed Strata Plan for the Property in accordance with the Strata Demarcation has been submitted; and

The period of six (6) months (with automatic extension of three (3) months thereafter) to satisfy the conditions precedent is reasonable given that the approval of several authorities need to be obtained and the Proposed Placement will need to be completed.

We noted that the Vendor is required to deliver to the Purchaser's solicitors the duly executed deed(s) of novation (or the deed of assignment) in respect of the existing tenancies prior to the completion of the SPA. This term is reasonable as it serves to protect the interest of the Purchaser by ensuring the continuation of tenancies by existing tenants.

(iv) Completion

The Completion Date of no later than one (1) month from the day upon which the last Condition Precedent (which has not been waived in writing) has been fulfilled in accordance with the provision of the SPA, provides sufficient time for the Vendor to hand over the Completion Documents to the Purchaser in exchange for Final Balance Purchase Price and for the Purchaser to pay the Redemption Sum.

(v) Termination

Default by 348 Sentral

We note that these terms serve as a protection to the Purchaser in the event of non-satisfaction of any of the terms and conditions of the SPA by the Vendor, or falsification of any representation, warranty or undertaking of the Vendor. Therefore, these terms are favourable to the Purchaser and the interest of the Non-Interested Unitholders as they provide mitigation to the Purchaser in the event of default by the Vendor, either by requiring specific performance by the Vendor or by termination of the SPA and refund the amount paid to the Purchaser/Purchaser's Financier as well as the Redemption Sum free of interest.

Default by the Trustee

We note that these terms serve as a protection to the Vendor in the event of non-satisfaction of the purchase consideration by the Purchaser, non-satisfaction of any of the terms and conditions of the SPA by the Purchaser, or falsification of any representation, warranty or undertaking of the Purchaser. Therefore, these terms are justifiable as they provide mitigation to Vendor in the event of default by the Purchaser, either by requiring the Purchaser to perform in accordance with the SPA or by termination of the SPA.

(vi) Non-registration of transfer or discharge of the Existing Charge

We noted that in the event the Transfer or the discharge of the Existing Charge cannot be registered (not at the fault of Purchaser or the financier or any of their solicitors) and cannot be rectified within six (6) months, from notification by the Purchaser, the Purchaser has the right to require the Vendor to repurchase the Property from the Purchaser at a price to be mutually agreed ("**Repurchase Price**"), provided that the Repurchase Price cannot be lower than the Purchase Consideration or the redemption amount required to fully settle and discharge the Purchaser's outstanding financing, whichever is higher, as well as at not contravening Paragraphs 8.19 and 9.04(b) of the REIT Guidelines, which prohibit MQREIT to dispose of the Property at a price lower than 90% of the market value of the Property ("**Statutory Floor Price**").

The Repurchase Price is fair and protects the interest of Unitholders as it ensures that the Purchaser receives an amount no lower than the price it is paying for the Property or the redemption amount required to fully settle and discharge of the Purchaser's outstanding financing, whichever is higher, as well as no lower than the Statutory Floor Price, for the repurchase of the Property by the Vendor.

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(vii) Non-procurement and obtainment of separate strata titles

We noted that there is a provision in the SPA which is reasonable to the Purchaser wherein, in the event the Vendor fails to procure/obtain the issuance of separate strata titles for each parcel of the Property within 60 months from the Completion Date, the Purchaser has the right to require the Vendor to repurchase the Property from the Purchaser at a price to be mutually agreed, provided that such price cannot be lower than the Purchase Consideration or the redemption amount required to fully settle and discharge the Purchaser's outstanding financing, whichever is higher, as well as at not contravening Paragraphs 8.19 and 9.04(b) of the REIT Guidelines, which prohibit MQREIT to dispose of the Property at a price lower than the Statutory Floor Price.

This term protects the interests of the Purchaser as the valuation of the Property was undertaken on issued individual/separate strata title basis.

(viii) Limitations of liability

We note that notwithstanding the completion of SPA, there are provisions in the SPA which allows the Purchaser to claim against the Vendor for breach of representations, warranty/undertaking for a period of 18 months post completion of the SPA. The maximum limit of Vendor's aggregate liability under the SPA is RM100 million, which was arrived at on a negotiated basis.

6.4 EFFECTS OF THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

In our evaluation, we have also considered the effects arising from the Proposed Acquisition and Proposed Placement as set out in Section 6, Part A of the Circular.

6.4.1 Unitholders' capital

The Unitholders' capital of MQREIT is expected to increase in view that the Purchase Consideration is financed partially via equity in the form of issuance of Placement Units.

The Proposed Placement will result in the number of Units in circulation increasing from 661.4 million Units as at the LPD up to 1,068.0 million Units after the Proposed Placement. Nevertheless, the final quantum of increase in Unitholders' capital is dependent on the Issue Price as well as the final proportion of the Purchase Consideration to be financed via equity.

6.4.2 Substantial Unitholders' unitholdings

MRCB has provided an Undertaking to subscribe for Placement Units for an amount of no less than RM110.0 million but up to RM152.0 million in value. In view that the Issue Price has not been fixed, the actual quantum of the increase in MRCB's unitholdings in MQREIT cannot be determined at this juncture. For illustration purposes, if the Issue Price is fixed between RM1.05 and RM1.20, the unitholdings of MRCB post-Proposed Acquisition will increase from 31.2% up to approximately 32.9%. In view that there is no exemption sought pursuant to the Rules on Take-overs, Mergers and Compulsory Acquisitions issued by the SC, MRCB's unitholding is not expected to increase above 33%.

Notwithstanding the aforementioned, MRCB will remain as the single largest Unitholder in MQREIT after the issuance of Placement Units.

EPF may also subscribe for Placement Units amounting up to 7% of the enlarged Units in circulation after the Proposed Placement. Depending on EPF's final subscription, they may emerge as a substantial Unitholder of MQREIT.

The extent of dilution to the other existing Unitholders cannot be determined as the number of Placement Units to be issued is dependent on the final Issue Price as well as the debt to equity ratio of the funding structure.

6.4.3 Earnings and distributable income

6.4.3.1 Return on assets ("ROA")

The ROA of the Property as compared to the ROA of MQREIT are as follows:

	MQREIT's existing properties as at 31 December 2015 (RM'000)	Property (RM'000)
Net property income ("NPI")	90,272	34,128 ⁽¹⁾
Asset value	1,625,240	647,500 ⁽²⁾
ROA (times)	5.55	5.27

Notes:

(1) Being the actual net property income of the Property for the FYE 31 December 2015.

(2) Based on the market value of the Property as well as capitalisation and cash payment of expenses relating to the Proposed Acquisition.

Notwithstanding that the ROA of the Property is lower than the ROA of MQREIT's existing properties as at 31 December 2015, this is expected to improve as the Property has now achieved occupancy rate of 99.9% as at the LPD and there are provisions in the Property's existing tenancies for future potential upward rental revisions. Hence, the Proposed Acquisition is still expected to contribute positively to the future earnings of MQREIT.

6.4.3.2 EPU, NPI yield and DPU yield

Assuming the Proposed Acquisition and Proposed Placement were effected on 1 January 2015, the effects of the pro forma EPU and NPI yield are as follows:

	Audited as at 31 December 2015 (RM'000)	After the Proposed Acquisition and Proposed Placement (RM'000)
EPU (sen)	9.05	⁽¹⁾ 7.04
NPI	90,272	124,400
Total Asset Value	1,625,240	2,271,421
NPI yield (%)	5.55	5.48

Note:

(1) Assuming no Manager's Units are issued.

The issuance of new Units pursuant to the Proposed Placement and Proposed Authority will dilute the EPU as well as DPU, given the enlarged number of Units in circulation, the quantum of which would depend on the actual number of new Units to be issued which, in turn, would depend on the issue price of the new Units and the final proportion of the Purchase Consideration to be financed by equity.

Nevertheless, the dilution impact on NPI yield and DPU yield can be mitigated by the following:

- (a) future increase in net income from expected rental revision of the current portfolio and the Property. The Property currently has a high occupancy rate of 99.9% which reflects the strong demand for the Property's office spaces. The Property is also expected to enjoy a stable and reasonably long term sustainable rentals as supported by the Lease Agreements with Shell occupying a total of 17 floors out of the Property's 33-storey

office tower. Further, there are provisions in the Property's existing tenancies for future potential upward rental revisions.

The prospects of the Property are also expected to be positive in view of the Property's competitive strengths, namely its strategic location, good accessibility and high quality specifications that meet the requirements of MQREIT's clientele requirements. These property attributes are expected to be able to retain existing tenants and attract new ones, which in turn will provide a stable income stream to MQREIT;

- (b) a portion of the Management Fee may potentially be paid in new Units pursuant to the Proposed Authority. The additional cash conserved can be used for distribution to the Unitholders; and/or
- (c) the Manager can consider varying its payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

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6.4.4 NAV per Unit and gearing

Assuming the Proposed Acquisition and Proposed Placement were effected on 31 December 2015, the effects of the pro forma NAV per Unit before income distribution as at 31 December 2015 at the Illustrative Issue Prices are as follows:

	Audited as at 31 December 2015 (RM'000)	Illustrative Issue Price at RM1.05 (RM'000)	Illustrative Issue Price at RM1.10 (RM'000)	Illustrative Issue Price at RM1.15 (RM'000)	Illustrative Issue Price at RM1.20 (RM'000)
NAV	903,855	1,363,022	1,363,022	1,363,022	1,363,022
No. of Units ('000)	661,381	1,106,778	1,086,533	1,068,048	1,051,103
NAV per Unit⁽¹⁾ (RM)	1.37	1.23	1.25	1.28	1.30
Borrowings	689,722	(2)876,737	(1)876,737	(2)876,737	(2)876,737
Total assets value	1,625,240	2,271,421	2,271,421	2,271,421	2,271,421
Gearing⁽³⁾ (%)	42.44	38.60	38.60	38.60	38.60

Notes:

- (1) Before income distribution.
(2) After deducting the upfront cost associated with the borrowings.
(3) Calculated by dividing borrowings with total assets value.

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The NAV per Unit will be diluted from approximately RM1.37 per Unit as at 31 December 2015 to a range of between RM1.23 and RM1.30 per Unit after completion of the Proposed Acquisition. Nonetheless, the NAV of MQREIT is expected to be enhanced as the Proposed Acquisition is expected to contribute positively to the prospective NAV per Unit arising from the future earnings to be contributed by the Property owing to the Property's competitive strengths.

The Property currently has a high occupancy rate of 99.9%, which reflects the strong demand for the Property's office spaces. The Property is also expected to enjoy a stable and reasonably long term sustainable rentals as supported by the Lease Agreements with Shell occupying a total of 17 floors out of the Property's 33-storey office tower. Further, there are provisions in the Property's existing tenancies for future potential upward rental revisions.

The prospects of the Property are also expected to be positive in view of its strategic location, good accessibility and high quality specifications that meet the requirements of MQREIT's clientele requirements. These property attributes are expected to be able to retain existing tenants and attract new ones, which in turn will provide a stable income stream to MQREIT.

Gearing is expected to improve from 42.4% to 38.6% after the Proposed Acquisition and Proposed Placement as 71.3% of the Total Cash Outlay is funded via equity based on the Indicative Financing Proportion. The gearing after the Proposed Acquisition and Proposed Placement is also within the range of MQREIT Peers of between 33.3% and 46.2%. Further, should the Manager be able to place out the Placement Units at a higher Issue Price, the proceeds from the Proposed Placement is expected to be higher, which will result in a lower borrowings and gearing level.

Premised on the above, we are of the opinion that the effects of the Proposed Acquisition and Proposed Placement are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

6.5 INDUSTRY OVERVIEW AND FUTURE PROSPECTS

6.5.1 Malaysian economic overview and outlook

Malaysia's 4.1% growth in the first half of 2016 (January – June 2015: 5.3%) was mainly driven by domestic demand, which grew at a steady pace of 5% (January – June 2015: 6.3%) on account of private sector spending. Private consumption expanded 5.8% (January – June 2015: 7.7%), mainly driven by the stable labour market and income growth. Gross fixed capital formation increased 3.2% (January – June 2015: 3.9%), mainly led by private investment activity, which grew 4% (January – June 2015: 7.4%). The surplus in the goods and services account of the balance of payments narrowed to RM31.8 billion (January – June 2015: RM42.8 billion) following weak global demand and declining commodity prices.

On the supply side, all sectors of the economy recorded positive growth except agriculture. The services sector grew 5.4% (January – June 2015: 5.7%) spurred by higher activity in the wholesale and retail trade, information and communication, as well as food and beverages and accommodation subsectors. The manufacturing sector grew 4.3% (January – June 2015: 4.9%), mainly supported by electrical and electronics and resource-based products subsectors. The construction sector expanded further by 8.4% (January – June 2015: 7.6%) underpinned by higher activity in the civil engineering and residential segments. Meanwhile, the mining sector grew at a moderate pace of 1.4% (January – June 2015: 7.8%) on account of lower output of crude oil. In contrast, the agriculture sector declined 6% (January – June 2015: 0.3%) due to lower output of crude palm oil and rubber.

Given the nation's strong economic fundamentals coupled with the 2017 budget strategies and programmes, the economy is expected to expand between 4% and 5% in 2017. The expansion translates into gross national income per capital growth of 5% from RM37,812 to RM39,699. On the demand side, growth will emanate from domestic demand, particularly private consumption and private investment expenditures which are expected to expand 6.3% and 5.8%, respectively. In tandem with higher investment activities, the savings-investment gap is expected to narrow to 0.5% - 1.5% of gross national income (2016: 1% - 1.5%). Inflation will remain manageable, while the economy continues to operate under full employment. All sectors of the economy are expected to contribute to growth, with the services and manufacturing sectors spearheading the expansion. With the government's commitment to enhancing revenue and rein in expenditure, the fiscal deficit is expected to improve further to 3% of gross development product. These developments will strengthen the economic fundamentals and augurs well for a nation in transition from an upper-middle to a high-income and advanced nation.

(Source: Economic Report 2016 - 2017, Ministry of Finance Malaysia)

COMMENTS

Based on the above, the outlook of the Malaysian economy is expected to remain positive as supported by a sustained growth in domestic demand, particularly private consumption and private investment expenditures.

6.5.2 Overview and prospects of the office and retail property in Klang Valley

The Klang Valley PBO market was insipid during the review period, being the fourth quarter of 2015 ("4Q 2015"), due to a combination of dreary global and domestic economic performance and falling commodity prices. The PBO sector will continue to remain as tenants' market with some 4.5 million sq ft scheduled for completion by end 2016. Vacancy rate is expected to hover around 15% to 18% in view of anticipated completions over the next 3 years.

Nevertheless, despite concerns about the present market conditions, demand for office space is expected to remain stable supported by local as well as foreign demand, primarily by the services sector, due to the weakening ringgit.

Market prices and rentals of PBO buildings, on the other hand, are also anticipated to remain stagnant where better quality office space will continue to stand out, fetching slightly higher premiums compared to current rental levels.

Supply

As at 4Q 2015, the cumulative PBO supply in the Klang Valley stood at 98.6 million sq ft with Central Kuala Lumpur continuing to be the focus, accounting for 45.3 million sq ft (or 46% of total Klang Valley supply) followed by Metropolitan Kuala Lumpur at 39.6 million sq ft (or 40% of total Klang Valley supply) and the remaining 13.7 million sq ft (or 14% of total Klang Valley supply) from Greater Kuala Lumpur.

In terms of office grading, approximately 61.6 million sq ft (or 62% of total Klang Valley supply) are contributed by prime office buildings, i.e. Grade Premium A and Grade A while the remaining are contributed by non-prime space which accounted for some 36.9 million sq ft (or 38% of total Klang Valley supply) during the review period.

In Western Metropolitan Kuala Lumpur where the subject property is located, the total supply of PBO space stood at 19.1 million sq ft (or 19% of total Klang Valley supply) where prime office space accounted for 16.3 million sq ft (or 85% of total Western Metropolitan Kuala Lumpur supply).

In terms of future supply, a total of 15 new PBO buildings or approximately 7.2 million sq ft of office space are expected to be completed in the Klang Valley by end of 2018 with about 4.1 million sq ft (or 57% of total Klang Valley future supply) located in Metropolitan Kuala Lumpur.

About 3.0 million sq ft, or 74% of the total share of Metropolitan Kuala Lumpur future supply, are located within Western Metropolitan Kuala Lumpur.

Demand

The overall vacancy of office space in the Klang Valley had improved by 0.9% from 2014 and registered at 15.3% during the review period. Central Kuala Lumpur and Metropolitan Kuala Lumpur experienced an increase of 3.5% and 0.3% from 2014 to register a vacancy rate of 13.5% and 20.6% respectively. Greater Kuala Lumpur, on the other hand, had a marginal improvement of about 0.1% registering at 23.7% during the review period.

The overall vacancy rate in Western Metropolitan Kuala Lumpur observed an improvement of about 8.1% from 2014, registering at 12.7% during the review period. The improvement in the vacancy rate was largely due to the closure of Damansara Town Centre.

Rents and capital values

The Valuer's survey of prime office rentals in Central Kuala Lumpur and Western Metropolitan Kuala Lumpur revealed that rental growth from 2007 to 2011 was the most apparent in Western Metropolitan Kuala Lumpur for all categories, with and without MSC Malaysia Status. The growth of rental levels over the past couple of years could be due to the completion of new generation of office buildings such as Quill 7 at Kuala Lumpur Sentral, Plaza Sentral, 1 Sentral at Kuala Lumpur Sentral, Menara UOA Bangsar (Towers A and B) in Bangsar, Gardens North and South Towers and Centrepoin at Mid Valley City.

In general, gross asking rentals have improved since 2008 owing to the newer breed of office buildings which are mostly of better quality, with MSC Malaysia Status and/or with Green Building compliance/certification. Prime office space in Central Kuala Lumpur continues to command top rentals despite being a close match with similar office space with MSC Malaysia Status situated in Western Metropolitan Kuala Lumpur, particularly those in Kuala Lumpur Sentral transport hub. This could likely be due to the tenants' preference for prime office premises with a Kuala Lumpur address which still ranks high amongst the multinational companies and financial sector as it exudes prestige, being the capital city.

The office market in Malaysia is not particularly mature to reflect any significant price trends over the years, however, observation on the transactions of prime office buildings, i.e. Grade Premium A and Grade A in Kuala Lumpur had noted an upward price trend.

Outlook

The Klang Valley office market, as at 4Q 2015, appeared to have been improving moderately with occupancy rate increase quarter-on-quarter by 1.2% from 83.5% in the fourth (4th) quarter of 2014 to 84.7% during the review period albeit lower by 1.7% as compared with the first quarter of 2015. A slower performance was observed likely due to the sluggish condition of foreign markets and a very cautious local market.

In terms of future supply, approximately 7.2 million sq ft from 15 PBO buildings are expected to be released into the Klang Valley market by end 2018. Out of the total, 6 office buildings totaling 3.0 million sq ft are located within Western Metropolitan Kuala Lumpur. Should all these office buildings which are currently under various stages of construction complete as scheduled, it is envisaged that these new completions may exert pressure to the market in terms of rental and performance.

The outlook for the office sector in the Klang Valley within the next 6 to 12 months shall nevertheless remain resilient with some indications of further movement of tenants but with no real growth expected in market rentals. Nevertheless, landlords of quality grade office buildings are likely to maintain their present rental rates for the remaining vacant office space in the next 6 to 12 months. Selected newer buildings that are expected to come on stream or have recently completed are commanding premium rentals as they are mostly provided with more advanced features like Green Building Index/LEED compliant as well as MSC Malaysia Status/CyberCentre status.

Market prices of office buildings are expected to generally remain stable in the short term despite numerous transactions recorded in the last 12 months. However, on the investment front, interest is very keen and with the weakening of ringgit, transactional activities are expected to increase in the next 6 to 12 months where prime office buildings with investment potential are expected to continue to attract investors.

(Source: Valuation Report)

COMMENTS

Premised on the above, we are of the view that the prospects of the office and retail property in Klang Valley are expected to remain resilient underpinned by the stable demand for office spaces as supported by local as well as foreign demand, primarily by the services sector, due to the weakening RM, despite the significant incoming supply of office space. Although the market prices and rentals of PBO are anticipated to remain stagnant, office spaces with MSC Malaysia Status and Green Building compliance/certification located in strategic locations such as the Property are expected to continue to command top rentals.

Although in the Central and Metropolitan KL areas have experienced increases in vacancies, the Property is currently 99.9% tenanted with its anchor tenant (i.e. Shell) having a long remaining Lease period of about 12 years, occupying a total of 17 floors out of the Property's 33-storey office tower, pursuant to the Lease Agreements.

6.5.3 Prospects of the Property

The Property is strategically located in Kuala Lumpur Sentral, a self-contained urban development comprising of an integrated transit hub known as Kuala Lumpur Sentral Station, corporate office towers and business suites, 5-star international hotels, condominiums and a shopping mall. It is within walking distance to Kuala Lumpur Sentral Station which consists of 8 major transit lines including a dedicated line to KLIA and the soon to be completed Mass Rapid Transit Line. The Property's strategic location will benefit its tenants in view of the excellent connectivity to other urban and suburban residential, commercial and industrial hubs within Malaysia, KLIA, Putrajaya (the Federal Government Administrative Centre) and Cyberjaya.

The Property is easily accessible via Jalan Tun Sambanthan and Jalan Travers. It can also be easily accessed from few major highways and roads like the Federal Highway, the New Pantai Expressway, Jalan Bangsar, Jalan Tun Sambanthan, Jalan Istana, Jalan Damansara, Lebuhraya Sultan Iskandar (formerly known as Lebuhraya Mahameru), New Pantai Expressway and Federal Highway linking the Property to other commercial hubs within Kuala Lumpur such as Bangsar, Damansara and the Kuala Lumpur Sentral business district as well as other main locations within Selangor such as Petaling Jaya and Shah Alam.

Other than its prime location, the Property was built with emphasis on energy saving and environment sustainability. The Property is designed with energy efficiencies and green features, and has been accorded the LEED platinum certification. In addition, the Property is designed to provide for high levels of natural lighting and is equipped with state of the art green technology which includes a thermal energy storage system, under floor air conditioning system, rainwater recycling system and daylight harvesting system. In addition, it is also accredited with MSC Malaysia Status which is one of the requirements by many multinational and local corporations.

It currently enjoys high committed occupancy rate made up of reputable and established tenants comprising of multinational and local companies, on the back of more than half of its total NLA committed under long lease arrangements.

The prospects of the Property are expected to be positive in view of its strategic location, good accessibility and high quality specifications that meet the requirements of MQREIT's clientele requirements. These property attributes are expected to be able to retain existing tenants and attract new ones, which in turn will provide a stable income stream to MQREIT.

(Source: The Manager)

COMMENTS

We are of the view that the prospects of the Property are favourable in view of its prime location in Kuala Lumpur Sentral coupled with excellent connectivity as well as its green building features and MSC Malaysia Status. These key features of the Property are expected to contribute to its ability to continue to generate sustainable rental income, supported by its long-term Lease Agreements with Shell.

6.6 RISK FACTORS RELATING TO THE PROPOSED ACQUISITION AND PROPOSED PLACEMENT

In evaluating the Proposed Acquisition and Proposed Placement, you should carefully consider the potential risk factors disclosed under Section 5, Part A of the Circular before voting on the ordinary resolutions pertaining to the Proposed Acquisition and Proposed Placement at the forthcoming Meeting.

In addition to the risk factors contained in Section 5, Part A of the Circular, Non-Interested Unitholders should also consider the risk that the final Issue Price of the Proposed Placement has yet to be determined. The final Issue Price is still uncertain at this juncture and hence, the actual impact of the Proposed Acquisition and Proposed Placement to the yield and financials of MQREIT cannot be determined. Depending on the level of discount and hence the final Issue Price, the lower the Issue Price, the more dilutive the DPU and hence impacting on the overall DPU yield of MQREIT.

The Non-Interested Unitholders however should also note that our analysis on the Issue Price of the Proposed Placement as presented in Section 6.2.3 of this IAL is based on the lower Illustrative Issue Prices as at the date of the Announcement, which even at the maximum discount of approximately 10% (i.e. Issue Price of RM1.05), the DPU and DPU yield are still within the range of MQREIT Peers. Given that the current price of the Units, based on the 5-day VWAMP up to and including the LPD is higher at approximately RM1.2764 per Unit, this will only result in higher illustrative DPU and DPU yield.

Further, the Proposed Acquisition should not materially expose MQREIT to any new categories of risks which are not within its current risk profile, given that MQREIT is already operating in the Kuala Lumpur Sentral office market and the Manager is experienced in managing office buildings, including Platinum Sentral, an office building located in KL Sentral.

We further note that the Board had, where possible, taken necessary measures to mitigate and/or reduce the risks associated with the Proposed Acquisition and Proposed Placement.

Non-Interested Unitholders should note that the risk factors mentioned above are not meant to be exhaustive. We wish to highlight that while efforts and measure would be taken by the Board to mitigate the risks as set out in Section 5, Part A of the Circular and this section in this IAL, no assurance can be given that one or combination of the risk factors will not occur and give rise to material and adverse impact on the business and operations, competitiveness, financial performance, financial position or prospects of MQREIT thereon.

6.7 OTHER CONSIDERATIONS OF THE PROPOSED PLACEMENT

6.7.1 Proposed Placement

We note from Section 2.2, Part A of the Circular that the Proposed Placement, which will involve an issuance of up to 406,666,667 Placement Units representing up to 38.1% of the enlarged Units in circulation after the Proposed Placement, is intended to partially fund the Proposed Acquisition. The Proposed Placement will be undertaken via a bookbuilding exercise and hence the actual Placement Units as well as the Issue Price can only be determined after the bookbuilding exercise. We had in Section 6.2.3 of this IAL evaluated the reasonableness of the possible Issue Prices of the Proposed Placement based on a range of RM1.05 to RM1.20. We had noted that even at the lower price range of RM1.05 being applied to the Placement Price, the DPU, P/E Multiple and P/NAV Multiple of MQREIT are comparable to the MQREIT Peers. Notwithstanding that MQREIT's DPU yield is below the range of MQREIT Peers for the Issue Price range of RM1.05 to RM1.15, it should be noted that the market price of the Units post entering into the SPA on 30 June 2016 had not traded below RM1.15 and the 5-day VWAMP of the Units up to and including the LPD is RM1.2764. Additionally, the DPU yield may also improve in the event of future increase in net income from the Property arising from future potential upward rental revisions.

The Proposed Placement was determined by the Board after taking into consideration that it represents a more expeditious manner to raise funds for the Proposed Acquisition as the Proposed Placement can be implemented immediately post obtaining Unitholders' approval. Additionally, the level of discount accorded for a private placement is typically not as steep as a rights issue, which will result in lesser number of Units issued in order to raise the same amount of gross proceeds. Notwithstanding that the Proposed Placement may have a dilutive impact to the existing Unitholders (apart from MRCB), considerations were also given that there is no requirement for them to contribute additional capital.

Further, considerations were also given to MQREIT's current debt profile vis-a-vis the borrowings restrictions of a fund under REIT Guidelines. The Proposed Placement will reduce MQREIT's current borrowings from 42.4% to 38.6% and hence provide headroom for future cash acquisitions, in line with the MQREIT's growth strategy. The Proposed Placement to MRCB will also provide no less than RM110 million to RM152 million, representing up to approximately 33% of the total equity proceeds raised. This amount may potentially be higher in the event EPF participates in the Proposed Placement. Given the speed at which the Proposed Placement can be implemented, the resultant lower gearing and the commitment from a major Unitholder, the Proposed Placement is expected to augur well for MQREIT.

6.7.2 Proposed Placement to MRCB

As part of the Proposed Placement, we note that MRCB has undertaken to subscribe for the Placement Units at the issue price to be determined by way of a bookbuilding exercise for an amount of no less than RM110.0 million but up to RM152.0 million in value.

We note that MRCB will not participate in the bookbuilding process for the Proposed Placement. Hence, we deemed this to be not detrimental to the Non-Interested Unitholders in view that MRCB will not be able to determine the Issue Price. MRCB, as a price-taker, shall accept the final price for its Placement Units, being the issue price to be determined after the bookbuilding exercise is closed.

In addition, the Proposed Placement to MRCB demonstrates MRCB's support and confidence to MQREIT's future prospects as well as reaffirming its commitment to MQREIT.

6.7.3 Proposed Placement to EPF

We note that EPF had confirmed its interest to participate in the Proposed Placement for up to 7% of the enlarged Units in circulation after the Proposed Placement through a bookbuilding exercise, provided that EPF's subscription of the Placement Units (i) shall be at its preferred price (being bid price to be submitted by EPF during the bookbuilding process); (ii) will not in any way trigger a mandatory take-over offer of the remaining Units not owned by EPF and persons acting in concert with it and that MQREIT; and/or (iii) the Manager will ensure that EPF's subscription of the Placement Units shall not in any way trigger a mandatory take-over offer.

Although EPF is deemed as a person connected with MRCB pursuant to the Proposed Acquisition, we are of the view that the Proposed Placement to EPF is not detrimental to the interest of the Non-Interested Unitholders in view of the following:

- (i) although EPF is a major shareholder of MRCB, it is not involved in the day-to-day operations of the MRCB Group;
- (ii) the Proposed Placement is undertaken via a bookbuilding process wherein investors will be invited to bid for the Placement Units at various prices and the final outcome of the book will be determined by taking into consideration the actual bid size and the corresponding bid price for the Placement Units from each investor who will be participating in the bookbuilding exercise. Accordingly, there is no assurance that EPF will be allocated with the Placement Units; and
- (iii) EPF, as a social security organisation, would need to act in the best interest of its members in respect of the Proposed Placement to EPF and submit a bid in the bookbuilding exercise at a price which is not detrimental to the interest of its members.

In addition, depending on the result of the bookbuilding exercise, EPF may potentially emerge as a direct Unitholder with a substantial unitholding in MQREIT. This would augur well for MQREIT by having a reputable institutional investor as its direct Unitholder with a substantial unitholding.

7. CONCLUSION AND RECOMMENDATION

In evaluating the Proposed Acquisition and Proposed Placement, you should carefully consider the following factors:

(i) Rationale for and benefits of the Proposed Acquisition

The Proposed Acquisition is in line with the investment objective of MQREIT to provide a long term and sustainable distribution of income to the Unitholders and to achieve long term growth in the NAV per Unit. It would augur well for MQREIT to undertake the Proposed Acquisition as the Property is expected to contribute positively to the future earnings and distributable income of MQREIT which would in turn enhance the prospective NAV per Unit and DPU yield with (i) the future increase net income from the Property, as supported by almost full occupancy rate of the Property and the provisions in the Property's existing tenancies for future potential upward rental revisions; (ii) payment of a portion of the Management Fee in new Units to conserve additional cash for distribution to the Unitholders; and/or (iii) varying its payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

Further, the Proposed Acquisition will also strengthen MQREIT's position as a sizeable, geographically well-diversified office REIT in the Klang Valley as well as among the listed REITs in Malaysia in terms of total asset size and market capitalisation.

The Property is also expected to fit well into MQREIT's clientele requirements, enhance its portfolio profile and contribute positively to the performance of MQREIT in view of the Property's high occupancy rate, strategic location, green building features and MSC Malaysia Status as well as high quality tenancy mix profile.

Premised on the above, we are of the view that there is sufficient merit to the rationale for and benefits of the Proposed Acquisition and Proposed Placement as a whole and it is reasonable and not detrimental to the interest of the Non-Interested Unitholders.

(ii) Rationale for and benefits of the Proposed Placement

The Proposed Placement represents a more expeditious manner to raise funds for the Proposed Acquisition as the Proposed Placement can be implemented immediately post obtaining Unitholders' approval. Additionally, the level of discount accorded for a private placement is typically not as steep as a rights issue, which will result in lesser number of Units issued in order to raise the same amount of gross proceeds.

Further, the Proposed Placement will reduce MQREIT's current borrowings from 42.4% to 38.6% and hence provide headroom for future cash acquisitions, in line with the MQREIT's growth strategy. The Proposed Placement to MRCB will also provide no less than RM110 million to RM152 million, representing up to approximately 33% of the total equity proceeds raised. This amount may potentially be higher in the event EPF participates in the Proposed Placement. Given the speed at which the Proposed Placement can be implemented, the resultant lower gearing, the lower discount accorded to the issue price of the Placement Units and the commitment from a major Unitholder, the Proposed Placement is expected to augur well for MQREIT.

(iii) Evaluation of the Purchase Consideration

The Purchase Consideration was arrived at based on the market value of the Property of RM640,000,000 as appraised by the Valuer. The Valuer has adopted the Investment Method as the principal valuation methodology to arrive at the market value of the Property in view that it is an income generating property, whilst the Comparison Method was used to cross check against the market value of the Property derived from the Investment Method.

Premised on the foregoing, we are of the opinion that the Purchase Consideration is fair and not detrimental to the interest of the Non-Interested Unitholders.

(iv) Settlement of consideration

The Total Cash Outlay will be satisfied wholly in cash through a combination of proceeds from the Proposed Placement and borrowings, the breakdown of which has yet to be determined and will be dependent upon, amongst others, the actual size and issue price of the Placement Units.

Nonetheless, the Indicative Financing Proportion to finance the Total Cash Outlay is reasonable in view that it strikes a balance between equity and debt financing and MQREIT is able to maintain a manageable gearing position with a healthy debt headroom before reaching the Gearing Limit. However, the Non-Interested Unitholders should note that in the event the proceeds raised from the Proposed Placement is less than RM467.7 million, such shortfall will be funded via borrowings which would increase the gearing of MQREIT. Nonetheless, it is the intention of MQREIT that an underwriting arrangement for the Proposed Placement in respect of the remaining amount (excluding the Proposed Placement to MRCB) to be executed on the day of the bookbuilding exercise. The said underwriting arrangement will be subject to terms and conditions to be agreed upon between the Manager and the Joint Placement Agents.

(v) Issue Price of the Placement Units

Based on the Illustrative Issue Prices of RM1.05 to RM1.20, the DPU, P/E Multiple and P/NAV Multiple of MQREIT are comparable to MQREIT Peers. Notwithstanding that MQREIT's DPU yield is below the MQREIT Peers for the Issue Price range of RM1.05 to RM1.15, it should be noted that the market price of the Units post entering into the SPA on 30 June 2016 had not traded below RM1.15 and the 5-day VWAMP of the Units up to and including the LPD is RM1.2764. Additionally, the DPU yield may also improve in the event of future increase in net income from the Property arising from future potential upward rental revisions, a portion of the Management Fee may potentially be paid in new Units pursuant to the Proposed Authority and the Manager may consider varying the payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

The final impact will still be dependent on the final Issue Price and hence the final financing proportions of the proceeds from the Proposed Placement and borrowings. However, based on the current price of the Units, based on the 5-day VWAMP up to and including the LPD, which is higher at approximately RM1.2764 per Unit, the illustrative P/E Multiple and P/NAV Multiple will be lower and the illustrative DPU and DPU yield will be higher.

(vi) Salient terms of the SPA

Based on our review of the salient terms of the SPA, the terms and conditions of the SPA are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

(vii) Effects of the Proposed Acquisition and Proposed Placement

The number of Units in circulation would increase from 661.4 million Units as at the LPD to up to 1,068.0 million Units after the Proposed Placement. Following the completion of the Proposed Placement, MRCB will remain as the single largest Unitholder and EPF may emerge as a substantial Unitholder.

The ROA of the Property amounts to 5.27% whilst the ROA of MQREIT amounts to 5.55% as at 31 December 2015. Nevertheless, the ROA of the Property is expected to improve as the Property has now achieved occupancy rate of 99.9% as at the LPD and there are provisions in the Property's existing tenancies for future potential upward rental revisions. Hence, the Proposed Acquisition is expected to contribute positively to the future earnings of MQREIT.

Assuming that the Proposed Acquisition and Proposed Placement were effected on 1 January 2015, the pro forma NPI yield will be lower post-Proposed Acquisition and Proposed Placement, from 5.55% as at 31 December 2015 to 5.48%. Nevertheless, the NPI and NPI yield of the Property is expected to improve as the Property has now achieved occupancy rate of 99.9% as at the LPD and there are provisions in the Property's existing tenancies for future potential upward rental revisions.

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The issuance of new Units pursuant to the Proposed Placement and Proposed Authority will dilute the EPU as well as DPU, given the enlarged number of Units in circulation, the quantum of which would depend on the actual number of new Units to be issued which, in turn, would depend on the issue price of the new Units and the final proportion of the Purchase Consideration to be financed by equity. Nevertheless, the Manager intends to continue to distribute at least 90% of the distributable income of MQREIT for each financial year and the Proposals are still expected to be DPU yield accretive for Unitholders after taking into consideration the future increase in net property income from the Property and the additional cash conserved for distribution to the Unitholders via the issuance of Manager's Units to the Manager as payment of Management Fee and/or variation of its payout ratio from its existing payout ratio of 94.3% as at 31 December 2015 subject to a distribution of at least 90.0% of the net realised income of MQREIT.

The pro forma NAV per Unit before income distribution as at 31 December 2015 is expected to decrease from RM1.37 per Unit to a range of between RM1.23 and RM1.30 per Unit assuming the Proposed Acquisition and Proposed Placement were effected on 31 December 2015, whilst the gearing of MQREIT is expected to decrease from 42.4% to 38.6%, assuming gross proceeds of RM467.7 million is raised from the Proposed Placement.

Premised on the above, we are of the opinion that the effects of the Proposed Acquisition and Proposed Placement are reasonable and not detrimental to the interest of the Non-Interested Unitholders.

(viii) Industry overview and future prospects

The outlook of the Malaysian economy is expected to remain positive as supported by a sustained growth in domestic demand, particularly private consumption and private investment expenditures.

On the other hand, the prospects of the office and retail property in Klang Valley are expected to remain resilient underpinned by the stable demand for office spaces as supported by local as well as foreign demand, primarily by the services sector, due to the weakening of RM. Although the market prices and rentals of office buildings are anticipated to remain stagnant, better quality office spaces are expected to stand out, fetching slightly higher premiums as compared to current rental levels.

Further, the prospects of the Property are favourable in view of its prime location in Kuala Lumpur Sentral coupled with excellent connectivity as well as its green building features and MSC Malaysia Status. In addition, the Property has a high occupancy rate of approximately 99.9%, with its anchor tenant (i.e. Shell) having long remaining Lease period of about 12 years, occupying a total of 17 floors out of the Property's 33-storey office tower, pursuant to the Lease Agreements.

(ix) Risk factors relating to the Proposed Acquisition and Proposed Placement

Non-Interested Unitholders should also consider the risk that the final Issue Price of the Proposed Placement has yet to be determined. The final Issue Price is still uncertain at this juncture and hence, the actual impact of the Proposed Acquisition and Proposed Placement to the yield and financials of MQREIT cannot be determined. Depending on the level of discount and hence the final Issue Price, the lower the Issue Price, the more dilutive the DPU and hence impacting on the overall DPU yield of MQREIT.

The Proposed Acquisition should not materially expose MQREIT to any new categories of risks which are not within its current risk profile and the Board will take necessary measures to mitigate the risks associated with the Proposed Acquisition and Proposed Placement.

Nonetheless, the Non-Interested Unitholders should note that the risk factors as set out in Section 5, Part A of the Circular are not meant to be exhaustive and there can be no assurance that any of the risk factors will not have a material and adverse effect on the business and financial position of MQREIT.

(x) Other considerations of the Proposed Placement

In view of the interest of MRCB in the Proposed Acquisition, MRCB will not have any influence on the manner in which the book builds for the Proposed Placement and the determination of the issue price of the Placement Units. MRCB, as a price-taker, shall accept the final price for its Placement Units, being the issue price to be determined after the bookbuilding exercise is closed. In addition, the Proposed Placement to MRCB demonstrates MRCB's support and confidence to MQREIT's future prospects as well as reaffirming its commitment to MQREIT.

Although EPF is deemed as a person connected with MRCB pursuant to the Proposed Acquisition, we are of the view that the Proposed Placement to EPF is not detrimental to the interest of the Non-Interested Unitholders in view of the following:

- (a) although EPF is a major shareholder of MRCB, it is not involved in the day-to-day operations of the MRCB Group;
- (b) the Proposed Placement is undertaken via a bookbuilding process wherein investors will be invited to bid for the Placement Units at various prices and the final outcome of the book will be determined by taking into consideration the actual bid size and the corresponding bid price for the Placement Units from each investor who will be participating in the bookbuilding exercise. Accordingly, there is no assurance that EPF will be allocated with the Placement Units; and
- (c) EPF, as a social security organisation, would need to act in the best interest of its members in respect of the Proposed Placement to EPF and submit a bid in the bookbuilding exercise at a price which is not detrimental to the interest of its members.

In addition, depending on the result of the bookbuilding exercise, EPF may potentially emerge as a direct Unitholder with a substantial unitholding in MQREIT. This would augur well for MQREIT by having a reputable institutional investor as its direct Unitholder with a substantial unitholding.

We have evaluated and analysed the Proposed Acquisition and Proposed Placement as a whole and after taking into consideration the various factors as discussed above, we are of the view that the Proposed Acquisition and Proposed Placement are **fair and reasonable** and **not detrimental** to the interest of the Non-Interested Unitholders.

Accordingly, we recommend that you vote in favour of the ordinary resolutions pertaining to the Proposed Acquisition and Proposed Placement to be tabled at the forthcoming Meeting.

Yours faithfully,
For and on behalf of
Aminvestment Bank Berhad

JEANIE LIM
Senior Vice President
Corporate Finance

SHARON CHUNG
Senior Vice President
Corporate Finance

VALUATION CERTIFICATE FOR THE PROPERTY**Report and Valuation**

Our Ref : WTW/01/V/001225B/15/LAI

Date : 20 June 2016

MRCB-Quill REIT
 c/o Maybank Trustees Berhad
 8th Floor, Menara Maybank
 100, Jalan Tun Perak
 50050 Kuala Lumpur

Dear Sirs

CERTIFICATE OF VALUATION
MENARA SHELL
ERECTED ON PART OF PARENT LOT NO. 348 SECTION 72
TOWN AND DISTRICT OF KUALA LUMPUR
FEDERAL TERRITORY OF KUALA LUMPUR
FOR SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD

In accordance with the instructions of MRCB-Quill REIT, we, C H Williams Talhar & Wong Sdn Bhd, have carried out a valuation on the above mentioned property as at 19 May 2016 **ON THE BASIS AS STATED IN DETAIL UNDER TERMS OF REFERENCE HEREIN** for the purpose of submission to Bursa Malaysia Securities Berhad in relation to the proposed acquisition by MAYBANK TRUSTEES BERHAD (acting as Trustee, for and on behalf of MRCB-QUILL REIT), of one (1) block of thirty three (33) storey stratified office building together with a five (5) storey podium and four (4) levels of basement car park known as "Menara Shell" bearing postal address of No. 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur from 348 SENTRAL SDN BHD, a wholly-owned subsidiary of MALAYSIAN RESOURCES CORPORATION BERHAD.

We have prepared and provided this Valuation Certificate which outlines key factors that have been considered in arriving at our opinion of Market Value and reflects all information known by us and based on present market conditions.

We have inspected the property on 4 September 2015, 4 November 2015 and 19 May 2016; the material date of valuation is taken as at 19 May 2016.

This valuation has been prepared in accordance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and Malaysia Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The basis of the valuation is Market Value which is defined by the Malaysian Valuation Standards (MVS) to be "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

This Certificate of Valuation should be read in conjunction with the full Report and Valuation.

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VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)

C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

Page 2

IDENTIFICATION OF PROPERTY

Interest Valued	: One (1) block of thirty three (33) storey stratified office building erected on a five (5) storey podium and four (4) levels of basement car park
Address	: Menara Shell, No. 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur
Strata Title	: Yet to be issued
Parent Title No	: GRN 40094
Parent Lot No.	: Lot 348 Section 72, Town and District of Kuala Lumpur, Federal Territory of Kuala Lumpur
Net Lettable Area	: 51,751.97 square metres (557,053 square feet)
Tenure	: Term in perpetuity (Freehold)
Category of Land Use	: Building
Registered Owner	: 348 SENTRAL SDN BHD
Encumbrance	: Charged to CIMB INVESTMENT BANK BERHAD (as security agent for CIMB BANK BERHAD, EON BANK BERHAD* and RHB BANK BERHAD)

***Note:**

We noted that EON BANK BERHAD is currently known as HONG LEONG BANK BERHAD.

Restriction In Interest	: Nil
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TERMS OF REFERENCE

As instructed, the valuation shall be conducted based on the following bases:-

- i) The subject property has a net lettable area of 557,053 square feet as per the tenancy schedule dated 25 March 2016;
- ii) The subject property has a total of 915 car parking bays and 110 motorcycle bays; and
- iii) Individual strata title with "building" category of land use will be issued to the subject property for commercial use conveying a freehold tenure, which is registerable, transferable and marketable.

THIS VALUATION IS BASED ON AVAILABLE INFORMATION THAT IS PRESUMED TO BE CORRECT. WE RESERVE THE RIGHT TO AMEND THE FACTS AND THE VALUE IN THE EVENT THAT THESE ARE INCORRECT.

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)

C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

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GENERAL DESCRIPTION

The subject property, which known as Menara Shell, is located within the Kuala Lumpur Sentral development. It is located approximately 10 kilometres by road to the south-west of Kuala Lumpur City Centre (KLCC).

Developments within the vicinity include Brickfields, Mid Valley City, KL Eco City, Taman Seputeh, Federal Hill, Taman Bangsar and Taman Bukit Pantai.

Site

The parent lot, Lot 348, is near trapezoidal in shape and has a titled land area of 8,475 square metres (approximately 91,224 square feet or 2.0942 acres).

The site is generally flat in terrain and lies at about the same level with the existing frontage metalled road, Jalan Tun Sambanthan. The boundaries of the subject site are not demarcated with any form of fencing.

The compound where not built-upon is improved with concrete driveway, tarmac and landscaped. Proper pre-cast concrete drainage system are provided within the subject site.

Building

Based on the latest Approved Revised Building Plan prepared by Messrs. Hijjas Kasturi Associates Sdn and approved by Dewan Bandaraya Kuala Lumpur on 4 December 2012 vide reference no. BP S1 OSC 2012 1425 and the Bomba submission plan bearing fail no. JBPM:WP/2/0086., the subject development comprises a thirty three (33) storey office building and one (1) block of twenty one (21) storey of serviced apartment (157 units) erected on a five (5) storey podium and four (4) levels of basement car park.

For the purposes of this valuation, we are instructed to value only the thirty three (33) storey stratified office building erected on a five (5) storey podium and four (4) levels of basement car park known as Menara Shell.

The building is constructed of reinforced concrete framework with reinforced concrete floor and reinforced concrete flat roof. The facades are generally of rainscreen system with PVDF coated aluminium composite panel cladding, unitised curtain wall system with ICU glass for vision and monolithic heat strengthened glass for spandrel to PVDF coated extruded aluminium framing and unitised curtain wall system with PVDF coated aluminium composite panel cladding.

The net lettable area of the subject property is 557,053 square feet (approximately 51,751.97 square metres). The subject property comprises 915 car parking bays and 110 motorcycle bays based on our confirmation with the owner and our on-site calculation.

The subject property is sited within the Multimedia Super Corridor (MSC) Malaysia Cybercentre @ Kuala Lumpur Sentral. The subject property has received the LEED Platinum certification by the US Green Building Council. The subject property has won the Malaysia Property Award 2015 for the Office category from FIABCI-Malaysia.

The subject property has been issued with the Certificate of Completion and Compliance (CCC) on 18 February 2014 bearing LAM/WP/No. 3402. The age of the subject property is approximately 2 years old.

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)

C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

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OCCUPATION

Based on the tenancy schedule as at 25 March 2016 provided to us, the occupancy rate of the subject property is approximately 99.87% (556,333 square feet). These tenants are not related to the registered owner. We were made to understand by the owner that there is no changes on the tenancy schedule as at the date of valuation and the tenants are not related to the owner.

The breakdown for occupancy rate of the subject property for the past 2 years is as follows:-

As at	Occupancy Rate
December 2014	71.56%
December 2015	99.87%
May 2016	99.87%

The tenancy period of the tenancies vary from 2 to 15 years. The breakdown of the term of lease / tenancy agreement is as follows:-

Term of Tenancy	Percentage (%)
2 years	0.42%
3 years	44.82%
15 years	54.76%

RENTAL

The average rentals analysed from the tenancy schedule dated 25 March 2016 of Menara Shell provided to us are as follows:-

As at	Average Monthly Rental / Occupied Area
December 2014	RM7.43 psf
December 2015	RM7.28 psf
May 2016	RM7.28 psf

OUTGOINGS

The average outgoings analysed from the Outgoings of Menara Shell for 2015 and Projection of 2016 as provided to us by 348 Sentral Sdn Bhd are as follows:-

Year	Outgoings
2015	RM1.83 psf
Projection 2016	RM2.10 psf

The subject property was completed in Year 2014, therefore, most of the maintenance and repairs were still under defect liability period in Year 2014 and Year 2015.

We were made to understand by the owner that the outgoings for October to December 2015 has been increased gradually from approximately RM1.85 per square foot to RM1.95 per square foot. This is due to additional maintenance expenses had been incurred after the defect liability period. Therefore, we have adopt a 5% increment from RM1.95 per square foot, at RM2.10 per square foot as the outgoings for term to reflect the actual outgoings together with sinking fund for the subject property.

For the purpose of this valuation, we have adopted outgoings for term and reversionary at RM2.10 and RM2.15 per square foot per month, respectively based on the analysis of the Actual and Projection of Outgoings.

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)

C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

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PLANNING PROVISIONS

The subject property is designated for commercial building use for the purpose of office and serviced apartment as per the Express Condition in the document of parent title.

METHOD OF VALUATION

We have adopted the Investment Method as the primary method for this valuation exercise and Comparison Method as a check method.

Investment Method

The Investment Method entails determining the net current annual income by deducting the annual outgoings from the gross annual income and capitalising the net income by a suitable rate of return consistent with the type and quality of investment to arrive at the market value.

Comparison Method

Recent transactions and asking prices of similar properties in the larger locality are analysed for comparison purposes with adjustments made for differences in location/visibility, age/condition of building, design/finishes/specifications, size (net lettable area), strata/individual title, tenure, density, public amenities (LRT/KTM/etc), green building features, MSC status, title restrictions if any, and other relevant characteristics to arrive at the market value.

VALUE CONSIDERATION**Investment Method****a) Office Space**

The parameters adopted in the Investment Method are as follows:-

Description	Parameters	Remarks
Average Term Gross Rental	RM7.28 psf	We have adopted current passing rent.
Average Reversionary Gross Rental	RM7.62 psf	Considered the asking rentals of similar office buildings and retail mall within the vicinity, i.e. office area within Platinum Sentral @ RM9.00 psf. The average reversionary gross rental showed an increment of 4.70% from the average term gross rental.
Term Monthly Outgoings	RM2.10 psf	Considered the current and the projection of outgoings of the subject property.
Reversionary Monthly Outgoings	RM2.15 psf	Considered the projection of outgoings of the subject property.
Void	5.00%	We have adopted the void for rent-free period and risk of vacancy and uncertainty.
Term Capitalisation Rate	5.50%	Based on the recent transaction of the office buildings within Klang Valley, the net yield ranges from 4.71% to 5.62%. It is noted that Dijaya Plaza, Nu Tower 1 and Platinum transacted at a net yield of 5.47%, 4.71% and 5.62%, respectively. Taking into consideration the location, building specification/ green building features and MSC compliance of the subject property, we have adopted the net yield (term) at 5.50% and net yield (reversionary) at 6.25%.
Reversionary Capitalisation Rate	6.25%	

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)



C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

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b) Car Park

Description	Parameters	Remarks
Term 1 & 2 - Net Monthly Income	RM155,000/- to RM263,824/-	Based on the Car Park Operation Agreement entered into between 348 SENTRAL SDN BHD and SEMASA PARKING SDN BHD dated 28 October 2014. The operation period is 3 years commencing from 1 January 2014. Based on our survey of the car parking rates within Kuala Lumpur Sentral and the Lease Agreement dated 1 November 2013 made between the Lessor, 348 SENTRAL SDN BHD and the Lessee, SHELL PEOPLE SERVICES ASIA SDN BHD.
Reversionary – Gross Monthly Income	RM355,954/- <u>Car Park Rates:</u> Reserved Bay : RM420/- per bay Floating Bay: RM210/- per bay Hourly Rate : RM4.00 per hour	Based on our survey of the car parking rates within Kuala Lumpur Sentral.
Term 1 Monthly Outgoings	-	The monthly income of car park is net income.
Term 2 & Reversionary Monthly Outgoings	10% of the gross monthly rental from the car park collection	Considered the outgoings of similar car park area.
Term 1 & 2 Capitalisation Rate	5.50% to 5.75%	We have adopted the net yield (term) at 5.50% and net yield (reversionary) at 6.25% which is in line with the valuation of office building.
Reversionary Capitalisation Rate	6.25%	

The market value of car park is analyzed at approximately RM63,800 per bay.

c) Other Income

We have taken into consideration the income from kiosks and store in our valuation.

We have capitalised these income as stated in the Tenancy Schedule dated 25 March 2016 at 6.25% in our valuation. No outgoings have been considered as the outgoings have been reflected in the valuation of office area within Menara Shell.

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)



C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

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Comparison Method**a) Office Building**

In arriving at the market value of the subject property based on Comparison Method, we have considered transactions of office buildings within the immediate and surrounding localities.

The comparables are as follows:-

Details	Comparable 1	Comparable 2	Comparable 3
Source	Bursa Malaysia General Announcement	Valuation and Property Services Department (JPPH)	Valuation and Property Services Department (JPPH)
Building Name	Dijaya Plaza	Nu Tower 1	Platinum Sentral
Location	Jalan Tun Razak, Kuala Lumpur	Jalan Tun Sambanthan, KL Sentral	Jalan Stesen Sentral, KL Sentral
Type	A 19-storey office building with 2 levels of basement car park containing 322 car parking bays	A 26-storey stratified office building	5 blocks of 4 to 7 storey commercial buildings with 637 car park bays
Tenure	Term in perpetuity (Freehold)	Term in perpetuity (Freehold)	Term in perpetuity (Freehold)
Net Lettable Area (square feet)	156,488	259,632	475,857
Date of Transaction	28/01/2016	26/03/2015	10/04/2014
Vendor	Tropicana Plaza Sdn Bhd	Hana Daol Fund Management	MRCB Sentral Properties Sdn Bhd
Purchaser	Kenanga Investment Bank Bhd	Malaysian Communications and Multimedia Commission	Maybank Trustees Berhad (trustee of Quill Capita Trust)
Consideration	RM140,000,000/-	RM283,000,000/-	RM740,000,000/-
Analysis (RM per square metre)	RM8,301/- (exclusive of car park)	RM11,733/- (exclusive of car park)	RM15,730/- (exclusive of car park)
Analysis (RM per square foot)	RM771/- (exclusive of car park)	RM1,090/- (exclusive of car park)	RM1,461/- (exclusive of car park)
Remarks	-	<ul style="list-style-type: none"> Within MSC Cybercentre @ KL Sentral 	<ul style="list-style-type: none"> Within MSC Cybercentre @ KL Sentral Green building – BCA Green Mark Platinum Certification
Adjustments	Adjustments made on location, size (net lettable area), building's age / conditions, design / finishes / specifications, stratified / individual title, density, public amenities, green building features and MSC status		
Adjusted Value	RM1,003 per square foot	RM1,145 per square foot	RM1,096 per square foot

It is noted that the analyzed values range from RM1,003 to RM1,145 per square foot. We have adopted Comparable 3 as the most appropriate comparable based on the location and its similar characteristics. Therefore, we have adopted RM1,100 per square foot in our valuation.

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)

C H Williams Talhar & Wong Sdn Bhd (18149-U)

Our Ref : WTW/01/V/001225B/15/LAI

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b) Car Park

In arriving at the market value of the car park based on Comparison Method, we have considered transactions of car parks within Klang Valley.

The comparables are as follows:-

Details	Comparable 1	Comparable 2
Source	Bursa Malaysia Securities Berhad	Bursa Malaysia Securities Berhad
Building Name	Pavilion Kuala Lumpur	East Wing of The Icon @ Tun Razak
Location	Jalan Bukit Bintang	Jalan Tun Razak
Type	Car Park	Car Park
No. of Car Park	72 bays	301 bays
Date of Transaction	01/07/2015	24/12/2009
Vendor	Pavilion REIT	Star Residence Sdn Bhd
Purchaser	Urusharta Cemerlang Sdn Bhd	T.S Law Realty Sdn Bhd
Consideration	RM4,896,000/-	RM18,151,000/-
Analysis (RM per bay)	RM68,000/-	RM60,302/-
Adjustments	Adjustments made on location and age of building / condition.	
Adjusted Value (RM per bay)	RM61,200/-	RM60,302/-

It is noted that the analyzed values range from RM60,302 to RM61,200 per bay. We have adopted Comparable 1 in this valuation at RM60,000 per bay as it is the latest transaction.

Reconciliation of Value

The market value for the subject property derived from both Investment Method and Comparison Method are shown as follows:-

Investment Method	-	RM640,000,000/-
Comparison Method	-	RM665,000,000/-

We have adopted the market value derived from Investment Method as a fair representation of the market value of the subject property in view of the fact that the subject property is an income generating property.

VALUATION CERTIFICATE FOR THE PROPERTY (Cont'd)



C H Williams Talhar & Wong Sdn Bhd (18149-U)


Our Ref : WTW/01/V/001225B/15/LAI

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VALUATION

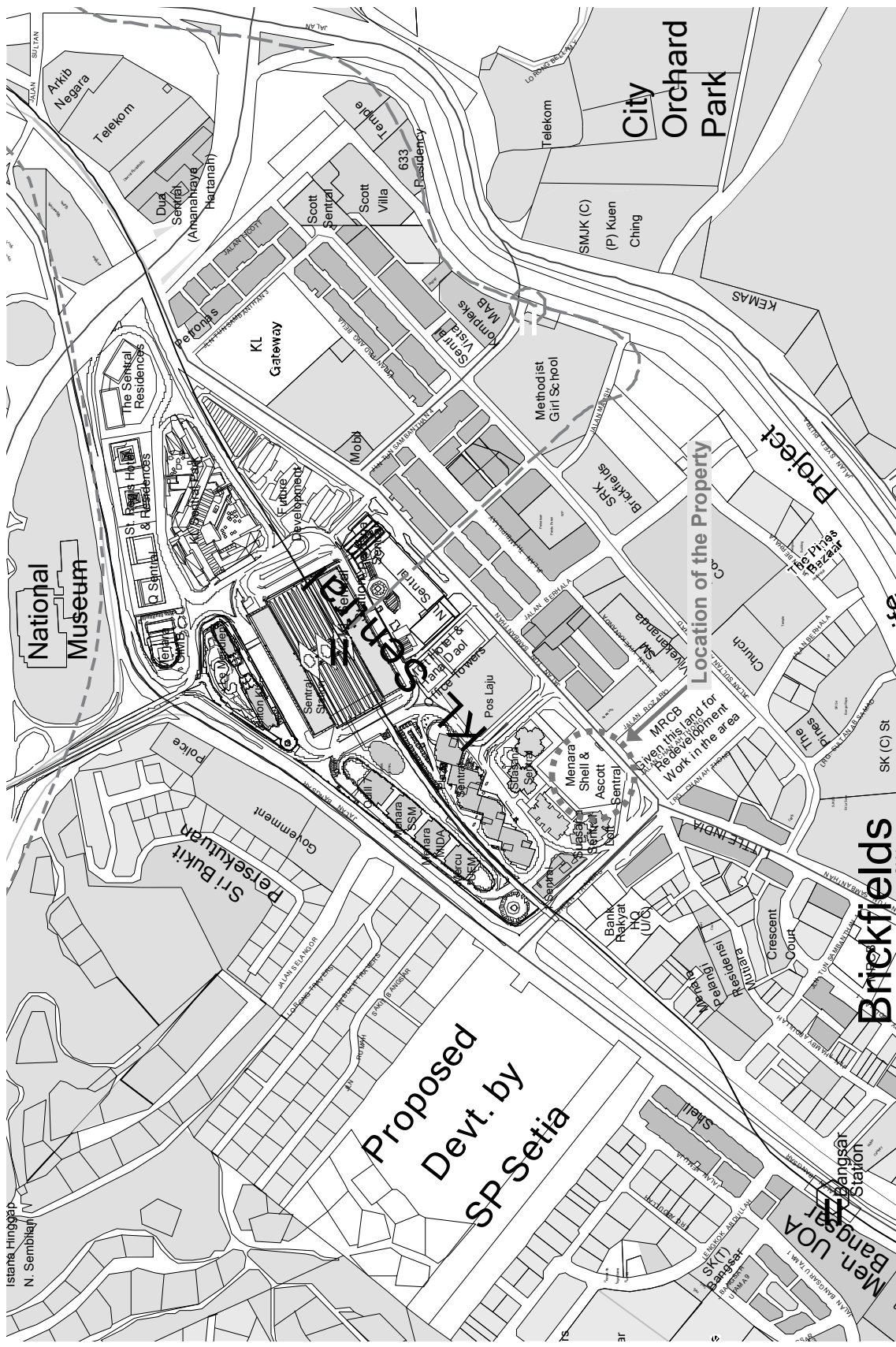
Taking into consideration the above factors, we therefore assess the market value of the subject property **BASED ON BASIS AS STATED IN DETAILED UNDER THE TERMS OF REFERENCE HEREIN** and free from all encumbrances is **RM640,000,000/- (Ringgit Malaysia : Six Hundred And Forty Million Only).**

Yours faithfully
for and on behalf of
C H Williams Talhar & Wong Sdn Bhd



Sr HENG KIANG HAI
MBA (Real Estate), B.Surv (Hons) Prop.Mgt.
MRICS, FRISM, MPEPS, MMIPPM
Registered Valuer (V-486)

LOCATION MAP OF THE PROPERTY



PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON



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REPORTING ACCOUNTANTS' REPORT ON PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17 November 2016

Maybank Trustees Berhad
 As trustee for and on behalf of MRCB-Quill REIT
 8th Floor, Menara Maybank
 100, Jalan Tun Perak
 50050 Kuala Lumpur, Malaysia

The Board of Directors
 MRCB Quill Management Sdn Bhd
 Level 35, Menara NU 2
 No. 203, Jalan Tun Sambanthan
 50470 Kuala Lumpur, Malaysia

Dear Sirs

MRCB-QUILL REIT ("MQREIT")
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015 OF MQREIT ("PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION")

We have completed our assurance engagement to report on the compilation of Pro Forma Consolidated Statement of Financial Position of MQREIT prepared by the Directors of MRCB Quill Management Sdn Bhd ("MQM" or "the Manager"), which we have stamped for the purpose of identification. The applicable criteria on the basis of which the Directors of MQM ("the Directors") have compiled the Pro Forma Consolidated Statement of Financial Position are described in Notes 1 to 7.

The Pro Forma Consolidated Statement of Financial Position has been compiled by the Directors solely for inclusion in the circular to unitholders of MQREIT ("Circular") to illustrate the impact of the following events or transactions on MQREIT's consolidated financial position as at 31 December 2015 as if the following events or transactions had taken place on 31 December 2015. As part of this process, information about the consolidated financial position has been extracted by the Directors from the consolidated financial statements of MQREIT for the financial year ended 31 December 2015, on which audit report has been published:

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)



- a) Proposed acquisition by Maybank Trustees Berhad, acting solely in the capacity as trustee for and on behalf of MQREIT, of 1 block of 33-storey office tower known as "Menara Shell" together with a 5-storey podium and a 4-storey basement car park erected on part of a freehold land held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, from 348 Sentral Sdn Bhd, a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), for a purchase consideration of RM640,000,000 to be satisfied entirely in cash ("Proposed Acquisition");
- b) Proposed placement of up to 406,666,667 new units in MQREIT ("units") ("placement units") by way of bookbuilding at an issue price to be determined later ("Proposed Placement");
- c) Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of placement units at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to MRCB");
- d) Proposed placement to Employees Provident Fund Board ("EPF") of up to 7% of the enlarged units in circulation of MQREIT at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to EPF");
- e) Proposed authority to allot and issue up to 31,952,333 new units for the purpose of the payment of management fee to the Manager in the form of new units ("Manager's Units") ("Proposed Authority"); and
- f) Proposed increase in the existing approved fund size of MQREIT from 700,000,000 units up to a maximum of 1,100,000,000 units ("Proposed Increase in Fund Size")

(Collectively referred to as "the Proposals")

The Directors' Responsibility for the Pro Forma Consolidated Statement of Financial Position

The Directors are responsible for compiling the Pro Forma Consolidated Statement of Financial Position on the basis of the applicable criteria.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)



Our responsibility is to express an opinion about whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, by the Directors on the basis of the applicable criteria.

We have conducted our engagement in accordance with the Malaysian Approved Standard on Assurance Engagements, ISAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statement of Financial Position on the basis of the applicable criteria.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statement of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statement of Financial Position.

The purpose of the Pro Forma Consolidated Statement of Financial Position is solely to illustrate the impact of the Proposals unadjusted financial information of the entity as if the event had occurred or the Proposals had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposals would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of Pro Forma Consolidated Statement of Financial Position provides a reasonable basis for presenting the significant effects directly attributable to the Proposals, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Consolidated Statement of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of MQREIT, the Proposals in respect of which the Pro Forma Consolidated Statement of Financial Position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.

We believe that the evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

**Opinion**

In our opinion, the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the applicable criteria.

Other matters

This letter is issued for the sole purpose of the inclusion in the Circular in connection with the Proposals. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Proposals described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this letter in connection with any type of transaction, including the sale of securities of MQREIT other than the Proposals.

Yours faithfully

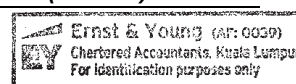
Ernst & Young
AF: 0039
Chartered Accountants

Tan Shium Jye
No. 2991/05/18(J)
Chartered Accountant

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

MRCB-Quill REIT

Pro Forma Consolidated Statement of Financial Position as at 31 December 2015



The pro forma effects of the Proposals on the Net Asset Value ("NAV") per unit assuming the Proposals had been effected on 31 December 2015 (being the latest audited consolidated statement of financial position of MQREIT) are as follows:

	Note	Audited 31 December 2015 RM	Adjustments RM	Pro Forma RM
Assets				
Non-current assets				
Plant and equipment		236,582		236,582
Investment properties	3	1,569,800,000	647,500,000	2,217,300,000
Derivatives		1,594,224		1,594,224
Lease receivable		2,000,864		2,000,864
		<u>1,573,631,670</u>		<u>2,221,131,670</u>
Current assets				
Trade and other receivables		5,648,126		5,648,126
Derivatives		686,257		686,257
Lease receivable		409,684		409,684
Cash and cash equivalents	4	44,863,963	(1,318,333)	43,545,630
		<u>51,608,030</u>		<u>50,289,697</u>
Total assets		<u>1,625,239,700</u>		<u>2,271,421,367</u>
Unitholders' funds and liabilities				
Unitholders' funds attributable to unitholders				
Unitholders' capital	5	751,276,357	459,166,667	1,210,443,024
Undistributed and non-distributable income		152,578,502		152,578,502
Total unitholders' funds		<u>903,854,859</u>		<u>1,363,021,526</u>
Non-current liabilities				
Borrowings	4	500,811,606	187,015,000	687,826,606
Security deposits		15,572,463		15,572,463
		<u>516,384,069</u>		<u>703,399,069</u>
Current liabilities				
Trade and other payables		13,574,839		13,574,839
Borrowings		188,910,256		188,910,256
Security deposits		2,515,677		2,515,677
		<u>205,000,772</u>		<u>205,000,772</u>
Total liabilities		<u>721,384,841</u>		<u>908,399,841</u>
Total unitholders' funds and liabilities		<u>1,625,239,700</u>		<u>2,271,421,367</u>
NAV		903,854,859	459,166,667	1,363,021,526
NAV per Unit		1.37		1.28
Number of units in circulation		661,381,000	406,666,667	1,068,047,667

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

MRCB-Quill REIT

Pro Forma Consolidated Statement of Financial Position as at 31 December 2015



Notes to the Pro Forma Consolidated Statement of Financial Position

1. Basis of preparation

The Pro Forma Consolidated Statement of Financial Position of MQREIT, for which the Directors of MRCB Quill Management Sdn Bhd (the "Manager") are solely responsible, has been prepared for illustrative purposes only, to illustrate the impact of the following events or transactions on MQREIT's financial position as at 31 December 2015 as if the events or transactions had taken place on 31 December 2015.

- a) Proposed acquisition by Maybank Trustees Berhad, acting solely in the capacity as trustee for and on behalf of MQREIT, of 1 block of 33-storey office tower known as "Menara Shell" together with a 5-storey podium and a 4-storey basement car park erected on part of a freehold land held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, from 348 Sentral Sdn Bhd, a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), for a purchase consideration of RM640,000,000 to be satisfied entirely in cash ("Proposed Acquisition");
- b) Proposed placement of up to 406,666,667 new units in MQREIT ("units") ("placement units") by way of bookbuilding at an issue price to be determined later ("Proposed Placement");
- c) Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of placement units at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to MRCB");
- d) Proposed placement to Employees Provident Fund ("EPF") of up to 7% of the enlarged units in circulation of MQREIT at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to EPF");
- e) Proposed authority to allot and issue up to 31,952,333 new units for the purpose of the payment of management fee to the Manager in the form of new units ("Manager's Units") ("Proposed Authority"); and
- f) Proposed increase in the existing approved fund size of MQREIT from 700,000,000 units up to a maximum of 1,100,000,000 units ("Proposed Increase in Fund Size")

(Collectively referred to as "the Proposals").

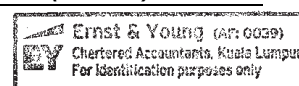
The Pro Forma Consolidated Statement of Financial Position has been prepared in a manner consistent with both the format of the consolidated statement of financial position and accounting policies using the audited financial statements of MQREIT for the financial year ended 31 December 2015.

The financial statements of MQREIT for the financial year ended 31 December 2015 were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

MRCB-Quill REIT

Pro Forma Consolidated Statement of Financial Position as at 31 December 2015


2. Proposed Acquisition

The Proposed Acquisition involves the acquisition of 1 block of 33-storey office tower known as "Menara Shell" with a 5-storey podium and a 4-storey basement car park erected on part of a freehold land held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, Malaysia and all such plant and equipment, fixtures and fittings attached to the Property (excluding fixtures and fittings belonging to the existing tenants/lessees and third parties, including those with whom the existing tenants/lessees have entered into hire purchase and/or leasing arrangement in respect of such fixtures and fittings) free from all encumbrances with legal possession and subject to the existing tenancies/leases for those parts of the Property that are tenanted and vacant possession for those parts of the Property that are untenanted for a purchase consideration of RM640,000,000 which shall be satisfied entirely in cash.

The purchase consideration of RM640,000,000, together with the expenses relating to the Proposals, will be funded through a combination of cash proceeds from the Proposed Placement and borrowings as follows:

Source of funds	RM
Gross proceeds to be raised from the Proposed Placement*	467,666,667
Borrowings	188,333,333
	<u>656,000,000</u>

* Assuming that 406,666,667 placement units are issued at an illustrative issue price of RM1.15 per unit.

In the event the proceeds raised pursuant to the Proposed Placement is less than the amount shown above, the difference will be funded via borrowings, subject to the total borrowings of MQREIT not exceeding 50% of its total asset value. Nevertheless, in the event the proceeds raised pursuant to the Proposed Placement is higher than the amount shown above, MQREIT would reduce the amount of borrowings required to settle the purchase consideration, which is expected to further reduce the gearing of MQREIT.

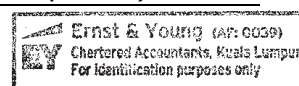
The above proceeds are expected to be utilised in the following manner:

Utilisation of proceeds	RM
Settlement of cash portion of the purchase consideration	640,000,000
Estimated incidental expenses for the Proposals ^(a)	16,000,000
	<u>656,000,000</u>

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

MRCB-Quill REIT

Pro Forma Consolidated Statement of Financial Position as at 31 December 2015



Note:

- a. *Comprising acquisition fee of 1% of the purchase consideration payable to the Manager as provided in the trust deed of MQREIT, and the estimated expenses for the Proposals consisting of the professional fees, placement fees, fees payable to the relevant authorities, cost of convening the meeting for unitholders of MQREIT and other incidental expenses incurred in relation to the Proposals as follows:*

	RM
Acquisition fee of 1% of the purchase consideration payable to the Manager	6,400,000
Estimated expenses for the Proposals	9,600,000
Total	16,000,000

3. Investment properties

The adjustments made to investment properties comprise the following:

	RM
Proposed Acquisition	640,000,000
Estimated incidental expenses in respect of the Proposed Acquisition ^(b)	7,500,000
	647,500,000

Note:

- b. *The estimated incidental expenses in respect of the Proposed Acquisition comprise acquisition fee payable to the Manager as provided in the trust deed of MQREIT and other incidental expenses to be incurred in respect of the Proposed Acquisition. These expenses are illustrated based on best estimates and are subject to change upon the completion of the Proposals.*

4. Borrowings

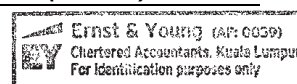
The adjustments made to borrowings comprise the following:

	RM
Borrowings pursuant to the Proposed Acquisition	188,333,333
Estimated incidental transaction costs (to be paid from cash and cash equivalents)	(1,318,333)
	187,015,000

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

MRCB-Quill REIT

Pro Forma Consolidated Statement of Financial Position as at 31 December 2015



5. Unitholders' capital

The adjustments made to unitholders' capital comprise the following:

	Price per unit RM	RM
406,666,667 units issued pursuant to the Proposed Placement	1.15	467,666,667
Estimated incidental expenses in respect of the Proposed Placement ^(c)		(8,500,000)
		<u>459,166,667</u>

Notes:

- c. *The estimated incidental expenses in respect of the Proposed Placement comprise placement fees and other incidental expenses to be incurred in relation to the Proposed Placement. These expenses are illustrated based on best estimates and are subject to change upon the completion of the Proposals.*

6. Net asset value

Net asset value per unit is calculated based on total unitholders' funds divided by total number of units in circulation, as follows:

In February 2016, MQREIT made an income distribution of 4.37 sen per unit amounting to RM28,902,350.

- (a) The unadjusted NAV per unit (before and after the income distribution) is as follows:

	RM
NAV per unit as at 31 December 2015:	
Before income distribution	1.37
After income distribution	1.32

- (b) The adjusted NAV per unit (before and after the income distribution) after the effects of the proposals is as follows:

Number of units in circulation as at 31 December 2015	661,381,000
Units to be issued pursuant to the Proposed Placement	406,666,667
Adjusted number of units in circulation	<u>1,068,047,667</u>

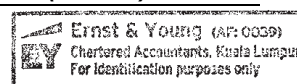
Before income distribution:

Audited total unitholders' funds as at 31 December 2015 (RM)	903,854,859
Pro Forma Adjustments (Note 5) (RM)	459,166,667
Adjusted unitholders' funds (RM)	<u>1,363,021,526</u>

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF MQREIT AS AT 31 DECEMBER 2015 AND THE REPORTING ACCOUNTANTS' REPORT THEREON (Cont'd)

MRCB-Quill REIT

Pro Forma Consolidated Statement of Financial Position as at 31 December 2015

After income distribution:Audited total unitholders' funds as at
31 December 2015 (RM)

903,854,859

Less: Income distribution (RM)

(28,902,350)

Pro Forma Adjustments (Note 5) (RM)

459,166,667

Adjusted unitholders' funds (RM)

1,334,119,176

RM

Adjusted NAV per unit:

Before income distribution and after
effects of the Proposals

1.28

After income distribution and after
effects of the Proposals

1.25

7. Gearing

Gearing is calculated based on total gross borrowings divided by total assets.

	Audited 31 December 2015 RM	Pro Forma RM
Total gross borrowings	689,721,862	876,736,862
Total assets	1,625,239,700	2,271,421,367
Gearing (%)	42.44	38.60

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Manager have seen and approved this Circular and they, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular. They confirm that, after making all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular false or misleading.

The information on 348 Sentral, MRCB and EPF was obtained from the management of the respective parties and the responsibility of the Board is limited to ensuring that such information is accurately reproduced in this Circular.

2. CONSENT AND CONFLICT OF INTEREST**2.1 CIMB**

CIMB, being the Joint Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

CIMB and its related and associated companies, as well as its holding company, CIMB Group Holdings Berhad and the subsidiaries and associated companies of its holding company (the "**CIMB Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses. The CIMB Group has engaged and may in the future, engage in transactions with and perform services for MQREIT and/or the Manager and/or any of their respective affiliates, in addition to its role as the Joint Principal Adviser for the Proposals.

In addition, in the ordinary course of business, any member of the CIMB Group may at any time offer or provide its services to or engage in any transactions (on its own account or otherwise) with MQREIT and/or the Manager, hold long or short positions in securities issued by MQREIT and/or the Manager, make investment recommendations and/or publish or express independent research views on such securities, and may trade or otherwise effect transactions for its own account or for the account of its other customers in debt or equity securities or senior loans of MQREIT and/or the Manager. This is a result of the businesses of the CIMB Group generally acting independent of each other, and accordingly there may be situations where parts of the CIMB Group and/or its customers now have or in the future, may have interest in or take actions that may conflict with the interests of MQREIT and/or the Manager.

As at the LPD, CIMB Group has extended credit facilities to MQREIT. In addition, CIMB Group is part of the syndicate which granted 348 Sentral the Term Loan Facility which was partially used for the construction of the Property. The said facility is expected to be fully repaid via the settlement of the Redemption Sum by the Completion Date or the Extended Completion Date, as the case may be, as set out in Section 2.1.2(ii), Part A of the Circular. CIMB is of the view that the abovementioned does not result in a conflict of interest in respect of its capacity as the Joint Principal Adviser for the Proposals due to the following:

- (i) CIMB Group is a licensed commercial bank and the extension of credit facilities to MQREIT arose in the ordinary course of business of CIMB Group; and
- (ii) the total credit facilities granted by the CIMB Group is not material when compared to the audited net assets of the CIMB Group as at 31 December 2015 of RM41.3 billion.

FURTHER INFORMATION (Cont'd)

2.2 HLIB

HLIB, being the Joint Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

HLIB and its related companies ("**Hong Leong Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses.

The Hong Leong Group has engaged and may, in the future, engage in transactions with and perform services for MQREIT/the Manager and/or companies in which the shareholders of the Manager have equity interest, in addition to its role as the Joint Principal Adviser for the Proposals. In addition, in the ordinary course of business, any member of the Hong Leong Group may at any time offer or provide its services to or engage in any transactions (on its own account or otherwise) with MQREIT/the Manager and/or companies in which the shareholders of the Manager have equity interest, hold long or short positions, and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of MQREIT/the Manager and/or companies in which the shareholders of the Manager have equity interest.

Hong Leong Group has, in the ordinary course of its business, granted credit facilities to MQREIT/the Manager and/or companies in which the shareholders of the Manager have equity interest. In addition, Hong Leong Group is part of the syndicate which granted 348 Sentral the Term Loan Facility. The said facility is expected to be fully repaid via the settlement of the Redemption Sum by the Completion Date or the Extended Completion Date, as the case may be, as set out in Section 2.1.2(ii), Part A of the Circular.

HLIB is of the view that the aforementioned extension of credit facilities does not result in conflict of interest situations as:

- (i) the credit facilities are not material when compared to audited net assets of Hong Leong Group as at 30 June 2016 of RM15.3 billion;
- (ii) the extension of credit facilities arose in the ordinary course of business of Hong Leong Group; and
- (iii) the conduct of Hong Leong Group in its banking business is strictly regulated by the Financial Services Act 2013, Islamic Financial Services Act 2013 and its own internal control policies and procedures.

2.3 Maybank IB

Maybank IB, being the Joint Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

FURTHER INFORMATION (Cont'd)

Maybank IB and its related and associated companies ("**Maybank Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and fund management and credit transaction services businesses. The Maybank Group has engaged and may in the future, engage in transactions with and perform services for MQREIT and/or the Manager, in addition to the roles set out in this Circular. In addition, in the ordinary course of its business, any member of the Maybank Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with MQREIT and/or the Manager, or any other entity or transactions for its own account or the account of its customers in debt or equity securities or senior loans. This is a result of the businesses of the Maybank Group generally acting independent of each other and accordingly, there may be situations where parts of the Maybank Group and/or its customers now have or in the future, may have interests or take actions that may conflict with the interests of MQREIT and/or the Manager. Nonetheless, the Maybank Group is required to comply with applicable laws and regulations issued by the relevant authorities governing its advisory business which require, among others, segregation between dealing and advisory activities and Chinese wall between different business divisions.

As at the LPD, MQREIT and/or the Manager does not have any credit facilities with the Maybank Group.

Maybank IB confirms that as at the LPD, it is not aware of any circumstance that exists or is likely to exist which would give rise to a possible conflict of interest situation in its capacity as the Joint Principal Adviser for the Proposals.

2.4 AmlInvestment Bank

AmlInvestment Bank, being the Independent Adviser to the non-interested Unitholders for the Proposed Acquisition and Proposed Placement, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, letter and all references to them in the form and context in which they appear in this Circular.

AmlInvestment Bank is not aware of any circumstances that exist or are likely to exist which would give rise to a possible conflict of interest in its capacity as the Independent Adviser in respect of the Proposed Acquisition and Proposed Placement.

2.5 Astramina Advisory

Astramina Advisory, being the Transaction Arranger for the Proposed Acquisition and the financial adviser for the Proposed Placement, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references to it in the form and context in which they appear in this Circular.

Astramina Advisory has been appointed by the Manager as the Transaction Arranger in respect of the Proposed Acquisition with effect from 4 January 2016 and will be appointed as the financial adviser for the Proposed Placement, in relation to which CIMB, HLIB and Maybank IB were also appointed as the Joint Placement Agents. Astramina Advisory will derive fees from the Manager in its capacity as the financial adviser for the Proposed Placement but it does not derive any advisory fees from the Manager in its capacity as the Transaction Arranger. Astramina Advisory has also been appointed by MRCB as the financial adviser for the proposed disposal of the Property by 348 Sentral to MQREIT on 16 November 2015.

FURTHER INFORMATION (Cont'd)

The various roles undertaken by Astramina Advisory for both the Manager and MRCB in relation to the Proposed Acquisition and the Proposed Placement may potentially give rise to a conflict of interest on the part of Astramina Advisory but such conflict of interest is mitigated by the fact that the terms of engagement of Astramina Advisory as the Transaction Arranger for the Manager are limited to ensuring an expeditious and accurate flow of information between MQREIT, the Manager and MRCB and the arrangement and coordination of implementation of the Proposed Acquisition so as to assist in timely implementation of the Proposed Acquisition. On the other hand, Astramina Advisory's role as financial adviser to the Manager for the Proposed Placement is expected to include, amongst others, assisting in the procurement of investor(s) as well as identifying and resolving issues that may arise in the course of implementation of the Proposed Placement. Astramina Advisory has not been appointed as the principal adviser to the Manager in respect of the Proposed Acquisition. Such potential conflict of interest is also mitigated by the appointment of various professional advisors by the Manager, including independent valuer and independent adviser for the Proposed Acquisition. In appointing Astramina Advisory as the Transaction Arranger for the Proposed Acquisition and financial adviser for the Proposed Placement to act on behalf of MQREIT, the Board of the Manager had been duly informed of and had taken cognisance of Astramina Advisory's existing appointment as the financial adviser for MRCB.

2.6 CBRE I WTW

CBRE I WTW, being the independent registered valuer in respect of the valuation of the Property, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, its valuation certificate in respect of the Property and all references to them in the form and context in which they appear in this Circular.

CBRE I WTW is not aware of any circumstances that exist or are likely to exist which would give rise to a possible conflict of interest in its capacity as the independent registered valuer for the valuation of the Property.

2.7 Ernst & Young

Messrs Ernst & Young, being the Reporting Accountants in relation to the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, the Reporting Accountants' report on the pro forma consolidated statement of financial position of MQREIT as at 31 December 2015 and all references to them in the form and context in which they appear in this Circular.

Messrs Ernst & Young is not aware of any circumstances that exist or are likely to exist which would give rise to a possible conflict of interest in its capacity as the Reporting Accountants in relation to the Proposals.

3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed below, as at the LPD, the Board is not aware of any material commitments for capital expenditure incurred or known to be incurred by MQREIT which may have a material impact on the profits or NAV of MQREIT:

	RM '000
Contractual commitments in respect of investment properties:	
- Approved and contracted for	4,271

As at the LPD, the Board is not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the profits or NAV of MQREIT.

FURTHER INFORMATION (Cont'd)

4. MATERIAL LITIGATION

As at the LPD, there is no material litigation, claim and/or arbitration involving the Property. Further, as at the LPD, MQREIT is not engaged in any material litigation, claims and/or arbitration, either as plaintiff or defendant and the Board is not aware of any proceedings, pending or threatened, against MQREIT or of any facts likely to give rise to any proceedings which may materially affect the business or financial position of MQREIT.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from Mondays to Fridays (except public holidays) at the registered office of the Manager at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur from the date of this Circular up to and including the date of the Meeting:

- (i) the Deed;
- (ii) the HOA and SPA;
- (iii) the letters of consents referred to in Section 2 of this Appendix;
- (iv) the audited consolidated financial statements of MQREIT for the FYEs 31 December 2014 and 2015;
- (v) the unaudited quarterly report of MQREIT for the financial period ended 30 September 2016;
- (vi) the valuation certificate dated 20 June 2016 set out in **Appendix I** of this Circular, together with the Valuation Report; and
- (vii) the pro forma consolidated statement of financial position of MQREIT as at 31 December 2015 together with the Reporting Accountants' report thereon referred to in **Appendix III** of this Circular.



MRCB-QUILL REIT

(Established in Malaysia under the Deed of Trust dated 9 October 2006, as amended by the first supplemental deed dated 27 August 2007, the second supplemental deed dated 28 May 2013 and the third supplemental deed dated 2 April 2015 entered into between MRCB Quill Management Sdn Bhd, a company incorporated in Malaysia under the Companies Act 1965 and Maybank Trustees Berhad, a company incorporated in Malaysia under the Companies Ordinances, 1940 to 1946)

NOTICE OF UNITHOLDERS' MEETING

NOTICE IS HEREBY GIVEN THAT the Unitholders' Meeting of MRCB-Quill REIT ("**MQREIT**") will be held at Sime Darby Convention Centre, Ballroom 3, Level 1, No 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 7 December 2016 at 10.30 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing the following ordinary resolutions, with or without modification:

ORDINARY RESOLUTION 1

PROPOSED ACQUISITION BY MAYBANK TRUSTEES BERHAD, ACTING SOLELY IN THE CAPACITY AS TRUSTEE FOR AND ON BEHALF OF MQREIT, OF A 33-STOREY OFFICE TOWER KNOWN AS MENARA SHELL TOGETHER WITH A 5-STOREY PODIUM AND A 4-STOREY BASEMENT CAR PARK, ERECTED ON PART OF A FREEHOLD LAND HELD UNDER GERAN 40094, LOT 348, SECTION 72, TOWN AND DISTRICT OF KUALA LUMPUR, WILAYAH PERSEKUTUAN KUALA LUMPUR AND ALL SUCH PLANT AND EQUIPMENT, FIXTURES AND FITTINGS ATTACHED TO THE PROPERTY (COLLECTIVELY, THE "PROPERTY") FOR A PURCHASE CONSIDERATION OF RM640,000,000 TO BE SATISFIED ENTIRELY IN CASH ("PROPOSED ACQUISITION")

"THAT subject to the passing of Ordinary Resolutions 2, 3, 4, 5 and 6, approval be and is hereby given to the Directors of MRCB Quill Management Sdn Bhd, as manager of MQREIT ("**Manager**"), and Maybank Trustees Berhad, as trustee of MQREIT ("**Trustee**"), for the proposed acquisition of the Property upon the terms and conditions set out in the conditional sale and purchase agreement dated 30 June 2016 entered into between the Trustee, acting solely in the capacity as trustee for and on behalf of MQREIT, and 348 Sentral Sdn Bhd for a purchase consideration of RM640,000,000 to be satisfied entirely in cash;

THAT the Directors of the Manager and the Trustee be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Acquisition with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient and in the best interests of MQREIT to implement, finalise and give full effect to the Proposed Acquisition;

AND THAT all actions taken by Directors and/or officers of the Manager in relation to the Proposed Acquisition prior to the date of this resolution shall be ratified."

ORDINARY RESOLUTION 2

PROPOSED PLACEMENT OF UP TO 406,666,667 NEW UNITS IN MQREIT ("UNITS") ("PLACEMENT UNITS"), REPRESENTING UP TO 38.1% OF THE ENLARGED UNITS IN CIRCULATION, AFTER THE PROPOSED PLACEMENT, BY WAY OF BOOKBUILDING EXERCISE AT AN ISSUE PRICE TO BE DETERMINED LATER ("PROPOSED PLACEMENT")

"THAT subject to the passing of Ordinary Resolutions 1, 3, 4, 5 and 6, approval be and is hereby given to the Directors of the Manager and the Trustee to allot and issue up to 406,666,667 Placement Units at an issue price to be determined by way of bookbuilding exercise to such investors to be identified later;

THAT the Placement Units shall, upon allotment and issue, rank equally in all respects with the then existing Units in issue, save and except that the Placement Units shall not be entitled to any distributable income, rights, benefits, entitlements and/or any other distributions, unless the allotment and issue of the Placement Units were made on or prior to the entitlement date of such distributable income, rights, benefits, entitlements and/or any other distributions;

THAT the Directors of the Manager and the Trustee be and are hereby authorised to use the proceeds to be derived from the Proposed Placement in the manner as set out in Section 2.2.4 of the Circular;

AND THAT the Directors of the Manager and the Trustee be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Placement with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient and in the best interests of MQREIT to implement, finalise and give full effect to the Proposed Placement."

ORDINARY RESOLUTION 3

PROPOSED ALLOTMENT, ISSUANCE AND PLACEMENT OF SUCH NUMBER OF PLACEMENT UNITS TO MALAYSIAN RESOURCES CORPORATION BERHAD ("MRCB"), AS PART OF THE PROPOSED PLACEMENT, FOR AN AMOUNT OF NO LESS THAN RM110,000,000 BUT UP TO RM152,000,000 IN VALUE, REPRESENTING BETWEEN 9.0% AND 12.4% OF THE ENLARGED UNITS IN CIRCULATION, AFTER THE PROPOSED PLACEMENT, AT THE SAME ISSUE PRICE AS THE PLACEMENT UNITS ISSUED TO OTHER INVESTORS UNDER THE PROPOSED PLACEMENT ("PROPOSED PLACEMENT TO MRCB")

"THAT subject to the passing of Ordinary Resolutions 1, 2, 4, 5 and 6, approval be and is hereby given to the Directors of the Manager and the Trustee to allot and issue such number of Placement Units to MRCB, as part of the Proposed Placement, for an amount of no less than RM110,000,000 but up to RM152,000,000 in value at the same issue price as the Placement Units issued to other investors under the Proposed Placement;

THAT the Placement Units shall, upon allotment and issue, rank equally in all respects with the then existing Units in issue, save and except that the Placement Units shall not be entitled to any distributable income, rights, benefits, entitlements and/or any other distributions, unless the allotment and issue of the Placement Units were made on or prior to the entitlement date of such distributable income, rights, benefits, entitlements and/or any other distributions;

AND THAT the Directors of the Manager and the Trustee be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Placement to MRCB with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient and in the best interests of MQREIT to implement, finalise and give full effect to the Proposed Placement to MRCB."

ORDINARY RESOLUTION 4

PROPOSED ALLOTMENT, ISSUANCE AND PLACEMENT TO EMPLOYEES PROVIDENT FUND BOARD ("EPF"), AS PART OF THE PROPOSED PLACEMENT, OF UP TO 7% OF THE ENLARGED UNITS IN CIRCULATION AFTER THE PROPOSED PLACEMENT, REPRESENTING UP TO 74,763,336 UNITS, AT THE SAME ISSUE PRICE AS THE PLACEMENT UNITS ISSUED TO OTHER INVESTORS UNDER THE PROPOSED PLACEMENT ("PROPOSED PLACEMENT TO EPF")

"THAT subject to the passing of Ordinary Resolutions 1, 2, 3, 5 and 6, approval be and is hereby given to the Directors of the Manager and the Trustee to allot and issue such number of Placement Units to EPF, as part of the Proposed Placement, of up to 7% of the enlarged Units in circulation after the Proposed Placement at the same issue price as the Placement Units issued to other investors under the Proposed Placement;

THAT the Placement Units shall, upon allotment and issue, rank equally in all respects with the then existing Units in issue, save and except that the Placement Units shall not be entitled to any distributable income, rights, benefits, entitlements and/or any other distributions, unless the allotment and issue of the Placement Units were made on or prior to the entitlement date of such distributable income, rights, benefits, entitlements and/or any other distributions;

AND THAT the Directors of the Manager and the Trustee be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Placement to EPF with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient and in the best interests of MQREIT to implement, finalise and give full effect to the Proposed Placement to EPF."

ORDINARY RESOLUTION 5

PROPOSED AUTHORITY TO ALLOT AND ISSUE UP TO 31,952,333 NEW UNITS FOR THE PURPOSE OF THE PAYMENT OF MANAGEMENT FEE TO THE MANAGER IN THE FORM OF NEW UNITS ("MANAGER'S UNITS") ("PROPOSED AUTHORITY")

"THAT subject to the passing of Ordinary Resolutions 1, 2, 3, 4 and 6, approval be and is hereby given to the Directors of the Manager and the Trustee to allot and issue, from time to time, up to 31,952,333 Manager's Units for the payment of management fee to the Manager in respect of the financial years ending 31 December 2017 to 31 December 2019 in the form of new Units, at an issue price which shall be determined in accordance with Clause 19.3 of the deed of trust constituting MQREIT, and to deal with the same, upon such terms and conditions as the Manager shall deem fit;

THAT the Proposed Authority shall be effective from the date of the Unitholders' approval until:

- (i) 31 March 2020, being the last date on which the management fee in respect of the financial year ending 31 December 2019 shall be paid; or
- (ii) all the 31,952,333 Manager's Units have been issued pursuant to the Proposed Authority for the purpose of the payment of the management fee to the Manager in respect of the financial years ending 31 December 2017 to 31 December 2019,

whichever is earlier;

THAT the Manager's Units shall, upon allotment and issue, rank equally in all respects with the then existing Units in issue, save and except that the Manager's Units shall not be entitled to any distributable income, rights, benefits, entitlements and/or any other distributions, unless the allotment and issue of the Manager's Units were made on or prior to the entitlement date of such distributable income, rights, benefits, entitlements and/or any other distributions;

AND THAT the Directors of the Manager and the Trustee be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Authority with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient and in the best interests of MQREIT to implement, finalise and give full effect to the Proposed Authority.”

ORDINARY RESOLUTION 6

PROPOSED INCREASE IN THE EXISTING APPROVED FUND SIZE OF MQREIT FROM 700,000,000 UNITS UP TO A MAXIMUM OF 1,100,000,000 UNITS (“PROPOSED INCREASE IN FUND SIZE”)

“**THAT** subject to the passing of Ordinary Resolutions 1, 2, 3, 4 and 5, the approved fund size of MQREIT be and is hereby increased from 700,000,000 Units up to a maximum of 1,100,000,000 Units by the creation of up to 400,000,000 Units;

AND THAT the Directors of the Manager and the Trustee be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Increase in Fund Size with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient and in the best interests of MQREIT to implement, finalise and give full effect to the Proposed Increase in Fund Size.”

BY ORDER OF THE BOARD
MRCB QUILL MANAGEMENT SDN BHD
(as the Manager of MRCB-Quill REIT)

Mohamed Noor Rahim Yahaya (MAICSA 0866820)
Ho Ngan Chui (MAICSA 7014785)
Company Secretaries

Kuala Lumpur
22 November 2016

Notes:

1. *A Unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a Unitholder.*
2. *Where a Unitholder appoints 2 proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.*
3. *Where a Unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
4. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.*
5. *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Registered Address of MRCB Quill Management Sdn Bhd at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.*
6. *For the purpose of determining a unitholder who shall be entitled to attend the Unitholders’ Meeting, the Manager shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a Unitholders’ Meeting Record of Depositors as at 30 November 2016. Only a unitholder whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend in his or her stead.*

MRCB-QUILL REIT

(Established in Malaysia under the Deed of Trust dated 9 October 2006, as amended by the first supplemental deed dated 27 August 2007, the second supplemental deed dated 28 May 2013 and the third supplemental deed dated 2 April 2015 entered into between MRCB Quill Management Sdn Bhd, a company incorporated in Malaysia under the Companies Act 1965 and Maybank Trustees Berhad, a company incorporated in Malaysia under the Companies Ordinances, 1940 to 1946)

CDS Account No.	
No. of Units held	

I/We
(Full name in capital letters, NRIC No. / Passport No. / Company No.)

of
(Address)

being a unitholder /unitholders of MRCB-Quill REIT hereby appoint:

First Proxy

Full Name of Proxy (in capital letters)	NRIC No. / Passport No. / Company No.	Proportion of Unitholdings Represented	
		No. of units	%
Address			

and / or failing *him / her,

Second Proxy

Full Name of Proxy (in capital letters)	NRIC No. / Passport No. / Company No.	Proportion of Unitholdings Represented	
		No. of units	%
Address			

or failing *him / her, the Chairman of the Unitholders' Meeting, as *my / our proxy(ies) to vote for *me / us on *my / our behalf, at the Unitholders' Meeting to be held at Sime Darby Convention Centre, Ballroom 3, Level 1, No 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 7 December 2016 at 10.30 a.m., or at any adjournment thereof.

Please indicate with an 'X' in the appropriate space below how you wish your vote to be cast. If this form is returned without any indication as to how the proxy shall vote, the proxy shall vote or abstain as he / she thinks fit.

ORDINARY RESOLUTION	FOR	AGAINST
1 - PROPOSED ACQUISITION		
2 - PROPOSED PLACEMENT		
3 - PROPOSED PLACEMENT TO MRCB		
4 - PROPOSED PLACEMENT TO EPF		
5 - PROPOSED AUTHORITY		
6 - PROPOSED INCREASE IN FUND SIZE		

Dated this day of 20.....

Signature of Unitholder(s)

* Delete if not applicable



Notes:

1. *A Unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a Unitholder.*
2. *Where a Unitholder appoints 2 proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.*
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Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary
MRCB Quill Management Sdn Bhd
The Manager of MRCB-Quill REIT
Level 33A, Menara NU 2
No. 203, Jalan Tun Sambanthan
Kuala Lumpur Sentral
50470 Kuala Lumpur

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