

**MRCB-QUILL REIT**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Quarter	To Date	To Date
	30.9.2020	30.9.2019	30.9.2020	30.9.2019
	RM	RM	RM	RM
<b>Total income</b>				
Gross revenue				
-Realised gross revenue	42,056,855	39,919,714	123,876,870	120,082,679
-Unrealised rental income (unbilled lease income receivable) (a)	(349,457)	(458,201)	674,102	287,345
	<u>41,707,398</u>	<u>39,461,513</u>	<u>124,550,972</u>	<u>120,370,024</u>
Property operating expenses	(9,308,949)	(9,726,245)	(27,872,438)	(28,767,354)
Net property income	<u>32,398,449</u>	<u>29,735,268</u>	<u>96,678,534</u>	<u>91,602,670</u>
Interest income	632,040	702,703	1,755,128	2,096,233
Change in fair value of investment properties				
-Unbilled lease income receivable (a)	349,457	458,201	(674,102)	(287,345)
	<u>33,379,946</u>	<u>30,896,172</u>	<u>97,759,560</u>	<u>93,411,558</u>
<b>Total expenditure</b>				
Manager's fees	(3,234,383)	(3,184,384)	(9,600,318)	(9,566,225)
Trustee's fee	(167,932)	(169,811)	(498,149)	(508,257)
Finance costs	(8,322,368)	(9,741,165)	(26,784,791)	(29,323,316)
Valuation fees	(93,874)	(90,450)	(281,621)	(271,350)
Auditors' remuneration	(36,792)	(35,868)	(110,376)	(107,604)
Tax agent's fee	(16,408)	(6,408)	(29,224)	(19,224)
Administrative expenses	(30,504)	(30,702)	(111,116)	(115,818)
	<u>(11,902,261)</u>	<u>(13,258,788)</u>	<u>(37,415,595)</u>	<u>(39,911,794)</u>
<b>Income before taxation</b>	<b>21,477,685</b>	<b>17,637,384</b>	<b>60,343,965</b>	<b>53,499,764</b>
Income tax expense	-	-	-	-
<b>Income net of taxation</b>	<b>21,477,685</b>	<b>17,637,384</b>	<b>60,343,965</b>	<b>53,499,764</b>
<b>Other comprehensive income</b>				
Gain/(Loss) on remeasurement of financial derivatives (b)	-	257,302	(1,865)	(231,268)
Adjustment of remeasurement of matured derivatives	-	-	326,103	-
<b>Total comprehensive income for the financial year</b>	<b>21,477,685</b>	<b>17,894,686</b>	<b>60,668,203</b>	<b>53,268,496</b>
<b>Income net of taxation for the year is made up as follows:</b>				
Realised	21,477,685	17,637,384	60,343,965	53,499,764
Unrealised	-	-	-	-
	<u>21,477,685</u>	<u>17,637,384</u>	<u>60,343,965</u>	<u>53,499,764</u>
<b>EARNINGS PER UNIT (c)</b>				
- after manager's fees (sen)	2.00	1.65	5.63	4.99
- before manager's fees (sen)	2.31	1.94	6.53	5.88
<b>EARNINGS PER UNIT (REALISED) (d)</b>				
- after manager's fees (sen)	2.00	1.65	5.63	4.99
- before manager's fees (sen)	2.31	1.94	6.53	5.88
<b>INCOME DISTRIBUTION (e)</b>				
Interim income distribution	-	-	36,762,157	36,762,157
	<u>-</u>	<u>-</u>	<u>36,762,157</u>	<u>36,762,157</u>
<b>Income distribution per unit</b>				
<b>Gross (sen)</b>				
-Interim income distribution	-	-	3.43	3.43
Total income distribution	<u>-</u>	<u>-</u>	<u>3.43</u>	<u>3.43</u>
<b>Income net of taxation</b>	<b>21,477,685</b>	<b>17,637,384</b>	<b>60,343,965</b>	<b>53,499,764</b>
Distribution adjustments (f)	-	-	-	900,000
<b>Distributable income</b>	<b>21,477,685</b>	<b>17,637,384</b>	<b>60,343,965</b>	<b>54,399,764</b>
<b>DISTRIBUTABLE INCOME PER UNIT</b>	<b>2.00</b>	<b>1.65</b>	<b>5.63</b>	<b>5.08</b>

- (a) Recognition of unrealised rental income-unbilled lease income receivable pursuant to requirements of MFRS 16 Leases, to recognize income from operating lease on a straight-line basis, including contractual increase rates over the fixed tenure of the agreement.
- (b) This relates to the gain/(loss) on the remeasurement of the fair values of interest rate swaps ("IRSs").  
(please refer Note B15)
- (c) Earnings Per Unit for the current quarter/period is computed based on the Net Income for the quarter/period divided by 1,071,783,000 units during the quarter/period. EPU for the preceding year corresponding quarter/period is based on the units in circulation of 1,071,783,000 units.
- (d) Earnings Per Unit (Realised) for the current quarter/period is computed based on the Realised Net Income for the quarter/period divided by 1,071,783,000 units during the quarter/period. EPU for the preceding year corresponding quarter/period is based on the units in circulation of 1,071,783,000 units.
- (e) Income distribution of 3.43 sen per unit being the distributable of income for the financial period 1 January 2020 to 30 June 2020 was paid on 30 September 2020.
- (f) Income distribution of 3.43 sen per unit being the distribution of income for the period 1 January 2019 to 30 June 2019 was paid on 23 September 2019.
- (g) Distribution adjustment comprise:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year Quarter 30.9.2020 RM	Preceding Year Corresponding Quarter 30.9.2019 RM	Current Year To Date 30.9.2020 RM	Preceding Year Corresponding To Date 30.9.2019 RM
Amount previously not distributed	-	-	-	900,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>900,000</u>

The Condensed Consolidated Statement Of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the financial statements.

**MRCB-QUILL REIT**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2020 (UNAUDITED)**

	<b>AS AT END OF CURRENT QUARTER</b>	<b>AS AT PRECEDING FINANCIAL YEAR END</b>
	<b>30.9.2020 UNAUDITED RM</b>	<b>31.12.2019 AUDITED RM</b>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	280,138	363,265
Investment properties	2,143,164,992	2,125,182,320
Investment properties-accrued rental income	-	17,817,680
Lease receivables	514,780	773,211
	<u>2,143,959,910</u>	<u>2,144,136,476</u>
<b>CURRENT ASSETS</b>		
Trade and other receivables	7,303,822	5,755,440
Lease receivables	402,286	553,552
Deposits with licensed financial institution	57,620,490	59,363,150
Cash and cash equivalents	1,019,810	3,895,740
	<u>66,346,408</u>	<u>69,567,882</u>
<b>TOTAL ASSETS</b>	<b><u>2,210,306,318</u></b>	<b><u>2,213,704,358</u></b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	845,304,084	503,018,839
Security deposits	15,147,277	19,106,575
Other payables	1,602,022	1,602,022
Deferred tax liability	12,369,961	12,369,961
	<u>874,423,344</u>	<u>536,097,397</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	14,301,617	15,703,152
Derivative liabilities (i)	-	324,238
Borrowings	-	332,697,543
Security deposits	10,304,980	5,392,610
	<u>24,606,597</u>	<u>354,117,543</u>
<b>TOTAL LIABILITIES</b>	<b><u>899,029,941</u></b>	<b><u>890,214,940</u></b>
<b>NET ASSETS VALUE ("NAV")</b>	<b><u>1,311,276,377</u></b>	<b><u>1,323,489,418</u></b>
<b>UNITHOLDERS' FUNDS</b>		
<b>Unitholders' funds attributable to unitholders of MQREIT</b>		
Unitholders' capital	1,235,876,768	1,235,876,768
Undistributed and non-distributable income	75,399,609	87,612,650
<b>Total unitholders' funds</b>	<b><u>1,311,276,377</u></b>	<b><u>1,323,489,418</u></b>
<b>NUMBER OF UNITS IN CIRCULATION</b>	1,071,783,000	1,071,783,000
<b>NET ASSET VALUE PER UNIT</b>		
- before income distribution (ii)	1.2235	1.2348
- after income distribution (iii)	1.2034	1.2011

(i) These relate to the fair values of the IRSs (Note B15).

(ii) Net Asset Value assuming 100% of realised net income for the current quarter of RM21,477,685 is provided for income distribution.

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the financial statements.

**MRCB-QUILL REIT**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

	Unitholders' Capital	Distributable		Non-Distributable	Total Undistributed and Non-Distributable Income	Unitholders' Funds
		Undistributed Income Realised	Undistributed Income Unrealised	Net Fair Value (Loss) / Gain On Derivatives Unrealised		
	RM	RM	RM	RM	RM	RM
<b>As at 1 January 2020</b>	1,235,876,768	49,005,245	38,931,643	(324,238)	87,612,650	1,323,489,418
Total Comprehensive Income for the financial period	-	60,343,965	-	(1,865)	60,342,100	60,342,100
Adjustment of remeasurement of matured derivatives	-	-	-	326,103	326,103	326,103
	1,235,876,768	109,349,210	38,931,643	-	148,280,853	1,384,157,621
<b>Unitholders' transactions:</b>						
Distribution to unitholders	-	(72,881,244)	-	-	(72,881,244)	(72,881,244)
<b>As at 30 September 2020</b>	<u>1,235,876,768</u>	<u>36,467,966</u>	<u>38,931,643</u>	<u>-</u>	<u>75,399,609</u>	<u>1,311,276,377</u>
<b>As at 1 January 2019</b>	1,235,876,768	54,923,500	81,917,285	(428,022)	136,412,763	1,372,289,531
Total Comprehensive Income for the financial period	-	53,499,764	-	(231,268)	53,268,496	53,268,496
	1,235,876,768	108,423,264	81,917,285	(659,290)	189,681,259	1,425,558,027
<b>Unitholders' transactions:</b>						
Distribution to unitholders	-	(78,025,803)	-	-	(78,025,803)	(78,025,803)
<b>As at 30 September 2019</b>	<u>1,235,876,768</u>	<u>30,397,461</u>	<u>81,917,285</u>	<u>(659,290)</u>	<u>111,655,456</u>	<u>1,347,532,224</u>

The Condensed Consolidated Statement of Changes in Net Asset Value should be read in conjunction with the audited financial statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the financial statements.

**MRCB-QUILL REIT**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

	<b>CURRENT YEAR TO DATE 30.9.2020 RM</b>	<b>PRECEDING YEAR TO DATE 30.9.2019 RM</b>
<b>OPERATING ACTIVITIES</b>		
Income before tax	60,343,965	53,499,764
Adjustments for:		
Finance costs	26,784,791	29,323,316
Depreciation	161,177	113,632
Interest income	(1,755,128)	(2,096,233)
Operating cash flows before changes in working capital	<u>85,534,805</u>	<u>80,840,479</u>
Receivables	(1,580,424)	(776,745)
Payables	3,024,989	4,666,002
Cash flows from operations	<u>86,979,370</u>	<u>84,729,736</u>
Income tax paid	-	-
Net cash flows generated from operating activities	<u>86,979,370</u>	<u>84,729,736</u>
<b>INVESTING ACTIVITIES</b>		
Additions to investment properties	(164,992)	(1,378,973)
Purchase of plant & equipment	(78,050)	(45,200)
Interest received	1,805,073	2,451,636
Net cash flow generated from investing activities	<u>1,562,031</u>	<u>1,027,463</u>
<b>FINANCING ACTIVITIES</b>		
Distribution to unitholders	(72,881,244)	(78,025,803)
Finance costs paid	(26,278,747)	(29,076,211)
Proceeds from borrowings	341,000,000	35,000,000
Repayment of borrowings	(335,000,000)	(54,000,000)
Cash flows used in financing activities	<u>(93,159,991)</u>	<u>(126,102,014)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(4,618,590)</u>	<u>(40,344,815)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>63,258,890</u>	<u>85,775,603</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>58,640,300</u></u>	<u><u>45,430,788</u></u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	57,620,490	40,722,220
Cash on hand and at banks	<u>1,019,810</u>	<u>4,708,568</u>
	<u><u>58,640,300</u></u>	<u><u>45,430,788</u></u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2019 and the accompanying explanatory notes to the financial statements.

**MRCB-QUILL REIT**  
**EXPLANATORY NOTES FOR PERIOD ENDED 30 SEPTEMBER 2020**

**A1 BASIS OF PREPARATION**

The financial statements have been prepared under the historical cost convention except for investment properties and derivative financial instruments which are stated at fair value and presented in Ringgit Malaysia (RM).

The financial statements comply with the Malaysian Financial Reporting Standards ("MFRS") 134 "Interim Financial Reporting", provisions of the Trust Deed and the Securities Commission's Guidelines on Real Estate Investment Trusts and should be read in conjunction with MRCB-Quill Reit's ("MQREIT") audited financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes attached to these unaudited condensed consolidated financial statements.

**A2 BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of MQREIT and its special purpose entities ("SPEs"). The SPEs were established for the specific purpose of raising financing on behalf of MQREIT. A SPE is consolidated if, based on an evaluation of the substance of its relationship with MQREIT and the SPE's risks and rewards, MQREIT concludes that it controls the SPE. SPEs controlled by MQREIT were established under terms that impose strict limitations on the decision-making powers of the SPE's management resulting in MQREIT receiving all of the benefits related to the SPE's operations and net assets.

**A3 CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted in the interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2019.

**A4 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2019**

The audit report of the financial statements for the preceding year ended 31 December 2019 was unqualified.

**A5 SEASONALITY OR CYCLICALITY OF OPERATIONS**

The business operations of MQREIT were not materially affected by seasonal or cyclical factors during the current quarter. Seasonal or cyclical factors include but are not limited to changes in rental demand and supply of properties which depend on market conditions, economic cycle, financial performance of its tenants, availability of credit facilities and interest rate environment.

**A6 UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE**

During the current quarter under review, there were no unusual items due to their nature, size or incidence that affects the assets, liabilities, equity, net income or cash flows of MQREIT.

**A7 CHANGES IN ESTIMATES OF AMOUNTS REPORTED**

There were no changes in the estimates of amounts reported during the current quarter.

**A8 CHANGES IN DEBT AND EQUITY**

There were no repurchase, resale and repayment of debt and equity instruments for the current quarter.

## **A9 INCOME DISTRIBUTION POLICY**

In line with the Trust Deed dated 9 October 2006, effective from financial year 2009, MQREIT intends to distribute at least 90% (or any other lower percentage at the discretion of the Manager) of its distributable income at least semi-annually, or at such other intervals as the Manager may determine.

## **A10 SEGMENT REPORTING**

No segment information is prepared as MQREIT's activities are predominantly in one industry segment and situated predominantly in Malaysia.

## **A11 VALUATION OF INVESTMENT PROPERTIES**

The investment properties are valued by independent registered valuers and the differences between the valuations and the book values of the respective properties are charged or credited to the profit or loss in the statement of comprehensive income.

For the quarter ended 30 September 2020, there was no revaluation of investment properties.

## **A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 SEPTEMBER 2020**

There is no significant events during the quarter ended 30 September 2020.

## **A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 SEPTEMBER 2020**

There is no significant events subsequent to the quarter ended 30 September 2020.

## **A14 CHANGES IN CONTINGENT LIABILITIES**

There are no contingent liabilities to be disclosed.

## **A15 CAPITAL COMMITMENTS**

The amount of capital commitment not provided for in the condensed consolidated financial statements as at 30 September 2020 are as follows:

	As at 30 September 2020
	RM
Approved and contracted for :	
Investment properties	<u>1,546,506</u>

## **B1 REVIEW OF PERFORMANCE**

### **Quarter Results (3Q 2020 vs 3Q 2019)**

MQREIT recorded a gross revenue of RM41.7 million in 3Q 2020, an increase of RM2.2 million or 5.7% as compared to 3Q 2019. The increase was mainly due to higher revenue generated from Menara Shell, Wisma TechnipFMC and Tesco Building Penang.

Furthermore, property operating expenses for 3Q 2020 were RM9.3 million, a decrease of approximately RM0.4 million or 4.3% as compared to 3Q 2019. This is mainly due to lower operating expenses incurred for some of the properties under the portfolio.

Therefore, MQREIT generated a higher net property income of RM2.7 million or 9.0% in 3Q 2020 as compared to 3Q 2019.

In view of the lower Overnight Policy Rate ("OPR") and as 54% of the total borrowings are on floating rate, finance cost incurred for 3Q 2020 of RM8.3 million were lower by 14.6% as compared to 3Q 2019. However, Manager's fees incurred for 3Q 2020 were RM3.2 million which is marginally higher by 1.6% as compared to 3Q 2019. This is mainly due to higher net investment income in 3Q 2020.

As a result of all the above, MQREIT generated an income before taxation of RM21.5 million for the current quarter under review was higher by RM3.8 million or 21.8% as compared to 3Q 2019.

### **Financial Year-to-date Results (YTD 3Q 2020 vs YTD 3Q 2019)**

MQREIT recorded gross revenue of RM124.6 million for YTD September 2020, an increase of RM4.2 million or 3.5% over the previous financial period ended YTD September 2019. The increase was mainly due to higher revenue generated from Menara Shell, Wisma TechnipFMC and Tesco Building Penang.

For YTD September 2020, MQREIT incurred property operating expenses of RM27.9 million, which is a decrease of RM0.9 million or 3.1% against the previous financial period. The decrease in property operating expenses was mainly attributable to lower expenses incurred by some properties under the portfolio.

Overall, for YTD September 2020, MQREIT recorded an increased of RM5.1 million net property income or 5.5% as compared to YTD September 2019.

In view of the lower OPR and as 54% of the total borrowings are on floating rate, for YTD September 2020, MQREIT's finance costs amounted to RM26.8 million which was lower by 8.7% as compared to YTD September 2019. However, Manager's fees for YTD September 2020 were approximately RM9.6 million, which is marginally higher by 0.3% as compared to YTD September 2019. This is mainly due to higher net investment income for YTD September 2020.

Overall, the income before taxation for YTD September 2020 of RM60.3 million was higher by RM6.8 million or 12.8% as compared to YTD September 2019.

## **B2 INVESTMENT OBJECTIVES AND STRATEGIES**

The investment objective of MQREIT is to acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value per unit. There has been no change in the investment objective of MQREIT since the date of the Annual Report for 2019.

The Manager will continue to focus on its portfolio management and acquisition growth strategy, active asset management strategy and capital management strategy to achieve the objective of MQREIT. There has been no change in the strategies employed by the Manager since the date of the Annual Report for 2019 as they remain relevant in the current market conditions.

### **B3 REVIEW OF THE MARKETS IN WHICH MQREIT INVESTS IN DURING THE PERIOD AND GENERAL ASSESSMENT OF THE FUTURE PROSPECTS OF THESE MARKETS**

#### Review of office market - Kuala Lumpur

The cumulative supply of office space in Klang Valley as of 2Q 2020 stood at circa 108.83 million sq ft. The estimated supply under construction in the Klang valley is 12.66 million sq ft comprising of 7.68 million sq ft, 3.15 million sq ft and 1.83 million sq ft of supply in KL city, KL fringe and Selangor, respectively.

In 2Q 2020, the average rental rates for new CBD Grade A and old CBD Grade A offices declined 0.8% to RM6.55 per sq ft and 0.3% to RM5.36 per sq ft respectively q-o-q. Meanwhile, the average rental rates of Grade A offices in KL fringe remained the same at RM5.80 per sq ft and Selangor remained stable at RM4.31 per sq ft despite a slight drop in overall occupancy. The average occupancy rate in the Klang Valley dipped with KL City, KL Fringe and Selangor registering average occupancy rates of 69.4%, 86.1% and 78.1%. respectively.

On the outlook of the market, while some investors are taking a wait and see approach, others have remained committed to their long term investment plans in Malaysia. Amid the pandemic, the growing sense of uncertainty surrounding supply and demand chains as well as the need to preserve cash and reduce capital expenditure have led many businesses to put their real estate decisions on hold. Notwithstanding, various incentives unveiled under the stimulus packages to boost the economy and cushion the impact of the pandemic, such as attractive tax exemptions/tax allowances in particular, will help to draw more foreign direct investments into the country. This will create positive spillover effects in the real estate market.

(extracted from the Edge - Knight Frank Real Office Monitor 2Q 2020)

#### Review of retail market - Klang Valley

The cumulative supply of retail space in Klang Valley stood at circa 61.48 million sq ft as of 1H2020.

The monthly gross rentals of prime shopping centres in Klang Valley remained resilient. The shopping icons in Kuala Lumpur City, continue to command higher average monthly gross rentals averaging at about RM42.00 per sq ft and RM29.00 per sq ft respectively with near full occupancies. In Kuala Lumpur Fringe, prime shopping centres command average monthly gross rentals of RM18.00 per sq ft and RM16.00 per sq ft respectively with occupancies between 99.9% and 98.9% respectively.

The Klang Valley retail landscape continues to face hardships largely due to the fallout of the COVID-19 outbreak. However, with further easing of restrictions during the current recovery phase of MCO, retail sales trend is anticipated to gradually improve moving forward. The pandemic has brought upon a new norm, changing retail trends and consumer shopping behaviour. Moving forward, shopping malls are expected to embrace a new normal, with tighter security measures and heightened hygiene and sanitation practices. With the focus on less contact with surfaces and among people, there is a foreseeable trend of more shopping malls and retailers embracing technological innovations. Amid social distancing measures and reduced presence in physical stores, consumers have shifted to online platforms, pushing retailers to adopt e-commerce and increase their online presence.

(extracted from Knight Frank Real Estate Highlights Research, 1st Half 2020)

### **B4 PROSPECTS**

In 2020, 19% of MQREIT's total committed net lettable area ("NLA") or approximately 371,000 sq. ft. are due for renewal. As at 3Q 2020, lease negotiations for approximately 241,000 sq ft of these leases were concluded with 216,000 sq ft renewed while 25,000 sq ft not renewed. This translates to a total renewal rate to 90% as at 3Q 2020. Negotiation are currently on-going for the balance of 130,000 sq ft of leases due in 4Q 2020.

With the on-going uncertainties due to pandemic, the Klang Valley office and retail markets are expected to remain challenging. We will continue to focus on asset management and leasing strategies that are centred on cost optimisation and tenant retention to overcome the challenging operating environment.

## **B5 REVENUE RECOGNITION**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to MQREIT and the revenue can be reliably measured.

Revenues from the rental of investment properties, service charges, car park income and utilities recovery are recognised on an accrual basis.

## **B6 PROFIT FORECAST / PROFIT GUARANTEE VARIANCE**

### **(a) Profit forecast**

There has been no profit forecast issued by MQREIT for the financial year 2020.

### **(b) Profit guarantee**

MQREIT is not involved in any arrangement whereby it provides profit guarantee.

## **B7 TAXATION**

Under Section 61A of the Income Tax Act 1967, the undistributed income of a REIT are exempted from income tax provided that the REIT distributes 90% or more of its total income for the year. If the REIT is unable to meet the 90% distribution criteria, the entire taxable income of the REIT for the year would be subject to income tax.

As MQREIT intends to distribute at least 90% of its total income for the year to its unitholders, no provision for tax has been made in the current quarter.

## **B8 PROFIT ON SALE OF INVESTMENTS IN UNQUOTED SECURITIES / PROPERTIES**

There were no disposals of investments in unquoted securities / properties during the current quarter and period to date.

## **B9 PARTICULARS OF PURCHASE OR DISPOSAL OF INVESTMENT IN QUOTED SECURITIES**

There were no purchases or disposals of investments in quoted securities during the current quarter and period to date.

## **B10 STATUS OF CORPORATE PROPOSALS**

There were no corporate proposals during the current quarter and period to date.

## **B11 UTILISATION OF PROCEEDS RAISED FROM ANY NEW ISSUANCE**

There were no issuance of new units during the current quarter.

## **B12 CIRCUMSTANCES WHICH MATERIALLY AFFECT ANY INTEREST OF THE UNITHOLDERS**

As at the date of this report, the directors of the Manager are not aware of any circumstances not otherwise disclosed in this report which would materially affect the interest of the unitholders.

### B13 COMPOSITION OF INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2020

As at 30 September 2020, MQREIT's portfolio comprises ten buildings as follows:

Investment properties	Cost of Investment	Market Value / Net Carrying amount as at 30 September 2020	Market value /Net Carrying amount as % of NAV
	RM	RM	
<u>Commercial buildings</u>			
1 QB1 - DHL 1 & QB4 - DHL 2	109,100,000	133,300,000	10.17%
2 QB2 - HSBC	107,500,000	123,000,000	9.38%
3 QB3 - BMW	59,400,000	78,000,000	5.95%
4 Wisma Technip	125,000,000	173,200,000	13.21%
5 Part of Plaza Mont' Kiara	90,000,000	118,500,000	9.04%
6 QB5 - IBM	43,000,000	40,000,000	3.05%
7 Tesco Building Penang	132,000,000	140,000,000	10.68%
8 Platinum Sentral	740,000,000	686,164,992	52.33%
9 Menara Shell	640,000,000	651,000,000	49.65%
	<u>2,046,000,000</u>	<u>2,143,164,992</u>	

No capital expenditure were incurred during the quarter. The NAV as at 30 September 2020 is RM1,311,276,377.

### B14 BORROWINGS AND DEBT SECURITIES

	As at end of period ended 30 September 2020
<b><u>NON-CURRENT LIABILITIES:</u></b>	
(a) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")	116,901,679
(b) Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme") and Fixed Rate Subordinated Term loan Facility of up to RM250 million ("Fixed Rate Subordinated Term")	-
(c) CPs/MTNs Programme of up to RM3 billion	387,950,430
(d) CPs/MTNs Programme of up to RM450 million	340,451,975
	<u>845,304,084</u>
<b>(a) <u>Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")</u></b>	<b>RM</b>
Term Loan draw down	117,000,000
Transaction cost b/f	(123,590)
	<u>116,876,410</u>
Amortisation of transaction costs during the period	25,269
	<u>116,901,679</u>

On 18 July 2013, MQREIT through its SPE, Trusmadi Capital Sdn. Bhd. ("Trusmadi") established a RM150 million fixed rate term loan facility agreement for five years ("RM150 million Term Loan").

On 13 September 2013, Tranche 1 of the facility of RM117 million at interest rate of 4.60% per annum was drawdown to repay the RM117 million MTN outstanding under the RM134 million CP/MTN Programme which matured in September 2013. Tranche 2 will be used for capital expenditure and investments at the interest rate at MGS + 1.40% per annum.

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

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

**B14 BORROWINGS AND DEBT SECURITIES (cont'd)****(b) Senior CP/ MTN Programme of up to RM290 million ("Senior CP/ MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan")**

	<b>RM</b>
<b>(i) Senior CP / MTN Programme</b>	
Face value of CPs issued	244,000,000
Discount	(2,256,164)
Cash proceeds	241,743,836
Accretion of interest expenses	2,256,164
	244,000,000
Transaction costs b/f	(47,930)
Amortisation of transaction costs during the period	47,930
Redeemed on 30 March 2020	(244,000,000)
	-
	-
<b>(ii) Fixed Rate Subordinated Term Loan</b>	
Term Loan draw down	91,000,000
Transaction costs b/f	(23,431)
	90,976,569
Amortisation of transaction costs during the period	23,431
Redeemed on 30 March 2020	(91,000,000)
	-
	-

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

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

On 21 April 2015, MQREIT entered into two interest rate swap arrangements, swapping floating rate for fixed rate for a notional amount of RM139.5 million respectively, in relation to the CPs issued by Murud. MQREIT will pay a fixed rate of 3.82% per annum to the Bank whilst the Bank will pay a floating rate to MQREIT. These interest rate swap arrangements commenced on 21 April 2015 and matured on 30 March 2020.

On 30 March 2020, the RM244 million outstanding CPs and RM91 million MTNs were redeemed using the proceeds from the new issuance of RM341 million MTNs under the RM450 million CPs/MTNs Programme (as disclosed under Note 14 (d)). As such, there was no outstanding balance under the RM290 million Senior CP/ MTN Programme and RM250 million Fixed Rate Subordinated Term Loan Programme as at 30 September 2020.

**B14 BORROWINGS AND DEBT SECURITIES (cont'd)****(c) Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value ("RM3 billion Programme")**

	<b>RM</b>
(i) Issue 1	218,493,595
(ii) Issue 2	169,456,835
	<u>387,950,430</u>

**(i) (a) RM144 million in nominal value of CP and RM20 million in nominal value of MTN ("Issue 1") issued on 22 December 2016**

	<b>RM</b>
Face value of CP/ MTN issued	164,000,000
Discount	(2,182,803)
Cash proceeds	<u>161,817,197</u>
Accretion of interest expenses	1,247,316
	<u>163,064,513</u>
Transaction costs b/f	(179,614)
Amortisation of transaction costs during the period	70,260
	<u>162,955,159</u>

**(b) RM21 million in nominal value of CP ("Issue 1") issued on 6 March 2017**

	<b>RM</b>
Face value of CP issued	21,000,000
Discount	(284,294)
Cash proceeds	<u>20,715,706</u>
Accretion of interest expenses	42,408
	<u>20,758,114</u>
Transaction costs b/f	(15,572)
Amortisation of transaction costs during the period	5,389
	<u>20,747,931</u>

**(c) RM35 million in nominal value of CP ("Issue 1") issued on 29 March 2019**

	<b>RM</b>
Face value of CPs issued	35,000,000
Discount	(221,794)
Cash proceeds	<u>34,778,206</u>
Accretion of interest expenses	14,786
	<u>34,792,992</u>
Transaction costs on CP/MTN issued	(4,085)
Amortisation of transaction costs during the period	1,598
	<u>34,790,505</u>
<b>Total Issue 1</b>	<u><b>218,493,595</b></u>

## B14 BORROWINGS AND DEBT SECURITIES (cont'd)

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

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

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

On 6 March 2017, RM21 million in nominal value of CPs were issued at the interest rate of 4.14% per annum. The proceeds raised from this issuance were utilised to partially redeemed the CPs under the RM270 million CP/ MTN Programme which matured on 6 March 2017.

On 29 March 2019, RM35 million in nominal value of CPs were issued at the interest rate of 4.29% per annum for the purpose of partial redemption of the RM35 million Senior CPs under the RM279 million CP/ MTN programme issued by Murud.

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

### (ii) RM40 million in nominal value of CP and RM130 million in nominal value of MTN ("Issue 2") issued on 6 March 2017

	RM
Face value of CPs issued	170,000,000
Discount	(541,512)
Cash proceeds	169,458,488
Accretion of interest expenses	80,778
	169,539,266
Transaction costs on CP/MTN issued	(126,055)
Amortisation of transaction costs during the period	43,624
	<u>169,456,835</u>

On 6 March 2017, RM40 million in nominal value of CPs and RM130 million nominal value of MTNs from the CP/ MTN Programme were issued at the interest rate of 4.14% per annum and 4.40% per annum respectively. The proceeds raised from this issuance were utilised to redeem the CPs/ MTNs under the RM270 million CP/ MTN Programme which matured on 6 March 2017.

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

## B14 BORROWINGS AND DEBT SECURITIES (cont'd)

### (d) Commercial Papers ("CP")/ Medium Term Notes ("MTNs") (collectively the CP/MTN Programme ("CP/MTN Programme")) of up to RM450 million in nominal value ("RM450 million Programme"):

<u>RM341 million in nominal value of MTN</u>	<u>RM</u>
Face value of MTNs issued	341,000,000
Transaction costs on CP/MTN issued	(620,340)
Amortisation of transaction costs during the period	72,315
	<u>340,451,975</u>

On 30 March 2020, MQREIT through its SPE, Murud Capital Sdn Bhd ("Murud") established a RM450 million nominal value of CP/ MTN Programme for a tenure of 7 years. On the same day, RM341 million nominal values of MTNs were issued at the blended interest rate of 3.99% per annum, the proceeds from the issuance were utilised to repay the existing RM244 million Senior CP and RM91 million Fixed Rate Subordinated Term Loan which due on 30 March 2020, and the balance is for working capital purposes.

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

## B15 DERIVATIVE FINANCIAL INSTRUMENTS

As part of the active interest rate management strategy of MQREIT, the following Interest Rate Swap ("IRS") arrangements have been entered into:

- (i) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 7") was entered into in relation to the CPs issued by Murud. Pursuant to IRS No. 7, MQREIT will pay a fixed rate of 3.82% per annum to the Bank whilst the Bank will pay a floating rate to MQREIT. IRS No. 7 commenced on 21 April 2015 and has matured on 30 March 2020.
- (ii) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 8") was entered into in relation to the CPs issued by Murud. Pursuant to IRS No. 8, MQREIT will pay a fixed rate of 3.82% per annum to the Bank whilst the Bank will pay a floating rate to MQREIT. IRS No. 8 commenced on 21 April 2015 and has matured on 30 March 2020.

The differences between the floating rate and the fixed rate of the respective IRSs are settled between MQREIT and the Bank on quarterly basis for IRS No. 7 and IRS No. 8 respectively, and are charged or credited to profit or loss accordingly.

The risk associated with the IRSs above would be credit risk, which is the counterparty risk of the financial institutions with whom the IRSs were contracted. However, the Manager has taken precaution to mitigate this risk by entering the IRSs contracts with reputable licensed financial institutions.

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

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

## B16 CHANGES IN MATERIAL LITIGATION

The Manager is not aware of any pending material litigation as at the date of issuance of this report.

## B17 INCOME DISTRIBUTION

MQREIT intends to distribute at least 90% of its distributable income at least semi-annually, or at such other intervals as the Manager may determine.

An interim income distribution of RM36,762,157 or 3.43 sen per unit, being approximately 100% of the distributable income for the period 1 January 2020 to 30 June 2020 was made on 30 September 2020.

No income distribution is proposed for the quarter ended 30 September 2020.

Income distribution to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax as follows:

Resident and non-resident individuals	10%
Resident and non-resident institutional investors	10%
Resident companies (flow through)	0%
Non-resident companies	24%

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

	As at 30 September 2020	As at 30 June 2020
	RM	RM
NAV before provision for income distribution	1,311,276,377	1,326,560,849
Provision for income distribution	(21,477,685)	(36,762,157)
NAV after provision for income distribution	1,289,798,692	1,289,798,692
Number of units in circulation (units)	1,071,783,000	1,071,783,000
NAV per unit (RM) (after provision for distribution)	1.2034	1.2034
Market price (RM)	0.775	0.735

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

The Manager believes that the movement in market price is due mainly to changes in market sentiment.

## **B19 MANAGER'S FEE AND SOFT COMMISSION**

Pursuant to the Trust Deed, the Manager is entitled to receive from MQREIT the following fees:

- (i) Base fee of 0.4% per annum of the gross asset value, payable monthly in arrears;
- (ii) Performance fee of 3% per annum on the net investment income, payable semi-annually in arrears.
- (iii) Acquisition fee of 1% of the acquisition value of any asset, being authorised investments, acquired by MQREIT; and
- (iv) Divestment fee of 0.5% of the disposal value of any asset divested by MQREIT.

Total fees accrued to the Manager for the quarter ended 30 September 2020 are :

	RM
Base fee	2,232,985
Performance fee	1,001,398
	<u>3,234,383</u>

During the quarter, the Manager did not receive any soft commission from its brokers/dealers, by virtue of transaction conducted for MQREIT.

## **B20 TRUSTEE'S FEE**

Trustee's fee is payable to Maybank Trustees Berhad ("Trustee"), which is computed at 0.03% per annum on the first RM2.5 billion gross asset value and 0.02% per annum on the gross asset value in excess of RM2.5 billion, payable monthly in arrears.

Trustee's fee accrued to the Trustee for the quarter ended 30 September 2020 amounted to RM167,932.

## **B21 UNITHOLDINGS BY THE MANAGER**

As at 30 September 2020, the Manager held 2,857,000 units in MQREIT.

**B22 UNITHOLDINGS BY PARTIES RELATED TO THE MANAGER**

	No. of units	Percentage of total units	Market Value as at 30 September 2020 RM
Malaysian Resources Corporation Berhad	298,297,000	27.83%	231,180,175
HLIB Nominee (Tempatan) Sdn. Bhd. for :			
-Quill Land Sdn. Bhd.	59,040,000	5.51%	45,756,000
MRCB Quill Management Sdn. Bhd.	2,857,000	0.27%	2,214,175
Quill Resources Holding Sdn. Bhd.	361,000	0.03%	279,775
Global Jejaka Sdn. Bhd.	185,000	0.02%	143,375
	<u>360,740,000</u>	<u>33.66%</u>	<u>279,573,500</u>

The Manager's directors' direct unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2020 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.005%	38,750
Dato' Michael Ong Leng Chun	55,000	0.005%	42,625
Kwan Joon Hoe	150,000	0.014%	116,250

The Manager's directors' indirect unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2020 RM
Dato' Dr. Low Moi Ing, J.P	59,401,000 (a)	5.54%	46,035,775
Dato' Michael Ong Leng Chun	59,401,000 (b)	5.54%	46,035,775
Tan Sri Saw Choo Boon	185,000 (c)	0.02%	143,375

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

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

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

The market value of the units is computed based on the closing price as of 30 September 2020 of RM0.775 per unit.

**B23 UNITHOLDERS CAPITAL**

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

**B24 FINANCE COSTS INCURRED DURING THE QUARTER AND YEAR TO DATE**

	Current Quarter	Cumulative Quarter
	RM	RM
Interest expenses on CPMTN	6,702,836	20,417,712
Interest expenses on term loan	1,400,795	5,359,045
Interest on interest rate swap arrangements	-	321,538
Amortisation of transaction costs	95,624	336,208
Credit facility costs	123,113	350,288
Total finance costs	8,322,368	26,784,791

**B25 RESPONSIBILITY STATEMENT AND STATEMENT BY THE DIRECTORS OF THE MANAGER**

The Manager is responsible for the preparation of the quarterly report.

**BY ORDER OF THE BOARD**

**MOHAMED NOOR RAHIM YAHAYA**  
**COMPANY SECRETARY (MAICSA No. 0866820)**  
**HO NGAN CHUI**  
**COMPANY SECRETARY (MAICSA No. 7014785)**  
**MRCB Quill Management Sdn Bhd**  
**(Company No: 737252-X)**  
**(As Manager of MRCB-QUILL REIT)**  
**Kuala Lumpur**

**Date : 11 November 2020**