

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter 30.09.2017	Quarter 30.09.2016	To Date 30.09.2017	To Date 30.09.2016
	RM	RM	RM	RM
TOTAL INCOME				
Revenue				
-Realised revenue	44,818,678	32,497,623	135,450,817	97,718,661
-Unrealised rental income (unbilled lease income receivable) (a)	56,096	332,116	(396,128)	55,691
	<u>44,874,774</u>	<u>32,829,739</u>	<u>135,054,689</u>	<u>97,774,352</u>
Property operating expenses	(10,535,219)	(6,969,776)	(30,136,180)	(21,042,789)
Net property income	34,339,555	25,859,963	104,918,509	76,731,563
Interest income	747,873	475,548	1,849,540	1,245,000
Change in fair value of investment properties				
-Unbilled lease income receivable (a)	(56,096)	(332,116)	396,128	(55,691)
	<u>35,031,332</u>	<u>26,003,395</u>	<u>107,164,177</u>	<u>77,920,872</u>
TOTAL EXPENDITURE				
Manager's fee	(3,360,368)	(2,417,673)	(10,105,798)	(7,210,202)
Trustee's fee	(173,793)	(122,528)	(516,787)	(359,441)
Finance costs	(9,953,478)	(8,102,756)	(29,520,054)	(23,936,500)
Valuation fees	(85,248)	(65,001)	(209,235)	(183,077)
Auditors' remuneration	(33,000)	(36,249)	(111,000)	(113,271)
Tax agent's fee	(5,796)	(10,151)	(17,568)	(33,559)
Administrative expenses	(38,984)	(21,921)	(95,248)	(233,161)
	<u>(13,650,667)</u>	<u>(10,776,279)</u>	<u>(40,575,690)</u>	<u>(32,069,211)</u>
INCOME BEFORE TAX	21,380,665	15,227,116	66,588,487	45,851,661
Income tax expense	-	-	-	-
NET INCOME FOR THE PERIOD	21,380,665	15,227,116	66,588,487	45,851,661
OTHER COMPREHENSIVE INCOME				
Loss on remeasurement of financial derivatives (b)	(60,607)	(1,523,686)	(515,762)	(6,213,317)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	21,320,058	13,703,430	66,072,725	39,638,344
Net income for the period is made up as follows:				
Realised	21,380,665	15,227,116	66,588,487	45,851,661
Unrealised	-	-	-	-
EARNINGS PER UNIT (c)				
- after manager's fees (sen)	2.00	2.30	6.23	6.93
- before manager's fees (sen)	2.32	2.67	7.18	8.02
EARNINGS PER UNIT (REALISED) (d)				
- after manager's fees (sen)	2.00	2.30	6.23	6.93
- before manager's fees (sen)	2.32	2.67	7.18	8.02
INCOME DISTRIBUTION				
Interim income distribution	-	-	(45,176,400)	(27,976,416)
Income distribution per unit				
Gross (sen)	-	-	4.23 (e)	4.23 (f)
Total comprehensive income for the period	21,320,058	13,703,430	66,072,725	39,638,344
Distribution adjustments (g)	1,839,295	-	3,975,295	-
Distributable income	23,159,353	13,703,430	70,048,020	39,638,344
DISTRIBUTABLE INCOME PER UNIT (h)	2.17	2.30	6.56	6.93

- (a) Recognition of unrealised rental income-unbilled lease income receivable pursuant to requirements of MFRS 117 Leases, to recognize income from operating lease on a straight-line basis, including contractual increase rates over the fixed tenure of the agreement.
- (b) This relates to the loss 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 divided by units in circulation of 1,068,000,000. EPU for the preceding year corresponding quarter / period is based on units in circulation of 661,381,000.
- (d) Earnings Per Unit (Realised) for the quarter / period is computed based on the Realised Net Income for the quarter / period divided by units in circulation of 1,068,000,000. EPU (Realised) for the preceding year corresponding quarter / period is based on the units in circulation of 661,381,000.
- (e) Income distribution of 4.23 sen per unit being the distribution of income for the period 1 January 2017 to 30 June 2017 was paid on 18 September 2017.
- (f) Income distribution of 4.23 sen per unit being the distribution of income for the period 1 January 2016 to 30 June 2016 was paid on 8 September 2016.
- (g) Included in the distribution adjustment is the following :

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Corresponding	To Date	Corresponding
	30.09.2017	Quarter	30.09.2017	To Date
	30.09.2016	30.09.2016	30.09.2016	
	RM	RM	RM	RM
Manager's management fee payable in units	1,839,295	-	3,975,295	-

- (h) Distributable income per unit for the current quarter / period is computed based on the units in circulation of 1,068,000,000.

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017 (UNAUDITED)

	AS AT END OF CURRENT QUARTER 30.09.2017 UNAUDITED RM	AS AT PRECEDING FINANCIAL YEAR END 31.12.2016 AUDITED RM
NON-CURRENT ASSETS		
Plant and equipment	189,905	225,686
Investment properties	2,222,000,000	2,222,000,000
Lease receivables	2,204,862	2,745,750
	<u>2,224,394,767</u>	<u>2,224,971,436</u>
CURRENT ASSETS		
Trade and other receivables	10,042,895	17,626,110
Lease receivables	711,960	692,759
Deposits with licensed financial institution	41,849,521	43,779,046
Cash and cash equivalents	4,110,972	10,272,235
	<u>56,715,348</u>	<u>72,370,150</u>
CURRENT LIABILITIES		
Trade and other payables	15,764,078	28,350,115
Borrowings	116,819,156	189,104,175
Security deposits	4,351,661	7,336,154
Provision for income distribution	-	27,447,312
	<u>136,934,895</u>	<u>252,237,756</u>
NET CURRENT LIABILITIES	(80,219,547)	(179,867,606)
NON-CURRENT LIABILITIES		
Borrowings	737,330,346	662,462,799
Derivative liabilities (i)	1,498,981	983,219
Security deposits	24,776,258	18,794,661
Other payables	-	3,164,524
	<u>763,605,585</u>	<u>685,405,203</u>
NET ASSETS	<u>1,380,569,635</u>	<u>1,359,698,627</u>
Represented by:		
UNITHOLDERS' FUND		
Unitholders' capital	1,231,914,544	1,231,939,861
Undistributed and Non-distributable income	148,655,091	127,758,766
	<u>1,380,569,635</u>	<u>1,359,698,627</u>
NUMBER OF UNITS IN CIRCULATION	1,068,000,000	1,068,000,000
NET ASSET VALUE PER UNIT		
- before income distribution	1.2927	1.2988
- after income distribution (ii)	1.2726	1.2731

(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 RM21,380,665 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 2016 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 2017 (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
As at 1 January 2017	1,231,939,861	17,204,848	111,537,137	(983,219)	127,758,766	1,359,698,627
Issuance of new units expenses	(25,317)	-	-	-	-	(25,317)
Total Comprehensive Income for the period	-	66,588,487	-	(515,762)	66,072,725	66,072,725
	<u>1,231,914,544</u>	<u>83,793,335</u>	<u>111,537,137</u>	<u>(1,498,981)</u>	<u>193,831,491</u>	<u>1,425,746,035</u>
Unitholders' transactions:						
Distribution to unitholders	-	(45,176,400)	-	-	(45,176,400)	(45,176,400)
As at 30 September 2017	<u>1,231,914,544</u>	<u>38,616,935</u>	<u>111,537,137</u>	<u>(1,498,981)</u>	<u>148,655,091</u>	<u>1,380,569,635</u>
As at 1 January 2016	751,276,357	42,374,963	107,923,058	2,280,481	152,578,502	903,854,859
Total Comprehensive Income for the period	-	45,851,661	-	(6,213,317)	39,638,344	39,638,344
	<u>751,276,357</u>	<u>88,226,624</u>	<u>107,923,058</u>	<u>(3,932,836)</u>	<u>192,216,846</u>	<u>943,493,203</u>
Unitholders' transactions:						
Distribution to unitholders	-	(56,878,766)	-	-	(56,878,766)	(56,878,766)
As at 30 September 2016	<u>751,276,357</u>	<u>31,347,858</u>	<u>107,923,058</u>	<u>(3,932,836)</u>	<u>135,338,080</u>	<u>886,614,437</u>

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 2016 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 2017 (UNAUDITED)

	CURRENT YEAR TO DATE 30.09.2017 RM	PRECEDING YEAR TO DATE 30.09.2016 RM
OPERATING ACTIVITIES		
Income before tax	66,588,487	45,851,661
Adjustments for:		
Finance costs	29,520,054	23,936,500
Depreciation	51,984	41,666
Interest income	<u>(1,849,540)</u>	<u>(1,245,000)</u>
Operating cash flows before changes in working capital	94,310,985	68,584,827
Receivables	8,448,754	292,191
Payables	<u>(10,324,421)</u>	<u>(1,739,213)</u>
Cash flows from operations	92,435,318	67,137,805
Income tax paid	-	-
Net cash flows generated from operating activities	<u>92,435,318</u>	<u>67,137,805</u>
INVESTING ACTIVITIES		
Purchase of plant & equipment	(16,203)	(8,240)
Interest received	1,844,347	1,250,529
Net cash flow generated from investing activities	<u>1,828,144</u>	<u>1,242,289</u>
FINANCING ACTIVITIES		
Distribution to unitholders	(72,623,712)	(56,878,766)
Finance costs paid	(30,705,221)	(27,228,997)
Proceeds from borrowings	191,000,000	-
Repayment of borrowings	(190,000,000)	-
Expenses paid on issuance of new units	<u>(25,317)</u>	<u>-</u>
Cash flows used in financing activities	<u>(102,354,250)</u>	<u>(84,107,763)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(8,090,788)	(15,727,669)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>54,051,281</u>	<u>44,863,963</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>45,960,493</u>	<u>29,136,294</u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	41,849,521	23,506,536
Cash on hand and at banks	4,110,972	5,629,758
	<u>45,960,493</u>	<u>29,136,294</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes to the financial statements.

MRCB-QUILL REIT
EXPLANATORY NOTES FOR NINE MONTH ENDED 30 SEPTEMBER 2017

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 2016 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 2016.

A4 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2016

The audit report of the financial statements for the preceding year ended 31 December 2016 was unqualified.

A5 SEASONALITY OR CYCLICALITY OF OPERATIONS

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

A6 UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

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

A7 CHANGES IN ESTIMATES OF AMOUNTS REPORTED

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

A8 CHANGES IN DEBT AND EQUITY

Except as disclosed in the above and note B14, there were no repurchase, resale and repayment of debt and equity instruments for the current quarter.

A9 INCOME DISTRIBUTION POLICY

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

A10 SEGMENT REPORTING

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

A11 VALUATION OF INVESTMENT PROPERTIES

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

For the quarter ended 30 September 2017, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 SEPTEMBER 2017

As announced on 22 August 2017, the manager of MRCB-Quill Reit, MRCB Quill Management Sdn Bhd ("MQM") had on the same day appointed Semasa Sentral Sdn Bhd ("SSSB") to provide auxiliary police services at Menara Shell and Platinum Sentral for a period of two (2) years commencing from 1 September 2017 to 31 August 2019 at the monthly rate of RM58,026 and RM32,940 respectively (excluding GST) with an option for a further period of one (1) year.

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

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

The RPT is not expected to have any material effect on the net assets per share, earnings per share and gearing of MQREIT for the financial year ending 2017.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 SEPTEMBER 2017

As announced on 19 October 2017, MQM had announced that Maybank Trustees Berhad ("MTB"), acting as trustee for MQREIT, had on the same day entered into a Lot 348 Common Area Management Agreement with the Joint Management Body for Lot 348 ("JMB Lot 348") for the appointment of MTB to maintain and manage the common area of all that piece of land held under Geran 40094, Lot 348, Section 72, Town and District of Kuala Lumpur, Wilayah Persekutuan ("the Land") and 1 block of 33-storey office tower known as "Menara Shell" and 1 block of 21-storey service apartment known as "Ascott Sentral Kuala Lumpur" together with a 5-storey podium and 4-storey basement car park bearing the postal address of 211, Jalan Tun Sambathan, 50470 Kuala Lumpur (the "Development Properties") [common area of the Land and Development Properties hereinafter referred to as "Common Area"] for a monthly fee equivalent with the monthly maintenance charges together with income generated from the Common Area including but not limited to the monthly rental income.

JMB Lot 348 is established on 1 August 2017 under Section 17(2) of the Strata Management Act 2013. The committee of JMB Lot 348 consist of three (3) members of whom, 2 members are from MQM and 1 member from 348 Sentral.

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 2017 are as follows:

	As at 30 September 2017
	RM
Approved and contracted for :	
Investment properties	<u><u>2,043,300</u></u>

B1 REVIEW OF PERFORMANCE

Quarter and year to date results

MQREIT recorded total realised revenue of RM44.82 million and property operating expenses of RM10.54 million for the current quarter ended 30 September 2017. Finance costs of RM9.95 million and manager's fee of RM3.36 million were incurred during the quarter. Overall, realised income of RM21.38 million was achieved in the current quarter.

As compared with the preceding year corresponding quarter ("3Q 2016"), the realised revenue was higher by 37.9% mainly due to additional revenue arising from the acquisition of Menara Shell on 22 December 2016, higher rental income due to step up rent adjustments from QB3, Wisma Technip, QB5 and QB2. Property operating expenses were higher by 51.2% due to acquisition of Menara Shell. Overall, the realised net property income had increased by 34.3%. Interest income was higher mainly due to higher amount placed with licensed financial institutions in the current quarter. Finance costs were higher mainly due to higher borrowings in 3Q 2017; after the drawn down of RM164 million CP/MTN on 22 December 2016 to part-finance the acquisition of Menara Shell; and drawdown of RM191 million CP/MTN to refinance the existing RM190 million CP/MTN matured on 6 March 2017 (as disclosed under note B14(d)). As a result of all of the above, the realised income of RM21.38 million was higher by 40.4% compared to 3Q 2016.

As compared to preceding year cumulative quarter ("YTD September 2016"), revenue of RM135.45 million was higher by 38.6% mainly due additional revenue arising from the acquisition of Menara Sell on 22 December 2016 and rental rate increases from QB3, Wisma Technip and QB2 and QB5. Property operating expenses were higher by 43.2% mainly due to acquisition of Menara Sell on 22 December 2016; resulted in increased in the net property income by 37.4%. Finance costs were higher by 23.3% mainly due to higher borrowings in YTD September 2017; after the drawn down of RM164 million CP/MTN on 22 December 2016 to part-finance the acquisition of Menara Shell; and drawdown of RM191 million CP/MTN to refinance to existing RM190 million CP/MTN matured on 6 March 2017 (as disclosed under note B14(d)). The realised income of RM66.59 million was higher by 45.2% mainly due to higher net property income, net of higher finance costs, manager's fee, trustee's fee and valuation fee.

As compared with the immediate preceding quarter ("2Q 2017"), realised revenue of RM44.82 million was marginally lower by 0.6%; property operating expenses were higher by 3.6% and resulted in the decrease in net property income by 1.8%. Interest income was higher mainly due to higher amount placed with licensed financial institutions in the current quarter. Finance costs were higher in 3Q 2017 due to additional one day in 3Q 2017 as compared to 2Q 2017. As a result of the above, the realised income of RM21.38 million was lower by 3.0% compared to 2Q 2017.

The performance of MQREIT for the period ended 30 September 2017 is in line with the investment objectives of MQREIT.

B2 INVESTMENT OBJECTIVES AND STRATEGIES

The investment objective of MQREIT is to acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value per unit. There has been no change in the investment objective of MQREIT since the date of the Annual Report for 2016.

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 2016 as they remain relevant in the current market conditions.

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

The office market in KL is expected to remain subdued in the near future. The accumulative supply of office space in KL City, KL Fringe and Beyond KL collectively stands at 98.95 million sq. ft. (1Q 2017: 96.4 million sq. ft.). Overall occupancy rates in the KL City and Beyond KL have dropped marginally to 80.2% and 77.1% respectively, compared to the previous quarter of 80.8% and 78.1% respectively. The KL Fringe area saw an increase of 0.3% to 91.0%. Rents for offices in KL have seen marginal declines. The 2Q 2017 average rents in KL City and Beyond KL recorded declines compared to previous quarter at RM6.01 psf, and RM4.13 psf, and average rents for KL Fringe remained stable at RM5.69 psf.

The performance of the sector depends on various factors such as improvements in the economy and quality of the office stock. The outlook for the office market in Kuala Lumpur will remain lackluster with the lack of catalyst to boost demand. There will be continued pressure on both occupancy and rental rates as more new supply is anticipated to enter the market.

(Sources : The Edge-Knight Frank Klang Valley Office Monitor (2Q2017))

Review of retail market - Klang Valley

Cumulative retail stock increased to 1.1 million sq ft with the completion of MyTown Shopping Centre in 1Q2017. In terms of rental rates, only selected prime and regional shopping centres continue to achieve higher average gross rentals from new tenants and renewals. The monthly gross rental range from RM15.00 per sq. ft. to RM25.00 per sq. ft.

The retail industry outlook remains subdued in the short to mid term. Retail Group Malaysia maintained its projection of retail sales growth at 3.9% for 2017 as consumers continue to tighten their belts amid rising cost of living and a weak job market. In respond to challenges in the retail market, operators are taking proactive measures to refurbish, reconfigure and reposition their shopping centres to improve footfalls and maintain competitiveness.

(Sources : Knight Frank Real Estate Highlights 1st Half 2017)

Review of retail market - Penang

The existing supply of purpose built shopping space on Penang Island remains unchanged at 2H 2016's level of 6.69 million sq. ft.. No new shopping malls were completed on the island in 1H2017. Occupancy rates for the prime shopping malls on the island range from 80% to 98% whilst the secondary shopping malls, the range is generally from 70% to 90%. Rental rates for prime shopping malls range from RM13.00 per sq. ft to RM35.00 per sq. ft depending on the mall, location and size of the unit.

(Sources : Knight Frank Real Estate Highlights 1st Half 2017)

B4 PROSPECTS

We remain positive that MQREIT will deliver stable income distribution to the unitholders for 2017.

Moving forward, the Klang Valley office market is expected to remain challenging. We will focus on our asset management and leasing strategies to meet the challenging operating environment.

In 2017, 14% of MQREIT's total net lettable area is due for renewal i.e. approximately 2.0% in 1Q 2017, 4.7% in 2Q 2017, 0.5% in 3Q 2017 and 6.8% in 4Q2017. As at 30 September 2017, approximately 90% of these leases that were due in 3Q were renewed. In respect of 4Q tenancy renewals, 45% of the leases have been successfully renewed in advance of its expiry. The Manager is now in advanced negotiations for the renewal of the balance 55% leases due in 4Q. At the same time, we have commenced active negotiations for renewal of certain leases due in 1Q 2018.

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 2017.

(b) Profit guarantee

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

B7 TAXATION

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

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

B8 PROFIT ON SALE OF INVESTMENTS IN UNQUOTED SECURITIES / PROPERTIES

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

B9 PARTICULARS OF PURCHASE OR DISPOSAL OF INVESTMENT IN QUOTED SECURITIES

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

B10 STATUS OF CORPORATE PROPOSALS

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

B11 UTILISATION OF PROCEEDS RAISED FROM ANY NEW ISSUANCE

There were no issuance of new units during the quarter.

B12 CIRCUMSTANCES WHICH MATERIALLY AFFECT ANY INTEREST OF THE UNITHOLDERS

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

B13 COMPOSITION OF INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2017

As at 30 September 2017, MQREIT's portfolio comprises of eleven buildings as follows:

Investment properties	Cost of Investment	Market Value /Net Carrying amount as at 30 September 2017	Market value /Net Carrying amount as % of NAV
	RM	RM	
<u>Commercial buildings</u>			
1 QB1 - DHL 1 & QB4 - DHL 2	109,100,000	126,500,000	9.16%
2 QB2 - HSBC	107,500,000	121,700,000	8.82%
3 QB3 - BMW	59,400,000	76,500,000	5.54%
4 Wisma Technip	125,000,000	173,000,000	12.53%
5 Part of Plaza Mont' Kiara	90,000,000	116,000,000	8.40%
6 QB5 - IBM	43,000,000	45,300,000	3.28%
7 Tesco Building Penang	132,000,000	140,000,000	10.14%
8 Platinum Sentral	740,000,000	750,000,000	54.33%
9 Menara Shell	640,000,000	648,000,000	46.94%
<u>Industrial building</u>			
10 QB8 - DHL XPJ	28,800,000	25,000,000	1.81%
	<u>2,074,800,000</u>	<u>2,222,000,000</u>	

No capital expenditure was incurred during the quarter. The NAV as at 30 September 2017 is RM1,380,569,635.

B14 BORROWINGS AND DEBT SECURITIES

As at end of period
ended 30 September
2017
RM

CURRENT LIABILITIES:

(a) CPs / MTNs Programme of up to RM270 million ("RM270 million Programme")

Face value of CPs / MTNs issued	190,000,000
Discount	(2,547,501)
Cash proceeds	187,452,499
Accretion of interest expenses	2,547,501
	190,000,000
Redeemed on 6 March 2017	(190,000,000)
	<u>-</u>

B14 BORROWINGS AND DEBT SECURITIES (cont'd)

	As at end of period ended 30 September 2017 RM
(b) <u>Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")</u>	
Term Loan drawdown	117,000,000
Transaction cost c/f	(328,600)
	<u>116,671,400</u>
Amortisation of transaction costs during the period	147,756
	<u><u>116,819,156</u></u>
 NON-CURRENT LIABILITIES:	
(c) <u>Senior CP / MTN Programme of up to RM290 million ("Senior CP / MTN Programme"), Junior CP / MTN Programme of up to RM450 million ("Junior CP / MTN Programme") and Fixed-Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan")</u>	
(i) <u>Senior CP / MTN Programme</u>	
Face value of CPs issued / rollover on 30 March 2017	279,000,000
Discount	(2,664,106)
Cash proceeds	276,335,894
Accretion of interest expenses	58,552
	<u>276,394,446</u>
Transaction costs c/f	(901,857)
Amortisation of transaction costs during the period	213,236
	<u><u>275,705,825</u></u>
(ii) <u>Fixed Rate Subordinated Term Loan</u>	
Term Loan drawdown	110,000,000
Transaction costs on term loan	(451,925)
	<u>109,548,075</u>
Amortisation of transaction costs during the period	107,000
	<u><u>109,655,075</u></u>
 (d) <u>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")</u>	
(i) <u>RM144 million in nominal value of CP and RM20 million in nominal value of MTN</u>	
Face value of CPs / MTNs issued on 22 December 2016	164,000,000
Discount	(2,988,967)
Cash proceeds	161,011,033
Accretion of interest expenses	1,649,649
	<u>162,660,682</u>
Transaction costs b/f	(460,355)
Amortisation of transaction costs during the period	70,140
	<u><u>162,270,467</u></u>
(ii) <u>RM61 million in nominal value of CP and RM130 million in nominal value of MTN</u>	
Face value of CPs / MTNs issued on 6 March 2017	191,000,000
Discount	(1,255,347)
Cash proceeds	189,744,653
Accretion of interest expenses	173,391
	<u>189,918,044</u>
Transaction costs on CP/MTN issued during the period	(247,979)
Amortisation of transaction costs during the period	28,914
	<u><u>189,698,979</u></u>
Total:	<u><u><u>737,330,346</u></u></u>

B14 BORROWINGS AND DEBT SECURITIES (cont'd)

(a) CPs / MTNs Programme of up to RM270 million ("RM270 million CP/MTN Programme")

On 18 July 2011, MQREIT through its SPE, Kinabalu Capital Sdn. Bhd. ("Kinabalu"), established a CPs/MTNs programme of up to RM270 million ("RM270 million CP/MTN Programme") with an expected tenure of five years.

CPs totalling RM12 million and MTNs totalling RM60 million were issued on 5 September 2011, the proceeds of which were utilised towards the settlement of the RM80 million 5-year Term Loan Facilities.

CPs totalling RM118 million were issued on 30 November 2011, the proceeds of which were utilised towards the settlement of the RM118 million of CPs outstanding under the RM118 million Programme which matured on 30 November 2011.

The transaction costs relating to the programme are fully amortised over the tenure of the programme.

The RM270 million Programme are secured borrowings.

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

On 6 March 2017, the RM60 million outstanding MTNs and RM130 million outstanding CPs from the RM270 million programme was redeemed with the proceeds from the new issuance of RM130 million MTNs from the MTN Programme and RM61 million CPs from the CP Programme (as disclosed under Note B14 (d)(ii)). As such, there was no outstanding balance under the RM270 million programme as at 30 June 2017.

(b) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")

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

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

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

The RM150 million Programme are secured borrowings.

There was no drawdown of the facility during the quarter.

B14 BORROWINGS AND DEBT SECURITIES (cont'd)

(c) Senior CP / MTN Programme of up to RM290 million ("Senior CP / MTN Programme"), Junior CP / MTN Programme of up to RM450 million ("Junior CP / MTN Programme") and Fixed-Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan")

On 13 March 2015, MQREIT through its SPE, Murud Capital Sdn Bhd ("Murud") established a RM290 million Senior CP/MTN Programme and Junior CP/MTN Programme of RM450 million for 7 years.

On 30 March 2015, RM279 million nominal values of Senior CPs were issued at an interest rate of 4.13% p.a.. A Junior CP of RM140 million nominal values were issued at an interest rate of 4.78% p.a.(effective rate is 4.90% p.a.). This Junior CP has been redeemed on 30 September 2015 upon its maturity on the same day, and has been refinanced by a Subordinated Term loan RM110 million at the interest rate of 4.90% p.a.; and balance via internal funds.

On 21 April 2015, MRCB-Quill Reit entered into two interest rate swap arrangements, swapping floating rate for fixed rate for a notional amount of RM139.5 million respectively, in relation to the RM279 million Senior CPs issued by Murud. MRCB-Quill Reit will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MRCB-Quill Reit. These interest rate swap arrangements commenced on 21 April 2015 and will mature on 30 March 2020.

The transaction costs relating to the programme are amortised over the tenure of the programmes and are charged to profit or loss. The RM290 million Senior CP, RM450 million Junior CP and RM110 million Subordinated Term Loan are secured borrowings.

(d) 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")

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

(i) RM144 million in nominal value of CPs and RM20 million in nominal value of MTNs

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

The transaction costs relating to the programme are amortised from the dates of issuance of the CPs to the maturity of the programme. The RM144 million CP and RM20 million MTN are secured borrowings.

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

On 6 March 2017, RM61 million in nominal value of CPs and RM130 million nominal value of MTNs from the CP and MTN Programme were issued at the interest rate of 4.14% p.a. and 4.40% p.a. respectively. The proceeds raised from this issuance were utilised to redeem the existing RM60 million MTNs, RM12 million CPs and RM118 million CPs under the RM270 million CP/MTN Programme which matured on 6 March 2017.

The transaction costs relating to the programme are amortised from the dates of issuance of the CPs to the maturity of the programme. The RM61 million CP and RM130 million MTN are secured borrowings.

B15 DERIVATIVE FINANCIAL INSTRUMENTS

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

- (i) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 7") was entered into in relation to the RM279 million CPs issued by Murud. Pursuant to IRS No. 7, MQREIT will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MQREIT. IRS No. 7 commenced on 21 April 2015 and will mature on 30 March 2020.
- (ii) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 8") was entered into in relation to the RM279 million CPs issued by Murud. Pursuant to IRS No. 8, MQREIT will pay a fixed rate of 3.82% p.a. to the Bank whilst the Bank will pay a floating rate to MQREIT. IRS No. 7 commenced on 21 April 2015 and will mature on 30 March 2020.

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

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

The fair values of the IRSs and the maturity profile as at 30 September 2017 are as follows:

	Fair values of derivative assets/(liabilities) as at 30 September 2017
	RM
More than 1 year and less than 5 years	<u>(1,498,981)</u>

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

B16 CHANGES IN MATERIAL LITIGATION

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

B17 INCOME DISTRIBUTION

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

An interim income distribution of RM45,176,400 or 4.23 sen per unit, being 95.42% of the distributable income for the period 1 January 2017 to 30 June 2017 was made on 18 September 2017.

No income distribution is proposed for the quarter ended 30 September 2017.

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 2017	As at 30 June 2017
NAV (RM)	1,380,569,635	1,404,425,977
Number of units in circulation (units)	1,068,000,000	1,068,000,000
NAV per unit (RM) (after provision for distribution)	1.2726	1.2727
Market price (RM)	1.28	1.31

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

The changes in NAV per unit is mainly due to loss on remeasurement of financial derivatives and income distribution made in the current quarter.

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

B19 MANAGER'S FEE AND SOFT COMMISSION

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

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

Total fees accrued to the Manager (exclusive of 6% GST) for the quarter ended 30 September 2017 are :

	RM
Base fee	2,309,428
Performance fee	1,050,940
	<u>3,360,368</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 2017 amounted to RM173,793.

B21 UNITHOLDINGS BY THE MANAGER

As at 30 September 2017, the Manager did not hold any units in MQREIT.

B22 UNITHOLDINGS BY PARTIES RELATED TO THE MANAGER

	No. of units	Percentage of total units	Market Value as at 30 September 2017 RM
Malaysian Resources Corporation Berhad HLIB Nominee (Tempatan) Sdn. Bhd. for :	297,917,000	27.89%	381,333,760
-Quill Properties Sdn. Bhd.	45,997,000	4.31%	58,876,160
-Quill Land Sdn. Bhd.	48,767,000	4.57%	62,421,760
-Quill Estates Sdn. Bhd.	22,276,000	2.09%	28,513,280
	<u>414,957,000</u>	<u>38.85%</u>	<u>531,144,960</u>

The Manager's directors' direct unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2017 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.005%	64,000
Dato' Michael Ong Leng Chun	55,000	0.005%	70,400

The Manager's directors' indirect unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 September 2017 RM
Dato' Dr. Low Moi Ing, J.P	117,040,000 (a)	10.96%	149,811,200
Dato' Michael Ong Leng Chun	117,040,000 (b)	10.96%	149,811,200

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

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

The market value of the units is computed based on the closing price as of 30 September 2017 of RM1.28 per unit.

B23 UNITHOLDERS CAPITAL

	No. of units	
	Current Quarter	Preceding Quarter
Approved fund size	<u>1,100,000,000</u>	<u>1,100,000,000</u>
Issued and fully paid	<u>1,068,000,000</u>	<u>1,068,000,000</u>

B24 FINANCE COSTS INCURRED DURING THE QUARTER AND YEAR TO DATE

	Current Quarter RM	Cumulative Quarter RM
Interest expenses on CPMTN	6,491,509	19,207,197
Interest expenses on term loan	2,839,901	8,427,098
Interest on interest rate swap arrangements	274,261	827,369
Amortisation of transaction costs	223,745	650,862
Credit facility costs	124,062	407,528
Total finance costs	<u>9,953,478</u>	<u>29,520,054</u>

B25 OTHER INCOME AND EXPENSES

For the current quarter, the following were credited or charged to the profit or loss in the statement of comprehensive income:

	Current Quarter RM	Cumulative Quarter RM
Depreciation	17,849	51,984
Provision for / write off of receivables	214,871	213,009

B26 RESPONSIBILITY STATEMENT AND STATEMENT BY THE DIRECTORS OF THE MANAGER

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

In the opinion of the directors of the Manager, the quarterly report has been prepared in accordance with MFRS 134: Interim Financial reporting and Paragraph 9.44 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of MQREIT as at 30 September 2017 and of its financial performance and cash flows for the quarter ended on that date and duly authorised for release by the Board of the Manager on 16 November 2017.

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 : 17 November 2017