

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter 30.06.2018 RM	Quarter 30.06.2017 RM	To Date 30.06.2018 RM	To Date 30.06.2017 RM
Total income				
Gross revenue				
-Realised gross revenue	43,406,003	45,070,359	87,450,736	90,632,139
-Unrealised rental income (unbilled lease income receivable) (a)	285,285	(1,461,069)	533,815	(452,224)
	43,691,288	43,609,290	87,984,551	90,179,915
Property operating expenses	(10,044,692)	(10,165,002)	(19,802,045)	(19,600,961)
Net property income	33,646,596	33,444,288	68,182,506	70,578,954
Interest income	876,954	649,607	1,606,281	1,101,667
Change in fair value of investment properties				
-Unbilled lease income receivable (a)	(285,285)	1,461,069	(533,815)	452,224
Gain on divestment of investment property	2,196,632	-	2,196,632	-
	36,434,897	35,554,964	71,451,604	72,132,845
Total expenditure				
Manager's fees	(3,312,364)	(3,365,491)	(6,645,987)	(6,745,430)
Trustee's fee	(170,862)	(171,814)	(342,566)	(342,994)
Finance costs	(9,935,167)	(9,840,975)	(19,627,478)	(19,566,576)
Valuation fees	(57,431)	(85,248)	(170,843)	(123,987)
Auditors' remuneration	(33,840)	(45,000)	(71,040)	(78,000)
Tax agent's fee	(6,045)	(5,796)	(12,090)	(11,772)
Administrative expenses	566,859	2,652	(86,262)	(56,264)
	(12,948,850)	(13,511,672)	(26,956,266)	(26,925,023)
Income before taxation	23,486,047	22,043,292	44,495,338	45,207,822
Income tax expense	-	-	-	-
Income net of taxation	23,486,047	22,043,292	44,495,338	45,207,822
Other comprehensive income				
(Loss)/gain on remeasurement of financial derivatives (b)	(46,161)	(737,191)	310,791	(455,155)
Total comprehensive income for the financial year	23,439,886	21,306,101	44,806,129	44,752,667
Net income for the period comprise the following:				
Realised	23,486,047	22,043,292	44,495,338	45,207,822
Unrealised	-	-	-	-
	23,486,047	22,043,292	44,495,338	45,207,822
EARNINGS PER UNIT (c)				
- after manager's fees (sen)	2.19	2.06	4.16	4.23
- before manager's fees (sen)	2.50	2.38	4.78	4.86
EARNINGS PER UNIT (REALISED) (d)				
- after manager's fees (sen)	2.19	2.06	4.16	4.23
- before manager's fees (sen)	2.50	2.38	4.78	4.86
INCOME DISTRIBUTION (e)				
Interim income distribution	45,336,421	45,176,400	45,336,421	45,176,400
	45,336,421	45,176,400	45,336,421	45,176,400
Income distribution per unit				
Gross (sen)				
-Interim income distribution	4.23	4.23	4.23	4.23
Total income distribution	4.23	4.23	4.23	4.23
Income net of taxation	23,486,047	22,043,292	44,495,338	45,207,822
Distribution adjustments (f)	1,000,000	2,136,000	2,388,000	2,136,000
Distributable income	24,486,047	24,179,292	46,883,338	47,343,822
DISTRIBUTABLE INCOME PER UNIT	2.28	2.26	4.38	4.43

- (a) Recognition of unrealised rental income-unbilled lease income receivable pursuant to requirements of MFRS 117 Leases, to recognize income from operating lease on a straight-line basis, including contractual increase rates over the fixed tenure of the agreement.
- (b) This relates to the (loss)/gain on the remeasurement of the fair values of interest rate swaps ("IRSs"). (please refer Note B15)
- (c) Earnings Per Unit for the current quarter/period is computed based on the Net Income for the quarter/period divided by weighted average units in circulation of 1,071,616,714/1,069,818,348 units during the quarter/period. EPU for the preceding year corresponding quarter/period is based on the units in circulation of 1,068,000,000.
- (d) Earnings Per Unit (Realised) for the quarter/period is computed based on the Realised Net Income for the quarter/period divided by weighted average units in circulation of 1,071,616,714/1,069,818,348 units during the quarter/period. EPU (Realised) for the preceding year corresponding quarter/period is based on the units in circulation of 1,068,000,000.
- (e) Income distribution of 4.23 sen per unit being the distributable of income for the financial period 1 January 2018 to 30 June 2018 will be payable on 19 September 2018 to all unitholders as at book closure date on 24 August 2018. Please refer to Note B17 for further details of the distribution.
- (f) Distribution adjustments comprise:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current Year Quarter 30.06.2018 RM	Preceding Year Corresponding Quarter 30.06.2017 RM	Current Year To Date 30.06.2018 RM	Preceding Year Corresponding To Date 30.06.2017 RM
Manager's management fee payable in units	-	2,136,000	1,388,000	2,136,000
Amount previously not distributed	1,000,000	-	1,000,000	-
	1,000,000	2,136,000	2,388,000	2,136,000

The Condensed Consolidated Statement Of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the financial statements.

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018 (UNAUDITED)

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
	30.06.2018 UNAUDITED RM	31.12.2017 AUDITED RM
NON-CURRENT ASSETS		
Plant and equipment	138,554	172,433
Investment properties	2,181,526,929	2,159,459,119
Investment properties-accrued rental income	-	19,740,881
Lease receivables	1,619,838	2,014,930
	<u>2,183,285,321</u>	<u>2,181,387,363</u>
CURRENT ASSETS		
Trade and other receivables	7,981,429	5,232,685
Lease receivables	770,054	730,820
Deposits with licensed financial institution	93,008,039	72,403,166
Cash and cash equivalents	5,992,256	3,638,160
	<u>107,751,778</u>	<u>82,004,831</u>
Non-current asset held for sale	-	25,000,000
	<u>107,751,778</u>	<u>107,004,831</u>
TOTAL ASSETS	<u>2,291,037,099</u>	<u>2,288,392,194</u>
NON-CURRENT LIABILITIES		
Borrowings	736,449,077	736,584,405
Derivative liabilities (i)	354,940	665,731
Security deposits	16,489,272	16,194,911
Other payables	221,866	221,866
	<u>753,515,155</u>	<u>753,666,913</u>
CURRENT LIABILITIES		
Trade and other payables	20,800,900	20,304,048
Borrowings	116,967,098	116,868,449
Security deposits	10,689,823	12,828,214
	<u>148,457,821</u>	<u>150,000,711</u>
TOTAL LIABILITIES	<u>901,972,976</u>	<u>903,667,624</u>
NET ASSETS VALUE ("NAV")	<u>1,389,064,123</u>	<u>1,384,724,570</u>
UNITHOLDERS' FUNDS		
Unitholders' funds attributable to unitholders of MQREIT		
Unitholders' capital	1,235,876,768	1,231,914,544
Undistributed and non-distributable income	153,187,355	152,810,026
Total unitholders' funds	<u>1,389,064,123</u>	<u>1,384,724,570</u>
NUMBER OF UNITS IN CIRCULATION	1,071,783,000	1,068,000,000
NET ASSET VALUE PER UNIT		
- before income distribution (ii)	1.2960	1.2966
- after income distribution (iii)	1.2537	1.2550

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

(ii) Net Asset Value per unit before the proposed interim distribution of 4.23 sen per unit.

(iii) Net Asset Value per unit after the proposed interim distribution of 4.23 sen per unit.

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2017 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 JUNE 2018 (UNAUDITED)

	Unitholders' Capital	Distributable		Non-Distributable Net Fair Value (Loss) / Gain On Derivatives Unrealised	Total Undistributed and Non-Distributable Income	Unitholders' Funds
		Undistributed Income Realised	Undistributed Income Unrealised			
	RM	RM	RM	RM	RM	RM
As at 1 January 2018	1,231,914,544	60,034,963	93,440,794	(665,731)	152,810,026	1,384,724,570
Issuance of new units	3,974,420	-	-	-	-	3,974,420
Expenses on issuance of new units	(12,196)	-	-	-	-	(12,196)
Total Comprehensive Income for the financial year	-	44,495,338	-	310,791	44,806,129	44,806,129
	1,235,876,768	104,530,301	93,440,794	(354,940)	197,616,155	1,433,492,923
Unitholders' transactions:						
Distribution to unitholders	-	(44,428,800)	-	-	(44,428,800)	(44,428,800)
As at 30 June 2018	1,235,876,768	60,101,501	93,440,794	(354,940)	153,187,355	1,389,064,123
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	-	45,207,822	-	(455,155)	44,752,667	44,752,667
	1,231,914,544	62,412,670	111,537,137	(1,438,374)	172,511,433	1,404,425,977
Unitholders' transactions:						
Distribution to unitholders	-	-	-	-	-	-
As at 30 June 2017	1,231,914,544	62,412,670	111,537,137	(1,438,374)	172,511,433	1,404,425,977

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 2017 and the accompanying explanatory notes attached to the financial statements.

MRCB-QUILL REIT
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

	CURRENT YEAR TO DATE 30.06.2018 RM	PRECEDING YEAR TO DATE 30.06.2017 RM
OPERATING ACTIVITIES		
Income before tax	44,495,338	45,207,822
Adjustments for:		
Finance costs	19,627,478	19,566,576
Depreciation	33,879	34,135
Interest income	(1,606,281)	(1,101,667)
Gain on divestment of investment property	(2,196,632)	-
Operating cash flows before changes in working capital	<u>60,353,782</u>	<u>63,706,866</u>
Receivables	(1,784,301)	10,172,012
Payables	(2,389,048)	(12,416,986)
Cash flows from operations	<u>56,180,433</u>	<u>61,461,892</u>
Income tax paid	-	-
Net cash flows generated from operating activities	<u>56,180,433</u>	<u>61,461,892</u>
INVESTING ACTIVITIES		
Additions to investment properties	(2,326,929)	-
Proceed from divestment of QB8	28,000,000	-
Purchase of plant & equipment	-	(16,203)
Interest received	1,395,888	1,063,151
Net cash flow generated from investing activities	<u>27,068,959</u>	<u>1,046,948</u>
FINANCING ACTIVITIES		
Distribution to unitholders	(44,428,800)	(27,447,312)
Finance costs paid	(19,823,847)	(18,988,553)
Proceeds from borrowings	-	191,000,000
Repayment of borrowings	-	(190,000,000)
Proceeds from issuance of new units	3,974,420	-
Expenses paid on issuance of new units	(12,196)	(25,317)
Cash flows used in financing activities	<u>(60,290,423)</u>	<u>(45,461,182)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,958,969	17,047,658
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>76,041,326</u>	<u>54,051,281</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>99,000,295</u></u>	<u><u>71,098,939</u></u>
Cash and cash equivalents at end of period comprises:		
Deposits with licensed financial institutions	93,008,039	66,752,563
Cash on hand and at banks	5,992,256	4,346,376
	<u>99,000,295</u>	<u>71,098,939</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes to the financial statements.

MRCB-QUILL REIT
EXPLANATORY NOTES FOR PERIOD ENDED 30 JUNE 2018

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 2017 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 2017.

A4 AUDIT REPORT OF PRECEDING FINANCIAL YEAR ENDED 31 DECEMBER 2017

The audit report of the financial statements for the preceding year ended 31 December 2017 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

MQREIT issued 3,783,000 new units in MQREIT at approximately RM1.0506* per unit to the Manager during the financial period under review, being part payment of management fee for the financial period from 1 January 2017 to 30 September 2017. The units were listed on the Main Market of Bursa Securities on 5 April 2018.

* Based on 5-day volume weighted average market price of the Units up to 15 March 2018

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 June 2018, there was no revaluation of investment properties.

A12 SIGNIFICANT EVENTS DURING THE QUARTER ENDED 30 JUNE 2018

(a) Issuance of new Units for the purpose of the payment of management fee to the management company of MQREIT

On 4 April 2018, announcement was made to Bursa Malaysia on the issuance of 3,783,000 new units in MRCB-Quill REIT ("MQREIT") for the purpose of the payment of management fee to MRCB Quill Management Sdn Bhd, the management company of MQREIT, based on 5-day volume weighted average market price of RM1.0506 per Unit.

As announced on 5 April 2018, the Board of Directors of the Manager concluded that the issuance has been completed with the listing of 3,783,000 new Units of the Main Market of Bursa Malaysia Securities Berhad on the same day.

With the listing of the said new Units, the enlarged fund size of MQREIT is 1,071,783,000 Units.

(b) Disposal of Quill Building 8 DHL (XPJ) to Transmark Corporation Sdn Bhd

As announced on 12 April 2018, the Board of Directors of MRCB Quill Management Sdn Bhd, the management company of MQREIT, is pleased to announce that the Proposed Disposal has been completed on 12 April 2018 in accordance to the terms and conditions of the SPA executed on 8 January 2018.

A13 SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED 30 JUNE 2018

There is no significant events subsequent to the quarter ended 30 June 2018.

A14 CHANGES IN COMPOSITION OF MQREIT

The movement to the composition of MQREIT during the current quarter is as follows:

	Units
Balance as at 1 January 2018	1,068,000,000
Units issued as satisfaction of the Manager's management fee payable in units	3,783,000
Total units in issue	<u>1,071,783,000</u>

A15 CHANGES IN CONTINGENT LIABILITIES

There are no contingent liabilities to be disclosed.

A16 CAPITAL COMMITMENTS

The amount of capital commitment not provided for in the condensed consolidated financial statements as at 30 June 2018 are as follows:

	As at 30 June 2018 RM
Approved and contracted for : Investment properties	<u>1,897,537</u>

B1 REVIEW OF PERFORMANCE

Quarter Results (2Q 2018 vs 2Q 2017)

MQREIT recorded realised gross revenue of RM43.4 million in 2Q 2018, a decrease of RM1.7 million or 3.7% compare to 2Q 2017. The decrease was mainly due to lower revenue generated from Platinum Sentral and loss of revenue from QB8 - DHL XPJ after the disposal took place on 12 April 2018.

Property operating expenses for 2Q 2018 were RM10.0 million, a marginal decrease of RM0.1 million or 1.2% compared to 2Q 2017, mainly due to tighten control on costs and lower expenses incurred after the disposal of QB8.

These have resulted in lower net property income by RM1.6 million or 4.4% in 2Q 2018 compared to 2Q 2017.

Manager's fees incurred for 2Q 2018 were RM3.3 million, marginally lower by 1.6% compared to 2Q 2017, this was in line with the lower net property income and total asset value in 2Q 2018. Finance costs incurred for 2Q 2018 of RM9.9 million were 1% higher than 2Q 2017 mainly due to higher interest on borrowings. A gain on divestment of QB8 - DHL XPJ amounted to RM2.2 million was recorded in 2Q 2018, upon the completion of disposal on 12 April 2018.

Overall, the income before taxation for the current quarter under review of RM23.5 million was higher by RM1.4 million or 6.6% compared to 2Q 2017. Distributable income for the quarter under review was RM24.5 million or 2.28 sen per unit, consisting of income after taxation of RM23.5 million and distribution adjustments of RM1.0 million.

Financial Year-to-date Results (YTD June 2018 vs YTD June 2017)

MQREIT recorded realised gross revenue of RM87.5 million in YTD June 2018, a decrease of RM3.2 million or 3.5% over the previous financial period ended YTD June 2017. The decrease was mainly due to lower revenue generated from Platinum Sentral, Menara Shell and loss of revenue from QB8 - DHL XPJ after the disposal took place on 12 April 2018.

Property operating expenses for YTD June 2018 were RM19.8 million, an increase of RM0.2 million or 1% over the previous financial period. The increase was mainly attributable to higher expenses incurred by come properties.

Overall, the net property income for YTD June 2018 of RM67.7 million was 4.8% lower than YTD June 2017.

Manager's fees for YTD June 2018 were RM6.6 million, marginally lower by 1.5% compared to YTD June 2017, this was in line with the lower net property income and total asset value in YTD June 2018. Finance costs for YTD June 2018 of RM19.6 million were 0.3% marginally higher due to higher interest on borrowings after the drawdown of RM191 million CP/MTN to refinance the RM190 million CP/MTN matured on 6 March 2017.

Overall, the income before taxation for YTD June 2018 of RM44.5 million was lower by RM0.7 million or 1.6% compared to YTD June 2017. Distributable income for the current period was RM46.9 million or 4.38 sen per unit, consisting of income after taxation of RM44.5 million and distribution adjustments of RM2.4 million.

The performance of MQREIT for the period ended 30 June 2018 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 2017.

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 2017 as they remain relevant in the current market conditions.

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

Review of office market - Klang Valley

As at 1Q 2018, a total 1.2 million sq. ft. of office space was completed in Kuala Lumpur and Selangor. 1Q 2018 occupancy rates have remained static with KL City, KL Fringe and Selangor at 78.9%, 85.2% and 78.8%, respectively. In respect of average rental rates, KL City and Selangor have dropped marginally by 0.4% and 0.32% to RM7.16 per sq. ft. and RM4.20 per sq. ft. respectively. The average rental rate for KL Fringe was maintained at RM5.72 per sq. ft.

(Source : The Edge Knight Frank - Kuala Lumpur and Selangor Office Monitor (1Q2018))

Review of retail market - Klang Valley

Retail sales recorded a modest growth of 3.1% for 4Q 2017, slightly lower than the Malaysia Retailers Association's (MRA) forecast of 3.8%. Total retail space in KL remained at 31 mil sq. ft. without any new completions in 1Q 2018, while retail space outside KL rose to 31 mil sq. ft., with the completion of M Square Mall in Puchong. Retail mall occupancy in KL dropped marginally to 86.0 per cent from 87.0%.

(Source : Nawawi Tie Leung Real Estate Times - Kuala Lumpur Q1 2018)

B4 PROSPECTS

In 2018, 28% of MQREIT's total net lettable area ("NLA") or approximately 609,000 sq ft are due for renewal. 14% of these leases or approximately 87,000 sq ft of NLA were due in 1H 2018. MQREIT achieved approximately 70% renewal rate for these leases due in 1H 2018. The Manager is now in advanced negotiation with tenants for balance of leases due in the 3Q 2018 and 4Q 2018.

The Klang Valley office market is expected to remain challenging. For 2018, we will focus on asset management and leasing strategies that are centred on 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 2018.

(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

A total of 3,783,000 new units were issued by MQREIT as payment for management fee in 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 JUNE 2018

As at 30 June 2018, MQREIT's portfolio comprises of ten buildings as follows:

Investment properties	Cost of Investment	Market Value / Net Carrying amount as at 30 June 2018	Market value /Net Carrying amount as % of NAV
	RM	RM	
<u>Commercial buildings</u>			
1 QB1 - DHL 1 & QB4 - DHL 2	109,100,000	130,722,500	9.41%
2 QB2 - HSBC	107,500,000	122,000,000	8.78%
3 QB3 - BMW	59,400,000	79,989,519	5.76%
4 Wisma Technip	125,000,000	173,800,000	12.51%
5 Part of Plaza Mont' Kiara	90,000,000	117,400,000	8.45%
6 QB5 - IBM	43,000,000	44,000,000	3.17%
7 Tesco Building Penang	132,000,000	140,000,000	10.08%
8 Platinum Sentral	740,000,000	725,211,820	52.21%
9 Menara Shell	640,000,000	648,403,090	46.68%
	<u>2,046,000,000</u>	<u>2,181,526,929</u>	

The disposal of QB8 - DHL XPJ (with the carrying amount of RM25 million) was completed on 12 April 2018, for a cash consideration of RM28 million.

Capital expenditure of RM1,848,156 were incurred during the quarter. The NAV as at 30 June 2018 is RM1,389,064,123.

B14 BORROWINGS AND DEBT SECURITIES

	As at end of period ended 30 June 2018
	RM
<u>CURRENT LIABILITIES:</u>	
(a) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")	<u>116,967,098</u>
<u>NON-CURRENT LIABILITIES:</u>	
(b) Senior CP / MTN Programme of up to RM290 million	275,742,346
(b) Fixed Rate Subordinated Term Loan Facility of up to RM250 million	109,762,158
(c) CPs/MTNs Programme of up to RM3 billion	350,944,573
	<u>736,449,077</u>
<u>CURRENT LIABILITIES:</u>	
(a) <u>Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")</u>	<u>RM</u>
Term Loan draw down	117,000,000
Transaction cost c/f	(131,551)
	<u>116,868,449</u>
Amortisation of transaction costs during the period	98,649
	<u>116,967,098</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% was draw down to repay the RM117 million MTN outstanding under the RM134 million CP/MTN Programme which matured in September 2013. Tranche 2 will be used for capital expenditure and investments at the interest rate at MGS + 1.40% per annum.

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 and there was no draw down of the facility during the quarter.

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

(i) <u>Senior CP / MTN Programme</u>	RM
Face value of CPs issued / rollover	279,000,000
Discount	(2,844,959)
Cash proceeds	<u>276,155,041</u>
Accretion of interest expenses	<u>62,526</u>
	<u>276,217,567</u>
Transaction costs c/f	(617,506)
Amortisation of transaction costs during the period	<u>142,285</u>
	<u><u>275,742,346</u></u>
(ii) <u>Fixed Rate Subordinated Term Loan</u>	RM
Term Loan draw down	110,000,000
Transaction costs on term loan	(309,239)
	<u>109,690,761</u>
Amortisation of transaction costs during the period	<u>71,397</u>
	<u><u>109,762,158</u></u>

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

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

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

The transaction costs relating to the programme are amortised over the tenure of the programmes and are charged to profit or loss. The RM290 million Senior CP and RM110 million Subordinated Term Loan are secured borrowings and there were no draw down of the facility during the quarter.

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

(i) <u>RM144 million in nominal value of CP and RM20 million in nominal value of MTN</u>	RM
Face value of CPs / MTNs issued	164,000,000
Discount	(3,159,320)
Cash proceeds	<u>160,840,680</u>
Accretion of interest expenses	<u>156,230</u>
	<u>160,996,910</u>
Transaction costs b/f	(366,828)
Amortisation of transaction costs during the period	<u>46,783</u>
	<u><u>160,676,865</u></u>

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

(ii) <u>RM61 million in nominal value of CP and RM130 million in nominal value of MTN</u>	RM
Face value of CPs / MTNs issued	191,000,000
Discount	(1,353,030)
Cash proceeds	189,646,970
Accretion of interest expenses	860,351
	<u>190,507,321</u>
Transaction costs on CP/MTN issued during the period	(272,264)
Amortisation of transaction costs during the period	32,651
	<u>190,267,708</u>
Total:	<u>350,944,573</u>

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

(i) RM144 million in nominal value of CP and RM20 million in nominal value of MTN (Issue 1')

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

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

(ii) RM61 million in nominal value of CPs and RM130 million in nominal value of MTNs (Issue 2')

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

The transaction costs relating to the programme are amortised over the tenure of the programme and are charged to profit or loss. The RM61 million CP and RM130 million MTN are secured borrowings.

There were no draw down of the facility during the quarter.

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

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

The details of the outstanding derivatives as at 30 June 2018 are as follows:

Type of Derivatives	Contract/Notional Value As at 30 June 2018	Fair values of derivative liabilities as at 30 June 2018
	RM	RM
Interest Rate Swap ("IRS")		
(i) IRS No. 7 - 1 year to 3 years	139,500,000	182,090
(ii) IRS No. 8 - 1 year to 3 years	139,500,000	172,850
	<u>279,000,000</u>	<u>354,940</u>

B16 CHANGES IN MATERIAL LITIGATION

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

B17 INCOME DISTRIBUTION

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

An interim income distribution of RM45,336,421 or 4.23 sen per unit is proposed, being 96.7% of the distributable income for the period 1 January 2018 to 30 June 2018. The proposed income distribution has been approved by the Board and the Trustee on 7 August 2018 and will be payable on 19 September 2018 to all existing 1,071,783,000 unitholders as at book closure date on 24 August 2018.

Distributions are from the following sources :

	01.01.2018 to 30.06.2018	
	RM	
Revenue (realised)	87,450,736	
Interest income (realised)	1,606,281	
Gain on divestment of investment property (realised)	2,196,632	
Property operating expenses and trust expenses (realised)	(46,758,311)	
Net income for the period	44,495,338	
Add : Distribution adjustments	2,388,000	
Total distributable income	46,883,338	
Gross interim distribution (RM)	45,336,421	
(approximately 96.70% of RM46,883,338, being distributable income for the period 1 January 2018 to 30 June 2018)		
of which	RM	
- taxable distribution	41,719,481	3.89 sen per unit
- tax exempt distribution	3,616,940	0.34 sen per unit
	45,336,421	4.23 sen per unit

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 June 2018	As at 31 March 2018
NAV (RM)	1,389,064,123	1,361,662,013
Number of units in circulation (units)	1,071,783,000	1,068,000,000
NAV per unit (RM)	1.2537	1.2553
(after provision for distribution)		
Market price (RM)	1.14	1.01

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 income distribution made in the previous quarter.

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

B19 MANAGER'S FEE AND SOFT COMMISSION

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

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

Total fees accrued to the Manager for the quarter ended 30 June 2018 are :

	RM
Base fee	2,285,216
Performance fee	1,027,148
	<u>3,312,364</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 June 2018 amounted to RM170,862.

B21 UNITHOLDINGS BY THE MANAGER

As at 30 June 2018, the Manager held 3,783,000 units in MQREIT.

B22 UNITHOLDINGS BY PARTIES RELATED TO THE MANAGER

	No. of units	Percentage of total units	Market Value as at 30 June 2018 RM
Malaysian Resources Corporation Berhad HLIB Nominee (Tempatan) Sdn. Bhd. for :	297,917,000	27.80%	339,625,380
-Quill Properties Sdn. Bhd.	45,997,000	4.29%	52,436,580
-Quill Land Sdn. Bhd.	48,767,000	4.55%	55,594,380
-Quill Estates Sdn. Bhd.	22,276,000	2.08%	25,394,640
-MRCB Quill Management Sdn Bhd	3,783,000	0.35%	4,312,620
	<u>418,740,000</u>	<u>39.07%</u>	<u>477,363,600</u>

The Manager's directors' direct unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 June 2018 RM
Dato' Dr. Low Moi Ing, J.P	50,000	0.005%	57,000
Dato' Michael Ong Leng Chun	55,000	0.005%	62,700
Kwan Joon Hoe	80,000	0.007%	91,200

The Manager's directors' indirect unitholding in MQREIT:

	No. of units	Percentage of total units	Market Value as at 30 June 2018 RM
Dato' Dr. Low Moi Ing, J.P	117,040,000 (a)	10.92%	133,425,600
Dato' Michael Ong Leng Chun	117,040,000 (b)	10.92%	133,425,600

(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 June 2018 of RM1.14 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	1,068,000,000

B24 FINANCE COSTS INCURRED DURING THE QUARTER AND YEAR TO DATE

	Current Quarter	Cumulative Quarter
	RM	RM
Interest expenses on CPMTN	6,687,896	13,036,783
Interest expenses on term loan	2,809,033	5,587,197
Interest on interest rate swap arrangements	90,427	347,795
Amortisation of transaction costs	223,750	447,447
Credit facility costs	124,062	208,256
Total finance costs	9,935,167	19,627,478

B25 RESPONSIBILITY STATEMENT AND STATEMENT BY THE DIRECTORS OF THE MANAGER

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

In the opinion of the directors of the Manager, the quarterly report has been prepared in accordance with MFRS 134: Interim Financial reporting and Paragraph 9.44 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of MQREIT as at 30 June 2018 and of its financial performance and cash flows for the quarter ended on that date and duly authorised for release by the Board of Directors of the Manager on 7 August 2018.

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 : 8 August 2018