



ANNUAL
REPORT
2017



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Portfolio Overview

As at 31 December 2017, MRCB-Quill REIT's ("MQREIT") portfolio comprised 11 properties. The details of MQREIT's properties are as follows. Further information of MQREIT's properties are detailed in the Manager's Report section of this annual report.



**QUILL
BUILDING 1
- DHL 1**

Address/Location	: 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Property Type	: Commercial Building
Description	: 4-storey office building together with a sub-basement and a basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 20 November 2006
Net Lettable Area	: 92,284 sq ft
Acquisition Price	: RM52,100,000
Market Value	: RM130,000,000 *
Occupancy	: 100%

* On 14 August 2008, the respective pieces of land on which Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 are situated have been amalgamated pursuant to the condition imposed by the Securities Commission during the initial Public Offering of MQREIT. As such, the valuations of Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 have been carried out based on the amalgamated properties. The total valuation of the 2 properties amounted to RM130,000,000.

Portfolio Overview

cont'd



**QUILL
BUILDING 4
- DHL 2**

Address/Location	: 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Property Type	: Commercial Building
Description	: 4-storey office building together with a sub-basement and 2 levels basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 20 November 2006
Net Lettable Area	: 99,183 sq ft
Acquisition Price	: RM57,000,000
Market Value	: RM130,000,000 *
Occupancy	: 100%

* On 14 August 2008, the respective pieces of land on which Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 are situated have been amalgamated pursuant to the condition imposed by the Securities Commission during the initial Public Offering of MQREIT. As such, the valuations of Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 have been carried out based on the amalgamated properties. The total valuation of the 2 properties amounted to RM130,000,000.

Portfolio Overview

cont'd



**QUILL
BUILDING 2
- HSBC**

Address/Location	: 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Property Type	: Commercial Building
Description	: 4-storey office building together with a sub-basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 20 November 2006
Net Lettable Area	: 184,453 sq ft
Acquisition Price	: RM107,500,000
Market Value	: RM122,000,000
Occupancy	: 100%

Portfolio Overview

cont'd



**QUILL
BUILDING 3
- BMW**

Address/Location	: 3501, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Property Type	: Commercial Building
Description	: 4-storey office building together with a level of sub-basement and a level of basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 20 November 2006
Net Lettable Area	: 117,198 sq ft
Acquisition Price	: RM59,400,000
Market Value	: RM79,000,000
Occupancy	: 91%

Portfolio Overview

cont'd



**WISMA
TECHNIP**

Address/Location	: 241, Jalan Tun Razak, 50400 Kuala Lumpur
Property Type	: Office Building
Description	: 12-storey office building with a mezzanine floor and three split-levels basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 3 September 2007
Net Lettable Area	: 233,021 sq ft
Acquisition Price	: RM125,000,000
Market Value	: RM173,800,000
Occupancy	: 100%

Portfolio Overview

cont'd



**PART OF
PLAZA
MONT' KIARA**

Address/Location	: Plaza Mont' Kiara, No. 2, Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur
Property Type	: Commercial lots and car parks
Description	: An integrated retail/office commercial units located in Plaza Mont' Kiara within the ground floors of Blocks A & B and Blocks C & D, and at the basement and ground floor of Block E. The car park lots are located in Blocks A, B, C, D and E.
Tenure	: Term in Perpetuity
Date of Acquisition	: 3 September 2007
Net Lettable Area	: 73,408 sq ft (excluding 1,499 car park lots)
Acquisition Price	: RM90,000,000
Market Value	: RM117,400,000
Occupancy	: 87%

Portfolio Overview

cont'd



**QUILL
BUILDING 5
- IBM**

Address/Location	: 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Property Type	: Commercial Building
Description	: 5-storey office building together with one level of sub-basement and 1 ½ levels of basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 14 March 2008
Net Lettable Area	: 81,602 sq ft
Acquisition Price	: RM43,000,000
Market Value	: RM44,000,000
Occupancy	: 78%

Portfolio Overview

cont'd



**QUILL
BUILDING 8
- DHL (XPJ)**

Address/Location	: 8, Jalan Pemaju U1/15, Section U1, 40150 Shah Alam, Selangor Darul Ehsan
Property Type	: Industrial Building
Description	: 3-storey office building with an annexed single storey detached warehouse
Tenure	: Term in Perpetuity
Date of Acquisition	: 25 March 2008
Net Lettable Area	: 65,205 sq ft
Acquisition Price	: RM28,800,000
Market Value	: RM25,000,000
Occupancy	: 92%

* On 8 January 2018, Maybank Trustee Berhad, acting solely in the capacity as trustee for and on behalf of MQREIT, entered into a sale and purchase agreement with Transmark Corporation Sdn Bhd for the proposed disposal of this property for a cash consideration of RM28.0 million. The proposed disposal is expected to be completed by second quarter of 2018.

Portfolio Overview

cont'd



**TESCO
BUILDING,
PENANG**

Address/Location	: 1, Lebuhraya Kuning, 11700 Penang
Property Type	: Commercial Building
Description	: 3-storey purpose built hypermarket
Tenure	: Term in Perpetuity
Date of Acquisition	: 7 November 2008
Net Lettable Area	: 275,020 sq ft
Acquisition Price	: RM132,000,000
Market Value	: RM140,000,000
Occupancy	: 100%

Portfolio Overview

cont'd



**PLATINUM
SENTRAL**

Address/Location	: Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur
Property Type	: Commercial Building
Description	: 5 blocks of 4 to 7 storey commercial building comprising office-cum-retail space, a multi-purpose hall and 2 levels of car park
Tenure	: Term in Perpetuity
Net Lettable Area	: 476,370 sq ft
Acquisition Price	: RM740,000,000
Date of Acquisition	: 30 March 2015
Market Value	: RM725,000,000
Occupancy	: 98%

Portfolio Overview

cont'd



**MENARA
SHELL**

Address/Location	: 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur
Property Type	: Commercial Building
Description	: 33-storey stratified office building erected on a 5 storey podium and a 4 storey basement car park
Tenure	: Term in Perpetuity
Date of Acquisition	: 22 December 2016
Net Lettable Area	: 557,053 sq ft
Acquisition Price	: RM640,000,000
Market Value	: RM648,000,000
Occupancy	: 94%

Financial Highlights

Fund Performance	2017	2016	2015	2014	2013	2012
Total Asset Value (RM)	2,288,392,194	2,297,341,586	1,625,307,072	868,372,713	860,120,193	860,214,521
Net Asset Value ("NAV") (RM)	1,384,724,570	1,359,698,627	903,854,859	541,251,009	533,459,956	528,848,973
Units in circulation	1,068,000,000	1,068,000,000	661,381,000	390,131,000	390,131,000	390,131,000
NAV per unit (RM)	1.2966	1.2988	1.3666	1.3874	1.3674	1.3556
Highest NAV per unit (RM)	1.3281	1.3758	1.3952	1.3874	1.3726	1.3556
Lowest NAV per unit (RM)	1.2799	1.2731	1.3136	1.3346	1.3202	1.2924
Highest traded price per unit (RM)	1.35	1.36	1.29	1.20	1.25	1.24
Lowest traded price per unit (RM)	1.22	1.06	1.01	1.01	1.12	1.09
Distribution Per Unit ("DPU") (sen)	8.39	8.38	8.47	8.38	8.38	8.38
Dates of Distribution						
- Interim	18-Sep-17	8-Sep-16	15-Apr-15	29-Aug-14	9-Sep-13	29-Aug-12
- 2nd Interim	-	-	28-Aug-15	-	-	-
- Final	28-Feb-18	13-Jan-17	29-Feb-16	27-Feb-15	10-Mar-14	12-Mar-13
Effect of Income Distribution on NAV per unit						
- Before Distribution (RM)	1.2966	1.2988	1.3666	1.3874	1.3674	1.3556
- After Distribution (RM)	1.2550	1.2731	1.3229	1.3446	1.3246	1.3128
Distribution yield (per annum) ^(a)	6.71%	6.98%	7.84%	7.16%	7.10%	6.81%
MER ^(b)	1.07%	1.33%	1.19%	1.10%	1.10%	1.28%
Average Total Returns ^(c)						
- for one year	7.14%	4.80%	7.19%	8.30%	8.39%	8.37%
- since listing of QCT (Annualised)	7.52%	7.56%	7.86%	7.95%	7.90%	7.82%
Annual Total Returns ^(d) (RM)	88,006,515	59,155,963	54,020,625	34,162,743	34,536,806	34,460,704

(a) Based on the closing price on the last trading day of the respective financial years.

(b) Management Expense Ratio (MER) is computed based on total fees including Manager's fee, Trustee's fee, valuation fees and administration expenses charged to MRCB-Quill REIT ("MQREIT") divided by the average net asset value during the year.

Since the average net asset value of the Trust is calculated on a monthly basis, the MER of MQREIT may not be comparable to the MER of other real estate investment trust/unit trusts which may use a different basis of calculation.

(c) Average Total Returns is computed based on Annual Total Returns for the respective financial years/periods divided by the weighted average unitholders capital for the respective financial years/periods.

(d) Annual Total Returns is defined as the Net Realised Income for the respective financial years.

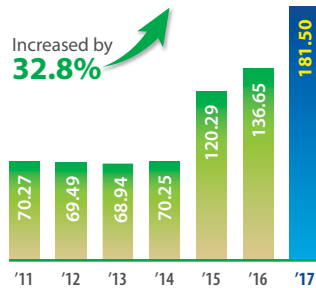
Warning statement - The past performance is not necessarily indicative of future performances and that unit prices and investment returns may fluctuate.

2017 Achievements

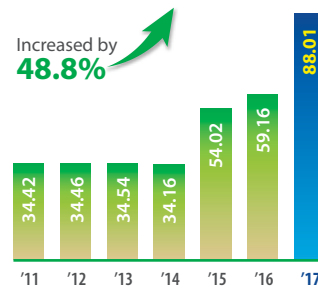
At a Glance

(A) FINANCIAL HIGHLIGHTS

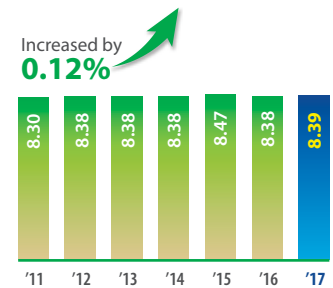
Gross Revenue (RM million)



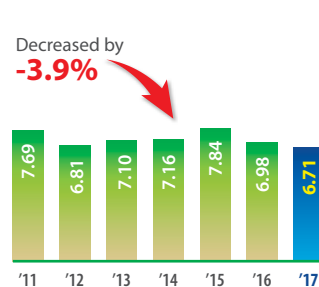
Realised Net Income (RM million)



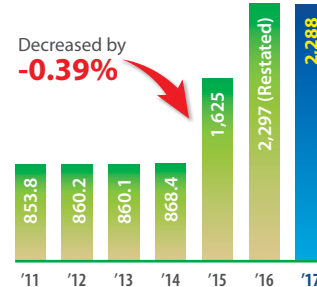
Distribution Per Unit (sen)



Distribution Yield (%)



Total Asset Value (RM million)



(B) TRADING PERFORMANCE

Unit Price Performance

MQREIT's Monthly Trading Performance for 2017



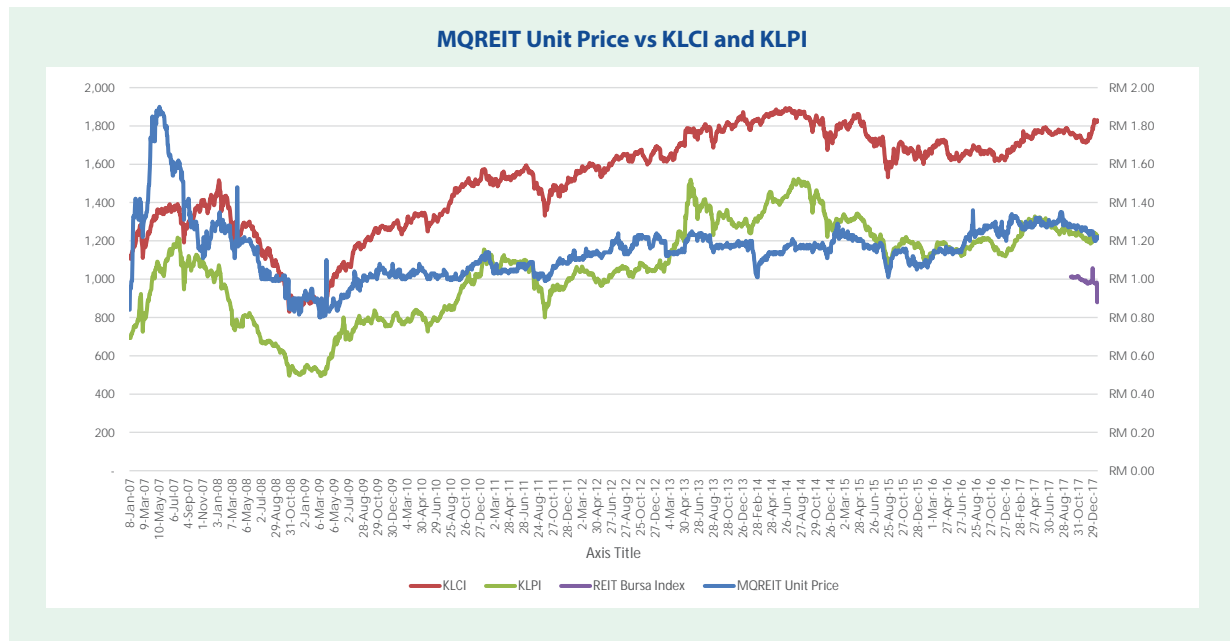
2017 Achievements

At a Glance
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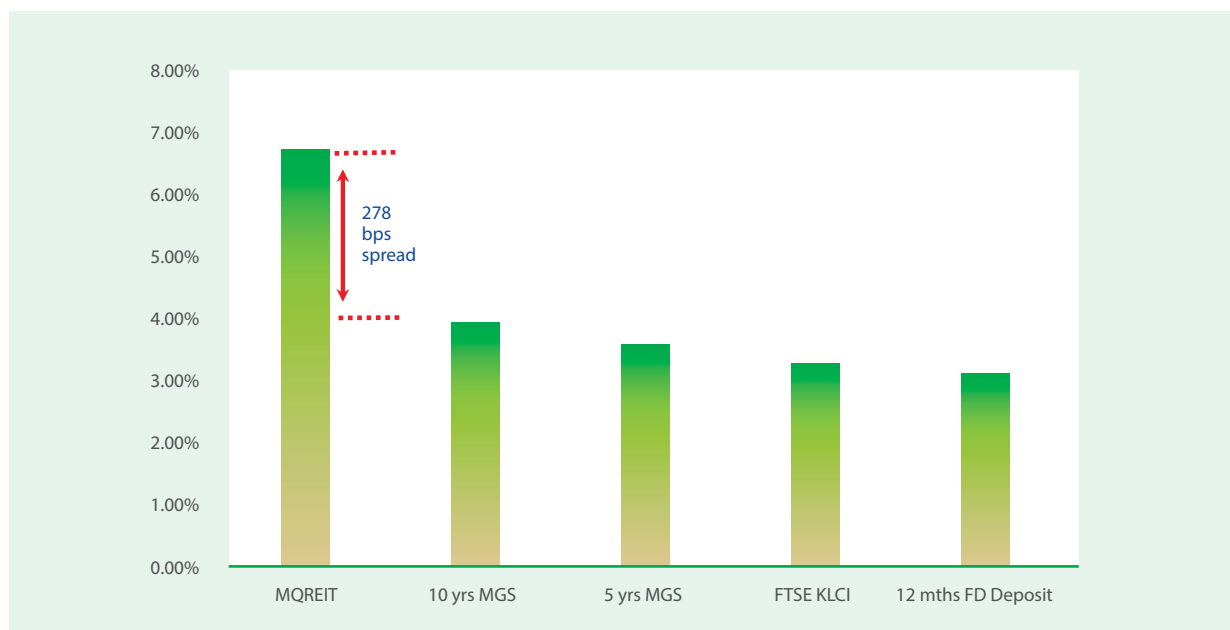
(B) TRADING PERFORMANCE (cont'd)

MQREIT's Unit Price versus Performance Benchmarks

- 7 January 2007 (MQREIT Listing Date) to 31 December 2017



Comparative Yields



Source:

- 1) Rates for 5-yrs MGS & 10-yrs MGS rate was obtained from HSBC Daily Commentary Report dated 29 December 2017.
- 2) 12 months FD rate is from Maybank.
- 3) Dividend Yield of FTSE Bursa Malaysia KLCI as at 29 December 2017 is from Bloomberg.

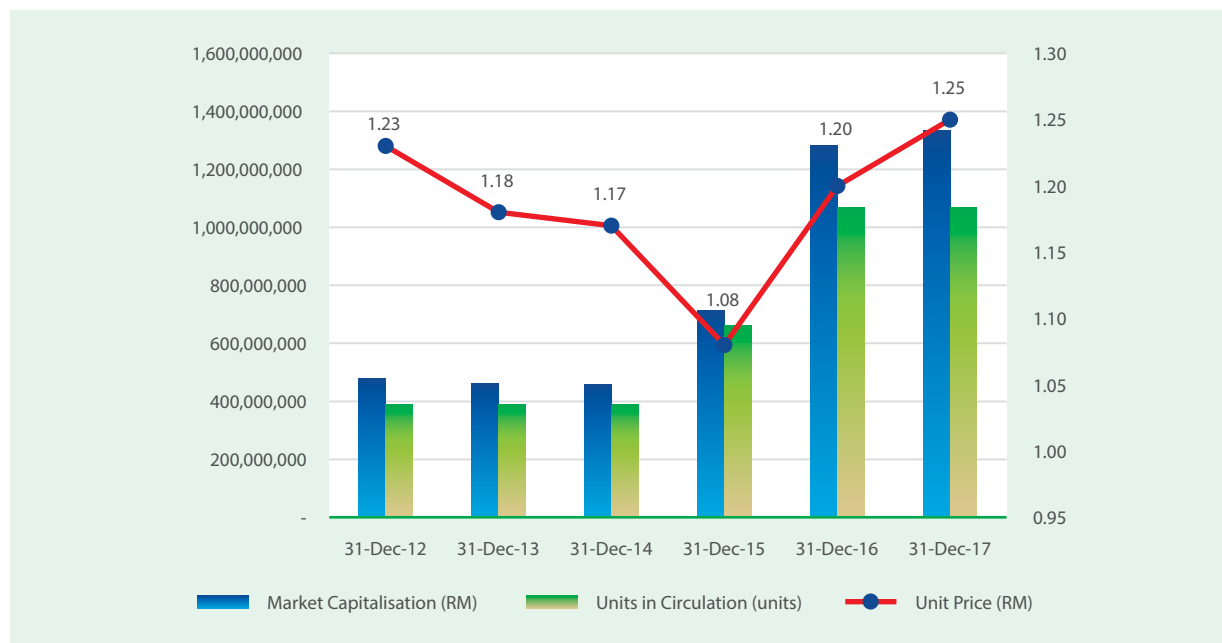
2017 Achievements

At a Glance

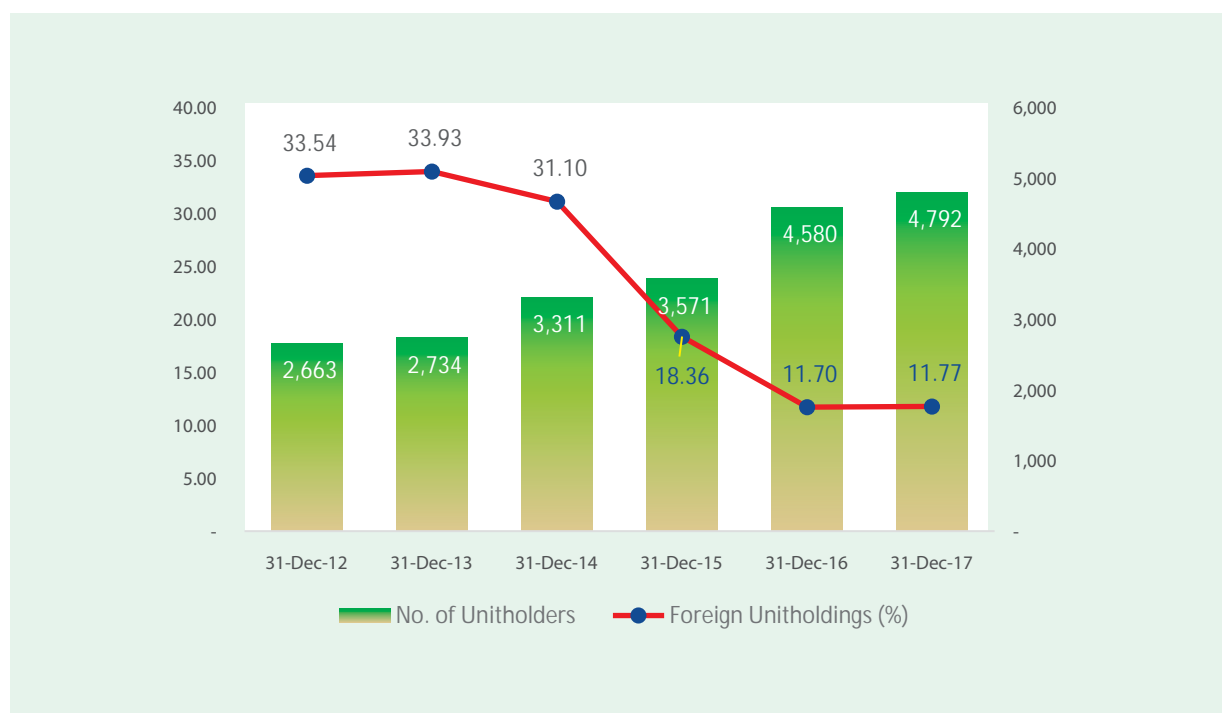
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(B) TRADING PERFORMANCE (cont'd)

Market Capitalization, Unit Price and Units in Circulation



Unitholders Statistics (No. of Unitholders vs Foreign Unitholding %)



2017 Achievements

At a Glance
cont'd

(C) PORTFOLIO HIGHLIGHTS

As at 31 December 2017, MQREIT's investment comprised eleven (11) commercial buildings with five (5) located in Cyberjaya, four (4) in Kuala Lumpur, one (1) each in Shah Alam and Penang. On 8 January 2018, MQREIT had announced the disposal of Quill Building 8 – DHL(XPJ), a single storey detached warehouse with an annexed 3 storey purposed built office building located at Hicom Glenmarie Industrial Park, Shah Alam. The disposal of Quill Building 8 – DHL-XPJ is expected to be completed by the second quarter of 2018. The details of the portfolio are in highlighted on pages 2 to 12.

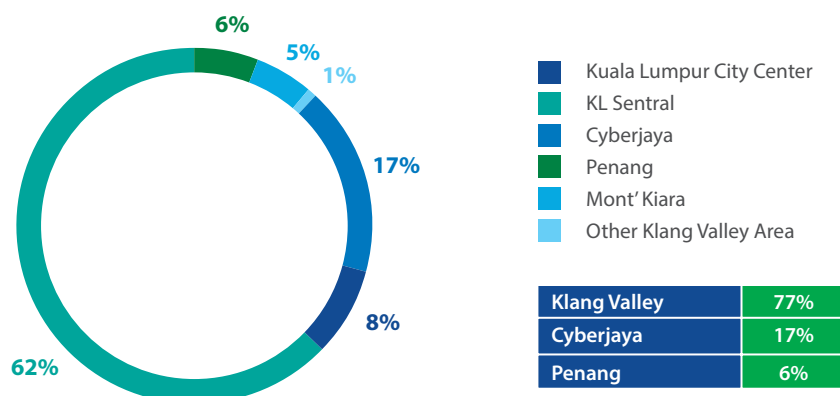
Portfolio details	FY2017	FY2016
No of Assets – Commercial Real Estates ⁽¹⁾	11 ⁽²⁾	11
Valuation of Investment Properties (RM'000)	2,204,200 ⁽³⁾	2,222,000
NLA (sq. ft.)	2,254,797	2,254,797
Portfolio Occupancy rate (%)	96.3	98.0
Weighted Average Lease Expiry (years)	5.3	5.8
Renewal Rate (%)	80.0	87.0

Notes:

- 1) MQREIT's composition of investment portfolio consist of only real estate assets.
- 2) Includes Quill Building 8 – DHL(XPJ).
- 3) After taking into account the accrued rental income of RM19.74 million as required under MFRS 140, paragraph 50 and non-current asset held for sale of RM25.0 million, the investment properties amount as shown in the Statement of Financial Position is RM2.16 billion.

GEOGRAPHICAL DIVERSIFICATION (By Valuation)

11 properties well spread over Cyberjaya, Kuala Lumpur, Selangor and Penang.



Notes:

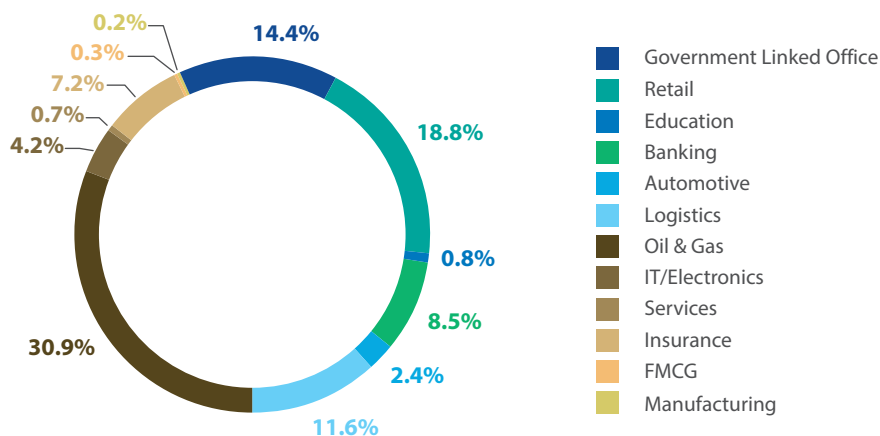
- 1) Based on Valuation dated 31 December 2017.

2017 Achievements

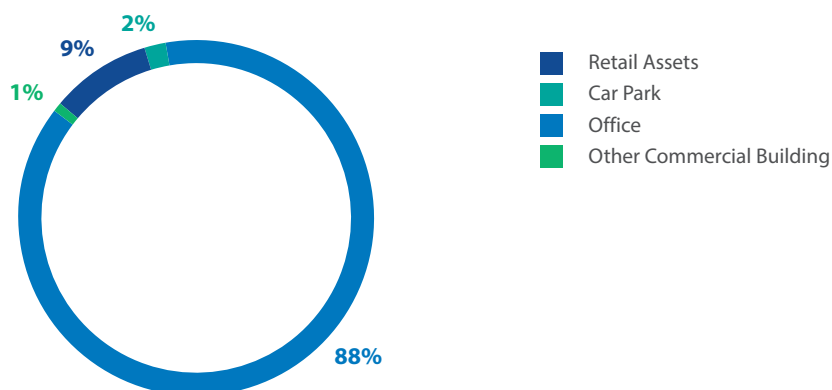
At a Glance

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A WELL BALANCED TENANCY MIX (By Net Lettable Area)



DIVERSIFIED SEGMENTAL CONTRIBUTIONS (By Valuation)



Notes:

- 1) Office comprises Quill Buildings (excluding Quill Building 8-DHL (XPI) at Glenmarie, Shah Alam), Platinum Sentral, Menara Shell and Wisma Technip.
- 2) Retail Assets refers to retail portion of Plaza Mont' Kiara & TESCO Building Penang.
- 3) Car Park refers to car parking bays in Plaza Mont' Kiara.
- 4) Other commercial building refers to Quill- Building 8- DHL (XPI) at Glenmarie, Shah Alam.
- 5) Based on valuation dated 31 December 2017.

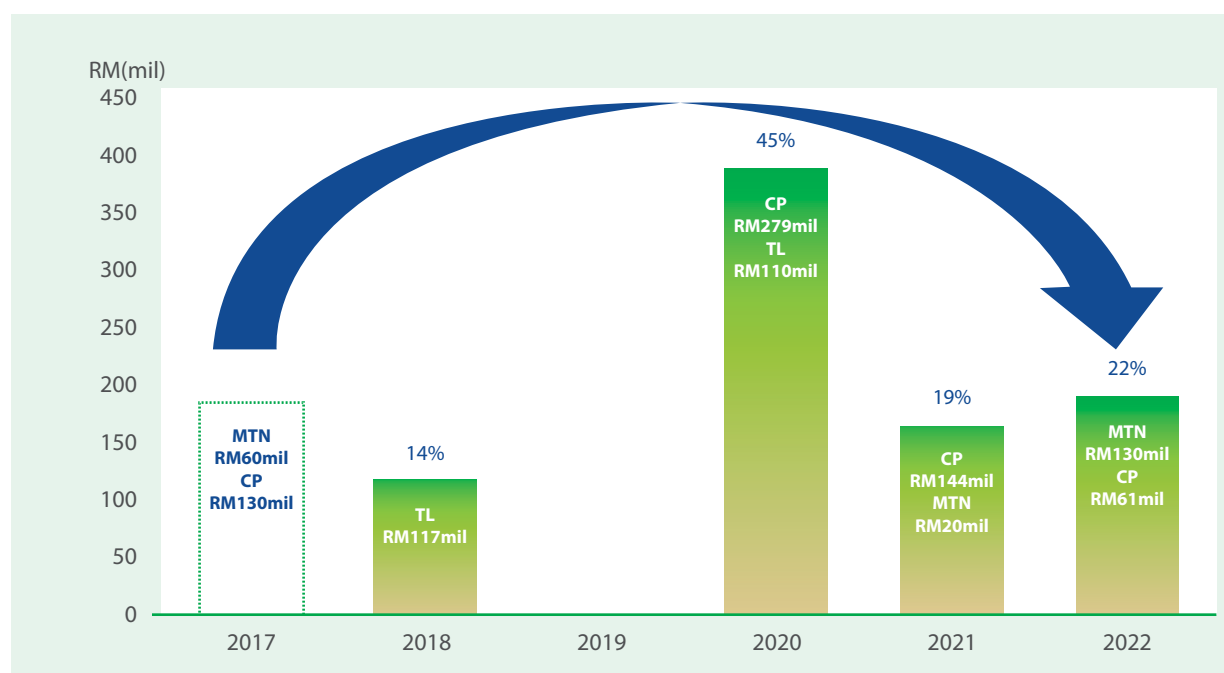
2017 Achievements

At a Glance
cont'd

(D) CAPITAL MANAGEMENT

The Manager employs appropriate debt and equity financing policies in financing acquisitions and/or asset enhancements and utilised appropriate hedging strategies to optimise the risk adjusted returns to unitholders.

During the financial year, the Manager successfully completed the refinancing of MQREIT's RM190 million borrowings due in March 2017. The next refinancing requirement would be in respect of MQREIT's RM117 million term loan which is due in September 2018. The summary of MQREIT's Debt Expiry Profile is as follows:



Details of MQREIT's borrowing as at 31 December 2017 are as follows:

	FY2017	FY2016
Borrowings (RM)	853,452,854	851,566,974
Gearing Ratio (%)	37	37
Average Cost of Debt (%)	4.4	4.4
Ratio of Fixed : Floating Borrowing (%)	76 %: 24%	76 %: 24%
Average Term to Maturity (years)	2.79	2.69
Interest Coverage (times)	2.40x	3.20x

2017 Achievements

At a Glance

cont'd

(E) INVESTOR RELATIONS ("IR")

We are committed to ensuring effective communication and proactive stakeholders' engagement. It is crucial that we strengthen our communication with stakeholders especially in challenging times to allow stakeholders to make informed decisions.

We continuously enhance our communication channels to cater to the growing needs of the stakeholders through the following communication channels:

Communication Channel	Medium of Communication	Stakeholders
Analyst and investor briefings / one-on-one meetings	<ul style="list-style-type: none"> Quarterly financial earnings releases Corporate exercises 	<ul style="list-style-type: none"> Institutional investors Analysts
Property Tour	<ul style="list-style-type: none"> Group tour One-on-one tour 	<ul style="list-style-type: none"> Institutional investors Analysts
Conferences	<ul style="list-style-type: none"> Investors conferences Industry conferences Non-deal roadshows 	<ul style="list-style-type: none"> Institutional investors Analysts
Corporate website and investor relation portal	<ul style="list-style-type: none"> www.mrcbquillreit.com Corporate announcements IR enquiry contact 	<ul style="list-style-type: none"> Institutional investors Retail investors Analysts Media
Research coverage	<ul style="list-style-type: none"> 8 research coverage 	<ul style="list-style-type: none"> Institutional investors Retail investors Analysts Media
Media engagement	<ul style="list-style-type: none"> Media briefing Media release 	<ul style="list-style-type: none"> Media Public
Annual General Meetings and annual reports	<ul style="list-style-type: none"> Reporting of financial performance 	<ul style="list-style-type: none"> All unitholders Public

Unitholders' Meetings

Fifth Annual Unitholders' Meeting

On 5 April 2017, MQREIT held its fifth Annual General Meeting ("AGM") to seek unitholders' approval for the proposed authorization and issuance of new units pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trust issued by Securities Commission ("Proposed Unitholders' Mandate"), as well as to brief Unitholders about MQREIT's financial results for FY 2016.

We are pleased to report that the resolution for the Proposed Unitholders' Mandate was duly passed. We will continue to engage with unitholders regularly to ensure consistency in messages and understanding of the business and operating environment. The AGM will serve as a good platform for the Management to share the highlights of the Trust's financial results for the fiscal year. In turn, unitholders can ask questions, clarify facts and provide feedback to the Management about the Trust's performance and strategies.

2017 Achievements

At a Glance
cont'd

(E) INVESTOR RELATIONS ("IR") (cont'd)

Research coverage in 2017

In 2017, MQREIT was covered by 8 investment banks. Below is a summary of the reports published for fourth quarter of 2017:

Coverage	Rating	Target Price (RM per unit)
RHB Research Institute	Neutral	1.24
Hong Leong Investment	Buy	1.44
Alliance DBS	Hold	1.27
Maybank Investment	Buy	1.35
CIMB Research	Hold	1.35
UOB Kay Hian	Hold	1.38
KAF Research	Buy	1.50
Kenanga Investment Research	Outperform	1.38

(F) AWARDS AND RECOGNITION

7th Malaysian Investor Relations Association (MIRA) Awards 2016



MQREIT was once again nominated for the prestigious "Best Company for IR" award for small cap companies listed on Bursa Malaysia Securities Berhad ("Bursa Malaysia") at the 7th MIRA Awards 2017 held on 10 October 2017. In recognition of best IR practices by professionals and public-listed companies listed on Bursa Securities, MIRA engaged EXTEL to conduct the 7th Malaysian IR Survey. This is aimed at leveraging on EXTEL's survey database of investment professionals to participate in the survey, which was conducted between April 2017 and August 2017.

We are pleased to inform that MQREIT and several representatives from MRCB Quill Management Sdn Bhd were nominated for the following categories under MIRA Award 2017 for small cap companies listed on Bursa Malaysia:

No.	Category	Ranking
1	"Best Company for IR"	15th / 49
2	"Quality of One-to-One Meetings"	12th / 59
3	"Best IR Website"	9th / 35
4	"Business Knowledge & Insights of IR Team"	10th / 80
5	"Quality of Annual Reports/Formal Disclosure"	24th / 52
6	"Best CEO for IR – Yong Su-Lin"	7th / 22
7	"Best IR Professional – Joyce Loh"	2nd / 17

This nomination is a recognition of our continuous effort to engage with our unitholders, the investment community and other stakeholders.

2017 Achievements

At a Glance

cont'd

(F) AWARDS AND RECOGNITION (cont'd)

The Asia Pacific Best Of The Breeds REITs Awards



The Asia Pacific Best Of The Breeds REITs Awards™ 2017 is a coveted award to recognize companies and managers with the highest standards and performance in the Asia Pacific REITs sector. Attended by 150 delegates from the region, this prestigious recognition event was held in conjunction with the 4th REITs Asia Pacific Conference 2017 on 4th August 2017 at The Sheraton Hotel, Singapore.

The scoring methodology is based on several attributes with assigned weightages including credit ratings, gearing, market capitalisation, earnings yield, weighted asset lease expiry (WALE), quality of manager, year-to-date returns and distribution per unit (DPU).

Arising from this, 20 top Asian REITs players including MQREIT were awarded top honours at the Asia Pacific Best Of The Breeds REITs Awards. We are pleased to inform that MQREIT was awarded the Best of the Breeds REITs Award for Office REIT Malaysia (Gold).



5th International Finance Magazine ("IFM") Awards 2017

IFM holds its annual IFM Award Program which is an event that recognizes and honours individuals and organisations who make contributions to raise the bar in the financial industry. These contributions include initiatives in corporate social responsibility or charitable activities, better corporate governance and other achievements that impact the global finance community.

This year, MQREIT received the "Fastest Growing REIT – Malaysia" award under the IFM Award 2017.

Letter to Unitholders



**TAN SRI
SAW CHOO BOON**
Chairman

Dear Unitholders,

It is our pleasure to present to you the Annual Report of MRCB-Quill REIT ("MQREIT") for the financial year ended 31 December 2017 ("FY 2017"), on behalf of the Board of Directors and management of MRCB Quill Management Sdn. Bhd. ("MQM"), the manager of MQREIT ("the Management").



YONG SU-LIN
Chief Executive Officer

Financial Highlights - 31 December 2017

Gross Revenue RM181.5 million	Total Realised Income RM88.0 million	Distribution Per Unit 8.39 sen	Total Assets RM2.29 billion
Net Property Income RM141.3 million	Distributable Income RM92.4 million	Gearing Ratio 37.3%	Net Asset Value Per Unit RM1.2550

Letter to Unitholders

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OVERVIEW

Global growth in 2017 is expected to improve at 3.6% driven by better performance from all economies. Growth in advanced economies such as the US and Europe are driven by steady expansion of investment and consumption activities while growth in the emerging and development economies is expected to expand through the support of high global demand and investment. As the main driver of growth in the region, China is expected to record stable growth, supported by a well implemented macro-policy mix and the strengthening of external demands. Meanwhile, growth for most major ASEAN economies will be driven by strong domestic and external demand.

On the domestic front, Malaysia's economy in 2017 performed well compared to the preceding year. Private sector spending continued to be the main driver of growth. In line with strong global demand for manufactured and commodity products, Malaysia's growth was further supported by the robust expansion in real exports of goods and services. On the supply side, growth was supported by continued expansion across all sectors. Looking ahead, Malaysia's economic fundamentals are expected to remain intact in 2018.

The Malaysian Government aims to maintain the strong economic growth momentum for 2018. The Government's Budget 2018 has laid out various measures to sustain economic growth, strengthen human capital, improve the rakyat's welfare and enhance inclusiveness. The Budget 2018 is also a forward-looking budget wherein it also addresses long term structural issues such as improving labour productivity as well as the preparation of the economy, businesses, and people for the future. While there may be a possibility that Bank Negara Malaysia ("BNM") will start normalizing interest rates in 2018, BNM is expected to continue pursuing an accommodative monetary policy favouring businesses. In the most recent development, BNM had on 25 January 2018 decided to increase the Overnight Policy Rate (OPR) from 3.00% to 3.25%.

Overall, Malaysia has recorded impressive key macroeconomic numbers for 2017. Malaysia's economy registered fourth quarter growth of 5.9% year-on-year. For the full-year, the Malaysian economy recorded a 5.9% growth in 2017 (2016: 4.2%).

(Sources: Malaysian Ministry of Finance Economic Report 2017/2018, Bank Negara Malaysia updates.)

Investor sentiment in the domestic financial markets remained positive during the year with continued inflows from foreign investors. Along with global equity markets, the FBM KLCI rallied albeit at a gradual pace to end higher at 1,796.81 points (30 Dec 2016: 1,641.73 points), despite some sentiments of uncertainty largely due to the upcoming 14th general election and 2018 corporate earnings prospects. The Malaysian Real Estate Investment Trust ("M-REIT") industry also continues to gain traction with positive developments

in 2017. The M-REIT investment landscape remained fairly active this year with a listing of a new REIT as well as several M-REITs announcing their respective investment activities and corresponding equity funding exercises. In line with the sector's growth, MQREIT's market capitalisation expanded by 4.2% as at 31 December 2017, maintaining its 8th position ranking by market capitalization.

The M-REIT sector is steadily growing to become one of the major asset class for investors. The easing of the Malaysian Government Securities ("MGS") since a major spike in November 2016 has widened the yield spread between MGS and the M-REIT average distribution yield. This has encouraged fund flows into M-REIT by investors looking for safe havens for investments, which in turn has kept M-REITs attractive. In addition, we believe that well managed M-REIT players with strong fundamentals will continue to make the M-REIT sector an attractive investment option for investors who are looking for relatively low risk investment opportunities with sustainable income and capital growth.

On current developments, Bursa Malaysia Securities Berhad ("Bursa Malaysia") recently launched the REIT Index in October 2017 in line with global trends in major bourses. The index which tracks all listed REITs on Bursa Malaysia, aims to enhance the profile and visibility of all listed REITs and serves as a benchmark to gauge their overall performance. The index design was formulated after consultation with the industry players and is supported by the Malaysian REIT Managers Association, in which MQREIT is also a participating member. We applaud Bursa Malaysia's efforts to spur investor interest in the M-REIT sector. Moving forward, we hope that more initiatives such as the above will be rolled out by the relevant authorities to drive competitiveness in the Malaysian capital markets to be on par with the global capital markets.

In 2017, the Klang Valley office market continues to be subdued due to the imbalance in the supply and demand of office space. As at the third quarter of 2017 ("3Q 2017"), Klang Valley has a cumulative supply of 104.728 million sq. ft. of office space. 17.132 million sq. ft. of office space are anticipated to enter the market between 2017 and 2020 of which 3.91 million sq. ft. or nine (9) new developments are expected to be completed by end of 2018. The Klang Valley office sector recorded a take-up rate of about 577,000 sq. ft. for 3Q 2017, which is higher by 25.5% compared to the same quarter in 2016. However, given that 17.132 million sq. ft. of new office supply will be coming on stream, the overall vacancy rate in the Klang Valley office market is anticipated to trend upwards, hovering between 17.7% and 20.3%. This increase in vacancy rate also reflects the overall slowdown in the demand for office space requirements, arising from the drop in crude oil and commodity prices since late 2015. The Klang Valley office market occupancy rate continues to be stable in 2017 with an average rate of 83.5% in 4Q 2017.

(Source: Property Market Report on the Purpose-Built Office Sector in Klang Valley and Purpose-Built Retail Sector in Klang Valley and Penang Island, December 2017 prepared CH Williams Talhar & Wong Sdn Bhd)

Letter to Unitholders

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ANALYSIS AND DISCUSSION ON MQREIT'S OPERATION AND STRATEGIES

Financial Performance

For the FY 2017, MQREIT recorded a revenue of RM181.5 million, representing an increase of 32.8% as compared to RM136.6 million recorded in the preceding financial year ended 31 December 2016 ("FY 2016"). Correspondingly, it recorded a net property income of RM141.3 million for FY 2017, representing an increase of 31.9% as compared to RM107.2 million recorded in the preceding financial year. The improved performance was mainly the result of a full year income contribution from Menara Shell and rental rate increase for selected properties, net of higher property operating expenses.

MQREIT recorded a total realised income of RM88.0 million for FY 2017, an increase of 48.8% from the total realised income of RM59.16 million for FY 2016. The increase is mainly due to higher net property income, higher interest income, net of higher finance costs, manager's fee and trustee's fee. Notwithstanding the higher full year realised net income for FY 2017, the EPU of 8.24 sen for FY 2017 is 6.3% lower than the EPU of 8.80 sen for FY 2016. This is due to higher weighted average number of MQREIT units recorded in FY 2017 arising from the issuance of 406,619,000 new MQREIT units on 22 December 2016 pursuant to the placement exercise.

Taking into account the increasingly challenging operating landscape, MQREIT's FY 2017 performance was overall satisfactory. The stable result recorded was attributable to the quality and resilience of MQREIT's portfolio of commercial assets, which are strategically located across Klang Valley and Penang. Additionally, it was also contributed by implementation of Management's planned marketing and asset management strategies in 2017 which focused on tenant retention, while managing MQREIT's operational cost effectively.

Distribution to Unitholders

In line with the Trust Deed dated 9 October 2006, effective from financial year 2009, MQREIT has maintained its policy of distributing at least 90% of its distributable income at least semi-annually.

Pursuant to MQREIT's circular to Unitholders dated 22 November 2016 ("Circular"), the Management had indicated that upon completion of the acquisition of Menara Shell, the normalized distribution per unit ("DPU") yield for FY 2017 will be accretive compared to the normalized DPU for the financial year ended 31 December 2015 of 8.38 sen. In addition, the consensus expectation for MQREIT's FY 2017 was 7.50 sen based on Bloomberg's DPU consensus.

On 19 January 2018, the Board had declared a final DPU of 4.16 sen for the period from 1 July 2017 to 31 December 2017, which has been paid out to unitholders of MQREIT on Wednesday, 28 February 2018. This final DPU of 4.16 sen, together with the interim distribution of 4.23 sen per unit for the period from 1 January 2017 to 30 June 2017, which was paid on 18 September 2017, amounted to a FY 2017 DPU of 8.39 sen. The Trustee of MQREIT and the Board of the Management did not recommend any further distribution for the FY 2017.

On a year-on-year comparison, FY 2017 DPU of 8.39 sen is 0.12% higher than the FY 2016 DPU of 8.38 sen and translates to a distribution yield of 6.71% based on the closing price of RM1.25 per unit as at 29 December 2017.

Pursuant to the above, I am pleased to inform that MQREIT has met both the DPU consensus expectations and DPU expectations as stipulated in its Circular.

Overall, with the commitment of delivering sustainable distribution and growth in total return to unitholders, the Management has succeeded in delivering a total DPU of 88.36 sen since June 2007 to December 2017, translating into a compounded annual growth rate ("CAGR") of 2.4% since its listing.

The unit price trading performance for MQREIT was within a healthy range of 10% with a high of RM1.36 before retreating to RM1.25 at the end of 2017. The strength of MQREIT's unit price was predominantly supported by strong demand for high dividend yielding equities on the back of prolonged low interest rate regime. For FY2017, MQREIT achieved a total return of 9.17%, contributed by an appreciation in unit price of 2.46% and distribution yield of 6.71%.

Operational Review and Strategies

MQREIT's portfolio is made up of eleven (11) commercial properties, sited across Malaysia, including Cyberjaya, Kuala Lumpur city centre, Shah Alam, KL Sentral and Penang. It continued to receive steady income from these portfolio of assets for the financial year ended 31 December 2017.

The Management plans to achieve MQREIT's key investment objectives while seeking additional income growth and enhancement of MQREIT's property portfolio over time through the strategies as mentioned in the Manager's Report section from pages 97 to 98 of the this annual report. However, where the Management considers that any property has reached a stage that offers only limited scope for growth, the Management may consider divesting the property and using the proceeds for alternative investments in properties that meet its investment criteria.

Letter to Unitholders

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As part of MQREIT's portfolio rebalancing strategy to strengthen and to rejuvenate our asset portfolio, we have on 8 January 2018, entered in a sale and purchase agreement with Transmark Corporation Sdn. Bhd. for the proposed disposal of a single storey detached warehouse with an annexed 3 storey purposed built office building located at Hicom Glenmarie Industrial Park, Shah Alam known as Quill Building 8 – DHL (XPJ) ("QB8"). This divestment exercise is expected to be completed by the second quarter of 2018. After 9 years of ownership by MQREIT, the potential of QB8 has been optimized and we are of the view that the divestment at RM28.0 million is a timely option for MQREIT. The divestment exercise will allow MQREIT to realize its investment in QB8 and re-deploy the capital for other yield accretive office assets and to pay down existing borrowings.

An annual valuation of MQREIT's portfolio of properties was conducted at the close of FY 2017. MQREIT's total portfolio registered a portfolio value of RM2.204 billion* for FY 2017 compared to RM2.222 billion recorded in FY 2016, translating to a revaluation loss of RM18.18 million. The portfolio revaluation loss was mainly due to the devaluation of Platinum Sentral. The net asset value per unit (after income distribution) is RM1.2550.

Note:

* After taking into account the accrued rental income of RM19.74 million as required under MFRS 140, paragraph 50 and non current asset held for sale of RM25.0 million, the investment properties amount as shown in the Statement of Financial Position is RM2.16 billion.

In a dynamic and challenging operating environment, we must be vigilant to keep up with the demands and rapid changes in the industry. In cognizance of this, we have been focused on ensuring that planned strategies are well executed. In this regard, The Management's active leasing and asset management strategies throughout the year has ensured successful tenancy renewals of 80.0% of the leases due in 2017. In addition to new tenancies entered during the year, MQREIT's average occupancy rate as at 31 December 2017 remained healthy at 96.3% (2016: 98.0%) in terms of Net Lettable Area ("NLA"). With growing competition in the market, we will enhance our marketing programmes and active leasing strategies to maintain a stable portfolio occupancy rate.

Strong tenant management and high tenant retention will continue to be the key focus in our leasing strategy in 2018. In this regard, the consistent performance of our portfolio of properties is key requiring a proactive approach to asset, portfolio and cost management. The Management will constantly look for creative ways to enhance the value of our properties, and ensure that our assets remain relevant, competitive and continue to appeal to existing and new tenants. We will embark on refurbishments and asset enhancement works mainly aimed at promoting a greener and sustainable environment and assist tenants to achieve their sustainability goals.

This year, most of the enhancement works were carried out at Quill Building 1-DHL 1 and Quill Building 4 – DHL 2, Quill Building 3-BMW and Menara Shell. The enhancements in Quill Building 1-DHL 1 and Quill Building 4 – DHL 2 were respect to enhancements to the buildings' roof system while in Quill Building 3-BMW, upgrading of washrooms had been completed this year. For Menara Shell, asset enhancement works included installation of a new plumbing system.

As for 2018, improvement works will be initiated for several properties, namely Wisma Technip, Plaza Mont' Kiara, Platinum Sentral and Menara Shell. The washrooms and security system of Wisma Technip will be upgraded. The car park in Plaza Mont Kiara will be enhanced. For Platinum Sentral and Menara Shell, there will be improvements to the air conditioning and several common area facilities.

Risk Management

Risk management is an integral part of MQREIT's business as it ultimately supports the business in meeting its business objectives and strategies, and consequently creating and preserving value for its unitholders.

Business/Market Risk

Strong competition, poor economic and market conditions and over supply are some of the key factors that could result in master lessees/key tenants not renewing their leases or reduced rental rates and adversely affect the leasing performance of MQREIT's properties. To deal with such challenges, mitigating actions taken by the Management are:

- a) Establishing a diversified tenant base across its portfolio with a good mix of high-quality multinational and large local conglomerate tenants from various sectors/ industries;
- b) Active engagement of key strategic tenants to understand and meet their needs;
- c) Asset enhancement and maintenance initiatives to maintain the quality of MQREIT's properties to be the preferred choice for tenants; and
- d) Lease negotiation well ahead of lease expiry and locking tenants in for longer lease term.

Credit Risk

Credit risk is the potential earnings volatility caused by tenants' inability and/or unwillingness to fulfil their contractual lease obligations, as and when they fall due. There is a stringent collection policy in place to ensure that credit risk is minimised. In addition to the requirement for upfront payment of security deposit of an amount typically equivalent to three months' rent, the Management also establishes vigilant monitoring and debt collection procedures.

Letter to Unitholders

cont'd

Interest Rate Risk

To mitigate interest rate fluctuations and to provide certainty of income contribution to MQREIT, it is our interest rate risk policy to maintain majority fixed rate borrowings for all its existing debts. Regular reviews are carried out on the optimal mix of fixed and floating rate borrowings. If required, the Management will enter into hedging transactions using interest rate swaps.

Currently 76% of MQREIT's total borrowings are on fixed interest rate, thus to a large extent cushioning the Fund from any potential rise in interest rates in this volatile market environment.

Compliance Risk

MQREIT is required to comply with the relevant legislation and regulations that include the Capital Markets and Services Act 2007, the Main Market Listing Requirements of Bursa Malaysia ("Main Market Listing Requirements"), Securities Commission REIT Guidelines ("SC REIT Guidelines") and the tax rulings issued by the Inland Revenue Board of Malaysia on the taxation of MQREIT and its Unitholders. As part of the requirements set out in the SC REIT Guidelines, the Compliance Officer is required to proactively identify applicable laws and regulatory obligations, and any updates or changes therein and ensure that MQREIT's day-to-day operations comply with these requirements. The Management has in place a monitoring framework that tracks MQREIT's compliance of these applicable legislations and regulations on an on-going basis. The Compliance Officer also periodically monitors the operations of MQREIT to ensure that there are no breaches to the covenants of the Trust Deed and any other contracts/agreements entered into by MQREIT with third parties.

Outlook and Prospects

Malaysia's economic growth has been robust over the years and this is a testament to the Government's concerted efforts in implementing various reforms under the National Transformation Policy since 2009 to elevate Malaysia's economy to a high income nation. Therefore, the underlying fundamentals of the Malaysian economy are expected to remain strong. The economy is expected to operate under a stable labour market environment with full employment, benign inflation, and a sound financial system with efficient intermediation to support the economy. Domestic demand will remain the key driver of growth on the account of higher private sector expenditure. Meanwhile, the supply side, growth is expected to be broad-based with all sectors registering growth. This, coupled with pro-growth fiscal policies and BNM's accommodative monetary stance is expected to keep the Malaysian economy resilient, with a projected growth of between 5% to 5.5% in 2018.

(Sources: Malaysian Ministry of Finance Economic Report 2017/2018, Bank Negara Malaysia updates)

The Kuala Lumpur office market will continue to remain competitive and challenging. Currently, the Kuala Lumpur office market is characterized by an oversupply of commercial space and will be exacerbated if the current imbalances of the supply-demand widens. Therefore, the ruling to freeze all new applications to build offices and retail malls in Kuala Lumpur and several other states, including Johor, Penang and Selangor is a positive move by the Federal Government. This measure will help ease the oversupply of office space in the Klang Valley and normalize rental rates, in the medium term.

The banking and oil & gas sectors have traditionally bolstered the demand for the Klang Valley office space. However, over the past few years many of the businesses in these sectors have streamlined their operations and cut down their office space requirements. Moving forward, we anticipate a shift in demand for office space from the above said sectors to the services, serviced offices, information & technology ("IT") sectors and start-ups. Office developments within Central Kuala Lumpur and KL Sentral/Mid Valley currently still enjoy favorable demand and leasing activities in these areas are expected to remain buoyant. This is largely due to the high concentration of office developments, and their strategic location supported by good public transportation and accessibility. In addition, Cyberjaya is expected to continue to be an important office location especially for IT companies with the Government's initiative to turn Cyberjaya into a global technology hub under the Cyberjaya Global Tech Blueprint.

We expect that the office sector outlook in the near term will continue to be challenging with the influx of new office supply into the market and the anticipated softer demand in the coming year. This is likely to exert pressure on MQREIT's operation. Notwithstanding, we believe that MQREIT's operation will be able to weather these uncertainties, underpinned by our proactive approach towards asset, portfolio and cost management. The focus will be on tenant retention and cost efficiency measures, while continuing to pursue growth by actively exploring acquisition opportunities.

In terms of new investments, the Management will continue to expand MQREIT's asset portfolio and increase market presence in line with its investment objective to acquire and invest in accretive commercial properties primarily in Malaysia. We are adopting a prudent acquisition strategy with key emphasis on providing long-term growth and sustainable DPU to MQREIT's unitholders as well as growth in the net asset value per unit of MQREIT.

Letter to Unitholders

cont'd

SUSTAINABILITY REPORTING

Bursa Malaysia had on October 2015 introduced its new Sustainability Framework wherein listed issuers are required under the Main Market Listing Requirements to disclose material sustainability matters namely, details of the management of material economic, environment and social risk and opportunities in its annual reports.

We are pleased to report that this year, MQREIT has formalized its framework and governance structure for its inaugural sustainability reporting, details of which have been disclosed on pages 70 to 96 of this annual report.

In recent years, sustainable business practices have become an area of increasing importance for many corporate entities. Here in MQREIT, we believe that effective sustainability practices will benefit the trust's business and in turn, deliver sustainable value to society at large. Our sustainability journey will involve the entire organization's understanding and awareness of the various environmental, social, and governance issues that affect both our stakeholders and MQREIT's future growth prospects. MQREIT, being the owner of a sizeable portfolio of commercial properties in the country, has undertaken to embrace sustainability in its considerations and practices which are inherent in the operations of the Fund's business. We will work closely with all our stakeholders on the material sustainability issues identified during the year to maximise the growth and performance of MQREIT.

CORPORATE SOCIAL RESPONSIBILITY ("CSR")

In line with MQREIT's yearly focus in supporting the welfare of needy children, the Management has made contributions to the following organizations:

Donation to Rumah Ozanam Klang St. Bernadette's Home and Rumah SVP Klang Home

In November 2017, the Management donated RM170,000 in cash to Rumah Ozanam Klang St. Bernadette's Home and Rumah SVP Klang Home, registered voluntary welfare organisations under the umbrella of Yayasan Ozanam that helps abused, abandoned, neglected, orphaned or at-risk children of all races between the ages of 5 to 17 years old. This donation helped to provide a 3-year English language learning programme in collaboration with Windsor Language Centre for the children in above mentioned homes as well as books and learning resources.

In conjunction with the official launch of the above project and cheque presentation ceremony, a staff visit to the homes was also organized to provide the opportunity to all staff to participate in the company's yearly CSR/community program. Under this CSR program, all MQM staff will be required to participate at least twice a year by committing to be teachers' aides under the English language learning programme. The aim is to cultivate and encourage staff members to proudly support the company's charitable initiatives and give back to community.

Donation to the Malaysian Aids Council ("MAC")

On 20 November 2017, MQM sponsored RM5,000 for a charity dinner celebrating Malaysia's favourite dish – nasi lemak, organized by MAC at the Grand Hibiscus Ballroom, Swiss Garden Hotel & Residences Kuala Lumpur. This event was officiated by Y.B. Dato' Sri Hajjah Rohani Abdul Karim, Minister for the Ministry of Women, Family and Community Development. All proceeds from this event will benefit treatment, care and support programmes for women and children living with HIV.

AWARDS AND RECOGNITION

FY2017 has been a rewarding year. We are honoured to be nominated for the various awards below and wish to express our sincere gratitude to these esteemed awarding bodies for their acknowledgement. These awards and nominations are recognition of our continuous effort to engage with our unitholders, the investment community and other stakeholders.

- Asia Pacific Best of the Breeds REITs Awards™ 2017
- MQREIT was awarded the "Best of the Breeds REITs Award for Office REIT Malaysia (Gold)"
- 7th Malaysian Investor Relations Association (MIRA) Awards 2017 - MQREIT and MQM representatives were nominated for various awards for small cap companies listed on Bursa Malaysia
- 5th International Finance Magazine ("IFM") Awards 2017 - MQREIT was awarded the "Fastest Growing REIT - Malaysia" award

Letter to Unitholders

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ACKNOWLEDGEMENT

2017 marks the 10-year milestone for MQREIT and it owes its success to the support and dedication of all its stakeholders. Therefore, on behalf of the Board, we would like to extend our sincere appreciation to our Management team and staff. We would also like extend our sincere appreciation to the esteemed members of the Board for their continued support. We are confident that their leadership, vast experiences, depth of knowledge, critical insight and business acumen will propel us to achieve greater milestones as we enter the next decade of growth.

In addition to the above, the Fund's achievements could not have been attained without the support of our external stakeholders. To the regulators, trustee, analysts, bankers, advisers, property managers, business partners and consultants, we thank you for your continued invaluable support and assistance during the year. Finally, to our unitholders and tenants, your loyalty and belief in us will undoubtedly spur us to work harder and we look forward to your continued support.

Sincerely,

Tan Sri Saw Choo Boon

Chairman

MRCB Quill Management Sdn Bhd

Yong Su-Lin

Chief Executive Officer

MRCB Quill Management Sdn Bhd

February 2018

Corporate Highlights & Events

MRCB-QUILL REIT ("MQREIT") 5TH ANNUAL GENERAL MEETING ("AGM") ON 5 APRIL 2017

MQREIT's 5th AGM was held on 5 April 2017 wherein the Audited Financial Statements for the financial year ended 31 December 2016 of MQREIT together with the Trustee's Report to the Unitholders issued by Maybank Trustees Berhad, as trustee of MQREIT and the Statement issued by MRCB Quill Management Sdn Bhd ("MQM"), manager of MQREIT and the Independent Auditors' Report thereon were duly laid.

The Ordinary Resolution on the authority to allot and issue new units pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia was approved by the Unitholders by way of poll. This gave the mandate to the manager of MQREIT to issue MQREIT units from time to time provided that the aggregate number of the new units to be issued, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of MQREIT for the time being.



Corporate Highlights & Events

cont'd

RM170,000 CASH DONATION TO YAYASAN OZANAM

In November 2017, MRCB Quill Management Sdn Bhd ("MQM") donated RM170,000 in cash to Rumah Ozanam Klang St. Bernadette's Home and Rumah SVP Klang Home, registered voluntary welfare organisations under the umbrella of Yayasan Ozanam that helps abused, abandoned, neglected, orphaned or at-risk children of all races between the ages of 5 to 17 years old. This contribution is in line with MQM's focus in supporting the welfare of needy children and this contribution will help to provide a 3-year English language learning programme in collaboration with Windsor Language Centre for the children in above mentioned homes as well as books and learning resources.

A cheque presentation ceremony was held on 28 November 2017 at Rumah Ozanam Klang St. Bernadette's Home in Klang. Ms. Yong Su-Lin, Chief Executive Officer of MQM presented the cheque to the President of Society of St Vincent De Paul, - Yayasan Ozanam, Mr Alvin Rajan Ratnasingam, Brother John, President of Conference of Holy Redeemer Klang for Rumah Ozanam Klang and Brother Robert, President of Conference of Our Lady of Lourdes for Rumah SVP Klang.



In The News

MQ Reit to sell building for RM28mil

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust (MQ REIT) has proposed to sell its Quill Building 8 located in Glenmarie, Selangor for RM28mil to Transmark Corp Sdn Bhd (TCSE).

In a filing with Bursa Malaysia yesterday, MQ REIT said that its trustee, Mayban Trustees Bhd, signed the sale and purchase pact with Transmark on its behalf yesterday.

"The Quill Building 8 consists of a single-storey detached warehouse annexed with three-storey office building, a refuse chamber and two guardhouses," it said.

It said the net proceeds of the proposed disposal would be used to repay existing borrowings, for asset enhancement initiatives, investments into other yield-accretive properties and working capital purposes.

"The net proceeds are expected to be used within 12 months from the date of completion of the proposed disposal," it said. — Bernama

9 January 2017

MQREIT's QB8 disposal seen to fund AE1s

MRCB-Quill REIT

(Jan 9, 2017)

Materialise outperform with an unchanged target price of RM3.30 MRCB-Quill REIT (MQREIT) has entered into a sale and purchase agreement to dispose of its industrial asset, Quill Building 8 (QB8) — DML 321 to Transmark Corp Sdn Bhd for a cash consideration of RM28 million, which is at a slight premium to its book value of RM25 million, while the group expects a net gain on disposal of RM3.28 million. QB8 is a single-storey detached warehouse with a three-storey office building located in Shah Alam.

QB8 is a single-storey detached warehouse with a three-storey office building located in Shah Alam.

We were surprised as we did not expect any disposals in the near term due to MQREIT's stable portfolio. We believe the rationale is to unlock value to fund ongoing asset enhancement initiatives (AE1s) and lighten our balance sheet to possibly make way for future acquisitions. All in, we are

"positive" on impact from the disposal as the effect on earnings in FY18 is negligible. The net gain on disposal of RM3.28 million offset the loss in income from QB8 in FY18, as QB8 only makes up less than 2% of realised net income on an annualised basis.

FY17 to FY18 leaves up for empty are minimal at 14% to 20% of net lettable assets, which are preferable under current times, where the office market is facing an oversupply situation, given the risk of tenant attrition. As such, we are expecting low single-digit reversions. Additionally, we expect capital expenditure in FY17 to FY18 of RM10 million to RM12 million for maintenance.

— Kenanga Research, Jan 9

MRCB-Quill REIT

(Jan 9, 2017)

	2016	2015	2014
Revenue	121.9	107.8	101.2
EBIT	100.0	105.5	120.8
EBT	92.8	88.0	85.5
Net profit	92.8	88.0	85.5
Core NP	90.2	82.0	84.2
Consensus EBIT	91.0	86.3	85.0
Earnings revision (%)	0.0	0.0	-6
Core EPS (sen)	8.8	8.5	8.7
Core EPS growth (%)	0	-2	1
NPV (sen)	2.5	2.6	2.6
NPV (sen)	1.37	1.28	1.28
Core P/B	13.6	14.2	13.4
Price/NAV	0.8	0.9	0.9
Dividend yield (%)	0.37	0.30	0.28
Net dividend per share (%)	0.2	0.2	0.2

Source: Kenanga Research

10 January 2017

Sale of building seen having little impact on MQ REIT

PETALING JAYA: The disposal of MRCB-Quill Real Estate Investment Trust's (MQ REIT) Quill Building 8 will have a negligible impact on the company's earnings.

According to AllianceDBS Research, the disposal will decrease earnings by around 3% for the financial years ending Dec 31, 2018 (FY18) to FY19, given the building's current occupancy rate of 92%.

"As for MQ REIT's total net lettable area (NLA), it will be decreased by 3%," it said in a research report.

Meanwhile, Kenanga Research said it was "surprised but neutral" on the disposal.

"We were surprised as we did not expect any disposals in the near term due to MQ REIT's stable portfolio."

"We believe the rationale is to unlock value to fund ongoing asset enhancement initiatives and lighten its balance sheet to possibly make way for future acquisitions."

"All in, we are neutral on the

impact from the disposal as the impact to earnings in 2018 is negligible. The net gain on disposal of RM3.28mil offset the loss in income from Quill Building 8 2018, as the building only makes up less than 2% of realised net income on an annualised basis."

Separately, Kenanga Research has maintained MQ REIT's 2017 core net profit (CNP) forecast for now.

The research house predicts lower 2018 CNP by 1% to RM94.2mil, post accounting for the loss of income from Quill Building 8, as gains from asset disposals is regarded as non-core earnings.

MQ REIT proposed to sell its Quill Building 8 located in Glenmarie, Selangor on Jan 9 for RM28mil to Transmark Corp Sdn Bhd.

The Quill Building 8 consists of a single-storey detached warehouse annexed with three-storey office building, a refuse chamber and two guardhouses.

MQ REIT said the net proceeds of

the proposed disposal would be used to repay existing borrowings, for asset enhancement initiatives, investments into other yield-accretive properties and working capital purposes. "The net proceeds are expected to be used within 12 months from the date of completion of the proposed disposal," it said.

MQ REIT shares ended one sen lower at RM3.20 yesterday.

On the outlook for the Reits, Kenanga Research said leases up for expiry at present were minimal, usually between 14% and 20% of net lettable area.

The research house said this was preferable under current times, where the office market faces an oversupply situation, given the risk of tenant attrition.

"As such, we are expecting low single-digit reversions. Additionally, we expect (MQ REIT's) capital expenditure in 2017 to 2018 of RM10mil to RM12mil for maintenance."

MRCB-Quill REIT to sell QB8 to Transmark for RM28m

Recommendation:
Buy
TARJET Price: RM3.30
by Maybank Investment Bank Research (Jan 9)

Highlights

WE ARE neutral on MRCB-Quill Real Estate Investment Trust's (MQREIT) proposed disposal of its industrial property which has decent occupancy rate but the disposal creates MQREIT to channel its resources into existing and future office assets. Earnings impact is marginal.

It's a net gain, as FY17-FY18 earnings estimates by +5% ps, but maintain our DDM target price (TP) of RM3.30 (cost of equity 7.7%).

Selling the sole industrial asset, MQREIT has proposed to dispose Quill Building 8 (DML 321) to Transmark Corp Sdn Bhd yesterday in the business of trading of (lease agreement) for RM28m cash.

QB8 is a single-storey detached warehouse

annexed with a three-storey purpose-built office building on an 80,000 sq ft (8,200 sq ft) land (net lettable area is 45,300 sq ft).

MQREIT acquired the asset on March 25, 2008, with an investment cost of RM28.8m and the market value as at Oct 12, 2017, was RM28m.

MQREIT expects a minimal disposal gain of RM3.28m and the deal is expected to be completed by 2018.

Focusing on office assets, MQREIT has decided to channel its resources into existing office assets and also making way for future injection of office buildings. The note that proceeds from the disposal is intended for paying down existing borrowings, asset enhancement initiatives, future acquisitions and working capital purposes.

Based on our estimate, the deal could see MQREIT's gross earnings by 3.2% from FY18 to FY19.

Minimal earnings impact. We judge down FY18-FY19 earnings forecasts by 0.5% to 1% after excluding QB8's rental income contribution from 2018 onwards and assuming the entire disposal proceeds goes to paying down debt.

Based on our estimate, QB8 contributes 1.7% to MQREIT's FY18-FY19 net profit (NP). However, we maintain our DDM TP of RM3.30 as earnings impact is marginal.

MQREIT was listed on the Main Board of Bursa Malaysia Securities Bhd on Jan 8, 2017, as Quill Capital Trust. It subsequently changed its name to MQREIT on April 18, 2017.

MQREIT is targeted to acquire and hold in commercial properties primarily in Malaysia, with a view to providing MQREIT's contribution with long term and sustainable distribution of income and potential capital growth.

10 January 2017

11 January 2017

In The News

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MQREIT records RM59.2m realised net income

KUALA LUMPUR — MQRCB-Quill REIT (MQREIT) achieved a realised net income of RM59.2 million for the fourth quarter of 2016 while achieving a total of RM59.2 million in realised net income for the financial year 2016.

The performance resulted in an average yield (EPY) of 6.80 per cent for the financial year ending Dec 31, 2016 (FY16).

In a statement released by MQRCB Quill Management Sdn Bhd (MQM) yesterday, the company said the income represents an increase by 11.7% to compare to the corresponding period income excluding one-off gains on development of properties

of RM52.4 million recorded for FY15. However, notwithstanding the higher FY16 income, the EPY of 6.80 per cent was 1.8% lower than the consolidated (PU) excluding one-off gains on development of properties of 8.59 per cent for FY15.

It was backed by the higher weighted average number of MQREIT units issued in FY16 arising from the issuance of 40,610,000 new MQREIT units on Dec 22, 2016, pursuant to the placement exercise.

MQREIT chairman Tan Sri Lee Chee Chuan said last year was a "significant year" for MQREIT with the completion of the ac-

quisition of Menara Shell.

"With this and other ongoing a lot value gain on investment properties of RM5.3 million, MQREIT asset portfolio has expanded from RM1.63 billion as at Dec 31, 2015 to RM2.22 billion as at Dec 31, 2016.

He said the result is achieved in MQREIT portfolio of quality and excellent commercial assets which are strategically located across Klang Valley and Penang.

"We expect the office market to remain challenging but we believe that MQREIT will remain resilient and supported by our positive approach towards asset, portfolio

and asset management," he said.

MQM chief executive officer Yong So-Lin said the management active leasing and asset management strategy throughout the year has resulted a return rate of 87% in asset renewal for lease last year.

"On the back of this as well as new investor interest during the year, MQREIT average occupancy rate stood at 98% in most of our landmark assets (NLA)" Yong said.

Approximately 14% of its income are based on NLA that are due for renewal with a bulk of the income due in the second half of the year.

MRCB-Quill REIT properties worth RM2.2b

by AYUST YUSOF

MRCB-QUILL Real Estate Investment Trust's (MQREIT) current market valuation and realisation surplus of the company's properties are collectively worth RM2.2 billion as of Dec 31, 2016.

MQREIT said the net asset value per unit of MQREIT after the proposed final distribution will be RM2.27 upon incorporation of the realisation surplus of RM5.5 million.

Chairman Tan Sri Lee Chee Chuan said 2016 was another significant year for MQREIT with the completion of the acquisition of Menara Shell on Dec 22.

"With this and after realising a fair value gain on investment properties of



Saw says 2016 was another significant year for MQREIT with the completion of the acquisition of Menara Shell on Dec 22

RM5.5 million, MQREIT's asset portfolio now expanded from RM1.63 billion as at Dec 31, 2015, to RM2.22 billion as at Dec 31, 2016," he said in a

statement yesterday.

Saw said despite the challenging operating environment, the company has managed to maintain a steady performance for financial year 2016.

"This satisfactory result is attributable to MQREIT's portfolio of quality and resilient commercial assets, which are strategically located across the Klang Valley and Penang," he added.

The properties include the Quill Building 1 (QBL1), QBL2 (QBL2), QBL3 (QBL3), QBL4 (QBL4), QBL5 (QBL5), QBL6 (QBL6), QBL7 (QBL7), QBL8 (QBL8), QBL9 (QBL9), QBL10 (QBL10), QBL11 (QBL11), QBL12 (QBL12), QBL13 (QBL13), QBL14 (QBL14), QBL15 (QBL15), QBL16 (QBL16), QBL17 (QBL17), QBL18 (QBL18), QBL19 (QBL19), QBL20 (QBL20), QBL21 (QBL21), QBL22 (QBL22), QBL23 (QBL23), QBL24 (QBL24), QBL25 (QBL25), QBL26 (QBL26), QBL27 (QBL27), QBL28 (QBL28), QBL29 (QBL29), QBL30 (QBL30), QBL31 (QBL31), QBL32 (QBL32), QBL33 (QBL33), QBL34 (QBL34), QBL35 (QBL35), QBL36 (QBL36), QBL37 (QBL37), QBL38 (QBL38), QBL39 (QBL39), QBL40 (QBL40), QBL41 (QBL41), QBL42 (QBL42), QBL43 (QBL43), QBL44 (QBL44), QBL45 (QBL45), QBL46 (QBL46), QBL47 (QBL47), QBL48 (QBL48), QBL49 (QBL49), QBL50 (QBL50), QBL51 (QBL51), QBL52 (QBL52), QBL53 (QBL53), QBL54 (QBL54), QBL55 (QBL55), QBL56 (QBL56), QBL57 (QBL57), QBL58 (QBL58), QBL59 (QBL59), QBL60 (QBL60), QBL61 (QBL61), QBL62 (QBL62), QBL63 (QBL63), QBL64 (QBL64), QBL65 (QBL65), 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MQREIT targets to maintain 6.5% yield on long-term leases

Steady yields for 2017 would be achievable on the back of long-term leasing leasurers for assets under management, says CEO

By IZZAT ARIANA

MRCB-QUILL Real Estate Investment Trust (MQREIT) aims to maintain a 6.5% average return-on-cost (ROC) yield, following the recent RM400 million acquisition of Menara Shell building.

MQREIT CEO Yung Siu-lin said steady yields for 2017 would be achievable on the back of long-term leasing leasurers for assets under management which would raise the edge of acquisition impact from previous on investment times and occupancy rates.

Yung said long-term leases, defined as a weighted average lease length, were measured in terms of years and most of MQREIT's assets had leasing periods of above five years.

"We said about 1.5% of not letting assets (hold) of assets under management are also for renewal this year and the company is optimistic to secure all terms that are up for inquiry."

"We are currently in talks with our tenants and expect to renew the lease's agreements. It is premature for us to say anything for sure as we are negotiating the terms still," Yung said as the firm held its Kuala Lumpur yesterday.

MQREIT assumed between 6% and 7% of the NOI in 2016. Yung said MQREIT has not been spared from the current asset reversion pressure on other REITs. The increasing supply in the office market



Yung Siu-lin says MQREIT is committed to the business to acquire new office space in close proximity to transportation hubs, while also says there is no specific location guidelines for new asset acquisition, but MQREIT's preference is to acquire the central region.

with further aggressive rental and occupancy rates throughout 2017.

"There seems to be a slight recovery in the oil and gas sector but the recovery process will take a longer time," he added.

MQREIT chairman Tan Sri See Choo Ewe said the economy is expected to be better than last year on a macro basis, supported by strong signs of growth in the first quarter, but domestic consumption, he said, still facing challenges.

"The next two to three years will remain challenging as the influx of office space coming into the market this year is significant at 2.5-3 million sq ft of new office space. In 2016, overall REITs as an asset class to enter the market," he added.

Yung said MQREIT is in the process

of reviewing Menara Shell to holding lease for potential acquisition subject to approval from shareholders and the board of directors.

"We don't know when the building is scheduled for completion, once the building is available to acquire will inform us so that we can conduct our own assessment for potential asset acquisition into MQREIT," he added.

Yung said MQREIT is committed to the business to acquire new office space in close proximity to transportation hubs.

"We have received proposals for new asset acquisition but at the moment we are still evaluating the proposals. This one also not disturbing the deal if the deal is not disturbed, but have to evaluate them first based on our asset-liability and connect the," she said.

Meanwhile, Yung said there is no specific location guidelines for new asset acquisition, but MQREIT's preference is to acquire the central region as the company has already established a strong footprint within the city centre.

"We are also looking at other areas when transportation is good and the size of the building is appropriate with some secured measure of tenancy," he added.

In a filing to Bursa Malaysia, MQREIT recorded a 9.7% increase in net profit to RM10.5 million for the financial year ended Dec 31, 2016. FY16 fees REITs recorded a 9.7% gain.

In financial also not an increase of RMPS to RM120 million for FY16, compared to RM120 million recorded in FY15.

MQREIT aims to maintain 98% occupancy rate despite subdued office market

By IZZAT ARIANA

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust (MQREIT) aims to maintain its average 98% occupancy rate in terms of not letting assets this year despite a subdued office market and a challenging economic environment, it said.

In chairman Tan Sri See Choo Ewe said besides the rental and occupancy pressures faced, MQREIT is also offered by the rise in office space available. "The occupancy rate stood at 98% as of Dec 31, 2016, and this year, we hope to maintain it because we have 17% of vacancies due for renewal."

"The recovery is expected to do better than last year -- the main factor is an influx of new office space. So, we will face challenges," he said regarding the group's annual general meeting yesterday.

"I think in the next two to three years, it will remain challenging and the influx of office space will be quite significant up to 2018," he added.

Yung said MQREIT would be able to overcome the difficulties, thanks to its portfolio of tenancies due for longer periods of more than three years.

"What is good in our portfolio is that we have a high percentage of long-term tenancies which allows us to ride over this difficult period," he said.

"We will remain confident with our approach towards assets, portfolio and our management, and additional income from the newly acquired Menara Shell," he added.

The company acquired Menara Shell from its major shareholder Malaysian Restaurant Corp Bhd last year.

The 11 properties under MQREIT include Quill Building 1 and Quill Building 2 in Cyberjaya, Quill Building 3 in Cyberjaya, as well as Wisma Perwaja in Kuala Lumpur.

Yung said MQREIT's active leasing and asset management strategy throughout 2016 earned a successful tenant renewal rate of 97% for the business during the year.

Meanwhile, MQREIT chief executive officer Yung Siu-lin said the 97% of vacancies due for renewal will be carried out from next to end 2017. "We are in talks with the tenants and we want to renew all tenants by the end of the year," she said.

Yung said MQREIT would be successful in its core competency of managing properties in its portfolio. "However, we are also looking at other areas, as well as other sectors in the property, and the buildings (new) as well as the core assets."

"We will focus on what we are good at, which are commercial buildings," he added.

MQ Reit sasar kadar penghunian 98 peratus

KUALA LUMPUR 5 April - MRCB-Quill Real Estate Investment Trust (MQREIT) menyasarkan untuk mengekalkan kadar penghunian setinggi 98 peratus pada tahun ini walaupun persekitaran ekonomi yang mencair.

Pengurusannya, Tan Sri See Choo Ewe berkata, syarikat akan memonitor kadar sewa pada 17 peratus yang meningkat untuk diperbaharui pada tahun ini. Bagaimanapun, katanya, jika mendapat sebarang ketidakpastian dari segi sewa, perusahaan untuk diperbaharui dari kadar penghunian akan rendah.

"Sentiasa terdapat tekanan dari segi sewa jika penghunian dan faktor ekonomi Malaysia dan bagi tahun ini, kita tidak dapat mengandaikan itu," katanya.

"Walaupun ekonomi dijangka mencatat prestasi lebih baik pada tahun ini, dengan kenaikan Yu-

ing pejabat, kita akan menghadapi cabaran."

Bagaimanapun, syarikat akan mengekalkan komitmen dengan penghunian jangka panjang yang tinggi dalam portfolio kami," katanya kepada pemberita selepas menghadiri agung tahunan syarikat di sini hari ini.

Sementara itu, Ketua Pegawai Eksekutifnya, Yung Siu-lin berkata, walaupun menghadapi cabaran, syarikat akan terus bertempur -- kepada pasaran komersial di bandar berbanding pembangunan yang masih baik.

MQ Reit mempunyai 11 hartanah komersial di Malaysia, termasuk Cyberjaya, pusat bandar Kuala Lumpur, Shell Alara, KL Sentral dan Pudu Plaza.

Mengenal pendapatan sewa setiap hartanah, katanya lagi Cyberjaya, Kuala Lumpur adalah RM5 setiap kaki persegi manakala di KL Sentral, RM8.50 setiap kaki persegi.

Berlaku berkaitan, perusahaan hartanah syarikat pada sekitar 6.5 peratus dan berhubung ia dapat diwariskan kepada kumpulan pereputan hartanah di lokasi yang baik.

Di KL Sentral, walaupun mempunyai kawasan syaria, syarikat tidak memiliki kawasan yang jauh daripada pusat bandar. Berdasarkan hartanah ini mempunyai kredit yang disyorkan oleh syarikat.

MQ Reit juga sedang menilai cadangan untuk memperkatakan ruang pejabatnya dan antara perkara utama yang diutamakan adalah memastikan lebih pengangkutan, hubungan, dan infrastruktur yang lebih baik, katanya. -- **SENDA**

MQ Reit aims to maintain 98% occupancy rate this year

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust (MQREIT) aims to maintain its average 98% occupancy rate in terms of not letting assets this year despite a subdued office market and a challenging economic environment, it said.

In chairman Tan Sri See Choo Ewe said besides the rental and occupancy pressures faced, MQREIT is also offered by the rise in office space available. "The occupancy rate stood at 98% as of Dec 31, 2016, and this year, we hope to maintain it because we have 17% of vacancies due for renewal."

"The recovery is expected to do better than last year -- the main factor is an influx of new office space. So, we will face challenges," he said regarding the group's annual general meeting yesterday.

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"We will remain confident with our approach towards assets, portfolio and our management, and additional income from the newly acquired Menara Shell," he added.

6 April 2017

In The News

cont'd

22 April 2017

Tough times for REITs

Data points to subdued prospects on lack of concrete growth catalysts



High-rise: The construction of a new office building in the CBD area of Kuala Lumpur, Malaysia, is a key indicator of the real estate market's health.

By WHE DE LIN

REITs are under fire in the wake of a recent decline in their share prices. The decline is attributed to a lack of concrete growth catalysts and subdued prospects for the sector.

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Challenges seen for rental reversions for MRCB-Quill REIT office assets

KL, 22 April 2017
(By WHE DE LIN)

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8 May 2017

MRCB-Quill REIT
IQ NPI jumps
40% after
Menara Shell buy

By WHE DE LIN

KUALA LUMPUR: The realisation of income from the newly acquired Menara Shell added MRCB-Quill REIT (MQREIT), together with highest income from several other properties due to rental adjustment, lifted its first-quarter (1Q) net property income (NPI) by 40%.

For the quarter ended March 31, 2017 (1Q17), the REIT's NPI rose to RM22.11 million, from RM15.84 million in the same period last year.

However, net income distribution was proposed as MQREIT's income distribution is paid on a half-yearly basis.

Looking forward, MQREIT said it expects the office market to remain challenging with a slowdown in the global and domestic economies, and low credit valuations.

"MQREIT's portfolio continued to perform well and maintained a healthy net property income margin of 88% in 1Q17, compared to 78% in the corresponding quarter," said Tan Sri Saw Choo Boon, chairman of the REIT's manager, MRCB-Quill Management Sdn Bhd (MQM), in a separate statement.

"Despite the challenging office market environment, we remain optimistic about MQREIT's portfolio of quality assets, with a healthy weighted average lease expiry of 5.4 years to maturity to deliver stable income to our investors," he added.

Meanwhile, MQM chief executive officer Yang Li said 14% of MQREIT's total leased net lettable area is due to be renewed in 2017, and that 2% of those leases have been successfully renewed.

"Negotiations with tenants are progressing as scheduled for the leases due in the second and third quarters of 2017. MQREIT's average occupancy rate as at March 31, 2017 stood at 97%," she added.

MQREIT sees 52% increase in realised net income

KUALA LUMPUR: — MRCB-Quill Management Sdn Bhd (MQM), the manager of MRCB-Quill REIT (MQREIT), announced that MQREIT has achieved a realised net income of RM22.11 million for the first quarter of 2017 (1Q17).

This is an increase of approximately 52% from the realised net income recorded for 1Q16. The higher realised net income for the quarter was attributable to the increase in revenue contribution from several properties and the re-acquisition of income from Menara Shell.

Notwithstanding the higher realised net income, MQREIT recorded a lower realised earnings per unit for 1Q17 of 2.17 sen.

MQM chairman Tan Sri Saw Choo Boon said: "We are

pleased with MQREIT's stable performance in 1Q17. This was achieved through our proactive approach towards asset and portfolio management and continuing efforts in managing MQREIT's operational cost effectively."

"Despite the challenging office market environment, we remain optimistic that MQREIT's portfolio of quality assets, with a healthy weighted average lease expiry of 5.4 years to maturity, will continue to deliver stable income to our investors."

MQM chief executive officer Yang Li said that the REIT has a well spread portfolio lease expiry profile, with 14% of its total leased net lettable area due for renewal in 2017.

"2% of those leases due in 2017 have been successfully

renewed. Negotiations with the tenants are progressing as scheduled for the leases due in the second and third quarter of 2017."

"MQREIT's average occupancy rate as at 31 March 2017 stood at 97%," she said.

Yang added that in terms of capital management, MQM has successfully completed the refinancing of MQREIT's RM130 million borrowings in March 2017.

"MQREIT's average cost of debt is maintained at 4.4% per annum, with 74% of total borrowings on fixed interest rate. After this refinancing exercise, all of MQREIT's refinancing requirements for 2017 will be addressed with the next refinancing due in September 2018," she said.

MQREIT earnings jump
52% on Menara Shell buy

MRCB-QUILL Real Estate Investment Trust (MQREIT) posted a 52% year-on-year (YoY) net income jump to RM22.11 million for its first-quarter ended March 31 this year (1Q17).

The increase was attributed to its Menara Shell acquisition and other properties in its portfolio.

In an exchange filing yesterday, the real estate investment trust said its revenue rose by 38% YoY to RM46.37 million over the same period, due to

additional contribution streaming in from the Shell acquisition on Dec 22 last year.

The company also benefited from the higher rent adjustments from its QRS, Wisma Techcorp and QRS assets.

However, it posted lower earnings per unit in 1Q17 by 57% YoY to 2.17 sen, due to the increase in weighted average units in circulation from a RM6.62 million placement issuance completed in December last year.

5 May 2017

Corporate Information

MANAGER

MRCB Quill Management Sdn. Bhd.
(Company No. 737252-X)
(Incorporated in Malaysia)

REGISTERED ADDRESS OF THE MANAGER

Level 33A, Menara NU 2,
No. 203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur
Telephone No. : 603-2786 8080
Facsimile No. : 603-2780 7668

PRINCIPAL PLACE OF BUSINESS

Level 35, Menara NU 2,
No. 203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur
Telephone No. : 603-2786 8080
Facsimile No. : 603-2780 0098

BOARD OF DIRECTORS OF THE MANAGER

Tan Sri Saw Choo Boon
Dato' Dr. Low Moi Ing, J.P.
Dato' Michael Ong Leng Chun
Dato' Thanarajasingam Subramaniam
Dr. Roslan Bin A. Ghaffar
Foong Soo Hah
Ann Wan Tee
Kwan Joon Hoe
Aminuddin Bin Mohd Arif

SECRETARY OF THE MANAGER

Mohamed Noor Rahim Bin Yahaya
(MAICSA 0866820)

Irene Ho Ngan Chui
(MAICSA 7014785)

BANKERS

Malayan Banking Berhad

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad

TRUSTEE

Maybank Trustees Berhad
8th Floor, Menara Maybank,
100, Jalan Tun Perak,
50050 Kuala Lumpur, Malaysia.
Telephone No. : 603-2078 8363
Facsimile No. : 603-2070 9387

PROPERTY MANAGERS

Zaharin Nexcap Property Management
Sdn. Bhd.
Suite 23-5, Oval Tower Damansara,
Menara Permata Damansara,
No. 685, Jalan Damansara,
60000 Kuala Lumpur.
Telephone No. : 603-7733 2122
Facsimile No. : 603-7733 2103

REGISTRAR

Symphony Share Registrars Sdn. Bhd.
Level 6, Symphony House,
Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya,
Selangor Darul Ehsan, Malaysia.
Telephone No. : 603-7841 8000
Facsimile No. : 603-7841 8151/8152

AUDITOR

Ernst & Young
Level 23A, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
50490 Kuala Lumpur, Malaysia.
Telephone No. : 603-7495 8000
Facsimile No. : 603-2095 5332

TAX AGENT

Ernst & Young Tax Consultants Sdn. Bhd.
Level 23A, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
50490 Kuala Lumpur, Malaysia.
Telephone No. : 603-7495 8000
Facsimile No. : 603-2095 5332/7043

INTERNAL AUDITOR

BDO Governance Advisory Sdn. Bhd.
Level 8, BDO @ Menara CenTARa
360 Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur, Malaysia.
Telephone No. : 603-2616 2888
Facsimile No. : 603-2616 2829

WEBSITE

www.mrcbquillreit.com



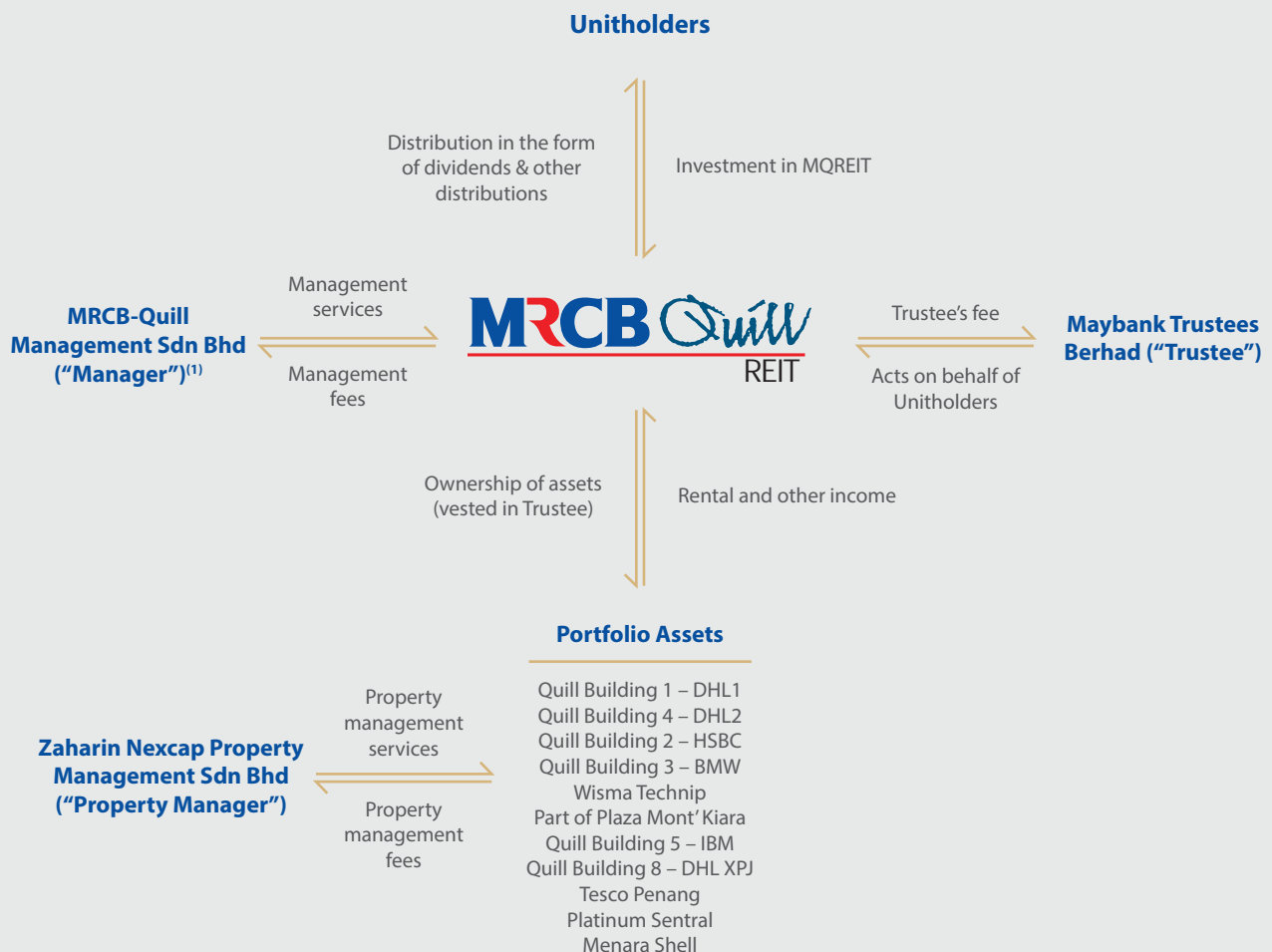
Trust Structure

Background of MQREIT

- Listed as Quill Capita Trust on 8 January 2007.
- Changed its name to its present name on 2 April 2015 following change in sponsors.

Investment Objectives

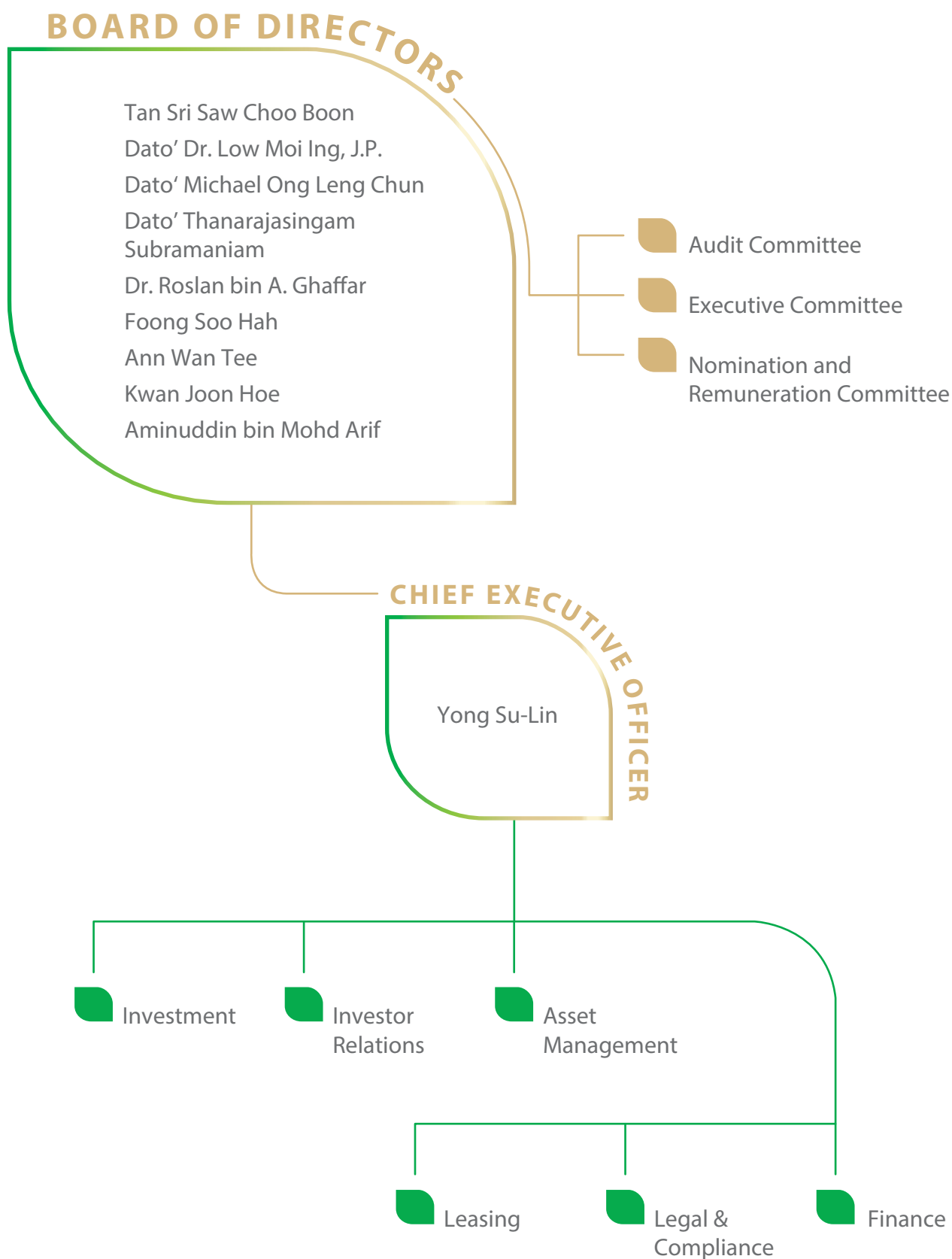
To acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value ("NAV") per Unit.



Note:

(1) Shareholders of the Manager comprise of Malaysian Resources Corporation Bhd ("MRCB") (41%), Quill Resources Holding Sdn Bhd (39%), and Global Jejaka Sdn Bhd (20%)

Organisation Structure of the Manager





From left to right :

Kwan Joon Hoe

Malaysian
Non-Independent Non-Executive Director

Ann Wan Tee

Malaysian
Non-Independent Non-Executive Director

Foong Soo Hah

Malaysian
Independent Non-Executive Director

Dato' Dr. Low Moi Ing, J.P.

Malaysian
Non-Independent Non-Executive Director

Tan Sri Saw Choo Boon

Malaysian
Chairman, Non-Independent Non-Executive Director

BOARD OF DIRECTORS OF THE MANAGER

Dato' Michael Ong Leng Chun

Malaysian
Non-Independent Non-Executive Director

Dr. Roslan Bin A. Ghaffar

Malaysian
Independent Non-Executive Director

Dato' Thanarajasingam Subramaniam

Malaysian
Non-Independent Non-Executive Director

Aminuddin Bin Mohd Arif

Malaysian
Independent Non-Executive Director

Profile of the Directors of the Manager



TAN SRI SAW CHOO BOON

Chairman and Non-Independent Non- Executive Director

Nationality/Age/Gender

Malaysian/72/Male

Date Appointed to the Board

22 January 2016

Board Committee Membership

Nil

No. of Board Meetings Attended in 2017

5/5

Academic / Professional Qualification / Professional Membership

Bachelor of Science Degree (Honours) in Chemistry from University of Malaya

Present Directorships

- RHB Bank Berhad
- DiGi.Com Berhad
- Ranhill Holdings Berhad
- RHB Insurance Berhad
- RHB Capital Berhad (In Member's Voluntary Winding Up)

Other Memberships / Appointments / Involvements

- Co-Chairman of the Government's Public-Private Sector Special Task Force on Facilitating Business (PEMUDAH)
- Director of the Socio-Economic Research Centre Board of the Associated Chinese Chambers of Commerce and Industry Malaysia

Working Experience:

Tan Sri Saw has 40 years of continuous service with Shell, having joined the company in 1970 as a Refinery Technologist in Shell Refining Company (Federation of Malaya) Berhad. He served in various capacities in manufacturing, supply, trading and planning in Malaysia, Singapore and Netherlands. In 1996, he was appointed MD of Shell MDS (Malaysia) Sendirian Berhad. From 1998 until 1999, he was MD for Oil Products (Downstream) Shell Malaysia and MD of Shell Refining Company (Federation of Malaya) Berhad. In 1999, with the globalisation of the Shell Oil Products business, he was appointed the Vice President (VP) of the commercial business in the Asia-Pacific region and in 2004 he became the President of Shell Oil Product East. In 2005, he was appointed VP Global Marine Products. On 18 May 2006, he was appointed as Chairman of Shell Malaysia, and on 1 January 2010 as Senior Advisor, positions he held till his retirement on 30 June 2010. He was also VP Business Development Asia Pacific responsible for developing the commercial businesses in new market entries in Asia - China, India, Indonesia and Vietnam.



DATO' DR. LOW MOI ING, J.P.

Non-Independent Non- Executive Director

Nationality/Age/Gender

Malaysian/57/Female

Date appointed to the Board

12 June 2006

Board Committee Membership

Member of the Audit Committee

No. of Board Meetings Attended in 2017

5/5

Academic / Professional Qualification(s) / Professional Membership(s):

- Doctor of Philosophy in Design, Millennium International University, State of Delaware, U.S.A (2010)
- Doctor of Philosophy in Entrepreneurship (Honoris Causa) (2010)

Present Directorships

Quill Group of Companies ("Quill Group")

Working Experience:

Dato' Dr. Low Moi Ing, J.P. started her career with MAA Architect in 1981 and in 1986, set up Quill Design. The Quill Group was set up in 1988 and is involved in the investment of properties, which includes integrated property development, construction, interior design and architectural services. She is in charge of the Quill Group's strategic planning and jointly manages the finance, administration, legal, property development, building construction and renovation, procurement and project management of the Quill Group.

Dato' Dr Low is a director and substantial shareholder of Quill Resources Holding Sdn Bhd, which is a substantial shareholder of the Manager. She is also a director and substantial shareholder of Quill Estates Sdn Bhd, Quill Land Sdn Bhd and Quill Properties Sdn Bhd, which collectively hold substantial units in MQREIT.

Awards

- Women Entrepreneur of the Year Award (2009) by Malaysia Business Leadership Awards 2009
- Masterclass Woman CEO of the Year Award (2010) by Malaysia Business Leadership Awards 2010
- International Leadership Award in Construction Sector by Middle East Business Leaders Summit and Awards 2010
- FIABCI Property Woman of the Year Award (2011) by FIABCI
- Woman Entrepreneur of the Year Award (2011) by the Asia Pacific Entrepreneurship Awards 2011
- Malaysian Chinese Women Excellence Award in Entrepreneur (2017) by Wanita MCA / Malaysia Chinese Women Enterprise Association (MCWEA)
- Malaysian Fujian Outstanding Entrepreneur Award (2017) by the Federation of Hokkien Associations of Malaysia

Profile of the Directors of the Manager

cont'd



DATO' MICHAEL ONG LENG CHUN
Non-Independent Non- Executive Director

Nationality/Age/Gender
Malaysian/62/Male

Date appointed to the Board
12 June 2006

Board Committee Membership
Nil

No. of Board Meetings Attended in 2017
5/5

- Academic / Professional Qualification / Professional Membership**
- Chartered Architect (1982)
 - Lembaga Akitek Malaysia (LAM) (1987)
 - Corporate Member, the Royal Institute of British Architects (RIBA) (1984)
 - Corporate Member, Pertubuhan Akitek Malaysia (PAM) (1987)
 - Corporate Member, Institut Perakabentuk Dalaman (IPDM) (1995)

Present Directorships
Quill Group of Companies ("Quill Group")

Working Experience:
Educated in the United Kingdom, Dato' Michael Ong graduated as a Chartered Architect in 1982 and practised in London until 1984 when he returned to Malaysia. He is one of the two founding partners of the Quill Group. The Quill Group was set up in 1988 and involved in the investment of properties, which includes integrated property development, construction, interior design and architectural services. The Quill Group's strength lies in the integration of IT services into the building environment and is currently practising the "Own, Build and Lease" model for its developments. Dato' Michael Ong is responsible for and has extensive experience in the design, detailing and construction of properties within the Quill Group.

Dato' Michael Ong is a director and substantial shareholder of Quill Resources Holding Sdn Bhd, which is a substantial shareholder of the Manager. He is also a director and substantial shareholder of Quill Estates Sdn Bhd, Quill Land Sdn Bhd and Quill Properties Sdn Bhd, which collectively hold substantial units in MQREIT.



DATO' THANARAJASINGAM SUBRAMANIAM
Non-Independent Non- Executive Director

Nationality/Age/Gender
Malaysian/68/Male

Date appointed to the Board
31 December 2015

Board Committee Membership
Nil

No. of Board Meetings Attended in 2017
5/5

- Academic / Professional Qualification / Professional Membership**
- Bachelor of Arts, University of Malaya
 - Masters of Arts, New York University

Present Directorships
OSK Ventures International Berhad
OSK Holdings Berhad

Other Memberships / Appointments / Involvements
Member of the Ambassadorial Advisory Panel of InvestKL

Working Experience:
Dato' Thanarajasingam has an extensive experience in both the public and private sectors. He has served as a Malaysian diplomat for more than 36 years including as Malaysian Ambassador to France and Portugal from 2006 to 2010 and Ambassador to Brazil, Venezuela, Suriname and Guyana from 1998 to 2001. He had also served as the Chief of Staff to the President of the United Nations General Assembly in 1997. At home, he rose to become Deputy Secretary General for Multilateral Affairs, Ministry of Foreign Affairs Malaysia after being Director General for ASEAN Malaysia.

Upon his retirement from the Malaysian Foreign Service in 2010, he became a director of OSK International Bank Berhad from 2010 to 2011 as well as served as the Malaysian Eminent Person for ASEAN-India Eminent Persons Group from 2010 to 2012. He also served as a Commissioner at the Malaysia Communications and Multimedia Commission ("MCMC"), the regulatory arm for communications in Malaysia from 2010 to 2013. He was also the Chairman of Mestari Adjusters Sdn Bhd from 2012 to 2017.

Profile of the Directors of the Manager

cont'd



DR. ROSLAN BIN A. GHAFFAR

Independent Non- Executive Director

Nationality/Age/Gender

Malaysian/66/Male

Date Appointed to the Board

16 June 2015

Board Committee Membership

- Member of the Audit Committee
- Member of the Nomination & Remuneration Committee

Academic / Professional Qualification / Professional Membership

- Bachelor of Science degree from the Louisiana State University, Baton Rouge, USA
- Doctor of Philosophy from University of Kentucky, Lexington, USA

Present Directorships

- SYF Resources Berhad
- Box-Pak (Malaysia) Berhad
- Priceworth International Berhad
- Cagamas Berhad
- Kuala Lumpur Sentral Sdn Bhd
- Straits International Education Group
- Kwasa Land Sdn Bhd
- Permodalan Felcra Sdn Bhd
- Felcra Properties Sdn Bhd
- Felcra Univille Sdn Bhd
- Bimbingan Galakan Sdn Bhd
- Urban Hybrid Sdn Bhd

Other Memberships / Appointments / Involvements

- Member, Board of Trustees of Yayasan Guru Tun Hussein Onn
- Chairman of the Rating Committee of Malaysian Rating Corporation Berhad

Working Experience:

Dr. Roslan has over 30 years of experience in the areas of economics, finance and investment. He was the Head of Economics Department of Universiti Putra Malaysia ("UPM") from 1985 to 2001. While with UPM, he provided consultancy services to World Bank, Asian Development Bank, Winrock International and the Economic Planning Unit of the Prime Minister's Department.

In 1994, Dr. Roslan was appointed as Director of Investment and Economic Research Department, Employees Provident Fund ("EPF"). He was promoted to the position of Senior Director in 1996 and later, held the position of Deputy Chief Executive Officer of EPF until his retirement in 2007.



FOONG SOO HAH

Independent Non- Executive Director

Nationality/Age/Gender

Malaysian/68/Male

Date Appointed to the Board

11 April 2013

No. of Board Meetings Attended in 2017

5/5

Board Committee Membership

- Chairman of the Audit Committee
- Member of the Nomination & Remuneration Committee

Academic / Professional Qualification / Professional Membership

- Bachelor of Science (Hons) Degree in Mathematics, Universiti Malaya (1975)
- Master of Actuarial Science, Northeastern University, Boston, Massachusetts (1977)
- Fellow of Society of Actuaries, USA (1981)

Present Directorships

- Bank Simpanan Nasional Berhad
- Golden YangKwong Land Sdn Bhd
- Golden YangKwong Development Sdn Bhd
- Aviva Ltd

Other Memberships / Appointments / Involvements

- Perbadanan Insurans Deposit Malaysia (PIDM)
- Private Pension Administrator (PPA) Malaysia

Working Experience:

Foong Soo Hah started his career with American International Assurance Company Ltd in 1977 in the actuarial department. He later joined British American (Malaysia) Insurance Bhd (now known as Manulife Holdings Berhad) as Senior Vice President overseeing marketing, agency management and new businesses and subsequently, was appointed as Director and CEO in 1991. He joined Great Eastern Life Assurance (Malaysia) Berhad in 1996 as Director and CEO until his retirement in 2009.

Profile of the Directors of the Manager

cont'd



AMINUDDIN BIN MOHD ARIF
Independent Non- Executive Director

Nationality/Age/Gender
Malaysian/43/Male

Date appointed to the Board
1 April 2016

Board Committee Membership

- Member of the Audit Committee
- Chairman of the Nomination & Remuneration Committee

No. of Board Meetings Attended in 2017
5/5

Academic / Professional Qualification / Professional Membership

- M.A (Cantab) in Economics from University of Cambridge
- Association for Investment Managers and Research (AIMR) – Chartered Financial Analysts (CFA) Level 1

Present Directorships
Daya Materials Berhad

Working Experience
Upon his graduation in 1997, Aminuddin joined Sime Securities Sdn Bhd as an Economist, Research Department and thereafter, as Marketing Executive with Sime AXA Assurance Sdn Bhd from 1998 to 1999. From 2000 to 2001, he was with Consolidated Plantations Bhd as the Senior Executive, Corporate Planning.

From 2001 to 2014, he was attached to various government agencies having served as the Special Officer to the Minister of Youth and Sports, Private Secretary to the Minister of Education and Minister of Home Affairs and Principal Private Secretary to the Minister of Transport. Aminuddin is currently an Advisor, Corporate Advisory Division at Jasa Baiduri Sdn Bhd.



ANN WAN TEE
Non-Independent Non- Executive Director

Nationality/Age/gender
Malaysian/47/Male

Date Appointed to the Board
31 March 2015

Board Committee Membership
Member of the Audit Committee

No. of Board Meetings Attended in 2017
5/5

Academic / Professional Qualification / Professional Membership

- Bachelor of Commerce (Accounting) (Hons), University of Birmingham
- Fellow of the Association of Chartered Certified Accountants (FCCA)
- Member of the Malaysian Institute of Accountants (MIA)

Present Directorship

- MRCB Southern Link Berhad
- MRCB Group of Companies

Working Experience
Ann Wan Tee has more than 18 years' experience spanning from project advisory, privatisation, private finance initiatives, financial feasibility studies, business valuations, mergers and acquisitions as well as corporate recovery.

Wan Tee is currently the Group Chief Financial Officer of Malaysian Resources Corporation Berhad ("MRCB"). He joined MRCB in May 2013 as the Chief Strategy Officer. Prior to MRCB, Wan Tee was the Chief Financial Officer / Finance Director of Gapurna Strategic Alliance Sdn Bhd from June 2012 to May 2013.

Wan Tee was the Executive Director – Corporate Finance at PricewaterhouseCoopers (Advisory Services) from January 2006 to May 2012.

Profile of the Directors of the Manager

cont'd



KWAN JOON HOE

Non-Independent Non- Executive Director

Nationality/Age/Gender

Malaysian/36/Male

Date Appointed to the Board

31 March 2015

Board Committee Membership

Nil

Academic / Professional Qualification / Professional Membership

- Bachelor of Commerce (Accounting and Finance) from University of Melbourne, Australia
- Member of the Certified Public Accountant, Australia

Present Directorship

MRCB Group of Companies

Working Experience:

Kwan Joon Hoe is currently the Group Chief Operating Officer of MRCB. He joined MRCB in January 2014 as Senior Vice President of MRCB Groups' Property Division.

Joon Hoe joined Gapurna in 2008 as the Group's Financial Controller, spearheading the RM1 billion Lot 348 development (Menara Shell) in Kuala Lumpur Sentral CBD. He was then promoted to the position of Chief Executive Officer managing Gapurna Group's property development function in 2012 before joining MRCB.

ADDITIONAL INFORMATION:

1. Save as disclosed, none of the Directors have any family relationship with any Director and/or major shareholders of the Manager and/or major unitholders of MQREIT.
2. None of the Directors has any conflict of interest with the Manager and/or MQREIT.
3. None of the Directors has:
 - (i) been convicted of any offence (other than traffic offences) within the past five (5) years; and
 - (ii) been imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year.



THE MANAGEMENT TEAM OF THE MANAGER

Back Row : Standing from the left

Chan Fong Hin

Phuah Ngah Yui

Yong Su-Lin

Alice Yap Soh Ping

Leong Foong Yin

Shirley Tam Soot Lee

General Manager, Asset Management

Senior Executive, Finance

Chief Executive Officer

Manager, Lease Administration

Senior Executive, Finance

Senior Manager, Finance

Front Row : Seated from the left

Jean Wong Wen Looi

Christie Pun Nyuk Len

Stephanie Tang Pit Yen

Joyce Loh Mun Ching

Tracy Wong

Alex Low Kam Seng

Manager, Legal

Manager, Lease Administration

Senior Manager, Investment and Asset Management

General Manager, Investment and Investor Relations

Senior Executive, Finance

Manager, Asset Management

The Management Team of the Manager

cont'd



YONG SU-LIN

44 years old, Female
Chief Executive Officer
Malaysian

Date of appointment as Chief Executive Officer	: 9 July 2015
Length of service as Chief Executive Officer	: 2 years and 7 months

Academic / Professional Qualification(s) / Professional Membership(s):

Bachelor of Arts in Finance degree from the University of Northern Iowa, USA

Present Directorship(s):

Nil

Working Experience:

She started her career in corporate banking, managing project financing and lending to property companies, small and medium enterprises, as well as large corporations. Prior to joining the CapitaLand Group and her secondment to MRCB Quill Management Sdn Bhd ("MQM") (previously known as Quill Capita Management Sdn Bhd), she had six years of corporate advisory experience, working in one of the top five audit firms in Malaysia. In her career as a corporate consultant, she was involved in corporate advisory projects for various industry sectors.

In June 2006, Su-Lin joined CapitaLand and was part of the core team that spearheaded the listing of Quill Capita Trust, which had been subsequently renamed as MQREIT in May 2015. She has been involved in the day-to-day operations of MQREIT, and led the investment and investor relations functions as part of the core team since May 2006. She was appointed the Interim Chief Executive Officer on 1 June 2012 and was subsequently designated as Chief Executive Officer on 9 July 2015.

Other than as disclosed, she does not have any family relationship with any director and/or major shareholders of the Manager and/or major unitholder of MQREIT. She does not have personal interest in any business arrangements involving the Manager and/or MQREIT. She has not been convicted of any offences within the past 5 years and has not been imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year.

As at 31 December 2017, she hold 3,000 MQREIT units.

Corporate Governance Overview Statement

This Corporate Governance Overview Statement is made pursuant to paragraph 15.25(3) of Main Market Listing Requirements ("Main Market Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). In producing this Corporate Governance Overview Statement, guidance was drawn from Practice Note 9 of Main Market Listing Requirements and the Corporate Governance Guide (3rd edition) issued by Bursa Malaysia.

The Corporate Governance Overview Statement is supplemented with a Corporate Governance Discussion as set out in pages 52 to 65 which provides a detailed articulation on the application of corporate governance practices. This Corporate Governance Overview Statement should also be read in conjunction with the other statements in the Annual Report as the depth or relevance of applying certain corporate governance promulgations may be better explained in the context of the respective statements.

CORPORATE GOVERNANCE APPROACH

Good corporate governance is ingrained in the core values of MRCB Quill Management Sdn Bhd ("MQM" or the "Manager") as the manager of MRCB-Quill REIT ("MQREIT"). MQM is committed to be prudent fiduciary for MQREIT Unitholders ("Unitholders") and to oversee the management of the MQREIT's business. In particular, the Board and the Management of MQM are cognisant of their obligation to act in good faith, with due care and diligence, and in the best interests of its Unitholders as well as other stakeholders by emphasising on the principles of accountability, objectivity and transparency.

MQM's overall approach to corporate governance is to:

- drive sustainable value for Unitholders over the long-term through the alignment of the interests of MQREIT Unitholders and the Board and Management of MQM;
- promote the long-term profitability of MQREIT while prudently managing risk; and
- meet stakeholder expectations of sound corporate governance as part of MQM's broader responsibility to Unitholders, tenants, creditors and the community in which it operates.

MQM has adopted a robust yet dynamic corporate governance framework that is designed to underpin the day-to-day activities with sound processes and procedures. MQM regularly reviews its corporate governance arrangements and practices to ascertain if they reflect new modes of thinking, market dynamics, developments in the regulatory realm and changing stakeholder expectations. This was particularly essential in the year 2017 given that regulatory authorities introduced a swathe of reform measures including the incarnation of the new Malaysian Code on Corporate Governance ("MCCG") by Securities Commission Malaysia and amendments to Main Market Listing Requirements. Capital market developments such as the introduction of Real Estate Investment Trust ("REIT") Index by Bursa Malaysia to promote greater visibility of REITs also made the corporate governance more important than ever.

In light of the said developments, MQM undertook a recalibration of its corporate governance framework and has taken progressive steps to adhere to these enumerations. Recognising that raising corporate governance standards is a continuous process, MQM will endeavour to undertake early adoption of selected enumerations which have yet to be effected for REITs at present. For example, MQM envisages to make available a Corporate Governance Report of MQREIT which would outline the application of its practices vis-à-vis the new MCCG based on a prescribed format in MQREIT's future annual reports.

SUMMARY OF CORPORATE GOVERNANCE PRACTICES

Board Responsibilities

The primary role of the Board is to promote MQREIT's long term health and prosperity. In this regard, the Board provides leadership to MQM, sets strategic directions and oversees competent management of MQREIT. The Board meets with sufficient regularity to deliberate on business strategies and critical issues concerning MQREIT, including business plan, annual budget, significant acquisitions and disposals, sustainable performance, financial results as well as key performance indicators.

The Board has established three Board Committees, namely, Executive Committee, Audit Committee and Nomination and Remuneration Committee to assist it in discharging its oversight function. These Committees have been constituted with clear terms of reference and they are actively engaged to ensure that MQM is in adherence with good corporate governance.

There is a clear division of responsibilities between the Chairman who runs the Board, and the Chief Executive Officer who runs MQREIT's business. This provides for a balance of power and authority, increased accountability and greater capacity of the Board for objective decision making.

The Board has formalised a Board Charter which clearly demarcates the responsibilities of the Board, Board Committees and individual Directors, including the matters that are solely reserved for the Board's decision. In the discharge of their responsibilities, the Board and Board Committees are supported by a qualified and competent Company Secretary who acts as a corporate governance advisor.

Corporate Governance Overview Statement

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The Board is also cognisant of its responsibility to set the ethical tone and standards of behaviour for MQM. A Code of Business Ethics and Whistleblowing Policy have been put in place to inculcate an ethical culture and allow bona fide ethical concerns to be raised via an objective and a confidential point of escalation.

Board Composition

The Board seeks to ensure that it benefits from the element of detached impartiality and has an appropriate mix of skills, experience and diversity to effectively discharge its role and responsibilities. The Board currently comprises Non-Executive Directors including three Independent Non-Executive Directors, $\frac{1}{3}$ of its overall composition in accordance with the Main Market Listing Requirements.

Recognising that long tenure may lead to entrenchment and impaired objectivity, the Board places an emphasis on undergoing a regular process of renewal via changes in membership to provide it with the benefit of fresh perspectives. The composition of the respective Board Committees meets the independence criteria outlined in Main Market Listing Requirements and MCGG and there is appropriate cross-membership to further promote effectiveness.

Appointments to the Board are made via a formal, rigorous and transparent process, anchored on meritocracy and taking into account the skills, experience and diversity needed on the Board in the context of MQREIT's strategic direction. The Board assesses its effectiveness and that of its Committees as well as the individual Directors in a process that is externally facilitated by an independent third party.

Executive Committee

The Executive Committee shoulders the responsibility of overseeing the day-to-day activities of the Manager under the delegated authority of the Board. The committee undertakes responsibilities such as decisions on approval and review of transactions and matters relating to or for the purposes of MQM's and MQREIT's business.

Remuneration

The Nomination and Remuneration Committee assists the Board in developing a remuneration framework for Directors. The remuneration framework is simple and transparent and is designed to attract and retain the required Directors and to support and drive business strategy as well as long-term success. Directors are remunerated via fees and meeting allowances and these are paid by MQM and not MQREIT.

Audit Committee

The Audit Committee brings transparency, focus and independent judgment needed to oversee the financial reporting process, review conflict of interest and related party transactions, assess the internal control environment as well as evaluate the internal audit and external audit processes. The Audit Committee also considers all relationships between MQREIT and the external audit firm in assessing the independence of the external auditor.

The Audit Committee seeks to benefit from impartiality and a sound understanding of the financial language amongst its members complemented with a sound understanding of the business for it to discharge its responsibilities effectively.

Risk Management and Internal Control Framework

Risk is inherent in the business of MQREIT and therefore, effective risk management is essential in delivering the business objectives of MQREIT. The risk management framework put in place by MQM covers the structures, policies, processes and resources to identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. The overall risk guidelines and parameters have been set by the Board.

MQM has in place an internal audit function which is outsourced to a professional service provider to conduct regular reviews on the system of internal control of MQM. The outsourced service provider has a direct reporting line to the Audit Committee as well as unencumbered access to records, properties and personnel of MQM.

Communication with Stakeholders

MQM leverages on a wide variety of engagement fora to engage with stakeholders, particularly Unitholders. These channels include but not limited to annual reports, announcements to Bursa Malaysia, corporate website, briefing sessions, roadshows and conferences. Regular engagement with Unitholders ensures that MQREIT's strategy and performance are being communicated effectively in a timely manner. The Board receives feedback on the engagement efforts conducted alongside regular reports of substantial changes in unit holdings and reports of unit price movements.

The Annual Report of MQREIT seeks to provide balanced, comparable and meaningful assessment of its position and prospects.

Corporate Governance Overview Statement

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Conduct of General Meetings

The Annual General Meeting ("AGM") serves as a good platform for MQM to share the highlights of MQREIT's financial results and operational performance for the fiscal year. Unitholders on the other hand can ask questions, clarify facts and provide feedback to the Management of MQM about MQREIT's performance and strategies. All resolutions tabled during General Meetings are voted by poll.

All directors of MQM were present at the previous AGM. The Chairmen of the respective Board Committees were present to facilitate discussion on matters such as audit, nomination and remuneration. Minutes of the previous AGM are available on the corporate website of MQREIT. As called upon by MCCG, the notice to the upcoming AGM in 2018 has been provided more than 28 days in advance to enable Unitholders to make adequate preparation.

FOCUS AREAS ON CORPORATE GOVERNANCE

The year 2017 represented a significant and revolutionary period for the domestic corporate governance ecosystem as Malaysia witnessed a slew of regulatory changes. With corporate governance settling into a "new normal" against the backdrop of a relatively cautious market environment, the Board focused its attention on the fundamental aspects of their roles as they relate to the unlocking of long-term value for Unitholders. Areas which gained heightened prominence and attention from the Board during the financial year ended 31 December 2017 are as follows:

Corporate culture

During the year, MQM staff signed the Corruption-Free Pledge by Malaysian Anti-Corruption Commission which signifies a unilateral declaration that it will not commit corrupt acts, will work towards creating a business environment that is free from corruption and will uphold the Anti-Corruption Principles for Corporations in Malaysia.

Arising from this, the Board had in January 2018 established a Code of Business Ethics to shape the corporate culture and drive conduct within MQM. The Code of Business Ethics serves as an internal guideline for employees in their day-to-day activities as well as an external statement of corporate values and commitment.

Board and Board Committee policies and procedures

During the year, the Board formalised its Board Charter to serve as a primary reference and literature that guides the governance and conduct of the Board. The Board Charter sets out the Board's strategic intent, authority and terms of reference.

Nomination and assessment of Directors

Having been constituted in August 2016, the Nomination and Remuneration Committee commenced proceedings in 2017 with its inaugural meeting. The Nomination and Remuneration Committee undertook to review its Board skills matrix to ensure an ongoing appropriate mix of skills, expertise and experience as it recommends new candidates for appointment.

During the year, the Board also engaged an external expert, Deloitte Enterprise Risk Services Sdn Bhd to facilitate the evaluation of MQM's Board, Board Committees and individual Directors' performance. The outcome of the assessment was deliberated, and the recommendations are being progressively implemented. Findings from the assessment will be linked to the Directors' professional development programme.

Engagement with stakeholders

In 2017, the Board continued to emphasise on proactive stakeholders' communication as a key agenda with technology being an enabler. Changes have been made to the corporate website for ease of navigation and the content has been enriched to make it more informative.

MQM also heightened its engagement efforts with stakeholders, particularly Unitholders. With the majority of Units held by institutional investors, MQM considers meeting with local and foreign fund managers as an integral part of investor relations. During the year under review, MQM met with institutional and corporate investors from Malaysia and Asia Pacific. MQM also pursued opportunities to educate and keep retail investors informed of the latest developments in the REIT industry, through capacity building programmes.

Corporate Governance Overview Statement

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CORPORATE GOVERNANCE PRIORITIES (2018 AND BEYOND)

Moving forward, MQM will continue working towards achieving high quality outcomes in the realm of corporate governance. The major set pieces that are on the horizon of MQM over the course of the next five years are outlined below:

Short and Medium Term Plan (One to Three Years)

Boardroom independence	<p>MQM intends to have a higher proportion of Independent Directors in its boardroom to foster greater objectivity in deliberations and decision making. To create a more conducive environment for insightful deliberations, the Board will consider enlisting Independent Directors with a broad range of commercial experience, including experience in fund management, property industry and the banking fields.</p> <p>MQM also plans to put in place a policy which will set an outright tenure limit of nine years for Independent Directors so as to promote renewal in its Board.</p>
Transparency	<p>In the near future, MQM will undertake to publish more of its corporate governance documents on the corporate website as this will serve as an avenue for MQM to communicate its approach and direction on governance. These documents would amongst others include Board Charter, Terms of Reference of Board Committees, Code of Business Ethics supplemented by a No Gift Policy and a Whistleblowing Policy.</p> <p>While it is not compulsory for REITs, MQM will on its own volition make available a Corporate Governance Report of MQREIT which would outline the application of its practices vis-à-vis the new MCCG based on a prescribed format in its future annual reports.</p>
Internal control and risk management framework	<p>MQM also intends to make its risk management framework more holistic by not only capturing operational risks but also other more nuanced risks such as reputational risk and performance risk, and for such risks to be monitored through key performance indicators and baseline targets.</p>

Long Term Plan (Three to Five Years)

Boardroom diversity	<p>In fostering diversity, the Board intends to establish a diversity policy, set targets, measures and annually assess both the targets and the progress in achieving them. The relevant dimensions of diversity would include skills, experience, age, cultural background and gender.</p> <p>In relation to the aspect of gender, the search for women candidates will not be solely focused on Board positions alone but also be broadened to include women in Senior Management.</p>
Succession Planning	<p>Established a clear and orderly succession plan for Directors and Senior Management (CEO) which takes into account the demands, complexities and performance of the MQREIT as well as skills and experience required.</p>

Corporate Governance Discussion

Strong corporate governance has always been our priority as the Manager of MRCB-Quill REIT ("MQREIT"). We recognise that an effective corporate governance culture is critical to our performance and, consequently, to the success of MQREIT.

MRCB Quill Management Sdn Bhd ("MQM" or "the Manager") as the manager of MQREIT, recognises that an effective corporate governance culture is essential to protect the best interests of the Unitholders, as well as critical to the performance of the Manager and consequently, the success of MQREIT.

As a result, the Manager has adopted a comprehensive corporate governance framework that is designed to meet the best practice principles. In particular, the Manager has an obligation to act honestly, with due care and diligence, and in the best interests of the Unitholders.

The following sections describe the Manager's main Corporate Governance Practices and Policies which are guided by measures recommended in the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia ("SC REIT Guidelines"), the Malaysian Code on Corporate Governance 2017 issued by the Securities Commission Malaysia ("MCCG") and the Main Market Listing Requirements ("Main Market Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

THE MANAGER OF MQREIT

MQM as the Manager of MQREIT has general powers of management over the assets of MQREIT. Its main responsibility is to manage the assets and liabilities of MQREIT for the benefit of its Unitholders with a view to provide long-term and sustainable distributions of income to its Unitholders and to achieve long-term growth in the net asset value per unit, so as to provide competitive investment return to its Unitholders. Our internal review procedures encompass proactive measures for avoiding situations of conflict and potential conflict of interest, including prioritizing the interests of Unitholders over the Manager's and ensuring that applicable laws and regulations are complied with, so that Unitholders' interests are best served at all times.

The primary role of the Manager is to set the strategic directions of MQREIT and make recommendations to Maybank Trustees Berhad, acting solely in its capacity as trustee for and on behalf of MQREIT ("Trustee") on the acquisition or divestment of assets of MQREIT in accordance with its stated investment strategy. The research, analysis and evaluation required for this purpose is co-ordinated and carried out by the Manager. The Manager is also responsible for the risk management of MQREIT.

Other functions and responsibilities of the Manager are as follows:

- **Investment Strategy.** Formulate and implement MQREIT's investment strategy, including determining the location, sub-sector, market risk, type and other characteristic of MQREIT's property portfolio.
- **Acquisition and Divestment.** Make recommendations to and co-ordinate with the Trustee and implement the acquisition of new assets and divestment of MQREIT's existing investments.
- **Asset Management.** Supervise and oversee the management of MQREIT's properties including preparing property plans on an annual basis for review by the Directors of the Manager which may contain proposals and forecasts on net income and capital expenditure, explanation of major variances to previous forecasts, written commentary on key issues and underlying assumptions on rental rates, occupancy rates and any other relevant assumptions. The purpose of these plans is to explain the performance of MQREIT's assets.
- **Financing.** Formulate plans for equity and debt financing for MQREIT's debt requirements.
- **Accounting Records.** Keep books and prepare or cause to be prepared accounts and annual reports, including annual budgets for MQREIT.
- **Supervisory Services.** Supervise day-to-day administrative service as MQREIT's representative, including administrative services relating to meetings of Unitholders when such meetings are convened.
- **Investor Relations.** Co-ordinate, communicate and liaise with Unitholders.
- **Compliance Management.** Supervise all regulatory filings on behalf of MQREIT, and ensure that MQREIT is in compliance with the applicable provisions of the Capital Markets and Services Act 2007, the SC REIT Guidelines, Main Market Listing Requirements, the Trust Deed (as defined herein), and all relevant contracts.

Corporate Governance Discussion

cont'd

The Manager endeavors to carry on and conduct MQREIT's business in a proper and efficient manner and to conduct all transactions with, or on behalf of MQREIT, on arm's length basis.

The Manager also manages and supervises the service providers including the property manager, Zaharin Nexcap Property Management Sdn Bhd (collectively referred as "Property Manager") who performs the day-to-day property management functions for MQREIT's properties pursuant to the property management agreement signed for each property.

MQREIT, constituted as a trust, is externally managed by the Manager and accordingly, it has no personnel of its own. The Manager appoints experienced and well-qualified management personnel to handle the day-to-day operations of MQREIT.

MQM is appointed as the manager of MQREIT in accordance with the terms of the Trust Deed dated 9 October 2006 as amended by the Supplemental Deed dated 27 August 2007, Second Supplemental Deed dated 28 May 2013 and Third Supplemental Deed dated 2 April 2015 ("Trust Deed"). The Trust Deed outlines certain circumstances under which the Manager can be removed, upon the occurrence of certain events, including a resolution passed, at a meeting of Unitholders duly convened and held in accordance with the provisions of the Trust Deed, by a majority consisting of not less than three-fourths of the Unitholders voting thereat.

BOARD OF DIRECTORS

The Board of Directors ("Board") of MQM is responsible for the overall management and the corporate governance of MQREIT, including establishing goals for management and monitoring the achievements of these goals. The Board is committed to the implementation and maintenance of good corporate governance practices including the observation of recommendations of the MCCG. The Board provides leadership to the Manager, sets strategic directions and oversees competent management of MQREIT.

Each Director must act honestly, with due care and diligence, and in the best interest of the Unitholders. The Board ensures that proper and effective controls are in place to assess and manage business risk, and compliance with applicable laws. It also sets the disclosure and transparency standards for the Manager and MQREIT and ensure that obligations to the Unitholders are understood and met. The Manager has adopted guidelines, details of which are set out below for Related Party Transactions, dealings with related parties and dealings with conflict of interest.

All Board members participate in matters relating to corporate governance, business operations, sustainability performance, risk management and financial performance. The Board has established a framework for management of the Manager and MQREIT, including a system of internal controls and business risk management process.

BOARD COMPOSITION AND BALANCE

Presently, the Board consists of nine (9) members of which three (3) of the members are independent non-executive Directors.

The Board comprises business leaders and financial professionals with background in various industries including fund management and property. The profiles of the Directors are set out in the Annual Report. The Board is of the view that its current composition comprises persons who, as a group, provides the necessary core competencies and that the current Board size appropriate and effective, taking into consideration the nature and scope of MQREIT's operations.

The composition of the Board is determined using the following principles:

- The Board should comprise Directors with a broad range of commercial experience, including expertise in fund management, the property industry and the banking fields; and
- At least one-third of the Board should comprise independent Directors.

Corporate Governance Discussion

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A Director who is independent of management (or the controlling or significant shareholder(s) of the said management company) and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of MQREIT, is considered to be independent. All the Board members are non-executive. From the outset, it has ensured that each Director's special contributions bring to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

Newly appointed Directors are given briefings by the management on the business activities of MQREIT, its strategic directions and policies and the regulatory environment in which MQREIT operates. Directors are also informed of their statutory and other duties and responsibilities as well as policies and procedures relating to the corporate conduct and governance including the disclosure of interests, prohibitions on dealings in MQREIT's units and restrictions on the disclosure of price-sensitive information. Directors are routinely updated on developments and changes in the operating environment, including revisions to accounting standards, and laws and regulations affecting the Manager and/or MQREIT. Directors are also encouraged to participate in industry conferences, seminars or any training programme in connection with their duties.

BOARD MEETINGS AND PROCEDURES

The Board meets regularly to discuss and review the Manager's key activities including its business strategies and policies for MQREIT. The Board meetings are scheduled in advance, and are held at least once every quarter, to deliberate on business strategies and policies of MQREIT, including any significant acquisitions and disposals, review and approve the annual budget, review the performance of the business, review the financial performance of the Manager and MQREIT and approve the release of the quarterly and full year results. The Board also reviews the risks to the assets of MQREIT, and acts upon comments from the auditors of MQREIT, if any. Additional Board meetings are held, when necessary, to address any significant transactions or issues that may arise.

The Board is supported by an Audit Committee that provides independent supervision of the management of MQREIT. The Board is also assisted by an Executive Committee ("EXCO") on the operational and administrative matters of the Manager and MQREIT. The Board has also set up a Nomination and Remuneration Committee to recommend suitably qualified candidates and formulate or review the remuneration policies for the Board. The compositions of each committee are disclosed below.

The Board has adopted a set of internal controls which sets out the approval limits for capital expenditure, investments and divestments, bank borrowings and cheque signatories' arrangements. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to Board Committees. Appropriate delegation of authority is also provided at management level to facilitate operational efficiency.

The Board sets broad policies and strategic directions and ensures competent management of MQREIT. The Board also ensures compliance with applicable laws. Board members have a duty to act in good faith, with due diligence and care in the best interests of MQREIT and its Unitholders. An effective Board is able to provide firm support to management at all times and steer MQREIT in the right direction.

The Board's and Board Committees' Meetings for each of the quarter were scheduled one year ahead, to allow the Directors and Members of the Committees to organise and plan their activities ahead to ensure that they would be able to attend all the Meetings which have been scheduled earlier.

A total of five (5) Board of Directors meetings were held between 1 January 2017 and 31 December 2017 and these were fully attended by all the Directors.

Corporate Governance Discussion

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The attendance of the Directors at the Board Meetings are as follows:

Board of Directors	Designation	Attendance
Tan Sri Saw Choo Boon	Non-Independent Non-Executive Chairman	5/5
Dato' Dr Low Moi Ing, J.P.	Non-Independent Non-Executive Director	5/5
Dato' Michael Ong Leng Chun	Non-Independent Non-Executive Director	5/5
Dato' Thanarajasingam Subramaniam	Non-Independent Non-Executive Director	5/5
Ann Wan Tee	Non-Independent Non-Executive Director	5/5
Kwan Joon Hoe	Non-Independent Non-Executive Director	5/5
Foong Soo Hah	Independent Non-Executive Director	5/5
Dr Roslan Bin A. Ghaffar	Independent Non-Executive Director	5/5
Aminuddin Bin Mohd Arif	Independent Non-Executive Director	5/5

Based on the above, all Directors have complied with the minimum 50% attendance requirement in respect of Board Meetings as stipulated in the Main Market Listing Requirements.

ACCOUNTABILITY AND ACCESS TO INFORMATION

The management provides the Directors with complete and adequate information in a timely manner. This is done through regular updates on financial results, market trends and business developments. Changes to regulations and accounting standards are monitored closely. To keep pace with regulatory changes, where these changes have an important and significant bearing on MQREIT and its disclosure obligations, the Directors are briefed by the management either during Board meetings, at specifically convened sessions or via circulation of Board papers.

The management also prepares management accounts on a quarterly basis to keep abreast of MQREIT's financial performance, position and prospects. Information includes explanatory background relating to budgets, forecasts and management accounts. In relation to budgets, any material variance between projections and actual results are disclosed and explained.

The Manager has complied with the applicable Main Market Listing Requirements on quarterly financial reporting since inception. It also provides the Directors with management accounts on a quarterly basis.

The Company Secretary ("Secretary") works together with the Chairman and the management to ensure that Board and/or Board Committee papers and agenda are provided to each Director ahead of meetings of Board and/or Board Committee so that they can familiarize themselves with the matters prior to the meetings. Senior executives who can provide additional insights into matters to be discussed are requested to attend the meetings to answer any questions. Meetings are usually half-a-day affairs and include presentations by senior executives, and when necessary, presentations by external consultants and experts on strategic issues relating to specific business areas.

The Board has separate and independent access to the Manager's senior management and the Secretary, and vice versa. The Secretary renders necessary assistance to the Board, and ensures meeting procedures are followed and the applicable laws and regulations are complied with. Under the direction of the Chairman, the Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and non-executive Directors as well as facilitating orientation and assisting with professional development as required.

The Board will take independent professional advice when it deems necessary for the proper and efficient discharge of its responsibilities. The Secretary will assist the Board in obtaining such advice upon request. The Secretary also attends to corporate secretarial administrative matters and attends all Board and Board Committee meetings.

Corporate Governance Discussion

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BOARD PERFORMANCE

The Manager believes that Board performance and that of individual Board members is reflected and evidenced by proper guidance, diligent oversight and able leadership, and the support that it lends to the management to steer MQREIT in the appropriate direction, and the long-term performance of MQREIT under favourable or challenging market conditions. Contributions by an individual Board member take in many forms including providing objective perspective of issues, facilitating business opportunities and strategic relationships and accessibility to management outside of a formal environment of Board and/or Board Committee meetings. The non-executive Directors actively participate in setting and developing strategies and goals for management, and reviewing and assessing management performance. This enables the management to benefit from their external and objective perspective on issues that are brought forward before the Board. It also enables the Board to interact and work with the management through a healthy exchange of ideas and views to help shape the strategic process. This, together with a clear separation of the roles of the Chairman and the Chief Executive Officer, provides a healthy professional relationship between the Board and management with clarity of roles and robust deliberation on the business activities of MQREIT.

Ultimately, the interest of MQREIT will be safeguarded and reflected by maximization of Unitholders' value.

The Board formalised its Board Charter to serve as a primary reference and literature that guides the governance and conduct of the Board. The Board Charter sets out the Board's strategic intent, authority and terms of reference.

The Board, through the Nomination & Remuneration Committee, reviews and evaluates its performance and the performance of individual Directors. The last performance evaluation was conducted for the financial year 2017 by Deloitte Enterprise Risk Services Sdn Bhd.

The assessment is developed based on the latest corporate governance guidelines and best practices. The performance of the Board, and the contribution of the Chairman and individual Directors, will be assessed and measured against, amongst others, the MQREIT strategic plan, principle duties expected of the Board, the Chairman and Directors' obligations to support management, available expertise, governance factors, commitment, knowledge of the industry and team contribution.

The outcome of the Board Effectiveness Evaluation has been presented to the Nomination & Remuneration Committee for its review and action plans have been identified for areas requiring improvement. Subsequently, the overall results have been presented to the Board for notification.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The positions of Chairman and CEO are held by separate persons to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The division of responsibilities between the Chairman and the CEO facilitates effective oversight and a clear segregation of duties.

Tan Sri Saw Choo Boon, the Chairman, leads the Board to ensure the effectiveness on all aspects of its role and sets its agenda. He ensures that the members of the Board receive accurate, clear and timely information, facilitates the contribution of non-executive Directors, and encourages constructive relations between the Board and management. The Chairman ensures that the members of the Board work together with the management with integrity, competency and moral authority and engages the management in constructive debate on strategy, business operations and enterprise risks.

Yong Su-Lin, the CEO has full executive responsibilities over the business directions set by the Board and of all operational decisions in managing MQREIT.

Pursuant to Practice 4.1 of the MCGG, at least half of the board comprises independent directors. Notwithstanding that Practice 4.1 of the MCGG is not met, one third of the Board comprises Independent Directors and in compliance with the Main Market Listing Requirements and SC REIT Guidelines. The Board strongly believes that all Directors act in the best interest of all Unitholders.

Corporate Governance Discussion

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DIRECTORS' REMUNERATION

The aggregate directors' remuneration paid or payable or otherwise made available to all directors of the Company during the financial year ended 31 December 2017 are as follows:

NAME OF DIRECTOR	DIRECTORS' FEE	MEETING ATTENDANCE ALLOWANCE	TOTAL
Tan Sri Saw Choo Boon	RM70,000.00	RM15,000.00	RM85,000.00
Dato' Dr Low Moi Ing, J.P.	RM55,000.00	RM30,000.00	RM85,000.00
Dato' Michael Ong Leng Chun	RM40,000.00	RM30,000.00	RM70,000.00
Kwan Joon Hoe ⁽¹⁾	RM40,000.00	RM30,000.00	RM70,000.00
Ann Wan Tee ⁽¹⁾	RM55,000.00	RM30,000.00	RM85,000.00
Dato' Thanarajasingam Subramaniam	RM40,000.00	RM15,000.00	RM55,000.00
Foong Soo Hah	RM65,000.00	RM30,000.00	RM95,000.00
Dr Roslan Bin A. Ghaffar	RM55,000.00	RM45,000.00	RM100,000.00
Aminuddin Bin Mohd Arif	RM55,000.00	RM30,000.00	RM85,000.00

⁽¹⁾ 50% fees to the Directors are payable to Malaysian Resources Corporation Berhad and 50% are payable to the Directors.

The number of directors of the Company whose income from the Company falling within the following bands are:

DIRECTORS' REMUNERATION	EXECUTIVE	NON-EXECUTIVE	TOTAL
RM50,001 – RM100,000	-	9	9
RM100,001 – RM150,000	-	-	-
RM150,001 – RM200,000	-	-	-
RM200,001 – RM250,000	-	-	-
RM250,001 – RM300,000	-	-	-
RM300,001 and above	-	-	-
TOTAL	-	9	9

DIRECTORS' TRAINING

During the financial year under review, the Directors had attended various conferences and programmes to enhance their knowledge and expertise and to keep abreast with the relevant changes in law, regulations and the business environment. In this regard, the Board will continue to evaluate and determine the training needs of its Directors on an ongoing basis.

The training programmes, conferences and seminars attended by the Directors during the financial year under review were, inter alia, on areas relating to real estates, corporate leadership and governance, professional development, risk management, financial and tax issues, details of which are listed below:-

Corporate Governance Discussion

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Directors	Course Title
Tan Sri Saw Choo Boon	<ul style="list-style-type: none"> ● P2P/Crowd Funding/Crowdsourcing ● Blockchain Technology and Potential Use in Financial Services ● Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability ● Promoting Prosperity by Improving Women's Rights ● Broadband Spectrum Workshop ● Telco Industry and Global Trends ● Board Excellence: How to Engage and Enthuse Beyond Compliance with Sustainability ● Impact of Ethnicity and Class on Productivity ● SSM National Conference – Companies Act from Policies to Implementation ● Fraud Risk Management Workshop ● Seminar on Business Ethics and Integrity: Key to Sustainability in the Digital Economy ● National Convention on Good Regulatory Practice (GRP) 2017 ● Global Standards (GS1) Summit ● ASEAN Economic Conference ● Digital Products
Dato' Dr Low Moi Ing, J.P.	<ul style="list-style-type: none"> ● FIABCI Morning Talk – Investment in Residential Properties in London ● Belt & Road Initiative Connecting China/HK and Malaysia Business Forum ● 20th National Housing & Property Summit ● JLL Breakfast Talk – The Malaysian Real Estate Market – A bright future ahead
Dato' Michael Ong Leng Chun	<ul style="list-style-type: none"> ● China's One Belt, One Road (OBOR) initiative: The Rise of East Asia and Pacific ● Corporate Strategy and Strategic Choices ● GBI Pro Series PAM Centre: A New Iconic Green Building in Malaysia ● ARCHIDEX 2017
Foong Soo Hah	<ul style="list-style-type: none"> ● Directors' Continuous Learning Programme - The Companies Act 2016: Challenges for Directors and Officers ● Corporate Governance to DFIs ● Efficient Inefficient: Making Boards Effective in a Changing World ● Bursa CG Breakfast Series: How to Engage and Enthuse Beyond Compliance with Sustainability ● Fintech Opportunities for Financial Services Industry in Malaysia
Dato' Thanarajasingam Subramaniam	<ul style="list-style-type: none"> ● Risk Management Training ● The Ethical Challenge: Building the Culture of Professionalism and Integrity ● Global Business Insight Series - Innovation in the Financial Sector: Where the world will be, How to Get There ● Case Study Workshop for Independent Directors ● Companies Act 2016 and Malaysian Code on Corporate Governance 2017
Dr Roslan Bin A Ghaffar	<ul style="list-style-type: none"> ● 4th Asian Fixed Income Summit ● Fraud Risk Management Workshop ● Release of The Malaysian Code on Corporate Governance ● Directors' Continuous Learning Programme - The Companies Act 2016: Challenges for Directors and Officers
Ann Wan Tee	<ul style="list-style-type: none"> ● Directors' Continuous Learning Programme - The Companies Act 2016: Challenges for Directors and Officers ● Bursa Risk Management Programme - "I am Ready to Manage Risks"
Kwan Joon Hoe	<ul style="list-style-type: none"> ● Directors' Continuous Learning Programme - The Companies Act 2016: Challenges for Directors and Officers
Aminuddin Bin Mohd Arif	<ul style="list-style-type: none"> ● Effective Internal Audit Function for Audit Committee Workshop: A Programme for Audit Committee Members ● Bursa CG Breakfast Series: Integrating an Innovation Mindset with Effective Governance

Corporate Governance Discussion

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BOARD COMMITTEES

The Board has established three (3) Committees, each with specific authorities and responsibilities, to assist the Board to discharge its duties and responsibilities effectively. At these Committees, detailed review and deliberation of strategic issues are carried out and the Chairman of the various Committees will report on their respective deliberations and recommendations to the Board at the subsequent Board Meeting. However, the Board retains the ultimate responsibility for decision made by the Committee.

The composition, responsibilities and activities of the various Committees are set out below.

(A) Executive Committee ("EXCO")

The EXCO operates under the delegated authority from the Board. Comprised of one (1) Independent Director and Two (2) Non-Executive and Non-Independent Directors, the EXCO oversees the day-to-day activities of the Manager on behalf of the Board which includes:

- Approving or making recommendations to the Board on new investments and acquisitions;
- Approving or making recommendations to the Board on divestments and write-off of property assets/equity stakes;
- Approving budgets for capital expenditure for development projects, acquisitions and enhancements/upgrading of properties;
- Reviewing of management reports and operating budgets;
- Awarding contracts for development and enhancement/upgrading projects;
- Appointing consultants and/or agents for acquisitions or divestments;
- Reporting to the Board on decisions made by the EXCO; and
- Such other functions as delegated by the Board.

During the year ended 31 December 2017, a total of five (5) EXCO meetings were held and these were fully attended by all the members of the EXCO.

The attendance of the members at the EXCO meetings held during the period are as follows:

Executive Committee Member	Designation	Attendance
Dr Roslan Bin A. Ghaffar	Chairman	5/5
Dato' Michael Ong Leng Chun	Member	5/5
Kwan Joon Hoe	Member	5/5

(B) Audit Committee

The Audit Committee comprises five (5) members which consist of three (3) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors, has an active role in assisting the Board in discharging its governance responsibilities. The Manager is of the view that the Audit Committee members have the relevant expertise to discharge the functions of an Audit Committee.

The Audit Committee assist the Board to fulfill its oversight responsibilities over the activities of the Company. The key duties and responsibilities of the Audit Committee as specified in its Terms of Reference are as follows:

- To consider the appointment of the external auditor, the audit fee and the reason given for their resignation or dismissal;
- To review the audit plans and scope of audit examination of the external auditors;
- To review with external auditors with regards to problems and reservations arising from their interim and final audits;
- To review the quarterly and year-end financial statements, focusing particularly on:
 - Any changes in accounting policies and practices
 - Significant and unusual events

Corporate Governance Discussion

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- Significant adjustments and issues arising from the audit
- The going concern assumption
- Compliance with the applicable approved accounting standards and other legal requirements
- To review the external auditor's management letter and management's response;
- To do the following, in relation to the internal audit function:
 - Review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out the work
 - Review the internal audit programme, process, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function
- To promptly report to Bursa Malaysia, where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements;
- To review procedures established to address allegations raised by whistleblowers, to ensure independent investigations is conducted and follow-up action is taken;
- To review any related party transaction and conflict of interest situations that may arise including any transaction, procedure or course of conduct that raises questions of management integrity;
- To assess the risks and control environment, to determine whether management has implemented policies ensuring the risks are identified and evaluate and those internal controls in place and effective to address the risks;
- To consider the report, major findings and management's response of an internal investigations carried out by the internal auditors; and
- To undertake such other responsibilities as may be agreed by the Audit Committee and the Board.

The Audit Committee is authorised to investigate any matters within its terms of reference. It is entitled to full access to and co-operation of the management and the internal auditor and enjoys full discretion to invite any Director or executive officer of the Manager to attend its meetings. The internal auditor and external auditor have unrestricted access to the Audit Committee. The Audit Committee has full access to reasonable resources to enable it to discharge its functions properly.

The Audit Committee also meets MQREIT's external auditor and internal auditor, without the presence of management at least once annually. MQREIT's external auditor carries out, in the course of its annual audit, a review on the effectiveness of the Manager's material internal controls over financial reporting, including financial and risk management to the extent of the scope of audit as set out in its audit plan. MQREIT's internal auditor provides an assessment, independent of operations, on the adequacy and integrity of the system of internal control on key aspects of the risk management, control and governance process. Material non-compliances and internal control weaknesses noted during the audit and auditor's recommendations to address such non-compliances and weaknesses are reported to the Audit Committee. Management follows up and implements MQREIT's external auditor's recommendation.

In its review of the audited financial statements for the financial year ended 31 December 2017, and based on its discussions with the management and where required, in consultation with the external auditors, the Audit Committee is of the view that the financial statements are fairly presented, and conform to generally accepted accounting principles in all material aspects.

For all non-audit services, if any, provided by the external auditors, the Audit Committee conducts a review to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

For the financial year ended 31 December 2017, a total of five (5) Audit Committee meetings were held and these were fully attended by all the members of the Audit Committee.

Corporate Governance Discussion

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The attendance of the members at the Audit Committee meetings held during the period are as follows:

Audit Committee Member	Designation	Attendance
Foong Soo Hah	Chairman	5/5
Dr Roslan Bin A. Ghaffar	Member	5/5
Dato' Dr Low Moi Ing, J.P.	Member	5/5
Ann Wan Tee	Member	5/5
Aminuddin Bin Mohd Arif	Member	5/5

(C) Nomination and Remuneration Committee

Nomination and Remuneration Committee ("NRC") comprises three (3) members, all of whom are Independent Non-Executive Directors. The Committee's key objective is to ensure that the Board comprises individuals with the requisite skills, knowledge and experience to ensure that the Board is effective in discharging its responsibilities and continues to be capable of providing the high level performance required.

The Terms of Reference of the Nomination and Remuneration Committee are as set out below:

- (i) The responsibility of the Committee in relation to its nominations function shall be:
 - To identify, assess and recommend to the Board for its approval, suitably qualified candidates for the Board, the committees of the Board, taking into consideration the character, experience, integrity, competence and time commitment;
 - To identify and recommend to the Board for its approval, candidates for appointment as the Chief Executive Officer and Chief Financial Officer;
 - To review and recommend to the Board for its approval, the extension of contracts of the Chief Executive Officer and Chief Financial Officer;
 - To recommend to the Board, candidates for re-election and/or re-appointment of directors by shareholders at annual general meeting under the annual re-election provisions or retirement pursuant to the relevant laws having regard to their performance and ability to continue to contribute to the Board in light of their knowledge, skills and experience based on the annual Board assessment;
 - To assess the independence of independent directors and recommend to the Board the retention of independent directors who have served for a cumulative period of nine (9) years, if deemed appropriate. Consideration should be made as to whether an independent director can continue to bring independent and objective judgement to Board deliberations; and
 - To assist the Board in implementing annual evaluation of the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual including Chief Executive Officer and to maintain proper documentation of such assessment.
- (ii) The responsibility of the Committee in relation to its remunerations function shall be:
 - To formulate or review the remuneration policies and remuneration for the members of the Board, Board Committees, Chief Executive Officer and Chief Financial Officer and recommend to the Board for approval;
 - To review and recommend to the Board for adoption the framework for the Company's annual incentive scheme. The framework for the annual incentive scheme may include:
 - Merit increment
 - Merit bonus
 - Acquisition/divestment incentives
 - Special corporate exercise incentives

Corporate Governance Discussion

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- To seek any information it requires from the Management team in order to perform its duties;
- To obtain, at MQM's expense, any outside legal or other professional advice including the advice of independent remuneration consultants, to secure the attendance of the external advisers at its meeting if it considers necessary, and to obtain reliable, up-to-date information about the remuneration in other companies;
- To have full authority to commission any report or survey which it deems necessary to help it fulfil its obligations; and
- To perform any other function as defined by the Board.

For the financial year ended 31 December 2017, a total of one (1) NRC meeting was held.

The attendance of the members at the NRC meeting held during the period are as follows:

Audit Committee Member	Designation	Attendance
Aminuddin Bin Mohd Arif	Chairman	1/1
Dr Roslan Bin A. Ghaffar	Member	1/1
Foong Soo Hah	Member	1/1

INTERNAL CONTROLS

A) Internal Audit

The Manager has put in place a system of internal control procedures and processes to safeguard the assets of MQREIT, interests of Unitholders as well as to manage risk.

The Manager has in place an internal audit function which is outsourced to BDO Governance Advisory Sdn Bhd ("BDO Governance"). The principal role of the internal audit function is to conduct regular reviews on the system of internal control of MQM in respect of its role as the Manager of MQREIT, and report on the effectiveness and efficiency of the management, operations, risk management and internal controls. The reviews are conducted based on an internal audit plan as approved by the Audit Committee.

The scope of audit function by BDO Governance entailed the following:

- Preparation of annual internal audit plan for the financial year;
- Conducting internal control review ("ICR") for the financial year, preparation of report of findings, obtaining management's action plans for the findings and presentation of the findings to the Audit Committee during its meeting;
- Conducting follow up review to report on the status of implementation of management action plans arising from the ICR; and
- Reviewing of related party transactions and presentation of findings of the review to the Audit Committee.

The BDO Governance reports directly to the Audit Committee of its findings and when required, they undertake investigations as directed by the Audit Committee. Any findings and recommendations arising from the ICR will be tabled to the Audit Committee at its meeting. The internal audit function performed by BDO Governance is independent from the management and in performing their role of internal audit function, BDO Governance has access to MQM's personnel, premises, documents, records, information and are authorized to obtain such information and explanations which BDO Governance consider necessary to fulfill and in discharging its responsibilities.

The cost incurred for the internal audit function for the financial year ended 31 December 2017 is RM43,000 (excluding goods and services tax and disbursements) and is borne by the Manager.

The Audit Committee reviews the internal audit reports and activities on an on-going basis. The Audit Committee also reviews and approves the annual internal audit plan with respect to MQREIT. The Audit Committee is of the view that the internal audit team is adequately resourced to perform its functions and has, to the best of its ability, maintained its independence from the activities that it audits.

The Board is satisfied that the Manager's internal controls are adequate based on the reports of BDO Governance.

Corporate Governance Discussion

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(B) Dealings with Related Parties

In general, the Manager has established internal control procedures to ensure that related party transactions are undertaken in compliance with the SC REIT Guidelines, the Trust Deed and the Main Market Listing Requirements and such transactions are carried out on arm's length basis based on normal commercial terms, which are generally no more favourable than those extended to unrelated third parties.

In respect of such transactions, the Manager would have to demonstrate to the Audit Committee that the transactions are undertaken on normal commercial terms, which may include (where applicable) obtaining quotations from parties unrelated to the Manager, or obtaining a valuation from an independent valuer.

All related party transactions are subject to regular review by the Audit Committee. The Audit Committee periodically reviews, together with the management, related party transactions to ensure compliance with the internal control procedures established and the relevant provisions of the SC REIT Guidelines, the Trust Deed and the Main Market Listing Requirements.

In dealing with any related party transactions, it is the Manager's policy that all related party transactions carried out by or on behalf of MQREIT should be:

- a) carried out at arm's length basis and on normal commercial terms;
- b) in the best interests of the Unitholders of MQREIT;
- c) adequately disclosed to the Unitholders of MQREIT;
- d) in relation to a real estate transaction:-
 - (i) consented by the Trustee;
 - (ii) consistent with the investment objective and strategy of MQREIT; and
 - (iii) transacted at a price that is equivalent to the value assessed in the valuation report.

Acquisition/disposal may be transacted at a price other than as per the valuation report provided that (a) the acquisition price is not more than 110% of the value assessed in the valuation report; (b) the disposal price is not less than 90% of the value assessed in the valuation report; and (c) the Trustee provide a written confirmation that the transaction is based on normal commercial terms, at arm's length, and not prejudicial to the Unitholders' interest.

The Manager and Trustee must ensure that the prior approval of the Unitholders by way of an ordinary resolution is obtained where the transaction value with related parties under paragraph (d) above is equal to or greater than 5% of the total asset value of MQREIT (after acquisition). Where the transaction value does not exceed 5% of the total asset value of MQREIT (after acquisition), the Trustee must provide a written confirmation that the transaction is based on normal commercial terms, at arm's length, and not prejudicial to the Unitholders' interest.

(C) Role of the Audit Committee for Related Party Transactions

The Manager's internal control procedures are intended to ensure that related party transactions are conducted at arm's length based on normal commercial terms, and are not prejudicial to the Unitholders' interests. The Manager maintains a record of any related party transactions entered into by MQREIT. The Manager incorporates into its internal audit plan, a review of all related party transactions entered into by MQREIT and the Audit Committee reviews the internal audit reports to ensure that the guidelines and procedures established to monitor related party transactions have been complied with. In addition, the Audit Committee periodically reviews, together with the management, related party transactions to ensure compliance with the internal control procedures and the relevant provisions of the SC REIT Guidelines, the Trust Deed and the Main Market Listing Requirements. The review includes the examination of the nature of the transaction and the supporting documents, or such other data deemed necessary by the Audit Committee.

If a member of the Audit Committee has an interest in a transaction, he is to abstain from participating in the review and the recommendation process in relation to that transaction.

The related party transactions for the financial year ended 31 December 2017 are as disclosed in Note 32 of the Notes to the financial statements for the year ended 31 December 2017.

Corporate Governance Discussion

cont'd

(D) Dealings with Conflict of Interest

The Trust Deed provides that the Manager, the Trustee and any delegate of either of them shall avoid any conflict of interest and if conflict arises, shall ensure that MQREIT is not disadvantaged by the transactions concerned.

In order to deal with any conflict of interest situations that may arise, the Manager's policy is that any related party transaction, dealing, investment and appointment carried out for and on behalf of MQREIT are to be executed on terms that are best available to MQREIT and which are no less favourable to MQREIT than on arm's length transactions between independent parties.

The Manager may not act as principal in the sale and purchase of real estate, securities and any other assets to and from MQREIT. Acting as principal includes a reference to:-

- a) dealing in or entering into a transaction on behalf of a person associated with the Manager;
- b) acting on behalf of a corporation in which the Manager has a controlling interest; or
- c) the Manager acting on behalf of a corporation in which the Manager's interest and the interests of its directors together constitute a controlling interest.

The following procedures have been established to deal with potential conflict of interest which the Manager (including its Directors and employees) may encounter in managing MQREIT:-

- the Manager is a dedicated manager to MQREIT and will not manage any other REIT which invests in the same types of properties as MQREIT, or be involved in any other real property business;
- at least one-third of the Board shall comprise of independent Directors; and
- all resolutions at meetings of the Board in relation to matters concerning MQREIT must be decided by a majority vote of the Directors.

The Directors of the Manager are under a fiduciary duty to MQREIT to act in its best interests in relation to decisions affecting MQREIT when they are voting as members of the Board. In addition, the Directors and executive officers of the Manager are expected to act with integrity and honesty at all times. To avoid situation of conflict of interest at Board level, those Directors interested or deemed interested are required to abstain from voting.

(E) Risk Assessment and Management of Business Risk

Effective risk management is a fundamental part of the Manager's business strategy in order to mitigate any potential loss of value of the Unitholders' investment in MQREIT. The Manager places strong emphasis on risk management as evidenced by the risk management framework that has been set up under an Operation Manual. This provides a structured context for the personnel to undertake a review of the past performance, and to profile the current and future risks facing their area of responsibility.

The Manager operates strictly within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed for an understanding of the risk involved and appropriate controls and measures are put in place before the Manager proceeds to execute these transactions. The Board has determined that significant risk for MQREIT will most likely arise when making property investment decisions. In accordance with this policy, the Board requires comprehensive due diligence to be carried out and the management conducts due diligence in relation to any proposed property investment and third party consultants with the requisite specialised knowledge are also engaged to assist in due diligence exercises when necessary. The Board also requires that each major investment proposal submitted for decision includes a detailed risk assessment, including where appropriate, sensitivity analysis and management's proposed risk mitigation or control strategies.

The Board generally meets every quarter or more often if necessary, to review the financial performance of the Manager and MQREIT against the approved budget. The Board also reviews the risks to the assets of MQREIT and acts upon any comments by the auditors of MQREIT. In assessing business risk, the Board considers the economic environment and the property industry risk. The Board and its EXCO review and approve all investment decisions. The management meets regularly to review the operations of the Manager and MQREIT and to discuss continuous disclosure issues. The management is required to ensure that appropriate controls are in place to effectively manage those risks, and such risks and controls are monitored by the Board on a regular basis.

Corporate Governance Discussion

cont'd

(F) Whistle-Blowing Policy

The Manager has put in place procedures to provide employees of the Manager with well-defined and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to MQREIT and the Manager, and for the independent investigation of any reports by employees and appropriate follow up action. The aim of the whistle-blowing policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly, and to the extent possible be protected from reprisal. The whistle-blowing policy is established to promote fraud awareness. The Manager confirms that no reports have been received under the Whistle-Blowing Policy thus far.

COMMUNICATION WITH UNITHOLDERS

The Main Market Listing Requirements require that a listed entity discloses to the market any information considered material, if it is reasonably expected to have a material effect on the price, value or market activity of any listed issuer's securities. In line with the disclosure obligations of MQREIT, the Board adopts a policy to inform its Unitholders in a timely manner of all major developments in its business that impact MQREIT. During the year under review, a continuous disclosure process was in place to ensure compliance with such obligations and was constantly adhered to.

The Manager believes in engaging the Unitholders by having a regular, effective, unbiased and transparent communication. Communication channels with Unitholders include:-

- a) annual reports;
- b) various disclosure and announcements to Bursa Malaysia;
- c) analysts and media briefings;
- d) one-on-one/group investor meetings and conference calls;
- e) local and overseas roadshows and conferences;
- f) press releases on major developments of MQREIT; and
- g) MQREIT website at www.mrcbquillreit.com

With majority of Units held by institutional investors, the Manager considers meeting with local and foreign fund managers as an integral part of investor relations. During the year under review, the Manager met with institutional and corporate investors from Malaysia and Asia Pacific. These meetings with investors enabled the Manager to update potential and current Unitholders on MQREIT's significant developments. The Manager will continue to pursue opportunities to educate and keep retail investors informed of the latest developments in the REIT industry, through seminars and/or roadshows organised by Bursa Malaysia, the Securities Commission and the Malaysian REIT Managers Association ("MRMA").

During the year, the Manager held several meetings with investment analysts. Corporate presentations are also posted on the Bursa Malaysia's website and investors can have access to the presentations by downloading from the website.

Unitholders and potential stakeholders have 24-hours access to MQREIT's website for information on MQREIT's major developments, property descriptions, announcements and other corporate information. In addition, the public can pose questions via a dedicated "Enquiries" email address, and have their queries addressed accordingly. Also available on the website is an archive of MQREIT's announcements, press releases, annual reports and operational details. The latest information is posted on the website as soon as it is released to Bursa Malaysia and the media.

TRADING IN MQREIT UNITS

The Manager adopts best practices and issues guidelines to its Directors and employees which prohibit dealings in MQREIT's Units while in possession of material unpublished price-sensitive information. Under these guidelines, the Directors and employees of the Manager are prohibited from dealing in MQREIT's Units during the period commencing on and from one month prior to the targeted date of announcement of MQREIT's quarterly results to Bursa Malaysia, up to one full market day after the announcement of MQREIT's quarterly results. If any of such affected persons deal in MQREIT's Units during such closed period, they are required to comply with the conditions as set out in Paragraph 14.08 of the Main Market Listing Requirements. They are also made aware of the applicability of the insider trading laws at all times.

Statement on Risk Management and Internal Control

The Board of Directors ("Board") of MRCB Quill Management Sdn Bhd ("the Manager"), as the manager of MRCB-Quill REIT ("MQREIT"), has voluntarily adopted the relevant corporate governance disclosure under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Main Market Listing Requirements") although it is not compulsory for MQREIT, being a real estate investment trust, to comply with such requirements under the Main Market Listing Requirements. In addition, the Board also observes the provisions of the Malaysian Code on Corporate Governance 2017 issued by the Securities Commission Malaysia. The corporate governance framework established within the structure of MQREIT includes the adoption of an Internal Audit function where BDO Governance Advisory Sdn Bhd ("BDO Governance") (Company no: 434278K) was appointed by the Manager to carry out such function of internal audit services on the operations of the Manager. In addition, this Statement on Risk Management and Internal Control is also a voluntary disclosure on the part of the Board in subscribing to a good corporate governance disclosure. Further information on MQREIT's corporate governance framework is also set out on page 48. These efforts are all part of the Board's recognition that a strong corporate governance framework is important. The Board also recognises that an effective corporate governance culture is critical to the Manager's performance and consequently to the success of MQREIT. The Board is committed to maintain a sound system of risk management and internal control with a view to safeguard the interest of the Unitholders, its investment and MQREIT's assets and to provide the following statement, which outline the nature and scope of internal control of the Manager during the financial year ended 31 December 2017.

BOARD RESPONSIBILITY

In discharging the Board's principal responsibilities, the Board assumes the responsibility for the Manager's system of risk management and internal control. The Board is responsible for the adequacy and integrity of the system of risk management and internal control. It is an essential part of the Board's responsibilities to identify principal risks and ensuring that there are appropriate systems and policies in place to manage these risks; and reviewing the adequacy and integrity of these internal control system and policies. However, the Board acknowledged that this system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve the business strategies and objectives of MQREIT. It therefore can only provide reasonable and not absolute assurance against material misstatements, losses or fraud.

The Board assesses principal risks when making property investment decisions by MQREIT in order to mitigate any potential loss of value of Unitholders' investment in MQREIT. The Board also considers the changes during the period under review, in particular the business and economic environment and the property industry risk to ensure that there are policies and processes appropriate to manage any potential risk when making property investment decisions and to consider MQREIT's ability to respond to such changes.

The Board defines the processes to be adopted for its review of the adequacy and integrity of internal control. This includes both the scope and frequency of the reports it receives and reviews during the year and for such reports to be accompanied and supported with sound and appropriately assessed documents. The Board's assessment of the adequacy and integrity of MQREIT's system of risk management and internal control includes identifying any significant failings or weaknesses in risk management and internal control and whether necessary actions are being taken promptly to remedy any such significant failings or weakness.

Our Chief Executive Officer has also provided the Board an assurance that MQREIT's risk management and internal control system is operating adequately and effectively, in all material aspect, based on the risk management and internal control system of MQREIT.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and integrity of the on-going system of risk management and internal control include the following:

- (a) The Manager has in place an internal audit function which is outsourced to BDO Governance who reports directly to the Audit Committee of its findings and is independent from the management. The principle role of the internal audit function is to conduct regular reviews on the system of risk management and internal control of MQREIT, and report on the effectiveness and efficiency of the operations, risk management and internal control, highlighting to the Audit Committee significant findings in respect of non-compliances, if any. Further detail is as set out on page 62;

Statement on Risk Management and Internal Control

cont'd

The internal audit review undertaken by BDO Governance for the financial year 2017 and the findings arising from the review reported to the Audit Committee include the following:

- (i) internal control review ("ICR") on procurement to payment of property operating expenses and refinancing of Commercial Paper/Medium Term Notes; and
- (ii) review of related party transactions for the financial year 2017 for compliance with established internal policies and procedures and applicable provisions of the Main Market Listing Requirements and the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia ("SC REIT Guidelines") relating to related party transactions

and when required, they undertake investigations as directed by the Audit Committee. All findings and recommendations arising from the ICR for financial year 2017 were tabled to the Audit Committee and the reviews were conducted based on an internal audit plan approved by the Audit Committee.

The cost incurred for the internal audit function in respect of the financial year 2017 is RM43,000 (excluding goods and services tax and disbursements) and is borne by the Manager.

The Board is satisfied that the current system of risk management and internal control for the Manager is adequate based on the reports from BDO Governance;

- (b) The Audit Committee reviews, monitors and evaluates the effectiveness and adequacy of MQREIT's internal control, financial and risk management issues raised by the external and internal auditors, regulatory authorities and management. The reviews include reviewing written reports from the internal and external auditors, to ensure that where deficiencies in internal control have been identified, appropriate and prompt remedial action is taken by the management. The Audit Committee also convenes meetings with external auditors, internal auditors, or both excluding the attendance of the other directors and management/employees of the Manager (where necessary). The Audit Committee also reviews the adequacy of the scope, functions and competency of the internal audit function. The Audit Committee also reviews and evaluates the procedures established to ensure compliance with applicable legislations, the SC REIT Guidelines and the Main Market Listing Requirements. Further details of the activities undertaken by the Audit Committee are set out on page 59;
- (c) At the beginning of every financial year, the Board reviews and approves the yearly budget and yearly asset enhancement works prepared by the management. The yearly budget which amongst others will entail revenue to be generated by MQREIT and operating expenses, trust expenses and capital expenditure to be incurred by MQREIT. The management prepares management report on a quarterly basis to update and explain any major variation to the Board on MQREIT's financial results against the yearly budget approved by the Board at the beginning of the financial year, the status of major asset enhancement works carried out on the properties that has been approved by the Board, the status of expiry/renewal of tenancies/leases and other operational matters;
- (d) A risk management framework that provides a structure and framework under an Operation Manual in managing and accessing risk which includes amongst others, policies and procedures for the acquisition of property, financial and operational reporting, continuing listing and compliance obligations. The Operation Manual is subject to periodic review and provides a structured context for the Manager and personnel to undertake a review of the past performance and to profile the current and future risks facing their area of responsibility;
- (e) There is a set of risk management and internal control system which sets out the approval/authority limits imposed on directors and management for operating and capital expenditure, investments and divestments, bank borrowings, lease renewals and other operational matters. A set of authorized signatories were also established for cheque signatories' arrangements. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to Board Committees. Appropriate delegation of authority is also provided at management level to facilitate operational efficiency. Further, the Board and its committees operate within a clearly defined terms of reference with delegation of responsibilities clearly set out;
- (f) Internal control procedures to ensure that related party transactions are undertaken in compliance with the SC REIT Guidelines, the Main Market Listing Requirements and the Trust Deed; and are carried out on arm's length basis and on normal commercial terms, which are in the best interests of the Unitholders of MQREIT. The Manager incorporates into its annual internal audit plan, a review of all related party transactions. The Audit Committee reviews the internal audit reports to ascertain that the guidelines and procedures established to monitor related party transactions have been complied with. The established procedures are further explained on pages 62 and 65;

Statement on Risk Management and Internal Control

cont'd

- (g) Policies, guidelines and processes for dealing with any potential conflicts of interest. This is explained in further detail on page 63. In order to deal with any potential conflict of interest situations that may arise, the Manager's policy is that any such related party transaction, dealing, investment and appointment carried out for and on behalf of MQREIT are to be executed on terms that are best available to MQREIT and which are no less favourable to MQREIT than on arm's length transactions between independent parties; and
- (h) Whistle-blowing policy to provide employees of the Manager with well-defined procedures and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to MQREIT and the Manager, and for independent investigation of any reports by employees and appropriate follow up action. The whistle-blowing policy is established to promote fraud awareness and the aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly, and to the extent possible be protected from reprisal.
- (i) Scheduled regular meetings of the Board, AC with representation from the management provide the key to systematic monitoring of MQREIT's activities and for identifying, evaluating and managing the significant risks faced by MQREIT. The Chief Executive Officer is entrusted to manage the daily operations of the Manager and MQREIT and holds the responsibility of leading the respective heads of departments towards achieving the identified objectives.
- (j) In order to maintain quality and efficiency, the Manager's personnel across all functions are given the opportunity to attend relevant trainings. A systematic staff performance appraisal mechanism has also been adopted to ensure adequate and sufficient rewards are awarded to well-deserving personnel.

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement of Risk Management and Internal Control for inclusion in the annual report for financial year 2017 and reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal control.

CONCLUSIONS

The Board is of the view that the risk management and internal control system in place for the financial year ended 31 December 2017 under review and up to the date of issuance of the annual report and financial statements is sound and sufficient to safeguard the interest of the Unitholders, its investment and MQREIT's assets.

Statement on Directors' Responsibility

for preparing the Annual Audited Financial Statements

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("Directors") of MRCB Quill Management Sdn Bhd, is responsible to ensure that the financial statements for the financial year ended 31 December 2017 have been prepared and drawn out in accordance with the applicable Financial Reporting Standards in Malaysia, applicable provisions of the Trust Deed dated 9 October 2006 as amended by the Supplemental Deed dated 27 August 2007, Second Supplemental Deed dated 28 May 2013 and the Third Supplemental Deed dated 2 April 2015 and the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia, so as to give a true and fair view of the financial position of MQREIT as at 31 December 2017 and of its financial performance and cash flows for the year then ended.

In preparing the financial statements for the financial year ended 31 December 2017, the Directors have:

- adopted appropriate accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- prepared the financial statements on a going concern basis.

Sustainability Report

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Sustainability Report

cont'd

CEO Message

The year marks the 10-year milestone for the Fund as we embark on the next decade of growth. Our primary objective is to ensure that the Fund's asset portfolio provide Unitholders with long-term and sustainable distribution of income, achieving long-term growth in the net asset value per Unit.

A well-defined strategy and proper follow through in the execution will create sustainable business operations, drive business performance while taking into account the long-term impact of the operations on the stakeholders and communities that we serve.

Keeping in mind the importance of sustainability in creating value for both MRCB-Quill REIT's ("MQREIT") asset portfolio and stakeholders, we are pleased to present our inaugural Sustainability Report this year. This report has documented our sustainability performance for the year ending 31 December 2017, with data for FY2016 wherever possible.

We will strive to meet our objective through the practice of good corporate governance, sound and responsible business and asset management practices and a forward-looking strategy that will strengthen resiliency in our business. In order to ensure that these are encompassed in all business operations, we have in place various strategic initiatives as we forge ahead – Property Management Strategy, Leasing Strategy, Capital Management Strategy and Investment Strategy.

Our business model factors in the impact that our day-to-day activities have on the ecosystem and society. While engaging with the local community is not one of MQREIT's material sustainability issue, we are committed to continue to take care of and give back to the community in which we operate in as a responsible corporate citizen. We have implemented community projects which focuses on improving the lives of the vulnerable groups in society, which includes children in need. We provide financial aid to children to meet their immediate needs and education. We are proud to have garnered the participation of all our employees in this year's corporate social responsibility project.

Employees are the key to the success of our business. Our key sustainability initiatives encompass employee attraction and retention, and talent management and succession planning. Our remuneration policy and processes reiterates our Group's corporate philosophy to attract and train the best talents and reward high achievers. We continuously seek innovative, dynamic and talented employees to improve our business performance. Talent management strategies are also in place to ensure that we meet the current and future human capital requirements.

Moving forward, we will continue to learn from the best sustainability practices to improve our sustainability performance, sharing our achievement in subsequent reporting.

Sustainability Report

cont'd

Introduction

About the Report

This report is MRCB-Quill REIT's ("MQREIT") inaugural Sustainability Report. Through this report, we as the Manager hopes to reiterate our commitment to sustainability, highlighting our non-financial performance and initiatives across nine prioritised areas from 1 January 2017 to 31 December 2017, and presenting data from the previous year, where possible, for comparative purposes.

This report has been prepared in accordance with the internationally recognized Global Reporting Initiatives ("GRI") Standards – "Core", covering all of MQREIT's operations in Malaysia as shown in Figure 1. Going forward, the Manager will report its non-financial performance annually and work towards seeking independent verification of its Sustainability Report in the near future.



Platinum Sentral



Quill Building 2-HSBC



Quill Building 5-IBM



Quill Building 1-DHL 1



Menara Shell



Quill Building 4-DHL 2



Tesco - Penang



Part of
Plaza Mont' Kiara



Quill Building 8-DHL (XPI)



Wisma Technip



Quill Building 3-BMW



Sustainability Report

cont'd

Figure 2: List of operations within the scope of the report

List of operations within the scope of the report	
Quill Building:	Wisma Technip
• Building 1 – DHL1	
• Building 4 – DHL2	Part of Plaza Mont' Kiara
• Building 2 – HSBC	
• Building 3 – BMW	Platinum Sentral
• Building 5 – IBM	
• Building 8 – DHL XPJ	Menara Shell

Tesco Penang has been excluded from the scope of the report as it is fully self-managed by the tenant.

For any queries in relation to this report, please feel free to contact:

Ms. Joyce Loh
General Manager, Investment and Investor Relations
03-2859 7175
joyce.loh@mrcb.com

About the Business

MQREIT is a Real Estate Investment Trust ("REIT") incorporated in Malaysia and listed on the main board of Bursa Malaysia Securities Berhad ("Bursa Securities") on 8 January 2007 as Quill Capita Trust. It subsequently changed its name to MQREIT on 14 April 2015. Managed by MRCB Quill Management Sdn Bhd ("MQM" or "the Manager"), the main thrust of MQREIT's activities include acquiring and investing in commercial properties in Malaysia to provide unitholders with long-term and sustainable distribution income and to achieve long-term growth in the net asset value per Unit. In December 2016, MQREIT completed the acquisition of Menara Shell, its most recent asset, located in KL Sentral. Currently, MQREIT owns 11 commercial buildings comprising five in Cyberjaya, four in Kuala Lumpur, one each in Shah Alam and Penang, valued cumulatively at RM2.20 billion as at 31 December 2017. Since 2011, MQREIT has been a member of the Malaysian REIT Managers Association (MRMA).

During the year there were no significant changes in locations of operations and in share capital structure. However, the property manager was changed to Zaharin Nexcap Property Management Sdn Bhd.

Figure 3: Geographical Diversification (By valuation)

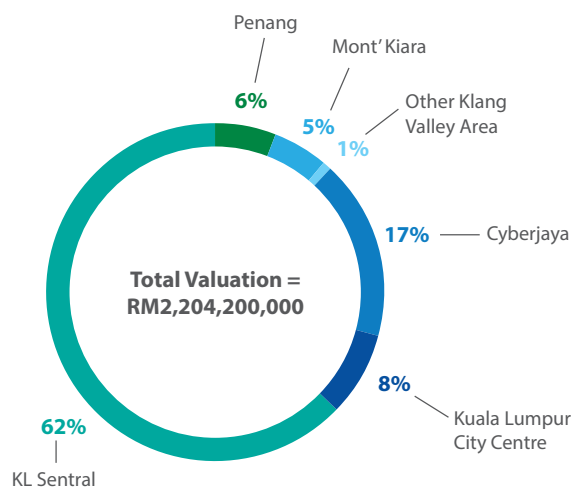
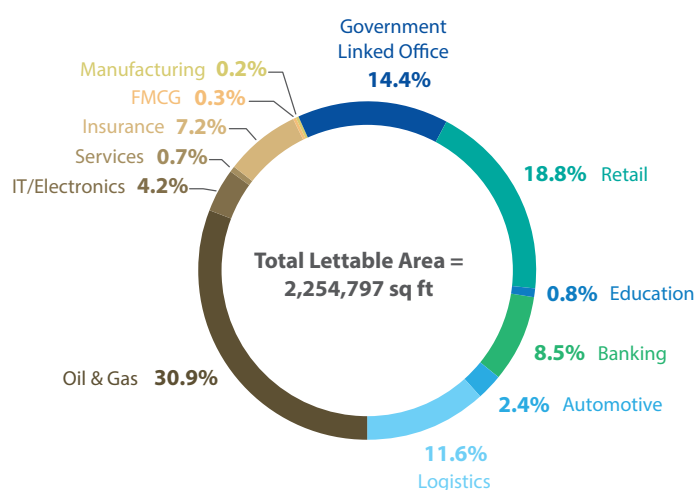


Figure 4: Tenancy mix (By Net Lettable Area)

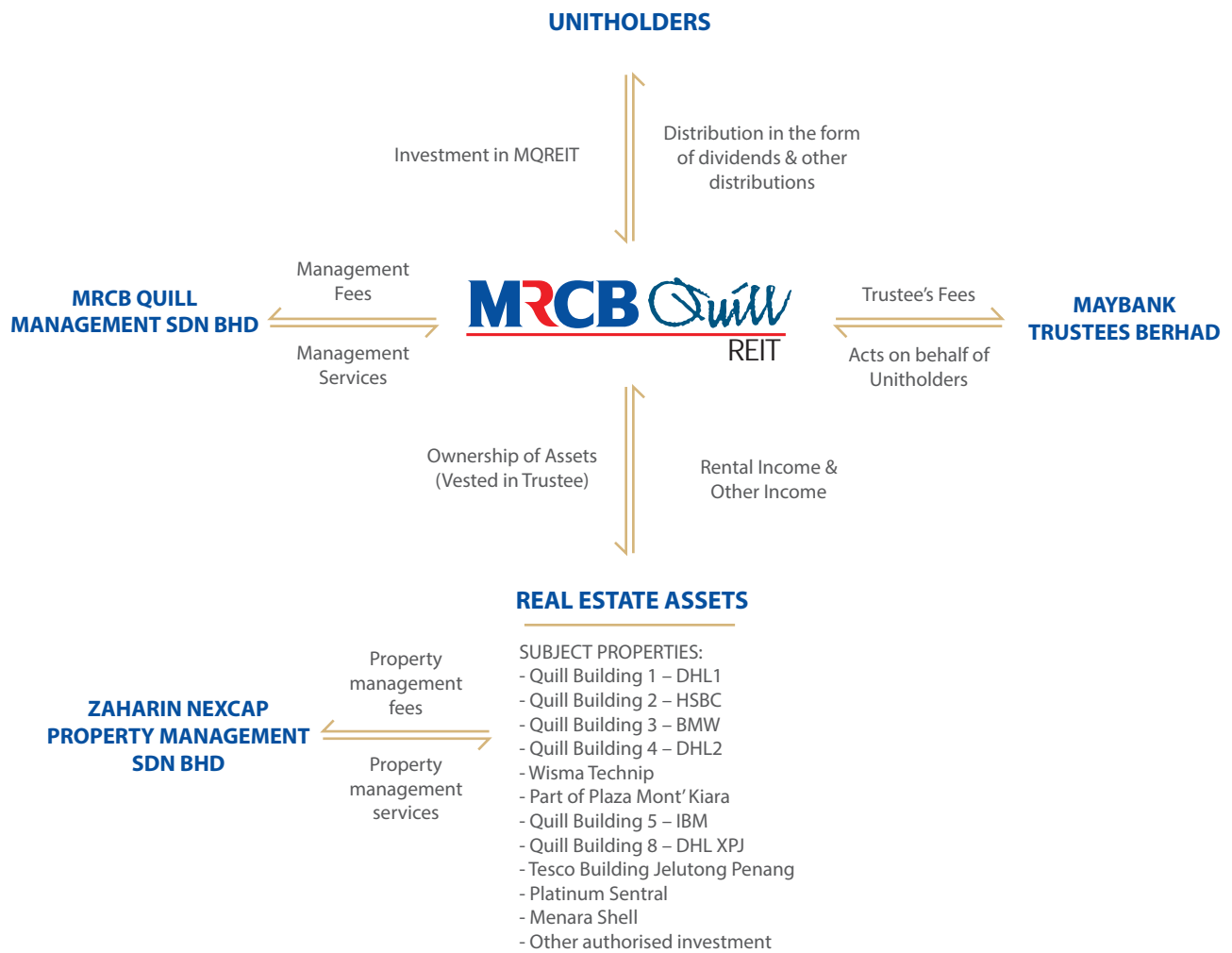


Sustainability Report

cont'd

MQREIT's structure is described in figure below.

Figure 5: MQREIT Structure



Sustainability Report

cont'd

Highlights in 2017

We strive to ensure that the Fund's portfolio assets provides our Unitholders with long-term and sustainable distribution of income, achieving long-term growth.

FINANCIAL HIGHLIGHTS



11

Commercial buildings
valued at **RM2.2 billion** as at
31 December 2017



48.8%

Increase in realised net income



RM2.29 billion

Total asset value



32.8%

Increase in gross revenue to
RM181.5 million



8.39 sen

Distribution per unit

SUSTAINABILITY HIGHLIGHTS



18

employees receiving
an average of

22.9

hours of training for
each staff

AWARDS HIGHLIGHTS

Awarded the

Best of the Breeds REITs Award

2017 for Office REIT Malaysia (Gold) in the
4th REITs Asia Pacific Conference 2017

Won the

"Fastest Growing REIT - Malaysia"

award for at the 5th International Finance
Magazine Award 2017

Nominated for

Best Company for IR award for
small cap companies listed on Bursa
Securities at the 7th MIRA Awards 2017



Sustainability Report

cont'd

Sustainability in MQREIT

Materiality Assessment

Our first formal materiality assessment was conducted under the guidance of independent sustainability consultants this year with participation and contributions from key personnel from the respective departments. While the materiality assessment did not involve any external stakeholders, representatives from the Manager took into consideration both internal and external perspectives during the material matters prioritization process. The materiality assessment process adopted a four-step approach as outlined below.

1

IDENTIFICATION

A long list of Economic, Environmental, Social and Governance (EESG) matters were identified through a desktop analysis of Sustainability Reports published by industry players and interviews with key personnel across departments.

2

PRIORITISATION

The identified EESG matters were rated and prioritised through an anonymous voting exercise by the representatives from the various departments, taking into consideration both internal and external stakeholders' perspective.

3

VALIDATION

Material matters that were identified in step 2 were represented to the Board for validation and approval.

4

REVIEW

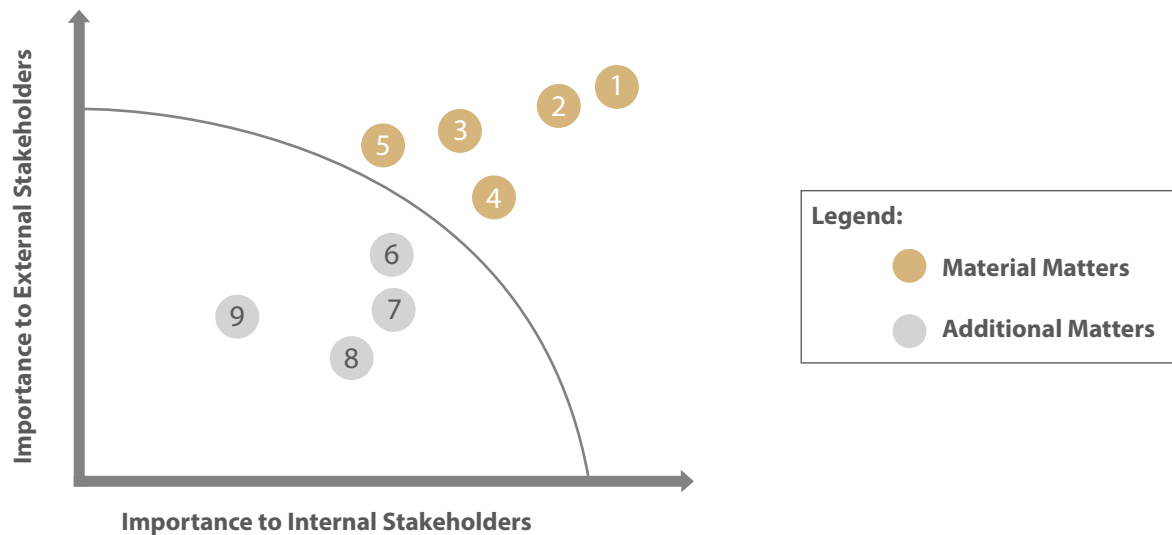
Material matters that were approved by the Board will continue to be re-assessed in subsequent reporting period to ensure that reported topics remain relevant and material.

Sustainability Report

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The results of the materiality assessment are reflected in Figure 6. Five material matters have been identified. For more comprehensive coverage, the Manager has selected four additional matters for reporting.

Figure 6: Materiality assessment



Material Matters		Corresponding GRI Standards Topic
1	Regulatory Compliance	GRI 307: Environmental compliance GRI 419: Socioeconomic compliance
2	Anti-Corruption	GRI 205: Anti-corruption
3	Talent Attraction and Retention	GRI 401: Employment
4	Turnover Rate of Senior Management	GRI 401: Employment
5	Governance (Sustainability)	GRI 102: General disclosures
Additional Matters for reporting		Corresponding GRI Standards Topic
6	Health, Hygiene & Safety Protection of Tenants, Visitors and Local Communities	GRI 416: Customer health and safety
7	Quality of Assets and Services	G4 CRE8: Product and service labeling
8	Employee Capacity Building	GRI 404: Training and education
9	Water Management	GRI 303: Water

Sustainability Report

cont'd

Stakeholder Engagement

The Manager recognises the importance of stakeholder engagement for the sustainability of the business. By engaging with our stakeholders on a fairly regular basis, the Manager attempts to address the key concerns of its stakeholders. Table 1 summarises our approach to stakeholder engagement.

Table 1: Stakeholder Engagement table

Stakeholder	Objective	Mode	Frequency	Stakeholder's key concerns	Our responses
Analysts	<ul style="list-style-type: none"> To provide information to allow analysts to disseminate accurate information to the investment community 	<ul style="list-style-type: none"> One-on-one meetings Analyst briefings Investor conferences 	<ul style="list-style-type: none"> Quarterly When required When required 	<ul style="list-style-type: none"> Timely and transparent disclosure of information and announcements Accessibility to management/ Investor Relations (IR) team 	<ul style="list-style-type: none"> Improved responsiveness towards feedback and queries
Employees	<ul style="list-style-type: none"> To provide fair and equal opportunity To ensure employee development and career progression 	<ul style="list-style-type: none"> Quarterly employee appraisals One-on-one meetings Team meetings Staff retreat/team building retreat Staff briefings 	<ul style="list-style-type: none"> Quarterly As appropriate As appropriate As appropriate As appropriate 	<ul style="list-style-type: none"> Employee welfare & benefits Work opportunity and career advancement 	<ul style="list-style-type: none"> Transparent, open and consistent approach to appraisals Feedback sessions with senior management Trainings, team building and staff retreats
Government	<ul style="list-style-type: none"> To seek clarification from government agencies on the guidelines under their purview To ensure compliance and proper administration of the legislations effecting the operations of the REIT 	<ul style="list-style-type: none"> Consultation meetings together with consultants/ advisers and industry associations Seminars and workshops 	<ul style="list-style-type: none"> On a case-to-case basis As appropriate 	<ul style="list-style-type: none"> Adherence to legislations and guidelines affecting the REIT 	<ul style="list-style-type: none"> Professional consultants/advisers are appointed to assist us during the consultations
Industry Associations	<ul style="list-style-type: none"> To be a contributing members to the industry sectors' professional objectives 	<ul style="list-style-type: none"> To participate in consultation and feedback to regulators 	<ul style="list-style-type: none"> As appropriate 	<ul style="list-style-type: none"> Fair representation of industry's needs and demands to regulators 	<ul style="list-style-type: none"> Active membership involvement and contribution

Sustainability Report

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Stakeholder	Objective	Mode	Frequency	Stakeholder's key concerns	Our responses
Investment Community i.e. Fund Managers	<ul style="list-style-type: none"> To engage existing and potential investors to provide information to allow these investors to make sound investment decisions in relation to MQREIT 	<ul style="list-style-type: none"> One-on-one meetings Investor conferences 	<ul style="list-style-type: none"> As appropriate As appropriate 	<ul style="list-style-type: none"> Profitability and financial health of MQREIT Timely and transparent disclosure of information and announcements Accessibility to management/IR team 	<ul style="list-style-type: none"> Improved responsiveness towards feedback and queries
Local Community	<ul style="list-style-type: none"> To give back to the community in which we operate, specifically to improve the welfare of needy children To contribute funds to meet the immediate needs of at least 1 children's NGO To involve all staff in the fund raising event 	<ul style="list-style-type: none"> Cash contribution to meet immediate needs 	<ul style="list-style-type: none"> Annually 	<ul style="list-style-type: none"> To provide sustained support after the completion of each CSR project 	<ul style="list-style-type: none"> Alignment of goals of charities with our CSR objectives Continue to maintain relationship with charitable organisations
Tenants	<ul style="list-style-type: none"> To engage existing customers to ensure tenant satisfaction and high retention rate To forge new relationships with potential tenants 	<ul style="list-style-type: none"> Direct feedback from tenants at all stages of the tenancy Regular meetings and discussions 	<ul style="list-style-type: none"> As appropriate When required 	<ul style="list-style-type: none"> Maintenance of the properties Quick response time by property managers 	<ul style="list-style-type: none"> Scheduled maintenance for each property Notify and resolve disruptions caused to tenants promptly Timely response to tenant's queries
Unitholders	<ul style="list-style-type: none"> To proactively provide up-to-date disclosures and information to allow shareholders to make informed decisions on their investments 	<ul style="list-style-type: none"> Annual General Meetings Annual reports Website (www.mrcbquillreit.com) Announcements on Bursa Malaysia Interactions with IR personnel 	<ul style="list-style-type: none"> Annually Annually As appropriate As appropriate As appropriate 	<ul style="list-style-type: none"> Profitability and financial health Timely and transparent disclosure 	<ul style="list-style-type: none"> Sound investment and capital management strategy Tested leasing and property management Robust corporate governance procedures in place
Vendors	<ul style="list-style-type: none"> To have fair, proper and transparent dealings with vendors 	<ul style="list-style-type: none"> One-on-one meetings 	<ul style="list-style-type: none"> As appropriate 	<ul style="list-style-type: none"> Fair and transparent selection of vendors 	<ul style="list-style-type: none"> Professional approach in reviewing proposals from vendors

Sustainability Report

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Governance

Corporate governance has always been our priority as a listed issuer. An effective corporate governance culture is critical to the management of our Economic, Environmental, Social and Governance (EESG) risks and opportunities, and consequently the success of MQREIT. Effective risk management is a fundamental part of the Manager's business strategy in order to mitigate any potential loss of value of the Unitholders' investment in MQREIT. The Manager places strong emphasis on risk management and operates strictly within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed for an understanding of the risk involved and appropriate controls and measures are put in place before the Manager proceeds to execute these transactions. The Board has determined that significant risk for MQREIT will most likely arise when making property investment decisions. In accordance with this policy, the Board requires comprehensive due diligence exercises to be carried out with the help of third party consultants with the requisite specialised knowledge if necessary. The Board also requires that each major investment proposal submitted for decision includes a detailed risk assessment, including where appropriate, sensitivity analysis and management's proposed risk mitigation or control strategies.

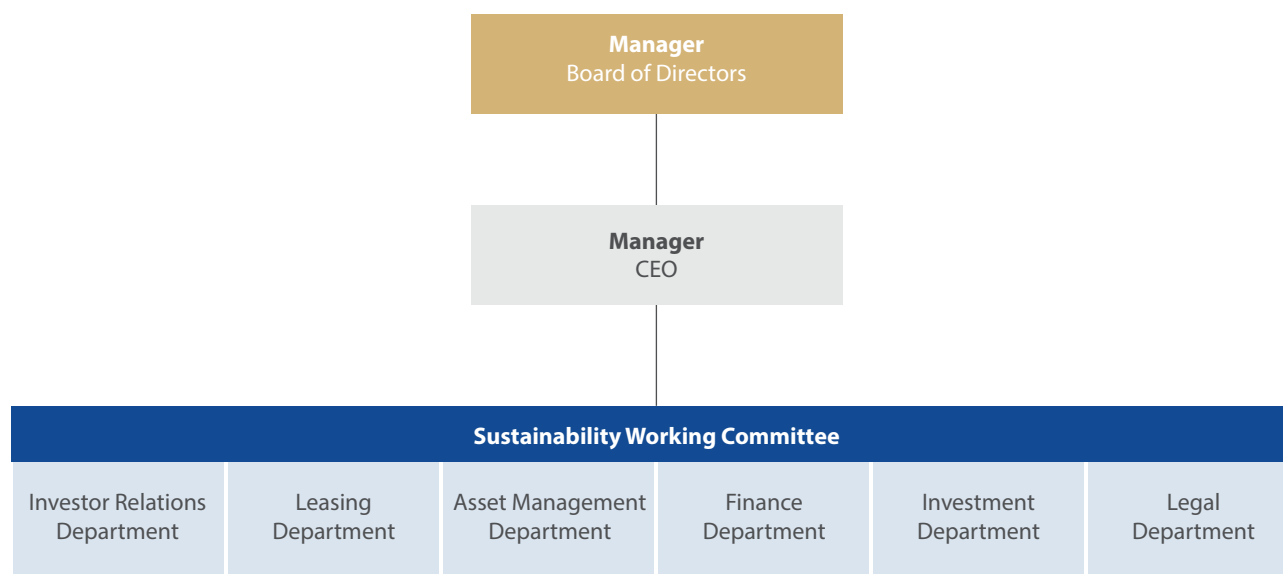
The Board also reviews the risks to the assets of MQREIT and acts upon any comments by the auditors of MQREIT. In assessing business risk, the Board considers the economic environment and the property industry risk. The Board reviews and approves all investment decisions. The management meets regularly to review the operations of the Manager and MQREIT and to discuss continuous disclosure issues. The management is required to ensure that appropriate controls are in place to effectively manage those risks, and such risks and controls are monitored by the Board on a regular basis.

For more information, refer to our Corporate Governance discussion in pages 52 to 65 of our Annual Report and our Corporate Government Overview Statement in pages 48 to 51 of our Annual Report.

Managing Sustainability

A Sustainability Working Committee, comprising of key personnel from the relevant departments was formed to review the sustainability performance of our organisation. The committee is headed by the CEO, who reports to the Board.

Figure 7: Sustainability Governance Structure



Sustainability Report

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Figure 8: MQM's organizational values



In 2016, the Corporate Communication Department of Malaysian Resources Corporation Berhad ("MRCB") developed and introduced the organisation's values to all staff as illustrated in Figure 8. The values will be introduced to every new staff during their orientation. The organisation's core values serves as a guidance to all employees at work. MQM has adopted these organisation values.

Regulatory Compliance

The Manager is committed to be in compliance with all rules and regulations issued by the relevant authorities, including Bursa Malaysia, Securities Commission Malaysia and Inland Revenue Board of Malaysia. The Company Secretaries and Finance department work closely to ensure that internal controls and procedures have been put in place to measure and monitor performance in relation to compliance to rules and regulations. The Manager also engages an external consultant to review their internal processes. In order to ensure that employees are kept up-to-date on the developments in rules and regulations, MQREIT sends employees for trainings organized by Bursa Securities Malaysia, Securities Commission Malaysia and Malaysian Institute of Accountants.

This has allowed the Manager to maintain zero incidence of reported non-compliance with rules and regulations in FY2016 and FY2017. The Manager will continue to strive to maintain this record.

Sustainability Report

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Economic

Anti-Corruption

At MQM, we operate MQREIT's business based on the principles of fairness, honesty, transparency, decency, integrity and ethics, which we believe are crucial to our success. Our employees are also kept up-to-date on corporate policies such as the 'Whistleblowing policy' and 'No Gift policy'.

The Whistleblowing policy aims to encourage employees and other stakeholder groups to disclose any improper conduct that they have become aware of. Concerns can be raised directly to the CEO and Chairman at MRCB Quill Management Sdn Bhd, Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, 50470 Kuala Lumpur. The Manager is committed to ensuring that all cases will be treated in the strictest of confidence and promptly investigated. There were zero cases reported in 2016 and 2017.

Our No Gift policy prohibits all employees from directly or indirectly receiving or providing any gifts, kickbacks or gratuities in any form that may compromise their judgment and decision making. Any gift offered must be politely declined and returned without causing offence or disrupting business relations. If an external party insists on giving a gift after No Gift Policy has been explained to them, the employee must inform them that any gifts will be donated to Yayasan MRCB Foundation, immediately. Non-compliance with this policy is classed as major misconduct and the employee involved will be subjected to disciplinary action, which may lead to dismissal.

The Manager communicates its anti-corruption policies and procedures to all of its clients and business customers through an anti-corruption clause in the agreement. However, the Manager does not currently communicate its anti-corruption policies and procedures to suppliers and agents. Moving forward, the Manager intends to include the anti-corruption clause in the agreements entered into with all service providers and tenants as well.

During the year, all staff also signed the Corporate Integrity Pledge by Malaysian Anti-Corruption Commission which signifies a unilateral declaration that it will not commit corrupt acts and will work towards creating a business environment that is free from corruption and will uphold the Anti-Corruption Principles for Corporations in Malaysia.

Sustainability Report

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Environmental

Water Management

Water is an essential utility in all our buildings. Without water, our services such as the air-conditioning system, washroom facilities, cleaning, landscaping, fire protection, and water for pantries will be disrupted and our clients operating in our buildings affected. According to the UN World Water Development Report 2017, water demand is predicted to increase significantly over the coming decades¹ and hence pressure on water availability is going to be felt as evidenced by the water shortage faced by Penang in 2016 and anticipated in Selangor in 2017-18 and repeated disruptions experienced in the Klang Valley². The Manager is conscious about minimising our water usage and recognises the importance of proper water management.

The building managers from the Property Manager of the respective buildings are jointly responsible for the water management in each building. Each month, building managers record and report the monthly consumption unit in the Asset Control Group ("ACG") report. Should there be any hike in monthly consumption, buildings managers are to investigate the cause and provide the explanation for the variations.

The Manager takes a proactive approach in managing and conserving water, some of the initiatives being:

- Exploring new methods and technologies to conserve and reduce water usage
- Ensuring clean water for consumption
- Utilizing Rain Water Harvesting System for landscaping and toilet flushing in Platinum Sentral
- Installation of water-efficient technology such as the "self-closing" taps installed in refurbished toilets in Quill Building 2 - HSBC, Quill Building 3 - BMW in Cyberjaya

¹ The United Nations World Water Development Report 2017 (<http://unesdoc.unesco.org/images/0024/002471/247153e.pdf>)

² News articles (<http://www.themalaymailonline.com/malaysia/article/penang-on-water-shortage-alert-despite-rainy-weather#hGJilq35ZxgEI8Ev.97>, <http://www.themalaymailonline.com/malaysia/article/selangor-to-face-critical-water-shortage-from-2017-2019-mb-says#kllejreJx2rcyh66.97>, <https://www.nst.com.my/news/nation/2017/04/231590/revamp-needed-end-water-woes-klang-valley-ngos>)

Sustainability Report

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CASE STUDY: Rain Water Harvesting System (RWHS) in Platinum Sentral

RWHS was installed in Platinum Sentral during its construction in order to be compliant with the Green Building Index. Rain water is harvested at Level 3 Courtyard A & B, which will be collected at the compartmented reinforcement concrete cold water suction tank at Level 1 with a capacity of 360m³ (the average consumption of Platinum Sentral is 200m³ per month. This harvested rain water is utilised for Block B Level 2 toilet flushing and for the irrigation to the landscape plants.

(Image 1: Level 3 Courtyard A)



(Image 2: Level 3 Courtyard B)



(Image 3: Level 1 Pump Room & Water Storage)



(Image 4: Level 1 Water Storage & Filtration Tank)



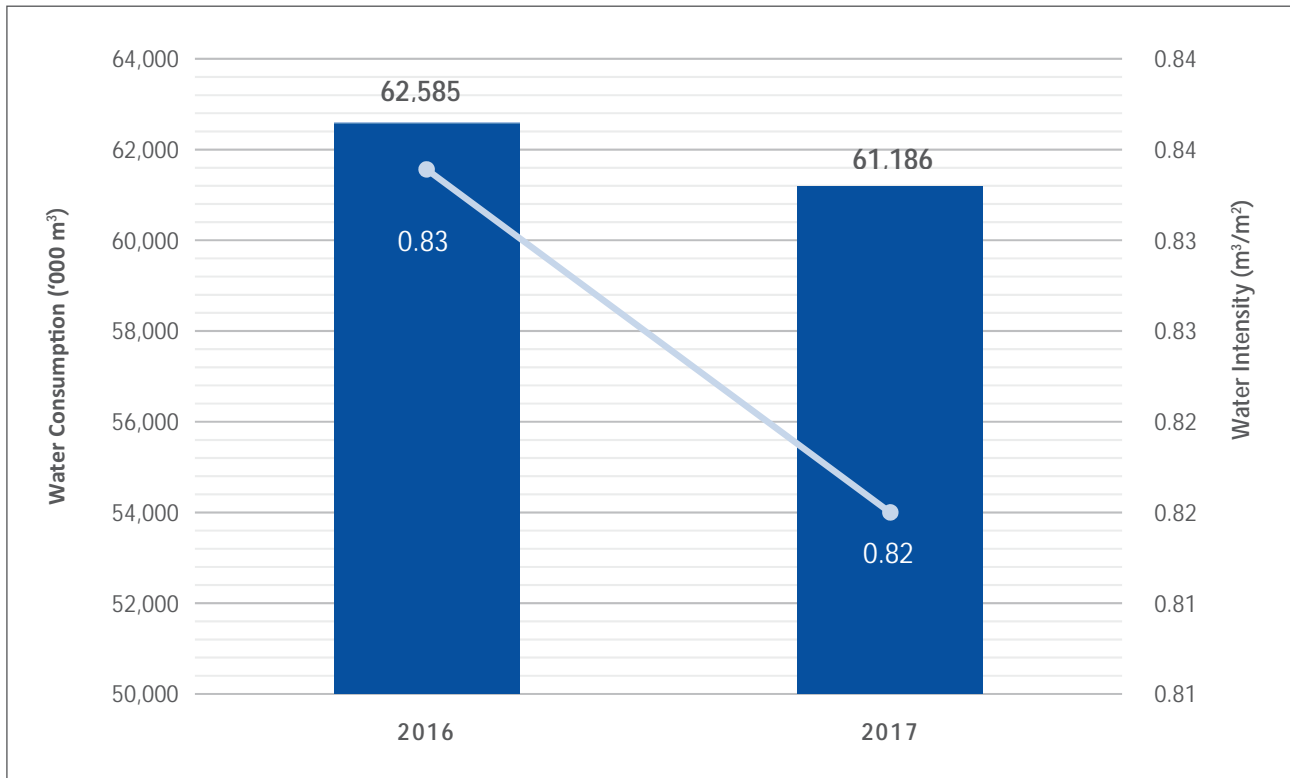
(Image 5: Reinforce Concrete Storage Tank)



Sustainability Report

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Figure 9: MQREIT's water consumption



We are glad to report that in 2017, our initiatives have allowed us to achieve a small reduction in both water consumption and water intensity.

Currently, Wisma Technip and Menara Shell have water filters installed. Moving forward, we plan to assess the suitability of installing water filters in MQREIT's other buildings to be even more effective in our water usage.

Sustainability Report

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Social

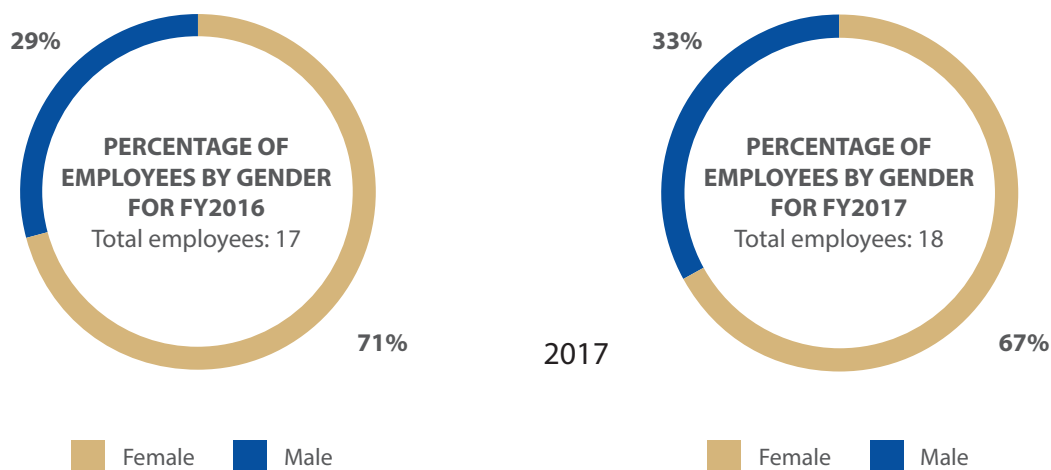
Our People

People are our most valuable resource and the success of our business is driven by the skills, talent, passion, work ethics and professionalism, and commitment of our employees and workers. The Manager is committed to ensuring that robust practices are in place to attract, develop, retain and engage with employees and workers. To do so, we will work towards providing a conducive work environment with ethical employee practices and a culture of inclusion, embedding diversity and inclusion concepts and principles in our people process.

Turnover Rate of Senior Management

As at 31 December 2017, the Manager had a total of 18 staff, an increase of one staff member as compared to the previous year. None of our employees are covered by collective bargaining agreements. As at year end, the Manager had a total of 34 workers³, an increase of 3 workers as compared to last year. Over the past year, there was no turnover in senior management. MQREIT ensures that their senior management are provided with appropriate compensation packages and staff benefits.

Figure 10: MQM's employee profile



³ For the purposes of this report, the workers of the Manager only includes its property managers. A significant portion of the Manager's activities are performed by these appointed property managers who oversee all property operational matters such as proposed repair and replacement of mechanical and electrical works, attend to tenants' complaints, monitor and supervise the performance of service providers, and implement Standard Operation Procedures (SOPs).

Sustainability Report

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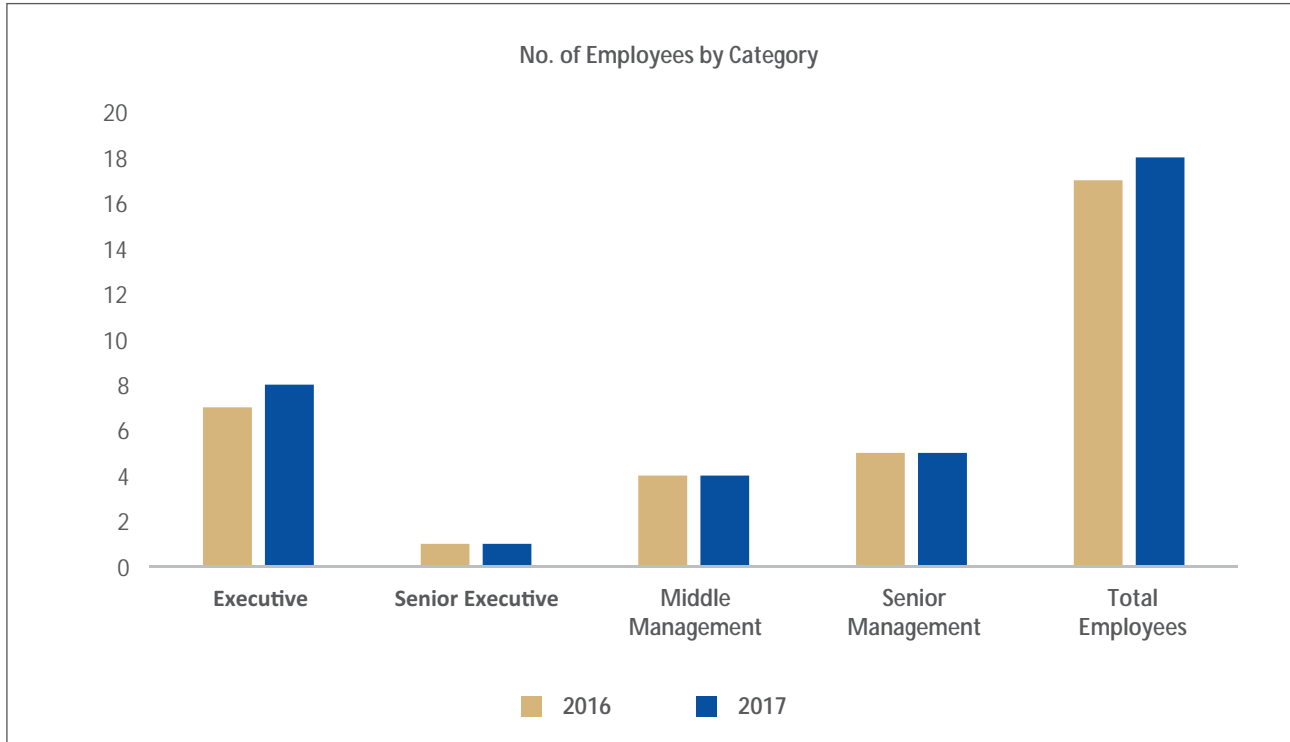
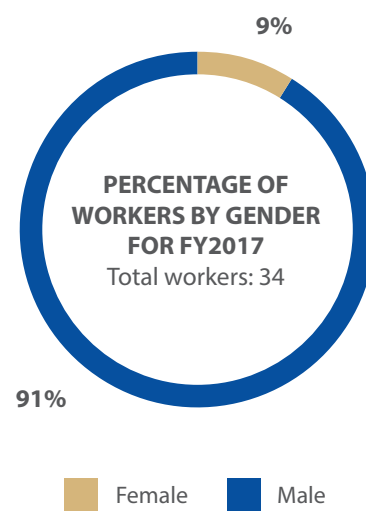
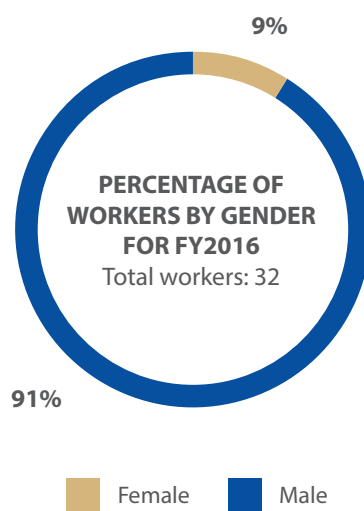


Figure 11: MQM's worker profile



Sustainability Report

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Talent Attraction and Retention

The Manager places great emphasis on the well-being of all staff. All employees are entitled to benefits such as life insurance, health care, disability and invalidity insurance coverage, parental leave, retirement provision and stock options. We also extend healthcare benefits to the employee's family members.

As part of the management's efforts to provide a conducive and inclusive work environment, the office was recently renovated to include a break-out area. This area is equipped with discussion spots, recreational spaces, projectors, providing a venue for employees to gather, work and play. In addition, various company events have been organised to encourage staff participation, such as the Family Day events and the annual year-end dinner which are activities that are celebrated Group-wide. Activities focused on staff and the celebrations serve as a good avenue for the staff and Board members to interact and foster better bonding.

CASE STUDY: Sabbatical Leave

One of our Finance executive was granted a one year sabbatical in 2015 to take care of her sick child. Although the management was not able to guarantee that she will be able to take back her existing work portfolio in the finance department, she was guaranteed employment upon return. This staff has returned to work at MQM and has rejoined the finance department.

Employee Capacity Building

Continual learning is a fundamental building block of growth. Guided by our Group-wide Training and Development policies (Figure 12), the Manager has adopted and actively supports the training and development programmes, which allow employees to acquire relevant knowledge and skills.

Figure 12: MRCB's training and development policies



Sustainability Report

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To support our employees in upgrading their current skills sets, internal training courses are conducted at the MRCB Training Academy, providing a year-round calendar of technical, functional, job-related and soft skills training programs which all MRCB staff may enroll in. MQM staff have tapped into the MRCB Trading Academy platform for their respective learning needs. Funding for external training is also available to encourage our staff to enrich relevant skills and knowledge.

To monitor the performance in this aspect, the Manager began to require each staff to submit a self-declared training logbook on a half-yearly basis starting from the middle of 2017. This is to ensure the monitoring of training hours and courses that are taken throughout the year. Employees are continuously encouraged and reminded to enroll in relevant training courses via email blasts sent by the training coordinators. In 2017, we have successfully reached our target of a minimum of 20 CPE points for each Capital Markets & Services Representatives License Holders and an average of 20 hours of training per year for each employee. In 2018, we will continue to work towards improving our performance in this aspect and reduce the differences between average training hours of males and females, as well as between employee categories.

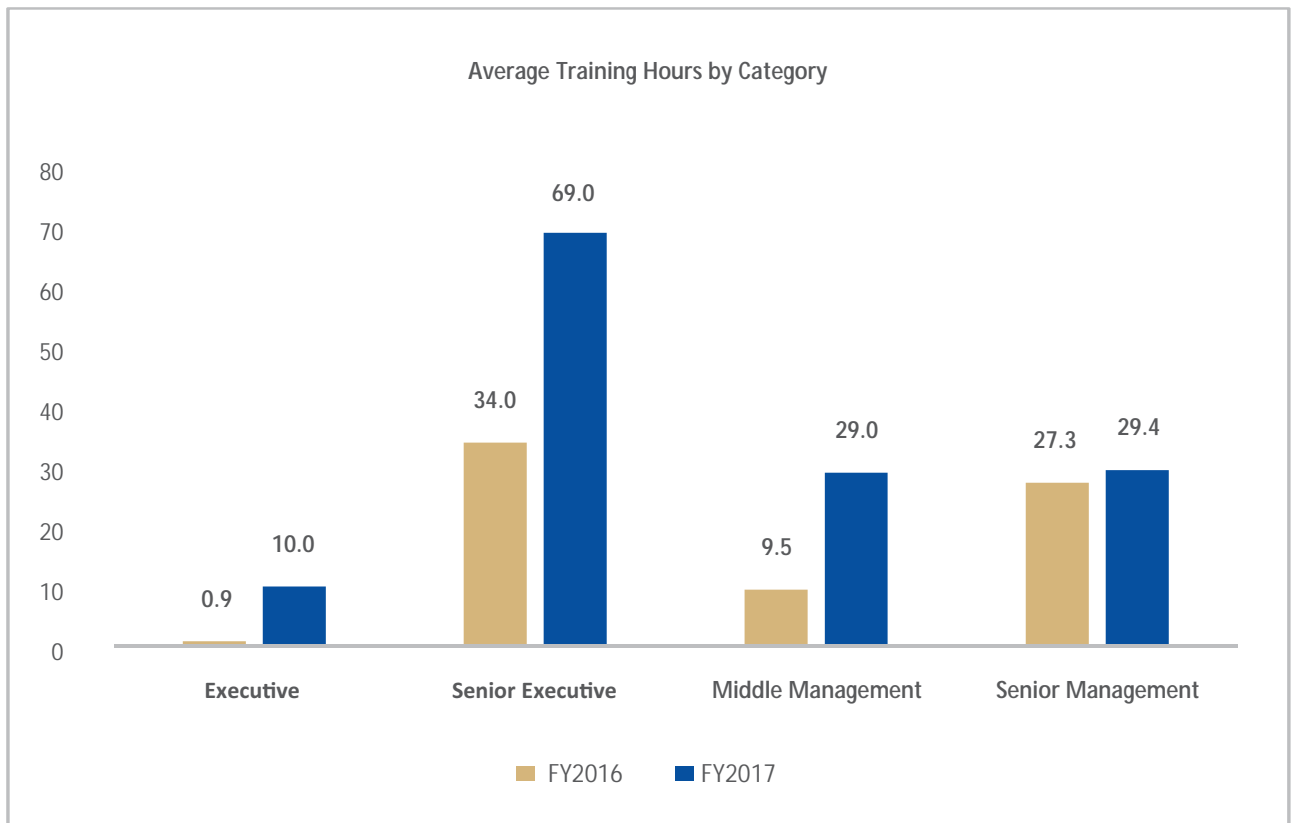
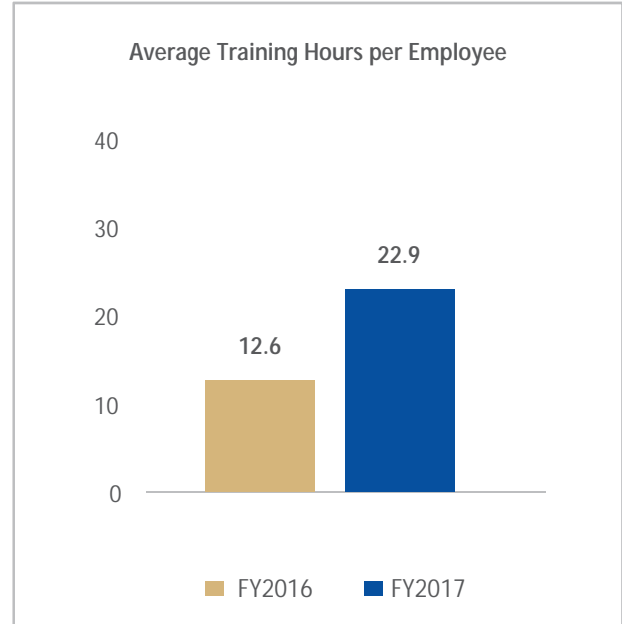
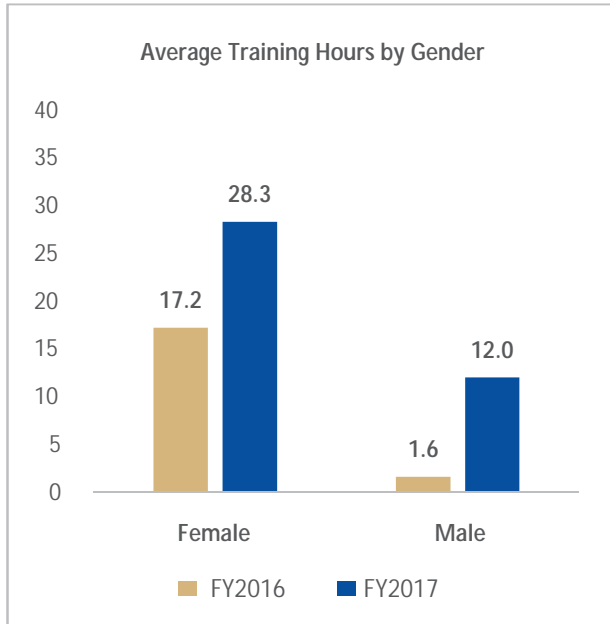
CASE STUDY: MRCB Learning Zone

The MRCB Learning Zone has been implemented since September 2016. This digital learning platform provided in conjunction with Course Networking and Leaderonomics, will be a great opportunity for all staff to learn and grow together. At MRCB Learning Zone, staff will be able to access multiple skills and personal development courses for free and learn, not just from the courses, but also from the discussions staff can have around those using this platform – online and offline. The skills and personal development courses have been chosen to make the platform as inclusive as possible. Everyone will be able to find something interesting and useful, regardless of the job grade or position. In wanting to provide a systematic and limitless learning source, digital learning fits the bill because staff can access it from any place, allowing them to learn at their own pace and convenience. In addition, it can also act as a refresher course and provide guidance on the application of the learning materials. MQM staff have tapped into the MRCB Learning Zone for their respective training needs.

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Figure 13: MQM's training hours



Sustainability Report




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Our Communities

Health, Hygiene & Safety Protection of Tenants, Visitors and Local Communities

We recognise the importance of developing a positive health and safety culture for our tenants, visitors and communities. The Manager is committed to ensuring that health and safety measures are in place and ensuring that the buildings are in good condition without posing any safety and health hazards. By periodically reviewing methods and procedures, re-appraising working practices when circumstances change or arise, identifying hazards through incident reporting, potential hazards and risks over the long term are minimised.

In addition to this, the Manager carries out regular inspection of lifts and escalators, fire systems, electrical switch gears maintenance and re-calibration of electrical safety equipment of the buildings. Annual audits by external auditors are also carried out to maintain the integrity of equipment and buildings.

Perpetual Targets	Actions taken in FY2017	Performance in FY2017
To comply with Occupational Safety & Health Act (OSHA) 1994 and all relevant legislation	Conduct safety briefing for all contractors, vendors and visitors to ensure compliance with building safe work procedures Routine inspection of building facilities, plants and other equipment to ensure that they are in good working condition	 Achieved
Engage only chargemen who are registered with Energy Commission and contractors who comply with safe work procedures	Assigning a qualified chargeman, who is endorsed by the Energy Commission, to properties in our portfolio	 Achieved
Conduct fire drill and evacuation exercises for MQREIT properties (when necessary)	Conducted fire and evacuation drill exercise in collaboration with Fire & Rescue Department (BOMBA) for Platinum Sentral and Menara Shell	 Achieved

Future additional targets	Forthcoming plans
Improve on the safety procedures to maintain zero incidents rate	Support, promote and raise health and safety awareness and compliance at work place through joint training with tenants, employees and authorised visitors
Conduct annual fire drill exercises for all MQREIT properties with the exception of Plaza Mont' Kiara ⁴ (under strata management) and all single tenanted buildings where exercises will be coordinated by the tenant	Push forth fire safety training, first aid training and emergency management training

⁴ For Plaza Mont' Kiara (PMK), it is a mixed development with 5 blocks of offices and MQREIT only owns the car park and retail lots. The responsibility of conducting a fire drill falls under the purview of the Management Corporation, under the Strata Management Act.

Sustainability Report

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In FY2017, there has been no incidence of non-compliance with regulations concerning Health and Safety.

CASE STUDY: Fire evacuation and drill at Platinum Sentral

On 9 August 2017, the first fire drill and evacuation exercise was carried out together with the Fire & Rescue Department (BOMBA) at Platinum Sentral for all tenants and occupants. Platinum Sentral is a campus styled low rise building consisting of 5 blocks, ranging from 4-7 storeys. The exercise involved a total of 848 people.

MQREIT has in place a grievance mechanism for external stakeholders to raise their concerns, including those involving health, hygiene and safety protection via the following means:

Channel	Description of channel
Telephone	Stakeholders can call on Building Management Offices and request to speak to a stakeholder contact officer
Email	Grievances can be sent to the respective Property Managers' email which can be found from the respective property management's office
Face-to-face	Stakeholders can voice their grievance to Property Managers

Every case will be acknowledged, investigated and followed up on before the case is closed. Should the external stakeholder be unhappy with the resolution, they can escalate the matter to the executive management team through the respective building property manager or directly to MQM by writing to enquiries@mrcbquillreit.com or by directly reaching out to MQM staff in the case of tenants. There were zero cases reported through this channel in 2016 and 2017.

Quality of Assets and Services

The quality of assets and services has a direct impact on our tenants' satisfaction. Guided by the policies put in place (Figure 14), we will continue to strive towards improving the quality of the services, providing assurance and comfort to our tenants during their tenancy at our properties.

Figure 14: The Manager's policies on assets, tenants and service providers.

Service Provider Pre-Qualification Policy*

Prequalification is required for all service providers to ensure the appointed service providers possess the financial, technical and manpower capability to carry out the appointed tasks

Service Contractors Evaluation Policy*

Standard Performance Appraisal is adopted to reevaluate the performance of the service contractors and improvement on a yearly basis

Tenants Complaints Policy

Tenant Complaints Form is made available for tenant to express their improvement suggestions or complaints for improvement on the quality of services

Asset Enhancement Policy

Yearly asset enhancement plan is tabled to the Board to enhance the quality of the assets

* Policy covers all properties except for Tesco Penang.

Sustainability Report

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The Manager has adopted a Standard Performance Appraisal to continually evaluate the performance of the service contractors, to upkeep the standards of services provided. Service providers are required to achieve a minimum of 60% rating in their annual assessment. Should the service provider achieve a rating below 60%, they will be given three months to improve their performance before another appraisal is conducted. If rating fails to improve, the service provider will be terminated. In addition to this, improvement points and action plan will be developed at each assessment to seek continual improvement for the subsequent years. So far, two service providers have been terminated for failing the second appraisal.

To ensure our tenants enjoy the highest level of satisfaction, all tenant complaints are collated through a complaint form system. We work towards acknowledging and responding to the complaints within a 24 hour period.

In 2015, Menara Shell won the Malaysia Property Award for the Office category. In 2016, Menara Shell achieved a World Silver Winner Office at the Federal International des Administrateurs de Bien-Conseils Immobiliers (FIABCI) Award, which rewards project on its overall merit and not just aesthetics, functionality or size.

Asset Enhancement Initiatives carried out in Year 2017:

Item	Building	Asset Enhancement Initiatives Description
1	QB1 (DHL1) Cyberjaya	Refurbish and replace with new waterproofing flooring at the rooftop
2	QB3 (BMW) Cyberjaya	Refurbish all washrooms from Ground Floor to 4th Floor
3	QB3 (BMW) Cyberjaya	Repaint basement carpark and parking bay line marking
4	QB3 (BMW) Cyberjaya	Install card access system with high speed roller shutter at the entrance and exit basement carpark
5	QB4 (DHL2) Cyberjaya	Refurbish and replace with new waterproofing flooring at the rooftop
6	QB8 (DHL) Shah Alam	Repaint perimeter wall

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GRI Content Index

GRI Standard Disclosure Reference	Description	Section of Report
GRI 102: General Disclosures		
Organizational profile		
102-1	Name of the organization	Introduction: About the Business
102-2	Activities, brands, products, and services	Introduction: About the Business
102-3	Location of headquarters	Introduction: About the Business
102-4	Location of operations	Introduction: About the Business
102-5	Ownership and legal form	Introduction: About the Business
102-6	Markets served	Introduction: About the Business
102-7	Scale of the organization	Introduction: About the Business
102-8	Information on employees and other workers	Social: Turnover Rate of Senior Management
102-9	Supply chain	Introduction: About the Business
102-10	Significant changes to the organization and its supply chain	Introduction: About the Business
102-11	Precautionary Principle or approach	Governance
102-12	External initiatives	Earth Hour
102-13	Membership of associations	Introduction: About the Business
Strategy		
102-14	Statement from senior decision-maker	CEO Message
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	Governance: Managing Sustainability
Governance		
102-18	Governance structure	Governance: Managing Sustainability
102-20	Executive-level responsibility for economic, environmental, and social topics	Governance: Managing Sustainability
102-21	Consulting stakeholders on economic, environmental, and social topics	Sustainability in MQREIT: Materiality Assessment
102-29	Identifying and managing economic, environmental, and social impacts	Sustainability in MQREIT: Materiality Assessment
102-31	Review of economic, environmental, and social topics	Sustainability in MQREIT: Materiality Assessment
102-32	Highest governance body's role in sustainability reporting	Governance: Managing Sustainability

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GRI Standard Disclosure Reference	Description	Section of Report
Stakeholder engagement		
102-40	List of stakeholder groups	Sustainability in MQREIT: Stakeholder Engagement
102-41	Collective bargaining agreements	Social: Turnover Rate of Senior Management
102-42	Identifying and selecting stakeholders	Sustainability in MQREIT: Stakeholder Engagement
102-43	Approach to stakeholder engagement	Sustainability in MQREIT: Stakeholder Engagement
102-44	Key topics and concerns raised	Sustainability in MQREIT: Stakeholder Engagement
Reporting practice		
102-45	Entities included in the consolidated financial statements	Refer to Annual Report
102-46	Defining report content and topic Boundaries	Introduction: About the Report
102-47	List of material topics	Sustainability in MQREIT: Materiality Assessment
102-48	Restatements of information	No restatements as it is the first year of reporting
102-49	Changes in reporting	No changes as it is the first year of reporting
102-50	Reporting period	Introduction: About the Report
102-51	Date of most recent report	This is MQREIT's inaugural report
102-52	Reporting cycle	Introduction: About the Report
102-53	Contact point for questions regarding the report	Introduction: About the Report
102-54	Claims of reporting in accordance with the GRI Standards	Introduction: About the Report
102-55	GRI content index	GRI Content Index
102-56	External assurance	Introduction: About the Report
GRI 103: Management Approach		
103-1	Explanation of the material topic and its Boundary	Sustainability in MQREIT: Materiality Assessment
103-2	The management approach and its components	Governance: Managing Sustainability Governance: Regulatory Compliance Economic: Anti-Corruption Social: Talent Attraction and Retention Social: Turnover Rate of Senior Management
103-3	Evaluation of the management approach	Governance: Managing Sustainability Governance: Regulatory Compliance Economic: Anti-Corruption Social: Talent Attraction and Retention Social: Turnover Rate of Senior Management

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GRI Standard Disclosure Reference	Description	Section of Report
Category: Economic		
GRI 205: Anti-Corruption		
205-2	Communication and training about anti-corruption policies and procedures	Economic: Anti-Corruption
205-3	Confirmed incidents of corruption and actions taken	Economic: Anti-Corruption
Category: Environmental		
GRI 303: Water		
303-1	Water withdrawal by source	Environmental: Water Management
GRI 307: Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	Governance: Regulatory Compliance
Category: Social		
GRI 401: Employment		
401-1	New employee hires and employee turnover	Social: Turnover Rate of Senior Management
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Social: Talent Attraction and Retention
GRI 404: Training and Education		
404-1	Average hours of training per year per employee	Social: Employee Capacity Building
404-2	Programs for upgrading employee skills and transition assistance programs	Social: Employee Capacity Building
GRI 416: Customer Health and Safety		
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Social: Health, Hygiene & Safety Protection of Tenants, Visitors and Local Communities
GRI 419: Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	Governance: Regulatory Compliance
GRI G4 Sector Disclosures: Construction and Real Estate		
CRE-2	Building water intensity	Environmental: Water Management
CRE-8	Type and number of sustainability certification, rating and labeling schemes for new construction, management, occupation and redevelopment	Social: Quality of Assets and Services

Manager's Report

MRCB Quill Management Sdn. Bhd. ("MQM"), being the manager (the "Manager") of MRCB-Quill REIT ("MQREIT"), is pleased to present the Manager's Report on MQREIT together with the audited financial statements of MQREIT for the financial year ended 31 December 2017.

MQREIT, the Manager and their principal activities

MQREIT was constituted under a Deed dated 9 October 2006 (the "Trust Deed"), by MQM as the Manager and Maybank Trustees Berhad as the trustee (the "Trustee"); a Supplemental Deed dated 27 August 2007; a Second Supplemental Deed dated 28 May 2013 and Third Supplemental Deed dated 2 April 2015, and is categorised as a real estate investment trust. MQREIT commenced its operations in 2006 and was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 8 January 2007.

The principal activity of MQREIT involves acquisition of and investment in commercial properties, primarily in Malaysia. The principal activity of each of the special purpose entities of MQREIT is to facilitate financing for MQREIT as disclosed in Note 24 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Manager is a company incorporated in Malaysia. The principal activity of the Manager is to manage MQREIT. There has been no significant change in the nature of this activity during the financial year.

Manager's fees and commission

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

- (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.

The Manager's remuneration is accrued and paid in accordance with the Trust Deed. No fee or commission has been earned by the Manager in managing MQREIT other than as disclosed in Note 8 to the financial statements.

During the financial year, the Manager did not receive any soft commission (such as goods or services) from its broker, by virtue of transaction conducted by MQREIT.

Term of Trust

MQREIT will continue its operations until such time as determined by the Trustee and the Manager as provided under Clause 26 of the Trust Deed.

Investment objective

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 and to achieve long-term growth in the net asset value per unit of MQREIT.

Manager's Report

cont'd

Investment strategies

The Manager plans to achieve the key investment objectives while seeking additional income growth and enhancement of MQREIT's property portfolio over time through the strategies as mentioned below:

(a) Acquisition growth and portfolio management strategy

The Manager seeks to selectively acquire additional properties that meet the investment criteria to enhance yields and return while improving portfolio diversification. The acquisition strategy takes into consideration rental yield, occupancy and tenant characteristics, location, value-adding opportunities, and building and facilities specifications.

The Manager intends to hold the properties on a long-term basis. However, at the appropriate time, the Manager will recommend an adjustment of the portfolio mix through acquisition or sale of one or more of the authorised investments or commercial properties with the objective of maximising total returns to unitholders. The proceeds from such sales would be either deployed to purchase other attractive authorised investments or, in the absence of appropriate investments, distributed to unitholders.

(b) Active asset management strategy

The Manager intends to increase the property yield of existing commercial space and correspondingly maximising returns from the existing commercial space by implementing the following:

- (i) Maximisation of tenant retention through proactive tenant management and efficient property related services;
- (ii) Diversification of tenant base to balance exposure to certain business sectors that are more susceptible to general economic cycles;
- (iii) Implementation of proactive marketing plans;
- (iv) Continued minimisation of property expenses without compromising on the quality of service; and
- (v) Asset enhancement by constantly improving and maintaining the quality and physical condition of the properties in MQREIT's portfolio.

(c) Capital management strategy

The Manager employs appropriate debt and equity financing policies in financing acquisition and/or asset enhancements, and utilises appropriate hedging strategies to optimise risk adjusted returns to unitholders.

The Manager aims to optimise MQREIT's capital structure and cost of capital within the borrowing limits set out in the Guidelines on Real Estate Investment Trusts issued by Securities Commission ("SC REIT Guidelines") and intends to use a combination of debt and equity to fund future acquisitions and improvement works. The strategies involve:

- (i) Adopting and maintaining an optimal gearing level; and
- (ii) Adopting an active interest rate management strategy to manage the risk associated with changes in interest rates,

while maintaining flexibility in MQREIT's capital structure to meet future investment and/or capital expenditure requirements.

There were no changes in the strategies adopted during the financial year, which are in line with those as stated in the prospectus dated 11 December 2006.

As these strategies still remain relevant for MQREIT under the current market conditions, the Manager will continue to adopt them in the coming year.

Manager's Report

cont'd

Investment policies

MQREIT's investments are subject to the investment limits imposed by the SC REIT Guidelines.

The Manager will continue to comply with the SC REIT Guidelines and other requirements as imposed by the Securities Commission ("SC") from time to time and the Trust Deed.

Performance of MQREIT

(i) Review of financial results for the financial year ended 31 December 2017

	Actual Financial year ended 31 December 2017 ("FY 2017") RM	Actual Financial year ended 31 December 2016 ("FY 2016") RM
Net property income	141,340,603	107,154,943
Net realised income	88,006,515	59,155,963
Realised earnings per unit ("EPU") [(sen)]	8.24	8.80
Total distribution relating to the income of the financial year	89,605,200	55,423,728
Distribution per unit ("DPU") [(sen)]	8.39	8.38

As compared with the last financial year, FY 2016, net property income of RM141.3 million is higher by 31.9% mainly due to additional income earned arising from the acquisition of Menara Shell on 22 December 2016, and rental rate increases of some properties. The realised income of RM88.01 million was higher by 48.8% mainly due to higher net property income, higher interest income, net of higher finance costs, manager's fee and trustee's fee.

Notwithstanding the higher FY 2017 realised net income, the EPU of 8.24 sen for FY 2017 is lower than the EPU of 8.80 sen for FY 2016. This is due to higher finance costs and the effects of the enlarged unitholding base of 406,619,000 new MQREIT units on 22 December 2016, pursuant to the placement exercise for the acquisition of Menara Shell.

For FY 2017, MQREIT declared a total DPU of 8.39 sen, which is 0.01 sen or 0.1% higher than FY 2016 DPU of 8.38 sen. An interim income distribution of 4.23 sen per unit being the distribution of income for the period of 1 January 2017 to 30 June 2017 were paid on 18 September 2017; and the proposed final gross distribution of 4.16 sen per unit relating to the distribution of income for the period of 1 July 2017 to 31 December 2017, will be payable on 28 February 2018 to all unitholders as at book closure date on 7 February 2018. The FY 2017 DPU of 8.39 sen translates to a distribution yield of 6.7% based on the closing price of RM1.25 per unit as at 29 December 2017.

The Manager's active asset management strategy throughout the year has ensured successful tenancy renewals for most of the leases due in 2017. MQREIT's occupancy rate for the year stood at 96.3% in terms of Net Lettable Area ("NLA").

The performance of MQREIT for the FY 2017 was in line with its investment objective.

(ii) Analysis of MQREIT's performance based on changes in net asset value ("NAV") and NAV per unit since the previous financial year

For the FY 2017, MQREIT's total NAV and NAV per unit after the proposed final income distribution amounted to RM1,340.30 million and RM1.2550 per unit (2016: total NAV and NAV per unit after the special income distribution amounted to RM1,359.70 million and RM1.2731 per unit), mainly due to net change in fair values of investment properties, i.e. deficit on revaluation of RM18.18 million (2016: RM3.54 million gain on revaluation of investment properties) and net changes in fair values of derivatives.

Manager's Report

cont'd

Performance of MQREIT (cont'd)

(iii) Analysis of MQREIT's performance based on changes in price since the previous financial year

For the FY 2017, the unit price of MQREIT has increased from RM1.20 per share at the close of trade as at 31 December 2016 to RM1.25 per share at the close of trade as at 31 December 2017. The Manager believes that the movement in price is due to changes in market sentiment.

Composition of investment portfolio

As at 31 December 2017, MQREIT's portfolio comprised eleven commercial buildings. The details of the portfolio are as follows:

(a) Quill Building 1 - DHL 1 ("QB1")

Address/location	3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Property type and age	Commercial building, 15 years
Description	4-storey office building together with a sub-basement and a basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	92,284 square feet ("sq. ft.")
Existing use	Commercial building
Parking space	315 lots
Date of acquisition	20 November 2006
Acquisition price	RM52,100,000
Tenant	DHL Information Services (Asia-Pacific) Sdn. Bhd.
Tenancy period	7 + 3 + 3 + 2 years from 1 April 2002 5 + 5 years from 1 January 2016
Occupancy rate	100%
Maintenance costs and capital expenditure for the year	RM662,146
Encumbrances	Charged to Pacific Trustees Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	Note (i)
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(b) Quill Building 4 - DHL 2 ("QB4")

Address/location	3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Property type and age	Commercial building, 12 years
Description	4-storey office building together with a sub-basement and 2 levels basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	99,183 sq. ft.
Existing use	Commercial building
Parking space	309 lots
Date of acquisition	20 November 2006
Acquisition price	RM57,000,000
Tenant	DHL Information Services (Asia-Pacific) Sdn. Bhd.
Tenancy period	7 + 3 + 2 years from 1 April 2006 5 + 5 years from 1 January 2016
Occupancy rate	100%
Maintenance costs and capital expenditure for the year	RM561,251
Encumbrances	Charged to Pacific Trustees Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	Note (i)
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Note (i) The respective pieces of land on which QB1 and QB4 are situated have been amalgamated on 14 August 2008 pursuant to the conditions imposed by the SC during the initial public offering of MQREIT. As such, the valuations for QB1 and QB4 have since been carried out based on the amalgamated properties. Based on the latest valuation dated 31 December 2017, the total aggregate valuation of the two properties amounted to RM130,000,000.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(c) Quill Building 2 - HSBC ("QB2")

Address/location	3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Property type and age	Commercial building, 14 years
Description	4-storey office building together with a sub-basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	184,453 sq. ft.
Existing use	Commercial building
Parking space	505 lots
Date of acquisition	20 November 2006
Acquisition price	RM107,500,000
Tenant	HSBC Electronic Data Processing (Malaysia) Sdn. Bhd.
Tenancy period	6 + 3 + 2 years from 10 November 2003 5 + 3 years from 10 November 2014
Occupancy rate	100%
Maintenance costs and capital expenditure for the year	RM1,432,585
Encumbrances	Charged to Pacific Trustees Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM122,000,000
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(d) Quill Building 3 - BMW ("QB3")

Address/location	3501, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
Property type and age	Commercial building, 13 years
Description	4-storey office building together with a level of sub-basement and a level of basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	117,198 sq. ft.
Existing use	Commercial building
Parking space	347 lots
Date of acquisition	20 November 2006
Acquisition price	RM59,400,000

Major tenant and tenancy details:

Tenant	BMW Asia Technology Centre Sdn. Bhd.
Tenancy period	Ground floor: 5 + 3 + 3 years from 1 December 2004 First floor: 5 + 3 + 1 + 1 + 0.25 years from 1 December 2004 10 years from 7 July 2015
Tenant	BMW Malaysia Sdn. Bhd.
Tenancy period	5 + 3 + 1 + 1 + 0.25 years from 1 December 2004 10 years from 7 July 2015
Tenant	PGS Data Processing & Technology Sdn. Bhd.
Tenancy period	5 + 5 + 5 + 5 years from 1 January 2007
Tenant	Agensi Inovasi Malaysia
Tenancy period	2 + 0.5 + 0.5 + 1.5 years from 1 July 2011 2 + 3 years from 1 January 2016
Tenant	Huawei Technologies (Malaysia) Sdn. Bhd.
Tenancy period	3 + 3 years from 1 February 2012
Tenant	BMW Credit (Malaysia) Sdn. Bhd.
Tenancy period	8.8 + 3 + 3 years from 1 October 2016
Occupancy rate	91%
Maintenance costs and capital expenditure for the year	RM5,477,449
Encumbrances	Nil
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM79,000,000
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(e) Wisma Technip ("WT")

Address/location	241, Jalan Tun Razak, 50400 Kuala Lumpur
Property type and age	Office building, 24 years
Description	12-storey office building with a mezzanine floor and 3 split-levels basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	233,021 sq. ft.
Existing use	Office building
Parking space	308 lots
Date of acquisition	3 September 2007
Acquisition price	RM125,000,000
Tenant	Technip Geoproduction (M) Sdn. Bhd.
Tenancy period	5 + 2 years from 1 January 2007 5 + 2 years from 1 January 2014
Occupancy rate	100%
Maintenance costs and capital expenditure for the year	RM3,671,588
Encumbrances	Charged to Hong Leong Investment Bank Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM173,800,000
Name of valuer	Nawawi Tie Leung Property Consultants Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(f) Commercial retail shops and car park lots of Plaza Mont' Kiara (part of Plaza Mont' Kiara) [("PMK")]

Address/location	Plaza Mont' Kiara 2, Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur
Property type and age	Commercial lots and car parks, 15 years
Description	An integrated retail/office commercial units located in Plaza Mont' Kiara, within the ground floors of Blocks A & B, Blocks C & D and at the basement and ground floor of Block E. The car park lots are located in Blocks A, B, C, D and E.
Tenure	Term in perpetuity
Net lettable area ("NLA")	73,408 sq. ft. (excluding 1,499 car park lots)
Existing use	Retail and car park
Parking space	1,499 lots
Date of acquisition	3 September 2007
Acquisition price	RM90,000,000
Tenant	Multi-tenanted retail tenants from various sectors, such as banking, food & beverages, beauty & fashion, fitness and convenient stores
Tenancy period	Ranging between 1 to 3 years tenancy
Occupancy rate	87%
Maintenance costs and capital expenditure for the year	RM2,771,451
Encumbrances	Charged to Hong Leong Investment Bank Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM117,400,000
Name of valuer	Nawawi Tie Leung Property Consultants Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(g) Quill Building 5 - IBM ("QB5")

Address/location	3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
Property type and age	Commercial buildings, 10 years
Description	5-storey office building with a level of sub-basement and 1 1/2 levels of basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	81,602 sq. ft.
Existing use	Commercial building
Parking space	241 lots
Date of acquisition	14 March 2008
Acquisition price	RM43,000,000
Tenant	IBM Malaysia Sdn. Bhd.
Tenancy period	3 + 2 + 1.4 + 3 + 3 +3 years from 15 January 2008 3 + 3 + 3 + 3 years from 1 June 2011
Occupancy rate	78%
Maintenance costs and capital expenditure for the year	RM2,503,108
Encumbrances	Charged to Hong Leong Investment Bank Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM44,000,000
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(h) Quill Building 8 - DHL XPJ ("QB8")

Address/location	8, Jalan Pemaju U1/15, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan
Property type and age	Industrial building, 11 years
Description	3-storey office building with an annexed single storey detached warehouse
Tenure	Term in perpetuity
Net lettable area ("NLA")	65,205 sq. ft.
Existing use	Office building
Parking space	Nil
Date of acquisition	25 March 2008
Acquisition price	RM28,800,000
Tenant	DHL Express (Malaysia) Sdn. Bhd.
Tenancy period	5 + 5 years from 1 July 2006 3 + 3 years from 1 July 2016
Occupancy rate	92%
Maintenance costs and capital expenditure for the year	RM289,016
Encumbrances	Charged to Hong Leong Investment Bank Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM25,000,000
Name of valuer	Nawawi Tie Leung Property Consultants Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(i) Tesco Building, Penang ("Tesco")

Address/location	1, Lebuhr Tengku Kudin 1, 11700 Penang
Property type and age	Commercial building, 13 years
Description	3-storey purpose built hypermarket
Tenure	Term in perpetuity
Net lettable area ("NLA")	275,020 sq. ft.
Existing use	Commercial building
Parking space	1,050 lots
Date of acquisition	7 November 2008
Acquisition price	RM132,000,000
Tenant	Tesco Stores (Malaysia) Sdn. Bhd.
Tenancy period	29 October 2004 to 31 August 2032
Occupancy rate	100%
Maintenance costs and capital expenditure for the year	RM615,643
Encumbrances	Charged to Malaysian Trustees Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM140,000,000
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(j) Platinum Sentral

Address/location	Platinum Sentral, Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur
Property type and age	Commercial building, 6 years
Description	A commercial development consisting of 5 blocks of 4 – 7 storey commercial buildings consisting of office-cum retail space, a multi-purpose hall together with 2 levels of car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	476,370 sq. ft.
Existing use	Commercial building
Parking space	637 lots
Date of acquisition	30 March 2015
Acquisition price	RM740,000,000

Major tenant and tenancy details:

Tenant	Small and Medium Enterprise Corporation Malaysia
Tenancy period	15 + 3 years from 1 July 2011
Tenant	SBM Malaysia Sdn. Bhd.
Tenancy period	3 + 3 + 3 + 3 + 3 years from 28 October 2011
Tenant	Suruhanjaya Pengangkutan Awam Darat
Tenancy period	3 + 3 + 3 + 3 + 3 years from 1 March 2012
Tenant	Remaining: Multi-tenanted office-cum retail tenants from various sectors from government-linked office, education, food & beverages, fitness and convenient stores.
Tenancy period	Ranging between 1 to 15 years lease
Occupancy rate	98%
Maintenance costs and capital expenditure for the year	RM9,483,405
Encumbrances	Charged to Pacific Trustees Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM725,000,000
Name of valuer	Nawawi Tie Leung Property Consultants Sdn. Bhd.

Manager's Report

cont'd

Composition of investment portfolio (cont'd)

(k) Menara Shell

Address/location	Menara Shell, No. 211, Jalan Tun Sambathan, 50470 Kuala Lumpur
Property type and age	Commercial building, 4 years
Description	One block of 33-storey stratified office building erected on a 5-storey podium and 4 levels of basement car park
Tenure	Term in perpetuity
Net lettable area ("NLA")	557,053 sq. ft.
Existing use	Commercial building
Parking space	915 lots
Date of acquisition	22 December 2016
Acquisition price	RM640,000,000

Major tenant and tenancy details:

Tenant	Shell Malaysia Trading Sdn. Bhd.
Tenancy period	15 + 5 years from 1 November 2013
Tenant	AmGeneral Insurance Berhad
Tenancy period	3 + 3 + 3 + 3 + 3 years from 1 August 2015
Tenant	YM Consultants Sdn. Bhd.
Tenancy period	3 + monthly renewal from 1 November 2014
Tenant	JLT Asia Shared Services Sdn. Bhd.
Tenancy period	3 + 1 + 0.2 years from 1 November 2013
Tenant	Advance Defence Systems Sdn. Bhd.
Tenancy period	3 + 3 years from 1 January 2014
Tenant	Coca-Cola Far East Limited
Tenancy period	3 + 3 + 3 years from 7 June 2014
Tenant	Saipem Asia Sdn. Bhd.
Tenancy period	3 + 2 + 2 years from 1 November 2014
Tenant	Remaining: Multi-tenanted office-cum retail tenants from various sectors from food & beverages, banking hall, clinic, childcare centre and convenient stores.
Tenancy period	Ranging between 1 to 15 years lease
Occupancy rate	94%
Maintenance costs and capital expenditure for the year	RM13,075,101
Encumbrances	Charged to Pacific Trustees Berhad as security agent
Date of last valuation	31 December 2017
Market value/net carrying amount as at 31 December 2017	RM648,000,000
Name of valuer	C H Williams Talhar & Wong Sdn. Bhd.

Manager's Report

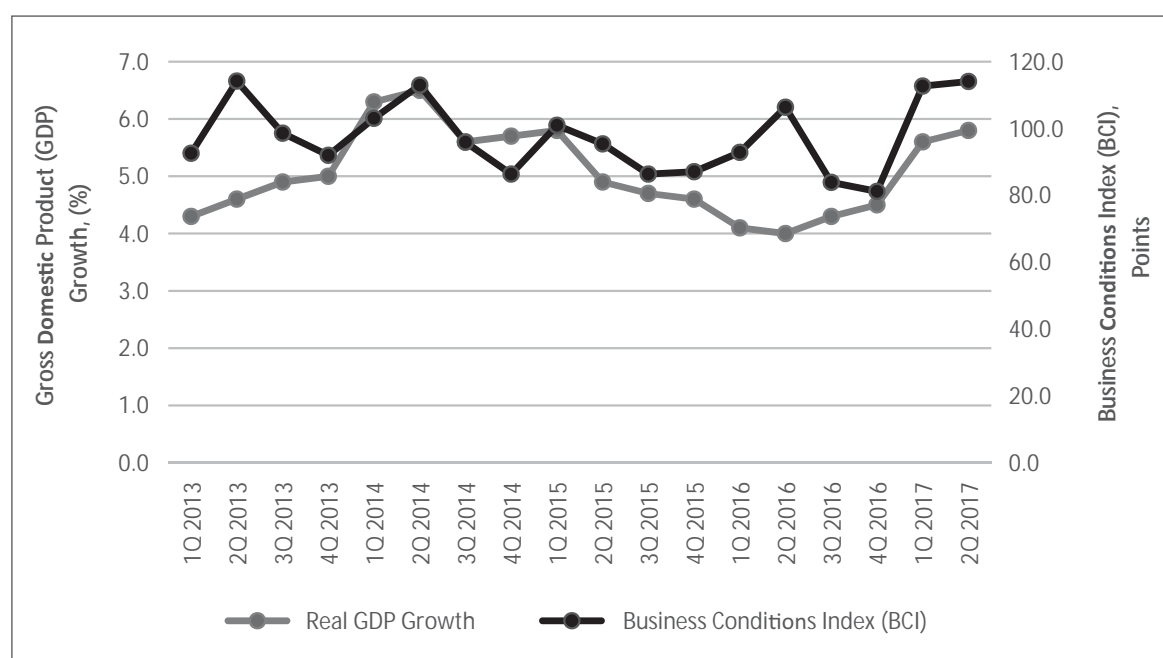
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Review of the market in which MQREIT invests in during the period and future prospects of the market

1 Purpose-Built Office¹ Market Overview

1.1 General

Chart 1.1: Trend of Growth Domestic Product ("GDP") and Business Conditions Index ("BCI")



Source: Malaysian Institute of Economic Research (MIER) and Bank Negara Malaysia

The Business Conditions Index ("BCI") rose to 114.1 points in 2Q 2017 (1Q 2017: 112.7 points). Business confidence is generally resilient but MIER's expectation for the next quarter is less positive. The business prospects in Malaysia remain cautious due to the challenging global economy. Construction and services sectors in particular, were the two main drivers of growth in 2Q 2017.

¹ Based on WTW Research, purpose-built offices in the Klang Valley may be referred to as private modern and free standing multi-storey buildings with present day conveniences, amenities and adequate car parking facilities for tenants/visitors and aged not more than 30 years (However, we may include offices which have undertaken major refurbishment works and office building(s) within an integrated commercial development).

These buildings are generally categorized as:

- "Grade A/Premium A" or Prime office buildings: Refer to high quality modern space, largely column free and includes recent generation of building services and amenities. These buildings are situated in premier location and possibly in major suburban towns.
- Non-prime office buildings are referred to as buildings of reasonably good or good quality modern office space and older buildings situated anywhere in Klang Valley.

Investment activities continued to be anchored by on-going infrastructure projects involving public transport; amongst the highlights in 2017 is the commencement in the operation of MRT Sungai Buloh – Kajang Line in July 2017. Turning to the flow of Foreign Direct Investment ("FDI") into Malaysia, real estate, information and communication, and mining sectors were the top three beneficiaries for first two quarters of 2017.

Despite concerns on the mixed global economic outlook, Malaysia with its progressive economy, competitive operating costs and business-friendly environment and policies, shall continue to garner investors' interest especially its capital city of Kuala Lumpur.

Manager's Report

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand

1.2.1 Existing Supply

Table 1.1: Summary of Purpose-built Office Sector (as at 3Q 2017)

Supply/Performance	Klang Valley	Zone		
		CKL	MKL	GKL
Existing Supply (million square feet)	104.728	45.661	43.869	15.196
% of Share		43.6%	41.9%	14.5%
Future Supply (2017 – 2020) (million square feet)	17.132	9.201	6.660	1.271
% of Share		53.7%	38.9%	7.4%
Vacancy Rate	16.5%	14.2%	16.1%	24.5%

Source: CBRE|WTW Research, December 2017

As at 3Q 2017, Klang Valley ("KV") has a cumulative supply of 104.728 million square feet of office space with no new completions in the last two quarters of 2017 were recorded.

The existing supply of office space in Cyberjaya/Putrajaya during the review period i.e. 3Q 2017 stood at 9.010 million square feet of which 5.350 million square feet in Cyberjaya and 3.660 million square feet in Putrajaya, representing 59.3% of the total supply in GKL.

The existing purpose-built offices in Putrajaya are generally located in Precinct 1 to Precinct 4, which comprise largely government offices and a handful of private purpose-built office buildings.

Manager's Report

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

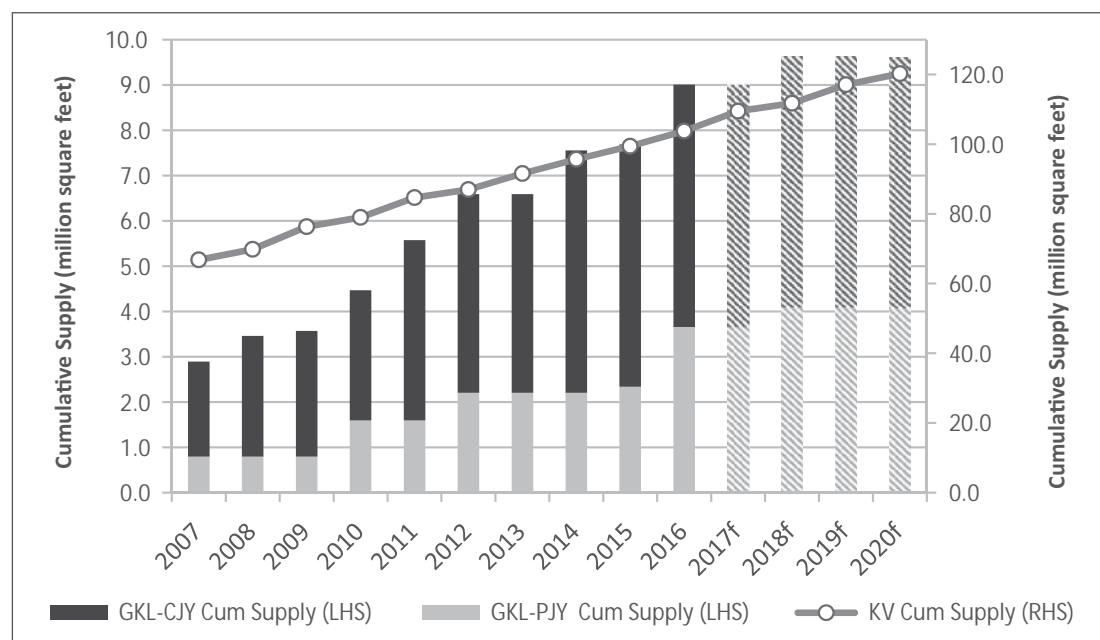
1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand (cont'd)

1.2.1 Existing Supply (cont'd)

The chart below illustrates the cumulative supply of purpose-built office space in Cyberjaya and Putrajaya (2007 to 2020f).

Chart 1.2: Cumulative Supply of Purpose-built Office Space in Klang Valley vis-à-vis Putrajaya & Cyberjaya (2007 to 2020f)



Abbreviation: GKL-Greater Kuala Lumpur; PJY-Putrajaya; CJY-Cyberjaya; f-forecast; Cum-cumulative

Source: CBRE|WTW Research, December 2017

Manager's Report

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand (cont'd)

1.2.1 Existing Supply (cont'd)

Table 1.2: List of Future Purpose-built Office Buildings in Klang Valley (4Q 2017f - 2020f)

Year	Zone	Name of Building	Net Lettable Area (square feet)
4Q 2017	CKL	JKG Tower	400,000
	MKL	KL Gateway Tower 2, KL Ecocity Corporate Towers	3,130,000
Total 2017			3,530,000
2018	CKL	Equatorial Plaza (Redevelopment)	240,000
	MKL	Celcom Tower @ PJ Sentral Garden City, Menara Etiqa, South-point @ Mid Valley City, Symphony Square, HCK Tower @ Empire City, Menara Star 2	2,620,000
	GKL	1Power House @ Bandar Utama, Tower 6 @ Sky Park, Menara Perdana MRCB, Nucleus Tower	1,270,000
Total 2018			4,130,000
2019	CKL	Bangunan Mas, Menara Felcra, Menara Prudential (TRX), Mulia Tower (TRX), TCM Tower (Redevelopment of Bombay Palace)	3,830,000
	MKL	MBSB Tower (PJ Sentral Garden City), Tropicana Gardens (Phase 6)	430,000
Total 2019			4,260,000
2020	CKL	HSBC HQ (TRX), KL 118 (Formerly known as Warisan Merdeka), Sapura Corporate HQ, Citi Tower, Menara Hap Seng 3	4,730,000
	MKL	Uptown 8	480,000
Total 2020			5,210,000
Grand Total (2017 – 2020)			17,130,000

Source: CBRE|WTW Research, December 2017.

Approximately 17.13 million square feet of future supply or twenty seven (27) new developments are expected to enter the market by 2020. Three (3) new developments or 3.53 million square feet are expected to be completed by the end of 2017. With the current soft market sentiment, developments that are meant to be completed by end 2017 may potentially be delayed, thereby resulting in a larger supply in 2018 or thereafter.

Within the next three (3) years, two (2) purpose-built office buildings will be completed in Putrajaya / Cyberjaya zone, namely Menara Perdana MRCB and Tower 6 @ Skypark with an estimated net lettable area of 0.608 million square feet. There are also several upcoming office developments in Putrajaya, mainly for government use, however, these buildings have been excluded from our survey.

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

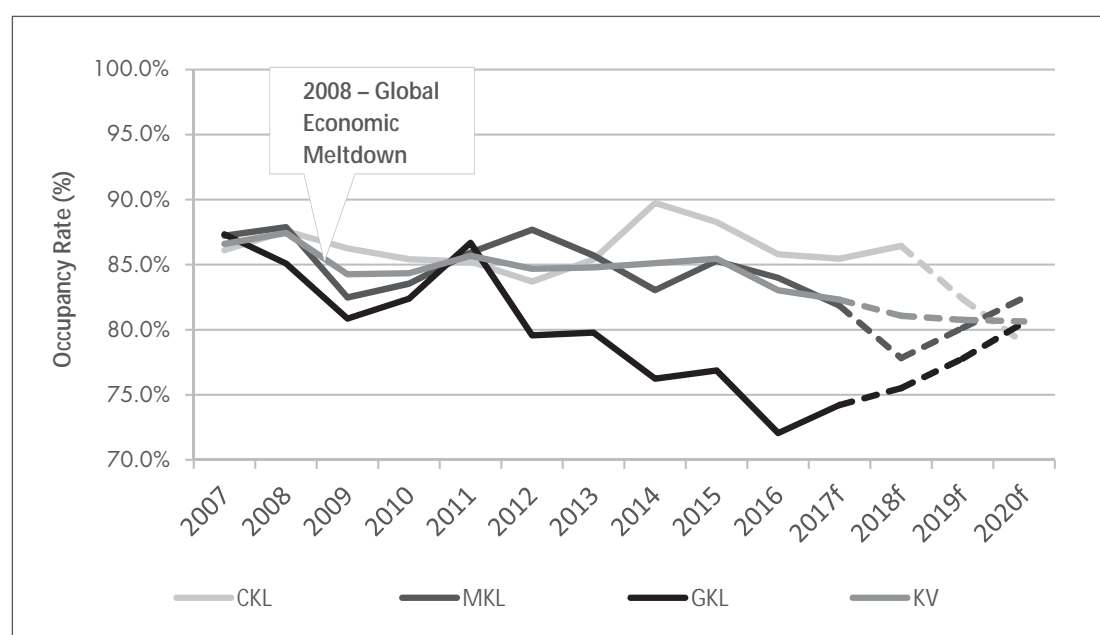
1.2 Supply and Demand (cont'd)

1.2.1 Existing Supply (cont'd)

Since the onset of the crude oil price crisis from mid-2015 onwards, most offices in the banking and oil & gas sectors have already undergone right-sizing of their spatial requirements.

Nevertheless, the Golden Triangle area has been enjoying low vacancy rates for the last three years. This is attributed to favourable locational factors namely the premium "Kuala Lumpur" address, being centrally located and well connected by rail and road transport services.

Chart 1.3: Occupancy Rate of Purpose-built Office Buildings in Klang Valley (2007 to 2020f)



Abbreviation: CKL-Central Kuala Lumpur; MKL-Metropolitan Kuala Lumpur; GKL-Greater Kuala Lumpur; KV-Klang Valley; f-forecast

Source: CBRE|WTW Research, December 2017

Manager's Report

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand (cont'd)

1.2.1 Existing Supply (cont'd)

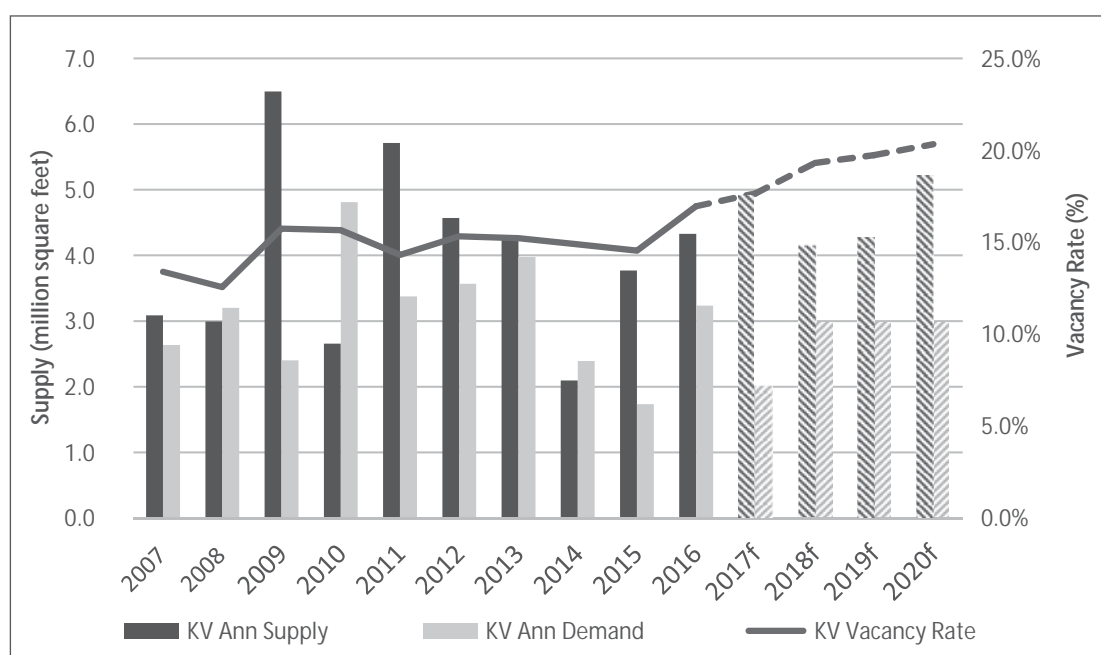
Occupancy rates were stable in Klang Valley, achieving an average of 83.5% during the review period. Office buildings in Cyberjaya had been enjoying occupancy rates between 72.2% and 84.4% in the last five years whereas Putrajaya occupancy rates hovered between 50.9% and 68.4% over the same period. As at 3Q 2017, the average occupancy rate of office space in Cyberjaya/Putrajaya registered an average of 69.5% (Cyberjaya: 79.4%, Putrajaya: 59.7%). Generally, the occupancy rate in Cyberjaya is much healthier compared to Putrajaya as many office buildings located in Cyberjaya are largely owner occupied coupled with the Multi-media Super Corridor ("MSC") status.

Purpose-built buildings located in high concentration of office development and supported by good public transportation such as CKL and KL Sentral/Mid Valley localities have enjoyed favourable demand.

Based on our survey on the take-up rate in Klang Valley, the average annual take-up for the last 5 years (2012 – 2016) was approximately 2.98 million square feet whilst during the review period i.e. 3Q 2017, a take-up of about 0.577 million square feet was recorded which was an improvement of 25.2%, compared with the same quarter in 2016.

Given that there will be new supply of about 17.13 million square feet in Klang Valley by end of 2020 and assuming that the take-up for the next 3 years is about 2.98 million square feet per annum, the overall vacancy rate in Klang Valley is anticipated to trend upwards, hovering between 17.7% and 20.3%.

Chart 1.4: Supply, Take-up & Vacancy Rates of Purpose-built Office in Klang Valley (2007 to 2020f)



Note: The analysis takes into consideration only ongoing supply which have commenced construction during the review period

Abbreviations: KV-Klang Valley; Ann-Annual

Source: CBRE|WTW Research, December 2017

Manager's Report

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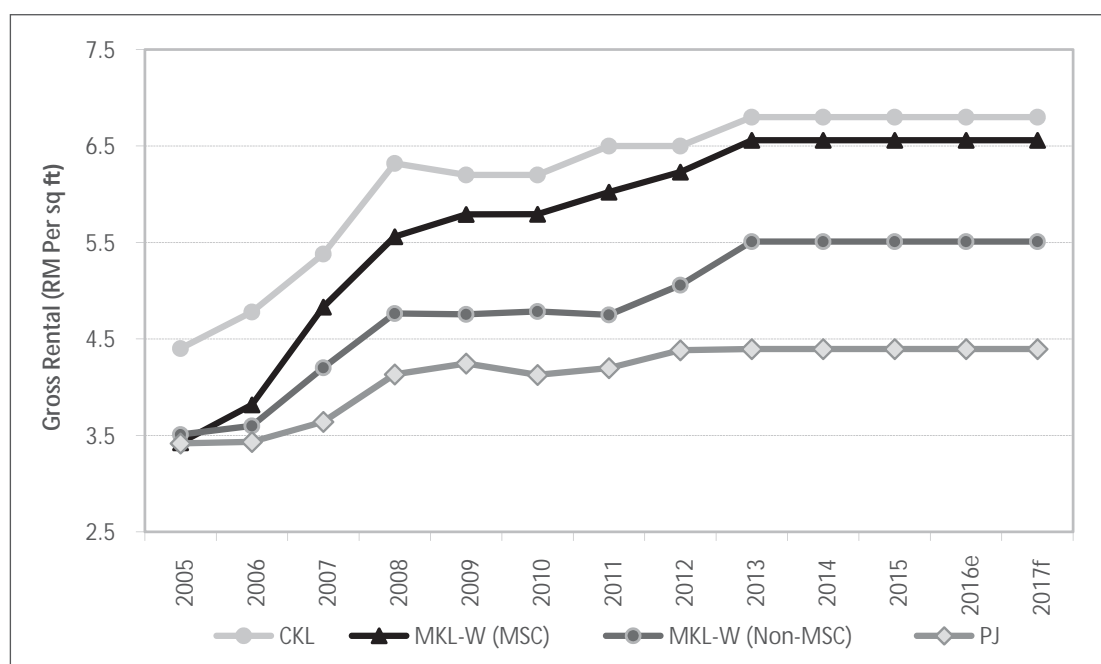
Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand (cont'd)

1.2.2 Investment Activity

Chart 1.5: Summary of Average Rental Growth in Selected Zone



Source: CBRE|WTW Research, December 2017

The growth in the popularity of alternative office locations such as KL Sentral/Mid Valley, Petaling Jaya/ Bandar Utama, coupled with improved intra city connectivity with the completion of light rapid rail ("LRT") and mass rapid transit ("MRT") in Klang Valley to some extent have resulted in a narrowing gap of rentals in CKL and MKL since 2008. With large pipeline supply in the next three years, rentals have remained flat as new generations of better quality office buildings which are mostly MSC compliant and/or have green building features dominate the supply.

Selected prime office buildings within CKL are currently being offered at monthly gross rents of around RM6.80 to RM11.00 per square foot (excluding Petronas Twin Towers) whereas asking gross rents of office space in MKL and CKL are generally between RM5.00 and RM6.00 per square foot per month (with the exception of office space within KL Sentral and Bangsar South development, which generally offers RM6.50 to RM7.50 per square foot per month for MSC status buildings). Gross rentals are quoted inclusive of service charges which are generally between RM1.50 and RM1.80 per square foot for prime office buildings.

For office buildings in Putrajaya/Cyberjaya, monthly gross rents are generally in the range of RM4.00 to RM5.00 per square foot.

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand (cont'd)

1.2.2 Investment Activity (cont'd)

The table below is a summary of latest transactions of en-bloc office buildings in Klang Valley. Generally the yields have remained steady since 2006 at a rate of 5.0% to 6.5%.

Table 1.3: Selected Transactions of Purpose-built Office Buildings in Klang Valley (2016-2017)

Month, Year	Name of Building	Zone	Seller	Buyer	Net Lettable Area (square feet)	Sales Price (RM'million)	Price (RM/psf)
Sept 17	VistaTower	CKL-Golden Triangle	The Intermark Sdn Bhd	AmanahRaya KenedixREIT Manager Sdn Bhd	551,875	455.0	825
June 17	Wisma Selangor Dredging	CKL-Golden Triangle	Selangor Dredging Sdn Bhd	Golden Eagle Realty	362,782	480.0	1,323
Oct16	Capsquare Tower	CKL-Secondary	Union Investment Real Estate GMBH	Kumpulan Wang Persaraan (KWAP)	601,574	511.0	849
Oct 16	Axis Eureka	GKL-Cyberjaya	Axis REIT	Malaysian Qualification Agency	116,903	56.13	480
June 16	Menara Shell	MKL-West	348 Sentral Sdn Bhd (Subsidiary of MRCB)	MQREIT	557,053	640.0	1,149
Jan 16	Dijaya Plaza	CKL-Secondary	Dijaya Plaza SdnBhd (subsidiary Tropicana Corporation Bhd)	Kenanga Investment Sdn Bhd	156,488	140.0	895

Source: Bursa Malaysia General Announcements, CBRE|WTW Research, December 2017

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

1 Purpose-Built Office¹ Market Overview (cont'd)

1.2 Supply and Demand (cont'd)

1.2.3 Market Outlook

With the large pipeline supply of 17.13 million square feet by year 2020 albeit soft take-up rate of 3.00 million square feet per annum indicates a mismatch of the demand and supply of purpose-built office space in Klang Valley. The purpose-built office market is expected to remain challenging and will exert downward pressure on occupancy rates and rentals due to the slow economic growth and future oversupply. Being a tenants' market, landlords are in dire need to apply attractive leasing package to the potential tenants, especially in terms of attractive rental and rent free period.

An average 69.5% occupancy rate was recorded in the study area (Cyberjaya 79.4%, Putrajaya 59.7%) of which Cyberjaya performed better as many buildings in this area are owner occupied coupled with the MSC status.

There are few upcoming office buildings in the study area but most of these buildings are for government use. Menara Perdana MRCB and Tower 6 @ Skypark are the only upcoming private purpose-built office development in the area. With a total net lettable area of 0.608 million square feet, these developments are expected to be completed in the next three (3) years. The improvement in connectivity with the completion of the MRT SSP line (Sungai Buloh-Serdang-Putrajaya) in 2022 is anticipated to improve the demand for office space in the area.

2 Purpose-Built Retail² Sector

2.1 General

The Klang Valley retail market is expected to be cautious with slow recovery in 2017 after a challenging retail landscape throughout 2016.

As reported by Retail Group Malaysia ("RGM"), retail sales grew by 4.9% in 2Q 2017 compared to a 1.2% contraction in the first three months of 2017, which was mainly supported by the Raya festival. During the first half, retail sales grew 2.5% compared to the same period last year (1H2016: 0.5%). Similarly, Consumer Sentiment Index by Malaysian Institute of Economic Research rose to 80.7% in 2Q 2017 despite below the 100 point threshold. Overall, RGM predicted that the recovery in retail sales growth post Government Service Tax ("GST") contribution will pick up in 2018 amidst cautious consumer spending.

Retailing activities are expected to be positively driven by growing tourist arrivals with significant retail spending power. The recent SEA Games, Malaysia Formula 1 and upcoming Mega sales are expected to drive tourist arrivals and retail spending in 2017 with increase footfalls in prime malls located within the shopping belt and tourists' favourite destinations within Klang Valley.

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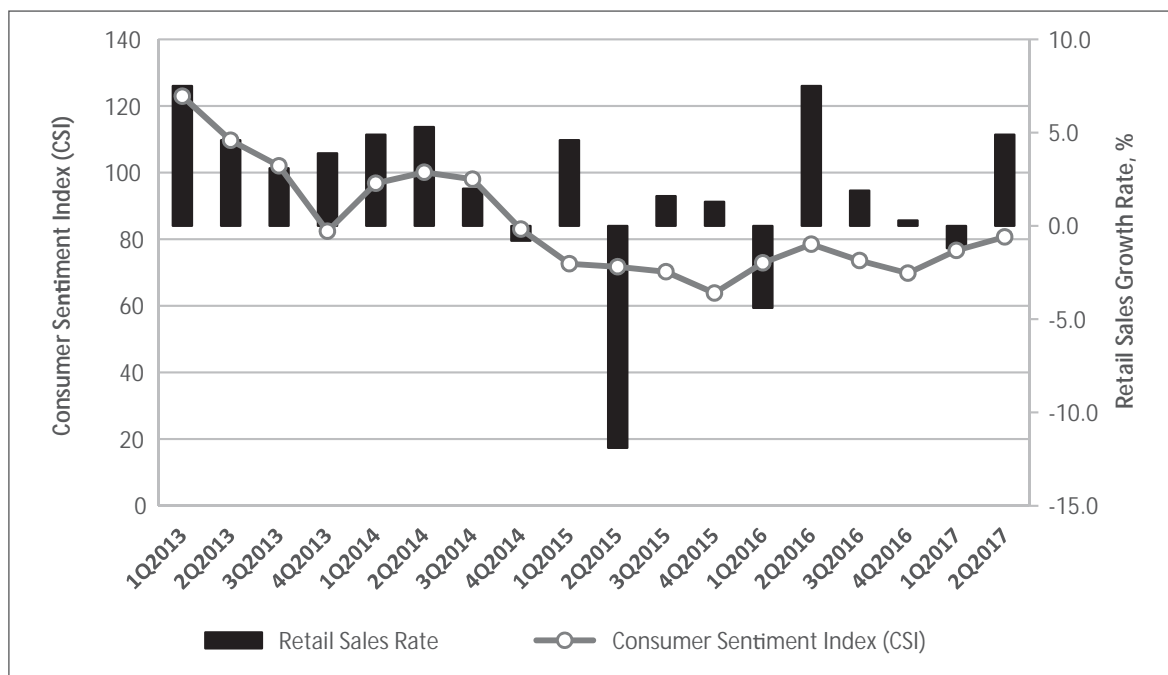
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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.1 General (cont'd)

Chart 2.1: Summary of Consumer Sentiment Index and Retail Sales Rate



Source: Malaysian Institute of Economic Research (MIER) and Malaysia Retailers Association (MRA), 2Q 2017

² A purpose-built retail centre is defined as an enclosed, multi-levelled shopping area, marketed as a 'one-stop' shopping destination with a defined trade area that usually draw a population catchment of domestic and/or internationally. It offers a wide variety of discretionary merchandise from local and/or international retailers. CBRE-WTW Research has categorised this use into: (1) Mall/Mega Mall; (2) Neighbourhood; (3) Hypermarket; (4) Destination Centre; each type has its own criteria in respect of the target market, products and catchment population area.

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley

2.2.1 Supply and Demand

Table 2.1: Summary of Existing Purpose-built Retail space in Klang Valley (as at 3Q 2017)

Supply/Performance	Klang Valley	Zone	
		Kuala Lumpur	Outside Kuala Lumpur
Existing Supply (million square feet)	57.55	32.59	24.9
% of Share		54.6%	45.4%
Future Supply (million square feet)	13.14	7.28	5.86
% of Share		55.4%	44.6%
Vacancy Rate	11.3%	8.8%	14.5%

Source: CBRE|WTW Research, December 2017

Cumulative supply of retail space in Klang Valley is estimated at 57.55 million square feet as at 3Q 2017. There was one completion during the review period, namely Melawati Mall with a net lettable area of 820,000 square feet.

Being a shopping heaven and ranked Top 10 in the World's Best Shopping Destinations, Kuala Lumpur continues to dominate the Klang Valley retail market, representing 54.6% of the total Klang Valley supply. Majority of the Kuala Lumpur retail space are concentrated in the Kuala Lumpur City Centre ("KLCC") and Bukit Bintang shopping districts.

Mid Valley City, Petaling Jaya North and Sunway-Subang belt, which are major suburban locations, are still enjoying high occupancy rates of above 90%. These successful retail malls are integrated within township developments and well-connected via road networks and public transport such as Keretapi Tanah Melayu ("KTM") Commuter Train service, light rail transit ("LRT"), mass rapid transit ("MRT") and Bus Rapid Transit ("BRT") lines.

A total of nineteen (19) new purpose-built retail centres contributing approximately 13.14 million square feet of retail space are expected to be completed in Klang Valley by the end of 2020. The main focus will still be in Kuala Lumpur with a pipeline supply of 7.28 million square feet (or 55.4% of total Klang Valley future supply) and the other 5.86 million square feet (or 44.6% of total Klang Valley future supply) will be Outside Kuala Lumpur.

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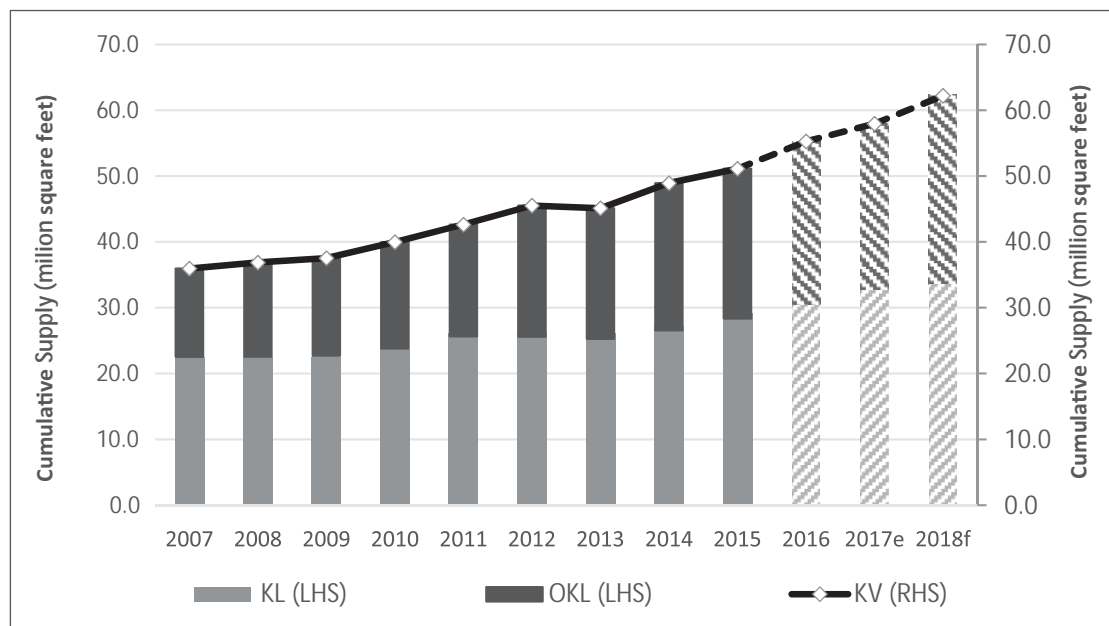
Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley (cont'd)

2.2.1 Supply and Demand (cont'd)

Chart 2.2: Cumulative Supply of Purpose-built Retail Space in Klang Valley vis-a-vis Kuala Lumpur vis-a-vis Outside Kuala Lumpur (2007 to 2020f)



Abbreviation: KV-Klang Valley; KL-Kuala Lumpur; MKL-W-Metropolitan KL West

Source: CBRE|WTW Research, December 2017

Table 2.2: List of Completions of Purpose-built Retail Space in Klang Valley (as at 3Q 2017)

Building Name	Location	Completion	Type	Estimated Net Lettable Area (square feet)
Kuala Lumpur				
Melawati Mall	Taman Melawati	3Q 2017	Neighbourhood	620,000
KL Gateway Retail Centre	Bangsar South	1Q 2017	Neighbourhood/ Lifestyle Centre	1,660,000
MyTown Shopping Centre	Jalan Cochrane		Megamall	
Shaw Parade	Changkat Thambi Dollah		Urban Shopping Centre	
Subtotal (Kuala Lumpur)				2,280,000
Outside Kuala Lumpur				
No Completion				
Subtotal (Outside Kuala Lumpur)				0
Total Klang Valley (KV)				2,280,000

Source: CBRE|WTW Research, December 2017

Manager's Report

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley (cont'd)

2.2.1 Supply and Demand (cont'd)

Table 2.3: Summary of Future Supply of Purpose-built Retail Space in Klang Valley

Zone	2017	2018	2019	2020	Total
Kuala Lumpur (square feet)	0	956,000	925,000	5,400,000	7,281,000
Outside Kuala Lumpur (square feet)	410,000	3,300,000	1,000,000	1,150,000	5,860,000
Total Klang Valley (square feet)	410,000	4,256,000	1,925,000	6,550,000	13,141,000

Source: CBRE|WTW Research, December 2017

Table 2.4: List of Future Supply of Purpose-built Retail Centres

Year	Name of Retail Centre	Estimated Net Lettable Area (square feet)
Kuala Lumpur (KL)		
4Q 2017	No completion	0
2018	KL Ecocity Retail	956,000
	Four Season Place	
	Selayang Star City Mall	
2019	Kiara 163 Lifestyle Mall	925,000
	Eko Cheras Mall	
2020	Sapura Corporate HQ Retail	5,400,000
	Tun Razak Exchange Lifestyle	
	CitiTower Retail Podium (Lot 185, Lot 167(K) & Lot 176, KLCC-Qatar JV Project.)	
	KL 118 Retail Centre	
	Pavilion Bukit Jalil	
	8 Conlay Lifestyle Quarter	
	Datum Jelatek	
Subtotal Kuala Lumpur (2017 – 2020)		7,281,000
Outside Kuala Lumpur		
2017	Evo Shopping Centre	410,000
	Amerin Mall	
2018	Central Plaza @ i-City	3,300,000
	Empire City Mall*	
2019	Tropicana Garden Mall	1,000,000
2020	PIER 8 @ Gravit8	1,150,000
	Empire Remix @ USJ 1	
Subtotal Outside Kuala Lumpur (2017 – 2020)		5,860,000
Total Klang Valley (2017 -2020)		13,141,000

Note: *The Ice Skating Rink and a few Food and Beverage Outlets commenced operations for the SEA Games in August 2017

Source: CBRE|WTW Research, December 2017

Manager's Report

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley (cont'd)

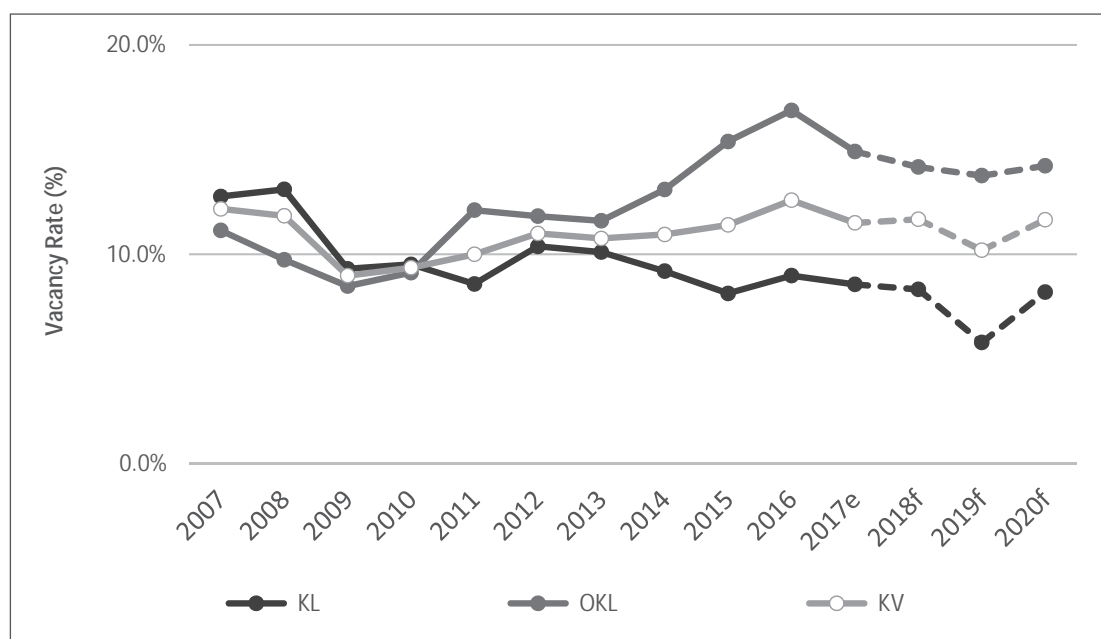
2.2.1 Supply and Demand (cont'd)

The average occupancy rate of purpose-built retail centres in Klang Valley was 88.7% as at 3Q 2017, a marginal decrease of 2.0% from the previous quarter. Active pre-leasing activities had resulted in most newly opened retail centres in strategic locations and neighbourhoods achieving good occupancy rates of between 70% and 80% upon opening.

Retail centres located within Kuala Lumpur continued to perform better than those malls located Outside Kuala Lumpur, achieving an average occupancy rate of 91% and 89% respectively. Notable malls in Klang Valley which are owned and managed by Real Estate Investment Trusts ("REITs") have generally performed better, with above 90% occupancy rates and good mixture of retailing activities.

The shopping malls located in the city fringe, namely Mont' Kiara, Sri Hartamas and Bangsar remain appealing, due to its good tenant mix consisting of mainly food and beverage retailers, catering to affluent urbanites in the localities.

Chart 2.3: Vacancy Rate of Purpose-built Retail Centre in Klang Valley



Abbreviation: KL-Kuala Lumpur; OKL-Outside Kuala Lumpur; KV-Klang Valley

Source: CBRE|WTW Research, December 2017

Manager's Report

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley (cont'd)

2.2.1 Supply and Demand (cont'd)

Retail take-up rates in Klang Valley for the past 5 years (2012-2016) have been consistent at an average of 2.05 million square feet per annum.

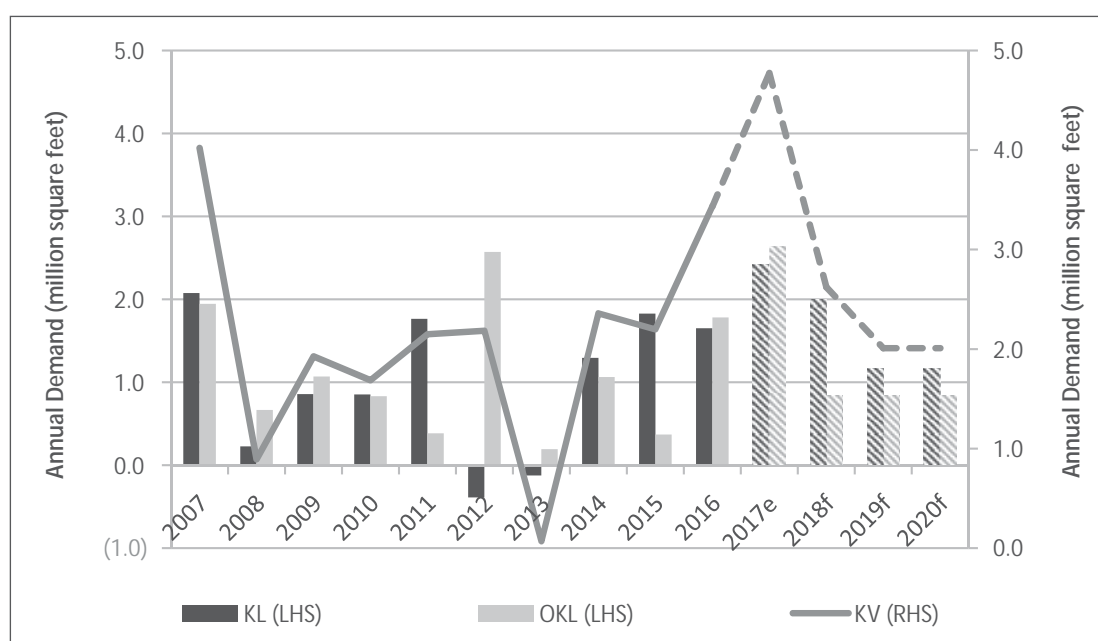
The take-up of retail space in Kuala Lumpur over the last five years (2012-2016) remained resilient at average of 0.85 million square feet per annum. It was observed that most new retail spaces that came on stream between 2014 and 2016 were part of an integrated/mixed development. This has augured well for these retail malls as leasing activities have remained active, with significant take up of between 1.294 million square feet and 1.827 million square feet per annum.

Retail malls Outside Kuala Lumpur have shown higher take-up rates, averaging at 1.200 million square feet in the last five years (2012-2016). This is due to the completion of the mass rapid transit and light rail transit lines that have improved connectivity between Kuala Lumpur city centre and Outside Kuala Lumpur.

In the coming years, the vacancy rate of between 4.0% and 8.7% in Kuala Lumpur is expected with an additional supply of 7.28 million square feet in the pipeline. To overcome this challenging operating environment, retailers will need to adopt asset enhancement initiatives ("AEI"), to create the right shopping environment and be more innovative with its leasing strategy and tenant mix. However, established retail malls in the well located areas are expected to remain stable, as they continue to be attractive locations for international brands to expand their presence in Kuala Lumpur.

With the advancement of technology, retailers are slowly embracing the "click and mortar" concept. However, traditional retail stores in Klang Valley will still be relevant as most shoppers prefer the physical mall experience and malls have also evolved from then just a place for shopping to a place to socialise and conduct other recreational activities.

Chart 2.4: Take-up of Retail Space in Purpose-built Retail Centres in Kuala Lumpur and Outside Kuala Lumpur (2007 to 2020f)



Abbreviation: KV-Klang Valley; KL-Kuala Lumpur; OKL-Outside Kuala Lumpur
Source: CBRE|WTW Research, December 2017

Manager's Report

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

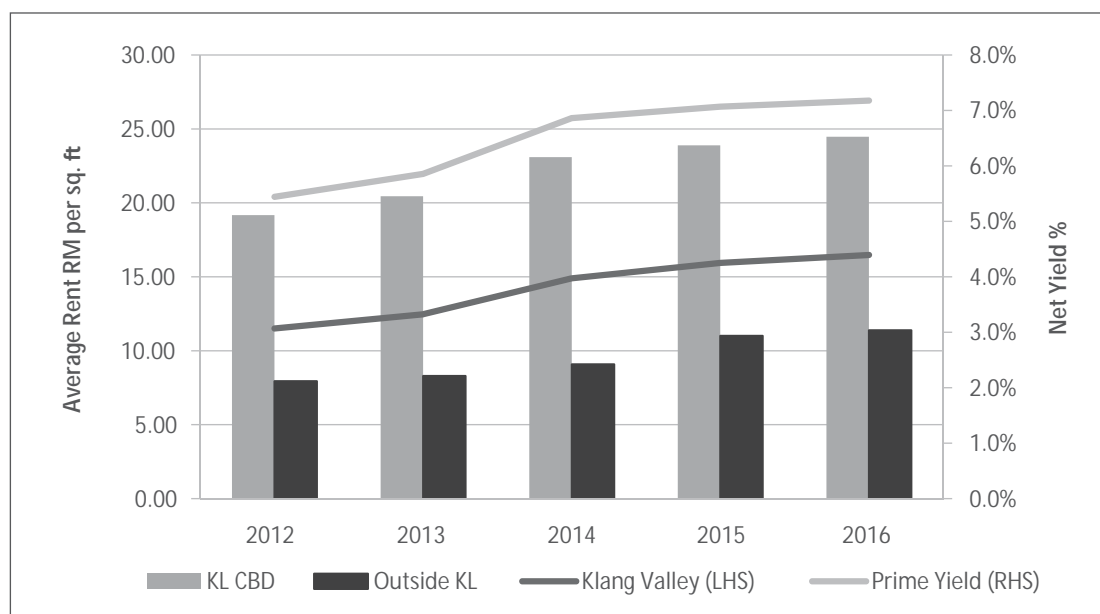
2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley (cont'd)

2.2.2 Investment Activity

Prime retail rentals in Klang Valley are expected to remain stable. According to REITs Annual Report, the average prime gross rental of the selected prime retail centres in Klang Valley is about RM16 per square foot. Kuala Lumpur retail centres in general, command higher rental rates of about RM27 per square foot whilst prime retail centres located Outside Kuala Lumpur command a lower rental rate of about RM11 per square foot.

Chart 2.5: Average Prime Gross Rental in Klang Valley (2012 - 2016)



Abbreviation: KV-Klang Valley; KL-Kuala Lumpur; OKL-Outside Kuala Lumpur

Source: REITS Annual Reports, 2012-2016, CBRE|WTW Research, December 2017

In the past two years, there were three (3) notable transactions involving retail centres that were acquired by Real Estate Investment Trusts ("REITs"). Pavilion REIT acquired two retail centres in 2015, i.e. DA MEN USJ in Subang Jaya and The Intermark Mall in Kuala Lumpur city centre, whilst CapitaMalls Malaysia Trust ("CMMT") purchased Tropicana City Mall and Office in Petaling Jaya. Whilst in 2017, two retail centres were transacted, namely Empire Shopping Mall and AEON Mahkota Cheras. Empire Shopping Mall changed hands from Mammoth Empire Sdn Bhd to Pelaburan Hartanah Berhad ("PHB") while AEON Mahkota Cheras was bought by Foremost Wealth Management Sdn Bhd from AEON (M) Sdn Bhd.

Generally the yields have remained steady since 2006 at a rate of 6.0% to 7.0%.

Manager's Report

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.2 Klang Valley (cont'd)

2.2.2 Investment Activity (cont'd)

The details of retail centres transacted between 2015 and 2017 are summarised in the table below:-

Table 2.5: Retail Centre Transaction in Klang Valley in 2015-2017

Transacted Year	Building Name	Net Lettable Area (square feet)	Seller	Buyer	Selling Price RM million (RM per square foot)
2017	AEON Mahkota Cheras	69,998	AEON (M) SDN BHD	Foremost Wealth Management Sdn Bhd	87.8 (1,254)
2017	Empire Shopping Mall	350,000	Mammoth Empire Sdn Bhd	PHB	570.0 (1,629)
2015	The Intermark Mall	225,014	The Intermark Sdn Bhd	Pavilion REIT	160.0 (711)
2015	Da Men USJ	420,920	Equine Park Country Resort Sdn Bhd & Revenue Concept Sdn Bhd	Pavilion REIT	488.0 (1,159)
2015	Tropicana City Mall & Offices*	639,447	Tropicana City Sdn Bhd	Capitamalls Malaysia Trust	540.0 (844)

Source: Bursa Announcements, CBRE|WTW Research, December 2017

2.2.3 Market Outlook

With an average annual take-up rate of 2.05 million square feet and the incoming supply of 13.14 million square feet, the purpose-built retail sector is expected to experience a soft landing with vacancy rates increasing to approximately 10% by 2020. New developers and mall owners will have to put more efforts in analysing the consumer market to ensure that the malls appeal to and meet consumers' need.

Rising operating costs and cautious consumer spending are some of the challenges faced by retailers. However, in recent times, retailers have evolved from its traditional ways of doing business by developing alternative sales channels to increase sales volume via various innovative marketing strategies such as Omni channel, click and collect, concept stores, tech-savvy advertisements and promotions. Despite the increase in online shopping, physical stores in Klang Valley will remain important as most shoppers still enjoy the physical shopping experience which allows them to touch and feel the products.

Prime malls located at strategic locations are preferred to retailers as they attract more footfalls. Rental and occupancy rates are expected to be challenging, except for prime malls and neighbourhood malls that are well-located to catchment crowd and public transportation, continue to remain stable.

Despite the weak domestic consumer market sentiment, retailing activities are expected to have good prospects with the growing tourism sector. With the theme of 'Malaysia Truly Malaysia', coupled with promotional efforts by Tourism Malaysia, Malaysia is targeting to reach 31.8 million tourist arrivals with RM118 billion receipts in 2017 in the light of the recent relaxation of visa requirements and favourable local currency.

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Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.3 Penang³

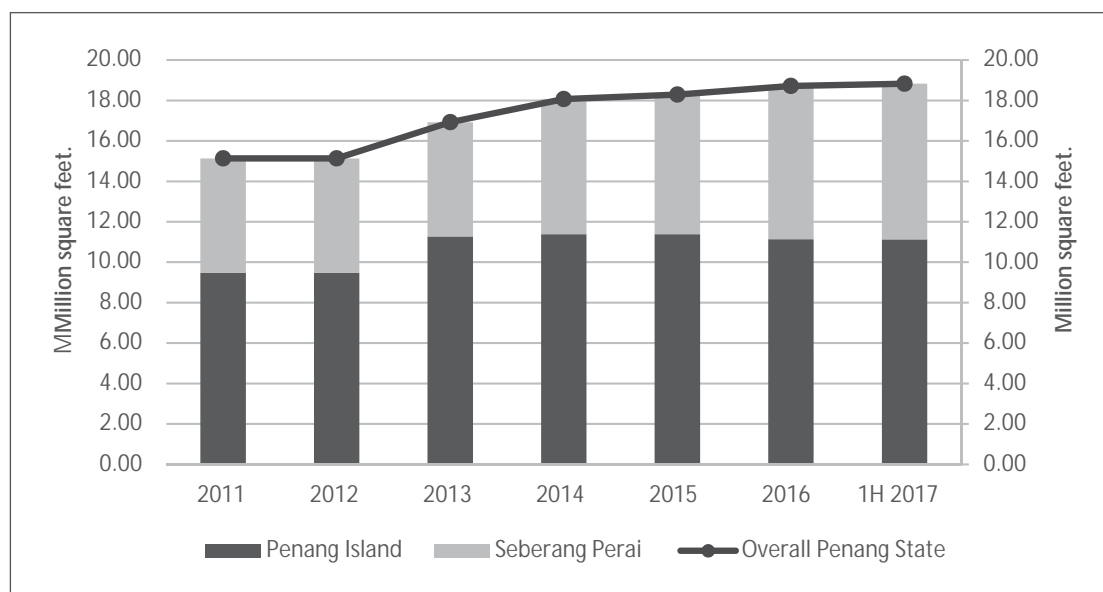
2.3.1 Supply and Demand

Table 2.6: Existing Supply and Occupancy Rate

Supply/Performance	Penang State	Location	
		Penang Island	Seberang Perai
Existing Supply (million square feet)	18.831	11.126	7.705
Share (%)		59%	41%
Occupancy Rate	71%	76%	63%

Source: NAPIC, CBRE|WTW Research, December 2017

Chart 2.6: Trend of Cumulative Supply of Purpose-built Retail Space in Penang



Source: NAPIC, CBRE|WTW Research, December 2017

The overall occupancy rate of purpose-built retail centres in Penang was relatively stable, which was in the region of 66% to 72% in the past 5 years. Retail malls in Penang Island continued to outperform those in Seberang Perai, of which the former registered an overall occupancy rate of about 76% whilst the latter at about 63%. The high occupancy of the island, is attributed to the good retail sales mainly from the relatively large working population as well as tourists.

³ In general, Penang state is categorized into two (2) main areas, i.e. Penang Island and Seberang Perai.

Manager's Report

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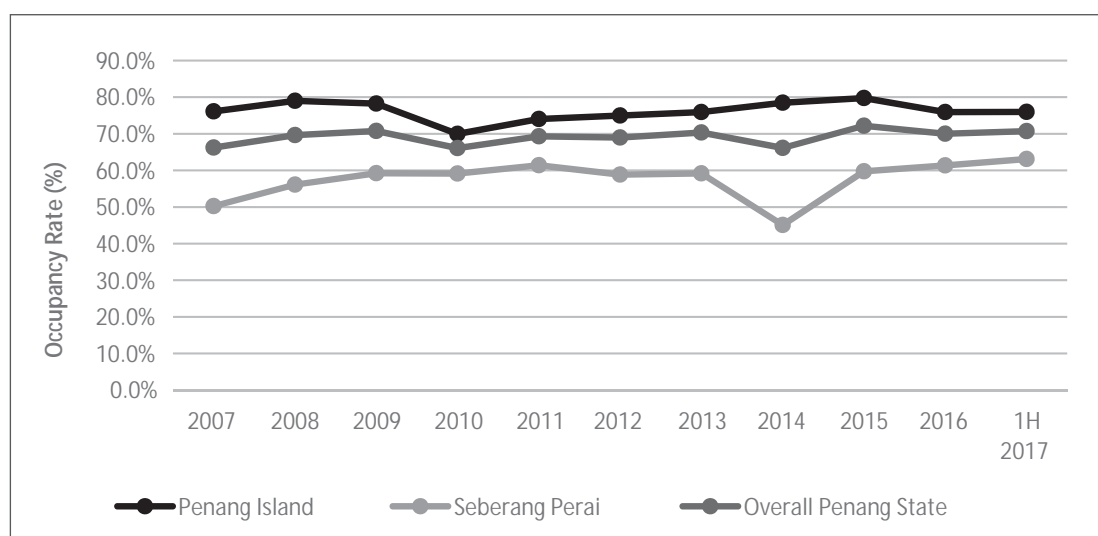
Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.3 Penang³ (cont'd)

2.3.1 Supply and Demand (cont'd)

Chart 2.7: Overall Occupancy Rate of Purpose-built Retail Centre in Penang



Source: NAPIC, CBRE|WTW Research, December 2017

Penang has a total of approximately 120,000 square feet of newly completed retail space in 2017, contributed by one (1) new hypermarket which is located in Kepala Batas/Bertam in Seberang Perai.

Table 2.7: Newly Opened Purpose-built Retail Centres in Penang in 2017

Location	Name	Estimated Net Lettable Area (square feet)
Seberang Perai	Tesco Kepala Batas (Bertam)	120,000

Source: CBRE|WTW Research, December 2017

In terms of future supply, there are notable upcoming and planned retail malls, which are expected to be completed within the next eight years. Some retail space in Penang Sentral Terminal Hub (Phase 1 of Penang Sentral Intermodal Transit – Oriented Development) is expected to be opened to public soon by early 2018.

Manager's Report

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

2 Purpose-Built Retail² Sector (cont'd)

2.3 Penang³ (cont'd)

2.3.1 Supply and Demand (cont'd)

Table 2.8: Notable Upcoming Purpose-built Retail Centres in Penang

Location	Building Name	Estimated Net Lettable Area (square feet)	Expected Year of Completion
Penang Island	City Mall @ Tanjong Tokong	300,000	2018
	Penang Time Square Phase 3	230,000	2019
	Mall @ Southbay City	750,000	2020
	Retail Mall @ Sunshine Tower	N.A.	2020
	Retail Mall @ Penang World City	1,000,000	2024
	The Light Retail Mall	1,000,000	2025
	Sunway Paya Terubong	1,000,000	2025
Seberang Perai	IKEA @ Batu Kawan	430,000	2018
	Ikano Shopping Centre @ Batu Kawan	1,000,000	2019
	GEMS Megamall	1,200,000	2020
	Sunway Carnival Extension	500,000	2020
	Retail Mall @ Penang Sentral	392,000	2020
	Tesco @ Bagan Ajam	N.A.	2020

Source: CBRE|WTW Research, December 2017

2.3.2 Investment Activity

Gross rentals of retail lots on the ground floor of selected prime retail malls in Penang Island commanded higher rental rates compared to those in Seberang Perai, of up to RM45 per square foot per month. For en-bloc hypermarket, the gross rentals range from RM2.10 per square foot per month to RM3.05 per square foot per month in Seberang Perai and Penang Island.

There was no en-bloc transaction of retail malls recorded in 2017. For retail lots, higher transacted prices were recorded in Penang Island, of over RM2,800 per square foot for units with prime location.

2.3.3 Market Outlook Investment Activity

In the next three to eight years, more intense competition among retailers/landlords is anticipated as more retail space of nearly 8 million sq. ft. is expected to come on stream. Consumers' shopping pattern is also expected to continue evolving with the growth of e-commerce. Factors driving e-commerce growth, generally in the South-East Asia Region and particularly Malaysia, include high smart phone ownership, active use of social media, a relatively young population and slow growth of retail developments in rural areas.

Moving forward, the search and purchase of a product will not be confined solely to shopping at the physical stores in retail malls. Hence, retailers and landlords will have to innovate and evolve with the times to stay ahead in the fast-changing retail landscape where the boundaries between the physical and digital are increasingly blurred. Close attention should be given to the value that retailers and landlords can provide the shoppers i.e. such as customer experience and lifestyle.

Manager's Report

cont'd

Income distribution

In line with the Trust Deed, MQREIT intends to distribute at least 90% (or any other higher 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.

During the financial year, MQREIT made two income distributions to unitholders, totalling RM72.62 million or 8.38 sen per unit, which comprised (i) a special income distribution of 4.15 sen per unit for the period of 1 July 2016 to 16 December 2016, which was paid on 13 January 2017; and (ii) the interim income distribution for FY 2017 of 4.23 sen per unit for the period from 1 January 2017 to 30 June 2017, which was paid on 18 September 2017.

The Manager has declared a final gross distribution for the financial year ended 31 December 2017 of RM44,428,800 or 4.16 sen per unit, being distribution of income for the period of 1 July 2017 to 31 December 2017. The said declared distribution will be payable on 28 February 2018.

The total distribution declared is 8.39 sen per unit, totalling RM89,605,200 representing approximately 97.0% of the distributable income for the financial year ended 31 December 2017. The details of the total distribution for the financial year ended 31 December 2017 are disclosed in Note 13 to the financial statements.

Income distributed to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax.

The applicable tax rates for income distribution payable in year 2017 are as follows:

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

	Before proposed final income distribution RM	After proposed final income distribution RM
Net asset value ("NAV") per unit	1.2966	1.2550

Breakdown of unitholdings as at 31 December 2017

Unit class	Number of unitholders	Number of unitholdings	Percentage of unitholdings (%)
Less than 100	82	1,088	0.00
100 to 1,000	790	556,112	0.05
1,001 to 10,000	2,311	12,469,000	1.17
10,001 to 100,000	1,324	47,533,200	4.45
100,001 to less than 5% of approved fund size	282	515,727,700	48.29
5% and above of approved fund size	3	491,712,900	46.04
	4,792	1,068,000,000	100.00

Manager's Report

cont'd

Reserves and provisions

There were no material transfers to and from reserves or provisions during the financial year other than as disclosed in the statement of changes in NAV.

Directors

The names of the directors of the Manager in office since the date of last report and at the date of this report are:

Tan Sri Saw Choo Boon
 Dato' Dr. Low Moi Ing, J.P.
 Dato' Michael Ong Leng Chun
 Kwan Joon Hoe
 Ann Wan Tee
 Foong Soo Hah
 Dr. Roslan Bin A. Ghaffar
 Dato' Thanarajasingam Subramaniam
 Amminuddin Bin Mohd Arif

Directors' benefit

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Manager was a party, whereby the directors of the Manager might acquire benefits by means of the acquisition of units in or debentures of MQREIT or any other body corporate.

Since the end of the previous financial year, no director of the Manager has received or become entitled to receive a benefit by reason of a contract made by MQREIT or a related corporation with any director of the Manager or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except for units held in MQREIT as disclosed in Note 29 to the financial statements and the related party transactions as disclosed in Note 32 to the financial statements.

Directors' interests

	Units as at 1 January 2017	Number of units acquired/ (disposed)	Units as at 31 December 2017
Direct interest:			
Dato' Dr. Low Moi Ing, J.P.	50,000	-	50,000
Dato' Michael Ong Leng Chun	55,000	-	55,000
Indirect interest:			
Dato' Dr. Low Moi Ing, J.P. (a)	117,040,000	-	117,040,000
Dato' Michael Ong Leng Chun (b)	117,040,000	-	117,040,000

(a) Deemed interest by virtue of her direct shareholding in Quill Properties Sdn. Bhd. ("QPSB"), Quill Land Sdn. Bhd. ("QLSB") and Quill Estates Sdn. Bhd. ("QESB").

(b) Deemed interest by virtue of his direct shareholding in QPSB, QLSB and QESB.

Except for the direct and indirect directors' interests disclosed above, none of the other directors of the Manager in office at the end of the financial year had any interest in MQREIT.

Manager's Report

cont'd

Issuance of new units

There was no issuance of new units during the financial year ended 31 December 2017.

Utilisation of proceeds raised from issuance of new units

There were no proceeds raised as there was no issuance of new units during the financial year ended 31 December 2017.

Particulars of all sanctions and/or penalties imposed on MQREIT, directors of the management company or the management company by the relevant regulatory bodies

During the financial year ended 31 December 2017, there were no sanctions and/or penalties imposed on MQREIT, its Manager and/or directors of its Manager by any of the relevant regulatory bodies.

Amount of non-audit fees incurred for services rendered to MQREIT by its auditors, or a firm of company affiliated to the auditors' firm

During the financial year ended 31 December 2017, there were non-audit fee of RM5,500 for the review of Statement of Risk Management and Internal Control services; tax agent fee of RM24,200 for the services rendered by Ernst & Young Tax Consultants Sdn. Bhd.; and RM100,000 on the advisory services for sustainability reporting for FY 2017 by Ernst & Young LLP, Singapore.

Particulars of material contracts of MQREIT involving the management company and/or major unitholders' interests

Details of material contracts with related parties other than manager's fees to the Manager are as follows (refer to Note 32 to the financial statements):

- (i) Rental of the premise known as Unit G02-G04, Ground Floor at Platinum Sentral with Prema Bonanza Sdn Bhd ("PBSB") from 1 January 2017 to 31 March 2017 for RM196,628 and charges on reinstatement work for RM2,451.

PBSB was incorporated in Malaysia on 11 December 2006 and its principal activity is property development.

PBSB is a 51% subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), which is a major unitholder of MQREIT and a major shareholder of the MQM. The balance 49% shareholding in PBSB is held by Quill Residences Sdn. Bhd. ("QRSB"), a member of the Quill Group, which is also related to MQREIT's major unitholders namely QPSB, QLSB, QESB as well as Quill Resources Holding Sdn. Bhd. ("QRHSB") which is a major shareholder of the MQM.

- (ii) Car park operation agreement with Semasa Parking Sdn. Bhd. ("SPSB") to renew SPSB as the car park operator for Platinum Sentral for a period of 2 years commencing from 1 January 2017 to 31 December 2018, at a monthly minimum guaranteed rental of RM150,000 with a profit sharing basis in the proportion of 80% (MQREIT):20% (SPSB) ratio. The total amount received for the financial year ended 31 December 2017 amounted to RM1,996,297.

A letter of award has been issued to SPSB on 22 December 2016 with regards to the provision of car park operation at Menara Shell for a period of no more than 6 months at a minimum guarantee rental of RM155,000 per month. With effect from 22 March 2017, the appointment of SPSB as the car park operator for Menara Shell for a period effective from 22 March 2017 to 21 December 2018 will be at a monthly fee of RM170,000 per month. The total amount received for the financial year ended 31 December 2017 amounted to RM2,079,857.

SPSB was incorporated in Malaysia on 6 August 1997 and its principal activity is operation and management of car parks and parking area.

SPSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

Manager's Report

cont'd

Particulars of material contracts of MQREIT involving the management company and/or major unitholders' interests (cont'd)

Details of material contracts with related parties other than manager's fees to the Manager are as follows (refer to Note 32 to the financial statements): (cont'd)

- (iii) Auxiliary police services with Semasa Sentral Sdn. Bhd. ("SSSB") for deployment of auxiliary police personnel at Platinum Sentral, from January 2017 up to December 2017, amounted to RM512,400.

A letter of award has been issued to SSSB on 22 December 2016 for the provision of auxiliary police services at Menara Shell for a period of no more than 6 months at a fee of RM71,844 per month. The total amount incurred for the financial year ended 31 December 2017 amounted to RM807,345.

As announced on 22 August 2017, the 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 will be revised at the monthly rate of RM58,026 and RM32,940 respectively (excluding GST) with an option to extend for a further period of one (1) year.

SSSB was incorporated in Malaysia on 4 May 1982 and its principal activity is maintaining, operating and management of the Kuala Lumpur Sentral Station and any other buildings within the vicinity of Kuala Lumpur Sentral.

SSSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (iv) Supply of chilled water by Semasa District Cooling Sdn. Bhd. ("SDCSB") for installation, maintenance and meter reading for Platinum Sentral. The year to date charges for the financial year ended 31 December 2017 amounted to RM2,888,419.

SDCSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (v) Lease agreement with Malaysian Resources Sentral Sdn. Bhd. ("MRSSB") on lease on 2 pieces of land located on Platinum Sentral, measuring total NLA of 156,959 sq. ft., amounted to RM67,078.

MRSSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (vi) Reimbursement of insurance to Kuala Lumpur Sentral Sdn. Bhd. ("KLSSB") for Platinum Sentral Lot E deck from 1 April 2017 to 31 March 2018 amounted to RM14,022.

KLSSB is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (vii) Reimbursement of chilled water utilities, other reimbursements on utilities charges and refund of tenant's deposits to 348 Sentral Sdn Bhd ("348 Sentral") for Menara Shell amounted to RM2,699,754, RM93,041 and RM117,319 respectively.

348 Sentral is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (viii) Reimbursement of electricity charges for LED Outdoor Display Board to Country Annexe Sdn. Bhd. ("Country Annexe") for Menara Shell amounted to RM15,055.

Country Annexe is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (ix) Maintenance and sinking fund charged by Joint Management Body for Lot 348 ("JMB Lot 348") for Menara Shell for the period from 1 August 2017 to 31 December 2017 amounted to RM9,611.

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 consists of three (3) members of whom, 2 members are from MQM and 1 member from 348 Sentral.

Manager's Report

cont'd

Particulars of material contracts of MQREIT involving the management company and/or major unitholders' interests (cont'd)

Details of material contracts with related parties other than manager's fees to the Manager are as follows (refer to Note 32 to the financial statements): (cont'd)

- (x) Appointment of MRCB Sentral Properties Sdn. Bhd. ("MSP") as the service provider for the Provision of MSC Malaysia One-stop Centre Support Services for Menara Shell for a period of one (1) year commencing from 22 December 2016 to 21 December 2017.

1. Annual Fee* - RM50,000 per annum (excluding 6% GST)

* Annual Fee shall be conditional upon and subject to the issuance of the necessary approval by the governing authority for the renewal of the MSC Malaysia Status for the building

2. Monthly Fee of RM30,000 (excluding 6% GST)

MSP, a wholly-owned subsidiary of MRCB, was incorporated in Malaysia on 14 November 1990. The principal activity of MSP is property development and property management. MSP has been appointed by KLSSB as MSC One-stop Centre Support Services Provider for the designated premises located within Kuala Lumpur Sentral.

As announced on 15 December 2017, MQM had on 15 December 2017, appointed Kuala Lumpur Sentral Sdn. Bhd. ("KLSSB") and MRCB Sentral Properties Sdn. Bhd. ("MSP") for the provision of the following services at Menara Shell located at Kuala Lumpur Sentral for a period of two (2) years commencing from 22 December 2017 to 21 December 2019:

1. KLSSB as Cybercentre Manager for the annual compliance audit fee of RM50,000 (excluding 6% GST)
2. MSP as MSC One-stop Centre Support Services Provider for the monthly service fee of RM30,000 (excluding 6% GST)

The total amount accrued for the financial year ended 31 December 2017 amounted to RM421,022.

KLSSB, a 74% subsidiary of MRCB, was incorporated in Malaysia on 7 November 1994. The principal activity is sale of land and property development. Kuala Lumpur Sentral was granted MSC Malaysia Cybercentre Status on 9 February 2006 and KLSSB has been appointed as the Cybercentre Manager.

Changes in material litigations

The Manager is not aware of any pending material litigations since the date of the last report and at the date of this report.

Manager's responsibility for the annual audited accounts

The Manager is responsible for the preparation of the annual audited financial statements of MQREIT.

Manager's Report

cont'd

Other statutory information

- (a) Before the statement of comprehensive income and statement of financial position of MQREIT were made out, the directors of the Manager took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts of receivables and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors of the Manager are not aware of any circumstances which would render:
 - (i) it necessary to write off any bad debts or the amount of the allowance for doubtful debts in the financial statements of MQREIT inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of MQREIT misleading.
- (c) At the date of this report, the directors of the Manager are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of MQREIT misleading or inappropriate.
- (d) At the date of this report, the directors of the Manager are not aware of any circumstances not otherwise dealt with in this report or financial statements of MQREIT which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, the directors of the Manager are not aware of any circumstances not otherwise dealt with in this report or financial statements of MQREIT which would materially affect the interests of the unitholders.
- (f) At the date of this report, there does not exist:
 - (i) any charge on the assets of MQREIT which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of MQREIT which has arisen since the end of the financial year.
- (g) In the opinion of the directors of the Manager:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of MQREIT to meet its obligations as and when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of MQREIT for the financial year in which this report is made.

Other significant events

The Authority to allot and issue up to 18,619,000 new Units in MQREIT for the purpose of the payment of management fee to MRCB Quill Management Sdn. Bhd. ("MQM") in the form of new Units ("Authority")

As announced on 3 January 2017, the Authority, which was approved by unitholders of MQREIT at the unitholders' meeting on 12 March 2015, has lapsed on 31 December 2016, following the expiry of the approval from the authorities and the unitholders of MQREIT to implement the Authority by 31 December 2016. No Manager's Unit was issued pursuant to the Authority.

Manager's Report

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Subsequent event

Proposed disposal of Quill Building 8 - DHL XPJ ("QB8") to Transmark Corporation Sdn. Bhd. for a cash consideration of RM28 million ("Proposed Disposal")

As announced on 8 January 2018, Maybank Trustees Berhad ("MTB"), acting solely in the capacity as trustee for and on behalf of MQREIT, has entered into a sale and purchase agreement on 8 January 2018 ("SPA") with Transmark Corporation Sdn. Bhd. ("TCSB" or "the Purchaser") for the proposed disposal of a single storey detached warehouse annexed with a 3-storey office building, a refuse chamber and two guard houses located at No. 8, Jalan Pemaju U1/15, Hicom Glenmarie Industrial Park, Section U1, 40150 Shah Alam, Selangor Darul Ehsan erected on a parcel of freehold land held under H. S. (D) 267028, PT 1955 in the Town of Bandar Glenmarie, District of Petaling, State of Selangor ("QB8" or "Property"), for a cash consideration of RM28 million ("Proposed Disposal").

The Proposed Disposal is expected to be completed in second quarter of financial year 2018.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Manager, MRCB Quill Management Sdn. Bhd.



Dato' Michael Ong Leng Chun
Director

Kuala Lumpur, Malaysia
12 February 2018



Ann Wan Tee
Director

Statement by Manager

We, Dato' Michael Ong Leng Chun and Ann Wan Tee, being two of the directors of the Manager, MRCB Quill Management Sdn. Bhd., do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 143 to 196 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and applicable provisions of the Trust Deed and Guidelines on Real Estate Investment Trusts issued by the Securities Commission so as to give a true and fair view of the financial position of MQREIT as at 31 December 2017 and its financial performance and cash flows of MQREIT for the year then ended.

Signed on behalf of the Manager, MRCB Quill Management Sdn. Bhd.



Dato' Michael Ong Leng Chun
Director



Ann Wan Tee
Director

Kuala Lumpur, Malaysia
12 February 2018

Statutory Declaration

I, Yong Su-Lin, being the officer primarily responsible for the financial management of MRCB-Quill REIT, do solemnly and sincerely declare that the accompanying financial statements set out on pages 143 to 196 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed **Yong Su-Lin**
at Kuala Lumpur in the Federal Territory
on 12 February 2018.

Before me,
Commissioner of Oath




Yong Su-Lin

Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut,
50350 Kuala Lumpur.
Tel: 019-6680745

Trustee's Report

to the Unitholders of MRCB-Quill REIT

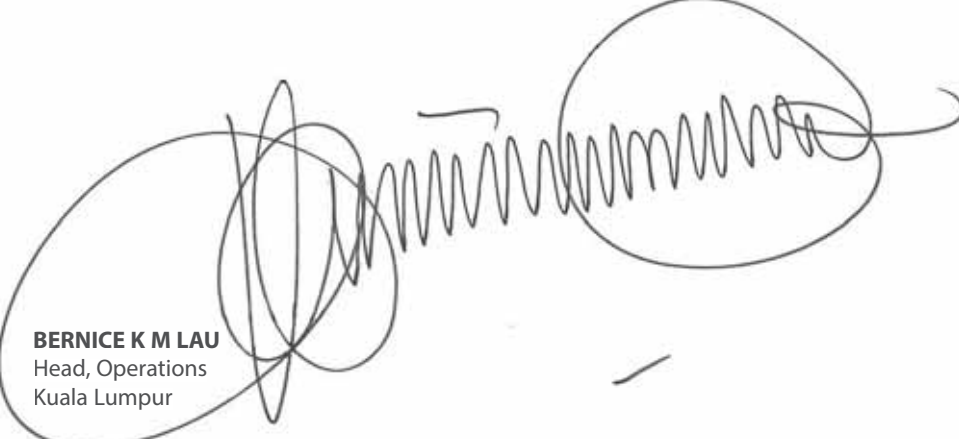
We have acted as Trustee of MRCB-Quill REIT ("MQREIT") for the financial year ended 31 December 2017. To the best of our knowledge, MRCB Quill Management Sdn. Bhd. ("the Manager") has managed MQREIT in the financial year under review in accordance to the following:

- (a) the limitation imposed on the investment powers of the Manager and the Trustee under the Trust Deed, other applicable provisions of the Trust Deed, the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia, the Capital Markets & Services Act 2007 and other applicable laws; and
- (b) the valuation of MQREIT is carried out in accordance with the Trust Deed and other regulatory requirements.

An interim distribution of 4.23 sen per unit has been distributed to the unitholders of MQREIT on 18 September 2017 for the financial period from 1 January 2017 to 30 June 2017. Proposed final gross income distribution of 4.16 sen per unit for the financial period from 1 July 2017 to 31 December 2017 will be payable on 28 February 2018 to all unitholders as at the book closure date of 7 February 2018.

We are of the view that the distributions are consistent with the objectives of MQREIT.

For and on behalf of **MAYBANK TRUSTEES BERHAD**
(Company No.: 5004-P)



BERNICE K M LAU
Head, Operations
Kuala Lumpur

Independent Auditors' Report

to the Unitholders of MRCB-Quill REIT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of MRCB-Quill REIT ("MQREIT"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of MQREIT for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 143 to 196.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of MQREIT as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the applicable provisions of the Deed and Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of MQREIT in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of MQREIT for the current year. These matters were addressed in the context of our audit of the financial statements of MQREIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Valuation of Investment Properties

MQREIT adopts the fair value model for its investment properties. The policy of MQREIT is that property valuations are performed by external experts at least once a year. The carrying value of the investment properties as at 31 December 2017 of RM2,159,459,119 represents 94% of total assets of MQREIT and therefore the valuation exercise was significant to our audit. The areas that involved significant audit effort and judgement were the assessment of the basis and assumptions used by the external experts to derive the fair value of the investment properties. The basis and assumptions include amongst others, estimated rental revenues, yield rates and discount rate which are based on current and future market or economic conditions.

Our audit procedures included, amongst others, considering the objectivity, independence and expertise of the external appraisers. We furthermore assessed the appropriateness of the valuation methodology adopted, reviewed and assessed inputs related to the property for the valuations and considered the underlying assumptions against the market estimates. Further, we had discussions with the independent valuers to obtain an understanding of the property related data used as input to the valuation models which included, amongst others, rental income data and yield rate. We then tested the accuracy of rental income data applied in the valuation by comparing them with lease agreements and challenged the yield rate by comparing them with available industry data, taking into consideration comparability and market factors. For discount rate, we assessed whether the discount rate used to determine the present value of the cash flows reflects the estimated market rate of return for comparable assets with similar profile.

Independent Auditors' Report

to the Unitholders of MRCB-Quill REIT

cont'd

Valuation of Investment Properties (cont'd)

We also focused on the adequacy of MQREIT's disclosures on those assumptions to which the outcome of the valuation is most sensitive, that is, those that have the most significant effect on the determination of the fair value of the investment properties. MQREIT's disclosures on the investment properties, which also explains the effects on the valuation following any changes in key parameters used in determining the fair value are included in Note 4.2(a) and Note 15 to the financial statements.

Information Other than the Financial Statements and Auditors' Report Thereon

The Manager of MQREIT is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of MQREIT and our auditors' report thereon.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Manager, Trustee and Those Charged with Governance for the Financial Statements

The Manager of MQREIT is responsible for the preparation of financial statements of MQREIT that give a true and fair view in accordance with MFRS, IFRS and the requirements of the applicable provisions of the Deed and Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia. The Manager is also responsible for such internal control as the Manager determine is necessary to enable the preparation of financial statements of MQREIT that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of MQREIT, the Manager is responsible for assessing MQREIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate MQREIT or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing MQREIT's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of MQREIT, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements of MQREIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MQREIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MQREIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of MQREIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause MQREIT to cease to continue as a going concern.

Independent Auditors' Report

to the Unitholders of MRCB-Quill REIT

cont'd

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit (cont'd)

- Evaluate the overall presentation, structure and content of the financial statements of MQREIT, including the disclosures, and whether the financial statements of MQREIT represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within MQREIT to express an opinion on the financial statements of MQREIT. We are responsible for the direction, supervision and performance of MQREIT's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of MQREIT of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

This report is made solely to the unitholders of MQREIT, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
12 February 2018



Tan Shium Jye
No. 2991/05/18(J)
Chartered Accountant

Statement of Comprehensive Income

For the financial year ended 31 December 2017

	Note	2017 RM	2016 RM
Total income			
Revenue			
- Realised	5	180,113,542	131,786,756
- Unrealised (in relation to unbilled lease income receivable)	5	1,388,125	4,861,095
		181,501,667	136,647,851
Property operating expenses	6	(40,161,064)	(29,492,908)
Net property income		141,340,603	107,154,943
Finance income	7	3,590,093	2,383,623
Change in fair value of investment properties			
- As per valuation	15	(18,183,415)	3,542,803
- Unbilled lease income receivable	15	(1,388,125)	(4,861,095)
		125,359,156	108,220,274
Total expenditure			
Manager's fees	8	(13,458,072)	(9,677,247)
Trustee's fee	9	(688,676)	(486,842)
Finance costs	10	(40,512,779)	(33,036,112)
Valuation fees		(298,491)	(361,075)
Auditors' remuneration		(119,000)	(149,520)
Tax agent's fee		(22,882)	(54,114)
Administrative expenses		(349,084)	(1,685,322)
		(55,448,984)	(45,450,232)
Income before taxation		69,910,172	62,770,042
Income tax expense	11	-	-
Income net of taxation		69,910,172	62,770,042
Other comprehensive income			
Gain/(loss) on remeasurement of financial derivatives		317,488	(3,263,700)
Other comprehensive income/(loss) for the year, net of tax		317,488	(3,263,700)
Total comprehensive income for the financial year		70,227,660	59,506,342
Distribution adjustments	A	22,158,710	-
Distribution Income		92,386,370	59,506,342
Net income for the year is made up as follows:			
- Realised		88,006,515	59,155,963
- Unrealised		(18,096,343)	3,614,079
		69,910,172	62,770,042

Statement of Comprehensive Income

For the financial year ended 31 December 2017

cont'd

	Note	2017	2016
Earnings per unit			
After manager's fees (sen)	12(a)	6.55	9.33
Before manager's fees (sen)	12(b)	7.81	10.77
Earnings per unit (realised)			
After manager's fees (sen)	12(c)	8.24	8.80
Before manager's fees (sen)	12(d)	9.50	10.24
Income distribution			
Interim distribution of 4.23 sen paid on 8 September 2016 (RM) ¹	13	-	27,976,416
Special distribution of 4.15 sen paid on 13 January 2017 (RM) ^{2 #}	13	-	27,447,312
Interim distribution of 4.23 sen paid on 18 September 2017 (RM) ³	13	45,176,400	-
Final distribution of 4.16 sen payable on 28 February 2018 (RM) ^{4*}	13	44,428,800	-
		89,605,200	55,423,728
Interim distribution per unit			
Gross (sen) ⁵		4.23	4.23
Special distribution per unit			
Gross (sen) ⁵		-	4.15
Final distribution per unit			
Gross (sen) ⁵		4.16	-

1 Based on 661,381,100 units entitled to distribution, for the financial period from 1 January 2016 to 30 June 2016;

2 Based on 661,381,100 units entitled to distribution, for the financial period from 1 July 2016 to 16 December 2016;

3 Based on 1,068,000,000 units entitled to distribution, for the financial period from 1 January 2017 to 30 June 2017;

4 Based on 1,068,000,000 units entitled to distribution, for the financial period from 1 July 2017 to 31 December 2017;

5 Income distributed to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax.

Special income distribution for the financial year 2016 declared on 30 November 2016 and paid on 13 January 2017.

* Final income distribution for the financial year 2017 was declared on 19 January 2018 and will be payable on 28 February 2018. The declared final income distribution will be recognised in the immediate subsequent financial year.

Note A:

	Note	2017 RM
Distribution adjustments comprise:		
Change in fair value of investment properties	15	18,183,415
Manager's management fee payable in units		3,975,295
		22,158,710

In accordance with the Trust Deed, the distributable income shall be the net income, adjusted by certain distribution adjustments as deemed necessary by the Manager in the interest of the REIT and the unitholders.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2017

	Note	2017 RM	2016 RM
Assets			
Non-current assets			
Plant and equipment	14	172,433	225,686
Investment properties	15	2,159,459,119	2,203,647,244
Investment properties-accrued rental income	18	19,740,881	18,352,756
Lease receivables	17	2,014,930	2,745,750
		2,181,387,363	2,224,971,436
Current assets			
Trade and other receivables	18	5,232,685	17,626,110
Lease receivables	17	730,820	692,759
Deposits, cash and bank balances	19	76,041,326	54,051,281
		82,004,831	72,370,150
Non-current asset held for sale	20	25,000,000	-
		107,004,831	72,370,150
Total assets		2,288,392,194	2,297,341,586
Liabilities			
Non-current liabilities			
Borrowings	22	736,584,405	662,462,799
Derivative liabilities	16	665,731	983,219
Security deposits		16,194,911	18,794,661
Other payables	21	221,866	3,164,524
		753,666,913	685,405,203
Current liabilities			
Trade and other payables	21	20,304,048	28,350,115
Borrowings	22	116,868,449	189,104,175
Security deposits		12,828,214	7,336,154
Income distribution payable		-	27,447,312
		150,000,711	252,237,756
Total liabilities		903,667,624	937,642,959
Net assets value ("NAV")		1,384,724,570	1,359,698,627

Statement of Financial Position

As at 31 December 2017

cont'd

	Note	2017 RM	2016 RM
Unitholders' funds			
Unitholders' funds attributable to unitholders of MQREIT			
Unitholders' capital	23	1,231,914,544	1,231,939,861
Undistributed and non-distributable income		152,810,026	127,758,766
Total unitholders' funds		1,384,724,570	1,359,698,627
Net asset value per unit			
	26		
Before income distribution ¹		1.2966	1.2988
After income distribution ²		1.2550	1.2731
Number of units in circulation			
As at 31 December (units)	23	1,068,000,000	1,068,000,000

1 Before the proposed final income distribution of 4.16 sen per unit and the special income distribution of 4.15 sen per unit for the financial year 2017 and 2016 respectively.

2 After the proposed final income distribution of 4.16 sen per unit and the special income distribution of 4.15 sen per unit for the financial year 2017 and 2016 respectively.

Statement of Changes in Net Asset Value

For the financial year ended 31 December 2017

		← Distributable →		Non-distributable	Total undistributed and non-distributable income	Unitholders' funds
	Unitholders' capital	Undistributed income realised	Undistributed income unrealised	Cash flow hedge reserve*		
	RM	RM	RM	RM	RM	RM
At 1 January 2017	1,231,939,861	17,204,848	111,537,137	(983,219)	127,758,766	1,359,698,627
Expenses on issuance/placements of new units (Note 23)	(25,317)	-	-	-	-	(25,317)
Total comprehensive income for the financial year	-	88,006,515	(18,096,343)	317,488	70,227,660	70,227,660
	1,231,914,544	105,211,363	93,440,794	(665,731)	197,986,426	1,429,900,970
Transactions with unitholders						
Distribution to unitholders	-	(45,176,400)	-	-	(45,176,400)	(45,176,400)
At 31 December 2017	1,231,914,544	60,034,963	93,440,794	(665,731)	152,810,026	1,384,724,570
At 1 January 2016	751,276,357	42,374,963	107,923,058	2,280,481	152,578,502	903,854,859
Issuance/placements of new units on 22 December 2016 (Note 23)	487,942,800	-	-	-	-	487,942,800
Expenses on issuance/placements of new units (Note 23)	(7,279,296)	-	-	-	-	(7,279,296)
Total comprehensive income for the financial year	-	59,155,963	3,614,079	(3,263,700)	59,506,342	59,506,342
	1,231,939,861	101,530,926	111,537,137	(983,219)	212,084,844	1,444,024,705
Transactions with unitholders						
Distribution to unitholders	-	(84,326,078)	-	-	(84,326,078)	(84,326,078)
At 31 December 2016	1,231,939,861	17,204,848	111,537,137	(983,219)	127,758,766	1,359,698,627

* The cash flow hedge reserve comprise the effective portion of the gain or loss on interest rate swap arrangements as disclosed in Note 33.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Cash Flows

For the financial year ended 31 December 2017

	Note	2017 RM	2016 RM
Cash flows from operating activities			
Income before taxation		69,910,172	62,770,042
Adjustments for:			
Finance costs	10	40,512,779	33,036,112
Depreciation of plant and equipment	14	69,456	58,166
Changes in fair value of investment properties	15	19,571,540	1,318,292
Unbilled lease income	5	(1,388,125)	(4,861,095)
Allowance for impairment of trade receivables	18	504,017	614,944
Reversal for impairment of trade receivables	18	(796,725)	(334,677)
Finance income		(3,590,093)	(2,383,623)
Operating cash flows before changes in working capital		124,793,021	90,218,161
Changes in working capital:			
Decrease/(increase) in trade and other receivables		13,466,077	(12,070,410)
(Decrease)/increase in trade and other payables		(10,108,943)	27,741,395
Net cash flows generated from operating activities		128,150,155	105,889,146
Cash flows from investing activities			
Additions to investment properties	15	(383,415)	(648,657,197)
Purchase of plant and equipment	14	(16,203)	(47,270)
Changes in lease receivable	17	692,759	(1,027,961)
Changes in deposits in financial institution		(7,300,049)	160,678
Interest received		2,161,417	1,623,044
Net cash flows used in investing activities		(4,845,491)	(647,948,706)
Cash flows from financing activities			
Distribution to unitholders		(72,623,712)	(56,878,766)
Proceeds from borrowings	22	189,744,653	161,034,547
Repayment of borrowings	22	(190,000,000)	-
Proceeds from issuance/placements of new units	23	-	487,942,800
Expenses paid on issuance/placements of new units	23	(25,317)	(7,279,296)
Finance costs paid		(35,710,292)	(33,411,729)
Net cash flows (used in)/generated from financing activities		(108,614,668)	551,407,556
Net increase in cash and cash equivalents		14,689,996	9,347,996
Cash and cash equivalents at 1 January		49,817,906	40,469,910
Cash and cash equivalents at 31 December	19	64,507,902	49,817,906

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

31 December 2017

1. MQREIT, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

MRCB-Quill REIT ("MQREIT") was constituted under a Deed dated 9 October 2006 (the "Trust Deed"), by MRCB Quill Management Sdn. Bhd. as the manager (the "Manager") and Maybank Trustees Berhad as the trustee (the "Trustee"), and a Supplemental Deed dated 27 August 2007, Second Supplemental Deed dated 28 May 2013 and Third Supplemental Deed dated 2 April 2015, and is categorised as a real estate investment trust. MQREIT commenced its operations in 2006 and was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 8 January 2007.

The principal activity of MQREIT involves acquisition of and investment in commercial properties, primarily in Malaysia. The principal activity of each of the special purpose entities of MQREIT is to facilitate financing for MQREIT as disclosed in Note 24 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Manager is a company incorporated in Malaysia. The principal activity of the Manager is to manage MQREIT. There has been no significant change in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Manager in accordance with a resolution of its directors on 12 February 2018.

2. TERM OF MQREIT

MQREIT will continue its operations until such time as determined by the Trustee and the Manager as provided under Clause 26 of the Trust Deed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements of MQREIT have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and applicable provisions of the Trust Deed and Guidelines on Real Estate Investment Trusts issued by Securities Commission ("SC REIT Guidelines").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM").

Notes to the Financial Statements

31 December 2017

cont'd

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

On 1 January 2017, MQREIT adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2017:

Description	Effective for annual periods beginning on or after
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 12)	1 January 2017

The adoption of the above standards, amendments and interpretations did not have any material effect on the financial performance or position of MQREIT.

3.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of MQREIT's financial statements are disclosed below. MQREIT intends to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 1 and MFRS 128)	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 15: Clarification to MFRS 15	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9: Financial Instruments with MFRS 4: Insurance Contracts	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual Improvements to MFRSs 2015 - 2017 Cycle (Amendments to MFRS 3, MFRS 11, MFRS 112 and, MFRS 123)	1 January 2019
MFRS 16: Leases	1 January 2019
IC Interpretation 23: Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
MFRS 17: Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors of the Manager expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application, other than those described below:

Notes to the Financial Statements

31 December 2017

cont'd

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Standards issued but not yet effective (cont'd)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

90% of the revenue of MQREIT is derived from rental income from its investment properties, which is scoped out of MFRS 15. Through assessment of the revenue recognition under MFRS 15, the principles currently applied by MQREIT is consistent with the requirements of MFRS 15. Hence, other than enhanced disclosures required, the impact of initial application of MFRS 15 is expected to be immaterial.

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of MQREIT's financial assets, but no impact on the classification and measurement of MQREIT's financial liabilities.

Receivables of MQREIT mainly represented by accrued rental and lease receivables which is scoped out of MFRS 9. Trade receivables represent only 0.06% of the total assets of MQREIT. Based on the immateriality of the amount and past trends of the ageing, the impact of MFRS 9 upon initial application is expected to be immaterial.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. MQREIT is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

Notes to the Financial Statements

31 December 2017

cont'd

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of MQREIT and its special purpose entities ("SPEs") as at the reporting date. The financial statements of the SPEs used in the preparation of the consolidated financial statements are prepared for the same reporting date as MQREIT. Consistent accounting policies are applied to like transactions and events in similar circumstances. The SPEs are established for the specific purpose of raising financing on behalf of MQREIT for the acquisition of real estate and are single-purpose entities.

MQREIT controls the SPEs if and only if MQREIT has all the following:

- (i) Power over the SPEs (such as existing rights that give it the current ability to direct the relevant activities of the SPEs);
- (ii) Exposure, or rights, to variable returns from its investment with the SPEs; and
- (iii) The ability to use its power over the SPEs to affect its returns.

SPEs controlled by MQREIT were established under terms that impose strict limitations on the decision-making powers of the SPEs management resulting in MQREIT receiving all of the benefits related to the SPEs operations and net assets.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

3.5 Plant and equipment

All items of plant and equipment are initially recorded at cost. The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of plant and equipment are required to be replaced in intervals, MQREIT recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation of plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Plant and machinery	20%
Office equipment	20% - 50%
Furniture and fittings	33%

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Notes to the Financial Statements

31 December 2017

cont'd

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Investment properties

Investment properties consist of investment in real estate assets primarily in commercial properties. These properties are held either to earn rental income or for capital appreciation or for both.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criterias are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value which reflects market conditions at the reporting date. Fair value is arrived at by discounting cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rent for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Valuations are performed by accredited independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. In determining the carrying amount of an investment property, under the fair value model, the accrued rental and/or advance rental arising from recognising rental income from operating lease on straight line basis over the lease term are deducted against fair value of investment property.

Gains or losses arising from changes in the fair values of investment properties are recognised in the profit or loss in the year in which they arise. A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when MQREIT holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for plant and equipment as set out in Note 3.5 up to the date of change in use.

3.7 Impairment of non-financial assets

MQREIT assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, MQREIT makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

Notes to the Financial Statements

31 December 2017

cont'd

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial assets

Financial assets are recognised in the statement of financial position when, and only when, MQREIT becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

MQREIT determines the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current.

As at reporting date, MQREIT does not have any financial asset at fair value through profit or loss.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

Loans and receivables of MQREIT comprise of trade and other receivables (other than prepayments) and cash and bank balances.

(iii) Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when MQREIT has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

As at reporting date, MQREIT does not have any held-to-maturity financial assets.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial assets (cont'd)

(iv) Available-for-sale financial assets

Available-for-sale are financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

As at reporting date, MQREIT does not have any available-for-sale financial assets.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that MQREIT commits to purchase or sell the asset.

3.9 Derivative of financial instruments and hedge accounting

MQREIT uses derivative financial instrument such as interest rate swaps to hedge its interest rate risks. MQREIT applies hedge accounting for hedging relationships which qualify for hedge accounting. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, MQREIT formally designates and documents the hedge relationship to which MQREIT wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Derivative of financial instruments and hedge accounting (cont'd)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

(i) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

(ii) Derivatives that are not designated or do not qualify for hedge accounting

Any gains or losses arising from changes in fair value on derivatives during the financial period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit or loss.

MQREIT did not enter into any fair value hedge or net investment hedge as at the financial period end.

3.10 Impairment of financial assets

MQREIT assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) Financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, MQREIT considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include MQREIT's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Notes to the Financial Statements

31 December 2017

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Impairment of financial assets (cont'd)

(iii) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank, demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.12 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, MQREIT becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities held for trading include derivatives entered into by MQREIT that does not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

MQREIT does not have any financial liability at fair value through profit or loss.

(ii) Other financial liabilities

MQREIT's other financial liabilities include trade payables, other payables, security deposits and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless MQREIT has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Notes to the Financial Statements

31 December 2017

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Financial liabilities (cont'd)

(ii) Other financial liabilities (cont'd)

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.14 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that MQREIT incurred in connection with the borrowing of funds.

3.15 Revenue and other income

Revenue and other income are recognised to the extent that it is probable that the economic benefits will flow to MQREIT and they can be reliably measured. Revenue and other income are measured at the fair value of consideration received or receivable.

(i) Rental income

Rental income is accounted for on a straight-line basis over the lease term. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(ii) Utilities recovery and others

Utilities recovery and others (such as license and service charges) are recognised on an accrual basis taking into account contractually defined terms.

(iii) Car park operations

Revenue from car park operations are recognised as and when the services are rendered.

(iv) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Notes to the Financial Statements

31 December 2017

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Leases - as lessor

Leases in which MQREIT does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.17 Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Notes to the Financial Statements

31 December 2017

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Income taxes (cont'd)

(ii) Deferred tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.18 Current versus non-current classification

MQREIT presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- (i) Expected to be realised or intended to be sold or consumed in normal operating cycle;
- (ii) Held primarily for the purpose of trading;
- (iii) Expected to be realised within twelve months after the reporting period; or
- (iv) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (i) It is expected to be settled in normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

3.19 Provisions

Provisions are recognised when MQREIT has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When MQREIT expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the Financial Statements

31 December 2017

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by MQREIT.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

MQREIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, MQREIT determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purposes of fair value disclosures, MQREIT has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the of fair value hierarchy as explained above.

3.21 Unitholders' capital and units issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of MQREIT after deducting all of its liabilities. Units are equity instruments.

Units are recorded at the proceeds received, net of directly attributable incremental transaction costs. Units are classified as equity. Dividends on units are recognised in equity in the period in which they are declared.

3.22 Non-current asset classified as asset held for sale

Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable MFRS. Then, on initial classification as held for sale, non-current assets (other than investment properties, deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with MFRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in the profit or loss.

Notes to the Financial Statements

31 December 2017

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of MQREIT's financial statements requires the management to make judgements, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

4.1 Critical judgements made in applying accounting policies

In the process of applying MQREIT's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – as lessor

MQREIT has entered into commercial property leases on its investment property portfolio. MQREIT has determined, based on an evaluation of the terms and conditions of the arrangements such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Fair valuation of investment properties

MQREIT carries its investment properties at fair value, with changes in fair values being recognised in profit or loss. MQREIT had engaged independent professional valuers to determine the fair value and there are no material events that affect the valuation between the valuation date and financial year end.

The determined fair value of the investment properties by the independent professional valuers is most sensitive to the estimated yield rate and the discount rate. The range of the term yield rate and the discount rate used in the valuation is described in Note 15.

The following table demonstrates the sensitivity of the fair value measurement to changes in estimated term yield rate and discount rate and its corresponding sensitivity result in a higher or lower fair value measurement:

	Fair value Increase/(decrease)	
	2017 RM	2016 RM
Yield rate		
- 0.25%	82,661,875	87,983,831
+ 0.25%	(79,728,386)	(81,983,831)
Discount rate		
- 0.25%	17,243,112	21,410,100
+ 0.25%	(15,262,885)	(20,737,992)

The other key assumptions used to determine the fair value of the investment properties, are further explained in Note 15.

Notes to the Financial Statements

31 December 2017

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

4.2 Key sources of estimation uncertainty (cont'd)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below: (cont'd)

(b) Impairment of loans and receivables

MQREIT assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, MQREIT considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the MQREIT's loans and receivables at the reporting date is disclosed in Note 18.

5. REVENUE

	2017 RM	2016 RM
Rental income and service charges		
- Realised	162,128,220	115,935,617
- Unrealised (in relation to unbilled lease income receivable)	1,388,125	4,861,095
Car park income	12,780,577	10,865,365
Utilities recovery	5,128,487	4,919,777
Others	76,258	65,997
	181,501,667	136,647,851

The realised revenue comprises rental and service charges, car park income from properties and utilities costs recoverable from tenants. The unrealised revenue refers to the unbilled lease income receivable pursuant to requirements of MFRS 117 Leases, recognised on straight-line basis.

6. PROPERTY OPERATING EXPENSES

	2017 RM	2016 RM
Quit rent and assessment	8,505,275	5,263,829
Depreciation	69,456	58,166
Insurance	1,002,142	742,704
Property management fee	2,896,684	2,327,429
Service contracts and maintenance	10,942,596	9,630,614
Utilities	16,744,911	11,470,166
	40,161,064	29,492,908

The property management fee is inclusive of permissible discount in accordance with the Valuers, Appraisers and Estate Agents Act, 1981 and reimbursable site staff cost.

Notes to the Financial Statements

31 December 2017

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7. FINANCE INCOME

	2017 RM	2016 RM
Realised:		
Interest income on fixed deposit	2,108,627	1,350,513
Interest on deposit paid to authorities	22,117	-
Interest income on lease receivable	327,991	271,227
Late payment interest charged to tenants	16,246	33,977
	2,474,981	1,655,717
Unrealised:		
Amortisation of deferred lease income (Note 21 (c))	1,115,112	727,906
	3,590,093	2,383,623

8. MANAGER'S FEES

	2017 RM	2016 RM
Base fee	9,185,249	6,558,760
Performance fee	4,272,823	3,118,487
	13,458,072	9,677,247

The Manager is entitled under the Trust Deed to a base fee of 0.4% per annum of the gross asset value, payable monthly in arrears and a performance fee of 3% per annum on the net investment income, payable semi-annually in arrears.

The Manager is also entitled under the Trust Deed to an acquisition fee of 1% of the acquisition value of any asset, being authorised investments, acquired by MQREIT and divestment fee of 0.5% of the disposal value of any asset divested by MQREIT.

There are no other fees earned by the Manager during the financial year other than as disclosed in this note.

The Manager's remuneration is accrued and paid in accordance with the Trust Deed.

During the financial year, the Manager did not receive any soft commission (such as goods or services) from its broker, by virtue of transaction conducted by MQREIT.

9. TRUSTEE'S FEE

Trustee's fee accrued to the Trustee for the financial year ended 31 December 2017 amounted to RM688,676 (2016: RM486,842).

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

Notes to the Financial Statements

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10. FINANCE COSTS

	2017 RM	2016 RM
Realised:		
Accretion of interest expense	1,959,469	1,872,859
Amortisation of transaction costs incurred to obtain Commercial Papers ("CPs")/ Medium Term Notes ("MTNs")	488,487	389,373
Amortisation of transaction costs incurred to obtain Term Loan	395,188	523,233
Annual CPs/MTNs Programme expense	531,590	394,420
Loss on interest rate swap arrangements	1,101,630	41,355
Interest expense on CPs	17,648,827	15,009,456
Interest expense on MTNs	6,092,548	2,971,616
Interest expense on Term Loan	11,267,000	11,177,170
	39,484,739	32,379,482
Unrealised:		
Unwinding of discount on security deposits	1,028,040	656,630
	40,512,779	33,036,112

11. INCOME TAX EXPENSE

Pursuant to Section 61A of the Income Tax Act 1967, the income of a REIT would be exempted from income tax provided that the REIT distributes 90% or more of its total income for the year. If the REIT is not able to meet the 90% distribution criteria, the entire taxable income of the REIT would be subject to income tax.

As MQREIT has paid and declared income distribution of more than 90% of its total income to unitholders, the total income of MQREIT for the year of assessment 2017 shall be exempted from tax.

A reconciliation of income tax expense applicable to income before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of MQREIT for the financial years ended 31 December 2017 and 2016 is as follows:

	2017 RM	2016 RM
Income before taxation	69,910,172	62,770,042
Tax at Malaysian statutory tax rate of 24% (2016: 24%)	16,778,441	15,064,810
Income not subject to taxation	(20,941,685)	(14,494,273)
Unrealised income not subject to tax	(20,897)	(867,379)
Exempt income not subject to tax	(506,070)	(324,123)
Expenses not deductible for tax purposes	4,690,211	620,965
Income tax expense for the year	-	-

Notes to the Financial Statements

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12. EARNINGS PER UNIT ("EPU")

- (a) EPU after manager's fees is based on net income for the year of RM69,910,172 (2016: RM62,770,042) divided by the weighted average number of units in circulation during the year of 1,068,000,000 (2016: 672,490,809).
- (b) EPU before manager's fees is based on net income for the year of RM83,368,244 (2016: RM72,447,289) after adding back manager's fees of RM13,458,072 (2016: RM9,677,247) divided by the weighted average number of units in circulation during the year of 1,068,000,000 (2016: 672,490,809).
- (c) EPU after manager's fees (realised) is based on realised net income for the year of RM88,006,515 (2016: RM59,155,963) divided by the weighted average number of units in circulation during the year of 1,068,000,000 (2016: 672,490,809).
- (d) EPU before manager's fees (realised) is based on realised net income for the year of RM101,464,587 (2016: RM68,833,210) after adding back manager's fees of RM13,458,072 (2016: RM9,677,247) divided by the weighted average number of units in circulation during the year of 1,068,000,000 (2016: 672,490,809).

13. DISTRIBUTION TO UNITHOLDERS

Distribution to the unitholders is from the following sources:

	2017 RM	2016 RM
Realised		
Revenue (Note 5)	180,113,542	131,786,756
Finance income (Note 7)	2,474,981	1,655,717
	182,588,523	133,442,473
Less: Total expenses	(94,582,008)	(74,286,510)
Total realised income	88,006,515	59,155,963
Unrealised		
Finance income (Note 7)	1,115,112	727,906
Change in fair value of investment properties	(18,183,415)	3,542,803
Finance costs	(1,028,040)	(656,630)
Total net income	69,910,172	62,770,042
Gain/(loss) on remeasurement of financial derivatives	317,488	(3,263,700)
Total comprehensive income	70,227,660	59,506,342
Distribution adjustments	22,158,710	-
Distributable Income	92,386,370	59,506,342
Distribution to unitholders	89,605,200	55,423,728
Distribution per unit (sen) of which:		
- taxable distribution of income (sen)	8.19	8.19
- tax exempt distribution of income (sen)	0.20	0.19
Gross distribution per unit (sen) *	8.39	8.38

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13. DISTRIBUTION TO UNITHOLDERS (cont'd)

- * 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:

	Withholding tax rate	
	2017	2016
Resident and non-resident individuals	10%	10%
Resident and non-resident institutional investors	10%	10%
Resident companies (flow through)	0%	0%
Non-resident companies	24%	24%

14. PLANT AND EQUIPMENT

	Plant and machinery RM	Office equipment RM	Furniture and fittings RM	Total RM
At 31 December 2017				
Cost				
At 1 January 2017	6,000	316,722	19,400	342,122
Additions	-	16,203	-	16,203
At 31 December 2017	6,000	332,925	19,400	358,325
Accumulated depreciation				
At 1 January 2017	5,998	91,039	19,399	116,436
Depreciation charge for the financial year	-	69,456	-	69,456
At 31 December 2017	5,998	160,495	19,399	185,892
Net carrying amount	2	172,430	1	172,433
At 31 December 2016				
Cost				
At 1 January 2016	6,000	269,452	19,400	294,852
Additions	-	47,270	-	47,270
At 31 December 2016	6,000	316,722	19,400	342,122
Accumulated depreciation				
At 1 January 2016	5,998	32,873	19,399	58,270
Depreciation charge for the financial year	-	58,166	-	58,166
At 31 December 2016	5,998	91,039	19,399	116,436
Net carrying amount	2	225,683	1	225,686

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15. INVESTMENT PROPERTIES

	2017 RM	2016 RM
At 1 January	2,203,647,244	1,556,308,339
Additions from acquisition	-	640,000,000
Capital expenditure for acquisition during the financial year	-	7,411,104
Additions from assets enhancement	383,415	1,246,093
Fair value adjustments	(19,571,540)	(1,318,292)
Transfer to non-current asset held for sale (Note 20)	(25,000,000)	-
At 31 December	2,159,459,119	2,203,647,244

The breakdown of investment properties is as follows:

Description of properties	Date of acquisition	Cost of investment RM'000	Carrying value as at 31 December 2017 RM'000	Fair value as at 31 December 2017 RM'000	% of NAV	Carrying value as at 31 December 2016 RM'000	Fair value as at 31 December 2016 RM'000
<u>Commercial buildings</u>							
Quill Building 1							
- DHL 1	20-Nov-06	109,100	129,632	130,000	9.39	126,317	126,500
Quill Building 4							
- DHL 2	20-Nov-06						
Quill Building 2							
- HSBC	20-Nov-06	107,500	121,646	122,000	8.81	121,305	121,700
Quill Building 3							
- BMW	20-Nov-06	59,400	79,669	79,000	5.71	76,836	76,500
Wisma Technip	3-Sep-07	125,000	171,164	173,800	12.55	170,324	173,000
Part of Plaza Mont' Kiara	3-Sep-07	90,000	117,391	117,400	8.48	115,982	116,000
Quill Building 5							
- IBM	14-Mar-08	43,000	44,000	44,000	3.18	45,279	45,300
Tesco Building, Penang	7-Nov-08	132,000	131,007	140,000	10.11	131,627	140,000
Platinum Sentral	30-Mar-15	740,000	716,950	725,000	52.36	742,977	750,000
Menara Shell	22-Dec-16	640,000	648,000	648,000	46.80	648,000	648,000
<u>Industrial building</u>							
Quill Building 8							
- DHL XPJ	25-Mar-08	28,800	25,000	25,000	1.81	25,000	25,000
		2,074,800	2,184,459	2,204,200		2,203,647	2,222,000
Investment property classifies as held for sale (Note 20)							
<u>Industrial building</u>							
Quill Building 8							
- DHL XPJ	25-Mar-08	(28,800)	(25,000)	(25,000)	(1.81)	-	-
		2,046,000	2,159,459	2,179,200		2,203,647	2,222,000

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15. INVESTMENT PROPERTIES (cont'd)

The carrying value of the investment properties for the financial years ended 31 December 2017 and 2016 is based on the market value determined based on valuations, adjusted with accrued rental income as required by MFRS 140, as follows:

	2017 RM	2016 RM
Investment properties - fair value	2,179,200,000	2,222,000,000
Investment properties - accrued rental income (Note 18)	(19,740,881)	(18,352,756)
Investment properties (Note 15)	2,159,459,119	2,203,647,244

On 14 August 2008, the respective pieces of the land on which QB1 and QB4 are situated have been amalgamated pursuant to the conditions imposed by the SC during the initial public offering of MQREIT. As such, the valuations for QB1 and QB4 have since been carried out based on the amalgamated properties.

Investment properties are stated at fair value, which are determined based on valuations performed by 2 external valuers, namely Nawawi Tie Leung Property Consultants Sdn. Bhd., and C H Williams Talhar & Wong Sdn. Bhd.; independent firms of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.

Investment properties with net carrying amount totalling RM2,125,200,000 (2016: RM2,145,500,000) are pledged as securities for borrowings as disclosed in Note 22.

The investment properties are carried at a Level 3 fair value measurement hierarchy as defined in Note 3.20. There have been no transfers between Level 1, Level 2 and Level 3 during the financial year ended 31 December 2017 and 31 December 2016.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models:

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2017	2016	
Investment method (refer below)	Office:			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	2.5 - 10.0	2.0 - 12.7	- expected market rental growth were higher/(lower)
	- Reversion	2.5 - 11.0	2.2 - 11.0	- expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	0.3 - 1.9	0.3 - 2.1	- expected inflation rate were lower/(higher)
	- Reversion	0.3 - 2.0	0.3 - 2.1	- expected inflation rate were lower/(higher)
	Void rate (%)	5.0 - 10.0	5.0 - 10.0	- void rate were lower/(higher)
	Term yield (%)	5.5 - 6.5	5.5 - 6.8	- term yield rate were lower/(higher)
	Reversionary yield (%)	6.0 - 6.8	6.3 - 6.8	- reversionary yield were lower/(higher)
	Discount rate (%)	5.5 - 6.8	5.5 - 7.0	- discount rate is lower/(higher)

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15. INVESTMENT PROPERTIES (cont'd)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models: (cont'd)

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2017	2016	
Investment method (refer below)	Retail:			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	1.5 - 16.5	1.6 - 16.5	- expected market rental growth were higher/(lower)
	- Reversion	1.5 - 16.5	1.6 - 16.5	- expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	0.3 - 2.1	0.3 - 1.8	- expected inflation rate were lower/(higher)
	- Reversion	0.3 - 2.0	0.3 - 1.9	- expected inflation rate were lower/(higher)
	Void rate (%)	5.0 - 10.0	5.0 - 15.0	- void rate were lower/(higher)
	Term yield (%)	5.5 - 6.5	5.8 - 6.8	- term yield rate were lower/(higher)
	Reversionary yield (%)	6.0 - 7.0	6.3 - 6.8	- reversionary yield were lower/(higher)
	Discount rate (%)	5.5 - 6.8	5.8 - 6.3	- discount rate is lower/(higher)

Investment method entails the capitalisation of the net rent from a property. Net rent is the residue of gross annual rent less annual expenses (outgoings) required to sustain the rent with allowance for void and management fees.

16. DERIVATIVE LIABILITIES

	Contract/ notional amount RM	Fair value of derivatives liabilities	
		2017 RM	2016 RM
Non-current			
Interest rate swap (Note 33 (i))	139.5 million	344,436	479,896
Interest rate swap (Note 33 (ii))	139.5 million	321,295	503,323
		665,731	983,219

MQREIT entered into interest rate swap transactions to manage the risks associated with interest rate movement as disclosed in Note 33.

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17. LEASE RECEIVABLES

	2017 RM	2016 RM
Non-current		
Lease receivables	2,014,930	2,745,750
Current		
Lease receivables	730,820	692,759

In financial year 2016 and 2015, MQREIT entered into a finance lease arrangement with a tenant (QB3) to part finance RM2.6 million and RM1.5 million of fit-out costs upon the renewal of tenancy agreement for another 10 years and 7 years respectively. The amount will be recovered through the top up rentals cumulatively amounted to RM3.5 million (at the approximate internal rate of return of 10.4% per annum) and RM1.9 million (at the approximate internal rate of return of 10.7% per annum) respectively.

18. TRADE AND OTHER RECEIVABLES

	Note	2017 RM	2016 RM
Non-current			
Accrued rental income		19,740,881	18,352,756
Current			
Trade receivables			
Trade receivables		1,331,251	3,234,506
Less: Allowance for impairment		(54,931)	(347,639)
Trade receivables, net	(a)	1,276,320	2,886,867
Other receivables			
Deposits		2,879,133	13,721,853
Prepayments		666,361	920,084
Sundry receivables	(b)	410,871	97,306
		3,956,365	14,739,243
		5,232,685	17,626,110
Total trade and other receivables		5,232,685	17,626,110
Less: Prepayments		(666,361)	(920,084)
Add: Deposits, cash and bank balances (Note 19)		76,041,326	54,051,281
Total loans and receivables		80,607,650	70,757,307

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18. TRADE AND OTHER RECEIVABLES (cont'd)

(a) Trade receivables

Trade receivables are non interest-bearing and are generally on 7 to 30 days term (2016: 7 to 30 days term). They are recognised at the original invoice amounts which represent their fair values on initial recognition.

Concentration of credit risk relating to trade receivables arises mainly due to majority of MQREIT's properties that are single-tenanted. However, the risk is mitigated by the tenants which are engaged in diversified businesses and are of good quality and strong credit standing.

Ageing analysis of trade receivables

The ageing analysis of MQREIT's trade receivables is as follows:

	2017 RM	2016 RM
Neither past due nor impaired	1,122,126	2,494,323
1 - 30 days past due not impaired	73,847	218,878
31 - 60 days past due not impaired	40,341	23,425
61 - 90 days past due not impaired	-	45,818
More than 90 days past due not impaired	40,006	104,423
	154,194	392,544
	1,276,320	2,886,867
Impaired	54,931	347,639
	1,331,251	3,234,506

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with MQREIT.

Receivables that are past due but not impaired

MQREIT have trade receivables amounted to RM154,194 (2016: RM392,544) that are past due at the reporting date but not impaired.

Trade receivables from tenants are secured by security deposits.

Receivables that are impaired

MQREIT's trade receivables that are individually impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	2017 RM	2016 RM
Trade receivables - nominal amounts (after offsetting security deposits)	54,931	347,639
Less : Allowance for impairment	(54,931)	(347,639)
	-	-

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18. TRADE AND OTHER RECEIVABLES (cont'd)

(a) Trade receivables (cont'd)

Receivables that are impaired (cont'd)

The movement of allowance accounts is as follows:

	2017 RM	2016 RM
At 1 January	347,639	67,372
Charge for the financial year	504,017	614,944
Reversal for the financial year	(796,725)	(334,677)
At 31 December	54,931	347,639

The Manager assesses at each reporting date whether there is any objective evidence that the trade receivable is impaired. The Manager makes an allowance for impairment after considering factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

(b) Sundry receivables

MQREIT has no significant concentration of credit risk that may arise from exposures to a single debtor or group of debtors relating to sundry receivables.

19. DEPOSITS, CASH AND BANK BALANCES

	2017 RM	2016 RM
Deposits with licensed financial institutions	72,403,166	43,779,046
Cash on hand and at banks	3,638,160	10,272,235
Total deposits, cash and bank balances	76,041,326	54,051,281
Less:		
Deposits with licensed financial institution with maturity of more than 3 months	(6,448,766)	-
Debt service reserves accounts pledged	(5,084,658)	(4,233,375)
Cash and cash equivalents	64,507,902	49,817,906

Included in deposits with licensed financial institutions is an amount of RM5,084,658 (2016: RM4,233,375) maintained in the debt service reserves accounts which are assigned for the borrowings as disclosed in Note 22.

Included in cash on hand and at banks is an amount of RM3,165,235 (2016: RM9,217,933) maintained in the revenue and operations accounts which are assigned for the borrowings as disclosed in Note 22.

The weighted average effective interest rate of deposits at the reporting date is as follows:

	2017 %	2016 %
Deposits with licensed financial institutions (per annum)	3.51	3.33

Deposits with licensed financial institutions have an average maturity ranging from 23 to 184 days (2016: 14 to 92 days).

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20. NON-CURRENT ASSET HELD FOR SALE

	2017 RM
Investment properties	
At 1 January	-
Transfer from investment properties (Note 15)	25,000,000
At 31 December	25,000,000

On 8 January 2018, MQREIT entered into a sale and purchase agreement with Transmark Corporation Sdn. Bhd. ("TCSB" or "the Purchaser") for the proposed disposal of Quill Building 8 ("QB8"), for a total cash consideration of RM28 million. The proposed disposal is expected to be completed in the second quarter of financial year 2018.

21. TRADE AND OTHER PAYABLES

	Note	2017 RM	2016 RM
Non-current			
Other payables			
Deferred lease income	(c)	221,866	3,164,524
Current			
Trade payables			
Trade payables	(a)	799,390	7,612,148
Trade accruals		4,656,924	4,658,490
		5,456,314	12,270,638
Other payables			
Amount due to the Manager	(b)	7,594,920	8,960,383
Other payables	(a)	691,058	608,686
Accruals		5,891,553	5,566,855
Deferred lease income	(c)	670,203	943,553
		14,847,734	16,079,477
		20,304,048	28,350,115
Total trade and other payables		20,525,914	31,514,639
Add: Borrowings (Note 22)		853,452,854	851,566,974
Add: Security deposits		29,023,125	26,130,815
Add: Income distribution payable		-	27,447,312
Total financial liabilities carried at amortised cost		903,001,893	936,659,740

(a) Trade and other payables

Trade and other payables are normally settled between 30 to 90 days (2016: 30 to 90 days).

(b) Amount due to the Manager

Amount due to the Manager is unsecured, non-interest bearing and repayable on demand.

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21. TRADE AND OTHER PAYABLES (cont'd)

(c) Deferred lease income

Deferred lease income relates to the difference between the fair value of non-current security deposits recognised on initial recognition and the nominal amount received, which is amortised on a straight-line basis over the lease terms ranging from 1 to 11 years (2016: 1 to 12 years).

The movement of deferred lease income (current and non-current) is as follows:

	2017 RM	2016 RM
At 1 January	4,108,077	2,280,169
(Refunds)/additions during the financial year	(2,100,896)	2,555,814
Recognised in profit or loss (Note 7)	(1,115,112)	(727,906)
At 31 December	892,069	4,108,077
Representing:		
Current	670,203	943,553
Non-current	221,866	3,164,524
	892,069	4,108,077

22. BORROWINGS

	Note	2017 RM	2016 RM
Non-current			
Secured:			
Fixed Rate Term Loan Facility of up to RM150 million	(b)	-	116,671,400
Senior CPs/MTNs Programme of up to RM290 million	(c)	275,799,490	275,506,195
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	(c)	109,690,760	109,548,075
CPs/MTNs Programme of up to RM3 billion	(d)	351,094,155	160,737,129
		736,584,405	662,462,799
Current			
Secured:			
CPs/MTNs Programme of up to RM270 million	(a)	-	189,104,175
Fixed Rate Term Loan Facility of up to RM150 million	(b)	116,868,449	-
		116,868,449	189,104,175

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22. BORROWINGS (cont'd)

The maturities of MQREIT's borrowings as at 31 December 2017 are as follows:

	2017 RM	2016 RM
Less than 1 year	116,868,449	189,104,175
More than 1 year and less than 5 years	736,584,405	662,462,799
	853,452,854	851,566,974

Other information on financial risks on borrowings are disclosed in Note 37(a) and 37(c).

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

The RM270 million Programme is analysed as follows:

	2017 RM	2016 RM
Face value of CPs/MTNs issued	190,000,000	190,000,000
Discount	(2,547,501)	(2,547,501)
Cash proceeds	187,452,499	187,452,499
Accretion of interest expense (Note 10)	2,547,501	1,651,676
	190,000,000	189,104,175
Transaction costs carried forward	-	(88,353)
Amortisation of transaction costs during the year	-	88,353
	190,000,000	189,104,175
Redeemed on 6 March 2017	(190,000,000)	-
	-	189,104,175

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 Programme") for 5 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.

In previous years, MQREIT had obtained Noteholders' approval to defer the maturity of the RM60 million MTNs, RM12 million CPs and RM118 million CPs for a tenure of 6 months, from the expected maturity of 5 September 2016 to 6 March 2017, 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 were redeemed using 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 22 (d)). As such, there was no outstanding balance under the RM270 million programme as at 31 December 2017.

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22. BORROWINGS (cont'd)

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

The RM270 million Programme is secured, inter-alia by the following:

- (i) Third party first legal charge by the Trustee over QB1, QB4, QB2 and Tesco, disclosed as investment properties in Note 15 (collectively, the "Secured Properties");
- (ii) First party debenture over all present and future assets of Kinabalu;
- (iii) An undertaking from the Manager:
 - (a) to deposit all rental income cashflows generated from the Secured Properties into the revenue accounts; and
 - (b) that it shall not declare any dividends/distributions to unitholders if:
 - an event of default has occurred under the Transaction Documents is continuing and has not been waived; or
 - the financial covenants are not met prior and after such distribution;
- (iv) First legal charge or assignment by the Trustee for the revenue accounts, operations accounts and a first party assignment by Kinabalu for the debt service reserves account;
- (v) Third party assignment of all the proceeds under the tenancy/lease agreements of the Secured Properties;
- (vi) Third party assignment over all rights and benefits under all the insurance policies in relation to the Secured Properties;
- (vii) An irrevocable Power of Attorney granted by the Trustee in favour of the Security Agent to dispose the Secured Properties upon occurrence of a trigger event;
- (viii) First legal assignment over the REIT Trustee Financing Agreement entered into between Kinabalu and the Trustee for the advancement of fund from Kinabalu to the Trustee; and
- (ix) Third party first legal charge over the entire shares of Kinabalu.

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

The RM150 million 5-year Term Loan Facilities are analysed as follows:

	2017 RM	2016 RM
Term loan drawdown	117,000,000	117,000,000
Transaction costs carried forward	(328,600)	(524,285)
	116,671,400	116,475,715
Amortisation of transaction costs during the year	197,049	195,685
	116,868,449	116,671,400

On 18 July 2013, MQREIT through its SPE, Trusmadi Capital Sdn. Bhd. ("Trusmadi"), established a RM150 million Fixed Rate Term Loan Facility agreement for 5 years ("RM150 million Term Loan").

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22. BORROWINGS (cont'd)

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

On 13 September 2013, Tranche 1 of the Facility of RM117 million at the 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 on 13 September 2013. Tranche 2 will be used for capital expenditure and investments at the Reference Malaysian Government Securities ("MGS") + 1.4% per annum.

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

The RM150 million Term Loan is secured, inter-alia by the following:

- (i) Third party first legal charge over WT, QB8 and QB5, respectively disclosed as investment properties in Note 15 (collectively, the "Charged Properties");
- (ii) Third party legal assignment of the SPA for the acquisitions of part of PMK, respectively disclosed as investment properties in Note 15 (collectively, the "Assigned Properties");
- (iii) First party debenture over all present and future assets of Trusmadi;
- (iv) An undertaking from the Manager:
 - (a) to deposit all income/insurance proceeds generated from the Charged and Assigned Properties (collectively, the "Secured Properties") into revenue accounts; and
 - (b) that it shall not declare any dividends/distributions to unitholders if:
 - an event of default has occurred under the Transaction Documents, is continuing and has not been waived; or
 - the financial covenants are not met prior and after such distribution;
- (v) First legal charge or third party assignment by the Trustee for the revenue accounts, operations accounts and a first party assignment by Trusmadi for the debt service reserves account;
- (vi) Third party legal assignment of all the proceeds under the tenancy/lease agreements of the Secured Properties;
- (vii) Third party assignment over all rights, title, interest and benefits under all the insurance policies in relation to the Secured Properties;
- (viii) First legal assignment over the REIT Trustee Financing Agreement entered into between Trusmadi and the Trustee; and
- (ix) Third party first legal charge over the entire shares of Trusmadi.

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22. BORROWINGS (cont'd)

(c) 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 Loan")

	2017 RM	2016 RM
Senior CP/MTN Programme		
Face value of CPs issued/rollover	279,000,000	279,000,000
Discount	(2,671,062)	(2,650,194)
Cash proceeds	276,328,938	276,349,806
Accretion of interest expense (Note 10)	88,057	58,246
	276,416,995	276,408,052
Transaction costs carried forward/issued during the year	(901,857)	(1,185,002)
Amortisation of transaction costs during the year	284,352	283,145
	275,799,490	275,506,195
Fixed Rate Subordinated Term Loan		
Term Loan drawdown	110,000,000	110,000,000
Transaction costs on Term Loan	(451,925)	(594,629)
	109,548,075	109,405,371
Amortisation of transaction costs during the year	142,685	142,704
	109,690,760	109,548,075
Total	385,490,250	385,054,270

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 4.9% per annum.

The CPs/Term Loan outstanding as at 31 December 2017 are subject to interest at the following interest rates per annum as at the reporting date:

	2017 %	2016 %
RM279 million nominal value CPs	3.84	3.81
RM110 million nominal value Term Loan	5.35	5.35

The interest rates for the CPs are subject to interest rate swap arrangements as disclosed in Note 33.

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

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cont'd

22. BORROWINGS (cont'd)

(c) 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 Loan") (cont'd)

The programmes are secured, inter-alia by the following:

- (i) A third party first ranking legal charge over Platinum Sentral, disclosed as investment properties in Note 15 ("Property");
- (ii) A first party first ranking debenture over all present and future assets of Murud;
- (iii) An irrevocable and unconditional undertaking from the Manager:
 - (a) to deposit all rental, deposits, other income, insurance claim proceeds in relation to the Property and any proceeds generated from the Property into the revenue account; and
 - (b) that it shall not declare any dividends/distributions to unitholders if:
 - an event of default has occurred under the Transaction Documents, is continuing and has not been waived or remedied, or following such declaration of dividends or distributions, an event of default would occur; or
 - the financial covenants are not met prior to and/or after such distribution;
- (iv) Third party legal assignment of the SPA entered into between MRCB Sentral Properties Sdn Bhd ("Vendor") and the REIT Trustee on behalf of MQREIT in respect of the Property ("SPA");
- (v) Assignment and charge over the Designated Accounts as follows:
 - (a) third party assignment and charge over the revenue account and operations account by the Trustee; and
 - (b) first party assignment and charge of the debt service reserves account by Murud;
- (vi) Third party legal assignment of all the proceeds under the tenancy/lease agreements of the Property and any part thereof;
- (vii) Third party legal assignment over all rights, title, interest and benefits under all the insurance policies in relation to the Property;
- (viii) An irrevocable Power of Attorney to be granted by the Trustee in favour of the Security Trustee to manage and dispose of the Property upon declaration of a trigger event;
- (ix) Legal assignment over the REIT Trustee Financing Agreement entered into between Murud and the Trustee;
- (x) Third party first ranking legal charge over 100% of the shares of Murud; and
- (xi) Any other securities deemed appropriate and mutually agreed between Murud and the Lead Arranger prior to execution of all the Transaction Documents.

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22. BORROWINGS (cont'd)

(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")

	2017 RM	2016 RM
RM144 million in nominal value of CP and RM20 million in nominal value of MTN ("Issue 1")		
Face value of CPs/MTNs issued	164,000,000	164,000,000
Discount	(2,986,994)	(2,965,453)
Cash proceeds	161,013,006	161,034,547
Accretion of interest expense (Note 10)	164,121	162,937
	161,177,127	161,197,484
Transaction costs on CP/MTN issued during the year	(460,355)	(468,146)
Amortisation of transaction costs during the year	93,527	7,791
	160,810,299	160,737,129
RM61 million in nominal value of CP and RM130 million in nominal value of MTN ("Issue 2")		
Face value of CPs / MTNs issued	191,000,000	-
Discount	(1,255,347)	-
Cash proceeds	189,744,653	-
Accretion of interest expense (Note 10)	811,467	-
	190,556,120	-
Transaction costs on CP/MTN issued during the year	(326,670)	-
Amortisation of transaction costs during the year	54,406	-
	190,283,856	-
Total	351,094,155	160,737,129

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 in 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.

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22. BORROWINGS (cont'd)

(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") (cont'd)

The CPs/MTNs outstanding as at 31 December 2017 are subject to interest at the following interest rates per annum as at the reporting date:

	2017	2016
	%	%
RM144 million nominal value CPs	4.16	4.13
RM20 million nominal value MTNs	4.30	4.30

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

The Issue 1 is secured, inter-alia by the following:

- (i) A third party first ranking legal charge over Menara Shell, disclosed as investment properties in Note 15 (the "Secured Property - Issue 1");
- (ii) An undertaking from the Manager:
 - (a) to deposit all rental cashflows, deposits, other income, and insurance claim proceeds in relation to the Secured Property - Issue 1 and any proceeds generated from the Secured Property - Issue 1 into the relevant revenue account; and
 - (b) that it shall not make or permit to make any withdrawal from the revenue account; operation account; debt service reserve account ("DSRA") (collectively, the "Designated Accounts - Issue 1") for the declaration of any dividends or distributions to unitholders, if:
 - an event of default and/or trigger event under Issue 1 has occurred and is continuing or will occur as a result of such payment or distribution; or
 - the financial covenants under Issue 1 are not met prior to and/or after such distribution;
- (iii) First ranking legal charge and assignment over all rights, titles, interests and benefits in and under the Designated Accounts - Issue 1 (i.e. third party legal assignment and charge by the Trustee over the Revenue Account and Operations Account; and a first party legal assignment by Kinabalu over the DSRA);
- (iv) Third party legal assignment over all the Trustee's rights, titles, interests and benefits in and under the proceeds deriving from the tenancy/lease agreements in relation to the Secured Property - Issue 1, including the rights to sue and to recover such proceeds from the tenants or lessees;
- (v) Third party legal assignment over all the Trustee's rights, titles, interests and benefits in and under the insurance policies in relation to the Secured Property - Issue 1;
- (vi) An irrevocable Power of Attorney granted by the Trustee in favour of the Security Trustee to dispose the Secured Property - Issue 1 upon declaration of a trigger event under Issue 1;
- (vii) First party assignment over all rights, titles, interests and benefits in and under the REIT Trustee Financing Agreement entered into between Kinabalu; the Trustee and the Security Trustee for the provision of the inter-company loan from Kinabalu to the Trustee from the proceeds raised from the Issue 1.

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22. BORROWINGS (cont'd)

(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") (cont'd)

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% per annum and 4.40% per annum respectively. The proceeds raised from this issuance were utilised to redeem the existing RM60 million MTNs and RM130 million CPs under the RM270 million CP/MTN Programme which matured on 6 March 2017. (as disclosed in Note 22(a)).

The CPs/MTNs outstanding as at 31 December 2017 are subject to interest at the following interest rates per annum as at the reporting date:

	2017	2016
	%	%
RM61 million nominal value CP	4.15	-
RM130 million nominal value MTNs	4.40	-

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

The Issue 2 is secured, inter-alia by the following:

- (i) A third party first legal charge by Trustee over QB1, QB4, QB2 and Tesco, disclosed as investment properties in Note 15 (collectively, the "Secured Properties - Issue 2");
- (ii) An undertaking from the Manager:
 - (a) to deposit all rental, cash flows, deposits, other income, and insurance claim proceeds in relation to the Secured Properties - Issue 2 and any proceeds generated from Secured Properties - Issue 2 into the relevant revenue accounts; and
 - (b) that it shall not make or permit to make any withdrawal from the revenue account; operation account; debt service reserve account ("DSRA") (collectively, the "Designated Accounts - Issue 2") for the declaration of any dividends or distributions to unitholders, if:
 - an event of default and/or trigger event under Issue 2 has occurred and is continuing or will occur as a result of such payment or distribution; or
 - the financial covenants under Issue 2 are not met prior to and/or after such distribution;
- (iii) First ranking legal charge and assignment over all rights, titles, interests and benefits in and under the Designated Accounts - Issue 2 (i.e. third party legal assignment and charge by the Trustee over the Revenue Account and Operations Account; and a first party legal assignment by the Kinabalu over the DSRA);
- (iv) Third party legal assignment over all the Trustee's rights, titles, interests and benefits in and under the proceeds deriving from the tenancy/lease agreements in relation to the Secured Properties - Issue 2, including the rights to sue and to recover such proceeds from the tenants or lessees;
- (v) Third party legal assignment over all the Trustee's rights, titles, interests and benefits in and under the insurance policies in relation to the Secured Properties - Issue 2;
- (vi) An irrevocable Power of Attorney granted by the Trustee in favour of the Security Trustee to dispose the Secured Properties - Issue 2 upon declaration of a trigger event under Issue 2;

Notes to the Financial Statements

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22. BORROWINGS (cont'd)

(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") (cont'd)

The Issue 2 is secured, inter-alia by the following: (cont'd)

- (vii) First party assignment over all rights, titles, interests and benefits in and under the REIT Trustee Financing Agreement entered into between Kinabalu; the Trustee and the Security Trustee for the provision of the inter-company loan from Kinabalu to the Trustee from the proceeds raised from the Issue 2.

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Fixed Rate Term Loan Facility of up to RM150 million RM	Senior CPs/MTNs Programme of up to RM290 million RM	Fixed Rate Subordinated Term Loan Facility of up to RM250 million RM	CPs/MTNs Programme of up to RM3 billion RM	CPs/MTNs Programme of up to RM270 million RM	Total RM
Balance at 1 January 2017	116,671,400	275,506,195	109,548,075	160,737,129	189,104,175	851,566,974
Changes from financing cash flows						
Proceeds from borrowings	-	-	-	189,744,653	-	189,744,653
Repayment of borrowings	-	-	-	-	(190,000,000)	(190,000,000)
Finance costs paid	(5,437,454)	(10,806,065)	(5,773,915)	(13,177,352)	(515,506)	(35,710,292)
Total changes from financing cash flows	111,233,946	264,700,130	103,774,160	337,304,430	(1,411,331)	815,601,335
Other changes liability-related						
Interest expense on CPs/MTNs/Term Loan	5,382,000	10,672,323	5,885,000	13,617,190	1,411,331	36,967,844
Amortisation of transaction costs incurred to obtain CPs/MTNs/Term Loan	252,503	427,037	31,600	172,535	-	883,675
Total other changes liability-related	5,634,503	11,099,360	5,916,600	13,789,725	1,411,331	37,851,519
Balance at 31 December 2017	116,868,449	275,799,490	109,690,760	351,094,155	-	853,452,854

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23. UNITHOLDERS' CAPITAL

	No. of units	
	2017	2016
Approved fund size:		
At 1 January	1,100,000,000	700,000,000
Increase in approved fund size	-	400,000,000
At 31 December	1,100,000,000	1,100,000,000
Issued and fully paid:		
At 1 January	1,068,000,000	661,381,000
Private placements of new units on 22 December 2016	-	406,619,000
At 31 December	1,068,000,000	1,068,000,000
	Amount	
	2017 RM	2016 RM
Issued and fully paid:		
At 1 January	1,231,939,861	751,276,357
Private placements of new units on 22 December 2016	-	487,942,800
Expenses on issuance of new units/placements	(25,317)	(7,279,296)
At 31 December	1,231,914,544	1,231,939,861

24. INVESTMENTS IN SPEs

Details of SPEs are as follows:

Name of SPEs	Country of incorporation	Principal activity	Proportion of ownership interest	
			2017 %	2016 %
Murud Capital Sdn. Bhd.	Malaysia	Facilitating financing for MQREIT	100	100
Trusmadi Capital Sdn. Bhd.	Malaysia	Facilitating financing for MQREIT	100	100
Samwise Capital Sdn. Bhd.	Malaysia	Facilitating financing for MQREIT	100	100
Kinabalu Capital Sdn. Bhd.	Malaysia	Facilitating financing for MQREIT	100	100

All the above subsidiaries are audited by Ernst & Young, Malaysia.

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25. COMMITMENTS

(a) Capital commitments

Capital expenditure as at reporting date is as follows:

	2017 RM	2016 RM
Capital expenditure approved and contracted for investment properties	4,136,075	2,166,139

(b) Non-cancellable operating lease commitments

	2017 RM	2016 RM
As lessor		
Future minimum rental receivable:		
Not later than 1 year	148,609,413	161,860,683
Later than 1 year but not later than 5 years	408,786,430	447,598,415
Later than 5 years	315,063,732	390,004,230
	872,459,575	999,463,328

MQREIT has entered into leases on its investment properties. The non-cancellable leases have remaining lease terms of between one to fourteen years (2016: between one to fifteen years).

26. NET ASSET VALUE PER UNIT

The calculation of net asset value per unit is based on 1,068,000,000 units (2016: 1,068,000,000 units) in circulation as at 31 December 2017.

27. TRANSACTIONS WITH STOCKBROKING COMPANIES

No transactions with stockbroking companies were made during the financial year.

28. UNITHOLDINGS BY THE MANAGER

As at 31 December 2017 and 2016, the Manager did not hold any unit in MQREIT.

Notes to the Financial Statements

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29. UNITHOLDERS RELATED TO THE MANAGER

	MQREIT				
	No. of units 2017	No. of units 2016	Percentage of total units	Percentage of total units	Market value
			2017	2016	2017
			%	%	RM
Malaysian Resources Corporation Berhad	297,917,000	297,917,000	27.89	27.89	372,396,250
HLIB Nominee (Tempatan) Sdn. Bhd. for:					
Quill Properties Sdn. Bhd. ("QPSB")	45,997,000	45,997,000	4.31	4.31	57,496,250
Quill Land Sdn. Bhd. ("QLSB")	48,767,000	48,767,000	4.57	4.57	60,958,750
Quill Estates Sdn. Bhd. ("QESB")	22,276,000	22,276,000	2.09	2.09	27,845,000
	414,957,000	414,957,000	38.85	38.85	518,696,250
The Manager's directors' direct unitholding in MQREIT:					
Dato' Dr. Low Moi Ing, J.P.	50,000	50,000	0.00	0.00	62,500
Dato' Michael Ong Leng Chun	55,000	55,000	0.01	0.01	68,750
The Manager's directors' indirect unitholding in MQREIT:					
Dato' Dr. Low Moi Ing, J.P. (a)	117,040,000	117,040,000	10.96	10.96	146,300,000
Dato' Michael Ong Leng Chun (b)	117,040,000	117,040,000	10.96	10.96	146,300,000

(a) Deemed interest by virtue of her direct shareholding in QPSB, QLSB and QESB.

(b) Deemed interest by virtue of his direct shareholding in QPSB, QLSB and QESB.

The market value of the units held by the unitholders related to the Manager is determined by using the closing market value of MQREIT as at 31 December 2017 of RM1.25 per unit (2016: RM1.20 per unit).

30. PORTFOLIO TURNOVER RATIO

	2017	2016
Portfolio turnover ratio ("PTR") [(times)]	-	0.34

PTR is the ratio of the average of acquisitions and disposals of investments for the period to the average net asset value of MQREIT for the period calculated on a monthly basis.

No acquisitions or disposals of investments were carried out during the financial year.

Since the basis of calculating the PTR can vary among the REITs, there is no sound basis for providing an accurate comparison of MQREIT against other REITs.

Notes to the Financial Statements

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31. MANAGEMENT EXPENSE RATIO

	2017	2016
	%	%
Management expense ratio ("MER")	1.07	1.33

MER is calculated based on the total fees including Manager's fees, Trustee's fees, auditor's fees, tax agent's fees, valuation fees and administration expenses charged to MQREIT divided by the average Net Asset Value during the financial year calculated on a monthly basis.

Since the average net asset value of MQREIT is calculated on a monthly basis, the MER of MQREIT may not be comparable to the MER of other REITs or unit trusts which may use a different basis of calculation.

32. RELATED PARTIES TRANSACTIONS

	2017	2016
	RM	RM
(i) Tenancy agreement with Prema Bonanza Sdn. Bhd. and charges on reinstatement works	199,079	795,728
(ii) Car park income from Semasa Parking Sdn. Bhd.		
- Platinum Sentral	1,996,297	2,002,304
- Menara Shell	2,079,857	50,000
(iii) Auxiliary police services with Semasa Sentral Sdn. Bhd.		
- Platinum Sentral	512,400	594,135
- Menara Shell	807,345	-
(iv) Supply of chilled water services with Semasa District Cooling Sdn. Bhd.	2,888,419	3,080,606
(v) Lease of land at Platinum Sentral	67,078	67,078
(vi) Reimbursement of insurance to Kuala Lumpur Sentral Sdn. Bhd.	14,022	-
(vii) Reimbursements to 348 Sentral Sdn. Bhd.	2,910,114	-
(viii) Reimbursement of electricity charges to Country Annexe Sdn. Bhd.	15,055	-
(ix) Maintenance and sinking fund to Joint Management Body for Lot 348	9,611	-
(x) Provision of MSC Malaysia One-stop Centre Support Services with MRCB Sentral Properties Sdn. Bhd.	421,022	-
(xi) Acquisition of Menara Shell from 348 Sentral Sdn. Bhd.	-	640,000,000
(xii) Toilet refurbishment works (final claim)	-	107,910
	11,920,299	646,697,761

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32. RELATED PARTIES TRANSACTIONS (cont'd)

Details of material contract with the related parties other than as disclosed in Note 8 are as follows:

- (i) Rental of the premise known as Unit G02-G04, Ground Floor at Platinum Sentral with Prema Bonanza Sdn. Bhd. ("PBSB") from 1 January 2017 to 31 March 2017 for RM196,628 and charges on reinstatement work for RM2,451.

PBSB was incorporated in Malaysia on 11 December 2006 and its principal activity is property development.

PBSB is a 51% subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), which is a major unitholder of MQREIT and a major shareholder of the MQM. The balance 49% shareholding in PBSB is held by Quill Residences Sdn. Bhd. ("QRSB"), a member of the Quill Group, which is also related to MQREIT's major unitholders namely QPSB, QLSB, QESB as well as Quill Resources Holding Sdn. Bhd. ("QRHSB") which is a major shareholder of the MQM.

- (ii) Car park operation agreement with Semasa Parking Sdn. Bhd. ("SPSB") to renew SPSB as the car park operator for Platinum Sentral for a period of 2 years commencing from 1 January 2017 to 31 December 2018, at a monthly minimum guaranteed rental of RM150,000 with a profit sharing basis in the proportion of 80% (MQREIT):20% (SPSB) ratio. The total amount received for the financial year ended 31 December 2017 amounted to RM1,996,297.

A letter of award has been issued to SPSB on 22 December 2016 with regards to the provision of car park operation at Menara Shell for a period of no more than 6 months at a minimum guarantee rental of RM155,000 per month. With effect from 22 March 2017, the appointment of SPSB as the car park operator for Menara Shell for a period effective from 22 March 2017 to 21 December 2018 will be at a monthly fee of RM170,000 per month. The total amount received for the financial year ended 31 December 2017 amounted to RM2,079,857.

SPSB was incorporated in Malaysia on 6 August 1997 and its principal activity is operation and management of car parks and parking area.

SPSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (iii) Auxiliary police services with Semasa Sentral Sdn. Bhd. ("SSSB") for deployment of auxiliary police personnel at Platinum Sentral, from January 2017 up to December 2017, amounted to RM512,400.

A letter of award has been issued to SSSB on 22 December 2016 for the provision of auxiliary police services at Menara Shell for a period of no more than 6 months at a fee of RM71,844 per month. The total amount incurred for the financial year ended 31 December 2017 amounted to RM807,345.

As announced on 22 August 2017, the 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 will be revised at the monthly rate of RM58,026 and RM32,940 respectively (excluding GST) with an option to extend for a further period of one (1) year.

SSSB was incorporated in Malaysia on 4 May 1982 and its principal activity is maintaining, operating and management of the Kuala Lumpur Sentral Station and any other buildings within the vicinity of Kuala Lumpur Sentral.

SSSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (iv) Supply of chilled water by Semasa District Cooling Sdn. Bhd. ("SDCSB") for installation, maintenance and meter reading for Platinum Sentral. The year to date charges for the financial year ended 31 December 2017 amounted to RM2,888,419.

SDCSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (v) Lease agreement with Malaysian Resources Sentral Sdn. Bhd. ("MRSSB") on lease on 2 pieces of land located on Platinum Sentral, measuring total NLA of 156,959 sq. ft., amounted to RM67,078.

MRSSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

Notes to the Financial Statements

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32. RELATED PARTIES TRANSACTIONS (cont'd)

Details of material contract with the related parties other than as disclosed in Note 8 are as follows: (cont'd)

- (vi) Reimbursement of insurance to Kuala Lumpur Sentral Sdn. Bhd. ("KLSSB") for Platinum Sentral Lot E deck from 1 April 2017 to 31 March 2018 amounted to RM14,022.

KLSSB is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (vii) Reimbursement of chilled water utilities, other reimbursements on utilities charges and refund of tenant's deposits to 348 Sentral Sdn. Bhd. ("348 Sentral") for Menara Shell amounting to RM2,699,754, RM93,041 and RM117,319 respectively.

348 Sentral is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (viii) Reimbursement of electricity charges for LED Outdoor Display Board to Country Annexe Sdn. Bhd. ("Country Annexe") for Menara Shell amounted to RM15,055.

Country Annexe is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (ix) Maintenance and sinking fund charged by Joint Management Body for Lot 348 ("JMB Lot 348") for Menara Shell for the period from 1 August 2017 to 31 December 2017 amounted to RM9,611.

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 consists of three (3) members of whom, 2 members are from MQM and 1 member from 348 Sentral.

- (x) Appointment of MRCB Sentral Properties Sdn. Bhd. ("MSP") as the service provider for the Provision of MSC Malaysia One-stop Centre Support Services for Menara Shell for a period of one (1) year commencing from 22 December 2016 to 21 December 2017.

1. Annual Fee* - RM50,000 per annum (excluding 6% GST)

* Annual Fee shall be conditional upon and subject to the issuance of the necessary approval by the governing authority for the renewal of the MSC Malaysia Status for the building

2. Monthly Fee of RM30,000 (excluding 6% GST)

MSP, a wholly-owned subsidiary of MRCB, was incorporated in Malaysia on 14 November 1990. The principal activity of MSP is property development and property management. MSP has been appointed by KLSSB as MSC One-stop Centre Support Services Provider for the designated premises located within Kuala Lumpur Sentral.

As announced on 15 December 2017, MQM had on the 15 December 2017, appointed Kuala Lumpur Sentral Sdn. Bhd. ("KLSSB") and MRCB Sentral Properties Sdn. Bhd. ("MSP") for the provision of the following services at Menara Shell located at Kuala Lumpur Sentral for a period of two (2) years commencing from 22 December 2017 to 21 December 2019:

1. KLSSB as Cybercentre Manager for the annual compliance audit fee of RM50,000 (excluding 6% GST)
2. MSP as MSC One-stop Centre Support Services Provider for the monthly service fee of RM30,000 (excluding 6% GST)

The total amount accrued for the financial year ended 31 December 2017 amounted to RM421,022.

KLSSB, a 74% subsidiary of MRCB, was incorporated in Malaysia on 7 November 1994. The principal activity is sale of land and property development. Kuala Lumpur Sentral was granted MSC Malaysia Cybercentre Status on 9 February 2006 and KLSSB has been appointed as the Cybercentre Manager.

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33. INTEREST RATE SWAP ("IRS") ARRANGEMENTS

As part of the active interest rate management strategy of MQREIT, the following 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 (Note 22(c)) with HSBC. Pursuant to IRS No. 7, MQREIT will pay a fixed rate of 3.82% per annum to HSBC whilst HSBC 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 (Note 22(c)) with CIMB. Pursuant to IRS No. 8, MQREIT will pay a fixed rate of 3.82% per annum to CIMB whilst CIMB will pay a floating rate to MQREIT. IRS No. 8 commenced on 21 April 2015 and will mature on 30 March 2020.

The differences between the floating rate and the fixed rate of the respective IRS arrangements are settled between MQREIT and the banks (HSBC and CIMB) on quarterly basis. These are charged or credited to profit or loss accordingly.

The risk associated with the IRS arrangements above would be credit risk, which is the counterparty risk of the financial institutions with whom the IRS were contracted. However, the Manager has taken precaution to mitigate this risk by entering into the IRS 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 with effect from 1 October 2010, upon satisfying the requirements of the standard. The portion of the changes in fair values of the IRS arrangements that was determined to be an effective hedge was recognised in other comprehensive income, while the ineffective portion was recognised in profit or loss. Prior to adoption of hedge accounting, the fair value changes of the IRS arrangements were recognised in profit or loss.

The fair values of the derivative liabilities and the maturity profile as at the respective dates are as follows:

	2017	2016
	RM	RM
More than 1 year and less than 5 years	665,731	983,219

34. OTHER SIGNIFICANT EVENTS

The Authority to allot and issue up to 18,619,000 new Units in MQREIT for the purpose of the payment of management fee to MRCB Quill Management Sdn. Bhd. ("MQM") in the form of new Units ("Authority")

As announced on 3 January 2017, the Authority, which was approved by unitholders of MQREIT at the unitholders' meeting on 12 March 2015, has lapsed on 31 December 2016, following the expiry of the approval from the authorities and the unitholders of MQREIT to implement the Authority by 31 December 2016. No Manager's Unit was issued pursuant to the Authority.

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cont'd

35. SUBSEQUENT EVENT

Proposed disposal of Quill Building 8 - DHL XPJ ("QB8") to Transmark Corporation Sdn. Bhd. for a cash consideration of RM28 million ("Proposed Disposal")

As announced on 8 January 2018, Maybank Trustees Berhad ("MTB"), acting solely in the capacity as trustee for and on behalf of MQREIT, has entered into a sale and purchase agreement on 8 January 2018 ("SPA") with Transmark Corporation Sdn. Bhd. ("TCSB" or "the Purchaser") for the proposed disposal of a single storey detached warehouse annexed with a 3-storey office building, a refuse chamber and two guard houses located at No. 8, Jalan Pemaju U1/15, Hicom Glenmarie Industrial Park, Section U1, 40150 Shah Alam, Selangor Darul Ehsan erected on a parcel of freehold land held under H. S. (D) 267028, PT 1955 in the Town of Bandar Glenmarie, District of Petaling, State of Selangor ("QB8" or "Property"), for a cash consideration of RM28 million ("Proposed Disposal").

The Proposed Disposal is expected to be completed in second quarter of financial year 2018.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value

Financial instruments that are not carried at fair value and where carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	Note
Trade and other receivables	18
Lease receivables	17
Deposits, cash and bank balances	19
Borrowings	22
Trade and other payables (including security deposits)	21

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are repriced to market interest rates on or near the reporting date.

The fair values of long term borrowings and security deposits are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

Notes to the Financial Statements

31 December 2017

cont'd

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(b) Fair value measurement

MQREIT uses the hierarchy as disclosed in Note 3.20 in determining and disclosing the fair value of financial instruments.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2017 and 31 December 2016 are as follows:

	Total RM	Level 2 RM	Level 3 RM
As at 31 December 2017			
Assets measured at fair value			
Investment properties	2,179,200,000	-	2,179,200,000
Non-current asset held for sale	25,000,000	-	25,000,000
Liabilities measured at fair value			
Derivative liabilities			
- non-current	(665,731)	(665,731)	-
As at 31 December 2016			
Assets measured at fair value			
Investment properties	2,222,000,000	-	2,222,000,000
Liabilities measured at fair value			
Derivative liabilities			
- non-current	(983,219)	(983,219)	-

Level 2 fair value

Level 2 fair value of the derivatives has been derived using reference to mark-to-market as at the reporting date quoted by financial institutions.

Level 3 fair value

Level 3 fair value of investment properties has been derived using the investment method as described in Note 15.

There were no material transfers between Level 2 and Level 3 during the financial year.

Notes to the Financial Statements

31 December 2017

cont'd

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(b) Fair value measurement (cont'd)

Set out below is a comparison, by class, of the carrying amounts and fair value of MQREIT's financial instruments, other than those with carrying amounts that are reasonable approximation of fair values:

	Note	Carrying amount RM	Fair value RM
Financial liabilities			
As at 31 December 2017			
Fixed Rate Term Loan Facility of up to RM150 million	22(b)	116,868,449	117,000,000
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	22(c)	109,690,760	108,997,055

	Note	Carrying amount RM	Fair value RM
As at 31 December 2016			
Fixed Rate Term Loan Facility of up to RM150 million	22(b)	116,671,400	113,482,694
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	22(c)	109,548,075	110,050,824

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

MQREIT is exposed to financial risks arising from its operations and use of financial instruments, including interest rate risk, credit risk, liquidity risk and market risk.

MQREIT has a system of controls in place to create an acceptable balance between the costs of risks occurring and the costs of managing the risks. The Manager continuously monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies are reviewed regularly to reflect changes in market conditions and MQREIT's activities.

The Audit Committee oversees how management monitors the compliance with stated risk management policies and procedures, assisted by the internal auditor. The internal auditor undertakes regular review of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following section provides details of MQREIT's exposures to the above mentioned risks and the objectives and policies for the management of these risks.

(a) Interest rate risk

MQREIT's exposure to changes in interest rates relates primarily to borrowings as disclosed in Note 22. Interest rate is managed on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates. IRS arrangements have been entered into to partially manage the exposure to interest rate risk. Details of the IRS arrangements are as disclosed in Note 33.

Notes to the Financial Statements

31 December 2017

cont'd

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points ("bps") lower/higher, with all other variables remain constant, MQREIT's income net of taxation as a result of lower/higher interest income on short term deposits and interest expense on floating rate loans and borrowings would have the following effects:

	Income, net of taxation	
	2017	2016
	RM	RM
Interest rate		
- 10 bps	100,774	174,968
+ 10 bps	(100,774)	(174,968)

(b) Credit risk

Credit risk is defined as the risk of potential financial loss resulting from failure of a customer or counterparty to settle its financial and contractual obligations to MQREIT as and when they fall due.

MQREIT's exposure to credit risk arises primarily from trade receivables. The risk is controlled by credit verification procedures before lease agreements are entered into with tenants to ensure creditworthy and good standing tenants are selected. MQREIT has a stringent collection policy in place and the exposure to credit risk is mitigated by diligent on-going monitoring of outstanding receivables and collection of security deposits from tenants.

For other financial assets, MQREIT minimises the credit risk by dealing with high credit rating counterparties and/or reputable and licensed financial institutions.

As at 31 December 2017, MQREIT's maximum exposure to credit risk is represented by the carrying amount of its financial assets as follows:

	Note	2017	2016
		RM	RM
Trade and other receivables	18	5,232,685	17,626,110
Deposits, cash and bank balances	19	76,041,326	54,051,281
Lease receivables	17	2,745,750	3,438,509

(c) Liquidity risk

Liquidity risk is the risk that MQREIT will encounter difficulty in meeting financial obligations due to shortage of funds, which may potentially arise from mismatches of maturities of financial assets and liabilities. As the timing of funding arrangements can be critical, MQREIT may be exposed to the risk of its real estate properties being foreclosed in the interim.

To mitigate liquidity risk, the Manager maintains adequate level of cash and cash equivalents and arranges for refinancing of MQREIT's borrowings on a timely basis to fund MQREIT's operations and meet its financial obligations. In addition, the Manager also monitor and observes the SC REIT Guidelines concerning the limits to total borrowings and ensures compliance with stated financial covenants per terms of its borrowings.

Notes to the Financial Statements

31 December 2017

cont'd

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of MQREIT's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
As at 31 December 2017				
Trade and other payables	20,304,048	-	-	20,304,048
Borrowings	153,563,373	812,646,954	-	966,210,327
Security deposits	12,828,214	9,516,024	7,720,729	30,064,967
Total undiscounted financial liabilities	186,695,635	822,162,978	7,720,729	1,016,579,342
As at 31 December 2016				
Trade and other payables	28,350,115	-	-	28,350,115
Borrowings	221,259,332	740,477,818	-	961,737,150
Security deposits	7,336,154	15,382,699	7,591,314	30,310,167
Total undiscounted financial liabilities	256,945,601	755,860,517	7,591,314	1,020,397,432

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate and unit fund prices which will affect MQREIT's financial results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

38. CAPITAL MANAGEMENT

The primary objective of capital management is to optimise MQREIT's capital structure and cost of capital, while maintaining the gearing ratio within the limits as set out in the SC REIT Guidelines.

The Manager employs a combination of appropriate and flexible debt and financing policies to manage both current and future funding requirements of MQREIT. The Manager, on an on-going basis, manages the capital structure of MQREIT and makes adjustments to it when necessary, in the light of changes in economic conditions.

MQREIT's capital includes units issued, undistributed distributable income and non-distributable reserves.

39. SEGMENTAL REPORTING

No segmental reporting is prepared as MQREIT's activities are predominantly in one industry segment and its properties are situated in Malaysia.

Unitholdings and 30 Largest Unitholders

As at 31 December 2017

DISTRIBUTION OF UNITHOLDINGS AS AT 31 DECEMBER 2017

Unit Class	No. of Unitholders	% of Unitholders	No. of Unitholdings	% of Unitholdings
Less than 100	82	1.71	1,088	-
100 - 1,000	790	16.49	556,112	0.05
1,001 - 10,000	2,311	48.23	12,469,000	1.17
10,001 - 100,000	1,324	27.63	47,533,200	4.45
100,001 to less than 5% of issued units	282	5.88	515,727,700	48.29
5% and above of issued units	3	0.06	491,712,900	46.04
TOTAL	4,792	100.00	1,068,000,000	100.00

CLASSIFICATION OF UNITHOLDERS AS AT 31 DECEMBER 2017

CATEGORY OF UNITHOLDERS		NO. OF UNITHOLDERS			NO. OF UNITS		
		MALAYSIAN		FOREIGN	MALAYSIAN		FOREIGN
		BUMIPUTRA	NON-BUMIPUTRA		BUMIPUTRA	NON-BUMIPUTRA	
1.	Individual	95	3,539	70	1,107,800	81,082,496	3,187,400
2.	Body Corporate						
	Banks/Finance Companies	14	-	-	192,594,800	-	-
	Investments Trusts/ Foundations/Charities	1	2	-	1,000	250,500	-
	Other Types of Companies	10	74	1	2,581,700	44,481,800	58,000
3.	Government Agencies/ Institutions	-	-	-	-	-	-
4.	Nominees	565	370	51	329,123,400	291,052,904	122,478,200
5.	Others	-	-	-	-	-	-
TOTAL		685	3,985	122	525,408,700	416,867,700	125,723,600
GRAND TOTAL		4,792			1,068,000,000		

Unitholdings and 30 Largest Unitholders

As at 31 December 2017

cont'd

LIST OF TOP 30 HOLDERS AS AT 31 DECEMBER 2017

NO.	NAME	HOLDINGS	%
1	RHB NOMINEES (TEMPATAN) SDN BHD <i>MALAYSIAN RESOURCES CORPORATION BERHAD</i>	297,917,000	27.89
2	HSBC NOMINEES (ASING) SDN BHD <i>HSBC-FS FOR CAPITACOMMERCIAL TRUST</i>	117,040,000	10.96
3	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>EMPLOYEES PROVIDENT FUND BOARD</i>	76,755,900	7.19
4	HLIB NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR QUILL LAND SDN BHD (IB)</i>	48,767,000	4.57
5	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	35,136,100	3.29
6	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM BUMIPUTERA</i>	35,000,000	3.28
7	VALUECAP SDN BHD	33,896,300	3.17
8	HLIB NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR QUILL PROPERTIES SDN BHD (IB)</i>	33,365,000	3.12
9	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD <i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)</i>	22,974,100	2.15
10	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM MALAYSIA</i>	22,919,300	2.15
11	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM BUMIPUTERA 2</i>	20,000,000	1.87
12	HLIB NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR QUILL ESTATES SDN BHD (IB)</i>	16,158,000	1.51
13	HSBC NOMINEES (TEMPATAN) SENDIRIAN BERHAD <i>HSBC (M) TRUSTEE BHD FOR ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (P)</i>	15,627,000	1.46
14	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM WAWASAN 2020</i>	15,600,000	1.46
15	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD <i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)</i>	15,523,200	1.45
16	HONG LEONG ASSURANCE BERHAD <i>AS BENEFICIAL OWNER (LIFE PAR)</i>	15,433,300	1.45
17	QUILL PROPERTIES SDN. BHD.	12,632,000	1.18
18	AMANAHRAYA TRUSTEES BERHAD <i>AS 1MALAYSIA</i>	11,000,000	1.03
19	AMANAHRAYA TRUSTEES BERHAD <i>PUBLIC OPTIMAL GROWTH FUND</i>	7,000,000	0.66
20	CARTABAN NOMINEES (TEMPATAN) SDN BHD <i>PAMB FOR PARTICIPATING FUND</i>	6,762,300	0.63
21	QUILL ESTATES SDN. BHD.	6,118,000	0.57
22	CHAI YUNE LOONG	5,602,100	0.52
23	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>EXEMPT AN FOR AIA BHD.</i>	5,060,000	0.47
24	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD <i>DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL-CAP FUND</i>	4,648,800	0.44

Unitholdings and 30 Largest Unitholders

As at 31 December 2017

cont'd

LIST OF TOP 30 HOLDERS AS AT 31 DECEMBER 2017 (cont'd)

NO.	NAME	HOLDINGS	%
25	HSBC NOMINEES (TEMPATAN) SDN BHD <i>HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (AFF HWG6939-403)</i>	4,640,900	0.43
26	HSBC NOMINEES (TEMPATAN) SDN BHD <i>HSBC (M) TRUSTEE BHD FOR AFFIN HWANG SELECT OPPORTUNITY FUND (3969)</i>	4,226,800	0.40
27	AMANAHRAYA TRUSTEES BERHAD <i>AMANAH SAHAM NASIONAL 2</i>	3,900,000	0.37
28	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (AFFIN HWNG SM CF)</i>	3,527,100	0.33
29	AMANAHRAYA TRUSTEES BERHAD <i>AMANAH SAHAM GEMILANG FOR AMANAH SAHAM PENDIDIKAN</i>	3,269,500	0.31
30	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD <i>DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSEQUITY INCOME FUND</i>	2,926,200	0.27
		903,425,900	84.59

Notice of Sixth Annual General Meeting



MRCB-QUILL REIT

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

NOTICE IS HEREBY GIVEN THAT the Sixth Annual General Meeting of MRCB-Quill REIT ("MQREIT") will be held at the Grand Ballroom, Level 2, Aloft Kuala Lumpur Sentral, No. 5, Jalan Stesen Sentral, 50470 Kuala Lumpur on Wednesday, 11 April 2018 at 10.00 a.m. or at any adjournment thereof, for the following purposes:

AGENDA

As Ordinary Business:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 of MQREIT together with the Trustee's Report to the Unitholders issued by Maybank Trustees Berhad, as the trustee for MQREIT ("Trustee") and the Statement by the Manager issued by MRCB Quill Management Sdn Bhd, as the Manager of MQREIT ("Manager") and the Auditors' Report thereon. *(Please refer to Explanatory Note 1)*

As Special Business:

To consider and if thought fit, to pass the following resolution with or without modifications:

Ordinary Resolution

2. Proposed authority to allot and issue new units pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia ("REIT Guidelines")

"THAT pursuant to the REIT Guidelines, Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approval of the relevant regulatory authorities, where such approval is required, approval be and is hereby given to the Directors of the Manager, to issue and allot new units in MQREIT ("New Units") from time to time to such persons and for such purposes as the Directors of the Manager may deem fit, provided that the aggregate number of the New Units to be issued pursuant to this resolution, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of MQREIT for the time being comprising 1,068,000,000 units ("Proposed Mandate");

THAT such approval shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting of the unitholders at which time it will lapse, unless the authority is renewed by a resolution passed at the meeting;
- (b) the expiration of the period within which the next Annual General Meeting of the unitholders is required by law to be held; or
- (c) revoked or varied by a resolution passed by the unitholders in a unitholders' meeting, whichever is the earlier;

THAT the New Units to be issued pursuant to the Proposed Mandate shall, upon allotment and issue, rank *pari passu* in all respects with the existing units except that the New Units will not be entitled to any income distribution, right, benefit, entitlement and/or any other distributions that may be declared prior to the date of allotment and issuance of such New Units;

Notice of Sixth Annual General Meeting

cont'd

AND THAT authority be and is hereby given to the Directors of the Manager and the Trustee, acting for and on behalf of MQREIT, to give effect to the Proposed Mandate with full powers to assent to any conditions, modifications, variations and/or amendments in any manner as may be imposed by the relevant authorities or as the Manager and the Trustee may deem to be in the best interest of the unitholders and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and to give full effect to the Proposed Mandate.

3. To transact such other business of which due notice shall have been given in accordance with the Trust Deed constituting MQREIT.

BY ORDER OF THE BOARD

MRCB Quill Management Sdn Bhd
(The Manager of MRCB-Quill REIT)

Mohamed Noor Rahim bin Yahaya (MAICSA 0866820)
Ho Ngan Chui (MAICSA 7014785)
Company Secretaries

Kuala Lumpur
Date: 28 February 2018

Notes:

1. *Only Unitholders whose name appear in the Record of Depositors of MQREIT on 5 April 2018 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Sixth Annual General Meeting.*
2. *A Unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a Unitholder.*
3. *Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.*
4. *Where a Unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.*
6. *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Registered Address of MRCB Quill Management Sdn Bhd at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.*

Notice of Sixth Annual General Meeting

cont'd

Explanatory Notes on Ordinary and Special Business:

1. Item 1 of the Agenda

This Agenda is meant for discussion only as the Audited Financial Statements do not require formal approval of unitholders in accordance with Clause 15.33A of the REIT Guidelines. Therefore, this agenda will not be put for voting.

2. Item 2 of the Agenda – Proposed Mandate

The proposed ordinary resolution, if passed, will give a mandate to the Manager to issue units of MQREIT from time to time provided that the aggregate number of the new units to be issued, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of MQREIT for the time being. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of MQREIT.

The Proposed Mandate will allow the Manager the flexibility to allot and issue New Units to raise funds to finance future investments, acquisitions and capital expenditure to enhance the value of MQREIT and/or to refinance existing debt as well as for working capitals purposes, subject to the relevant laws and regulations.

MRCB-QUILL REIT

Number of Unit(s) held	CDS Account No.													
				-				-						

I/We (FULL NAME IN CAPITAL LETTERS) _____

NRIC No./Passport No./Company No. _____ of (FULL ADDRESS) _____

being a unitholder/unitholders of MRCB-Quill REIT hereby appoint:

Name of Proxy in capital letters		Proportion on Unitholdings to be represented by the Proxies:	
		Number of Units	Percentage [%]
Proxy 1			
	NRIC No./Passport No.:		
And/or failing him/her			
Proxy 2			
	NRIC No./Passport No.:		

Total

or failing him/her the Chairman of the Meeting as my/our proxies to attend and vote for me/us on my/our behalf at the Sixth Annual General Meeting of MRCB-Quill REIT to be held at the Grand Ballroom, Level 2, Aloft Kuala Lumpur Sentral, No. 5, Jalan Stesen Sentral, 50470 Kuala Lumpur on Wednesday, 11 April 2018 at 10.00 a.m. and at any adjournment thereof.

My/our proxies are to vote on the Resolution as indicated by an "X" in the appropriate spaces below. If this form is returned without any indication as to how the proxy shall vote, the proxy shall vote or abstain as he/she thinks fit.

No.	Resolution	For	Against
1	Proposed Mandate		

Dated this _____ day of _____ 2018

Signature of Unitholder

* DELETE IF NOT APPLICABLE

Notes:

Proxy

- Only Unitholders whose name appear in the Record of Depositors of MQREIT on 5 April 2018 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Sixth Annual General Meeting.
- A Unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a Unitholder.
- Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
- Where a Unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
- The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Registered Address of MRCB Quill Management Sdn Bhd at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.

Fold this flap for sealing

Then fold here

Affix
stamp

The Company Secretary
MRCB Quill Management Sdn. Bhd.

The Manager of MRCB-Quill REIT
Level 33A, Menara NU 2,
No. 203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur.

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www.mrcbquillreit.com



MRCB Quill Management Sdn. Bhd. (737252-X)
(the Manager of MRCB-Quill REIT)

Level 35, Menara NU 2, No. 203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral, 50470 Kuala Lumpur.
Tel : +603 2786 8080 / 2859 7070
Fax : +603 2780 0098