MRCB Quill REIT



annual report **2018**





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CORPORATE **INFORMATION**

MANAGER

Quill Capita 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 OF THE MANAGER

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 7988

BOARD OF DIRECTORS OF THE MANAGER

Tan Sri Saw Choo Boon
Dato' Dr. Low Moi Ing, J.P.
Dato' Michael Ong Leng Chun
Datuk 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

WEBSITE

www.mrcbquillreit.com

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





SALIENT FEATURES **OF MRCB-QUILL REIT**

Category of Fund	Real Estate Investment Trust
Type of Fund	Income and growth
Termination Date/ Duration of the Fund	The earlier of: a) The occurrence of any events listed in clause 26.2 of the Trust Deed; or b) The expiration of a period of twenty one (21) years after the death of the last survivor of the issue now living of his majesty, the current Yang Di Pertuan Agung in Malaysia or until such further period as the law may permit
Approved Fund Size	1,100,000,000
Investment Objective	To acquired 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 net asset value per unit of MQREIT
Distribution Policy	Semi-annual distribution
Manager's Fee	• Base fee: 0.4% per annum of the gross asset value ("GAV") • Performance fee: 3% per annum of the net investment income • Acquisition fee: 1% of the acquisition price • Divestment fee: 0.5% of the disposal price
Trustee's Fee	0.03% per annum on the RM2.5 billion of the GAV and 0.02% per annum on the GAV in excess of RM2.5 billion
Financial Year End	31 December
Board Lot	100 units per board lot
Listing	Main Market of Bursa Malaysia Securities Berhad
Stock Name	MQREIT
Stock Code	5123
Date of Listing	8 January 2007

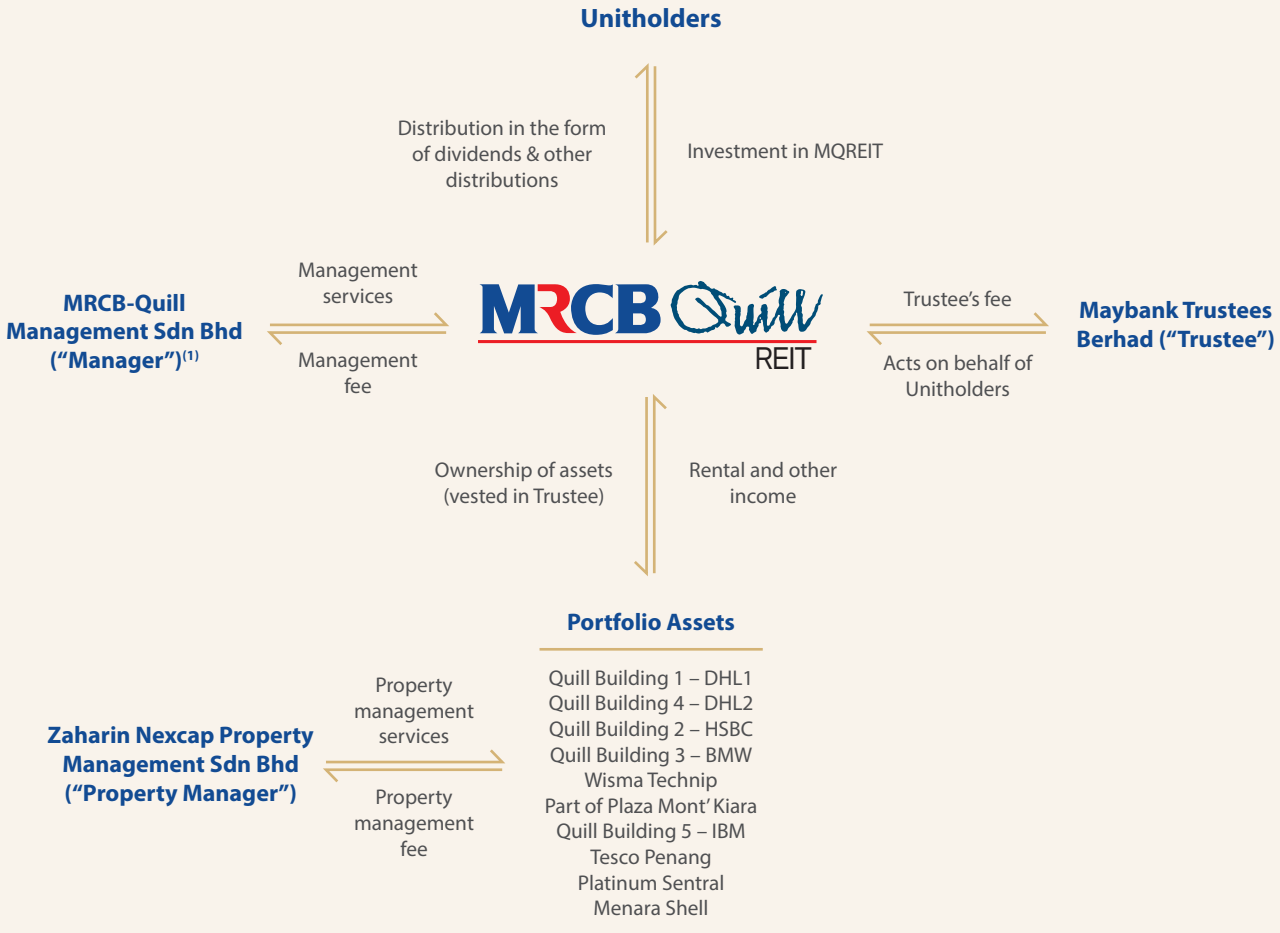
TRUST **STRUCTURE**

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 Objective

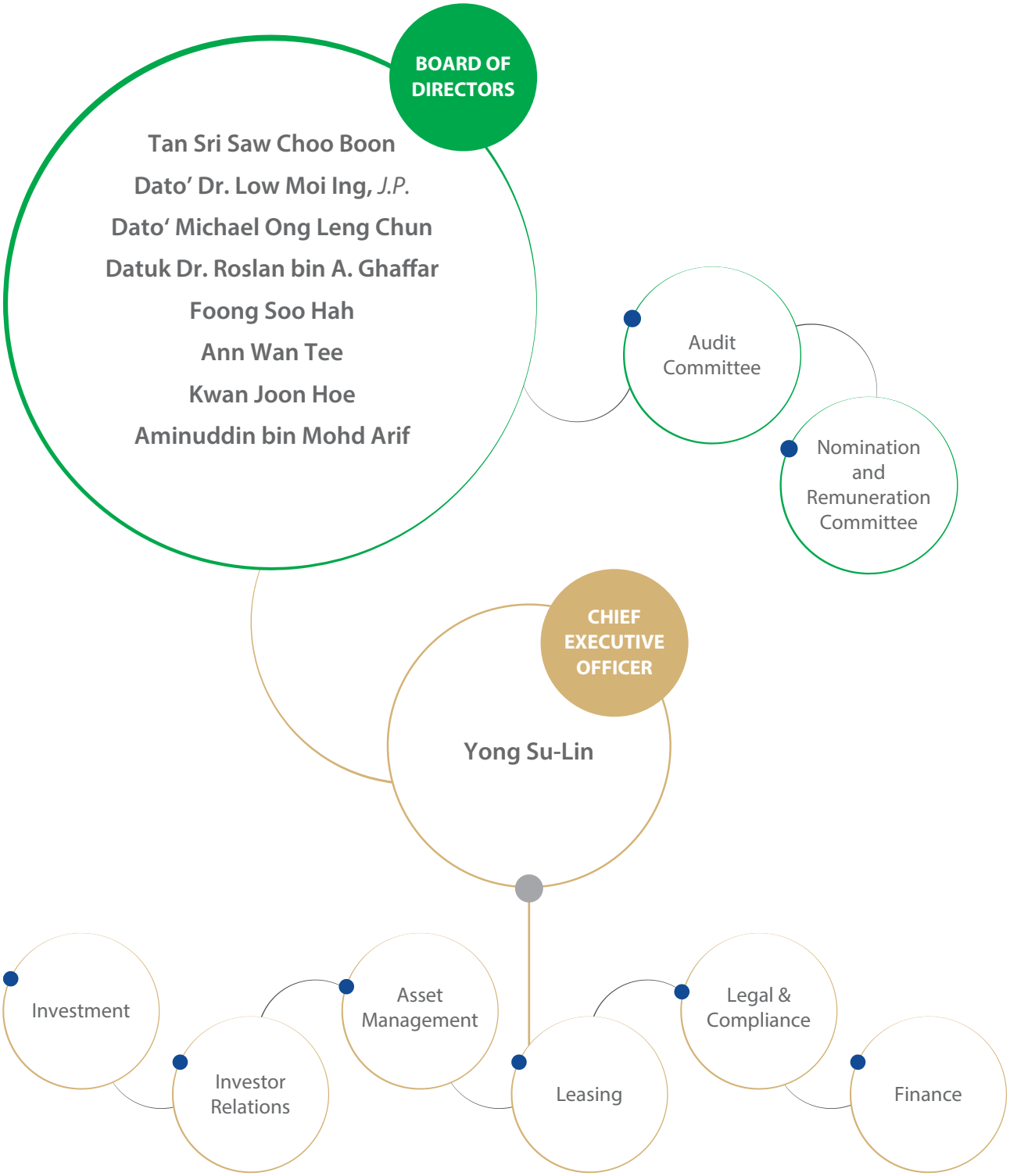
To acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value ("NAV") per Unit.



Note:

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

ORGANISATION STRUCTURE **OF THE MANAGER**



PROFILE OF DIRECTORS **OF THE MANAGER**



TAN SRI SAW CHOO BOON
Chairman and Non-Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/73/Male

Date appointed to the Board
22 January 2016

Board Committee Membership(s)
Nil

No. of Board Meetings Attended in 2018
5/5

Academic/Professional Qualification/Professional Membership
Bachelor of Science (Chemistry), University of Malaya (1969)

Present Directorship(s)
- DiGi.Com Berhad
- RHB Bank Berhad
- RHB Insurance Berhad
- Wah Seong Corporation Berhad

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 Managing Director 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, position he held till his retirement on 30 June 2010.



DATO' DR. LOW MOI ING, J.P.
Non-Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/58/Female

Date appointed to the Board
12 June 2006

Board Committee Membership(s)
Member of the Audit Committee

No. of Board Meetings Attended in 2018
4/5

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

Present Directorship(s)
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 Estates Sdn Bhd ("QESB"), Quill Land Sdn Bhd ("QLSB"), Quill Properties Sdn Bhd ("QPSB") and Quill Resources Holding Sdn Bhd ("QRHSB"). QESB, QLSB, QPSB and QRHSB collectively hold substantial units in MQREIT and QRHSB is a substantial shareholder of MQM.

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 DIRECTORS **OF THE MANAGER**
(cont'd)



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

Nationality/Age/Gender
Malaysian/63/Male

Date appointed to the Board
12 June 2006

Board Committee Membership(s)
Nil

No. of Board Meetings Attended in 2018
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 Perekabentuk Dalaman (IPDM) (1995)

Present Directorship(s)
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 QESB, QLSB, QPSB and QRHSB. QESB, QLSB, QPSB and QRHSB collectively hold substantial units in MQREIT and QRHSB is a substantial shareholder of MQM.



FOONG SOO HAH
Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/69/Male

Date appointed to the Board
11 April 2013

No. of Board Meetings Attended in 2018
5/5

Board Committee Membership(s)
- 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 Directorship(s)
- 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 DIRECTORS **OF THE MANAGER**
(cont'd)



DATUK DR. ROSLAN BIN A. GHAFFAR
Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/67/Male

Date appointed to the Board
16 June 2015

Board Committee Membership(s)
- Member of the Audit Committee
- Member of the Nomination & Remuneration Committee

No. of Board Meetings Attended in 2018
5/5

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 Directorship(s)
- Box-Pak (Malaysia) Berhad
- Priceworth International Berhad
- Kuala Lumpur Sentral Sdn Bhd
- Straits International Education Group
- Kwasa Land Sdn Bhd
- Permodalan Felcra Sdn Bhd
- Mieco Chipboard Berhad

Other Memberships/Appointments/Involvements
Chairman of the Rating Committee of Malaysian Rating Corporation Berhad

Working Experience:
Datuk 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, Datuk 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.



AMINUDDIN BIN MOHD ARIF
Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/44/Male

Date appointed to the Board
1 April 2016

Board Committee Membership(s)
- Member of the Audit Committee
- Chairman of the Nomination & Remuneration Committee

No. of Board Meetings Attended in 2018
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 Directorship(s)
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.

PROFILE OF DIRECTORS **OF THE MANAGER**
(cont'd)



ANN WAN TEE
Non-Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/48/Male

Date appointed to the Board
31 March 2015

Board Committee Membership(s)
Member of the Audit Committee

No. of Board Meetings Attended in 2018
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(s)
- 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.



KWAN JOON HOE
Non-Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/37/Male

Date appointed to the Board
31 March 2015

Board Committee Membership(s)
Nil

No. of Board Meetings Attended in 2018
5/5

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(s)
MRCB Group of Companies

Working Experience:
Kwan Joon Hoe is currently the Group Chief Operating Officer of MRCB.

He joined MRCB as Senior Vice President of the Group's Property Division in January 2014. Kwan Joon Hoe was appointed as the Chief Operating Officer of MRCB on 1 March 2015 and was promoted to his current position on 1 June 2017.

He 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 the Group's property development function in 2012 before joining MRCB. Prior to joining Gapurna, he served in 2 accounting firms in their respective audit and advisory functions.

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 ten (10) years; and
   (ii) been imposed with any public sanctions or penalty by the relevant regulatory bodies during the financial year.

THE MANAGEMENT TEAM **OF THE MANAGER**



From left to right:

Alex Low Kam Seng	*Manager, Asset Management*
Jean Wong Wen Looi	*Manager, Legal*
Christie Pun Nyuk Len	*Manager, Lease Administration*
Phuah Ngah Yuin	*Senior Executive, Finance*
Stephanie Tang Pit Yen	*General Manager, Investment and Asset Management*
Tracy Wong	*Senior Executive, Finance*
Yong Su-Lin	*Chief Executive Officer*
Alice Yap Soh Ping	*Manager, Lease Administration*
Joyce Loh Mun Ching	*General Manager, Investment and Investor Relations*
Leong Foong Yin	*Senior Executive, Finance*
Shirley Tam Soot Lee	*General Manager, Finance*
Chan Fong Hin	*General Manager, Asset Management*

THE MANAGEMENT TEAM **OF THE MANAGER**
(cont'd)



YONG SU-LIN

45 years old | Female | Malaysian
Chief Executive Officer

Date of appointment as Chief Executive Officer:
9 July 2015

Length of service as CEO:
3 year 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 unitholder of MQREIT. She does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.

As at 31 December 2018, she holds 3,000 MQREIT units.

MANAGEMENT DISCUSSION AND ANALYSIS - FINANCIAL HIGHLIGHTS

Fund Performance	2018	2017	2016	2015	2014
Total Asset Value (RM)	**2,271,385,292**	2,288,392,194	2,297,341,586	1,625,307,072	868,372,713
Net Asset Value ("NAV") (RM)					
-Before income distribution	**1,372,289,531**	1,384,724,570	1,359,698,627	903,854,859	541,251,009
-After income distribution	**1,331,025,885**	1,340,295,770	1,332,251,315	874,952,509	524,553,402
Units in circulation	**1,071,783,000**	1,068,000,000	1,068,000,000	661,381,000	390,131,000
NAV per unit (RM)	**1.2804**	1.2966	1.2988	1.3666	1.3874
Highest NAV per unit (RM)	**1.3018**	1.3281	1.3758	1.3952	1.3874
Lowest NAV per unit (RM)	**1.2612**	1.2799	1.2731	1.3136	1.3346
Highest traded price per unit (RM)	**1.25**	1.35	1.36	1.29	1.20
Lowest traded price per unit (RM)	**1.00**	1.22	1.06	1.01	1.01
Distribution Per Unit ("DPU") (sen)	**8.08**	8.39	8.38	8.47	8.38
-Interim	**4.23**	4.23	4.23	1.88	4.10
-2nd Interim	**-**	-	-	2.22	-
-Final	**3.85**	4.16	4.15	4.37	4.28
Dates of Distribution					
-Interim	**19-Sep-18**	18-Sep-17	8-Sep-16	15-Apr-15	29-Aug-14
-2nd Interim	**-**	-	-	28-Aug-15	-
-Final	**28-Feb-19**	28-Feb-18	13-Jan-17	29-Feb-16	27-Feb-15
Effect of Income Distribution on NAV per unit					
-Before Distribution (RM)	**1.2804**	1.2966	1.2988	1.3666	1.3874
-After Distribution (RM)	**1.2419**	1.2550	1.2731	1.3229	1.3446
Closing price on the last trading day	**1.06**	1.25	1.20	1.08	1.17
Distribution yield (per annum) [(a)]	**7.62%**	6.71%	6.98%	7.84%	7.16%
MER [(b)]	**1.09%**	1.07%	1.33%	1.19%	1.10%
Average Total Returns					
-for 1 year [((c)(i))]	**6.85%**	7.14%	4.80% [(e)]	7.19%	8.30%
-3 financial years [((c)(ii))]	**18.80%**	19.14%	20.29%	23.88%	25.06%
-5 financial years [((c)(iii))]	**34.28%**	35.82%	37.05%	40.58%	41.30%
Annual Total Returns [(d)] (RM)	**84,653,758**	88,006,515	59,155,963	54,020,625	34,162,743
Proposed final income distribution	**41,263,646**	44,428,800	27,447,312	28,902,350	16,697,607

(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. The computation of MER has been verified by the auditors.

(c) (i) Average Total Returns for 1 year is computed based on the Annual Total Returns for financial year ended 2018 divided by the weighted average unitholders capital for the financial year ended 2018.

(ii) Average Total Returns for 3 financial years is computed based on the Annual Total Returns for last 3 financial years/periods divided by the weighted average unitholders capital for the last 3 financial years/periods.

(iii) Average Total Returns for 5 financial years is computed based on the Annual Total Returns for last 5 financial years/periods divided by the weighted average unitholders capital for the last 5 financial years/periods.

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

(e) The percentage average total return for 2016 is lower than other years as MQREIT did not recognise full year income from Manara Shell in 2016, in view that the property was acquired on 22 December 2016, notwithstanding the increase in its average unitholders capital upon completion of the acquisition of the said property.

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

MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW

As at 31 December 2018, MQREIT's investment comprised ten (10) commercial buildings with five (5) located in Cyberjaya, four (4) in Kuala Lumpur, one (1) in Penang. The details of MQREIT's properties are as follows.



- Address / Location : 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
- Title : HSD 28552, PT 40578, Mukim of Dengkil, District of Sepang, State of Selangor
- Property Type and Age : Commercial Building, 16 years
- Description : 4-storey office building together with a sub-basement and a basement car park
- Tenure : Term in Perpetuity
- Encumbrances : Charged to Pacific Trustees Berhad as security agent
- Net Lettable Area : 92,284 square fee ("sq. ft.")
- Existing Use : Commercial Building
- Parking Space : 315 lots
- Date of Acquisition : 20 November 2006
- Acquisition Price : RM52,100,000
- Market Value as at 31 December 2018 : RM133,000,000*
- Name of Valuer : Knight Frank Malaysia Sdn. Bhd.
- Occupancy as at 31 December 2018 : 100%
- Tenant : DHL Information Services (Asia-Pacific) Sdn. Bhd.
- Tenancy Period : 5+5 years from 1 January 2016
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% Logistic Tenant
  - By Percentage of Gross Rental – 100% Logistic Tenant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM1,136,780

Note:

* *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 (then known as Quill Capita Trust). 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 RM133,000,000.*

MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW
(cont'd)



- Address / Location : 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
- Title : HSD 28552, Lot PT 40578, Mukim of Dengkil, District of Sepang, State of Selangor
- 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
- Encumbrances : Charged to Pacific Trustees Berhad as security agent
- Net Lettable Area : 99,183 sq. ft.
- Existing Use : Commercial Building
- Parking Space : 309 lots
- Date of Acquisition : 20 November 2006
- Acquisition Price : RM57,000,000
- Market Value as at 31 December 2018 : RM133,000,000*
- Name of Valuer: Knight Frank Malaysia Sdn. Bhd.
- Occupancy as at 31 December 2018 : 100%
- Tenant : DHL Information Services (Asia-Pacific) Sdn. Bhd.
- Tenancy Period : 5+5 years from 1 January 2016
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% Logistic Tenant
  - By Percentage of Gross Rental – 100% Logistic Tenant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM833,127

Note:

* *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 (then known as Quill Capita Trust). 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 RM133,000,000.*

MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)



QUILL BUILDING 2 - HSBC

- Address / Location : 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
- Title : HSD 30755, Lot PT 43966, Mukim of Dengkil, District of Sepang, State of Selangor
- Property Type and Age : Commercial Building, 15 years
- Description : 4-storey office building together with a sub-basement car park
- Tenure : Term in Perpetuity
- Encumbrances : Charged to Pacific Trustees Berhad as security agent
- Net Lettable Area : 184,453 sq. ft.
- Existing Use : Commercial Building
- Parking Space : 505 lots
- Date of Acquisition : 20 November 2006
- Acquisition Price : RM107,500,000
- Market Value as at 31 December 2018 : RM122,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2018 : 100%
- Tenant : HSBC Electronic Data Processing (Malaysia) Sdn. Bhd.
- Tenancy Period : 5+3 years from 10 November 2014
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% Banking Tenant
  - By Percentage of Gross Rental – 100% Banking Tenant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM1,782,880

MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW

(cont'd)



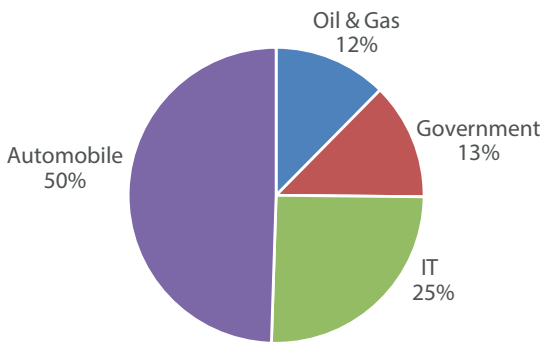
- Address / Location : 3501, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan
- Title : GRN 169506, Lot 33084, Mukim of Dengkil, District of Sepang, State of Selangor
- Property Type and Age : Commercial Building, 14 years
- Description : 4-storey office building together with a level of sub-basement and a level of basement car park
- Tenure : Term in Perpetuity
- Encumbrances : Nil
- Net Lettable Area : 117,198 sq. ft.
- Existing Use : Commercial Building
- Parking Space : 336 lots
- Date of Acquisition : 20 November 2006
- Acquisition Price : RM59,400,000
- Market Value as at 31 December 2018 : RM79,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2018 : 91%
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM5,755,565
- Major Tenants and Tenancy Details :

Tenant	: BMW Asia Technology Centre Sdn. Bhd.
Tenancy Period	: 10 years from 7 July 2015
Tenant	: BMW Malaysia Sdn. Bhd.
Tenancy Period	: 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+3 years from 1 January 2016
Tenant	: Huawei Technologies (Malaysia) Sdn. Bhd.
Tenancy Period	: 3+3+3 years from 1 February 2018
Tenant	: BMW Credit (Malaysia) Sdn. Bhd.
Tenancy Period	: 8.8+3+3 years from 1 October 2016

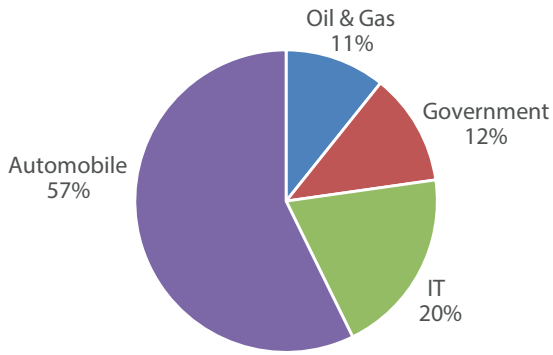
MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)



- Trade Sector Analysis :
  - By Percentage of Net Lettable Area



  - By Percentage of Gross Rental



MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW

(cont'd)



- Address / Location : 241, Jalan Tun Razak, 50400 Kuala Lumpur
- Title : Geran 43313, Lot No. 1262 Seksyen 67, Bandar Kuala Lumpur, District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur
- Property Type and Age : Office Building, 25 years
- Description : 12-storey office building with a mezzanine floor and three split-levels basement car park
- Tenure : Term in Perpetuity
- Encumbrances : Charged to Hong Leong Investment Bank as security agent
- Net Lettable Area : 233,021 sq. ft.
- Existing Use : Office Building
- Parking Space : 308 lots
- Date of Acquisition : 3 September 2007
- Acquisition Price : RM125,000,000
- Market Value as at 31 December 2018 : RM172,400,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2018 : 100%
- Tenant : Technip Geoproduction (M) Sdn. Bhd.
- Tenancy Period : 5+3 years from 1 January 2014
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% Oil & Gas Tenant
  - By Percentage of Gross Rental – 100% Oil & Gas Tenant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM4,205,034

MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)

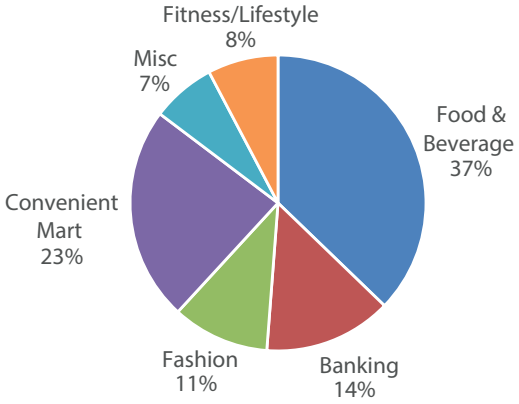


- Address / Location : Plaza Mont' Kiara, No. 2, Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur
- Title : Parent Lot No. 56054, Mukim Batu, District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur
- Property Type and Age : Commercial lots and car parks, 16 years
- Description : An integrated stratified 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
- Encumbrances : Charged to Hong Leong Investment Bank as security agent
- Net Lettable Area : 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
- Market Value as at 31 December 2018 : RM118,200,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2018 : 91%
- Tenants : Multi-tenanted retail tenants from various sectors, including banking, food & beverages, beauty & fashion, fitness and convenient marts
- Tenancy Period : ranging between 1 to 3 years period
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM2,878,712

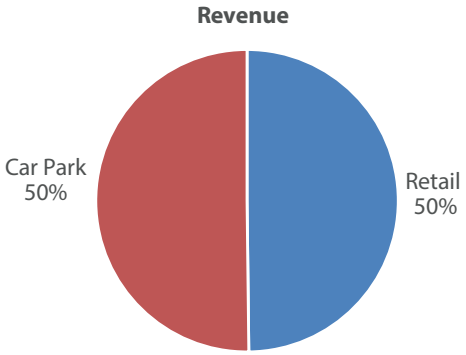
MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW
(cont'd)



- Trade Sector Analysis :
  - By Percentage of Net Lettable Area (excluding car parks)



  - By Percentage of Revenue (car park vs retail tenancy)



MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)



QUILL BUILDING 5 - IBM

- Address / Location : 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan
- Title : HSD 30754, PT 43965, Mukim of Dengkil, District of Sepang, State of Selangor
- Property Type and Age : Commercial Building, 11 years
- Description : 5-storey office building together with one level of sub-basement and 1 ½ levels of basement car park
- Tenure : Term in Perpetuity
- Encumbrances : Charged to Hong Leong Investment Bank as security agent
- Net Lettable Area : 81,602 sq. ft.
- Existing Use : Commercial building
- Parking Space : 241 lots
- Date of Acquisition : 14 March 2008
- Acquisition Price : RM43,000,000
- Market Value as at 31 December 2018 : RM39,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2018 : 56%
- Tenant : IBM Malaysia Sdn. Bhd.
- Tenancy Period : 3+3+3+3 years from 1 June 2011
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% IT Tenant
  - By Percentage of Gross Rental – 100% IT Tenant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM2,151,768

MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW

(cont'd)



TESCO BUILDING - PENANG

- Address / Location : 1, Lebuh Tengku Kudin 1, 11700 Penang
- Title : Geran 77969, Lot No. 778, Section 4, Town of Jelutong, North East District, Penang
- Property Type and Age : Commercial Building, 14 years
- Description : 3-storey purpose built hypermarket
- Tenure : Term in perpetuity
- Encumbrances : Charged to Pacific Trustees Berhad as security agent
- Net Lettable Area : 275,020 sq. ft.
- Existing Use : Commercial building
- Parking Space : 1,052 lots
- Date of Acquisition : 7 November 2008
- Acquisition Price : RM132,000,000
- Market Value as at 31 December 2018 : RM140,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2018 : 100%
- Tenant : Tesco Stores (Malaysia) Sdn. Bhd.
- Tenancy Period : 29 October 2004 to 31 August 2032
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% Retail Tenant
  - By Percentage of Gross Rental – 100% Retail Tenant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM598,951

MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)



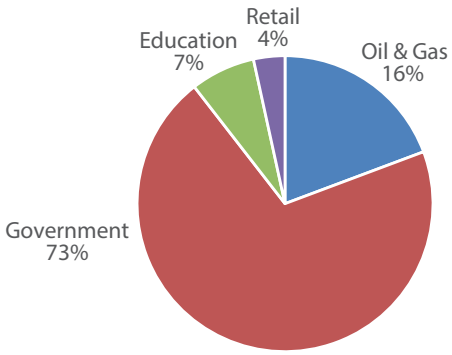
- Address / Location: Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur
- Title : GRN 46222, Lot 73 Section 70, Within Town and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur
- Property Type and Age : Commercial Building, 7 years
- Description : 5 blocks of 4 to 7 storey commercial building comprising office-cum-retail space, a multi-purpose hall and 2 levels of car park
- Tenure : Term in Perpetuity
- Encumbrances : Charged to Pacific Trustees Berhad as security agent
- Net Lettable Area : 476,370 sq. ft.
- Existing Use : Commercial building
- Parking Space : 647 lots
- Acquisition Price : RM740,000,000
- Date of Acquisition : 30 March 2015
- Market Value as at 31 December 2018 : RM724,000,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2018 : 87%
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM10,204,684
- Major Tenants 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+1 years from 1 March 2012
Remaining Tenants	:	Multi-tenanted office-cum retail tenants from various sectors including education, food & beverages, fitness and convenient stores
Tenancy Period	:	Ranging from 3 years

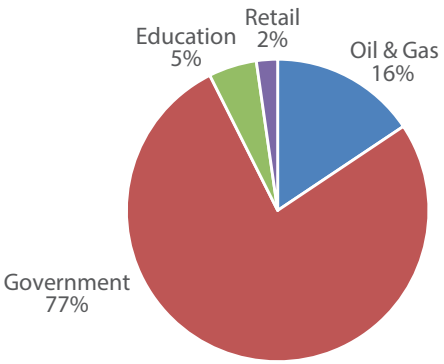
MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW
(cont'd)



- Trade Sector Analysis :
  - By Percentage of Net Lettable Area



  - By Percentage of Gross Rental



MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)



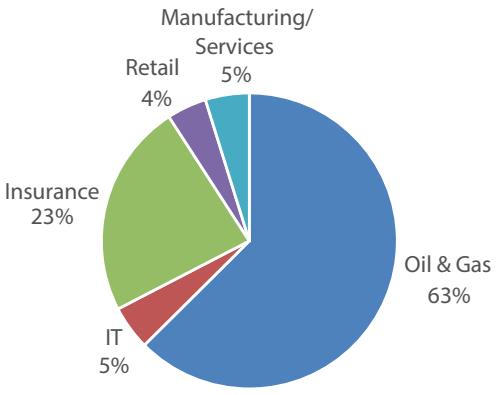
- Address / Location : 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur
- Title : Parent Lot No. 348, Section 72, Town and District of Kuala Lumpur, Federal Territory of Kuala Lumpur
- Property Type and Age : Commercial Building, 5 years
- Description : 33-storey stratified office building erected on a 5 storey podium and a 4 storey basement car park
- Tenure : Term in perpetuity
- Encumbrances : Charged to Pacific Trustees Berhad as security agent
- Net Lettable Area : 557,053 sq. ft.
- Existing Use : Commercial building
- Parking Space : 915 lots
- Date of Acquisition : 22 December 2016
- Acquisition Price : RM640,000,000
- Market Value as at 31 December 2018 : RM650,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2018 : 93%
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM13,954,719
- Major Tenants 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	:	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	:	Microsoft (Malaysia) Sdn. Bhd.
Tenancy Period	:	6+3 years from 15 July 2018
Tenant	:	ReMark Malaysia Pte. Ltd.
Tenancy Period	:	3+3 years from 1 October 2018
Remaining Tenants	:	Retail tenants from various sectors including banking, food & beverages, clinic, childcare centre and convenient stores
Tenancy Period	:	3 years

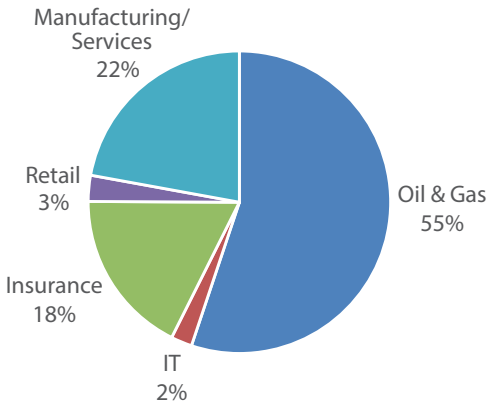
MANAGEMENT DISCUSSION AND ANALYSIS - PORTFOLIO OVERVIEW
(cont'd)



- Trade Sector Analysis :
  - By Percentage of Net Lettable Area



  - By Percentage of Gross Rental



MANAGEMENT DISCUSSION AND ANALYSIS
- PORTFOLIO **OVERVIEW**
(cont'd)



QUILL BUILDING 8 - DHL XPJ

PROPERTY DISPOSED DURING THE FINANCIAL YEAR

- Address / Location : 8, Jalan Pemaju U1/15, Section U1, 40150 Shah Alam, Selangor Darul Ehsan
- Title : HSD 267028, PT 1955, Bandar Glenmarie, District of Petaling, State of Selangor
- Property Type and Age : Industrial Building, 12 years
- Description : 3-storey office building with an annexed single storey detached warehouse
- Encumbrances (prior to disposal) : Charged to Hong Leong Investment Bank as security agent
- Tenure : Term in Perpetuity
- Net Lettable Area : 65,205 sq. ft.
- Existing Use : Industrial building
- Parking Space : Nil
- Acquisition Price : RM28,800,000
- Date of Acquisition : 25 March 2008
- Latest Market Value as at 25 October 2017 : RM25,000,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Tenant : DHL Express (Malaysia) Sdn. Bhd.
- Tenancy Period : 3+3+years from 1 July 2016
- Trade Sector Analysis :
  - By Percentage of Net Lettable Area – 100% Logistics Tenant
  - By Percentage of Gross Rental – 100% Logistics Tenant
- Property Manager (prior to disposal): Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the 2018 (up to Date of Disposal) : RM56,750
- Date of Disposal : 12 April 2018
- Disposal Price : RM28,000,000
- Occupancy (as at Date of Disposal) : 100%
- Purchaser : Transmark Corporation Sdn. Bhd.

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW

OVERVIEW – OPERATING ENVIRONMENT

Global growth in 2019 is anticipated to be driven by stable growth in the US and most emerging and developing economies. Growth in the emerging and developing economies is expected to be supported by strong domestic demand, while the US growth is projected to be supported by fiscal stimulus in 2018, but to be moderated in 2019 due to new trade restrictive policies. The International Monetary Fund projected global growth at 3.5% and 3.6% for 2018 and 2019 respectively (revised from 3.7% for both years) with easing global trade due to higher trade policy uncertainties as well as weaknesses in the European economies.

On the domestic front, Malaysia's economic outlook remains positive despite the challenging environment, both domestically and externally. Although economic growth has been slower, it remains on a steady growth path while inflation moderates. Domestic demand continues to drive Malaysia's growth with steady growth path spearheaded by the private sector together with moderate inflation. Private sector continues to be the main driver of economic activities supported by favorable labour market conditions and strong consumer and business sentiments.

Overall, despite the considerable headwinds in 2018, Malaysia has recorded resilient key macroeconomic numbers for 2018. Malaysia's economy registered fourth quarter growth of 4.7% year-on-year. For the full-year, the Malaysian economy recorded a 4.7% growth in 2018 (2017: 5.9%).

Moving ahead to 2019, the economic growth prospect remains modest as the new federal government prioritizes effort in managing government spending to pare down debts and to stay on track to achieve a balanced budget over the medium term. The real gross domestic product ("GDP") is expected to expand by 4.9% in 2019. This is reflected in the Budget 2019, announced on 2 November 2018 which is a budget that balances between ensuring growth amid a challenging environment, and committing to fiscal consolidation. We expect near term growth to moderate as the rebound in consumer spending is likely to be offset by lower public sector spending and compounded by external developments such as the unpredictable and long drawn US-China trade tension.

The Malaysian Government aims to restore the people's trust in the Government, to manage the economy effectively and efficiently and also to ensure the well-being of the people is prioritized. Towards this end, the Budget 2019 has laid out various measures to enhance investors' confidence on the new Government's pledge to provide a more conducive and business friendly environment, introduced new approach to encourage private sector participation in economic activities and increased opportunities for small medium enterprises. It is expected that the above initiatives will pave the way for a healthy growth of the economy and put the country in a stronger footing in the future.

Not withstanding Bank Negara Malaysia's ("BNM") decision to increase the Overnight Policy Rate ("OPR") from 3.00% to 3.25% in January 2018, Malaysia's monetary policy is expected to remain supportive of economic growth while ensuring price stability. In the most recent development, BNM had on 24 January 2019 kept the OPR stable at 3.25%.

(Sources: Malaysian Ministry of Finance Economic Report 2018/2019, Bank Negara Malaysia updates)

Investor sentiment in the domestic financial markets remained defensive during the year. The tightening cycle in the US, escalating trade war between China and the US, and current environment of tightening monetary policy globally remain reasons for capital flight from the emerging markets, including Malaysia. In addition, flattish earning trends coupled with prospects for a slower growth environment have compelled investors to take a more cautious view on the outlook of the domestic financial market. It was a turbulent year for the FBM KLCI with the high of 1,895.18 points recorded in April 2018 and thereafter it settled at 1,690.58 points to end 5.9% lower than the previous year (29 Dec 2017: 1,796.81 points). Prevailing headwinds such as trade tensions, capital outflows from emerging markets, currency pressures and a slowing global economy, coupled with subdued commodity prices will continue to impact the local equity market during the year. In tandem with the FBM KLCI, the Bursa REIT Index which was introduced in October 2017, fell approximately 6.0% lower to end the year at 924.87 points.

Despite the above, the Malaysian Real Estate Investment Trust ("M-REIT") industry continues to gain traction with some positive developments in 2018. The M-REIT investment landscape remained fairly active this year with several M-REITs announcing their respective investment activities and corresponding equity funding exercises. In addition, the Government had announced in the Budget 2019 to leverage off Government assets which include the setting up of the world's first airport REIT via the privatization of airports under Malaysia Airports Holdings Berhad. Other than to raise the Government's revenue, this new measure is a positive move by the Government as it is expected to stimulate, diversify and grow the M-REIT sector and in turn, attract higher foreign participation to invest in this sector.

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

OVERVIEW – OPERATING ENVIRONMENT *(cont'd)*

This year Bursa Malaysia Securities Berhad ("Bursa Securities") and Securities Commission ("SC") had introduced the amended Bursa Malaysia Main Market Listing Requirements ("MMLR") and new Securities Commission Guidelines on Real Estate Investment Trust ("SC REIT Guidelines") respectively. This initiative by the relevant authorities is aimed at improving market efficiency and efficacy, streamlining the regulatory roles of Bursa Securities and SC, as well as to enhance the attractiveness and competitiveness of the M-REIT. These changes are expected to facilitate growth in a maturing M-REITs in a manner that promotes strong corporate governance practices and instils greater market confidence. We applaud Bursa Securities' and SC's efforts and we view that such changes are necessary to drive competitiveness in the Malaysian capital markets to be on par with the global capital markets.

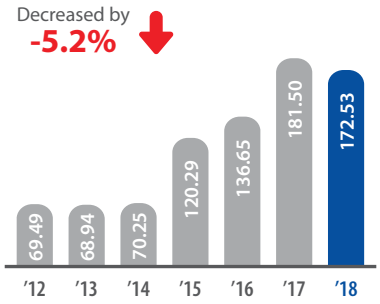
Despite the volatility in the Malaysian equity market which was affected by the 14th General Election, a weakening Ringgit and GDP growth, the M-REIT sector is still an attractive sector and is a suitable investment option for investors seeking defensive exposure. The average dividend yield of ~6% for M-REITs, stable inflation coupled with expectation that BNM will be keeping the overnight policy rate unchanged, has kept M-REITs relatively attractive and has in turn encouraged fund flows into M-REIT by investors looking for safe havens for investments. 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.

As expected, in 2018 the Klang Valley office market continues to be subdued due to the imbalance in the supply and demand of office space. By the end of 2018, Klang Valley is estimated to have an existing stock of 147 million sq. ft. of these, Kuala Lumpur accounted for 56%, followed by Selangor (27%, majority in Petaling District) and Putrajaya (16%, mostly government offices). The volume of development activities in Klang Valley remains high with 23 million sq. ft. under construction, bringing total supply to 170 million sq. ft. by 2021. Given the impending supply, average occupancy rate has been heading downwards, from 84% in 2013 to 80% in 2018. This was due to the slower growth of occupiers' demand compared to the escalating supply of office space. During the five-year period between 2013 and 2018, office supply in Klang Valley recorded a compounded annual growth rate (CAGR) of 3.5%, whereas occupiers' demand growth averaged at 2.3% per annum. While improving consumer sentiment could be positive for the M-REIT sector the oversupply of available space in the market is currently still a looming concern, with the office and retail market facing greater risk.

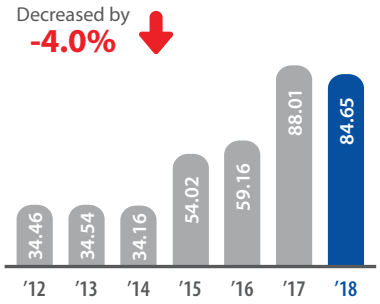
(Source: Property Market Report 2018 prepared by Nawawi Tie Leung Property Consultant Sdn. Bhd. (formerly known as DTZ Nawawi Tie Leung Property Consultants Sdn. Bhd.) for MQREIT dated December 2018)

FINANCIAL PERFORMANCE

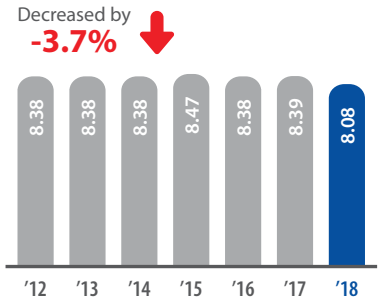
Gross Revenue (RM million)



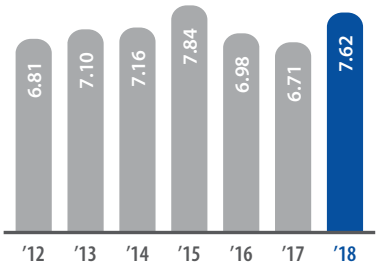
Realised Net Income (RM million)



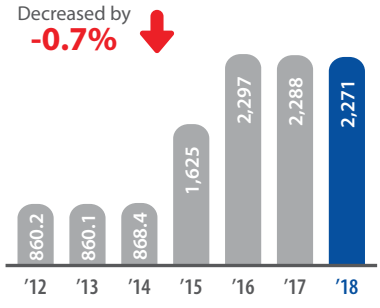
Distribution Per Unit (Sen)



Distribution Yield (%)



Total Asset Value (RM million)



MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

FINANCIAL PERFORMANCE *(cont'd)*

For FY 2018, MQREIT recorded a gross revenue of RM172.53 million, representing a slight decrease of 5.2% as compared to RM181.50 million recorded in the preceding financial year ended 31 December 2017 ("FY 2017"). Correspondingly, it recorded a net property income of RM132.80 million for FY 2018, representing a decrease of 6.4% as compared to RM141.34 million recorded in the preceding financial year. The performance was impacted mainly due to lower revenue recorded from Platinum Sentral and the loss of revenue from Quill Building 8 – DHL XPJ which was disposed on 12 April 2018, despite recording a 1.1% decrease in property operating expenses compared to the preceding financial year.

MQREIT recorded a total realised income of RM84.65 million for FY 2018, a decrease of 4.0% from the total realised income of RM88.01 million for FY 2017. The decrease is mainly due to lower net property income and lower interest income, net of lower finance cost, manager's fee and trustee's fee. Correspondingly, the realised Earnings Per Unit ("EPU") for FY 2018 is 7.91 sen, which is approximately 4.0% lower than the EPU of 8.24 sen for FY 2017. After taking into consideration the non-cash adjustment for amounts previously not distributed of RM2.4 million, MQREIT achieved a distributable income for FY 2018 of RM87.05 million.

Taking into account the increasingly challenging operating landscape, MQREIT's FY 2018 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 the Manager's planned marketing and asset management strategies in 2018 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.

On 17 January 2019, the Board had declared a final Distribution Per Unit ("DPU") of 3.85 sen for the period from 1 July 2018 to 31 December 2018, which is paid out to unitholders of MQREIT on Thursday, 28 February 2019. This final DPU of 3.85 sen, together with the interim distribution of 4.23 sen per unit for the period from 1 January 2018 to 30 June 2018, which was paid on 19 September 2018, amounted to a FY 2018 DPU of 8.08 sen. The Trustee of MQREIT and the Board of the Manager did not recommend any further distribution for the FY 2018.

On a year-on-year comparison, FY 2018 DPU of 8.08 sen is 3.7% lower than the FY 2017 DPU of 8.39 sen and translates to a distribution yield of 7.6% based on the closing price of RM1.06 per unit as at 31 December 2018.

Overall, with the commitment of delivering sustainable distribution and growth in total return to unitholders, the Management has delivered a total DPU of 96.44 sen since June 2007 until December 2018, translating into a compounded annual growth rate ("CAGR") of 1.88% since its listing.

MQREIT's unit price trading performance during the year was within a healthy range with the unit price opening at RM1.24 in the beginning of the year and with a high of RM1.26 in end January 2018 before retreating to RM1.06 at the end of 2018. Since early February 2018, MQREIT's unit price experienced some pressure, with many other M-REITs counters experiencing similar downward pressure on their respective unit prices. The M-REIT was not spared from the spillover effects arising from the negative developments in the US markets i.e. interest rate hikes, tariff threats and trade wars. Due to the decline in its unit price, MQREIT recorded a negative total return of 6.9%, contributed by a depreciation in unit price of 14.5% and distribution yield of 7.6%.

BUSINESS PERFORMANCE

(A) Portfolio Highlights

As at 31 December 2018, MQREIT's investment comprised ten (10) commercial buildings with five (5) located in Cyberjaya, four (4) in Kuala Lumpur, one (1) in Penang as summarized in the table below. On 12 April 2018, MQREIT completed 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.

Kindly refer to further details of each property under MQREIT portfolio highlighted on pages 13 to 26. It continued to receive steady income from these portfolio of assets for the financial year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

BUSINESS PERFORMANCE *(cont'd)*

(A) Portfolio Highlights *(cont'd)*

Name of Properties	Fair value as at 31 Dec 2017 (RM'000)	Fair Value as at 31 Dec 2018 (RM'000)	% of Investment
Quill Building 1-DHL 1 and Quill Building 4-DHL 2	130,000	133,000	6.1%
Quill Building 2-HSBC	122,000	122,000	5.6%
Quill Building 3-BMW	79,000	79,000	3.6%
Wisma Technip	173,800	172,400	7.9%
Part of Plaza Mont' Kiara	117,400	118,200	5.4%
Quill Building 5-IBM	44,000	39,000	1.8%
Quill Building 8-DHL XPJ^	25,000	-	-
Tesco Building Penang	140,000	140,000	6.4%
Platinum Sentral	725,000	724,000	33.2%
Menara Shell	648,000	650,000	29.8%
Total Investment Properties	**2,204,200**	**2,177,600**	

An annual valuation of MQREIT's portfolio of properties was conducted at the close of FY 2018. MQREIT's total portfolio registered a portfolio value of RM2.18 billion* for FY 2018 compared to RM2.204 billion recorded in FY 2017, translating to a revaluation loss of RM5.43 million. The portfolio revaluation loss was mainly due to the devaluation of Platinum Sentral, Wisma Technip and Quill Building 5-IBM.

The total net asset value ("NAV") and NAV per unit (after income distribution) is RM1.37 billion and RM1.2419 per unit, respectively (FY 2017 total NAV and NAV per unit (after income distribution) is RM1.34 billion and RM1.2550 per unit respectively). The changes are due to the net change in fair values of investment properties, i.e. a revaluation loss of RM5.43 million, net changes in fair values of derivatives and the provision of deferred tax liabilities on Real Property Gains Tax on the fair value gain in the investment properties.

Notes:

* *After taking into account the accrued rental income of RM18.84 million as required under MFRS 140, paragraph 50, the investment properties amount as shown in the Statement of Financial Position is RM2.16 billion.*

^ *Disposed on 12 April 2018.*

Portfolio details	FY 2018	FY 2017
No of Assets – Commercial Real Estates[1]	10	11[2]
Valuation of Investment Properties (RM'000)	2,177,600[3]	2,204,200
NLA (sq. ft.)	2,254,797	2,254,797
Portfolio Occupancy rate (%)	93.0	96.3
Weighted Average Lease Expiry (years)	5.04	5.3
Renewal Rate (%)	75.0	80.0

Notes:

(1) *MQREIT's composition of investment portfolio consist of only real estate assets.*

(2) *Includes Quill Building 8 – DHL XPJ which was disposed on 12 April 2018.*

(3) *After taking into account the accrued rental income of RM18.84 million as required under MFRS 140, paragraph 50, the investment properties amount as shown in the Statement of Financial Position is RM2.16 billion.*

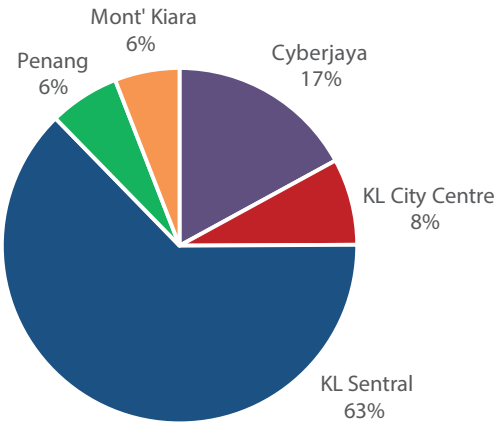
MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

BUSINESS PERFORMANCE *(cont'd)*

(A) Portfolio Highlights *(cont'd)*

Geographical Diversification (by Valuation)

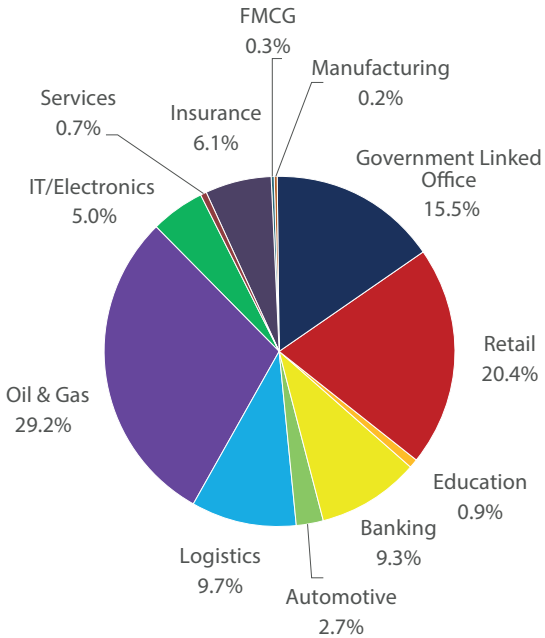
10 properties well spread over Cyberjaya, Kuala Lumpur, Selangor and Penang.



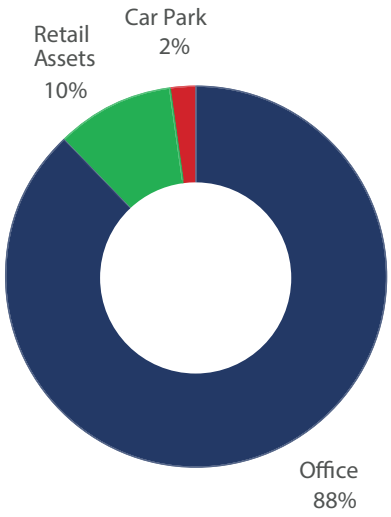
Klang Valley	77%
Cyberjaya	17%
Penang	6%

Note:
(1) Based on valuation dated 31 December 2018

A Well Balance Tenancy Mix (By Net Lettable Area)



Diversified Segmental Contributions (By Valuation)



Notes:
(1) Office comprises Quill Buildings, 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) Based on valuation dated 31 December 2018

(B) Investment and Asset Management Strategies

The investment objective of MQREIT is to acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders and to achieve long-term growth in the net asset value per unit of MQREIT.

MQREIT's investments are subject to the investment limits imposed under the SC REIT Guidelines and MMLR and MQREIT shall continue to comply with these guidelines and other requirements imposed by the relevant authorities from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

BUSINESS PERFORMANCE *(cont'd)*

(B) Investment and Asset Management Strategies *(cont'd)*

We shall remain focused in achieving MQREIT's key investment objectives while seeking additional income growth and enhancement of MQREIT's property portfolio over time through the following strategies:

1. Acquisition growth and portfolio management strategy

As the Manager, we seek 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.

MQREIT 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.

2. Active asset management strategy

To increase the property yield of existing commercial space and correspondingly maximising returns from the existing commercial space, the following strategies have been implemented:

- Maximization of tenant retention through proactive tenant management and efficient property related services;
- Diversification of tenant base to balance exposure to certain business sectors that are more susceptible to general economic cycles;
- Implementation of proactive marketing plans;
- Continued minimization of property expenses without compromising the quality and services; and
- Asset enhancement by constantly improving and maintaining the quality and physical condition of the properties.

There were no changes in the strategies adopted during the financial year compared to the strategies employed in the preceding years and are consistent with those stated in the prospectus dated 11 December 2006. As the above strategies remain relevant to MQREIT under the current operating environment and market condition, we will continue to adopt them in the coming year.

(C) Review of Operation Activities

With the slower economic growth this year, we continue to experience a challenging and demanding operating environment. The Klang Valley office market remains in an oversupply environment. New completions continue to overtake net absorption, as tenants remain cautious in its rental commitments amid the moderating economic growth. In order to maintain a sustainable performance for MQREIT, we must be vigilant and strive 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 Manager's active leasing and asset management strategy throughout the year has ensured successful tenancy renewals of 75.0% of the leases due in 2018. Correspondingly, MQREIT's average occupancy rate as at 31 December 2018 dipped to 93.0% (2017: 96.3%) in terms of Net Lettable Area ("NLA"). Notwithstanding the above, MQREIT's portfolio occupancy rate remains stable above the Klang Valley office market average occupancy rate of 80% as at 2018. With growing competition in the market in a midst of an oversupply condition, we will intensify our marketing programmes and active leasing strategies to achieve a stable portfolio occupancy rate.

Similar to the previous year, strong tenant management and high tenant retention will continue to be the key focus in our leasing strategy in 2019. We will also leverage on new and existing networks to market the available office spaces in MQREIT's portfolio with the focus on bringing in new tenants from the information & technology ("IT"), recruitment, e-commerce, serviced office and shared services sectors.

In order to attract new tenants and maintain existing ones, the consistent performance of our portfolio of properties is key. This requires a combination of strategies to be employed namely a proactive approach to asset, portfolio and prudent 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.

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

BUSINESS PERFORMANCE *(cont'd)*

(C) Review of Operation Activities *(cont'd)*

As for 2019, improvement works will be initiated for several properties, namely Wisma Technip, Quill Building 5 - IBM, Platinum Sentral and Menara Shell. The washrooms and external facade of Wisma Technip will be undergoing some upgrading works. The air conditioning system in Quill Building 5 - IBM will be improved. For Platinum Sentral, there will be improvements to several common area facilities while the lift systems improvements will be initiated in Menara Shell.

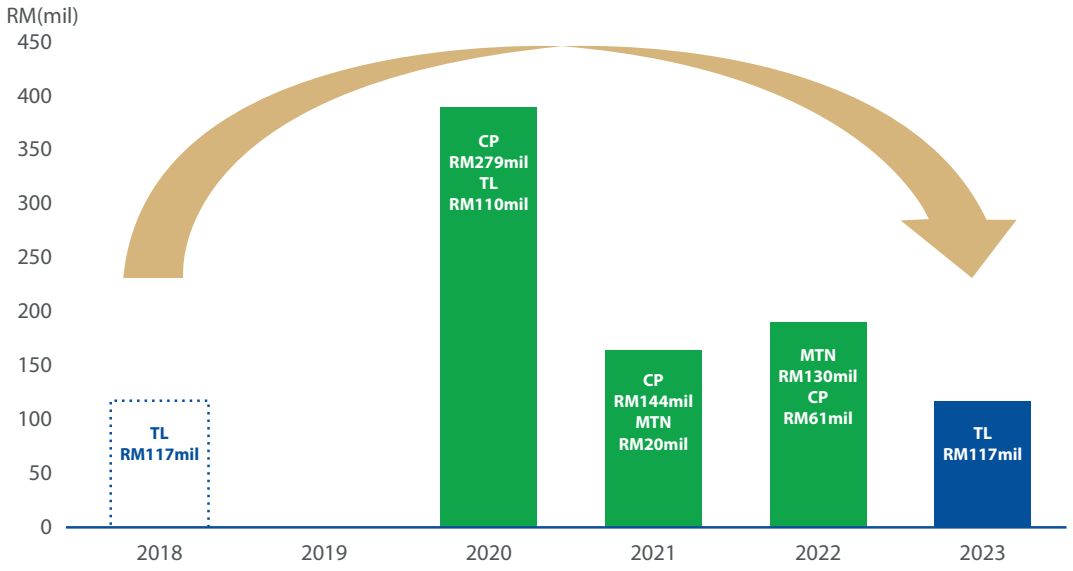
(D) Capital Management

We aim to optimise MQREIT's capital structure and cost of capital within the borrowing limits set out in the SC REIT Guidelines and intends to use a combination of debt and equity to fund future acquisitions and improvement works. The strategies involve:

- Adopting and maintaining an optimal gearing level;
- Adopting an active interest rate management strategy to manage risk associated with changes in interest rates; and
- Adopting appropriate hedging strategies to optimise the risk adjusted returns to unitholders

while maintaining flexibility in MQREIT's capital structure to meet future investment and/or capital expenditure requirements as well as changes in economic and operating conditions.

During the financial year, we successfully extended MQREIT's RM117 million borrowings due on 13 September 2018 for a tenure of 5 years thereby increasing its debt average term to maturity to 2.47 years. The next refinancing requirement would be in respect of MQREIT's RM389 million borrowings which is due in March 2020. The summary of MQREIT's Debt Expiry Profile is as follows:



Notes:
CP - Commercial Papers *MTN - Medium Term Notes* *TL - Term Loan*

Details of MQREIT's borrowing as at 31 December 2018 are as follows:

Details	FY2018	FY2017
Borrowings (RM)	853,704,352	853,452,854
Gearing Ratio (%)	37.6	37.3
Average Cost of Debt (%)	4.5	4.4
Ratio of Fixed : Floating Borrowing (%)	76 : 24	76 : 24
Average Term to Maturity (years)	2.47	2.79
Interest Coverage (times)	3.09x	2.40x

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

BUSINESS PERFORMANCE *(cont'd)*

(E) 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 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 Manager are:

- 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;
- Active engagement of key strategic tenants to understand and meet their needs;
- Asset enhancement and maintenance initiatives to maintain the quality of MQREIT's properties to be the preferred choice for tenants; and
- 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 Manager also establishes vigilant monitoring and debt collection procedures.

Liquidity Risk

Liquidity risk exposure arises principally from its various payables, loans and borrowings.

MQREIT maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to finance the operations, to distribute income to unitholders, and to mitigate the effects of fluctuations in cash flows.

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 Manager 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 MQREIT 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 MMLR, 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, MQREIT has appointed a Compliance Officer who 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 Manager 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. The Compliance Officer provides a compliance report to the Audit Committee on a quarterly basis.

MANAGEMENT DISCUSSION AND ANALYSIS - OPERATIONAL REVIEW (cont'd)

OUTLOOK AND PROSPECTS

On the domestic front, Malaysia's economic outlook is expected to remain positive despite a challenging environment. Although economic growth has been slower, it remains on a steady growth path while inflation moderates. Domestic demand will continue to drive Malaysia's growth in 2019 with steady growth path spearheaded by the private sector together with moderate inflation. The private sector continues to be the main driver of economic activities supported by a business friendly environment, favorable labour market conditions and strong consumer and business sentiments. Malaysia's strong economic fundamentals, namely steady growth path, diversified economy and exports, favourable labour market conditions, sustained current account surplus, flexible Ringgit exchange rate system and sufficient external reserves buffer is expected to remain intact in 2019 to face external and domestic headwinds.

BNM is expected to maintain an accommodative monetary stance and keep the OPR at current levels as it would help keep stability of the Ringgit against the backdrop of on-going global monetary tightening. This, coupled with steady growth supported by the private sector is expected to keep the Malaysian economy resilient, with a projected growth of 4.9% in 2019.

With the stable OPR and with a less hawkish stance on the US monetary policy, the risk on yield spreads between M-REITs and Malaysia Government Securities ("MGS") fluctuating drastically would be minimized and thus maintaining M-REITs as relatively attractive investment option.

(Sources: Malaysian Ministry of Finance Economic Report 2018/2019, Bank Negara Malaysia updates)

In terms of sector outlook, the growth momentum for construction sector in 2019 is expected to expand by 4.7%, on the back of an increase in new planned supply of affordable homes and industrial segments. However, the non-residential subsector projected to decline following oversupply and overhang of commercial spaces. Notwithstanding, demand for commercial buildings in prime areas is anticipated to remain stable supported by residential developments with available public transportation services.

(Sources: Malaysian Ministry of Finance Economic Report 2018/2019)

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. 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. In this current environment, we anticipate the demand for office space will continue to be fueled by the services, serviced offices, shared service operations, IT sectors and start-ups. The completion of Mass Rapid Transit ("MRT") lines are expected to boost demand for offices in established and upcoming decentralised office locations. 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 in the coming year. Notwithstanding, we believe that MQREIT's operation will be able to weather these uncertainties as we will continue to intensify our efforts to manage MQREIT's operations efficiently 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, we 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 and focus will be on good quality commercial/ office properties with strong recurring rental income and potential for revenue and capital growth. Prudent identification of right acquisition targets that meet our investment criteria will be essential to drive sustained growth going forward. All acquisition opportunities will be evaluated against stringent investment criteria, such as the following:

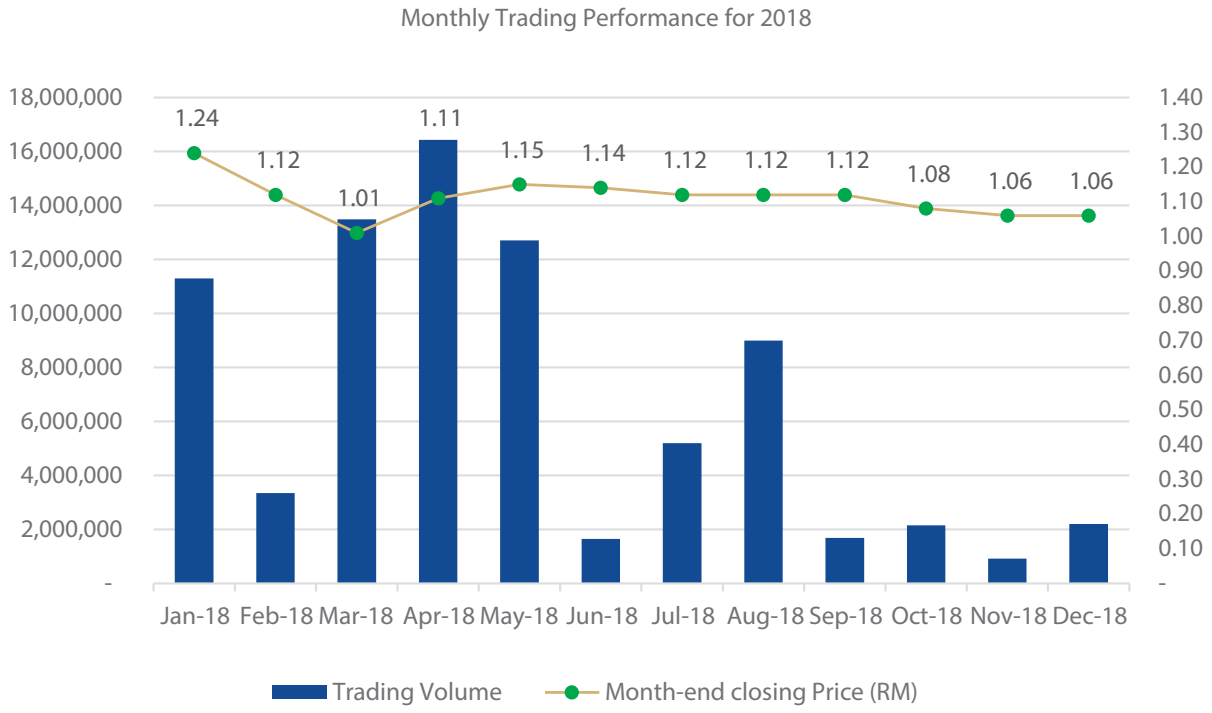
- Rental yield;
- Occupancy and tenancy characteristics;
- Location;
- Value-adding opportunities/potential asset enhancements;
- Building and facilities specifications;

MANAGEMENT DISCUSSION AND ANALYSIS - TRADING PERFORMANCE AND INVESTOR RELATION

(A) TRADING PERFORMANCE

Unit Price Performance

MQREIT's Monthly Trading Performance for 2018



	Trading Volume	Month-end closing Price (RM)
Jan-18	11,303,300	1.24
Feb-18	3,348,700	1.12
Mar-18	13,492,700	1.01
Apr-18	16,433,300	1.11
May-18	12,704,600	1.15
Jun-18	1,647,300	1.014
Jul-18	5,199,400	1.12
Aug-18	9,001,300	1.12
Sep-18	1,690,000	1.12
Oct-18	2,153,500	1.08
Nov-18	921,600	1.06
Dec-18	2,208,000	1.06

MANAGEMENT DISCUSSION AND ANALYSIS - TRADING PERFORMANCE AND INVESTOR RELATION (cont'd)

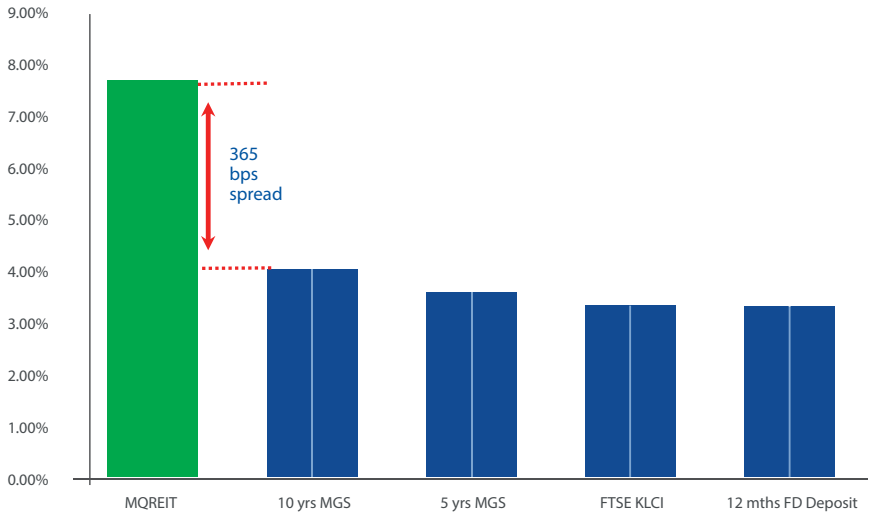
(A) TRADING PERFORMANCE *(cont'd)*

MQREIT's Unit Price versus Performance Benchmarks

7 January 2007 (MQREIT Listing Date) to 31 December 2018



Comparative Yields



Sources:

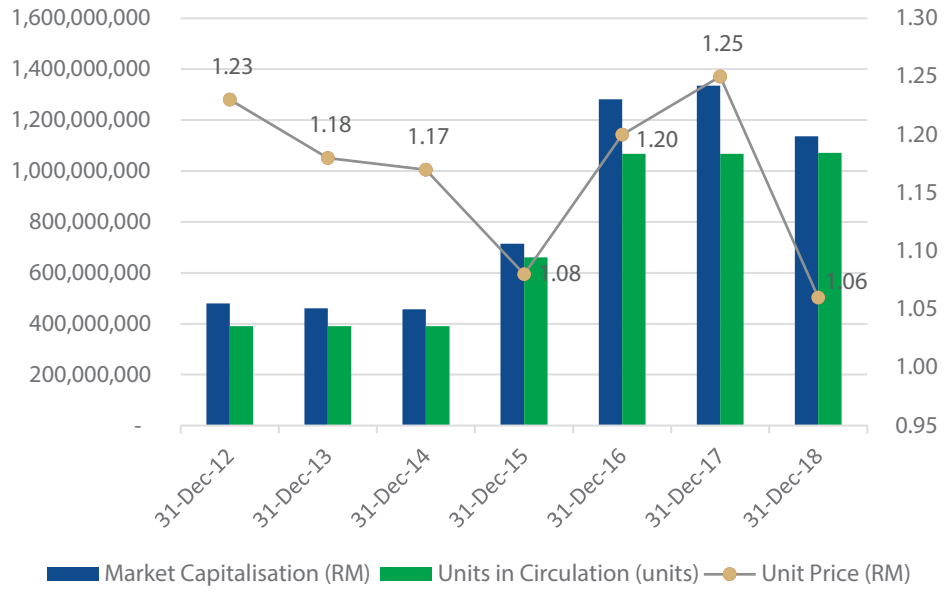
1) *Rates for 5-yrs MGS & 10-yrs MGS rate was obtained from HSBC Daily Commentary Report dated 31 December 2018.*
2) *12 months FD rate is from Maybank.*
3) *Dividend Yield of FTSE Bursa Malaysia KLCI as at 31 December 2018 is from Bloomberg.*

MANAGEMENT DISCUSSION AND ANALYSIS - TRADING PERFORMANCE AND INVESTOR RELATION (cont'd)

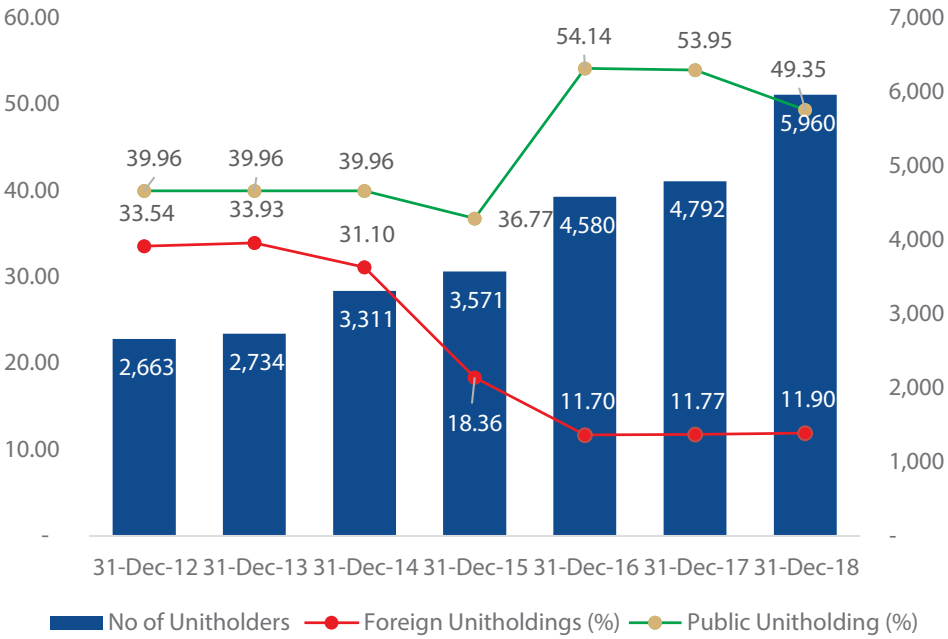
(A) TRADING PERFORMANCE *(cont'd)*

Market Capitalisation	
As at 31 Dec 2011 - RM421,341,480	As at 31 Dec 2015 - RM714,291,480
As at 31 Dec 2012 - RM479,861,130	As at 31 Dec 2016 - RM1,281,600,000
As at 31 Dec 2013 - RM460,354,580	As at 31 Dec 2017 - RM1,335,000,000
As at 31 Dec 2014 - RM456,453,270	As at 31 Dec 2018 - RM1,136,089,980

Market Capitalisation, Unit Price and Units in Circulation



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



MANAGEMENT DISCUSSION AND ANALYSIS - TRADING PERFORMANCE AND INVESTOR RELATION (cont'd)

(B) INVESTOR RELATIONS ("IR") INITIATIVES

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	• Quarterly financial earnings releases • Corporate exercise announcements	• Institutional investors • Analysts
Property Tour	• Group tour • One-on-one tour	• Institutional investors • Analysts
Conferences	• Investors conferences • Industry conferences • Non-deal roadshows	• Institutional investors • Analysts
Corporate website and investor relation portal	• www.mrcbquillreit.com • Corporate announcements • IR enquiry contact	• Institutional investors • Retail investors • Analysts • Media
Research coverage	• 8 research coverage	• Institutional investors • Retail investors • Analysts • Media
Media engagement	• Media briefings • Media releases	• Media • Public
Annual General Meetings and annual reports	• Reporting of financial performance	• All unitholders • Public

Unitholders' Meetings

Sixth Annual Unitholders' Meeting

On 11 April 2018, MQREIT held its sixth (6th) Annual General Meeting ("AGM") to seek unitholders' approval for the proposed authorization and issuance of new units ("Proposed Unitholders' Mandate") pursuant to Clause 6.59(1A) of the MMLR, as well as to brief Unitholders about MQREIT's financial results for FY 2017.

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 MQREIT'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.

MANAGEMENT DISCUSSION AND ANALYSIS - TRADING PERFORMANCE AND INVESTOR RELATION (cont'd)

(B) INVESTOR RELATIONS ("IR") INITIATIVES *(cont'd)*

Research coverage in 2018

In 2018, MQREIT was covered by 8 investment banks. Below is a summary of the reports published for MQREIT's fourth quarter 2018 results:

Coverage	Rating	Target Price (RM per unit)
RHB Research Institute	Neutral	1.05
Hong Leong Investment	Buy	1.23
Alliance DBS	Hold	1.15
Maybank Investment	Buy	1.30
CIMB Research	Hold	1.11
UOB Kay Hian	Hold	1.15
KAF Research	Buy	1.25
Kenanga Investment Research	Market Perform	1.05

(C) AWARDS AND RECOGNITION

8th Malaysian Investor Relations Association (MIRA) Awards 2018

In recognition of best IR practices by professionals and public-listed companies listed on Bursa Securities, MIRA had organized and hosted the 8th MIRA Awards 2018 held on 5 December 2018. A comprehensive, independent IR Survey and poll of all relevant buy-side and sell-side firms investing in or covering Malaysian equities was conducted during the year to arrive at the award results.

MQREIT and several representatives from MRCB Quill Management Sdn. Bhd. were once again nominated for the following categories under MIRA Awards 2018 for small cap companies listed on Bursa Securities:

No	Category
1	"Best Company for IR"
2	"Best CEO for IR – Yong Su-Lin"
3	"Best IR Professional – Joyce Loh"

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

MANAGEMENT DISCUSSION AND ANALYSIS - TRADING PERFORMANCE AND INVESTOR RELATION (cont'd)



(C) AWARDS AND RECOGNITION *(cont'd)*

The Asia Pacific Best Of The Breeds REITs Awards

The Asia Pacific Best of the Breeds REITs Awards™ 2018 is a coveted award to recognize companies and managers with the highest standards and performance in the Asia Pacific REITs sector. Attended by delegates from all over the region, this prestigious recognition event was held in conjunction with the 4th REITs Asia Pacific Conference 2018 on 2nd August 2018 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 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™ 2018. We are pleased to inform that MQREIT was once again awarded the Best of the Breeds REITs Award for Office REIT Malaysia (Gold).



(D) CORPORATE SOCIAL RESPONSIBILITY ("CSR")

In line with MQREIT's yearly focus in supporting the welfare of needy children, MQM has made contributions to Persatuan Kebajikan Kanak Kanak Kajang and Yayasan Ozanam's Learning Centre Project at Ozanam Service Centre, Taman Sri Sentosa.

In December 2018, the Management donated approximately RM105,000 and RM40,000 in cash to Persatuan Kebajikan Kanak Kanak Kajang and Yayasan Ozanam, respectively. Both organisations are registered voluntary welfare organisations that helps abused, abandoned, neglected, orphaned or at-risk children of all races between the ages of 5 to 17 years old. The cash donation helped to fund the operations cost of running these centres, which includes staff and teachers salaries, workbooks and study materials for the children, as well as rental, utilities, food and maintenance cost. In conjunction with the official launch of the above projects, a cheque presentation ceremony and staff visit to Persatuan Kebajikan Kanak Kanak Kajang was organized to provide the opportunity to all staff to participate in the company's yearly CSR/community program.

Staff Participation in CSR Programmes Organisation by MQM

In 2017, 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. The donation helped to provide a 3-year English language learning programme in collaboration with Windsor Language Centre for the children in above mentioned homes. All MQM staff were required to participate at least twice a year by committing to be teachers' aides for the duration of the programme. The aim is to cultivate and encourage staff to proudly support the company's charitable initiatives and give back to the community. We are pleased to report that all staff have committed to the above target in 2018. The staff will continue with this participation commitment for 2019 and 2020.

PROPERTY **MARKET UPDATES**

PROPERTY MARKET REPORT 2018 PREPARED BY NAWAWI TIE LEUNG PROPERTY CONSULTANTS SDN. BHD. (FORMERLY KNOWN AS DTZ NAWAWI TIE LEUNG PROPERTY CONSULTANT SDN. BHD.) FOR MQREIT DATED DECEMBER 2018.

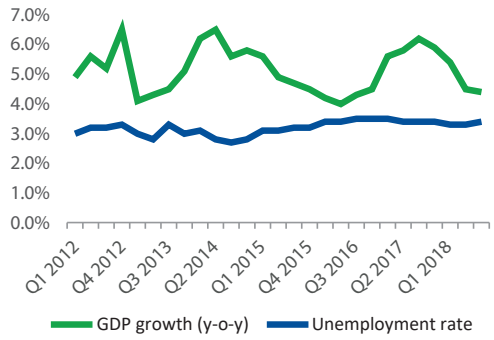
1. ECONOMY

The global economy continued its momentum in 2018, albeit at a slower pace; with less synchronised growth across economies amid the heightened downside risks such as escalating trade barriers, capital outflows from emerging markets and policy uncertainties. In Malaysia, the economy recorded slower growth in the first half of 2018 after achieving strong performance in the second half of 2017. GDP growth decelerated to 4.4% y-o- y in Q3 2018, compared to 4.5% in the previous quarter and 5.4% in Q1 2018. Private sector expenditure continued to fuel the economy with y-o-y growth of 8.5% in Q3 2018, while public spending increased by 1.1% y-o-y. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 1.6%, faster than the 0.3% recorded in previous quarter (Figure 1.1).

On the supply side, the growth of services sector remained the fastest in the country at 7.2% y-o-y in Q3 2018, followed by manufacturing (5.0%) and construction (4.6%); while contraction was recorded in mining (-4.6%) and agriculture (-1.4%). The contraction was mainly due to the decline of natural gas output; and the crude palm oil subsector, which experienced production constraints and detrimental weather conditions. In terms of sector composition, the services and manufacturing sectors have always been anchoring the economic activities, accounted for 54% and 23% of the GDP in 2017 respectively.

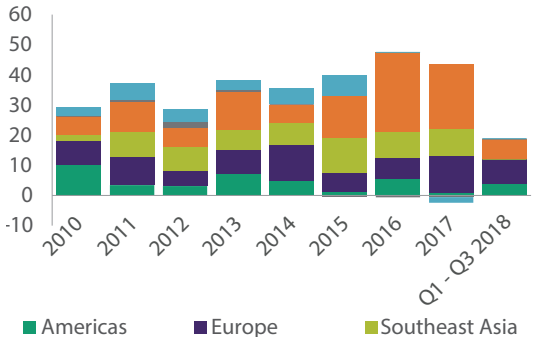
The employment market remained stable with moderate hiring activities. Growth of labour force was largely in line with net employment gains, with an unemployment rate of 3.4% in Q3 2018 (Figure 1.1).

Figure 1.1: GDP Growth and Unemployment Rate



Source: Department of Statistics Malaysia, Bank Negara Malaysia, 2018

Figure 1.2: Net FDI Inflows, RM billion



Source: Bank Negara Malaysia, 2018

During the first three quarters of 2018, Foreign Direct Investments (FDI) registered net inflow of RM18.8 billion, 50% lower than the RM37.6 billion recorded during the corresponding period in 2017 (Figure 1.2). Services and manufacturing sectors accounted for most of the FDI, with net inflows of RM7.7 billion and RM7.0 billion in Q1 – Q3 2018 respectively. United States is the leading source of FDI, contributing net inflows of RM5.0 billion during the first nine months of 2018, followed by Hong Kong (RM4.3 billion) and United Kingdom (RM3.4 billion). Full-year FDI figure for 2018 may lie below the RM41 billion recorded in 2017, given the presence of external risks in the global market, as well as the concerns on policy uncertainties posed by the newly-elected government.

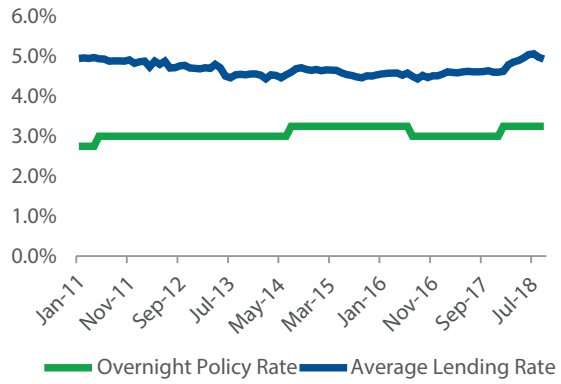
Headline inflation, as measured by the annual percentage change in Consumer Price Index, decreased to 0.5% in the third quarter (Q2 2018: 1.3%). This was primarily due to the broad-based decline in prices following the zerorisation of the Goods and Services Tax (GST). The impact of zero-rated GST on prices will be transitory, given the reintroduction of Sales and Services Tax (SST) in September 2018. For the year 2018, headline inflation is likely to be lower than the official forecast of 2.0% to 3.0%, in view of the three-month tax holiday.

In January 2018, Bank Negara Malaysia (BNM) increased the Overnight Policy Rate (OPR) by 25 basis points to 3.25%, on the back of improved economic conditions seen in 2017. This marked the first hike since July 2014. Consequently, average lending rate has increased (Figure 1.3). In view of the moderate economic outlook, BNM is likely to adopt an accommodative monetary policy rather than taking a progressive normalisation approach.

PROPERTY **MARKET UPDATES**
(cont'd)

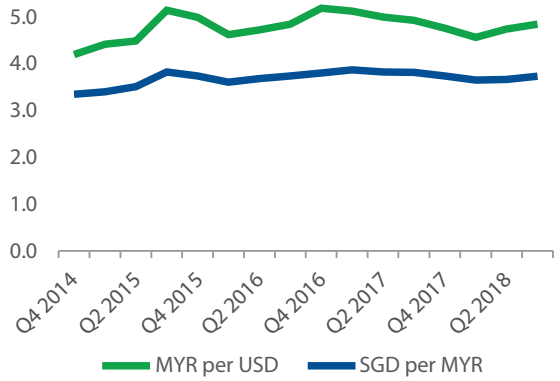
1. ECONOMY *(cont'd)*

Figure 1.3: Interest Rate



Source: Bank Negara Malaysia, 2018

Figure 1.4: Exchange Rate, End of Quarter



Source: Bank Negara Malaysia, 2018

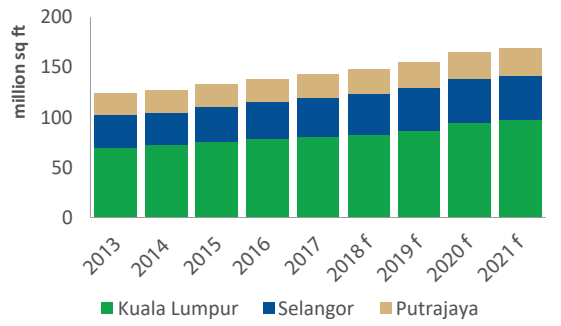
The Ringgit depreciated by 4.6% and 2.3% in Q2 and Q3 respectively, after rising 4.9% against the US dollar in Q1 2018 (Figure 1.4). This was in line with other regional currencies which was a result of the normalization of the US monetary policy. While the higher crude oil prices and sustained economy provide upside potential for the Ringgit, its future trajectory will also be dependent on the economic policies of the newly-elected government. In light of external uncertainties and a slowing global economy, the Government has revised its 2018 GDP growth forecast downwards to 4.8% from 5.5%. Despite the short-term uncertainties, growth will remain supported by the sustained domestic demand, moving forward.

2. OFFICE

The office market remained under the shadow of oversupply fears, and a recovery is still quite a distance. New completions continued to overtake net absorption, as tenants remain cautious in its rental commitments amid the moderating economic growth. By the end of 2018, Klang Valley is estimated to have an existing stock of 147 million sq ft (Figure 2.1). Of these, Kuala Lumpur accounted for 56%, followed by Selangor (27%, majority in Petaling District) and Putrajaya (16%, mostly government offices).

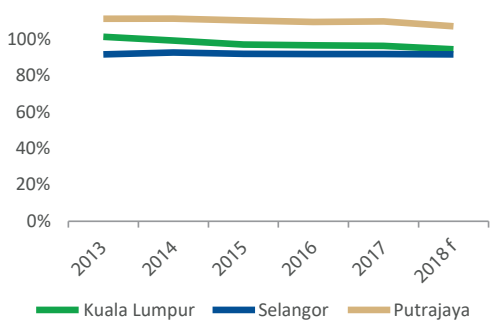
Overall, average occupancy rate has been heading downwards, from 84% in 2013 to 80% in 2018 (Figure 2.2). This was due to the slower growth of occupiers' demand compared to the escalating supply of office space due to the exuberance of developers in launching new commercial developments. During the five-year period between 2013 and 2018, office supply in Klang Valley recorded a compounded annual growth rate (CAGR) of 3.5%, whereas occupiers' demand growth averaged at 2.3% per annum.

Figure 2.1: Office Stock in Klang Valley



Source: NAPIC, NTL Research & Consulting, 2018

Figure 2.2: Office Occupancy Rate in Klang Valley



Source: NAPIC, NTL Research & Consulting, 2018

PROPERTY **MARKET UPDATES**
(cont'd)

2. OFFICE *(cont'd)*

In Kuala Lumpur, major completions during the year include Mercu 2 in KL Eco City, Southpoint Tower in Mid Valley and Menara Etiqa in Bangsar. Elsewhere, Menara Celcom in PJ Sentral and Nucleus Tower in Mutiara Damansara were completed. The volume of development activities in Klang Valley remains high with 23 million sq ft under construction, bringing total supply to 170 million sq ft by 2021. Over 60% of the new developments are located in Kuala Lumpur (Figure 2.3).

Figure 2.3: Selected New Office Developments in Kuala Lumpur

Office Buildings	Location	Net Lettable Area (sq ft)	Expected Completion
Equatorial Plaza	Jalan Sultan Ismail	460,000	Q4 2018
Visio Tower	Sunway Velocity	245,000	Q4 2018
Exchange 106	Tun Razak Exchange	2,650,000	2019
Prudential Tower	Tun Razak Exchange	392,000	2019
YTL Headquarter	Jalan Bukit Bintang	324,000	2019
Menara TCM	Jalan Tun Razak	403,000	2019
Menara Felcra	Jalan Semarak	1,121,000	2020
Menara Hap Seng 3	Jalan P Ramlee	240,000	2020
Sapura Tower	Jalan Kia Peng	1,180,000	2020
Cititower	Jalan Ampang	1,700,000	2020
Merdeka PNB 118	Jalan Hang Jebat	1,700,000	2020
Oxley Tower	Jalan Ampang	346,000	2020
The Stride, BBCC	Jalan Pudu	394,000	2020
HSBC Tower	Tun Razak Exchange	568,000	2020
Affin Bank Tower	Tun Razak Exchange	576,000	2020
The MET Corporate Towers	KL Metropolis	600,000	2021
KL Eco City (COT 1)	Jalan Bangsar	756,000	2021
TOTAL		**13,655,000**	

Source: NTL Research & Consulting, 2018

In June 2018, the newly-elected Government has pledged to fund the remaining infrastructure works in Tun Razak Exchange (TRX). The move has been widely welcomed, as developers and investors seek clarity on the status of the new international financial hub, notwithstanding the concerns on oversupply. This allowed TRX to continue its momentum with four office buildings namely the Exchange 106, Prudential Tower, HSBC Tower and Affin Bank Tower scheduled for completion in 2019 and 2020, offering a total NLA of 4.2 million sq ft.

Outside Kuala Lumpur, office developments are largely concentrated in Petaling Jaya, with over 4.0 million sq ft slated for completion (Figure 2.4). In Putrajaya, data published by NAPIC indicates an incoming supply of 3.9 million sq ft, mainly for the public sector.

PROPERTY **MARKET UPDATES**
(cont'd)

2. OFFICE *(cont'd)*

Figure 2.4: Selected New Office Developments in Petaling Jaya

Office Buildings	Location	Net Lettable Area (sq ft)	Expected Completion
Symphony Square	Jalan Semangat, PJ	226,000	Q4 2018
HCK Tower	Empire City	347,000	Q4 2018
MBSB Tower	PJ Sentral	281,000	2019
MyIPO	PJ Sentral	294,000	2019
PKNS	PJ sentral	862,000	2019
1 Powerhouse	Bandar Utama	500,000	2019
Uptown 8	Damansara Utama	478,000	2020
TOTAL		**2,988,000**	

Source: NTL Research & Consulting, 2018

On the demand side, some of the major office movements in 2018 are Grab at Block H in Empire City, Petrofac at Menara Prestige, and Zurich Insurance at Mercu 3 in KL Eco City. In addition, several co-working space operators have also expanded their business in new locations, such as Colony (Boutique Office 1 in KL Eco City) and Common Ground (Menara Worldwide). Besides, WeWork will be making its Malaysia debut at Equatorial Plaza. Driven by millennials and centred around the theme of collaboration and flexibility, co-working space has been dominating headlines globally in recent years. Nevertheless, its long-term impact on office demand remain to be seen.

Rental rate continued to remain stable despite downward pressure. In Kuala Lumpur, prime office rents are within the range of RM7 – 13 per sq ft on a gross basis, with an average of RM7.30 per sq ft in KL City Centre and RM6.85 in KL Sentral. Outside Kuala Lumpur, gross prime rents in Petaling Jaya and Cyberjaya range at RM4 – 6 per sq ft and RM4 – 5 per sq ft respectively. Looking ahead, rental rates are expected to trend downward, as owners put in more effort to stay competitive in the market by providing attractive tenant incentives for major space users.

Capital value remains stable with no selling pressure. Year-to-date, there were two notable transactions (Table 2.3). Singapore-based ARA Asset Management sold Wisma Mont Kiara to Saudi Arabia's Al Rajhi family at RM670 psf, while CIMB Bank acquired Wisma UOA Pantai at RM764 psf from UOA REIT. While domestic funds continue to seek quality and strategically located assets, these players are in cautious mode, considering the current volatile environment fuelled by slowing economic growth and contagion threats from other parts of the world. Foreign investors are likely to remain on the sidelines for the time being, as such volatile environment gave rise to heightened risk in emerging markets. Yield remains stable at around 6%, and is likely to be lower due to pressure on rental and occupancy relative to capital value.

Table 2.3: Selected Major Office Transactions in Klang Valley

Office Buildings	Location	Net Lettable Area (sq ft)	Transacted Price (RM per sq ft)
Wisma Mont Kiara	Jalan Kiara	181,992	670
Wisma UOA Pantai	Jalan Pantai Baharu	157,083	764

Source: NTL Research & Consulting, 2018

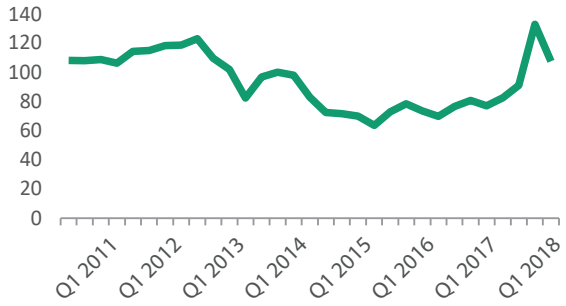
The office market will remain favourable to tenants in the short and medium term, given the volume of incoming supply. For the landlords, short term pains and uncertainties will remain as market is still finding its way to a more equilibrium state. Occupiers' demand for office space is expected to only improve when there is more clarity on major new initiatives from the government on how it intends to drive more inward FDIs into the country. Unfortunately for the market, this may need some time before any impact can be felt.

PROPERTY **MARKET UPDATES**
(cont'd)

3. RETAIL

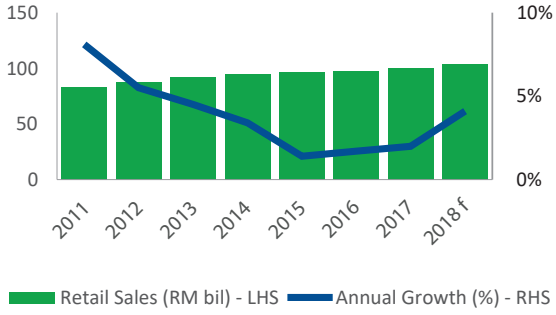
The challenges persist in 2018, as Malaysian consumers remained prudent in their spending, registering 2.3% growth in retail sales during the first six months in 2018, lower than the 2.6% recorded in the first half of 2017. Consumers were less optimistic in recent years, as evidenced in the Consumer Sentiments Index (CSI) which was below its 100-point threshold level for 15 consecutive quarters during the period between Q3 2014 and Q1 2018 (Figure 3.1). The CSI enjoyed a strong but temporary hike in Q2 to a 21-year high point due mainly to the election euphoria, but declined to 107.5 points in Q3. High household debt to GDP ratio, slowing economic growth and weakened Ringgit continued to batter consumers. Retail Group Malaysia (RGM) has so far revised its 2018 retail sales forecast twice, from an initial 4.7% to a current figure of 4.1%, a level which was last achieved in 2013 (Figure 3.2).

Figure 3.1: Consumer Sentiments Index



Source: Malaysian Institute of Economic Research, 2018

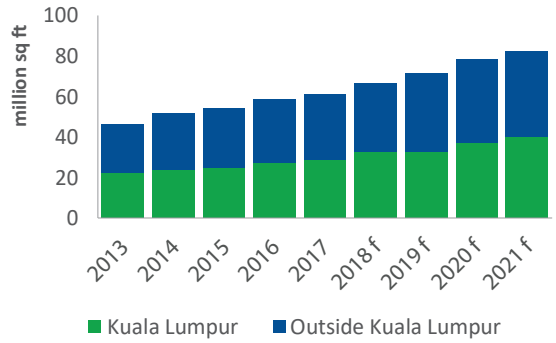
Figure 3.2: Malaysia Annual Retail Sales, RM billion



Source: Retail Group Malaysia, 2018

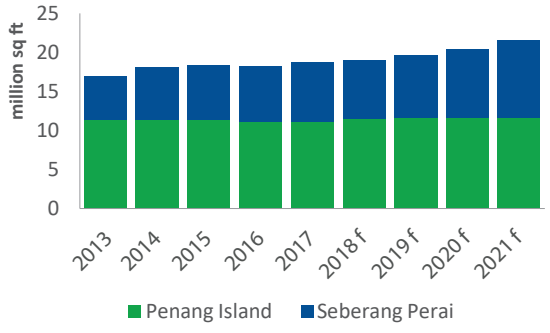
During the year, new retail mall openings in Klang Valley include M Square Mall, Mitsui Outlet Park Phase 2, Shoppes at the Four Seasons Place and EkoCheras Mall. Coupled with other expected openings, Klang Valley will boost an existing stock of 67 million sq ft by end of 2018 (Figure 3.3). In the State of Penang, completions of City Mall and Southbay Plaza will bring total supply to 19 million sq ft by year end (Figure 3.4).

Figure 3.3: Retail Stock in Klang Valley



Source: NTL Research & Consulting, 2018

Figure 3.4: Retail Stock in Penang



Source: NAPIC, NTL Research & Consulting, 2018

PROPERTY **MARKET UPDATES**
(cont'd)

3. RETAIL *(cont'd)*

By 2021, total supply in Klang Valley is projected to reach 82 million sq ft, given the current pipeline of nearly 16 million sq ft. Majority of these are slated for completion during 2020 and 2021 (Figure 3.5).

Figure 3.5: Selected New Retail Developments in Klang Valley

Retail Centres	Location	Net Lettable Area (sq ft)	Expected Completion
Empire City*	Damansara Perdana	2,500,000	Q4 2018
Kiara 163	Mont Kiara	300,000	Q4 2018
Datum Jelatek	Jalan Jelatek, KL	491,000	2019
Empire Remix	Subang Jaya	1,500,000	2019
Tropicana Gardens Mall	Persiaran Surian, PJ	1,000,000	2019
Central Plaza @ i-City	Shah Alam	1,000,000	2019
Setia City Mall Phase 2	Setia Alam	400,000	2019
Pavilion Bukit Jalil	Bukit Jalil	1,800,000	2020
Merdeka PNB 118	Jalan Hang Jebat, KL	1,000,000	2020
Pavilion Damansara Heights	Damansara Heights	1,170,000	2021
LaLaport, BBCC	Jalan Pudu, KL	900,000	2021
TOTAL		**12,061,000**	

Source: NTL Research & Consulting, 2018
**Note: Empire City was partially opened in 2017 for the SEA Games.*

In Penang, new developments are largely concentrated in Seberang Perai due to easier availability of larger land plots. Overall, 3 million sq ft of retail space across six centres are slated for opening during the next three years, and this will increase the total supply to 22 million sq ft by 2021 (Figure 3.6).

Figure 3.6: Selected New Retail Developments in Penang

Retail Centres	Location	Net Lettable Area (sq ft)	Expected Completion
City Mall	Tanjong Tokong	300,000	Q4 2018
Penang Times Square Phase 3	Jalan Dato Keramat	230,000	2019
IKEA	Batu Kawan	433,000	2019
Penang Sentral	Butterworth	423,000	2020
Sunway Carnival Extension	Seberang Prai	330,000	2020
GEM Megamall	Seberang Prai	1,200,000	2021
TOTAL		**2,916,000**	

Source: NTL Research & Consulting, 2018

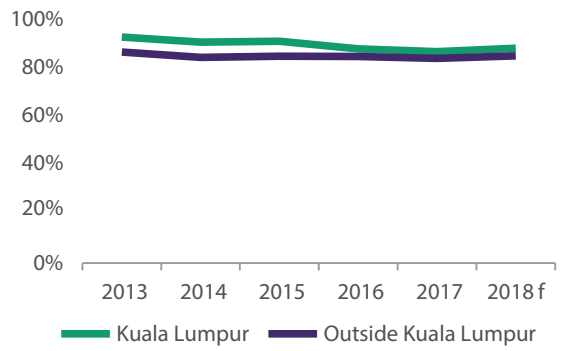
As consumers benefit from more shopping mall options, new malls will likely to struggle in achieving their desired foot traffic, given the diluted market share amid overlapping catchment. To make matters worse, retailers are cautious on expanding their business, given the subdued consumer sentiments. Retail consolidation continued in 2018 with the closure of several stores. For instance, Parkson, a Malaysia-based departmental store operator, closed its outlets in Maju Junction and Sungai Wang. AEON has also closed its Index Living Mall Malaysia (ILMM) furniture outlets in September. The outlets were present in Aeon Shah Alam and Kota Bharu, IOI City Mall in Putrajaya, as well as Aeon Mall Tebrau City in Johor.

PROPERTY **MARKET UPDATES**
(cont'd)

3. RETAIL *(cont'd)*

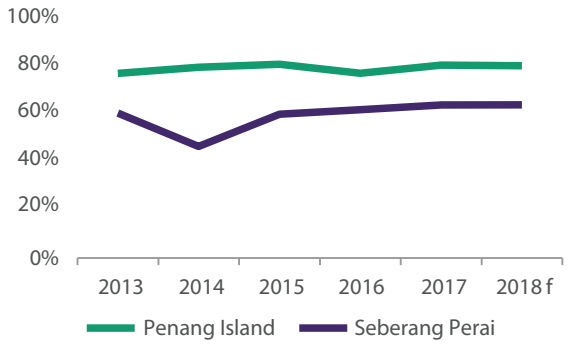
Occupancy rates have been under pressure, averaged at 86% and 72% in Klang Valley (Figure 3.7) and Penang (Figure 3.8) respectively. Further upsides are unlikely, as market takes time to digest the incoming supply. Landlords are delaying completion of their projects, in order to achieve commendable occupancy at opening date.

Figure 3.7: Retail Occupancy Rate in Klang Valley



Source: NTL Research & Consulting, 2018

Figure 3.8: Retail Occupancy Rate in Penang



Source: NAPIC, NTL Research & Consulting, 2018

Despite the retail market challenges, several foreign retailers have shown deeper interest in Malaysia. British sporting goods retailer, Sports Direct, has recently expanded and opened its flagship store in Petaling Jaya. Australian-based Harvey Norman announced its plan to open over 40 new stores within the next five to ten years. Similarly, A&W Malaysia is planning for seven new branches nationwide by year-end. Meanwhile, New York-based athletic retailer, Foot Locker opened its first Malaysian outlet in One Utama, as part of its expansion plan in Asia.

Given the volume of incoming supply, retailers who are in expansion mode will have more options to locate their new outlets, and they will ask for more incentives and longer rent-free period. Landlords are likely to be more willing to accommodate, as they compete for the limited pool of retailers in order to improve occupancy. This resulted in rental growth ranging from flat to low single digit, which has been the norm unlike in the past. An analysis of several retail properties owned by MREITs indicate that the overall monthly gross rental of prime malls in Klang Valley is at between RM13 and RM25 per sq ft, whereas Sunway Carnival and Gurney Plaza in Penang recorded gross revenue of RM8.50 per sq ft and RM13.60 per sq ft respectively in 2017.

The retail market was less active in 2018, with no notable transactions in Klang Valley and Penang although the Setapak Sentral Mall in understand to be under offer. Revaluations at Pavilion Mall, Mid Valley Megamall and The Garden Mall are at RM3,413 per sq ft, RM1,988 per sq ft and RM1,535 per sq ft respectively. In Penang, Gurney Plaza and Sunway Carnival were valued at RM1,756 per sq ft and RM812 per sq ft respectively. Prime retail yield remains stable at 6.0% - 6.5%.

External events and domestic policy uncertainties are set to continue to cast a shadow in 2019. As consumers are still careful with their disposable income, the retail market will take time to digest the incoming supply. The journey to a more equilibrium state may take longer if developers continue to build malls without taking into account the changing landscape that will be moulded by new technologies and evolving consumer buying behaviours and demography.

DISCLAIMER

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, Nawawi Tie Leung can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to Nawawi Tie Leung.

CORPORATE **HIGHLIGHTS & EVENTS**



MQREIT 6th Annual General Meeting ("AGM") on 11 April 2018

MQREIT's 6th AGM was held on 11 April 2018 wherein 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 trustee of MQREIT and the Statement issued by MRCB Quill Management Sdn. Bhd. ("MQM") as the 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 6.59(1A) of the MMLR was approved by the Unitholders by way of poll. This gives 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)

Donation to Persatuan Kebajikan Kanak Kanak Kajang and Yayasan Ozanam's Learning Centre Project at Ozanam Service Centre, Taman Sri Sentosa

In December 2018, the Management donated approximately RM105,000 and RM40,000 in cash to Persatuan Kebajikan Kanak Kanak Kajang and Yayasan Ozanam, respectively. Both organisations are registered voluntary welfare organisations that helps abused, abandoned, neglected, orphaned or at-risk children of all races between the ages of 5 to 17 years old. The cash donation helped to fund the operations cost of running these centres, which includes staff and teachers' salaries, workbooks and study materials for the children, as well as rental, utilities, food and maintenance cost.

A cheque presentation ceremony was held on 7 December 2018 at Persatuan Kebajikan Kanak Kanak Kajang's centre. Ms. Yong Su Lin, Chief Executive Officer of MQM presented the cheque to the Founder and President of Persatuan Kebajikan Kanak Kanak Kajang, Ms Susie Devaki.



IN THE **NEWS**

9 January 2018

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 (TCSB).

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

11 January 2018

MRCB-QUILL REAL ESTATE INVESTMENT TRUST

FYE DEC	FY16A	FY17E	FY18E	FY19E
REVENUE (RM mil)	112	105	106	110
CORE NET PROFIT (RM mil)	31	30	34	37
CORE EPU (sen)	7.0	6.4	7.1	8.0
P/NTA (x)	0.8	1.0	1.0	1.0

MRCB-Quill REIT to sell QB8 to Transmark for RM28m

▶ **Recommendation: Buy**
TARGET Price: RM1.28
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 enables MQREIT to channel its resources into existing and future office assets. Earnings impact is marginal.

We nudge down our FY18-FY19 earnings estimates by <1% pa, but maintain our DDM-target price (TP) of RM1.30 (cost of equity: 7.0%).

Selling its sole industrial asset, MQREIT has proposed to dispose Quill Building 8 (QB8) (DH: XP) to Transmark Corp Sdn Bhd (primarily in the business of trading of fitness equipment) for RM28m cash.

QB8 is a single-storey detached warehouse annexed with a three-storey purposed built office building (or an 88,856 sq ft (8,255 sq m) land (net lettable area is 65,205 sq ft).

MQREIT acquired the asset on March 25, 2008, with an investment cost of RM28.8m and the market value as at Oct 17, 2017, was RM28m. MQREIT expects a minimal disposal gain of RM0.28m and the deal is expected to be completed by 2Q18.

Focusing on office assets. We are neutral on deal whereby the asset has decent occupancy rate of 92% (end-September 2017, single tenant).

However, we understand that MQREIT plans to focus and channel its resources on its existing office assets and also making way for future injection of office buildings). We note that proceeds from the disposal is intended for paring down existing borrowings, asset enhancement initiatives, future acquisition(s) and working capital purposes.

Based on our estimate, the deal could ease MQREIT's gross gearing to 0.36x from 0.37x (as at end-3Q17).

Minimal earnings impact. We nudge down FY18/FY19 earnings forecasts by 0.3%/0.7% after excluding QB8's rental income contributions from 2H18 onwards and assuming the entire disposal proceed goes to paring down its debt.

Based on our estimates, QB8 contributes 1.3%pa to MQREIT's FY18-FY19 net profits (interest. However, we maintain our DDM-TP of RM1.30 as earnings impact is marginal.

MQREIT was listed on the Main Board of Bursa Malaysia Securities Bhd on Jan 5, 2007, as Quill Capita Trust. It subsequently changed its name to MQREIT on April 14, 2015.

MQREIT is focused to acquire and invest in commercial properties primarily in Malaysia, with a view to provide MQREIT unitholders with long term and sustainable distribution of income and potential capital growth.

MQ REIT's 4Q profit plunges 80.4% on property revaluation

The REIT's portfolio features 11 buildings with a combined market value of RM2.2b

by LYDIA NATHAN



MQ REIT's gearing ratio stood at 37.3% as at end-2017, while 70% of its total borrowings are on a fixed interest rate, says Yong

MRCB-QUILL Real Estate Investment Trust (MQ REIT) noted that revaluation has caused the firm to post a lower net profit of RM2.32 million for the fourth quarter ended Dec 31, 2017 (4Q17), compared to RM56.92 million in 4Q16.

The 80.4% decrease was due to a deficiency of RM18.18 million in the revaluation of the company's investment properties.

Revenue for the quarter rose 18.2% year-on-year (YoY) to RM41.59 million, its exchange filing last Friday.

Some 54% of MQ REIT's total net lettable area was due for renewal in 2017, while 80% of the leases were successfully renewed as at end-2017.

The REIT's portfolio features 11 buildings with a combined market value of RM2.2 billion.

The group's realised net income, meanwhile, increased 48.36% to RM25.42 million due to the recognition of income from Menara Shell, net of higher property operating expenses, finance costs, trustees fee along with manager's fee.

Net property income for the quarter was a 20.2% YoY increase to RM36.05 million, largely due to the additional revenue arising from Menara Shell, as well as rental rate increases from Qui5 Building 9 (QB9) (MMN, Wisma Technip and QB2 (HSBC).

The real estate manager achieved a distributable income of RM21.6 million for the financial year ended Dec 31, 2017 (FY17), after taking into consideration the non-cash adjustment for manager's fee payable in units and net fair value loss on investment properties.

Its FY17 distribution per unit (DPU) was at 8.39 sen, higher than FY16's DPU of 8.36 sen, which translates to a distribution yield of 6.7% based on the closing price of RM1.25 per unit as of Dec 29, 2017.

MRCB Quill Management Sdn Bhd, the manager of MQ REIT, said the market is expected to remain challenging.

MRCB Quill Management CEO Yong Su-Lin said MQ REIT's gearing ratio stood at 37.3% as at end-2017, while 70% of its total borrowings are on a fixed interest rate.

"We will continue to monitor the investment environment, with the aim of locking in fixed interest rates at an appropriate time via interest rate swaps, as part of our capital management strategy to maximise a majority of fixed-rate borrowings. This will help mitigate the REIT's exposure to future interest-rate risk," concluded Yong.

22 January 2018

MQ REIT FY17 profit up 61% on higher rental income, revenue

MRCB-QUILL REAL ESTATE INVESTMENT TRUST

FYE DEC	3Q16A	3Q17A	3Q18F	3Q19F
REVENUE (RM mil)	26.6	41.5	40.1	41.9
PROFIT AFTER TAX (RM mil)	42.8	68.1	92.6	94.9
EPU (sen)	9.5	8.3	9.6	9.7
FD PER (x)	11.9	15.2	11.1	14.0

▶ **Recommendation: Buy**
TARGET Price: RM1.44
by Hong Leong Investment Bank Bhd (Jan 22)

Results

MRCB-QUILL Real Estate Investment Trust's (MQ REIT) 4Q17 annualised net profit of RM21.5m (QoQ +0.6%; YoY +60.8%) ended FY17 with RM86.1m (+60.8% YoY). The results were above our expectations but in line with consensus, accounting for 102.3% of ours and 98.7% of consensus estimates respectively.

Deviations

Above expectations due to lower than expected property operating expenses.

Dividends

Declared dividend of 4.16 sen, bringing YTD dividend to 8.39 sen per unit.

Highlights

YoY: Normalised net profit increased 60.8% on the back of additional revenue from the newly acquired Menara Shell and higher rental income from Quill Building 2 (QB2), QB3 and Wisma Technip.

QoQ: Sustained flattish as lower property operating expenses were offset by higher finance cost.

FY17: Normalised net profit increased 60.8% due to additional revenue from the newly acquired Menara Shell and rental rate increases from QB2, QB3 and Wisma Technip.

Average debt to maturity has decreased slightly from 3.05 years to 2.79 years while average cost of debt was maintained. The gearing level of MQREIT remained unchanged at 37% which is still comfortably below the limit of 50%.

Outlook: Despite the lacklustre overall office market, MQ REIT's office space will remain stable and well-guarded from its long-weighted average term to expiry with wellspread net lettable area expiry.

Risks

- High gearing compared to industry average.
- Slower rental reversion rate for office market.

Forecasts

Our FY18-FY19 earnings forecasts are raised by 0.6% after incorporating lower property operating expenses assumption.

Rating 'Buy'

We continue to like MQ REIT given its high dividend yield, stable assets in prime location of KL Sentral with high occupancy rate and healthy WALE profile.

The larger portfolio size allows MQ REIT to enjoy greater operating efficiency arising from economies of scale.

Target price is revised higher to RM1.44 from RM1.42 after incorporating our latest earnings forecasts.

Maintain 'Buy' with unchanged targeted yield of 6.3%.

23 January 2018

IN THE **NEWS**
(cont'd)

23 January 2018

MRCB-QUILL REIT
By UOB Kay Hian Securities
Hold (maintained)
Target price: RM1.38

MRCB-Quill REIT (MQREIT) reported revenue of RM44.7mil and normalised net profit of RM21.5mil in the fourth quarter of financial year 2017 (Q4'17).

This brings 2017 revenue to RM180.1mil and normalised net profit to RM88.1mil.

Distributable income for 2017 accounted for 98.8% and 102.8% of UOB Kay Hian's and consensus full-year forecasts, respectively.

MQREIT declared a second interim dividend of 4.16 sen in Q4'17, bringing full-year dividend to 8.39 sen, or a 6.9% dividend yield.

For 2017, normalised net profit grew 48.2% year-on-year (y-o-y), largely due to contributions from newly-acquired Menara Shell.

The acquisition of Menara Shell was completed on December 22, 2016 and increased MQREIT's asset portfolio size by 40% from RM1.63bil to RM2.3bil.

The improved performance in 2017 was also attributed to higher rental rates at Quill Building 3, Wisma Technip, and Quill Building 2.

Despite the challenging office rental outlook, MQREIT maintained its occupancy rate at 97%, similar to 2016's.

"We like MQREIT's portfolio, which consists mostly purpose-built office buildings with tenants in long-term contracts.

"MQREIT's weighted average lease expiry (Wale) is still the highest among peers under our coverage, at 5.5 years, with peers at 3.6 years," said UOB Kay Hian.

Post-acquisition of Menara Shell, MQREIT's gearing fell to 37%, as compared to 43% during the acquisition, as a result of an enlarged asset base.

The research house opines that MQREIT's current gearing ratio is healthy and on a par with peers', allowing it to tap into the debt and equity markets for future acquisitions.

UOB Kay Hian believes MQREIT's next acquisition will be Menara Celcom in PJ Sentral, which has a gross development value of over



RM500mil.

Telecommunications company Celcom has signed a 21-year lease contract with MRCB.

"Based on our back-of-the-envelope calculations, Menara Celcom could grow MQREIT's total asset value by 54% and raise core earnings by 23%, assuming 500,000 sq ft of net lettable area (NLA) and a conservative rental rate of RM5.50 per sq ft per month.

"We think contribution from Menara Celcom would come in earliest in 2019, judging from previous acquisition exercises which took slightly more than a year for completion," said UOB Kay Hian.

21 May 2018

MQREIT's office space to remain stable, well-guarded



MQREIT confident of getting new tenants for lease renewals

Some 26% of its portfolio net lettable areas are available in 2H18



18 May 2018

MQREIT net profit for first quarter falls to RM21mil

PETALING JAYA: MRCB-Quill Real Estate Investment Trust (MQREIT) registered a net profit of RM21mil for the first quarter ended March 31, 2018 (Q1FY18), a 5.3% dip from the corresponding quarter last year.

This was on the back of a revenue of RM44.9mil, a decrease of 4.9% from Q1FY17, mainly due to lower revenue generated from Platinum Sentral and Menara Shell.

According to a press release yesterday, MQREIT achieved a distributable income of RM22.4mil for the quarter under review, after adjusting for manager's management fee payable in units of RM1.39mil.

This is a 3.3% decrease from the distributable income of RM23.16mil as compared to Q1FY17.

The lower distributable income was attributable to lower revenue generated and higher property operating expenses due to higher routine operating expenses for selected properties as well as higher administrative expenses from disposal costs incurred for QB6 SHE (EPI).

Correspondingly, MQREIT recorded a distributable income per unit of 2.10 sen, which is 3.3% lower compared to 2.17 sen in Q1FY17.

MRCB Quill Management Sdn Bhd (MQM) chairman Tan Sri Saw Choo Boon said the management remains optimistic that MQREIT's operation will be able to weather the current office market environment, underpinned by its proactive approach towards asset, portfolio and cost management.

MQM is the manager of MQREIT.

According to MQM CEO Yong Su-Lin, MQREIT's average occupancy rate as at March 31, 2018 stood at 96.2%.

"In terms of capital management, the manager has commenced negotiation with financial institutions for the refinancing of MQREIT's RM117mil borrowings due in September 2018.

As at March 31, 2018, MQREIT average cost of debt was maintained at 4.4% per annum with 70% of total borrowings on fixed interest rate.

"In view of the rising interest rate environment, we will continue to adopt a proactive capital management strategy and plan to maintain majority of fixed rate borrowings as part of our strategy to provide income stability," Yong added.

12 April 2018

IN THE **NEWS**
(cont'd)

● 8 September 2018

MQReit second quarter earnings rallies 6.5%

PETALING JAYA: MRCB-Quill REIT's (MQReit) net profit for the second quarter ended June 30, 2018 rose 6.5% to RM23.49 million from RM22.04 million a year ago underpinned by lower property expenses and total expenditure incurred.

Its revenue rose marginally by 0.2% to RM43.69 million compared with RM43.61 million in the previous year's corresponding quarter.

This translates to a second quarter of 2018 (Q2'18) distributable income per unit of 2.28 sen, which is higher by 0.9% compared with the distributable income per unit of 2.26 sen recorded in Q2'17.

For the six months period, its net profit fell 1.6% to RM44.50 million from RM45.21 million a year ago, while revenue dropped 2.4% to RM87.98 million compared with RM90.18 million in the previous year's corresponding period mainly due to lower revenue contributed from Platinum Sentral, Menara Shell and loss of revenue from QB8 - DHL XPJ after its disposal.

For the six months period, MQReit recorded a distributable income and distributable income per unit of RM46.88 million and 4.38 sen, respectively. It declared a distribution per unit (DPU) of 4.23 sen for 1H 2018.

The annualised 1HFY18 DPU translates to a yield of 7.40% based on MQReit's closing price of RM1.14. The DPS of 4.23 sen is expected to be distributed on Sept 19, 2018.

MQM CEO Yong Su-Lin said 70% of the leases due up to 1H'18 have been renewed.

"In addition to the renewals, we have secured new leases for a few of our properties with demand coming from companies in the IT, business consultancy, medical and retail sectors.

"Negotiations are progressing as scheduled for the leases due in second half of 2018, which represent 86% of the total leases due for renewal in 2018. MQReit's average occupancy rate as at June 30, 208 stood at 96%."

She added that its gearing ratio was 37%, unchanged from last quarter and well below the regulatory limit of 50.0%.

● 10 August 2018

MQREIT posts lower revenue from Platinum Sentral, disposal of QB8

▶ **Recommendation:** Buy
TARGET Price: RM1.27
by Alliance Investment Bank Bhd (Aug 9)

Highlights
• 1HFY18 earnings were in line with expectations.
• Lower revenue from Platinum Sentral as well as loss of income from disposal of QB8.
• Dividend yields of 6.0% are attractive with total potential returns of 15.6%. Maintain 'Buy' with TP of RM1.27.

MRCB-QUILL REIT's (MQREIT) 2QFY18 core net distributable income came in at RM21.2m (-3.4% YoY). This brings 1HFY18 distributable income to RM42.3m (-6.4% YoY). This is in line with our and consensus expectations.

The decrease for the quarter was mainly due to lower revenue generated from Platinum Sentral as well as loss of revenue from the disposal of Quill Building 8 (QB8)-DHL XPJ which took place on April 12, 2018.

Property operating expenses inched down to RM8m (-12% YoY) as it tightened control on costs and reduced expenses from the disposal of QB8. There was also a gain of RM2.2m from the divestment of property. Thus, net property income came in at RM23.5m (+6% YoY).

A DPU of 4.23 sen was announced implying a 96.7% payout for 1HFY18.

Stable occupancy, some lease expiries coming up. Portfolio occupancy was steady at circa 96%, slightly lower versus 1QFY18's 96.2%.

About 28% of total NLA is due for renewal in FY18, of which circa 2% have been renewed. The expiring leases in FY19 forms 15% of total NLA, and 17% in FY20. We believe rental reversions were flattish, as per guidance by management, as it focused on tenant retention to cope with a challenging operating environment.

Going forward, we expect some challenges in negotiating positive rental reversions due to the oversupply of office space in the market.

MRCB connection. MQREIT has the right of first refusal to Malaysian Resources Corp Bhd's (MRCB) stable of investment properties, which is worth up to RM1.5b in aggregate.

Notable assets include Ascott Sentral (serviced apartment), Plaza Alam Sentral (retail), Seuka Sentral (lifestyle/retail) and Komplek Sentral (industrial).

The REIT may also acquire office assets from the Quill Group of Companies Sdn Bhd, the original sponsor of MQREIT with a remaining stake of circa 15%. However, MQREIT's current gearing of 0.37% indicates that new equity issuance will likely be necessary for sizeable acquisitions in the near term.

Valuation. We maintain our 'Buy' recommendation with an unchanged TP of RM1.27. Despite factoring in flat rental reversions, FY18 dividend yields are attractive at 6.0%.

● 8 September 2018

MQREIT's net profit rises 6.6% in 2Q18

MRCB-QUILL REIT's (MQREIT) profit grew 6.58% in the second quarter ended June 30, 2018 (2Q18) to RM23.49 million from RM22.04 million recorded a year ago, due to lower property expenses and total expenditure incurred.

The real estate investment trust's (REIT) revenue for the period 2Q18 increased marginally to RM43.69 million from RM43.61 million posted in 2Q17.

The manager of MQREIT, MRCB Quill Management Sdn Bhd (MQM), said in a statement yesterday that the trust recorded a distributable income and distributable income per unit of RM46.88 million and 4.38 sen respectively, for the six-month period from Jan 1, 2018 to June 30, 2018.

MQM chairman Tan Sri Saw Choo Boon said MQREIT has delivered stable performance despite the uncertain operating environment and will strive to continue to do so.

"A stable net property margin of 77% has been maintained without compromising the quality of services to tenants.

"Going forward, we will continue to focus on cost management, tenant retention and optimisation of rental contribution," he said.

As such, MQREIT declared a distribution per unit (DPU) of 4.23 sen for the first half of 2018 (1H18).

The annualised 1H18 DPU translates to a yield of 7.42% based on MQREIT's closing price of RM1.14 on June 29, 2018.

The DPU of 4.23 sen is expected to be distributed on Wednesday, Sept 19, 2018, and the books closure date has been fixed for Friday, Aug 24, 2018.

Meanwhile, MQM CEO Yong Su-Lin said approximately 70% of the leases due up to 1H18 have been renewed.

"In addition to the renewals, we have secured new leases for a few of our properties with demand coming from companies in the IT (information technology), business consultancy, medical and retail sectors.

"Negotiations are progressing as scheduled for the leases due in 2H18, which represent approximately 86% of the total leases due for renewal in 2018.

"MQREIT's average occupancy rate as at June 30, 2018, stood at 96%," she said.

She added that MQREIT's gearing ratio as at June 30, 2018, was 37% — unchanged from last quarter and well below the regulatory limit of 50%.

In addition, the manager is in the final stages of negotiation with financial institutions for the refinancing of MQREIT's RM117 million borrowings and is on track to complete the exercise by September 2018.

She also said MQREIT's average cost of debt was maintained at 4.4% per annum in 2Q18, with about 76% of total borrowings on a fixed interest rate. — *by FARA AISYAH*



Tan (left) and Yong speaking at a press conference in Kuala Lumpur recently.

● 8 September 2018

MQREIT earnings up on lower property expenses

PETALING JAYA: MRCB-Quill Real Estate Investment Trust (MQREIT) posted a 6.5% rise in net profit in the second quarter and declared a 4.23 sen dividend per share.

In a filing with Bursa Malaysia, the company said the higher profit was underpinned by lower property expenses and total expenditure incurred.

It said a RM2.2mil gain on the divestment of Quill Building 8 – DHL XPJ was also recorded in the quarter under review.

"The 4.23 sen dividend per unit translates to a yield of 7.42% based on MQREIT's closing price of RM1.14 on June 29," it said, adding that it expected to distribute its dividend on Sept 19.

Shares in MQREIT closed 3.54% higher at RM1.17 sen yesterday.

The company posted a slightly higher revenue to RM43.69mil in the second quarter ended June 31, from RM43.61mil a year ago.

For the first half of 2018, MQREIT posted a lower net profit of RM44.5mil from RM45.21mil in the same period last year.

It said it has renewed about 70% of its leases due for renewal in the first half, which comprised 87,000 sq ft of net lettable area.

● 8 September 2018

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**

This Corporate Governance Overview Statement outlines the corporate governance approach, focus areas and priorities of MRCB Quill Management Sdn. Bhd. ("MQM" or the "Manager") as the manager of MRCB-Quill REIT ("MQREIT"). MQM recognises the importance of having balanced, meaningful and comparable corporate governance disclosures which will allow stakeholders to appreciate the direction that MQREIT is heading towards and how the outcomes of good corporate governance will be delivered.

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 Securities"). In producing this Corporate Governance Overview Statement, guidance was drawn from Practice Note 9 of the Main Market Listing Requirements and the Corporate Governance Guide (3rd edition) issued by Bursa Securities.

As part of MQREIT's enhanced corporate governance disclosure tapestry, the Corporate Governance Overview Statement is complemented with a voluntary Corporate Governance Report, based on a prescribed format by Bursa Securities so as to provide a detailed articulation on the application of corporate governance practices against the Malaysian Code on Corporate Governance ("MCCG"). The Corporate Governance Report is made available on MQREIT's website, www.mrcbquillreit.com as well as via an announcement on the website of Bursa Securities. The disclosure of the Corporate Governance Report by MQREIT is an act of its own volition with a view of embodying the spirit espoused by paragraphs 13.34 and 13.35 of the newly reposed Guidelines on Listed Real Estate Investment Trusts ("REIT Guidelines") issued by the Securities Commission Malaysia ("Securities Commission") that call for the adoption of good corporate governance practices.

This Corporate Governance Overview Statement should also be read in tandem with other statements in the Annual Report (e.g. Statement on Risk Management and Internal Control and Sustainability Report) for a better understanding of the applications of certain corporate governance promulgations which may be better explained in the context of the respective statements.

CORPORATE GOVERNANCE APPROACH

As the manager of MQREIT, MQM has continued to instill good corporate governance ideals and practices into its core values. The Board of Directors of MQM (the "Board") attaches great importance to corporate governance and is steadfast in its belief that for MQREIT to remain competitive and sustainable in the long-term, corporate governance is indispensable. MQM is committed to be prudent fiduciary for MQREIT's unitholders ("Unitholders") and to protect the best interests of all other stakeholders. 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 by epitomising the principles of accountability, objectivity and transparency.

MQM's overarching approach to corporate governance remains consistent and is aligned to MQREIT's investment objectives and strategies. MQM's overall corporate governance approach is to:

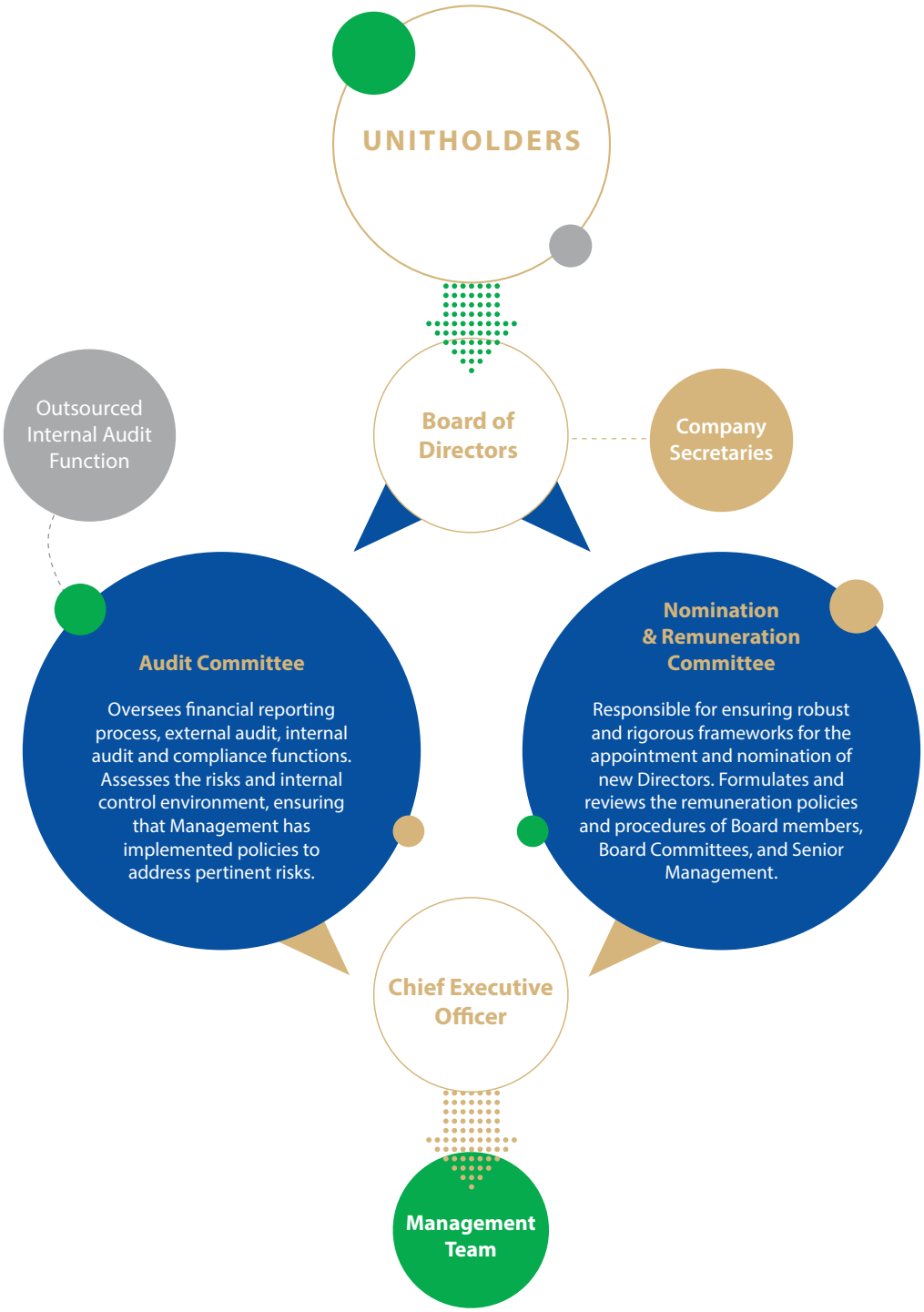
- drive sustainable value for Unitholders over the long-term through the alignment of the interests of MQREIT Unitholders and the Board and Management of MQM;
- promote the long-term growth and profitability of MQREIT whilst prudently managing risks and seizing opportunities; and
- meet stakeholder expectations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

MQM is governed by a robust yet fluid corporate governance framework which is developed to underpin the day-to-day activities with sound processes and procedures. The Board conducts periodic reviews of the corporate governance framework to ensure that it is attuned with the evolving expectations of stakeholders, regulatory changes and market dynamics whilst remaining relevant to the needs of MQREIT's businesses and core values. This was particularly pertinent during the financial year ended 2018 as corporate Malaysia was introduced to a swathe of regulatory changes. In particular, during the first quarter of 2018, we saw significant revisions made by Securities Commission to the REIT Guidelines which not only envision the spurring of growth in the REIT market through liberalisation but also an ecosystem that is characterised by good corporate governance. For instance, the REIT Guidelines now allow for the removal of REIT manager through an ordinary resolution. These developments provide additional safeguards for unitholders and are in line with internationally recognised standards of REIT regulations.

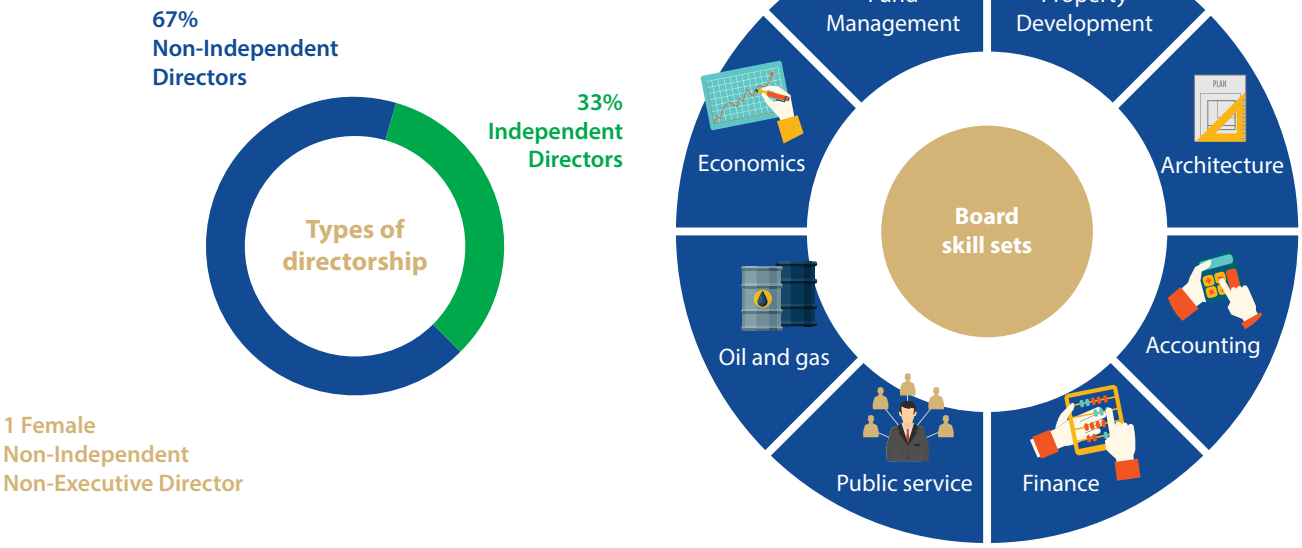
CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

Against this setting, MQM progressively reflects upon its corporate governance framework and has taken pragmatic steps to adhere to these enumerations. As improvement in corporate governance remains to be an unremitting and organic process, MQM will endeavour to undertake early adoption of selected enumerations and be at the forefront of corporate governance application amongst other REITs. For example, MQM is one of the select few REIT Managers to precociously make available the Corporate Governance Report of MQREIT which would outline the application of its practices vis-à-vis MCCG.

In order to discharge its oversight and governance roles and responsibilities, the Board and Management of MQM operates within the following governance framework:



CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)



SUMMARY OF CORPORATE GOVERNANCE PRACTICES

In seeking to actualise its corporate governance aspirations, a benchmarking of MQREIT's practices against the relevant promulgations and best practices has been performed. In this regard, all the Practices espoused by the MCCG have been applied, save for:

- Practice 4.1 (having at least half of the Board comprising Independent Directors);
- Practice 4.5 (having gender diversity policy, targets and measures);
- Practice 4.6 (use of independent sources to identify directorship candidatures);
- Practice 6.2 (establishment of a dedicated Remuneration Committee);
- Practice 7.2 (disclosure of top five Senior Management personnel's remuneration); and
- Practice 11.2 (the adoption of Integrated Reporting).

In relation to the aforementioned departed Practices and premised on the notion that there is no "one-size fits all" modality in applying corporate governance practices, MQREIT has provided forthcoming and cogent explanations for their non-application. The Board of MQM appreciates the line of sight or Intended Outcomes outlined in MCCG and has therefore put in place alternative practices for MQREIT, taking into account the Intended Outcomes envisioned by the said Practices of MCCG.

As MQREIT scales up in size and scope by progressing along its current trajectory, the Board of MQM will consider the adoption of the departed Practices as MQREIT would be better positioned to implement these Practices in substance at that juncture. Whilst MQREIT does not fall within the remit of Large Companies[1] as defined by MCCG, MQREIT has on its own volition disclosed measures that it has taken or intends to take to adopt the departed Practices as well as the timeframe for adoption of the departed Practices. Further details on the application of each individual Practice of MCCG are available in the Corporate Governance Report.

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[1] *Large Companies are companies on the FTSE Bursa Malaysia Top 100 Index; or companies with market capitalisation of RM2 billion and above, at the start of the companies' financial year.*

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

A summary of MQREIT's corporate governance practices with reference to the MCCG is outlined below.

Board Responsibilities

The primary role of the Board is to promote MQREIT's long term health and prosperity. In this regard, the Board provides collective leadership to MQM, sets strategic directions and oversees the competent management of MQREIT. In order to deploy these responsibilities, the Board convenes regular meetings during the financial year to deliberate on its investment strategies, short and long-term business plans, annual budget, major acquisitions and disposals, financial performance and key performance indicators. Meeting attendance of individual Directors during the financial year is outlined as below:

Director	Board	Audit Committee	Nomination & Remuneration Committee
Non-Independent Non-Executive Directors			
Tan Sri Saw Choo Boon (Chairman)	5/5	-	-
Dato' Dr. Low Moi Ing, J.P.	4/5	4/5	-
Dato' Michael Ong Leng Chun	5/5	-	-
Dato' Thanarajasingam Subramaniam	5/5	-	-
Ann Wan Tee	5/5	5/5	-
Kwan Joon Hoe	5/5	-	-
Independent Non-Executive Directors			
Foong Soo Hah	5/5	5/5	1/1
Datuk Dr. Roslan Bin A. Ghaffar	5/5	5/5	1/1
Aminuddin Bin Mohd Arif	5/5	5/5	1/1
Legend			
	Chairman		
	Member		

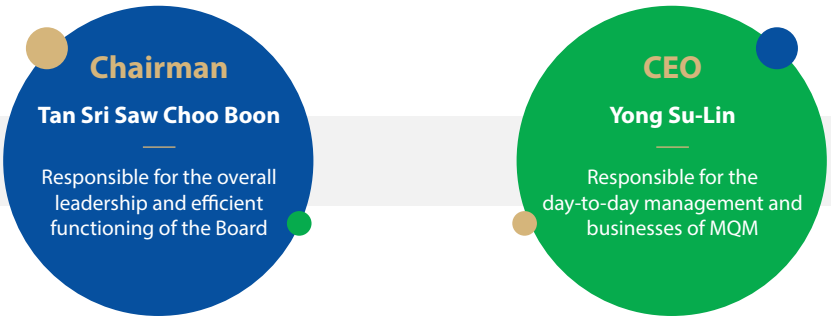
The Board has instituted two Board Committees, namely the Audit Committee and Nomination & Remuneration Committee in order to provide crucial support in discharging its oversight function. These Board Committees have each been constituted with their own terms of reference to allow clear delineation of roles and responsibilities. The recommendations made by the Board Committees are ultimately subjected to the approval of the Board.

During the year under review, the Board had reviewed the functions of its Board Committee and has decided to disband the Executive Committee with effect from 18 January 2018. This move is regarded to have enhanced MQM's overall corporate governance structure with robust oversight on Management and matters such as approval and review of major transactions and investments now being under the direct purview of the Board. The residual functionalities of the Executive Committee have been assumed by the Board and Management, as the case may be, with duplication in reporting being effectively nullified.

The positions of Chairman and CEO of MQM are held by two different individuals. There is clear division of roles and responsibilities between the Chairman who helms the Board, and the CEO who helms MQREIT's business operation. This provides for a balance of power and authority, increased accountability and greater capacity of the Board for objective decision making.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

Chairman and Chief Executive Officer ("CEO")



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 competent, experienced and qualified joint Company Secretaries who act as sound corporate governance counsels.

The Board is also cognisant of its responsibility to set the ethical tone and standards of behaviour for MQM. For the financial year under review, MQM has established an autonomous Whistleblowing Policy as this document was previously shared with Malaysian Resources Corporation Berhad ("MRCB"). Complaints are now directly channeled to either the CEO and the Chairman of MQM's Board to allow bona fide ethical concerns to be raised via an objective and a confidential point of escalation. Additionally, a revised Code of Business Ethics has been put in place to inculcate an ethical culture within the employees of the Manager. Augmenting the aforementioned policies are the establishment of a "Policy on Giving and Receiving Gifts" and the compulsory employee commitment to the Corruption-Free Pledge by the Malaysian Anti-Corruption Commission. Consequently, MQM's corporate culture is undergirded by a synergistic top-down and bottom-up approach in dealing with the perils of corruption, abuse of power and improper behaviour.

Board Composition

The Board is cognisant of the role that diversity and independence play in averting insularity and "blind-spots" during decision-making processes. The Board is currently made up of nine (9) members whereby three (3) members are Independent Non-Executive Directors whilst the rest are Non-Independent Non-Executive Directors. Whilst the Board is compliant to paragraph 15.02 of the Main Market Listing Requirements of Bursa Securities which requires at least one-third (1/3) of Independent Directors to occupy the Board, this practice falls short of application to Practice 4.1 of the MCCG which stipulates that at least half of the Board should comprise Independent Directors. Nonetheless, as the Board is occupied exclusively by Non-Executive Directors, Board deliberations and decision-making processes are detached from any potential Management biases.

The constitution of a well-oiled Board also hinges on members possessing the appropriate mix of skills, knowledge, and experience which dovetails MQREIT's long term strategies and objectives. MQM's current Board skills matrix shows that the Board comprises members with an array of professional skills and background which include, amongst others; property development, fund management, architecture, oil and gas, public service, economics and accounting.

Appointments to the Board are made via a formal, rigorous and transparent process, anchored on the basis of meritocracy and taking into account the skills, experience and diversity needed on the Board in the context of MQREIT's strategic direction. Guiding the nomination process is also the board effectiveness evaluation findings whereby the exercise is externally facilitated by a consulting firm periodically or when the Board deems fit.

As part of the aforementioned evaluation, the Independent Directors were also subjected to evaluation, which is based on a set of qualitative evaluation criteria, so as to ascertain their continued objectivity and impartiality. Recognising that long tenure may lead to entrenchment and impaired objectivity, the Board continues to place emphasis on progressive renewal of Directors, particularly, Independent Directors.

During the year under review, Directors have fully optimised the opportunities to hone and enhance their skills and knowledge. The Nomination & Remuneration Committee has identified the Directors' training needs based on board effectiveness evaluation findings and results.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

The Directors of MQM have participated the following professional development programmes;

Name of Directors	List of Training/Conference/Seminar/Workshop Attended/Participated in 2018
Tan Sri Saw Choo Boon	AML/CFT & Regulatory Compliance Training by PWC Malaysia Malaysian Corporate Governance Guidelines "Global Economic and Markets Outlook" by Dr Mark Zandi, Chief Economist Moody Analytics "Singapore's New Insolvency & Restructuring Regime" by Shook Lin & Bok Singapore Global Financial Development Report 2017/2018: Bankers without Borders "Win the innovation race: Unlocking the creative power of Asians" by Prof Roy Chua, 1 Strategy Beyond Core – Digital Bets Things You Need to Know About Industry 4.0 - Current Trend of Manufacturing and Automation 18th Malaysia Economic Monitor: Unlocking the Potential of the Digital Economy Blockchain in Financial Services Industry "Islamic Finance Beyond Banking" and "Cryptocurrency, Blockchain & Beyond" Panelist on World Bank Digital Conference Training on New Corporate Liability MACC (Amendment) Act 2018 Public Policy in a Digital World Turmoil in Global Finance Understanding Fintech and Its Implications for Insurance Companies Malaysia – A NEW DAWN Conference 2018 National Convention on Good Regulatory Practice 2018 Panelist - Effective Boards in a VUCA (Volatility, Uncertainty, Complex and Ambiguous) World The Conceptual Basis and Operational Implications of "Green Growth" Business Ethics Seminar 2018 Roundtable on the Climate Governance Initiative ("CGI") for Non-Executive Directors AML/CFT Compliance Training 2019 Budget – The Economy, Capital Market and You
Dato' Dr Low Moi Ing, J.P.	CEO Series 2018: Annual Property Developers Conference
Dato' Michael Ong Leng Chun	Digital Economy and Capital Market Series: Alibaba and Tencent's Success Guide Digital Economy and Capital Market Series: Financial Technology (Fintech), Artificial Intelligence (AI), Big Data And Internet Of Things (IOTs) DATUM: Green (Sustainability Design Forum 2018) DATUM + Plus (Design Plus Symposium 2018)
Kwan Joon Hoe	Insolvency Act 1967/Revamping The Bankruptcy Act 1967 Breakfast Series: Companies of the Future – The Role for Boards
Ann Wan Tee	Insolvency Act 1967/Revamping The Bankruptcy Act 1967 Evolution of Future CFOs Securities Commission World Bank IOSCO Asia Pacific Hub Conference 2018 Workshop on MFRS 16 MIA Roundtable Discussion on a Vision for the CFO and Finance Function Khazanah Megatrends Forum Deloitte CFO Forum Reinventing Corporate Treasury to meet Economic Challenges

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

Dato' Thanarajasingam Subramaniam	Delivering Faster, Cheaper and Better Value Adding Audit Result Through Risk Based Auditing Alternative Funding For SMEs (Part1) – Introduction To ECF, P2P And The LEAP Market How Millennials are Shaping the Future of the Capital Market
Foong Soo Hah	Breakfast Series: Companies of the Future – The Role for Boards
Datuk Dr. Roslan Bin A. Ghaffar	Insolvency Act 1967/Revamping The Bankruptcy Act 1967 Disruptive Technology & Innovations (9 July 2018)
Aminuddin Bin Mohd Arif	Common Offences & Pitfalls to Avoid under the Companies Act 2016

Remuneration

The Nomination & Remuneration Committee assists the Board in developing a remuneration framework for Directors and Senior Management. The formalised Remuneration Policy and Procedures for Directors and Senior Management is periodically reviewed to ensure that it is robust and competitive, designed to attract and retain the best of talents and is aligned to the long-term strategies of MQREIT.

The remuneration of Non-Executive Directors is set to be commensurate with their responsibilities, time commitment, experience, expertise and the complexity of MQM's activities and business and is in line with market norms. Directors are remunerated via fees and meeting allowances and these are paid by MQM, not MQREIT.

The detailed disclosure of the remuneration of individual Directors, on a named basis, is outlined, as below:

Name of Directors	Directors' Fee	Meeting Attendance Allowance	Total
Tan Sri Saw Choo Boon	75,000.00	15,000.00	90,000.00
Dato' Dr. Low Moi Ing, J.P.	60,000.00	24,000.00	84,000.00
Dato' Michael Ong Leng Chun	45,000.00	18,000.00	63,000.00
Kwan Joon Hoe (Note1)	45,000.00	18,000.00	63,000.00
Ann Wan Tee (Note 1)	60,000.00	30,000.00	90,000.00
Dato' Thanarajasingam Subramaniam	45,000.00	15,000.00	60,000.00
Foong Soo Hah	75,000.00	33,000.00	108,000.00
Datuk Dr. Roslan Bin A. Ghaffar	65,000.00	36,000.00	101,000.00
Aminuddin Bin Mohd Arif	70,000.00	33,000.00	103,000.00

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

Audit Committee

The Board has established an Audit Committee ("AC") to provide a robust and comprehensive oversight on financial reporting, external and internal audit processes as well as compliance matters. The AC is currently chaired by an Independent Director, Foong Soo Hah, who is distinct from the Chairman of the Board. The AC has adept membership composition consisting of Board members who possess apt financial literacy and business acumen which are prerequisites for sound understanding of the financial matters of MQREIT.

The AC has unrestricted access to both the outsourced internal auditors and external auditors, who, in turn report to the Board their consolidated findings. As contained in the AC's terms of reference, the AC has established policies and procedures to assess the capabilities, independence and suitability of the external auditor on an annual basis. During the year under review, the external auditor has provided assurance that its personnel are and have been independent throughout the conduct of the audit in accordance to the terms of relevant professional and regulatory requirements.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

Risk Management and Internal Control Framework

As risks are inherent in the core businesses of MQREIT, effective risk management remains as the bedrock in realising its business objectives and strategies. 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 risks. The Board and Management of MQM are also more cognisant of nuanced risks such as reputational risk, compliance risks and other non-financial risks. The Board performs periodic reviews and closely monitors the resilience of the risk management and internal control framework to ensure its adequacy and effectiveness.

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 controls, risk and governance. The outsourced service provider has a direct reporting line to the AC and is independent of Management. The internal auditor is accorded with unencumbered access to relevant records, properties and personnel.

Communication with stakeholders

The Board of MQM places significant emphasis on proactive stakeholder communication as well as maintaining transparency particularly towards MQREIT's Unitholders. MQM has leveraged on various engagement fora to provide timely, accurate and accessible information on MQREIT. These channels include but are not limited to annual reports, announcements to Bursa Malaysia, corporate website, briefing sessions, roadshows, conferences and local and foreign fund management dialogues. The Board continues to maintain consistent engagement with its Unitholders to ensure that they are kept abreast of MQREIT's state of affairs and strategic milestones. In ensuring that communication is an iterative two-way street, the Board also receives feedback on the engagement efforts conducted alongside regular reports of substantial changes in unit holdings and reports of unit price movements.

During the year, MQM participated in a prominent investor relations event held by one of the largest financial institutions in Malaysia with a view of enhancing the visibility and promoting price discovery of MQREIT. It was an imperative engagement forum for the Investor Relations team of MQM as they seized the opportunity to engage with major institutional investors and fund managers.

The Annual Report of MQREIT seeks to provide a balanced, comparable and meaningful assessment of its position and prospects. The availability of a Corporate Governance Report outlines the application of MQREIT's corporate governance practices and sheds light to its commitment to corporate governance best practices.

Conduct of General Meetings

The Annual General Meeting ("AGM") serves as the focal platform for MQM to present MQREIT's financial highlights, investment portfolio updates, operational performance, market outlook and strategic trajectory. Unitholders are encouraged to ask questions, clarify facts and provide critical feedback to the Board and 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 AGM of the previous financial year. The poll voting results and procedures were validated by Malaysian Issuing House Sdn. Bhd. which is an independent scrutineer. The Chairman of the respective Board Committees were present to answer any queries from Unitholders and facilitate discussions on matters such as audit, nomination and remuneration disclosures. Minutes of the previous AGM is made available on the corporate website of MQREIT. As called upon by best practices, the notice for the forthcoming AGM has been provided 28 days in advance to enable Unitholders to make adequate preparation.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

FOCUS AREAS ON CORPORATE GOVERNANCE DURING THE YEAR

For MQREIT and the Manager, the year 2018 represented a period of growth and continued devoir of corporate governance reforms as corporate Malaysia witnessed a slew of regulatory changes. With corporate governance positioning itself under the national microscope against the backdrop of recharged political, social and economic developments, the Board of MQM renewed its focus on the fundamentals of their roles and responsibilities in future-proofing long term value for Unitholders. Areas which gained heightened prominence from the Board during the financial year ended 31 December 2018 are as follows:

Board Independence

The Board remains steadfast to its aim of increasing the prominence of Independent Directors on the Board. The Board seeks to fill the boardroom with greater objectivity and independence to facilitate more conducive environment for insightful deliberations and informed decision-making.

During the financial year, the Nomination & Remuneration Committee has continued its search for an Independent Director candidate with a specialised acumen in fund management, property industry or the banking industry to further buttress the existing Board composition. In its scour, the Nomination & Remuneration Committee has kept a keen eye on potential candidates that may represent a good fit on the Board of MQM.

Transparency

In line with the central tenets of MQM's precepts which are acting honestly, with due care and diligence and in the best interest of the Unitholders, the Board has ensured that pertinent corporate governance documents are disclosed on the corporate website. Currently, the Corporate Governance Statement, Terms of Reference of Committees and the Board Charter are published at the Corporate Governance section of the Investor Relations page.

As transparency is inherently rooted in its corporate governance culture, MQREIT has on its own volition produced a Corporate Governance Report for this financial year albeit it being non-mandatory for REITs. MQREIT is one of the few leading REITs to initiate such an aspirational measure and go above and beyond the prescribed regulatory expectations.

Internal control and risk management framework

The Board, with the support of the AC, have continued to undertake rigourous deliberations on internal control and risk management with coverage on more nuanced risks such as reputational, performance and compliance risks. Taking corruption risk into account, MQM is also prepared for the implementation of the recently enacted corporate liability provision vide the Malaysian Anti-Corruption Commission (Amendment) Act 2018.

In fact, it is a standing agenda for the Board to discuss on risks associated to MQREIT's business, finances and strategies. The Management of MQM also conducts regular briefing to the Board on the impact of key developments relating to the business, operations and regulatory environment.

Compliance

During the year, the Board and Management of MQM have extensively reflected and deliberated upon the newly revised REIT Guidelines issued by Securities Commission.

Compliance revision and strategic recalibration perceptibly intensified in Board meetings as the Board and Management of MQM seek to consolidate the opportunities and prospects accorded by the new rulings. In this regard, key focus areas deliberated include MQREIT's prospects in property development as well as announcement standards and related party transactions. Flowing from the said regulatory changes, MQM also appointed a compliance officer during the year who reports directly and functionally to the Board.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**
(cont'd)

CORPORATE GOVERNANCE PRIORITIES (2019 AND BEYOND)

Moving forward, MQM will continue to endeavour towards achieving high quality outcomes in the realm of corporate governance. The following forward-looking, long-term strategies outlined below were devised by the Board to propel MQREIT's leadership stature in the corporate governance landscape:

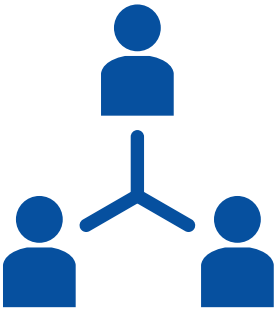
Short and medium term plan (one to three years)



Boardroom diversity

The Board continues to recognise the importance that diversity bring to the boardroom in regards to offering fresh, agile and alternative perspectives and ideas for better decision-making.

At present, discussions and plans are underway to formalise a diversity policy as well as the targets and measures to achieve the diversity markers. On the dimension of gender, women candidacy will not only focus on new directorships but also key positions in Senior Management.



Succession planning

In the near future, the Board intends to establish a clear and an orderly succession plan for Directors and Senior Management (including CEO) so as to maintain progressive refreshing of talent and leadership.

The Board has emphasised on the need to develop in-house successors who have a deep-seated grasp of MQREIT's business, strategies and principles. Complementing its long term plans for boardroom diversity, the Board, together with the Nomination & Remuneration Committee, are well-placed to capitalise on the strong female representation pipeline at the Senior Management level for future directorship positions.



Constitutional architecture

MQREIT is cognisant of the need for REITs to update their Trust Deeds pursuant to the release of a circular by Bursa Malaysia on the requirement for listed issuers to alter their constitutions pursuant to consequential regulatory changes. The Board and Management of MQM intend to undertake a revision of MQREIT's Trust Deed simultaneously with any other corporate exercise venture, if embarked upon in the near future so as to optimise synergy and efficiency.

Long Term Plan (Three to Five Years)



Board composition

The Board plans to reassess the current Board composition with the aim to balance the skill set and experiences of the Board members as well as to enhance its independence configuration. Intricate deliberations and discussions are already in place by the Board regarding the size and structure of the Board in tangent to the long-term aspirations and strategies of MQREIT. The Board believes this far-sighted move will not only add value to MQREIT's business oversight and performance but will also strike a chord with the interests of Unitholders and other stakeholders of MQREIT.

AUDIT **COMMITTEE REPORT**

The Audit Committee, has an active role in assisting the Board of Directors ("Board") to review, assess and to recommend proposals relating to financial and accounting records, internal control, Related Party Transactions and policies as well as financial reporting practices.

The members of the Audit Committee comprise five (5) members, of which three (3) are Independent Non-Executive Directors and two (2) are Non-Independent Non-Executive Director.

Name of Directors	Designations
Foong Soo Hah	Chairman, Independent Director
Datuk Dr. Roslan Bin A. Ghaffar	Independent Director
Aminuddin Bin Mohd Arif	Independent Director
Dato' Dr. Low Moi Ing, J.P.	Non-Independent Non-Executive Director
Ann Wan Tee	Non-Independent Non-Executive Director

The Audit Committee met with the external auditors twice in year 2018, without the presence of the management. The Audit Committee Chairman will report to the Board the activities that it has undertaken, and the key recommendations for the Board's consideration and decision.

A whole range of issues affecting the operations were thoroughly reviewed and deliberated at Audit Committee meetings. Audit Committee members take their roles seriously and professionally, to assist the Board in providing oversight of the management. Audit reports and other matters brought to the Audit Committee's attention are deliberated and discussed, and where necessary, the CEO together with the management team will be invited to the meetings to provide explanations or assist in deliberations.

AUDIT COMMITTEE TERMS OF REFERENCE

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
  - > 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 Securities, 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.

Terms of Reference of the Audit Committee are also available on MQREIT's website, www.mrcbquillreit.com.

AUDIT COMMITTEE REPORT
(cont'd)

AUDIT COMMITTEE MEETINGS

For the financial year ended 31 December 2018, a total of five (5) Audit Committee meetings were held and the attendance of the members at the Audit Committee meetings are as follows:

Audit Committee Members	Designations	Attendance
Foong Soo Hah	Chairman	5/5
Datuk Dr. Roslan Bin A. Ghaffar	Member	5/5
Dato' Dr. Low Moi Ing, J.P.	Member	4/5
Ann Wan Tee	Member	5/5
Aminuddin Bin Mohd Arif	Member	5/5

HOW THE AUDIT COMMITTEE SPENT ITS TIME IN 2018

During the year under review, the activities carried out by the Audit Committee included the deliberation and review of the following:

Financial results

i) Reviewed the quarterly and annual audited financial results of MQREIT, and accompanying announcements and made the relevant recommendations to the Board for consideration, and focused particularly on matters related to changes in major accounting policies, significant and unusual events, compliance with accounting standards and disclosure requirements.

Internal Audit

i) Reviewed and approved the Annual Internal Audit Plan and resource requirements proposed by BDO Governance Advisory Sdn. Bhd. ("BDO Governance");
ii) Reviewed the findings of internal audit reports on the Manager presented by the BDO Governance;
iii) Reviewed the effectiveness and adequacy of management's corrective actions in response to the internal audit reviews conducted;
iv) Reviewed the findings of follow-up audits to determine the status of implementation of management's corrective actions; and
v) Reviewed the Audit Committee Report and its recommendation to the Board for inclusion in the Annual Report.

External Audit

i) Reviewed and approved the Audit plan with the external auditor, Ernst & Young to understand its approach and scope of review prior to commencement of their annual audit;
ii) Deliberated on matters arising from the audit of MQREIT in a meeting with the external auditor without the presence of any executive officer of the Manager;
iii) Deliberated on the external auditor's reports on audit and accounting issues that arose from its audits;
iv) Deliberated on updates of new developments on accounting standards issued by the Malaysian Accounting Standards Board; and
v) Assessed the performance of the external auditor, including their independence.

Risk Management

i) Reviewed and deliberated the Corporate Governance Overview Statement, Corporate Governance Report and Statement on Risk Management and Internal Control, and recommended to the Board for inclusion in the Annual Report.

Related Party Transactions

i) Reviewed the fairness, transparency of related party transactions with appropriate disclosures made as required under the REIT Guidelines, the Trust Deed and the Main Market Listing Requirements, and ascertain that the transactions are conducted at arm's length, on normal commercial terms and in the best interests of the Unitholders of MQREIT prior to submission for the Board's consideration and, where appropriate, Unitholders' approval.

AUDIT COMMITTEE REPORT
(cont'd)

INTERNAL AUDIT FUNCTION

During the year under review, the internal audit function was outsourced and carried out by an independent consultancy firm, BDO Governance Advisory Sdn. Bhd. ("BDO Governance") in order to assist the Audit Committee in discharging its duties and responsibilities. The internal audit activities were carried out in accordance with the internal audit plan which comprise the following:

- Reviewed internal controls systems and ascertain the extent of compliance with the established policies, procedures and statutory requirements; and

- Identified areas to improve controls of operations and processes.

The findings by BDO Governance were presented to the Audit Committee who has taken steps to ensure that appropriate actions are being taken to improve the current internal control systems.

The cost incurred for the internal audit function for the financial year ended 31 December 2018 is RM43,000 (excluding tax and disbursement).

RELATIONSHIP WITH THE EXTERNAL AUDITOR AND INTERNAL AUDITOR

The Board, via the Audit Committee, maintains a formal and transparent relationship with the External Auditor as well as the Internal Auditor. The Audit Committee has direct and unrestricted access to both the External and Internal Auditors.

The Audit Committee also meets the external auditor and internal auditor, without the presence of management at least once annually. The Audit Committee had, during the year, held two meetings with the External Auditor without the presence of Management, to discuss issues, problems and reservations (if any) that the External Auditor wished to highlight to the Committee. A private session was also held between the Audit Committee and the Internal Auditor for the same purpose.

Both the external and internal auditors had been extended good cooperation from the management and they were able to access information to carry out their functions effectively.

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 adopted the relevant corporate governance disclosure under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Main Market Listing Requirements") 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 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 55 to 64. 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 investments 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 2018.

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;

STATEMENT ON **RISK MANAGEMENT AND INTERNAL CONTROL**
(cont'd)

The internal audit review undertaken by BDO Governance for the financial year 2018 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 2018 for compliance with established internal policies and procedures and applicable provisions of the Main Market Listing Requirements and the Guidelines on Listed 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 2018 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 2018 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;

(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;

STATEMENT ON **RISK MANAGEMENT AND INTERNAL CONTROL**
(cont'd)

(g) 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;

(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 and Audit Committee 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 2018 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 2018 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 investments 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 2018 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 Listed 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 2018 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 2018, 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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CEO Message

Our primary objective is to ensure that MRCB-Quill REIT's ("MQREIT") asset portfolio provide Unitholders with long-term and sustainable distribution of income, achieving long-term growth in the net asset value per unit. To achieve the above, a well-defined strategy and proper follow through in the execution will be crucial. The combination of the two factors above 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 MQREIT asset portfolio and stakeholders, we are pleased to present our financial year ("FY") ended 31 December 2018 ("FY 2018") Sustainability Report this year. This report has documented our sustainability performance for FY 2018, with data for FY 2017 and FY 2016 wherever possible.

Our sustainability journey has been enriching for the past 2 years. Since initiating our inaugural sustainability reporting for FY 2017, we recognise the importance of instilling the right sustainability culture that starts within the organisation. In this regard, we will continue to 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 of MQREIT's 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.

Employees are the key to the success of our business. Hence, our key sustainability initiatives encompass employee attraction and retention, and talent management and succession planning. Our remuneration policy and processes reiterates the Group's corporate philosophy to attract, retain and train the best talents and reward high achievers. This year, the Group has prioritised the development of our sustainability efforts through the improvement of the employee benefits offered. Based on a general benchmarking performed on medical and hospitalisation benefits offered by publicly listed companies in Malaysia, the Group has improved the employee benefits in respect of the insurance coverage, maternity and paternity benefits which had taken effect from 1 April 2018.

MQREIT's sustainability journey will require awareness from all our stakeholders and will be a continuous learning process. 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

As we progress in this ongoing journey of sustainability, we as the Manager continue to highlight our non-financial performance and initiatives across the nine prioritised Economic, Environmental, Social and Governance ("EESG") matters for FY 2018. Together with data from previous financial years, we hope to present comparative data that is meaningful for MQREIT's second Sustainability Report, where possible.

This report has been prepared in accordance with the Global Reporting Initiatives ("GRI") Standards 2016 – "Core", covering all of MQREIT's operations in Malaysia as shown in Figure 1. Our Sustainability Report will be published annually and we endeavor to obtain independent verification of our non-financial performance data reported as we mature in our reporting process.

Figure 1: List of operations within the scope of the report

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

For this report ended 31 December 2018, we have excluded Quill Building 8 – DHL XPJ from the scope as the divestment of this said property was completed during the year. In addition, Tesco Building Jelutong Penang has been excluded 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
603-2859 7175
joyce.loh@mrcb.com

About the Business

Incorporated in Malaysia and listed on the main board of Bursa Malaysia Securities Berhad ("Bursa Securities"), MQREIT is a Real Estate Investment Trust ("REIT") managed by MRCB Quill Management Sdn. Bhd. ("MQM" or the "Company" or the "Manager"). The core activities of MQREIT involve the acquisition of and investment in commercial properties in Malaysia with the ultimate goal to provide unitholders with long-term and sustainable distribution of income, as well as, to achieve long-term growth in the net asset value per unit. In April 2018, MQREIT completed the divestment of Quill Building 8 – DHL XPJ, which is aligned with their business strategy to evaluate and rejuvenate property portfolio on an opportune basis. Currently, MQREIT owns 10 commercial buildings comprising five in Cyberjaya, four in Kuala Lumpur, and one in Penang, valued cumulatively at RM2.18 billion as at 31 December 2018. Our properties continues to be managed by Zaharin Nexcap Property Management Sdn. Bhd.

MQREIT is also a longstanding member of the Malaysian REIT Managers Association (MRMA).

SUSTAINABILITY REPORT
(cont'd)

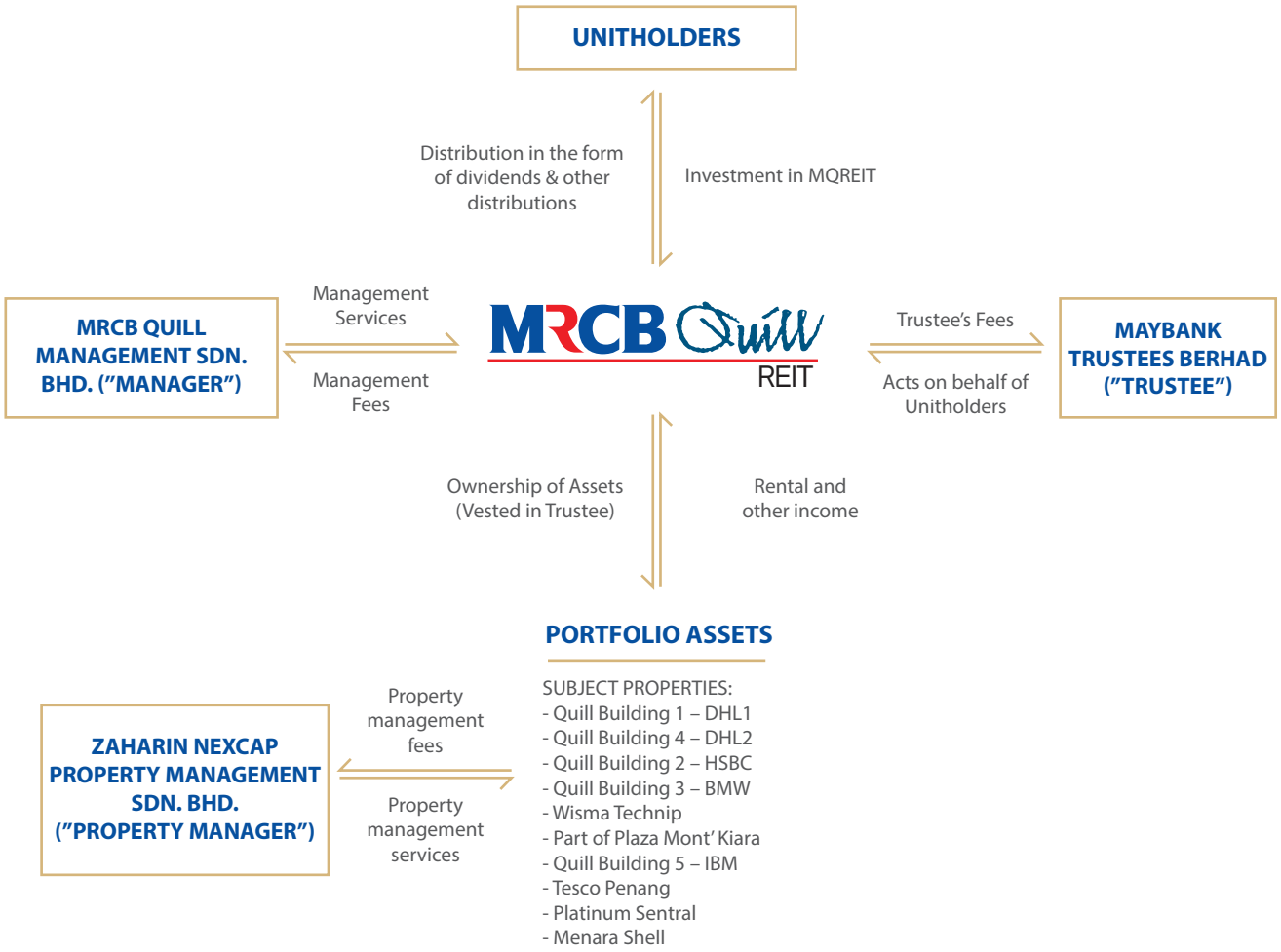
Background of MQREIT

- 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.

Figure 2: MQREIT Structure



SUSTAINABILITY **REPORT**
(cont'd)

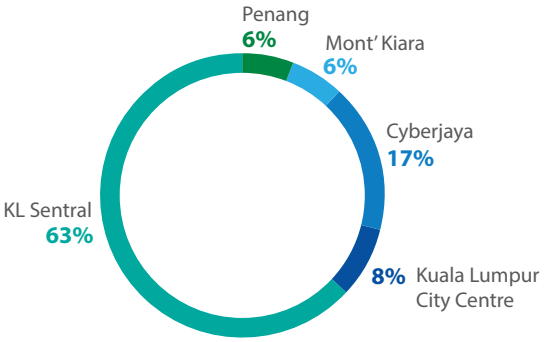


Figure 3: Geographical Diversification (By Valuation)

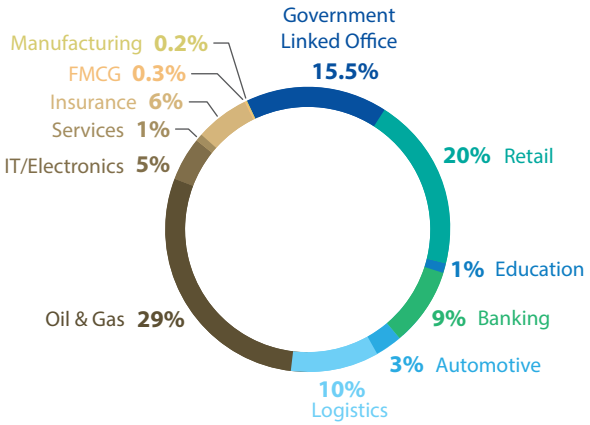


Figure 4: Tenancy Mix (By Net Lettable Area)

Highlights in 2018

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

10
Commercial buildings valued at **RM2.2 billion** as at 31 December 2018

Realised net income of
RM84.65 mil
in FY 2018

RM2.27 billion
Total asset value

Gross revenue of
RM172.53 million
in FY 2018

8.08 sen
Distribution per unit

SUSTAINABILITY HIGHLIGHTS

17
employees receiving an average of

25.3
hours of training for each staff

AWARDS HIGHLIGHTS

Awarded the
Best of the Breeds REITs Award 2018 for Office REIT Malaysia (Gold) in the 5th REITs Asia Pacific Conference 2018

Sustainability in MQREIT

Materiality Assessment

Following the formal materiality assessment that was conducted in the prior year, the Board of Directors of the Manager (the "Board") has re-assessed the material matters identified and approved this Sustainability Report. The five material matters identified, on top of the four additional matters selected for reporting are accordingly listed in Figure 5.

In developing the contents and quality of the report, the GRI Reporting Principles were also considered:

Stakeholder Inclusiveness	We recognize that is crucial for proactive engagement and effective communication with stakeholders in allowing them to make informed decisions. See page 78 for details.
Sustainability Context	As a REIT with properties primarily in Malaysia, our sustainability context is national and regional. We track sustainability issues through engagements with local communities and the government.
Materiality	Please refer to page 77 for details.
Completeness	Our report covers all properties owned by MQREIT and managed by MQM. More details on our reporting scope is covered on page 74.
Balance	The report is built upon disclosures that are transparent and fair, in ensuring meaningful information and data are provided to readers of the report.
Comparability	The selection of GRI Standards, an internationally recognized and widely adopted framework ensures a level of comparability between peers in the industry.
Accuracy and Reliability	Internal processes, together with assigned responsibilities ensures that data are monitored on a regular basis.
Clarity	The report is developed with clarity in mind, such that readers can easily understand the information disclosed.
Timeliness	Information disclosed is aligned with the period of our financial reporting and the report is published as one of the segments in the Annual Report.

Figure 5: Material and Additional EESG matters



1. Regulatory Compliance
2. Anti-Corruption
3. Governance



4. Talent Attraction and Retention
5. Turnover Rate of Senior Management
6. Health, Hygiene & Safety Protection of Tenants, Visitors and Local Communities
7. Employee Capacity Building



8. Quality of Assets and Services



9. Water Management

SUSTAINABILITY **REPORT**
(cont'd)

Stakeholder Engagement

The Manager recognizes that a healthy stakeholder engagement is vital for the sustainability of the business. As necessary, the Manager will enhance their communication channels in attempts to better 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	• To provide information to allow analysts to disseminate accurate information to the investment community	• One-on-one meetings • Analyst briefings • Investor conferences	• Quarterly • When required • When required	• Timely and transparent disclosure of information and announcements • Accessibility to management/ Investor Relations (IR) team	• Improved responsiveness towards feedback and queries
Employees	• To provide fair and equal opportunity • To ensure employee development and career progression	• Quarterly employee appraisals • One-on-one meetings • Team meetings • Staff retreat/team building retreat • Staff briefings	• Quarterly • As appropriate • As appropriate • As appropriate • As appropriate	• Employee welfare & benefits • Work opportunity and career advancement	• Transparent, open and consistent approach to appraisals • Feedback sessions with senior management • Trainings, team building and staff retreats
Government	• 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	• Consultation meetings together with consultants/ advisers and industry associations • Seminars and workshops	• On a case-to-case basis • As appropriate	• Adherence to legislations and guidelines affecting the REIT	• Professional consultants/advisers are appointed to assist us during the consultations
Industry Associations	• To be a contributing members to the industry sectors' professional objectives	• To participate in consultation and feedback to regulators	• As appropriate	• Fair representation of industry's needs and demands to regulators	• Active membership involvement and contribution

SUSTAINABILITY REPORT (cont'd)

Stakeholder	Objective	Mode	Frequency	Stakeholder's key concerns	Our responses
Investment Community i.e. Fund Managers	• To engage existing and potential investors to provide information to allow these investors to make sound investment decisions in relation to MQREIT	• One-on-one meetings • Investor conferences	• As appropriate • As appropriate	• Profitability and financial health of MQREIT • Timely and transparent disclosure of information and announcements • Accessibility to management/IR team	• Improved responsiveness towards feedback and queries
Local Community	• 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	• Cash contribution to meet immediate needs	• Annually	• To provide sustained support after the completion of each CSR project	• Alignment of goals of charities with our CSR objectives • Continue to maintain relationship with charitable organisations
Tenants	• To engage existing customers to ensure tenant satisfaction and high retention rate • To forge new relationships with potential tenants	• Direct feedback from tenants at all stages of the tenancy • Regular meetings and discussions	• As appropriate • When required	• Maintenance of the properties • Quick response time by property managers	• Scheduled maintenance for each property • Notify and resolve disruptions caused to tenants promptly • Timely response to tenant's queries
Unitholders	• To proactively provide up-to-date disclosures and information to allow unitholders to make informed decisions on their investments	• Annual General Meetings • Annual reports • Website (www.mrcbquillreit.com) • Announcements on Bursa Securities • Interactions with IR personnel	• Annually • Annually • As appropriate • As appropriate • As appropriate	• Profitability and financial health of MQREIT • Timely and transparent disclosure of information and announcements	• Sound investment and capital management strategy • Tested leasing and property management capabilities • Robust corporate governance procedures in place
Vendors	• To have fair, proper and transparent dealings with vendors	• One-on-one meetings	• As appropriate	• Fair and transparent selection of vendors	• Professional approach in reviewing proposals from vendors

SUSTAINABILITY **REPORT**
(cont'd)

Governance

As a listed entity, we recognize that good corporate governance is imperative to the long-term sustainability and success of MQREIT. We therefore have in place a robust governance framework (Figure 6) overseen by our Board which manages the Economic, Environmental, Social and Governance (EESG) risks and opportunities that are relevant to MQREIT.

Figure 6: MQM's governance framework

The Board considers the economic, environment and property industry risk, reviews and approves all investment decisions.

The management regularly reviews operations of the Manager and MQREIT to ensure appropriate controls are in place to manage risks. Such risks and controls are further monitored by the Audit Committee ("AC") and Board.

The AC addresses and acts on comments by the auditors of MQREIT and reports to the Board.

To mitigate the potential loss of value of Unitholder's investments in MQREIT, all transactions are rigorously analysed prior to execution i.e. in understanding the risks involved and for relevant controls and measures to be implemented within the guidelines and parameters set by the Board.

Where significant risks are identified for a particular property investment, independent and specialised consultants are brought in to conduct comprehensive due diligence exercise.

It is a pre-requisite for all major investment proposals to include a detailed risk assessment, and where appropriate, sensitivity analysis and management's proposed risk mitigation or control strategies.

For more information, refer to our Corporate Governance Report which we have published on MQREIT's website (www.mrcbquillreit.com) and submitted to Bursa Securities' website, and our Corporate Government Overview Statement in pages 55 to 64 of our Annual Report.

Managing Sustainability

Headed by our CEO, the Sustainability Working Committee ("SWC") comprising key personnel from each department is responsible for driving sustainability efforts across our organisation. The SWC oversees and monitors the execution of MQREIT's sustainability strategies as well as monitors any EESG risks associated with the business operations and properties. The SWC in close interaction with the relevant stakeholders, will champion and determine the key priorities for the sustainability initiatives for the properties. The CEO is in charge of reporting to our Board every year, updating them on the key developments in the corporate sustainability scene. The Board will continue to re-assess the material matters in the subsequent periods to ensure that reported topics remain relevant and material to MQREIT and approves the yearly sustainability reports.

SUSTAINABILITY REPORT (cont'd)

Figure 7: Sustainability Governance Structure

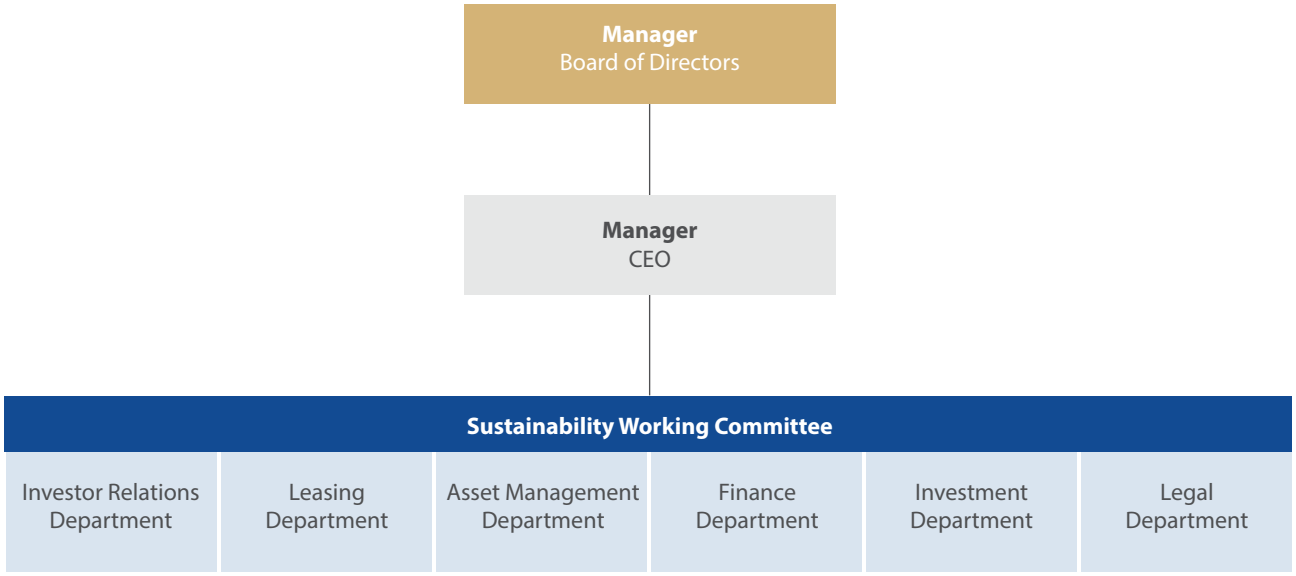


Figure 8: MQM's organisational values



As illustrated in Figure 8, the Manager further seeks to uphold strong organisation values and ensures that these values are cascaded to all new joiners during their orientation programme. The Manager regularly reminds its employees of these organisational values through e-mail reminders, displaying it on the TV screen at the common lobby areas and during town hall meetings.

SUSTAINABILITY **REPORT**
(cont'd)

Regulatory Compliance

As a management company to a publicly listed REIT, the Manager strictly adheres to all applicable laws and regulations mandated by the relevant authorities which in turn helps to boost investor confidence. We align MQREIT's and the Manager's business practices to be in compliance with the Securities Commission Malaysia ("SC") Licensing Handbook, Bursa Securities Main Market Listing Requirements and Guidelines on Listed Real Estate Investment Trust (issued by the SC) and the general tax compliance.

Further to that, the Manager strictly abides by the Malaysian Employment Act 1955, which prohibits exploitative labour practices, and the Children and Young Persons (Employment) Act 1966, which forbids the employment of children under the age of 14. The Manager is committed to anti-child labour, human rights and anti-slavery principles, regulations and laws and is in deliberation to include such compliance as a clause in all service agreements with our suppliers beginning of next year.

Besides external compliance, our Company Secretariat, Legal and Finance departments work in harmony to ensure that internal controls are present to monitor MQREIT's compliance performance. Additionally, to provide further guidance on the conduct of our business and duties, the Manager has established the Code of Business Conduct in January 2018. Finally, to ensure that our employees are kept updated on relevant rules and regulations, they are sent for regular trainings organized by Bursa Securities, SC, the Malaysian Institute of Accountants and reputable law firms.

There are no known incidents of non-compliances for the past two years. We will strive to keep this up for the years ahead.

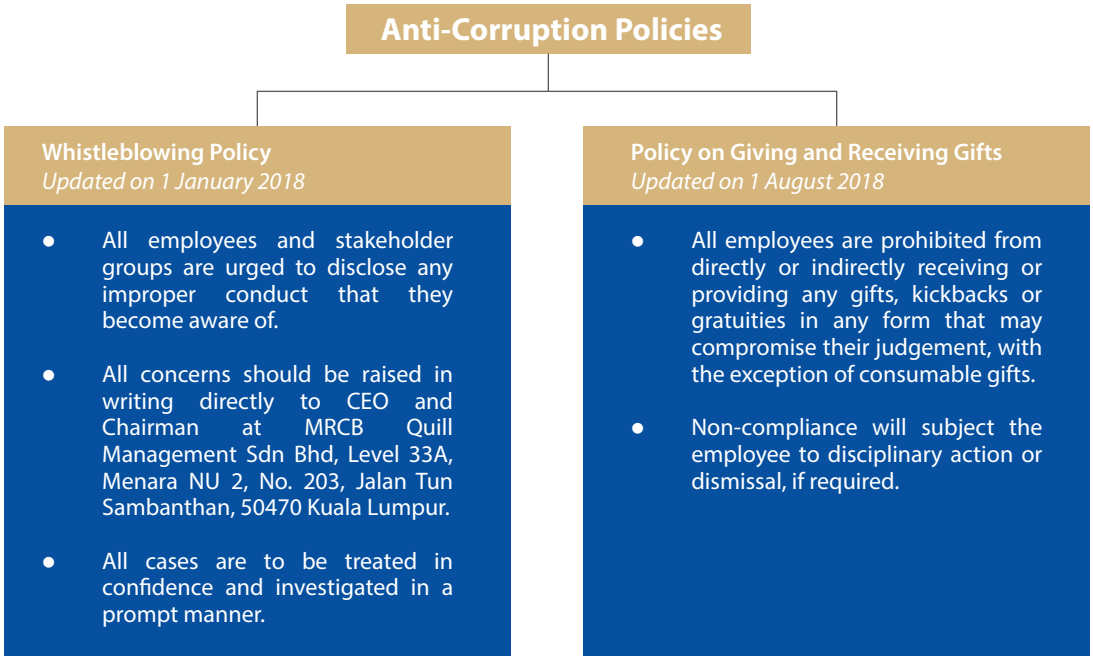
Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
Zero incidences of reported non-compliance with rules and regulations.	• Appointment of internal compliance officer to report to the Audit Committee and board on a quarterly basis on the compliance of rules and regulations. • Developed a compliance checklist. • External consultant engaged as an internal auditor.	Achieved
To incorporate anti-child labour, human rights and anti-slavery as a clause in all supplier service agreements.	• Several discussions were held to formalise this as a pre-requisite with existing suppliers/vendors. • This will be an on-going process whereby we will endevour to include this as a standard provision in all new service agreements with new suppliers/vendors.	In progress and on-going

Economic

Anti-Corruption

In protecting MQM's reputation as a respectable firm, it upholds strict business ethics and integrity in the running of MQREIT's operations. As the Manager, we take a serious view on corruption and will not hesitate to take appropriate action on any persons found to be involved in corrupt activities. Signed to the Corporate Integrity Pledge by the Malaysian Anti-Corruption Commissions in 2017, our employees have pledged to uphold the Anti-Corruption Principles for Corporations in Malaysia and are committed to creating a business environment free from corruption. Furthermore, our corporate policies such as our 'Whistleblowing Policy' and 'Policy on Receiving and Giving Gifts' are communicated via emails at least once a year to ensure that our employees are aware and not vulnerable to committing the prohibited acts as reflected in Figure 9.

Figure 9: Whistleblowing and Giving and Receiving policies



The aforementioned policies also apply to our service providers, suppliers, vendors, tenants and business customers, and they are communicated through an anti-corruption clause in all agreements that we execute. MQREIT is glad to share that the anti-corruption clause has been well received by our tenants and business customers and has maintained its clean record of having zero confirmed incidents of corruptions for both FY 2017 and FY 2018.

Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
To insert anti-corruption clause in the agreements to be entered by MQREIT with service providers and tenants.	• Inserted anti-corruption clause in tenancy agreements entered into between MQREIT and tenants beginning from year 2017. • Inserted anti-corruption clause in service agreements entered into with service providers beginning from year 2018.	Achieved
To obtain 100% of employees' signatories in acknowledging receipt of notice on the Giving and Receiving Gift Policy.	• Educated our employees through detailed information shared on the Policy of Giving and Receiving Gifts.	Achieved

SUSTAINABILITY **REPORT**
(cont'd)

Environmental

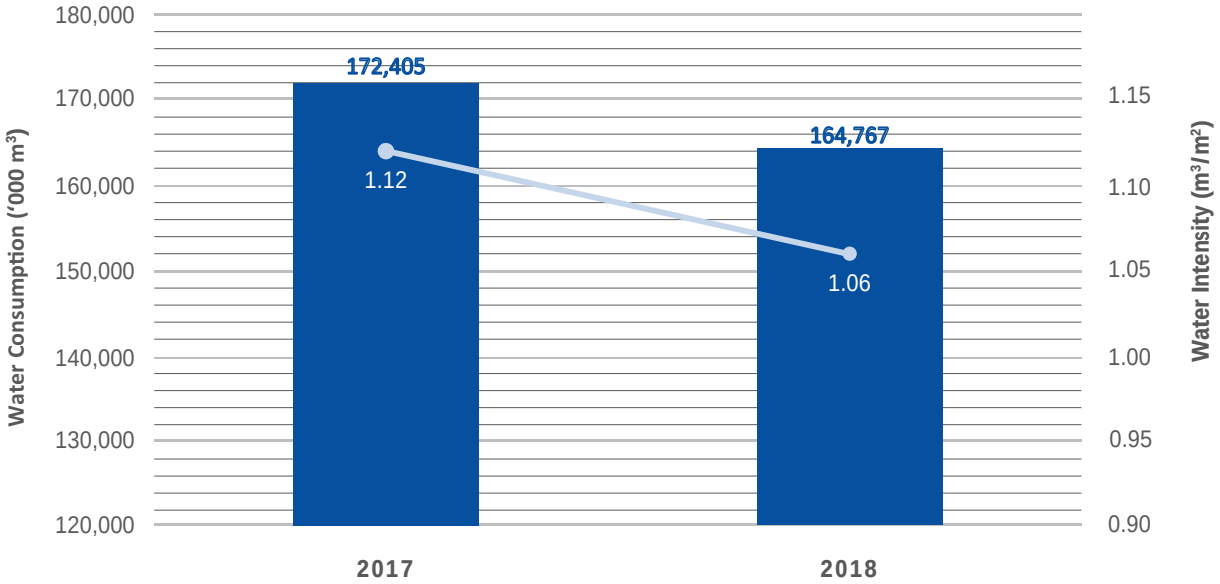
Water Management

Water is an extremely important natural resource and is used for essential building services such as air-conditioning, washroom facilities, cleaning, landscaping and for fire protection in all MQREIT properties. As demand for water is constantly on the rise, we as the Manager is cognisant of the importance of conserving the use of water, and takes multiple proactive measures and initiatives to curb water usage. One of the key measures is the monthly maintenance check to ensure that its air-conditioning system, being the largest contributor to overall water consumption levels, is operating at optimum levels at all properties. The Rainwater Harvesting System (RWHS) which collects and reuses rainwater for landscaping and flushing of toilets was fully installed in Platinum Sentral as part of its green building compliance. This year, the same system was proposed to be installed at Quill Building 4 and installation works has commenced in December 2018. This project is expected to be completed in 2019.

Property Managers of each building are responsible for the management of water in their respective buildings, recording and reporting the monthly water consumption in the Asset Control Group ("ACG") report. Any abnormal hikes in monthly consumption are promptly investigated and appropriate mitigation measures are taken in prevent reoccurrences.

Yearly Targets[1]	Actions Taken in FY 2018	Performance in FY 2018
2% annual water savings from FY 2017.	• Respective property managers were tasked to conduct regular checks in ensuring all equipments are in good conditions and to replace old pipes, install self-closing taps and repair any leaky pipes.	Achieved
Water management policy to be drafted by FY 2019.	• Asset management managers are tasked to contribute in drafting the Water Management Policy.	In progress

Figure 10: MQREIT's water consumption[2]



[1] Targets are on a perpetual basic unless otherwise stated.
[2] All water consumed is withdrawn from municipal water supply.

SUSTAINABILITY REPORT (cont'd)

We are once again pleased to report that we have exceeded our set target in reducing our aggregate water consumption this year as we remain steadfast in our commitment to use water in a more resourceful and efficient manner.

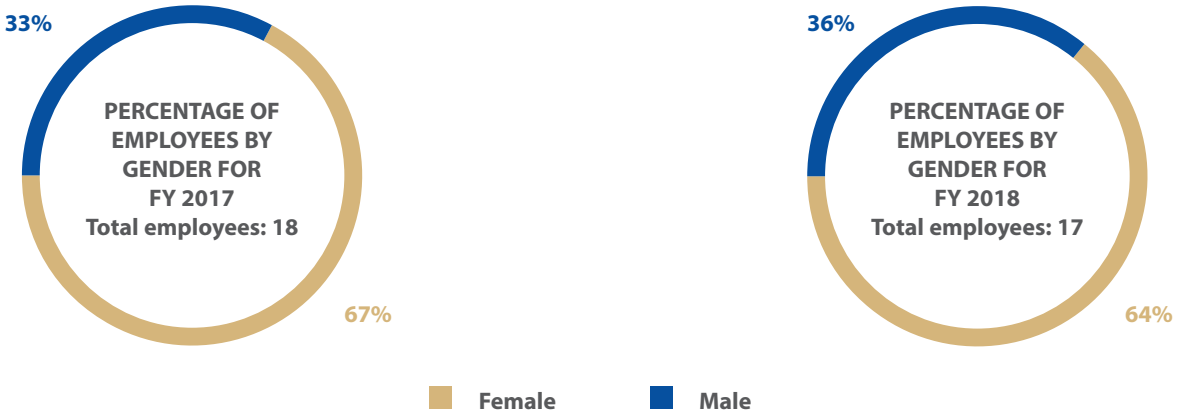
Currently, Wisma Technip, Platinum Sentral and Menara Shell have water filters installed. Moving forward, we plan to assess the suitability of installing water filters in MQREIT's other buildings to be even more effective in our water usage. For 2019, we plan to install water filter in Quill Building 3 – BMW.

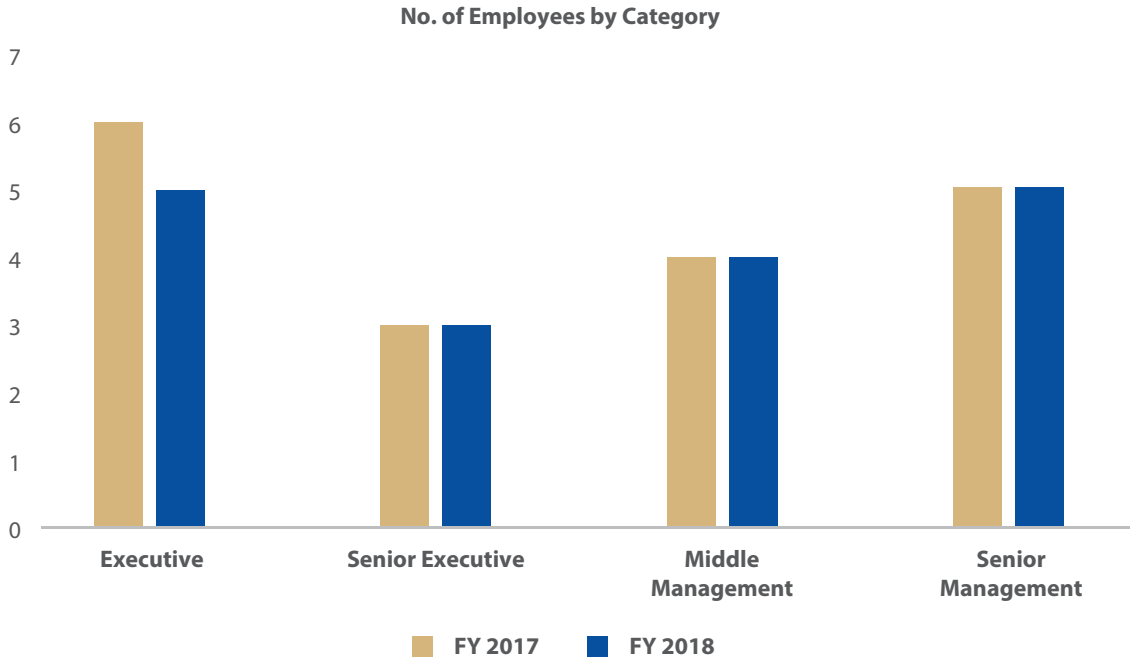
Social

Our People

We value our employees greatly as we believe that they are the key contributors in making MQREIT and MQM a success. It is their skills, professionalism and commitment that provide us with a competitive advantage over our peers. On our end, we are committed to providing each and every one of our employees with a fair and conducive workplace where they can thrive in. We constantly strive to be an employer of choice by promoting diversity, equality, mutual trust and teamwork at the workplace and this is conveyed clearly under General Policies and Code of Conduct of the employees' handbook. None of our employees are covered by collective bargaining agreements due to nature of our business.

Figure 11: MQM's employee profile





SUSTAINABILITY **REPORT**
(cont'd)

Figure 12: MQM's worker profile



Turnover Rate of Senior Management

As at 31 December 2018, there was a total of 17 employees (FY2017: 18 employees). During the year, we had 1 new hire, one female executive under 30 years old. Similarly, we had 2 turnovers, a male and female executive both under 30 years old. As at end of the year, we also hired a total of 36 workers[3] (FY2017: 34 workers).

We are pleased to report zero turnover rate of its senior management for consecutive two years. MQM continually ensures that compensation packages and staff benefits offered remains competitive and adequate in retaining and attracting employees.

Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
Zero turnover rate of its senior management.	• MRCB Group HR carried out a benchmarking of the market with respect to the medical and hospitalisation benefits offered by public listed companies in Malaysia and other government-linked organisations, as well as based on external HR consultant compensation reports in deriving the improved medical and hospitalisation benefits. The increase in maternity and paternity benefit was also provided as the Group wanted to align the Group's benefits with what other government-linked organisations are providing currently.	Achieved

[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 oversees 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**
(cont'd)

Talent Attraction and Retention

Our hiring practices are fair and just and we do not discriminate against any attributes and characteristics of individuals. In the unfortunate event a grievance arises, we have in place a grievance policy and detailed procedures for employees to seek redress with the aim to promptly resolve and maintain a harmonious employer-employee relationship.

Additionally, we place a great emphasis on the health and well-being of our employees. All employees are entitled to benefits such as the group term life insurance, disability and invalidity insurance coverage, parental leave, outpatient and inpatient medical benefits to full time employees and their dependents, retirement provision and stock options. In view of the increased cost of living, the Group has enhanced several employee benefits with effect from 1st April 2018. These measures will help our employees ease their financial burden, while providing family unity and togetherness through the support of working mothers. The revised employee benefits include an increase in annual insurance coverage to employees and their dependents, extension of maternity leave from 60 to 90 days, implementation of paternity leave up to 5 days for fathers, shorter work hours for pregnant female employees and other additional maternity benefits.

To foster healthy working relationships amongst colleagues, social activities are routinely organized by the Company. Some examples of such events include the Staff and Property Manager Buka Puasa Dinner, a one-off standup comedy event and bimonthly birthday luncheons. Other activities include corporate social responsibility initiatives and sports and fitness programmes organized by the Company to improve overall employee wellness.

Pictures: Employees participating in yoga and fitness programmes





SUSTAINABILITY **REPORT**
(cont'd)

Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
Zero validated cases of non-compliance with employment regulations or acts concerning employee rights.	• Informal staff meetings with the CEO to get updates on the company's performance and also form as a forum for staff to ask questions and seek clarification on any issues. • Practice open-door policy by the CEO wherein the staff are free to see the CEO on matters concerning work or employment matters.	Achieved
Zero unresolved grievance cases which require escalation to the CEO or Chairman.	• First point of contact for staff to report any grievance cases will be with the line managers or head of departments. Only in cases where a resolution cannot be achieved, will be escalated to the CEO/Chairman.	Achieved

Quotations on: Maternity Leave

"I am very grateful that our maternity benefits are now on par with what government-linked organisations are providing its employees. Longer maternity leave has allowed me to spend more time with my daughter. It also helped me to recover better and return back to work fully recharged. Aside from that, the increased of the cash allowance per delivery also provided us peace of mind during this crucial period of our lives that the financial burden of maternity care and hospitalisation have been alleviated".

- Christie Pun, Leasing Manager

"I am glad that the company has enhance the maternity benefits as it has alleviated the burden of the delivery cost. The increase in maternity leave from 60 days to 90 days has given me the opportunity to have a better mother-child bonding experience with my baby, which is vital for the healthy development of new born babies."

- Leong Foong Yin, Senior Finance Executive

Employee Capacity Building

We believe that a resilient and engaged workforce is a key driver of an organisation's success. Guided by our Group-wide Training and Development policies (Figure 13), we as the Manager is committed to provide adequate and relevant training and development programmes to all employees that will commensurate with their competency, level and work requirements. Furthermore, these training programmes are available to equip them with lifelong skills that can be applied beyond the parameters of work.

General Policy on Training and Development

Provide guidance on the administration of internal training and development programmes that are coordinated by the HR Department for MRCB and its subsidiaries. The policy is also applicable to training conducted by external trainers to enhance employee's skills.

Training and Development Policy Guidelines (Internal In-House Training Programme)

Policies on eligibility and procedures for nomination for in-house training.

Training and Development Policy Guidelines (Practical Industrial Training)

Policies on eligibility and procedures for application of practical training programmes.

To support our employees in upgrading their current skills sets, funds have been budgeted for external trainings engagements. In addition, we have tapped into MRCB's diverse training platforms so that MQM staff are able to participate in or enroll themselves into the available training programmes which can help them obtain the skill sets necessary to perform their duties at work. These training platforms include:

- **MRCB Training Academy**: Provides a year-round calendar of technical, functional, job-related and soft skills training programs open for all staff. New programs available will be made known to staff through email blasts.

- **MRCB Learning Zone**: Implemented since September 2016, this digital learning platform is accessible both online and offline which aims to promote continuous learning at each individual's pace and convenience whilst tailoring to their learning needs. It not only provides an extensive range of skill and personal development courses for free, but also readily available materials to provide guidance as needed.

- **Environmental, Health and Safety (EHS) Trainings**: Offers a list of EHS trainings for the year such as Chemical Hazard Risk Assessment, Effective Safety Committee where staff are given the opportunity to enroll for, as relevant and necessary, to meet requirements of their work.

  All employees are actively encouraged and periodically reminded to participate in the relevant training courses communicated via email by the training coordinators.



Figure 13: MRCB's training and development policies

SUSTAINABILITY **REPORT**
(cont'd)

CASE STUDY: Safety Training and First Aider Course

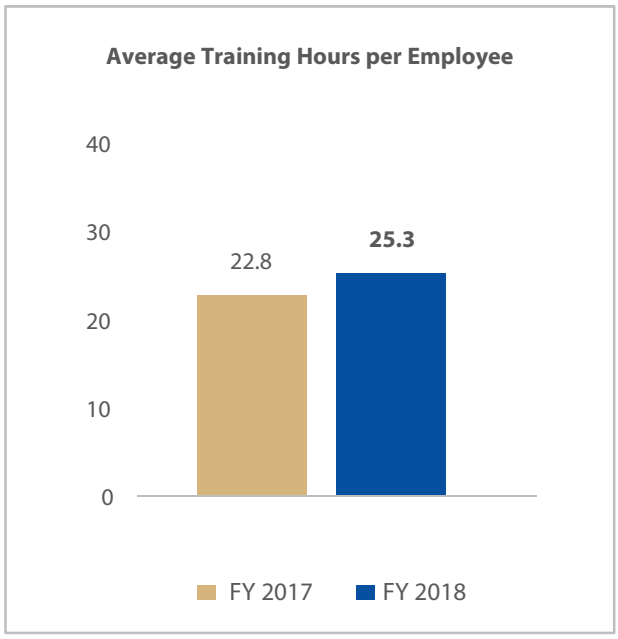
Our organisation greatly values the health, safety and well-being of its employees and believes in "Safety First" above everything else. By taking the leap towards inculcating a 'Safety First' mindset in our employees, the Manager recognizes the importance in equipping its employees with the necessary knowledge and immediate steps to take during an emergency or in the event of an accident. Hence, we as the Manager has introduced the roll-out of an annual Safety Training and First Aider Course that will be carried out by an external qualified training consultant. At the end of the course, the employee will be a certified first-aider which will be valid for the next two years.

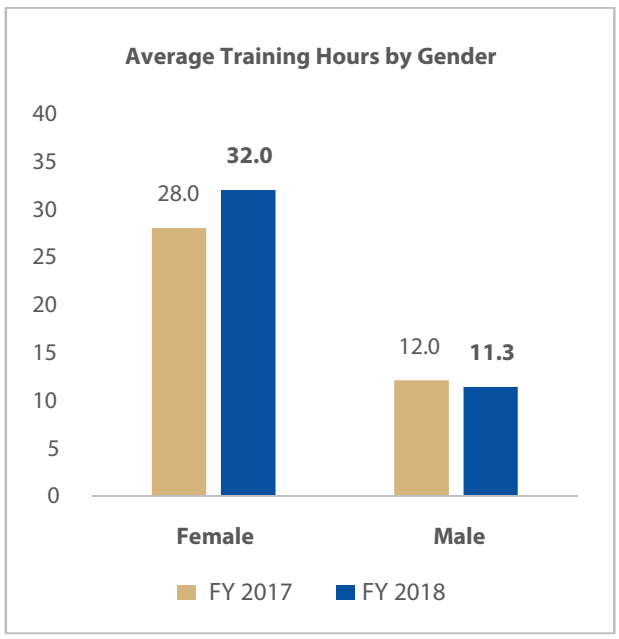
During the year, half of the staff force has attended this compulsory course, which is In line with the requirement set by the management for at least half the employees to attend this course on a yearly basis. The remaining half be scheduled to attend a similar course in the next year.

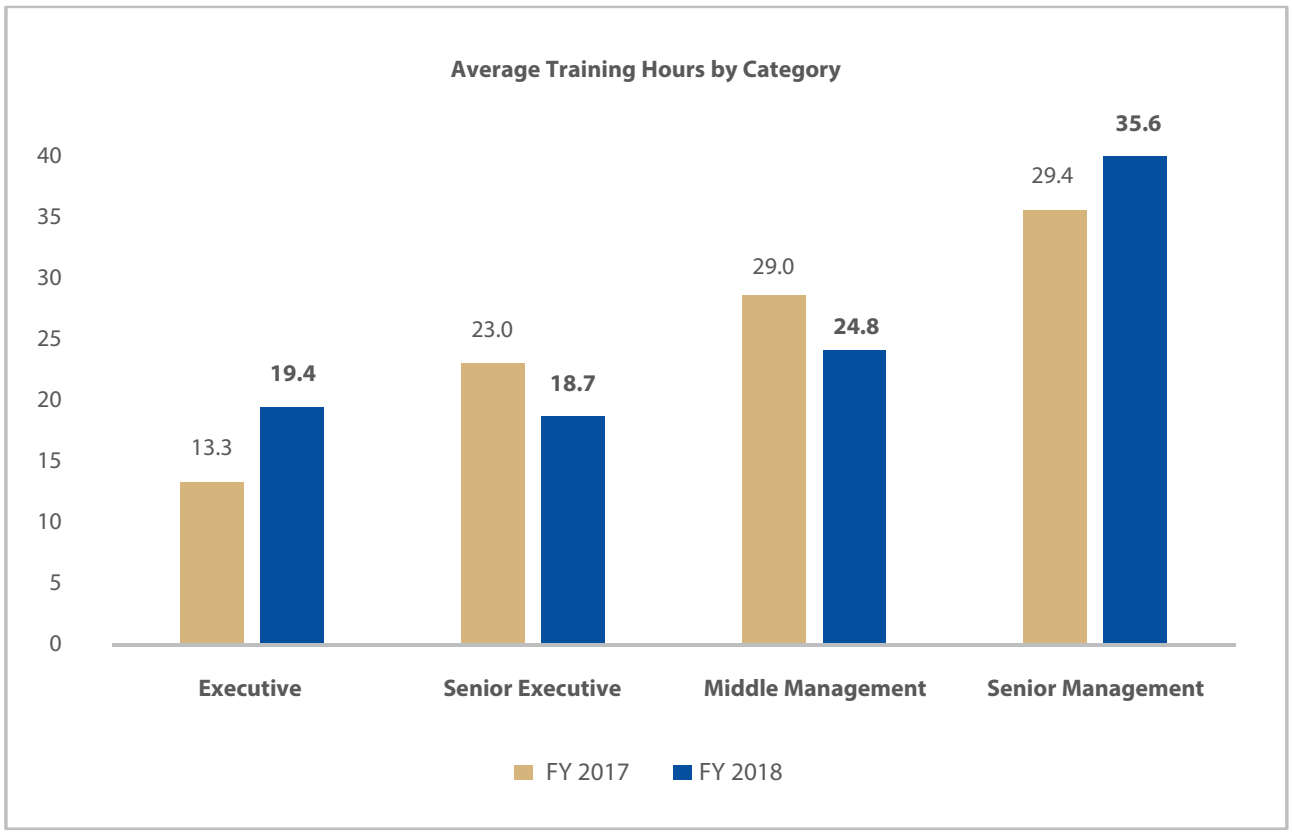
Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
To achieve a minimum of 20 CPE points for each Capital Markets & Services Representatives License Holders each year.	• In instilling in employees a sense of ownership over their training hours and CPE points, the Manager has requested for each employee to submit a self-declared training logbook on a half-yearly basis. This in turn, helps to highlight gaps and will be accordingly addressed. • To set the tone across the organisation on the importance of achieving an average of 20 hours of training per year, the management may take into consideration the total training hours as a parameter in assessing the performance of the staff.	Achieved
To achieve an average of 20 hours of training per year for each employee.		Achieved
Half the number of total staff force to attend Safety Training and First Aider Course each year.	• Invitation of an external qualified training consultant rather than having the training outside of the office to encourage full participation of employees.	Achieved

SUSTAINABILITY REPORT
(cont'd)

Figure 14: MQM's training hours







SUSTAINABILITY **REPORT**
(cont'd)

Our Communities

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

In developing a positive health and safety culture, we seek to create a collaborative effort by working hand-in-hand with tenants, visitors and communities to ensure that the buildings are properly maintained, and measures are in place to prevent any safety and health hazards.

Health and Safety Policy

All building management team, contractors, their employees, and our direct workforce are required to strictly adhere to the Provision of the Occupational Health and Safety Act, 1994 and all applicable regulations. They are also required to comply with periodic checks by Department of Occupational Safety and Health for office environment to ensure ongoing compliance.

As the Manager, we make a conscious effort to reduce potential hazards and minimize risks by reviewing work procedures and practices and further, place particular attention when reports are raised on hazards identified within the premises. In addition to this, we carry out regular inspections to ensure operational effectiveness and efficiency. Annual audits by external auditors are also carried out to maintain the integrity of equipment and buildings.

Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
To comply with Occupational Safety & Health Act (OSHA) 1994 and all relevant legislations.	• Delivered briefings, as required, to 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 optimal working condition.	Achieved
Engage only chargemen who are registered with Energy Commission and contractors who comply with safe work procedures.	• Internal review process in place to ensure that only qualified chargemen endorsed by the Energy Commission are engaged to manage electrical works for our portfolio's properties.	Achieved
Conduct annual fire drill and evacuation exercises for MQREIT properties in coordination with tenants.	• Annual fire and evacuation drill exercises were conducted for all properties except for Plaza Mont' Kiara[4] (under strata management) during the year. • Specifically for Menara Shell, the exercise was in collaboration with Fire & Rescue Department ("BOMBA"). • Held safety training and first-aider course for employees during the year.	Achieved
To attain a full compliance for smoke-free building at Menara Shell.	• Communicated to tenants and contractors that they are required to adhere to the smoke-free policy in the building, contractors are also warned that anyone caught smoking will have their work permit revoked. • Spontaneous spot checks conducted. • Signages have been installed throughout the premises as a reminder and designated smoking areas were created.	Achieved
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.	Achieved

[4] For Plaza Mont' Kiara (PMK), it is a stratified intergrated mixed development and MQREIT only owns the car park and retail lots within the development. The responsibility of conducting fire drills fall under the purview of the Management Corporation, pursuant to the Strata Management Act.

SUSTAINABILITY REPORT
(cont'd)

In FY 2018 and FY 2017, there have been no incidence of non-compliance with regulations concerning Health and Safety. To further strengthen our efforts in managing the safety of our stakeholders, we are in the process of developing an emergency response plan to be introduced in the year ahead.

CASE STUDY: Fire evacuation and drill at Menara Shell

Menara Shell is a 33-storey high office building erected on a 5 storey podium and 4 storey basement carpark.

On 18 July 2018, we held the annual fire drill and evacuation exercise in conjunction with BOMBA at Menara Shell for all tenants and occupants. With over 2000 occupants accounted for during the exercise, we are proud to say that the said exercise was carried in an orderly and prompt manner. Overall, it took a total of 50 minutes from the time the auxiliary police was informed of the arrival of the BOMBA team at the location to the point the building was announced safe to return to by the Incident Commander.

Two of our anchor tenants at Menara Shell, namely Shell and AmGeneral Insurance also hosted individual "Safety Week". The building management team was invited to participate and conduct one session of building safety procedures with them.







MQREIT has in place the following channels for external stakeholders to raise their concerns, including those involving health, hygiene and safety protection:

Channel	Description of Channel
Telephone	Stakeholders can call the Building Management Offices and request to speak to a stakeholder contact officer or obtain the property manager's telephone contact number.
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. There is also a 24-hour Auxiliary Police personnel on duty at the main lobby counter.

Every case will be acknowledged, investigated and followed up on before the case is closed. All cases will be duly addressed until a satisfactory resolution is reached upon. There were zero cases reported through these channels in FY 2018 and FY 2017.

SUSTAINABILITY **REPORT**
(cont'd)

Quality of Assets and Services

As the manager of MQREIT, we close attention is paid towards the quality of our assets and services as we believe that it translates to the satisfaction levels of our tenants. Guided by the policies put in place (Figure 15), tenants can be assured that we continually do our best to upkeep our properties in ensuring a comfortable and safe environment throughout their tenancy period.

Figure 15: The Manager's policies on assets, tenants and service providers.

Service Provider Pre-Qualification Policy* *Pre-qualification 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 re-evaluate 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

We have adopted the following approaches in monitoring and tracking the quality of our assets and services offered:

Standard Performance Appraisal

Performance of the service contractors are evaluated on an annual basis and are required to achieve the **minimum score rating of 60%.**

For service providers that achieved < 60%, **a three months grace will be given to improve** their performance before another appraisal is conducted. Termination will be considered should the service provides fail the second appraisal.

Additionally, a detailed action plan will be developed and periodically assessed for progressive improvement over the next few years.

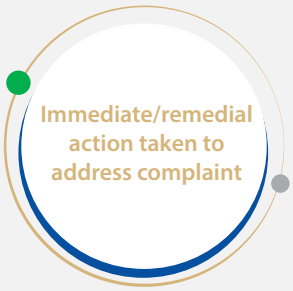
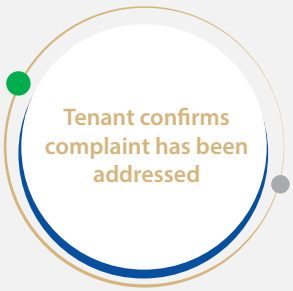
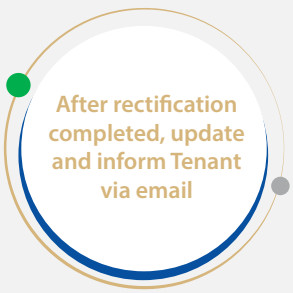
In FY2017, two service providers were terminated for failing the second appraisal. However, we are pleased to share that all our service providers achieved higher than the minimum score rating of 60% in the current year as a result of our ongoing efforts to maintain high standards of service. In the following year, we intend to review the performance in relation to improvements made according to the action plan developed.

Tenant Complaint Form System

To ensure our tenants enjoy the highest level of satisfaction, all tenant complaints are collated through a complaint form system and are targeted to be responded to within a 24 hour period. In addition, all complaints received are raised to the asset control group which then holds monthly discussions on operational issues and on recommendations proposed by respective property managers in improving tenant satisfaction levels.

Beginning this year, we have also embarked on the implementation of a Computerized Maintenance Monitor System ("CMMS") for tracking complaints, with Menara Shell being the first building to test out this system. Should CMMS be proven effective, MQREIT will consider rolling out this tracking system for its buildings with more than 10 tenants. In addition, further enhancement to the CMMS can be included such as the integrate automated acknowledgement on the receipt of complaints with unique numbers assigned for tracking purposes.

SUSTAINABILITY **REPORT**
(cont'd)

Current Process	Narration
	The tenant lodges a complaint to Property Management ("PM") normally via phone or email. The standard Tenant Complaint Form is raised to specify the name of complainant, date/time of complaint and details of complaint.
	The Technician immediately reviews the complaint and takes immediate/remedial action to address the complaint. The Technician will indicate in the Tenant Complaint Form the action that was taken and the date of action taken.
	PM reviews and signs on the Tenant Complaint Form to confirm that remedial action has been taken to address the complaint and rectification work has been performed.
	Subsequently, the tenant who lodged the complaint is required to acknowledge the Tenant Complaint Form and confirm that rectification work has been satisfactorily completed to address his/her complaint. The Form shall be filed and kept as reference and record.
	PM shall then inform the tenant via e-mail with the attached signed Tenant Complaint Form.
End	

SUSTAINABILITY **REPORT**
(cont'd)

Property Certifications

MQREIT currently holds a provisional BCA Green Mark Platinum Award for Platinum Sentral and LEED Platinum certification for Menara Shell.

Other Asset Enhancement Initiatives carried out in Year 2018

Item	Building	Asset Enhancement Initiatives Description
1	Platinum Sentral	Solar panels were installed since 2011 on the rooftops to reduce electricity usage and to earn additional income from the generation. During the year, replacement works of internal wiring and electronics were conducted to maintain efficient power generation.
2	Menara Shell	Ongoing upgrade of new toilet pipes.
3	Wisma Technip	Completed the upgrade of driveway and ongoing upgrade of toilets.

CASE STUDY: Wisma Technip - Illustration on the upgrade of driveway which was completed during the year

The upgrading work has enhanced the functionality of the driveway surrounding the building. Prior to the upgrade, the driveway required constant repairing which resulted in operations disruption. Homogeneous tiles were selected as it is more durable compared to previous materials used as it is expected to accommodate high traffic and extreme weather. In addition, the homogeneous tiles are also easy to maintain as it does not require heavy duty chemicals based cleaning products for the general cleaning.

In addition, water proofing works and drainage improvements were carried out prior to laying of the homogeneous tiles. This is expected to improve the durability of the driveways and the base structure of the building parameter.

Before Upgrade




After Upgrade






Yearly Targets	Actions Taken in FY 2018	Performance in FY 2018
To achieve a minimum of 60% score rating on average in the assessment for the Standard Performance Appraisal.	• Ongoing monitoring of contractors' service level acts as a thrust for our service contractors to meet, if not outdo their existing service efforts. • The building manager keeps regular communication with the service providers in order to facilitate consultation on issues that required improvement when service reports are being submitted.	Achieved
To acknowledge and respond to all complaints within a 24 hour period.	• Implemented the first CMMS in Menara Shell to aid the tracking of complaints in a timely manner.	Achieved

GRI Content Index

GRI Standard Disclosure Reference	Description	Section of Report
GRI 102: General Disclosures		
Organisational profile		
102-1	Name of the organisation	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 organisation	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 organisation 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

SUSTAINABILITY **REPORT**
(cont'd)

GRI Standard Disclosure Reference	Description	Section of Report
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
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 were made for this report
102-49	Changes in reporting	Introduction: About the Report Sustainability in MQREIT: Materiality Assessment
102-50	Reporting period	Introduction: About the Report
102-51	Date of most recent report	This is MQREIT's second 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

SUSTAINABILITY **REPORT**
(cont'd)

GRI Standard Disclosure Reference	Description	Section of 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
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

THE **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 2018.

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 26 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.

Investment objective and strategies

The investment objective of MQREIT is to acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders and to achieve long-term growth in the net asset value per unit of MQREIT.

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
(b) Active asset management strategy
(c) Capital management strategy

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.

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 *(resigned on 10 January 2019)*
Aminuddin Bin Mohd Arif

THE MANAGER'S REPORT
(cont'd)

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 30 to the financial statements and the related party transactions as disclosed in Note 34 to the financial statements.

Directors' interests

		Units as at 1 January 2018	Number of units acquired/ (disposed)	Units as at 31 December 2018
Direct interest:				
Dato' Dr. Low Moi Ing, J.P.		50,000	-	50,000
Dato' Michael Ong Leng Chun		55,000	-	55,000
Kwan Joon Hoe		-	80,000	80,000
Indirect interest:				
Dato' Dr. Low Moi Ing, J.P.	(a)	117,040,000	(57,639,000)	59,401,000
Dato' Michael Ong Leng Chun	(b)	117,040,000	(57,639,000)	59,401,000
Tan Sri Saw Choo Boon	(c)	-	185,000	185,000

(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.

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

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.

Soft commission

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.

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 2018.

THE **MANAGER'S REPORT**
(cont'd)

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 2018, 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 2018, there were non-audit fees of RM5,500 for the review of Statement of Risk Management and Internal Control services; tax agent fees of RM24,200 for the services rendered by Ernst & Young Tax Consultants Sdn. Bhd.; and professional fees of RM65,000 on the advisory services for sustainability reporting for FY 2018 by Ernst & Young LLP, Singapore.

Manager's responsibility for the annual audited accounts

The Manager is responsible for the preparation of the annual audited financial statements of MQREIT.

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.

THE MANAGER'S REPORT
(cont'd)

Other statutory information *(cont'd)*

(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) the results of MQREIT's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(iii) 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.

Significant events during the financial year

Significant events during the financial year are disclosed in Note 36 to the financial statements.

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



Ann Wan Tee
Director

Kuala Lumpur, Malaysia
22 February 2019

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 109 to 168 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and applicable provisions of the Trust Deed and Guidelines on Listed 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 2018 and its financial performance and cash flows 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
22 February 2019

STATUTORY **DECLARATION**

I, Yong Su-Lin, being the officer primarily responsible for the financial management of MQREIT, do solemnly and sincerely declare that the accompanying financial statements set out on pages 109 to 168 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 22 February 2019.

Yong Su-Lin

Before me,
Commissioner of Oath

PESURUHJAYA SUMPAH
No W533
Nama: YM TENGKU FARIDDUDIN
BIN TENGKU SULAIMAN
1 JAN 2019 - 31 DIS 2021
MALAYSIA

205, Bangunan Loke Yew
4, Jln Mahkamah Persekutuan
50050 Kuala Lumpur (W.P.)

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 2018. 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:

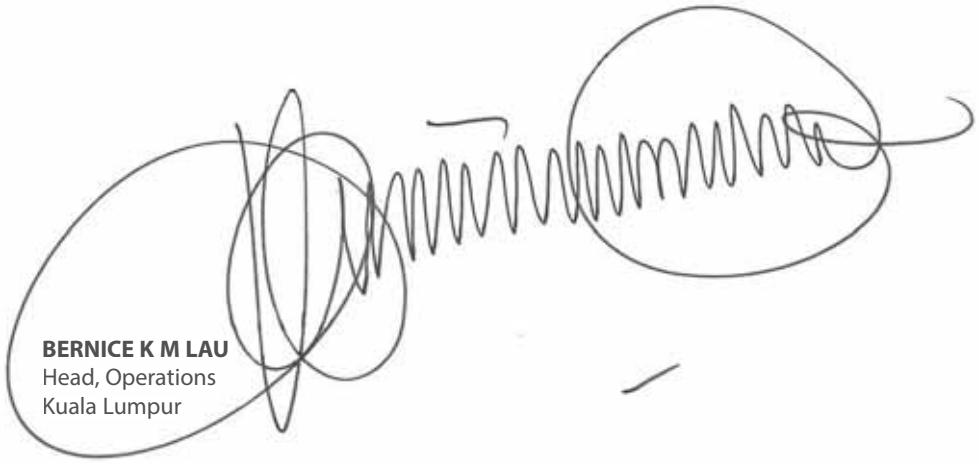
(a) the limitation imposed on the investment powers of the Manager and the Trustee under the Trust Deed, other applicable provisions of the Trust Deed, the Guidelines on Listed Real Estate Investment Trusts issued by Securities Commission Malaysia, the Capital Markets & Services Act 2007 and other applicable 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 19 September 2018 for the financial period from 1 January 2018 to 30 June 2018. Proposed final gross income distribution of 3.85 sen per unit for the financial period from 1 July 2018 to 31 December 2018 will be payable on 28 February 2019 to all unitholders as at the book closure date of 8 February 2019.

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 consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in net asset value and consolidated statement of cash flows 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 109 to 168.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of MQREIT as at 31 December 2018, 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 Listed 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 2018 of RM2,158,708,055 represents 95% 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 rates 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 similiar profile.

INDEPENDENT **AUDITORS' REPORT**
to the unitholders of MRCB-Quill REIT
(cont'd)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *(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 directors of the Manager of MQREIT are 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.

Our opinion on the financial statements of MQREIT does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of MQREIT, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of MQREIT or our knowldege obtained in the audit or otherwise appears to be materially misstated.

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 on this regard.

Responsibilities of Manager, Trustee and Those Charged with Governance for the Financial Statements

The directors 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 Listed 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.

INDEPENDENT **AUDITORS' REPORT**

to the unitholders of MRCB-Quill REIT
(cont'd)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *(cont'd)*

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- 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.

- 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



Tan Shium Jye
No. 2991/05/2020(J)
Chartered Accountant

Kuala Lumpur, Malaysia
22 February 2019

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the financial year ended 31 December 2018

	Note	2018 RM	2017 RM
Total income			
Revenue			
- Realised	5	173,376,079	180,113,542
- Unrealised (in relation to unbilled lease income receivable)	5	(849,536)	1,388,125
		172,526,543	181,501,667
Property operating expenses	6	(39,724,838)	(40,161,064)
Net property income		132,801,705	141,340,603
Finance income	7	4,327,333	3,590,093
Change in fair value of investment properties			
- As per valuation	15	(5,434,231)	(18,183,415)
- Unbilled lease income receivable	15	849,536	(1,388,125)
Gain on divestment of investment property		2,196,632	-
		134,740,975	125,359,156
Total expenditure			
Manager's fees	8	(13,253,725)	(13,458,072)
Trustee's fee	9	(685,921)	(688,676)
Finance costs	10	(40,590,429)	(40,512,779)
Valuation fees		(357,043)	(298,491)
Auditors' remuneration		(146,842)	(119,000)
Tax agent's fee		(49,827)	(22,882)
Administrative expenses		(394,751)	(349,084)
		(55,478,538)	(55,448,984)
Income before taxation		79,262,437	69,910,172
Income tax expense	11	(6,132,188)	-
Income net of taxation		73,130,249	69,910,172
Other comprehensive income			
Gain on remeasurement of financial derivatives		237,709	317,488
Other comprehensive income for the year, net of tax		237,709	317,488
Total comprehensive income for the financial year		73,367,958	70,227,660
Net income for the year is made up as follows:			
- Realised		84,653,758	88,006,515
- Unrealised		(11,523,509)	(18,096,343)
		73,130,249	69,910,172

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the financial year ended 31 December 2018
(cont'd)

	Note	2018 RM	2017 RM
Total realised income net of taxation		84,653,758	88,006,515
Distribution adjustments	A	2,400,000	3,975,295
Total Distributable Income		87,053,758	91,981,810
Earnings per unit			
After manager's fees (sen)	12(a)	6.83	6.55
Before manager's fees (sen)	12(b)	8.07	7.81
Earnings per unit (realised)			
After manager's fees (sen)	12(c)	7.91	8.24
Before manager's fees (sen)	12(d)	9.14	9.50
Income distribution			
Interim distribution of 4.23 sen paid on 18 September 2017 (RM) [1]	13	-	45,176,400
Final distribution of 4.16 sen payable on 28 February 2018 (RM) [2]	13	-	44,428,800
Interim distribution of 4.23 sen paid on 19 September 2018 (RM) [3]	13	45,336,421	-
Final distribution of 3.85 sen payable on 28 February 2019 (RM) [4]*	13	41,263,646	-
		86,600,067	89,605,200
Interim distribution per unit			
Gross (sen) [5]		4.23	4.23
Final distribution per unit			
Gross (sen) [5]		3.85	4.16
Total distribution per unit			
Gross (sen) [5]		8.08	8.39

1 *Based on 1,068,000,000 units entitled to distribution, for the financial period from 1 January 2017 to 30 June 2017;*

2 *Based on 1,068,000,000 units entitled to distribution, for the financial period from 1 July 2017 to 31 December 2017;*

3 *Based on 1,071,783,000 units entitled to distribution, for the financial period from 1 January 2018 to 30 June 2018;*

4 *Based on 1,071,783,000 units entitled to distribution, for the financial period from 1 July 2018 to 31 December 2018;*

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

* *Final income distribution for the financial year 2018 was declared on 17 January 2019 and will be payable on 28 February 2019. The declared final income distribution will be recognised in the immediate subsequent financial year.*

Note A:

	2018 RM	*2017 RM*
Distribution adjustments comprise:		
Manager's management fee payable in units	*-*	*3,975,295*
Amount previously not distributed	*2,400,000*	*-*
	2,400,000	*3,975,295*

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.

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

As at 31 December 2018

	Note	2018	2017
		RM	RM
Assets			
Non-current assets			
Plant and equipment	14	345,125	172,433
Investment properties	15	2,158,708,055	2,159,459,119
Investment properties - accrued rental income	18	18,891,945	19,740,881
Lease receivables	17	1,326,763	2,014,930
		2,179,271,888	2,181,387,363
Current assets			
Trade and other receivables	18	5,969,634	5,232,685
Lease receivables	17	688,167	730,820
Deposits, cash and bank balances	19	85,775,603	76,041,326
		92,433,404	82,004,831
Non-current asset held for sale	20	-	25,000,000
		92,433,404	107,004,831
Total assets		2,271,705,292	2,288,392,194
Liabilities			
Non-current liabilities			
Borrowings	22	853,704,352	736,584,405
Derivative liabilities	16	428,022	665,731
Security deposits	24	11,168,217	16,194,911
Other payables	21	1,825,879	221,866
Deferred tax liabilities	23	6,132,188	-
		873,258,658	753,666,913
Current liabilities			
Trade and other payables	21	16,114,325	20,304,048
Borrowings	22	-	116,868,449
Security deposits	24	10,042,778	12,828,214
		26,157,103	150,000,711
Total liabilities		899,415,761	903,667,624
Net assets value ("NAV")		1,372,289,531	1,384,724,570

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

As at 31 December 2018
(cont'd)

	Note	2018	2017
		RM	RM
Unitholders' funds			
Unitholders' funds attributable to unitholders of MQREIT			
Unitholders' capital	25	1,235,876,768	1,231,914,544
Undistributed and non-distributable income		136,412,763	152,810,026
Total unitholders' funds		1,372,289,531	1,384,724,570
Net asset value ("NAV")	28		
Before income distribution [1]		1,372,289,531	1,384,724,570
After income distribution [2]		1,331,025,885	1,340,295,770
NAV per unit	28		
Before income distribution [1]		1.2804	1.2966
After income distribution [2]		1.2419	1.2550
Number of units in circulation			
As at 31 December (units)	25	1,071,783,000	1,068,000,000

1 *Before the proposed final income distribution of 3.85 sen per unit and 4.16 sen per unit for the financial year 2018 and 2017 respectively.*

2 *After the proposed final income distribution of 3.85 sen per unit and 4.16 sen per unit for the financial year 2018 and 2017 respectively.*

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN NET ASSET VALUE**

For the financial year ended 31 December 2018

		← 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 2018	1,231,914,544	60,034,963	93,440,794	(665,731)	152,810,026	1,384,724,570
Issuance of new units	3,974,420	-	-	-	-	3,974,420
Expenses on issuance of new units (Note 25)	(12,196)	-	-	-	-	(12,196)
Total comprehensive income for the financial year	-	84,653,758	(11,523,509)	237,709	73,367,958	73,367,958
	1,235,876,768	144,688,721	81,917,285	(428,022)	226,177,984	1,462,054,752
Transactions with unitholders						
Distribution to unitholders	-	(89,765,221)	-	-	(89,765,221)	(89,765,221)
At 31 December 2018	1,235,876,768	54,923,500	81,917,285	(428,022)	136,412,763	1,372,289,531
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 25)	(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

* *The cash flow hedge reserve comprise the effective portion of the gain or loss on interest rate swap arrangements as disclosed in Note 35.*

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

For the financial year ended 31 December 2018

	Note	2018 RM	2017 RM
Cash flows from operating activities			
Income before taxation		79,262,437	69,910,172
Adjustments for:			
Finance costs	10	40,590,429	40,512,779
Depreciation of plant and equipment	14	76,758	69,456
Changes in fair value of investment properties	15	4,584,695	19,571,540
Unbilled lease income	5	849,536	(1,388,125)
Allowance for impairment of trade receivables	18	899,357	504,017
Reversal for impairment of trade receivables	18	(91,953)	(796,725)
Finance income		(4,327,333)	(3,590,093)
Gain on divestment of investment property		(2,196,632)	-
Operating cash flows before changes in working capital		119,647,294	124,793,021
Changes in working capital:			
(Increase)/Decrease in trade and other receivables		(980,243)	13,466,077
Decrease in trade and other payables		(12,933,093)	(10,108,943)
Net cash flows generated from operating activities		105,733,958	128,150,155
Cash flows from investing activities			
Additions to investment properties	15	(3,833,631)	(383,415)
Proceed from divestment of QB8		28,000,000	-
Purchase of plant and equipment	14	(249,450)	(16,203)
Changes in lease receivable	17	730,820	692,759
Changes in deposits in financial institution		(62,105,576)	(7,300,049)
Interest received		3,686,860	2,161,417
Net cash flows used in investing activities		(33,770,977)	(4,845,491)
Cash flows from financing activities			
Distribution to unitholders		(89,765,221)	(72,623,712)
Proceeds from borrowings	22	117,000,000	189,744,653
Repayment of borrowings	22	(117,000,000)	(190,000,000)
Proceeds from issuance/placements of new units	25	3,974,420	-
Expenses paid on issuance/placements of new units	25	(12,196)	(25,317)
Finance costs paid	22	(38,531,283)	(35,710,292)
Net cash flows used in financing activities		(124,334,280)	(108,614,668)
Net (decrease)/increase in cash and cash equivalents		(52,371,299)	14,689,996
Cash and cash equivalents at 1 January		64,507,902	49,817,906
Cash and cash equivalents at 31 December	19	12,136,603	64,507,902

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018

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 26 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 22 February 2019.

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 Listed 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 2018
(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 2018, MQREIT adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2018:

Description	Effective for annual periods beginning on or after
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
Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 1, MFRS 12 and MFRS 128)	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

The adoption of the above standards, amendments and interpretations did not have any material effect on the financial performance or position of MQREIT except as disclosed below.

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 principles under MFRS 15, the policies currently applied by MQREIT is consistent with the requirements of MFRS 15. Hence, other than enhanced disclosures required, there is no impact to MQREIT upon the adoption of MFRS 15.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.2 Changes in accounting policies *(cont'd)*

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 are mainly represented by accrued rental and lease receivables, which is scoped out of MFRS 9. Trade receivables represent only 0.07% of the total assets of MQREIT. Based on the management's assessment, there is no impact to MQREIT upon adoption of MFRS 9.

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 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
Amendments to MFRS 3 : Business Combination	1 January 2020
Amendments to MFRS 101 : Presentation of Financial Statements	1 January 2020
Amendments to MFRS 108 : Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
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

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.3 Standards issued but not yet effective *(cont'd)*

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:

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. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

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 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

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 adopting MFRS 16.

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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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.

3.6 Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

(i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and

(ii) When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.7 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 including the corresponding tax effect. 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. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in MFRS 15.

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 becomes an investment property, the property is accounted for in accordance with the accounting policy stated under plant and equipment as set out in Note 3.5 up to the date of change in use.

3.8 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.8 Impairment of non-financial assets *(cont'd)*

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.

3.9 Financial assets

Financial assets with the exception of trade receivables without significant financing component are measured initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Trade receivable without a significant financing component is initially measured at the transaction price. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and MQREIT's business model for managing them. MQREIT's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets are not reclassified subsequent to their initial recognition unless MQREIT change their business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(i) Financial assets at amortised cost

Financial assets are measured at amortised cost if they meet both of the following conditions and are not designated as at FVTPL:

- The financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are subsequently measured at amortised cost using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(ii) Financial assets at FVOCI

Debt instruments

Debt instruments are measured at FVOCI if they meet both of the following conditions and are not designated as at FVTPL:

- The financial assets are held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, debt instruments at FVOCI are measured at fair value.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.9 Financial assets *(cont'd)*

(ii) Financial assets at FVOCI *(cont'd)*

Debt instruments *(cont'd)*

Interest income, foreign exchange gains and losses and impairment losses or reversals are recognised in profit or loss. Other net fair value changes are recognised in other comprehensive income. Fair value changes accumulated in other comprehensive income are recycled to profit or loss when the asset is derecognised.

Equity instruments

Upon initial recognition of equity investments that are not held for trading, MQREIT may irrevocably elect to classify equity investments that are not held for trading as equity instruments designated at FVOCI and to present subsequent changes in the fair value in other comprehensive income. This election is made on an investment-by-investment basis. Subsequent to initial recognition, equity instruments at FVOCI are measured at fair value.

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment in which case, such gains are recorded in other comprehensive income. Other net gains and losses are recognised in other comprehensive income and are never recycled to profit or loss when the asset is derecognised. Equity investments designated at FVOCI are not subject to impairment assessment.

(iii) Financial assets at FVTPL

Financial assets are classified and measured at FVTPL if they are not classified and measured at amortised cost or FVOCI or are designated as such upon initial recognition. This includes all derivative financial assets. Subsequent to initial recognition, financial assets at FVTPL are measured at fair value.

Dividend income, interest income and any gains or losses arising from changes in fair value are recognised in profit or loss, except for changes in fair value on derivatives that qualify for hedge accounting.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- MQREIT retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- MQREIT has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 commit to purchase or sell the asset.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.10 Derivative financial instruments and hedge accounting

MQREIT uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- Cash flow hedges, when hedging the 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; or

- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, MQREIT formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how MQREIT will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instruments

- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that MQREIT actually hedges and the quantity of the hedging instrument that MQREIT actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

MQREIT uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

MQREIT designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.10 Derivative financial instruments and hedge accounting *(cont'd)*

Cash flow hedges *(cont'd)*

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

3.11 Impairment of financial assets

MQREIT recognise loss allowances for Expected Credit Loss ("ECL") on financial assets measured at amortised cost and debt investments measured at FVOCI.

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that MQREIT expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime expected credit losses).

For trade receivables and contract assets, MQREIT apply a simplified approach in calculating ECL. Therefore, MQREIT do not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. MQREIT have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, MQREIT apply the low credit risk simplification. At every reporting date, MQREIT evaluate whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

MQREIT consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, MQREIT may also consider a financial asset to be in default when internal or external information indicates that MQREIT are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by MQREIT. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.12 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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.13 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 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 include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by MQREIT that do 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.

(ii) Other financial liabilities

MQREIT's other financial liabilities include trade and other payables, loans and borrowings.

Trade and other payables, loans and borrowings are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

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 discharged or cancelled or expires.

Where 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.

3.14 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.

3.15 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.

3.16 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 regardless of when the payment is being made. Revenue and other income are measured at the fair value of consideration received or receivable.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.16 Revenue and other income *(cont'd)*

The specific recognition criteria described below must also be met before revenue is recognised.

(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.

3.17 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. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. 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.

3.18 Income taxes

(i) Current income tax

Current income 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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.18 Income taxes *(cont'd)*

(ii) Deferred tax *(cont'd)*

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.

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.

3.19 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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.19 Current versus non-current classification *(cont'd)*

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.

3.20 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.

3.21 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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.21 Fair value measurement *(cont'd)*

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.

3.22 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.

3.23 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 2018
(cont'd)

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 disclosed 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)	
	2018	2017
	RM	RM
Yield rate		
- 0.25%	69,148,007	82,661,875
+ 0.25%	(62,237,316)	(79,728,386)
Discount rate		
- 0.25%	15,976,117	17,243,112
+ 0.25%	(16,464,257)	(15,262,885)

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 2018
(cont'd)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

4.2 Key sources of estimation uncertainty *(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

	2018 RM	2017 RM
Rental income and service charges		
- Realised	155,817,922	162,128,220
- Unrealised (in relation to unbilled lease income receivable)	(849,536)	1,388,125
Car park income	13,169,151	12,780,577
Utilities recovery	4,320,696	5,128,487
Others	68,310	76,258
	172,526,543	181,501,667

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

	2018 RM	2017 RM
Quit rent and assessment	8,130,655	8,505,275
Depreciation	76,758	69,456
Insurance	908,376	1,002,142
Property management fee	3,110,531	2,896,684
Service contracts and maintenance	12,129,366	10,942,596
Utilities	15,369,152	16,744,911
	39,724,838	40,161,064

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 2018
(cont'd)

7. FINANCE INCOME

	2018 RM	2017 RM
Realised:		
Interest income on fixed deposit	3,139,252	2,108,627
Interest on deposit paid to authorities	20,733	22,117
Interest income on lease receivable	254,199	327,991
Late payment interest charged to tenants	54,608	16,246
	3,468,792	2,474,981
Unrealised:		
Amortisation of deferred lease income (Note 21 (c))	858,541	1,115,112
	4,327,333	3,590,093

8. MANAGER'S FEES

	2018 RM	2017 RM
Base fee	9,140,124	9,185,249
Performance fee	4,113,601	4,272,823
	13,253,725	13,458,072

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.

The Manager was entitled to a divestment fee of RM148,400 (inclusive of 6% GST) in respect of the disposal of QB8-DHL (XPJ) which was disposed on 12 April 2018. The divestment was charged to the profit or loss and netted off against the gain on divestment of investment property.

During the financial year ended 31 December 2018, the Manager was paid 3,783,000 units (2017: nil) in MQREIT or equivalent to RM3,974,420 (2017: nil), as part settlement of its Manager's management fee for the period from 1 January 2017 to 30 September 2017. The Manager disposed 926,000 units (2017: nil) in MQREIT as payment of dividend in specie to its 3 shareholders on 10 December 2018.

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 transactions conducted by MQREIT.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

9. TRUSTEE'S FEE

Trustee's fee accrued to the Trustee for the financial year ended 31 December 2018 amounted to RM685,921 (2017: RM688,676).

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.

10. FINANCE COSTS

	2018 RM	2017 RM
Realised:		
Accretion of interest expense	1,176,352	1,959,469
Amortisation of transaction costs incurred to obtain Commercial Papers ("CPs")/ Medium Term Notes ("MTNs")	499,440	488,487
Amortisation of transaction costs incurred to obtain Term Loan	310,113	395,188
Annual CPs/MTNs Programme expense	461,382	531,590
Loss on interest rate swap arrangements	530,635	1,101,630
Interest expense on CPs	18,896,986	17,648,827
Interest expense on MTNs	6,580,000	6,092,548
Interest expense on Term Loan	11,319,890	11,267,000
	39,774,798	39,484,739
Unrealised:		
Unwinding of discount on security deposits (Note 24)	815,631	1,028,040
	40,590,429	40,512,779

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 RM	2017 RM
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 23)	6,132,188	-
	6,132,188	-

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 2018 shall be exempted from tax.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

11. INCOME TAX EXPENSE *(cont'd)*

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 2018 and 2017 is as follows:

	2018 RM	2017 RM
Income before taxation	79,262,437	69,910,172
Tax at Malaysian statutory tax rate of 24% (2017: 24%)	19,022,985	16,778,441
Income not subject to taxation	(19,393,300)	(20,941,685)
Unrealised income not subject to tax	(10,298)	(20,897)
Exempt income not subject to tax	(1,280,612)	(506,070)
Expenses not deductible for tax purposes	1,661,225	4,690,211
Deferred tax on Real Property Gains Tax ("RPGT") on the fair value gain of investment properties	6,132,188	-
Income tax expense for the year	6,132,188	-

12. EARNINGS PER UNIT ("EPU")

(a) EPU after manager's fees is based on net income for the year of RM73,130,249 (2017: RM69,910,172) divided by the weighted average number of units in circulation during the year of 1,070,808,748 (2017: 1,068,000,000).

(b) EPU before manager's fees is based on net income for the year of RM86,383,974 (2017: RM83,368,244) after adding back manager's fees of RM13,253,725 (2017: RM13,458,072) divided by the weighted average number of units in circulation during the year of 1,070,808,748 (2017: 1,068,000,000).

(c) EPU after manager's fees (realised) is based on realised net income for the year of RM84,653,758 (2017: RM88,006,515) divided by the weighted average number of units in circulation during the year of 1,070,808,748 (2017: 1,068,000,000).

(d) EPU before manager's fees (realised) is based on realised net income for the year of RM97,907,483 (2017: RM101,464,587) after adding back manager's fees of RM13,253,725 (2017: RM13,458,072) divided by the weighted average number of units in circulation during the year of 1,070,808,748 (2017: 1,068,000,000).

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

13. DISTRIBUTION TO UNITHOLDERS

Distribution to the unitholders is from the following sources:

	2018 RM	2017 RM
Realised:		
Revenue (Note 5)	173,376,079	180,113,542
Finance income (Note 7)	3,468,792	2,474,981
Gain on divestment of investment property	2,196,632	-
	179,041,503	182,588,523
Less: Total expenses	(94,387,745)	(94,582,008)
Total realised income	84,653,758	88,006,515
Add: Distribution adjustments		
Manager's management fee payable in units	-	3,975,295
Amount previously not distributed	2,400,000	-
Distributable income	87,053,758	91,981,810
Distribution to unitholders	86,600,067	89,605,200
Distribution per unit (sen) of which:		
- taxable distribution of income (sen)	7.59	8.19
- tax exempt distribution of income (sen)	0.49	0.20
Gross distribution per unit (sen) *	8.08	8.39

* 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	
	2018	2017
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%

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

14. PLANT AND EQUIPMENT

	Plant and machinery	Office equipment	Furniture and fittings	Total
	RM	RM	RM	RM
At 31 December 2018				
Cost				
At 1 January 2018	6,000	332,925	19,400	358,325
Additions	-	249,450	-	249,450
At 31 December 2018	6,000	582,375	19,400	607,775
Accumulated depreciation				
At 1 January 2018	5,998	160,495	19,399	185,892
Depreciation charge for the financial year	-	76,758	-	76,758
At 31 December 2018	5,998	237,253	19,399	262,650
Net carrying amount	2	345,122	1	345,125
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

15. INVESTMENT PROPERTIES

	2018	2017
	RM	RM
At 1 January	2,159,459,119	2,203,647,244
Additions from assets enhancement	3,833,631	383,415
Fair value adjustments	(4,584,695)	(19,571,540)
Transfer to non-current asset held for sale (Note 20)	-	(25,000,000)
At 31 December	2,158,708,055	2,159,459,119

15. INVESTMENT PROPERTIES *(cont'd)*

The breakdown of investment properties is as follows:

Description of properties	Date of acquisition	Tenure of Land	Cost of investment	Carrying value as at 31 December 2018	Fair value as at 31 December 2018	Fair value % of NAV	Carrying value as at 31 December 2017	Fair value as at 31 December 2017
			RM'000	RM'000	RM'000		RM'000	RM'000
Commercial buildings								
Quill Building 1								
- DHL 1	20-Nov-06							
Quill Building 4		Freehold	109,100	132,678	133,000	9.69	129,632	130,000
- DHL 2	20-Nov-06							
Quill Building 2								
- HSBC	20-Nov-06	Freehold	107,500	121,797	122,000	8.89	121,646	122,000
Quill Building 3								
- BMW	20-Nov-06	Freehold	59,400	80,003	79,000	5.76	79,669	79,000
Wisma Technip	03-Sep-07	Freehold	125,000	170,223	172,400	12.56	171,164	173,800
Part of Plaza Mont' Kiara	03-Sep-07	Freehold	90,000	118,198	118,200	8.61	117,391	117,400
Quill Building 5								
- IBM	14-Mar-08	Freehold	43,000	39,000	39,000	2.84	44,000	44,000
Tesco Building, Penang	07-Nov-08	Freehold	132,000	130,387	140,000	10.20	131,007	140,000
Platinum Sentral	30-Mar-15	Freehold	740,000	716,475	724,000	52.76	716,950	725,000
Menara Shell	22-Dec-16	Freehold	640,000	649,947	650,000	47.37	648,000	648,000
Industrial building								
Quill Building 8								
- DHL XPJ	25-Mar-08	Freehold	28,800	-	-	-	25,000	25,000
Subtotal			2,074,800	2,158,708	2,177,600	-	2,184,459	2,204,200
Industrial building								
Quill Building 8								
- DHL XPJ	25-Mar-08	Freehold	(28,800)	-	-	-	(25,000)	(25,000)
			2,046,000	2,158,708	2,177,600	-	2,159,459	2,179,200

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

15. INVESTMENT PROPERTIES *(cont'd)*

The carrying value of the investment properties for the financial years ended 31 December 2018 and 2017 is based on the market value determined based on valuations, adjusted with accrued rental income as required by MFRS 140, as follows:

	2018 RM	2017 RM
Investment properties - fair value	2,177,600,000	2,179,200,000
Investment properties - accrued rental income (Note 18)	(18,891,945)	(19,740,881)
Investment properties	2,158,708,055	2,159,459,119

On 14 August 2008, the respective pieces of 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 3 external valuers, namely Nawawi Tie Leung Property Consultants Sdn. Bhd., C H Williams Talhar & Wong Sdn. Bhd. and Knight Frank Malaysia Sdn. Bhd.; independent firms of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.

On 12 April 2018, MQREIT disposed QB8-DHL XPJ with the carrying amount of RM25 million, for the sales consideration of RM28.0 million, in accordance with the terms and conditions of the Sales and Purchase Agreement ("SPA") executed on 8 January 2018.

Investment properties with net carrying amount totalling RM2,098,600,000 (2017: RM2,125,200,000) are pledged as securities for borrowings as disclosed in Note 22.

The investment properties are carried at Level 3 of the fair value measurement hierarchy as defined in Note 3.21. There have been no transfers between Level 1, Level 2 and Level 3 during the financial years ended 31 December 2018 and 31 December 2017.

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
		2018	2017	
Investment method (refer below)	**Office:**			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	4.2 - 9.0	2.5 - 10.0	- expected market rental growth were higher/(lower)
	- Reversion	4.5 - 9.0	2.5 - 11.0	- expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	0.6 - 1.8	0.3 - 1.9	- expected inflation rate were lower/(higher)
	- Reversion	0.8 - 2.0	0.3 - 2.0	- expected inflation rate were lower/(higher)
	Void rate (%)	5.0 - 15.0	5.0 - 10.0	- void rate were lower/(higher)
	Term yield (%)	5.5 - 6.5	5.5 - 6.5	- term yield rate were lower/(higher)
	Reversionary yield (%)	6.0 - 6.8	6.0 - 6.8	- reversionary yield were lower/(higher)
	Discount rate (%)	6.3 - 6.8	5.5 - 6.8	- discount rate is lower/(higher)

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15. INVESTMENT PROPERTIES *(cont'd)*

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2018	2017	
Investment method (refer below)	**Retail:**			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	1.5 - 18.9	1.5 - 16.5	- expected market rental growth were higher/(lower)
	- Reversion	1.5 - 18.9	1.5 - 16.5	- expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	0.3 - 1.8	0.3 - 2.1	- expected inflation rate were lower/(higher)
	- Reversion	0.3 - 2.0	0.3 - 2.0	- expected inflation rate were lower/(higher)
	Void rate (%)	5.0	5.0 - 10.0	- void rate were lower/(higher)
	Term yield (%)	5.5 - 6.5	5.5 - 6.5	- term yield rate were lower/(higher)
	Reversionary yield (%)	6.0 - 6.8	6.0 - 7.0	- reversionary yield were lower/(higher)
	Discount rate (%)	6.3 - 6.8	5.5 - 6.8	- 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	Fair value of derivatives liabilities	
		2018	2017
	RM	RM	RM
Non-current			
Interest rate swap (Note 35 (i))	139.5 million	211,635	344,436
Interest rate swap (Note 35 (ii))	139.5 million	216,387	321,295
		428,022	665,731

MQREIT entered into interest rate swap transactions to manage the risks associated with interest rate movement as disclosed in Note 35.

17. LEASE RECEIVABLES

	2018	2017
	RM	RM
Non-current		
Lease receivables	1,326,763	2,014,930
Current		
Lease receivables	688,167	730,820

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17. LEASE RECEIVABLES *(cont'd)*

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	2018	2017
		RM	RM
Non-current			
Accrued rental income		18,891,945	19,740,881
Current			
Trade receivables			
Trade receivables		2,476,483	1,331,251
Less: Allowance for impairment		(862,335)	(54,931)
Trade receivables, net	(a)	1,614,148	1,276,320
Other receivables			
Deposits		2,886,115	2,879,133
Prepayments		507,081	666,361
Sundry receivables	(b)	962,290	410,871
		4,355,486	3,956,365
		5,969,634	5,232,685
Total trade and other receivables		5,969,634	5,232,685
Less: Prepayments		(507,081)	(666,361)
Add: Deposits, cash and bank balances (Note 19)		85,775,603	76,041,326
Total loans and receivables		91,238,156	80,607,650

(a) Trade receivables

Trade receivables are non interest-bearing and are generally on 7 to 30 days term (2017: 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 single tenancy of the majority of MQREIT's properties. However, the risk is mitigated by the tenants which are engaged in diversified businesses and are of good quality and strong credit standing.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
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18. TRADE AND OTHER RECEIVABLES *(cont'd)*

(a) Trade receivables *(cont'd)*

Ageing analysis of trade receivables

The ageing analysis of MQREIT's trade receivables is as follows:

	2018 RM	2017 RM
Neither past due nor impaired	1,010,842	1,122,126
1 - 30 days past due not impaired	-	73,847
31 - 60 days past due not impaired	264,124	40,341
61 - 90 days past due not impaired	152,009	-
More than 90 days past due not impaired	187,173	40,006
	603,306	154,194
	1,614,148	1,276,320
Impaired	862,335	54,931
	2,476,483	1,331,251

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 has trade receivables amounted to RM603,306 (2017: RM154,194) 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:

	2018 RM	2017 RM
Trade receivables - nominal amounts (after offsetting security deposits)	862,335	54,931
Less: Allowance for impairment	(862,335)	(54,931)
	-	-

NOTES TO THE **FINANCIAL STATEMENTS**
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(cont'd)

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:

	2018 RM	2017 RM
At 1 January	54,931	347,639
Charge for the financial year	899,357	504,017
Reversal for the financial year	(91,953)	(796,725)
At 31 December	862,335	54,931

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

	2018 RM	2017 RM
Deposits with licensed financial institutions	80,486,003	72,403,166
Cash on hand and at banks	5,289,600	3,638,160
Total deposits, cash and bank balances	85,775,603	76,041,326
Less:		
Deposits with licensed financial institution with maturity of more than 3 months	(68,490,041)	(6,448,766)
Debt service reserves accounts pledged	(5,148,959)	(5,084,658)
Cash and cash equivalents	12,136,603	64,507,902

Included in deposits with licensed financial institutions is an amount of RM5,148,959 (2017: RM5,084,658) 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 RM4,444,246 (2017: RM3,165,235) maintained in the revenue and operations accounts which are assigned for the borrowings as disclosed in Note 22.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

19. DEPOSITS, CASH AND BANK BALANCES *(cont'd)*

The weighted average effective interest rate of deposits at the reporting date is as follows:

	2018	2017
	%	%
Deposits with licensed financial institutions (per annum)	3.82	3.51

Deposits with licensed financial institutions have an average maturity ranging from 31 to 184 days (2017: 23 to 184 days).

20. NON-CURRENT ASSET HELD FOR SALE

	2018
	RM
Investment properties	
At 1 January	25,000,000
Disposed on 12 April 2018	(25,000,000)
At 31 December	-

On 8 January 2018, MQREIT entered into SPA 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.

On 12 April 2018, the Proposed Disposal was completed in accordance with the terms and conditions of the above SPA.

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21. TRADE AND OTHER PAYABLES

	Note	2018	2017
		RM	RM
Non-current			
Other payables			
Deferred lease income	(c)	1,825,879	221,866
Current			
Trade payables			
Trade payables	(a)	765,757	799,390
Trade accruals		5,929,981	4,656,924
		6,695,738	5,456,314
Other payables			
Amount due to the Manager	(b)	2,847,805	7,594,920
Other payables	(a)	521,916	691,058
Accruals		5,204,715	5,891,553
Deferred lease income	(c)	844,151	670,203
		9,418,587	14,847,734
		16,114,325	20,304,048
Total trade and other payables		17,940,204	20,525,914
Add: Borrowings (Note 22)		853,704,352	853,452,854
Add: Security deposits (Note 24)		21,210,995	29,023,125
Total financial liabilities carried at amortised cost		892,855,551	903,001,893

(a) Trade and other payables

Trade and other payables are normally settled between 30 to 90 days (2017: 30 to 90 days).

(b) Amount due to the Manager

Amount due to the Manager is unsecured, non-interest bearing and repayable on demand.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

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 10 years (2017: 1 to 11 years).

The movement of deferred lease income (current and non-current) is as follows:

	2018 RM	2017 RM
At 1 January	892,069	4,108,077
Additions/(refunds) during the financial year	2,636,502	(2,100,896)
Recognised in profit or loss (Note 7)	(858,541)	(1,115,112)
At 31 December	2,670,030	892,069
Representing:		
Current	844,151	670,203
Non-current	1,825,879	221,866
	2,670,030	892,069

22. BORROWINGS

	Note	2018 RM	2017 RM
Non-current			
Secured:			
Fixed Rate Term Loan Facility of up to RM150 million	(a)	116,842,726	-
Senior CPs/MTNs Programme of up to RM290 million	(b)	275,947,231	275,799,490
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	(b)	109,833,591	109,690,760
CPs/MTNs Programme of up to RM3 billion	(c)	351,080,804	351,094,155
		853,704,352	736,584,405
Current			
Secured:			
Fixed Rate Term Loan Facility of up to RM150 million	(a)	-	116,868,449
		-	116,868,449
Total		853,704,352	853,452,854

NOTES TO THE **FINANCIAL STATEMENTS**
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(cont'd)

22. BORROWINGS *(cont'd)*

The maturities of MQREIT's borrowings as at 31 December 2018 are as follows:

	2018 RM	2017 RM
Less than 1 year	-	116,868,449
More than 1 year and less than 5 years	853,704,352	736,584,405
	853,704,352	853,452,854

Other information on financial risks of borrowings are disclosed in Note 39(a) and Note 39(c).

(a) 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:

	2018 RM	2017 RM
Term loan drawdown	117,000,000	117,000,000
Transaction costs carried forward	(131,551)	(328,600)
Transaction costs incurred during the year	(168,500)	-
	116,699,949	116,671,400
Amortisation of transaction costs during the year	142,777	197,049
	116,842,726	116,868,449

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").

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 interest rate of Reference Malaysian Government Securities ("MGS") + 1.4% per annum.

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

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

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 (the "Assigned Property");

(iii) First party debenture over all present and future assets of Trusmadi;

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22. BORROWINGS *(cont'd)*

(a) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan") *cont'd*

The RM150 million Term Loan is secured, inter-alia by the following: *cont'd*

(iv) An undertaking from the Manager:

(a) to deposit all income/insurance proceeds generated from the Charged and Assigned Property (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.

(b) Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan")

	2018 RM	2017 RM
Senior CPs/MTNs Programme		
Face value of CP issued/rollover	279,000,000	279,000,000
Discount	(2,844,959)	(2,671,062)
Cash proceeds	276,155,041	276,328,938
Accretion of interest expense	125,053	88,057
	276,280,094	276,416,995
Transaction costs carried forward	(617,506)	(901,857)
Amortisation of transaction costs during the year	284,643	284,352
	275,947,231	275,799,490

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22. BORROWINGS *(cont'd)*

(b) Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan") *(cont'd)*

	2018 RM	2017 RM
Fixed Rate Subordinated Term Loan		
Term Loan drawdown	110,000,000	110,000,000
Transaction costs carried forward	(309,240)	(451,925)
	109,690,760	109,548,075
Amortisation of transaction costs during the year	142,831	142,685
	109,833,591	109,690,760
Total	385,780,822	385,490,250

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 CP was issued at an interest rate of 4.13% per annum. On 30 September 2015, a Fixed Rate Subordinated Term Loan of RM110 million was established at the interest rate of 4.9% per annum.

The CP/Term Loan outstanding as at 31 December 2018 are subject to interest at the following interest rates per annum as at the reporting date:

	2018 %	2017 %
RM279 million nominal value CP	4.09	3.84
RM110 million nominal value Term Loan	5.35	5.35

The interest rates for the CP are subject to interest rate swap arrangements as disclosed in Note 35.

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

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

22. BORROWINGS *(cont'd)*

(b) Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan") *(cont'd)*

The programmes are secured, inter-alia by the following: *(cont'd)*

(iii) An irrevocable and unconditional undertaking from the Manager: *(cont'd)*

(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)*

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

	2018 RM	2017 RM
RM144 million in nominal value of CP and RM20 million in nominal value of MTN ("Issue 1")		
Face value of CP/MTN issued	164,000,000	164,000,000
Discount	(3,159,320)	(2,986,994)
Cash proceeds	160,840,680	161,013,006
Accretion of interest expense	190,948	164,121
	161,031,628	161,177,127
Transaction costs carried forward	(366,828)	(460,355)
Amortisation of transaction costs during the year	93,580	93,527
	160,758,380	160,810,299
RM61 million in nominal value of CPs and RM130 million in nominal value of MTN ("Issue 2")		
Face value of CPs/MTN issued	191,000,000	191,000,000
Discount	(1,330,970)	(1,255,347)
Cash proceeds	189,669,030	189,744,653
Accretion of interest expense	860,351	811,467
	190,529,381	190,556,120
Transaction costs carried forward	(272,264)	(326,670)
Amortisation of transaction costs during the year	65,307	54,406
	190,322,424	190,283,856
Total	351,080,804	351,094,155

On 30 November 2016, MQREIT through its SPE, Kinabalu Capital Sdn. Bhd. ("Kinabalu") established a RM3.0 billion nominal value 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)*

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

The CP/MTN outstanding as at 31 December 2018 are subject to interest at the following interest rates per annum as at the reporting date:

	2018	2017
	%	%
RM144 million nominal value CP	4.40	4.16
RM20 million nominal value MTN	4.30	4.30

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

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 cash flows, 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; operations 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)*

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

On 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.

The CPs/MTNs outstanding as at 31 December 2018 are subject to interest at the following interest rates per annum as at the reporting date:

	2018	2017
	%	%
RM61 million nominal value CPs	4.40	4.15
RM130 million nominal value MTN	4.40	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; operations accounts; 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;

(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.

22. BORROWINGS *(cont'd)*

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Fixed Rate Term Loan Facility of up to RM150 million	Senior CPs/MTNs Programme of up to RM290 million	Fixed Rate Subordinated Term Loan Facility of up to RM250 million	CPs/MTNs Programme of up to RM3 billion	CPs/MTNs Programme of up to RM270 million	Total
	RM	RM	RM	RM	RM	RM
Balance at 1 January 2018	116,868,449	275,799,490	109,690,760	351,094,155	-	853,452,854
Changes from financing cash flows						
Proceeds from borrowings	117,000,000	-	-	-	-	117,000,000
Repayment of borrowings	(117,000,000)	-	-	-	-	(117,000,000)
Finance costs paid	(5,627,895)	(11,522,668)	(5,773,769)	(15,606,951)	-	(38,531,283)
Total changes from financing cash flows	111,240,554	264,276,822	103,916,991	335,487,204	-	814,921,571
Other changes liability-related						
Interest expense on CPs/MTNs/Term Loan	5,434,890	11,242,936	5,885,000	15,410,402	-	37,973,228
Amortisation of transaction costs incurred to obtain CPs/MTNs/Term Loan	167,282	427,473	31,600	183,198	-	809,553
Total other changes liability-related	5,602,172	11,670,409	5,916,600	15,593,600	-	38,782,781
Balance at 31 December 2018	116,842,726	275,947,231	109,833,591	351,080,804	-	853,704,352

22. BORROWINGS *(cont'd)*

Reconciliation of movement of liabilities to cash flows arising from financing activities *(cont'd)*

	Fixed Rate Term Loan Facility of up to RM150 million	Senior CPs/MTNs Programme of up to RM290 million	Fixed Rate Subordinated Term Loan Facility of up to RM250 million	CPs/MTNs Programme of up to RM3 billion	CPs/MTNs Programme of up to RM270 million	Total
	RM	RM	RM	RM	RM	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. DEFERRED TAX LIABILITIES

	2018 RM
At beginning of financial year	-
Recognised in profit or loss (Note 11)	6,132,188
At end of financial year	6,132,188

The deferred tax liabilities relates to the provision of deferred tax liabilitities on RPGT on the fair value gain of investment properties.

24. SECURITY DEPOSITS

	2018 RM	2017 RM
At 1 January	29,023,125	26,130,815
(Refunds)/additions during the financial year	(7,769,220)	2,979,382
Recognised in profit or loss:		
Deferred lease income (Note 21(c))	(858,541)	(1,115,112)
Unwinding of discount on security deposits (Note 10)	815,631	1,028,040
At 31 December	21,210,995	29,023,125
Representing:		
Non-current	11,168,217	16,194,911
Current	10,042,778	12,828,214
	21,210,995	29,023,125

25. UNITHOLDERS' CAPITAL

	No. of units 2018	 2017
Issued and fully paid:		
At 1 January	1,068,000,000	1,068,000,000
Issuance of new units as part satisfaction of the Manager's management fees (Note 8)	3,783,000	-
At 31 December	1,071,783,000	1,068,000,000

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25. UNITHOLDERS' CAPITAL *(cont'd)*

	Amount	
	2018	2017
	RM	RM
Issued and fully paid:		
At 1 January	1,231,914,544	1,231,939,861
Issuance of new units as part satisfaction of the Manager's management fees (Note 8)	3,974,420	-
Expenses on issuance of new units/placements	(12,196)	(25,317)
At 31 December	1,235,876,768	1,231,914,544

26. INVESTMENTS IN SPEs

Details of SPEs are as follows:

Name of SPEs	Country of incorporation	Principal activity	Proportion of ownership interest	
			2018	2017
			%	%
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.

27. COMMITMENTS

(a) Capital commitments

Capital expenditure as at reporting date is as follows:

	2018	2017
	RM	RM
Capital expenditure approved and contracted for investment properties	2,056,500	4,136,075

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27. COMMITMENTS *(cont'd)*

(b) Non-cancellable operating lease commitments

	2018 RM	2017 RM
As lessor		
Future minimum rental receivable:		
Not later than 1 year	141,031,880	148,609,413
Later than 1 year but not later than 5 years	420,349,604	408,786,430
Later than 5 years	245,656,769	315,063,732
	807,038,253	872,459,575

MQREIT has entered into leases on its investment properties. The non-cancellable leases have remaining lease terms of between one to thirteen years (2017: between one to fourteen years).

28. NET ASSET VALUE PER UNIT

The calculation of net asset value per unit is based on 1,071,783,000 units (2017: 1,068,000,000 units) in circulation as at 31 December 2018.

29. TRANSACTIONS WITH STOCKBROKING COMPANIES

No transactions with stockbroking companies were made during the financial year.

30. UNITHOLDINGS BY THE MANAGER

On 4 April 2018, MQM received 3,783,000 new units (2017: nil) in MQREIT as part settlement of it's Manager's management fee.

On 10 December 2018, MQM disposed 926,000 units (2017: nil) for the payment of dividend in specie to its 3 shareholders, as follows:

		Units
(i)	Malaysian Resources Corporation Berhad	380,000
(ii)	Quill Resources Holding Sdn. Bhd.	361,000
(iii)	Global Jejaka Sdn. Bhd.	185,000
		926,000

As at 31 December 2018, the Manager held 2,857,000 units (2017: nil) in MQREIT.

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(cont'd)

31. UNITHOLDERS RELATED TO THE MANAGER

		MQREIT				
		No. of units 2018	No. of units 2017	Percentage of total units 2018 %	Percentage of total units 2017 %	Market value 2018 RM
Malaysian Resources Corporation Berhad ("MRCB")		298,297,000	297,917,000	27.83	27.89	316,194,820
HLIB Nominee (Tempatan) Sdn. Bhd. for:						
Quill Properties Sdn. Bhd. ("QPSB")		40,997,000	45,997,000	3.83	4.31	43,456,820
Quill Land Sdn. Bhd. ("QLSB")		767,000	48,767,000	0.07	4.57	813,020
Quill Estates Sdn. Bhd. ("QESB")		17,276,000	22,276,000	1.61	2.09	18,312,560
MRCB Quill Management Sdn. Bhd.		2,857,000	-	0.27	-	3,028,420
Quill Resources Holding Sdn. Bhd. ("QRSB")		361,000	-	0.03	-	382,660
Global Jejaka Sdn. Bhd.		185,000	-	0.02	-	196,100
		360,740,000	414,957,000	33.66	38.85	382,384,400
The Manager's directors' direct unitholding in MQREIT:						
Dato' Dr. Low Moi Ing, J.P.		50,000	50,000	-	-	53,000
Dato' Michael Ong Leng Chun		55,000	55,000	0.01	0.01	58,300
Kwan Joon Hoe		80,000	-	0.01	-	84,800
The Manager's directors' indirect unitholding in MQREIT:						
Dato' Dr. Low Moi Ing, J.P.	(a)	59,401,000	117,040,000	5.54	10.96	62,965,060
Dato' Michael Ong Leng Chun	(b)	59,401,000	117,040,000	5.54	10.96	62,965,060
Tan Sri Saw Choo Boon	(c)	185,000	-	0.02	-	196,100

(a) Deemed interest by virtue of her direct shareholding in QPSB, QLSB, QESB and QRSB.

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

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

NOTES TO THE **FINANCIAL STATEMENTS**
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(cont'd)

32. PORTFOLIO TURNOVER RATIO

	2018	2017
Portfolio Turnover Ratio ("PTR") [times]	0.01	-

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.

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.

33. MANAGEMENT EXPENSE RATIO

	2018	2017
	%	%
Management Expense Ratio ("MER")	1.09	1.07

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 basis of calculating MER can vary among real estate investment trusts, comparison of MQREIT's MER with other REITs which use a different basis of calculation may not be an accurate comparison.

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34. RELATED PARTIES TRANSACTIONS

The following table provides the total amount of transactions that have been entered into with related parties for the financial year.

		2018 RM	2017 RM
(i)	Car park income from Semasa Parking Sdn. Bhd.		
	- Platinum Sentral	1,854,279	1,996,297
	- Menara Shell	2,170,473	2,079,857
(ii)	Auxiliary police services with Semasa Sentral Sdn. Bhd.		
	- Platinum Sentral	403,186	512,400
	- Menara Shell	710,238	807,345
(iii)	Supply of chilled water with Semasa District Cooling Sdn. Bhd.	2,963,261	2,888,419
(iv)	Lease of land at Platinum Sentral with Malaysian Resources Sentral Sdn. Bhd.	67,078	67,078
(v)	Reimbursement of insurance to Kuala Lumpur Sentral Sdn. Bhd.	15,582	14,022
(vi)	Reimbursements to 348 Sentral Sdn. Bhd.	2,401,040	2,910,114
	Reimbursement from 348 Sentral Sdn. Bhd.	(211,922)	-
(vii)	Reimbursement to Joint Management Body for Lot 348	208,055	9,611
(viii)	Provision of MSC Services		
	- Kuala Lumpur Sentral Sdn. Bhd.	50,022	50,000
	- MRCB Sentral Properties Sdn. Bhd.	359,857	371,022
(ix)	Event space charges to Malaysian Resources Corporation Berhad	3,000	-
(x)	Tenancy agreement with Prema Bonanza Sdn. Bhd. and charges on reinstatement works	-	199,079
(xi)	Reimbursement of electricity charges to Country Annexe Sdn. Bhd.	-	15,055
		10,994,149	11,920,299

Details of material contracts with related parties other than as disclosed in Note 8 are as follows:

(i) MQREIT renewed the car park operation agreement for Platinum Sentral with Semasa Parking Sdn. Bhd. ("SPSB") 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 2018 amounted to RM1,854,279.

On 22 March 2017, MQREIT appointed SPSB as the car park operator for Menara Shell for a period effective from 22 March 2017 to 21 December 2019. The monthly fee for the period from 22 March 2017 to 21 December 2018 is at RM170,000 per month while the monthly fee for the period from 22 December 2018 to 21 December 2019 is at RM180,000. The total amount received for the financial year ended 31 December 2018 amounted to RM2,170,473.

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.

NOTES TO THE **FINANCIAL STATEMENTS**
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(cont'd)

34. RELATED PARTIES TRANSACTIONS *(cont'd)*

Details of material contracts with related parties other than as disclosed in Note 8 are as follows: *(cont'd)*

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

Auxiliary police services with SSSB for deployment of auxiliary police personnel from January 2018 up to December 2018, at Platinum Sentral and Menara Shell amounted to RM403,186 and RM710,238 respectively.

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.

(iii) 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 2018 amounted to RM2,963,261.

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

(iv) Lease agreement with Malaysian Resources Sentral Sdn. Bhd. ("MRSSB") on lease of 2 pieces of land located on Platinum Sentral, measuring total NLA of 156,959 sq. ft., for a rental amounting 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.

(v) Reimbursement of insurance to Kuala Lumpur Sentral Sdn. Bhd. ("KLSSB") for Platinum Sentral Lot E deck from 1 April 2018 to 31 March 2019 amounted to RM15,582.

KLSSB is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

(vi) Reimbursement of chilled water and telephone charges to 348 Sentral Sdn. Bhd. ("348 Sentral") for Menara Shell amounted to RM2,400,757 and RM283 respectively. There were reimbursement costs from 348 Sentral for the repair costs to install the defective fan assisted terminals amounted to RM183,000 and other reimbursements on utilities charges amounted to RM28,922 for the financial year ended 31 December 2018.

348 Sentral is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

(vii) Maintenance and sinking fund charged by Joint Management Body for Lot 348 ("JMB Lot 348") for Menara Shell for the period from 1 January 2018 to 31 December 2018 amounted to RM23,065 and reimbursement of quit rent and insurance amounted to RM184,990 respectively.

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 MQREIT and 1 member from 348 Sentral.

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34. RELATED PARTIES TRANSACTIONS *(cont'd)*

Details of material contracts with related parties other than as disclosed in Note 8 are as follows: *(cont'd)*

(viii) As announced on 15 December 2017, MQREIT appointed KLSSB and MRCB Sentral Properties Sdn. Bhd. ("MSP") for the following services at Menara Shell 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 GST). Total amount incurred in 2018 amounted to RM50,022.

2. MSP as MSC One-stop Centre Support Services Provider for the monthly service fee of RM30,000 (excluding GST). Total amount incurred in 2018 amounted to RM359,857.

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.

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.

(ix) Event space charges for MRCB town hall session at Menara Shell amounted to RM3,000, with MRCB.

35. 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 CP (Note 22(b)) 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 CP (Note 22(b)) 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 a 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.

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35. INTEREST RATE SWAP ("IRS") ARRANGEMENTS *(cont'd)*

The fair values of the derivative liabilities and the maturity profile as at the respective dates are as follows:

	2018	2017
	RM	RM
More than 1 year and less than 5 years	428,022	665,731

36. SIGNIFICANT EVENTS

(a) 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.

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

(b) Issuance of 3,783,000 new Units in MQREIT for the purpose of the payment of management fee to MQM

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

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

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

37. SIGNIFICANT SUBSEQUENT EVENT

There is no significant event subsequent to the year ended 31 December 2018.

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38. 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 approximations 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 approximations 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.

(b) Fair value measurement

MQREIT uses the hierarchy as disclosed in Note 3.21 in determining and disclosing the fair value of financial instruments.

Quantitative disclosures of fair value measurement hierarchy for assets and liabilities as at 31 December 2018 and 31 December 2017 are as follows:

	Total	Level 2	Level 3
	RM	RM	RM
As at 31 December 2018			
Assets measured at fair value			
Investment properties	2,177,600,000	-	2,177,600,000
Liabilities measured at fair value			
Derivative liabilities			
- non-current	(428,022)	(428,022)	-
As at 31 December 2017			
Assets measured at fair value			
Investment properties	2,179,200,000	-	2,179,200,000
Liabilities measured at fair value			
Derivative liabilities			
- non-current	(665,731)	(665,731)	-

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38. FAIR VALUE OF FINANCIAL INSTRUMENTS *(cont'd)*

(b) Fair value measurement *(cont'd)*

Level 2 fair value

Level 2 fair value of the derivatives has been derived by reference to mark-to-market values quoted by financial institutions as at the reporting date.

Level 3 fair value

Level 3 fair value of investment properties has been derived using the investment method as disclosed in Note 15.

There were no material transfers between Level 2 and Level 3 during the financial year.

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 approximations of fair values:

	Note	Carrying amount	Fair value
		RM	RM
Financial liabilities			
As at 31 December 2018			
Fixed Rate Term Loan Facility of up to RM150 million	22(a)	116,842,726	117,117,904
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	22(b)	109,833,591	107,736,154
As at 31 December 2017			
Fixed Rate Term Loan Facility of up to RM150 million	22(a)	116,868,449	117,000,000
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	22(b)	109,690,760	108,997,055

39. 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:

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

(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 35.

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	
	2018	2017
	RM	RM
Interest rate		
- 10 bps	94,631	100,774
+ 10 bps	(94,631)	(100,774)

(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 2018, MQREIT's maximum exposure to credit risk is represented by the carrying amount of its financial assets as follows:

	Note	2018	2017
		RM	RM
Trade and other receivables*	18	5,462,553	4,566,324
Deposits, cash and bank balances	19	85,775,603	76,041,326
Lease receivables	17	2,014,930	2,745,750

* *trade and other receivables exclude prepayments*

(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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

(c) Liquidity risk *(cont'd)*

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 monitors and observes the SC REIT Guidelines concerning the limits to total borrowings and ensures compliance with stated financial covenants per terms of its borrowings.

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	One to five years	Over five years	Total
	RM	RM	RM	RM
As at 31 December 2018				
Trade and other payables*	13,444,295	-	-	13,444,295
Borrowings	38,795,095	918,453,340	-	957,248,435
Security deposits	10,042,778	6,289,656	7,749,849	24,082,283
Total undiscounted financial liabilities	62,282,168	924,742,996	7,749,849	994,775,013
As at 31 December 2017				
Trade and other payables*	19,411,979	-	-	19,411,979
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	185,803,566	822,162,978	7,720,729	1,015,687,273

* *trade and other payables excludes deferred lease income*

(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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 December 2018
(cont'd)

40. CAPITAL MANAGEMENT

The Manager aims to optimise MQREIT's capital structure and cost of capital within the borrowing limits set out in the SC REIT Guidelines and uses 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.

Pursuant to Clause 8.32 of the SC REIT Guidelines, the total borrowings of a real estate investment trust (including borrowings through issuance of debt securities), should not exceed 50% of its total asset value at the time the borrowings are incurred.

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.

	Note	2018	2017
		RM	RM
Total borrowings	22	853,704,352	853,452,854
Total assets		2,271,705,292	2,288,392,194
Gearing ratio (%)		37.58	37.29

41. 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 2018

DISTRIBUTION OF UNITHOLDINGS AS AT 31 DECEMBER 2018

Unit Class	No. of Unitholders	% of Unitholders	No. of Unitholdings	% of Unitholdings
Less than 100	109	1.83	1,352	-
100 - 1,000	975	16.36	673,848	0.06
1,001 - 10,000	2,868	48.12	15,333,060	1.43
10,001 - 100,000	1,697	28.47	57,738,740	5.39
100,001 to less than 5% of issued units	308	5.17	455,353,900	42.49
5% and above of issued units	3	0.05	542,682,100	50.63
TOTAL	**5,960**	**100.00**	**1,071,783,000**	**100.00**

CLASSIFICATION OF UNITHOLDERS AS AT 31 DECEMBER 2018

CATEGORY OF UNITHOLDERS		NO. OF UNITHOLDERS			NO. OF UNITS		
		MALAYSIAN		FOREIGN	MALAYSIAN		FOREIGN
		BUMIPUTRA	NON-BUMIPUTRA		BUMIPUTRA	NON-BUMIPUTRA	
1.	Individual	114	4,328	80	1,239,800	93,047,436	3,819,010
2.	Body Corporate						
	Banks/Finance Companies	10	-	-	180,971,200	-	-
	Investments Trusts/ Foundations/Charities	-	2	-	-	250,500	-
	Other Types of Companies	19	72	1	2,876,900	31,995,300	58,000
3.	Government Agencies/ Institutions	-	-	-	-	-	-
4.	Nominees	877	398	59	326,072,950	307,820,504	123,631,400
5.	Others	-	-	-	-	-	-
TOTAL		1,020	4,800	140	511,160,850	433,113,740	127,508,410
GRAND TOTAL		**5,960**			**1,071,783,000**		

UNITHOLDINGS AND **30 LARGEST UNITHOLDERS**

As at 31 December 2018
(cont'd)

LIST OF TOP 30 HOLDERS AS AT 31 DECEMBER 2018

NO.	NAME	HOLDINGS	%
1	RHB NOMINEES (TEMPATAN) SDN BHD *MALAYSIAN RESOURCES CORPORATION BERHAD*	297,917,000	27.80
2	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *EMPLOYEES PROVIDENT FUND BOARD*	127,725,100	11.92
3	HSBC NOMINEES (ASING) SDN BHD *HSBC-FS FOR CAPITACOMMERCIAL TRUST*	117,040,000	10.92
4	HLIB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR QUILL PROPERTIES SDN BHD (IB)*	40,865,000	3.81
5	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	35,086,100	3.27
6	AMANAHRAYA TRUSTEES BERHAD *AMANAH SAHAM BUMIPUTERA*	35,000,000	3.27
7	VALUECAP SDN BHD	33,896,300	3.16
8	AMANAHRAYA TRUSTEES BERHAD *AMANAH SAHAM MALAYSIA*	22,919,300	2.14
9	AMANAHRAYA TRUSTEES BERHAD *AMANAH SAHAM BUMIPUTERA 2*	20,000,000	1.87
10	HLIB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR QUILL ESTATES SDN BHD (IB)*	16,158,000	1.51
11	HONG LEONG ASSURANCE BERHAD *AS BENEFICIAL OWNER (LIFE PAR)*	16,118,300	1.50
12	HSBC NOMINEES (TEMPATAN) SENDIRIAN BERHAD *HSBC (M) TRUSTEE BHD FOR ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (P)*	15,627,000	1.46
13	AMANAHRAYA TRUSTEES BERHAD *AMANAH SAHAM MALAYSIA 2 - WAWASAN*	15,600,000	1.46
14	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD *GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)*	15,178,300	1.42
15	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD *GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)*	13,669,200	1.28
16	HSBC NOMINEES (TEMPATAN) SDN BHD *HSBC (M) TRUSTEE BHD FOR ZURICH LIFE INSURANCE MALAYSIA BERHAD (LIFE PAR)*	11,138,600	1.04
17	AMANAHRAYA TRUSTEES BERHAD *AMANAH SAHAM MALAYSIA 3*	11,000,000	1.03
18	MALAYSIA NOMINEES (TEMPATAN) SDN BHD *GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 4)*	9,304,900	0.87
19	CARTABAN NOMINEES (TEMPATAN) SDN BHD *PAMB FOR PARTICIPATING FUND*	5,196,900	0.48
20	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *EXEMPT AN FOR AIA BHD.*	4,788,600	0.45
21	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD *DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL-CAP FUND*	4,648,800	0.43
22	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (AFFIN HWNG SM CF)*	4,297,100	0.40
23	HSBC NOMINEES (TEMPATAN) SDN BHD *HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (AFF HWG6939-403)*	4,281,000	0.40

UNITHOLDINGS AND **30 LARGEST UNITHOLDERS**

As at 31 December 2018
(cont'd)

LIST OF TOP 30 HOLDERS AS AT 31 DECEMBER 2018 *(cont'd)*

NO.	NAME	HOLDINGS	%
24	HSBC NOMINEES (TEMPATAN) SDN BHD *HSBC (M) TRUSTEE BHD FOR AFFIN HWANG SELECT OPPORTUNITY FUND (3969)*	4,226,800	0.39
25	AMANAHRAYA TRUSTEES BERHAD *ASN EQUITY 2*	3,900,000	0.36
26	CITIGROUP NOMINEES (TEMPATAN) SDN BHD *KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ESPG IV SC E)*	3,281,600	0.31
27	AMANAHRAYA TRUSTEES BERHAD *ASN UMBRELLA FOR ASN IMBANG (MIXED ASSET BALANCED) 2*	3,269,500	0.31
28	CARTABAN NOMINEES (TEMPATAN) SDN BHD *PAMB FOR PRULINK EQUITY INCOME FUND*	3,000,000	0.28
29	DB (MALAYSIA) NOMINEE (TEMPATAN) SDN BHD *DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSEQUITY INCOME FUND*	2,996,800	0.28
30	MRCB QUILL MANAGEMENT SDN BHD	2,857,000	0.27
	TOTAL	900,987,200	84.06

NOTICE OF **SEVENTH 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 Seventh 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, 3 April 2019 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 2018 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 of MQREIT

   "THAT subject to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approval of the relevant regulatory authorities being obtained, authority be and is hereby given to the Directors of the Manager, to issue and allot new units in MQREIT ("New Units") at any time until the conclusion of the next annual general meeting, in such number and to such person and upon such terms and conditions and for such purposes as the Directors of the Manager, may in their absolute discretion, deem fit and expedient in the best interest of MQREIT, 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 total number of issued units of MQREIT for the time being comprising 1,071,783,000 units ("Proposed Authority");

   THAT the New Units to be issued pursuant to the Proposed Authority 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;

   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 Authority with full powers to assent to any conditions, modifications, variations and/or amendments as they may deem fit in the best interest of MQREIT and/or may be imposed by the relevant authorities;

   AND THAT the Directors of the Manager and the Trustee, acting for and on behalf of MQREIT, be and are hereby authorised to implement, finalise, complete and do all acts, deeds and things (including executing such documents as may be required) in relation to the Proposed Authority."

NOTICE OF **SEVENTH ANNUAL GENERAL MEETING**
(cont'd)

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 2019

Notes:

1. *Only Unitholders whose name appear in the Record of Depositors of MQREIT on 29 March 2019 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Seventh 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 twenty-four (24) hours before the time appointed for holding the meeting or any adjournment thereof.*

NOTICE OF **SEVENTH ANNUAL GENERAL MEETING**
(cont'd)

Explanatory Notes on Ordinary and Special Business:

1. Item 1 of the Agenda

The Audited Financial Statements under Agenda 1 are laid before the unitholders for discussion only in accordance with Clause 13.18(b) of the Guidelines on Listed Real Estate Investment Trust issued by the Securities Commission Malaysia on 15 March 2018, the audited financial statements do not require a formal approval of the unitholders and hence, the matter is not put forward for voting.

2. Item 2 of the Agenda – Proposed Authority

The proposed ordinary resolution, if passed, will give a mandate to the Directors of the Manager to issue and allot 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 does not exceed 20% of the total number of issued units of MQREIT for the time being. This Proposed Authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of MQREIT.

As at the date of this notice, MQREIT has not issued any units under the mandate which was approved at the 6th AGM held on 11 April 2018 and which will lapse at the conclusion of the 7th AGM.

The Proposed Authority will allow MQREIT the flexibility to allot and issue New Units to raise funds to finance future investments, acquisitions and capital expenditure projects to enhance the value of MQREIT and/or to refinance existing debt as well as for working capitals purposes without convening a general meeting, which may delay the capital raising initiatives and incur relevant costs in organising the required general meeting.

PROXY FORM

(Please see the notes below before completing the form)

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 Seventh 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, 3 April 2019 at 10.00 a.m. and at any adjournment thereof.

My/our proxies is 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 Authority		

Dated this _____ day of _____ 2019

_____

Signature of Unitholder

* DELETE IF NOT APPLICABLE

Notes:

Proxy

1. *Only Unitholders whose name appear in the Record of Depositors of MQREIT on 29 March 2019 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 twenty-four (24) 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